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By IHS Markit

Top 15 Petroleum Marketing Trends for 2018

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SKIMMING CRIME RISES AT THE GAS PUMPS

The number of incidents involving skimmers at gas pumps increased threefold last year, according to the 2017 Verizon Data Breach Investigations Report, which covers 2016 data. More recent data have revealed that skimming fraud at the pump has skyrocketed in Florida, despite the landmark law the state passed in 2016 requiring security measures at gas stations and steeper penalties for fuel theft and payment card fraud. Industry experts and major oil companies are urging gas stations to adopt chip card technology at the pump as soon as possible, though card networks said they would not shift fraud liability to stations that fail to accept chip cards until Oct. 1, 2020.

2

FLEET CARD FRAUD ESCALATES

In the past, the fleet card industry experienced little fraud due to skimming when fleets used proprietary cards to fill up at unattended cardlock sites. But as marketers integrated their proprietary fleet card programs with retail gas stations the cards were exposed to skimmers. Organized crime also is now targeting fleet cards to steal fuel. The problem is bad enough that WEX Inc., a major provider of fleet card solutions, said it is moving to chip payment card technology.

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ROBBERIES AT FUEL STATIONS CLIMBING

The number of robberies at c-stores and gas stations increased for the last three years even as the economy has continued to improve. Also alarming is the upward trend in the fuel station robberies (gas stations and c-stores combined) as a percentage of total robberies nationwide. For the last three years that percentage is the highest it has been since before the recession in 2009, based on data from the FBI's Uniform Crime Reports.

RISK GROWS FOR CARD-NOT-PRESENT FRAUD AND DATA BREACHES

C-stores are embracing food service and online ordering through their websites and phone apps. In October, Pizza Hut – a restaurant that's been paired with c-stores – experienced a data breach that affected customers ordering food on its website or mobile app. Tabitha Greiner, chief security officer for Acumera Inc., a provider of managed network security, said mobile apps are a different form of technology than mobile payment, which is more secure. "Mobile payment generally refers to secure storage of a credit card in a secure hardware element that involves tokens being transmitted instead of credit cards," she said. In contrast, Greiner said that when consumers enter credit card account information on mobile phone apps the application is sending and storing the data to the company's web infrastructure.

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MOBILE PAYMENT EXPANDS AT THE PUMP AND EVEN INSIDE VEHICLES

More majors began rollout of mobile payment technology to their station networks with thousands more stations expected to offer smartphone payment at the pump in 2018. Though mobile technology is in its infancy, automakers also are installing it so that drivers can pay for fuel and other products by tapping a dashboard touchscreen. In-dash touchscreens are billed as safer than fiddling with a mobile phone behind the wheel.

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MAJOR BRAND EROSION CONTINUES

The share of fuel sold under a major brand remained at a near-record low of 40.9% of SIGMA member fuel sales in 2016, up slightly from 40.1% in 2015, the lowest share since 2009. But major brand contracts can be critical to securing fuel during acute shortages. Also, a recent study from research firm The NPD Group concludes that major brands earn the highest level of trust among consumers for fuel quality.

MAJORS TOUGHEN BRAND STANDARDS

Valero issued a tough, new grading policy involving a narrow set of criteria on its mystery shopper surveys that will make it easier for gas stations to flunk the evaluation and ultimately to lose their brand. The move is reminiscent of the more difficult grading scale that Shell put in place when it adopted its dozen “Site Essentials” criteria in 2015. BP is rolling out a harder grading system and higher penalties for stations that flunk its mystery shopper evaluations in 2018. Penalties for failing the evaluation are as much as five times higher than BP’s past fines depending on the number of times the station flunks. The major also will up its minimum passing score to 85 from 80 on a 100-point scale. Other majors besides BP, Valero and Shell have raised the bar in recent years. For example, Phillips 66 toughened its grading system and initiated monthly, rather than quarterly, mystery shops. CITGO upped its passing score for quarterly mystery shopper evaluations to 80% from 75%, and Chevron instituted a minimum score of 70% on gas station image evaluations.

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DOWNSTREAM PETROLEUM CONSOLIDATION CONTINUES TO FAVOR THE LARGEST PLAYERS

Matrix Capital Markets Group Inc. studied a total of 163 transactions since 2012 (the year Lehigh Gas Partners and Susser Holdings Corp. went public) through 2017 year to date. In about half of the transactions, the buyers were public corporations (52) and master limited partnerships (29). Add in private equity funds (6) and “big-money” players made 53% of the acquisitions. Private companies were the buyers in 76 of the transactions studied. The five most active buyers – Alimentation Couche-Tard Inc., 7-Eleven Inc., Sunoco LP, Empire Petroleum Partners LLC and GPM Investments LLC – were involved in 73 deals, or about 45% of the transactions, Matrix noted.

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C-STORE GIANTS SEIZE A BIGGER SHARE OF THE FUEL BUSINESS THROUGH AGGRESSIVE ACQUISITIONS

Even before it takes over more than 1,000 Sunoco company-operated sites this year, 7-Eleven Inc. has a national market share rivaling that of some major oil brands and about 45% of its roughly 8,400-unit U.S. store network sports gas pumps with a variety of brands, according to OPIS data. With the Sunoco retail purchase, just over half of 7-Eleven's U.S. stores will retail gasoline. Meantime, in buying CST Brands Inc., Couche-Tard swallowed one of the nation's largest c-store chains and doubled the size of its fuel distributorship by adding CrossAmerica Partners to its already large wholesale business, National Wholesale Fuels. With the purchase of Holiday Stationstores Inc. and affiliates it adds more than 500 company-operated and franchised stores that sell fuel and Holiday's Newport, Minn., fuel terminal outside of Minneapolis. Its market share before these purchases also rivals that of several of the majors.

