SIGMA'S EXECUTIVE LEADERSHIP CONFERENCE

Capturing the perspective of the leading gasoline marketers in the United States on challenges facing their business

At the 2020 SIGMA Executive Leadership Conference, a group of leading fuel marketers convened for two days to discuss a variety of market factors that are affecting their business: Liquid fuel demand destruction, environmental activism, changes in liquid fuel composition, electrification of the transportation market and diesel fuel quality and underground storage tank corrosion. Following presentations which provided requisite background information on each topic, they broke into small groups to share their perspectives about how the industry can best capitalize on available opportunities.

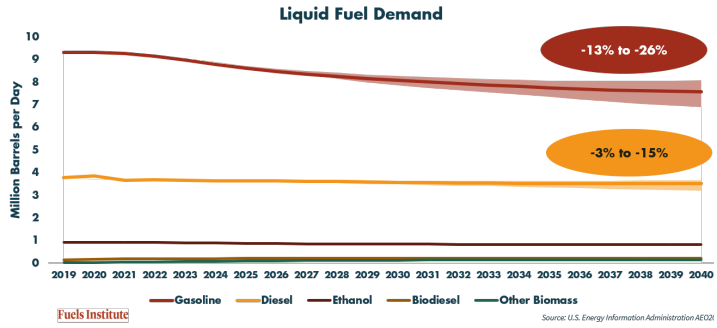
The following is a summary of those discussions.

COUNTERING REDUCED FUEL DEMAND

Requirements boosting the fuel efficiency of vehicles and strategies to reduce carbon emissions from the transportation sector are combining to effectively reduce the demand for liquid fuels. According to the latest forecast published by the U.S. Energy Information Administration (EIA), by 2040 gasoline demand could fall by as much as 26% and diesel could lose 15%.

The marketers acknowledged that demand for fuel is down in recent years and this is forcing retailers to consider alternative consumer offerings to drive traffic and offset potential lost revenue at the pump. Some suggested that the wholesale business has not been affected as significantly as the retail, while others noted that a more integrated supply system can help marketers better manage their situation and market position.

Consistently, marketers reported that a successful strategy must focus on the future, developing business plans that strengthen a company's market position (i.e., capture a large piece of a smaller pie), control of inventory (optimize supply and reduce costs to benefit margins) and future proof the fueling business for new formulations and shifts in demand (installing biofuels compatible equipment, running conduit to potential charging sites, etc.).



PROACTIVELY SUPPORTING THE ENVIRONMENT

In light of the policy focus to reduce transportation-related emissions, there is a growing concern that environmental activists could eventually turn their attention to fuel marketers as a source of negative influence on the environment. In order to mitigate the impact of such behavior, what are some of the steps marketers can take to pro-actively deliver greater value to the environment?

Per the group, there are a number of things marketers can do now to better position themselves in the eyes of their customers, but first and foremost is to make sure to take credit for progress a store is already making. Share with customers the impact of higher efficiency lighting or lower-energy coolers or the lower carbon intense fuel blends being offered at the pump.

These efforts taken in the absence of a government requirement will allow marketers to engage with customers and establish a level of trust regarding a store's commitment to the environment. In developing additional strategies for the store, engage with customers to learn what is most important to them so that programs can be customized to resonate with the desires of the community.

While reducing a store's environmental footprint and sharing the experience with customers, there may be opportunities to establish partnerships with outsider groups to create a program through which a company can leverage its loyalty programs to encourage pro-environmental behavior and reward customers for taking their own pro-active steps to reduce their environmental footprint.

It was agreed that making a store's environmental agenda a higher priority within its strategic approach to market can protect it against future attack but also develop a closer alliance with customers and enhance their loyalty.

LEVERAGING BIOFUELS

As policies and initiatives to reduce the carbon intensity of transportation fuels continue to develop, there could be an enhanced role for biofuels. A leading example of a low carbon policy can be found in California, which has implemented a Low Carbon Fuel Standard that is being viewed as a model for potential programs in the Midwest, Northeast and throughout Canada.

As the chart below demonstrates, California expects compliance with its carbon reduction targets in 2020 to be satisfied primarily by biofuels, with ethanol, biodiesel and renewable diesel generating nearly 80% of the required carbon credits. Implementing similar programs in other regions, or even nationally, could yield market expansion opportunities for biofuels blends.

The marketers agreed that for biofuels to grow substantially, regulatory certainty and widescale terminal blending is required. The longer-term extension of the biodiesel blenders tax credit was viewed as a positive development and the pending biofuels infrastructure program from USDA could provide a valuable opportunity for marketers to offset the costs of infrastructure upgrades required to accommodate higher biofuel blends, assuming its design eliminates some of the onerous requirements that were associated with the last program.

Yet there remain some concerns about vehicle manufacturers' communications with customers regarding the suitability of certain fuel blends in their engines, the positioning of branded fuel suppliers relative to the marketing options of higher biofuel blends and whether customers even want these fuels.

Some seem to believe there was an opportunity, however, to coordinate market approaches and communications with the automobile manufacturers to provide consumers with greater confidence in these products. In addition, a more proactive environmental engagement strategy to create a partnership between the marketer and the customer to reduce the environmental footprint of a facility could provide a foundation to successfully offer lower carbon intense fuel products.

The marketers saw potential synergies between their strategies for proactively supporting the environment, engaging with their customers and offering certain biofuel blend options.

