PORTLAND MARKET REPORT

"THIS SIDE-LINING OF FUEL BY THE INDEPENDENT SECTOR IS THE SECOND GREAT SHIFT IN PETROL RETAILING"

November update

This month Portland was lucky enough to go on a study tour – courtesy of the Association of Convenience Stores - that took in four state of the art petrol stations. All were independently owned ('*dealer-owned*' in the industry jargon), which superficially at least would mean little to the general public. After all the branding of a DO/DO site (dealer owned/dealer operated) tends to be exactly the same as the branding of a CO/CO site (company owned/company operated). In the case of our study tour, we visited two BP sites, a Shell site and an Esso site, all of which looked for all the world like sites owned by the oil companies themselves. But increasingly, the job of the fuel companies is only to supply the fuel and the brand, and the rest of the forecourt is up to the (independent) owners.

This franchise model – whilst always in existence – highlights a major business shift, as the oil majors increasingly take a back seat in the UK petrol retail market. Only 14% of forecourts in the UK are actually CO/CO sites, whilst 66% are DO/DO (the remaining 20% are supermarket). And when it comes to the DO/DO sites themselves, the role of the oil companies is increasingly non-operational. Brand of course retains its vital importance, but the day-to-day running of forecourts is more than ever in the hands of the independent operators. This retreat by the majors from forecourt operations is the culmination of many factors over the last 20 years, including an obsession with all things upstream (crude oil exploration) and a shift-up the supply chain to wholesaling rather than dealing with consumers. But equally, it could simply be that the oil majors have realised that when it comes to retail and detail, the independent sector just does it better.

To go into a flagship independent forecourt in 2017, is to be transported to a '*waitrosesque*' shopping experience that is about as far from the days of petrol kiosks with 'chocolate, charcoal, mags n fags', as you could possibly travel. Nowadays, you are more likely to come across local farm produce, a huge and impressive selection of wine and even fresh fruit and veg when you enter your nearest petrol station shop. Indeed, in the old days buying flowers from a petrol station was the ultimate declaration of marital laziness. Get some flowers today and you might find a forecourt florist on hand to advise whether the Amaryllis Belladonna is best matched with a Flamingo Anthurium or an Angel Wing Begonia (yes, we did have to look those up…!).

Independent dealers - or at least those at the top end of the market - have got clever and finally realised that for small and mid-sized players, the odds are stacked against then when it comes to selling fuel. First and foremost, fuel margins will always be tight and the scope for upsell is minimal. In addition, with its complexity, opaque price dynamics and technical characteristics, the fuel side of the game is best left to spreadsheet boffins in oil major HQ's, rather than customer facing retailers. And the industry is now lead by these clever retailers, who have ensured that fuel is no longer the prime offering. In 2016, only 18% of transactions at independent forecourts were fuel only purchases. The majority were '*fuel plus*' purchases (ie, fuel plus shop goods), but somewhere in the region of 25% were 100% non-fuel purchases, which really shows that petrol stations should now be called convenience stores (that also sell petrol).

"THE NEXT BIG CHALLENGE IS HOW TO MEET THE DEMANDS PRESENTED BY AN ELECTRIC FUTURE"

This year, non-fuel sales at petrol stations will top £4bn and the investment being made by 'petrol' retailers is reflective of the importance of non-fuel. Over the last 12 months, over £70m of investment has been made by independent forecourts. A fairly hefty amount by any measure, but it is the spending allocations that make for the most interesting reading; 25% on refrigeration, 20% on shelving, 15% each on internal building development and store signage and a final 5% on freezer space. Which give or take, leaves only 20% for poor old fuel to fight over! This doesn't mean that fuel equipment maintenance still doesn't take up huge amounts of operational costs, but capital expenditure is all about the future and these levels of non-fuel investment, clearly demonstrate where independent retailers see that future.

And this side-lining of fuel by the independent sector is the second great shift in petrol retailing. Speak to the old school "nozzle-heads" who learned their trade in the 1980s and 1990s and it was all about super unleaded, pence per litre margins and petrol tanker access. But modern day proprietors are more interested in their freezer display and whether they have enough craft beers on sale, than what type of rubber is used in their fuel hoses. Which may not be a bad thing, because the next big challenge for the petrol retail sector is how to meet the demands presented by an electric future. Of the 8,400 petrol stations in the UK, only 225 have charging points and the majority of these reside on oil major CO/CO sites. In this key area then, the independents once again may find themselves behind in the game. But by spending time and money in making their petrol stations worthy of distraction, they are actually perhaps future proofing their businesses. In the not too distant future, motorists will need to spend at least 30 minutes charging their cars when they need to '*e-fuel*' whilst out and about. So what better way to do this than by tying it in with the weekly shop at your local petrol electric convenience station?

For more pricing information, see page 22

Portland Fuel Price Protection
www.portland-fuel-price-protection.com