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MAY | JUNE 2017

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About SIGMA: Founded in 1958 as the Society of Independent Gasoline Marketers of America (SIGMA), SIGMA has become a fixture in the motor fuel marketing industry. After nearly sixty years of leadership, SIGMA is the national trade association representing the most successful, progressive, and innovative fuel marketers and chain retailers inthe 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 nearly 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.

contents

features

columns

inside...

THE CENTERPIECE OF A BRIGHTER FUTURE.

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David Baker
SIGMA President

viewpoint

Join SIGMA in July for our Summer Legislative Conference and Day-on-the-Hill

This year, SIGMA's Summer Legislative Conference and Day-on-the-Hill is July 17-19 at the Willard Intercontinental Hotel in Washington, DC. I am taking this opportunity to personally ask you to attend. For the first time in a while, SIGMA has the opportunity to make significant progress on our legislative priority issues. Just as you wouldn't hesitate to invest in new technology or hardware to help your business run more smoothly, I am asking you to invest the time this summer to educate Congress on the issues that affect our industry and how its actions directly affect your business' bottom line.

Decisions are made each and every day in Congress that have a direct impact on your business operations. The SIGMA Legislative Conference and Day-on-the-Hill is your opportunity to meet face-to-face with your elected officials in Washington and explain how the policy decisions they are making will be felt by your business, our industry, and their constituents.

For me, one of the best parts about this event is that it is so easy to participate. SIGMA will do all the work for you – all you have to do is show up! And absolutely no prior experience is necessary. Before you arrive in Washington, SIGMA will send you talking points and background information, as well as SIGMA's position, on the issues you will be discussing on the Hill. Read them on the plane to familiarize yourself with the topics. Once you arrive in Washington, we will take time on Tuesday afternoon to review the issues and hold roundtable discussions to share how they affect each attendee's operations. Then on Wednesday we will go to the Hill and share that message with Congress.

This meeting gives you the opportunity to hedge your political risk, interact with your industry peers who are facing the same challenges and issues that you are, and gain a better understanding of the issues affecting our industry and your business operations. Your SIGMA membership offers many benefits – one of them is representation before Congress and the Administration. Yes, Tim Columbus and his team at Steptoe work daily on SIGMA's behalf, but no one is a more effective advocate for your business than you. By participating in SIGMA's Summer Legislative Conference you will maximize our advocacy effort and our chances of success.

So please join me in July to ensure Congress knows how important our legislative priority issues are to the fuels marketing industry. I can't do it by myself. We need every SIGMA member company to send a representative so our full voice can be heard. Together, we can make a difference that we simply can't do alone.

For the conference schedule and to register, please visit the SIGMA website at www.sigma.org. You will not regret your participation and you will leave Washington with new knowledge and skills that you can immediately put to use at home.

Before I conclude, I want to take a minute to direct your attention to our 2017 Statistical Report that is included in this issue of the magazine. It is a valuable tool providing a snapshot of our membership in a given year, and is particularly useful in helping policymakers understand who we are and what we do. Thank you to those SIGMA members who participated in our industry survey and whose confidential responses form the basis for this year's report.

I look forward to seeing you all in July.

David Baker, Warrenton Oil Company


Haffner's
ENERGY
North Group
2 INTERNATIONAL WAY

profile
ENERGY NORTH GROUP

BY MARK WARD SR.

Any company that has built a new headquarters knows the project is as much about values as about architectural renderings and construction timetables. "Your building makes a statement," affirms president Kenneth Black of Energy North Group (ENG) in Lawrence, Massachusetts, "not only the exterior that the public sees, but the interior where your people work."

ENG moved into its new Lawrence headquarters in January after a process of soul-searching that balanced the traditional values on which the company was built with the progressive values integral to its future.

"We're in a growth mode that's taking us into some new directions," explains Black. "That means we have a mix of employees that range from 40-year company veterans to recent college graduates. We're committed to embracing and training young talent as a key to our future. But having a corporate culture where such a diverse mix of people can work effectively together is sometimes easier to say but harder to do."

Black saw his new headquarters as a chance to put his vision into action. So he and his leadership did some research. "We went and saw for ourselves how other petroleum companies are designing their work spaces," he recalls, "and we were blown away by the new ExxonMobil campus in Houston. It was amazing, like a college campus. Much of their interior space is open with lounges for people to bring their portable devices and gather."

With a planned 22,000 square feet in the new ENG headquarters, Black and his architects went to work. "We gave the windows to the clerical staff so they can do their work in natural light rather than feel they're boxed in," reports Black. "On the other end, our senior executives are in the center of the floor, with glass office walls and an open-door policy so that they're approachable and accessible."

Beyond these defined spaces, however, much of the floor plan is open. "We have conference rooms and even 'huddle rooms,' plus a 600-square-foot employee kitchen, where people can get together and collaborate," continues Black. "Not every 25-year-old can get along with every 60-year-old. But if you have an environment that feels open and welcoming, then it's more likely that a diverse mix of people can work together."

Finally, states Black, "Our new headquarters has gone high-tech to the nines. Young people have grown up with digital technology. They don't know a world without it. So if you want them to feel free to innovate, rather than feel frustrated, your technology must meet their expectations."

In the end, Black concludes, the statement ENG is making with its new headquarters is that "our company isn't about me; it's about our employees, about the people who've invested themselves in Energy North Group and who work every day to make it great."

A Diverse Portfolio

ENG's mix of experienced veterans and young talent is an outgrowth of its own business strategy. The company is bucking the conventional wisdom of concentrating on a single core business. Instead, just as ENG welcomes a diverse mix of employees, it is pursuing a diverse business portfolio that spans retail, wholesale, and transportation.

Recently, ENG even made a major entry into residential heating oil and propane, a business that many independent marketers have exited over the years and given up for dead.

"We're opportunists," says Black, "and not afraid when an opportunity is right for us."

On the retail side, ENG owns and operates 43 convenience store locations and leases another 20 sites to dealers. The company-operated units cover eastern Massachusetts, southern New Hampshire, and the Maine coast.

"We're in an area of the country where land is expensive and permitting is difficult," reports Black. "So we have a variety of c-store properties. Rather than try to implement a prototype store concept, we customize each location to its individual market."

For that reason ENG sells multiple fuel brands including Mobil, Gulf, and the private Haffner's brand. In addition, ENG locations variously partner with the Dunkin Donuts and Subway quick-serve restaurant brands and the two regional doughnut franchises. "We're not a cookie-cutter c-store chain," Black states. "What sets us apart is our focus on top-shelf people, cleanliness, and freshness."

On the wholesale side, ENG built its business on supplying branded and unbranded fuel to retail dealers. Then in 2011 the company signed a branded franchise agreement to supply ExxonMobil products to regional fuel distributors and resellers. "In five of the six New England states," explains Black, "ExxonMobil doesn't sell direct."

Altogether, ENG supplies its dealers virtually every brand available in the New England states including Mobil, Exxon, Gulf, Citgo, Sunoco, Irving, and Valero, plus the private Haffner's brand. Between its retail and wholesale activities, ENG's fuel volume tops 300 million gallons per year.

Much of that fuel is delivered by the company's transportation division, ABS Fuel Systems. Its 20 tractor trailers cover a territory that spans Massachusetts, New Hampshire, and Maine. There are another 130 vehicles that focus on fuel oil, propane, and maintenance. "Fuel delivery is more a service than a profit center," adds Black. "With our own fleet we can give our wholesale customers great competitive rates. And by controlling delivery, we can help put them on the 'right' side of price changes."

Two years ago, ENG jumped into residential heating oil and propane when it acquired Haffner Oil Company. The purchase included 40,000 residential heating oil customers and 10,000 propane customers, plus 14 gas locations, 11 with car washes.

"We were interested in the acquisition because the real estate for the gas stations was valuable and yet underutilized," explains Black. "Most of all, Haffner's is an iconic brand in our region. That's a huge value to us. It has an iconic logo of a donkey with the tagline, 'It Kicks.' On the other hand, we didn't see the value in the heating oil and propane business."

Nevertheless, Haffner Oil was an 80-year-old, fourth-generation business and the family would only sell its assets as a package. "So I agreed to buy it all and keep everything together for two years," continues Black. "After that, I'd reevaluate. But I expected that the heating oil and propane businesses would have to be sold off."

To his surprise, Black discovered the heating oil business was an attractive proposition. "Heating oil is still the norm in much of rural New England," he explains, "and Haffner's is a top-of-mind brand in these places. Also, our heating oil is an all-cash business; it has virtually no receivables. Most customers pay by check and credit card and very few of those checks bounce. So with just a little bit more infrastructure investment on our part, it's been profitable for us."

Since purchasing Haffner Oil in 2015, ENG has acquired two more heating oil companies. With these additions, ENG's sales territory extends to heating oil customers across Massachusetts and New Hampshire.

At present, ENG generates 43 percent of its bottom line from retailing, 18 percent from residential heating oil sales, 15 percent from wholesaling, 15 percent from car washing, 7 percent from propane sales, and 2 percent from transportation.

"I respect independent marketers who concentrate on one core activity," affirms Black. "But in our case, a diversified strategy works best. It's a hedge against the peaks and valleys of the petroleum business. For example, retailing and wholesaling don't run in tandem. Oil price changes, up or down, have the opposite effect on each activity. So by being diversified, we're bound to be up in one area even when another area might be down."

Staying on the Grow

A willingness to seize opportunity has been a hallmark of ENG since its founding in 1981. "My father had a friend who had retired from a regional oil company and, with two other partners, was starting his own business," Black recalls. "So my dad loaned me $10,000 so that I could join as a fourth partner. It was a great opportunity for me as a young man not only to get in on the ground floor, but to learn the petroleum business from a veteran." ▶

When oil prices collapsed in 1986, other companies retrenched or shut down. But ENG took the opportunity to step into the gap and become a Citgo distributor. That led later in the decade to distributor agreements with Gulf and Texaco.

As the industry recovered in the 1990s and competition ramped up, wholesale fuel margins declined. "So we entered retail in 1994 with our first c-store," recounts Black. "We didn't know much about retailing, but we learned and we hired knowledgeable people." Five years later, ENG also entered the transportation business with its acquisition of ABS Trucking.

In time, Black's three partners passed away. Black bought out their interests and, as the controlling owner, has put ENG in what he calls a "straight-up growth mode" as a response to industry consolidation. "We're not the same company we were even six years ago," he reports. "We've acquired eight companies in the last eight years, adding to our retailing and wholesaling assets. We've signed more distributor agreements and now supply most of the major brands. And we've gone into the heating oil and propane business."

To handle such a diverse portfolio while leveraging the latest technologies, Black has brought in young new talent—including son Jeffrey Black. The younger Black grew up in the business, earned a degree in chemical engineering, spent time with an oil trading company, then obtained his MBA and joined ENG in 2012.

"Jeffrey orchestrated the Haffner Oil acquisition and, as company vice president, he oversees our Haffner's branded operations," says the elder Black. "We have a terrific working relationship. And just as important, Jeffrey started at the bottom, worked his way up, and earned our employees' respect. That can be hard to do as the boss's son."

ENG was a SIGMA member many years ago, then dropped out for a time, but rejoined in 2010 as Kenneth Black started growing his company in new directions. "We've used and benefited from all of SIGMA's professional education programs," he says, "and we also learn a lot through all the great networking opportunities."

As a distributor for multiple oil brands, Black adds, "Today the majors are having fewer national meetings and educational opportunities for their distributors and retailers. That's another reason SIGMA is more important than ever. Then, too, SIGMA's effectiveness as an advocate is remarkable. We need SIGMA to be our voice because the issues that marketers face—credit card swipe fees, overtime regulations, trucking regulations—impact us on a daily basis."

Black believes ENG needs every advantage it can get. "With industry consolidation," he explains, "as you get bigger, you become more of a target. There's so much competition, you can't afford to miss anything."

ENG will continue to be opportunistic and bid on acquisitions that make sense for its business strategy. "On the retailing and wholesaling sides, we plan to grow within our existing geographic footprint and expand into adjacent areas, since we take great pride in being able to manage what we buy. And on the heating oil side, the Haffner's brand is so strong that we can expand into new areas as we're able to service them."

Another engine of growth at ENG is its youth movement. "If you're going to recruit young talent, you have to be prepared that they won't be satisfied with the status quo. We can teach them what we know. But that drive to keep stretching yourself is something we all need to be reminded of and that young people can teach us." ★

Inside SIGMA

BY RYAN MCNUTT, CEO, SIGMA

Building Bridges

"Exchange Ideas Frequently" ~ James Cash Penney

This year, I have been lucky enough to be invited to speak on panels at several regional petroleum marketing association events, including PACE, WPMA, the Gulf Coast Food & Fuel Expo, among others. In addition to representing SIGMA and educating attendees about SIGMA's mission and activities, I have had the added benefit of meeting many state association executives. Through conversations with these state leaders, I became aware of a key component that SIGMA could add to our portfolio of membership benefits that would further increase our value to you, our members–information about what is going on, from an advocacy perspective, in the states. We need to start building bridges.

Let me be clear, SIGMA does not advocate at the state and local levels. We are a national association and we concentrate our advocacy efforts on the national stage: Congress and the Administration. That being said, however, there is value in knowing which issues are creating problems and which initiatives offer possibilities for success in the states. While "all politics is local," what starts in the states has a way of percolating up to the federal level and being forewarned is being forearmed.

