STRATEGIC PLANNING
FOR
2 PARTY GAS STATION OWNERS / OPERATORS

Scenario planning: The ability to see possible futures in uncertain times.

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Using the scenario planning method which surfaced as a strategic tool within the U.S. Air Force during World War II then was developed / refined by Royal Dutch Shell as an important business-planning tool in predicting a possible oil-price crisis instigated by OPEC ten years prior to it becoming a reality (see Tom Adams' Strategic Planning Tool Box article in the April 1999 issue of Shopping Center Business), an abbreviated version of addressing today's critical issues will be attempted herein.

The Scenario Planning process involves a sequence of steps:

1. Identify the strategic question.
2. Gather relevant information to answer the question.
3. Identify driving forces.
4. Decide on the most important and most uncertain driving forces.
5. Develop scenarios.
6. Internalize the scenarios.

1. <u>The Strategic Question</u>.

Should we build a multi-phase marketing system facility capable of selling over a million gallons of automotive fuels monthly and cashflowing in excess of $100,000 per month ($1.2. million NOI annually)?

The strategic question is the force behind the scenarios (informed and systematic stories which take place in the future). Executive management must be willing to devote time to the process of scenario planning and to challenge its current assumptions...which means questioning its current view of reality. If this commitment is made, scenario planning works quite nicely.

2. <u>Gather relevant information to answer the strategic question</u>.

What information should be brought to bear on this question? This can range from quantitative data collection to customer and internal interviews. It should be an open process and should challenge assumptions about the organization's "official future" which has developed by default. The result can very well be the validation of the organization's "official future"...or changing it dramatically.

Relevant information will surely include:

- Revised site criteria (size, shape, location, ADT, demographics, etc.).
- Revised site plan (layout of improvements, #MPDs, which APCs?).
- Preliminary operating proforma creation (good-better-best case scenarios).
- Occupancy costs and initial capital requirements.
- Major brand fuel or private brand fuel? Or first one, then the other?
- Impact of mass merchandisers' expansion of retail fuel sales facilities.
- Consumers' reaction to grocery chains entry into retail fuel sales market.
- Availability of capital (equity, debt, investors, supplier contributions).
- Wisdom of accepting cash from major oil companies / signing long-term contracts.

- Economic factors (labor market, housing market, alternate fuels).
- Major oil company agendas (industry consolidation, evolving divestment criteria).
- Availability of suitable sites upon which to build larger facilities.
- Co-branding concepts applicable to various locations.
- Compatible land uses for surplus property, if applicable.
- Technological advancements to utilize in improving efficiency.
- Competitive activity at 3 Party units controlled by Big Oil.
- Distribution of ARCO's 30% L.A. Basin (20% statewide) market share following BP Amoco's scuttling of the ARCO brand.

3. <u>Identify driving forces</u>.

A driving force is not the trend or event that will influence the outcome of the strategic question, but what is behind the trend or event. For example, a trend might be that nearly all existing units are experiencing increased volume throughputs. The driving force(s) might be that a growing number of consumers are so time-pressed that shopping at multi-phase marketing systems where they save time vis-à-vis "one stop shopping" is more convenient; or that Big Oil continues to divest itself of lower volume units thus reducing the number of nozzles in the marketplace. To identify the driving force, the "five why" formula is helpful. When a trend or event is proposed as driving force, ask why it is so. Continue asking why until the ground floor is reached.

The driving forces will fall into two groups: predetermined and uncertain. Predetermined forces will be those that are most likely to occur. Certain population and demographic trends are usually predetermined forces; it is a predetermined fact that the baby boomer generation will continue to age. The uncertain driving forces are those where the future outcome is in question. For example, that fire marshal approval of technology allowing for widespread public use of unmanned fueling facilities like those used now by the Commercial Fueling Network (CFN) where throughputs already exceed 1,000,000 gallons monthly will become generally available 10 years from now is not a certainty.

It is suggested that driving forces in your business will include:

- Consumer needs for value, convenience, speed, safety, friendly treatment, etc.
- Major oil company disposal of low volume units and their continued squeezing of 3 party franchisees via higher rents, tighter capital and expense budget allocations, reduced services, more one-sided / onerous lessee dealer provisions in documents underlying their business relationship, etc.
- Industry consolidation that may scuttle the ARCO brand thereby tossing a huge 30% market share up for grabs.
- New jobs numbering 1,000,000 and new households numbering 500,000 by the year 2005 in the Southland with the bulk of them in Los Angeles and Orange Counties.

4. <u>Decide upon the most important predetermined and most uncertain driving forces</u>.

