

## Competition between major filling station operators intensifies in Ukraine

**In 2019, competition in the downstream segment will only increase in Ukraine, and the development of non-fuel services will be the key to stay ahead of the pack. This article written by Nefterynek exclusively for PetrolPlaza takes a look at the market through some of its main players.**

Some 7,500 petrol stations serve Ukraine's 42 million inhabitants and 8.5 million cars with internal combustion engines. Traditionally, the market has been divided into premium operators, middle class, and lowcost. Competition is heavy in the market and a race for innovation, primarily in non-fuel sales, is currently taking place. The largest part of the market consists of national operators. Foreign operators are represented only by companies that after 2014 changed their Russian residence permit to the European one - AMIC and Glusco, the Azerbaijani SOCAR, and a joint venture operating under the Shell brand. AVIA International may enter the market in 2019. The Swiss OMC can be the first Western company to come up with a franchise format, which is not a popular business model in Ukraine. Nevertheless, the arrival of AVIA is viewed positively and its development will be watched with interest.



In 2018, Ukrainian petrol station chains were struggling to attract new customers. Retailers invested in modernizing stations and expanding related services. The crucial battle took place in the non-fuel sales segment, the fast-food area. Unlike Western models, where we see the creation of co-branded platforms like Applegreen, Euro Garages and Tank & Rast, Ukraine has adopted the strategy of developing its own brands. This is due to the limited presence of global companies that traditionally cooperate with gas station networks in Europe and the United States – firms such as Starbucks and Subway are not present in Ukraine. Despite this trend, a very powerful cluster of local brands is spreading across Ukraine. Here is an overview of the most active operators in the Ukrainian filling station market.

### A look at Ukraine's top retailers

**OKKO - 400 sites.** OKKO's network of filling stations is the undisputed leader in innovation and non-fuel sales development. The OKKO filling station network ('Concern Galnaftogaz') is a part of OKKO Group and is one of the largest in Ukraine. The company's portfolio also includes the country's largest network of catering facilities on the road, consisting of 38 restaurants operating under the brands A la minute (European cuisine), Pasta Mia (Italian cuisine) and Meiwei (Pan-Asian cuisine). The company's subdivisions are also engaged in the sale of goods through stores at gas stations. The share of non-fuel sales accounts for more than 20%, and it is constantly growing. Coffee and hot dogs are the best sellers. Coffee is supplied by Rombouts (Belgium) and prepared on Melitta coffee machines. Over the past two years, the company has doubled its sales of coffee. The exact number of cups sold is unknown but it easily exceeds 30 million per year. Compared to other players like Russia's Rosneft (2,962 sites) and Gazprom Neft (1,224 gas stations), which sold around 29 million cups each, the number is staggering.



In 2018, the company started offering packaged meals and installed heated windows with fast-food products. OKKO's restaurants have a '15-minute standard' – if a consumer does not get his dish after 15 minutes, they will get a free coffee. Moreover, the network is actively developing their delivery service, car wash area, dry cleaning and charging of electric vehicles – in 2019 it plans to install 300 EV charging stations. The plan follows a national trend with electric cars showing record growth. There are currently 9,525 electric cars and 8,285 hybrids registered. Finally, the network is actively undergoing the process of digitalization, as demonstrated by new mobile applications, digital signage solutions and others.

**WOG - 500 sites.** Considered a key player in the market. Traditionally, there has been a competition between the two "greens" in Ukraine, as the branded colors of OKKO and WOG are both green. The WOG network of filling stations is the largest under a single brand. They are actively developing convenience services, particularly the brands of WOG CAFE and WOG MARKET. Hot drinks and food are sold in 386 WOG CAFEs, of which 363 are located at petrol stations, another 16 in train stations and 7 have a city format. The WOG CAFE project has become the most successful in the company's history as they are now the largest coffee seller in Ukraine. From 2015 to 2017, WOG increased its sales hugely from 16 million cups to 26 million. The company uses Franke FoamMaster800 coffee machines. The coffee supplier is the German company J.J.Darboven. The success of Franke machines at WOG stations boosted the Swiss brand's business and now the vast majority of sites in Ukraine have their coffee machines. The company also focuses on the installation of electric charging stations.

**UKRNAFTA - 537 sites.** UKRNAFTA is the largest national petrol station network in Ukraine. It is undergoing a major rebranding programme and, on many occasions, acts as a game-changer in the industry. The network has traditionally competed in the lowcost segment, attracting customers with low fuel prices. By the end of 2019, however, the company plans to have 50 rebranded stations and compete head-to-head with premium brands. UKRNAFTA, while remaining a lowcost network, has started offering premium coffee and hot dogs, which, depending on the site, boosted non-fuel sales up by 15-20%. The new design has an unusual "industrial" style with the stations themselves painted black, a rare feature in the Ukrainian market. The company is actively testing new fast-food trends such as self-service hot dogs. With the retailer now refurbishing its sites, its activities will be closely monitored by medium and premium competitors.



