# From Guts to
# GIGABYTES

## Retailers turn to software to take guesswork out of fuel pricing

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This is how CEFCO Convenience Stores processes fuel-pricing changes.

First part: Go out and gather competitor pricing information, enter data into a spreadsheet—then determine what CEFCO's street pricing should be.

Now part two: Post the information to the company intranet. Store managers access the info and have two hours to make any changes—then acknowledge they've been made.

The loop takes five hours and isn't always effective.

"At that point, we believe they've made the change. We have no guarantee that they did, because we have no control over the register system," says CEFCO technology manager Carole Morrow-Cortinez. "While we have made strides in that area over the last three years, it's nowhere close to where we want to be, which is really letting technology take it from start to finish."

But now CEFCO is among some pioneers looking to fuel-pricing software to simplify—and accelerate—speed-to-street pricing. The chain recently began testing PriceAdvantage from Colorado Springs, Colo.-based Skyline Products Inc., at one of its 124 locations, in Jarrell, Texas.

Things have greatly changed in the month since implementation. Morrow-Cortinez says fuel pricing takes a mere 15 minutes for that location. The software is compatible with the company's Verifone POS terminal and electronic price sign (also from Skyline), so prices that are input at the home office can also be made directly at the store. "We hit a send button and it goes down and does the rest of the work for us," she says. "The store personnel, besides being alerted as a message on the register system, don't have to do a thing."

There's another benefit: CEFCO has brought on a new fuel manager to increase its focus on fuel, and the software will act as a knowledge-transfer bridge between the old process and the new. "It's really going to help, because a lot of the strategies are going to be built in there," Morrow-Cortinez says.

Fuel-pricing software such as offerings from Skyline and Florham Park, N.J.-based KSS have made their way into the c-store channel, with Skyline adding more than 500 locations in the past year alone and KSS touting more than 25,000 locations. But while most agree the software solutions are great aids in becoming more competitive on street pricing, there are issues to consider:

▶ Compatibility. Does the software integrate with your POS system?

▶ Operations. Is your company willing to make necessary changes to protocol and strategies?

▶ Role of the gut. Some operators

# Software Highlights

According to Bob Stein of KSS, more people turn to fuel-pricing software partially because media and government attention has made fuel pricing more cumbersome and data-driven. And while 10 years ago crude oil might have moved a "penny or two on certain days of the week," he says, it now can move as much as 15 cents a day. "So it all really precipitates from the fact that cost is moving so much, so in order to keep your business where you need it to be in terms of volume and margin, you have got to be able to move your price."

**Some additional benefits of fuel-pricing software:**

**SPEED TO STREET.** Although many retailers change prices only a few times per week, Aaron McHugh of Skyline says, "More savvy operators have gotten to the place where they realize: I can make a shift and a move while the guy across the street, asleep at the wheel, doesn't even know I stole volume from him."

**REDUCED LABOR.** Cumberland Farms' fuel-pricing staff has decreased in size, despite increasing pricing sessions from once a day to twice, according to Ron Saumur. While the staff of five probably spent 50% of the day handling daily pricing, the reduced staff spends 25% at most.

**ALL DAY, EVERY DAY.** Stein says, "Most people price on a typical Monday to Friday, and may or may not provide people with the ability outside normal hours to make decisions. In our case, you can run the system 24/7."

**INFORMATION IN ONE LOCATION.** McHugh says that one fuel manager opens 32 e-mails per day to evaluate price surveys. By bringing together the fragmented pieces that require a human to gather and aggregate, he says, "It quickly gets you to the one version of the truth."

**AVOID SHENANIGANS.** The ability to control fuel pricing from headquarters also removes potential "shenanigans," McHugh says. Even well-thought-out strategies often get "polluted or diluted," with 10% to 20% of stores not updating prices as directed on a daily basis. Central control can also eliminate data-entry errors. It can also mean no more "friends and family hour," where managers lower prices for people they know.