LOYALTY CLUBS BECOME A NECESSITY, NOT AN OPTION

Majors are tying financial incentives to participation in their loyalty programs. For example, ExxonMobil has linked thousands of dollars in incentives to the Plenti coalition loyalty program in a pitch to get every branded station on board. The major says the program is voluntary, but the hefty incentives for various components of a facility upgrade, in effect, provide retailers with an offer they can't refuse. Meantime, supermarket giant Albertsons, which had dumped loyalty clubs in favor of everyday low pricing in 2013, has reverted back to promoting fuel rewards tied to grocery purchases. Jewel-Osco and some of Albertsons' other brands have formed the "Gas Rewards" program, allowing shoppers to earn fuel discounts at participating Shell, Chevron and Texaco stations by making eligible grocery purchases, according to online information.

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TIERED LOYALTY PROGRAMS MAKE DEBUT

Shell became the first major to introduce a loyalty program with tiered benefits – Gold and Silver. The program is a bid not only to broaden membership but to encourage greater involvement from existing members. The more active “Gold” members who stop for fuel more frequently get more perks and discounts, such as a 5cts/gal discount on fuel. Other large independent fuel retailers such as Atlanta-based RaceTrac and Louisville, Ky.-based Thorntons have debuted tiered loyalty club benefits.

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PLUG-IN ELECTRIC VEHICLES UNLIKELY TO SEIZE A LARGE SHARE OF THE LIGHT VEHICLE MARKET SOON

Despite the hype about car companies and countries pledging to go all-in on EVs, electric vehicles are expected to be less than 2% of vehicles on the road in 2025, according to a recent study from the Fuels Institute, a nonprofit think tank affiliated with NACS. Even using the most optimistic scenario for EV sales – assuming high oil and low battery prices – EVs will make up at most 5% of new car sales by 2025, according to "Tomorrow's Vehicles," which uses an analysis based upon sales and registration forecasts provided by Navigant Research. The report includes three publications focusing individually on fuel consumption, light-duty vehicles and medium- and heavy-duty vehicles, with projections for both the United States and Canada.

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FRESH FOOD TREND GROWS ALONG WITH INDUSTRY INTEREST IN FOOD SERVICE

Foodservice, a broad category that includes prepared and commissary foods, hot dispensed beverages and cold fountain and frozen dispensed drinks, continues to be a key focus for growth in the c-store channel. Foodservice contributed 21.7% of in-store sales in 2016 and accounted for 35.2% of gross profit dollars, with prepared food and cold dispensed beverages driving the category's growth, NACS said in 2017.

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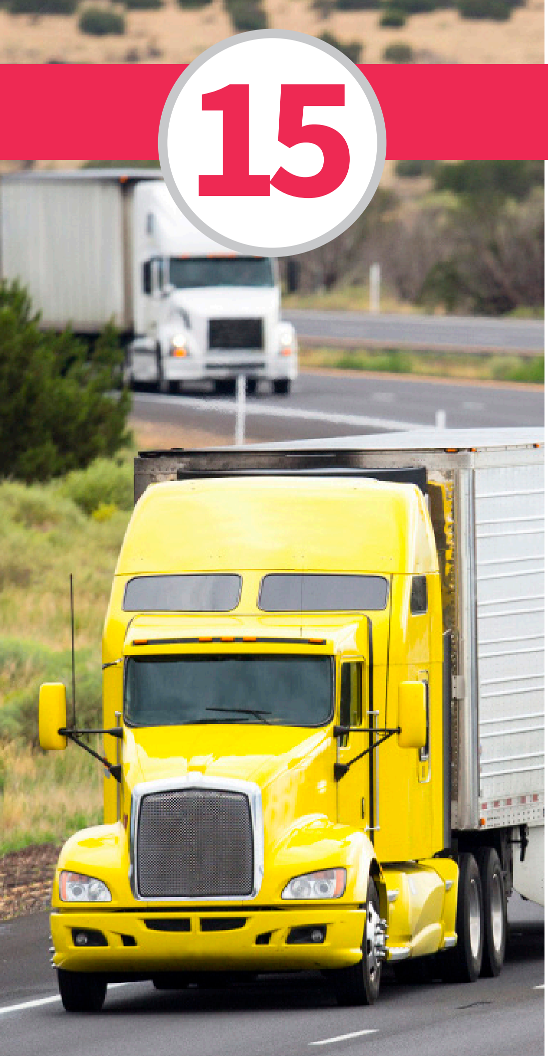
SNACKS SERVE AS MEAL SUBSTITUTE

Snacking categories, including salty, candy and alternative snacks, had strong growth as consumers, especially millennials, moved toward snacking and away from traditional meals, NACS said. For the second straight year, alternative snacks, driven by protein- and energy-rich items, hit the top 10 store merchandise categories, also signaling a desire by consumers for immediate/healthier snacking options. Produce made gains as a snack, according to research firm Nielsen.



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GOOD HELP CONTINUES TO BE HARD TO FIND

On the wholesale end, that involves commercial drivers and diesel mechanics. The American Trucking Associations estimated the shortage of commercial drivers at 50,000 by the end of 2017 and said the shortage could reach more than 174,000 by 2026. On the retail end, both market competition and regulation such as higher state minimum wages are propping up the price of attracting the best workers. Though the Obama administration's doubling of the minimum salary for managers was scuttled, the Labor Department is crafting a new regulation and that floor is still expected to go up.

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