14 Financial performance of the wholesale and retail sectors

Key points

Wholesale

- During 2011–12, the wholesale sector recorded a net profit of $1084 million, or 2.07 cents per litre on total revenue of $44.9 billion and total sales volumes of 52 billion litres.
- Profits for petrol products (that is, RULP, PULP and EBP) were $159 million down 19 per cent on 2010-11.
  - Premium fuels were the main contributor with net earnings of $165 million in 2011–12.
- Other products, including lubricants, were the largest contributor to total wholesale net profits earning $519 million in 2011–12.

Retail

- The retail sector recorded a net profit of $440 million during 2011–12, or 2.44 cents per litre, on total revenue of $19.7 billion and total fuel volumes of 18.1 billion litres.
- Profits from petrol products were $239 million, up 32 per cent from 2010–11.
  - Premium fuels were the largest contributor to petrol profits with $121 million earned in 2011–12.
- Convenience store sales earned a total net profit of $171 million, on total revenues of $3.02 billion.

14.1 Introduction

This chapter reports on the financial performance of the wholesale and retail sectors in the Australian downstream petroleum industry.

The wholesale sector is comprised of the four refiner-wholesalers and a number of independent wholesalers who either source petroleum products locally from one of the refiner-wholesalers or other wholesalers or through direct imports.

Companies from which wholesale financial data has been collected for this monitoring report include the four refiner-wholesalers, Liberty, Ausfuel, Neumann and United. The refiner-wholesalers account for the majority of total wholesale sales.

The Australian retail sector is comprised of the retail operations of refiner-marketers the supermarkets some independent wholesalers a number of large independent retailers and a large number of smaller independent owner operators.[163]

163 Note that the smaller independent owner operators are excluded from the scope of monitored firms operating in the retail sector.

For the purposes of this monitoring report financial data is presented in respect of the retail operations of Caltex, BP, Coles, Woolworths, United, Neumann, Ausfuel, 7-Eleven and On the Run. Mobil no longer operates in the retail sector while Shell has a small number of re-fueller sites that also sell to the public.[164]

14.2 Overview of the financial performance in the wholesale and retail sectors

Key observations on revenues costs and profits in the wholesale sector for 2011–12 include (table 14.1):

- total revenue for the wholesale sector was $44.9 billion up 18 per cent from 2010–11. Total petrol revenue was $15.8 billion, up 12 per cent.
- total profit for the wholesale sector was $1 084 million, up 12 per cent from the previous year. Petrol net profit was $159 million, down 19 per cent.

Table 14.1 Sale volumes and net profits (EBIT) in the wholesale sector: 2011–12 and the average from 2002–03 to 2011–12

		2011–12	2002–03 to 2011–12 average
All products	Sale volumes (ML)	52 455	47 049
	EBIT ($ million)	1 084	712
	Unit EBIT (cpl)	2.07	1.51
Petrol products	Sales volumes (ML)	18 590	19 113
	EBIT ($ million)	159	40
	Unit EBIT (cpl)	0.85	0.21
Diesel	Sales volumes (ML)	23 138	17 847
	EBIT ($ million)	196	154
	Unit EBIT (cpl)	0.85	0.86
Other products (incl. lubricants and engine oils)	Sales volumes (ML)	1 371	1 634
	EBIT ($ million)	519	456
	Unit EBIT (cpl)	37.80	27.90

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

Key observations on revenues costs and profits in the retail sector for 2011–12 include (table 14.2):

- total revenue for the retail sector was $19.7 billion up 16 per cent from 2010–11. Total petrol revenue was $11.9 billion up, 15 per cent on the previous year
- total profit for the retail sector was $440 million, up 23 per cent compared with 2010–11. Petrol net profit was $239 million, up 32 per cent
- convenience store share of total profits was 39 per cent, remaining unchanged from 2010–11.

164 These Shell sites are not included in the monitoring of the retail sector.

Table 14.2 Sale volumes and net profits (EBIT) in the retail sector: 2011–12 and the average from 2005–06 to 2011–12

		2011–12	2005–06 to 2011–12 average
All products	Sale volumes (ML)	18 054	16 176
	EBIT ($ million)	440	273
	Unit EBIT (cpl)	2.44	1.69
Petrol products	Sales volumes (ML)	12 607	11 869
	EBIT ($ million)	239	114
	Unit EBIT (cpl)	1.89	0.96
• RULP	Sales volumes (ML)	7 231	8 260
	EBIT ($ million)	88	57
	Unit EBIT (cpl)	1.22	0.69
• PULP	Sales volumes (ML)	3 157	2 306
	EBIT ($ million)	121	47
	Unit EBIT (cpl)	3.82	2.03
• EBP	Sales volumes (ML)	2 219	1 303
	EBIT ($ million)	30	10
	Unit EBIT (cpl)	1.35	0.76
Diesel	Sales volumes (ML)	4 209	3 006
	EBIT ($ million)	56	58
	Unit EBIT (cpl)	1.34	1.93
Convenience stores	Revenue ($ million)	3016	2 391
	EBIT ($ million)	171	113

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

Note: The time period for average convenience store revenue and EBIT is 2006–07 to 2011–12.

14.3 Wholesale sector: revenues, costs and profits

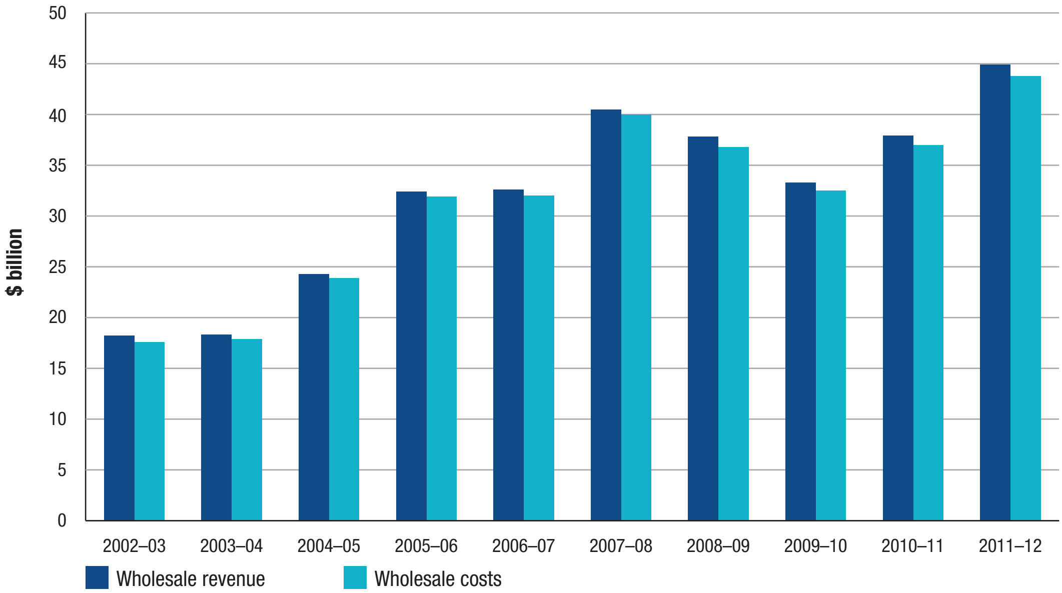
The wholesale sector derives its income from the purchasing and reselling of petroleum products and lubricants to retail and commercial customers. As was the case in the refinery sector the financial performance of the wholesale sector since 2002–03 can also be analysed in terms of two reasonably distinct periods:

- the first period, the years prior to the global financial crisis (GFC) from 2002–03 to 2007–08, is characterised by lower volumes (on average 45 327 megalitres (ML) compared to 49 632 ML for the post-GFC period 2008–09 to 2011–12) and lower average annual net profits ($515 million compared to post-GFC $1 006 million)
- between the two periods, the change in volumes was around 9 per cent compared with the change in net profit of 95 per cent
- the change between the two periods is related to the performance of the refiner-wholesalers in this sector rather than any structural or economic conditions as was the case in the refinery sector
- since 2002–03 the refiner-wholesalers have on average sold around 95 per cent of all volume and have earned around 98 per cent of total net profit.

14.3.1 Wholesale sector: revenues and costs, all products

In 2011–12 revenues and costs in the wholesale sector increased relative to those recorded in the previous 12 months. Chart 14.1 shows total revenues and costs for the monitored firms in the wholesale sector.

Chart 14.1 Wholesale sector revenues and costs, all products: 2002–03 to 2011–12



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

Key observations on wholesale sector revenues and costs for 2011–12 include:

- total revenue and costs increased to $44.9 billion and $43.8 billion respectively. This growth was associated with increased volumes and prices for fuel products sold and purchased
- total volume traded in 2011–12 was around 52 billion litres which is about five billion litres higher than the long term average
- unit revenues and unit costs for 2011–12 were 85.6 and 83.5 cents per litre (cpl) respectively.

