15 Financial performance of the wholesale and retail sectors

Key points

In 2010–11:

- Unit net profit for all products sold in the wholesale sector was 1.96 cents per litre (cpl). This represents total net profit of $966 million on sales of 49.4 billion litres of fuel and total revenues of $37.9 billion.
  - Petrol products earned unit net profit of 1.05 cpl in the wholesale sector, or $196 million on sales of 18.6 billion litres of petrol and revenues of $14.1 billion.
  - Diesel earned unit net profit of 0.87 cpl, or $175 million on sales of 20.1 billion litres and revenues of $15.7 billion.
- The retail sector's unit net profit for all products was 2.06 cpl, or $359 million on sales of 17.4 billion litres and revenues of $17.0 billion.
  - Petrol products earned a unit net profit of about 1.46 cpl, or $181 million on volumes of 12.4 billion litres and sales of $10.3 billion.
    - RULP products earned a unit net profit of about 0.76 cpl, or $53 million on volumes of 7.0 billion litres and sales of $5.7 billion.
    - PULP products earned a unit net profit of about 3.84 cpl, or $110 million on volumes of 2.9 billion litres and sales of $2.6 billion.
    - EBP products earned a unit net profit of about 0.72 cpl, or $18 million on volumes of 2.5 billion litres and sales of $2.0 billion.
  - Diesel products earned a unit net profit of about 1.99 cpl, or $73 million on volumes of 3.7 billion litres and sales of $3.2 billion.
  - Convenience store sales earned a total net profit of $139 million, with revenues of around $2.7 billion.

15.1 Overview of financial performance in the wholesale and retail sectors

In 2010–11, estimated unit net profit (defined as earnings before interest and taxes, or EBIT) for the wholesale sector was about 1.96 cpl (or $966 million in total).

In 2010–11, sale volumes and net profit in the wholesale sector were above the average over the period 2002–03 to 2010–11, while sale volumes of petrol were slightly below the average.

Table 15.1 shows 2010–11 sale volumes and net profits in the wholesale sector, for all products as well as for petrol products, that is, regular unleaded petrol (RULP), premium unleaded petrol (PULP), ethanol blended petrol (EBP), as well as diesel and other products and their average for the period 2002–03 to 2010–11.

Table 15.1 Sale volumes and net profits (EBIT) in the wholesale sector: 2010–11 and the average from 2002–03 to 2010–11

		2010–11	2002–03 to 2010–11 average
All products	Sale volumes (ML)	49 358	46 448
	EBIT ($ million)	966	670
	Unit EBIT (cpl)	1.96	1.44
Petrol	Sale volumes (ML)	18 649	19 171
	EBIT ($ million)	196	27
	Unit EBIT (cpl)	1.05	0.14
Diesel	Sale volumes (ML)	20 127	17 259
	EBIT ($ million)	175	150
	Unit EBIT (cpl)	0.87	0.87
Other products (incl. lubricants and engine oils)	Sale volumes (ML)	1 312	1 663
	EBIT ($ million)	472	449
	Unit EBIT (cpl)	35.96	27.01

Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

Sale volumes and net profit in the retail sector were also above average. In the case of the retail sector, the average is calculated for the period 2005–06 to 2010–11.

Table 15.2 shows sale volumes and net profits in the retail sector for all products and for petrol products, as well as results for RULP, PULP, EBP and diesel. The table also shows total revenue and EBIT for convenience store sales in 2010–11, and the average of convenience store sales from 2006–07 to 2010–11.

The unit net profit in 2010–11 for all products in the retail sector was about 2.06 cpl (or $359 million in total). For petrol products alone, unit net profit was about 1.46 cpl (or $181 million in total).

In 2010–11, while volumes for RULP were below the average from 2005–06 to 2010–11, unit profits were higher than average over this period. On the other hand, volumes for PULP, EBP and diesel were notably higher than their respective averages for 2005–06 to 2010–11. The unit net profit for PULP was also higher than the long-term average.

In 2010–11, convenience store sales earned around 39 per cent of total net profits in the retail sector, or about $139 million.

Table 15.2 Sale volumes and net profits (EBIT) in the retail sector: 2010–11 and the average from 2005–06 to 2010–11

		2010–11	2005–06 to 2010–11 average
All products	Sale volumes (ML)	17 437	15 863
	EBIT ($ million)	359	245
	Unit EBIT (cpl)	2.06	1.54
Petrol products	Sale volumes (ML)	12 400	11 746
	EBIT ($ million)	181	93
	Unit EBIT (cpl)	1.46	0.79
RULP	Sale volumes (ML)	7 048	8 432
	EBIT ($ million)	53	52
	Unit EBIT (cpl)	0.76	0.62
PULP	Sale volumes (ML)	2 863	2 165
	EBIT ($ million)	110	35
	Unit EBIT (cpl)	3.84	1.60
EBP	Sale volumes (ML)	2 490	1 150
	EBIT ($ million)	18	6
	Unit EBIT (cpl)	0.72	0.56
Diesel	Sale volumes (ML)	3 682	2 805
	EBIT ($ million)	73	58
	Unit EBIT (cpl)	1.99	2.08
Convenience stores	Revenue ($ billion)	2.7	2.3
	EBIT ($ million)	139	101

Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

Note: Average convenience store revenue and EBIT is for the period 2006–07 to 2010–11.

The rest of the chapter considers the performance of both the wholesale and retail sectors in detail and analyses the performance of each sector at a number of levels, including by:

- total sector performance, for all products
- results for the suite of petrol products
- results for individual products.

15.2 Wholesale sector: revenues, costs and profits

The refiner-marketers operate in the wholesale sector and have substantial networks in most states. A number of independent wholesalers also compete in the wholesale sector. These independent wholesalers source fuel from the refiner-marketers and increasingly from imports.[275] Some refiner-marketers and other wholesalers supply their own retail outlets.

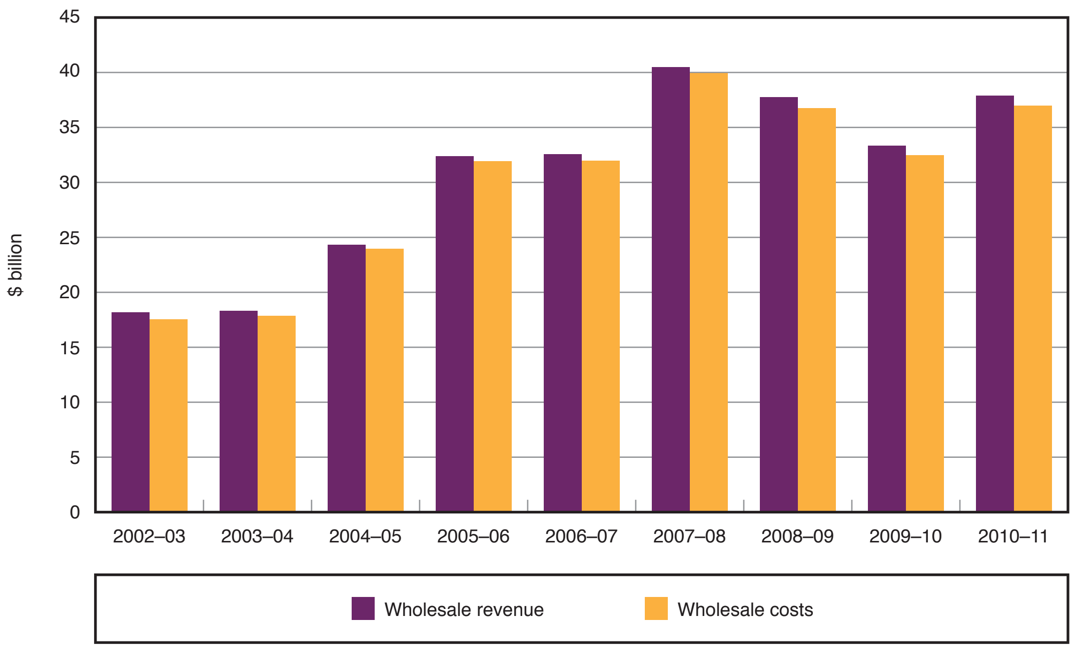
Financial analysis of the wholesale sector covers the four refiner-marketers—Mobil, Caltex, Shell and BP—and the larger independent wholesalers—United Petroleum, Liberty Petroleum, Neumann Petroleum and Gull Petroleum.

The refiner-marketers dominate the petroleum wholesale sector with around 93 per cent of total volumes of petroleum products sold.

15.2.1 Wholesale sector: revenues and costs, all products

In the wholesale sector, companies earn revenue from the sale of products to the general commercial sector as well as to end users and retailers. Chart 15.1 displays total revenues and costs for the wholesale sector from 2002–03 to 2010–11.

Chart 15.1 Wholesale sector revenues and costs, all products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

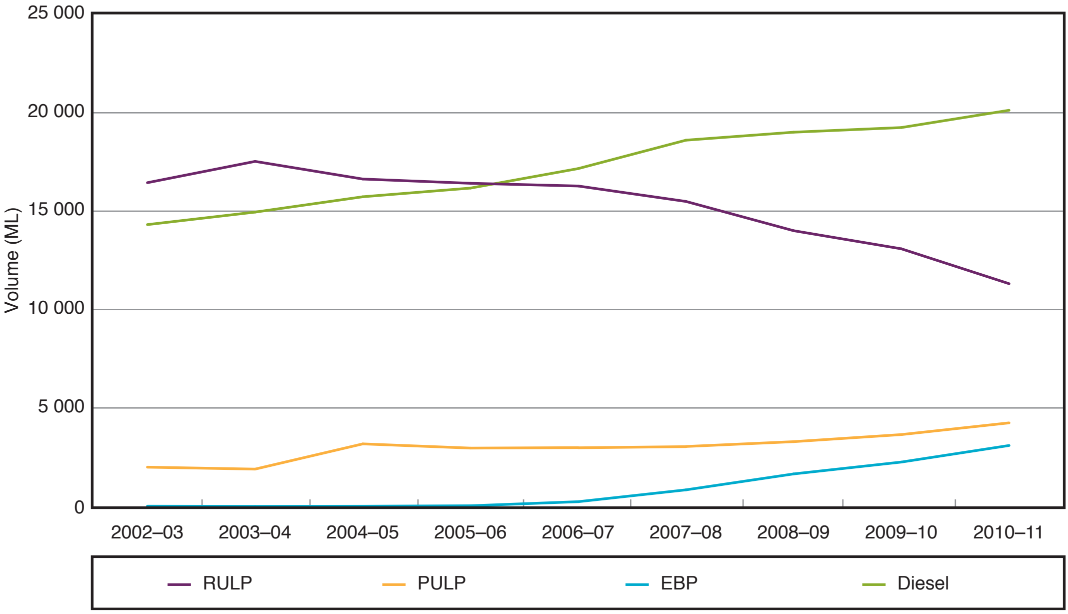
275 Volumes of independent imports are included in data for the wholesale sector. Imports by refiner-marketers are included in the data for total supply sector.

Total revenues in the wholesale sector increased by 13.7 per cent in 2010–11 to about $37.9 billion. Total costs increased by 13.9 per cent to around $37.0 billion. The general movements in total revenues and costs in the wholesale sector are influenced by changes in the international price of petrol.

Chart 15.2 displays volumes sold in the wholesale sector from 2002–03 to 2010–11 by type of product, including RULP, PULP, EBP and diesel.

Sales of diesel increased by 4.6 per cent from the previous year and represented the largest product share of total wholesale volumes in 2010–11 (40.8 per cent). Total RULP volumes declined again, continuing the long-term trend. In 2010–11, RULP volumes represented 22.9 per cent of total volumes, down 31.2 per cent from 2002–03.

Chart 15.2 Wholesale sector sales volumes by product: 2002–03 to 2010–11



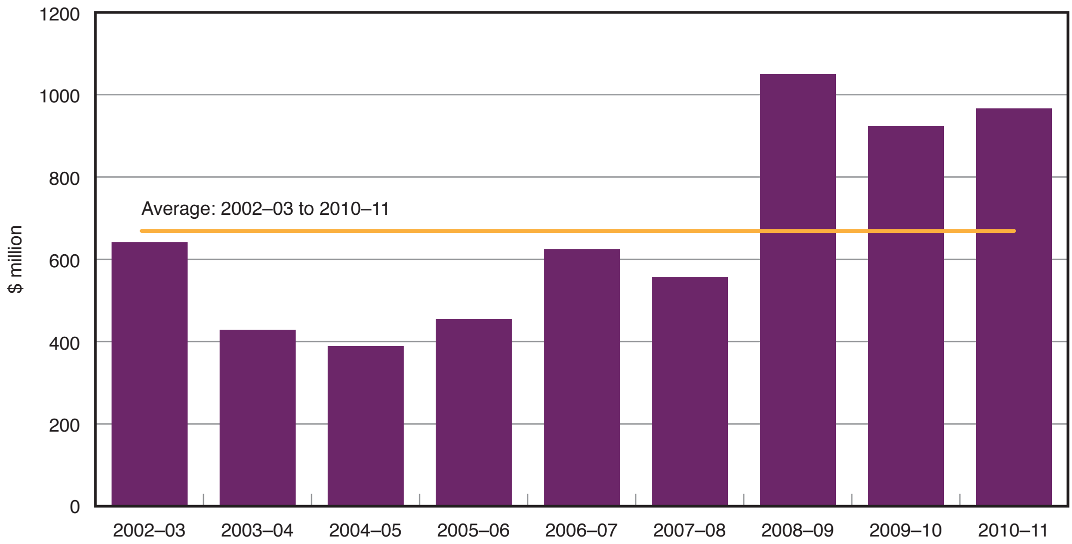
Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

15.2.2 Wholesale sector: total and unit net profits, all products

A number of profitability measures are used in the analysis of monitored firms in the downstream petroleum industry. As discussed in chapters 13 and 14, the key measure of profit used by the ACCC is net profit or adjusted EBIT. This is a standard accounting measure of earnings accruing to shareholders.

