

MARKETS

Any way you look at it, the fuel retail market is facing a challenging period. A combination of the impending shift towards electric vehicles (EVs) and fuel cell cars potentially, the emergence of new mobility services like digital ride sharing, and changing consumer tastes regarding retail convenience and personalisation are making running a service station an increasingly difficult business.

So much so, that BCG's analysis of four very different potential scenarios for the future of the fuel retail market – scenarios that range from internal combustion engine (ICE) vehicles remaining dominant to a landscape where EVs and autonomous vehicles (AVs) lead the market – produce a disturbing conclusion. In the worst case scenario, up to 80% of the fuel retailers in certain countries could be unprofitable in about 15 years. And even in the rosier forecasts, as many as 30% of service stations could be in serious trouble if fuel retailers fail to make significant changes to their business models (see **Figure 1**).

To assess the scale and depth of the threat to the fuel retail environment, it is worth examining the potential inevitability of the trends that will most affect it.

Looking ahead

First, gasoline and diesel usage will diminish as demand for electricity and other alternative fuels rises, spurred by national regulations that will require new vehicles to emit little or no greenhouse gases (GHGs), as well as possibly requiring government subsidies for purchasing battery electric, plug-in hybrid electric or hydrogen-fuel cell vehicles. Moreover, as battery costs drop, the automobile makers are gearing up to produce EVs for every segment. It is easy to conclude that by 2030 more than a third of all new vehicles sold will be fully or partly electric.

Second, shared mobility – which today is represented by smartphone hailing businesses like Uber and Lyft – is expected to reduce car ownership, particularly in urban areas. By 2035, BCG projects that shared mobility solutions will account for nearly 20% of on-road passenger miles, reducing the need for private vehicles. AVs, when commercially available, will further accelerate the penetration of shared mobility models. We anticipate that the

Challenging future for fuel retailers

The fuel retail market faces a variety of challenging scenarios according to Boston Consulting Group (BCG) analysts *Chris Biggs, Giuseppe Bonaccorsi, Stuart Groves and Mirko Rubeis*.^{*} However, there are also significant business opportunities in the years ahead, which some will exploit better than others.

market competitiveness of these driverless vehicles and ride-hailing businesses will further improve.

The third trend involves shifts in what consumers are looking for in a shopping experience. Retail customers these days – including people making purchases in forecourt convenience stores (c-stores) – increasingly seek high-quality, fresh and healthy food options; better value; and more attractive store formats. They also want more personalised products and services, and a seamless, convenient experience, including self-service checkout, same day delivery and omnichannel shopping. Forward-thinking retailers are using technological advances like the Internet of Things (IoT) and artificial intelligence (AI) to leverage vast amounts of customer data and more effectively target products and services to individuals. However, service station c-store operations are generally technologically behind the curve of their competitors in the retail segment.

Given the substantial impending drop in demand for gasoline and diesel fuel and a parallel loss of business in their retail operations (which commonly exceeds 50% of turnover), service station operators need to act now to offset the coming decline in their traditional income streams. To achieve this and build long-term competitive advantage, fuel retailers must focus on three transformative steps.

Step 1: Enhance existing offerings and push into new value pools

Investing in ultrafast EV charging stations could appear to be the logical investment. Nevertheless, it will not be sufficient to offset

the decline, since many, if not most, EV users would prefer to recharge their vehicles at home or the office, bypassing the service station completely. There are also several technical challenges to be overcome (in terms of safety, given potential EV charging proximity to hydrocarbons, and the need to bring very high voltage to a broad network of service stations). Fuel retailers should certainly compete in the market for EV charging – but this is only a (limited) part of the equation.

Fuel retailers should also focus on enhancing the overall customer experience, using digital technologies to improve existing offerings, provide new products and services, and increase the sophistication of loyalty programmes and payment solutions.

The elimination of fuel pumps will free-up retail space just as the demand for speedy, often same-day, e-commerce delivery and AV-based shared mobility services ratchets up. Fuel stations can also operate as service hubs for AV fleets, providing overnight parking, charging and repair as well as warehouse shipments for e-tailers and manage their own last-mile delivery networks. To further use their retail space more profitably, fuel retailers should consider reducing vehicle-centric activities in favor of multi-use facilities, offering a broad range of products and services in one convenient location, including, for example, shared office space, medical clinics, laundry and dry cleaning.

At the same time, fuel retailers need to overhaul the c-store concept to keep pace with the rapidly changing retail landscape. Especially in urban locations,