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

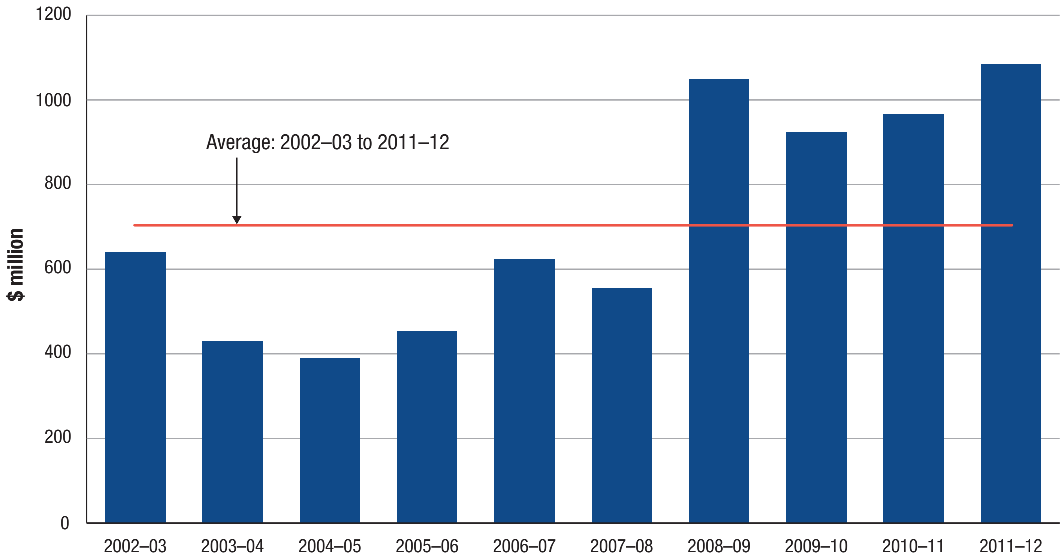
Total net profits

The key measure for profitability used by the ACCC to assess financial performance is net profit or adjusted earnings before interest and tax (EBIT). Chart 14.2 presents net profit data for the wholesale sector.

Key observations on wholesale sector net profit for 2011–12 include:

- net profit was $1 084 million representing an increase of 12 per cent on 2010–11
- since the GFC the wholesale sector's financial performance has improved and is now the most profitable sector in the Australian downstream petroleum industry
- the 2011–12 net profit is $373 million above the long term average of $712 million.

Chart 14.2 Wholesale sector net profit, all products: 2002–03 to 2011–12



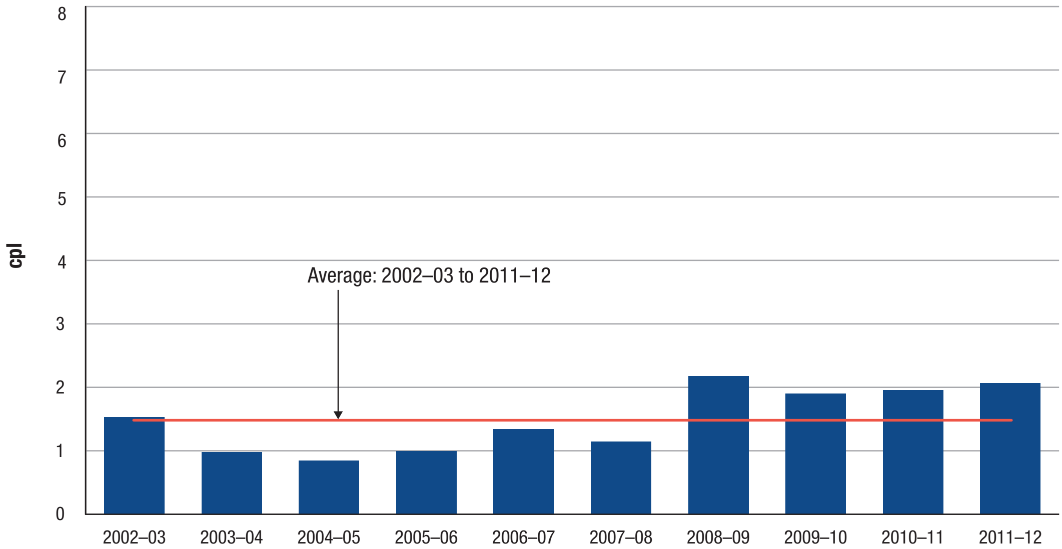
Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process

Unit net profit

Consistent with the definition used in previous chapters unit net profit is defined as total profits divided by total volumes. Unit net profit for the wholesale sector is presented in chart 14.3. Key observations from this chart include:

- unit net profit for the wholesale sector was around 2.07 cpl in 2011–12 up 6 per cent from the previous year
- the average annual unit net profit from 2002–03 to 2011–12 was around 1.5 cpl
- unit net profits since the GFC have improved relative to the period before the GFC. Prior to 2008–09, the average annual unit net profit was 1.1 cpl compared to 2.0 cpl since 2008–09.

Chart 14.3 Wholesale sector unit net profit, all products: 2002–03 to 2011–12



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

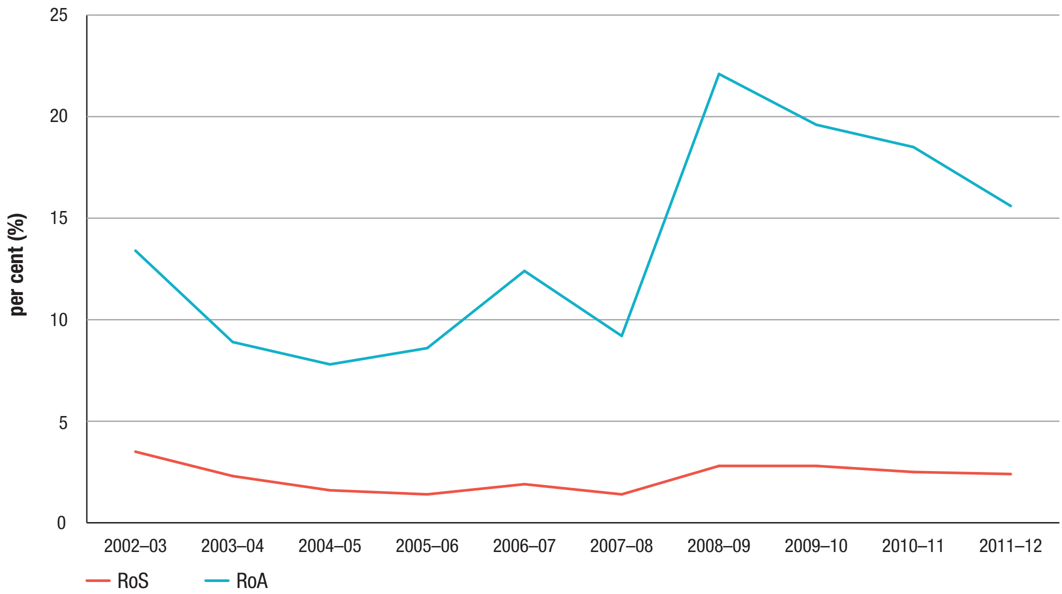
14.3.3 Wholesale sector: other key performance indicators

The ACCC uses other key performance indicators to assess industry or sectoral profitability. These include return on sales (RoS) and return on assets (RoA). For further details on these KPIs refer to section 12.9.5.

Chart 14.4 presents RoS and RoA for the period 2002–03 to 2011–12. Key observations regarding these profit key performance indicators for the wholesale sector include:

- return on sales was 2.4 per cent in 2011–12 down from 2.6 per cent in 2010–11. The decrease is due to a smaller rise in profits than revenues
  - the average RoS over the time series was around 2.2 per cent
  - during 2011–12, the refiner-wholesalers average RoS was around 2.5 per cent compared to around 1.3 per cent for independent wholesalers
  - the average for the time series was 2.3 per cent for the refiner-wholesalers and 1 per cent for the independent wholesalers.
- return on assets for the wholesale sector was around 15.6 per cent in 2011–12 down from 18.5 per cent in 2010–11. An increase in the wholesale sector asset base of 33 per cent resulted in a lower RoA despite higher profits
  - the average RoA for the entire time series was 13.5 per cent
  - average RoA during the pre-GFC years was 10 per cent compared to the post-GFC RoA of 19 per cent.

Chart 14.4 Wholesale sector return on sales and return on assets, all products: 2002–03 to 2011–12



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

As discussed in previous chapters there are a number of caveats pertaining to data on return on sales and return on assets that should be taken into account when analysing these KPIs. Return on sales is affected by a firm's cost structure. Generally firms with operations that have significant fixed costs rely on volumes to produce adequate returns and will therefore tend to have a lower return on sales. Return on assets is affected by approaches to measuring asset values, the allocation of corporate assets across sectors and asset age profiles.

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

Section 14.3 assessed total revenues, costs and profits in the wholesale sector. As required under the minister's direction the ACCC is also directed to report on the revenues costs and profits associated with petrol products that is RULP, PULP and EBP. This section presents financial performance KPIs on these products.

