THE NEXT 500: Mansfield Oil Co. delivers motor fuels and related services to more than 520 retail sites throughout the country. The company expects to double its dealer base within three years.

Photos by Leita Cowart and Jim Schmid

The World According to MANSFIELD

Shifting industry dynamics feed national jobber's appetite for growth

By Bill Donahue
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WANTED: long-term relationship with someone who's committed, hardworking and looking to grow; location not important.

If it reads like a personal ad to help draw out a companion, in some ways it is. Atlanta-area fuel distributor Mansfield Oil Co. wants prospective mates (i.e., retailers) to know it has a lot to give. And it's not interested in a fling; Mansfield seeks lasting partnerships with retailers nationwide who want to build their business, not just survive.

When a retailer signs a contract with Mansfield, he has access to a host of value-added services such as operations and merchandising support, a credit-card processing program, increased buying power through a "preferred vendor" program and technologies tied to fuel monitoring and inventory management—and it's all free once a retailer signs on the dotted line.

"It's a solitary, lonely life being a dealer. It can be a very confining way to do business," says chairman and CEO Michael F. Mansfield Sr., whose parents founded the company in 1957. "Culturally, we understand what it's like to be in their shoes. That makes us good at solving problems."

Mansfield's model is not rooted in providing the lowest price per gallon. In fact, some of Mansfield's retail customers could probably find a cheaper gallon elsewhere. It's an epicurean approach to what many consider a commoditized business.

"In a lot of cases, retailers make the decision that the markup on the fuel is the most critical piece," says J. Alec Alexander, Mansfield's president and COO. "In certain markets and in certain situations, we'll compete very well on that. In other markets and in other situations, we won't."

Mansfield once ran a direct-operated retail network but exited that business nearly 10 years ago when it sold its stores to a well-known industry consolidator. Yet this enigmatic giant has quietly gained strength in Gainesville, Ga., about 40 miles northeast of Atlanta, and its retail reach now extends to all corners of the continen-

tal United States and Alaska.

Mansfield has built itself into one of the nation's largest fuel suppliers by courting an improbable ally: the economically fragile small independent retailer, whose future has become clouded by record-high gallon prices and consumers' addiction to profit-leeching credit cards.

"It's risky, but I think it makes sense," says Dan Gilligan, president of the Petroleum Marketers Association of America, Arlington, Va. "The industry has not suffered with high prices like this for this long. So it's changing all the fundamentals. You've got to take some risk to be successful in business. Eliminate all the risk and you're out of business."

AT A GLANCE

Firm: Mansfield Oil Co.

Headquarters: Gainesville, Ga.

Key statistics: Annual revenues exceeding $4 billion; sold nearly 1.6 billion gallons to retail, commercial and government customers in 2007

Key differentiators: Provides motor fuels and complementary services to more than 520 retail sites throughout the continental United States and Alaska

Executives interviewed: Michael F. Mansfield Sr., chairman and CEO; J. Alec Alexander, president and COO; Doug Haugh, executive vice president and chief information officer; Rick Cosmer, vice president of retail sales and operations; Bo Bearden, director of retail marketing; Joe Campbell, director of retail operations; Ted Roccagli, territory marketing manager

Mansfield Sr.

Alexander

A Changing Landscape

Mansfield's gamble appears to be paying off. The company's capabilities, seemingly insatiable appetite and sheer will suggest it could double in size—it currently delivers fuel to more than 520 convenience stores, high-volume retailers and grocery stores—and sprout in new directions inside of three years.

Other benchmarks: Its annual revenues now exceed $4 billion. It sold nearly 1.6 billion gallons in 2007, the same year *Forbes* ranked it No. 136 on its list of privately held corporations in the United States. It has access to more than 600 bulk-product terminals throughout the United States. And its delivery infrastructure has grown to include 50 transports, which are run out of its Gainesville base of operations, and 450 third-party carriers nationwide.

It's not alone, however. "We believe ourselves and others, who are very strong, very financially sound, will weather all this," says Alexander. "And at the end of the day, we'll experience growth and others will experience growth."

While not national in scope, the "others" include large distributorships such as SC Fuels, an Orange, Calif.-based company that serves fuel marketers in 10 Western states; Houston-based Sun Coast Resources Inc., which delivers motor fuels to marketers in an 18-state territory; and CarterEnergy Corp., whose seven-state distributing area runs from Illinois to Texas.

