

NPN's 2005 Profit Center Survey, Part 1

by mary murphey

Second annual survey results investigate the roles top profit centers have in the industry, starting with Car Wash and Tobacco



The petroleum marketing/convenience-store industry is constantly evolving, and as any seasoned industry veteran knows, you need to evolve with it, or join the ranks of a different profession.

Some changes in the industry happen quickly and without warning, while others meander along, slowly carving out their distinctions. Some such developments result in positive effects for everyone involved, but then others seem to take unrelenting blows at retailers' pocketbooks.

This constant re-defining, both for the good and for the bad, is what keeps industry enthusiasts like you on your toes — which is where you need to be to stay at least a step ahead of your competition.

Identifying and discussing industry trends is an essential step toward maintaining your grip on your current business prospects and actively attracting a larger customer base. The more you can learn about this industry — your livelihood — the longer your presence in it will be felt.

Enter *National Petroleum News*' Profit Center Survey.

Last year marked the beginning of that survey — *NPN*'s Research Department wanted to delve deeper into the petroleum marketing/c-store industry to collect and analyze valuable benchmark data. The National Association of Convenience Stores' *State of the Industry* report and our

annual *NPN Market Facts* issue are both reputable sources of data for the industry, but we wanted to go beyond that with our Profit Center Survey. *NPN* wanted to get inside your stores and understand what you see everyday: customers' ATM usage and subsequent spending; how to combat rising tobacco taxes; new trends in car wash techniques; and the reception new prepaid products are getting on your shelves. The 2005 survey covered four profit centers, ATMs, Car Washes, Prepaid Products and Tobacco.

Given the substantial response this year's Profit Center Survey generated, the *NPN* editorial staff decided to split the data between this and the November issue. Through these two installments, we hope you'll find the information about the current state of profit centers as timely and pertinent to the petroleum marketing/c-store industry as we do.

This month's portion of the data will cover the Car Wash and Tobacco segments, and on top of breaking down the survey results, this installment explores the dynamics and trends surrounding the two profit centers.

NPN's 2005 Profit Center Survey yielded an improved response rate from last year, with the Car Wash and Tobacco segments posting 86 and 135 responses, respectively. As a point of reference, 2004's responses were, Car Wash, 65, and Tobacco, 125.

CAR WASH

A profit center worth maintaining

“You find out how well it’s received when it breaks down,” Jim Jorgesen said in reference to a community’s relationship to a local car wash.

Jorgesen, convenience store division manager at Trimont, Minn.-based Numart Convenience Stores, explained that there are obstacles that come with having a car wash, such as maintenance breakdowns or inclement weather, so it’s necessary to be prepared and handle situations as they arise.

Rick Russell, territory sales representative for Home Service Oil Co., which serves the Greater St. Louis area, agreed, commenting that the relationship between the cus-

tomers and the car wash is based on trust. He explained how Home Service Oil is “staying right on top of any damage claims, making sure there’s nothing faulty with the equipment,” and if there is, rectifying it immediately. They are also upgrading their camera systems.

“It’s an incredible profit center, and in addition, another service that I believe increases the incentive for someone to stop and become a customer or partner with us,” Russell elaborated. “There’s two gas stations and one has a car wash, one doesn’t. You need a car wash — where are you going to go? You’re not likely to come into our car

Average monthly sales per wash?

Average \$6,780

Average monthly wash volume?

Average washes 1,239

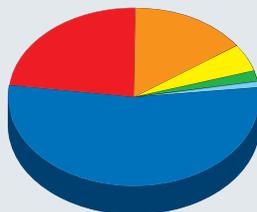
Average monthly profit per wash?

Average \$3,656

How many car washes do you own that are located at a convenience store or gas-line station?

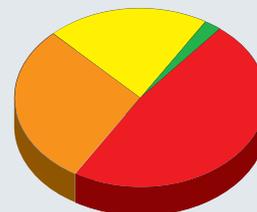
Average 10

How many of each type do you own?



