

**Meeting Between Federal Reserve Board Staff and  
Representatives of the Merchant Advisory Group (MAG)**

**July 7, 2015**

**Participants:** Louise Roseman, Jeffrey Marquardt, Susan Foley, David Mills, Samantha Pelosi, Mark Manuszak, Krzysztof Wozniak, Jessica Stahl, Aaron Rosenbaum, Stephanie Martin, and Clinton Chen (Federal Reserve Board)

Elizabeth Garner, Mark Horwedel (MAG); Gavin Waugh (The Wendy's Company); Maria Driscoll, Jared Culotta (Wawa, Inc.); Gina Powers (Dunkin' Brands); John Gilmore, Connie Hayes, Matt Lathrop (Yum Brands); Maureen Elworthy, Elizabeth Chace-Marino (Ahold); Sonia Jain (Redbox Automated Retail)

**Summary:** Representatives of the MAG met with Federal Reserve Board staff to discuss their concerns regarding the increase in interchange fees for low-value debit card transactions since Regulation II took effect. Representatives of the MAG also discussed the Regulation II network exclusivity/routing provisions.



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# Small Ticket Merchant Discussion with the FED

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July 7, 2015

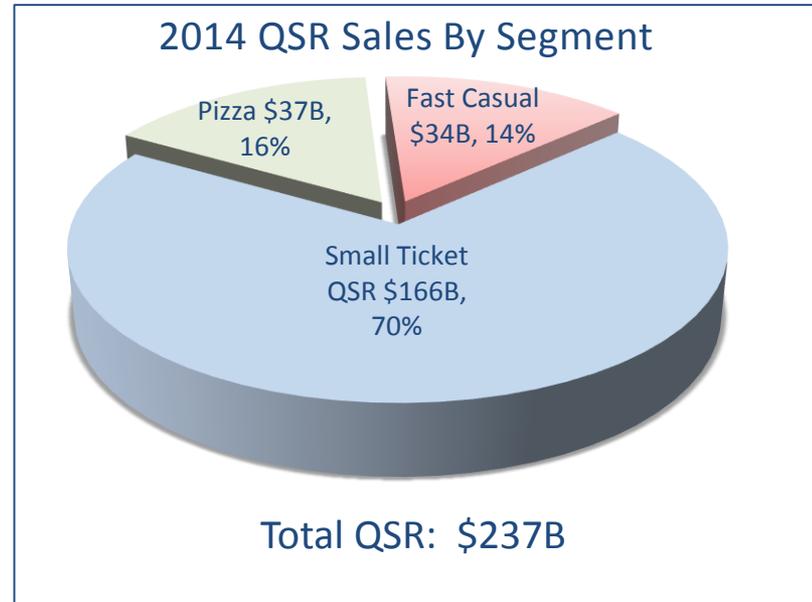
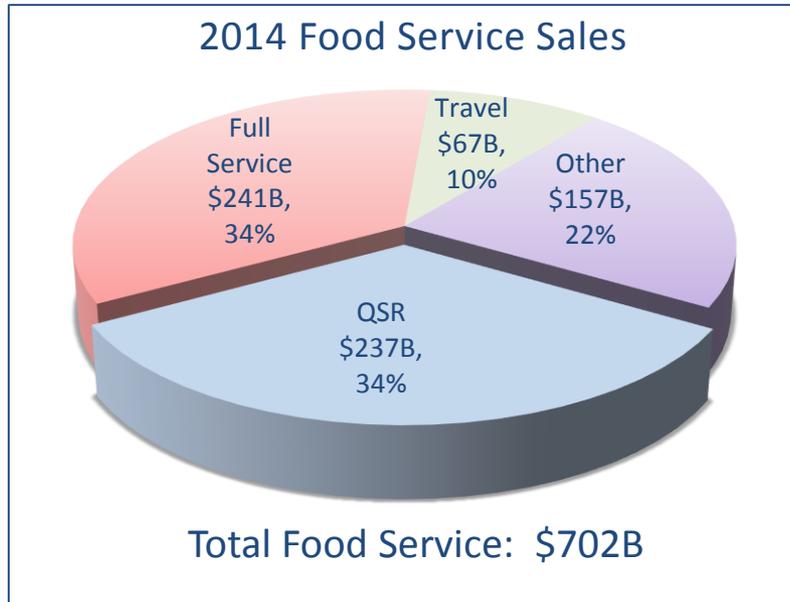
# Food Service Industry: A Vital Part of the U.S. Economy