Several industry dynamics appear to be fueling the growth of these so-called superjobbers:

▶ The industry continues to consolidate and, at the same time, fragment. "When it gets down to folks in our side of the business, no one has any market share—no one," says executive vice president and chief information officer Doug Haugh. "Even the largest player might have 2% to 3%, maybe 5%. … Our industry isn't just fragmented—it's hyperfragmented."

"We're one of those 2% to 3% market-share players," he continues. "Our challenge every day when we're looking to take the company forward from here is: How do we get to 10%? And we feel that's a reasonable share and certainly something that nobody else has demonstrated."

▶ The energy crunch has reordered Big Oil's priorities. The industry structure that caused such hyperfragmentation was kept in place by Big Oil until earlier this decade, at which point it began to erode due to mounting supply constraints and bids to boost shareholder value.

Haugh says the major oil companies' attention has shifted from "managing the microdynamics of the final mile" to "bigger concerns, like where they're going to find their next barrel of crude." Barriers are collapsing as a result, thereby exposing fertile turf in which companies such as Mansfield can blossom.

▶ The majors are pulling up the tent stakes in significant markets. ConocoPhillips, for example, was expected to move more than 500 sites, including 350 company-owned and company-run locations, by midsummer as part of a 2006 announcement to divest its entire company-run retail network and to pull out of a number of markets.

ExxonMobil, which in June

IN PERSON: Mansfield Oil does much more than just deliver fuel. Mansfield's Ted Roccagli (left) and Bo Bearden provide merchandising advice to store owner Naushad Rehmatullah at the Galaxy Oil Food Mart in Gainesville, Ga.

announced a plan to exit direct retail to focus on the distributor class of trade, just recently alerted branded independent marketers in the Pacific Northwest that, as of early next year, the Exxon brand will disappear from markets in western Washington and Oregon.

▶ Refiners are going to choose with whom they're going to grow. "They will have their way more than ever before, especially with all the mergers that have occurred," says Mansfield Sr. "They're going to point their supply toward the companies they think are going to be around longest, have the best credit-worthiness and strategically can take them as far downstream as they can go."

From the Beginning

Though Mansfield always had a strong wholesale business, exiting direct-operated retail helped center it focus solely on building out its distribution base. In November 1999, Mansfield sold its 49 Kangaroo c-stores to The Pantry Inc., Sanford, N.C., for approximately $46.5 million, according to SEC documents.

The sale marked a turning point for both companies. The Pantry had several different retail brands at the time of the acquisition, including its own Pantry store brand. But Kangaroo ultimately became the preferred face of its new parent company.

"Kangaroo was all Mansfield," says Jim Fisher, CEO of IMST Corp., which has provided market analyses and other services to Mansfield and its retailers for more than 20 years. "The Pantry had all these other brands, and they didn't do a whole lot with them. The umbrella brand for The Pantry was The Pantry. Now it's Kangaroo. That says a hell of a lot about what was brought in by Mansfield."

What it says, specifically, is that The Pantry purchased a network of extremely well-run stores, according to Jim Tudor, president of the Georgia Association of Convenience Stores, Dallas, Ga., of which Mansfield is a member.

"When they were operating stores, Mansfield was always very innovative," says Tudor, whose association represents 2,200 stores. "They were doing some things in those stores, like loose candy and upgraded coffee, long before that was a cool thing to do. They had a track record in retail and wholesale of being very effective operators."

What impresses Fisher, Tudor and others most about Mansfield are not only the people making things happen behind the scenes but also those on the front lines—people such as Ted Roccagli, one of Mansfield's territory marketing managers and chief problem-solvers. He worked at Kangaroo when it was under Mansfield's control, from 1990 to 1999. He also operated his own stores, 11 in total, from 2002 to 2006.

"Mansfield to me is the top one-tenth of 1% of this industry when it comes to fuel, the technology side and the company Michael [Mansfield] has developed," says Fisher. "Michael truly has the vision. He brings in the people that can create the systems to phase in new business, and those people put the systems in place to make that vision a reality."

Today Mansfield has three separate divisions that make up what Alexander calls its "three-headed hydra": commercial, which accounts for 50% of Mansfield's business; government, which represents 30% and includes the Department of Defense; and retail, which accounts for 20% of the book.

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>
> **JIM FISHER** *IMST Corp.*

Small independent operators such as Akram Karam, who has one store in Charlotte, N.C., represent most of Mansfield's retail business. Karam opened his Royal Stop Texaco in November 2007, choosing Mansfield as his distributor over others that he perceived as either too limited in scope or too new to the business.

