



Strategies to Increase Sales in Service Stations in Mexico

KEYWORDS

credit strategies, financial strategies, breakeven.

Fabián Ojeda Pérez

Damián Carmona #352, colonia Lázaro Cárdenas II, cp. 128134, Tecomán, Colima, México

Héctor Priego Huertas

M. Novela # 73 Colonia Tuxpan cp. 28190, Tecomán, Colima México.

Alejandro Rodríguez Vázquez

Rubí # 422 Colonia la Floresta Z.C. 28180, Tecomán, Colima México.

Hugo Martín Moreno Zacarías

xallipan #165 colonia Villa Izcalli-Caxitlan cp. 28970, Villa de Álvarez, Colima, México.

ABSTRACT *The overall objective of this work is to implement adequate financial strategies for excellent decision making and optimization of resources are there in a service station, using credit sales to increase sales. The methodological strategy was defined as the study of the analysis of qualitative and quantitative information through the use of financial reasons, to develop this research. Among the main findings of the study is that variables that make up the market, its growth is uneven: service stations grew by 275% while cars grew up 234%. Another finding is the balance of the service stations in 8500 liters of daily sales and cash as cash sales increase, the ability of credit sales increases proportionally equal.*

Introduction

For the decades of the 40's of the 20th century, with the expropriation of the oil wells in Mexico, with the conventional use of a wide variety of cars and public transport of cargo vehicles, petrol and diesel, have been taking an important role in the everyday life of the economy of any company or person. In Mexico this energy business is operated and controlled by Petroleos Mexicanos (PEMEX), which, in order to commercialize these fuels, franchises to companies for the establishment of service stations. This is how the stations play a major role in the Mexican economy, as they are responsible for supplying the basic fuel for the final consumer. That is why filling stations have great economic potential, but that at the same time could be affected by the financial crises that live today in Mexico if they do not take the needed actions. Currently the service stations nationwide have suffered a series of problems, for positioning in consumer markets, as in recent years in Mexico, the number of service stations has increased considerably. According to Pemex Refining (2011), there was a review of administrative procedures for adding new stations to a lag in the growth of the commercial network, regarding socio-economic dynamics of the country. This led to the agreement with the Federal Competition Commission, which was signed in July 1994 and which resulted in the simplified installation of new service stations program. This encourages the Pemex franchise interest and increases steadily network of service stations which today means having a network of over 12,000 service stations distributed throughout the country.

Problem Statement

Perchance the service stations have the need to absorb the financial problems of its customers for a bad decision in the credits, aside to cushion their financial deficits, they have also to absorb fuel price increases for not making proper planning. Another problem affecting service stations, is the increasing number in cities, which constantly causes the sharing of the same consumer market.

This work is limited to study the stations that are located within the city of Tecoman, Colima, Mexico. This demarcation manages to locate exactly which stations will be studied. Although it is noteworthy that the problem of service stations is similar throughout Mexico country, with the growth of service stations in relation to consumer demand.

Overall goal

The main objective of this work is to find the right financial strategies for excellent decision making, to optimize the resources available to a service station. Mainly it manages the service stations optimize their human, financial capital, resources which will help the employer to achieve better results by preventing and avoiding any unnecessary costs by a bad decision in credit operations.

It also aims to that managers of service stations can increase sales using as means the credit lines to new customers, but in a proper way, where the manager can see where are the limits to open credit to customers.

Justification

Today, it is of great importance to the service stations, take the right financial decisions, because a wrong decision could bring great operational and financial damage. Formerly Previously the station managers did not know the word competition, there were few service stations for the entire market, which caused that without implementing administrative and financial strategies, they sold anyway. This is how the stations, begin to bother their ways of management by the new changes and opening of new service stations, this leads to new requirements for training managers, besides, with this new system of Pemex franchise networks distribution, there are new service stations, in addition to that there are currently many projects, which bring market division.

Mainly one of the things that most affect service stations, is the bad decision to extend credit to customers, this is because many times the manager does not have an indicator strategies or parameters to help meet their limits and abilities.