Chart 15.3 displays net profit for the wholesale sector for all products, that is, unleaded petrol products (RULP, PULP and EBP), diesel, automotive LPG and other petroleum products, from 2002–03 to 2010–11. The chart shows that wholesale net profit for 2010–11 was about $966 million, compared with the average net profit of about $670 million over the period from 2002–03 to 2010–11. In contrast to the refinery and total supply sectors, the wholesale sector's net profits have been less volatile.

Chart 15.3 Wholesale sector net profit, all products: 2002–03 to 2010–11

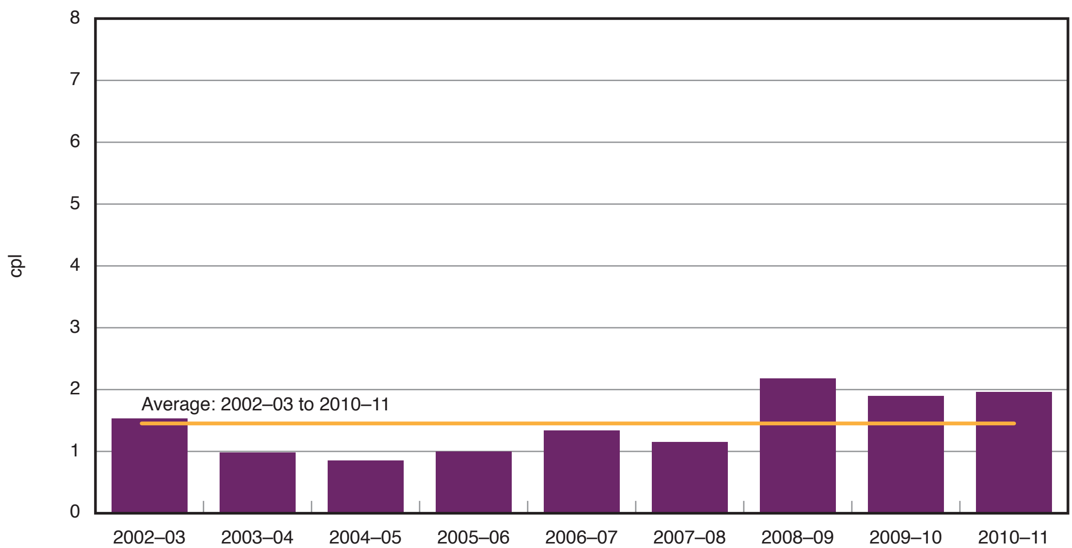


Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

Unit profit measures are expressed in cents per litre and are derived by dividing total net profit by total volumes sold in the financial year. Chart 15.4 displays unit net profit in cents per litre (adjusted EBIT cpl) for the wholesale sector for the period 2002–03 to 2010–11.

Unit net profit for the wholesale sector has remained relatively stable in recent years. In 2010–11, unit net profit was 1.96 cpl, compared with the average unit net profit for the time series of 1.44 cpl. The unit net profit has ranged from a low of 0.85 cpl in 2004–05 to a high of 2.18 cpl in 2008–09.

Chart 15.4 Wholesale sector unit net profit, all products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

15.2.3 Wholesale sector: other key performance indicators

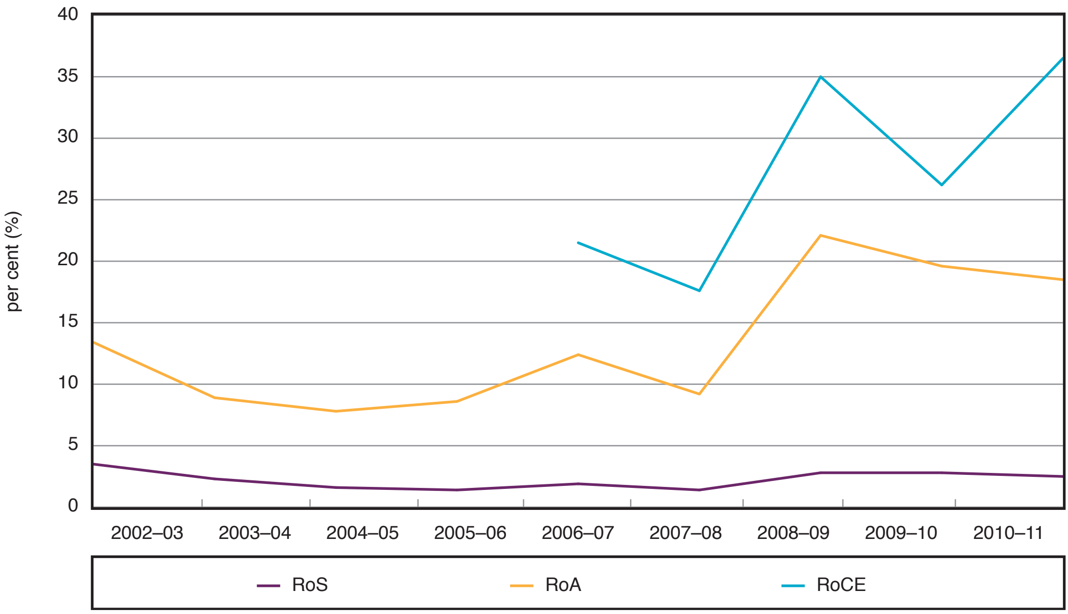
Other profit KPIs used to assess wholesale sector performance include return on sales (RoS), return on assets (RoA) and return on capital employed (RoCE). For further detail on these KPIs refer to box 13.1 in chapter 13.

Chart 15.5 shows RoS and RoA for the period 2002–03 to 2010–11. RoCE is shown for the period 2006–07 to 2010–11.

Observations from this chart include:

- RoS in 2010–11 was 2.5 per cent. This compares with an average of 2.2 per cent for the period 2002–03 to 2010–11.
- RoA for the wholesale sector was 18.5 per cent in 2010–11. The average RoA for the entire time series was 13.2 per cent.
- RoCE was 36.5 per cent in 2010–11, compared with the long-term average of 27.0 per cent.

Chart 15.5 Wholesale sector return on sales, return on assets and return on capital employed, all products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

15.3 Wholesale sector: revenues, costs and profits—petrol products

Section 15.2 discussed total revenues, costs and profits for all wholesale activities conducted by the monitored firms. This includes sales of all petroleum and other products to the retail and commercial sectors.

This section discusses the revenues, costs and profits associated with the wholesaling of petrol products only. Petrol products include RULP, PULP and EBP.

Data provided by monitored firms has allowed assessment of revenues and purchases by product. However, as was the case in the refinery sector, it has been necessary to allocate costs in order to assess net profits by product. Sale volumes in the wholesale sector were used to prorate costs across products and calculate net profits by product.

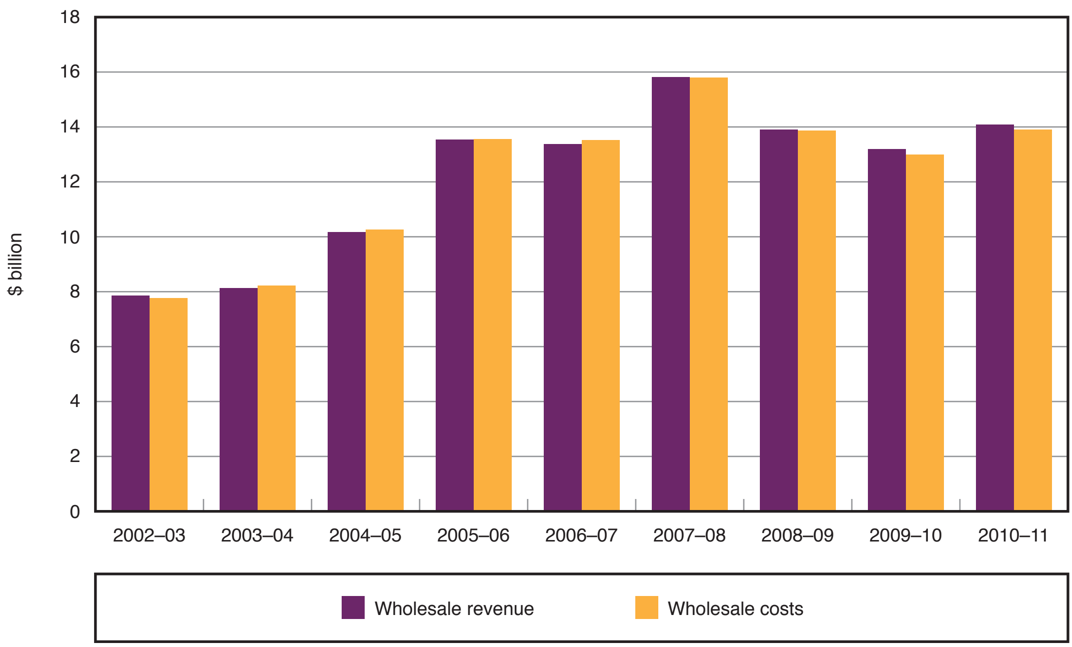
15.3.1 Wholesale sector: revenues and costs, petrol products

Revenues and costs associated with buying and selling petrol products in the wholesale sector are presented in chart 15.6.

After two years of declining revenues and costs since 2007–08, revenues for petrol in the wholesale sector increased to about $14.1 billion in 2010–11. Costs increased to $13.9 billion.

Overall petrol volumes traded in the wholesale sector decreased by 1.8 per cent to 18 649 megalitres in 2010–11. Over the last three years to 2010–11, total petrol volumes in the wholesale sector have remained relatively stable. Movements in the associated revenues and costs have been affected by changes in oil and refined product prices observed in international markets.

Chart 15.6 Wholesale sector revenues and costs, petrol products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

15.3.2 Wholesale sector: total and unit net profits, petrol products

This section presents estimates of total net profits (adjusted EBIT) and unit net profits (expressed in cents per litre) for petrol products for the wholesale sector. Adjusted EBIT is a standard accounting measure of net earnings accruing to shareholders.

Chart 15.7 displays net profit on petrol for the wholesale sector since 2002–03. Chart 15.7 indicates that:

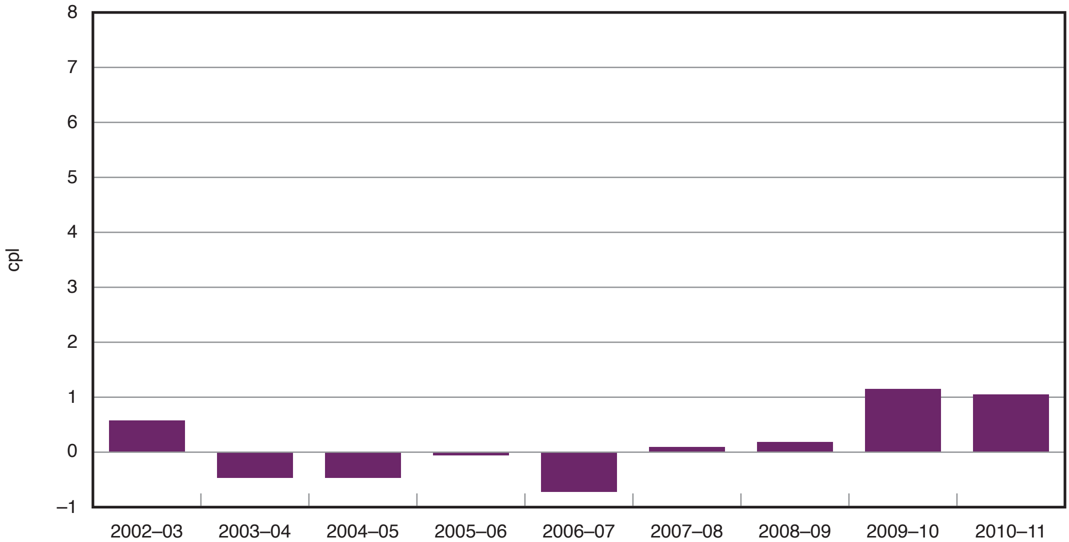
- In 2010–11, net profit was about $196 million. This compares with the long-term average of $27 million.
- In contrast to total sector profits, profits in the wholesale sector on petrol products have been volatile, with negative returns in four of the nine years since 2002–03. Assessing the profitability of petrol products using data for any one year may provide a misleading picture of the overall performance of the sector.

Chart 15.7 Wholesale sector net profit, petrol products: 2002–03 to 2010–11

Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

Chart 15.8 displays unit net profit for petrol products (that is, in cents per litre) in the wholesale sector from 2002–03 to 2010–11.

