

## Fair Return on Fuel Investments – Am I Just A Dreaming?

Let's imagine that you own property with a retail store and want to invest \$500,000+ to sell an additional product category. The product is readily available, turns over rapidly, and is something that nearly every person above the age of 17 uses daily. And, you have years of experience selling this product. Sound good so far? Well, yes there are some downsides.

The product is "environmentally sensitive" so you pay high insurance rates to protect your investment. Much of your valuable resources are devoted to purchasing the product at the lowest possible cost, arranging for or providing distribution, and constantly monitoring competitor's prices to make sure you are priced right.

In addition, most customers use credit cards to buy the product which takes about 3% off the top of your potential gross profit. Unfortunately, the industry uniquely views gross profit on this product as a fixed dollar amount per unit (cents per gallon) rather than a percent of sales dollar, so as the retail price of the product increases your real profit margin may not.

The product is sold outside and placed into a vehicle located directly next to a busy highway (easy escape for would-be thieves), so you make the customer prepay with cash (customers love that) or you encourage the use of credit cards. And finally, to top things off, there is no easy way to differentiate your product from competition.

While you should expect a reasonable rate of return on every investment you make, the reality is that petroleum marketers routinely invest in fueling facilities with the recognition that they may not make any return. In fact, some regional marketers and big box retailers make this investment planning to lose money by using fuel as a "loss leader".

**IS THIS A CRAZY INDUSTRY OR WHAT?"**

No rational business person or individual investor would take their hard earned capital and make this type of investment if they had a real choice. However, for petroleum marketers this is "the hand we are dealt". We do have some choices. We could fold,

sell our assets and look for another investment opportunity. We could forget about being competitive, raise prices unilaterally and potentially lose customers. Or we could do what we have done for years; find other ways to make money (c-stores, car washes or other alternative profit centers).

Many marketers reading this is likely focused on making money through alternative profit centers or, if you are a wholesaler, reducing cost, seeking economies of scale and riding out the fuel margin peaks and valleys. While marketers should continue these strategies, let me make a personal plea. Don't give up on making a reasonable profit on one of your highest sales dollar products. Don't let "we have no control over margins" be the answer. Continue thinking about strategies that help you take back some level of control.

Now, let me talk directly to those in the industry who think that fuel makes a great loss leader to bring customers into the stores. I worked briefly for General Mills when I first graduated from college so one of my first real life marketing lessons was the use of Gold Medal flour as a loss leader in grocery stores.

Products like Gold Medal flour are great loss leaders because retailers have very little to loose. Gold Medal flour does not require a \$500,000 + investment in specialized equipment to transport, store and dispense the product. If a truck full of Gold Medal flour overturns on the highway, HAZ MAT does not automatically show up (and there is usually no danger of the flour exploding).

When you spill Gold Medal flour on the floor in your store, you call for a "clean up on aisle four". You do not call the Department of Environmental Protection so that you purposely subject yourself to significant fines. Oh, and by the way, other traditional loss leaders like Gold Metal flour are not one of your highest sales dollar product categories. And, you do not typically price Gold Metal flour at the lowest price in town every day.

Gasoline and diesel are terrible loss leaders because you have a great deal to loose. Consider the investment and operating cost to sell these products every time you make a pricing decision just like you do on every other product category you sell. Granted, low

fuel prices may drive customers into your stores, but at what cost? Ask yourself this question. Do you know the real cost of selling a gallon of fuel?

Admittedly, this editorial is not telling you anything that you did not already know. The purpose is to vent a little steam on behalf of many who share similar views and to reinvigorate petroleum marketer entrepreneurs to explore new ways to solve old problems.

Most petroleum marketers believe that their fuel pricing strategies are well honed from years of experience. Think about the following. Do you spend as much time and effort reviewing and developing a fuel pricing strategy (as opposed to daily implementation) as you do the new “coffee” program? What other fuel pricing strategies or tactics could you employ to take back some measure of control and make fuel a good investment?

The following are some actions that you might consider. Create a unique pricing strategy for every store or wholesale customer taking into consideration the positive attributes of your offering (in addition to price) that attract customers. Experiment with different pricing scenarios and tactics and measure results. Some retailers are using new price sign technology to be more proactive on price, so consider what is available when you make new investments. And finally, do what prudent entrepreneurs do; take a hard look at your assets and rationalize, redeploy, and reposition everyday.