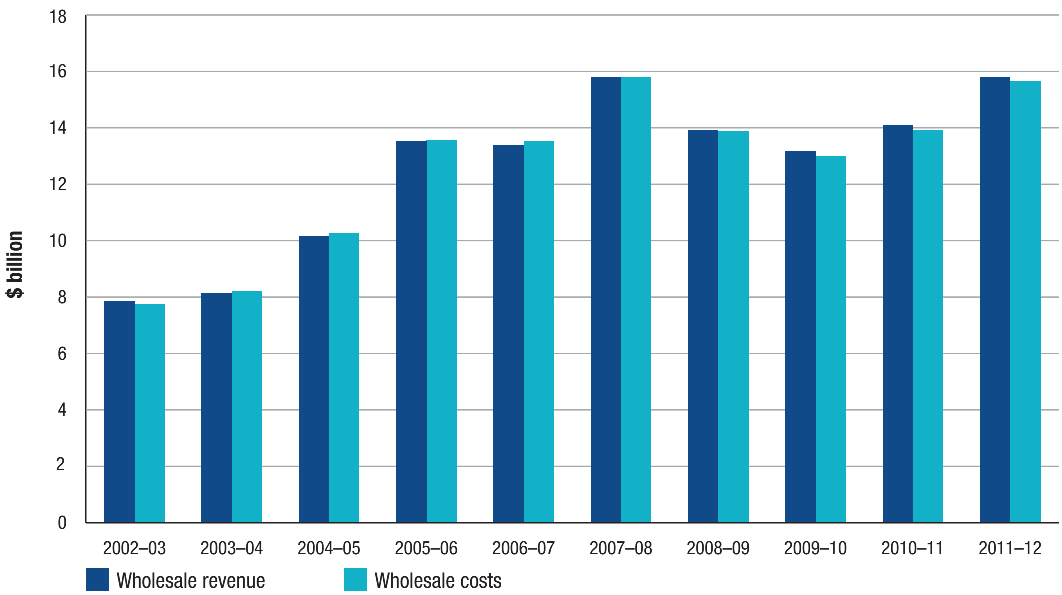
Monitored companies do not provide cost data for individual products. To estimate costs for each product the ACCC has allocated total costs on the basis of product volume splits. The methodology used by the ACCC for the allocation of costs and derivation of profits on petrol products is outlined in section 14.10.

14.4.1 Wholesale sector: revenues and costs, petrol products

Chart 14.5 shows data on total revenues and costs associated with the sale of petrol products in the wholesale sector from 2002–03 to 2011–12. Key observations from this chart include:

- total revenue and costs on petrol products increased to $15.8 billion and $15.7 billion respectively in 2011–12
- total petrol sale volumes decreased by 0.3 per cent during 2011–12 continuing the trend of generally declining petrol sales since 2004–05. EBP volumes decreased 17 per cent while PULP volumes increased by 16 per cent from 2010–11.

Chart 14.5 Wholesale sector revenues and costs, petrol products: 2002–03 to 2011–12



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

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

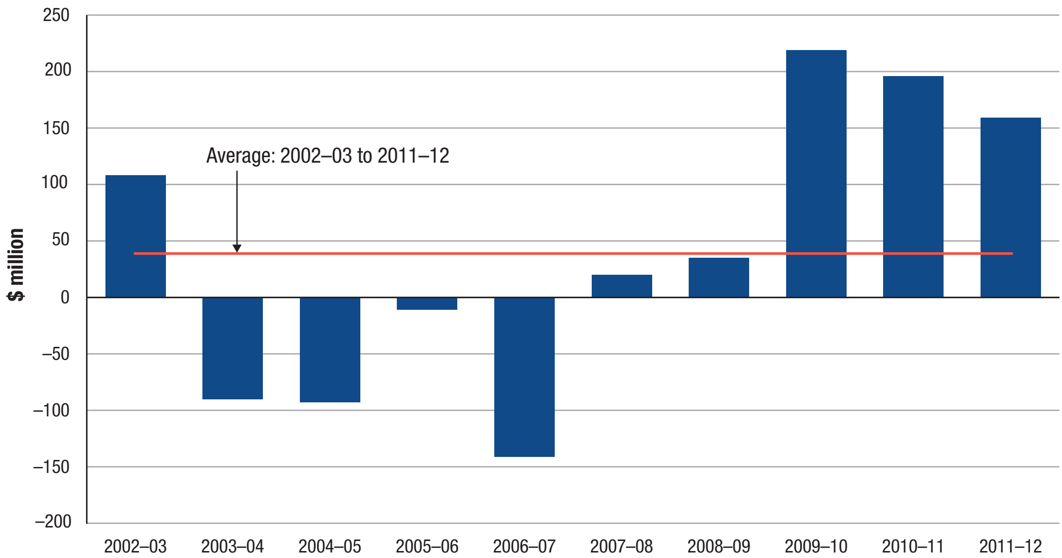
Total net profits

Chart 14.6 displays net profit on petrol products sold in the wholesale sector from 2002–03 to 2011–12.

Key observations on wholesale petrol profits include:

- total profits on petrol products during 2011–12 were $159 million representing a decrease of around 19 per cent relative to 2010–11
- the main driver of increased profits in recent years has been PULP which on average has contributed 80 per cent of petrol net profit over the past three years.

Chart 14.6 Wholesale sector net profit, petrol products: 2002–03 to 2011–12



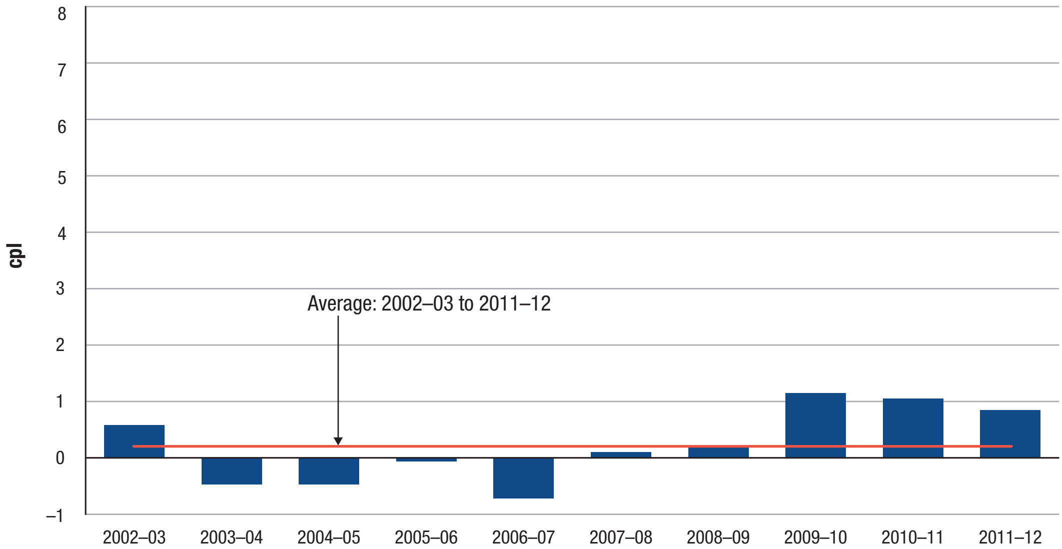
Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process

Unit net profit

Data on unit net profit for petrol products in the wholesale sector over the 10 years to 2011–12 are presented in chart 14.7. Key observations from this chart include:

- unit net profit for petrol products decreased to 0.85 cpl during 2011–12 representing a fall of 19 per cent from 2010–11
- over the past three financial years petrol unit net profit has averaged around one cent per litre, driven mainly by earnings from PULP
- since 2002–03 average annual unit net profit for petrol has been estimated to be around 0.21 cents per litre.

Chart 14.7 Wholesale sector unit net profit, petrol products: 2002–03 to 2011–12



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

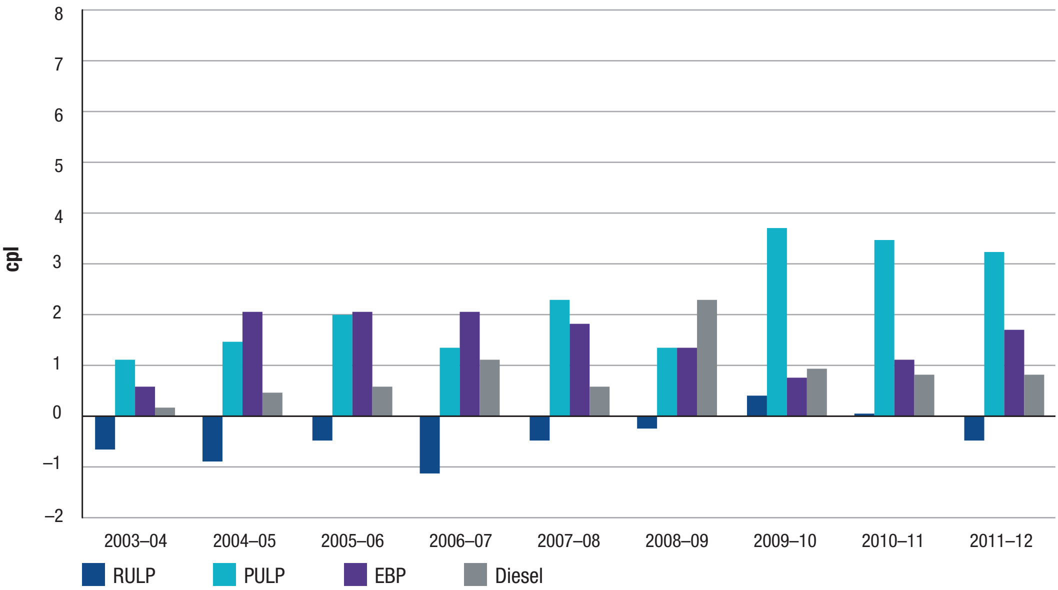
14.4.3 Wholesale sector: comparison of unit net profit for RULP, PULP, EBP and diesel

The previous section discussed profits for petrol products as a group. This section presents profitability data on RULP, PULP, EBP and diesel sold in the wholesale sector by monitored companies. Chart 14.8 presents individual profitability data for these four products from 2003–04 to 2011–12.