Chart 15.8 Wholesale sector unit net profit, petrol products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

Chart 15.8 indicates that for petrol products in the wholesale sector:

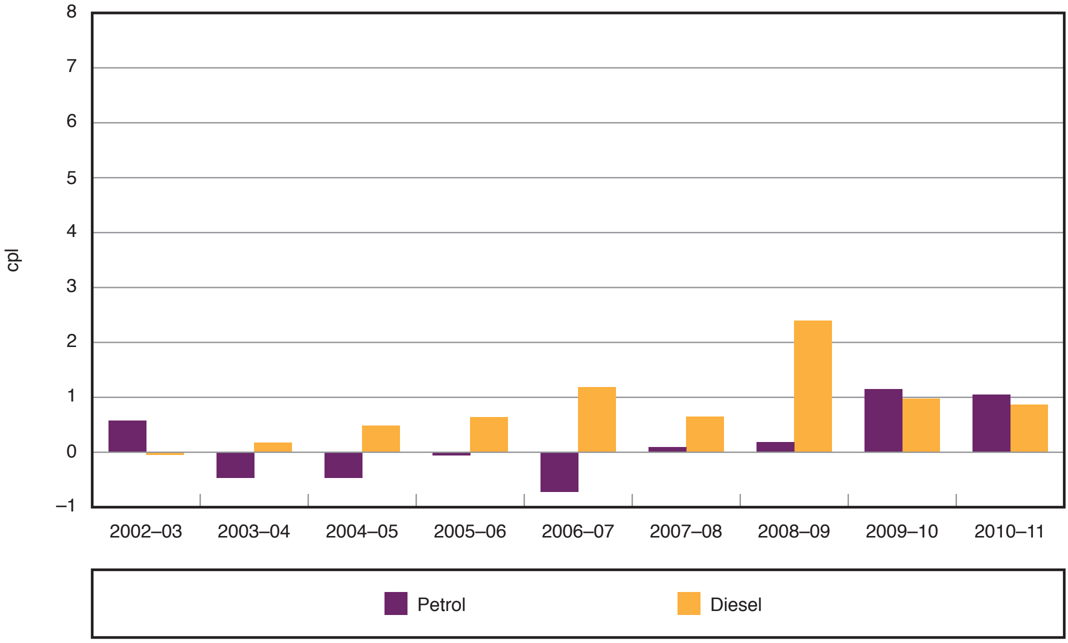
- Unit net profit was 1.05 cpl in 2010–11, compared with the average unit net profit of 0.14 cpl over the period 2002–03 to 2010–11.
- Unit net profits have ranged from a low of negative 0.72 cpl in 2006–07 to a high of 1.15 cpl in 2009–10.

15.3.3 Wholesale sector: comparison of unit net profit for petrol and diesel

This section compares unit net profit of petrol products (RULP, PULP and EBP) with diesel. Chart 15.9 displays unit net profit for petrol and diesel in the wholesale sector since 2002–03. Points from the chart include:

- In 2010–11, diesel unit net profit was 0.87 cpl while unit net profit for petrol products was 1.05 cpl.
- Since 2002–03, average unit net profit for diesel has been 0.87 cpl while the unit net profit for petrol has averaged 0.14 cpl.
- Diesel unit net profit has been relatively more consistent over the period. These positive profits are partly linked to the increase in diesel volumes, increasing from 34 per cent of total wholesale volumes in 2002–03 to about 41 per cent in 2010–11. Petrol volumes over the same period have declined from 44 per cent to around 38 per cent of total wholesale volumes.

Chart 15.9 Wholesale sector unit net profits, petrol products and diesel: 2002–03 to 2010–11



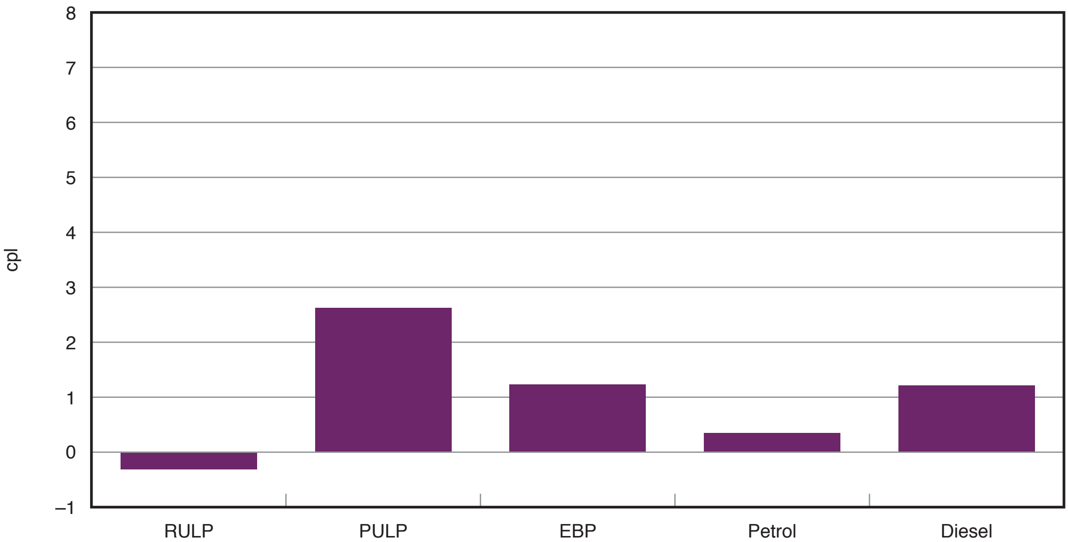
Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

15.3.4 Wholesale sector: unit net profits by product

This section breaks down the components of petrol profits and estimates the individual profitability of RULP, PULP, EBP and diesel in the wholesale sector. Chart 15.10 displays the average unit net profit by product from 2006–07 to 2010–11. The chart indicates that:

- Over the past five years, unit net profit for PULP has averaged about 2.63 cpl.
- The average unit net profit for RULP has been negative while the unit net profit for all petrol products (RULP, PULP and EBP) averaged around 0.35 cpl.
- Diesel unit net profit has averaged 1.22 cpl over the period.

Chart 15.10 Wholesale sector estimated unit net profits by product: average from 2006–07 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

15.4 Comparison of the profitability of the petroleum wholesale sector with other Australian industries

The ACCC has developed benchmarks for assessing profits in the Australian petroleum wholesale sector, represented by the firms monitored by the ACCC, relative to other selected Australian wholesaling industries. The ACCC has compared monitored firms with companies which operate in selected Australian wholesaling industries, such as chemical, grocery and motor vehicle wholesaling.

Three KPIs are used for the purpose of this comparative analysis: return on sales (RoS), return on assets (RoA) and return on capital employed (RoCE). The caveats discussed in chapter 13 about comparing the profitability of various industries using standard KPIs also apply in this section.

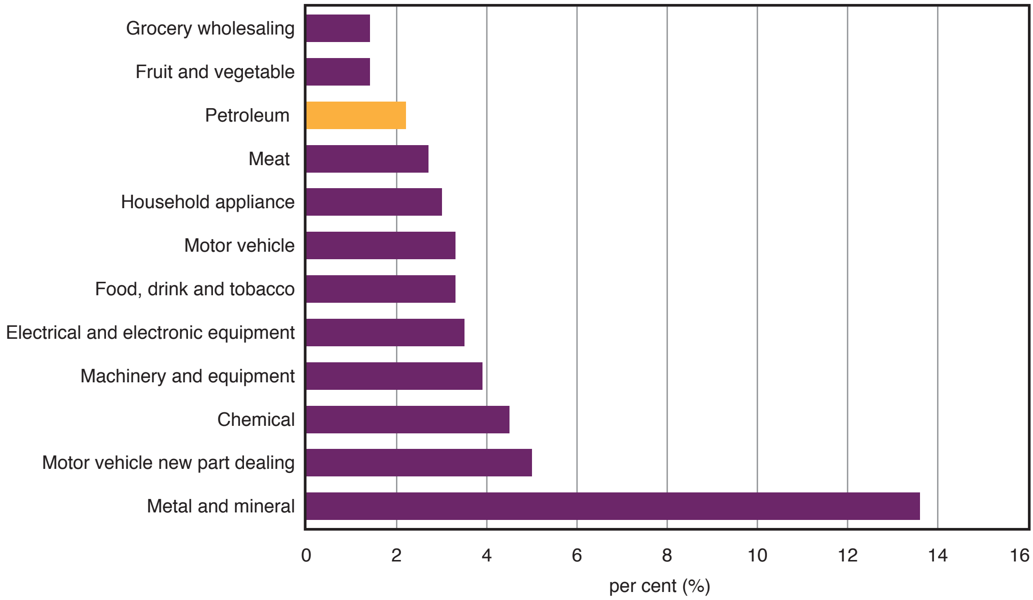
15.4.1 Wholesale sector comparative analysis: return on sales

Chart 15.11 presents average RoS for the period 2002–03 to 2010–11 for the petroleum wholesale sector compared with other selected Australian wholesaling industries.

Observations from the chart include:

- The RoS for the petroleum wholesale sector for the period 2002–03 to 2010–11 was about 2.2 per cent. This rate is lower than most other industry groupings. Firms in high-volume, low-margin industries generally have lower than average RoS.
- Other wholesale industries with lower RoS were grocery wholesaling and fruit and vegetable wholesaling, both with returns of around 1.4 per cent.

Chart 15.11 Average return on sales of the petroleum wholesale sector and other domestic wholesale industries: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process and Bloomberg database.

Note: Not all companies have data for all years. Some companies report on a calendar year or other annual basis. Industries have been chosen on the basis of the largest number of firms within each industry (minimum number of firms in each industry is five).

15.4.2 Wholesale sector comparative analysis: return on assets

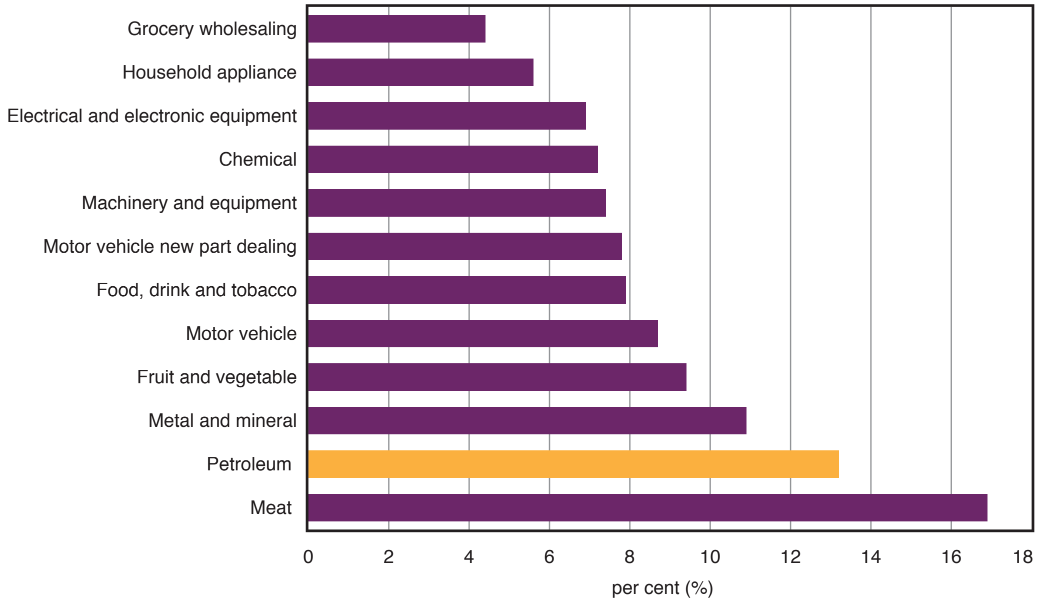
This section compares the RoA in the Australian petroleum wholesale sector with other selected wholesaling industries. As noted in chapter 13, RoA provides a clearer indication of relative profitability for firms in high-volume, low-margin industries.

However, as noted in chapters 13 and 14, it is important to treat estimates of RoA with caution as they may be affected by different approaches to asset valuation and by differences in companies' asset age profiles. All else equal, asset values will tend to be lower for assets that are old and valued in terms of depreciated historical cost than relatively new assets valued on a replacement cost basis. Data for the petrol monitoring program has been reported to the ACCC on the basis of historical cost.

Chart 15.12 presents average RoA for the period 2002–03 to 2010–11. Points from the chart include:

- The petroleum wholesale sector average RoA was 13.2 per cent.
- This rate of return is at the higher end of the selected wholesale industry groupings. Only meat wholesaling exceeded petroleum wholesaling, with an average RoA of 16.9 per cent.

Chart 15.12 Average return on assets of the petroleum wholesale sector and other domestic wholesalers: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process and Bloomberg database.

Note: Not all companies have data for all years. Some companies report on a calendar year or other annual basis. Industries have been chosen on the basis of the largest number of firms within each industry (minimum number of firms in each industry is five).