Ettinger and Golieb (1965) talk about sales credit companies, regard it as an accelerator of sales, leading to high production and the generation of leading economic cycles, since the consumer can acquire goods or services for payment back and not to have to wait for liquidity.

Methodology

Carrying out this work the techniques of quantitative and qualitative analysis were used to reach results. On the financial side, it was where quantitative analysis through the financial ratios were used. Regarding the administrative information was merely qualitative analyzes.

In qualitative studies, the data analysis is not fully determined, but "prefigured, choreographed or outlined." That is, it begins to be carried out under an overall plan, but its development is undergoing changes according to the results (Dey, 1993). For example, it may happen that we classify contents of interviews in themes and categories, and in doing so, we elaborate a graph or a diagram, then we incorporate comments from our notes and realize that it is important to add the analysis of photographs and a video, etc. (Hernandez, et al, 2003, p. 579).

The technique used for collecting data of this study was: "primary and secondary data" (collected by other researchers). Which it aims to obtain information through the review of documents, public records, physical or electronic files for subsequent analysis and conclusion.

Theoretical framework

Importance of finance in companies

Today the economy is volatile for companies and is not the exception for service stations. According to Merton (2003), resources are scarce and must be allocated over time, being very difficult to predict the future of these.

Remember the principle of economic duality, every act generates a result which can be positive or negative. Ramirez (2005) Ramirez (2005) says that when investors invest in a project is hoping to make a profit. Shareholders are hoping to start their business and achieve generate the necessary steps to recover their investment and profits.

The primary role of managers is decision making to meet business goals. Besley and Brigham (2000) say that the primary role of the manager is to get resources and the purpose of these is to gain profits, where they acquire internal or external financing to increase working capital or investment. Several stations have implemented the strategy of sales on credit, the problem has been bad decisions when it comes to lending, it is very easy to sell on credit but charge is the problem.

As for the credits granted to customers, Ettinger et al., (1965) describes the credit as a domino effect in each of the stages and processes of economic life, in an example landing the leading producer apply for credit to buy his raw materials and supplies.

Techniques to analyze the creditworthiness

There are several techniques for analyzing financial statements to facilitate lending decisions. Ettinger et al (1965) mentions the techniques: comparative analysis of reason, trend analysis, analysis of which has been obtained - which have been implemented and budget analysis. All of these techniques in order to measure the strength of customer credit.

According to Merton (2003) tells us that the financial statements fulfil three important economic roles in the economic life of companies:

1. Provide information to owners and creditors of the company about the current status of this and previous financial performance.
2. The financial statements provide owners and creditors a suitable way to set performance goals and to impose restrictions on managers of the company.
3. Financial statements provide suitable templates for financial planning.

Every company should trace its way forward, otherwise it will drift and any decision could be correct. Mazon (2003) explains that the success of the company rests on its overall objectives raised and which are often long term. Subsequently they should draw particular objectives that will be essential for achieving the general objectives.

In this case it is important that service stations raise strategies and objectives that indicate the way forward. Mazon (2003), says that strategies should be made based on the internal and external situation of the company, implying the market, sources of financing, human resources, infrastructure. With the new reforms on energy competition and the entry of new bidders to Mexico as Exxon Mobil, Royal Dutch Shell, Chevron, etc., Mexican franchises have a titanic challenge of survival and profitability. Rodriguez (2005) talks about survival, profitability and growth of companies as part of the financial process, but adds on survival and grow to survive in the future.

Definitely service stations have to anticipate these future changes resulting from approaching energy reforms in order to survive. Stressing on credit operations to increase profitability to new oil giants. Therefore, they must develop strategies which correspond to the analysis of the strengths and weaknesses of the competition, which is to convert their weaknesses into opportunities and areas of opportunity to counteract them. This forces the service stations provide analytical monitoring of its current and future competition, to implement their strategies to achieve greater success (Hill and Jones 2009).

