CoCos Comeback

Major oil companies continue to return to retail.

The major oil companies have directly operated retail sites in the United States since the earliest days of the industry. The interest in direct operations has waxed and waned over the years depending on whether ownership and operation provided opportunities or disadvantages at that specific time. Going into the 2000s it was common for the majors to operate several thousand sites or more. This was a notable presence, but the industry was still dominated by independent operators.

In the mid-to-late 1990s oil prices had tanked. There was also considerable consolidation among the major oil companies that saw the Seven Sisters (or thereabouts) turn into roughly the Big Four: ExxonMobil, ConocoPhillips, BP/Amoco and ChevronTexaco.

Going into the early 2000s oil prices had rebounded, making upstream operations—exploration and production (E&P)—even more dominant while downstream was sluggish, facing numerous regulatory and operational challenges by comparison.

For example, at the time BP's E&P upstream operations generated some $12 billion in earnings compared to downstream's $2 billion, including refining. Upstream employed nearly 17,000 people while downstream was slightly over 73,000. The major oil bean counters came to a simple conclusion—get rid of company owned, company operated (COCO) sites but make sure the new owners had branded contracts.

"All the major oil companies have done is replace the cookie-cutter island marketer of the 1980s with the cookie-cutter 4,000 square-foot convenience store of today," stated the late Jim Fisher, CEO of the retail site selection and improvement consultancy IMST, in NPN Magazine at the time. He went on to speculate that too much uniformity made it hard for the locations to be truly convenient.

ConocoPhilips sold off 2,000 Circle K stores in 2003, followed by another 1,000 in 2004. The process spread throughout the major oil companies, and by the end of the decade the exodus was largely, but not entirely, complete. Chevron has, and continues to maintain, a notable COCO portfolio.

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COCO Retail Returns

Now, times have changed considerably and at least some of the major oil companies have started to re-explore the concept of direct retail ownership, often with a venture capital partner and often maintaining the store brand and leveraging the former management.

Why this reversal?

According to Roy Strasburger, CEO of the turnkey convenience retail management company StrasGlobal, one reason is that the oil companies want to burnish the reputation of the c-stores at their sites, since consumers directly relate the stores to the fuel brand. "Also, the fuel supply

contracts that were tied to the sale of the properties are starting to expire, so the major oil companies are concerned about losing volume."

Strasburger noted that some consumers have gotten used to buying unbranded or proprietary branded fuel and don't rely on major brand fuels to keep their engines running "clean." Their gasoline must have a respected brand to command a retail price. "The premium message is conveyed through the COCO sites. A good COCO image will also force branded dealers to up their game," he said.

The rationale goes further. Even with the most aggressive possible carbon reduction policies, liquid fuels (including petroleum-based) will be around for decades to come. However, even with a significant pullback on the carbon front, fuel demand will still likely continue to decrease. Diversification of the business portfolio is undoubtedly appealing. These sites also represent the opportunity to serve as incubators for charging, alternative fuels and other developing low carbon explorations.

Retail can also be very profitable today both in the store and even at the forecourt. Though hardly as profitable as E&P, it wouldn't be unprofitable (at least not initially). These operations, especially the larger and higher volume operations, guarantee rateable off-take for gallons. For example, Thorntons, which was acquired by BP, moves over 300 million gallons annually.

Finally, there is likely the thought, accurate or not, that they can manage the operations more effectively this time around.

The major oils are quick to point out that these sites pose no threat to their branded independent partners, and in fact can be used to improve services and offers in their branded network.

Current Acquisitions

ArcLight Capital Partners and BP acquired Thorntons in 2021. The company noted that this transaction would position BP as a leading convenience operator in the Midwest, with over 200 locations across six states, including Florida, Illinois, Indiana, Kentucky, Ohio and Tennessee. BP retained the Thorntons brand.

"We have a proud history of high-quality retail brands across the country. Incorporating Thorntons into our business combines their customer-first culture with our existing U.S. retail network and will help us deliver our convenience strategy of offering customers what they want, where and when they want it," said David Lawler, who was chairman and president, BP America at the time.

This move was also seen as promoting BP's strategy for its convenience and mobility business, with a goal of nearly doubling global earnings by 2030 and delivering 15-20% returns.

In late 2021, Shell Retail and Convenience Operations acquired the Landmark fuel and convenience network. This consisted of 248 company-owned fuel and convenience retail sites whose convenience stores operate in Texas under the Timewise brand. The agreement also included supply agreements with an additional 117 independently operated fuel and convenience sites.

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The company noted that the acquisition advanced Shell's Powering Progress strategy in three ways: by growing its retail footprint in one of its core markets, by providing opportunities to offer customers expanded fueling options (including electric vehicle charging, hydrogen, biofuels and lower-carbon premium fuels) and by allowing for the growth of non-fuel sales through an enhanced convenience offering.

Shell subsequently acquired 45 fuel and convenience store sites in New Mexico through the acquisition of Brewer Oil Company's (BOC) retail division. The acquisition also included cardlocks for fleet vehicles.

What motivated Shell's return to COCO sites?

"Having a core network of company operated locations can be beneficial," said Barbara Stoyko, senior vice president, mobility Americas in a 2023 Fuels Market News Magazine interview. "In the big picture, with the energy transition, we are really setting ourselves up for success over the next 20-30 years. It provides us with a more integrated margin picture versus just fuels. So, we get a portion of our businesses coming from a business that has retail margin, store, car wash, those things."

Stoyko noted that it doesn't detract from Shell's traditional wholesale and retail relationships. In fact, this provides Shell with a test bed for new retail concepts and operational initiatives.

Alta Convenience is a joint venture entity between Fortress Investment Group and a subsidiary of Phillips 66 Co., created after the acquisition of Pester Marketing Co. in 2021 (which had the Alta store brand). It has subsequently purchased Western Oil's 46 Petro-Mart c-stores and 39 wholesale dealers, the entire Get 'N Go Stores business from Red Horse Oil and eight Duran Oil JR's Fuel Stop locations.

ExxonMobil has an interesting partnership agreement with convenience store products distributor C-StoreMaster to support fuel supply for its newly created C-StoreMaster Energy. The company is now acquiring retail operations, such as 13 Hays and Son properties.

"We are excited to continue providing the personalized and efficient service we are known for to new partners," said Sharan Kalva, C-StoreMaster president. "Launching an energy distribution division in partnership with ExxonMobil feels like a natural next step in expanding our offerings as both companies have parallels in our brand identities—top-notch products and service."

What Does This Mean for the Industry?

COCO operations were the norm at some level for the history of most of the industry. Independents did not see them as being threatening in the marketplace relative to their operations.

Strasburger noted that they tended to be well funded with the latest brand image and clean, well-maintained sites. However, independents felt they were better prepared to compete.

He noted that one advantage they enjoyed, or at least the perception existed, that whenever there were supply constraints the COCOs got priority on fuel. Further, they had excellent locations, a good brand image, the latest pump technology and major vendor promotions.

What can be expected in today's market, should the trend significantly expand beyond the current levels? There's a chance the competitive landscape could change, Strasburger said. "But," he said, "such things remain to be seen."