#### CHAPTER VI

#### RETAIL OUTLET PROPOSAL ANALYSIS

stimate of the sales potential of the proposed new outlet, a Retail Outlet Proposal Analysis is imperative. This analysis purports to show the justification of the proposal in terms of return on investment and other criteria such as pay-back period (or payout period) and the Discounted Rate of Return on investment.

person concerned who makes this proposal will have to determine in what proportion of the different grades of gasoline is the estimated volume composed of. To do this, the salesman will first determine the types of retail trade he expects the proposed outlet to be capable of doing: that is, he has to determine the percent breakdown of the estimated sales of each grade of gasoline - premium gasoline, ordinary gasoline and diesel. There are no hard and fast muidelines. The salesman will make use of his experience and knowledge of the area to arrive at this percentage breakdown. For example, he may base his analysis on the breakdown of sales of different grades of gasoline of another

outlet of the company in the vicinity, or on the propertion of the types of traffic -residential, commercial and transient in the area.

In the illustration used, since it is predominantly a residential area, the following treakdown is reasonably accurate:

### Freekdown of Estimated Sales Volume by Grade

1)	Baso Extra	Gasoline	60~	129,500	I.G.	155,200 A.G.

2)	esso Ordinary Gasoline	20%	43,200	51,840
3)	Laso Diesel	20%	43,200	51,840
			00/ 000 7 0	054 440 4 0

100% 216,000 I.G. 258,880 A.G.

commonly known as B.U.D. - 12, the estimated sales of each grade of gasoline are required. However, the B.U.D. - 12 calculations are in American units, that is U.S. and U.S. Gallon or American Gallon (A.G.), therefore conversion from the Imperial gallons (I.G.) of the estimated sales and Malayan & have to be made.

 $M \approx 1 - 8.90.3256$ 

The conversion factors are

1 I.G. = 1.2 A.G.

Projects have to be approved by M.S.E.,
New York. Thus conversion into American units - A.G.
and U.S.\* - is necessary so that computer processing
can be facilitated.

As the primary objective of the B.U.D. - 12 is to assess the justification of such an investment, the retail gress profit is of secondary importance as it pertains to the operation of a dealer only.

The per unit wholesale gross profit margin is obtained by adding the gross profit margin for each grade of gasoline to the difference between its pump price (i.e. price at the outlet) and its list orice (i.e. price ex-storage point or supply point). The calculation for the wholesale gross profit margins for each grade of gasoline is as follows:

The prices and gross margins are those mertaining to Ipoh area.

	Extra	Ordinary	<u>Diasel</u>
Sump price per I.G.	₩\$ <b>2,</b> 17	482.02	≅50 <b>.6</b> 6
List price per 1.3.	2.17	2.02	0 <b>.</b> 55
difference in My per I		oyungan sangan nganda nan in nanananan	1:80.03:1
Converted to U.S. &			0.8.0.00271 <b>€</b>

Conversion is shown as follows:

1 1.G. = 1.2 A.G.

| MS1 = U.S.SO.3256 | per A.G.

Difference of MS1 per I.G. = U.S.SO.3256 x 1 per A.G.

| Difference of 1¢(M) per I.G. = U.S. O.3256 x 1 ¢ per A.G.

| U.S. O.00271 ¢ per A.G.

Add: Gross Profit argin

> 32 May 32 per A.G.

16.S.O.078286

0.07313¢ 0.04923¢/

bolesale Gross rofit Margin cer A.G.

1.5.0.078886 E.S.O.073136 U.S.O.049236

The motor-oil sale volumes are found from experience to be slightly over 1% of the corresponding grades of gasoline. Thus, the estimated sales volume. of asso Extra Notor Oil is 1,700 A.G. per year, and Tage Motor Oil is estimated at 520 h.G. ner year. The wholesale pross profit margins for these products 33 ere obtained from the table of gross profit worgins. The rest of the section on Operating Analysis are selfexplanatory and the calculations are shown in the worksheet for B.U.D. - 12 attached. Repreciation is calculated at 5% on improvements and 100 in squipment.