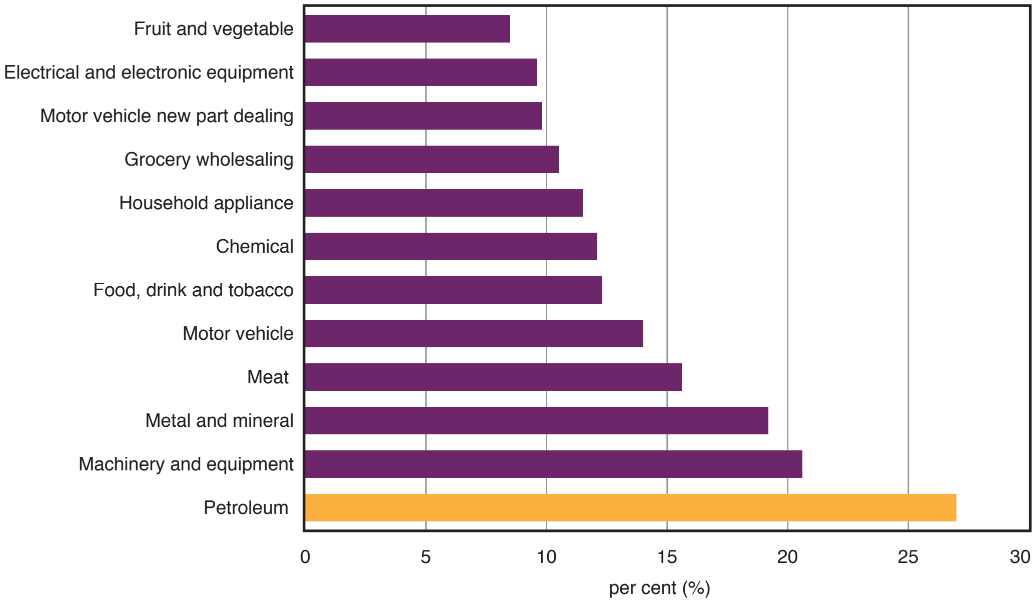
15.4.3 Wholesale sector comparative analysis: return on capital employed

This section compares RoCE in the petroleum wholesale sector with other selected Australian wholesaling industries.

Chart 15.13 shows comparative data for RoCE for the period 2006–07 to 2010–11. Observations from this chart include:

- RoCE for the petroleum wholesale sector was around 27 per cent.
- This was the largest return on capital among the selected industry groupings. The next largest grouping was machinery and equipment, with a return of around 21 per cent.

Chart 15.13 Average return on capital employed of the petroleum wholesale sector and other domestic wholesalers: 2006–07 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process and Bloomberg database.

Note: Not all companies have data for all years. Some companies report on a calendar year or other annual basis. Industries have been chosen on the basis of the largest number of firms within each industry (minimum number of firms in each industry is five).

15.5 International comparative analysis: Australian and international petroleum wholesale sectors

In the previous section, the petroleum wholesale sector was compared with other Australian wholesale industries. This section provides a comparison between the Australian petroleum wholesale sector and an average of selected overseas petroleum wholesale sectors.

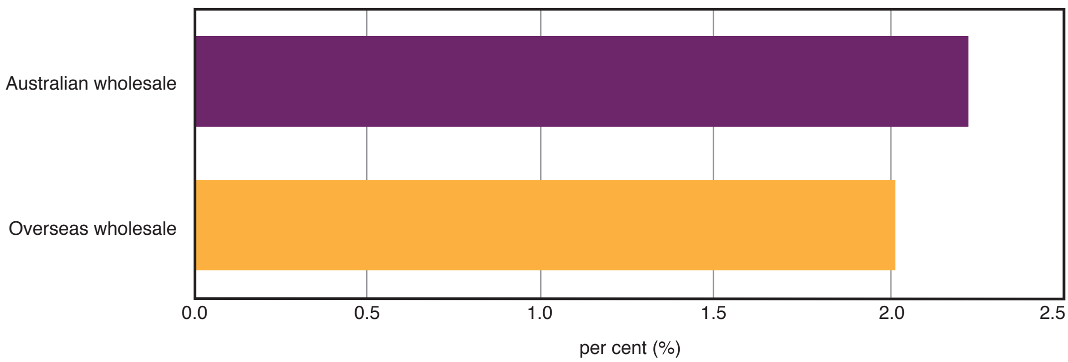
The following two sections compare RoS and RoA. The overseas companies selected for this comparative analysis include around 27 companies from multiple countries whose primary activity is the wholesaling of petroleum products. The comparison period is 2002–03 to 2010–11.

15.5.1 Wholesale sector international comparison: return on sales

Chart 15.14 displays average RoS for the Australian petroleum wholesale sector and for similar overseas businesses.

The average RoS for the Australian wholesale sector for the period 2002–03 to 2010–11 was 2.2 per cent, broadly comparable with the average for overseas companies of 2.0 per cent.

Chart 15.14 Average return on sales of the domestic petroleum wholesale sector and international petroleum wholesale sector: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process and Bureau van Dijk Orbis database.

Notes: Not all companies have data for all years. Some companies report on a calendar year or other annual basis.

The selection of an overseas company was based on the following criteria: it had to be based in an OECD country; be non-government owned; and have annual turnover greater than USD 10 million. Companies were also screened on the basis of their activity profile to ensure comparability with Australian downstream petroleum companies. That is, they had to derive their income from the refining and marketing of petroleum products. Major international refiner-marketers with large upstream activities, such as ExxonMobil, British Petroleum and Chevron, were excluded from the sample. A company was also excluded if it had significant non-petroleum related secondary activities, such as chemical manufacturing or gas-related activities. Calculations are based on a sample of 27 international wholesalers.

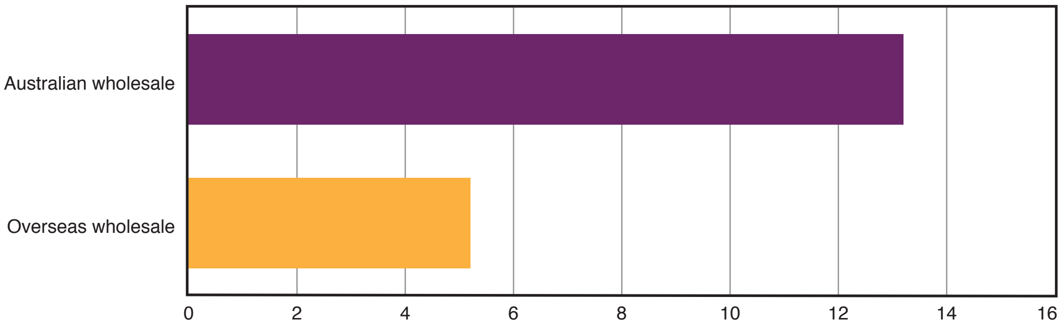
15.5.2 Wholesale sector international comparison: return on assets

Chart 15.15 displays average RoA for the period 2002–03 to 2010–11 for the Australian petroleum wholesale sector and for the same overseas units presented in section 15.5.1.

The cautionary caveats outlined in section 15.4.2 regarding difficulties in comparing rates of return on assets across firms and industries should also be noted in respect of data presented in this section.

The average RoA for the Australian petroleum wholesale sector for the period 2002–03 to 2010–11 was 13.2 per cent, comparable with the international average of 5.2 per cent.

Chart 15.15 Average return on assets of the domestic petroleum wholesale sector and international petroleum wholesale sector: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process and Bureau van Dijk Orbis database.

Notes: Not all companies have data for all years. Some companies report on a calendar year or other annual basis.

The selection of an overseas company was based on the following criteria: it had to be based in an OECD country; be non-government owned; and have annual turnover greater than USD 10 million. Companies were also screened on the basis of their activity profile to ensure comparability with Australian downstream petroleum companies. That is, they had to derive their income from the refining and marketing of petroleum products. Major international refiner-marketers with large upstream activities, such as ExxonMobil, British Petroleum and Chevron, were excluded from the sample. A company was also excluded if it had significant non-petroleum related secondary activities, such as chemical manufacturing or gas-related activities. Calculations are based on a sample of 27 international wholesalers.

15.6 Retail sector: revenues, costs and profits

The retail sector in Australia is comprised of a large number of single and multi-site operations. The focus of the analysis in this chapter is on the retail operations of the monitored companies. These include refiner-marketer owned and operated sites, commission agents, franchisees, refiner-marketer branded sites, and various large and small independents. Companies in the retail sector purchase petrol products and other fuels from wholesalers and sell them to the public.

The retail sector increasingly also provides non-fuel services, such as car-wash and ATM facilities. As far as possible, data on non-fuel products and services are presented as 'convenience store' sales throughout the chapter.

As noted in chapters 3, 4 and 16, the retail sector has been among the most dynamic of all sectors in the Australian downstream petroleum industry. In recent years, petrol retailing has undergone significant changes in terms of the number of retail sites, the type of ownership and the general approach to selling petrol to consumers.

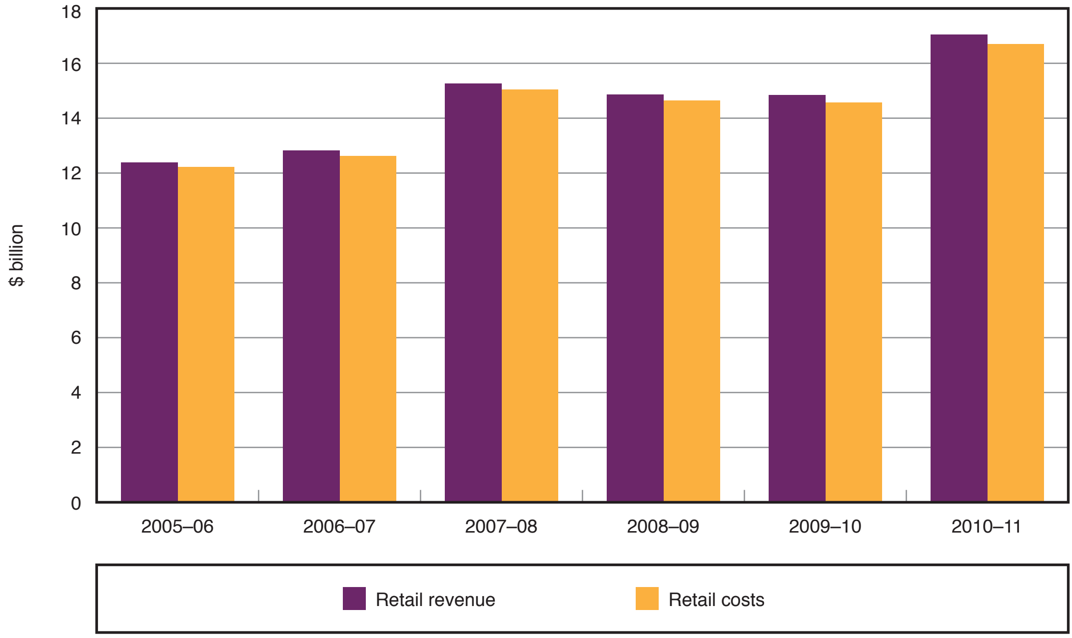
15.6.1 Retail sector: total revenues, costs and volumes, all products and services

The retail sector derives revenues from the sale of all petroleum products (RULP, PULP, EBP, diesel, automotive LPG), lubricants and other convenience store products and services to consumers and other end users.

Convenience services, including ATM hosting, car-wash facilities, gas bottle exchange, trailer hire and general convenience store sales have become a critical element in overall revenue and profitability in the retail sector. The convenience store contribution to profits is discussed in section 15.10.

The retail sector's total revenues and costs are presented in chart 15.16. In 2010–11 total revenue increased by 14.8 per cent to about $17.0 billion. Costs, on the other hand, increased by 14.7 per cent to around $16.7 billion.

Chart 15.16 Retail sector, total revenues and costs, all products and services: 2005–06 to 2010–11

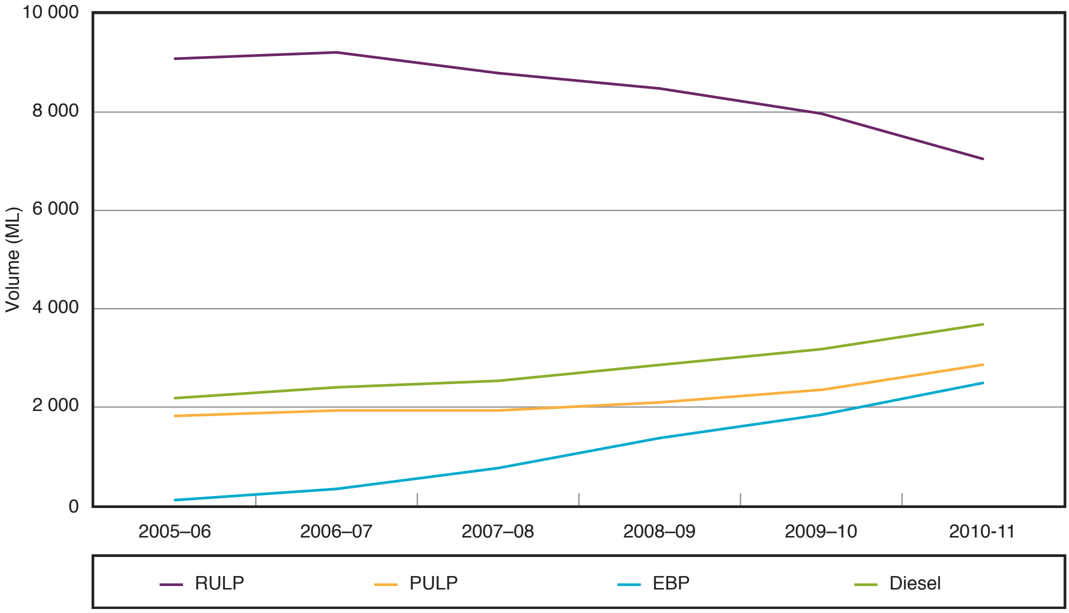


Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

Chart 15.17 displays sale volumes of petrol products and diesel from 2005–06 to 2010–11. In difference to the wholesale sector where diesel had the largest sector share, RULP accounts for the largest volume sales in the retail sector. This is partly due to significant wholesaling of diesel volumes directly to commercial users and the mining industry.

