

CASE OF THE MONTH

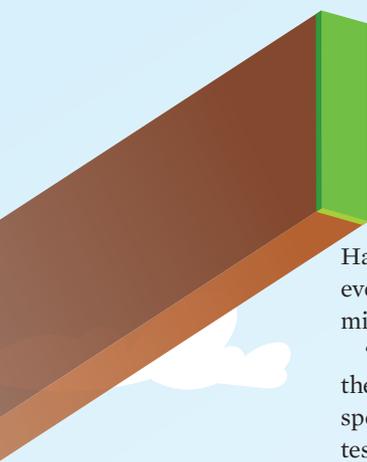


Retailers share their experiences selling the higher octane fuel, to mixed results.

BY JERRY SOVERINSKY



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In 2011, one year before E15 made its debut in the public marketplace,

NASCAR adopted the 15% ethanol blend as its official race fuel. A fleeting promotional stunt? Hardly. Every car participating in a NASCAR race ever since has run on E15, logging a collective 10 million miles by late 2016.

“Ten million miles means that E15 has withstood the rigors of the most demanding competitive motorsports environment in the world and passed each test with flying colors,” wrote Growth Energy CEO Emily Skor in *Ethanol Producer Magazine*, touting the achievement. “The fact that E15 provides an octane boost with a more environmentally friendly emissions profile, all while saving consumers money at the pump, is truly a win-win-win.”

The NASCAR endorsement was a seemingly powerful public introduction to the 15% ethanol blend, which the Environmental Protection Agency approved for use in light duty vehicles (those manufactured since 2001) in June 2012. The next month, a Kansas gas station became the nation’s first to offer E15.

“I’m a firm believer that we have to do something. You can’t just sit there,” Scott Zaremba, owner of a Phillips 66 that sells E15, told *The New York Times*, adding that the fuel would distinguish his station among local competitors. “Being in the Midwest, offering renewables from ethanol and biodiesel fuel are just a natural fit for us.”

Despite the EPA certification, E15 was denigrated by many automakers, warning that it could damage engines. And distributing the fuel often required station modifications, which could cost thousands of dollars—more than \$300,000 to retrofit a 10-pump station (one requiring dispensers to be replaced and a new underground storage system), according to a 2013 estimate by the Petroleum Equipment Institute.

But station owners like Zaremba were hopeful that economics—E15 is generally cheaper than regular unleaded gasoline—would stimulate consumer adoption. “[E15 will offer] meaningful savings at the pump,” said Bob Dineen, president and chief executive of the Renewable Fuels Association, to the *Times*.

To encourage stations to sell E15, the ethanol industry created Prime the Pump (PTP), an initiative that provided support—financial and otherwise, such as marketing—to large retailers.

“It’s not a government grant program and it’s not available to everybody,” said Mike O’Brien, vice president of market development for Growth Energy. “A five-member board reviews proposals from the larger retailers (200+ sites as of late) and asks Growth Energy to work with them.”

Prime the Pump has been customized to each retailer and its needs. “In some cases, we gave retailers expertise and pointed out how to sell ethanol, and other times, we offered assistance in putting in new tanks,” O’Brien said.

In addition to PTP, the USDA launched a \$100 million federal program in 2015 “to boost infrastructure for renewable fuel use.” The program has been largely successful—“much of the money has been distributed, though there’s still a little available state-by-state,” O’Brien said—boosting the number of retailers selling E15 and accelerating its use in the marketplace.

“During the first four years of E15, there was enough sold for consumers to drive one billion miles,” O’Brien said. “And then just five months later, enough was sold to drive the next one billion miles.”

With NASCAR’s endorsement, the EPA’s certification, and money to support distribution, the momentum for selling E15 has undoubtedly been strong. But in a larger context, has it been enough?

Over the summer, the Fuels Institute (founded by NACS in 2013) launched a series of interviews of retailers that had decided to enter the E15 market. The goal was to learn about their experiences: What made them decide to start selling E15? What types of hurdles (if any) did they encounter—whether it be equipment/infrastructure based or marketing based? What has been the consumer response? Does the retailer plan to continue offering E15 in the future?

It is the Fuels Institute’s intention that the resulting information should serve as an educational tool to those in the market. Whether you are looking to sell E15, or just generally interested in following E15’s progression, these insights are critical.

So, we offer the experience of several retailers as they transitioned to offering E15 to their customers. Some have seen their efforts rewarded with strong consumer adoption, while others less so. Have they made the case for E15? You decide.



THE BASICS

E15 (15% ethanol, 85% gasoline) is a higher octane fuel available in 28 states at retail fueling stations. E15 was approved for use in model year 2001 and newer cars, light-duty trucks, medium-duty passenger vehicles (SUVs), and all flex-fuel vehicles by the U.S. Environmental Protection Agency in 2012.

This approved group of vehicles includes more than 80% of the cars, trucks and SUVs on the road today.

