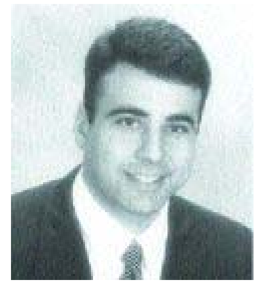
Kevin Fiala



Company: Bywater Corporate Development Services
Title: Principal
Years in the industry: 13 years
Family: Wife and two children
Hobbies or activities:
Basketball and family
First job: Management trainee at Amerada Hess **How long have you been reading** *NPN* **?** On-and-off for 13 years
What is the most common mistake marketers make when selling their business? Misjudge value of their business

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Jobbers who 'Do Something' will succeed in this time of consolidation

The oil business is experiencing a period of exceptionally rapid change, and this change is impacting virtually all participants in the downstream value chain, including fuel and lubricant jobbers. A major contributor to the change impacting jobbers is the recent and, most likely, near-term merger and acquisition activity at the majors' level of the oil industry.

In less than five years, corporate combinations have brought together such competitors as Exxon and Mobil; Chevron and Texaco; BP, Amoco, Arco and Castrol; Phillips, Tosco and Marathon; and Pennzoil and Quaker State, to name a few. The pending acquisition of Pennzoil-Quaker State by Shell will likely be added to the list.

In addition to corporate combinations changing the landscape of the fuels and lubricants business in the United States, the downstream value chain is also being reshaped by the emergence of "big box" retailers or hypermarkets. These retailers, which include such companies as Albertson's, BJ's, Costco, Kmart, Kroger, Meijer, Royal Ahold, Sam's Club, Safeway, Wal-Mart and Winn Dixie, are successfully penetrating the retail gasoline market space. These relatively new competitors are typically big, well-funded, aggressive and growing.

So what does the industry consolidation at the majors' level of the oil business, as well as the additional competition along the downstream value chain, mean to fuel and lubricant jobbers? In summary, the number of small- and mid-sized distributors will be reduced due to more intense competition and tightened margins. We are already seeing this consolidation taking place, and expect it to continue. The impact will certainly differ based on the specific case, but in general the impact can be broken down into three scenarios, based on the size of a jobber.

Large jobbers (e.g., greater than $25 million in annual revenue for motor fuel jobbers and greater than $5 million for heating oil or lubricant jobbers) with aggressive growth plans are becoming well-positioned for the future. As they grow, assuming this growth is managed well, their cost position continues to improve, transaction and transportation logistics become more and more efficient, sales and marketing efforts benefit from economies of scale, and geographic reach expands. This makes the growing, large jobber a more attractive partner for many of the majors.

Most mid-sized jobbers (e.g., $10 million to $25 million in annual revenue for motor fuel jobbers and $2 million to $5 million for heating oil or lubricant jobbers) need to make a decision: grow, sell or perhaps sharpen their focus. Beyond making the decision to stay in the business, one of the keys to success for mid-sized jobbers is to objectively assess the true value they bring to the supply chain (both up and down) and to develop business strategies and tactics that support excellence in delivering on this value. In some cases this may mean forming alliances with other suppliers or focusing on a niche strategy. For others, it may even mean obtaining financing and acquiring other distributors to capture economies of scale and to minimize margin erosion in the supply chain.

Unfortunately for most small distributors (e.g., less than $10 million in revenue for motor fuel jobbers and less than $2 million for heating oil or lubricant jobbers), the prudent decision will most likely need to be a sale of the business in the near-term, or face a liquidation decision down the road. Most small jobbers lack the financial resources, as well as the appetite for risk, to pursue an aggressive growth plan. And without scale, it will become increasingly difficult to compete in this business. Again, this is a general statement, and we are confident that there will be many small distributors whose entrepreneurial spirit and creativity will prove the above statement wrong.

In summary, it is apparent that jobbers are navigating through a time of significant change. Some will aggressively acquire, grow and prosper, some will refocus and move ahead, and some will realize that it is time to get out of the game. It's those who do nothing that will most likely suffer the most.

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From the **JULY 2002** issue of
National Petroleum News.