Although sales of RULP are dominant, they have been declining over the past five years. Sale volumes of RULP have fallen by around 22 per cent since 2005–06. In contrast, sales of PULP and diesel have increased, by about 57 per cent and 69 per cent respectively. EBP volumes have also increased from a relatively small base.

Chart 15.17 Retail sector sale volumes by product type: 2005–06 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

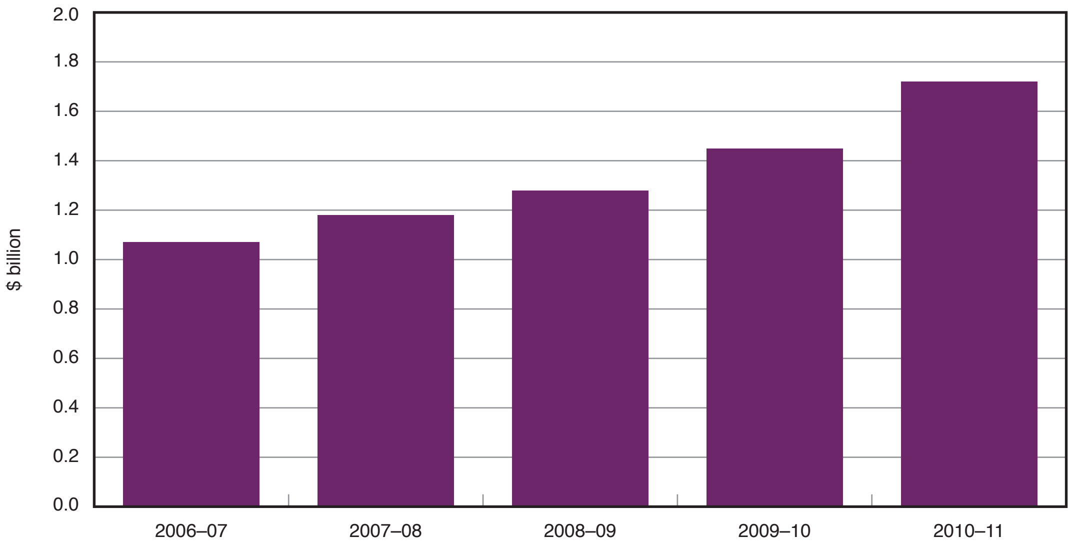
15.6.2 Retail sector: total operating expenses, all products and services

Retail operating expenses are costs other than those associated with the purchase of fuel or convenience store goods for resale. Typical retail operating expenses include wages and salaries, repairs and maintenance, transport costs and utility costs. Note that total changes in operating expenses can be influenced by changes in a company's internal accounting policies or procedures.

Chart 15.18 displays total operating expenses (excluding purchases) from 2006–07 to 2010–11.[276] Operating expenses have risen every year since 2006-07.

276 The ACCC used a slightly modified data collection template prior to 2006–07. Expense aggregates are not available prior to this year.

Chart 15.18 Retail sector, total operating expenses, all products and services: 2006–07 to 2010–11



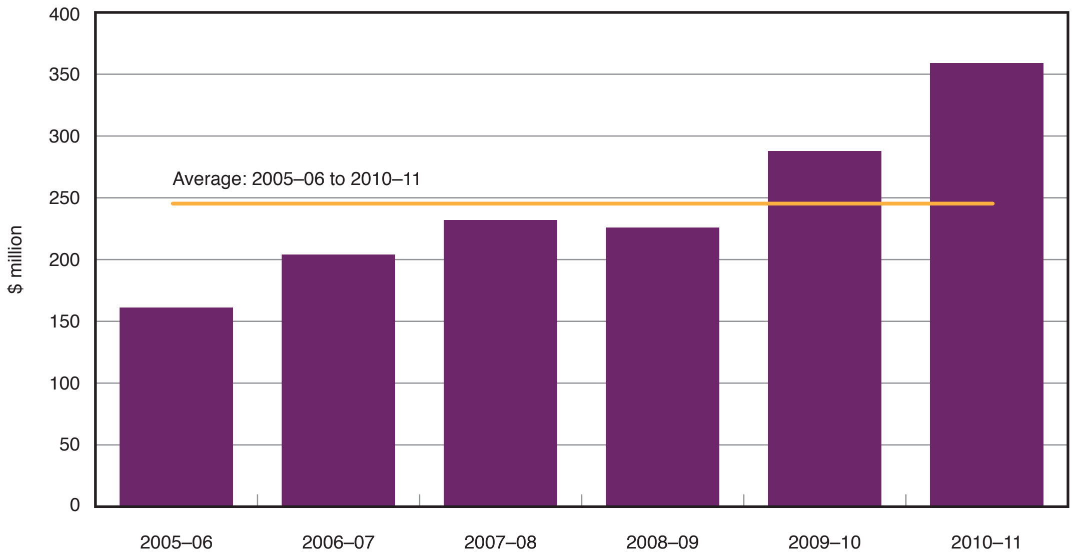
Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

15.6.3 Retail sector: total net profits, all products and services

This section presents estimates of net profits for all products in the retail sector, that is, petrol products (RULP, PULP and EBP), diesel, automotive LPG and other petroleum products and non-fuel products and services. Chart 15.19 displays total net profit for the retail sector from 2005–06 to 2010–11. Points from the chart include:

- Net profit increased to about $359 million in 2010–11. The average net profit over the period 2005–06 to 2010–11 was $245 million.
- Overall retail sector profitability has increased since 2005–06, apart from 2008–09 when there was a decrease of 2 per cent.

Chart 15.19 Retail sector, total net profit, all products and services: 2005–06 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

15.6.4 Retail sector: total net profits per retail site, all products and services

The ACCC has estimated total net profits per retail site. When assessing net profit per site, it is necessary to note that the monitored companies have different ownership and profit-sharing arrangements. Among other things, the operators of retail businesses are not always the owners of those businesses.

In many cases, retailers have staff who manage the retail site and all profits accrue to the owner/s. In other cases, there are profit-sharing arrangements whereby convenience store profits are retained by the operator but profits on fuel sales are shared. Other monitored firms have a profit-sharing arrangement across all products and services with the franchisee of the store.

To calculate convenience store profits, the ACCC has adjusted the methodology that is used in the refinery, total supply and wholesale sectors.

While sales and purchases by type of product in the retail sector can be measured without difficulty, estimating net profits is complicated by the presence of common costs.

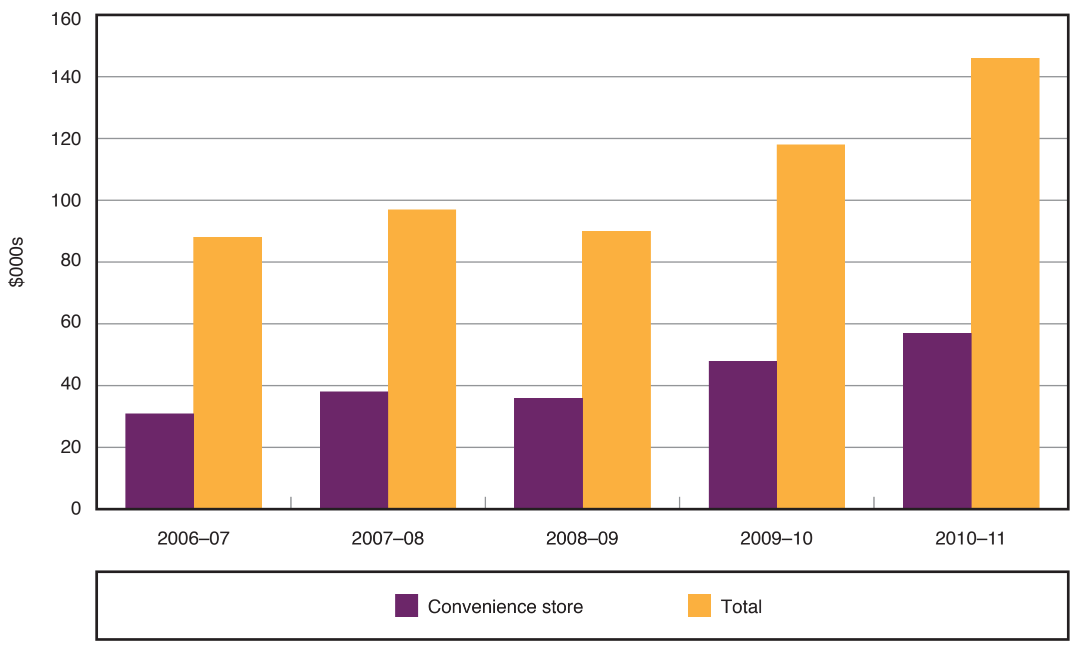
In order to calculate net profits by product, common costs were allocated through a two-stage process. Firstly, gross profit by convenience store and fuel sales were used to prorate costs between these two broad activities. Secondly, costs were then split by product on the basis of the relative product volumes sold.

Chart 15.20 displays total net profit per site and net profits per site for only convenience store sales since 2006–07.[277]

Chart 15.20 indicates that:

- In 2010–11, total net profit per site in the retail sector was about $146 000.
- Convenience store profit increased to around $57 000.
- The share of convenience store profits per site increased from 35 per cent in 2006–07 to 40 per cent in 2009–10. In 2010–11, the share of convenience profits had slightly decreased to 39 per cent of total net profit.

Chart 15.20 Retail sector, estimated total and convenience store net profit per site: 2006–07 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

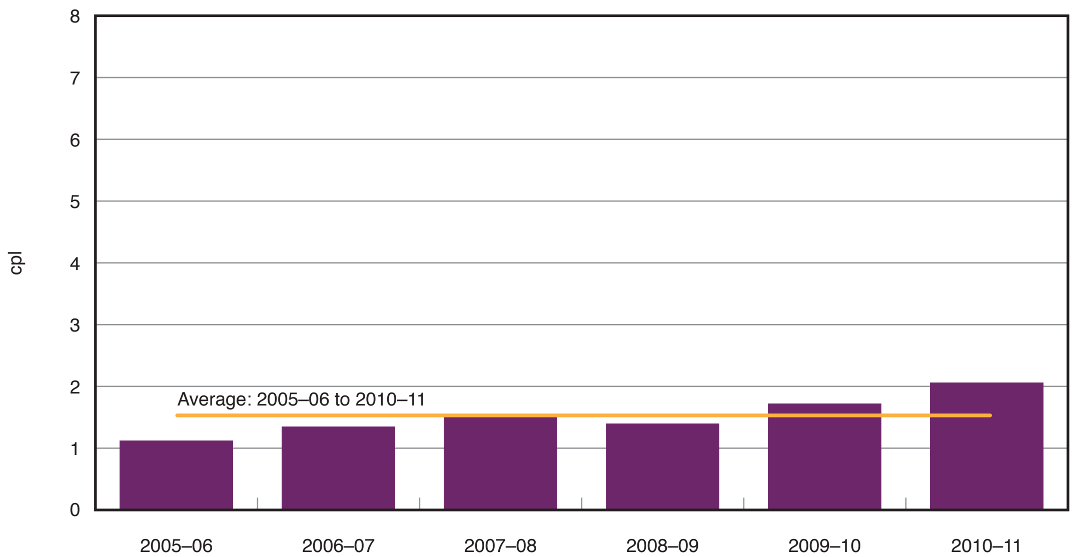
277 Due to data revisions, data presented in this year's monitoring report for net profits per site and in chart 15.20 differ slightly to data presented on pp. 260–1 of the 2010 ACCC petrol monitoring report.

15.6.5 Retail sector: unit net profit, all products and services

Unit net profits for the retail sector are derived by dividing net profit for all petroleum products and convenience store sales by the total volume of petroleum products sold. Chart 15.21 presents unit net profits for the retail sector for each year from 2005–06 to 2010–11. The chart shows that:

- In 2010–11, unit net profit for the retail sector for all petroleum products and convenience store sales was 2.06 cpl.
- The average unit net profit for the retail sector for the period 2005–06 to 2010–11 was 1.54 cpl.