On the section, Budget Proposed, ander

<sup>32</sup> These gross profit pargins are all nined from Gross Margin Table computed by the D.S.M.L.'s Marketing Analysis Pept.

<sup>33</sup> Loc. cit.

For the purpose of B.C.b. - 12 calculation, the depreciation rates are stated as above. The writer was made to understand that for purpose of writing off the book values of assets, straight-line depreciation is used.

## ILLUSTRATION 12

# RETAIL OUTLET . . . ANALYSIS PROPOSAL

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ng ototion:				TOTAL	\$ 131

NOTE: Not. CO = Up C.

notor oil: 6/1 Ctn = 6.00 IG

24/1 ct. 6tm.

26/1 Pi. Van. = 2.5 IG

improvements are included items such as station building, lubitories, Esso Oval, etc. Equipment include pumps, air-meters, underground tanks, car hoists and car wash ramp, etc. Installation costs of these items of equipment are also included.

The rate of return is 25.5%, and the pay-out (or pay back) period is 3.5 years. The proposal is, therefore, attractive, Generally, the B.U.D. - 12 is an approximate calculation of the economic feasibility of the proposed outlet. If the rate of return on investment is less than 10%, then a discounted rate of return must be run. For the purpose of illustration, the discounted rate of return (also known as the discounted cash flow analysis) on the investment is also shown below.

The D.C.F. Analysis covers a period of 20 years. The base year volume, as stated previously, is the volume estimated which is also the second year

of the proposed outlet (see D.C.F. analysis, line 2).

This is a simple rate of return on investment calculated by the formula: Annual net profit after tax/total investment. It is apparent that the rate of return on investment cannot be the same throughout the life of the proposed outlet. However, it is nacessary to determine this simple rate of return to find out whether a proposed outlet is worthwhile Any pessible variation of the rate of return invested in at the outset. on investment in the subsequent years has been safeguarded by taking inte consideration the growth rates

volume. The greath rates from year 1 to year 20 are as given.

In the analysis, "the average gross profit margin after marketing expenses" is derived by reducing the total gress profits by the wholesale and station expenses as calculated in the B.U.D. - 12; this difference is then divided by the number of barrels obtained in B.U.D. - 12 also. Therefore, "The average gress profit margin after marketing expenses" = \$20288 - 4432 - 2002 per bbl.

- \$2.2 per bbl.

The gross profit is then calculated by multiplying the annual volume/year by the average gross profit margin obtained.

The residual value is equal to the value of land at its acquisition cost, since improvements and equipment, which are depreciated at 5% and 10% annually respectively, will be reduced to zero after twenty years.

The rest of the analysis are self-explanatory. When the yearly cash flews (line 12 in the D.C.F.

These growth rates are obtained from the These growth rates for a period of 20 years which graph of growth rates for a period of 20 years which was prepared mainly for this purpose by E.S.M.L.'s was prepared mainly for this purpose by E.S.M.L.'s Warketing Analysis Dept.

analysis) are obtained, the DCF rate of return can then be determined. This is calculated to be 27.5%, which is very favourable.

for establishing a service station in the particular area has been obtained from the authority concerned. This is necessarily so, otherwise all the efforts in selecting and evaluating a particular site will be rester. When the proposed new outlet has been justified by the Retail Outlet Proposal Analysis, or the BUD - 12, in terms of rate of return on investment, pay back period and the DCF rate of return, and in some cases, by the urgency and desirability of having an outlet at a particular area, authorization or appropriation of funds is made out for the development of the proposed cutlet.

In the meantime, tender for construction is invited from the company's contractors. Also the area salesman who is in charge of this particular area will be looking for a suitable person to operate this outlet. Once construction is completed, the selected dealer will commence operation.

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