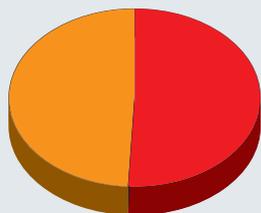
Touch-less	54%
Rollover	23%
Friction	15%
Self-serve	5%
Tunnel	2%
Hybrid	1%

How many of each type do you own?



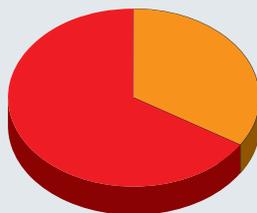
Vacuums	48%
Stand-alone dryer	29%
On-board dryer	21%
Charge-machines	2%

Did the addition of a wash increase gasoline volumes?



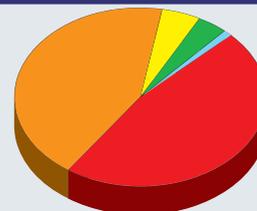
Yes	51%
No	49%

Did the addition of a wash increase in-store volume?



Yes	34%
No	66%

On average, how many types of washes do you offer customers at each site?



One	4%
Two	1%
Three	47%
Four	43%
Five or more	5%

What percentage did the addition of a wash increase your gasoline volumes?

Average 10%

wash and not buy gas, and go down the road and buy gas someplace else.”

According to our survey's findings, the average monthly sales-per-wash is \$6,780, which is up \$333 from last year's figure. The average monthly profit per wash is \$3,656, which is also an increase from last year's number. And the average monthly wash volume is 1,239, as compared to last year's reported figure of 1,184.

“I bet (a car wash) increases your volume, fuel-wise and inside, by at least 20 percent,” Jorgesen commented. Our respondents were nearly split 50/50 on whether or not offering the public a car wash boosted their gasoline volumes, but the ones who did agree, cited an increase of 10 percent.

The 2005 NPN Profit Center Survey found that touchless

washes are still the most prevalent among respondents, at 54 percent, which is just a slight increase over last year's figure. But friction is making its way back up, posting 15 percent.

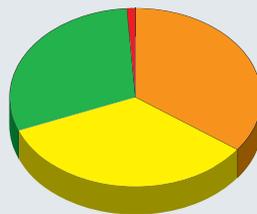
“We're going back to a friction market, in which people are really wanting their cars clean, so we're looking at using soft foam technologies in the car washes versus touch free,” explained Russell, whose six car washes are a combination of touchless and friction.

Russell noted that individuals considering incorporating car washes into their profit center offerings should be mindful of their relationship with the car wash provider. “While the equipment is important, it's going to be the ability of the people who sell it, to also service it and understand and help market your location.” ■

What are your ongoing monthly operating costs?

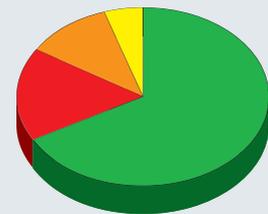
Chemicals Average	\$644
Insurance Average	\$228
Water Average	\$304
Electricity Average	\$324
Sewer Average	\$255
Natural Gas Average	\$203
Theft Average	\$33
Pit pumping Average	\$125
Labor Average	\$755
Advertising Average	\$151
Damage claims Average	\$136
Capital Average	\$79,911

How many of your washes offer the following type of payments?



	Pay-at-the-pump	35%
	Pay at the teller/cashier	34%
	Payment system at wash entry	30%
	Cash acceptor at pump island	1%

Which of the following do you offer customers?



	Wash discounted with gasoline purchase	67%
	No discounts	17%
	Gasoline discounted with wash purchase	11%
	Other	5%

What was the overall investment of entry on average for each wash?

Average \$196,714

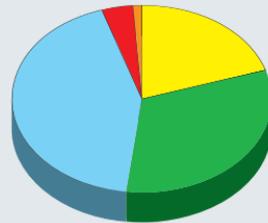
What percentage did the addition of a wash increase your in-store volumes?

Average 8%

On average, what are the prices of each wash you offer?