The first step is formulating strategies, but then follows its implementation in the company, and often require a change in the organization. Explains Hill and Jones (2009) that the implementation of the strategies involves major changes in the organization of the company, is the equivalent of an industrial re-engineering, where each of the departments in the organization must readjust to change. This leads to service stations must invest financial resources to carry out the strategies formulated ranging from investment of function integrative systems, personnel training and creating new organizational cultures. According to Hampton (1989), the general plan is unitary should relate to the benefits of strategies to ensure success in the environment of the organization.

Hellriegel et al, (2005) says about a general strategy models, arguing that a model is generic to some extent, which can be used as a basis for its application to other organizations. It will be important that service stations analyze their competition strategies in detail and manage to decipher their tactics that have been the key to its success, based on this to make feedback and improve it

Results

Market behavior in Tecoman

According to information consulted corresponding to the INEGI censuses of 2000 and 2010, an analysis and projection was made in 2015, becoming a study of five variables that would allow us to analyze market behavior in Tecoman for service stations, according to table 1.

Insert Table 1

In table 1 you can see the market behavior figured in Tecoman. Concerning to the population has increased by 21%, inhabited dwellings has increased by 54%, cars have increased by 234%, service stations have growth by 275%, and estimated cars has decreased -11%, all these percentages for the year 2000 against 2015.

Insert here Figure 1

The growth of the service stations show that grew disproportionately to other variables, cars per service station even decreased, effects generated because the variables of the cars was lower than service stations by 41% less.

Balance point in service stations

According to technical information provided by service stations in Tecoman regarding fixed costs and percentages of profit on every liter, also collating information with PEMEX Refining portal, and based on the balance point formula, and the use of the financial ratio formulas, Table 2, where different points balance point is displayed in daily liters sales and the liters to be sold on credit at year-end.

According to Table 2, it indicates that the balance point of a service station is 8500 liters, generating a small profit to be reinvested to give credit to 1077 liters at year-end.

Insert Table 2

In Figure 2 you can see how they are increasing the capacity of credit sales as cash sales increase. It is noteworthy that exceeding the balance point at 8500 liters, the company no longer lost, which may increase credit sales through the use of external financing. In this case it is observed that if the company has high cash sales, financing may only take the early years, then with pure reinvestment of profits, does not need external financing.

Insert here Figure 2

Portfolios of customers for service stations

analyzed in Table 2 liters of credit at year-end according to daily cash sales, but now analyze what happens if the credit is requested Station 7, 14 or more days later. Table 3 shows rotations liters that can be sold on credit based on the day deadline for payment, using financial ratios.

Insert Table 3

In Figure 3 an illustration of the behavior of credit sales based on cash sales is made based on cash sales as the term is extended. The red line shows the cash sales while the blue line shows credit sales based on the days of term, at a longer term, the rotation of credit sales decreases, and at a shorter term, the rotation of credit sales accelerates. On this basis, the service station manager can know what his credit limits are without the need for external financing.

Insert here Figure 3

Conclusions

Once interpreted the results in this study, we shall analyze whether the general and specific objectives were met as well as the research question too. Overall objective: to find the right for making excellent decisions for loans financing strategies. Indeed the study show how service stations

must implement financial strategies, in this case emphasizing the decisions on the opening credits to their customers as well as different processes to optimize their resources.

Specific goals

Provide the necessary tools for credit limits to avoid liquidity problems: indeed the study shows a table with liquid of balance with daily cash sale liters showing a maximum of credit liters according to daily cash sales. It also showed a table of credit sales turnover according to payment terms that will be granted to customers, with this service stations will know how far they can extend credit to customers without the need for external financing. Regarding the question on how to improve profits through increased sales to retrieve their investment?, It concludes that indeed the sales increase is an option to make a profit, because the service stations can control the credit operations without impacting their liquidity.

