



SME Oil jobber's challenges and its adapting strategies



Highlight

- Petroleum consumption in Thailand grew by 5% between 2014 – 2017 totalling more than 43,000 million litres in 2017. However, the average profit for an oil jobber, a term describing wholesale business sale oil in bulk, is lower than THB 0.80 per litre, lower than other players in the oil supply chain such as petrol stations. Additionally, the optimisation of the process for oil jobbers has proven to be difficult due to limitations in demand, supply, requirements of related agencies, as well as risks from price fluctuations for crude oil. These factors have driven smaller SMEs who cannot compete out of the market.
- EIC recommends SMEs in oil jobber business to consider investing in vertical business integration. The goal is to improve business competitiveness especially in providing services to the customers from logistics through to having own petrol stations or in the franchise format. Furthermore, SMEs should also consider the use of new technologies to manage costs and reduce business risks.

Between 2014 – 2017 the consumption of petroleum in Thailand has grown by 5% annually, reaching 43,000 million litres in 2017. This figure is in-line with the GDP growth of the transportation sector in the country that grew 5.3% annually in the same period. The increase in the volume of cars in the country by 2.3% annually also contributes to the growth in petroleum consumption. Without Bangkok (whose petroleum consumption amount to 32% of the total), the second largest petroleum consumers are the eastern and north-eastern regions whose consumption grew as much as 6% and 7% per year respectively. Because of the continuous growth in petrol consumption, oil jobbers also face increasing competition at the same time.

However, from 2014 to the present day, it is found that oil jobbers receive an average profit of less than THB 0.80 per litre. As an example, the price structure of gasohol 95 shows that the profit for an oil jobber is around THB 0.60 per litre, lower than the profit of a petrol station by THB 0.20 – 0.30 per litre. This profit figure does not account for the reduction of THB 0.10 – 1.00 per litre, depending on the distance of transportation, for the delivery cost from an oil refinery plant or an oil depot. Under the price-control measure by the government, oil jobbers cannot pass on, or only a little, such a cost to the petrol station. So oil jobbers need to maintain the price competitiveness against similar businesses, especially smaller oil jobbers whose costs for oil are higher because they have to purchase from larger oil wholesalers.

SMEs are likely to experience problems in expanding their operations due to demand and supply issues. Especially in management where demand is governed by the need of oil jobbers to sell at a higher volume to receive higher total profit due to lower profit per unit. However, businesses in this sector face a limitation by different brands of petroleum producer to sell petroleum in certain areas to reduce risks from price competition. In terms of supply, smaller businesses face the risk of a reduced purchase allowance during periods with low petroleum supply, such as during high tourism season, while also having less petroleum safety stock and reserve capabilities that reduce their ability to sell to petrol stations.

Meanwhile, crude oil price fluctuations is an additional factor that affects the volume of petroleum consumption and investment trend of businesses. Crude oil price fluctuations will influence the short-term costs of selling petroleum for both wholesale and retail businesses, such as the effect of sudden reduction of crude oil price on businesses who purchased the stock at a higher price but have to sell at a lower price. In the medium-term, price fluctuations can influence business investments to align with the need of consumers, while sudden price movement will lead to risks for businesses whose return on investment may not be worth the costs or face longer period to recoup their investment. During 2011 – 2014 when crude oil price increased, the volume of petrol consumption slowed down by 3% annually as consumers turned to LPG and NGV, leading to businesses not being able to operate at higher costs leading to a slow down on investment or business closure. In 2012, 11 oil jobbers went out of business, amounting to 4% of the total 283 while closing down 2% annually up to 2014. Even after the oil price crisis in 2014, where the dramatic decrease in oil prices has led to the increased growth of petroleum consumption to 5% annually, oil jobbers who slowed down their investment or went out of business are still not enticed to return to the market while some players changed to other business sectors altogether.

EIC views that expansion into the oil logistics market is an interesting opportunity for oil jobbers if businesses can accept certain limitations. The limitations that restrict the effectiveness of oil logistics include 1) Oil jobbers are restricted to use trucks and railways for domestic movement of petroleum, as they can not use the pipeline, leading to wastage of petrol for logistics 2) Trucks used for oil shipments are classified as a carrier of dangerous goods. Therefore, they can not accept other goods on the return route. Nevertheless, the ratio of oil shipment trucks to petroleum consumption and the number of petrol stations in several areas indicate that there are areas in which there is an opportunity for investments. For example, Songkhla has 0.8 trucks per petrol station which is lower than Nong Khai at 1.8 trucks per petrol station but Nong Khai only has 10% petrol consumption in comparison to Songkhla. EIC suggests that expanding oil jobber business into the northern and north-eastern region is an interesting proposition because the proportions of petrol stations to oil jobbers are as high as 979 and 495 branches respectively with oil consumption rate that is growing by more than 5% per annum.

