<u>Q&A for the FAQ page on 4VQP.com Web Site</u>

<u>Question:</u> HYPERMARTS & BIG BOX RETAILERS vs. THE LITTLE GUYS. As HYPERMARKETS & BIG BOX retailers continue expanding, promoting and growing their fuel sales, conventional gas station and c-store operators worry about being driven out of business. Just what are these small businesses to do?

<u>Answer</u>: As with any business serving the public, the owner's choices include leading, following or getting out of the business. To do nothing is to die. In the case of super volume competition selling branded fuels (or even unbranded fuels) perceived by the customer to be of like quality, small competitors must compete on some basis other than price alone.

Thirty years ago, the "big box" retailers of the day (GEMCO, FEDCO, WHITE FRONT and others) gave this a try. They added fueling facilities, promoted unbranded fuel sales with lowball prices, built large volumes, then went out of business. And conventional gas station operators survived. Some even prospered.

Why and how did the neighborhood gas station survive the "Big Box Onslaught" of 30 years ago? Simple, they relied upon their other profit centers and aggressively went after the consumers' dollar by accentuating the products and services the Big Box guys did not have to offer and maximized their advantageous "customer convenience" components. They cross-merchandised their fuel / c-store (called snack shops back then) / quick lube & oil change / mechanical services / TBAS (tires, batteries, accessories & specialties). They were sitting on premier real estate (not some mid-block or out-of-the-way parcel of land) making them highly visible and easily accessible, so they extended their hours of operation, thus becoming even "more convenient" to the motoring public. Most advantageous of all was the fact that they were strongly supported (subsidized) by Big Oil who was heavily invested in these downstream distribution systems, had steady and reliable sources or crude oil and an abundance of fuel available (shortages and wild price spikes were rare). Big oil needed secure outlets for its end product since the refineries were most profitably operated when done so on a continuous basis with shutdowns for maintenance very carefully planned and orchestrated well in advance with finished product temporarily traded among them in order to provide protection against run out at the retail level. Big Oil took on the job of owning the land and improvements but charged their dealers (tenants) below market rents. Big Oil lavished these retail facilities with lots of capital and expense dollars keeping them functionally and aesthetically competitive, subsidized dealer-run promotions and merchandising programs, aggressively pushed proprietary credit cards and conducted free or almost free pre-installation and continuing education training courses for its dealers and their key employees. Further, Big Oil subsidized extended and 24 hour operations. It even granted rebates or temporary allowances designed to enable their dealers to post more competitive lower retail fuel prices while enjoying the same or just slightly lower profit margins. And finally, Big Oil supplied these units with easily accessible and generally well-trained / educated business counselors (company reps) at no charge who visited them in person at least weekly. To recap, the little guys had:

- Better real estate at below-market rents with corner visibility and easy access
- Major brand products
- Multiple auto-related profit centers creating a "one stop shopping" opportunity
- Delivery service from the fuels supplier sufficient to protect against run outs
- Retail price assistance
- Modern, competitive facilities maintained by the landlord at no cost to them
- Free or inexpensive pre-installation and continuing education training
- Subsidies for extended hours of operation, promotions, merchandising programs, etc.

And let's not forget that the Big Box competitors were generally being designed and managed by smart general merchandise store people who knew little or nothing about the petroleum industry. One can easily see who would eventually win this battle for the consumer's dollar.

Some say, "What's so different today? Why not just sit back and let Big Oil kick butt again? Why worry about it?"

It is felt that ALMOST EVERYTHING IS DIFFERENT TODAY…the customer, the customer's vehicle, the competition, the attitude of Big Oil, the folks running the Hypermarts & Big Boxes. Let's cover each of the foregoing, one at a time.

Today's CUSTOMER is female more often than male since the vast majority women work and those that don't are driving cars around the neighborhood, to the mall, etc. And there are just more women than men of car driving age today. She is busy, car savvy, sophisticated, often in a hurry. She dislikes driving through narrow spaces and in crowded places. She has cash / credit cards and makes buying decisions easily. She wants to be safe. She wants to be liked. The men are pretty much the same as before except that they are in a bigger hurry today.

Today's CUSTOMER'S VEHICLE is more expensive (for most, the second largest investment next to the home); more technically designed (requiring technicians, not mechanics, to service them); better cared for; and more reliable, thus enabling its owner to venture farther from the home base.

Today's COMPETITION is of four (4) types:

1. Conventional units, run conservatively, enjoying fat margins. They rely upon the absence of threatening competitors, 2 or 3 profit centers and major brand recognition / loyalty;
2. SUPERSTATIONS offering major brand fuels at below market prices, wide open spaces on site and multiple (up to 8) carefully selected and skillfully cross-merchandised profit centers, each justified as a stand alone business at the site;
3. Hypermarts / Big Box fueling facilities designed and managed by Big Oil escapees who thoroughly understand the retail petroleum business; and
4. Non-competitive conventional units that will not survive long term going forward. These are usually milked dry via all manner of schemes including multiple lease arrangements afforded favored lessee dealers by major brand suppliers, jobbers or distributors; small chain operators that are satisfied with marginal profitability per unit since they have a whole bunch of them; and, of course, the folks who need to own a business for reasons unrelated to just the profitability of same.