This is a collective process where the "scenario planning group", usually 5-12 individuals in corporate settings but a sole decision-maker in entrepreneurial organizations, tries to look closely at the above list, identifies possible groupings due to commonalities that can be expressed as one driving force rather than multiples, then decides upon the most important predetermined and the most uncertain driving forces.

It is the writer's opinion that the most important predetermined driving forces in your business today include:

- Consumer needs.
- Population growth, job growth in L.A./Orange Counties.
- Major oil company disposal of low-volume units.

And the most uncertain driving forces include:

- Major Oil Company squeezing of 3 party dealers.
- The abandonment of the ARCO brand by BP Amoco in +/- 18 months.

5. <u>Develop scenarios</u>.

This step requires that three or four scenarios be set for the future. These scenarios will describe a situation where the most important and uncertain driving forces are seen working together. Key drivers or plot lines are identified...like writing a script or screenplay where a story evolves on an axis or matrix surrounded by the relationships between the driving forces. This step will involve frustration that must be tolerated because nonlinear, creative thinking is at work. A good scenario should reveal potential dynamics among the most important and uncertain driving forces, but in a future context. It is helpful to give each scenario a name.

So try this out. Here are some possible scenarios to consider.

Scenario #1 named **WINDFALL.**

The plot line is that savvy owner / operators have positioned themselves to reap a business bonanza tossed their way if BP Amoco eliminates the ARCO brand +/- 18 months from now. Key drivers include the grocery chains and mass merchandisers having already educated the public that it's octane which determines fuel quality and not the advertising spin placed on the products by the ad agencies; price is critical to consumer choice, as is convenience and "one stop shopping"; consumers flood well-located, correctly-designed, aesthetically attractive and safe facilities in record numbers regardless of whether the brand is that of a major oil company or the private label chosen by the owner / operator.

Scenario #2 named **MEGA STORE.**

Here, the plot line assumes no gain experienced vis-à-vis the redistribution of ARCO's 30% market share. Rather, the careful placement of profit centers on the property that are individually justified as though each is a stand-alone, destination-type business (fuel sales, C-store, fast feeders, car wash, etc.). Key drivers include the upsizing of the footprints, "chaos marketing" techniques like those yielding $350,000/month C-store sales in Texas, double drive-thru lanes, more MPDs, bigger property sizes and carefully negotiated major oil company fuel supply agreements which enable the owner / operator to switch brands or fly its own flag if its supplier's Dealer Tankwagon price (DTW) escalates to a non-competitive level for any sustained period of time. In that event, the unit's total cashflow is not so severely affected because gross profits contributed from the sale of motor fuels will not be dominant as is often the case today.

Scenario #3 named **SATURATION.**

In this scenario, the plot line takes an entirely different direction. Rather than building bigger, more complicated facilities, downsize them to very small properties that may not always even be on a corner lot. However, you make a determined effort to "own the boulevard" by saturating a 10 mile stretch with so many of these smaller, less costly units that you literally smother the existing competition with your presence until they cry "Uncle". Then, you buy them out. Eventually, you stand alone with a share of the marketplace you have carved out for yourself. You've looked at the map, selected key arterials which run 10 miles or more in an unbroken line, toured them noting the secondary sites of substandard size for competitors embracing scenarios #1 and #2, chosen your targets and bought up options on every single property you possibly could so as to "keep them in the pipeline" while you're busy bringing the best of the bunch on stream. Here, if you can pull it off, few key drivers are involved. You have effectively moved in and taken over and sent the competitors packing just like was done in the Old West when the local lawless bunch sought easier pickings elsewhere whenever a new sheriff with grit and a fast gun-hand came to town.

Scenario #4 _____________ (you name this one).

Remember...set your plot line and identify the key drivers involved.

6. <u>Internalize the scenarios</u>.

This is the most important step. It requires that the scenarios be discussed to see how their implications relate to current strategy. What strategies would be effective if any one of these scenarios should occur? This step also requires that certain signposts, or indicators, be identified which might reveal that one of the chosen scenarios may actually occur. Remember, scenario planning is not a prediction of the future, but rather an informed visualization of possible futures.

In summary, this brief overview of the scenario-planning tool is meant to assist decision-makers in seeing possible futures in a disciplined manner. The process helps decision-makers to see dynamics among important issues rather than one issue removed from its systemic environment.

Two helpful books to learn more about scenario planning are:

- Schwartz, Peter, The Art of the Long View (New York: Currency Doubleday, 1991).
- Ringland, Gill, Scenario Planning: Managing For the Future (Chichester: John Wiley & Sons, 1998).

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