



ADAPT FUELS PRICING TO CHANGING CUSTOMER BEHAVIOR

1.0 BACKGROUND

High fuel prices, recessionary economic environment, restricted supply, credit crunch – there are many factors cited as being responsible for changes in customers' attitudes towards fuel pricing. The net impact is a significant decrease in demand for fuels and a fundamental shift in customer purchasing habits, both equally concerning to wholesale and retail fuels businesses alike. Customers are responding in different ways, whether traveling less frequently, taking different routes, finding alternative forms of transport or, in more extreme cases, changing to more fuel efficient vehicles. The effects are being felt in fuel sales and within the store, where sales are falling as customers visit less often and shift their spending to larger discount formats.

Are there any winners in this environment? That depends on your definition of winning. For example not losing customers for good or only losing a portion of your customers' wallet. For sure those operators that have the ability to offer lower prices, or support low or zero retail fuel margins by promoting in-store sales, such as discount stores, clubs or hypermarkets, can hold out for longer in the hope the situation will improve.

What are the keys to survival? This white paper briefly explores steps that operators of all sizes, in all segments, can take to better prepare for, and respond to, changes in customer buying habits.

2.0 MONITOR CHANGES IN BEHAVIOR – CUSTOMERS & COMPETITORS

The first step is to identify when significant changes in customer and competitor behavior are occurring. The

former requires a routine, close look at your sales data with comparisons over different time periods (same day different weeks, week-to-week, month-to-month etc). The data should include fuel volumes by grade and, where possible, in-store sales - both by site. Care must be taken to exclude any seasonal or one-off events that might be caused by short-term changes in demand as a result of changes to traffic patterns, stock availability (at your own and competitor sites) and any abnormal competitor tactics. Checking competitors requires a little more effort as it requires analysis of competitor prices and comparisons to your prices. Where significant changes in the "differential" (or differences) between your price and competitors prices occurs, there will be an impact on volumes.

This kind of analysis can be done in common tools such as Excel, with some degree of automation. More sophisticated desktop business intelligence tools can add more automation and deliver alerts to significant changes, leaving you to focus on running the business.

3.0 QUANTIFY DEMAND

The next step in dealing with changing customer habits is to quantify customer demand, by site and by grade, and monitor how underlying demand changes. This will provide the fact-based data needed to start formulating changes to pricing policy. Quantifying demand requires more dedicated tools capable of taking both current and historical data to generate statistical models that create an accurate picture of how demand for each grade of fuel changes, by location and by day.

An essential component of such models is the ability for them to incorporate the very latest sales data in order to update the demand picture on a daily basis. Without this self-tuning capability they will quickly become unreliable.

These models have real business value. As a key indicator of the fundamental changes in customer demand, they can deliver unique insights into customer buying behavior and form the basis for changes to pricing strategy.

They can be taken another step further to quantify the impact of individual competitors on your own sales volumes, through the introduction of competitor prices. This allows you to consider how changes in competitor pricing tactics are affecting your business and how you might respond. (KSS Fuels can make recommendations on such tools).

4.0 REVIEW PERFORMANCE GOALS

With a quantified understanding of demand, by site and by grade, you are now in a position to consider changes to fuel pricing strategy and tactics. But first we need to address whether your business goals are still consistent with the changing environment. If fuel deliveries are decreasing and demand is dropping, are your volume goals still relevant and achievable? With the volatility and absolute cost of product, are your margin targets still valid? Now is the time to recalibrate your goals to be more in-line with the current market conditions.

5.0 EVALUATE NEW TACTICS

The most critical step in adapting to changing market conditions is the need to continuously evaluate your pricing tactics, consider adjustments or introducing new tactics and monitoring their success, course correcting where necessary.

Fortunately, with the quantified demand model platform from step 3 above, you

have the ability to create unlimited scenarios wherein you can simulate (or dry-run) different pricing tactics, measuring their impact on volumes and margins each time, before committing any new prices to your sites. This approach creates confidence that any changes will deliver the desired results and removes concerns over potential damage to customer price perception or loyalty.

Some tools, such as PriceNet, give you the ability to go one step further by applying optimization, which will recommend new prices that meet a revised volume target in the most profitable way, while meeting price limits that dictate your price positioning or brand strategy.

Sticking with the same tactics is not the answer. Whichever approach suits you best, it's essential that changes are made. (Documenting the previous strategy as well as the reasons for the changes will help when the markets eventually reach more of a steady state).

6.0 IMPLEMENT & MONITOR CLOSELY

The last step is to implement the tactical changes you've identified and monitor the results. Repeating steps 2 through 5 will help you to adapt but we recommend not making too many changes or running too many of these iterations in a short space of time. In some markets it may take a few days or a week or more for your customers to respond to your adjusted tactics. Changing again before customers have grown accustomed to the new tactics could introduce confusion.

7.0 CONCLUSIONS

There are many factors contributing to customers concerns over fuels pricing. The net result is that many are forced into changing their fuel purchasing habits.

Continuing to apply the same fuels pricing policies and tactics will fail to deliver desired results in the face of fundamental shifts in customer buying behavior. Fuels suppliers need to adapt their pricing tactics and performance expectations to be consistent with the current environment.

Fortunately there are some relatively simple and inexpensive steps that operators can quickly implement, that do not require additional resources or skills to apply. These steps will introduce a more dynamic element to pricing policy as well as re-calibrating business goals.

ABOUT KSS FUELS

KSS Fuels is the leading global provider of pricing software, analytics and consulting services to fuel retailers and wholesalers in the oil & gas, convenience store, grocery and retail industries. Providing "Knowledge beyond the numbers," KSS Fuels helps fuel marketers and distributors implement effective pricing solutions and increase profitability through the use of knowledge and numbers. The company's US headquarters are located in Florham Park, New Jersey, and its international headquarters are based in Manchester, United Kingdom. For more information about KSS Fuels, please visit www.kssfuels.com.

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