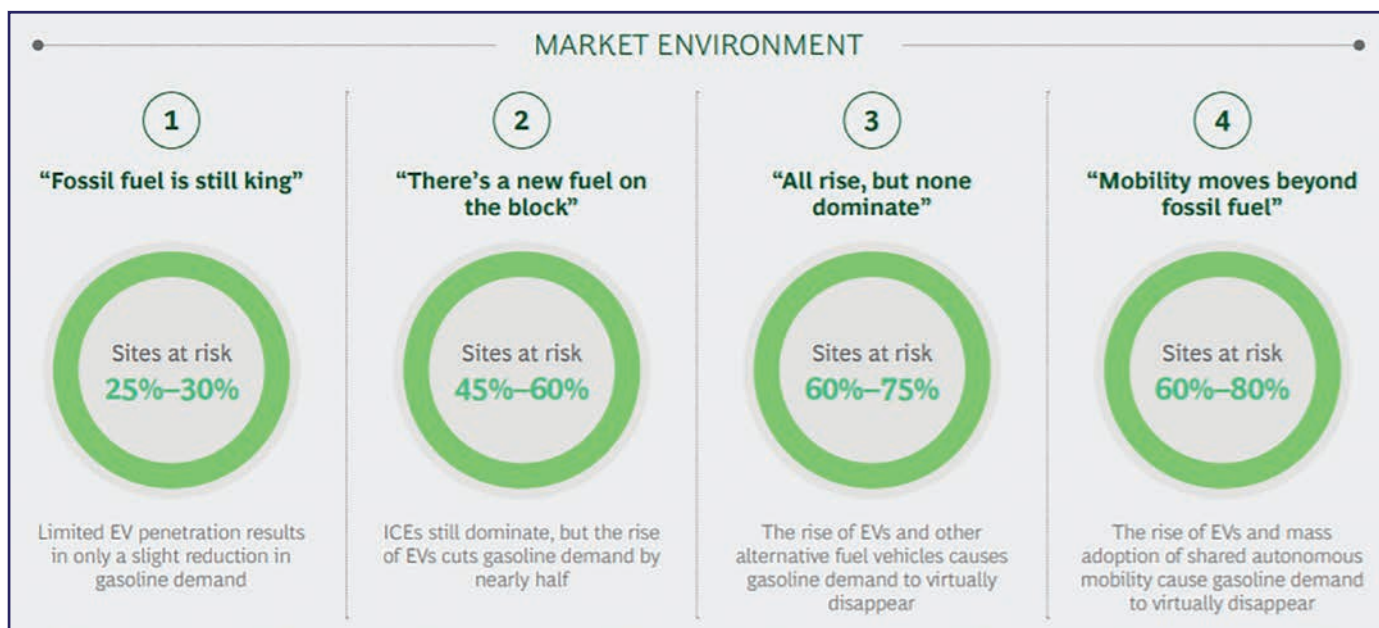


Figure 1: Future scenarios for future fuel retailing market

Source: BCG

c-stores should upgrade their traditional limited offerings (and sometimes poor look and feel) with bright and clean neighbourhood stores selling a wide variety of high-quality products and food-to-go. Fuel retailers should also explore the unmanned store model, which saves money while offering customers a quick and convenient shopping experience. They should also give customers modern options like omnichannel shopping and home delivery. Service stations should also adopt sophisticated data tools to analyse customer c-store and fuel purchases, and use these programmes to design personalised communications, recommendations and special offers.

Step 2: Transform the network and asset portfolio

In order to prepare for the future, fuel retailers must be proactive in consolidating and optimising their service station network in order to extract maximum value from these assets. In assessing their networks, fuel retailers need to move beyond traditional site segmentation approaches, which focus on fuel throughput and demographic attractiveness.

Some of today's best sites may not be profitable in the future, and some previously unattractive sites may become significantly more appealing. For example, unmanned stations that currently generate high-volume fuel sales may be particularly hurt by declining fuel demand. But large, readily accessible though less heavily trafficked stations in suburban

locations may prove to be excellent hubs for last-mile delivery services, AV parking, and new retail space.

To build the new asset base, fuel retailers will need to leverage venture capital, M&A (merger and acquisition), joint ventures and alliances. These financing approaches and partnerships will be critical to building a portfolio of early-stage investments in both new digital products and services.

Step 3: Develop new capabilities and expertise

In order to profit from the change in their business model, fuel retailers will have to master new skill sets. For instance, they need deep data analytic capabilities so that they can better collect and assess customer shopping habits and anticipate their preferences. Fuel retailers will also have to expand their industry and functional expertise in such areas as digital product development, AI, blockchain, IoT and in new verticals like last-mile logistics, AVs and customer personalisation platforms. Embracing these skills, service station operators must attract and retain new talent, including data scientists, user experience designers and software developers.

In addition, fuel retailers need to develop processes and systems that can run an increasingly complex business and manage an asset portfolio that is diversified beyond service stations. In the future a global fuel retailer may be operating in multiple geographic environments with tailored business approaches – for example, ultrafast EV charging stations in

one market, a traditional service station network in another and multi-use sites in still another. To manage such complexity successfully, fuel retailers require effective governance and leadership that can scale operations across a disparate network.

Importantly, fuel retailers need to ensure that as they experiment and innovate – developing various new products, services, formats, and partnerships – they embrace a 'lean and agile' style of working. Under the agile approach, which is popular in software design and Industry 4.0 manufacturing operations, companies can deploy cross-functional teams to develop and test new ideas, learning quickly what works and what doesn't from iterations, and then making improvements before testing again. By doing this, companies can identify customer pain points, produce fast prototypes and minimum viable products to address those needs, then quickly gauge market fit and desirability before scaling up. Shifting toward an agile mindset will be a major challenge for many traditional fuel retailers. However, making this shift will be critical to successful innovation.

Strategic steps

Fuel retailers no longer have the luxury to 'wait and see' what happens in their markets. Rather, they must take strategic steps now to take command of their futures. In markets where the changes are most dramatic, remaining relevant will require a complete reimagining of the service station. ●

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