SHEETZ

With incentives provided by PTP in spring 2015, Sheetz decided to introduce E15 at its stores later that year. In addition to the support of PTP (the program covered the conversion of 60 of its stores), Sheetz also appreciated that selling E15 promoted consumer choice and provided it with a competitive advantage.

Over the past two years, Sheetz has begun selling E15 at nearly 100 stores, including all of its North Carolina locations. It makes its own E15 by blending E85 and E10 (all of its E15 stations also sell E85), distributing the fuel from Encore NJ4 dispensers, which dispense five different products from only three hoses.

Once it converted all of its North Carolina stores to sell E15, Sheetz relied solely on price to attract customers (it sold for 10 cents per gallon cheaper than regular gasoline, a differential that has since been trimmed to 5 cents). While North Carolina customers are sensitive to price, the state's signage laws allowed it to advertise only one price on its boards. "We didn't want to sacrifice listing 87 on the board, so we weren't even flying the cheaper E15 price," said Michael Lorenz, executive vice president of petroleum supply for Sheetz. "[Customers] only became aware of the cheaper price when looking at the dispenser."

To stimulate awareness, Sheetz created a brochure, but found distributing the collateral "somewhat of a hurdle."

"Consumers first had to notice the price of E15, then be curious enough to ask about it, then be open to being educated on a new product," Lorenz said. Additionally, because E15 cannot be sold during the summer, it created confusion among some customers, which the company said hurt business.

Key Learnings

To foster post-summer consumer engagement with E15, Sheetz started a philanthropic, post-summer campaign

where they change the color of E15 dispensers to pink and donate two cents per gallon to breast cancer awareness, which also has helped customers refocus on the product after its summer hiatus.

The Bottom Line

Despite the inherent promotional restrictions and shortcomings, "E15 sales have been somewhat successful thus far," Lorenz said, "but not where we would expect them given the value proposition of the fuel."

Despite the challenges of selling E15, Sheetz has experienced a halo effect in its other gasoline sales. It plans to continue selling E15 and implementing it into new stores.

KWIK TRIP

Kwik Trip began selling E15 in early 2017, recognizing it as compatible with its corporate identity, which provides value and consumer choice in fuels.

The company blends E15 at bulk terminals, eliminating the need to modify its existing underground storage equipment. Upgrade costs have been minor, such as replacing spill buckets in its sump pumps and replacing incompatible valves where necessary.

Kwik Trip currently sells E15 at 320 of its 597 stores, primarily in suburban and rural locations. To accommodate E15, Kwik Trip replaced Unleaded Plus or Midgrade in most locations, and it even replaced 87 octane fuel in Iowa. All standard dispenser locations have E15, primarily on a multi-hose dispenser. There are roughly 10 dispensers per store under the forecourt canopy and all fueling positions offer E15. There are no dispensers dedicated solely to E15.

Kwik Trip has not employed an aggressive marketing strategy; rather, it simply lists the E15 price on its signage boards, hoping customers notice the low price (E15 is always cheaper than 87). It offers a one-pager info sheet to customers and is

in the process of developing a more comprehensive pamphlet that addresses fuel grades.

The Bottom Line

Sales of E15 vary by state, and Kwik Trip has not found a strong correlation between adoption and location (i.e. suburban, rural, etc.). Overall, the company “has seen significant sales (except during the summer),” and its decision has met with limited negative response from its customers—far less than 1% of all E15 transactions.

PROTEC FUEL MANAGEMENT

Protec Fuel Management assists large retailers in managing energy costs, providing supply programs for E15 and E85. As an early proponent of E85, it applied key learnings from that experience in selling E15.

First, it included E15 in every dispenser on fuel islands, sharing a hose with other fuel types whenever possible to minimize consumer confusion.

“Product placement is vital to sales—it’s all about convenience,” said Steve Walk, managing member of Protec. Additionally, the company has developed a short educational video that begins playing on fuel dispenser TV screens when a consumer swipes a credit card. It supplements that information with handouts and mass mailings to customers, as well as by educating its staff to answer consumer questions.

Protec labels E15 as “88” on dispenser buttons, referring to it as either Regular 88 or Unleaded 88. Walk said customers appreciate when 88/E15 is cheaper than regular gasoline, but that the difference can also produce skepticism. That’s why he believes retailers can price 87 and 88/E15 equally, capturing the extra margin without sacrificing sales.

The Bottom Line

Walk said E15 has produced a halo effect on other products: Its regular gas sales have increased 3% and overall volume has spiked 18% at stations selling higher ethanol blends. It has experienced a dramatic lag when it resumes sales after the summer months, but its customers “are coming around” and understanding its cycle of availability. “It takes about two months to get sales of E15 up to where they were [pre-summer] but we are hopeful that someday soon customers will be able to benefit from year-round availability,” Walk said.