**EVERYBODY'S A PLAYER.** Having the proper fuel pricing in place can also help level the playing field for branded and unbranded stations, or for stores that don't have the most stellar locations. According to the 2009 NACS Consumer Fuels Report, 70% of those surveyed considered pricing the most important factor when buying gas, followed by location (19%) and brand (9%).

**LEGACIES LINGER.** Software can also allow companies to maintain intellectual capital during the changing of hands in the fuel-pricing process by programming parameters and strategies. Carole Morrow-Cortinez of CEFCO says, "There's still so much from our fuel-pricing manager's mind now; he's like, 'I know it says it could be that,' but I know I need to price it slightly different for some other reasons that he may have in his head."

**ANALYTICS AT A GLANCE.** Stein said, "The way we really like to phrase it is that your analysts become much more analytical in decision making vs. number crunching and just pulling things together. That either means that they're spending more time thinking, analyzing and looking at the business, or they're freed up to do other things in the business."

feel software will remove their instinct for setting the right price. Even software manufacturers agree that one is not mutually exclusive of the other.

## Informed Consent

Although the software had been in place for only one month at press time, Morrow-Cortinez says the company is considering rolling it to additional stores: "Without saying we've completely signed that second agreement, we're really leaning toward it." One holdup is waiting for the software to become compatible with Gilbarco Passport point-of-sales systems, which CEFCO is implementing at more than half of its stores. Skyline is planning that Gilbarco integration for early 2010. The software currently integrates with VeriFone Sapphire and Radiant Systems.

Compatibility is just one element. "One question that anybody should certainly ask is: After implementation, what kind of customer support is going to be provided?" says Ron Saumur, director of retail petroleum for Framingham, Mass.-based Cumberland Farms Inc.

The 525-unit New England chain has been using PriceNet software from KSS at all its sites since January 2007. "There should be some ongoing review and periodic updates of the software, including vendor-assisted audits, which we have with KSS," Saumur says. "Those are pretty critical to making sure that your system is operating as efficiently as possible. If you don't do that, you really run the risk of underutilization of benefits of the program.

"You should have a clear expectation or an understanding of what your goals and expectations are for any software programs that are being looked at, just so that you make sure that the program you're selecting allows you to achieve those goals, including any reporting capabilities that the software has."

Indeed, while software programs are meant for a broad audience, what customizes the software is the retailer's intention. "Some customers want to grow their volume and hold what their margins are running. Other customers want the opposite; they want to grow margins with the least impact on volume," says KSS CEO and president Bob Stein. "And then there's a lot that are in between, especially larger chains, that want some to grow on volume and some to grow on margin. So we sit down, and that's where it's very specific with each potential customer." It's also where Stein and his team work to assure that a retailer's goal is achievable and makes market sense.

## Numbers to Watch

### 12
Both Aaron McHugh of Skyline and Bob Stein of KSS say retailers can see return on investment within 12 months or even less, although they both declined to give specific system costs.

### 2%
According to the 2009 NACS Consumer Fuels Report, when gas prices rise, 68% say they are more likely to shop around for the lowest price.

### 50
Because Altoona, Pa.-based Sheetz Inc. uses Skyline's PriceAdvantage, store managers save 50 hours per year per store in fuel-pricing efforts (they have 360).

### 10%
Murphy Oil averaged 10% in volume growth year after year after implementing Skyline's software, as reported in the July 2008 issue of CSP.

### 4.5%
When Miller Oil implemented KSS PriceNet, the company ran 4.5% over volume budget and meeting margin targets.

### 12-72
The number of hours that one retailer, Baltimore-based Royal Farms, found it took for stores to change prices prior to using Skyline's PriceAdvantage.

### 2
Miller Oil also can change pricing two times a day now to capture additional margin or volume, as opposed to formerly pricing only twice a week.

## Cultural Buy-In

Aaron McHugh, product development division manager for Skyline, also has a recommendation for retailers: "Companies really have to be ready for organizational change. We've done some installations with companies that just plain and simply weren't ready."

According to McHugh, often the fuel manager might love the idea, but the rest of the organization may not be willing to support operational changes. He cites El Dorado, Ark.-based Murphy Oil as an example of a company that fully embraced the necessary changes to achieve success (CSP—July 2008, p. 38).