Key observations for unit net profits for each product include:

- during 2011–12, PULP products recorded the largest unit net profit with 3.4 cpl while RULP recorded the lowest result with a unit net loss of 0.5 cpl
- in 2011–12 RULP continued to account a decreasing share of total volumes representing 21 per cent of total volumes. PULP volumes on the other hand have increased their share of total volumes, contributing about 9 per cent of total volumes in 2011–12
- diesel unit net profits were 0.9 cpl during 2011–12. Diesel during 2011–12 contributed around 44 per cent to total wholesale fuel volumes
- over the entire time series, PULP has recorded the highest average annual unit net profits with around 2.4 cpl. Diesel averaged around 0.86 cpl while RULP has recorded an average annual loss of 0.34 cpl.

Chart 14.8 Wholesale sector unit net profits, RULP, PULP, EBP and diesel: 2003–04 to 2011–12



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

Note: The financial year 2002–03 has been excluded from the chart due to data inconsistencies in the reporting of EBP splits.

14.5 Retail sector: revenues, costs and profits

The retail sector in Australia is in transition. Refiner-wholesalers have greatly reduced their direct presence in the retail sector and the industry has seen the emergence of specialist retailers such as the supermarkets, and other independent retail operators such as 7-Eleven and On The Run as well as the continued consolidation of the retail operations of the major independent wholesalers, Neumann, United and Ausfuel.[165] The ACCC's monitoring programme for the retail sector does not cover single site and small multiple-site retailers.

Revenues and profits in the retail sector are derived from the sale of petroleum products and non-fuel products and services to the public. Sales of non-fuel products and services have become increasingly important for overall profitability in the retail sector. Some of these services include normal convenience store sales, car and animal wash services, franchised businesses within the convenience store and other traditional services such as the hire of trailers, gas bottle exchange and ATM services. Convenience store margins and profits are assessed in section 14.9.

Business models used in the retail sector vary greatly. Retail operations include refiner-marketer owned and operated sites, commission agent sites, franchise sites, independent but refiner-wholesaler branded sites, alliances between supermarket chains and refiner-wholesalers and various large and small independent owned and operated sites.[166]

165 ACCC (2011), *Monitoring of the Australian petroleum industry—Report of the ACCC into the prices, costs and profits of unleaded petrol in Australia*, December 2011, p. 39.

166 Refer to table 3.8 for a breakdown of retail sites by branding and type of business operator.

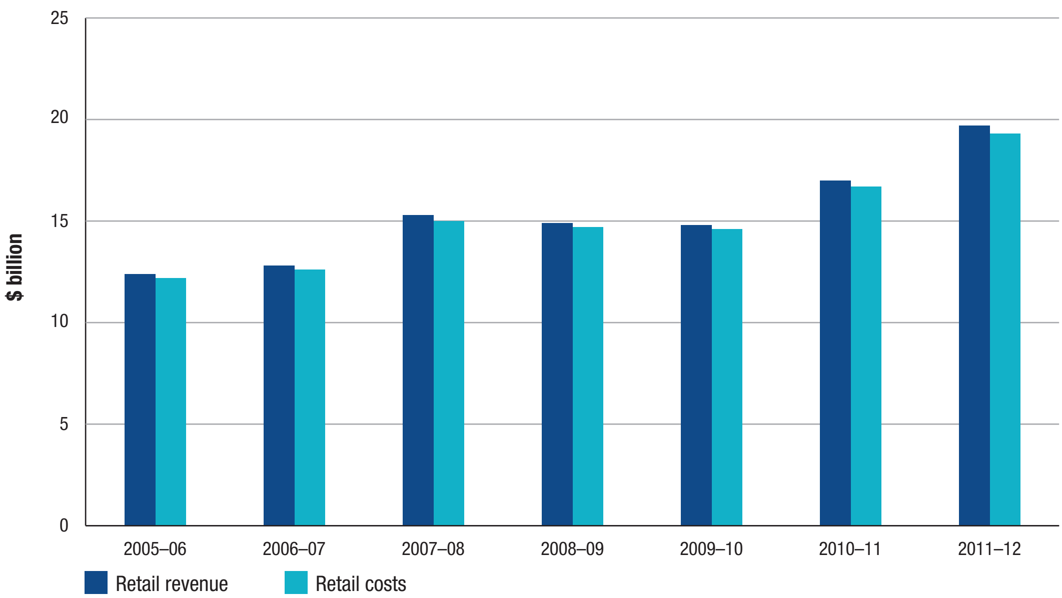
14.5.1 Retail sector: revenues, costs and volumes, all products and services

The general trends evident in the last few years have been observed again during 2011–12. Chart 14.9 displays total revenues and costs in the retail sector over the period 2005–06 to 2011–12.[167]

Key observations on retail revenues costs and volumes include:

- during 2011–12, total revenues and costs increased to $19.7 billion and $19.3 billion respectively. This growth was largely driven by higher fuel prices, some volume growth and possibly some increased market share at the expense of small non-monitored retailers.
- unit revenues for 2011–12 were $1.09 per litre (up 12 per cent on 2010–11) and $1.07 per litre for costs (up 11 per cent on 2010–11)
- during 2011–12, total sector volumes increased to 18.1 billion litres up 3.5 per cent on 2010–11. Total sales volumes by monitored retail companies have increased annually since 2005–06.
- RULP volumes increased for the first time since 2006–07, up by 2.6 per cent to 7.2 billion litres in 2011–12. However, RULP's contribution to total volumes has fallen in the last few years, from 63 per cent of all retail fuel sales in 2005–06, to 40 per cent in 2011–12
- EBP sales volumes decreased by 11 per cent in 2011–12 to 2.2 billion litres. EBP's share of total retail sales volumes decreased from 14 per cent in 2010–11 to 12 per cent in 2011–12.

Chart 14.9 Retail sector total revenues and costs, all products and services: 2005–06 to 2011–12



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

167 The majority of data presented in this retail section covers the period from 2005–06 to the present. Only selected data is presented for the years 2002–03 and 2003–04. Structural changes in the retail sector during 2002–03 and 2003–04 mean that data for this period is not comparable with data for later years. Where data are expressed as ratios, such as RoS and RoA, the analysis extends to 2002–03.

14.5.2 Retail sector: total and unit net profits, all products and services

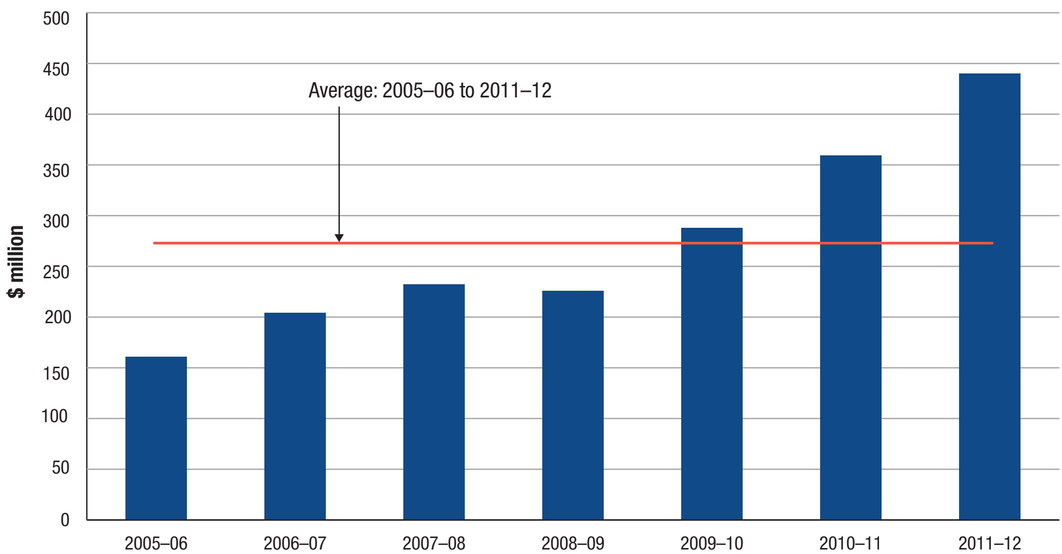
Total net profits

In the retail sector, net profit includes profits from the sale of fuel and from convenience store products and services. Chart 14.10 presents data on total net profits from 2005–06 to 2011–12.

Key observations on retail net profits include:

- profit results for 2011–12 continued the general trend of rising profit (apart from 2008–09) reaching $440 million in 2011–12. This represents an increase of 23 per cent on 2010–11.
- the average net profit over the period 2005–06 to 2011–12 was $273 million.

Chart 14.10 Retail sector total net profit, all products and services: 2005–06 to 2011–12



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

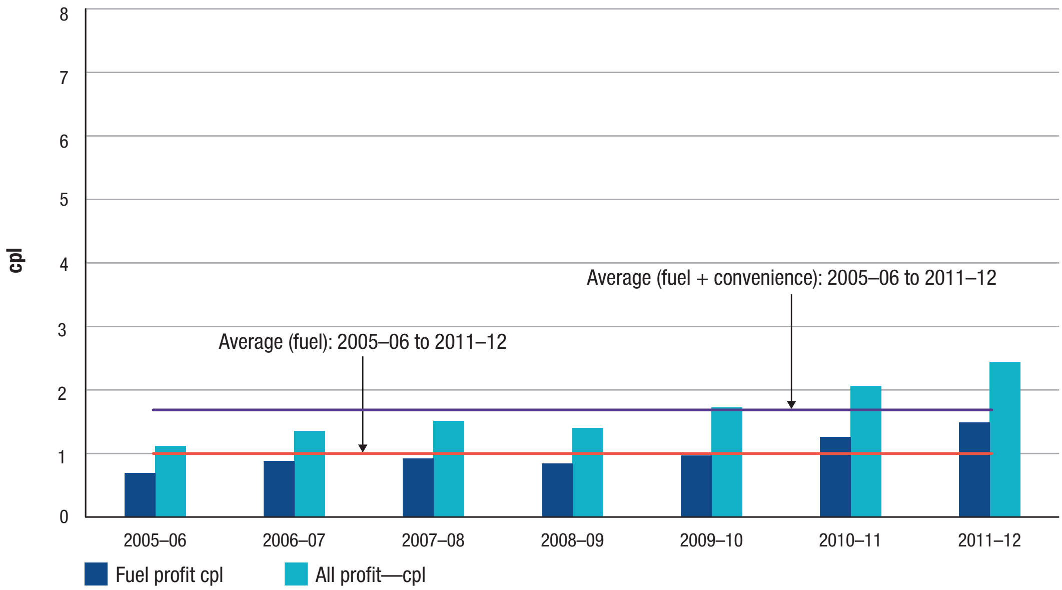
Unit net profit

Unit net profit for the retail sector is presented in chart 14.11. In previous monitoring reports, the ACCC has presented unit net profit for the retail sector which included convenience store profits. For 2011–12, the profitability analysis for the retail sector has been refined to allow unit net profit to be calculated exclusive of convenience store profits.