With that in mind, based on my initial in-person conversations, SIGMA began an outreach effort to each of the state petroleum marketing associations to gather information about their top priority issues. If you came to the Legislative Committee Meeting and Issues Briefing during the 2016 Annual Conference in Washington, you may have noticed a new "Advocacy in Action" piece on your chair that included one-page descriptions of SIGMA's priority issues and a state section with information on state issues, as well as contact information for state association executives. This reference material helps us in two ways: SIGMA gains information about issues that could eventually become federal issues on which we will want to advocate and SIGMA learns strategies and tactics state associations are using as they deal with those issues, which will only make our efforts stronger in the future. An additional more intangible benefit is the relationship SIGMA is forging with our state counterparts.

As you might expect, some of the issues that are hot button topics in the states are already relevant on the national scene. Several state associations are grappling with how to respond to proposals to fund infrastructure proposals. These run the gamut from increasing state and local fuel taxes, to miles-driven tax proposals, to commercialization of rest areas along federal Interstates (if you live in Indiana, I am certain you are well aware of this last one!). Other issues are more region specific, such as efforts by state utility companies to build their electrification corridors in the Northeast, with their own supporting network of charging locations. Still others are shared industry-wide—anyone who sells and stores fuel is aware of and concerned about corrosion in Underground Storage Tanks, for example.

I have to say, I am pretty pleased with our response rate so far, but it could be even better. If you have a strong relationship with your state association, please let SIGMA know. And, conversely, if you belong to your state association but haven't developed a strong relationship yet, we may be able to put you in touch with other SIGMA members who also belong, as well as with your state association executive. If you have a particularly close relationship with your state association, please let us know that as well, as there may be areas in which shared knowledge would be mutually beneficial.

The exchange of ideas and information between SIGMA and our state counterparts can only make each of us stronger as we work, albeit in separate spaces, to advance the interests of our industry. I look forward to working with you to build these important relationships.★

Washington WATCH

Dodd-Frank Reforms and Durbin Amendment Under Attack

During his presidentail campaign, President Trump promised that one of his first orders of business would be to "roll back" the reforms enacted by the Dodd-Frank Wall Street Reform Act (Dodd-Frank), a promise he seems intent on fulfilling. While most of the financial reforms contained in Dodd-Frank are not priority issues for SIGMA members or the customers they serve, one reform is: debit swipe fee reform—and that reform is under attack! House Financial Services Committee Chairman Jeb Hensarling (R-TX) has reintroduced legislation that would similarly repeal Dodd-Frank reforms, including the so-called "Durbin Amendment" that limits the interchange fees banks and card companies can charge retailers on debit card payments.

As most SIGMA members will remember, in July 2010, an amendment offered by Senator Richard Durbin (D-IL) to reform the debit swipe fee market was enacted as part of Dodd-Frank. The Durbin Amendment instructed the Federal Reserve Board (Fed) to write regulations ensuring that debit card swipe fees are "reasonable and proportional" to the banks' cost of processing debit transactions. The law also promotes competition among debit networks by requiring banks to allow merchants to choose a network routing option for each debit transaction. In addition, it allows merchants to offer customers discounts based on the form of payment used—credit, debit, cash, or check—and to set minimum amounts of up to $10 for card payments. While the Durbin Amendment did not address every aspect of retailers' swipe fee problems, it was nonetheless a major win for merchants and an important step forward in addressing the banks' and card companies' anticompetitive practices with regard to electronic payments.

In June 2011, the Federal Reserve Board released its debit card swipe fee final rule to implement the provisions of the Durbin Amendment. Under the rule, the limit on centrally fixed debit card swipe fees (for banks with more than $10 billion in assets) is 21 cents, plus 0.05% of the transaction amount. The final rule also allowed for limited routing competition: for every debit card transaction there must be at least two unaffiliated routing options. The Fed also issued an interim final rule allowing covered banks to collect 1 cent per debit transaction for fraud-prevention expenses.

In 2013, noted economist Robert J. Shapiro published a study showing that in 2012 alone, swipe fee reform supported 37,501 new jobs and generated almost $6 billion in savings to consumers in the form of lower prices and $2.6 billion in savings to merchants. The report noted that these savings and job gains would have been even larger if the Fed had implemented its original (12 cents) proposed cap on swipe fees. Had the proposal gone into effect, Mr. Shapiro predicted there would have been an additional $2.7 billion in annual consumer savings supporting nearly 18,000 jobs.

While the Fed's final rule was more limited in scope than envisioned by Senator Durbin, on the whole retailers across all industries saw some savings, albeit not what they had hoped for based on the legislative language of the amendment. These savings are now under attack. Congressman Hensarling's new legislation, which is very similar to the "Financial CHOICE Act" he introduced in the previous Congress, would repeal many provisions in Dodd-Frank, including the Durbin Amendment. In so doing, the legislation would undermine the free market and support price-fixing all for the benefit of the largest banks and threatening consumers and merchants—indeed the entire economy.

Grassroots action will be critical in SIGMA's efforts to protect the headway made by the Durbin Amendment in the fight against unfair and anticompetitive swipe fees. Given the opposition of many Members of Congress to "re-litigate swipe fee reform," SIGMA had hoped that Chairman Hensarling would not include repeal of the Durbin Amendment in his new legislation. His decision to do so means we, and the rest of the retailing community, will have a significant fight on our hands as the bill works its way to the House floor for consideration. In fact, it is entirely possible that Chairman Hensarling's legislation could be up for consideration when SIGMA members come to D.C. for the Summer Legislative Conference and Day-on-the-Hill on July 17-19. As David Baker mentioned in his Viewpoint column in this issue, all of the priority issues SIGMA advocates for are significant for fuel marketers—and given the negative effect repeal of debit swipe fee reform would have your business, your attendance is necessary! Not only do we need every SIGMA member company to reach out to their lawmakers in the coming weeks, we need every SIGMA member company to send a representative to Washington in July to strongly voice our collective opposition to the Financial CHOICE Act and advocate on behalf of SIGMA's priority issues.

Although it didn't fix all the problems in the payment card marketplace (and credit card fees continue to climb at an alarming rate), the Durbin Amendment brought needed reform to the debit card market and was an important first-step on the road to comprehensive swipe fee reform. After years with no competition, no certainty, and no transparency, the Durbin Amendment brought us a crucial bit of free market competition.

If Chairman Hensarling is successful in getting his bill (with Durbin Amendment repeal included) passed by Congress and President Trump signs the legislation, as he has given every indication he will, the large banks will again be able to impose sky-high fees on merchants' debit transactions. The large card companies (Visa and MasterCard) will continue to dominate the market— but with no downward pressure on their prices at all—and consumer costs will rise.

We cannot afford to give up the ground we have gained. SIGMA needs your support to fight the banks and convince Congress of the value of carving out the Durbin Amendment from other Dodd-Frank reforms it wishes to repeal. When there is a Legislative Action Alert, please respond. And mark your calendar now for the SIGMA Summer Legislative Conference in July and help SIGMA protect the progress we fought so hard to achieve. ★

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Where Do We Stand with Health Care?

BY JEWELL LIM ESPOSITO, ESQ. AND JOHN REMY, ESQ.
JACKSON LEWIS P.C.

In March, President Donald Trump and Congressional Republicans released the American Health Care Act. It was designed to provide health care reform, an attempt to replace former President Barack Obama's Affordable Care Act (the "ACA"). However, the House of Representatives, under President Trump's direction, cancelled its vote because of lack of overall support from Republicans to get past the Act in the House. Now what?

ACA is Still in Effect

The stop-and-start and vacillation regarding health care reform produces confusion: for those on the Hill, for businesses, for their lawyers, for individuals . . . and even for those in the health insurance business itself. However, ACA is the existing law on health care and, even if the House of Representatives were to pass a new bill, the ACA likely will remain the applicable law for quite some time. In fact, with all of this attention, we may see more effort by employees, former employees, and plaintiff's attorneys to enforce existing ACA requirements.

Companies.

For companies, the ACA applies only to "applicable large employers" ("ALEs"), generally those with at least 50 full-time employees, including full-time equivalent employees.[1] ALEs should note the following:

- Where we see clients encounter problems is in determining "full-time" employees and how "full-time equivalent" plays into the calculation. Knowing the difference between those terms and what the ACA requires is why a company with 80 full-time equivalents has to offer health care to only its subset of 40 full-timers, as the ACA requires the extension of an offer only to the full-time employees, but not those who make up the math for the full-time equivalent formula.

- We also see clients hoping to shift their employees around and between related companies (to the parent company, to the subsidiary, to the company owned by a spouse), so that each company has below the ALE threshold of 50 full-time equivalents. For the most part, that maneuvering will not work, as generally all the companies are counted together as one ALE under ACA rules.

- We caution against simply reducing an employee's work hours to below 30 hours (the hour requirement for an employee to be considered "full-time") to avoid having to offer health care to that now lower-hour employee. Since

[1] A company with fewer than 50 full-time employees, including full-time equivalent employees, is not an ALE subject to the ACA (and not subject to the employer shared responsibility provisions or the employer information reporting provisions). Companies that are not ALEs may be eligible for the Small Business Health Care Tax Credit and should seek advice to determine how ACA affects them.

the enactment of ACA, there have been a rise in claims from employees who were denied health care because employers reduced their hours, under what ostensibly may have looked like a viable business solution.

ALEs must (a) offer "affordable" "minimum essential coverage" that provides "minimum value" to "full-time employees" (and offer coverage to the full-time employees' "dependents") or (b) pay an employer shared responsibility excise tax. All the quoted terms have complex meanings, and it often takes coordinating with outside consultants to ensure that any offered health care program means what the quoted terms require. Even when a company unequivocally has the requisite "affordable" "minimum essential coverage" with "minimum value," the company nevertheless may incur a tax if it fails to offer such health coverage to enough of its full-time employees.

Then, again, we have clients who decide simply not to offer health care at all to their employees (foregoing the administrative burden of classifying and counting employees and later complying with the quoted terms), choosing instead the quick and easy route (and, maybe, cheaper in terms of overall hours to administer a company-wide health plan) and pay the non-deductible employer shared responsibility tax.

With ACA still in effect, so too is the mandatory health insurance reporting by companies, who will typically have to report the value of the health insurance coverage provided to each employee on Form W-2 and basic information to the Internal Revenue service through Forms 1094-C and 1095-C. The IRS is supposed to use the information provided on such information returns to administer and collect under the employer shared responsibility provisions.

Individuals.

For individuals, with the ACA still the law, one must still have qualifying health coverage for oneself, one's spouse (if filing jointly), and any dependent on a filed individual federal tax return, or else pay a penalty tax. In fact, Line 11 on the 1040-EZ and Line 61 on the 1040 ask for self-disclosure:

Health Care [Tax]: individual responsibility. . . Full year coverage [check for yes, pay tax if no]

IRS Enforcement of ACA Appears Very Relaxed

President Trump's very first Executive Order, "Minimizing the Economic Burden of the Patient Protection and Affordable Care Act Pending Repeal," released on the day of his inauguration was the one that ordered:

Sec. 2. To the maximum extent permitted by law, the Secretary of Health and Human Services (Secretary) and the heads of all other executive departments and agencies (agencies) with authorities and responsibilities under the Act shall exercise all authority and discretion available to them to waive, defer, grant exemptions from, or delay the implementation of any provision or requirement of the [Patient Protection and Affordable Care] Act that would impose a fiscal burden on any State or a cost, fee, tax, penalty, or regulatory burden on individuals, families, health care providers, health insurers, patients, recipients of health care services, purchasers of health insurance, or makers of medical devices, products, or medications.

Notwithstanding that the ACA remains the law in the United States, given the relaxed enforcement attitude of this new administration and announced through the Executive Order, the IRS likely will conform, as federal agencies are to "exercise authority and discretion available to them to reduce potential burden."

This suggests little or no enforcement with respect to either the employer shared responsibility or the individual tax. The reduction in (and freeze in hiring new) IRS staff to service ACA and other Employee Benefit compliance efforts (which were the very clear, but off-the-record, comments at recent Washington, D.C., meetings with legal practitioners, Senate and House staffers, and other interest groups) also may portend a relaxation in enforcement.

While the Administration had not expressly said as much[2], we believe good faith compliance is what is needed now with ACA obligations. With good faith efforts, there likely will be little or no enforcement (or even review of the health insurance information reported to the IRS) on the employer shared responsibility side. With respect to individuals, though, it is clearer. The IRS has decided affirmatively to accept electronic and paper Forms 1040 and 1040-EZ returns for processing even if the individual does not indicate conformance with the individual health care requirement. ★

We blog and publish regularly on all things Employment and Employee Benefits, including topics that relate to the still evolving Health Care. Sign up at www.jacksonlewis.com or contact us at Jewell.Esposito@JacksonLewis.com or RemyJ@JacksonLewis.com, both at 703.483.8300.

[2] The Executive Order requests that federal agencies "waive, defer, grant exemptions from, or delay the implementation of any provision or requirement of the Act that would impose a fiscal burden on any State or a cost, fee, tax, penalty" on " individuals, families, health care providers, health insurers, patients, recipients of health care services, purchasers of health insurance, or makers of medical devices, products, or medications," it did not say on "companies," but the tenor of the Executive Order and the IRS's seeming acquiescence suggests a relaxed enforcement towards companies, as well, which would be consistent with the new President's desire to lessen the burden on business.

Best Practices for Enforcing Credit at the Rack

BY DOUG MIHAL AND SHALEE STOCKSTILL, SCHNEIDER ELECTRIC

Managing the flow of product is a critical challenge faced by refined fuels companies. Conflicting internal goals between sales and credit departments often makes this challenge much more difficult. With one side pushing for sales activity and customer satisfaction and the other striving to best manage credit risk for each customer, suppliers need an innovative system to satisfy all parties. As tight margins and expensive loads threaten suppliers' bottom line, forward-thinkers in the industry are turning to tools to better manage credit risk at the rack that simultaneously work to further sales activity.

