PRICE ADVANTAGE™

Software to Fuel Your Pricing Strategy™

Top 10 Best Practices for Fuel Price Management

Cumbersome fuel pricing data collection and POS price posting processes make fuel price changes slow and burdensome. Poorly managed and decentralized pricing can result in significant loss of profits.

Continue reading and:

> Discover why automated and centralized fuel pricing systems allow for rapid updates from headquarters to the store.

> Learn how to streamline operations involved in fuel price optimization.

> Understand how to achieve maximum profitability following best practices in fuel price management.

719.362.8949 | PriceAdvantage.com

2864 South Circle Drive, Suite 500,
Colorado Springs, CO 80906

1) CENTRALIZE YOUR PRICING

Decentralized fuel pricing is not practiced by the Industry Top Quartile companies for Motor Fuels. When individual store managers are in charge of defining their market strategy the result is inconsistency in overall company profitability.

Fuel pricing strategy

Strategy is defined very differently in every company. Each company has a set of core beliefs about:

a. Margins – minimums/maximums

b. Defining competitors – by brand, location, distance to store

c. Volume targets – How are they defined? How is performance measured?

d. Pricing rules – by location

e. Cost management – replacement cost/weighted average cost

Decentralized Result

Number of company stores x

Number of Store Managers =

Total number of differing strategies. The companies that allow pricing decisions to be made by the store managers result in every store location being priced differently.

For instance, one store manager may be very analytical and have a printed report every morning from PDI with the past seven days gallon sales compared to the same seven days last year. Volume, Volume, Volume is keenly important to the overall success at this store. He believes that he must be one penny below the lowest competitor or he will sacrifice his gallons.

The next store manager you talk with is very focused on maintaining fuel margins. She used to work for the competitor across the street and she feels a deep conviction that her location can command fuel margins that come from customer loyalty, and volumes without margin leave money on the table.

The examples can continue for every store location within your company. To be fair many of their convictions or analytics may indeed be correct. In mathematics there is only one right answer. In fuel pricing there are many possible answers.

It is more prudent for all of these decisions to be made at the headquarters office under the responsibility of a fuel analyst(s) with input and intelligence coming from the store and field management teams.

Across the board from operators with twelve locations to those with several thousand, this is the agreed upon best practice.

2) SURVEY COMPETITOR PRICES EVERYDAY BETWEEN 7 AM AND 9 AM

Competitive surveys are defined as observing and reporting on the competitive price movement for the defined competitors surrounding your company operated locations.

Store Manager

There are a number of methods for doing this but most companies rely upon their store management team to acquire this competitive intelligence. In general the company employee will be compliant and reliable. A common area for improvement is that many store managers only observe competitor prices on their way into work at 4 am. The downfall of this early hour of reconnaissance is that most price changes are between 5am and 6am or before the morning rush hour.

That means many competitive price movements go undetected until later in the day. The result is hours of profitability exposure while your store is priced out of strategy. It is important to only accept competitive price surveys that were observed between 7 am and 9 am each day.

Territory/District Managers

In addition to relying upon the store manager to provide this information it is critical to also include Territory or District managers into this competitive intelligence gathering process. These employees are constantly traveling between locations and observing market movement outside of the defined windows of time that a store manager is responsible.

Arming TM's/DM's with smart phones is the best practice method for empowering these market moving observations to be reported to the fuel analyst.

Multiple surveys per day

If you are really interested in beating your competition and want to keep pace with some of the most aggressive competitors, perform up to three (3) surveys each day. Many companies only choose to survey their top one (1) to three (3) competitors during the subsequent surveys throughout the day. This helps limit the time spent and focuses on the primary competitors.

Example survey structure

#1 Survey observed and reported x Mon-Sunday (7 am to 9 am)
#2 Survey observed and reported x Mon-Sunday (1 pm to 3 pm)
#3 Survey observed and reported x Mon-Sunday (5 pm to 7 pm)

Additional Data Sources

OPIS Radius Report

Numerous retailers are turning to the OPIS Radius report for near real-time data feeds of the changing prices of their competitors. This is a subscription-based service and is priced based on the distance from your store, e.g. two-mile, five-mile, and ten-mile radius. This broad sweeping report enables you to choose which competitors within those geographic boundaries you want to watch more closely. Many companies find this to be a very helpful supplemental resource to augment their store manager reported surveys.