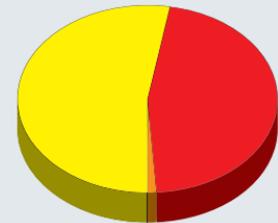
Basic wash price	
Average	\$4.41
1st-upgrade	
Average	\$5.47
2nd-upgrade	
Average	\$6.54
3rd-upgrade	
Average	\$7.15
4th-upgrade	
Average	\$7.50
Other	
Average	\$8.00

How often is maintenance performed at your sites?



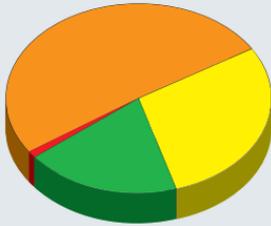
■ Daily	20%
■ Weekly	32%
■ Monthly	43%
■ Quarterly	4%
■ Semi-annually	1%
■ Annually	0%

Who performs maintenance at your sites?



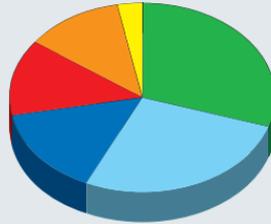
■ In house	53%
■ Contracted service providers	46%
■ Other	1%

What is your busiest season of the year?



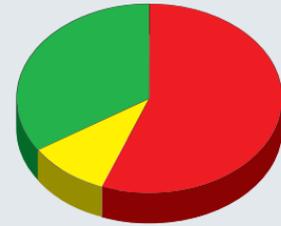
Winter	51%
Spring	29%
Summer	19%
Fall	1%

What kind of marketing programs do you offer?



Signs	30%
Pump toppers	27%
Incentives for mgrs/cashiers	15%
Cross marketing	13%
Advertising	12%
Other	3%

How will your car wash activities and/or investment look over the next 5 years?



More	56%
Fewer	10%
Same	34%



TOBACCO

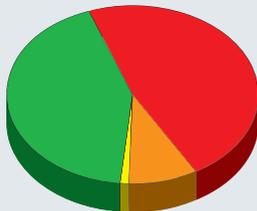
Competitive category gets creative

“(Tobacco) is so ahead of everything else we sell in our stores,” said Ryan McNutt, financial accountant for St. Louis-based Midwest Petroleum, which has 42 stores that all sell tobacco and/or tobacco products. McNutt said his company feels that tobacco will be the No. 1 category for a long time to come as well.

Seventy-six percent of respondents indicated that they think cigarettes will continue to be the top in-store item in 2006. Our survey also found that 57 percent believe that will carry over to 2010, which is an increase from last year's 48 percent.

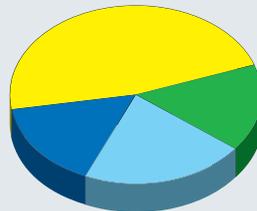
Darrick Elias, general manager for Yuma, Ariz.-based Barnicle Enterprises Inc., explained that tobacco sales are

What percentage of your monthly in-store sales come from tobacco products?



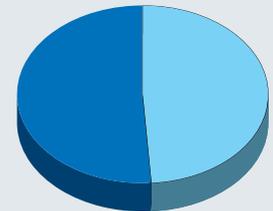
0-25%	43%
26-50%	47%
51-75%	9%
76-100%	1%

Of these monthly tobacco sales, what percentage comes from cigarettes?



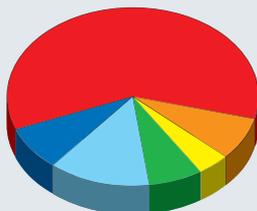
0-25%	16%
26-50%	21%
51-75%	16%
76-100%	47%

If applicable, did any tax increase in 2004 help, hurt or have no effect on your cigarette sales?



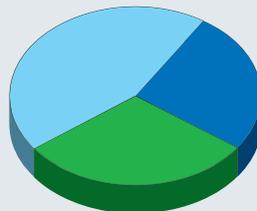
Help	0%
Hurt	49%
No effect	51%

How many cigarette SKUs do you stock in your stores on average?