A cutting-edge lifting control system is one powerful tool that empowers suppliers to better manage their risk while still optimizing sales opportunities. Regardless of geography or product type, automated systems such as this allow suppliers to enforce credit more effectively across all terminals.

There are several important challenges and variables faced by suppliers in terms of best practices for enforcing credit. They include accounting for different geographies and products, enforcing taxes, tracking liftings against lines, preventing rack raids, and evaluating last loads.

With innovative allocation technology proving its worth in today's industry, suppliers should not lose faith amid these challenges.

Avoid Juggling Variables Manually

Differences in products and geographies are two critical variables that, when not accounted for, can negatively impact suppliers' bottom line. To best manage these variables, it is important that suppliers are aware of what really moves the value of their product. Influenced by geographies and spot markets, RBOB and ULSD (Ultra-low sulfur diesel) can and do move in opposite directions. The value of a load can vary greatly depending on where and what is lifted.

Significant price differences can be found when looking across spot markets—even when products may be consistent on a local level. Suppliers can be sure that no one price will stay the same across their marketing area. This is also true for product variables like gasoline and distillates, which both have different types and grades to be considered. Although prices typically move in the same direction for the two categories, they are still subject to fluctuate in different directions at times, with value swings threatening supplier margins if not handled efficiently. So, how can they best account for these impending inconsistencies?

The answer is an advanced lifting control solution that captures and calculates a load value based on local prices for individual products. allowing them to manage these inconsistencies without using man hours – saving suppliers time, money and energy.

Like best practices for monitoring geographical differences, an automated lifting control solution is necessary when accounting for product price differences.

Account for Taxes

When it comes to charging customers at the rack, the complexity of tax rates can often be costly and confusing for suppliers. With rates changing from state to state and even county to county, suppliers must properly account for variables. If not, suppliers can significantly overestimate a customer's remaining credit when taxes make up a large value of the load.

With tax scenarios differing from customer to customer, it is essential that supplies can account for the many variables. To further complicate things, they also need a system that recognizes geographical and product differences. Luckily, suppliers can find solace when equipped with an innovative lifting control solution that maximizes profitability and aligns with credit line best practices.

A supplier's lifting control system should not only account for critical differences, but provide real-time visibility and control at rack, including loads in process, rack raid prevention, and last load.

Real-Time Visibility and Control at the Rack

Without visibility and control to enforce credit at the rack, suppliers can be left vulnerable when trying to manage their most valuable asset, their product.

In the past, loads that have been lifted, but have not yet been invoiced, leave a lag between real-time credit and "actualized" credit. This inadequacy often leaves them with an incomplete view of the purchasing process, with their hands tied in regards to enforcing credit during this limbo period. For a real-time view of credit, an innovative lifting control solution should be used instead of relying solely on accounting systems.

And what about customers with receivables in their accounting system from doing business that occurred before the rack? Another unique scenario faced by suppliers in the refined fuels industry, these transactions away from the rack must be tracked. Perhaps the customer purchased a large quantity of product on the pipeline or via an in-tank transfer. An innovative lifting control solution should allow for the capture of a "special liability" that would not produce a typical rack sale. This increased visibility of a comprehensive credit line provides suppliers a complete and accurate view for each customer.

In addition to increased visibility, automated lifting control solutions can provide control at the rack to go along with greater insight.

Stopping Rack Raid in its Tracks

Suppliers need to be able to cut drivers off in the unfortunate situation that they attempt to load multiple trucks at once in an attempt to compromise the system. Better yet, they can have a system in place that actively works to prevent rack raid before it can start.

With a lifting solution that decrements credit lines as drivers card in, rather than after loading is completed, those with inadequate credit are not allowed to load multiple trucks. Using pre-load authorization checks, rack raids are prevented because the credit line is decremented. Thus, the use of pre-load authorization checks effectively prevents the threat of rack raid before the driver even begins loading.

An automated control lifting system should prevent an insufficiently financed driver from loading multiple trucks, but there is always the off chance that something goes wrong. In this case, in an emergency suppliers should also have the capabilities to lock out drivers with the push of a button. One-touch lock capabilities are a rarity in the industry, but they offer valuable functionality that can stop product from ending up in the wrong hands.

Increased control to prevent rack raid brings up another situation faced by suppliers that can benefit from improved visibility – last load evaluation.

Freedom with Customer-by-Customer Evaluation

An industry predicament faced by suppliers is what to do with the last load of fuel. Sales would rather sell the last load even if it causes the customer to exceed his credit line rather than have an opportunity loss. Credit would rather hold the customer to his line even if it means a lost sale. To handle this situation effectively, suppliers must be able to answer the question, "How much risk am I willing to take?"

An automated lifting control solution can help address this critical question by empowering suppliers to answer the question on a customer-by-customer basis. Through innovative functionality, the choice can be made to either provide a full load, when the customer is trusted to pay; or shut a customer off, when they don't want to risk the credit. It's important that suppliers can cater to different customers depending on their business relationship. ▶

Hope for Suppliers

To better manage credit at the rack, suppliers can find hope in advanced lifting control solutions. Providing a more complete view of their most prized asset, users are empowered to make better and more granular decisions based on their varying customer relationships. The option to lock out customers with the touch of a button when product is being compromised also provides suppliers with increased control to enforce their credit lines.

A $200 margin for a $40,000 truck is commonplace in today's industry as expensive fuel continues to force thin margins. Combating these increasingly thin margins, suppliers are turning towards advanced solutions to handle many industry variables and challenges, better positioning themselves for more profitable decisions regarding their credit line at the rack.

In a time where details mean dollars, suppliers must be able to quickly account for critical customer variables through enhanced visibility – enabling better credit line decision making for each load. Automation at the rack also improves efficiency, countering thin margins with an increased number of drivers able to load in a day.

Furthering the need for an advanced lifting solution is the fact that benefits are not limited to suppliers. Customers can benefit from more efficient purchasing power through improved communication with suppliers. Forward thinking dollar-to-gallon conversions and readily available credit line data from automation give drivers a more complete view of capacity, ensuring they maximize their load.

An innovative lifting control system is a must for suppliers to best manage their most important asset – their product. Slim margins in today's industry require suppliers to better enforce their credit at the rack. In this challenging time, the increased visibility and safeguarding capabilities provided by automated lifting control solutions are providing suppliers with hope for better management of credit lines at the rack. ★

Doug Mihal, Schneider Electric

Doug Mihal holds the post of National Sales Director – DTN Supplier Solutions at Schneider Electric, working closely with his customers to provide both software and hosted solutions to solve their growing challenges. Mr. Mihal has been with the company for the past 15 years and, prior to joining Schneider Electric, he served as Wholesale Supply Manager at Premcor Refining. Doug earned his bachelor's degree in Economics from DePauw University.

Shalee Stockstill, Schneider Electric

Ms. Stockstill joined Schneider Electric 14 years ago as a Director of DTN Supplier Solutions, where she works one-on-one with her clients to ensure their downstream needs are being met. Ms. Stockstill worked for Williams Company prior to joining Schneider Electric, in roles of increasing responsibility from trader to management. She earned a Master's in Business Administration from the University of Tulsa in 1996.

Cracking the Millennial Consumer Code

BY PDI

According to Pew Research Center, approximately 75 million millennials were living in the U.S. in 2015. That means C-stores, as well as other industries, are all clamoring to attract this 18-34-year-old crowd. Understanding how the millennial consumer spends his or her money is key to bringing up a loyal generation of shoppers. Here are some key insights into the burgeoning group and how to get them in your C-store:

Millennials Are on the Go

According to a study by Y-Pulse, millennials covet convenient food options, often choosing to eat on the go over sitting down. This puts C-stores in a good position. Grab-and-go foods appeal to those in a hurry, offering a meal that's easy to eat. However, how the food is packaged and what it contains are important, too. Even convenience food should be easy to open and tasty if it's to appeal to 18-34-year-olds.

Ensuring your C-store has plenty of grab-and-go meals can help cement your usefulness in the minds of millennials. Make sure your refrigerated areas containing such offerings are front and center so new customers know you can serve them.

Nostalgia is a Powerful Tool

Millennials tend to have wistful memories of growing up and are willing to spend money on things that trigger nostalgia. The film industry cashes in on this with remakes of '80s and '90s classics hitting the big screen often. You can do the same in your C-store. The Y-Pulse survey found that 69 percent of millennials longed for foods that would remind them of the past. While you might not be able to reproduce mom's meatloaf, you can be choosy with your stock. Retro candies, sodas, and snacks all appeal to this generation. For example, most millennials recognize Lunchables, Ring Pops, and Gushers. Not only are the nostalgic treats favorites, but they are easy to stock at the counter to drive upsells.

Weird is a Good Thing

A report by bcg.perspective noted that millennials are drawn to unique flavor combinations. Snacks like Bacon Mac and Cheese Lays and Pretzel M&Ms are evidence of this trend. When looking for new snacks to keep on hand, be on the lookout for anything that's out of the box or requires an adventurous palate.

Go Craft or Go Home

According to Neilsen, millennials also gravitate toward unique alcohol, preferring craft options over mass-produced ones. In fact, the source pointed out that many will try new brands they haven't seen before over familiar drinks they've enjoyed. For a savvy C-store, that means adding craft alcohol offerings to your refrigerated cases. You may also want to be on the lookout for new and local producers that may appeal to millennials. Of course, this doesn't mean you have to get rid of your standard beers – just make room for bestsellers and new brews.

Targeting millennial shoppers now can help you establish a loyal customer base. Doing so requires some creative thinking and stocking your store with items that you may not have considered in the past. ★

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Infrastructure Opportunities

BY ROBIN RORICK, AMERICAN PETROLUM INSTITUTE

One of the Trump Administration's first orders of business was advancing key energy infrastructure projects. Signing executive orders to advance construction of the Keystone XL and Dakota Access pipelines less than a week after inauguration, President Trump stated, "We're going to put a lot of workers, a lot of skilled workers, back to work."

The Dakota Access and Keystone XL pipelines—both extensively reviewed and judged environmentally safe—perfectly illustrate the job creation potential promised by energy infrastructure expansion. Keystone XL, which would transport oil from Canada and the U.S. Bakken region, would create about 42,000 jobs and generate $2 billion in earnings during construction. The recently completed Dakota Access Pipeline is a $3.78 billion investment linking the energy-rich Bakken and Three Forks shale plays in North Dakota with major refiners in Illinois. The 1,172-mile project was projected to support 8,000-12,000 jobs across four states and generate $156 million in sales and income tax revenues reflecting economic activity across a range of businesses.

But that's just the start. Now that the United States leads the world in the production and refining of oil and natural gas, our infrastructure needs have shifted. Prior to America's 21st century energy resurgence, transporting imported energy from the coasts to points inland was the priority. That's all changed.

With production growth in areas like the Midwest and Pennsylvania, keeping pace with new production trends requires updating the energy infrastructure network, including pipelines, storage, processing, rail, and maritime resources. Expanding our pipeline system will ensure we move energy efficiently, maximizing the economic and environmental advantages of our status as a world energy leader.

For shovel-ready jobs that don't rely on taxpayer dollars, energy infrastructure is an obvious solution. Infrastructure investments in the oil and natural gas sector could spur up to $1.15 trillion in new private capital investment over the next 10 years, support 1.15 million new jobs and add $120 billion on average to national GDP.

Economic benefits of energy infrastructure development aren't limited to the oil and gas sector. Investing in energy infrastructure generates increased demand for other industries—including steel, machinery, and engineering services—and could trigger an estimated $45 billion per year of economic activity throughout the supply chain. Increased demand in these industries creates additional demand for diesel as the trucks supporting these new industries.

After construction, pipelines continue to supply economic benefits by delivering affordable products. Oil and natural gas serve as building blocks for a wide range of products, and producers of steel, chemicals, refined fuels, plastics, medicines, fertilizers, and numerous other products have seen their power and materials costs drop due to affordable energy. According to a recent study from the Boston Consulting Group, U.S. industrial electricity costs are 30-50 percent lower than those of our foreign competitors. American manufacturing costs are now 10 to 20 percent lower than those in Europe and could be 2 to 3 percent lower than China's by 2018.

America's manufacturers can take that competitive advantage and invest in expansion, and jobs. A 2013 IHS study found that energy from shale and other tight-rock formations supported 2.1 million jobs in 2012, and that number is projected to increase to 3.9 million jobs by 2025, including 500,000 manufacturing jobs.

Reliable access to energy has also helped drive down utility, product and other energy-related costs for families, contributing to a $1,337 boost to the average American household budget in 2015.

The U.S. fuel supply also benefits from infrastructure expansion. Our nation's world-class refineries provide fuels and petrochemical feedstocks needed to move the nation and to manufacture thousands of everyday products, such as ▶

plastics, pharmaceuticals, fertilizers, and more. Today, U.S. refining capacity exceeds 18 million barrels per day, its highest level in 35 years, and domestic refiners are upgrading their operations to produce cleaner fuels and meet the needs of the American consumer. In fact, they spent $154 billion between 1990 and 2014 on producing cleaner-burning fuels. Increasing pipeline capacity improves crude supply and by extension improves fuel supply.

