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INDEPENDENT GASOLINE MARKETING

MARCH | APRIL 2024

SIGMA

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SIGMA

About SIGMA: Founded in 1958, SIGMA: America's Leading Fuel Marketers has become a fixture in the motor fuel marketing industry. After more than sixty years of leadership, SIGMA is the national trade association representing the most successful, progressive, and innovative fuel marketers and chain retailers in the United States. From the outset, the association has served to further the interests of both the branded and unbranded segment of the industry while providing information and services to members.

SIGMA's approximately 260 corporate members command more than 50 percent of the petroleum retail market, selling approximately 80 billion gallons of motor fuel each year. These member companies operate throughout the United States and Canada.

Regular membership in SIGMA is available to companies involved in motor fuel retailing or wholesaling that are not owned by a refiner. In addition, Associate membership is available to fuel supplier companies and to companies that offer financial services, fuel transport services, and fleet card services. SIGMA member companies have long been recognized, both within and outside the industry, as the most aggressive, innovative, and price competitive segment of petroleum marketers.

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THE FUTURE HAS ARRIVED

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Dale Boyett
SIGMA President

viewpoint

SIGMA's in Austin this Spring!

I recently returned from the SIGMA 2024 Executive Leadership Conference in Sun Valley, Idaho, and I have to tell you, it was fantastic. The meeting's workshop education was on point and interesting, focusing on one of the most top of mind issues we face today, cybersecurity. Matt Lavigna, President/CEO, National Cyber Forensics & Training Alliance (NCFTA) and his colleagues Dawn Bruno and Jay Kramer, presented a compelling workshop on C-Suite Action and Responsibility in the Cyberworld. Their interactive sessions presented real world examples of executive responsibilities in the cyberworld and what all corporate executives should know about cybercrime threats, trends, and the current business risk. I also enjoyed seeing everyone during the evening receptions, and of course Sun Valley is breathtaking.

Now that I am home, however, I am looking forward to spring – and the SIGMA Spring Conference in May at the Omni Barton Creek Resort in Austin. This is the second time SIGMA will have had its Spring Conference in Austin and I am glad to be returning. The property is spacious and well-located in the Austin Hill Country – with the extra bonus of being close enough to head downtown at night to explore all Austin has to offer. In addition to hearing from featured speakers, there will be breakout education sessions (check the SIGMA website for the full listings), evening networking receptions, as well as the pool, golf, and pickleball.

On January 22nd, the SIGMA Legislative Committee met to review issues facing the association in 2024 and confirm SIGMA's legislative and regulatory priority issues for the year. These issues will be discussed in-depth during the Legislative Issues Briefing in Austin. There are important issues on the horizon that you need to be aware of to prepare and protect your company. From climate change proposals to changes to the Renewable Fuel Standard, to RIN transparency, to the question of how to adapt to the proliferation of electric vehicles, there is a lot of risk out there. You don't have to be a member of the Legislative Committee to participate – everyone is included, and all opinions are valued. Ask a question, relate an anecdote, and express your opinion. The interactive format of the session is what makes it so valuable.

Participating in SIGMA's conferences is one of the easiest and most enjoyable ways to get value from your membership. I encourage you to check your calendar and block time now to attend the Spring Conference May 6-8 in Austin – and if you plan to participate in the SIGMA Open Scramble, you'll need to arrive a day early as it will be held the morning of May 6th at the start of the Conference.

I am looking forward to Austin. I hope to see you there.

Dale Boyett

Dale Boyett, Boyett Petroleum

profile:

By Mark Ward Sr.

MIRABITO
ENERGY PRODUCTS

Brighton Ave Store

Four years from its centennial in 2027, Mirabito Energy Products of Binghamton, New York, is doing more than just holding on. The third generation of the Mirabito family is going strong, joined by a large contingent of the next generation who are taking leadership roles and moving the company into its next hundred years.

With a diverse and wide-ranging portfolio of operations, family members—along with multiple key executives recruited from outside the family—is "hands on" to keep Mirabito going and growing. The company is impressively pushing ahead on all fronts: more than 100 convenience stores across central New York and northern Pennsylvania, wholesale accounts throughout the northeastern United States, residential and commercial fuel delivery, and providing electricity and natural gas to commercial users in five states.

Beyond a profitable operation, however, the next generation describes what attracted them to join the family business. "The family vibe is magnetic," says Jason Mirabito, senior vice president for the wholesale division. "From a young age, I've seen how our business not only has been good to our family. Our business is a force for good in the lives of the communities and people we serve."

Justin Fisher, senior vice president for fuel supply, is nephew-in-law to company chairman and CEO Joe Mirabito. "I grew up around the Mirabitos and their business," he relates. "But I didn't plan to come back to Binghamton after college. All of us have taken different paths. Mine was a summer internship with the company. Joe's passion gives the business a magic that's infectious and spreads throughout the company. Our people are happy and they're passionate, which is great for business."

Lindsay Meehan, daughter of Joe Mirabito, handles marketing and public relations. "I said that I'd never join the family business," she laughs. "But I love working with our charitable foundation. Our annual Mirabito Golf Classic drew hundreds of people last year and raised more than $135,000 that benefited ten charities. Our family has been so fortunate, it's important that we give back."

Her husband Matt Meehan serves Mirabito Energy Products as senior vice president of the home comfort and commercial fuels division. "I started 20 years ago," he recounts, "and I've been treated like family from day one. That treatment not only goes for me. Our company has a passion for helping people and communities."

Joe Mirabito became part owner in 1986 when his father Thomas sold the company to its third generation of leaders. Since then, he says, "We've done all the expected things to make the family dynamic work—consultants, retreats, succession planning. We have no majority owner. The main thing is that we all just sit ▶

down and talk about the company with a shared commitment to perpetuate the business."

Bringing the Appropriate BTUs

While many SIGMA member companies have exited various operations to focus on either wholesale or retail, Mirabito Energy Products focuses on what its name implies. "Long-term success," believes Joe Mirabito, "comes from managing the whole barrel—petroleum, natural gas, electricity, propane. That way, we can execute our core strategy—bringing the appropriate BTUs to the appropriate customers."

Dave Bonczek, CFO and executive vice president of operations, points out, "As a family-owned business, our capital is limited. So all our divisions must complement each other. Though wholesaling is our foundation, revenues are about evenly split—around 45% from our convenience stores and 45% from commercial sales."

The ability to supply diverse energy products, Bonczek continues, "means that, although the customers of our various divisions are different, we can leverage their similarities. Our sales territory in the Northeast means our business can be seasonal. When one division may be down, other divisions may be up. That gives us stability across changing market conditions."

In addition to diverse products, Jason Mirabito reports that diverse services key the success of his wholesale division. Customers range across fleet owners, fuel resellers, branded and unbranded retail dealers, home heat dealers, municipalities, and commercial, agricultural, and marine end users. Product offerings include Citgo, Sinclair, Conoco, Gulf, ExxonMobil, Sunoco, Valero, and unbranded fuels.

"We don't own and operate terminals," Mirabito adds, "but we have storage agreements plus our own transportation assets to deliver fuel wherever and whenever our customers need it." The company likewise provides diverse energy management solutions including inventory control, onsite fueling, strategic market timing, and fixed futures pricing, plus guidance and support for environmental and security compliance.

For his part, Matt Meehan affirms that home heating oil service remains a profitable niche, "especially in areas without natural gas heating. In many of the rural communities where we provide home heating oil, we also have convenience stores. So we can grow both sides of our business through loyalty programs that offer c-store deals to heating customers."

Meehan's division provides heating and cooling equipment installation and repair and offers convenient service plans. "Heating problems always happen when you need heat the most," he says. "We bring our customers reliability and affordability," he adds, "and just as important, a chance to put a name and face to their energy needs."

Day On Hill 2023

On the retail side, Mirabito operates 110 c-stores with the promise "Always Fast, Fair & Fresh!" Loyalty is promoted through a suite of three Mirabito Rewards cards—Rewards Plus, Rewards Plus Debit, and Rewards Plus Credit. Users earn discounts on store purchases and up to 10 cents off per gallon of gas. Further deals plus order-ahead convenience are available via the Mirabito App. Meanwhile, the Mirabito Fleet Card offers cost savings to fleet owners, along with purchase tracking and control capabilities.

In addition to its convenience product mix, the proprietary Mirabito Fresh Pizza is a local favorite through the greater Binghamton area. Selected c-stores across the Mirabito chain also partner with Subway and Dunkin' for quick foodservice.

"We know our customers across all our divisions have other choices," observes Joe Mirabito. "The differentiator for us is our people. Some have been with us for 30 years. Together we've built a reputation that, if it needs to be done, then our customers call us."

That reputation, together with its one-stop-shop approach, has pushed Mirabito Energy Products' annual volume past half a billion gallons. "With the breadth of our offerings," affirms Dave Bonczek, "we touch virtually every aspect of our customers' lives. Do you buy propane? You can get a discount on gas. Are you a home heat customer? You can get loyalty rewards at your local Mirabito store. With our approach to market, customers can 'stack and save.'" ▶

MIRABITO COMPANY HISTORY

1927: James Mirabito, an Italian immigrant, incorporates the coal business he started a year earlier in Norwich, New York.

1943: Mirabito becomes a home heating oil distributor for Atlantic Richfield and in 1948 adds a Mobil distributorship.

1952: Ownership passes to James Mirabito's four sons.

1982: The first Mirabito convenience store opens.

1986: Ownership passes to the third generation of the Mirabito family.

1990: The first Mirabito Golf Classic is held.

1992: The company enters the propane business.

1996: A division is established to sell natural and electricity.

2002: The first Subway franchise opens.

2003: An early adopter of web-based technology, Mirabito launches its Rewards customer loyalty program.

2010: The company rebrands from Quickway to Mirabito Convenience Stores.

2010s-Present: Mirabito grows through a series of acquistions in all divisions of the company.

2024: Mirabito opens travel centers that have EV charging stations.

Buffalo PD Gas 2022 Storm

Care Center

Giving Back, Going Forward

The Mirabito family's commitment to giving back shows in its annual Golf Classic and other charitable activities, as well as community outreaches by the company's local stores. And giving back also applies to the industry. Jason Mirabito recently finished a term as chair of the Energy Marketers of America, while Matt Meehan just finished his own term as president of the New York State Propane Gas Association.

"We've been SIGMA members for a long time," recalls Joe Mirabito. SIGMA past president Paul Reid of Reid Petroleum in Brockport, New York, first encouraged Mirabito to join the association. Since then, Mirabito says, "I've seen how important it is to be active in our industry associations. If you don't do it, no one's going to do it for you. Our industry is often fragmented, and SIGMA is an association can bring us together to have a stronger and more united voice."

Justin Fisher adds that the information and education SIGMA provides "is vital for a regional player like our company. When the industry consolidating around us, the chance to network and keep informed helps us better leverage our main strength—knowing our markets better than anyone so that we can be more nimble than our larger competitors."

That strength allows Mirabito Energy Products to look ahead with optimism to its upcoming centennial and beyond. "Our goals are the perpetuation of the business and its continued growth," says Dave Bonczek. "With Joe as our glue, the strength of the family keeps it together. Our locations and customers are mostly rural, so we're part of the communities we serve. That makes our family-oriented approach a perfect fit."

To that, Joe Mirabito adds, "If our next generation continues to show the passion for taking our company to the next level, then our future is bright." ★

Washington WATCH

The Critical Link Between Chevron Deference and Fuels Policy

CVR Energy's Coffeyville Resources Refining and Marketing and Wynnewood Refining Company in late January petitioned the Environmental Protection Agency (EPA) to prohibit non-obligated parties from possessing and trading Renewable Identification Numbers (RINs).

At face value, the petition looked like Act I Scene 2 from CVR Energy's playbill 2017. It presents a modified version of a seven-year-old push to change "the Point of Obligation" under the Renewable Fuel Standard (RFS), an effort that SIGMA and its downstream allies successfully defeated. Closer inspection, however, reveals that CVR's latest petition appears designed to set the stage for future litigation regarding the RFS.

CVR's petition is set against several judicial rulings that stand to alter the political and policy backdrop under which SIGMA members operate.

In late 2024, the U.S. Court of Appeals for the 5th Circuit struck down a Biden Administration decision to deny certain small refinery exemptions dating back to 2018. SIGMA disagreed with the court's decision as small refinery exemptions artificially lower demand for biofuels and diminish the value of the investments the industry has made in response to Congressional policy.

At the same time, the Supreme Court appears poised to reduce a longstanding judicial deference granted to federal agencies when implementing ambiguous legislative statutes, a practice known as Chevron Deference.

Changing Chevron Deference carries significant implications for SIGMA and its legislative initiatives, specifically as they pertain to the Renewable Fuel Standard. Not only would it elevate the importance of incorporating legal strategies into ▶

federal advocacy campaigns, but it also would lead to more frequently conflicting case law, overtly political opinions, and legal uncertainty.

Why Chevron Deference Matters

Chevron Deference is one of the most important judicial doctrines in administrative law. Since 1984, it has served as the legal framework under which courts defer to agency interpretation if Congressional intent is unclear or is ambiguous. If the Supreme Court overturns that authority, judges would no longer be mandated to defer to agency decision-makers on important matters of federal policy, such as the RFS and vehicle emission and fuel economy standards.

The doctrine calls for courts that are interpreting agency rules to undertake a two-step analysis: 1) Is the statute that the agency is interpreting clear? Or is it silent and ambiguous? If the latter, 2) Is the agency's interpretation of the language "reasonable"?

Notably, it does not ask if the court 'agrees' with the agency's interpretation. Ending deference toward agency interpretation of policy would alter the standard of analysis and instead allow judges to rule based on whether they agree with policy. In essence, it opens the door to politicized rulings or what is often called judicial activism.

Two cases before the Supreme Court will decide the fate of the Chevron doctrine. The Supreme Court recently heard oral arguments in *Relentless v. Department of Commerce* and will hear *Loper Bright Enterprises v. Raimondo*. Both cases challenge the scope of the Chevron Deference to uphold the National Marine Fisheries Service's (NMFS) interpretation of federal fishery laws.

What are Current Opinions on Chevron Deference

Several Supreme Court Justices have said that Chevron gives agencies "too long of a leash" and allows courts to see ambiguity everywhere, therefore allowing courts to abdicate their core judicial responsibility. Supreme Court Justice Neil Gorsuch, for example, has questioned the constitutionality of Chevron Deference arguing that it systematically tilts power in favor of the government.

Defenders of Chevron Deference argue that the doctrine gives appropriate weight to agency expertise, promotes national uniformity in the administration of federal laws, keeps the courts out of policy making, and has served as a stable background rule against which Congress can legislate.

What This Means for the Renewable Fuel Standard

The RFS gives EPA significant authority to set annual

compliance obligations as it sees fit under the "Set" process, with some minimum expectations for advanced, cellulosic, and biomass-based diesel volumes. As such, with or without Chevron Deference, courts will tend to side with the EPA's expert interpretation of the six factors Congress asked it to analyze when setting volume obligations.

While that may create legal stability for future renewable volume obligations, it underscores the political instability of the program. Changing EPA Administrators as the Administration changes, for example, can lead to vastly different interpretations of the six statutory factors, leading to significantly different future RVOs.

SIGMA's Current Activities

SIGMA and others in the downstream community oppose CVR's petition, which is largely viewed as dead on arrival under the current Administration. As we wait for the Supreme Court to rule on Chevron Deference, SIGMA will continue to advocate on behalf of its members to ensure that the point of obligation remains with refiners and is not transitioned to rack sellers.

As part of that effort, SIGMA joined a February letter with biofuel producers, fuel refiners, and other retail organizations urging EPA to reject the CVR petition. In the letter, SIGMA argued against fundamentally altering the structure of the RIN system. Granting CVR's petition would have disastrous impacts on renewable fuel producers, fuel marketers and retailers, obligated parties, and consumers in the form of higher prices at the pump.

SIGMA also filed an amicus brief in litigation in the 5th Circuit pertaining to EPA's denial of certain small refinery exemptions under the RFS. SIGMA urged the court to grant panel rehearing or rehearing en banc.

The court's reasoning in that case, which SIGMA opposes, was cited in CVR's petition as additional justification for pursuing their desired policy change of preventing non-obligated parties from possessing RINs. ★

Tiffany Wlazlowski Neuman represents SIGMA on matters of public affairs.