Table 1. Consulted Information INEGI census 2000 and 2010

Data analysis Tecoman				
Variable	Year 2000	Year 2010	Year 2015 *	% Growth **
Population	99,269	112,726	120,354	21.00%
occupied dwellings	21,730	28,792	33,471	54.00%
Cars	5,411	11,545	18,089	234.00%
Gas stations	4	13	15	275.00%
Cars per service station	1,353	888	1206	-11.00%

Source: Made by myself. (* Is project) (** 2010 against 2015)

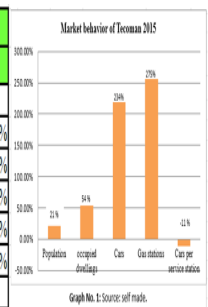


Table 2: Portfolio customers at year's end.

Cash sales per day in liters.	Lts capacity credit at year-end.
8.5	1,077
9.5	22,014
10	32,482
11	53,419
13	83,578
15	111,493
17	139,409
18	153,367
20	181,282
22	209,198
24	237,114
26	265,029

Source: Made by myself.

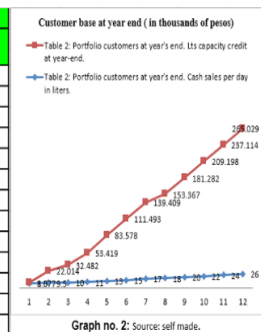
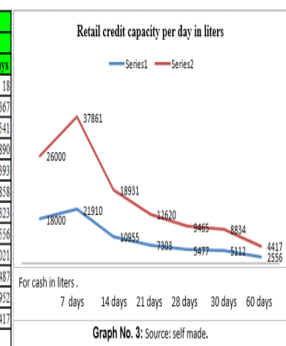


Table 3: Rotation of the customer base

Sales per day for cash in liters.	Credit sales capacity in liters per day:					
	7 days	14 days	21 days	28 days	35 days	60 days
8500	154	77	51	38	34	18
9500	3145	1572	1048	786	724	367
10000	4640	2320	1547	1160	1083	541
11000	7631	3816	2544	1908	1783	890
13000	11940	5970	3980	2985	2786	1393
15000	19228	7964	5309	3982	3716	1838
17000	19916	9958	6638	4978	4647	2323
18000	21911	10953	7303	5477	5112	2556
20000	25897	12949	8633	6474	6043	3021
22000	29883	14943	9963	7471	6973	3487
24000	33873	16937	11291	8468	7904	3952
26000	37861	18931	12620	9465	8834	4417

Source: Made by myself.



References

- Besley. S. y Brigham. E. F. (2000). Fundamentos de Administración Financiera. México, México: Mc Graw Hill.
- Ettinger. R. y Golieb. D. E. (1965). Créditos y Cobranzas. Localidad, país: editorial.
- Hampton. D. (1989). Administración, México: Mc Graw Hill.
- Hellriegel, Jackson y Slocum. (2005). Administración un enfoque basado en competencias, México: Thomson.
- Hernández. R., Fernández. C. y Baptista. P. (2003). Metodología de la Investigación. México, D.F. : Editorial Mc Graw Hill.

6. Hill. C. W. y Jones. G. R. (2009). *Administración Estratégica*. México, México: Mc Graw Hill.
7. Instituto Nacional de Estadística y Geografía: censos de población y vivienda 2010, consultados el 25 de junio del 2013. http://www.inegi.org.mx/lib/olap/consulta/general_ver4/MDXQueryDatos.asp?Regreso&c=27770
8. Massons J. (2006). *Análisis y estrategia financiera*. Barcelona España: Editorial Espano Europea.
9. Mazón. F. (2003). *Finanzas: de la planificación a largo a la gestión diaria de la tesorería*. Barcelona, España: Editorial Gestión, ACCID.
10. Merton. R. C. (2003). *Finanzas*. Localidad, país: Pearson Educación. México.
11. Pemex Refinación: portal comercial. Tema Desarrollo de la red de estaciones de servicio con la Franquicia Pemex. Última actualización 15 de noviembre del 2011, consultado el 28 de noviembre del 2011.
12. Ramírez. D. N. (2005). *Contabilidad Administrativa*. Localidad, país: Mac Graw Hill.
13. Rodríguez. J. (2005). *Como Aplicar la Planeación Estratégica a la Pequeña y Mediana Empresa*. México, México: THOMSON.