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Robert Onion • Chairman



2020 vision The future of filling stations

Fuel retailers may be fighting price wars now, but the real battle lies elsewhere. Circle's petrol retail guru Robert Onion looks forward to a return to service – and to pleasure.

Forty years ago the petrol filling station was an iconic landmark. Post-war romantic visions of space age architecture or beautiful machinery were played out on the forecourts of America, and to a lesser extent, Europe. Even the humble village garage had a certain charm, offering a range of useful services and a personal touch. But today these former glories have been replaced by a bland generic format, distinguished only by the colour of the sign and the operator of the shop. Other than the automatic carwash, virtually nothing remains of service, and filling the car is down to us.

Of course some retailers are better than others, and many of the major oil companies have re-branded to try and differentiate themselves from the dreary norm. In the main, however, blandness prevails. The significant trend over the past decade has been for oil majors to relinquish their grip on retail sites, focusing on franchising the forecourt operation to

independent retailers and the shop offer to the better-known grocery brands. Some would argue that it is exactly this change of operational model that has led to the decline in site standards such as cleanliness and customer service. At the same time, the supermarkets have taken a significant segment of the market by offering cheap fuel to cost-conscious customers and combining it with essential grocery shopping. Tesco now has approximately 15% of the UK fuel market, and that share is growing fast.

The reason is simple. Whilst almost every other retail experience, from the bank to the supermarket, has been revolutionised, petrol filling stations remain untouched. Shopping for fuel is one of the few experiences termed a 'distress purchase'. Amazingly, it is still quite normal to have dirty lavatories, unappetising food, and uninspiring shops. We now even have to pay to fill our tyres with air!

So what is the future of the filling station? There are two major factors that will force a reassessment of how filling stations are operated, used and branded: the demand for alternative energy, and the desire for service.

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Refuel, recharge, refresh

As a planet we now consume 1 billion barrels of oil every 12 days, and at projected rates of consumption, oil will cease to be an economic primary energy source by 2042. The message to oil producers from Barack Obama: we need to wean ourselves off oil and create a new energy industry. Indeed, engineering expertise from the motor industry developed over the past hundred years in places like Detroit is now being turned to the creation of new 'clean energy' jobs manufacturing solar components in anticipation of a vast new requirement for clean energy farms over the next ten years in the US.

Alternative fuels will creep into use over the coming decades as soon as they are viable in the west, although developing markets such as India and China will remain heavy users of oil. Ultimately, however, oil will become so costly that it will be priced out of the market.

The alternative fuels will have an effect on where and when we fill up. Given that vehicles will run on a mix of fuels – electricity, natural gas/cng, petrol, diesel or hydrogen – fuel retailers and oil companies will need to devise new strategies to use their real estate.

