

Gas Stations Hit Skids

Higher Costs Close Nearly 3,000 in a Year

By ANA CAMPOY
Sherman, Texas

A SIGN advertising gasoline for only \$3 a gallon—almost a dollar less than at nearby gas stations—lures drivers into an Exxon station in a busy commercial strip in this prosperous town north of Dallas.

But when they pull in, they find the station's doors chained shut and its pumps dead. It is one of the many stations across the country that have gone out of business recently, all victims of gasoline prices that have soared almost 40% in the past year.

Last month, the company said it plans to sell its 2,220 stations in the U.S.; other oil companies already have shed most of theirs.

The shrinking number of gas stations is also bad news for drivers, reducing both convenience and competition, which could lead to even higher gasoline prices. "It's terrible for consumers," says Judy Dugan, research director at Consumer Watchdog, a California-based advocacy group.

To be sure, the number of gas stations has been declining for years. In the 1990s, regulations requiring expensive improvements to underground gasoline tanks put many retailers out of busi-

Selling gas now requires big cash flows and established credit lines. Higher gas prices also compound the fees that station operators must pay to credit-card companies, because the fees are calculated as a percentage of sales.

Meanwhile, the profit margin on gasoline sales has plunged. In the week that ended June 30, the difference between what retailers paid for gasoline and what they got from selling it was about 15 cents a gallon on average, down from 21 cents a gallon around this time last year, according to national data compiled by Oil Price Information Service and Wright Express, a firm that provides payment-processing services.

Aziz Hassan, who owns five stations in Sherman, knows all about the profit squeeze. A truckload of gasoline costs \$35,000, compared with \$10,000 just a few years ago, he said. Most of his profits are going to credit-card fees, he said, which eat up about nine cents of every gallon of gasoline his customers buy with a credit card. This leaves him little to cover costs such as electricity to run the pumps.

Mr. Hassan is holding on to the business he grew over 25 years—but he has to work seven days a week, 17 hours a day to make ends meet. "I'm hanging in there and hoping for the better," he said.

Others aren't faring as well. Bill Douglass, who supplies 150 gas stations in north Texas, estimates about 10% of his clients have gone out of business, and a few have turned their stations over to him because they cannot pay their outstanding bills.

Despite the recent closures, drivers in Sherman still have many options, including a Wal-Mart that is selling gasoline for 11 cents a gallon less than a neighboring gas station.

William Kosti, a real-estate broker trying to sell the closed Exxon station and two others nearby, said the stations' operators decided to close because they were running through their own savings to keep the businesses afloat.

He is recommending that buyers stop trying to run stand-alone gas stations. Add a restaurant or a liquor store, he suggested.



Joseph E. Baron / WSJ

Shuttered gas pumps in Blue Point, N.Y. New York state has lost 200 gas stations during the past year, and the closures stretch across the country.

Far from profiting from climbing gasoline prices, station operators are finding that their costs are jumping even as gasoline sales are sagging. And so gas stations are being shuttered at an accelerating clip, their numbers dropping by almost 3,000 over the past 12 months.

The closures stretch across the country, from New York state, which lost 200 gas stations over the past year, to North Dakota, which lost more than 130, according to NPN Magazine, a trade publication. Only a few states, such as California, are gaining stations.

Still, the state of the market doesn't bode well for anyone trying to exit the gas-retailing business, be they one-store owners or energy giant **Exxon Mobil Corp.**

Growing competition from big-box stores and supermarkets wiped out many others.

Still, owning a gas station remained a relatively easy option for beginner entrepreneurs because it required little upfront cash while still offering a fairly good chance of making a profit.

But rapidly rising gasoline prices are throwing the equation off balance.

After expanding slightly between 2004 and 2006, the number of gas stations in the U.S. fell almost 2% in 2007, as gasoline prices climbed to unprecedented levels, NPN data show. This year, closures are continuing at that elevated pace and the number of stations has dropped to 161,368, preliminary numbers show.