CHAPTER VII

RE-EVALUATION OF RETAIL OUTLETS

The precedural approach towards the eventual setting up of a station has been discussed. The main criterion, as can be seen, to justify such an investment of the company lies in its sales potential which is at best only a reasonably accurate estimation of what the new outlet can do. Although considerations on data relevent to site analysis and area analysis were made and the economic environments of the trading area carefully reviewed, it is by no means certain that all stations built will fulfill their expectations. Any investment does involve some elements of uncertainty and precariousness, and on this ground alone, no one is confident that all stations will really reach the estimated sales volumes. Therefore, a re-evaluation of retail outlets which have completed two full years of operation is necessary. The reason for re-evaluating such outlets after two full years of operation is evident, because the estimated volume is based on the second year's one.

While working under the Esso Grant-In-Aid Programme in the Retail Sales Dept., the writer has come to a firm belief that such a re-evaluation is really very necessary because, in the writer's opinion, the estimation of sales potential of many proposed new outlets is not carefully worked out. Every year, the Retail Sales Department has to prepare a budget for the following year's programme and funds are budgeted for such item as future retail projects. This implies that each year the area salesmen have to have a few proposals ready so as to be in line with the company's retail programme. In the attempt to fulfill their duties, salesmen may find that some of their projects comtemplated may not be economically justified. However, to convince the management that they have not neglected their obligations, they may resort to such means as exaggerating the estimated sales volumes so that the proposals appear attractive and economically justifiable. Eventually when these outlets come into existence, their performances fall short of expectation.

Another reason why such a re-evaluation is essential is that some stations reach the estimated objective within a surprisingly short period of a few months. This can indicate but one thing, that is, the estimated sales volumes of such retail outlets are not carefully calculated. In so doing, the company has come to lose much potential earnings in the sense that much better stations could actually have been constructed to cater to the great potentials of the areas by means of building bigger stations with better facilities so that the full potentials could be realised.

Lastly, it needs to be pointed out that the estimated volume potential for a proposed outlet is essentially an estimate only. It is apparently liable to error or miscalculation. As such, the re-evaluation of the performance of the recently built outlet is necessitated, if the performance deviates from the estimate, i.e. achieving less than 90% of the estimated volume after two full years of operation.

Having examined the necessity of such a re-evaluation of stations which have completed two full years of operation, the next question is what action should be taken against stations which have failed to achieve at least 90% of the estimated objective.

In the example, the estimated objective is 258,880 A.G. per year (or 216,000 I.G. per year). The sales progress of this station is closely followed so as to ascertain whether at least 90% of the estimated volume has been reached or surpassed on completing the second year of operation. If the objective has been achieved, then it is well and fine. However, if the station still falls short of the objective, then the area salesmen and the area management will be jointly responsible for an explanation. Reasons for failure to achieve the objective are many and varied. Firstly, the failure may be due to volume dilution caused by an undesirably high station density in the area. This is possible because if one oil company decides to set up a new station somewhere, other competitors will soon follow suit and such volume dilution causes the project to fall short of its objective. Secondly, unexpected traffic restrictions such as road dividers, traffic lights and one-way traffic restriction may have placed the station in such a disadvantageous position that most customers now find it difficult and inconvenient to make purchases at the station any more. A development project such as housing estate or proposed new road has failed to materialise. Such projects were taken into consideration when making the proposals but have yet to come true, or such projects have been shelved, due to factors beyond the control of those persons concerned. Had these projects been materialised, they would have definitely boosted the sales potential of the station. Lastly, there are other factors such as the unco-operativeness of the dealer of the station, keen competition such as cash discounts,[37] point-of-purchase materials, road deviations and other possible and acceptable explanations.

Although a station has failed to reach the objective, its faith is not immediately decided. The station is however, given another chance to redeem itself. A re-evaluation of its performance will give an indication as to how far the station is off the objective so that corrective actions can be taken. For instance, if the failure is due primarily to keen competition such as discounts being freely given by competitive outlets, the dealer may be assisted financially by the company to counter this kind of competition; or if it is due to the inefficiency of the operator, he may be replaced or sent for retail training to orientate him to better selling action, or to finance him in acquiring better facilities to operate with.

To the writer's knowledge, there has not been a single station built since 1962 closed down for business. Such an achievement can be attributed primarily to the sound approach adopted for the development of retail outlets. Besides, it is not the company's policy to terminate the operations of a station unless it is really uneconomical and undesirable, in terms of return

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[37] In Singapore, some stations give discount of as much as 3¢/IG for cash purchases.

on investment, to retain such a station. After all, closure of a station is a sign of weakness itself and the company's image as the leader in the petroleum industry will be adversely damaged. So long as there is a fair return to both the dealer and the company such a station will be retained.

The analysis of such a re-evaluation is then tabulated and the results are entered in a special form as shown (see Illustration 14). This is then forwarded to the Head Office of ESE in New York, presumably for making an assesment of the retailing programme of the company, ESML.

NOTA

DOKUMEN ASAL

TIDAK TERANG.

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ILLUSTRATIO

ETAIL OUTL

EARS OF OPE

	Number	Averag (in B Est'd	Investment (in US $ Est'd
I. Company-owned Outlets			
Number of Outlets	8	5273	32715
Number of Outlets Achieving Less Than 90% of Objective	1	6275	[illegible]
II. Company-owned Outlets On Leased Land			
Number of Outlets	7	5094	[illegible]
Number of Outlets Achieving Less Than 90% of Objective	2	5274	23415
III. Major Modernisation *			
Number of Outlets	NIL		
Number of Outlets Achieving Less Than 90% of Objective	NIL		

* Any modernisation or improvement which exceeds US$10,00 made on existing outlet is classified under "major mode

ILLUSTRATION 14

[illegible] OUTLETS COMPLETING

[illegible] OF OPERATION IN 1965.

umber	Est'd	Investment Per Outlet (in US $) Est'd	Actual
8	5270	32715	29826
1	6275	[illegible]	27783
7	5094	[illegible]	18073
2	5274	[illegible]	24701
NIL			
NIL			

Average (in [illegible]

Av.

exceeds US$10,00[illegible]
nder "major mode[illegible]

ILLUSTRATION 14

[illegible] OUTLETS COMPLETING

[illegible] OPERATION IN 1965

Investment Per Outlet (in US $)

Est'd	Actual
32715	29826
[illegible]	27783
[illegible]	18073
[illegible]	24701

[illegible]TION 14

[illegible]TS COMPLETING

[illegible]RATION IN 1965.

[illegible] Per Outlet (in US $)		Av. Investment Per Bbl. (in US $ per bbl.)		Av. Net Realisation Value (in US $ per bbl.)	
Est'd	Actual	Est'd	Actual	Est'd	Actual
3271[illegible]	29826	6.20	5.84	14.03	13.97
[illegible]	27783	4.77	5.68	15.[illegible]	12.99
[illegible]	18073	3.73	3.63	13.[illegible]	13.01
[illegible]	24701	4.44	6.06	14.[illegible]	11.92

. Investment Per Bbl. (in US $ per bbl.)		Av. Net Realisation Value (in US $ per bbl.)		Av. Net Rent Income (in US $ per A.G.)	
Est'd	Actual	Est'd	Actual	Est'd	Actual
6.20	5.84	14.03	13.97	0.38	0.30
4.77	5.68	15.26	12.99	XXX	XXX
3.73	3.63	13.50	13.01	0.37	0.34
4.44	6.06	14.07	11.92	XXX	XXX
				XXX	XXX