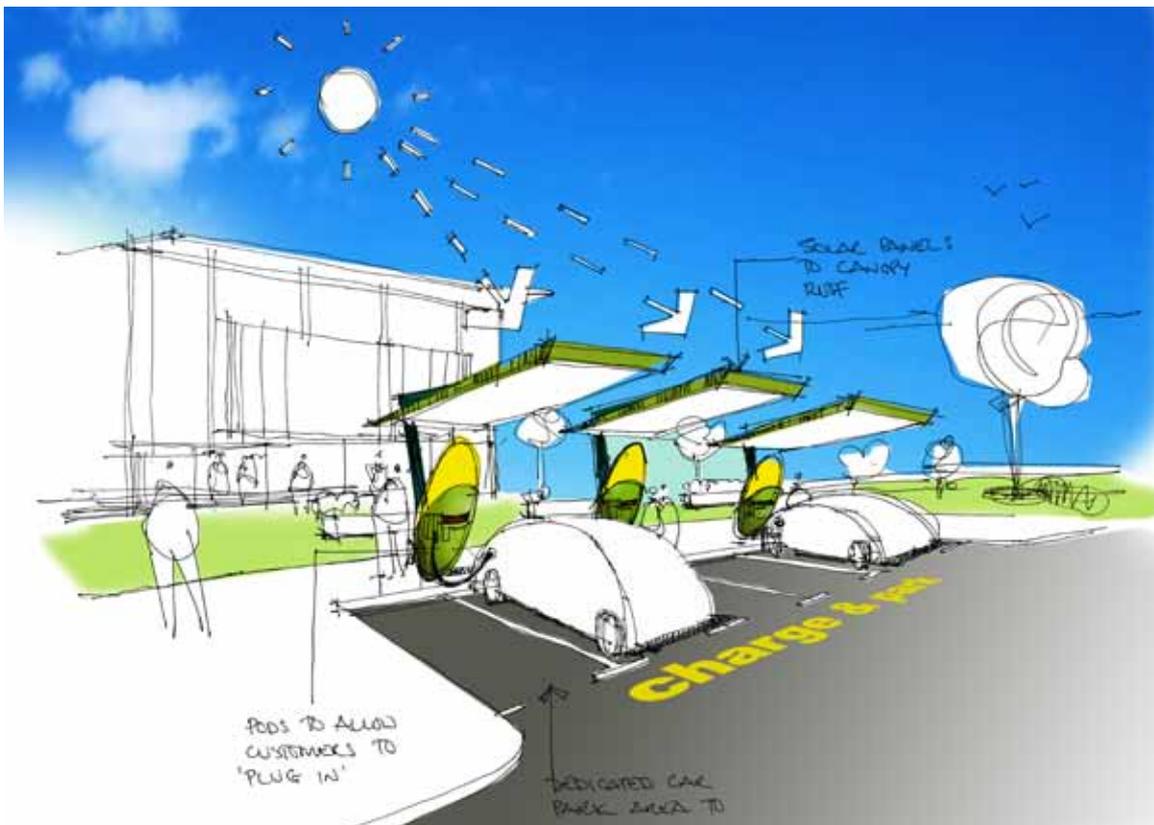
Their geographical reach will always give the oil companies advantages over the supermarkets in supplying liquid and gas fuels. However, electric vehicles may simply be able to recharge at home or at battery replacement depots. Indeed, future vehicles may even generate their own power.

Given what looks like an increasingly unattractive commercial model for the oil companies and refiners, new energy brands will emerge that use the forecourt as an opportunity to offer something different – a range of services that remove the 'distress purchase' stigma and make the experience an enjoyable one where fuelling is just part of the mix. Traditional oil companies will either divest completely or devise new economic models for their sites, for example renting space to a range of energy suppliers and leisure retailers.

A return to service

The oil majors have spent the past century reassuring their customers that they have high quality reliable products – 'You can be sure of Shell'. It appears, however, that this promise no longer counts for many customers, especially younger drivers between the ages of 18 and 29. New research from the US suggests that these younger drivers show little loyalty towards particular oil company brands. They have perhaps realised that in developed markets there is little or no difference between fuel quality, and that retailers often share product from the same refinery.

In addition, changes in the way that fuel is retailed mean that there is little or no reason to be loyal, since customers often fill up without even entering the sales building. Many customers in the US are now selecting filling stations merely on price, and fuel is rapidly becoming a commodity product, chosen much in the same way as a domestic gas supplier.



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In the UK, paradoxically, price may not be such an important factor in many customers' minds – in a recent informal survey, over 70% of customers questioned immediately after paying for fuel did not know how much they had paid per litre. Given that product price is used by oil companies and independent retailers as a key differentiator, perhaps it's time for a rethink.

Real differentiators will make a genuine improvement to our overall experience – things like excellent customer service, cleanliness and an interesting and rewarding range of services on site. How about a return to attended service (at a small premium perhaps?) or having your screen cleaned at no extra cost? How about service with a smile, Pret A Manger style?

On highways, and where space allows, retail sites will become truly multi-use, with a return to traditional service values. Operator brands will become an umbrella for a number of offers, such as:

Fuel: BP, E.on, British Gas

Cinema: Vue, Odeon

Food outlets: Eat, Pret A Manger, Pizza Express, Carluccio's

Wellbeing: Boots, Bodyshop

Grocery: Waitrose, Budgens, M&S

Leisure: Holiday Inn, Yotel, Hilton

Within urban areas we will see much smarter use of real estate. For example smaller sites located within urban areas on high streets will place the main emphasis on the shop offer. Increasingly the shop will come to the front of the site and the fuel to the back, giving easier access for passing trade. Retail space will become more attractive both to customers and to a range of high street brands looking for exposure.

In summary, customers will be offered choice, not just of fuel types, but of a range of high quality retail brands recognised as experts in their field. The oil companies will no longer determine the retail mix, and the franchising operational model will no longer base service standards on how much they can pare off the bottom line.

