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Invest or divest? Steps to proactively address declining gasoline demand. by Mark Radosevich

Recent industry trade publications have highlighted the fact that gasoline demand is slated to decrease by as much as 24% over the next 25 years due to higher fuel economy, increased use of alternate fuels, and altered driving habits by younger Americans. It is reported that this could contribute to 66 less fill-ups per day on average at all retail petroleum outlets nationwide. This news is just the cherry on the cake for traditional petroleum marketers that are coping with increased competition and regulation, while trying to maintain a fair amount of economic relevance for their respective businesses. It reminds me of my days in South Florida when the ocean currents slowly, yet relentlessly carved away a foot or two of beach each passing year. Over time, the sunbathers began to look like a bunch of seals wallowing for a small spot of sand on the diminished beach…but I digress.

Proactive marketers can use this early warning of relentless fuel demand erosion to make some important strategic considerations for their retail chain. Primary focus should be given to the following retail situations:

- Stores located in low or no growth geographic areas of the country
- Located in trade areas that are fully mature with stable, well established competition
- Have consistent/stable fuel volume and profitability through the years.
- Where the majority of revenue is derived from primarily fuel and inside sales

This is the general profile of stores that warrant the highest level of initial scrutiny. With store counts nationally numbering over 125,000 units, it's probably safe to conclude that they comprise one third to one half of all sites nationally. Once the chain has been assessed and the targeted sites have been defined, further profiling can be made to determine stores warranting either investment or planned divestment. Four key factors in determining the ultimate disposition of a profiled store are: property size, store size, fuel volume and overall profitability.

Investment Candidates:
With overall positive profitability being the primary guiding factor, the following are some profiles of stores that warrant investment:

- Larger sites with fuel volume of 75,000 to 100,000 gals/mo: Consider renovating by adding a QSR or other source of alternate income.
- Smaller sites on an acre or more with volume between 75,000 to 100,000 gals/mo may warrant a raze and rebuild, but extreme caution must be applied.
- Higher volume stores on an acre or more may be considered prime candidates for a raze and rebuild to a modern store configuration.
- Conduct a feasibility study for all positively profiled situations to confirm strategic assumptions and plans.

Divestment Candidates:
Following are some considerations for stores that will not stand the test of time and should be targeted for divestment:

- Small property size (one third to one half acre)
- Mid block locations
- Old store configurations of small square footage

- Low (or no) profit situations where fuel volume is below 75,000 gals/mo, combined with low sales below $75,000 per month.

These sites do not warrant investment. They will be further impaired through time and will ultimately not support a lessee dealer. Plan to sell them to a single unit operator and hold the fuel supply or explore higher and better uses for the real estate and an alternate use sale.

The prognosis of continued decline in gasoline demand is a fact of life that marketers must be prepared to proactively address. Those that take the early steps to rationalize their store networks will be in the best position to insure the long term health and vitality of their respective businesses.

On behalf of the entire PetroActive Services team, I want to wish all of our petro-industry friends a terrific autumn and encourage everyone to motivate their friends and employees to get out and vote in the upcoming mid-term elections. Nothing will protect our industry and respective businesses more than taking back the Senate in November.

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