Gas Stations: What I'm Seeing – June 2015

One question that comes up often is: **What is a typical fuel pool margin in today's market?** The margin changes daily, but on an annual basis, NACS indicates it was $0.19 per gallon nationally in 2014, up 8 percent from the previous year. Pricing and margins in the Pacific Northwest typically run higher and our database indicates an average margin of $0.24 in Oregon/Washington. However, the pool margin among our data ranges from a low of $0.11 to a high of $0.48. **So what is causing this variation?** Analyzing the data reveals the following margins per operating strategy:

Gas Station Fuel (Averages)				
Operator Fuel Strategy	% of Stations	Monthly Gallons x	Pool Margin	= Monthly Gross Profit
Low Volume / High Margin	22%	60,477	$0.375	$22,333
Balanced Volume / Margin	**62%**	**102,812**	**$0.238**	**$24,700**
High Volume / Low Margin	17%	161,716	$0.132	$20,935

Source: ACG Database - 65+ records

Low Volume / High Margin Strategy: This is typically a gas station that has a good location with high barriers to entry, a lack of any competitors in the immediate area and surrounded by a high income population. Essentially this station has a monopolistic position in the market. As such, this operator will generally lead the market with the highest fuel prices and enjoy high margins, but at the expense of volume. For the operator, there is less wear and tear on the equipment.

Balanced Strategy: This reflects the typical operator with a corner location on a high traffic arterial, but with nearby competitors. Pricing is competitive and the operator is likely striving to pump 100,000 gallons per month. Over the past couple of years, margins are typically in the $0.20 to $0.25 per gallon range, but are trending above this range in late 2014 and year to date 2015.

High Volume / Low Margin Strategy: This gas station is most likely located at an Interstate interchange and has at least 6 dispensers. There are likely other competitors at the interchange and as such, pricing is competitive. The operator generally has a larger format store (sometimes with a quick serve restaurant) to attract the larger numbers of customers visiting the site. The lower margin on the fuel is usually more than offset by above average store sales.

Final Observation: Although the variance in gallons and pool margin is over 60 percent among the strategies, the monthly gross profit at the end of the day only varies 15 percent. See next month's issue for Part 2 regarding c-store operating differences.

Please call anytime if I can be of assistance in Oregon or Washington:

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*Fuel Pool Margin is calculated as: (Fuel Revenue – Fuel Cost of Goods) / Gallons Sold. It is essentially what is left per gallon after the retailer buys the fuel from the supplier and then sells it to the customer.