The following is the 2nd of a 2 part article written by J.R.”Jack”Muellerleile at the request of Jan Speelman, Executive Director of the Automotive Trade Organizations of California. It appeared in the organization’s January / February 1998 edition of AuTO*business*.

LEAD, FOLLOW or GET OUT of the way!
Dealers face big decisions - PART 2

In PART 1 of this series, we talked about how major oil companies have displayed a toughened attitude about who is “calling the shots”, who’s expected to “tow the line” and who can expect to have their stations closed - permanently.

We also covered ways for a dealer to figure out whether his station(s) will make the current round of cuts or not. And we talked about the dealers’ choices with regard to:

1. Attitudes about “margins” vs. “gross profit” & “net profit” & “R.O.I.”

2. Average volume - high volume - super volume.

3. Stay in this business - get out - or get with it and go for “super volume” like the leaders have done.

4. Fight the oil company with resistance or go with the flow (play ball & do what you’re told), or take command of the situation and buy or build your own station (a 2 party station). And pick the supplier you desire.

No matter how you look at it, change is coming and you’ll either adapt to it, or be consumed by it.

As I see it, organizations (and individuals) change for three reasons:

1. They are out in front and want to stay there.

2. They are about to be overcome by the competition and have to change in order to remain competitive.

3. They have already been overcome, and they must change in order to compete and survive.

Just stop for a moment and think. Into which of the above categories does your business fall?

If you are in the first category - <u>Out in Front</u> - modifications may not be required just now, at least nothing major.

- Don’t bring about change for change’s sake. That attitude is dangerous.

- Sometimes the best a business leader can do is to raise the standards of current operating procedures.
- And yet, you can't ignore the future.
- How will the next big war be fought? Will it occur in the coming year? In the next several years? Will you and your business be ready to fight and win?
- Not to be ready is to invite failure, which can take many forms, from total bankruptcy to the loss of market share, or worse, big chunks of bottom-line profits.
- Most often, failure is caused by resistance to change in business tactics, the use of the wrong ideas, or a lack of preparedness. And, as you'll agree, preparedness comes from a realistic assessment of current and probable future conditions, development of a game-plan and tactics for its implementation, then tough minded, performance-oriented training and rehearsal to prove-up the validity of your game-plan and tactics without actually remaking your business into something entirely new…just getting ready to do so on short notice.
- You'll find that most in the "Out-in-Front" category are busy expanding their chain of stations while consciously doing all of the above, all of the time.

Now, if you are in either of the above categories #2 or #3, you have some catching up to do. It's time to get moving…and fast!

If you are <u>About to be Overcome</u>, you may still have time. You can change quickly and still succeed, maybe.

- You'll need some expert advice from others and this will cost you in the pocketbook. Just think of it as the price you'll pay for snoozing when you should have been alert, forward-thinking, getting ready and testing your ideas.
- You may need to quickly assemble a team of expert advisors covering a number of functions, including:

✓ Marketing	✓Co-branding	✓Taxes
✓ Finance	✓Legal	✓Architecture
✓ Real Estate	✓Accounting	✓Equipment

- And you may require the services of a savvy, experienced consultant to coordinate all of these functions for you while you keep running your day-to-day business.
- Since you have no time to try out your new set of tactics, you must copy those of the Out-in-Front Bunch and do it in a "hurry-up" manner.
- You'll require greater funding so you can pay for your mistakes along the way.

If you find yourself in the <u>Already Overcome</u> category #3, it's probably too late to do much other than to try to cut your losses and run. An example of this situation is the Shell station at State College/Ball in Anaheim, CA. It was hit hard by a Super Pumper Chevron and is about to join the closed Mobil due to another Super Pumper under construction (perhaps already open by now) on the 4th corner of a 4 gas station intersection.

This Shell unit has no other choice than to hold a "fire sale" and move on like the Mobil unit did with the resolve to never again be lulled into a false sense of security.

Of course, if he owns the land, he may have some wonderful alternatives, including:

- Flatlot his property and build a fast food outlet or quick lube operation or any number of other concepts which can feed nicely off the enormous traffic being generated by the two big retail gasoline gorillas who will be bashing out each other's brains across the street.
- Flatlot his property and transact a "build-to-suit" lease for a tenant with one of the above concepts, then sit back and collect rent.
- Maybe even quickly buy up the closed Mobil across the street and do the same thing with that property…then sit by smiling while the guys who drove him out of business make him a rich man while killing each other off.