Murphy realized that the company's best people were coming in at 5 a.m. and leaving at 1 p.m., when competitors were "most alive and changing prices at 9 a.m. to 4 p.m." A simple change in scheduling got Murphy on the right track. Another organizational change might involve a retailer looking at competitors a mile away, rather than just focusing across the street.

Another concern is getting prices to change in the proper order, to avoid a bait-and-switch scenario and potential fines. James Hervey, senior manager of product marketing for Alpharetta, Ga.-based Radiant Systems, says his company's POS system ensures "weights and measures" compliance, with the sign displaying a higher price than the pump until the prices can be matched. "So if the price is going up, then the sign will change first, and then all the dispensers," he says. The order switches when the price goes down.

Retailers also have to be willing to try new strategies. While the software can be set up with preset strategies and business rules, they can change things and see real-time effects on volume and profitability.



"You have to have the metrics and the analytics. But at the end of the day, it still involves **experience** and the **intelligence** of that fuel manager fully engaged."

**AARON MCHUGH** | Skyline Products

One retailer, McHugh recalls, was perplexed about losing 20% of gallon volume over the past three or four years. After looking at 13 months of historical information, as it typically does, Skyline discovered that the company's strategy was simply to match a nearby competitor's pricing.

"One of the things that we're able to do is then take that information and show that fuel manager you can't optimize or maximize profitability until you begin to actually experiment with a different strategy," he says. "You have to actually make a different decision to begin to see what the effects are."

## Guts and Glory

Jeff Miller, president of Norfolk, Va.-based Miller Oil Co. Inc., used to rely 100% on

his gut in making fuel-pricing decisions four years ago, before he started using KSS PriceNet. But make no mistake: Miller hasn't given up on his gut, nor has he exclusively tapped the software.

Now he says decision making really consists of three parts: technology, guts (which Miller defines as knowledge of the competition) and commodities market awareness. He said that while the markets might go up 10 cents, the system might recommend lowering the price a penny, based on other inputs.

"I'm not going to lower it because it's going to swing around and get me tomorrow," he says. "I don't think that's gut; I think that's having information that the system doesn't have—and it can't have because it's real-time stuff."

He considers the process now a 60-20-20 split, with technology counting for the bigger proportion, depending on what's going on in the marketplace. "If the oil prices are fairly stable and there's not a whole lot of volatility, it's almost 100% the technology," he says. "But when you get these wild swings in the prices, like we've been having, and the volatility blows out so much, it's difficult for any software program to be 100% in terms of forecasting."

While he typically accepts PriceNet recommendations, he says, he does review them all and might "tweak them a little bit here and there. Or if our approach toward the market today is different than what we planned when we loaded the system, then we'll override the prices."

According to Saumur, Cumberland Farms also goes with the KSS recommendation 85% to 90% of the time: "Where the gut, so to speak, comes into play is if

we have a circumstance or situation where either KSS is unable to optimize a retail price, or we know we've got a specific circumstance going on in a specific [area where] we've maybe adopted some different strategy that would force us to want to price a certain way."

Morrow-Cortinez also realizes the importance of remaining hands-on. "You can't ever run that unmanned," she says, "because there's always going to be that bit in there that says, 'Oh, wait a minute—I know this one's slightly different or it's downtown, and downtown closes practically on the weekends.'"

Both Stein and McHugh respect the need for gut to remain part of the equation. Stein says, "We don't say to any-

body this is the be-all-end-all, and the system makes magical decisions and you shouldn't incorporate your market intelligence and your gut; we say it supplements that.

"But the benefit is that you will get a recommended price for each one of your locations that you can automatically implement. Or you can look at [them] and quickly assess, and say, 'OK, that's good,' or 'I'd like to do something else' for this reason or that reason."

McHugh says, "[Retailers] really see that you have to have the information, you have to have the metrics and the analytics. But at the end of the day, it still involves experience and the intelligence of that fuel manager fully engaged." ∎