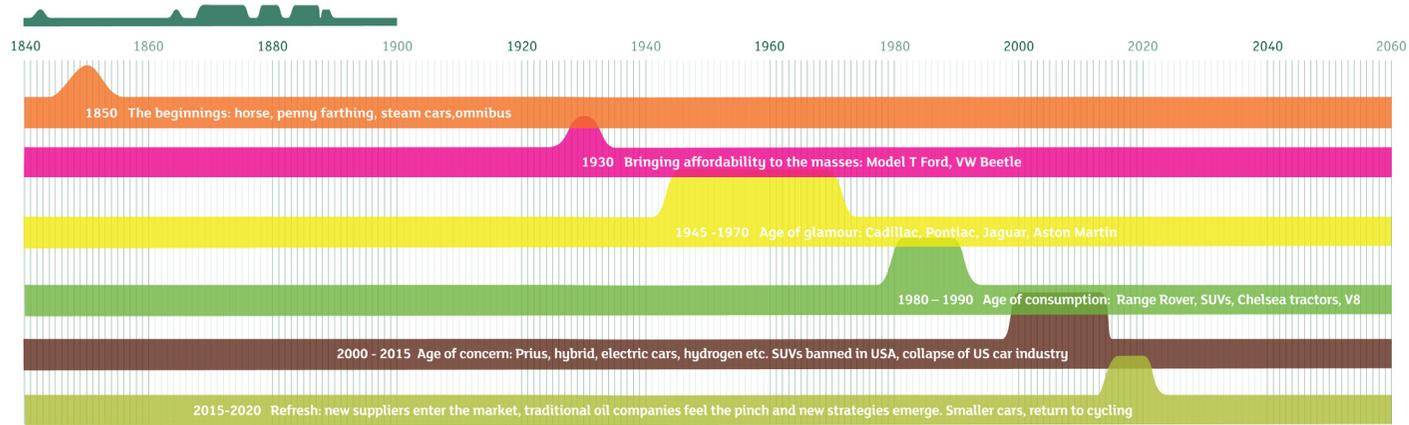
So what will the new filling stations look like? Modern, clean, architecturally engaging, sensitively landscaped, built using environmentally sustainable materials, integrating a range of environmental technologies, and ultimately great places to be. They'll consign distress to the distant past and replace it with genuine enjoyment.



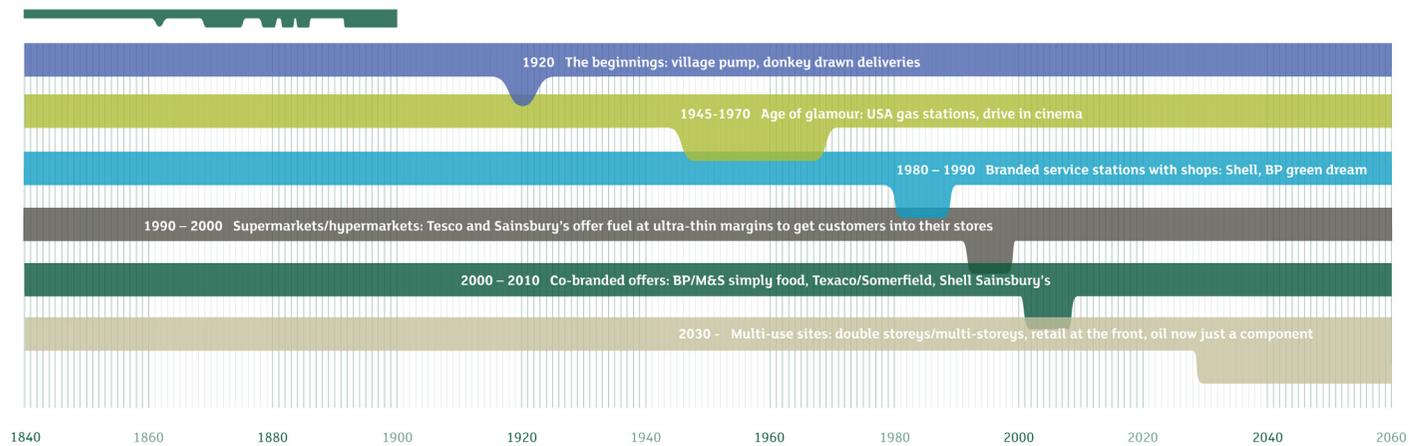
Timelines illustration:

Plot the development from 1850-2030 of:

Personal transport



Development of fuelling facilities





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