Often overlooked in debates about infrastructure development is the connection to reduced greenhouse gas emissions. The combination of cleaner gasoline and diesel fuels, modernized equipment and facilities, and more fuel-efficient vehicles has helped reduce U.S. air pollutants by 70 percent between 1970 and 2014 even as vehicle miles traveled increased by more than 174 percent, according to the U.S. Environmental Protection Agency. Carbon emissions from electricity generation have reached 30-year lows due primarily to greater use of clean-burning natural gas, which is now the leading source for power generation. Greater use of natural gas has also significantly reduced emissions of hazardous air pollutants like nitrogen oxide, sulfur dioxide, mercury, and particulate matter. The most recent data show that both liquid pipelines and natural gas pipelines transported crude oil, petroleum products, and natural gas at a safety rate of 99.999 percent – making pipelines one of the safest, most efficient ways to transport the energy families and businesses need.

Eighty-one percent of American voters support increased development of the country's energy infrastructure. Moving forward with Keystone XL and Dakota Access pipelines is a major step in the right direction – and a step that should be just one of many. ★

Robin Rorick

Robin Rorick is the group director of Midstream and Industry Operations at the American Petroleum Institute. Rorick joined API in 1996 and for the last five years has worked as API's Director of Marine and Security, with responsibility for maritime transportation issues and emergency response.

In his 20 years at API, Robin has worked in various capacities in Communications, Regulatory and Scientific Affairs, and Policy Analysis. Additionally, Robin has been involved with each segment of the industry—Upstream, Midstream and Downstream—working on a myriad of issues including climate change, Clean Water Act, Clean Air Act, the Toxic Substances Control Act, and fire and safety to name a few.

Robin is responsible for all energy infrastructure issues for the Institute including the gathering, processing, storage, and transportation (i.e. marine, pipeline, rail and trucking) of oil and natural gas. Robin regularly represents API to the media, at conferences and at other speaking venues.

A graduate of the College of William and Mary and then later Johns Hopkins University, Rorick lives with his family in Fairfax, Virginia.

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M&A Insights:

IRS Section 338(h)(10) Election - A Valuable Alternative When Deciding Between a Stock or Asset Purchase

BY ROBBIE L. RADANT
MATRIX CAPITAL MARKETS GROUP, INC. - DOWNSTREAM ENERGY & CONVENIENCE RETAIL GROUP

When purchasing a company, a buyer can structure the transaction as either the purchase of a company's assets or stock. More often than not, buyers prefer to acquire a company's assets, not the stock, while sellers sometimes prefer to sell stock. A couple of the major factors driving those preferences include allocation of assets and liabilities, as well as the tax impact associated with stock versus asset sales. The 338(h)(10) election provision is a tool that can help bridge the conflicting interests during the negotiation of a deal structure. This article will focus on the tax impact, and with that in mind, let's start by comparing the tax impact (or basis impact) of a stock sale versus an asset sale from a buyer's perspective, using a simplified example.

General Tax Impact of a Stock Sale

When stock is purchased, the tax basis of the assets remains unchanged for the buyer. Thus, if the purchase price is $10 million, but the company's tax basis is $2 million, the buyer's post acquisition tax basis remains $2 million. As a result, the buyer can only depreciate the existing $2 million of tax basis.

General Tax Impact of an Asset Sale

Alternatively, when the assets are purchased, the assets and intangibles take on the basis of the purchase price, or $10 million. This is referred to as a "stepped-up" tax basis. This stepped-up tax basis creates the tax benefits that most often drive buyers towards preferring an asset sale rather than a

stock sale. The depreciation and amortization of this stepped-up basis, including goodwill, identified in the purchase price allocation then become tax-deductible expenses. Accordingly, the buyer can depreciate (or amortize) the entire $10 million purchase price (excluding non-depreciable assets, such as land), resulting in lower taxes. This lower tax burden on the buyer should result in higher valuations for the seller's assets, compared to a stock sale.

Section 338(h)(10) Election

With this stepped-up basis concept as a backdrop, the question now is whether there is a way to have the legal benefits of a stock sale, and still have the stepped-up basis of an asset sale? The answer to this is yes and the vehicle to accomplish it is called the Section 338(h)(10) election.

A Section 338(h)(10) election allows the buyer and seller to treat the seller's assets as having been 'purchased' for tax purposes, even though the buyer has purchased the stock for legal purposes. Keep in mind that because stock is sold for legal purposes, the buyer inherits the seller's liabilities, consistent with a stock deal. However, the election also allows the transfer of certain assets, contracts, titles, and other authorizations that could be difficult to transfer in a traditional asset sale.

When Should a Section 338(h)(10) Election be Considered?

The Section 338(h)(10) election triggers a taxable gain on the deemed asset sale. Accordingly, the Section 338 election makes the most sense when the present value of the buyer's future tax savings from tax-deductible depreciation and amortization expenses exceeds the seller's current tax cost of the stepped-up basis. Because the seller will have to pay ordinary income tax on the depreciation recapture in addition to capital gains, the seller will want to be made whole for this extra liability. Thus, the calculation of the breakeven point is the key, and the buyer's investment horizon and the applicable depreciation and amortization schedules drive the decision. The buyer only enjoys the benefit of the write-offs for as long as it holds the target assets. If the assets depreciate and amortize shorter than the holding period, a 338(h)(10) election could make sense. Alternatively, if the holding period is significantly shorter than the depreciation and amortization period, such an election is unlikely to make sense for the buyer.

Who Can File for a 338(h)(10) Election?

There are limitations as to who can file for a 338(h)(10) election. The election can only be made when one corporation purchases the stock of another corporation, and the election is made by both the buyer and the seller. While the buyer can be any S or C corporation, the buyer must make a "qualified stock purchase" of the seller's stock. The term "qualified stock purchase" means any transaction or series of transactions in which at least 80% of stock is acquired by the buyer during a 12 month period.
The seller is limited to three specific types of corporations only:

- S corporation, which is the most common type
- A corporation that is a subsidiary in a consolidated group
- A corporation that is a subsidiary in a group that is eligible to file a consolidated return, but chooses not to

In summary, if buyers and sellers are looking for a compromise between a stock deal and an asset deal, the 338(h)(10) election can provide a win-win for both parties. The key to creating this win-win is ensuring that the present value of a buyer's future tax savings from tax-deductible depreciation and amortization expenses exceeds the sellers current tax cost of the stepped-up basis.

Because of the complexities of this type of transaction, it's highly recommended that both buyers and sellers seek the advice of an advisor that is well versed in the pros and cons of a Section 338(h)(10) election. ★

Making a Run for the Border? US Fuel Demand in Mexico on the Rise

BY MARK BABINECK, ARGUS MEDIA

An expected flood of private-party imports of refined products into Mexico has not materialized as the country has taken a more cautious approach to price liberalization. But that has not stopped the growing physical flow of fuel from the United States and elsewhere that state-run Pemex has used to supplement its limping downstream system.

While the liberalization of Mexico's oil industry over time will change the sourcing for Mexican retailers and their customers, a simple combination of steady demand and declining refinery production by state-owned Pemex has left the country more reliant than ever on imports.

And that gap has U.S. fuel producers—particularly in the Gulf Coast, Southwest, and California—trying to figure out how to move their production south, and virtually every mode of transportation is on the table.

Last year, Mexican regulators decided to handle retail fuel price liberalization in stages, starting with the northwestern states of Baja California and Sonora at the end of March, rather than having the entire country switch from fixed prices at once. In the meantime, the government would allow prices nationwide to float within a regulated range.

But even that proved too ambitious, and sudden price hikes in January caused hoarding, shortages and violence across the country, particularly in the northwestern border areas that previously had enjoyed lower prices to align with those in the United States. Mexico subsequently tightened controls on how much prices could move on a daily basis in areas waiting to be liberalized.

But the retail pricing saga and de-nationalization of the industry have little to do with Mexico's thirst for imported fuel. Pemex's six refineries—the only ones in a country that took over the oil industry in 1938—saw output plunge to around 940,000 b/d in December from 1.5mn b/d as recently as mid-2014, although production perked back up to nearly 1.1mn b/d in February.

While Mexico imports fuel from as far away as Europe and can receive Asian shipments on its west coast if the arbitrage is right, the United States is unquestionably the main source, sitting at 93pc in February. And with Mexican ultra-low sulfur diesel standards set to go national by the end of next year—they are already in place in the biggest cities and along major highways—U.S. refineries likely will have to produce supplies their Mexican counterparts currently are unable to process.

Pemex executives have vowed to end chronic downstream financial losses and improve production by outsourcing supplies from auxiliary service and finding private-sector partners to upgrade aging facilities, but all of that will take years. For the foreseeable future, U.S. imports will play a massive role in fueling the nation.

U.S. Exports

US refinery output has been on a steady march higher since the Energy Information Administration (EIA) started keeping tabs in the early 1980s, starting at around 13mn b/d and rising to 20mn b/d last year. But the agency reports that finished petroleum products supplied, a domestic demand measure, has been flat in the 16mn-18mn b/d range for the last nine years, and down from peak demand in the mid-2000s.

Exports of finished products have filled the gap for fuel producers, hovering around 3mn b/d for most of 2016. But Mexico has become an increasingly large destination, taking a record 1.2mn b/d of U.S. products in December compared with 868,000 b/d in the year-prior period and 238,000 b/d 10 years before.

Unsurprisingly, the Gulf Coast has become the focus of that. The U.S. refining hub exported a record 2.6mn b/d in December and outbound shipments have been on a steady rise for more than a decade.

According to the EIA, the West Coast exported 381,000 b/d to Mexico and other countries in December, but that actually marked its weakest December for sales abroad since 2011, indicating that even heavy Mexico demand is not enough to pull more products out of California and Washington refineries.

So far, U.S. refineries have been able to utilize their ample capacity to satiate both the domestic and foreign markets, including Mexico. If Pemex's refineries continue to produce less and less, an increased draw on U.S. Gulf Coast fuel production could open opportunities for midcontinent refiners to expand their territory southward, or for embattled U.S. East Coast refiners to improve crack spreads.

Regardless, plenty of U.S. fuel will continue to flow south across the border as it has for years. The difference will be the new players besides Pemex doing the buying and selling, and the new modes of transport they employ.

Infrastructure

Some logistics providers already had begun planning projects to serve the potential Mexican market before President Enrique Pena Nieto made a surprise announcement during a visit to Houston in February 2016. That is when he sped up the availability of private-party imports to as soon as April 2016, nine months earlier than planned.

Since that announcement, the drawing board for projects has become even more crowded even though only traces of fuel have been imported by anyone besides Pemex.

Howard Energy Partners last May completed an open season ▶

for its 72,000-90,000 b/d Dos Aguilas products pipeline from Corpus Christi, Texas, to Nuevo Laredo, Mexico, and further on to the northern hub at Monterrey. The company has said it expects to charge about 5¢/USG to reach Laredo, Texas; 8¢/USG to get to Nuevo Laredo, and nearly 14¢/USG to reach the interior terminal at Santa Catarina, not counting logistics fees. The project, which would include four terminals with a combined 1.15mn bl of storage capacity, could be on-stream next year.

The open season, which chief executive Mike Howard said "exceeded our expectations" without giving details, was the first to be done simultaneously under both CRE and U.S. Federal Energy Regulatory Commission (FERC) regulation.

Meanwhile, fellow U.S. midstream company NuStar's planned LPG and refined products line from the United States to Mexico has been pushed back by more than a year into 2018. The line would deliver LPGs produced at Mont Belvieu, Texas, and products produced at Corpus Christi refineries.

In April 2016, midstream companies Magellan and TransMontaigne announced they were considering a 150,000-250,000 b/d pipeline from Magellan's facility at Corpus Christi to TransMontaigne's terminal at Brownsville, near the southern tip of Texas. From there, product would move by truck or TransMontaigne's existing pipelines across the border. The line could be ready by the end of 2018 if the companies move forward.

Some refiners themselves are looking for more opportunities to the south. U.S. independent refiner Delek late last year began testing diesel exports by rail to Mexico from its 73,000 b/d Tyler, Texas, refinery, and it sees pending merger partner Alon USA's 73,000 b/d Big Spring, Texas, refinery, doing the same thing.

The Kansas City Southern (KCS) rail network connects the U.S. Gulf Coast and much of Mexico, and the railroad has previously said it has discussed refined products opportunities. One facility, the Watco-WTC industrial terminal at San Luis Potosi in northern Mexico, is expected to be on stream by May.

On the KCS line in Corpus Christi, Rangeland Energy is building the South Texas Energy Products System (STEPS) loading terminal, which would handle products and LPG. Rangeland has said it should begin loading manifest cars in early 2017, followed by unit trains later in the year. U.S. tank car enhancement laws allow the use of pre-October 2011 DOT-111 cars to carry refined products until 2029, long after they are outlawed for crude and ethanol.

Three separate products pipeline projects from the port at Tuxpan to central Mexico alone have emerged, including one by Pemex. The incumbent is planning a Golfo-Centro pipeline to complement its approximately 5,600 miles in theft-prone products pipelines already in use. Pemex plans two new receipt docks at Tuxpan and storage at both ends as part of the $700 million project, to be financed by U.S. private equity firm BlackRock.

Last year, a firm backed by Invex Infraestructura purchased a dock at Tuxpan as the beachhead for the 140,000 b/d Tajin pipeline to the central refinery hub at Tula. The company, InI4, is marketing the project by contrasting it against Pemex infrastructure that has been plagued by leaks and theft over the years.

A year ago, Monterra Energy announced its own project from Tuxpan to Tula. Its calling card is backing by Mexican gas station consortium G500 and a "leading global commodities merchant," which together accounted for a "significant portion" of the 100,000-165,000 b/d of capacity. G500 has more than 1,000 stations in the heavily fragmented Mexican retail market.