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## Facts At A Glance:

- ~\$702B sales and 1MM locations
- 4% of the GDP
- 14MM employees
- 1.7MM new jobs by 2025
- 10% of the workforce
- 90% of owners have < 50 employees
  - 70% are single unit operators

# QSR: A Small Ticket Segment of Food Service



Source: [www.technomic.net](http://www.technomic.net) and [www.npd.com](http://www.npd.com)

We estimate that ~70% of QSR brands are “Small Ticket” merchants with an average transaction size of < \$12.

# Other Small Ticket Industries



## Convenience Stores

\$35B Sales\*

152K Employees

41K Businesses



## Parking & Garages

\$11B Sales

150K Employees

9K Businesses



## Vending/DVD/Game

\$11B Sales

113K Employees

29K Businesses

\$57B in Sales, 415K Employees, and 79K Businesses

*\*In-store only sales. Excludes gas.*

Source: <http://www.ibisworld.com/industry/>

# Franchisees: A Common Attribute of Small Ticket

**45 – 54**  
**Median Age**  
 of FZ  
 Owners

< 12% are  
 Under 34

28% are  
 +55

FZs are:  
**28%**  
 Female

**84%** of female franchisees  
 are single unit operators.

**72%**  
 Male

**80%** of male franchisees  
 are single unit operators.

**44%**  
 of FZs have a  
**BACHELORS  
 DEGREE**

**19%**  
 hold an  
**ADVANCED  
 DEGREE**

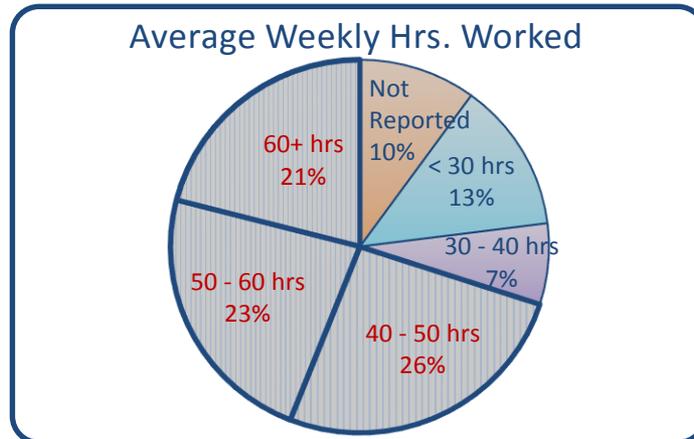
**12%**  
 are US  
**MILITARY  
 VETERANS**

**\$50K - \$75K**  
**MEDIAN PRETAX INCOME**

\$54,408 avg  
 for Women

\$73,261 avg  
 for Men

**89%**  
 of franchisees earn < \$150K



Source: <http://brandongaille.com/19-demographic-statistics-franchises-and-franchisees> and <http://emarket.franchise.org/FranchiseBizOutlook2015>

The franchise model promotes small business, entrepreneurship and chasing the American Dream...

