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CONVENIENCE STORES OF IOWA**

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Good afternoon, ladies and gentlemen. My name is Jim Mulgrew and I am here to represent the Petroleum Marketers and Convenience Stores of Iowa and its 800 members or nearly 2000 locations. I am currently the Chairman of this organization. My company Mulgrew Oil Co. was established in 1893 by my great grandfather and I am following in the footsteps of my father Pat who was the President of our company for over 40 years. We own and operate 3 stores in the Dubuque area and supply and supply approximately 100 more stores mainly in Iowa but also in Illinois and Wisconsin.

From what I have seen here today I believe that your desire is to learn more about energy prices and petroleum businesses, but more importantly you need to know more about us. We are not big oil companies; we are their customers. Seventy percent of our membership is made up of small Mom and Pop operations that own 1-3 stores; we are the backbone of small communities in Iowa. We serve our towns as diners, post offices, meeting halls, grocery stores as well as convenient places to fuel vehicles. I can sit here and tell you honestly that the people in this industry are some of the finest and hardest working people that I have met in my life. This group includes my employees, my customers and even my competition. When I hear someone talk about our industry poorly I take it to heart because I know the truth about either the people or the situation they are speaking. While big oil and big business unveil record profits during these trying times I see the small guys represented by PMCI struggling to survive.

These people need someone to stand up for them because if someone does not, they will not be around to serve us for long. Why is this? It's simple; the economics of our industry continue to get worse each year. One factor is that there continues to be an influx of big box competitors that use fuel as a loss leader to get people to come into their store where they have thousands of other items to offset their lower margins. Others use fuel as a way to reward customers for loyalty for purchases at their locations. Still others have a multitude of locations where they can offset poor locations with ones that are more profitable. Overall, these people are able to do what they do because they have other areas they can fall back on in order to make a return. Most of us businesses can't afford to do this; we need to make a reasonable return on what we sell in order to continue to be in business. The key word here is reasonable. It is very difficult to defend fuel prices in a time when we have seen record costs. People just don't want to hear about how difficult it is for us when it is equally as hard for them to cover the extra costs of fuel. They want it as cheaply as they can get it and so do we.

Here are the facts that I know to be true. Iowa has consistently ranked among the five states with the lowest retail fuel margins over the past 5 years and it is getting worse. In a time when the costs of doing business continue to rise, the income that we are earning to cover these expenses continues to shrink. For example, when a customer used their credit card for \$1 fuel the cost to the retailer is 2-4 cents per gallon, at \$2 it is 4-6 cents per gallon, and at \$3 6-8 cents per gallon. This is due to the fact that the fees are based on a % basis for most cards. If you add this to the increased cost to overhead in general you can easily see why small businesses are failing to survive. The end result is that small town Mom and Pop stores will go out of business. People will be forced to travel longer

distances to get fuel or other supplies. This may be a price that people are willing to pay for cheaper fuel today, however, if the situation is thought through it is clearly best for all if these locations stay around to serve us.

I think the best way to make this point is to share with you personal experience that I have had with my own company over the past 7 years. First, in 1997 we made a decision to reinvent Mulgrew Oil Co. We had a large concern as to if our company could be profitable in the retail business in the future. We chose to sell of most of our retail locations. To date we have sold, leased or closed 14 of the 17 locations that we owned. Our thought was that Mom and Pop operations would be able to withstand the hardships that we saw coming in the future since they could take a more active role in running their own business. We chose to concentrate on the wholesale side of the business, diversify away from retail and hopefully decrease our risk. As time goes on we are finding that the retail side of the business has become even worse than we had anticipated. In this time period our company alone has seen 20 of our customers sell, go bankrupt or decide to pull their tanks. Please remember this is only in the last 7 years. There is a variety of reasons as to why these 20 locations are gone but the one constant factor is that was involved is each situation was the lack of gas margins. Of these 20 ten of them pulled their tanks, four sold to another company and 6 filled for bankruptcy. We work very closely with our customers and I can tell you that these were people that worked hard but found that they could not make it in this environment that we have today. We are seeing this across the state... a trend of small business people investing their life savings into a convenience store operation thinking they can own their own business and earn a living. In fact, they are losing their investments as they soon discover the extremely competitive market this is. These are my customers and when they fail, creditors and suppliers such as me get left holding the bag.

With all of this being said I appreciate the fact that you are taking this time to learn more about our industry. In this time of record prices and record big oil profits the easy thing to do is assume that all of the people in our industry are in the same boat. The fact of the matter is that there are many sides to this story and the small business owner members of the Petroleum Marketers and Convenience Stores of Iowa are not the same as big box retailers and big oil. We need to make a reasonable profit on the fuel we sell to stay in business.

We understand the politics that are involved with this topic. It will be very difficult if not impossible to promote anything that could be conceived as raising fuel prices and being anti consumer. I would suggest that in the long run these consumers are best served by having more than a few survive to service their needs over time. Competition by many small independent retailers has proven to be a very good thing in Iowa long before the new entrants came into play.

Thank you.