Mexico, which only has enough tanks across the country to keep 2-15 days of fuel supply on hand depending on the region, is looking to beef up storage, too. Pemex tried to offer some of its capacity to private users in an open season in March, but it was canceled because of "methodology problems" and set to be rescheduled. Pipeline developers and others have jumped into the fray including state power utility CFE, which is looking to convert some of its 10.7mn bl of fuel oil storage to hold gasoline.

Regulators have sought to force individual fuel distributors to keep at least five days of fuel on hand by 2019, increasing to 15 days by 2025, but critics have said that could keep participants unable or unwilling to make that kind of investment out of the market ★

Mark Babineck, Transportation Editor, Argus

Mark Babineck is editor of Argus Petroleum Transportation North America, a weekly publication that covers various modes of shipping crude, refined products, NGLs, LPG, and biofuels. Prior to joining Argus in 2010, he spent 16 years in various reporting and editing roles at the Associated Press, Reuters and the Houston Chronicle. For questions or comments please contact moreinfo@argusmedia.com


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Inside CONVENTIONS

SIGMA ICAR MASTER'S PROGRAM RECAP

On March 28-29, 2017 SIGMA members gathered in Greenville, SC on the campus of Clemson University's International Center for Automotive Research (CU-ICAR) for a Masters' Program on the near future of automotive design. Attendees got an inside look at the world class facilities on the CU-ICAR campus and heard from top experts in the automotive industry on a variety of topics, including how the newest innovations for autos will affect the fuels industry.

Founded in 2007, the Clemson University International Center for Automotive Research is an advanced-technology research campus where education, research, and economic development collaborate to create a global venue for the automotive industry. CU-ICAR is home to the nation's only graduate department of automotive engineering. The CU-ICAR program represents the ultimate public/private partnership, directly fueling a knowledge base critical to the automotive industry. The Department of Automotive Engineering is part of Clemson University's College of Engineering and Science and nearly 200 students are currently pursuing graduate degrees in automotive engineering.

CU-ICAR's research portfolio is driven, as is their philosophy, by industry needs. They continuously analyze the market and survey industry partners, industry leaders, and automotive companies to determine their technology and R&D focus. Based on that knowledge, today the research clusters and "technology identity" of CU-ICAR are centered in the following areas:

- Advanced Powertrains
- Vehicular Electronics
- Manufacturing & Materials
- Vehicle to Vehicle Intrastructure
- Vehicle Performance
- Human Factors
- System Integration

Zoran Filipi, Chair of Automotive Engineering at Clemson, played a leading role in coordinating the program with SIGMA. "The program puts our department's top talent and the world-class facilities at CU-ICAR in the automotive spotlight for two days," Dr. Filipi said. At CU-ICAR, students learn in an innovative research-and-educational program that focuses on the vehicle and its infrastructure from a systems-integration perspective. The entire program is devoted to the discipline of automotive engineering, which sets it apart from other engineering programs and gives its students remarkable opportunities for exploration and research.

Day one opened with an overview of the ICAR program, tours of the research and tech labs, and a look at some of the prototypes that have been developed by the program there. Attendees heard presentations on the newest research being done at ICAR including the future of the combustible engine and the affects this could have on the fuels market and demand for the future. Dr. Julian Weber, Head of Innovation Projects E-Mobility within project i, BMW Group's electric vehicle think tank and product line, joined the group remotely from Munich for a look into BMW's programs on future mobility.

Next, Dr. James Szybist from the Oak Ridge National Laboratory in Oak Ridge, Tennessee presented his research on the octane of fuels and the relationships between fuels, efficiency, and the future. Dr. Szybist also discussed the effects of regulation (and deregulation), the effects that fuel and engine technology have on each other, and real world benefits. His research on fuels and regulations are part of "the Co-Optimization of Fuels & Engines (Co-Optima) project sponsored by the U.S. Department of Energy (DOE) Office of Energy Efficiency and Renewable Energy (EERE), Bioenergy Technologies and Vehicle Technologies Offices. Co-Optima is a collaborative project of multiple National Laboratories initiated "to simultaneously accelerate the introduction of affordable, scalable, and sustainable biofuels and high-efficiency, low-emission vehicle engines."

Dr. Shyam Jade, Senior Systems Engineer at Bosch North America, shared with the group Bosch's latest advancements in autonomous vehicles and the challenges that still remain before the technology becomes adopted on a widespread basis. Of interest, Dr. Jade presented data on various simulations he has run comparing the effects of autonomous vehicles on traffic flow and how it compares to human drivers on the same roads.

Doug Haugh, Chief Strategy Officer at Mansfield Energy Corp., who attended the program, called it "a great opportunity for those of us in the industry to get together with the top minds from academia to talk about the future of transportation." Ryan McNutt, SIGMA's CEO, echoed that sentiment, noting that the program included talks on fuels and novel modes of combustion, processing and catalysis, vehicle electrification, and the impact of autonomous driving on mobility. "The program attracted a diverse set of speakers who set the stage for stimulating conversation," McNutt said. "Their credentials are a testament to the importance of the event." ★

SIGMA
AMERICA'S LEADING FUEL MARKETERS

UPCOMING MEETINGS

2017

MAY 2017

Spring Conference
May 8-10, 2017
Miami Beach, FL

Sponsored by World Fuel Services

JULY 2017

Summer Legislative Conference
July 17-19, 2017
Washington, DC

SEPTEMBER 2017

Share Groups

Session 1
September 26-27, 2017
Dallas, TX

- Transportation Share Group
- Human Resources Share Group
- Finance and Credit Share Group

Session 2
September 28-29, 2017
Dallas, TX

- Fuel Buying Share Group
- Maintenance/Environmental/Safety Share Group
- Information Technology Share Group
- Mobile Fueling/Tankwagon/Cardlock Share Group

NOVEMBER 2017

Annual Conference
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Chicago, IL

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2018

JANUARY 2018

2018 Winter Legislative Conference
January 16-17, 2018
Salt Lake City, Utah

Executive Leadership Conference
January 17-19, 2018
Sun Valley, ID

APRIL 2018

Spring Conference
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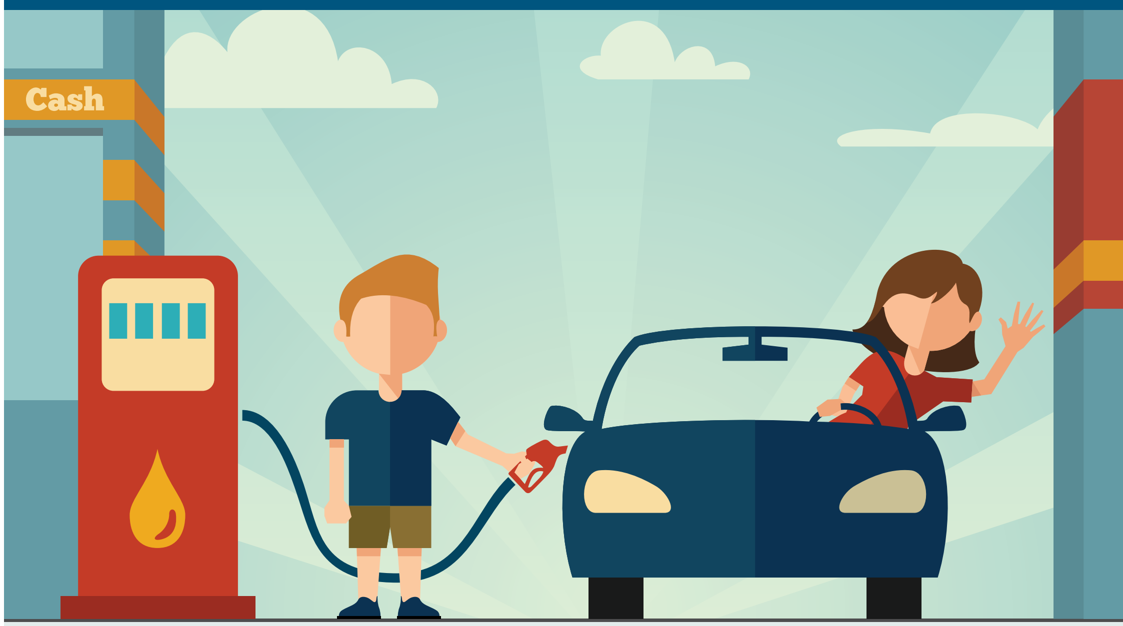

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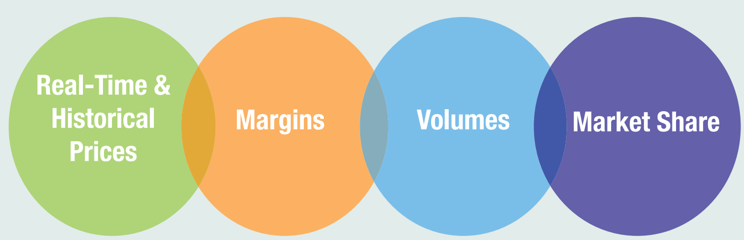

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Tax Time - Are You Optimizing Your Capital Depreciation?

Many C-store operators miss out on tax savings – and are at risk of missing another benefit soon

BY CHRIS SANTY, PATRIOT CAPITAL

Every year at this time, business owners reflect on the taxes that they are paying. A recent Wall Street Journal article[1] highlighted the fact that the average tax rate for larger U.S. corporations is 21.2%[2], noting "most mid-size and smaller firms pay much higher rates."

One tax strategy that gas stations can use to lower their taxes and improve their cash flow is Section 179. This tax incentive enables those purchasing new or used capital equipment or making site improvements to capture benefits in the current tax year. For larger operators, coupling Section 179 with Bonus Depreciation can yield additional cash flow benefits.

As part of "The Protecting Americans from Tax Hikes Act of 2015," Section 179 was made a permanent part of the tax code. I'd like to highlight that although Section 179 is a permanent part of the tax code, there is discussion in Washington of a significant overhaul of taxes, which may result in modifications or elimination of this section.[3] These benefits, since being increased to $500,000 in 2010, have helped convenience-store operators capture significantly accelerated depreciation for capital improvements and fueling equipment purchases, including gas pumps and underground storage tanks. Bonus Depreciation is scheduled to phase out in 2019, with reduced benefits in each year between now and then.

What is Section 179?

Section 179 is a section of the federal tax code that allows small businesses to accelerate the depreciation of their capital and equipment spending, and even some business software, into the current tax year. Though the credit was historically $25,000, Congress—in a bid to expedite America's recovery from the recession—increased it temporarily to $500,000 in 2010, and made the change permanent in 2015.

This is a true "small business" tax incentive, applying to businesses with annual capital spending of less than $500,000. For businesses that spend up to $500,000 on either new or used equipment, 100 percent of the investment may be deducted in the current year.

If a retailer used Section 179, a $500,000 spend could yield $175,000 in cash-flow benefit in the year the equipment was purchased.[4] Combining this with equipment financing could create a positive cash flow for almost two years. The first-year tax savings is $150,000 greater than what could be gained from standard equipment depreciation.

Here's an example that illustrates the impact of Section 179 for a typical convenience store or gas station:

Cost of Equipment	$500,000	$500,000
1st Year Tax Deductions	Traditional	Section 179
- 100% of first $500K		$500,000
- Normal 1st Yr Depreciation**	$71,429	$0
TOTAL Year 1 Deductions	$71,429	$500,000
Marginal Tax Rate of 35% (Assumed)	$25,000	$175,000
NET FIRST YEAR COST AFTER TAX:	$475,000	$325,000

The net effect of Section 179 is that your first year after-tax cost of $500,000 of equipment is $325,000. This strategy also could be used for a smaller project, such as gas pump upgrades costing $100,000. In this case, your first year after-tax cost would be $65,000.

Capturing 100 percent of the available depreciation in the first year is a strong incentive to purchase new equipment, especially in an environment of tax code uncertainty, and rising equipment prices and interest rates.

Purchases covered under Section 179 include EMV gas pumps and retrofit kits, in-store equipment, such as beer caves or fixtures, and energy efficiency improvements, including LED lighting and HVAC equipment.

If you lease rather than own, your building, you also may deduct limited structural changes – such as interior walls and doors – under Section 179.

How Does Bonus Depreciation Work?

Bonus depreciaton works in a similar manner to Section 179, allowing accelerated depreciation, with the following differences:

- May be used only for new equipment
- Applies to amounts between $500,000 and $2 million in eligible capital spend, with a reduction up to $2.5 million
- Allows 50%, rather than 100%, of the investment to be deducted in the first year. The 50% will be reduced to 40% in 2018 and 30% in 2019.
- Bonus depreciation will currently not be allowed after 2019.

Another Tax Change in the Offing?

One of the most talked about changes to the tax code is the reduction of corporate taxes to 15 percent. Although most of the press has been focused on the stimulative impact of this change, there is a flip side that you should consider in your planning.

Today, if you purchase $100,000 of equipment and are in a 35-percent tax bracket, your after-tax cost of equipment is $65,000. If the tax code is changed to 15 percent, your after-tax cost will increase to $85,000. This is effectively a 30 percent increase in the cost of the equipment to your business.

If you are planning to purchase new equipment and are weighing the right time, I encourage you to talk to your accountant and get his or her perspective on the best strategy for your business. We are entering a period of turbulence in tax rules, and making sure you understand your options is time well spent. ★

Patriot Capital

Patriot Capital, a division of State Bank and Trust Company, specializes in enabling entrepreneurs to succeed by providing hassle-free equipment financing in the retail and commercial fueling verticals, and other retail and manufacturing industries. Working with its customers to enable them to optimize their financing and capital structures, Patriot Capital is the leading provider of capital equipment financing and leasing to NACS (National Association of Convenience Stores) and SIGMA (Society of Independent Gasoline Marketers of America) members.