Well, by now, I think you are beginning to get the message. WHOEVER CONTROLS THE LAND CONTROLS HIS DESTINY.

The big oil companies have known this for decades. Why do you think they hate ground leases and always, <u>always</u> preferred to own the land?

The <u>Out-in-Front</u> category dealers know this. They too always prefer to own the land.

All the Super Pumpers know this. They try hard to buy the land under every single expansion unit.

I know it because I make my living helping them locate and buy the land. If they absolutely cannot own the land (i.e., Irvine Company deals), they try to obtain a very long-term ground lease of thirty (30) years or more duration.

And guess what, folks? For the first time in our lives (and in the memory of our living ancestors), the major oil companies are actually encouraging a large portion of their 3 party dealers to OWN THE LAND and become 2 party accounts.

Now why in the world would they do a thing like that?

Strange behavior for big oil, right? Must be something radically different afoot, right?

Well, just step back from your day-to-day activities a moment and think about what else has been going on.

- <u>BIG</u> is out, <u>small</u> is in. Examples include the telecommunications industry where there used to be only a handful of BIG FIRMS controlling the rich long distance telephone business who are now competing for their lifeblood against dozens of smaller, aggressive, volume-oriented newcomers who are fast siphoning off great hunks of this lucrative market. And how about electricity? It's next, you know. Deregulation of electricity has already happened and soon we'll all be choosing electricity service providers just as we do long distance telephone services now. Then, of course, natural gas should follow suit and other services in due course.

- <u>DEEP POCKET</u> entities are <u>big targets</u> for governments who have run out of ways to tax their citizenry with impunity and are frantic in their pursuit of exotic ways to fatten their coffers so that giveaway programs may continue, which, of course, ensures the vote of giveaway recipients. More importantly, it enhances the "entitlement mentality" of unthinking Americans who are being led around by the nose under the notion that they can't succeed in life without lots and lots of help, especially from Big Brother (government). So, to solidify and continue the "dependency outlook" of the masses, governments' revenues must grow at least as much as the population does. And if you can't tax them any more, you must cut your costs. But if that works against you, the only alternative is to find some scapegoats and hit them hard in the pocketbook. Now, we're talking about really big bucks here so really deep pocket entities must be targeted as scapegoats. And just whom might these folks include?

- √ Tobacco companies - - - - - - already targeted/hit hard.
- √ Auto manufacturers - - - - - - perennial favorites.
- √ Medical industry - - - - - - "mistakes" in hospitals are said to take 150,000 - 300,000 lives yearly in the U.S.
- √ Big Oil? - - - sure, why not? All we'd need is another stoppage in the flow of foreign crude oil - - - lines at every pump island - - - even/odd days rationing - - - and boom! Big Oil again becomes the bad guy, regardless of the true facts.

Given the above and the constant pressure oil companies bear from their shareholders to produce quarterly dividends each and every quarter of each and every year, what would you be doing right about now? Especially if you have already done everything possible to reduce your operating expenses, cost of crude production, cost of refining, etc., etc. Why sure, you'd be doing the very same thing big oil is doing . . . and the very same thing big government is doing . . . finding ways to perpetuate your income streams while getting someone else to pick up part of the tab for your operations. And with calls for Divorcement and Divestiture voiced by dealer organizations (along with a multitude of allegations and claims involving a host of various and sundry sins), now would definitely be a good time to Get Smaller in terms of the number of outlets in which you have control (i.e. fee or leasehold interest) . . . especially if you can remain BIG in terms of your income stream which, if they play it smart, will grow even BIGGER.

So, that's a long answer to a short question. But, in this writer's opinion, that's what's going on.

Years ago, Big Oil held its breath while ARCO gobbled-up the share of the market traditionally enjoyed by independent refiners. And Big Oil emerged from that blood bath even stronger. So, why not simply decide to reduce the number of nozzles in the marketplace again and emerge from that exercise even stronger and more profitable - again? Makes complete sense to me. Are you starting to get the picture too?

Well, now, for those of you who do get the picture, we're back to that biggest of the big questions: What do I do? And the answer remains the same. . . LEAD, FOLLOW or GET OUT of the way.