"We are in a strategic position, and our store is very clean," says Karam. "I have one [competitor] right across the

BENEFICIARY: Akram Karam's Royal Stop Texaco in Charlotte, N.C., has benefited from Mansfield's in-store and at-the-pump expertise. The store pumps 70,000 gallons a month, a sharp increase over the 40,000 per month it did upon opening in November 2007.

street and two or three others down the road. If I change my prices, they follow me."

Karam's store pumps 70,000 gallons a month, a sharp increase over the 40,000 per month it did upon opening. That, combined with the fact that Mansfield's reps have "just about taught me everything I know" about the business—site development, how to manage cash flow, proper merchandising, etc.—makes him "satisfied" with the arrangement the two entities share.

"Individual operators are tired of being looked at as just a supplier agreement," says Rick Cosmer, Mansfield's vice president of retail sales and operations, and formerly of San Antonio-based Valero Energy Corp. "First and foremost, we want [our dealers] to have an understanding of their business. And they're looking for us, their jobber, to provide the resources to grow their business."

Karam says he's "been making money [on fuel] from day one," thanks to good site selection and aggressive pricing, but he's also improving his performance inside the store. Mansfield's preferred-vendor program, through which the company negotiates lower prices with key vendors of foodservice, packaged goods, ATM services and grocery wholesale, among others, has certainly helped. The program has spared Karam some of the headaches often suffered by go-it-alone independents.

"I don't have to do the negotiations or bargaining [with in-store suppliers]," Karam says. "I'm an independent owner but am treated as a chain account because now I'm part of the Mansfield chain of stores. When I have a problem with a vendor, I go to Mansfield."

Current highs in fuel prices have pushed retailers into new territory, making in-store profits that much more important. And that's what makes Mansfield's value-added approach so appealing, according to Fisher of IMST.

"A few years ago, who ever would have envisioned that that tankwagon rolling down the road would represent $40,000 or $50,000?" he says. "For independent retailers, it changes their life. It's just a major financial hit for a lot of people. You have to stay very connected to your dealers, and that's why Mansfield's model works."

Mansfield could easily grow by picking up "just any dealer." But the company wants—no, *needs*—a certain kind of marketer to meet its growth goals.

"We don't want volume to get volume," Haugh says. "If you looked across your network and it had sites that were just as good as a top-notch QuikTrip or one of Sheetz's new sites … I think that would be tremendous. Given the volume that those sites do, you might need 600 or 700 of those to do the volume equivalent to 3,000 or 4,000 of those other guys, with a lot less headaches."

Getting to that point will require some tough decisions and, most likely, some disappointment from those who get turned away at the gate. Some retailers, after all, just won't fit the Mansfield mold. It's not a matter of volume—in rural markets, for example, a retailer pumping 50,000 gallons a month might be doing fine—but a matter of passion and commitment.

"I can't tell you how many times, with a new location or a prospective location, we start into the conversation about survivability," says Alexander, who keeps a stuffed piranha on his desk as a reminder of hungry competitors looking to take a bite. "Based on what we know and what we see and what the real-estate value is, sometimes we'll tell a prospect that we don't know how that site can survive. We turn away business in certain instances because of that."

While Mansfield's supply contracts may contain some "boilerplated language," there's no such thing as one size fits all. Contracts with dealers range from three to 10 years, according to Joe Campbell, Mansfield's director of retail operations.

"Our focus is more on that independent operator who's going to invest his time and energy and effort in the site," he says. "They see that value because they're looking for a long-term investment vs. the 12- to 18-month retailer who wants to build the sales

numbers up just to turn it around and flip the store."

Brand Moves

With its April acquisition of Denver-based TransMontaigne's commercial and industrial business—another coup—Mansfield is now moving approximately 125,000 barrels per day, or "the output of a very good-sized integrated refiner," says Haugh. On the government side, it's one of the largest fuel suppliers to the Department of Defense, for example, shuttling fuel to 100 base exchanges run by the U.S. Army and Air Force.

A balanced portfolio has become necessary. On the commercial side, for example, Mansfield has a team of what Haugh calls "elephant hunters" who scout business from large companies that might buy 50 million or 100 million gallons a year. But eventually "we're going to run out of elephants," he says.

Besides that, company execs see tremendous opportunity in retail. Of the more than 500 retail sites it supplies, approximately 300 of those are traditional convenience stores. It also works with supermarkets and other fuel-thirsty big-box retailers, from Publix and Spartan to IGA and Home Depot.

