LEAD, FOLLOW or GET OUT of the way!

Dealers face big decisions - PART 1

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Who said, "The only thing constant is change?" Whoever it was sure hit the bull's eye!

Take Mobil's new Franchise 2000 agreement, for example. It has dealers scrambling for attorney advice in a hurry. Those attorneys are citing fifty (50) or more paragraphs they feel contain language which is questionable at the very least and over reaching and controlling at the most. Either way, it has caused an uproar among historically "cooperative" and "maverick" dealers alike. There is even talk of major, well-funded dealer lawsuits by individuals in addition to the class action suit already filed as the result of their being forced to sign the agreement on a "take it or leave it basis." Huge concerns include the belief that this supplier is planning to use this document to acquire nearly total control over its dealers, achieve immunity from dealer lawsuits, minimize the dealer's ownership of his business by devaluing same vis-à-vis the removal of Goodwill from the dealer's list of assets and creating a "puppet mentality" among the dealers at large.

While Mobil representatives (SBCs and Area Managers) have responded to dealer questions by saying the company has no such intentions, they refuse to amend the language of the agreement or strike the onerous provisions out entirely saying "you'll just have to trust us." And with past behavior being less than friendly in many instances, the dealer is hard put to place full trust in his supplier's forthright and good intentions where the dealer's future is concerned.

Many dealers served by other major oil companies are a bit surprised by all this because they say the other majors have all pretty much done the same thing starting years and years ago when ARCO did it and blew up their credit card. Yes, and many of the best business owners either sold their businesses as the result or found a piece of land and built their own facilities, then picked the supplier they felt would do them the most good. In other words, they escaped the control attempted by their supplier and became truly independent business owners while still enjoying major brand identification, credit card programs, etc.

So, I guess a lot of Mobil dealers will be following in their footsteps in the months and years ahead. And who knows, that may be just what Mobil hopes they'll do after all! Word is Mobil's intention was to dump 30% of its existing units in 1997 with half of them (15%) being outright closures and the other half (15%) being converted to "N" status described above where the dealer owns the land, buildings and equipment.

As the result of the above, dealers must now face some big decisions, including:

1. Shall I stick with my current lessee dealer relationship and "trust" my supplier to look out for my interests and those of my family?
2. Shall I attempt to gain independence by purchasing an existing business including land and improvements?
3. Shall I go out and acquire a piece of land, build my own facilities and open a new business starting from scratch?

Perhaps the biggest change occurring in gasoline retailing is in the dealer's attitude about margins. The vast majority of dealers I know (and a lot of their accountants) still persist in believing that a minimum margin per gallon of fuel sold is absolutely essential to the survival of their business. Yet, those dealers enjoying the highest volumes don't even talk about margins. They are focused on gross profit generated by their entire business, controlling their operating expenses, marketing their products and services and maximizing their bottom line profits with an alertness to their annual return on investment after taxes and debt service.

You've all seen other retailers go this way (Super Crown Books, Super K-Mart, Price Club, Blockbuster Video, Home Depot, Home Club, Sam's Club, Wal-Mart, Super Ralphs, Petco, Cost Plus, Office Depot, Staples, Michaels, 26 Screen Cinemas, Dave & Busters......This list could go on and on). So why shouldn't gas stations follow suit and create "super" outlets which provide multiple profit centers capable of handling a huge volume of business?

Well, they already have. Take one of my clients, for instance. Devin Sloane, president of the Meridian Group in LaVerne, California, is a savvy, young, U.S.C. educated businessman who has never even mentioned the word "margin" to me when we talk about his business or the numerous additional land acquisitions he requires to meet his expansion objectives. Devin Sloane's LaVerne unit at 914 Foothill Blvd is Mobil Oil's highest volume station throughout the country and pumps 700,000+ gallons of fuel monthly. His car wash profit center at this property will appear in the next edition of the Guinness Book of World Records as the World's largest indoor car wash containing 30,000 square feet under roof. His second unit opened in August at Azusa/Colima Road in Hacienda Heights with a first month fuel volume of over 450,000 gallons and over 600,000 gallons the second month, but Devin is more concerned about the overall gross profit generated by the complex which includes not only the gasoline facilities but a C-Store with QSRs inside featuring Del Taco

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