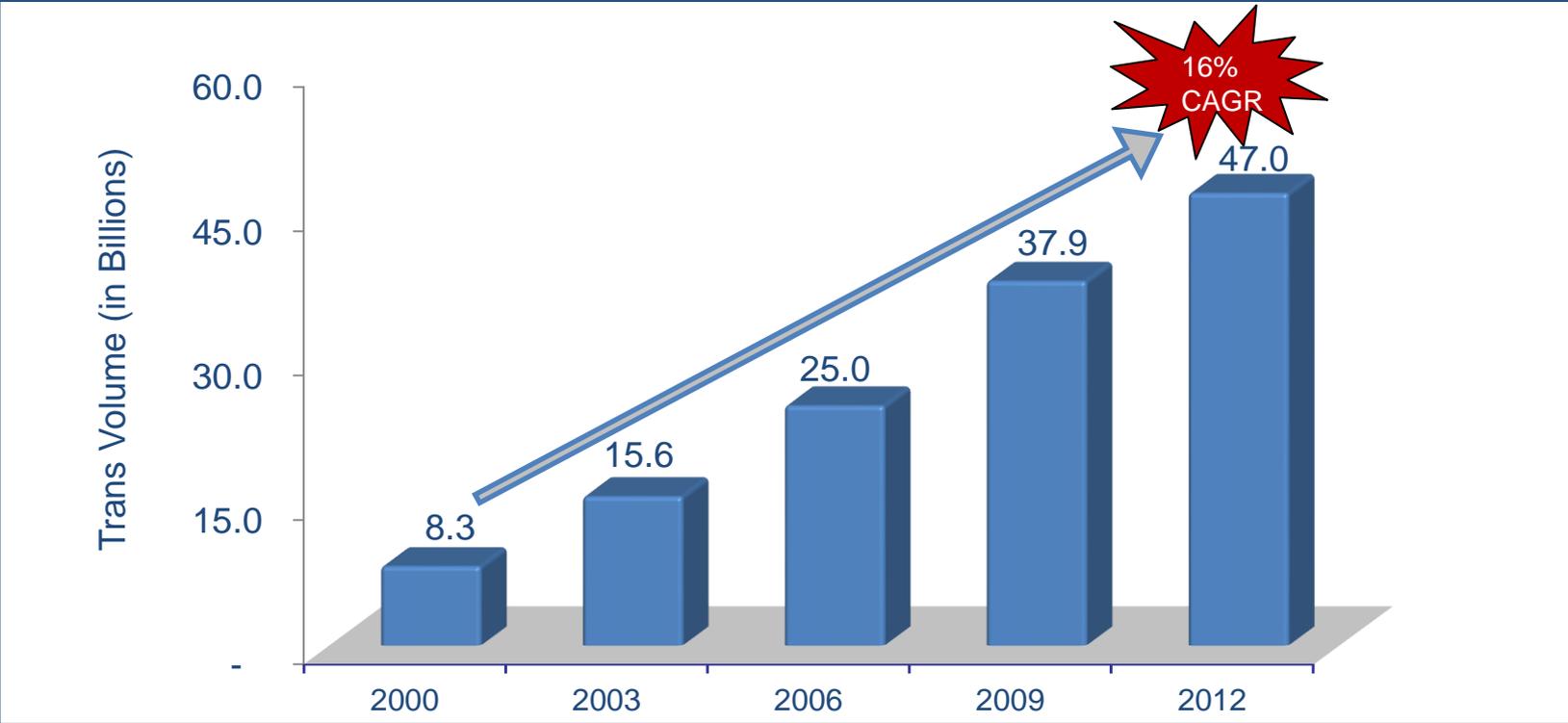


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# Regulated Debit and Small Ticket