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[1] http://blogs.wsj.com/dailyshot/2017/03/12/wsjs-daily-shot-us-corporate-lending-grinds-to-a-halt/

[2] Ibid

[3] Patriot Capital does not provide tax advice or guidance. Please contact your tax professional or CPA for information regarding your specific situation.

[4] Example assumes a 35-percent tax rate.

Coming Back For More

BY: MAURA KELLER

Here's one thing we know: Loyalty card programs within the convenience store market are here to stay. This reality, coupled with the ever-changing nature of the c-store business, results in the need for loyalty systems that can help owners and operators streamline their business processes and improve their bottom line. But here's the problem: Loyalty programming has been fairly stagnant within the fuel marketing sector and marketers are eager to jumpstart their loyalty programs.

According to Colloquy, a company focused on the art and science of loyalty marketing and customer experience practices, there were 24.5 million fuel/convenience loyalty memberships in 2015, a number that has remained relatively flat for the last couple years. For comparison, drugstore memberships rose 88 percent (to 268 million) in the same time period. And, participation in restaurant loyalty programs rose 107 percent.
As customer loyalty speaker, trainer and author Chip Bell explains, the c-store differentiator for many years has been convenience and price. Customers know there will be far more choices at a big box retailer, but getting in and out quickly at a location where customers can shop while their vehicle is being gassed up has been worth giving up a breadth of product choices.

"Today customers want more than convenience and price—they want a great buying experience," Bell says. "Loyalty program managers need to consider what drives customer loyalty in the first place, and not just how to incent it."

While loyalty programs have been around for decades, today's loyalty programs for the c-store and petroleum marketplace need to be ever-evolving entities that customers have come to expect.

Here's why: The rise of the mobile-powered consumer has made convenience retailing, including loyalty, more promising and also more challenging.

As Jeff Hassman, executive vice president & CMO at Excentus, a company that provides loyalty marketing and technology solutions to retailers across the nation, says, fuel marketers must embrace investing in evolving technology, and also reap the benefit of the data and consumer engagement that arises from having mobile presence.

"According to Chase Bank, 11 percent of Millennials now use convenience stores for grocery purchases. As this generation continues to infiltrate the marketplace, Millennials expect retailers to provide mobile payment options, ordering capabilities, and loyalty experiences," Hassman says. "For independent owner-operators, challenges arise from the amount of time, expertise, technology, and data needed to operate both a store and a loyalty program successfully."

But data is critical, because it can help them understand shopper's patterns, preferences, and behaviors so that the offers and communications shoppers receive are personalized and timely.

With data, retailers can better segment and target their customers with relevant and valuable offers. Of course, for large chains, the challenge is supporting a mobile-powered loyalty program at scale.

Bell stresses that the trends facing today's loyalty program need to incorporate some key elements that savvy customers have come to expect. The loyalty programs established a decade ago, simply don't work anymore.

"Today's loyalty programs need to reward based on spend not visits," Bell says. "Just as airlines have dropped miles for money, c-stores need to find a new calculus for what it means to be 'a loyal customer.' Which is more important to the bottom line—the customer who buys a pack of cigarettes at five stores or the one who spends $50 at two stores? One clue is whether c-store customers are being rewarded for what they were going to buy anyway. Focus on brand loyalty and new buying behavior."

Loyalty programs also need to promote exclusivity. "All customers are not alike. Market segmentation is critical to a tailor-made loyalty program that makes customers feel like a member, not just a consumer" Bell says.

Today customers want loyalty programs that are:

- **Relevant to the customers.** They need to instantly "get" there is value. Remember, the goal is to incent loyalty, not just be a free giveaway.
- **Simple.** If customers have to jump through too many hoops to get their reward, they will simply move on.
- **Easy to sign up.** Retailers need to ensure there are many portals for loyalty program enrollment.
- **Engaging to the customer emotionally.** That means if the loyalty program is boring or ho-hum, customers will opt out. Communication with customers should be interesting and attractive, just like the in-store experience should be.
- **Provide an element of surprise.** Reward loyalty by providing more than is expected. What is your loyalty program's "free prize inside?"

Consumers also want valuable, relevant rewards that are easy to understand, easy to earn, and easy to redeem. For two consecutive years (2015, 2016), an Excentus survey of more than 1,000 U.S. consumers found that fuel discounts rank as the number one preferred loyalty program currency—higher than cashback, discounts, and coupons.

"This is because consumers like rewards that are valuable and relevant to their lives," Hassman says. "Being able to earn and redeem rewards on an everyday expense like fuel is important."

Consumers also expect retailers to understand who they are and what they want. If retailers can capture, analyze, and leverage all of the real-time and historical buying data that's available to them, they can craft timely offers and personalized promotions that delight their customers—while they're standing at the pump, as they enter a store, or when they return.

"Increasingly, consumers also want loyalty program functionality embedded into their smartphones and mobile apps, where they're convenient and quick to use," Hassman says. "Consumers want to feel that the store or brand 'gets them,' and data is the best tool for understanding who your customers are and what they want."

Engagement Loyalty

Chris Teso, CEO at Chirpify, says that consumers have come to expect loyalty programs where they are rewarded based on the amount of money they spend with a company.

"Called spend-and-get, 80 percent of all loyalty programs fall into this category," Teso says. "Very few programs are focused on 'surprise and delight' or other strategies that seek to break the spend-and-get mold."

But the biggest growing trend that c-stores should avail themselves of is the marriage of social media with the loyalty program. As Teso explains, it first started to take root among hotel operators and has spread from there to restaurants ▶

and retail. It is taking off as consumers like to engage in social media with brands and earn rewards for their participation.

"And, marketers like it because it creates earned media, word of mouth, and social proof for the brand—which helps in turn to drive new customer acquisition" Teso says. "Marketers also like that it allows them to track which of their customers, or customer demographics, participates with the brand on social media and gives them important new data points that help improve future marketing campaigns."

Referred to as engagement loyalty, Teso says this new trend:

• Takes advantage of the fact that consumers increasingly spend a majority of their time on social apps on mobile devices.

• Rewards loyal customers for their online evangelism, creating earned media and new customer acquisition.

• Benefits consumers and encourages loyalty by rewarding them for their engagement and conversion activities. Rewards can vary greatly—from points to exclusive deals and content.

• Connects the dots between social media, messaging, commerce, and CRM, enabling brands to identify and automatically take action based on specific social media and messaging triggers. For example, if a fuel marketer were launching a new marketing campaign and wanted to take action based on its listening around that campaign, they would be able to automatically reply to social media and messaging posts with those specific new product words, sentiments, pictures, and/or other predefined social media triggers.

• Helps fuel the cycle of engagement by allowing consumers to respond to brand-created triggers that may start life as a call to action in other marketing channels, such as email, TV, or a billboard ad.

• Converts consumer engagement at scale—taking consumer participation and converting it into meaningful data for businesses by moving social media or messaging platform engagement and converting it into a real person in the CRM database

Customers have demonstrated they will flock to brands that deliver on efficient, consistent, relevant, and satisfying experiences. Retailers delivering digital customer engagement need to understand it has to be a rewarding two-way street. It can't be one-sided where the brand is asking the customer for information and engagement that benefits only the brand.

Kevin Nix, CEO of Stellar Loyalty, says that, fittingly, convenience is the new currency for retail loyalty programs and busy, mobile consumers crave it. C-stores might take a page from the restaurant industry where many well-known brands like Taco Bell, Dunkin Donuts, and Domino's Pizza have started to master the art of delivering convenience to their customers.

"Domino's has reported that online and mobile ordering have become key ingredients to their recent financial success, while they've seen competitors like Pizza Hut and Papa John's remain mostly flat," Nix says. "Panera's investment in a tech strategy that allows digital ordering has been enormously popular—customers can pre-order online or on their phones and grab a to-go bag from one of Panera's 'rapid pickup' kiosks. It's no surprise that Panera says it has more than 21 million loyalty members and more than 17 million active users that are a part of the company's MyPanera loyalty program."

And of course, customers want discounts and rewards for their loyalty—but they also want flexibility. Enter the gasoline example: major grocery chain Southeastern Grocers LLC (parent to Winn-Dixie and others) is replacing its FuelPerks gas rewards program with the American Express Plenti program, which offers deeper discounts to customers AND lets them redeem points at a variety of places.

"The FuelPerks program only allowed customers to get points for gasoline—but as the price of gas drops—people want more flexibility around what they can spend their reward points on," Nix says. "The Plenti program allows customers to collect points at a variety of partner retailers such as Macy's, grocery stores like Winn Dixie, and gas stations like Exxon and Mobile, and spend those points at any of those places."

Issues to Avoid

Many companies, c-stores included, overlook the simple fact that to have a successful loyalty program, there must be a value exchange that benefits both the consumer and the business. If customers feel like the program is more effort than the return they receive, they will simply stop participating.

"A healthy way to address this mistake is to simply and honestly ask yourself, 'Would I actively engage with this program in exchange for this reward?' If the answer is no, that's the time to go back to the drawing board and create benefits that your customers will be excited to receive and will gladly participate with you in exchange for them," Teso says.

When establishing or upgrading your company's fuel loyalty program, remember that too much communication to the customer can result in them dropping out of the loyalty program. Customers need engagement but they do not like to feel they are being spammed.

"Don't make the mistake of assuming all customers are alike and therefore crafting a 'one-size fits all' loyalty program," Bell says. "Also don't make it too hard to gain a reward. There needs to be a short time frame between sign-up and reward to ensure early momentum and to increase allegiance."

Be sure to get customers involved from the outset. Create focus groups to test the planning, design and execution. Use simple, but informative customer feedback and get frontline employees to serve as sources for early warning, scout reports and ambassadors for the loyalty program.

There is also the common misconception that just having a mobile app is enough to satisfy today's customers. According to Hassman, most consumers have downloaded an average of 27 apps on their phone, but only five of the apps see heavy use.

"Mobile apps must be incredibly valuable, useful, and convenient if they're to remain in that top-five ranking," Hassman says. "If you're going to launch a mobile app, make sure it's compelling, intuitive and hardy—able to stand out from the crowd."

And don't overlook the value of existing customers. Some retailers spend too much time trying to attract new customers.

"They can experience greater gains and revenues by deepening loyalty and increasing frequency and spending among their existing high-value customers," Hassman says. "Data shows that already-loyal customers typically spend two times more than non-loyal customers, and they also spend more on fuel. If c-store owners can leverage data that helps them understand, segment and target their most valuable customers, they're in a strong position to deepen relationships with their existing customers—a strategy that boosts sales, revenues and foot traffic."

Of course, don't launch a loyalty program simply for the sake of having a loyalty program. Launch a loyalty program so that it provides direct, everyday value to your customers and gives your store a competitive advantage over other c-store loyalty programs.

Things To Watch

In the future, Bell expects loyalty programs will link technology carried by the customer with personalized information provided by the customer or tracked by POS information. ▶

"While there is a creep factor to avoid and a privacy invasion threshold to respect, someday I will be able to walk into a Circle K, 7-11, or RaceTrac and have the c-store alert my smartphone there is a big discount on Heath Bars, my favorite, at that store only available to loyal customers like me," Bell says.

People spend the vast majority of their digital time on their mobile devices and the number one place they spend their time is in social media.

"If fuel marketers want to engage their customers where they are at, the 'remote control' that is in everyone's pocket is the best way—and will be for the foreseeable future," Teso says. "As a result, more and more organizations are marrying mobile and social technologies with their loyalty programs. The first step many companies take is to reward customers for desired behavior in social media—such as sharing a positive experience, or participating with a specific campaign. Rewards can be anything from program points to discounts, custom content and more."

Hassman expects that technology will continue to dominate the loyalty field, both in how loyalty plays out in everyday interactions and how loyalty evolves. New technologies such as predictive analytics, geolocation, the Internet of Things (IoT), and artificial intelligence will help convenience loyalty programs get closer to their customers.

"The combination of data and technology can make it increasingly easier and more convenient for retailers and customers to interact and transact from smartphones and mobile devices," Hassman says. " New technologies, such as voice-recognition capabilities, have the potential to push the shopping, retailing and purchasing experience beyond the mobile environment to a more real-time, on-demand activity. All retailers and marketers will have to stay vigilant to make sure they're up-to-date with the latest consumer trends and technologies." ★

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Trouble on the Highway:

Interstate Rest Areas and Biodiesel Imports

BY DAVID H. FIALKOV, NATSO

At the beginning of January, when Congressional Republicans were mapping out their legislative strategy for the year, the thinking was that by Memorial Day Congress will have already repealed Obamacare and replaced it with a better, more efficient and cost-effective replacement; enacted a comprehensive rewrite of the U.S. tax code; and be well on its way to enacting a $1 trillion infrastructure package.

Yet here we are.

Efforts to repeal Obamacare have largely fizzled, with the moderate and conservative wings of the Republican Party unable to agree on a replacement plan. Those same ideological and political divisions have already begun to manifest in tax reform discussions, making that process just as politically challenging as healthcare reform.

The one wild card on the horizon, however, is infrastructure. President Trump has called on Congress to pass legislation that would generate at least $1 trillion in infrastructure investments from the public and private sector. Although the most conservative members of the House Freedom Caucus would likely oppose this type of stimulus legislation, many Democrats have been advocating for enhanced infrastructure investments for many years. While they may be less inclined to support an initiative being spearheaded by President Trump, it remains true that the political road to infrastructure spending (no pun intended) is far less narrow than the road to healthcare reform and tax reform.