Key observations from chart 14.11 include:

- unit net profit from all products and services, including convenience store sales, during 2011–12 was around 2.4 cpl, up 18 per cent on 2010–11
- unit net profit from fuel sales only was 1.5 cpl during 2011–12, and thus accounted for just over half of total unit net profits
- in the period 2005–06 to 2011–12 average annual unit net profit, including convenience store profits, was around 1.7 cpl while average annual unit net profit from fuel sales only was around one cent per litre.

Chart 14.11 Retail sector unit net profit, all petroleum products and convenience store products and services: 2005–06 to 2011–12



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

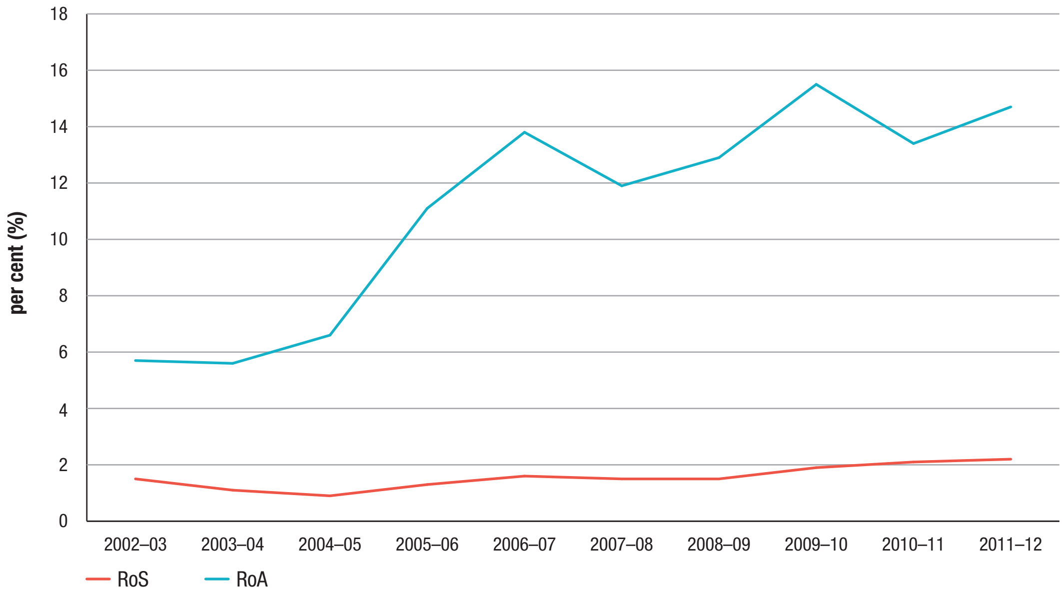
14.5.3 Retail sector: other key performance indicators

The ACCC uses a number of other financial KPIs to assess the retail sector. These include return on sales (RoS) and return on assets (RoA). Data on capital expenditure relative to total net profits is also presented. The discussion in section 12.9.5 provides further details on these KPIs.

Chart 14.12 displays these profit KPIs for the period 2002–03 to 2011–12. Key observations regarding these profit KPIs for the retail sector include:

- return on sales increased slightly to 2.2 per cent in 2011–12, up from 2.1 per cent in 2010–11.
  - RoS for specialist retailers was 2.37 per cent while independent wholesalers with a retail presence recorded a RoS of 3.07 per cent.
  - the average annual RoS for the entire time series was around 1.7 per cent.
- return on assets for the retail sector was around 14.7 per cent in 2011–12, up from 13.4 per cent in 2010–11.
  - during 2011–12 RoA was 12.4 per cent for independent wholesalers and about 24 per cent for specialist retailers.
  - the average annual RoA for the time series was around 12.0 per cent.

Chart 14.12 Retail sector return on sales and return on assets, all petroleum products and convenience store products and services: 2002–03 to 2011–12



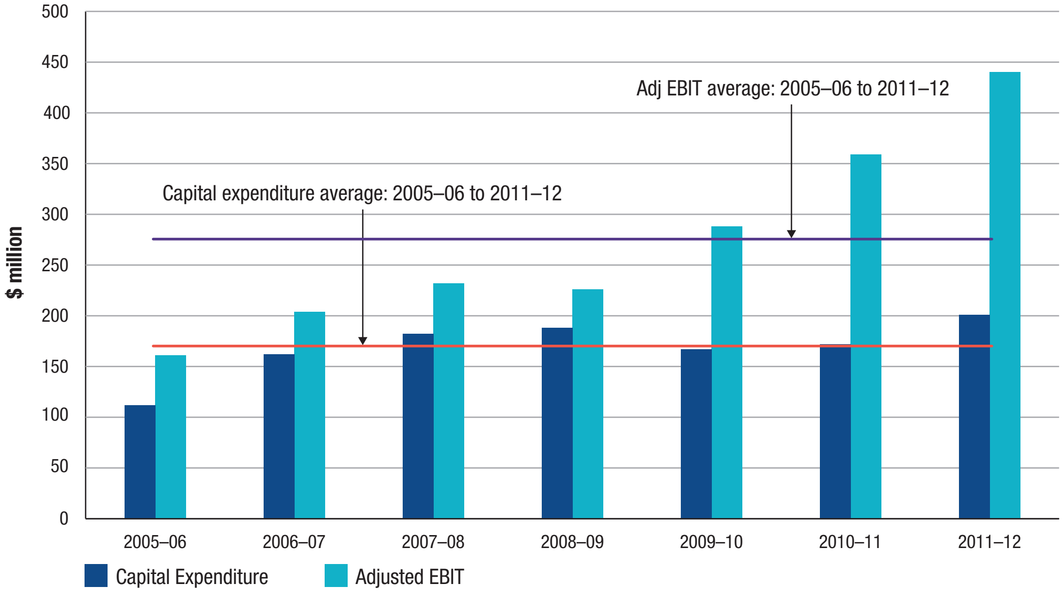
Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process

As discussed in section 14.3.3, there are a number of caveats pertaining to data on return on sales and return on assets that should be taken into account when analysing these KPIs. Return on sales is affected by a firm's cost structure. This means that firms with significant fixed costs rely on volumes to produce adequate returns and will tend to have low returns on sales. Return on assets is affected by different approaches to valuing assets, the allocation of assets across relevant sectors and the asset age profiles.

Chart 14.13 presents capital expenditure and adjusted EBIT in the retail sector over the seven years to 2011–12. Key observations from this chart include:

- total capital expenditure was $201 million in 2011–12, or around 46 per cent of the sector's net profit for the year
- average annual capital expenditure over the past seven years has been around $169 million per year, averaging about 62 per cent of annual net profit.

Chart 14.13 Retail capital expenditure and adjusted EBIT, all petroleum products and convenience store products and services: 2005–06 to 2011–12



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

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

Profitability measures discussed in sections 14.5.2 and 14.5.3 related to total profits earned by all monitored retail businesses. This section presents profitability measures by retail site, including estimates of the share of profits earned on convenience store products and services by site. When assessing net profit per site, it is necessary to note that the monitored companies have different ownership and profit-sharing arrangements:

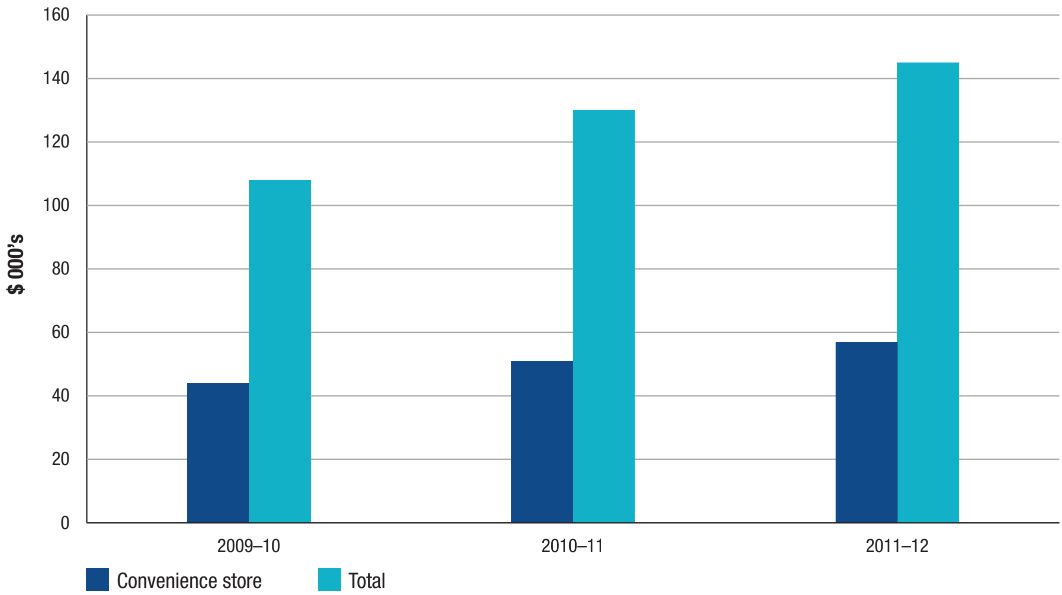
- the operators of individual retail sites are not always the owners of those sites
- in some cases the retail site will be managed by staff who either work for a wage, a commission or for a share of profits under a profit-sharing arrangement with the owner
- some of the monitored companies have franchisee arrangements where profit sharing exists on convenience stores and/or fuel sales.