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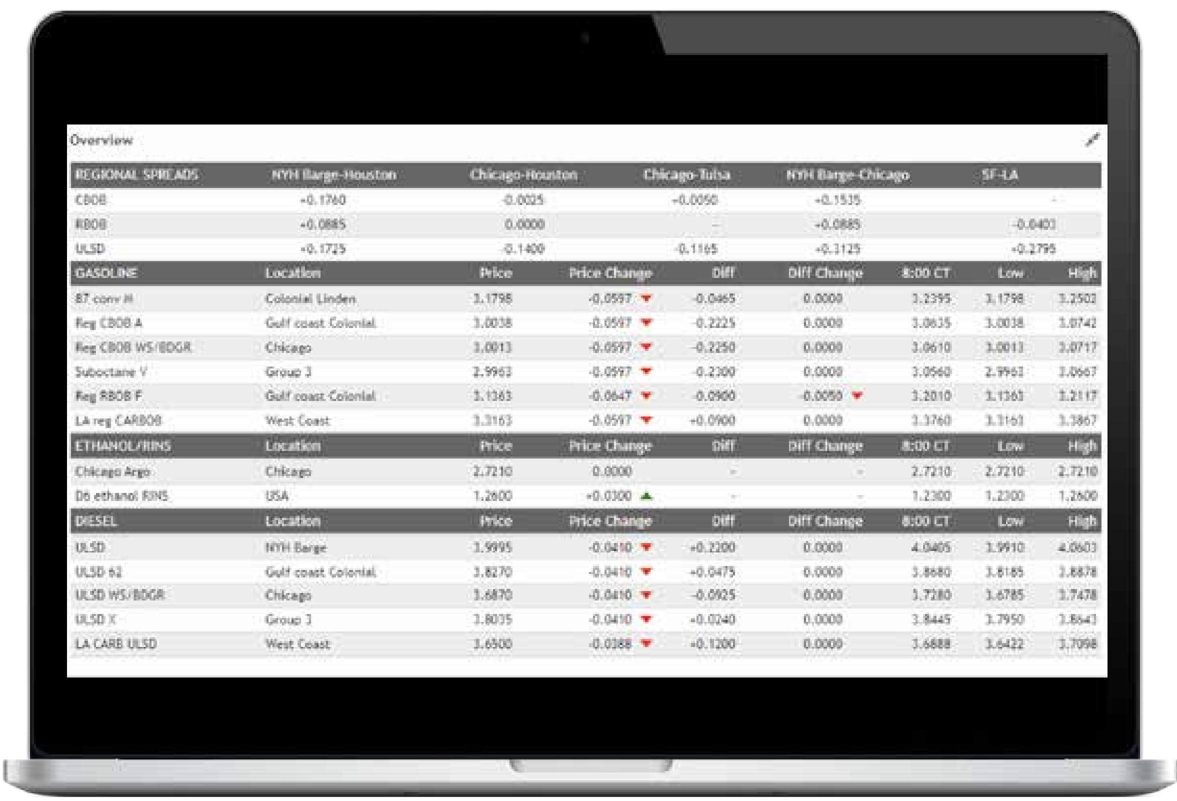

Overview

REGIONAL SPREADS	NYH Barge-Houston	Chicago-Houston	Chicago-Tulsa	NYH Barge-Chicago	SF-LA
CBOB	+0.1760	-0.0025	+0.0050	+0.1535	-
RBOB	+0.0885	0.0000	-	+0.0885	-0.0403
ULSD	+0.1725	-0.1400	-0.1165	+0.3125	+0.2795

GASOLINE	Location	Price	Price Change	Diff	Diff Change	8:00 CT	Low	High
87 conv H	Colonial Linden	3.1798	-0.0597 ▼	-0.0465	0.0000	3.2395	3.1798	3.2502
Reg CBOB A	Gulf coast Colonial	3.0038	-0.0597 ▼	-0.2225	0.0000	3.0635	3.0038	3.0742
Reg CBOB WS/BDGR	Chicago	3.0013	-0.0597 ▼	-0.2250	0.0000	3.0610	3.0013	3.0717
Suboctane V	Group 3	2.9963	-0.0597 ▼	-0.2300	0.0000	3.0560	2.9963	3.0667
Reg RBOB F	Gulf coast Colonial	3.1363	-0.0647 ▼	-0.0900	-0.0050 ▼	3.2010	3.1363	3.2117
LA reg CARBOB	West Coast	3.3163	-0.0597 ▼	+0.0900	0.0000	3.3760	3.3163	3.3867
ETHANOL/RINS	**Location**	**Price**	**Price Change**	**Diff**	**Diff Change**	**8:00 CT**	**Low**	**High**
Chicago Argo	Chicago	2.7210	0.0000	-	-	2.7210	2.7210	2.7210
D6 ethanol RINS	USA	1.2600	+0.0300 ▲	-	-	1.2300	1.2300	1.2600
DIESEL	**Location**	**Price**	**Price Change**	**Diff**	**Diff Change**	**8:00 CT**	**Low**	**High**
ULSD	NYH Barge	3.9995	-0.0410 ▼	+0.2200	0.0000	4.0405	3.9910	4.0603
ULSD 62	Gulf coast Colonial	3.8270	-0.0410 ▼	+0.0475	0.0000	3.8680	3.8185	3.8878
ULSD WS/BDGR	Chicago	3.6870	-0.0410 ▼	-0.0925	0.0000	3.7280	3.6785	3.7478
ULSD X	Group 3	3.8035	-0.0410 ▼	+0.0240	0.0000	3.8445	3.7950	3.8643
LA CARB ULSD	West Coast	3.6500	-0.0388 ▼	+0.1200	0.0000	3.6888	3.6422	3.7098

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illuminating the markets

Reformate Already Rising with Summer on Horizon

BY STEPHANIE CRAWFORD AND JASON METKO, ARGUS MEDIA

The race towards the U.S. summer driving season was already humming by late January, months before drivers start to fill their vehicles with cleaner summer-grade fuel.

Prices for reformate — a high-octane gasoline blendstock — surged to three-month highs on 26 January at both the New York Harbor and the U.S. Gulf Coast.

New York Harbor reformate prices rose to $3.12/USG that day, the highest since early October and only 1¢/USG below a year earlier when Nymex RBOB futures were stronger. Reformate cash differentials rose to a three-month high at February Nymex +82.75¢/USG on 26 January, up 27.75¢/USG from a year earlier.

U.S. Gulf Coast reformate outright prices on 26 January similarly reached the highest since early October at $3.20/USG.

Demand for reformate began rising ahead of the March shift to summer fuel formulations, when blenders utilize a greater percentage of high octane, low Reid vapor pressure (RVP) components to fulfill the Environmental Protection Agency's seasonal gasoline requirements. Blenders typically capitalize on a forward curve contango and storage economics this time of year. The March/April Nymex RBOB spread averaged -20.6¢/USG in January, compared to -16.1¢/USG a year earlier and -11¢/USG the same period in 2022.

Rising reformate demand has coincided with declining inventories. Atlantic Coast "conventional other gasoline blending component" inventories, including reformate, averaged 7.46mn bl from 30 December-26 January and were 25pc below a year earlier, according to Energy Information Administration (EIA) data.

U.S. Gulf Coast "conventional other gasoline blending component" inventories fell by 1pc to 33mn bl last week. Stocks were higher than a year earlier but still comprised about 40pc of total Gulf Coast gasoline blending components volume.

New York Harbor reformate stock levels could drop further ahead of March if imports decline. Reformate cargo arrival volumes in New York Harbor have fallen since October, according to data and oil analytics firm Kpler, totaling about 300,000 bl in the fourth quarter of last year, compared to an average of 1.7mn bl in the other three quarters of 2023 and 2.5mn bl in the fourth quarter of 2022.

New York Harbor cargo arrivals are expected to be scarce through February. Some reformate shipments that previously came from ports in India and Oman have been sparse since at least September. This coincides with attacks on shipping in the Red Sea that escalated in January, leading to diversions around the Cape of Good Hope, according to market participants.

Higher freight has also weighed on the transatlantic arbitrage. Freight rates for 37,000 metric tonne clean vessels from northwest Europe to New York Harbor averaged $37/metric tonne in the second half of January, the highest since August and $5.5/metric tonne higher than a year earlier, according to Argus data.

Seasonal refinery turnarounds may also impact New York Harbor and U.S. Gulf Coast gasoline production levels. PBF Energy has a first quarter turnaround scheduled at its 171,000 b/d Delaware City, Delaware, refinery. Marathon is planning a first quarter turnaround at its 593,000 b/d Galveston Bay refinery (GBR) in Texas City, Texas, and at the 596,000 b/d Garyville, Louisiana, refinery.

There were also numerous weather-related Gulf Coast refinery outages when a winter storm hit southeast Texas in mid-January.

Gulf Coast refinery runs dropped to a 29-month low at 77.1pc in early February, according to EIA data.

However, natural gasoline (C5) maintained a narrower discount to RBOB in January than a year earlier and could weigh on some of the upward momentum in reformate prices. C5 is a high-RVP gasoline additive that typically has an inverse pricing relationship to low-RVP, high octane components such as reformate. New York Harbor RBOB's premium over C5 averaged 68.3¢/USG in January, weaker than 79.4¢/USG a year earlier, but wider than the five-year average of 54.1¢/USG. ★

Inside RISK MANAGEMENT

Have You Reviewed Your Hiring Practices?

BY PATRICK CUNNINGHAM, NATIONAL ACCOUNT EXECUTIVE - FEDERATED MUTUAL INSURANCE COMPANY

When it comes to hiring new employees in the petroleum industry, you want the best to represent your company and work with your current team. Knowing that a poor hiring decision can result in costly replacement expenses, strain on management, and diminished morale among current employees, it's important to thoroughly vet new hires to ensure they are the right fit for your business.

In addition, stressing the importance of maintaining a work culture based on safety and risk management right off the bat can help your new hire know what is expected of them.

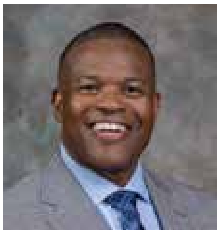
The following tips might benefit you when it comes time to begin the hiring process:

Find the Right Fit for the Job.
Your hiring decision can have a ripple effect on your company and employees. Take time to find a person who understands the value that safety, risk management, and teamwork have within your business, and who is willing to comply with your company policies.

Make Sure your Job Description is Clear.
When creating a job description, fully list out necessary criteria, and note all job responsibilities. This will help your new hire gain a clearer understanding of what is expected in their day-to-day work. Explain your company's policies surrounding workplace safety right away, and provide general information about the training they can anticipate down the road.

Conduct a Background Check and Check References.
Where applicable by law, conducting background checks and contacting references can give you great insight into your potential new hire. Their past experiences can provide feedback into the kind of employee they are and demonstrate how they might work with the rest of your team.

While there's no guaranteed way to avoid making a poor hiring choice, it can make a big difference to take the extra steps when searching for the right match. ★



Patrick Cunningham
National Account Executive
Association Risk Management Services
Federated Insurance®

Patrick Cunningham is a National Account Executive in the Association Risk Management Services department of Federated Insurance. Patrick is responsible for managing Federated's national association and buying group partners.

Since 1998, Pat has spent his entire career working in the marketing areas of Federated Insurance where he was a successful Marketing Representative, Account Executive-ARMS, District Marketing Manager, and Senior Marketing Representative. Pat earned the trust of hundreds of business owners in the areas of safety, risk, and business management by focusing on value, service, and relationships. Pat was awarded membership into Federated's Chairman's Council, Big Hitter Club, Monthly Leadership Council, and Life and Disability Income Contest winner. He also participated in various company Focus Meetings and workshops, "Street-Talk" seminars, Risk Management Academy seminars, and pilot programs.

A native of Kansas City, MO and an alum of the University of Central Missouri with a bachelor's in business management, Patrick and his wife are the proud parents of three daughters and two grandchildren.

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SIGMA

UPCOMING EVENTS!

2024

MARCH
March 19-22
Foodservice & Retail Marketing Meeting
Southwest Georgia Oil
Tallahassee, FL

MAY
May 6-8
SIGMA Spring Conference
Omni Barton Creek Resort and Spa
Austin, TX

JULY
July 23-24
SIGMA Summer Legislative Conference
Washington, DC

SEPTEMBER
September 17-20
SIGMA Share Groups
New Orleans, LA

NOVEMBER
November 12-14
SIGMA Annual Conference
Westin Copley Place
Boston, MA

2024

FEBRUARY
February 2-5
SIGMA 2025 Executive
Leadership Conference
Vail, CO

APRIL
April 22-24
SIGMA 2025 Spring Conference
Scottsdale, AZ

NOVEMBER
November 4-6
SIGMA 2025 Annual Conference
Nashville, TN

Inside CONVENTIONS

Mark Your Calendars and Register Early – SIGMA's in Austin and Boston!

Get ready for 2024 and plan to join SIGMA for the Spring Conference in Austin, TX in May and then in November when SIGMA returns to Boston for the Annual Conference. These are two events you will not want to miss!

When people talk about Austin, they often mention the music. But that's just the beginning of what the city has to offer. In addition to its thriving music scene, Austin is home to world-class museums, one-of-a-kind shopping and beautiful outdoor spaces. With so many things to do in Austin, you can spend your morning paddling the lake and your afternoon strolling through a celebrated history museum. There is so much to do that you may want to consider extending your trip so you have time to fit it all in – in addition all the activities of the SIGMA Spring Conference, of course!

So, what does SIGMA have planned for the 2024 Spring Conference? Education sessions on relevant topics with takeaways you can put to immediate use at home? Check. Networking golf tournament on property? Check. Friendly (or fierce, you decide) pickleball competition? Check. Receptions with your peers? Check. Time for meetings with suppliers and customers? Check. Austin is easy to get to and the weather is fine! Come enjoy it with SIGMA this May.

Then, as the weather cools and the leaves begin to turn, come to the SIGMA Annual Conference in Boston. SIGMA returns to Boston again this year with another outstanding event in the works. Home to abundant history, outstanding dining experiences, and elevated shopping, Boston beckons us back. Our 2024 Annual Conference is November 12-14 – right after the presidential and congressional elections. With many retirements this year, there will be new faces to learn in Congress and much education to be done. A new Administration could bring new opportunities for our industry. There will be much to discuss and learn to prepare for what 2025 will bring and SIGMA will be ready to brief you with the full details.

All of SIGMA's events for the year are on the events page on the SIGMA website (www.sigma.org). If you are super organized, the dates for 2025's events are posted there as well. Put them on your calendar and register early to ensure your spot in the conference hotel – a unique link to reserve a hotel room will be emailed to you in your registration confirmation once your invoice is paid.

Mark your calendars and register early while rates are lower and there are still rooms in the conference hotel. SIGMA has a lot of exciting things planned for these conferences – we can't wait to see you there! ★


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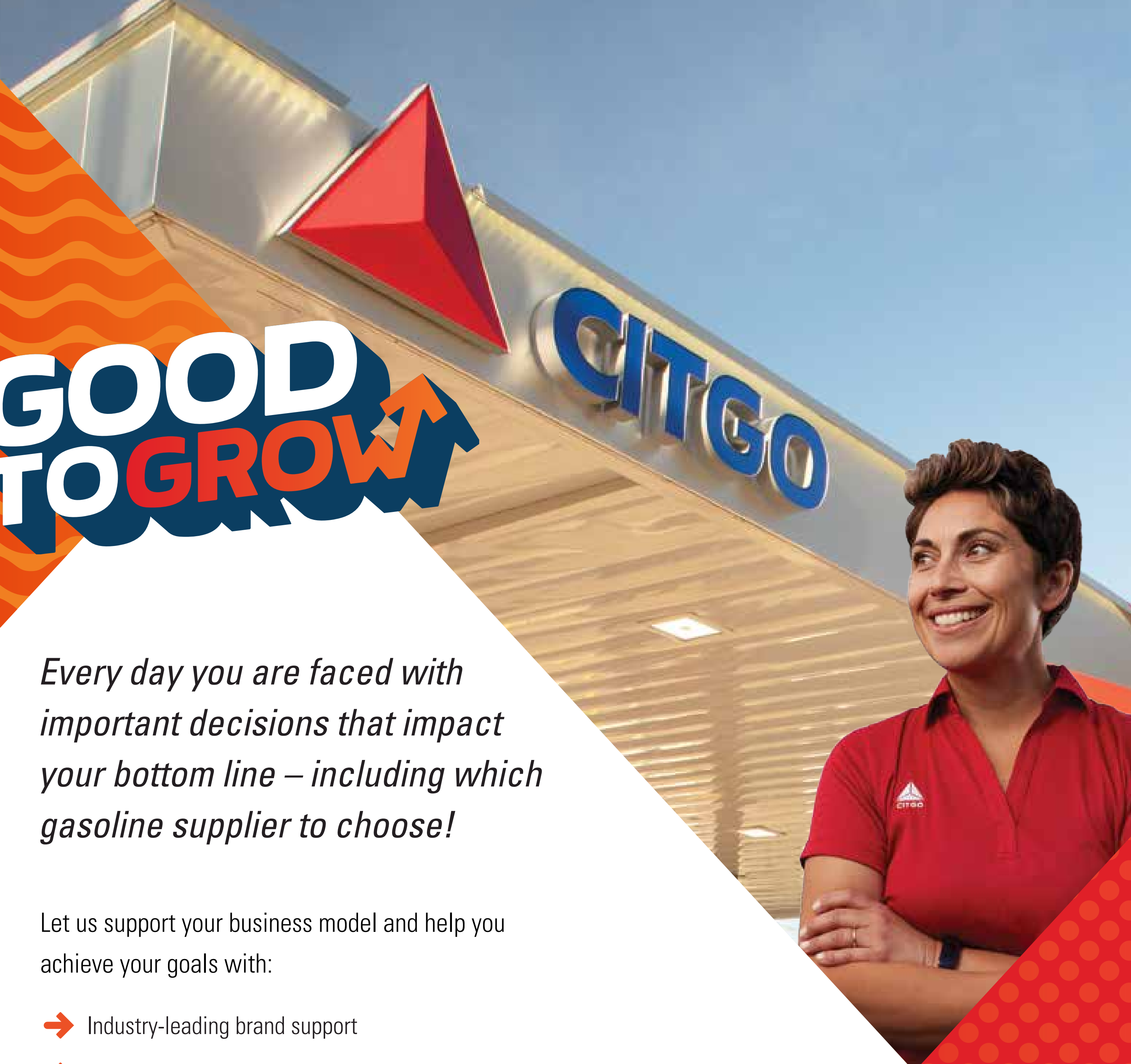

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Fuels Distribution and Convenience Retailing M&A Activity in 2023: Setting the Story Straight

BY VANCE SAUNDERS, CPA, MANAGING DIRECTOR, AND ALEX RAKOS, SENIOR ANALYST, DOWNSTREAM ENERGY & CONVENIENCE RETAIL INVESTMENT BANKING GROUP, MATRIX CAPITAL MARKETS GROUP, INC.