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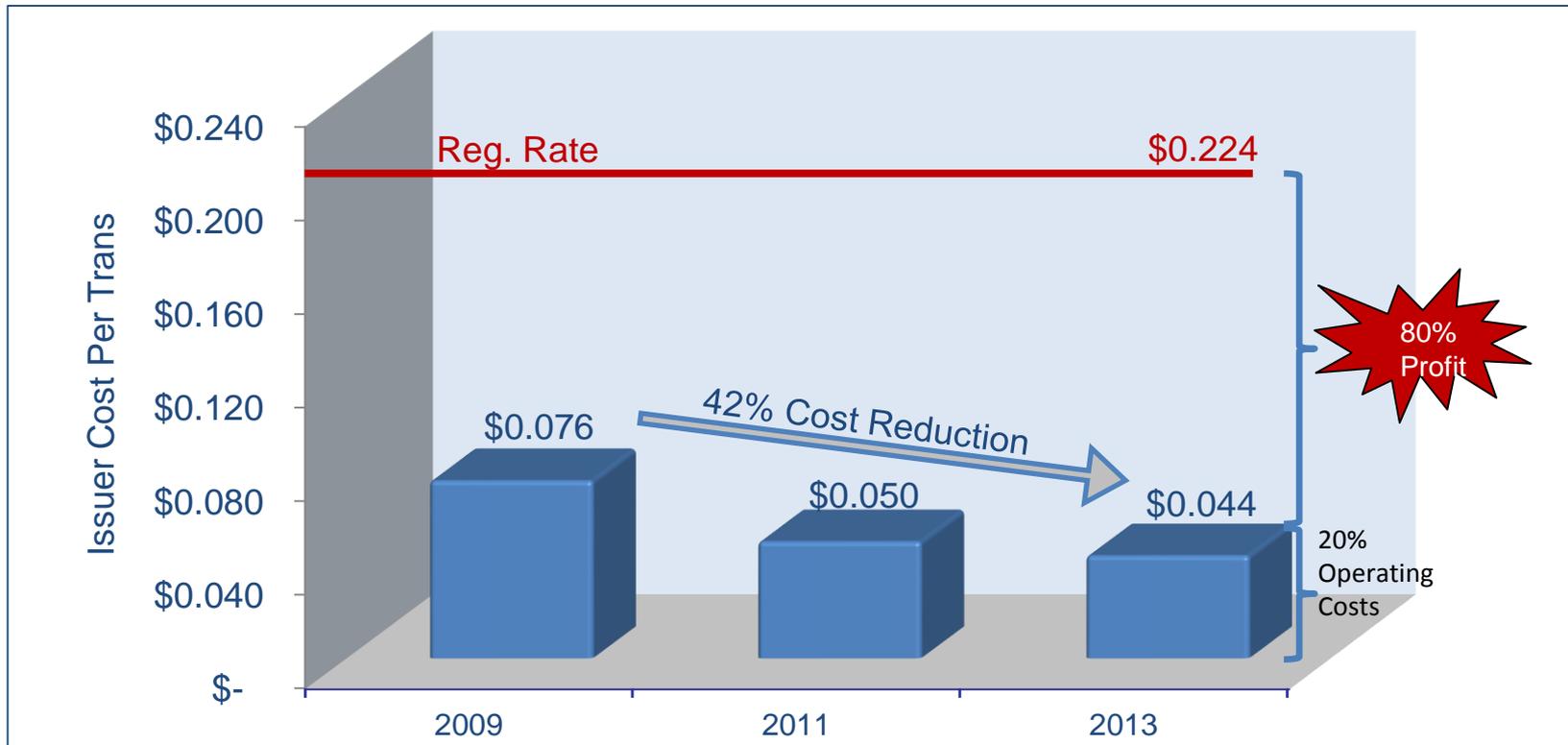
# Debit Transactions in the United States



Source: <http://www.merchantadvisorygroup.org/stay-informed/mag-insights/2015/03/19/mag-study-on-volume-and-cost-trends-in-the-debit-card-industry>

Debit has experienced explosive growth in the 21<sup>st</sup> Century...