MINNESOTA SERVICE STATION & CONVENIENCE STORE ASSOCIATION

To support its members, the Minnesota Service Station & Convenience Store Association (MSSCSA) developed Minnoco, a proprietary gasoline brand. Minnoco allows its members the opportunity to own and control their own brand of fuel such as E15 while offering alternative renewable fuels like E85 and E30. “Being a Minnoco dealer allows retailers to use their image as an industry leader when it comes to the future of fuels,” said Lance Klatt, executive director of MSSCSA. “Their brand value and messaging regarding higher ethanol fuels is clear: Buy local—support the local retail and farming economy—save money, and help the environment, because higher ethanol blends burn cleaner than traditional fuels.”

Currently, Minnoco has 37 retail locations, 35 of which sell E85/E30 and Unleaded Plus/E15. The goal of offering E15 was to help the Minnoco brand establish a competitive advantage.



PRODUCT PLACEMENT IS VITAL TO SALES—IT'S ALL ABOUT CONVENIENCE.

Tactics

MSSCSA retailers selling E15 saw overall sales grow 30%, with Unleaded Plus/E15 comprising (a staggering) 38% of total fuel gallons sold. At dedicated Minnoco sites, Unleaded Plus/E15 comprises 50% of total fuel gallons sold.

For Minnoco, the type of dispenser makes a significant sales difference when it comes to E15. With a Dresser Wayne 2-Hose duel blender, stores sold an average of 48% of E15 in eight months, whereas with a Gilbarco 3-Hose, stores only sold an average of 18% E15 over eight months. Why the difference?

A BARRIER TO SALES?

When blended with gasoline, ethanol increases the evaporative tendency of the fuel—measured as Reid Vapor Pressure (RVP) and expressed in PSI—which results in greater tailpipe emissions. This increase reaches its maximum negative effect when fuel contains 8% ethanol; after that point, the PSI increase associated with ethanol diminishes.

To benefit air quality, regulations require fuel in the summer months to have a lower RVP than during the winter months. For ethanol to be sold throughout the year, the Clean Air Act allows gasoline blended with 9-10% ethanol to exceed the RVP control in most of the country by 1 PSI. This waiver does not apply to any other ethanol blends, including E15.

Fuel retailers that want to sell E15 view this prohibition as one of the leading barriers to expanding E15 sales.

The Consumer and Fuel Retailers Choice Act has been introduced in the House (H.R. 1311) and Senate (S. 517); it would give fuel blends containing greater than 10% ethanol a waiver from the Clean Air Act requirement that gasoline meet strict limits on volatility, as was done for E10. Without a waiver, E15 cannot be sold in most areas in the United States during the summer months, except in certain areas with air quality challenges. Currently, E15 is not allowed to be sold after June 1 through the summer months because it increases the RVP of the base gasoline (although less so than does E10), and thus the waiver does not apply.

NACS supports The Consumer and Fuel Retailers Choice Act and is working with other key industry stakeholders to move this legislation.

With the three-hose dispenser, E15 is dispensed through its own hose, whereas 87, 89 and 91 gasoline are dispensed from a single hose on the opposite side of the pump. By contrast, in the two-hose dispenser, E15 replaces 89, so a single hose dispenses 87, 88 (E15) and 93 octane fuel. With this configuration, consumers pick up the same nozzle they always would, but then see the higher octane and the cheaper price and are inclined to use E15.

Minnoco also deployed a robust marketing and advertising campaign, offering coupons for E15 and sending email blasts that educate consumers about E15.

When resuming sales of E15 after the summer, Minnoco runs “Fueling the Fight Against Breast Cancer,” as Minnoco retailers personally donate \$.02 per gallon of E15 sales supporting Hope Chest for Breast Cancer—a local organization assisting clients struggling with breast cancer. This year Minnoco retailers raised more than \$22,000 for Hope Chest.

CASE CLOSED?

As E15 gains additional market share (at the end of 2017, nearly 1,200 stations offered E15 for retail) and more companies consider whether it is an appropriate fit for business strategy, the experience of those who have already entered this market can be instructive. From support programs to marketing strategies to consumer reaction, these case studies help describe how the E15 markets is being developed and received.

The Fuels Institute conducted interviews with several retail companies that have decided to add E15 to their fuel offer to better understand their rationale and experience. There are many other retailers that have elected to not enter the E15 market, and their views are not presented in this article.

NACS reminds all retailers that the sale of any motor fuels product requires that the equipment used to store and dispense that fuel must be compatible and satisfy all applicable laws and regulations. This might require the replacement or upgrade of equipment if the retailer’s equipment is not compatible or if its compatibility cannot be determined according to the regulations.

The experience and feedback of those retailers featured in this article indicates a potential market opportunity associated with E15, but the long-term verdict on the product remains undecided. With less than 1% of fuel retailing stations offering the product, the available data is too limited to reach definitive conclusions concerning E15’s impact on the retail fuels marketplace. Perhaps the next few years will result in additional data that can help retailers reach a more definitive opinion concerning the role E15 might play in the marketplace. **C**



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