For further details on the methodology used to calculate convenience store profits refer to section 14.10.

Chart 14.14 presents data on retail sector profitability per site from 2009–10 to 2011–12. Key observations from this chart include:

- total net profit by site in 2011–12 was around $145 000, representing an increase of about 12 per cent on 2010–11
- convenience store profit was around $57 000, per site also increasing 12 per cent from 2010–11.

Chart 14.14 Retail sector estimated total and convenience store net profit per site: 2009–10 to 2011–12



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

Notes: Data is not comparable to that presented in the 2011 ACCC petrol monitoring report due to some monitored companies changing how they classify and report site ownership types.

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

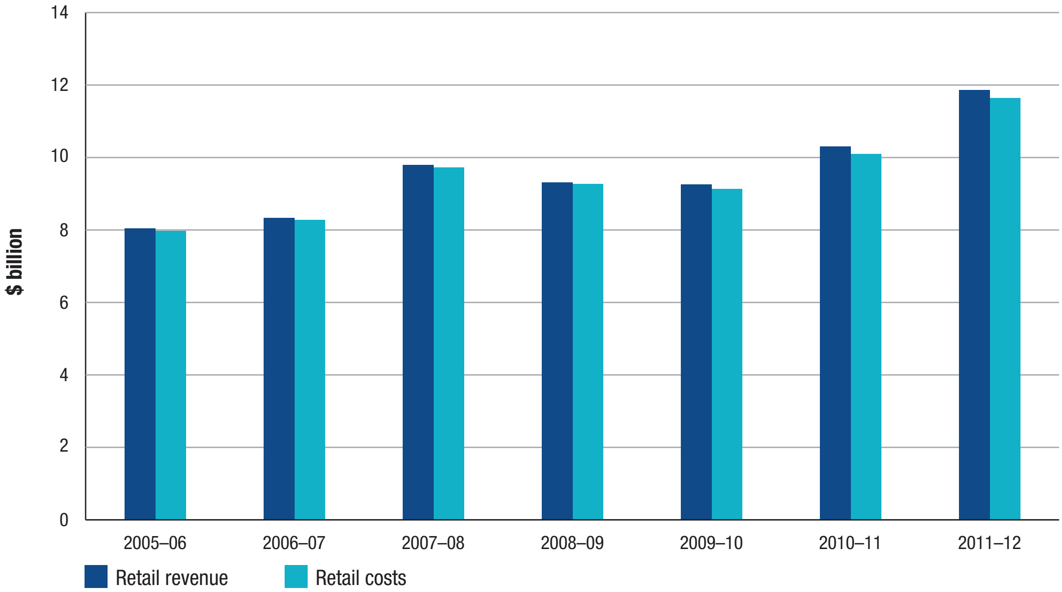
The previous sections discussed revenues, costs and profits for all fuel sales and convenience store sales and other services. As required under the minister's direction this section reports on the revenues, costs and profits in the retail sector associated with sales of petrol products. This section presents KPIs on the sale of petrol products including RULP, PULP and EBP. Refer to section 14.11 for further details on the methodology used to allocate costs to individual products.

14.6.1 Retail sector: revenues and costs, petrol products

Chart 14.15 displays revenues and costs associated with the sale of petrol products in the retail sector from 2005–06 to 2011–12. Key observations from this chart include:

- total revenues and costs on petrol products grew in 2011–12 to $11.87 billion and $11.64 billion respectively
- total petrol sales volumes increased 1.7 per cent during 2011–12. While RULP volumes have generally been declining since 2006–07, in 2011–12 they increased by 2.6 per cent.

Chart 14.15 Retail sector revenues and costs, petrol products: 2005–06 to 2011–12



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

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

Total net profits

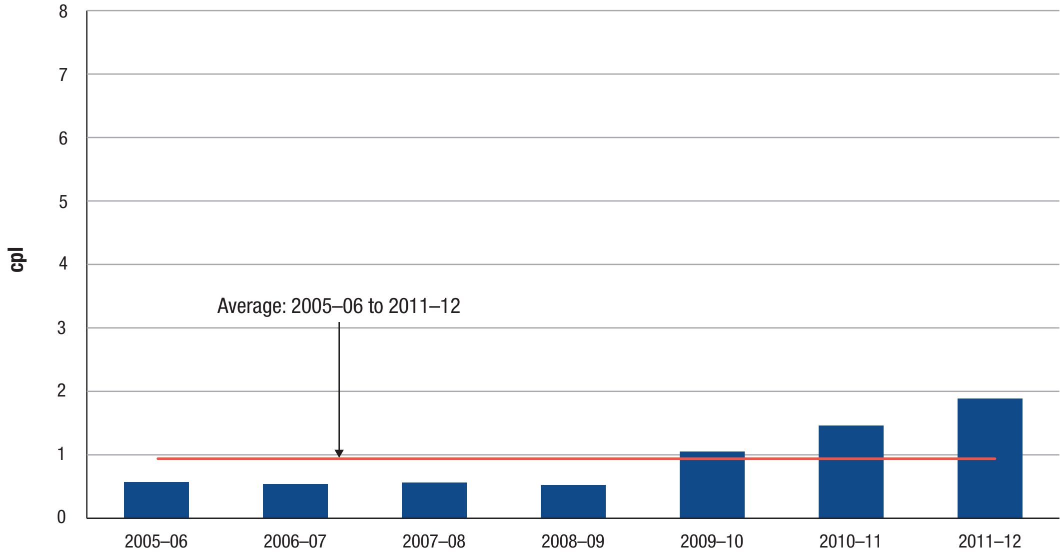
Total retail net profit earned by monitored firms on petrol products during 2011–12 was around $239 million, up about 32 per cent from 2010–11. Annual average net profit for petrol products since 2005–06 has been around $114 million.

Unit net profit

Chart 14.16 shows unit net profit for monitored firms in the retail sector over the seven years to 2011–12. Key observations from this chart include:

- unit net profit for petrol products was around 1.9 cpl in 2011–12, representing an increase of 30 per cent on 2010–11
- average annual unit net profit from 2005–06 to 2008–09 was around 0.5 cpl compared to 1.5 cpl for the three years to 2011–12.

Chart 14.16 Retail sector unit net profit, petrol products: 2005–06 to 2011–12



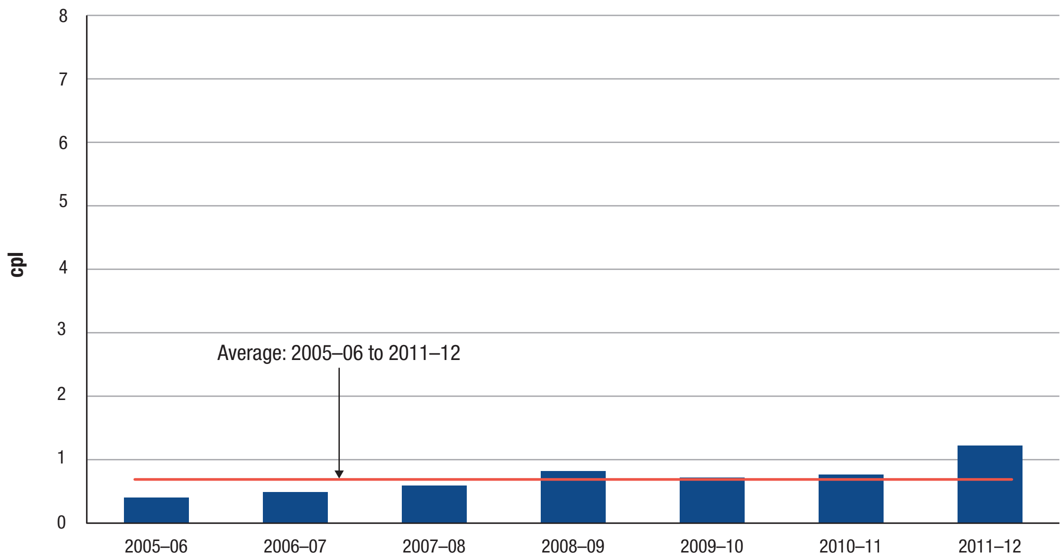
Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process

Unit net RULP profit

Chart 14.17 displays unit net profit for RULP products only for monitored firms in the retail sector over the seven years to 2011–12. Key observations from this chart include:

- unit net profit for RULP was 1.2 cpl in 2011–12, increasing from 0.8 cpl in 2010–11
- returns on PULP account for the majority of the increase in petrol net profits during 2011–12 (see section 14.6.3).