Source: Pitchbook (includes estimates of transactions not yet reported in 2023)

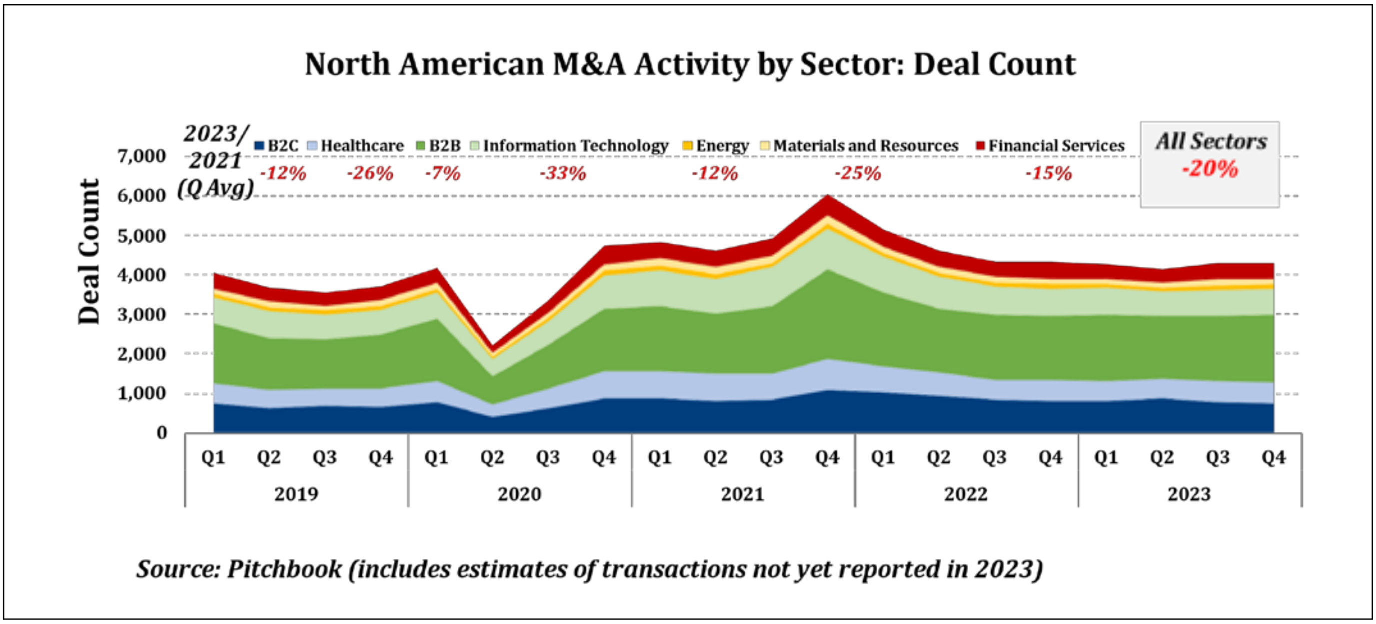
There has been much discussion in the media about the decline in mergers and acquisitions ("M&A") across most sectors of the economy over the last two years. However, hidden within the broader analysis is a robust M&A market for fuels distribution and convenience retailing ("FDCR") companies (comprised of wholesale fuels distributors, fuels retailers, and convenience retailers) that has not followed the recent broad market trends. In fact, the M&A market for FDCR companies is quite healthy, and valuations remain very compelling for both sellers and buyers.

North American M&A Activity

Similar to the trends observed in the global marketplace, North American M&A activity has continued to decline from the peak levels witnessed in 2021 due to rising costs of capital and economic uncertainty. North American deal counts for all sectors in 2023 were 11% below 2022, with deal value falling by over 13%. Compared to 2021, the deal counts and deal values for all sectors in North America in 2023 decreased by approximately 20% and 35%, respectively.[1] This significant decline from the 2021 levels is partly attributable to factors that drove record M&A activity in the United States in 2021: 1) the changes that were proposed to the U.S. tax code in 2021 that drove many sellers into the market to avoid potential tax increases in 2022, and 2) the anticipation of interest rate increases to combat rampant inflation. Fortunately, there were no changes to the tax code, and the broad M&A market remained strong in 2022, despite the steadily rising costs of capital.

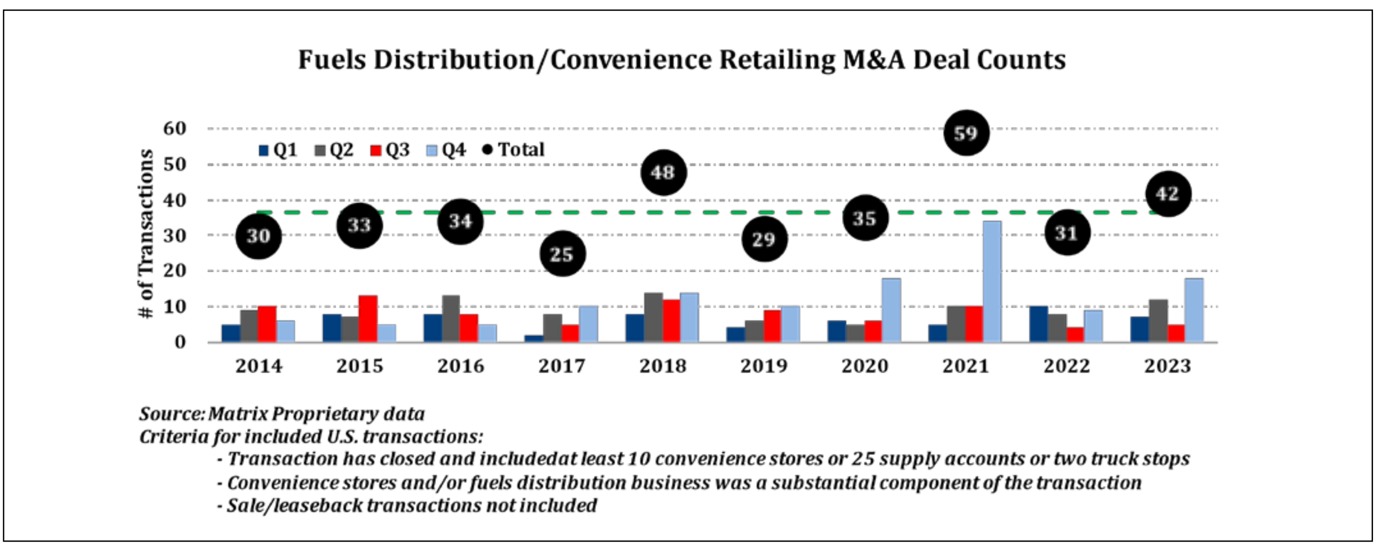
M&A activity across most sectors continued to decrease in 2023 due to rising interest rates as well as the tightening of credit markets, even with near record $1.4 trillion of global private equity dry powder and record U.S. corporate cash holdings of over $4.1 trillion.[2] While most industries saw significant declines in M&A deals, the reduction in activity varied by sector as illustrated on the next page. ▶

[1] *Source: Pitchbook*
[2] *Source: Pitchbook; The Cafang Group*



Fuels Distribution and Convenience Retailing M&A Activity

Despite the headwinds facing the FDCR industry and the macroeconomic forces driving down M&A in other industries, M&A activity involving FDCR companies has remained extremely robust, as illustrated in the chart below. Similar to other industries, the record setting 59 transactions in 2021 resulted from a number of transactions being pulled forward stoked by fear of significant federal income tax increases that never materialized. However, unlike the sector trends in the table above, deal activity in the FDCR industry increased significantly in 2023. Deal counts for FDCR companies increased by 35% from 2022 in spite of interest rates rising to a 20-year high, underscoring the unique factors driving consolidation in the industry.

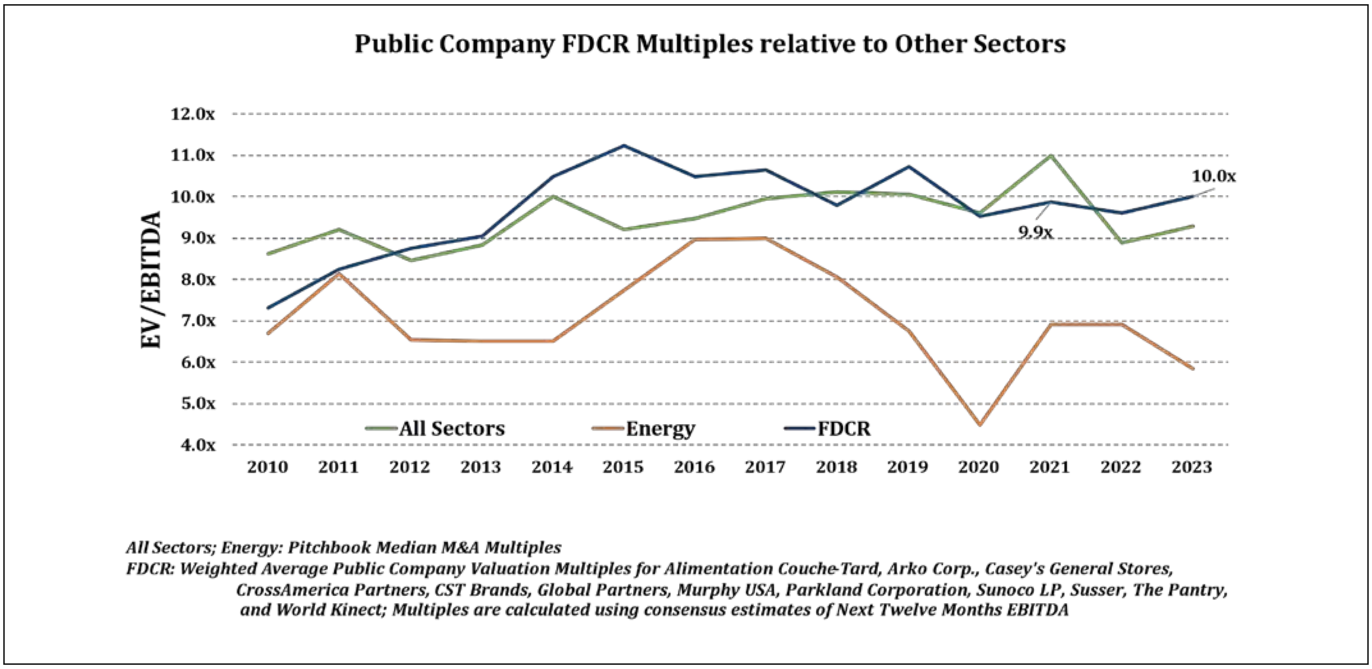


FDCR Transaction Valuations Remain Strong

Valuation multiples across most industries also declined as a result of lower leverage ratios and increased costs of capital. The median EV/EBITDA (Enterprise Value/Earnings Before Interest, Taxes, Depreciation, and Amortization) transaction multiple for all sectors declined by 1.7x, or 15%, from 2021 to 2023.[3] However, transaction multiples for FDCR companies have not declined significantly during this same timeframe. Because many transactions in the industry are private and details on financial terms are not publicly disclosed, there is no publicly available source of data to measure trends in EV/EBITDA transaction multiples for FDCR companies. However, the EV/EBITDA valuation multiples for publicly traded companies in the industry

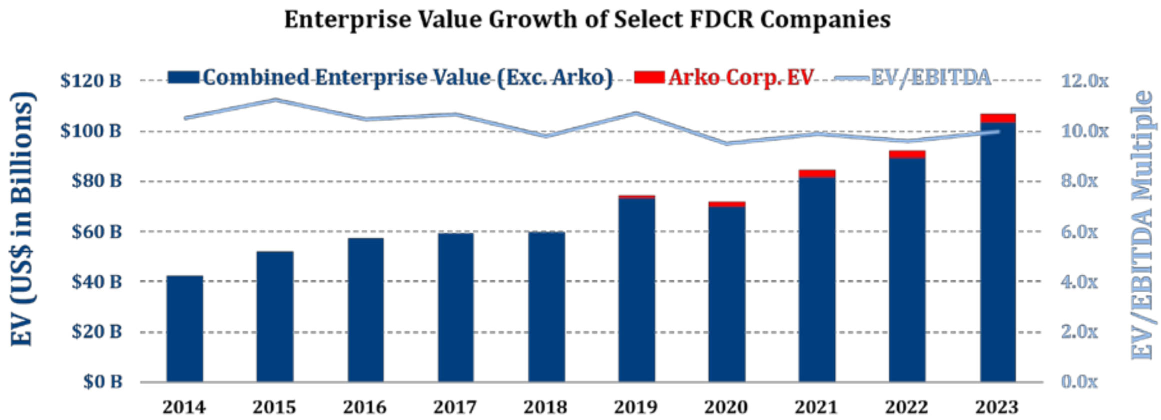
[3] *Source: Pitchbook; Geography: North America and Europe*

typically follow similar trends as M&A transaction multiples, although the magnitude of the changes and the actual multiples are different between public company valuations and M&A transactions. The chart below compares the median M&A transaction multiples for all sectors as well as the energy sector to the public company valuation multiples for retail and wholesale companies in the FDCR industry. As illustrated in the chart below, FDCR public company valuation multiples have changed very little over the last two years, which aligns with what Matrix has observed in FDCR transaction multiples in this time frame. Additionally, M&A transaction multiples based on trailing EBITDA for FDCR companies are typically higher than public company valuation multiples due to the control premium in a company acquisition, as well as the synergies that can be achieved by the acquiror post-transaction.



It is also crucial to remember that EBITDA (as a proxy for operating cash flow) is the primary driver of valuation for FDCR companies. Although multiples have remained fairly steady, company valuations, in terms of dollars, in the industry, both public and private, are higher due to the strong performance and higher EBITDA of companies over the last few years. Sustained, higher fuel margins and the increased gross profit contribution from c-store sales have more than offset rising operating costs, delivering record profitability across the industry. The higher levels of EBITDA have resulted in increased enterprise values for companies even though the implied multiples have varied only slightly.

For example, see the following chart showing the combined enterprise values of select public, FDCR companies along with the weighted average EV/EBITDA valuation multiple. Although the average valuation multiple is nearly unchanged from 2021, enterprise value has increased significantly over the last three years. ►



Source: S&P Global Capital IQ data for Alimentation Couche Tard, Arko Corp., Casey's General Stores, CrossAmerica Partners, CST Brands, Global Partners, Murphy USA, Parkland Corporation, Sunoco LP, Susser, The Pantry, and World Kinect; Weighted Average Multiples are calculated using consensus estimates of Next Twelve Months EBITDA

Factors Driving M&A in the FDCR Industry

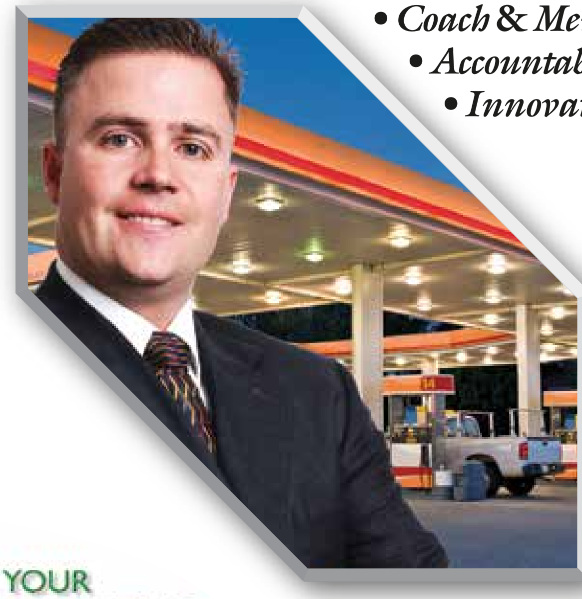
There are several reasons why transaction activity and valuations in the FDCR industry have outperformed other sectors. These reasons can be broken down into the factors driving activity and the factors driving valuation, although many of these factors contribute to both valuation and activity. Certain key factors are summarized below.

Factors driving M&A activity for FDCR companies:

- The industry is mature, and growth in many markets is derived either from taking market share from competitors, building new-to-industry stores (which have become much more expensive to build), or through acquisitions.
- The industry remains highly fragmented and dominated by privately held companies with aging ownership and no succession plan.
- While interest in the industry from private equity groups has increased, private equity investment remains low relative to other sectors where private equity drives more transaction activity.
- Companies that plan to stay in the industry need to grow to remain competitive, and there are many well-capitalized potential buyers hungry for acquisitions.
- Declining fuel demand is forcing many companies to make significant changes to their operating models, and many business owners are opting to let someone else make that investment.

Factors driving valuation for FDCR companies:

- The industry has historically proven to be recession resistant, so the threat of an economic downturn does not impact valuation as much as other industries.
- Industry profitability has been at record levels over the last three years, and the higher fuel margins once thought to be fleeting have proven to be sustainable.
- As mentioned above, M&A activity is not dominated by private equity investors who rely on heavy debt leverage at low interest rates to increase their equity returns. Instead, industry M&A is dominated by strategic companies with strong balance sheets that have been bolstered by increased cash flows over the last few years.
- Given the length of time it takes to achieve significant organic growth through construction of new-to-industry sites, many companies seek growth via acquisition as a much quicker means to achieve growth and scale. Competition among potential buyers for quality assets remains very high, keeping valuation multiples from falling as witnessed in other sectors.
- Tax policies for M&A are still extremely favorable, particularly for FDCR companies given the favorable depreciation provisions available to marketers owning or acquiring depreciable real property. Certain provisions of the Tax Cuts and Jobs Act of 2017 are sunsetting over the next few years, and without new legislation to extend the current tax provisions, this may also be a factor driving transaction activity in 2024. (Reference Matrix CMP, Vol. 12, Issue 9, Nov. 2023 - matrixcmg.com/insights.) ▶



- FDCR companies have become much more sophisticated, particularly convenience store companies that have developed strong proprietary store brands with differentiated value propositions for their customers. Synergies from process and product improvements as well as margin improvements from economies of scale are being achieved by more companies as they grow, particularly with fuel procurement. This helps support transaction values for sellers as buyers are able to pay a higher multiple of sellers' EBITDA knowing they will have synergies post-transaction. Buyers are able to achieve lower transaction multiples post-synergies even if the multiples based on sellers' EBITDA remain unchanged or even increase.
- The amount of synergies that can be achieved by strategic acquirers in the FDCR industry are well in excess of the expected synergies for transactions in other industries, and the synergies achieved in FDCR company transactions have helped offset the increased costs of capital for the buyer.