And for those of you who decide to "take the lead" or even "follow the leaders", the future holds some amazingly bright, shining opportunities never before thought possible by those of us who have spent a lifetime in and around the petroleum industry.

Just pause, again, for a moment and think about it:

- The country is awash in money - long-term loans are easy to get.
- Interest rates are low, very low.
- Wall Street money is competing with banks for small business deals. . . especially operating businesses.
- Land is available - Lots of Land - in great spots - maybe underneath your very own 3 party station.
- Big Oil is eager to supply you quality products with a long-term contract.
- Expert advice and assistance are available from your dealer association, other dealers who have taken the lead, referral sources known to your association's leadership.
- A "dream team" can be assembled to walk you through the development process and you can easily afford to pay these folks from your own funds, your lump sum from Big Oil or your long term financing which is almost growing on our palm trees out here.
- Sure, the oil companies will cherry pick what they think are the best locations, wouldn't you? But, the highest volume, most profitable locations are <u>not</u> owned by the oil companies. They're owned and operated by folks just like you. So, what do those big oil companies know about picking truly huge volume locations anyway? How many do they own/operate today?
- And here you sit in the greatest gasoline marketplace in the world. . . with all of these factors coming to bear at once. . . <u>right now</u>.

When you view your problems from the above perspective, they cease to be problems at all…. Rather, they are transformed into sparkling opportunities scattered along your path in such numbers that you can't help but trip over them.

Oftentimes, those of us in the forest are too closely engaged in what we are doing to even notice the trees. And for some of you, that may be the thing which blinds you from the obvious. But hear this, my friends. No greater opportunity may ever come your way than that which is looking you directly in the eye this very day.

Over the years, my gas station client base was pretty much comprised of a few old friends who knew me in the various positions I held as a major oil company employee. You know, folks who owned gas stations and other businesses like liquor stores, nightclubs, restaurants, apartment buildings and the like. Today, my client base is entirely different. Hardly any of my clients grew up doing anything in a gas station but buying gas. Currently, my gas station clients include a former office building/apartment building developer with a mountain of equity capital at his fingertips whose doing 15 ground-up units as soon as I can find acceptable sites, another developer who builds WAL-MARTs/has a law degree/wants gas stations, a couple of CPAs who are doing ground-ups, two major oil insiders who are taking existing businesses, young lions fresh out of UCLA and USC who have never held full-time salaried positions, a financial guru who's consulted for foreign governments/captains of major industries/our own U.S. Government/big think tank groups and holds multiple degrees including a Doctorate in Finance from the Harvard Graduate School of Business Administration and has $50 million to spend gobbling-up deals involving gas stations, car washes with gas, etc. And yes, of course, a handful of you reading this article who presently operate 3 party Chevrons, Mobils, Shells and Unocals but are anxiously pursuing as many 2 party deals as I can find and you can finance.

And why are so many highly educated, sophisticated and well-financed individuals entering the ranks of gas station owners/operators? Well, it's like I said before; they see opportunity in this fabulous Southern California gasoline marketplace and they are racing around non-stop scooping up those sparkling gems just lying at their feet.

Well, so long for now. I hope my long windedness hasn't bored you too badly. And above all I sincerely pray, that you choose correctly in your decision to LEAD, FOLLOW or GET OUT of the way!

Jack Muellerleile - Consultant & Real Estate Broker

<u>About the author:</u> J.R. (Jack) Muellerleile has resided in the Los Angeles Basin since 1964 where he and his wife, Sue, raised their four children now ages 26 to 36. During his "first life" of 23 years with Mobil Oil's U.S. Marketing & Refining Division, he held 13 positions in sales, training, marketing, management, public/government relations and real estate, culminating with responsibility for all real estate activities throughout the Western two-thirds of the United States. In his "second life" of the past 10 years he has been self-employed as a consultant, real estate broker and expert witness. He specializes in serving the needs of national and emerging regional chains as well as high net worth individuals primarily engaged in retail sales in the food service, entertainment and petroleum industries. He may be contacted at:

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It is my opinion that Jack is uniquely qualified to comment on the concerns voiced by so many of our members in these rapidly changing times. As such, he was invited to write this 2 part series of articles and we are glad that he accepted our invitation in this regard. None of his remarks were edited.

Jan Speelman/Executive Director