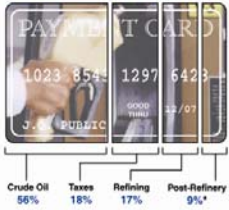


Where Does Your Fill-Up Go?



NACS

2007 Gas Price Kit

Retailer Margins Shrink as Prices Climb

Gasoline prices for the year 2006 averaged \$2.574 per gallon, approximately 30 cents per gallon over the average in 2005. The U.S. Energy Information Administration (EIA) breaks down the cost of gasoline into four components: cost of crude oil, taxes, refining and distribution and marketing. (About a dozen states have sales taxes on gasoline, meaning the taxes increase as the price does.)

Breakdown of the Retail Price of Gasoline

	Retail Price	Crude Oil		Taxes		Refining		Distribution & Marketing	
	cents/gallon	%	cents/gallon	%	cents/gallon	%	cents/gallon	%	cents/gallon
2000	148.5	45.6	67.7	28.3	42.0	14.2	21.1	12.0	17.8
2001	142.6	38.6	55.1	30.1	42.9	17.1	24.3	14.3	20.4
2002	134.0	42.5	57.0	31.6	42.3	13.4	18.0	12.5	16.7
2003	155.9	44.0	68.6	27.0	42.1	14.6	22.7	14.2	22.1
2004	184.9	47.9	88.6	22.9	42.4	17.5	32.4	11.6	21.5
2005	226.8	53.0	120.2	19.7	44.7	18.1	41.0	9.0	20.5
2006	256.9	56.0	144.0	18.1	46.6	16.7	43.0	9.0	23.2

Source: U.S. Energy Information Administration

(Note: EIA began tracking this information in January 2000)

However, this is not retailer profit; EIA's Distribution & Marketing component includes other costs, notably pipeline, terminal and other transportation expenses. Here are some estimated costs (which vary by retailer):

- 4 cents – cost of pipelines/terminals/other costs before distribution to stores
- 3 cents – distribution to stores
- 1 cent – inventory fluctuation (drive-offs, underfilling, evaporation)
- 6 cents – store operating expenses (labor/utilities/insurance/maintenance/etc.)
- 4 cents – credit card fees¹
- 2 cents – amortization of equipment²

With these expenses totaling approximately 20 cents per gallon, that leaves the retailer with approximately one to four cents in pretax profit per gallon.

For a point of reference, NACS 2005 numbers showed an average retail gross margin of 16.6 cents/gallon, which are comparable to EIA's numbers after taking out the 7 cents for the costs of pipeline/terminal costs, as well as distribution to stores.

(Margins were even tighter for diesel fuel in 2006. For the year, EIA's Distribution & Marketing" component was 7.0 percent. On a cents-per-gallon basis, this component was 19.0 cents per gallon based on the average price of diesel at \$2.71 per gallon. And according to the *OPIS Retail Fuel Watch*, gross margins averaged 13.76 cents per gallon during 2006. Margins averaged 10.9 cents in the first quarter, 12.3 cents in the second quarter, 19.8 cents in the third quarter, and 12.0 cents in the fourth quarter. The typical break-even margin for retailers – factoring in all expenses, including credit card fees – is about 13 cents per gallon, NACS estimates.)

¹ Two-thirds of all transactions at the pump are paid by credit card. With fees averaging 2.6 percent of transaction cost, at least 4 cents per gallon represents the average for all gasoline sales.

² Based on 7-year amortization of \$300,000 of equipment, with the typical store selling 1.3 million gallons of fuel/year.

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From 2003 to 2006, according to EIA data, annual average gasoline prices jumped 101.0 cents, while “Distribution & Marketing” rose only 1.1 cents. Since most of the transportation costs have either increased or remained the same, it’s obvious that retailer margins as a percent of sales have tightened.

The reason for continued margin erosion is that it typically takes seven to 12 weeks for wholesale price adjustments to be completely “passed-through” to retail consumers, according to EIA’s 2003 report, *Gasoline Price Pass-through*. During this time, retailers typically absorb some of the wholesale price increases by reducing their margins.