Conclusion and Outlook for 2024

M&A transaction activity and valuations have remained much stronger in fuels distribution and convenience retailing than other sectors of the economy. We continue to see aggressive competition from strategic acquirers for high quality targets in our current sell-side engagements. For 2024, we expect the number of deals to increase and valuations to remain stable absent any major legislation impacting tax rates or a major economic downturn. Interest rates are anticipated to decline at some point this year, while the economy so far has remained strong. Falling interest rates combined with the near record levels of private equity overhang and the record amount of corporate cash balances will help fuel M&A activity across all sectors in the year ahead, and FDCR M&A will continue to outperform given the unique factors affecting the industry.

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Inside FAMILY BUSINESS

PRESENTED BY RONALD C. REECE, PH.D.

Next Gen Successor

In family enterprise there is a constant need to attend to and be more deliberate about succession. Some say it begins at the dinner table, and certainly indirect influence would come from those early roots. But as time passes and the senior generation begins to really consider what's next, more deliberateness is needed. I refer to it as succession by design not by default.

In every business situation there are common questions to ask about succession. Then there are those elements or aspects related to each unique circumstance such as necessary industry knowledge. My younger brother was the successor choice to my dad in the family construction company. Truth is, out of four sons there was no question, he was the guy – even though my dad seemed not to give up on the idea of my coming into the business until I was completely through graduate school and licensed as a psychologist. I also had no aptitude, talent, or passion for construction. My brother on the other hand was born almost construction industry ready. He was capable and willing when the time came.

Sometimes the opposite is true. There can be a next gen who, try as he might, with a persistent willingness (perhaps misguided), doesn't have the necessary capabilities. This becomes a real dilemma. This willing but incapable dance is distressing to all involved. I have seen this play out a few times – one time in a first to second gen transition furniture manufacturing business many years ago. It was a sad picture and would have been better to have had no available offspring or one that was capable but unwilling. At least the path would have been clear. In the furniture manufacturing situation, like many others, the founder father wasn't a good teacher/mentor and would not deal with the disappointing truth.

Despite my feedback and that of others, the son was given the title. He was supposedly the new leader but had little credibility; "Big Hat No Cattle". Employees placated him, avoided him, and who knows what else. The son was frustrated, and they were too. The true credible leader was a son-in-law in the business. He managed to make the business work despite the burden of his brother-in-law and family tensions. ▶

The incumbent's job is to make his successor a success. Teaching is the art of assisting discovery. It requires letting go, rather than controlling. The next gen successor's job is to demonstrate integrity, knowledge, skill, and desire in order to make the incumbent and others certain of his abilities.

And as Peter Drucker said, "the final test of greatness in a CEO is how well he chooses a successor and whether he can step aside and let the successor run the company".

Marshall Paisner founder of ScrubaDub Auto Wash Centers had two willing and able sons available. He used a creative approach. Marshall challenged his sons to work together and determine which one be CEO and which one would be President then tell him their plan and how they arrived at their decision. You can read about Paisner's transition in his book "Sustaining the Family Business."

Remember: Deliberation and open discussion are necessary. Evidence suggests longevity of family business is related to the following four elements among many others:

- A strong sense of family history.
- Willingness to employ professional, non-family executives
- Ability to exclude incompetent family members
- Focus on ensuring business health which maintains family control

Over time I have compiled the following thoughts for next gens and senior gens.

Wisdom for Next Gens

- Work elsewhere first.
- Family Business employment is a privilege not a right.
- Family Business employment is an opportunity not a right.
- Family Business employment is an opportunity not a requirement.
- Don't report to a parent.
- Be the best employee you can be.
- Show up more than others.
- Show off less than anyone.
- Do the hard stuff.
- It won't be easy. It won't be easy.
- Your role will likely be very unclear.
- Your role will likely change frequently in the first 2-3 years.
- You are a private, not a general, not even a sergeant.
- You are not an owner.
- Volunteer for and be a servant to.
- Make notes about possible improvements.
- Accept who and how the senior generation is.
- Be respectful.
- Be a silent observer.
- Be a sponge.
- Wait, wait, and then offer your thoughts or suggestions. Be smart about where, when, and how.
- Remember, they've 'always done it this way' for a reason.
- In the beginning, who you are and how you are matters more than what you know or what you do. Even 'small talk' matters.
- Earn your place/credibility little by little.
- Evolution not revolution.
- Remember you have the family name on your forehead in and out of the business.
- Employees will complain to you. Be careful what you do with the information.
- Some employees will feel threatened; some will seek your favor.
- You most likely won't get much feedback except when you do it wrong.
- You may never be completely good enough in the eyes of seniors.
- Arm wrestling' with the senior gen is to be expected and it strengthens you for later.
- Humility is critical. Entitlement is cancer.
- You will be seen as privileged or having a different status than others. (quite frankly it's true)
- Be careful of positional seduction.
- You can't lead until you're a leader.
- Learn the formal and informal channels.
- Take the blame- share the glory.

Be mindful of the difference in each of these:
Family name Authority, Positional Authority, Relational Authority, Subject Matter Expert Authority, Leadership Authority

Wisdom for Senior Gens

Some family employment rules to watch out for:

- Family members always have a place in the company.
- Once in the company, family members are given too much leniency.
- Family members cannot be fired by non-family.
- Family members not going through the usual hiring process.
- Family members are placed in positions they haven't worked to truly earn.
- Family members always having access to the owner about aspects of the business other than those related to their job.
- Compensation being too much or too little.
- Compensation being based on personal needs not job position/market rate.
- Avoiding difficult topics to keep the peace.

Dos and Don'ts:

- Do match job with skills and interests.
- Do make performance expectations clear.
- Do match with a good non-family manager.
- Do give the gift of accountability feedback (strengths and weaknesses)
- Do compensate in accord with responsibilities or industry standards.
- Do require the same orientation that the company system now provides.
- Do be a mentor not a tormentor.
- Don't start him/her too high in the organization.
- Don't start him/her too low.
- Don't start him/her on an extremely challenging high-profile project with significant companywide impact.
- Don't start him/her in too remote a location.
- Don't map it all out (have a general map but be flexible).
- Don't assess him/her weekly.
- Don't just criticize.

Keeping the succession conversation going is half the battle – hope this helps.

Soon,
Ron

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PRIVATE LABEL Growth

BY MAURA KELLER

Private-label products – often referred to as store brands – are an increasingly important ingredient in a retailer's strategy to differentiate itself from competitors, drive loyalty among shoppers, and improve margins.

While private-label brands have been a staple of consumers for decades, it is only recently that U.S. consumers have truly embraced these products. According to the Private Label Manufacturer's Association (PLMA), today one of every five food or non-food grocery products sold across the U.S. carries the retailer's name or own brand and was supplied by a store brand manufacturer.

In addition, in 2022, store brand sales rose 11.3%, nearly twice the growth of national brands, which were ahead 6.1%. Annual store brand dollar volume increased by $23 billon, setting a new record of $229 billion for sales in all channels. From a multiyear view, by the end of 2022, annual store brand dollar sales had increased by nearly 40% a five-year period, according to the PLMA.

Also, according to a poll by CivicScience, currently 39% of U.S. adults say they are shopping store brands "somewhat often," while 24% are doing so "very often." That's over 60% of U.S. adults shopping for private label brands at least somewhat frequently.

Today's c-store consumers can purchase private label cereal, orange juice, and aspirin, but they can also purchase breads, cheeses, health care products, toilet paper, and other staples, often at a reduced price, compared to national brands.

As Nick Gausling, retail consultant and managing director at the Romy Group, explains, historically speaking, even where stores were not locked down during COVID, they didn't necessarily have product to sell.

"Private label was historically all about budget pricing with higher margins, but it's now a substantial tool for business continuity in the face of supply chain disruption," Gausling says.

Steve Pogson, founder and strategy lead at Helm Digital, a marketing strategy and e-commerce company, agrees that the concept of private labels for consumer goods has evolved significantly in the last several years. Retailers have recognized the value of offering their own branded products, which has led to an increase in the quality and variety of private label options available to consumers.

"When it comes to private label products, consumers expect good quality at a lower price point compared to national brands," Pogson says. "They also look for transparency in terms of ingredients and sourcing. Additionally, consumers often appreciate private labels that align with their values, such as sustainability or social responsibility."

It's important to note that brand loyalty isn't nearly as strong as it used to be, but Gausling says consumer expectations have increased nevertheless. Retailers can't get away with low-quality private label products and expect to hide behind discount pricing. Consumers expect house brands to be comparable in quality to name brands while also offering lower prices.

Kirk Hodgdon, founder of Altus Marketing & Business Development, says that the biggest shift has been from retailers offering national brand equivalents at a reduced price, to actually offering unique new products that meet the special needs of their customers. In the convenience store channel, this has been especially prevalent in the area of specialty food products that deliver on the wellness and nutrition interests of more health-minded shoppers.

"Retailers in other channels (like Target's Good & Gather or Costco's Kirkland Signature) have been building loyalty for the past several years following this strategy," Hodgdon says. "Table stakes for a private label brand include both high-quality and greater 'value.' If a retailer brand can deliver unexpected value (like upgraded sizing, or gluten free, or lowered sugar), their core customers will keep coming back for more."

Venturing Into Private Label

Hundreds of different store brands grace the shelves of countless retail businesses. If you think investing in store-branded products simply means slapping your logo on custom labels, think again. Private labeling products requires retailers and marketers take the time to clearly define their brand-building efforts and uncover what opportunities surface within the products segments they are focusing on.

The pros of incorporating private labels include higher profit margins, increased brand recognition, and the ability to offer exclusive products. However, as Pogson explains, retailers should also be aware of the potential cons, such as the need for effective marketing and branding strategies, the risk of product quality issues, and the need for ongoing product development and innovation.

"Product labels help build consumer loyalty with customers and improve category margins and profits over the long term," Hodgdon says. "When unsuccessful, huge time and energy (and expense) are wasted on something that customers are not really asking for."

When venturing into the world of private label products, retailers, particularly c-store owners/operators, need to ▶

consider several factors. As Pogson points out, this includes understanding their target market and their preferences, conducting market research to identify gaps in the market, and ensuring that the private label products meet or exceed the quality of national brands.

“Managing a private label line is a significant undertaking in vendor relations, so the smaller your business, the less feasible it is. If you proceed, know that nothing is more important than selecting the right manufacturing partners,” Gausling adds. “If they send you bad product or can’t fulfill orders, customers will blame you.”

If you succeed at delivering high-quality private label products at discount prices, Gausling says incorporating private label products into your store’s offerings can do wonders for margins and customer retention. But if you can’t compete on price, consumers will likely choose the name brand they already know and you’ll be stuck with inventory that doesn’t sell.

“Worse, if the product quality is poor or too frequently out of stock, you’ll lose a lot of customer trust,” Gausling says.

In addition, consumers are becoming more and more interested in where their food comes from. Because of that, private label brands are choosing to showcase appropriate claims and verbiage on their packaging, such as “No added hormones,” “Vegetarian fed,” and “No antibiotics.” Today’s consumers appreciate having that information at their fingertips and tend to consider the packaging truthful and transparent.

Consumers are also becoming more interested in sustainable packaging. Private label brands are moving towards sleek, recyclable materials that can be recycled.

For those retailers interested in making private label products work for their companies, Gausling advises that they don’t try to completely replace name brands with the house brand; some of your customers will want the name brand no matter what, and you still need to be a good partner to your wholesalers if you’re going to survive in retail.

“You’ll do best if you give customers optionality, slightly steering them towards your house brand but not forcing it,” Gausling says.

Pogson further suggests that retailers should focus on product quality, differentiation, and effective marketing. They should also consider offering a range of private label products across different categories to cater to a variety of customer preferences. Retailers also can leverage the increasing trends in private label packaging to create winning store brand products and product lines in a variety of categories, however it makes sense for retailers to evaluate “better for you/natural” products for their store brands, as the expectation is that this trend in natural products will continue. What’s more, where food comes from is playing a major role in the decision making and purchasing processes at the c-store level. Convenience marketers can respond to their consumer’s interests by showcasing “farm to plate” information on POP displays, packaging, and other marketing materials.

Understanding your consumer is also paramount. Millennials are an especially interesting target market. They are drawn to brands and packaging that is eye-catching – be it with color, imagery, or both. Innovative packaging paired with eye-catching imagery can make for a private label product that is hard for a millennial to resist.

As with any new product venture, there are key steps to take when evaluating the opportunity private label brands may bring. C-store retailers should understand who is the competition on their shelves and shelves of their competing retailers. Then fully analyze the attributes, benefits, and personality of those brands. You also to determine your key brand-building strategies. Are you after price or quality image or does taste or ingredient quality matter? Then pick a category to start with and communicate with your resources, including vendors and suppliers, to see what lines or items would fit your image and strategy.

Hodgdon recommends c-store retailers make sure the category is big enough to warrant a private label option. And if the national brand is large and highly trusted, a retailer may not need to carry a private label option.

"For example, in car air fresheners, Febreze and Little Tree are two strong brands that dominate sales. Do your customers really need a third option?" Hodgdon says. "And if the average retail is $3.99 – do they really need a $1.99 or $2.99 priced option? Probably not."

Hodgdon says retailers should seek expertise from channel experts. The bigger (successful) brands know that they need to bring solid advice to retailers. Brands like General Mills, Frito Lay, and the larger beverage companies all have category management experts who are accountable to the data.

"Don't be afraid to ask them for advice and the data to back it up. They will often see growth trends before you do," Hodgdon says. "Another example of this might be Lil' Drug Store Products. As the largest purveyor of health and beauty aids in the convenience channel, they have a category management practice with a 20-year history. They can show you where brands like Tylenol or Ricola or Carmex dominate (and you might not need a private label option) and where their 'value line-up' of products will offer you greater margins and penny profit."
And remember that for many years, private label has meant low cost and unfortunately, low quality. Products should not only be at lowest cost but at quality for the price when developing a store brand program.

The Future of Private Label

Looking specifically at product categories and the growth potential of private labels, the PLMA states that general food led with a 13.8% gain, followed closely by beverages at 13.1%. Home care, refrigerated, and beauty were bunched at plus 8.8%, 8.4%, and 8.3%, respectively. Rounding out the other winning departments were frozen, up by 6.4%; general merchandise, up 5.7%; and health, ahead 3.7%. Declining departments were liquor, minus 7.1%, and tobacco, off 16.9%.

"We saw a substantial rebound in consumer spending post-COVID that continued to steadily rise into 2023, but increasing economic pressures like inflation, layoffs, and declining household savings indicate that may not last much longer," Gausling says. "Expect to see private label market share significantly increase, especially in consumer staples like CPG."
And while e-commerce and Amazon continue to grow their share of retail, Hodgdon says there is no getting around the need for gas and the convenience offered by the store just blocks from a consumer's home.

"The more your private label products deliver on a customer's wants and needs – the more you build loyalty and repeat purchases," Hodgdon says. "If you bring innovation and value – you will succeed."

Pogson believes the future of private labels looks promising, both in general and within the c-store environment.

"As consumers continue to seek value and unique offerings, private labels have the potential to thrive," Pogson says. "C-store owners/operators can leverage private labels to differentiate themselves from competitors and provide customers with affordable, high-quality products." ★

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Can Improved Forecourt Performance Increase Overall Profitability?

BY TONY CAPUTO, WARREN ROGERS

We have all been there…...It's July, 95 degrees outside, and your car is on empty. The last thing you want to do is stop for gas in the heat! After working through the dispenser prompts, inserting your credit card, and picking the grade desired, fuel begins to dispense. ***Yes, and I got my discount!*** However, after about 3 minutes, your tank is only half full.

How did this happen?! I have things to do! It is so hot out here! Why me?!... you scream with your internal voice (hopefully)!

Often, when customers encounter slow-dispensing fuel lanes, their response is to short fill their tank and drive to your competitors to top off, perhaps never to return to your fuel station. When a dispenser or two is blocked off due to repair and your site is busy, your customers are more prone to drive to your competition as well, only compounding your profitability issue.

Of course, in the perfect world, every lane is open and dispensing properly! The optimal standard for the proper dispensing of fuel is between 8 and 10 gallons per minute for gasoline or automotive diesel grades. For over the road diesel and large trucks, the standard is even higher at 35-50 gallons per minute. If all goes well, the average fueling transaction should be quick, 2-3 minutes for automotive grades and 5-8 minutes for large trucks fueling at a high-flow diesel facility.

As we know, time is money! The more time that drivers take to fuel their vehicles, the less time they have to visit inside your store or accomplish other tasks. Frustration can also lead to a lower opinion of your fueling location and business. Unfortunately, with a slow-dispensing or out-of-order fuel lane, you are not only reducing your customers' free time, but your store's overall profitability.

An underperforming fuel lane can decrease your average transaction size across ALL transactions by up to 10% or more. When a dispenser is bagged or coned off, your total number of site transactions can decrease by up to 10% or more as well, even when you have other dispensers available. It is during peak traffic times that this loss increases even more.

On the inverse, a high-performing dispenser flow rate can increase not only your average fuel transaction size, but lead to more transactions over time, especially during peak times when the fuel lanes are busy.

