

RETAIL MARKET DEVELOPMENT SURVEY (R.M.D. SURVEY)

The importance of retail sales function needs little emphasis. In order to establish and further strengthen the company's leading position in the petroleum industry, surveys of retail market are essential and often conducted, one of which is the Retail Market Development Surveys of Ipoh and Penang conducted recently.

Apparently, the primary objective of the survey is to make a study of the retail market in this case, in Ipoh and Penang. The survey broadly encompasses the following objectives:

- 1) To determine the present position of Esso in the retail market in Penang and Ipoh as compared to its competitors' positions.
- 2) To establish an ideal pattern of retail network in these areas.

38 While being trained in E.S.M.L. under the second Grant-In-Aid Programme, the writer was privileged to be chosen to participate in the R.M.D. Surveys of Penang and Ipoh, conducted from March 27 to April 22, 1966.

Similar surveys of Singapore and Kuala Lumpur had been conducted earlier.

In this chapter, the writer attempts to bring out only the salient parts of the R.M.D. Survey.

3) To forecast, with the current investment policy of the company, the future position of the company within the next five years.

I Present Market Position of Esso.

In order to determine the present position of Esso viz-a-viz its competitors', I.B.M. sales statistics for all types of retail outlets - service stations, filling stations and curb pumps - for the year 1965 were collected. However, there is no such direct source of finding out the sales data for the competitors. Instead, sales figures for the competitors were obtained from the Planned Distribution Survey (P.D.S.),³⁹ a record of approximate sales volumes of all competitor's outlets in the same trading area. The total sales figure for all Esso outlets as compared to the total retail sales volume for the same trading area will then give the present market position of Esso. This is however, inadequate to show whether its market position has actually improved or deteriorated. Therefore, the same methodology is used for collecting the sales data of Esso as well as competitors for the year 1964 and for prior years, if necessary. Thus, the

³⁹ The P.D.S. for a marketing district is prepared by the area salesman. Monthly sales figures in I.G. for all retail outlets in the area, Esso's as well as competitors', are indicated.

Retail Market Development Survey team will be able to visualize the position of Esso in the particular market.

For example, in Illustration 15, a comparison of the sales of 1965 and 1964 shows that there had been an increase of sales of 2.1%, and the market share of the company for 1965 is 31%. The shifting effect of the issuance of the skid tanks can also be traced.

A simple evaluation like this is essential. It provides a broad guide as to where Esso stands in the retail market in the area; or whether Esso has done as well as expected in relation to Exhibit 210. The survey also undertakes to study the effect of issuance of skid tanks which has been a recent and common phenomenon in the petroleum market in view of keen competition faced by all oil companies.

II. Establishing An Ideal Pattern of Retail Distribution

The establishing of an ideal pattern of retail outlets aims primarily at a wide complete coverage of the market - in much the same way that a new retail marketer would establish himself under the current competitive conditions. It has to be done in such a way that the R.M.D. Survey team approaches the market without any bias or preconceived notions as to the

RETAIL MARKET DEVELOPMENT SURVEY, MENARD.

1964

1965

(Sales Volume Expressed in Barrels of
42GAL.)Company-owned Outlets:

Esso Belle Isle S.S.	10,562	12,076
Esso Jelutong Rd. S.S.	7,427	8,301
Esso Green Lane S.S.	4,003	5,117
Esso Tanjong Tokong F.S.	4,292	4,885
Esso Dato Kramat S.S.	8,613	9,975
Total	<u>34,897</u>	<u>39,754</u>

Company-owned Outlets on Leased Land

1. Esso Kelawei Rd. S.S.	7,496	7,817
2. Esso Northam Rd. F.S.	4,114	3,104
3. Esso Green Lane F.S.	4,016	2,051
	<u>15,626</u>	<u>12,972</u>

Non-Assured Outlets

1. Bah Sey Motors C.P.	1,049	577
2. Cheng Seang C.P.	865	324
3. Borneo Motors (M) Ltd. C.F.	2,895	2,883
	<u>4,809</u>	<u>3,784</u>

Total Sales through All Outlets: 55,332 56,510

1965 VS. 1964 Sales: * Increase in Sales - 2.1%

Sales through all Esso Retail Outlets 56,510 Bbls
* market share of Esso 31%

From Exhibit 210⁴⁰
Anticipated sales through all Esso
Retail Outlets 58,812 Bbls.

41
* Shift to Skid Tanks 2302 Bbls
or 4.1%

Note: S.S. = Service Station
F.S. = Filling Station
C.P. = Curb Pump.

⁴⁰
Exhibit 210 is a Long Range Forecast up to the Year 1972 prepared by the Marketing Analysis Dept. of ESML. The exhibit shows the expected sales of all motor fuels for each year through all retail outlets, Esso's as well as the industry's. The total expected sales for each year for the whole petroleum industry, categorised into retail and industrial, are also indicated.

⁴¹
A skid tank is a tank installed at a desired place of an industrial customer. Before issuance of skid tanks, an industrial customer had to obtain his supply of fuel supply, predominantly the industrial diesel oil from a retail outlet. Thus, when skid tanks are issued the sales of retail outlets will invariably be affected.

