Oil Market Report: October 2017

This month Portland was lucky enough to go on a study tour – courtesy of the Association of Convenience Stores - that took in 4 state of the art petrol stations. All were independently owned (a DO/DO site in the industry jargon, ie, Dealer Owned / Dealer Operated), rather than being the property of the Oil Companies themselves (CO/CO site = Company Owned / Company Operated). To the general public, this differentiation means nothing as a DO/DO site is branded (BP, Shell, Esso etc) in exactly the same way as a CO/CO site. But increasingly, the job of the oil companies is only to supply the fuel and the brand, leaving the independent owners to get on with the job of running the site.

This franchise model – whilst always in existence – highlights a significant 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 DODO (the remaining 20% are supermarket). Brand on a DO/DO site retains its vital importance, but the day-to-day running of forecourts is more than ever in the hands of the independents. 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 selling directly to consumers. Then again, 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 Waitrose-esque 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 the odds are stacked against then when it comes to selling 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. But those clever retailers are now leading the industry and ensuring that fuel is no longer the prime offering. In 2016, only 18% of transactions at independent forecourts were “fuel only” purchases, with the majority being “fuel plus” (ie, fuel plus shop goods). However, most striking of all is that circa 25% of transactions are now “non-fuel”, which really shows that petrol stations should be called Convenience Stores - that also sell petrol.

This year, non-fuel sales at petrol stations will top £4bn and to address this, over £70m of investment has been made by independent forecourts in the last 12 months. 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 operational costs for fuel equipment (maintenance etc) is not still high, but it is capital expenditure that represents the future and with these levels of non-fuel investment, it is clear where independent retailers see that future.

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 1980’s and 1990’s 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 enough craft beers on sale, than worrying about the fuel market. This may not be a bad thing, because the next big challenge for the petrol retail sector is how to meet the demands of an electric future. Of the 8,400 petrol stations in the UK, only 225 have electric charging points and the majority of these reside on Oil Major CO/CO sites. Based on these figures, one might conclude that the DO/DO’s are about to join their namesake! But by spending time and money in making their petrol stations worthy of distraction, the independents may actually be future proofing their businesses. In the not too distant future, motorists who find themselves with low batteries, will need to spend at least 30 minutes charging their cars. What better way to do that than by combining it with the weekly shop at their local petrol electric convenience station?