Chart 15.21 Retail sector, unit net profit, all petroleum products and convenience store products and services: 2005–06 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

15.6.6 Other key performance indicators

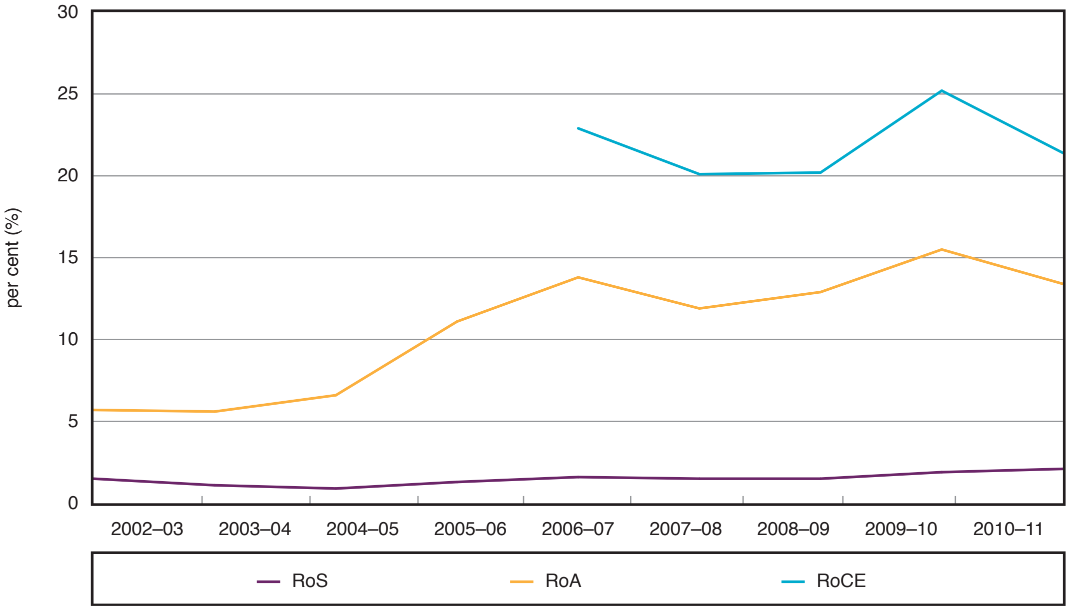
This section presents other profit KPIs to assess the retail sector, return on sales (RoS), return on assets (RoA) and return on capital employed (RoCE). The discussion in box 13.1 in chapter 13 provides further details on these KPIs.

Chart 15.22 displays these profit KPIs for the period 2002–03 to 2010–11 for all petroleum products and convenience store products and services. Note that RoCE is presented for the period 2006–07 to 2010–11.

The chart shows that in 2010–11:

- RoS was 2.1 per cent, slightly above the long-term average of 1.6 per cent.
- RoA was 13.4 per cent, above its long-term average of 11.5 per cent.
- RoCE was 21.4 per cent, below the long-term average of 21.9 per cent.

Chart 15.22 Retail sector, return on sales, return on assets and return on capital employed, all petroleum products and convenience store products and services: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

15.7 Retail sector: revenues, costs and profits—petrol products

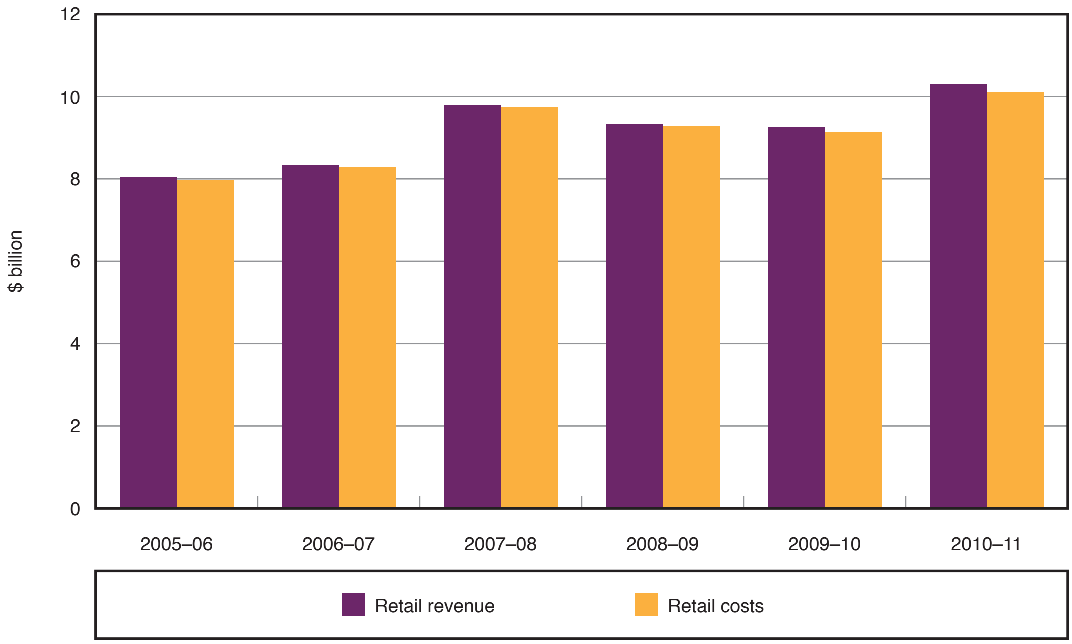
This section discusses the profits derived from the sale of petrol products in the retail sector. Petrol products include RULP, PULP and EBP. Refer to section 15.6.4 for further details on the methodology for expense allocation.

15.7.1 Retail sector: revenues and costs, petrol products

Both revenue and costs associated with the sale of petrol products increased in 2010–11. Total revenue increased to about $10.3 billion and costs increased to around $10.1 billion.

Chart 15.23 presents total revenues and costs from 2005–06 to 2010–11.

Chart 15.23 Retail sector, revenues and costs, petrol products: 2005–06 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

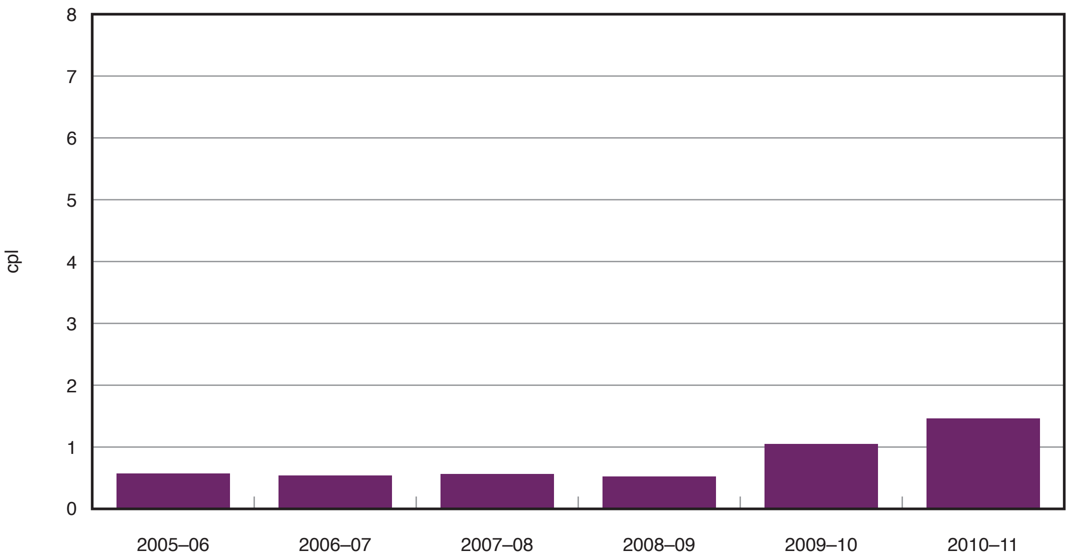
15.7.2 Retail sector: total and unit net profits, petrol products

The ACCC has estimated net profits for petrol products for the monitored firms in the retail sector. Total net profit for petrol was about $181 million in 2010–11. This compares with the average long-term net profit of $93 million.

Chart 15.24 displays unit net profits for petrol products for each year from 2005–06 to 2010–11. Unit net profits are estimated on a cents per litre basis. Overall, the chart indicates that:

- Net profits on petrol increased in 2010–11 to 1.46 cpl.
- The average unit net profit on petrol over the time series was 0.79 cpl.

Chart 15.24 Retail sector, unit net profit, petrol products: 2005–06 to 2010–11



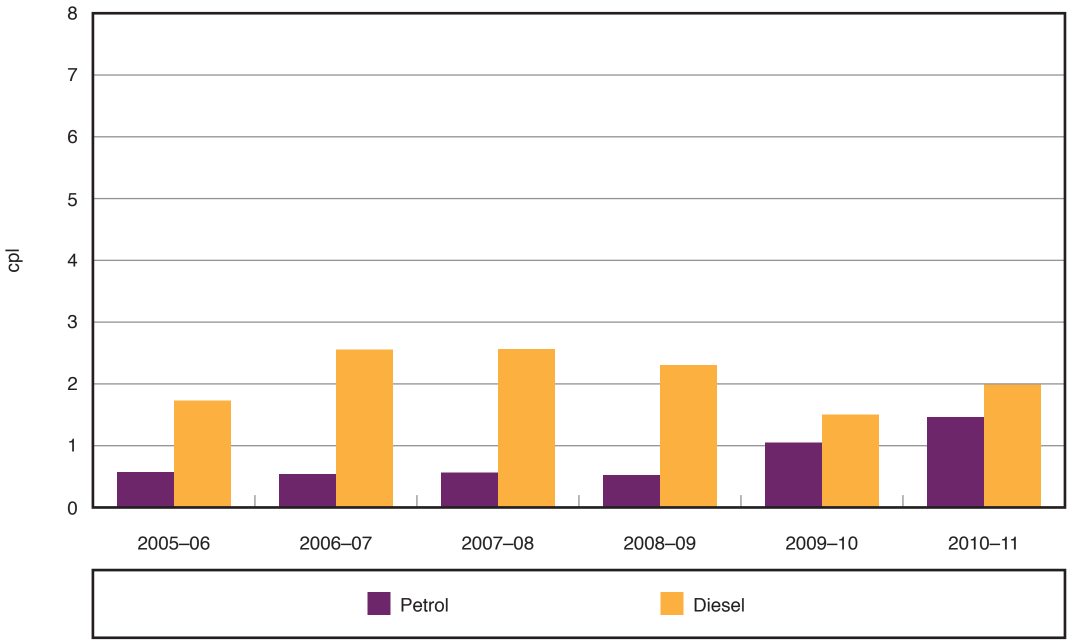
Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

15.7.3 Retail sector: petrol and diesel unit net profits

Chart 15.25 compares unit net profits from retail sales of petrol products and diesel from 2005–06 to 2010–11. Points from the chart include:

- Diesel unit net profit has remained above unit net profit for petrol in 2010–11.
- Diesel unit net profit averaged 2.08 cpl over the time series, with petrol averaging 0.79 cpl, although the last two years have seen rising unit net profits for petrol products.

Chart 15.25 Retail sector, unit net profits, petrol products and diesel: 2005–06 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

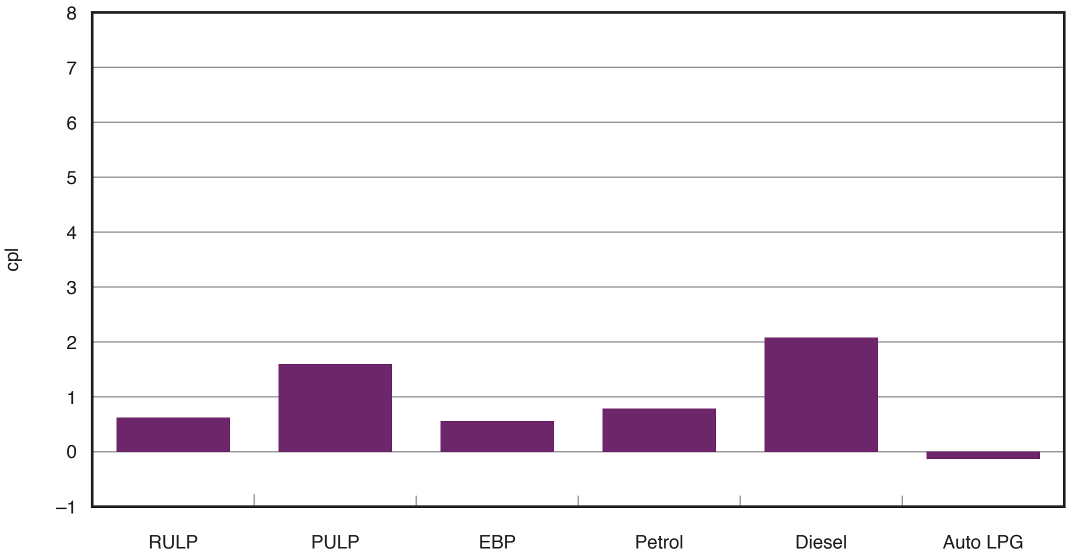
15.7.4 Retail sector: unit net profits by product

The ACCC has estimated net profits for individual products sold in the retail sector (that is RULP, PULP, EBP, diesel and automotive LPG). Chart 15.26 displays estimates of the average unit net profit for each product over the period 2005–06 to 2010–11.

Points from the chart include:

- Unit net profit for RULP has averaged 0.62 cpl.
- Diesel average unit net profit over the period was 2.08 cpl.
- PULP average unit net profit was 1.60 cpl.

Chart 15.26 Retail sector, estimated unit net profit by product: average from 2005–06 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

15.8 Comparison of the profitability of the retail sector with other Australian retail industries

The ACCC has developed benchmarks to assess firms monitored by the ACCC in the Australian retail petroleum sector (that is, including all petroleum and non-fuel products and services) relative to firms in other selected Australian retail industries. The ACCC has used data in the Australian Securities Exchange's top 200 (ASX200) businesses by market capitalisation to compile profitability KPIs for selected Australian retailing businesses.

