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Government Role in Markets

Exploring the Structure and Performance of Petroleum Retail Outlets in Pakistan

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Petroleum industry is one of the most important industries in an economy and Pakistan is no exception. Petroleum retail outlets which are commonly referred to as petrol pumps in Pakistan, play a very important role in keeping the proverbial wheels of the economy running for the obvious reason that they provide fuel both for the domestic and commercial transport activities. Petrol pumps have often been a subject of public debate in Pakistan, mainly because their margins are fixed and they demand for increase in those margins from time to time. The margins they receive from selling a litre of petroleum products are fixed by the government and they cannot charge higher prices (margins are a part thereof) than those declared by the government, which are determined by a government approved formula. Their argument is that margins they receive from the sale of a litre of MoGas and HSD are quite low, and therefore they cannot run the petrol pumps profitably.

This paper is first such attempt using primary survey data for Pakistan. The existing literature has focused on how the location of a petrol pump impacts its performance in terms of sales and profitability. In addition, since most of the literature is focused on developed countries, the impact of non-forecourt activities is also investigated. This is due to the fact in developed countries the petroleum industry is deregulated and because of intense competition, fuel retail businesses have to look for sources other than selling fuels to generate revenue. The literature on the performance of the petrol pump business indicates that both location and non-location factors are important determinants of the petrol pump business. Our results are also in line with the existing evidence on this topic.

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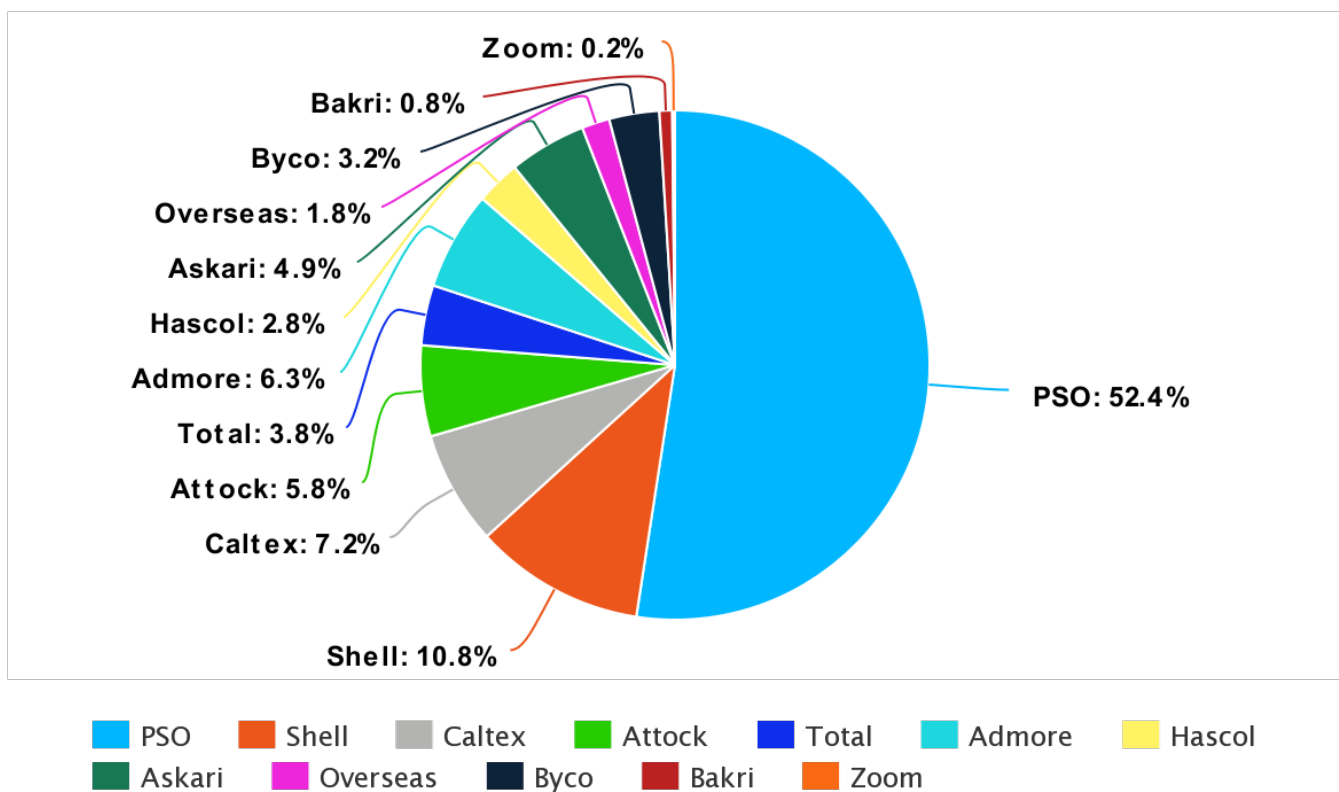
The results show that revenues and gross profits are higher for the petrol pumps situated in the urban areas. This is as expected because petrol pumps in urban areas have higher throughput. The reasons for higher throughput are many. One of the main reasons is that the population that have automobiles and higher incomes are concentrated in urban areas. At the same time, costs of running a petrol pump are also higher in urban areas. However, when costs are calculated on per-unit (i.e. per litre) basis, the results show that these are lower in urban areas. Because of higher throughput and lower per-unit costs, the petrol pumps in urban areas reap higher profits.

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When the sample is broken down on the basis of highway and nonhighway petrol pumps, the results show that highway petrol pumps have higher throughput, lower costs, and higher profits. The existing literature [Chan, Padmanabhan, and Seetharaman (op. cit)] also shows that petrol pumps that are in close proximity to highways have higher sales. Since, according to our results, the highway petrol pumps also have lower per-unit costs, therefore, their gross profits are also higher. This is mainly because most of the heavy and intercity traffic runs on highways and naturally consume more fuel.

Figure 2: Oil Marketing Companies Shares in Pakistan – 2013



Source: Oil Companies Advisory Council

The analysis shows that the size of petrol pumps matters. Theoretically size is deemed to be an important variable in contributing to higher sales and gross profits simply because having higher number of bays reduces wait time for the consumers. Our results show that the size variable is highly significant in both the equations. The distance variable is also significant and positive. This could be an evidence that petrol pumps that are spatially differentiated are more profitable. The non-linear term of the distance variable is negative and significant, which could have important implications for potential entrepreneurs who wish to set up a petrol pump.