Out and About the Industry

Singing the Keystone Pipeline blues and other absolutely brilliant observations. By Mark Radosevich

I am absolutely ecstatic about the mid-term election results; absolutely ecstatic. Despite this new found happiness, I've become increasingly annoyed by the media's incessant use of the word "Absolutely." It must be the most overused word on television today; it's everywhere, uttered mindlessly by virtually everyone. Even the most well educated talking head can't string together two or three sentences without inserting "Absolutely." The word is so inescapable that it's becoming my neurotic obsession, to the point that I may actually be forced to (shutter the thought) begin reading books or watch the tube with the sound turned down. But on to some absolutely marvelous business topics:

On the petro-front, logic finally prevailed in our country for the first time in a long time. So much so that I'm feeling fairly bullish on the long term prospects for our industry and the energy sector in general. The Keystone Pipeline is now ever closer to becoming a reality, helping to make sub $3.00 gasoline the norm rather than an anomaly, thus helping to bolster declining gasoline demand.

Alternatively, marketers that count the prompt pay discount as a large part of their fuel distribution margin will be stung by lower fuel prices. Those that employ rack plus a penny pricing generally enjoy around 4.0 - 4.5 cents per gallon margin including some freight markups. A fifty cent drop in the rack price translates into a ten to fifteen percent drop in overall margin or about $250,000 annually for a fifty million gallon marketer. This further highlights the absurdity of the country's wholesale fuels distribution business model, where a $24,000, eight thousand gallon load of gasoline rolls across the highway, yielding a profit of only $300 or 1.25% overall margin, secured by just credit card receipts or maybe a letter of credit. With purchase multiples as high as they are today, it's a wonder that more and more marketers haven't decided to cash out for greener pastures or explore more lucrative business opportunities.

No matter what may be said about major oil companies, most would agree that they are smart, pragmatic and strategic. Over the last ten to fifteen years, they have successfully transformed the petroleum distribution business to a position where they are basically hands off past the terminal. Third party businesses haul and sell their products and are responsible for virtually all regulatory, liability, environmental and financial risk. Oil marketers, by their traditional nature, are willingly to play the game for a mere 1.25% overall profit margin. Some oil companies have even figured out how to continue to control their previously divested retail sites through deed restrictions.

This system works only because of the prompt pay discount; it's the sacrosanct glue that holds the whole crazy model together. Tinker with the discount and risk having the entire thing come crashing down. On the bright side, it's probably a safe bet that some smart oil company executives have already realized this, thus providing marketers with peace of mind that their biggest profit driver will not soon disappear.

On the business divestiture front, for those marketers that happen to run both stores and the QSR's contained within one or more of them, added consideration should be taken on the process necessary to transfer said QSR's concurrent with the sale of the stores. We are in the process of selling a nice package of stores with a nationally known and respected QSR franchise in three of the ten stores. The QSR's are a very small part of the overall business. With a cash buyer in hand, we thought the process would have been straight forward and timely. Everything was progressing smoothly until the wheels came off when we attempted to gain QSR management transfer consent. The deal has now been delayed for almost twelve weeks and counting. We went from pushing our buyer for a late summer closing to now trying to hopefully meet a yearend deadline or risk having the deal unravel.

By their very nature, corporations can be very slow to react. Your sense of urgency or need for responsiveness many not be met with the same level of enthusiasm as you would expect. Don't be surprised if you're faced with needless, repetitive or illogical requests and actions. This is why I highly recommend that when a store divestiture includes the necessity to garner QSR consents, bring them into the process at an early stage and be patient but firm when discussing your planned objectives. Understand their rules, procedures, and timetables. Get to know their key decision makers. Provide them with regular communication and status reports to help diminish the possibility of costly delays.

On behalf of the entire PetroActive Services team, we *absolutely* want to wish all of our industry friends and colleagues a happy, healthy and festive holiday season.

Possessing over thirty four years of downstream petroleum experience, Mark Radosevich is a strong industry advocate. He is president of PetroActive Real Estate Services, LLC, a firm that offers confidential mergers & acquisition representation and financing services exclusively to petroleum wholesalers. Mark can be reached by email at mark@petroactive.net and directly by phone at 423-442-1327, web address www.petroactive.net.