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Pain at Pump Is Hitting Gas Stations

Many Independent Owners Lose Money Amid Falling Demand; Competition From Warehouse Clubs Is Another Challenge

By SARAH E. NEEDLEMAN



The pain at the pump is hitting not only consumers but also the owners of the U.S.'s roughly 100,000 independent gas stations. Sarah Needleman looks at the new economics of being an independent station owner. Photo: Brandon Sullivan/WSJ

The pain at the pump is hitting not only consumers but also the owners of America's roughly 110,000 independent gas stations.

U.S. gas consumption is estimated to be at an 11-year-low, at around 8.4 million barrels a day, down 4.3% from a year ago.

In the face of sharply declining demand for gas, [Robert Fisher](#) of Phoenix said it's increasingly difficult for him to make a profit.

"There have been times in the past month when I've been losing money for every gallon of gas I sell," said the 28-year-old, who co-owns four Chevron gas stations and convenience stores in Arizona, Oregon and Washington with his father, brother and sister. "It's a very tough industry," he said.

Lower convenience-store sales and hefty credit-card processing fees are also hurting the economics of gas-station ownership, many owners say.

"The less traffic we have on the outside translates to the less traffic we have on the inside," said Steve Cohen, who has owned a Mobil gas station and convenience store in a residential part of Elmont, N.Y., for three decades. The amount of gas he sells on average per month is down by about 80,000 gallons from a year ago. Sales of candy,

beer and other items are down by about 25% over the same period. "The volume is just slowly fading away," he said.

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wholesalers offered incentives for station owners, said Mr. Cohen. "They used to offer rebates if you sold X amount of gas by the end of each month," he said.

Until the past five years or so, many gas stations were, in fact, owned by the big energy companies. But most have since sold off their portfolio of stations to focus on more profitable areas, such as wholesale fuel sales.

Since 2008, for instance, [Exxon Mobil](#) Corp. has sold more than 95% of the roughly 2,000 stations it owned, and it plans to sell the rest by year-end. [Chevron](#) Corp. had 491 company-owned stations at the end of 2011, down from 1,348 in 2001.

Most U.S. gas stations are owned by tens of thousands of individual operators, many of whom have one or more locations. These independent station owners typically buy their fuel from distributors for the major fuel wholesalers like Exxon Mobil and Chevron. The regional distributors own or hire tanker trucks that go from the so-called racks at gasoline terminals to storage tanks at the individual stations.

The station owners, in turn, set their gas prices for consumers so that the average markup, or gross margin, on gas is typically around 15 cents or 16 cents a gallon.



Brandon Sullivan for The Wall Street Journal

Phoenix gas station co-owner Robert Fisher says there has been increased competition from large chain outlets with gas pumps.

Before fuel-efficient cars existed, and back when gas prices were relatively low, it was fairly easy for owners of stations with convenience stores in prime locations to make money. In the 1980s and 1990s, gas prices and rents were low and oil

Because consumers these days use plastic even for spontaneous small purchases such as gas, snacks and smokes, the station owners say their margins are eroding. Card-processing fees are typically a percentage of sales—ranging on average from 1% to 3% depending on the card—plus a flat fee of about 10 cents per transaction.

Whenever the price of gas rises, as it recently has to about \$4 a gallon, an owner's profit margins become slimmer. If the bill for a tank of gas comes to \$50 and the fee is 1% of the sale price plus 10 cents per transaction, an owner pays about 60 cents to the card processor. But if the price of gas goes up, and you have to charge your customer \$60 for the same amount of gas, the fee is now 70 cents.

Frank Reluzco, owner of an Exxon station, auto-repair business and convenience store in Frederick, Md., said that roughly 90% of his sales are paid by credit card today, compared with about 75% five years ago. "It costs so much to fill a tank right now; no one's going to carry around that much cash," said Mr. Reluzco.

"I'm definitely hurting," said Carl Betz, owner of a Getty station and auto-repair shop in downtown Madison, N.J., since 1988. He said the amount of gas he sells today is down about 25% from a year ago. Due to a licensing agreement, he's required to buy his fuel from Getty Petroleum Marketing Inc. of East Meadow, N.Y., which he said sometimes charges him more than what his competitors down the street pay for gas from other brands.

"This is the worst business has ever been," said Mr. Betz, who blames the high price of fuel for the difficult conditions he's facing.

Getty Petroleum Marketing filed for bankruptcy in December, and the CEO of its landlord, [Getty Realty Inc.](#), recently indicated the company anticipates that future rents will be lower from the roughly 800 gas stations it expects to take back from its tenant at the end of this month.

Getty Petroleum Marketing didn't return calls for comment.

About 83% of gas stations in the U.S.—92,100—have convenience stores, according to IBISWorld Inc. Their ranks have declined by about 4.5% from five years ago, and their typical profit is about 2% of overall revenue, it said.

Groceries account for about 12% of sales; beer and other alcohol make up about 4%, and cigarettes account for about 7% of sales, according to IBIS. Except for tobacco, these all traditionally tend to have higher profit margins than gasoline, station owners said.

Most owners already have tried to boost the efficiency of their stations by installing self-serve pumps. Gas stations with convenience stores employ roughly 687,000 workers, down from 714,264 in 2007, IBIS said.

Increased competition from supermarkets and warehouse clubs is also a challenge. Issaquah, Wash.-based [Costco Wholesale](#) Corp. added its first gas pumps alongside one of its stores in Tucson, Ariz., in 1995. Today 380 of its 516 locations in the U.S. and Canada sell gas. About 30% of customers who fuel up at Costco also shop at its stores, according to a spokesman for the chain.

"Five years ago, [large chain outlets with gas pumps] were essentially nonexistent," said Mr. Fisher of Phoenix, whose business employs 125 workers now, down from 200 in 2010. "Today they're all over the place."

Some station owners say that the stiffer competition, combined with declining gas consumption, is making it harder for them to upgrade and pay the rent or mortgage on their properties. FedReceiver Inc., a Los Angeles firm that specializes in taking over distressed businesses in California, Arizona and Nevada, has seen a 30% increase in gas-station defaults over the past two years, according to Stephen J. Donell, its president.

Greg Kalajian, owner of an Exxon Mobil station in Pasadena, Calif., since 1983, said his rent goes up by about \$1,000 every year, but that his monthly gasoline sales have dropped off by about 60,000 gallons over the past five years. He currently pays about \$12,800 in monthly rent for his property, which spans about 30,000 square feet.

"There's no money in this business," he said.

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