Today's BIG OIL, having run out of ways to become more efficient internally, was forced to gobble each other up in order to re-apply its proven cost-cutting strategies (headcount reductions, distribution channel realignments, etc.) in an expanded arena full of fresh new targets of opportunity thereby maintaining its enviable record of always paying quarterly dividends to its shareholders. In so doing, it took on huge debt which it is now focused upon reducing ASAP since Big Oil (a capital intensive, not labor intensive, industry) is best run when its coffers are overflowing with cash. As such, it is very busy today divesting itself of thousands of marginal units it has kept afloat for decades. It is extracting its investment in the land and improvements while, in many cases, removing many more thousands of nozzles from the marketplace but retaining the volumes these units used to sell since past strategies proved that the customer is indeed brand loyal for the most part and will simply shift over to the nearest unit flying their flag. Big Oil is even quitting the salaried operation concept (units owned and operated by the company either directly or through a wholly owned subsidiary firm) having learned it's just too much trouble running them especially when the same or even higher throughputs are enjoyed when these are run by folks who have a personal stake in their success. Now, Big Oil has begun to supply the Hypermarts & Big Box fueling facilities with British Petroleum (BP) taking the lead and ExxonMobil recently following suit.

Today's HYPERMARTS & BIG BOXES are certainly different too. The biggest difference is that they are designed and managed by people who left Big Oil during many of the headcount-reducing "reorganizations" that followed the application / advancement of computer technology, divestment of marginal retail units and, of course, mergers & acquisitions. The future is still unclear to us seasoned veterans of the petroleum business but some very credible think tank folks are predicting that these super volume fueling facilities are here to stay this time around and will eventually carve out a very significant market share in the 30% range nationwide.

Now, finally, to address in more detail the question as to what the small businesses are to do in order to survive in today's very rapidly changing competitive landscape. Well, we are back to the simple choices of either leading, following, or getting out of the way. No matter what is eventually decided, the following right actions are strongly recommended immediately:

1. Study the environment (trade area / area of primary influence, site by site) or hire someone to do this for you.
2. Set forth your assumptions as to the future competitive climate at every location.
3. Clearly establish your objectives in writing (overall and by location).
4. Determine whether or not it is possible to achieve your objectives at each location being examined.
    - If not possible (lot sizes less than 30,000 sq. ft.are highly suspect), sell that unit and recycle the proceeds into your others (just like Big Oil is doing) but be smart about this and look at alternative uses for the property since, while not a keeper as a fueling facility, if it meets the site criteria for another use it could represent a very nice income stream for you on a "no hassle" basis while you are busy "doing your thing" at your surviving units. Maybe hire a consultant to assist you in this analysis.
    - If objective attainment does look possible at this point, proceed in executing the recommended right actions that follow.
5. Identify what profit centers will satisfy the most frequent needs of your customer (location by location) and verify that each can be justified as a stand alone business at that site. You will need to hire consultants for some or all of this work.
6. Make certain the profit centers lend themselves to cross-merchandising promotions.
7. Hire an architect to do some line drawings portraying what you have planned for each location.
8. Find out what costs are required to enable each unit to compete and win with these profit centers in the competitive climate you assumed will exist in the future.
9. Run some numbers on these costs, the expected cash flows, debt service levels and cash-on-cash R.O.I.s or hire a consultant to help you with this to be absolutely sure you have what you want.
10. Go get the equity capital needed by converting other assets or locating investors (or even partners, if you must). 25% equity capital is usually sufficient.
11. Professionally package your business plan for presentation to your debt capital provider candidates, fuels supplier, tenant candidates (if you plan to lease space to folks who will own the business at one or more of the profit centers chosen), other products / equipment vendors (they may contribute some of the needed up front cash thereby reducing your personal equity capital contribution) and the jurisdictional authorities from whom you must obtain any needed permissions. Hiring a professional to do this for you can be money very well spent.
12. Secure the tentative fuels supply contract commitment in writing.
13. Secure the debt capital commitment in writing.
14. Finalize the tenant leases (or subleases, if any).
15. Obtain all needed entitlements (permissions) in writing from the government agencies having jurisdictional authority over the changes you intend to make.
16. Execute your fuels supply contract.
17. Construct the improvements for the new profit centers at each location.
18. Plan and conduct an effective "coming soon" publicity campaign while things are under construction.
19. Train everyone on the new profit centers as part of your pre-opening activities.

20. Open with a bang & follow this with an attention getting grand opening about one month later.

Thereafter, fine tune each location by shaking out your crews / upgrading same; ramping up your sales volumes to levels well above those forecasted for each "fully seasoned" profit center after notching up your retail prices to the level of those posted by the majority of your primary competitors; and remain merely competitive thereafter. The volumes of your various profit centers should now stabilize and your overall unit should become "seasoned" so long as it continually maintains a competitive posture on all retail factors across the board.

If and when new competitive threats materialize, each unit is in a strong economic position to beat back every threat by immediately meeting same with aggressive behavior by whatever profit center has been targeted while continuing to enjoy "business as usual" (or even unexpected uplifts) at the unit's other, non-threatened profit centers.

~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

If some or all of the foregoing seems complicated or difficult to you, don't be surprised. It is complex for most people. That's why even Big Oil & large chains hire specialists to help with matters such as these. And that's why this web site was created…to enable everyone, (<u>including very small, one-unit operators facing very big concerns</u>) to have access to an array of savvy industry veterans who together represent over 490 years of hands-on experience…and who are willing to accept assignments from even small, one store business persons…just one-case-at-a-time.

To locate the right person for your situation, simply look over the folks appearing on the pages of 4VQP.com. Go back to the "Our Consultants" page as this is a good place to start.

If you want to shorten your search, contact Jack Muellerleile who will listen to you, determine which consultant(s) may be best suited to assist you and direct you to them (or even accept the assignment himself).

Jack Muellerleile can be reached by phone at 714.220.1806; by fax at 714.826.1143; or by email at sitepro1@comcast.net .
~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~