As the trade association representing America's travel plazas and truckstops, NATSO has long supported increased spending on roads and bridges to better facilitate the seamless, efficient movement of people and freight across America's highways. Almost 90 percent of NATSO members' retail outlets are located within one quarter-mile of an Interstate highway. These businesses rely on an efficient, well-funded surface transportation program in order to survive.

So I am optimistic at the prospects of substantial infrastructure investments, but I am also concerned. Massive pieces of legislation are a good place for lawmakers to "sneak in" significant, controversial policy changes underneath the radar. A member of Congress could oppose a policy change in isolation, but if it is part of a broader legislative package that the member supports, he or she could end up voting for it.

In this respect, I think fuel marketers—particularly those with locations in close proximity to an Interstate highway – must be extremely vigilant about opposing rest area commercialization.

In recent weeks, Congressman Jim Banks (R-IN) has introduced legislation in Congress that would open up Interstate rest areas for business and unfairly compete with established businesses at exits. The ill-conceived legislation would crush the small businesses and communities that exist along the Interstate System.

The reason that Congress has long prohibited commercialization of rest areas is to protect consumers, communities, and small businesses. Allowing state governments to get into the business of selling food or other commercial services from an advantageous location on the Interstate would give them and their hand-selected enterprises a virtual monopoly. It will result in consumers paying more money for goods and services, local towns and counties receiving less tax revenue because of lost off-highway business diminishing commerce and property values, and the closure of small businesses that rely on highway traffic to stay afloat. Many thousands of people would lose their jobs.

On top of this, Congressman Banks's legislation is essentially an assault on the blind community. Many people are unaware that tens of thousands of blind entrepreneurs around the country earn a living to support their families by operating vending machines at Interstate rest areas. Congress provides for—and NATSO supports—an exception to the commercialization ban for vending machines owned and operated by blind entrepreneurs. If restaurants and convenience stores were to be permitted at rest areas, no one will use these vending machines anymore, and these blind entrepreneurs would be out of luck.

Congressman Banks has no plan to mitigate the damage his bill would cause to a wide array of people and interests.

NATSO and the entire fuel marketing community agree that states do not have enough money for infrastructure investments. The truckstop and travel plaza community have long advocated for increased transportation funding, but commercializing rest areas is not an effective solution. What's more, Congress agrees. When the Senate last considered eliminating the ban on rest area commercialization just a few years ago, the measure failed by a vote of 12-86.

But in the context of a larger, $1 trillion infrastructure package, bad policy like rest area commercialization can slip through. It is up to us in the fuel marketing community to prevent that from happening. Be proactive—get to know your member of Congress, educate them about your business. Get to a point where when someone tells your elected officials how good an idea it is to commercialize rest areas, they think of you and your business.

The better we are at doing this, the more successful we will be. ★

FRANCHISING IN TODAY'S MARKETPLACE

BY: MAURA KELLER

Since the early days of franchising over 50 years ago, franchising has expanded across the majority of industries in the United States. According to the International Franchise Association, there are more than 3,500 franchises in about 90 different industries. That said, franchising regulations and models have been modified in recent years—resulting in business owners needing to be franchising aficionados before they attempt to franchise their own business or incorporate a franchise into their existing fuel marketing operations.

Going With the Flow

The spirit of entrepreneurship is thriving, now more than ever. Just turn on your television during prime time to see a wealth of programs about business and entrepreneurship. Franchising has, without a doubt, received a gargantuan boost in popularity, with many individuals looking to own a business but not wanting to take on the full amount of risk that comes with starting their own brand.

But consider these stats from the International Franchise Association: The franchise sector grew faster than overall GDP in 2016 and will continue to outpace overall economic growth in 2017, although by a smaller margin. The International Franchise Association estimates that the number of franchise establishments grew 1.7% in 2016 and will increase 1.6% in 2017. Franchise employment was up 3.5% in 2016 and is forecast to grow 3.3% in 2017, and franchise output grew 5.8% in 2016 and will grow 5.3% in 2017.

While the growth potential is strong, franchising has become more difficult in recent years. Following the 2007 to 2008 financial crisis, bank lending has become a lot more restrictive, specifically the lending to small businesses. This means that new franchisees need to be better financed and better prepared to get their retail locations open. They also need to be financially prepared to weather any storms after they open, as the ability to refinance or secure additional loans is not what it used to be.

"Even in this new tougher climate of lending, franchising has thrived. The franchise model is a proven way of doing business," says Brent Dowling, CEO of RainTree, a franchise development organization using creative, lead generation and growth teams to assist emerging franchise companies to expand in the United States and abroad.

"While the statistics on franchisee success range from 50 to 95 percent, I think you'll find the truth somewhere in the middle," Dowling says. "Smart buyers recognize this, and understand that franchising provides them with a much safer way of opening a business than the 'go it alone' approach."

According to Troy Hazard, retail consultant and author of Marketing Your Franchise, one of the biggest changeups in c-store franchising in recent years is the need for the category to evolve.

"It's one of those 'final frontier' retail environments that, until recently, has been slow to change," Anderson says. "Old habits, die hard franchisees, same market positioning, and complacent operators who believe, 'that's just the way we do things around here.'"

What Hazard and other experts are seeing now is the evolution of the fuel marketing category. Technology has improved operational efficiency, store layout and design has lifted the image, and most importantly, some of the smarter franchisor operators are placing more emphasis on retail support and giving franchisees a fighting chance to really make a difference in the customer interaction they have.

"It's one of the most challenging retail environments—given the average interaction with a customer is only 110 seconds in a convenience store," Hazard says. "With such a short window of interaction, convenience retailers need to anticipate the needs of their customers and deliver on that well before their customers even think they need it. Solid franchise systems bring that research and brand positioning to the table. They will understand trends, anticipate markets and consumer needs, and create opportunity, not just capitalize on the current market."

Benefits Aplenty

Franchising allows a company to extend its business with stores in many geographic locations. A retail business can be a good candidate for franchising if it would benefit from local franchisees that will sign leases and employ workers in a multitude of local markets.

"The franchise system will not succeed unless the franchisees are profitable," says Thomas Pitegoff, attorney at LeClair Ryan in New York, NY. "Franchisors frequently charge royalties and marketing and other fees that may add up to 10 percent of the franchisee's gross sales."

Pitegoff says the best franchisee candidates are likely to be multi-unit developers who know that owning more than one or a few units is the best way to succeed as a franchisee. An excellent prospect might be one who already owns a chain of franchises of another retail brand.

To be successful, the business to be franchised must be a proven success. Selling franchises will not work if the company business itself is not profitable.

"I have seen franchisors fail because they start franchising before they were able to demonstrate the success of the business model," Pitegoff says. "The franchisor is in charge of the brand and that brand must appeal to customers. Of course, no company should rush into franchising before it understands the market."

Franchising also requires management skill. It takes great people skills to identify the best franchisee candidates and then to help them establish and succeed in their businesses. ►

"Hiring people with franchise experience also helps in developing a great franchise system," Pitegoff says.

At RainTree, Dowling sees a lot of franchisors that complain that they can't recruit any franchisees and are burning through money each month trying to do so. The primary reason for this initial failure is typically the marketing collateral and messaging. Ensuring you have a robust franchise website, franchise information reports, informative videos and other marketing collateral that clearly articulate your comparative advantage and that target a specific type of individual is crucial.

"With a franchise sale being such a specific nuance, it's also important to know where to fish for leads," Dowling says. "Many franchisors spend hundreds of thousands of dollars in wasted advertising in their first few years, simply because they didn't know where the best lead generation channels are."

Becoming a Franchisee

While some fuel marketers may be interested in franchising their own business entity, others may be considering becoming a franchisee themselves, by incorporating a franchise business into their operations—such as enveloping a fast food establishment into their c-store environment.

Franchising can only work if it's profitable for both the franchisor and the franchisee. So first and foremost, it's critical to understand the business model well enough to know whether you can make money from it.

Beyond that, franchising can only work if you are willing to follow the franchise model, which is based on the franchisor offering you the use of its brand and its method of operation—in return for your payment of fees and your pledge to follow the system.

"When franchisees follow the system, customers know what they are getting, because it is consistent from one franchise to the next," says Corby Anderson, attorney and partner at Bradley Law Firm in Charlotte, NC. "But when a franchisee deviates from the system, customers don't get the consistency they expect. If you are not willing to follow the system, then you will miss out on the benefit you sign up for when you become a franchisee, and your customers will miss the consistent experience they expect when they patronize your franchise. In that case, franchising may not be the right investment for you." For c-store owners, just as for others who invest in franchising opportunities, choosing the right business partner is critical. It's important to do your homework on any franchise opportunity ▶

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you're considering. Kick the tires, as they say, by studying the franchisor's disclosure document and talking to existing franchisees to see what their experiences have been.

Anderson recommends asking those franchisees what training and support the franchisor gives them, what restrictions the franchisor imposes on them, and whether they've found that the benefits they get from the franchisor's brand and operating system are worth the fees they pay.

"Look into whether any complaints about the franchisor have been filed with consumer protection agencies," Anderson says. "And last but definitely not least, make sure you understand the franchise agreement, so you will know whether the obligations you take on when you sign it are ones you can live with."

Tom Scarda, franchise consultant and author of Franchise Savvy, says there are many issues that need to be considered when evaluating a franchise, whether it's being incorporated into an existing business or set up as a stand-alone unit.

Some key factors to think about are:

• Retail margins are tight, watch every penny. If you're operating in Washington State but the franchise has only one distribution center in Atlanta, can you get product at a cost effective price or will shipping costs alone erode your margin?

• If the product is food, what is the market for that type of food in your area? Is it a stable product or is it prone to food-borne illness? What are the health department requirements for handling of that food? What day-parts is the franchise catering to? Breakfast, lunch, dinner or dessert? If you have an existing location, on which side of the street are you located? Toward the central business district or highway, or away from it? This could have an impact on the type of food you should carry.

"Incorporating a franchise into an existing business sounds great on paper but sometimes it's not worth the hassle. Mistakes I have seen businesses make, for example, are not correctly estimating the build-out cost of the new business," Scarda says. "When it comes to upgrading plumbing and electrical needs in corporate locations as opposed to residential, the owner doesn't realize that in some counties, brand new waste lines are required for food establishments. If there is food being cooked, there is another whole list of requirements that need to be adhered to, including ventilation and duct cleaning and fire suppression systems.

Making sense of franchising for a particular business is a case-by-case basis. There are some businesses for which it makes sense to have a little franchise within the business, such as a coffee convenience store in a fuel station.

"It's important to consider that your business cannot be a similar product offering to what the franchise sells," Scarda says. "You don't want to cannibalize your existing business or the franchise business. The best concept to have under the same roof is a product or service that customer already needs and uses and will purchase while they are in the location."

As with any new venture, mistakes are bound to be made. The most common first-time franchisor mistake involves being underfinanced. As Dowling explains, many retailers, as new franchisors, only account for items like "franchise disclosure document" legal costs and an additional corporate team member or two. They underestimate the cost of marketing and recruiting new franchisees.

"It takes time to build that awareness and find the right types of individuals to partner with, and many don't have the funds to endure the ramp-up period," Dowling says.

And remember that franchisors typically have a lot to say about how you are allowed to market and how your marketing dollars are spent. As a franchisee, you may be required to contribute a percentage of your sales to an advertising fund that's used for national, regional, or local advertising.

"Social media marketing is typically less costly in dollars but more costly in time than traditional media would be, and franchisees are relying on social media more and more," Anderson says. "But before you make a significant investment in building a social media presence for your franchised business, you should understand who will own that presence when the franchise relationship ends—franchise agreements often provide that the franchisor, not the franchisee, will own it."

Running multiple businesses is challenging on any level, franchise or independent. Of course the franchise model gives you an extra level of support, but it still requires leadership discipline to integrate business formats under one roof.

"Each business system comes with its own culture, positioning, market avatar, and set of business behaviors and habits that make it successful," Anderson says. "Some of these are portable between business formats, some are not. The leadership discipline is to be able to identify how to lead both in the silo of the business format, and in the unity of the overall culture you are trying to create for your business footprint."

The proliferation of franchise businesses is the rise in popularity of business ownership, which is largely in part to new generations coming through and refusing the corporate-ladder path in growing numbers.

"They don't want to be told in the next financial crisis that they are fired," Dowling says. "They want to act now to build something they have full control over. Franchising is providing this as a lower risk path, and more and more people are seeing the value in it." ★

Inside
RISK MANAGEMENT

BY NATE OLAND, FEDERATED INSURANCE

Do you "Drive S.A.F.E."?

How often do you consider that there are far more serious consequences to unsafe driving than just getting ticketed? In most states, if you killed or injured someone because of distracted driving or being involved in a road rage incident, you could be criminally charged. If that's not bad enough, these risky driving behaviors also put your loved ones in harm's way, whether or not they are even in the vehicle with you.

Think about it: What would your family, friends, and co-workers do if your behind-the-wheel conduct resulted in your being seriously injured or killed in a car crash, or you are sent to prison because your actions contributed to another's injury or death? Bottom line: Poor driving decisions could ruin your freedom and tear your family apart.

Everyone has, at some point, made an unwise driving decision: speeding to make up for lost time, reading an incoming text message, driving when too tired, or letting emotions take over when encountering a "crazy" driver.

Risky driving habits typically develop over time and can be hard to break. An employee driving policy can help you reinforce the point with your employees that these behaviors will not be tolerated. But a policy is worthwhile only if it is understood by those it affects.

Clear communication on driving expectations and regular employee training and reminders serve only to benefit all involved. It's never too late to address these issues and create a working environment that convinces your employees and customers that your company works hard to help ensure personal safety.