Such incidents occur more often than we think in today's busy fuel operator world. But can go undetected or unreported for some time at an average gas station. Why is that so?

There are many technical reasons that a fuel dispenser could be dispensing slowly. ►

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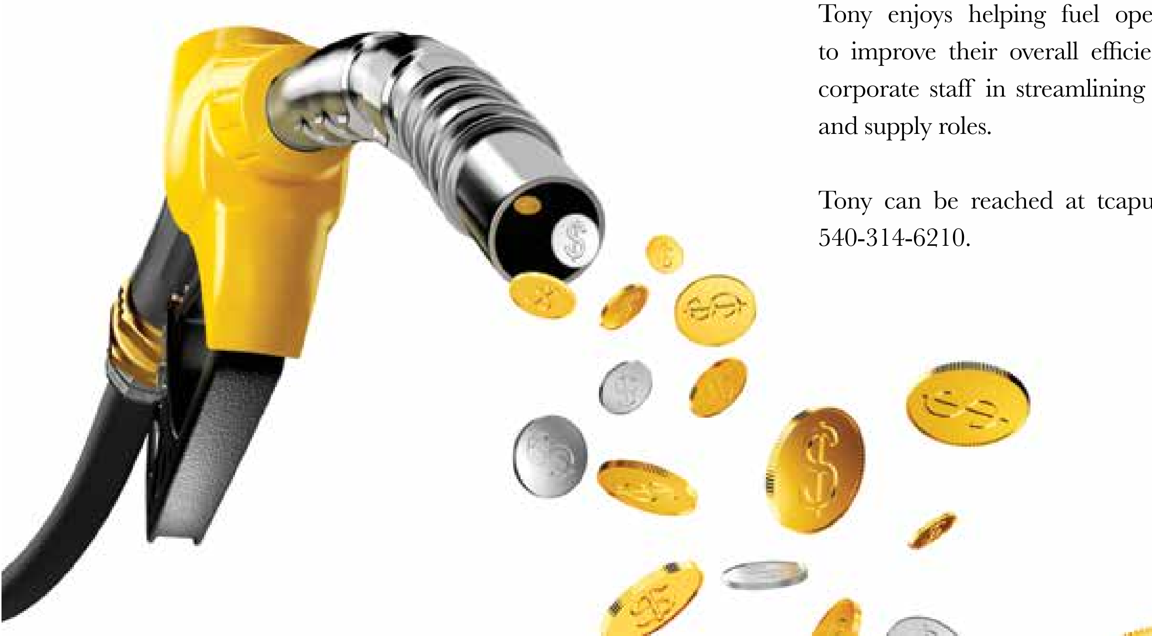
- The dispenser needs a filter change due to water, sediment, lax maintenance, or a multitude of other reasons. This can affect one or all dispensers, depending on the issues at hand.
- The line leak detectors have gone into slow-flow due to the detection of a potential leak or loss.
- The tank submersible pump is under-performing and in need of repair. This is more likely to only occur when the site is very busy, often going unrecognized by store personnel. Or, due to manifold or tank siphoning issues, where applicable.
- The dispenser could need additional repair to its hardware, software, the hose and nozzle, or emission control system.

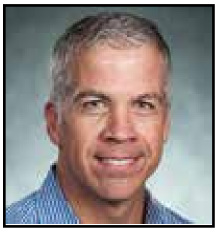
And there are just as many reasons why a dispenser or fuel lane may be blocked or closed off.

Quite often, a fuel operator is dependent on the manual reporting of issues in the forecourt. When slow fueling occurs at the fuel dispensers, frustrated customers may bring it to the attention of store personnel, often the cashier. There may be delays in the cashier's communication of those issues to the store manager until the complaints become overwhelming. At that point, once they are informed, the store manager may be required to report the issue manually via a phone call to the company's maintenance desk, 3rd-party repair company, or input the repair request into a work order repair system. In any case, dramatic delays can occur between when issues begin occurring and when they are finally resolved when using manual detection reporting processes.

Today's technology can give you an edge against your competition while benefiting your customers AND profitability! Remote monitoring applications can provide you with close to real-time flow rates to let you know when a dispenser's flow is not meeting your standard of expectation. You can then attack the cause and change out only the filters in need, often before it becomes noticeable and frustrating to your customers. Dispenser sales can also be electronically tracked, and the operator informed when certain dispensers are not transacting after an expected time range, indicating that a dispenser may be out of service.



In summary, as more and more operators conduct acquisitions and grow their store counts, technology does not always keep pace. Suddenly, you are overwhelmed with customer complaints, excessive and costly emergency repairs, and declining sales. Strongly consider your path going forward by making the proper investments in technology to improve the forecourt experience, staff efficiency, and profitability…...all at the same time! ★



Tony Caputo has worked in the fuel, convenience, and grocery industry for over thirty years, holding a variety of corporate and division leadership positions at The Kroger Co., Kroger SPG & Convenience Group, and EG America. He has extensive background and experience in marketing, merchandising, risk management, fuel management, environmental compliance, and operations. In prior roles, Tony was pivotal in the startup and implementation of The Kroger Co.'s 1,600 location fuel program, including the introduction of the Shell affiliate program and leadership of their national fuel merchandising and on-site marketing programs. Transitioning to EG America, Tony oversaw EG's US corporate risk and environmental programs for 1,100 convenience locations.

Tony joined the Warren Rogers' team in 2020 and supports the growth of Warren Rogers and lending insight into the continued development of their advanced wet-stock management tools. Tony enjoys helping fuel operators better understand ways to improve their overall efficiency in the forecourt and assist corporate staff in streamlining their compliance, maintenance, and supply roles.

Tony can be reached at tcaputo@warrenrogers.com and (M) 540-314-6210.

Opportunities and Risk with New Gasoline Specifications in Midwest

BY BRIAN L. MILNE, DTN EDITOR, ANALYST

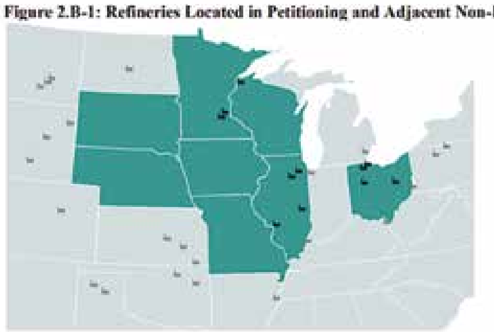
The Environmental Protection Agency on February 22 announced a final ruling granting eight states in the Midwest their petitions to remove a gasoline volatility waiver, clearing the way for year-round E15 sales in 2025. EPA a year earlier on March 1, 2023, had signaled its intent to grant the request by eight governors following a public comment period, although the implementation date was uncertain, with concerns a start date this year would lead to supply shortfalls and sharply higher retail prices. No doubt those concerns ahead of the U.S. presidential election factored heavily into delaying implementation to April 28, 2025, to the disappointment of ethanol producers.

Nearly two years earlier, the governors of Illinois, Iowa, Minnesota, Missouri, Nebraska, Ohio, South Dakota, and Wisconsin used their authority under the Clean Air Act to formally petition EPA for the removal of the 1-pound per square inch volatility waiver for E10, which results show increases emissions in their states. Under the CAA, governors can request a change in gasoline specifications if they can prove the change would reduce pollution.

The concerted effort by the states, where most of the ethanol production in the United States occurs, was born out of frustration in an inability to expand greater consumption of the blendstock. E15 sales are largely prohibited during the summer driving season outside of the federal reformulated gasoline zone and certain regions of the country working with the EPA to reach attainment with the CAA through a State Implementation Plan because it violates the 9psi RVP summer volatility standard. Ethanol increases RVP. For more than 40 years, E10 was granted a 1psi RVP waiver by U.S. Congress, but that allowance was not extended to E15. On July 2, 2021, in striking down an EPA decision granting E15 the waiver during the Trump Administration, the U.S. Court of Appeals for the District of Columbia Circuit was unequivocal that only Congress has the authority to extend the waiver beyond E10. The Nationwide Consumer and Fuel Retailer Choice Act, a proposed federal legislation which would allow E15 sales year-round, has stalled in Washington.

The ruling is consequential, requiring two new fuel types, regular and premium, during the summer season that affect the quality and supply of gasoline beyond the petitioning states in the highly interconnected gasoline distribution system. There are 11 refineries in the states that petitioned for ending the waiver, and 29 refineries located in states that border the petitioning states. Refineries farther away from the region could also decide to produce the new 8psi RVP gasoline blendstock, namely in Texas, which are connected to the region by pipeline. ▶

Figure 2.B-1: Refineries Located in Petitioning and Adjacent Non-Petitioning States[3]



"Refineries providing fuel to the petitioning states would have to modify their summertime production operations and potentially add capital equipment to accommodate the 1-psi lower RVP standard in the summer," said EPA.

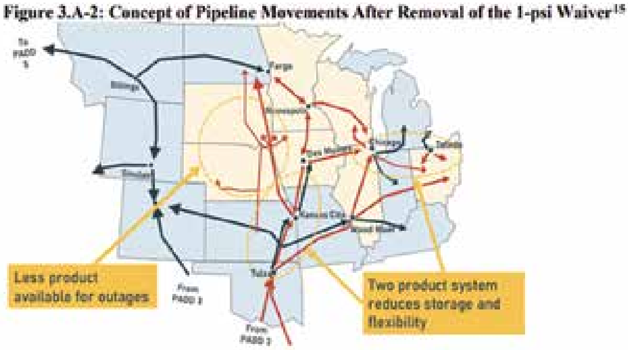
EPA estimates 30,000 to 80,000 bpd of gasoline production could be lost in implementing the ruling as refineries seek to produce the lower 8psi RVP CBOB by reducing butane, which they estimate results in a 2% loss from the gasoline yield compared with producing 9psi RVP CBOB. Lost gasoline production could be greater for refineries that do not have the ability to remove or store butane, requiring pentanes or NGLs to be removed which could lead to as much as 10% loss in gasoline production. Refineries processing heavy crude are also challenged in producing the low-RVP gasoline.

A refinery risks having a stranded asset if they spend capital for a debutanizer column to remove more butane to provide lower-RVP gasoline should Congress decide to pass legislation granting E15 the 1psi RVP waiver nationally, or if a governor of a petitioning state seeks to reinstate the 1psi RVP waiver. This might occur should the removal of the waiver lead to supply shortages and price spikes.

"If refiners and fuel distributors are concerned that any capital investments could be stranded, they are less likely to invest in them even if they have sufficient time to plan for such investments," said EPA.

By dividing the fuel market, significant operational changes by pipeline systems would be required, including smaller batch sizes and changes in scheduling, and potentially cutting off historic supplies from some sources.

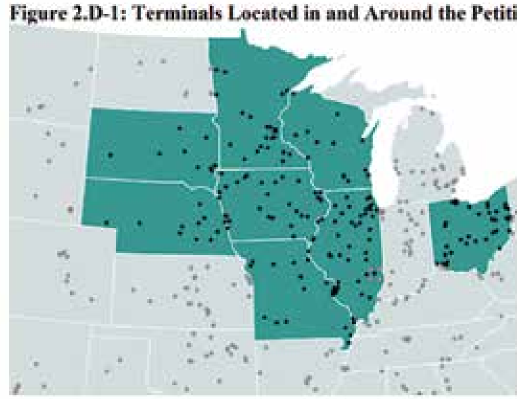
Figure 3.A-2: Concept of Pipeline Movements After Removal of the 1-psi Waiver[15]



"Having the wrong fuel grades in the wrong volume can result in an inability for the pipeline to move fuel in and out of tankage as needed, which, in turn, can result in significant supply disruption not only for the gasoline grade in question, but also for all of the fuels shipped on the pipeline," said EPA. "For the longer term, due to the bifurcation of the market into different grades, some areas in the petitioning states may lose redundancy for supply, which may then lead to more frequent shortfalls in supply during times of disruption (e.g., refinery fire, pipeline outage, hurricane, etc.)."

EPA notes there are an estimated 250 large gasoline refined product terminals in the petitioning states with a storage capacity of at least 50,000 barrels per terminal. There are roughly another 100 smaller fuels storage and transfer facilities or bulk plants that serve more sparsely populated areas, 110 breakout tank terminals located in the petitioning states, and more located outside this area that serve both petitioning and non-petitioning states. All terminals would be impacted to some extent, with the "more challenging transition in the spring from winter gasoline to summer gasoline, particularly in the first year," said EPA.

Figure 2.D-1: Terminals Located in and Around the Petitioning States[11]



Terminals "blend down" remaining winter grade gasoline amid the transition, which could prompt pipelines and terminals to request even lower RVP gasoline, potentially as low as 6psi RVP. Terminals would also likely drain tanks to as low as possible, especially those located near petitioning states, which could lead to timing constraints.

Moving fuel by truck from the terminal to retail outlets outside the petitioning states could also incur "considerable stress" on operations if product is limited to the lower RVP fuel grade. "In some cases, this would be expected to increase the distances traveled, which may in turn require the purchase of additional tank trucks and hiring of additional drivers," said EPA.

"The decision to focus on a particular market or fuel type may also be dictated by a fuel marketer on the retail side," said EPA, while noting whatever the decision, it could impact fuel supply, cost, and price for both markets. ▶

Table 3.B-1: Conventional Gasoline Volume in the Petitioning States in 2021 (kgpd)[21]

State	March	April	May	June	July	August	Average
Illinois	3,987	4,182	4,275	4,300	4,373	4,354	4,245
Iowa	3,326	3,699	3,786	3,871	3,850	3,815	3,724
Minnesota	5,344	5,814	6,423	6,781	6,730	6,640	6,289
Missouri	5,405	5,711	5,793	6,009	6,071	5,880	5,811
Nebraska	2,158	2,345	2,404	2,570	2,497	2,485	2,410
Ohio	12,623	13,146	13,584	13,634	13,718	13,880	13,431
South Dakota	1,114	1,188	1,253	1,425	1,481	1,394	1,309
Wisconsin	3,908	4,334	4,733	5,047	5,136	4,973	4,689
Total	37,900	40,400	42,300	43,600	43,900	43,400	41,900
Adjusted Total	**35,800**	**38,200**	**39,900**	**41,200**	**41,400**	**41,000**	**39,600**

[a] Total volume adjusted by the 5% increase and 10% decrease discussed earlier in this section to account for: (1) The underestimate of the prime supplier sales volume data compared to the product supplied volume data; and (2) The volume of ethanol in the reported gasoline volume.

Table 3.B-2: Conventional Gasoline Volumes in Adjacent Non-Petitioning States in 2021 (kgpd)[22]

	March	April	May	June	July	August	Average
Arkansas	3,903	4,144	4,147	4,160	4,237	4,074	4,111
Colorado	5,703	5,896	6,099	6,456	6,675	6,571	6,233
Indiana	6,786	7,296	7,260	7,467	7,542	7,499	7,308
Kansas	4,330	4,494	4,596	4,812	4,743	4,617	4,599
Kentucky	4,649	4,924	4,973	5,007	5,100	4,970	4,937
Michigan	11,207	11,281	12,084	12,415	12,626	12,776	12,065
Montana	1,814	2,036	2,191	2,611	2,715	2,504	2,312
North Dakota	914	972	1,013	1,142	1,101	1,044	1,031
Oklahoma	5,556	5,664	5,710	5,825	5,842	5,673	5,712
Pennsylvania	6,698	6,952	7,215	7,508	7,549	7,512	7,239
Tennessee	9,255	9,816	9,828	9,828	9,947	9,898	9,762
West Virginia	1,799	1,809	1,829	1,823	1,874	1,834	1,828
Wyoming	824	901	1,006	1,235	1,268	1,175	1,068

"Approximately 75 such terminals are located close to the borders (i.e., 30 miles) between petitioning states and non-petitioning states. These terminals are more likely to provide gasoline in both types of states and would need to change their gasoline distribution patterns if they lack extra tankage to handle lower RVP gasoline grades," said EPA. "Since terminals can serve gasoline markets up to 200 miles away, the number of terminals impacted could be significantly greater."

Where the supply of low-RVP gasoline is limited, prices would increase sending a market signal to move more supply to the location. As a result of the capacity constraints in both low-RVP gasoline production and distribution, EPA believes some low-RVP gasoline, "potentially a significant amount," will need to be supplied to at least part of an area in non-petitioning states adjacent to petitioning states.

"Ideally this sorting out would occur as contracts are established for supplying different gasoline markets in advance of the summer season," said EPA. "It is unlikely, however, that the supply of low-RVP gasoline to every single gasoline market in the petitioning states can be sorted out in advance."

In consultation with the U.S. Energy Information Administration, EPA calculates conventional gasoline demand volume in the eight petitioning states averaged 39.6 million gallons per day

in 2021 from March through August when refineries would need to produce low-RVP gasoline. The limitations of the fuel distribution system just described, which would be most acute in the first year without the RVP waiver, EPA expects some low-RVP gasoline in bordering non-petitioning states. Gasoline demand volume in those states during the same six-month period in 2021 is calculated at 68.205 million gallons per day.

EPA estimates the highest impact to adjacent non-petitioning states is to those with two borders with the petitioning states -- Indiana, Kansas, Michigan, and North Dakota. The impact to single borders states is 25% or less than the two border states, which include Arkansas, Kentucky, Pennsylvania, West Virgnia, and Wyoming. The estimated impact scenarios fade over time as the fuel distribution network adjusts to the multiple fuel types.

"If fuel distributors find it infeasible to distribute low-RVP gasoline solely to the petitioning states without also distributing low-RVP gasoline to non-petitioning states, and refiners can produce more low-RVP gasoline even if doing so is at a higher cost, we expect the impacted volumes will be towards the high-impact scenario," said EPA.