Mansfield supplies branded fuels under various flags: BP, CITGO, Chevron, Marathon and Texaco; the last three came on board in the past year. (Mansfield and ConocoPhillips recently parted ways because the supplier withdrew from most of the markets Mansfield wanted to serve with the brand.) The company chooses its brand partners carefully, balancing their refinery and terminal locations with the markets in which Mansfield expects to grow, according to Cosmer. By the end of the year Mansfield will have brought on two additional brands.

FERTILE GROUND: Big Oil shifting its attention away from "managing the microdynamics of the final mile" has given companies such as Mansfield room to grow, according to executive vice president and CIO Doug Haugh.

Mansfield also distributes a proprietary fuel brand: the aptly named Solo. At present, 50 locations fly the Solo flag, mostly in the Southeast, according to director of retail marketing Bo Bearden. Solo provides unbranded retailers with a nonmajor brand image that some would consider more memorable and more professional than "Joe Blow's Service Station," he says.

"We look at [Solo] like we would any other brand, and it's managed the same way," says Cosmer. "We have mystery shops, uniforms and other things around that brand—all those elements that make it look like and feel like a major, not only to the operator but to the consumer as well."

Building Out

Mansfield also has strength in biofuels supply, driven by the commercial and government sectors. But, other than in small pockets, biofuels have not yet caught on, with Mansfield supplying E85 to fewer than 10 c-stores, mainly in the Midwest.

Mansfield executives suggest pricing issues, sourcing challenges and an immature biofuels infrastructure will likely keep the status quo for the near term.

"For the next few years, the company intends to buttress its retail network by swooping in on underserved markets. An immediate goal comes from building out regional offices in key markets such as Chicago and Denver. But two other markets—California and the Northeast—may require additional acquisitions, according to Haugh, because they're "cluttered, closed environments" in terms of supply and competition.

> "Individual operators are tired of being looked at as just a supplier agreement."
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> **RICK COSMER** *Mansfield Oil Co.*

Its strongest areas include the Southeast, as well as the Ohio Valley due to its grocery and high-volume retailer business there. In some markets, the company might have as many as 25 terminal options from which to draw, compared to just a few for most traditional jobbers.

If Mansfield were to identify its growth targets, some hold more immediate opportunity, but it might as well draw a big red circle around the entire country.

"The key thing for us is to have access to every supply point possible," says Haugh. "The typical competition for the retail business, they've got one or two bullets in the gun. We like to show up with a full clip in the machine gun." ■

MANSFIELD'S IDEAL

Vipin Thakkar owns and operates four stores in North Carolina, two of which are supplied by Mansfield Oil Co.: one in Charlotte, another in Gastonia. He's what Mansfield might consider an ideal operator: a hardworking businessman who spends five days a week in his store, usually from 5 a.m. to 5:30 p.m.

He's also focused on growth and expansion; he's currently mulling three new retail properties this year and next. But considering his dismal start in November 2005, he could have just as easily failed.

"My first three months, I didn't know how I was going to pay the bills," says Thakkar, president of Mira Enterprises Inc. "It was a disaster. I was sweating and crying and all that. Maybe it was a mistake opening on Thanksgiving weekend. I'm in a business area, so my traffic was dead [on opening day]. I did 150 gallons that day."

Mansfield has been instrumental in getting the Charlotte store past its not-so-grand opening. For starters, the company gives Thakkar more freedom when buying gas. He can make the option to purchase gas one day, having until 11:30 a.m. to make the decision. Or, if it appears the market will tip up 5 cents that day, he can postpone. Sometimes it works in his favor, sometimes it doesn't.

"Gas companies I was dealing with in other places never offered that," he says. "Mansfield just tells me what the prices are doing—going up or going down—and I make the decision."

Thakkar recently extended his 10-year contract at the Charlotte store by an additional year, which he did in exchange for a price sign worth $12,000. He didn't have any reason not to extend the contract as long as he was still in business, which he intends to be. The free price sign was a tempting carrot.

"We've got a 10-year contract, in most cases," says Rick Cosmer, Mansfield's vice president of retail sales and operations, "and the survival of that person over 10 years is critical to us. If it fails, we've not done our job."

The one thing Thakkar would like to see improve is some relief from credit-card fees. With gas at roughly $4 per gallon, every time a customer uses a credit card, the 2.5% to 3% "penalty" means 10 cents to 12 cents per gallon comes out of his pocket. Still, he acknowledges it's an industrywide problem.

"Overall I guess we are doing OK," he says. "I'm not losing money like some people do. I did pick up a lot of accounts in this area; I have city vehicles coming in for diesel. … I'm hoping to go to 80,000 gallons a month [at the Charlotte store] to 90,000 and then to 100,000."

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