

Merchant Services Fee Negotiations Case Study



Client Overview

Co-Operative Supermarkets Australia Limited (CSA) is an incorporated co-operative formed in late 2019 whose members operate independent supermarket and convenience stores. CSA has authorisation to collectively bargain with suppliers of goods and services to the Australian grocery industry.

CSA has 4 purposes:

- To provide a better assortment of products.
- To lower the cost of goods of directs and promote more direct lines.
- To lower the cost of doing business.
- To share best practice to make the operation of our supermarkets more efficient.

CSA members operate over 330 stores.

Client Testimonials

"The depth, breadth and knowledge of the payments sector provided by PCN gave the CSA Working Group the ability to analyse, recommend and execute an end-to-end payments solution that would have taken considerable time otherwise for CSA staff independently to develop. CSA has retained the services of PCN to assist with the smooth implementation of the CSA payments solution and yearly ongoing reviews. The CSA executive team highly recommend PCN for payments sector consulting."

Katrina Chung, Chief Financial Officer, Co-operative Supermarkets Australia.

"In order to completely get a grasp of how the industry operates and what the fees and rebates are between all participants, you need an experienced industry expert. That is exactly what we got when Mangala Martinus was engaged to assist with the tender process. From his meticulous review of the numerous retailers current fee structures to preparing a professional tender document, Mangala excelled in all areas. He saw the project through from start to finish and the way he interacted between the Co-op retailers and the card scheme operators with such a cool head, enabled CSA to extract a deal that went way beyond our expectations. His knowledge was unquestionable but his best attribute was the way he explained the process and interim results to retailers who basically had no idea how this system worked."

Mal Cameron, Chief Financial Officer and Director, Ritchies Stores (Working Group Member)

"PCN's experience in the payments industry was invaluable and without PCN we could never have come close to the results that we achieved. PCN was able to cut through all of the complexity and achieve the best possible result for each member of the Co-op. This was no easy feat given the varying sizes and locations of the different Co-op members."

Vasilli Karellas, Director, and Colm Phelan, Chief Financial Officer, Karellas Group (CSA Board Director and Working Group Member)

Project Background

CSA sought to go to market with a Request for Proposal (RFP) to negotiate a group merchant services pricing deal with the objective of achieving significant fee savings for its members.

Payments Consulting Network (PCN) was engaged to: develop the Merchant Services RFP materials; compile payments volumes and fee data provided by members; manage the RFP process; support the evaluation of RFP responses; conduct pricing negotiations with RFP respondents; conduct strategic merchant rate negotiations with the card schemes; develop a fee savings calculator and reporting tool; support CSA with contract negotiations; support CSA members with queries on the fee savings comparison; and make recommendations to the CSA Board.

Throughout the RFP process and card scheme negotiations, PCN reported on a weekly basis to a Working Group comprised of the CSA commercial manager and chief financial officers and directors of two of CSA's larger members. PCN also presented monthly updates to the CSA Board, which comprised an independent chairperson and owners of the major supermarket groups within the membership base.

For further information

For further information, please contact Mangala Martinus, Managing Director, Payments Consulting Network at: mangala.martinus@paymentsconsulting.com or +61 2 8069 2630.

Project Outcomes

Through the RFP process and card scheme negotiations, PCN achieved the following outcomes:

- **Greater than \$3 million per annum (25%) aggregate projected fee savings** for CSA and CSA members. This resulted from implementing least-cost-routing of eligible multi-network debit card transactions, negotiating improved strategic merchant rates with the card schemes, and reducing merchant services provider margins.
- Developed a **flexible framework** to enable CSA to sign-up members in new industry categories and achieve fee savings for every single CSA member regardless of their individual card mix, transaction volumes and annual sales.
- Provided CSA with an **industry leading group pricing deal** that CSA are leveraging to sign up new members. As an example, during the 4-month project, PCN supported CSA in signing up two large supermarket groups that **expanded member store numbers by 25%**. This represented double the CSA new member store target for the year. These two groups joined CSA specifically to access the new merchant services pricing arrangements.
- Established strategic partnership agreements with the card schemes and a new merchant services provider, that will also provide a range of non-financial benefits including: new member referrals; better reporting; 11:45pm T+1 settlement for eftpos, Visa, Mastercard and American Express; improved payments switch redundancy which will reduce the risk of downtime due to outages; and the potential for store owners to earn Qantas points.