The estimated daily volume of low-RVP gasoline in both petitioning and non-petitioning states in a low impact scenario is 45.9 million gallons, and 67.1 million gallons in a high impact scenario. ★

(Maps and tables sourced from EPA)

Brian L. Milne is a 27-year veteran of the energy industry, serving in multiple roles at DTN including Editor and Analyst. Milne has delivered dozens of presentations on a wide range of topics discussing energy markets, and has been quoted widely in the media, including the Wall Street Journal, Barron's, USA Today, Newsweek, CNN, National Public Radio, and major regional news outlets. He has authored numerous articles for international magazines, exploring market dynamics and providing forward-thinking commentary and analysis. Milne graduated Monmouth University in New Jersey with a B.A. in History and an Interdisciplinary in Political Science (Magna Cum Laude).

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2023 Vehicle Market According to the Data

BY JOHN EICHBERGER, TRANSPORTATION ENERGY INSTITUTE

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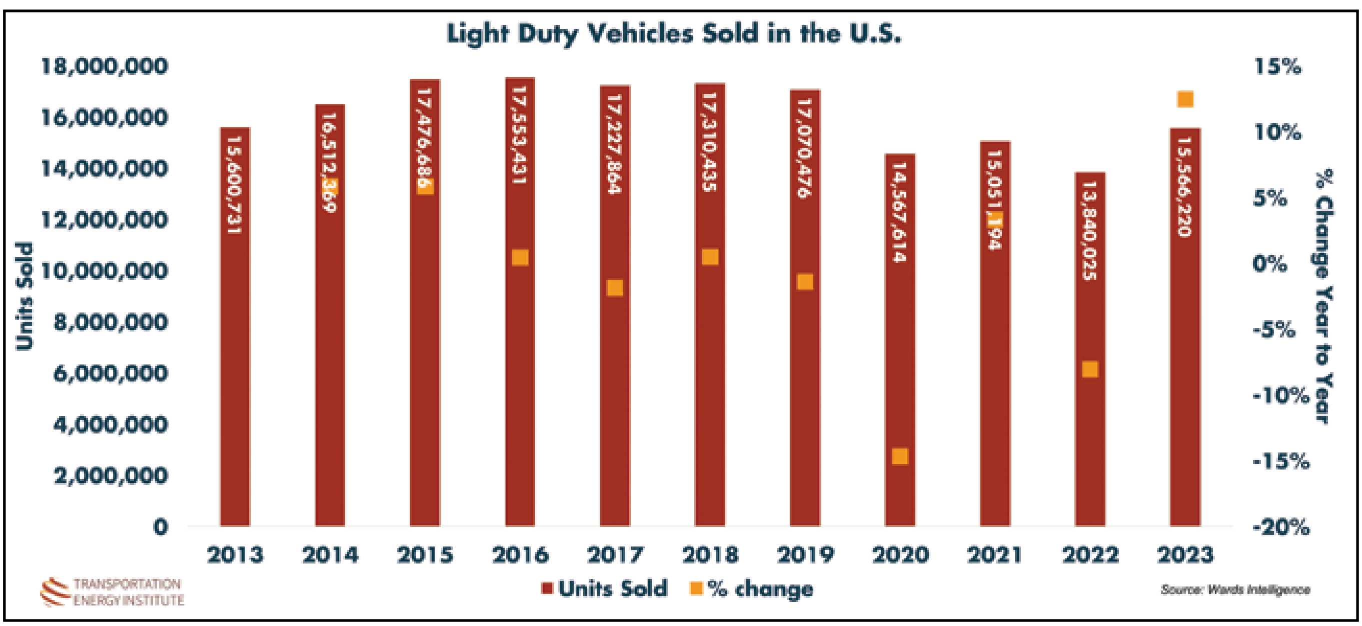
With 2023 in the rear-view mirror, it is worth it to take a look back and see how much the light duty vehicle market has changed, or perhaps remained the same. Let's take a look:

Total Vehicles Sold

After eclipsing 17 million units sold in each of the five years preceding COVID, sales in the light duty vehicle (LDV) market slowed considerably. The effect of COVID was exacerbated by supply chain challenges in subsequent years. In 2023, the market grew by 12.5% over 2022 and came close to sales levels recorded in 2013 at 15.6 million units sold. Meanwhile, the price of new vehicles sold came down slightly (2.4%) from December 2022 to 2023, but still came in very close to $50,000. By comparison, the average U.S. household income in 2022 was $74,580 per the U.S. Census Bureau. ▶



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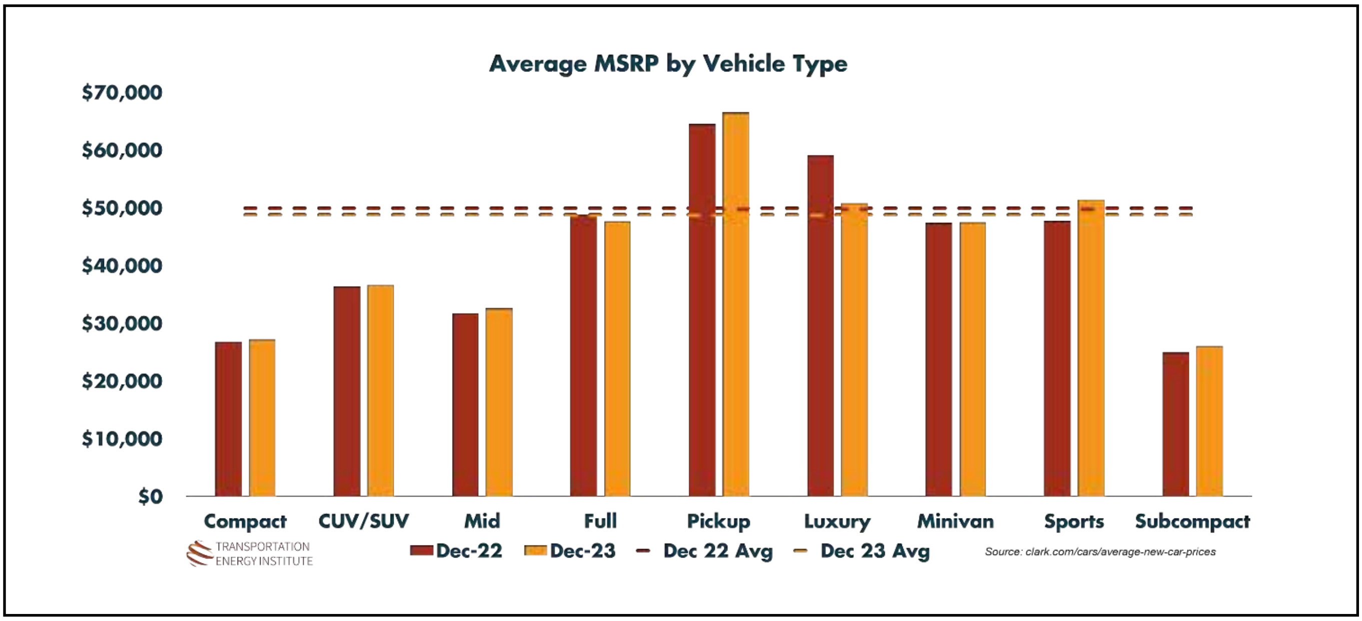
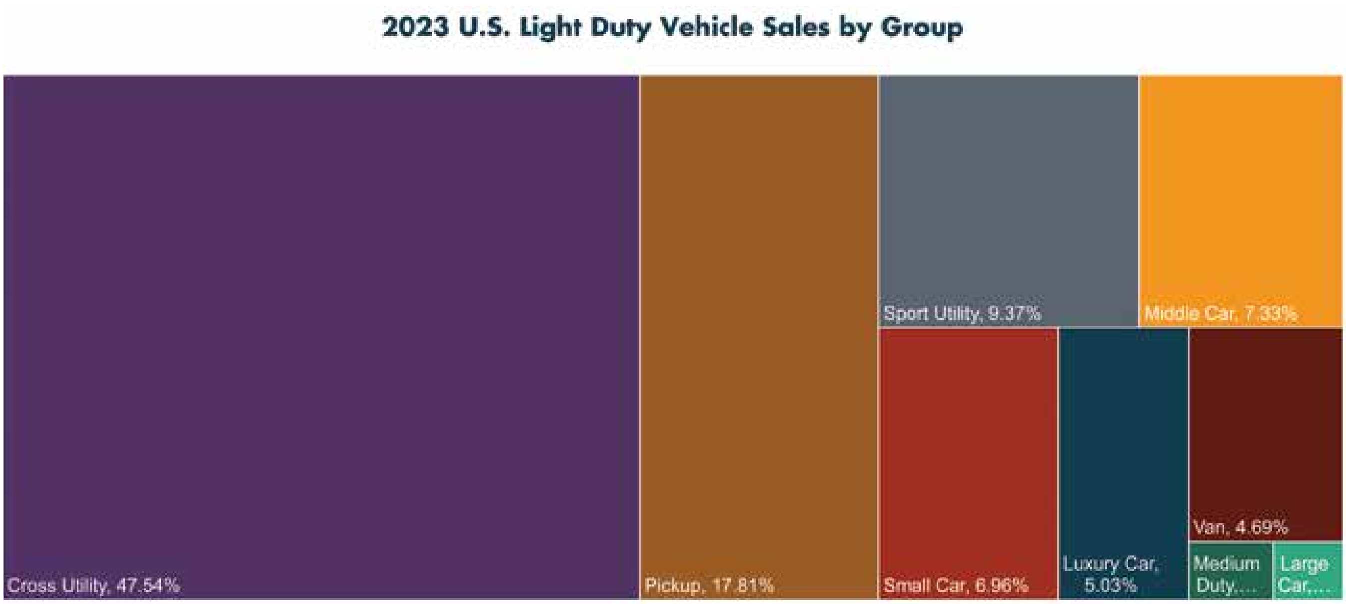


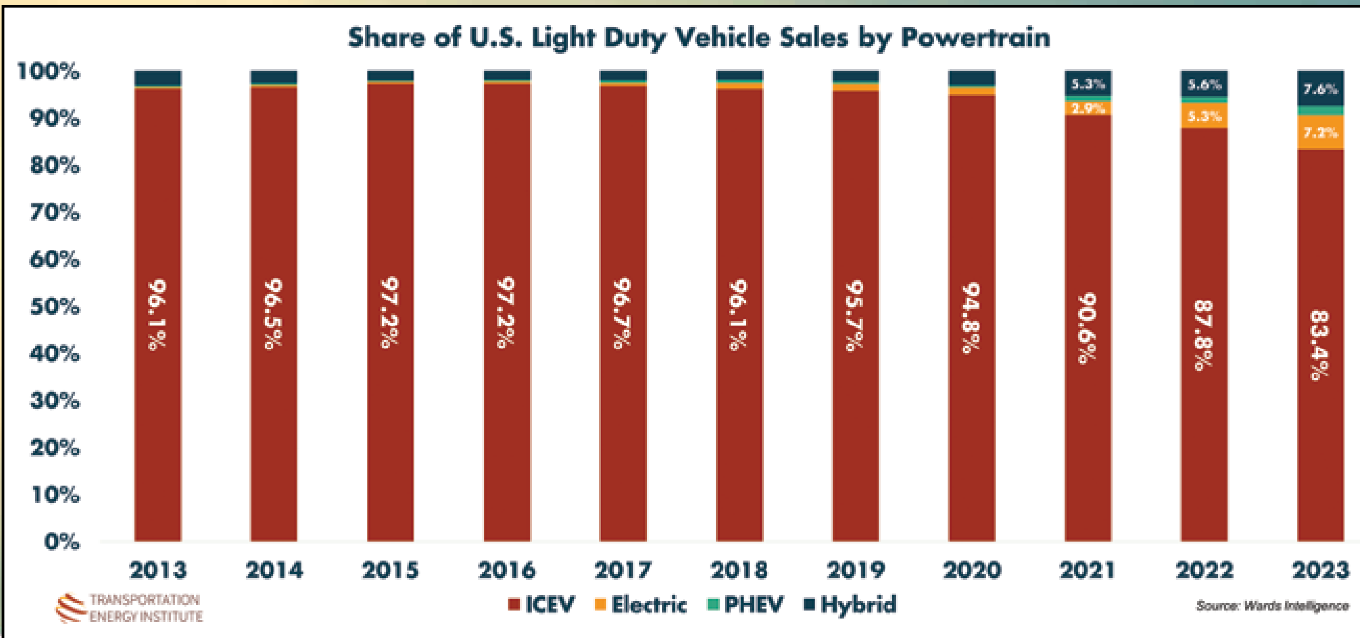
Sales of LDVs by Group

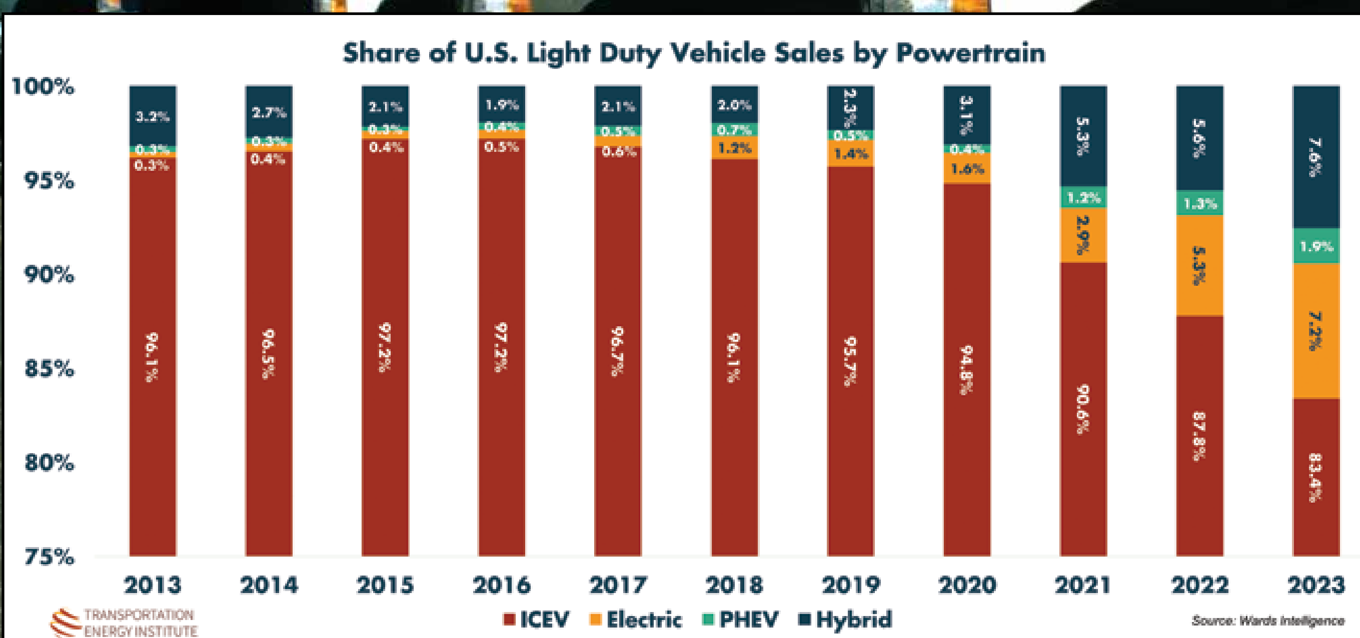
Consistent with prior years, Americans continue to prefer their larger vehicles. Cross-over utility vehicles remain the dominant vehicle type with 47.5% share of the market. But when combined with pickup trucks and sport utility vehicles, these larger format vehicles overwhelmingly dominate the market with 74.7% of all LDVs sold in 2023.



Sales of LDVs by Powertrain

The dominant powertrain sold in 2023 remained the internal combustion engine (ICE), although market share for ICE-only vehicles has declined significantly, down 14% since its peak in 2016. When looking at the market as a whole (e.g., on a 0% - 100% axis), it can be difficult to discern what has specifically taken share away from the ICE. But when you zoom into the data, you can see that a combination of hybrid electric vehicles (HEV) and battery electric vehicles (BEV) have captured 14.9% share of LDV sales. Still, in 2023 vehicles equipped with an ICE represented 92.8% of vehicles sold. ▶





ICE Vehicle Sales

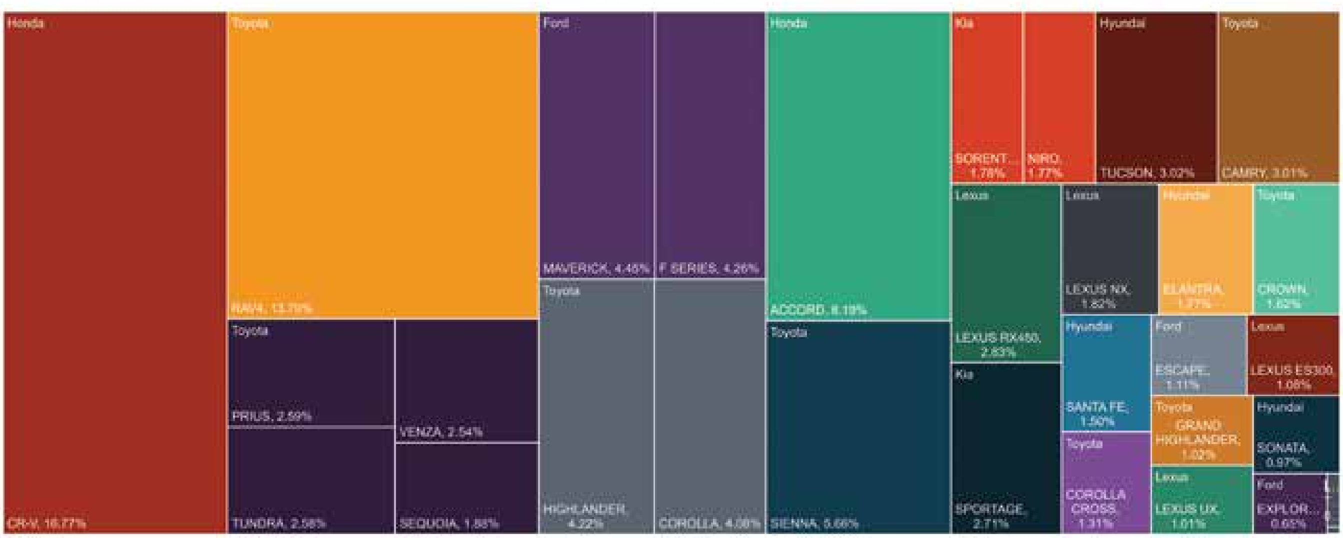
The largest share of the LDV markets remains the internal combustion engine vehicle. With 289 unique models recording a sale in 2023, this vehicle type boasts the broadest selection of options from which consumers may choose. It also appears to be the most competitive, with 40 models recording more than 100,000 units sold and the top three models (F150, Silverado, and Ram) accounting for 12.2% of sales.

