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The Art of the Deal
The "how to" of forming successful deals for Major Oil assets is as important as the when, where

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OAK BROOK, Ill. -- Retailers looking to capitalize on Major Oil selloffs have to think big, not necessarily in numbers of stores, but with a "big picture" mindset.

With these selloffs, deals are not strictly about getting top dollar for dirt, said industry experts. It's more about valuing the ongoing business and taking care of the problems that come with the entire network. The winners will come up with an innovative mix that might include new gallonage, strong dealer buy-in or a solution to the majors' problem sites and closed properties.

Other observers agree. A review of many of the deals made in 2006 shows that "it's not the highest bidder that's always going to get the properties," said Tom Kloza, chief oil analyst for Oil Price Information Service, Wall, N.J. "Sellers might do the deal not so much for the highest bidder but for the total volume potential brought from that and other deals. It's the value of the total package."

Kloza uses a fictitious 20-store acquisition as an example. Instead of simply purchasing the 20 locations from an oil company at an inflated bid, a consolidator might offer to purchase those 20 sites *and* bring 10 other sites into the deal and rebrand them under the seller's flag. The seller might have been able to secure more profitable deals from a per-store, sale-price perspective from another buyer, but the deal that maximizes the seller's total volume is more desirable.

Major Oil selloffs are opening up opportunities for any number of players. "These sales are taking place at a time where you don't have to be Couche-Tard or The Pantry to compete and buy these," said Tom Kelso, a managing partner with Baltimore-based Matrix Capital Group. "In many cases, it's jobbers who are [winning]. It fits into the message the oil companies are telling jobbers—grow or perish. You have to get bigger and only the biggest will be left."

In many markets, jobbers have strong relationships with oil companies. These long-standing ties can provide an edge. New gallons are also a plus, an option that might give an area jobber the advantage. Bob Bassman, an industry attorney with Bassman, Mitchell & Alfano, Washington, D.C., said the tendency among the majors is "to want to go with someone who is part of a commitment and agrees to brand up so many new gallons."

The majors may also have concerns with "putting all their eggs in one basket," he said, noting how area jobbers may appear more inviting if an oil company wants to vary its asset disbursement among consolidators and area distributors. "This has not been the case yet," Bassman said, "but it might be in the future."