**AMIC - 231 sites.** AMIC Energy is the operator of 231 petrol stations previously owned by Russian oil

company Lukoil. After a difficult economic period, its sales stabilized in 2018. The company occupies the middle price segment and offers a standard set of services. In Ukraine, the rebranding of the network took place almost immediately, as many customers refused to refuel at Russian-branded stations due to the political tension between both countries that begun in 2014.

**BRSM-Nafta - 144 sites.** In the mid-price segment, the company is considered the leader in fuel, coffee and wine sales. The latter is not a traditional bestseller at convenience stores but it does create additional customer traffic. The company imports Italian wines (Viticcio and Cavalli Neri) directly allowing it to set competitive prices. The price for a bottle of Italian wine starts at 3 euros. In 2018, the company begun upgrading its network to compete with premium retailers. The strategy to improve and expand BRSM-Nafta's portfolio is to reinvest profit in the opening of new sites and the modernization of existing ones.

**Glusco - 127 sites.** A dynamic business owned by Proton Energy trader (in 2019 it will switch ownership to Wexler Global). The company owns the former Rosneft group of stations. In January 2019, Glusco announced that two of its sites in Kiev will be rebranded as AVIA. The Swiss OMC is represented by the Polish company UNIMOT in Ukraine. The deal has set a precedent for the return of Western brands to the Ukrainian market. If the launch of the AVIA brand is successful, it will entice other European brands to enter the market on a franchise basis, therefore increasing competition.

**Shell - 134 sites.** International oil major Shell upholds the standards of a premium network but spends little in marketing and advertising, which takes its toll on sales. According to Nielsen research, Shell is currently fourth placed in the fast-food segment despite being the first retailer to introduce hot dogs at gas stations 10 years ago. A number of specialists left the company after receiving offers from competitors. Today, Shell is being outrun by its competitors in pricing and range of related services and meals. A hot dog at Shell costs around €2 while UKRNAFTA offers the same product for just €1. During 2018, Shell focused on the refurbishment of its network, including the reconstruction of three filling stations, significantly upgrading five and repairing a number of other locations.

**SOCAR - 59 sites.** Azerbaijani operator SOCAR has built the most expensive gas station network, and repeatedly surprised the market with unique services. The company's premium status translates to high prices for fuel and related products. At the same time, SOCAR is not just a fueling company, it is a brand ambassador for the Republic of Azerbaijan in many European countries. SOCAR Energy has always focused on cities with over a million inhabitants, namely Kiev. The priority development areas for SOCAR in 2019 continue to be the expansion of services at stations and increasing the share of non-fuel products. The company plans to open up to eight new stations and install liquefied petroleum gas (LPG) dispensers in all sites where the legislation allows it.

**BVS - 75 sites.** The BVS network (formerly 'Nadezhda') is one of the regional leaders in terms of development rates. The chain includes 75 stations, 52 stores and 15 cafes in the 'Drive 88' network. The company is a partner of the EBRD (European Bank for Reconstruction and Development) and the International Finance Corporation. Backed by Western financing, from 2017 to 2018 the operator

started rebranding its stations, improving the infrastructure of existing and newly acquired sites. Their non-fuel area has a premium offer comparable to that of WOG, OKKO and SOCAR.



**KLO - 60 sites.** Operator KLO has more than 60 petrol stations with its own restaurants, shops, cafes and car washes in the regions of Kiev, Zhytomyr and Chernihiv. The company develops its own brands, such as the shop 'Podorozhnik' and cafe 'Kawabar', and enters into partnerships with major global brands. On October 2018, the first McDonald's in the fuel retail segment opened at a KLO gas station. In addition, the company is known for its atypical marketing activities. Earlier this year, an [area of 560m2 in one of its stations was used as a graffiti mural](#) – the largest of any station in Europe, according to the company. KLO recently placed itself as third in the ranking of "the most delicious" gas stations carried out by Nielsen.

**UPG - 60 sites.** Today, the network of UPG has some 60 filling stations. Since 2013, the operator 'Ukrpaletsystems' has been actively building its own complexes along busy, main highways. The fuel company also specializes in supplying oil products from Belarus and is a partner of BNK (Belorussian Oil Company). VIVO-cafe is operating together with the petrol stations. Visitors of the cafe can buy a wide range of branded products such as burgers, sandwiches, burritos, snacks, cold and hot drinks.

**Parallel - 44 sites.** Parallel is a middle class player and one of the leading regional operators in Ukraine's oil wholesale and retail markets in Eastern Ukraine since 1995. Despite the fact the company lost a large number of its network in the Donbas region due to the war, the firm shows rapid growth investing in non-fuel sales and fuel supply business. The company offers a new generation of Eurofuel Perfekt 92, Perfekt 95 and Perfekt Diesel at its sites. The fuels were developed in cooperation with the German chemical company BASF.

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