2023 U.S. Combustion Engine Vehicle Sales by Market Share
(only showing models with 1% or greater share)

Hybrid Electric Vehicles

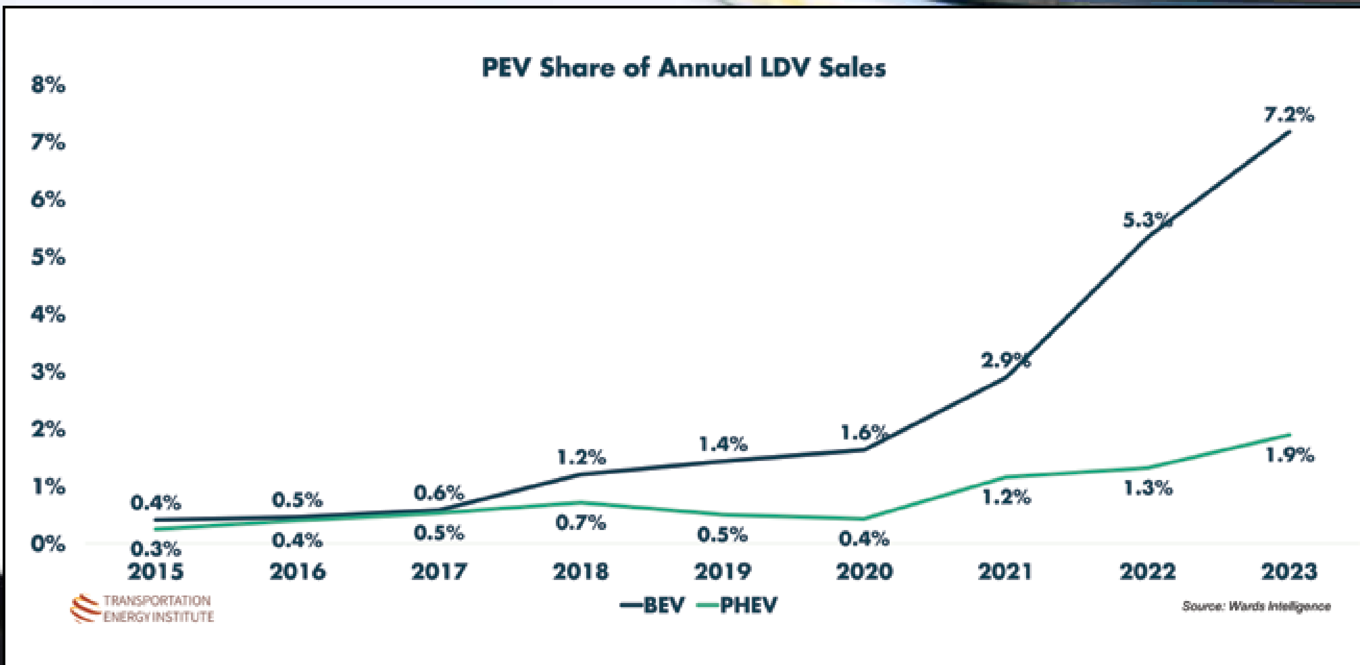
The hybrid electric vehicle market has grown significantly in recent years, increasing its market share from less than 2% in 2018 to 7.6% in 2023. Last year, there were 35 HEV models sold in the United States in a fairly competitive manner. There were 14 models that recorded at least 30,000 units sold and the top three models (CR-V, RAV4, and Accord) accounted for 38.7% of sales.

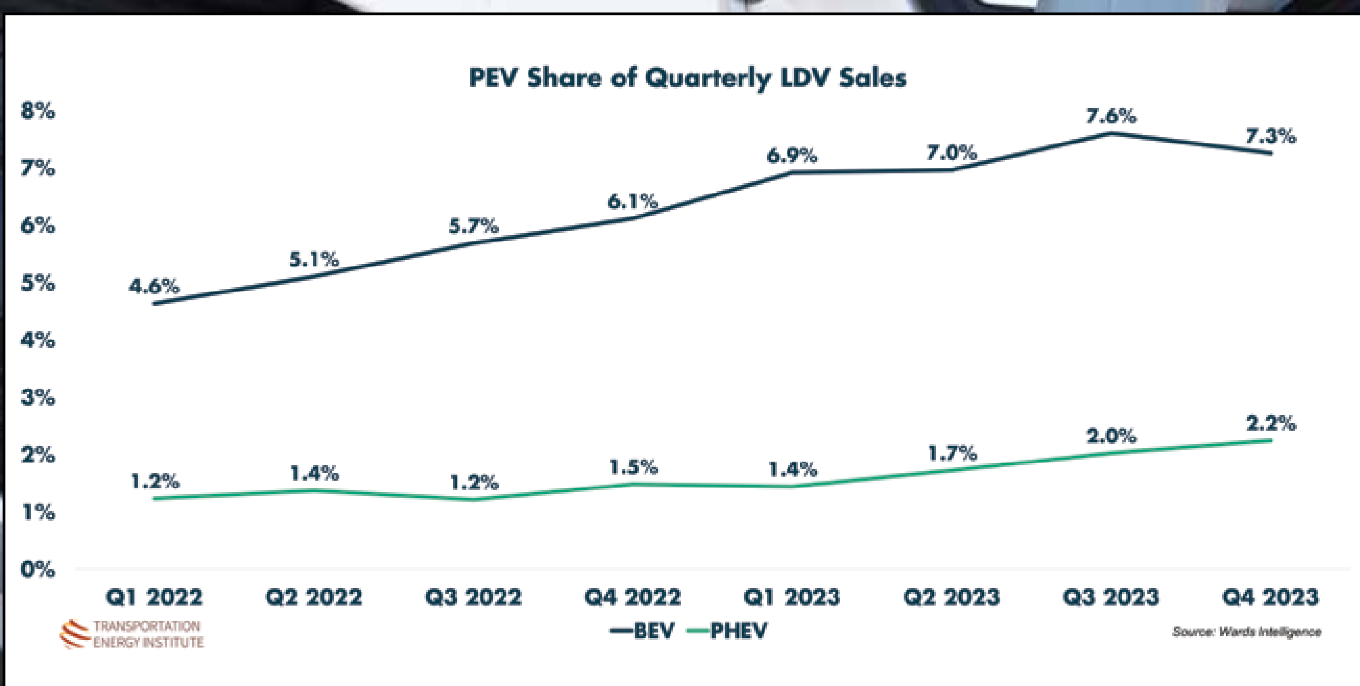
2023 U.S. Hybrid Electric Vehicle Sales by Market Share



Battery Electric Vehicles

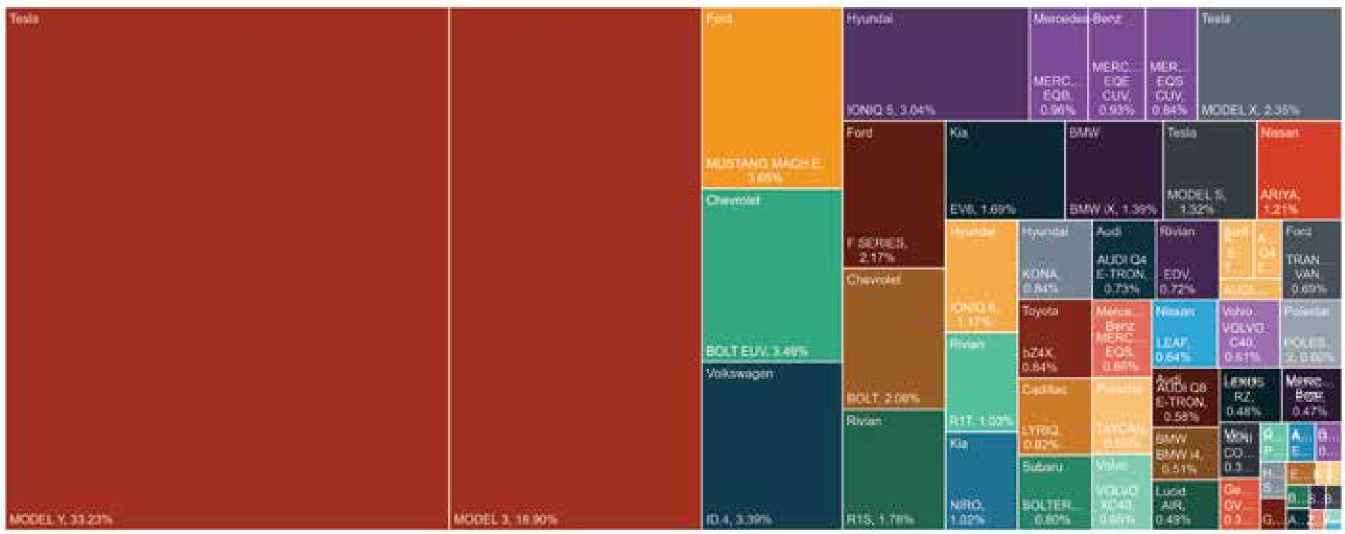
There is no vehicle type that gets the attention afforded to battery electric vehicles. Every day there is a new story about sales, manufacture, battery technology, policy initiative, etc. This has led to some misperceptions. In a survey conducted in September 2022, Americans believed that 20% of vehicles in operation and 24% of those sold the prior September were electric vehicles. This is far from reality, although growth in this sector has been very strong. As the first chart shows, market share has jumped from 1.6% in 2020 to 7.2% in 2023. Yet as the second chart shows, sales growth recently has slowed. ▶





When we look more closely at 2023 sales data, there are a variety of key observations. EVs nearly doubled the number of HEV models sold, with 61 unique models recording a sale. However, sales were much more concentrated. Only six models recorded sales in excess of 30,000 units and the top two models accounted for 52.1% of all BEV sales.

2023 U.S. Battery Electric Vehicle Sales by Market Share

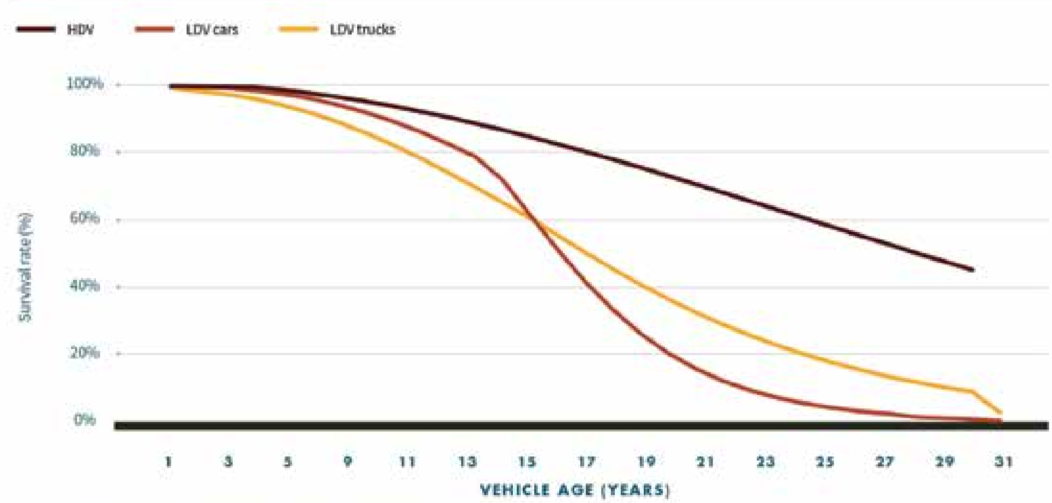


Conclusion

Data is very important to understanding how the market will evolve. Headlines, announcements, and political speeches are very entertaining, but to best understand what is actually happening we must look at the data and assess it in the most meaningful way possible.

One key point to consider is this: according to Oak Ridge National Laboratory, 50% of light duty vehicles sold today will remain in operation in 16 years and some will remain on the road for much longer. This affects the rate at which the vehicle market may transition to look different than it does today. Keep that in mind when digesting the news and anticipating how vehicle market developments might affect your business. ★

FIGURE 5. VEHICLE SURVIVAL RATE FOR CARS, TRUCKS, AND HEAVY-DUTY TRUCKS



Source: Oak Ridge National Laboratory Transportation Energy Data Book Edition 40, *Tables 3.14, 3.15, 3.16.*

John Eichberger is Executive Director of The Fuels Institute, a non-profit, independent think tank founded and managed by NACS, the association for convenience and fuel retailing. Drawing diverse stakeholders from the vehicle and fuels industries, the Institute encourages multi-industry collaboration and produces credible, independent analytical reports to better inform business leaders and policymakers about opportunities and challenges in the vehicles and fuels markets.

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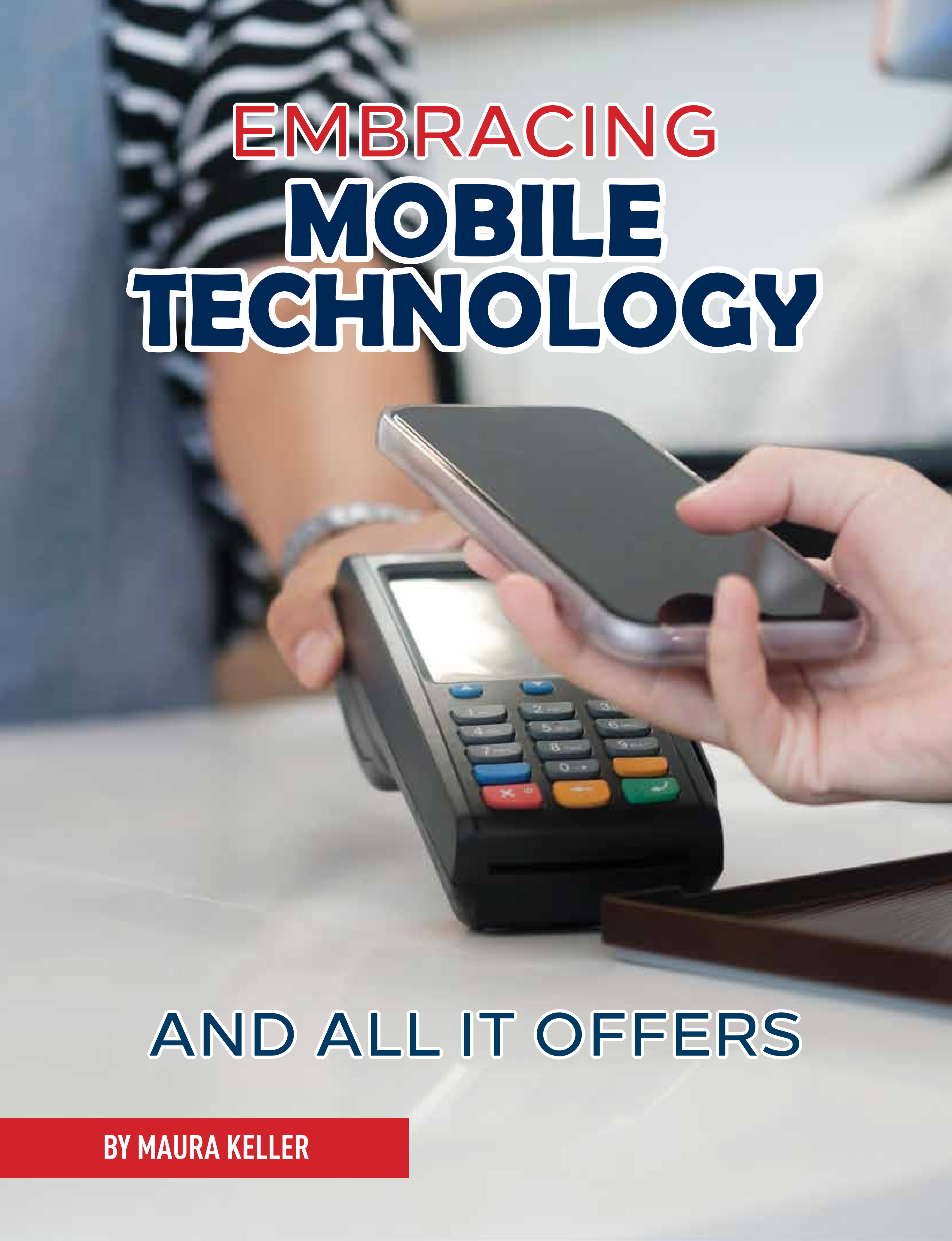

BY MAURA KELLER

In today's retail landscape, mobile interactions via apps – such as ordering, pick-up, and payments – have become mainstream for consumers. For leading convenience store brands, mobile technology serves as a primary platform to host their loyalty programs.

However, these retailer apps have yet to fully engage their consumers. According to Dave Poulnot, vice president of multi-vertical sales at Upside, only 35% of consumers belong to a fuel or convenience store loyalty program, and only 52% of those individuals enrolled in such programs access them through a mobile app. This indicates that there is a substantial opportunity to reach new audiences by making mobile tech more enticing in the c-store space.

