Service stations tool up for battle

By Grant Bradley
5:30 AM Saturday Jun 4, 2011

Z Energy gas station in Greenlane. Photo / Dean Purcell

The battle between the petrol companies is heating up - and it's as much about pies as it is petrol.

Yesterday Z, the fuel chain formerly known as Shell, opened the first of its pilot sites in Auckland with its new look and new food, three weeks after launching its brand.

Meanwhile, BP is trying to persuade motorists to feel good about the forecourt with a big "Be road happy" ad campaign aimed at re-establishing the power of its brand.

The company has also enlisted Dame Alison Holst to improve its edibles and has recently been leading the pack in bringing down petrol prices - a position the Automobile Association says is unusual for the company which is usually a follower.

Mobil this week announced a deal with Subway and Gull has teamed up with the Night'n Day chain to improve its hot food and coffee.

Caltex brand owner Chevron NZ has just sold the last of its chain of service stations. The company wants to slash costs and return to what it says is its core business - pumping petrol.

The last detailed study of the service station industry for the Government was done three years ago by consultants Hale and Twoomey. It found gross margins for shop sales were at least 2 times that on petrol, so it's that side of the business the big players - with the exception of Chevron - are targeting.

Z's chief executive Mike Bennetts says decluttering what used to be Shell Shops and revamping food and coffee could be a game-changer for the predominantly New Zealand-owned chain, where margins are about 3c a litre.

By contrast, around $1 of the pump price goes to the Government in taxes and levies. "The returns in our industry are just not sustainable and that's why you've got one service station closing a week for the past decade. By growing what we sell - coffee, pies, we can keep the business sustainable."

Of the 60 million to 70 million pies consumed in New Zealand a year, about 3.5 million are sold through Z stations. The company has ditched the Australian Mrs Mac's in favour of Hawkes Bay-made Goodtime Pies.

AA PetrolWatch spokesman Mark Stockdale said the rebranding of Shell had created fuel price ripples throughout the sector. Pump prices were falling more quickly than expected, even allowing for volatility in oil prices and the sharp rise in the the kiwi dollar against the greenback.

"There has been extra competition and that manifests itself in price drops. BP has led two of them and that's quite unusual. Obviously it's a response by them to shore up their market share in response to the attention Z is getting," Stockdale says.

"You could see the rebranding has seen a lot of additional competition introduced, we've seen two oil companies advertising on TV, which is the first time in a long time, and seen more healthy competition."

Bennetts says the industry here has changed fundamentally.

"It's fair to say there's more going on and we've been the catalyst for that. It's increased competition in the industry beyond just price. It's good for customers because they have a wider range of choices and that will grow in the next year or so."

He accepts some customers would rather have slightly cheaper fuel than new-look service stations.

"Some customers do feel that way, the customers we're targeting want an overall experience. It's about speed and service and wanting to get food and beverage on the go."

The reporting obligations of its 50 per cent shareholder, NZX-listed Infratil, ensures the inner working of Z will be open to public scrutiny while its rivals' annual returns to the Companies Office remain far less detailed.

BP is on the offensive, not only with quicker price drops but re-emphasising its status as a food and beverage leader - it is the country's biggest coffee seller - and stressing its links to New Zealand community groups.

But managing director Mike McGuinness maintains its latest ad campaign is not a response to Z's launch. It started just days after Z launched, but the timing of his company's campaign was coincidental.

McGuinness said his company was going back to trying to sell the brand, rather than specific products.

"We used to do lots of brand building. Then we [were] very much product-focused around Wild Bean Cafes or around fuels products. We thought it was probably opportune to retell what the BP story was."

The parent company's involvement in the Deepwater Horizon tragedy in the Gulf of Mexico was not the spur either, McGuinness says. It did suffer fallout here, but this was limited. "I think there's always one or two people who will vote with their feet when something happens. But I think people will always differentiate between something that was a tragic accident and the company that was doing everything it could to fix it."

On Thursday, Dame Alison launched her new range of food at a BP 2go at Halswell, Christchurch, as part of a national rollout at 100 sites of a "Kiwiana-branded experience" which stresses ownership of the sites by independent business people.

The new food includes lamingtons, ginger crunch, bacon and egg pies and Sunday roast lamb pies.

"Maybe coffee and pies will become a bit of a battleground. There's always been a desire to have another income rather than fuel," says McGuinness. "It's all about when they [customers] are on the forecourt, it's a bit like McDonald's - can you upsell them to larger sizes?"

As with others in the industry, he says the slim margins mean it's essential to do just that. "Because the oil industry has not made a lot of money in New Zealand for many years, the actual investment in the industry is getting fairly tired."

BP was installing new tanks at its Seaview terminal and spent millions upgrading its firefighting capacity.

Like Z, it is building around two to three new stations a year and remodelling the same number. Large service stations cost about $12 million to $15 million, excluding land, and smaller ones about a fifth of that.

"All research says that most people buy on location or price. That's where the battle is going to be fought - the best location. You can't change that too quickly. They build some, we build some."

Z's Bennetts may struggle for public sympathy but he too says margins of 2c to 3c a litre mean his company is doing it tough. He jokes that the money invested in Z would yield a better return if it was invested in bonds issued by Greenstone - the forerunner of Z.

In what could be more serious for motorists, Z in a progress update published this week says: "Our view is that margins must rise in order to assure security longer term. A rise of just a few cents per litre in terms of net profit will make a real difference to ensuring a sustainable, safe and reliable fuel supply for New Zealand."

Auckland University business school marketing lecturer Mike Lee, not a big fan of the Z rebrand, says BP has an uphill battle to make people feel better about filling up with gas.

"Petrol is petrol, nobody builds a relationship with a petrol company. I can't imagine anyone would drive another 50m to a BP service station because of warm fuzzies."

The overlapping ad campaigns were unfortunate for both companies. "The best time to advertise is when nobody else is. There's no clutter to cut through."

Chevron NZ has taken a different tack, concentrating on cutting costs.

A spokeswoman for Chevron, which markets the Caltex brand, said her company had bucked the trend by getting out of retail stores in the past year. It sold any service stations it did own to individual owners last year as part of a global move to restructure and streamline operations. It now owns only truck stops.

"We made a strategic decision that our principal business is the fuel, not convenience food."

The service station owners now have the choice of their retail offering, what sort of mark-up and local variations. "The profitability of their convenience is up to them. They do the work and they get the reward.

"It was purely strategic, it's that simple. It means that we can be less capital-intensive and that impacts on ROI [return on investment]."

Numbers at Chevron's corporate office in Auckland had halved to around 100 during the past five years.

An Exxon Mobil spokesman said he was aware of industry speculation it may follow Shell and quit its service station presence here.

The collaboration with Subway has come at the same time it re-organises its fleet card programme. He said the company periodically reviewed its operations around the world, including New Zealand.

"We've been through that and we've improved our business and have seen some growth in volume."