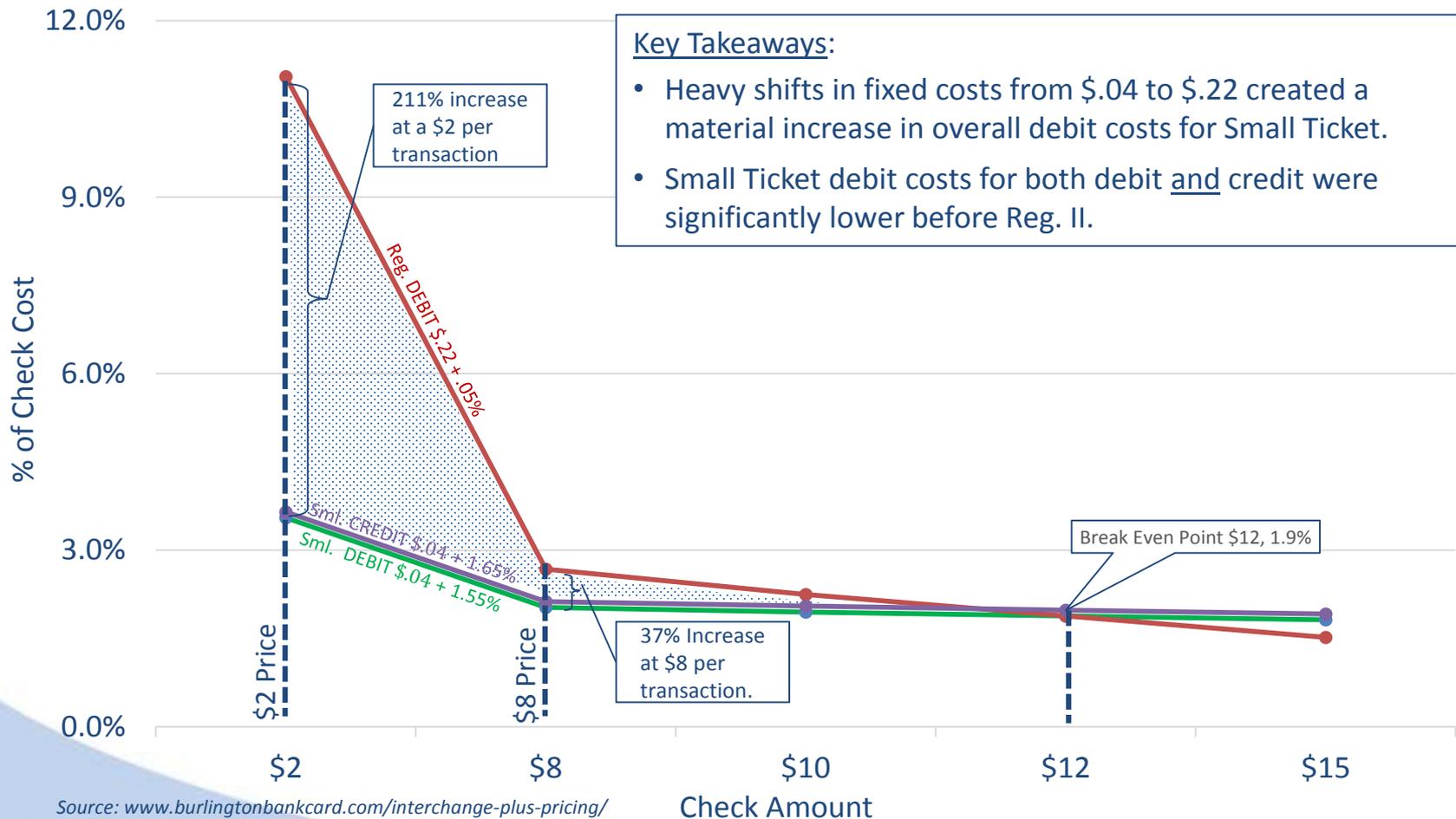
# Issuer Costs and Profits on Regulated Debit



Source: <http://www.merchantadvisorygroup.org/stay-informed/mag-insights/2015/03/19/mag-study-on-volume-and-cost-trends-in-the-debit-card-industry>

And issuer profit margins remain exceptionally strong even after the Reg. Rate was implemented...

# Card Costs At Various Small Ticket Transaction Amounts



# U.S. Regulated Debit vs Other Developed Markets

Market		Debit Rates	Cost / Trans <sup>3</sup>
	Before	\$ .04 + 155 bps <sup>1</sup>	\$ .1697
	After	<b>\$ .22 + 5 bps<sup>1</sup></b>	<b>\$ .2242</b>
		\$ .07 or 20 bps <sup>2</sup>	\$ .0167
		< \$ .01	< \$ .0100