GasBuddy.com

GasBuddy has amassed an army of consumer advocates who now carry the means of reporting gasoline prices in their pocket, that is, their smart phone. Within the past year, GasBuddy has seen a shift from their website being the primary way prices were reported, to now where over 85% are reported from the field using their mobile applications. The benefit to a retailer is the data integrity continues to be increasingly more reliable. Instead of a GasBuddy member driving back to their computer to type in the prices they observed, they do it from the parking lot instead.

For a fuel analyst, it is very easy to navigate to a Gasbuddy.com/yourcityname for competitive price observation or validation. This should be added to the list of best practices for determining competitor prices.

3) STOP WAITING FOR ACCOUNTING REPORTS TO SEE IF YOU MADE MONEY

We encounter many companies that wait to receive their accounting reports until:

- End of the week
- End of the month
- End of the quarter

Retailers who operate this way are at a significant disadvantage. They are unable to determine their performance for gallon sales, margins, and resulting profit until it is too late to make course corrections.

As in any real-time industry, the importance of influencing the market as challenges and opportunities occur has a strong correlation to a company's overall profitability.

Let's compare the airline industry for example. Can you imagine the struggling airline industry only making changes to their pricing at the end of a week, month, or quarter? As their costs change, world events occur and supply and demand ebb and flow, they are able to steer their pricing accordingly.

It is equally important for the retail petroleum market to have the same level of insight in real-time. For most retail petroleum companies, the equivalent to real-time airline ticket sales reports are the automatic imports/exports of their accounting data from the Close of Day reports. Contained in this reporting are:

- Total Gallon sales by site
- By commodity type
- Average selling price
- Cost information
- Replacement cost from wholesale suppliers
- In ground cost/actual weighted average
- Total loaded cost and resulting margin

These reports are available to a fuel analyst every single day. Many companies will say they cannot provide this type of information due to the length of time it takes for the Accounting department to reconcile the information. Most of the time this reconciled information is not available until late in the day or end of the week/month.

The best practice is to make pre-reconciled information available to the fuel analyst and run the risk of a small percentage of the information being inaccurate or missing. Then once the information has been reconciled, the report/export can be re-run.

It is imperative for fuel analysts to

have their pulse on every state, market, district, and store every day. Without this performance reporting, the fuel team will never be able to fix problems or capitalize on opportunities as they come available.

*If your IT or Accounting department tells you this cannot be done, call your Accounting software provider and ask them how to receive Pre-reconciled information each morning. Yes there is a risk, but why hold up the whole train just because a couple of cars are not connected?

4) ACCEPT THAT VOLUME DOES NOT LIE

I wish we could say we came up with this phrase, but we didn't. We heard it from a customer who sells a few billion gallons each year. Their point was aimed at some operators who claim high cents per gallon margins but they never share how many gallons they sell.

Here is the simple equation:
Gallons x CPG=Gross Profit
Margin focus
100 x $.22= $22 Gross Profit
Volume focus
1000 x .02 = $20 Gross Profit
Blend
550 x $.14 = $77 Gross Profit

The perfect harmony of gallons and CPG margin is the goal. Every company has a different belief on how this is achieved at the enterprise level or site level. At the end of the day, more throughput at a responsible CPG will yield a better overall gross profit result.

5) DETERMINE THE RIGHT PRICE BASED ON THE RIGHT INFORMATION

For many years the market had been influenced in its thinking that the only way to optimize overall profitability of fuel was to have an algorithm determine the price for you.

We have witnessed time and time again that the best overall approach to profit optimization is to combine the following:

Determine the right price...
by utilizing easy-to-use yet sophisticated analysis tools, business rules, and optimization for best price determination.

Based on the right information...
by automatically importing in every required data element into one system from back-office accounting systems to real-time competitive surveys.

Delivered to every site in real time...
by changing prices from any device: iPad, Smartphone, computer PC, or a web browser.

Through connected technologies...
by integrating every device at the site in order to control price changes remotely. In turn, a price change can be performed from thousands of miles away and confirmed in a matter of minutes.