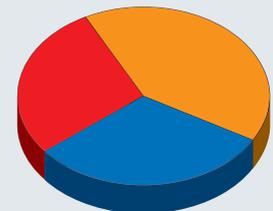
1-10	8%
11-20	4%
21-30	7%
31-40	13%
41-50	8%
51 or more	60%

In 2004, did the number of cigarette SKUs increase, decrease or stay the same in your stores?



Increased	26%
Decreased	30%
Stayed the same	44%

In 2004, did your monthly cigarette sales increase, decrease or stay the same?



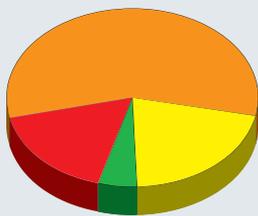
Increased	41%
Decreased	31%
Stayed the same	28%

getting more and more competitive, and that's something his company feels to a heightened degree due to their proximity to cheaper cigarettes.

"We're 20 miles away from the United States/Mexican border, so that's a big factor. Our customers can drive basically 20 minutes across the border and get (tobacco) a lot cheaper." And there are two Indian reservations within 10 minutes of Barnicle Enterprises Inc.

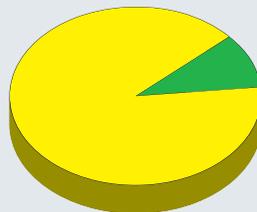
McNutt said that Midwest Petroleum feels the competition too. To hold their own in the tobacco aspect of the industry, they have incorporated creative tactics, like pricing surveys, to keep their business on the cutting edge. "We've gotten more aggressive about going out and just researching — staying current with the market; making sure we're on top of what other people are doing," McNutt explained.

On average, what percentage of your monthly cigarette sales are premium brands?



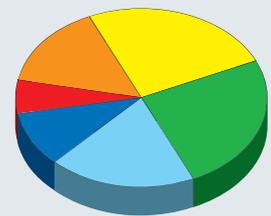
0-25%	5%
26-50%	17%
51-75%	57%
76-100%	21%

Do you stock other tobacco products?



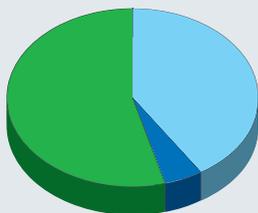
Yes	90%
No	10%

If you stock OTP SKUs, how many OTP SKUs do you stock in your stores on average?



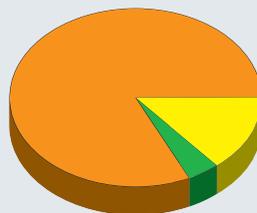
1-10	25%
11-20	25%
21-30	19%
31-40	10%
41-50	6%
51 or more	15%

In 2004, did the number of OTP SKUs increase, decrease or stay the same in your stores?



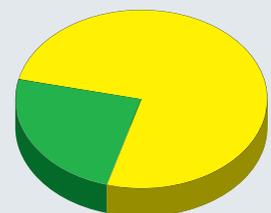
Increased	41%
Decreased	5%
Stayed the same	54%

On average, what percentage of your monthly in-store sales comes from OTPs?



1-10%	82%
11-20%	14%
21-30%	4%
31% or more	0%

Based on your experience, do you believe cigarettes will continue to be the top in-store category in 2006?



Yes	76%
No	24%

More than half, 57 percent, of the respondents said they offer 51 or more cigarette SKUs, with 51 percent — 75 percent being premium brands.

“Cigarettes have become more a destination item, based on pricing,” McNutt stated. “As the price continues to rise, just like gasoline, people become more sensitive to it.” Elias agreed, explaining that his company uses tobacco to drive customers into its stations.

“(Cigarettes are) a prominent part in all our stores,”

McNutt said. “It’s a very valuable item, so we either have cigarette lockups or we keep them behind the counter, and they’re very, very prominent.”

NPN’s Profit Center Survey found that 47 percent of respondents reported that 26 percent to 50 percent of their monthly in-store sales come from tobacco products, and 47 percent of those surveyed said 76 percent to 100 percent of those monthly sales comes from cigarettes. Forty-one percent of respondents said that their cigarette sales increased in 2005. ■