"The integration of mobile technology into convenience store operations is revolutionizing the retail landscape, offering an array of benefits that enhance both consumer experiences and operational efficiency," Poulnot says. "Traditionally, convenience retailers relied on customers noticing physical signage to attract them to the store."

However, as Poulnot explains, in today's digital age, these retailers are increasingly leveraging mobile platforms to engage new customers and personalize their shopping journeys. For instance, retailers can now tailor item-level offers to individual preferences, enticing customers to explore beyond their usual routes and fostering stronger connections with each shopper.

"It's about creating a welcoming environment where every visit feels uniquely catered to the individual, enhancing overall customer satisfaction and loyalty," he says.

Michael Jaszczyk, CEO of GK Americas, agrees that the gasoline marketing industry has seen rapid evolution in the use of mobile technology in the c-store space. As customers demand convenience and speed, c-stores have turned to increasingly advanced POS options like mobile payment, order ahead, cashierless checkout, and even self-scanning in addition to already prevalent self-checkout options.

"These innovations revolve around the simple idea of making it as easy and quick as possible for customers to get what they need and get back on the road," Jaszczyk says.

Blake Smith, CEO and Founder of SQRL, a food and fuel retailer with more than 350 locations throughout 14 states, also has seen the evolution of mobile technology significantly impact the industry in recent years. Mobile payments and wallets have been the most obvious.

"The adoption of mobile payment methods, like Apple Pay and Google Wallet, has become more prevalent in our stores and at the pumps," Smith says. "Customers appreciate the convenience and speed of paying through their smartphones. This has not only streamlined transactions but also enhanced security measures for both customers and our business."

Loyalty programs are another big one for the industry. SQRL is launching the SQRL app and rewards program later this year and expects it to be a big part of how they engage with, and better understand, customers. They'll use data analytics to understand buying patterns and preferences, enabling SQRL to tailor promotions and rewards.

"This personalization will help strengthen our customer loyalty and increase repeat visits," Smith says. "On the business side of things, there is a lot of data that has become available from the prevalence of cell phones. For example, foot traffic data is available because of cell phones and this data is a key component of site selection."

"Across all industries, consumers are now trained to recognize QR codes and text-in programs – take, for example, the new menus at your local restaurant. To me, this signals a 'mobile first' mentality, which consumers are accepting," says Brian Lind, vice president of product strategy and partnerships at PDI Software.

This shift has given convenience retailers a better opportunity to engage in targeted marketing, to strengthen their loyalty programs, and drive people into the store from the pump. Lind expects a continued focus on using mobile tech like payment programs, geo targeting and push notifications, and media networks to continue to foster the growth of digital loyalty in the c-store.

Mobile Tech Features That Reward

Many retailers are now, more than ever, buying into the value exchange of loyalty. Inside and outside of the store this will look like in-app access to payment and access to clubs and discounts only available through an app.

Lind points out that in the c-store, with such a strong presence of the 21+ category sold in-store, the drive to digital is also being fostered by things like age and identity verification and direct-to-consumer marketing, which can only really succeed with a strong digital platform.

"Retailers should embrace these programs, because while in-store signage and team training will always be extremely important, converting to digital allows us to foster a 1:1 relationship with a consumer in a scalable and automated fashion," Lind says. "Said another way, we should expect that many future loyalty offers and promotions funded by CPGs through c-store will require mobile technology in one way or another." ▶

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According to a Upside survey, among those who belong to a fuel or c-store loyalty program, 74% indicate membership in at least one other fuel or c-store loyalty program. “Because consumers are willing to shop around, c-stores need mobile technologies that set them apart from rivals,” Poulnot says.

So what makes these loyalty programs truly stand out within mobile tech used in the retail space? Quite simply, prioritizing personalization and convenience are key drivers of consumer attraction and loyalty. According to Poulnot, mobile tech that provides tailored recommendations, exclusive deals based on individual preferences, and seamless integration with shoppers’ habits can help retailers to distinguish themselves in the market.

“Embracing mobile technology primarily allows c-stores to offer more personalized experiences for their customers,” Jaszczyk says. “Over time, this increases the customer’s loyalty and benefits the retailer’s bottom line, making it a win-win scenario.” For instance, mobile technology makes it easy for customers to pay for what they need quickly and easily, without needing to wait in a line. While that’s happening, Jaszczyk says retailers can offer personalized promotions and recommendations to encourage spending and improve the overall experience for the customer. Plus, the increasing adoption of EVs will bring in more mobile-savvy users, creating an opportunity for c-stores to capture a new customer segment.

“More and more convenience stores are looking to offer loyalty programs and personalized discounts to engage with customers and take full advantage of the fact that shoppers are likely using their phones before, during, and after a purchase,” Jaszczyk says. “Loyalty programs are growing in popularity across industries and formats, and it’s because the concept works. Mobile technology makes it possible for convenience stores to offer easily accessible discounts and rewards that make the customer feel more valued. Whether traveling, on the way to work or charging their vehicle, this makes it more likely that a customer will stop at one convenience store brand over another.”

In Smith’s opinion, embracing mobile technology in c-stores offers retailers a multitude of benefits, including enhanced customer experience through speedy, convenient transactions and personalized services. As he points out, valuable data gleaned from mobile interactions allows for data-driven insights into consumer behavior and enables effective marketing strategies. “Retailers can increase sales with targeted promotions, improve customer loyalty programs, and gain a competitive edge in a tech-savvy market,” Smith says.

Mobile payments are the most prevalent aspects of mobile tech that consumers have fully embraced. Order-ahead and delivery services have seen a surge especially post-COVID-19, catering to customers seeking time-saving solutions. ▶

"Also, digital coupons have become very popular," Smith says.

Embracing Challenges

The gasoline and oil industry's fragmented ownership structure, coupled with the franchise model via oil majors, presents some hurdles to differentiation amongst consumers who are eager to use the mobile technology that is taking the retail industry by storm.

"Additionally, the prevalence of legacy hardware, and in some cases, the absence of software altogether, compounds the challenges associated with adopting new technologies," Poulnot says. This often leads to labor-intensive processes that disrupt ground-level operations.

Fortunately, a promising solution to these obstacles lies in leveraging anonymous transaction log (tlog) data in lieu of traditional point-of-sale (POS) data.

"By embracing this approach, businesses can streamline the transition of technology to the cloud, bypassing the need for direct integration with on-site systems," Poulnot says. "Finally, it can help minimize disruptions, enabling operators to focus on delivering exemplary site-level execution and enhancing overall customer experiences."

Jaszczyk suggests that the biggest aspect that retailers need to get right when it comes to implementing mobile technology is to unify the customer experience across all touchpoints, including mobile payments. If implemented properly, he says mobile technology helps customers buy what they need faster and more efficiently.

"When customers can have the same, seamless experience with mobile payments that they can get in the store or via self-checkout, customers will be encouraged to keep using all channels," Jaszczyk says. "If the experience is clunky, missing elements like connected fuel and in-store rewards, or otherwise not implemented properly, the customer will leave with a worse experience than if they utilized traditional checkout options."

For SQRL, some of the challenges with mobile technology are integrating it with existing systems, ensuring data security, keeping up with rapid tech advancements, getting customer adoption, and training staff.

"Despite these hurdles, the industry has seen success," Smith adds.

Continued Efforts

Poulnot says the rapid expansion of mobile technology in the c-store sector will play a decisive role in determining future winners and losers. Channel blurring and mergers and acquisitions are accelerating, with both independents (such as Circle K, 7-Eleven, Wawa, and KwikTrip) and big boxes (like Costco and Sam's Club) rapidly gaining market share in a shrinking market.

"However, building scalable technology that guarantees a positive return on investment for operators remains challenging, especially given the limited number of consumers willing to download and use an app for only a few purchases each month," Poulnot says. According to an analysis by Upside, only one in five transactions at a top fuel retailer were tied to the brand's loyalty program.

"That's why c-store retailers should consider integrating their business within larger digital marketplaces," Poulnot adds.

While convenience stores really began to embrace mobile technology because of the pandemic, the trend is here to stay, says Jaszczyk. Ultimately, customers like the speed and convenience mobile offers.

"For example, in June, RBR found in their study, Mobile Self-Scanning and Checkout-Free 2023, that the number of stores that allow customers to scan items as they shop – a concept that GK's c-store customers fully support – grew by nearly a quarter last year to over 57,000 locations and estimated that number will triple by 2028," Jaszczyk says. "And that's just one aspect of mobile technology. It's imperative for retailers to capitalize on this trend so they can foster customer loyalty and generate the shopping activities they need to stay competitive."

Smith is quick to note that mobile technology in the c-stores space is definitely here to stay.

"It aligns with the way modern consumers use technology in their daily lives and this will only continue to increase," he says. "Mobile tech is crucial for c-stores to remain competitive and gather valuable customer data for better business decisions."

Lind adds that "between the pressure to continue to drive efficiency as well as build relationships with consumers to create return trips, and Gen Z driving and entering the workplace, mobile tech will become more and more of a table stakes requirement." ★

Inspired Action: PepsiCo's Efforts to Decarbonize North America's Largest Private Fleet

BY SCOTT FENWICK, TECHNICAL DIRECTOR, CLEAN FUELS ALLIANCE AMERICA

One of the largest fleets in North America is making big moves to meet its decarbonization goals. In 2021, multinational food and beverage company PepsiCo announced its new sustainability initiative— PepsiCo Positive. I was able to discuss their plans and implemented practices with representatives from PepsiCo and Optimus Technologies at a main stage session at the recent Clean Fuels Conference.

"It's really about our future, and this transformation is deliberate and strategic, and it puts sustainability right at the heart of how we do what we do," David Allen, PepsiCo's Vice President and Chief Sustainability Officer said. "It's how we're going to grow, how we're going to create value, and how we're going to ensure long term success and bring positive environmental benefits for the planet and all of its people."

The company has set a lofty target— net zero emission by 2040. To meet these climate goals and the needs of its complex fleet, PepsiCo has employed renewable sources like alternative fuels to decarbonize and improve operational efficiency. The shift to renewable energy within all facets of the company's owned and regulated operations, franchise endeavors, and third-party involvements could lead to a decrease of around 2.5 million metric tons of greenhouse gas (GHG) emissions by the year 2040— equivalent to the reduction to removing over half a million cars from the roads for an entire year.

Part of PepsiCo's plan includes energy diversification across its 80,000-asset fleet, and the solution isn't a one-size-fits-all answer.

"We have a very diverse fleet," Adam Buttgenbach, Director of Fleet Engineering and Sustainability with PepsiCo said. "The way that we manage and move those through our supply chain consists of everything from Class 1 through Class 8 vehicles, on highway and off-highway, yard management, material handling equipment. With that very diverse operating cycle that we have, we try to find the best solution that fits the needs ▶

of the business as well as the low carbon energy for that. For the past two decades we've focused on improving the efficiency of our fleet with aerodynamics, low rolling resistance, and also incorporating a lot of alternative fuels."

While natural gas and electric vehicles are part of the solution, so are low-carbon, clean renewable fuels. PepsiCo is using renewable diesel for some of its operations in California and biodiesel in other parts of the country. The company has also partnered with Optimus Technologies for a B100 pilot project.

This project started at PepsiCo's Frito-Lay manufacturing plant in Topeka, Kansas with 10 vehicles. They wanted to test B100's performance in over-the-road operations that traveled in rural parts of the United States, a sector that is traditionally very hard to decarbonize. The success of that pilot project gave PepsiCo the confidence to continue building out the program. There are now several dozen trucks operating on B100 year-round out of Topeka. They are expanding this program in February to include their Wisconsin plant, with plans to scale up throughout the year with a couple hundred more trucks operating on B100.

Because most engines are not immediately equipped to use B100, PepsiCo has utilized the Optimus Technologies Vector System to convert diesel engines to run on 100% biodiesel.

"The technology provides a low-cost pathway to decarbonization that allows fleets to maintain their business resiliency and operations, because we're never inhibiting the engine from running traditional diesel or renewable diesel," said Optimus Technologies CEO Colin Huwyler.

Many different fleets are utilizing this technology to quickly and cost-effectively lower their emissions. Municipalities and commercial groups like PepsiCo are catching on to the here-and-now benefits of upgrading their current fleets to run on B100.

"We need progress not perfection," said Allen. "We need action and progress now. If we wait for a perfect solution, we won't go anywhere, whether we're talking biofuels, whether we're talking agriculture, whether we're talking any of the elements of sustainability and improvement. It's about incrementality, then where do we go from there."

PepsiCo hopes to not just show off their methods for meeting sustainability goals—they want to encourage and empower others to do the same.

"As we look to be a leader in the space, it's not just 'how do we educate and try to advance and show fleets what we are doing,' but how do we help enable them to follow similar goals for decarbonization," Buttgenbach said.

PepsiCo has proven that biodiesel and B100 play important roles in achieving sustainability goals and was recognized with the Clean Fuels Alliance America Inspiration Award at the Clean Fuels Conference 2024. The company is tackling environmental challenges head-on and blazing a trail for fleets to lower carbon emissions now and in the future. ★

SCOTT FENWICK
Technical Director, Clean Fuels Alliance America

What's Your Playbook for Boosting Customer Loyalty?

BY PDI TECHNOLOGIES

Loyalty programs have become table stakes for any convenience stores competing for their fair share of gas and in-store purchases. But simply offering a loyalty program is no guarantee of its success. To truly engage your customers and create sustainable value, you need the right loyalty "playbook" customized to your specific business requirements—as well as your customers' needs.

The first step is recognizing that loyalty is an outcome rather than a program. It's a continual process of building meaningful affinity and trust with your customers. And that means delivering compelling experiences that earn you preferred brand status in their minds so they keep returning to your stores. In this way loyalty goes well beyond transactional rewards to foster an emotional and long-lasting connection to your brand.

Debunking Some Common Myths

Unfortunately, many convenience retailers continue to operate under some persistent myths that can quickly undermine their loyalty-building efforts. Two myths, in particular, continue to linger.

- **Myth 1**: A loyalty program's primary objective is to attract new customers.
- **Reality:** While acquisition has its place, the biggest revenue growth opportunity lies with boosting loyalty participation among your current customers. Studies show that it costs 5X more to attract a new customer than keep an existing one—and just 15% (your most loyal shoppers) likely account for over 50% of your sales.
- **Myth 2:** Investing to engage existing shoppers is unnecessary since they already visit your store regularly.
- **Reality:** PDI consumer purchasing data reveals that returning brand-loyal customers spend on average 67% more than first-time customers. For example, the average driver fuels up four times per month, yet most retailers only get one or two of those fill-ups. As a result, there's enormous potential to capture more of those trips if you can increase brand loyalty.

The key takeaway is that your loyalty strategy should focus on investing on your existing and most loyal customers, rather than treating them like an afterthought as you pursue new customers.

Transitioning from Anonymous to Measurable

Loyalty done right also means transitioning your customers' experiences from anonymous transactions to measurable, personalized relationships. This process requires capturing first-party purchasing data across basket size, frequency, recency, items bought, and other categories.

Bolstered with these customer insights, you can begin to segment shoppers, tailor rewards, promote engagement, and benchmark performance down to granular demographics in a way that benefits both you and your customers. In fact, consumer purchasing data collected by PDI across 20,000 convenience retail sites reveals that loyalty members average 1.5X more store visits and have 29% bigger basket sizes than non-members. ►

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But even if you know why you should step up your loyalty game, you still need a game plan on how to get started. That's where targeted marketing comes into play.

Executing a Game Plan for Success

Successfully developing a loyalty program requires effective communications with both existing members and non-members to drive acquisition, retention, and basket spend. The key is conveying the right message through the optimal channels to each particular audience.

For current loyalty members, you can leverage customer data like contact information, preferences, and historical purchases to deliver tailored offers. You can share these targeted promotions via email, SMS, or mobile push notifications to incentivize behaviors that increase visit frequency and basket size.

In particular, data-driven insights around items purchased, visit patterns, and recent activity can inform relevant rewards that resonate with your customers. And then you can further personalize offers by tracking individual response rates across different communication channels to optimize your outreach approach.

Likewise, you can apply customer personas based on the traits and behaviors of existing loyalty members to influence how you market to potential prospects or existing customers who don't participate in your loyalty program. Benchmarking the differential value between members and non-members can help you understand the financial upside of converting new members and justify your spending on acquisition initiatives.

Tried-and-true loyalty marketing tactics include:

- Email, push, and SMS: Use your customer relationship management (CRM) tools to reach loyalty members, promote exclusive offers, and drive members back to your app to view new offers.
- Mobile app and website: Highlight member promotions to reward active members and generate interest for less-active members.
- Social media: Engage quickly and create relationship-enhancing campaigns through both paid and organic posts—a fast and cost-effective way to track participation.
- Physical signage: Use billboards and offsite signage to reach potential customers and capture shopper attention between store visits. Utilize digital signage to promote your loyalty program and key offers inside your stores.

The key is to deliver contextually relevant messaging across multiple channels and personalize it as much as possible with known customer traits, preferences, and behaviors. This strategic approach can accelerate engagement for existing brand devotees while tempting prospective members with a value proposition that fosters genuine and lasting customer relationships.

Now, It's Your Turn

While the objectives are straightforward, building a holistic loyalty strategy doesn't happen overnight. However, it helps to start with a proven model that can elevate your convenience retail loyalty program to keep your stores full of happy customers.

Discover loyalty best practices by downloading the PDI Loyalty Playbook" today. Discover more loyalty best practices by visiting https://pditechnologies.com. ★

Independent Gasoline Marketing
is published six times a year
by SIGMA, 1330 Braddock Pl., #501
Alexandria, VA 22314

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