If your only approach to optimizing profitability is to use analysis tools and best price determination then you will be leaving pennies on the table every day as the execution of your price change is subject to human interaction.

6) CONTROL EVERY PRICING RELATED DEVICE FROM HEADQUARTERS

In 2004 we began with a vision of connecting every pricing related device to the headquarters office. At the time site level technology was not available to accomplish this. Most locations only had a dedicated dial-up modem for processing credit card transactions. Most stores did not have any of the necessary technology, e.g. WAN, Point-of-Sale on the network, back-office PC, etc.

Largely due to PCI compliance initiatives, technology at the site level has been upgraded significantly. As a result every pricing related device can be controlled from headquarters: Point-of-Sale, pump dispensers, and electronic price signs. This infrastructure improvement becomes a game changer.

7) MANAGE 24x7 WITH SMARTPHONE/iPAD

Smart phones and iPads must be issued to your fuel analyst team. The fuel analyst(s) have a 24 x 7 job that is unique to most everyone in the organization. The market is changing in real-time and tools need to be issued to empower your team to make real-time course corrections.

Cost and fairness
It may be perceived as unfair by other employees that the fuel team receives a business device that they do not. Appearances do not matter in this case. What matters is that fuel analysts are entrusted with the profit

management of the largest product category and top line revenue item in the company. We encounter companies that refuse to pay for smart phone access for their fuel team because these phones are deemed as being too costly. This is a penny wise and pound foolish approach. The best operators have concluded that the investment of arming their fuel team with smart devices yields an exponentially greater return on a minimal investment.

8) REMOVE THE STORE MANAGER FROM THE PROCESS

Store managers are relieved when they are removed from the responsibility of changing prices. The impact on overall customer experience, clean restrooms, and leadership is significantly more important than changing gasoline prices.

Obviously the only way this can be accomplished is to automate the process through technology. The best operators have chosen to make the investment in process and technology.

9) TREAT FUEL AS SERIOUSLY AS YOU DO YOUR FOOD PROGRAM

If you have attended the NACS show in the past few years you have seen major initiatives in food category management from high-end coffee programs to made-to-order deli sandwiches.

- Soda/Fountain
- Cigarettes
- Food
- Candy
- Beer
- Fuel
- Coffee

Of these categories would you agree that fuel tends to be the step child within most organizations? Obviously when building or remodeling a new location significant money has to be invested in the infrastructure including dispensers and tanks. From an overall marketing and sales perspective how many resources are allocated to the number one category within the entire company?

In our experience, the answer is "very little". We have seen this approach yields exactly what you would expect. The largest product category in the company yields the smallest overall bottom line profit results. But the best operators do not take this approach.

10) ACCEPT THAT THE MARKET HAS CHANGED FOREVER

Many veterans of the industry remember the days of old when retail gasoline prices changed one time per month. In addition, when the price did change the moves were single pennies at a time. The complexities of pricing as well as price volatility were minimal.

The market has changed forever. Now it appears that the market is addicted to volatility. Today prices are changing as often as two and three times each day with price swings as high as twenty cents.

The result is the best operators agree you cannot use your same set of tools and tactics that you used twenty or even ten years ago.

Volatility is the new game

Every operator loves a falling market when the fuel prices are coming down and the cost is as well. Every operator loathes a rising market when fuel costs are climbing higher than you can raise the retail price.

The consensus of the most profitable and successful operators is that the right price at all times is imperative. If the price is falling wouldn't it be more advantageous if you could quickly go back up a penny if no one followed your two penny decrease?

If the prices were rising $.12 wouldn't it be advantageous to immediately have your price increase hit the street within minutes instead of lagging and selling 1/3 more gallons than you forecasted at $.12 less margin?

To use the airline industry example again, what airline would use the following position:

"It is not that important that I increase my ticket price immediately after we see our fuel costs increasing. I don't mind if my employees just read their email in the morning and then they can hand type in the change. Nobody uses the internet overnight anyway."

In defense of their broken processes and archaic approaches we have heard similar types of arguments as to why it was acceptable that employees will change the price of gas when they can get to it or aren't too busy.