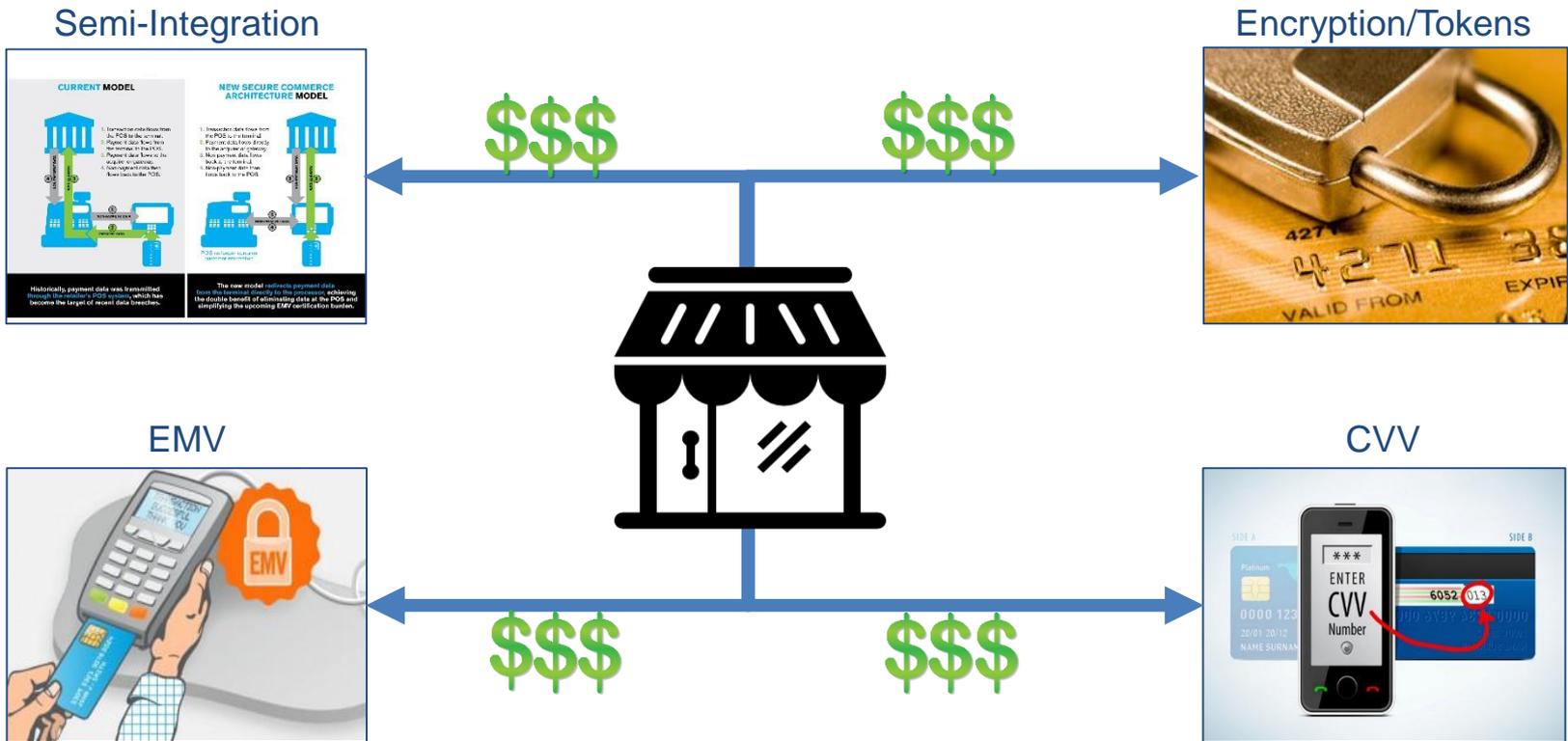
1 Debit rate before Reg II was \$.04 + 155 bps vs. debit rate after Reg II was \$.22 + 5 bps.

2 The EU regulated rate is based on a current proposal and is the lesser of \$.07 or 20 bps.

3 Assumes a Small Ticket average of \$8.37 per transaction.

Other markets are more competitive for Small Ticket merchants to conduct business...

# New Security Initiatives



All merchant categories continue to invest in new security... Will lower fraud costs be passed on through lower rates?