RESPONDING TO VEHICLE ELECTRIFICATION

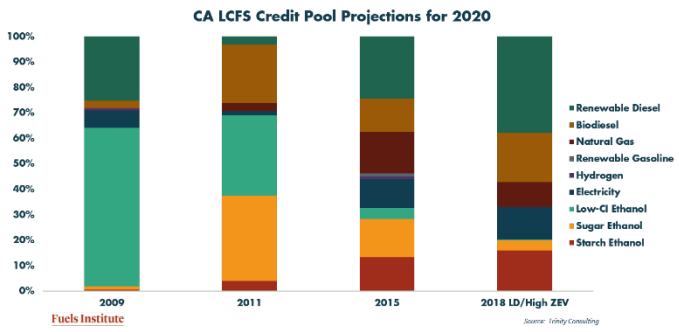
The chart below shows the sales of battery electric vehicles (BEVs) and plug-in hybrid electric vehicles (PHEV) in the U.S. since 2015. Although sales of electrified vehicles slowed slightly in 2019, it is generally assumed that sales will grow in the coming years with the introduction of new models, the improvement in technology yielding greater range and faster charging times, and the eventual reduction in cost.

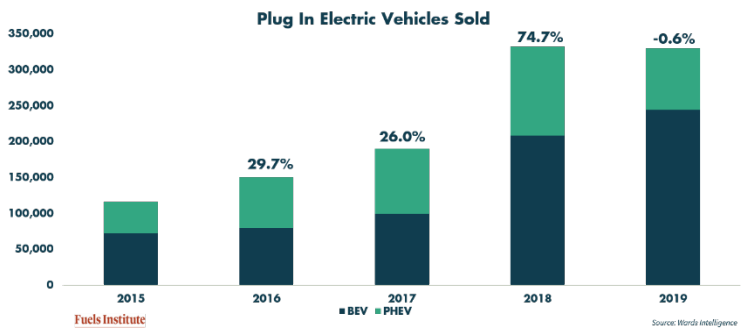
Fuel marketers should consider the implications of the electrification trend rationally and recognize that not all markets are going to adopt electric vehicles at the same pace. Marketers specifically noted that rural communities, or those with fewer than 200,000 residents, were most likely to lag behind more metropolitan markets in terms of the pace of change. Consequently, in which markets one operates will have significant influence over the decision of whether or when to install charging equipment.

There was general agreement that the system needs to deliver a return on the investment before it would be considered a rational business strategy. Currently, few are reporting any actual demand for charging services from their customers. They noted that there seems to be a lot of interest from regulators, the media and even friends, but this should not be confused with actual market demand. Once demand begins to develop, and other retail establishments begin to install charging stations, they suspect a domino effect to take place as retailers try to "Keep up with the Joneses."

They also said that once they get to a point where installing a charger might make sense, they need greater transparency from their utility providers regarding the level of service available at particular sites and the fees that can be charged to the site host.

It was further agreed that the decision to install a charger must be based upon a careful examination of one's own market. Are consumers beginning to drive electric vehicles? Is there sufficient demand for in-market charging services to support a business case for the equipment? Are other retailers beginning to install chargers? Will your utility serve as a valued partner in your efforts? Does your facility have enough room to accommodate a charging station? Does your facility have the capacity to accommodate drivers for 20 minutes while their vehicles charge? Because the electric vehicle market will not grow consistently throughout the nation, it is incumbent upon the marketer to evaluate his own situation to determine if installing a charger is appropriate for his business.





Fuels Institute

THE FUEL FOUNDATION

PROTECTING TANKS FROM CORROSION

The future of the commercial transportation business is likely to remain powered by diesel fuel for decades to come, but this market is facing its own unique challenges. In one respect, modern diesel engines are being more carefully designed to achieve efficiency and emissions targets. With this design, however, comes increased sensitivity to fuel quality. Meanwhile, tank owners are struggling with preventing corrosion from occurring in their tanks, which can result in costly equipment repairs or replacement and compromise fuel quality to the end user. But marketers agreed that there are things they can do to reduce their risk and deliver a higher quality product.

Primarily, marketers must be diligent about implementing best practices to maintain their storage tank systems and to require best practices be followed by their distributors. One marketer reported his company requires delivery companies to test the tanks for water before and after a delivery – they even provide the company with tools and kits at the tank site.

In addition, marketers must be vigilant about system maintenance – routinely inspect vent caps, tank tightness, spill buckets, and any area in which water could penetrate the tank system. And while relying on technology for ongoing monitoring is a good practice, marketers should validate the technology by manually checking their systems on a regular basis.

Proper maintenance and insisting that all partners in the fuel business are following best practices can limit a company's exposure to costly repairs and replacement and improve the quality of fuel delivered to customers. It was agreed that there is no silver bullet solution – it just takes diligence.

ADDITIONAL INFORMATION

Prior to the fuel marketers breaking into small groups for their discussion, John Eichberger of the Fuels Institute and Tammy Klein of Future Fuel Strategies presented a series of slides on each topic, helping to provide background, trends analysis and overall context to facilitate the marketers' discussions.

This presentation is available by contacting either John Eichberger at jeichberger@fuelsinstitute.org or SIGMA's Liz Menz, Director of Education, at lmenz@sigma.org

About the Fuels Institute

Founded by NACS in 2013, the Fuels Institute is a nonprofit tax-exempt social welfare organization under section 501(c)(4) of the Internal Revenue Code. We are dedicated to evaluating issues affecting the vehicles and fuels markets. We commission comprehensive, fact-based research projects that are designed to answer questions, not advocate a specific outcome. Our reports address the interests of industry stakeholders—from business owners making long-term investment decisions to policymakers considering legislation and regulations that affect these markets.

John Eichberger | Executive Director
jeichberger@fuelsinstitute.org | (703) 518.7971

Amanda Appelbaum | Director, Research
aappelbaum@fuelsinstitute.org | (703) 518.7974

Donovan Woods | Director, Operations
dwoods@fuelsinstitute.org | (703) 518.7973