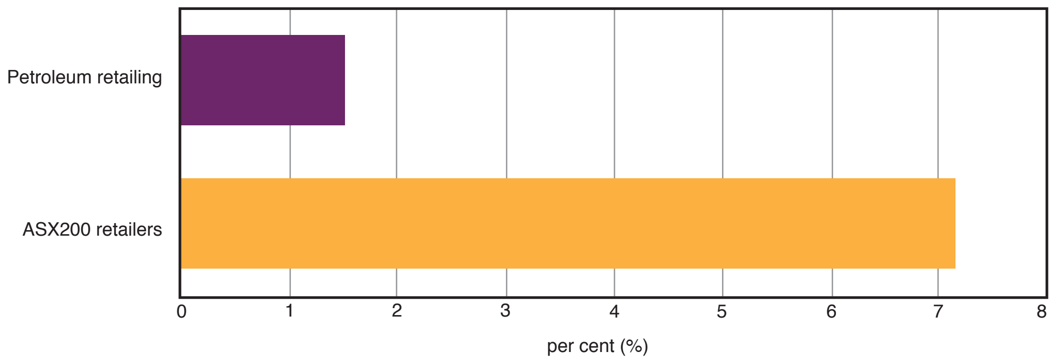
Two KPIs are used for these comparative purposes: RoS and RoA. The caveats discussed in chapter 13 about comparing the profitability of various industries using standard KPIs also apply in this section.

15.8.1 Australian comparison: return on sales

Chart 15.27 shows the average RoS for the period 2002–03 to 2010–11 for the retail petroleum sector, as well as for other selected Australian retailing businesses. Observations from the chart include:

- The retail petroleum sector average RoS was 1.6 per cent.
- The selected retail units from the ASX200 have a higher average return of 7.2 per cent.

Chart 15.27 Comparison of average return on sales for the domestic retail petroleum sector and ASX200 retailers: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process; Bloomberg and Bureau van Dijk Orbis database.

Note: Calculations of RoS of more than 70 per cent (positive and negative) in any year for any company have been excluded. Not all companies have data for all years. Some companies report on a calendar-year or other financial-year basis.

15.8.2 Australian comparison: return on assets

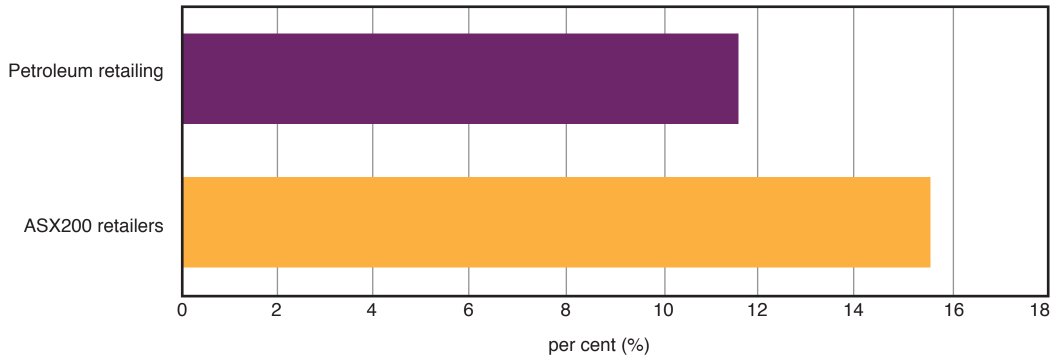
This section compares the RoA in the Australian retail petroleum sector with other selected Australian retail businesses.

As noted in sections 15.4.2 and 15.5.2, estimates of RoA in the retail petroleum sector and other industries should be treated with caution as they may be affected by differences across firms and industries in the age profile of the asset base and also by different approaches for valuing assets. Data for the petrol monitoring program has been reported to the ACCC on the basis of historical cost.

Chart 15.28 presents average RoA for the period 2002–03 to 2010–11. Points from the chart include:

- The retail petroleum sector average RoA was 11.5 per cent.
- Average return for the selected retail businesses from the ASX200 was 15.5 per cent.

Chart 15.28 Comparison of average return on assets for the domestic retail petroleum sector and ASX200 retailers: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process; Bloomberg and Bureau van Dijk Orbis database.

Note: Calculations of RoA of more than 70 per cent (positive and negative) in any year for any company have been excluded. Not all companies have data for all years. Some companies report on a calendar-year or other financial-year basis.

15.9 International comparative analysis: the profitability of the Australian retail petroleum sector and international petroleum retailers

In the previous section, the ACCC compared the Australian retail petroleum sector (including all petroleum and non-fuel products and services) with other Australian retailers.

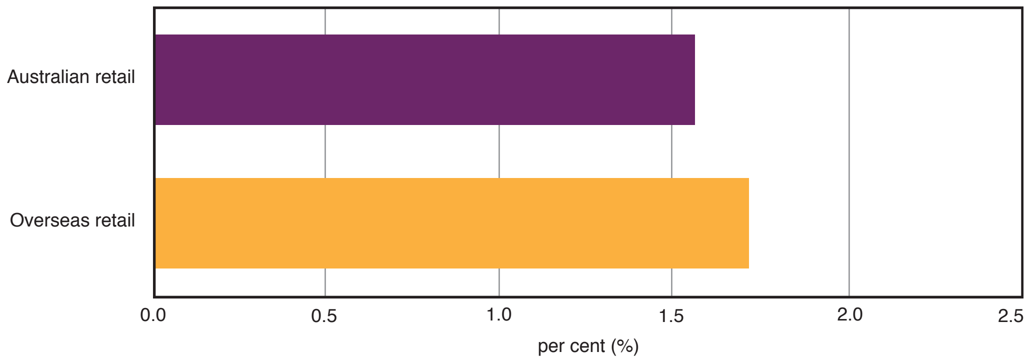
This section compares RoS and RoA for the Australian retail petroleum sector with comparable overseas retail petroleum sectors. Around 22 companies were selected from multiple countries whose primary activity is the retailing of petroleum products. The comparison period is 2002–03 to 2010–11.

15.9.1 Retail sector: international comparison—return on sales

Chart 15.29 shows RoS for the Australian retail petroleum sector and around 22 similar overseas petroleum retailers.

The Australian average RoS was below the international aggregate with 1.6 per cent compared to around 1.7 per cent.

Chart 15.29 Average return on sales of the domestic retail petroleum sector and international retail petroleum sector: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process; Bloomberg and Bureau van Dijk Orbis database.

Notes: Not all companies have data for all years. Some companies report on a calendar year or other annual basis.

The selection of an overseas company was based on the following criteria: it had to be based in an OECD country; be non-government owned; and have annual turnover greater than USD 10 million. Companies were also screened on the basis of their activity profile to ensure comparability with Australian downstream petroleum companies. That is, they had to derive their income from the refining and marketing of petroleum products. Major international refiner-marketers with large upstream activities, such as ExxonMobil, British Petroleum and Chevron, were excluded from the sample. A company was also excluded if it had significant non-petroleum related secondary activities, such as chemical manufacturing or gas-related activities. Calculations are based on a sample of 22 international retailers.

15.9.2 Retail sector: international comparison—return on assets

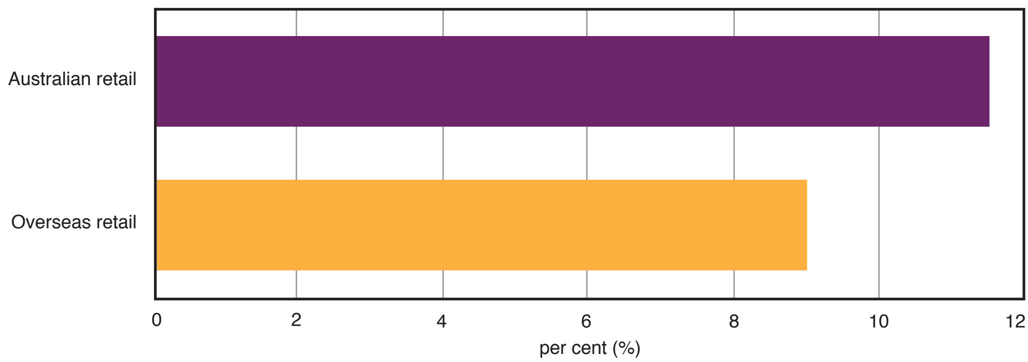
Chart 15.30 displays RoA for the Australian retail petroleum sector and for the same overseas businesses presented in section 15.9.1.

The caveats outlined in earlier sections of this chapter regarding the difficulties in comparing rates of return on assets across firms and industries also apply in respect of data presented in this section.

The average RoA for the Australian petroleum retail sector was 11.5 per cent compared to the international average of 9.0 per cent.

Comparisons with RoS and RoA suggest that the profitability in the domestic petroleum retail sector is broadly in line with the profitability in overseas petroleum retail sectors.

Chart 15.30 Average return on assets of the domestic retail petroleum sector and international retail petroleum sector: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process; Bloomberg and Bureau van Dijk Orbis database.

Notes: Not all companies have data for all years. Some companies report on a calendar year or other annual basis.

The selection of an overseas company was based on the following criteria: it had to be based in an OECD country; be non-government owned; and have annual turnover greater than USD 10 million. Companies were also screened on the basis of their activity profile to ensure comparability with Australian downstream petroleum companies. That is, they had to derive their income from the refining and marketing of petroleum products. Major international refiner-marketers with large upstream activities, such as ExxonMobil, British Petroleum and Chevron, were excluded from the sample. A company was also excluded if it had significant non-petroleum related secondary activities, such as chemical manufacturing or gas-related activities. Calculations are based on a sample of 22 international retailers.

15.10 Retail sector: the importance of convenience store sales

Convenience store sales have become an important source of revenues and profits to a fuel retailer. A convenience store site can range from a small canopy (used in some supermarket retail sites and some very old retail sites) with relatively few non-fuel products and services to convenience store models characterised by extensive service areas providing a mini-supermarket shopping environment, bread-making and cafes.

In some cases, separate franchise operations for businesses such as Subway and Bakers Delight may exist in the same store.

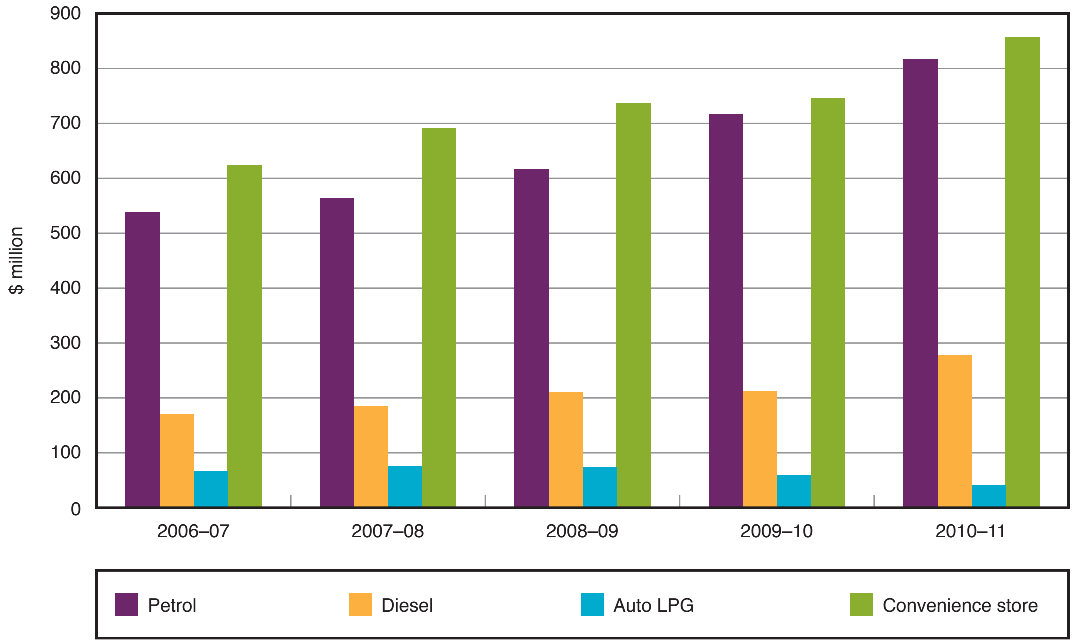
15.10.1 Convenience store gross profits and margins

Gross profits are calculated by subtracting cost of goods sold from total revenue. The measure of gross profit does not include operating expenses. These are typically subtracted from gross profit to derive net profits. The higher the gross profit, the greater the capacity of a firm to cover other operating costs and earn a net profit.

Chart 15.31 compares convenience store gross profits with gross profits for petrol, diesel and automotive LPG for the period 2006–07 to 2010–11. Points from the chart include:

- Convenience store gross profits were $856 million in 2010–11.
- The share of convenience store gross profits in total retail gross profits remained the same as the previous year at 43 per cent, but lower than the 45 per cent share in 2006–07.
- Petrol products (that is, RULP, PULP and EBP) were the second most profitable product category in terms of gross profit, with $816 million in 2010–11.
- Petrol gross profits have increased as a share of total gross profits, from 38 per cent in 2006–07 to 41 per cent in 2010–11.