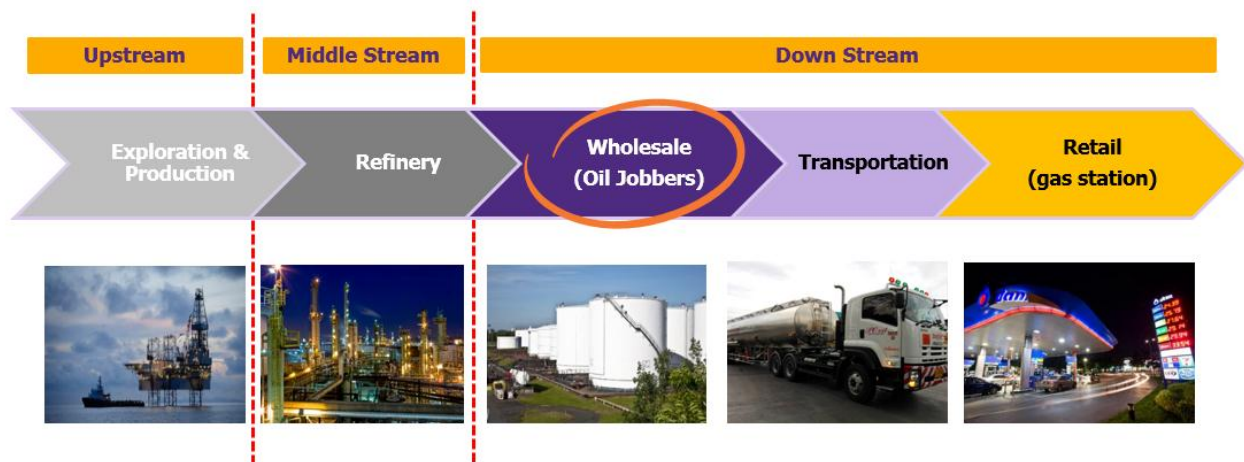
*Oil jobber = Oil wholesaler or oil business operator according to section 10 of Fuel Trade Act B.E. 2543



Implication

- EIC recommends oil jobbers to consider vertical business integration to increase competitiveness and increase total return on investment. Even though there are certain limitations in vertical business integration such as in oil logistics, having an effective management will help to increase the efficiency of logistics operation. In addition, business with a complete solution is more likely to attract petrol stations as customers. Meanwhile, investing in having own petrol stations can also help businesses to increase profitability. This investment model is popular in countries with a high consumption rate of petroleum such as in the US and in Europe because it helps to increase overall competitiveness and allow better control and management of costs. Nevertheless, vertical business integration, as an investment strategy, involves a lot of capital costs in-line with the proportion of business that needs expansion. Without an effective cost management, an investment may have more negative impacts than benefits.
- In addition, EIC views that the incorporation of new technologies is an important factor for managing operations and costs. Including the use of software and network system to manage petroleum purchase orders. These technologies will help oil jobbers to control their safety stock level while also allowing a more accurate inventory management. Consequently, these businesses will be able to purchase oil at the right time, as well as being able to handle logistics fleet effectively such as during periods where consumption is higher than normal. Further, the aforementioned system can also be used to manage risks relating to oil costs by reducing unnecessary purchase during the period of high price fluctuation, for example in the case of a sudden drop in oil price while the business still has a high oil inventory.

Figure 1: Oil jobber, or oil wholesaler, is an important part of oil industry supply chain.



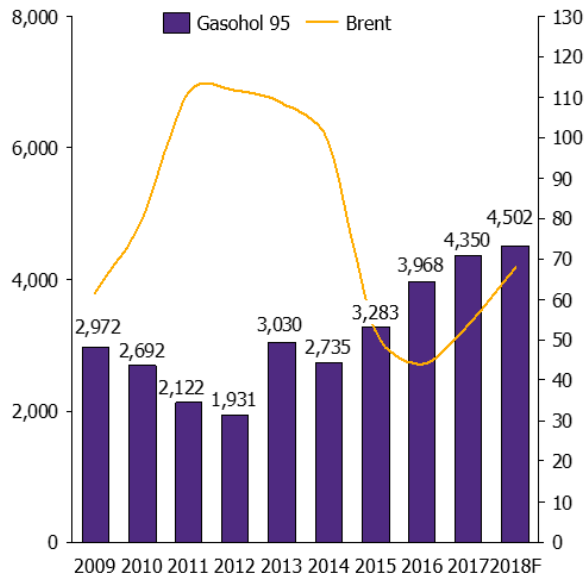
Source: EIC Analysis

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Figure 2: In the past 10 years, Brent price of crude oil has shown strong fluctuations. In the period where crude oil price remains low, the consumption of gasohol 95 increased steadily. However, profit per litre for oil jobber maintained a similar level in comparison to the retail price in the same period.

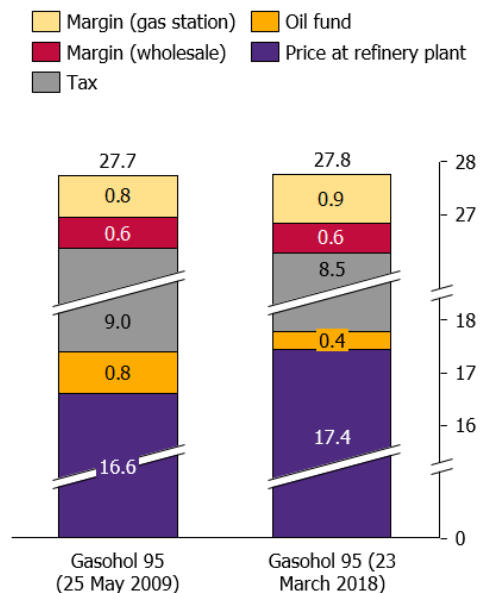
Gasohol 95 consumption and Brent crude oil price

Unit: Million litres (LHS), USD/Barrel (RHS)



Gasohol 95 price structure

Unit: Thai Baht/ Litre



Source: EIC analysis of information from EPPO, PTT, interviews with oil and gas jobbers, and news.

Figure 3: The expansion of oil jobber business into the northern region and north-eastern region represent an interesting business opportunity as the proportion of petrol stations to oil jobbers is high, as well as having a higher growth rate of oil consumption between 2013 - 2017



	Number of gas stations / oil jobber	Total car growth	Oil consumption growth
Northern	979	4%	4%
N. Eastern	495	5%	5%
Central	182	3%	5%
Southern	121	2%	4%
Western	111	4%	2%
Eastern	109	6%	7%
BKK & metropolitans	12	6%	2%

Source: EIC analysis of information from DOEB, DEDE, and DLT

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