Chart 14.17 Retail sector unit net profit, RULP products: 2005–06 to 2011–12



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

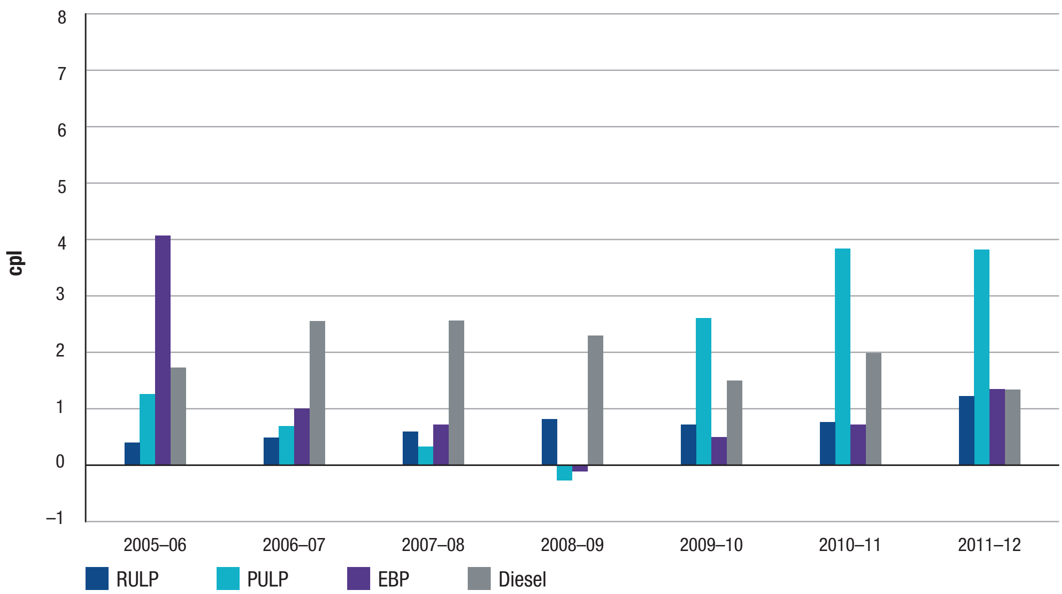
14.6.3 Retail sector: petrol and diesel unit net profits

This section assesses the profitability of each petrol product, that is, RULP, PULP and EBP. The profitability of these products is then compared to diesel profits earned by the monitored companies in the retail sector. Chart 14.18 compares the profitability of these four individual products from 2005–06 to 2011–12.

Key observations for unit net profits for these products include:

- PULP unit net profit for 2011–12 was around 3.8 cpl, the largest net profit of any retail petroleum product. PULP volumes increased 10 per cent on 2010–11
- diesel unit net profits were around 1.3 cpl in 2011–12. Diesel volumes recorded the largest increase of any fuel type during 2011–12 with a 14.3 per cent rise on 2010–11
- RULP unit profits were the lowest among all retail fuel types, earning 1.2 cpl during 2011–12
- over the entire time series the average annual unit net profit for PULP products was 2.03 cpl, while diesel averaged around 1.93 cpl, RULP 0.69 cpl and EBP around 0.76 cpl.

Chart 14.18 Retail sector unit net profits, RULP, PULP, EBP and diesel: 2005–06 to 2011–12



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

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

The previous sections have discussed revenues cost and profits for monitored firms in the retail sector.

This section compares the financial performance of monitored firms in the retail sector relative to other selected Australian retail industries. The ACCC has used data for the Australian Securities Exchange's top 200 (ASX200) businesses by market capitalisation to compile profitability KPIs for selected Australian retailing businesses.

14.7.1 Retail sector: Australian comparison—return on sales

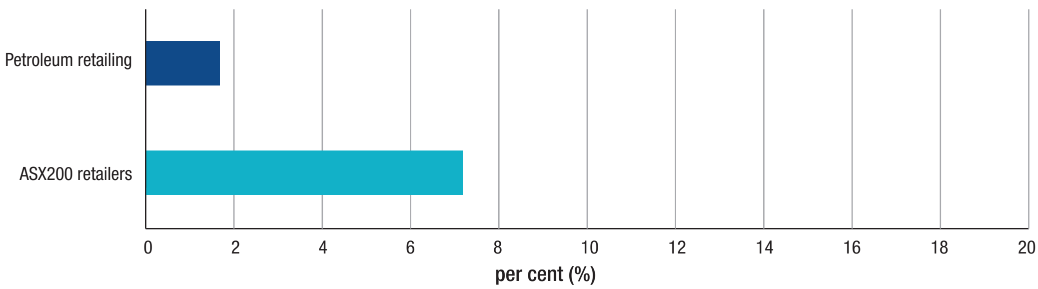
The ACCC has calculated return on sales for the retail sector and for retail businesses that are included in the ASX200. The results are an average for the period 2002–03 to 2011–12 and therefore represent results over a decade of activity in the Australian retail sector.

Chart 14.19 shows the average RoS for the period 2002–03 to 2011–12 for the retail petroleum sector and for other selected Australian retailing businesses. Caveats relating to RoS discussed in section 14.5.3 should be taken into account when considering these data.

Key observations for RoS include:

- over the past 10 years the Australian retail petroleum sector average annual RoS was around 1.68 per cent
- the selected retail units from the ASX200 have an average annual return of 7.18 per cent.

Chart 14.19 Comparison of average annual return on sales for the Australian retail petroleum sector and ASX200 retailers: 2002–03 to 2011–12



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

Notes: 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. Revisions to historical data and to the composition of the ASX200 mean that comparisons with data in the comparable chart in the 2011 ACCC petrol monitoring report should be treated with caution.

14.7.2 Retail sector: Australian comparison—return on assets

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

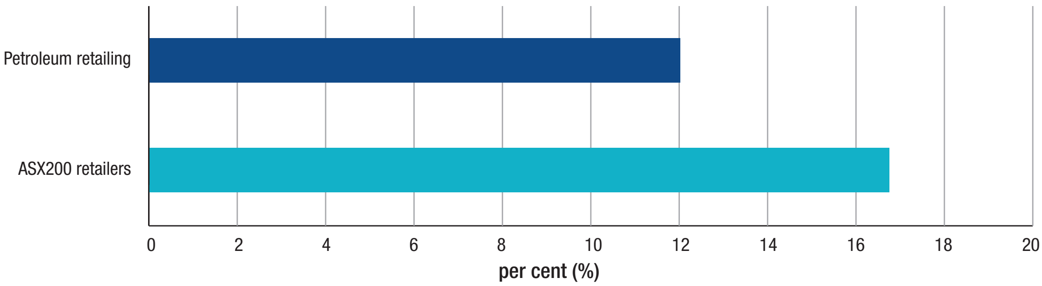
The caveats noted in sections 12.7.2 and 13.6.2 with regard to using RoA for the downstream petroleum industry should be noted when comparing data for RoA across firms in different industries. Returns on assets are affected by approaches to measuring asset values and different asset age

profiles. In the case of firms operating in multiple sectors of the Australian downstream petroleum industry, the allocation of assets to retail operations can also affect RoA. Retail business models based on different approaches to asset ownership can also impact RoA values and comparisons.

Chart 14.20 presents average RoA for the period 2002–03 to 2011–12. Key observations from this chart include:

- the retail petroleum sector average RoA was 12.01 per cent.
- the average return for the selected retail businesses from the ASX200 was 16.76 per cent.

Chart 14.20: Comparison of average annual return on assets for the domestic retail petroleum sector and ASX200 retailers: 2002–03 to 2011–12



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. Revisions to historical data and to the composition of the ASX200 mean that comparisons with data in the comparable chart in the 2011 ACCC petrol monitoring report should be treated with caution.

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

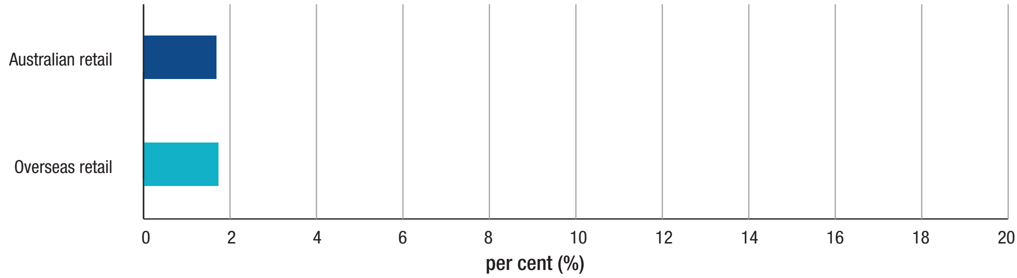
This section benchmarks the profitability of monitored firms in the Australian petrol retail sector against international firms whose predominant activity is petrol retailing. Data for RoS and RoA are used to compare Australian firms against comparable overseas firms. Around 22 international companies were selected for the comparison sample.

14.8.1 Retail sector: international comparison—return on sales

Chart 14.21 displays RoS for the Australian petrol retail sector and overseas petrol retail companies.

The data in chart 14.21 shows that the RoS between the two groups is broadly comparable and highlights that the fuel retail sector is a low-margin, high-volume industry. The Australian average annual RoS for the period 2002–03 to 2011–12 was 1.68 per cent compared to around 1.70 per cent for the international units.