Chart 15.31 Retail sector, total gross profits for petrol, diesel, automotive LPG and convenience store sales: 2006–07 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

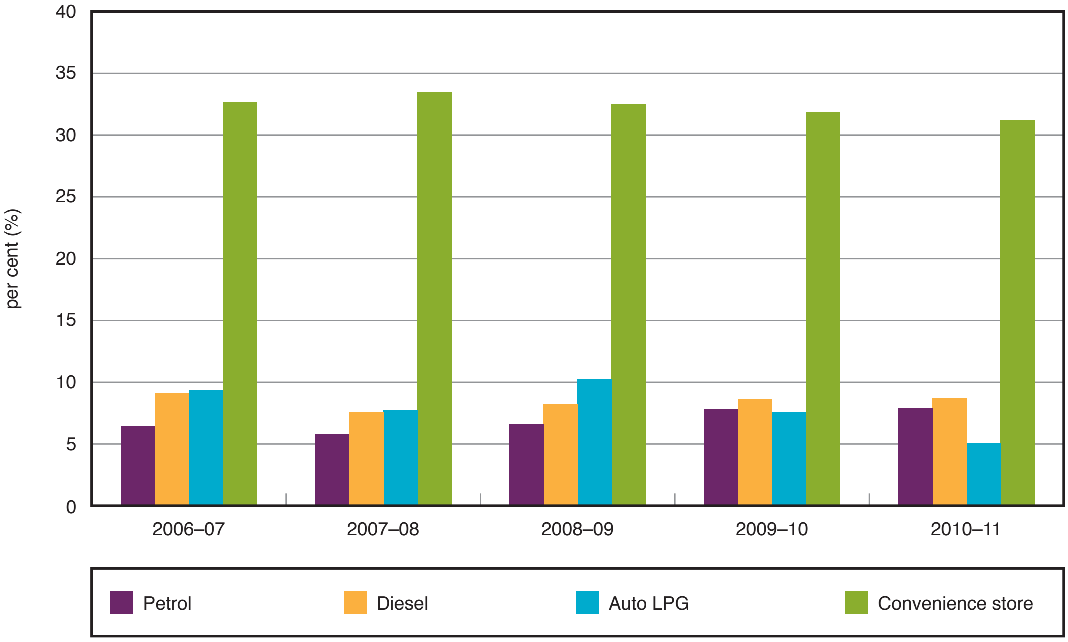
An alternative measure to gross profit is gross margin, which is derived by dividing gross profit by sales revenue. Gross margin indicates how much per dollar of sales revenue a business retains to cover other expenses.

Chart 15.32 presents gross margin on all retail sales, that is, sales of convenience store products and services, petrol, diesel and automotive LPG. Points from the chart include:

- Gross margins for convenience store products and services were above other products, at around 31 per cent in 2010–11. Since 2006–07, convenience store gross margins have averaged around 32 per cent.
- In contrast, gross margins on petrol products, diesel and automotive LPG, ranged from a low of 5 per cent for LPG to 8 per cent and 9 per cent for petrol and diesel respectively in 2010–11.

The relatively stronger gross margins on in-store products seem to underline the trends evident in the retail sector, whereby many retailers have increasingly focused on improving convenience store sales and the range of non-fuel products available to consumers.

Chart 15.32 Retail sector, gross margins for petrol, diesel, automotive LPG and convenience store sales: 2006–07 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

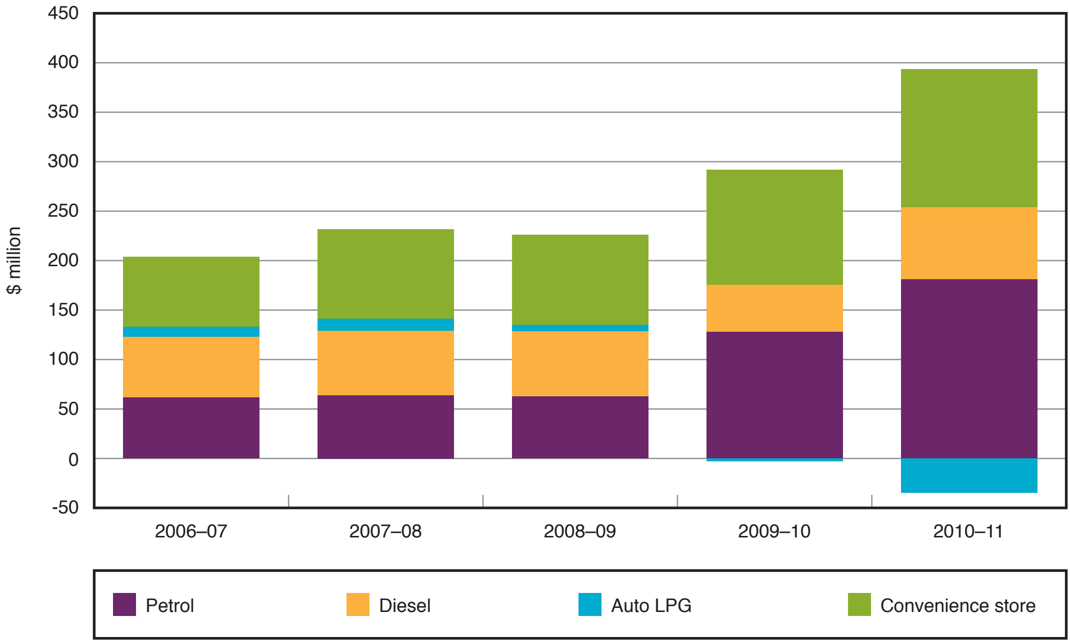
15.10.2 Convenience store net profits

Section 15.10.1 discussed gross profits. This section reports on net profits on sales of convenience store products and services. This is a measure of earnings accruing to the owners of the retail businesses.

Chart 15.33 presents total net profits for convenience store products and services, petrol products, diesel and automotive LPG for the period 2006–07 to 2010–11. Points from the chart include:

- The importance of convenience store profits to overall net profit is evident with over 34 per cent of total retail profits coming from convenience sales in each year. In 2010–11, convenience store profits contributed $139 million or 38.8 per cent of total retail net profits.
- Petrol products were significant contributors to overall net profit, with an increasing share of total profits. In 2010–11, about $181 million or around 50 per cent of net retail profits were earned from petrol sales.
- In the last two years, petrol products' contribution to total net profits has exceeded that of convenience sales.
- Diesel profits were also significant with a share of 20 per cent of total net retail profits in 2010–11. Sales of automotive LPG incurred a net loss in both 2009–10 and 2010–11.

Chart 15.33 Retail sector, total net profit for petrol, diesel, automotive LPG and convenience store sales: 2006–07 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

15.11 Recent trends in shopper docket sales

Shopper-docket sales refer to a discount or linked offer on fuel stemming from purchases in an attached convenience store or from purchases from an associated or third-party business.

The traditional shopper-docket petrol scheme is generally associated with the two major Australian supermarkets, Coles and Woolworths. Both of these supermarkets generally offer discounts of 4 cpl on petrol when a minimum amount of goods are purchased at their supermarkets, typically $30 of purchases. In the past 12 months, the supermarkets have also had discount offers greater than 4 cpl.

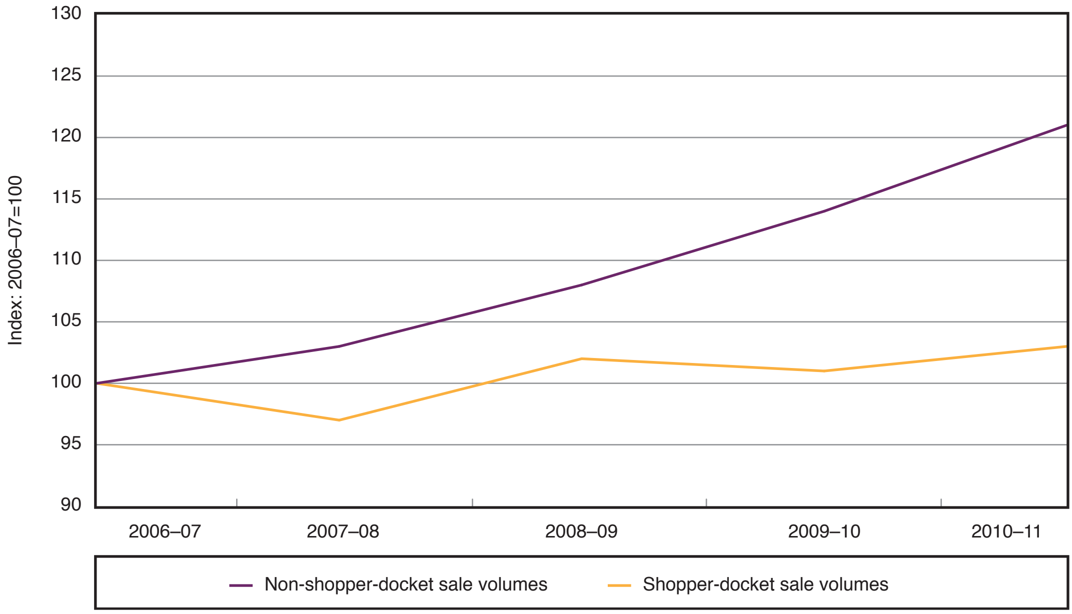
In the past, other retailers such as United, BP, Caltex and 7-Eleven have also conducted shopper-docket schemes. Some of these schemes have been linked to purchases at a local independent supermarket while others combine purchases from the convenience store with offers of fuel discounts.

Chart 15.34 shows an index of the volumes of fuel sales made under shopper-docket schemes compared to all other fuel sales. The chart illustrates that the volume of fuel sales made under shopper-docket schemes has remained relatively stable over the last five years.

Non–shopper-docket fuel sales on the other hand have increased significantly over the same period.

While total fuel sales have increased in recent years, those made under shopper-docket schemes have remained comparatively flat. This suggests that in recent years much of the increase in total volumes sold at retail level has occurred through non–shopper-docket transactions.

Chart 15.34 Retail sector, index of the volume of shopper-docket and non-shopper-docket fuel sales: 2006–07 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

15.12 Concluding remarks on the financial performance of the wholesale and retail sectors

The analysis of revenues, costs and profits in the wholesale and retail sectors has shown a number of important results.

Key points regarding the wholesale sector include:

- In 2010–11, total net profit of the wholesale sector was $966 million (1.96 cpl) compared with the average unit net profit of 1.44 cpl over the period 2002–03 to 2010–11.
- Since 2002–03, the average unit net profit on petrol products in the wholesale sector has been 0.14 cpl compared with 0.87 cpl for diesel.

Key points from analysis of the retail sector include:

- In 2010–11, total net profit in the retail sector was $359 million (2.06 cpl) compared with the average unit net profit of 1.54 cpl over the period 2005–06 to 2010–11.
- In 2010–11, the average unit net profit on petrol products in the retail sector was 1.46 cpl. From 2005–06, the average annual unit net profit for petrol has been estimated to be 0.79 cpl.
- Convenience store sales are an important source of income for fuel retailers. Convenience store gross margins have been higher than for fuel products, averaging 32 per cent since 2006–07 compared with around 7 per cent for petrol products.
- Net profits for petrol products have improved in the last two years. Estimates for profits on individual products indicate that sales of PULP have contributed to improved earnings on petrol products.

15.13 Methodology note

Similar to chapters 13 and 14, analysis of 2010–11 financial results in the wholesale and retail sectors are largely compared with long-term average results. Analysis of the wholesale sector generally focuses on results since 2002–03, while analysis of the retail sector examines results from 2005–06.

The analysis of financial results in the total downstream and refinery and total supply sectors focused on long-term average profitability because of the effects of changes in international prices of crude oil and refined petrol on annual financial performance. While significant year-on-year swings in earnings are less prevalent in the wholesale and retail sectors when compared with the refinery and total supply sectors, it is pertinent to consider the long-term profitability of these sectors.

The data presented for the Australian wholesale sector includes imports by independent wholesalers. It was not possible to allocate these imports to the total supply sector as with the refiner-marketers' imports. The revenues and costs associated with these volumes are included in the independents' wholesale financial data.

The assessment of revenues in the wholesale sector is complicated by the provision of price support. Price support is a mechanism used by fuel suppliers to provide assistance to linked retailers during times of heavy price discounting (normally at the trough of a retail price cycle). Among other things, price support allows the supplier to partly control or influence the setting of prices for certain products at certain retail sites. For the purposes of assessing revenues, price support has been deducted from each product's sales revenue.

The ACCC's monitoring program does not encompass the entire retail sector, due to the very large number of small businesses. The retail sector is comprised of many single and multi-site independent service station owners. The ACCC has collected data from retail businesses operated by the refiner-marketers, major independent wholesalers/importers, supermarkets and the larger specialist retailers.

Data has been collected from the following larger retail sector businesses:

- refiner-marketers BP and Caltex
- large independent chains On The Run, 7-Eleven, United Petroleum, Gull Petroleum and Neumann Petroleum
- supermarkets Coles Express and Woolworths Petrol.

As such, the ACCC considers that the scope of the monitoring program is sufficiently wide to capture a significant proportion of retail outlets.