PERSPECTIVES

Understanding the Factors Impacting Gas Station Business Income Losses

Our perspectives feature the viewpoints of our subject matter experts on current topics and emerging trends.

INTRODUCTION

Whether the damage to a gas station's gas pumps results from car accidents, fires, lightning strikes, vandalism, or even floods, there are many distinct aspects to consider when reviewing and analyzing related business income losses (or [evaluating equipment replacement costs]). Gas stations are unique because they can include various profit centers in addition to the sale of gas. Other types of profit centers include convenience stores, car washes, auto repair shops, and other services.

When involved in a business income loss analysis resulting from damage to gasoline pumps, it is important for forensic accountants to gain an understanding of the entire business, as the loss of one or more pumps can have an influence on a business's other revenue streams. This paper discusses different factors a business income analysis needs to consider, such as location, competition and seasonality, different profit margins for each revenue stream, and the impact of other events, such as the COVID-19 pandemic.

GAS STATION LOCATION

It is important to understand any significant impacts of the location of the gas station, i.e., whether it is close to a highway, which may draw more commercial customers, or if it is closer to more residential areas, attracting more non-commercial customers. A gas station may also be near various shopping centers or tourist areas, which may cause seasonal fluctuations in gasoline and other revenue. Also, when developing an understanding of the location, surveying the competition is important to consider. There may be a new competitor in the area offering customers better access or different service options. This new competition may influence the revenue of the damaged location prior to any loss, which may continue during the period of restoration.

SEASONAL IMPACTS

Seasonal impacts are exactly as they sound—various effects to businesses depending upon the current season, whether that means a literal season or "seasonal" customer behavior. A business that caters primarily to a summer vacation crowd, such as near a shore point or amusement park, would likely be affected by seasonality. It would expect lower sales volumes during the winter and higher sales volumes during the summer vacation season. On the other hand, a gas station near a winter destination, such as a ski resort, might experience its highest sales volume during the winter months. Another example would be a gas station located along a commercial trucking route, which will have different "seasons" than gas stations located on highways leading to the aforementioned weekend or vacation spots.

Seasonality can also affect businesses with revenues that fluctuate based on the day of the week. Seasonality will not exist for all gas stations or for all businesses, but it is a key factor to consider and analyze to ensure that the revenue projections used in a lost income calculation are the most representative of what the business would have done during the period of restoration.

PROFIT CENTERS

In addition to considering the location and seasonality affecting a gas station, it is also important to understand the different profit centers within an individual location. These different profit centers may include, but are not limited to:

- Gas sales
- Car wash services
- Auto repair / mechanical services
- Oil change services
- Convenience stores
- Lottery sales

Remember that profit margins on gasoline may be different than profit margins in the other profit centers. Generally, gasoline sales realize lower profit margins than those earned in the convenience store section of the business. For other profit centers, such as lottery ticket sales, profit margins will be regulated, while a car wash and convenience store typically will not be regulated and will be more profitable as a percentage than gas sales. Typically, gas stations use the offer of gasoline to attract customers to other services, such as the car wash and convenience store.

CATASTROPHES & OTHER MAJOR EVENTS

The worldwide COVID-19 pandemic has made clear the importance of considering that some gas station locations may be impacted differently by the ever changing business and social environment. In some areas, due to COVID-19, people have switched to remote work and are driving less often than before the pandemic. As a result, gas stations may experience a corresponding decrease in sales across all profit centers. Other locations may not be impacted at all or may be impacted to a lesser extent. This may be due to the specific location or the business's ability to drive business to other profit centers.

GAS STATION LOSSES & THEIR SUBSEQUENT IMPACTS

Following a loss event, a gas station may be completely or partially shut down, impacting all profit centers. The extent of the shutdown creates additional issues. Some examples of losses that might only impact part of the revenue generating capability of a business include:

- Damages to fuel dispensing equipment with no damage to convenience store or car wash facilities.
- A fire that damages the convenience store but with minimal and/or temporary repairs. Fuel dispensing and revenue generation can continue.
- Damages to some but not all gas pumps allowing business to continue in a reduced capacity.

In these examples, care must be taken to properly identify the full impact the loss has on the overall revenues. Without operating fuel pumps, a gas station convenience store or car wash may not reach its pre-loss revenue potential due to decreased customer traffic. Even if a profit center had no damage, it should not be excluded from the impact analysis. Examples of profit centers that may continue operation while others are halted due to damage could include:

- Gas Sales
- Auto repair / mechanic services
- Oil change services
- Car wash services
- Convenience stores
- Lottery

Other Locations

To consider the full impact of a loss, the forensic accountant should also consider and review other owned and operated locations. Some customers are brand specific, and if damages occur at the loss location, the possibility of an increase in revenues in all profit centers at other owned and operated locations should be examined for make-up revenue.

Important Documentation

No two losses are ever the same and, as such, the documentation available on different losses will also vary. Typically, the types of documentation requested and used by the forensic accountant in a business income analysis consists of:

- Monthly profit and loss statements
  - Detailed by profit center
  - Prepared for both pre-loss and for the period of restoration
- Fuel sales reports, including sales in dollars, gallons, and by grade of fuel
- Payroll reports
- Fuel purchase reports
- Fuel price detail during the period of restoration
- Any available industry reports for the area

CONCLUSION

Due to a range of factors that need to be considered when analyzing the financial impact of a loss at a gas station, such as location, seasonality, profit centers, and economic/disaster events, it is important to individualize the analysis specific to the loss location. This positions a forensic accountant to best assess the overall potential impact on the gas station and provide an accurate business income loss analysis.

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MORE ABOUT J.S. HELD'S CONTRIBUTOR

Gregory Pellish is a Vice President in J.S. Held's Forensic Accounting - Insurance Services Practice. He has extensive experience in the evaluation and analysis of damages in a wide range of cases of insurance claims related to business interruption, extra expenses, theft, stock and contents, and third-party liability. He has worked on a variety of projects relating to fires, floods, tornadoes, hurricanes, freeze-ups, and wildfires. He enjoys discussing every matter with the client and policyholder and coming to an understanding of the business and industry. He brings his knowledge and experience to the client and policyholder in determining and expressing the proper valuation for each assignment.

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