The shifting effect is considered only a probable cause for the decline in sales since it is difficult to ascertain the shifting effect of skid tanks.

desirability of existing locations and representations.

The general principles underlying the establishing of such an ideal retail distribution pattern are to plan:

- a) outlets at strategic locations to provide maximum long range growth and profitability.
- b) the least number of outlets consistent with maintaining a position of leadership with a maximum of security.
- c) outlets "conveniently" located for the customers, meaning in the broad sense:
 - (i) time and distance involved to reach the outlet and the popularity of the route on which it is located;
 - (ii) fast efficient service;
 - (iii) layout of facilities and general design;
 - (iv) ease of ingress and egress (accessibility);
 - (v) a variety of services and merchandise available at the location.

To proceed with this ideal representation, maps of the cities are obtained and overlays are used to indicate the major traffic flow arteries, the major shopping centres, the central business districts, and the area of great growth potential.

The strategic locations are on major traffic arteries, adjacent to or near shopping centres and in area of growing gallonage potential such as housing developments. These strategic locations are indicated on the map overlays. The best of these locations are considered for development into automotive service stations since they are the keystones for development of the retail market, and have the greatest radius of influence.

Having plotted the ideal sites to cover the market, it is then necessary to reconcile this ideal pattern to the present network of outlets in the area. The ideal pattern is therefore compared with the present one, and where, due to zoning restrictions, regulations restricting types of buildings, or other factors, it is not possible to locate the ideal sites, the best compromise with the existing outlet is made or another alternative site is selected.

It is obvious that the reconciliation process aims at eliminating the existing outlets which have now become undesirable in terms of return on investment.

A brief write-up is necessary to show why a certain key location is desirable. An example is

quoted below:

The example chosen is in Penang.

"This ideal location 'X' is situated along Tanjong Tokong Road, just a short distance away from the Bagan Jermal Circus, and is on the right side of the road, coming from the city's central business area. It is on the road leading to Tanjong Bungah and Batu Ferringi, the famous sea-side holiday resorts, and Fettes Park which is a vast housing estate comprising at least a few thousand units and which is still developing at a considerable rate.

The area in which the ideal site is located houses residents of the middle and upper-middle income classes most of whom are vehicle-owners. Besides, there is also a large number of Australian servicemen residing in the area, and a great majority of them own motor vehicles.

An ideal location here will be able to serve traffic, both to and from the central business district, as well as local and transient traffic.

The ideal location is not available. Esso Tanjong Tokong Filling Station serves as the alternative."

III. Forecasting the Future Position of Esso

Research findings have shown that there is a close relationship between a station's age and its

sales potential. Generally a station will, from its first year of existence, gradually mature and reach its peak which is 126% of its second year volume, after seven or eight years; thereafter the growth rate of the station will slowly decline to approximately 115% of its second year volume. (see DCF Analysis worksheet for station growth rate). Assuming no new outlet is added in the area the market position of the company will definitely decline if most stations have already passed this stage of peakness. In order that the leading position of the company be maintained or improved, it is imperative that existing stations must be regularly modernised and new outlets added so as to hold and to attract the greatest possible volume of business. With this concept of inverse relationship between station's age and sales potential in mind, the future position of the company in the retail trade may be determined, assuming the current investment policy is still being practised.

It is apparent that if there is no modernization or improvement made on the existing outlets, the position of the company in the future will deteriorate. The RMD Survey attempts to determine to what extent the future position of the company will be affected. Although it is not possible to forecast with precision to what extent will stations lose their sales, the salesmen in the area are able to predict realistically what the future sales potential of these stations will

be, basing their forecast on their knowledge of the local market, competition and research findings of the company. This will enable the RMD Survey team to determine the future stand of the company, if there is no modernization of the existing stations at all.

On the other hand, the future position of the company may also be determined if there is regular modernization or improvement on the existing outlets as well as new additions.

A comparison between these two future positions will be able to help the RMD team make recommendations as to whether modernization on existing outlets is worth undertaking, in terms of investment returns and market position.

The future position of the company in the retail trade, assuming there is modernization, is reconciled with Exhibit 210, and an objective is then set for the retail outlet to achieve. The question is how to get there. The RMD Survey team also undertakes to make such a study and make recommendations for achieving the objective such as by means of ancillary investments in driveway improvements, replacing old pumps by the modern trim-line pumps, extension of station or of ingress and egress to enhance accessibility etc. It is hoped that the objective can be achieved

by rebuilding outlets to suit customer preferences and demands, by expanding facilities to provide more goods and services, and by constructing such sizeable ancillary investments. In the attempt to do so, considerations are also given to such factors as the maturity level of neighbourhood, the traffic density, the influences of nearby shopping areas and the economic level of the area.

The final stage of the survey is to make a schedule for the implementation of the recommendations. The extent to which the recommendations can be implemented can only be decided after consideration of several factors such as:

- (i) the company's physical ability and manpower availability;
- (ii) the problems of land and permit acquisition,
- (iii) the level of returns on investments, and
- (iv) the competition which the company has to face.

The recommendation should then be implemented as quickly as is physically possible for the company to do so.