The majority of all auto crashes can be traced back to four driving behaviors: Speed, Attention, Fatigue, and Emotion. Branded "Drive S.A.F.E.," Federated Insurance's driver awareness program helps business owners and risk managers call attention to these behaviors to help their employee drivers understand the risks each can present.

Keeping the S.A.F.E. factors in mind may help drivers overcome the temptation to engage in behind-the-wheel conduct that puts them and others in danger. Before each trip:

- Allow ample time to get to the destination without having to hurry. Not only does it feel good to be early and not rushed, the chances of being involved in a crash can be reduced significantly.
- Commit to paying attention to the task at hand, mentally and physically. Be on the lookout for inattentive drivers and drive defensively.
- Get enough rest to help ensure mental sharpness, which can improve reaction times and help avoid hazards that may require split-second maneuvers.
- Keep emotions in control and act responsibly. Put space between yourself and motorists whose actions aren't sensible.

Drive S.A.F.E. has one goal: to help keep you, your employees, and your company out of harm's way. Please make it home safely today! ★

This article is for general information and risk prevention only and should not be considered legal or other expert advice. The recommendations presented may help reduce the risk of loss, but are not guaranteed to do so. The information herein may be subject to, and is not a substitute for, any laws or regulations that may apply. Qualified counsel should be sought with questions specific to your circumstances.


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The Dawn of Electric – How Long Before the Sun Rises?

BY JOHN EICHBERGER, FUELS INSTITUTE

In early April, Tesla surpassed Ford Motor Company as the second largest automobile manufacturer in the United States in terms of market capitalization. On April 3, the Wall Street Journal reported that GM was valued at $51.2 billion, Tesla at $48.7 billion and Ford at $45.5 billion. This triggered a lot of discussion among leading industry experts about the long term value and prospects of electric vehicles and whether the day has finally arrived. While a lot of the evidence is pointing to the inevitable evolution to an electrified transportation market, rational analysis compels a more conservative perspective.

Capabilities Coming Online with Consumer Needs

There is no dispute that there are an increasing number of electric vehicles entering the market at an affordable price point and with capabilities that can satisfy the mobility needs of the majority of America. Consider the Chevy Bolt. Available for sale today at a starting price of about $37,000 (before tax incentives), this vehicle boasts a travel range of more than 230 miles per charge and the ability to recharge at a DC-fast charger within 30 minutes. (Similar stats are touted for the Tesla Model 3, which has generated more than 400,000 pre-orders but is not yet available for customer delivery.)

What do these numbers mean? According to surveys conducted by NACS and the Fuels Institute, the typical American consumer drives about 210 miles each week. For this consumer, the Bolt needs to only be recharged once each week. For the consumer that does not have access to a garage or charging infrastructure at their home, they can spend about 30 minutes at a fast charger and be set for the week. Considering many of these fast chargers are located at facilities where consumers would typically spend more than 30 minutes, the additional lift is not overwhelmingly onerous.

For the consumer that can plug in at home, the use of a typical 120-volt outlet can top off the vehicle in a matter of hours. It is important to note that most drivers will not be recharging their vehicle from fully depleted to fully charged on a regular basis. As such, replacing energy used to travel 30 miles in a day will not require special infrastructure or an inordinate amount of time.
These performance specifications mark the beginning of a new era of electric vehicles, and most subsequent models introduced to the market will be seeking to replicate or surpass these capabilities. The 300 mile range electric vehicle will be available before you know it.

Market Penetration

As the vehicles increase their capabilities and more models are introduced to the market, there is a common belief that adoption rates will increase very quickly. While it is easy to reach that conclusion, the adoption rate is much longer than many advocates and reporters would have you believe.

There are elements still to be overcome before these vehicles begin to amass a market share that will have a discernible impact on the market. First of all, the cost of production has to come down to enable automakers to turn a profit. Currently, most electric vehicles are sold at a loss to the manufacturer and this is not a sustainable model. While getting the vehicles into the market, converting consumers to consider electric drive, and satisfying certain regulatory programs (such as California's zero emissions vehicle program) are important short term objectives, making money remains a priority consideration. This is one of the reasons Tesla is building its gigafactory. By centrally locating and consolidating much of the supply chain required to produce batteries for its electric vehicles, Tesla will be able to accelerate the decline in technology costs and reach profitability much more quickly. Other automakers continue to seek partnerships that will help reduce costs, but until these come to fruition the mass production of electric vehicles is likely to continue increasing at a relatively modest pace.

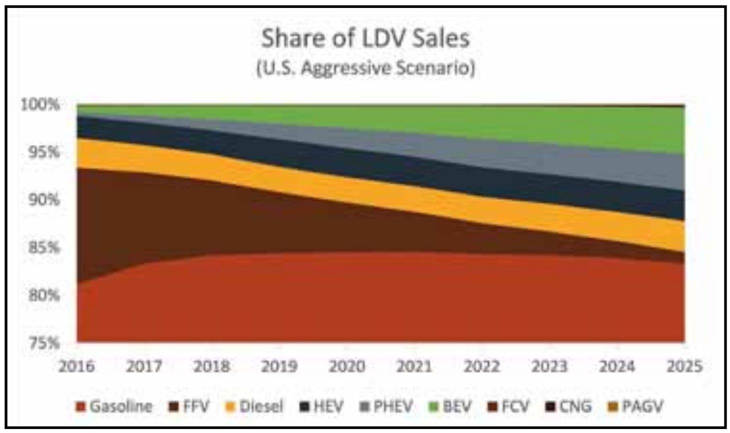
Another factor is the pace of consumer adoption. Following several years of relatively low retail fuel prices, the incentive for consumers to seek alternatives is pretty low. Tesla sold more than 76,000 units in 2016 (a 50% increase over 2015), but these were extremely high end vehicles that do not reflect the financial capabilities of the masses. To better understand the impact of lower fuel prices one should consider the trend of hybrid vehicles.

Hybrids require the consumer to do nothing different – they fuel with gasoline when the tank gets low and the technology significantly boosts their fuel efficiency. The vehicles however typically carry a price tag that is a few thousand dollars higher than their gasoline equivalents. With lower fuel prices, the consumer's return on investment has been harder to justify and sales have dropped from nearly 500,000 in 2013 to less than 350,000 in 2016 and market share of new vehicles sold has plummeted from 3.2% to 1.9%. During this time period, retail gasoline prices dropped from an annual average of $3.49 to $2.13. The relationship between this data indicates that consumers were less driven to seek alternatives as fuel prices declined.

In the absence of an increase in oil and fuel prices, it is difficult to imagine a scenario in which consumer demand for alternative vehicles will naturally increase to levels that would result in a quick overhaul of the vehicle market. Adding to the challenge, electric vehicles require a change in consumer behavior, presenting another hurdle that must be overcome to generate sales.

A forecast prepared for the Fuels Institute by Navigant Research projects electric vehicles (fully battery electric and plug in hybrids) could amass about 8% of new cars sold by 2025, provided oil prices recover and battery costs drop faster than is generally expected. The corresponding forecast for electric vehicles on the road in 2025 is only 3.25%.

Source: WardsAuto



Source: Fuels Institute, Navigant Research

Realistically, when?

The head of Mercedes-Benz was quoted in a car magazine earlier this year saying that electric vehicles will only gain market share when they truly compete with internal combustion engines, independent of government incentives. "That's on one hand a performance issue…in terms of range and charging times. The other side is the cost-price issue. The customer doesn't want to do it for Planet Earth…but because it's the better choice for them."

The performance capabilities are coming online, but it may be some time before the economics come in line with consumer demands. The industry is making great progress, but it will likely take many years before sales eclipse the 10% market share threshold and, given the pace of fleet turnover, it will be much longer before they represent 10% of vehicles on the road.

I aggressively believe that U.S. sales could reach 20% by the early 2030s and vehicles on the road could pass 10% by the end of that decade. While my prediction is much more conservative than most advocates of the technology, I am being much more aggressive than even the Energy Information Administration, which believes liquid fuels will still represent 96% of transportation energy in 2040.

The day of the electric vehicle is in front of us, that is no longer in dispute. But how far in front of us will continue to be debated for many years or decades to come. ★

John Eichberger

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.

Previously, Eichberger served more than 14 years at NACS, most recently as Vice President of Government Relations and previously as Director of Motor Fuels. In these roles, he oversaw the association's comprehensive advocacy operations and represented the industry before the media and federal government. He joined NACS in 2000 after serving two years as an energy and environment policy advisor to Rep. Greg Ganske of Iowa.

With more than 17 years of related experience, Eichberger is a recognized expert on motor fuels and the fuels retailing industry. He has testified before Congress, regularly speaks to a wide variety of industry groups, is frequently seen as a guest on CNBC's Squawk Box and is often quoted by national media outlets.

Inside
FAMILY BUSINESS

BY RONALD C. REECE. PH. D.

Business Family Philosophies: Food for Thought

Below are eight models describing constructs of what a business family might currently be or strive to be in the future. Each has its pro's and con's, and each has particular implications for the business family. I am not sure of the source, but I have been using this in family business retreats as a discussion tool for many years. I will ask each family member to read through the different models and then pick one he or she believes is most representative of the family at the time. I ask everyone to reveal their choices simultaneously. Then the discussion begins.

Family members use these examples to explore and develop their philosophy for what they would like the family and the business to become or to reinforce what position is already held in the present. The ensuing discussion will often reveal family values, each family member's personal hopes for his/her future, as well as his/her hopes for the active business and the family assets.

Quite often there is a realization that their business family is a mix of different aspects from two or three of the models. Maybe you will want to have everyone read and respond at your next family business meeting. Or maybe just distribute and see what happens.

Royal Families

- Believe that the right to run the business belongs to the oldest son who is also usually the first child to enter the business.
- Believe that only sons belong in the business over the long term and that daughters should seek out other alternatives and commitments.
- The "royalty" principle is the decision of who can enter or share ownership in the business. For these families, only male children or male first cousins may participate in the business.

Anarchic Families

- There are no rules to guide future plans.
- Parents believe that all children should have both an ownership stake and a voice in corporate affairs.
- Each child should be master of his/her own destiny.
- Offspring may leave and join the company at will.
- Family has no vehicle for resolving conflicts and no policy to guide the growth of the business.
- Ownership becomes dispersed broadly across the family and is unrelated to roles within the business.
- All family members have a say, whether they contribute to the business or not.
- The family does not have to face the difficulties of planning, but it also loses its ability to shape the future.
- Decisions are made on an ad hoc basis.
- The "winners" are usually those who out-manipulate other family members.

Laissez-faire Families

- Allow everyone to do what he/she wants to do.
- Believe so strongly that each child should govern his/her own affairs that they plan to sell the business at some point.
- They will give the money from the sale of the company to their offspring in equal shares to do with as they will.
- The business never becomes the source of family conflicts. At the same time, the family will eventually lose the business.

Social Democratic Families

- Believe that all their children should be given equal opportunities and equal shares of all family resources.
- Those who choose to enter the business or qualify to enter the business should share equally in its ownership.
- They should make decisions in the business as equal partners and share equal titles.
- Those who are not in the business receive assets of equal value—in real estate, life insurance, stocks, etc. They split their wealth equally among their children.
- Buy-sell agreements are critical to success in these family businesses.
- Partnership agreements and buy-sell agreements recognize that shared ownership in a business may not last.
- The social democratic approach may not be feasible financially and it is hard for many people to run a business as a democracy.

Democratic Capitalist Families

- Believe that one should get what one works for or deserves.
- They think that only family members who work in the business should share in its benefits, in proportion to their contribution.
- Families hand out rewards that distinguish between birthright ("blood equity") and actual contributions to the business ("sweat equity").
- Rewards those who contribute to the business and creates a rationale for distributing resources unequally.

Representative Democracy Families

- Appoints a trustee of some sort to represent the extended family in the business.
- The trustee represents all shareholders in voting matters.
- Equity value is shared among all of them as shareholders or as investors.
- This model helps keep the business in the family since it prevents any one member from selling his shares.
- Its centralized leadership also helps to preserve family harmony.
- The leaders of the business tend to be governed by rules of their own making. Therefore, they might not work for the best interest of the family as a whole.

Pure Capitalist or Entrepreneurial Families

- The founder of the business thinks no one will be able to follow in his footsteps.
- He refuses to select a successor and will eventually sell the business perhaps to employees through an employee stock ownership plan or perhaps to another company.
- The entrepreneur is willing to share some of the resulting cash with his children.
- It will be granted as seed money or new businesses. The sum of money available thus becomes a venture capital fund, complete with standards for use of the money and instructions on how to apply for it.
- The original business, along with a good deal of tradition and heritage, passes out of the family's hands.

Utopian Families

- Believe that its business is a great resource around which to build both an empire and a closer, more vigorous family.
- This family is committed to high ideals and is unafraid of hard work.
- Recognizes that all businesses have periods of prosperity and decline. ▶

- The family's multiple investments allow its mature and profitable concerns to fund the development of riskier and more experimental endeavors.
- The family believes everyone in the family should benefit from the business and its resources, whether they work in it or not.
- The utopian model offers exciting ideas. This system benefits the whole family and simultaneously attends to business needs as they change.
- It requires a great deal of hard work and intelligent planning. Only families that already have very successful businesses should consider this model.

Many years ago working with a family of 5 in the initial exercise, they all agreed they were indeed Anarchic in their approach. Indeed they were. Sadly, I never got them to move any substantial distance beyond that. Only once have I worked with a family that, I felt, represented the Utopian model.

The point is that these types of conversations can strengthen a family that has businesses and wealth to deal with and share. The dialogue results in good discovery. ★

Soon,
Ron

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