Chart 14.21: Average annual return on sales for the Australian retail petroleum sector and international retail petroleum sector: 2002–03 to 2011–12



Sources: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process; Bloomberg and Bureau van Dijk Orbis database and Onesource database and individual company annual returns

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 Exxon Mobil 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.

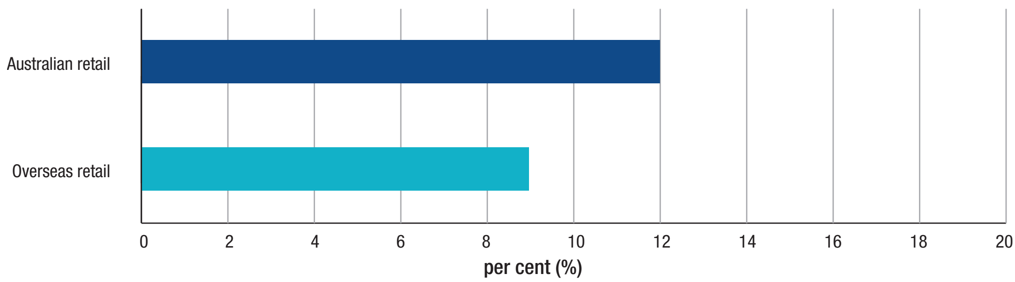
14.8.2 Retail sector: international comparison—return on assets

Chart 14.22 displays RoA for the Australian retail petrol sector and for the same overseas petrol retail businesses presented in section 14.8.1.

The caveats outlined in section 14.7.2 regarding comparisons of rates of return on assets across firms and industries also apply in respect to data presented in this section.

The average annual RoA for the Australian petroleum retail sector during the period 2002–03 to 2011–12 was 12.01 per cent compared to the international average of 8.63 per cent.

Chart 14.22: Average annual return on assets of the Australian retail petroleum sector and international retail petroleum sector: 2002–03 to 2011–12



Sources: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process; Bloomberg and Bureau van Dijk Orbis database and Onesource database and individual company annual returns

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 Exxon Mobil 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.

14.9 Retail sector: the importance of convenience store sales

Petrol retailing in Australia (and overseas) includes a proportion of revenues and profits derived from sales of non-fuel products at convenience stores and services such as hiring equipment and washing facilities. The introduction of canopy sites located in car parks of supermarkets retailing petrol is another recent feature of the retail convenience store market.

This section considers the significance of convenience store sales and profitability in the petrol retail sector. As noted in section 14.5, monitored retail companies have a wide variety of business models which can affect convenience store profits. In some cases a profit sharing arrangement exists with the franchisee while in others a third party operates the convenience store and shares petrol profits. A more conventional business model may exist in other cases where all convenience store revenues and profits are to the account of the owner of the site.

14.9.1 Retail sector: convenience store gross profits and margins

This section analyses gross margins for retailing both fuel and convenience store products.

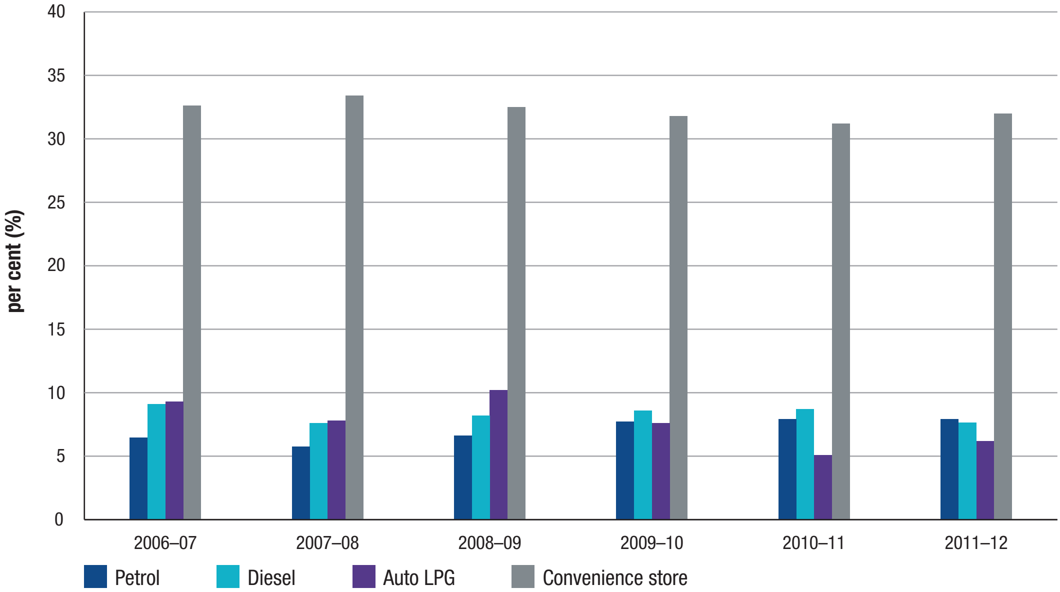
Gross margins are calculated by subtracting the cost of goods (purchases and usually transport costs in the retail sector) from revenue. Gross margins are typically expressed as a percentage of revenue. This provides a percentage measure that highlights the core profitability of a company before operating expenses are deducted. The gross margin represents the proportion of each revenue dollar that a retailer retains after deducting the direct costs associated with the sale of the good. The higher the percentage the more a firm retains from each sales dollar.

Gross margins for petroleum and convenience store sales are presented in chart 14.23 over the period 2006–07 to 2011–12. Key observations regarding gross margins in the retail sector include:

- convenience store sales have the largest gross margin of any product sold at retail petrol sites. The gross margin in 2011–12 was 32 per cent, consistent with gross margins achieved over the time series.[168]
- in contrast, diesel gross margins were around 7.6 per cent during 2011–12 and petrol margins were around 7.9 per cent.

168 Note that the time series for convenience store profits can only be calculated from 2006-07 onwards.

Chart 14.23 Retail sector gross margins for petrol, diesel, automotive LPG and convenience store sales: 2006–07 to 2011–12



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

The ACCC has noted in previous monitoring reports the trend towards new and imaginative ways of increasing convenience store sales and profits. For example, some petrol retailers have adopted a business model whereby franchised and/or independently run and operated businesses operate from within the convenience store site.

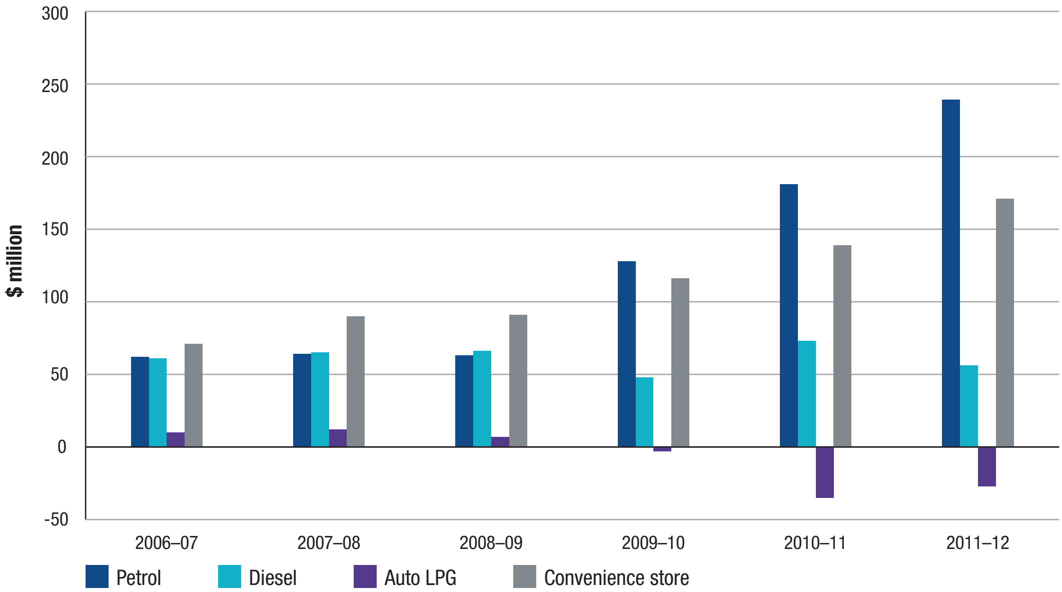
14.9.2 Retail sector: convenience store net profits

This section assesses the profitability of convenience store products and services compared with fuel sales. The methodology for allocating costs among individual retail products and services is outlined in section 14.10.

Chart 14.24 presents net profit for convenience and fuel sales in the retail sector. Key observations from the chart include:

- in 2011–12 convenience store net profit accounted for around 39 per cent of total retail profits. During 2011–12, total convenience store profits increased 23 per cent to $171 million.
- apart from 2006–07 when convenience store profits were around 35 per cent of total net profits, convenience store profits as a share of total profits has averaged around 40 per cent over the time series
- net profit from petrol sales has increased from 30 per cent of total profits in 2006–07 to around 54 per cent for 2011–12
- for the past three years, retailers have on average, incurred losses on the sale of LPG.

Chart 14.24 Retail sector total net profit for petrol, diesel, automotive LPG and convenience store sales: 2006–07 to 2011–12



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

14.10 Methodology note

Wholesale allocations

The data presented for the Australian wholesale sector includes imports by independent wholesalers. It was not methodologically possible to allocate these imports to the total supply sector as with the refiner-wholesalers' 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 some 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.

Retail sector sample

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

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, Ausfuel 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.

Convenience store profit calculation

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.