



COPING WITH COST AND PRICE VOLATILITY

1.0 INTRODUCTION

Fuels retailers across the world are facing two major challenges when it comes to pricing, the highest absolute product costs in the history of the industry and cost volatility that can wipe out margins in the space of a few hours. With increased pressure from consumers and consumer interest groups to keep prices at the pump as low as possible, this results in an unprecedented squeeze on margins. Many fuels retailers have little or no experience dealing with these challenges.

Since fuels retailers cannot exert control over the cost of product, their attention has to be focused on how to deal with the volatility. This paper outlines recommendations and steps to take that will help to make volatility work for you rather than against.

2.0 IDENTIFY WHEN & WHERE TO RESPOND

The first step is to know when to react and at which locations. Data is your first priority – capturing the potential triggers for price change is an essential step to determining your response. The following are typical data points that have to be collected as frequently as possible:

- Cost of product (from your suppliers, by tracking market indices or via 3rd party providers)
- Competitor prices
- Market events affecting supply or demand (competitors out of product, traffic pattern changes, pump breakdown etc)
- Volume sales
- Inventory positions

Once collected, the data needs to be assessed against pre-defined criteria and

flagged, by exception, to alert you to the need or opportunity for a price change.

Second, consider that each of your sites is a unique micro-market in its' own right, facing a unique mix of competitors and fuel demand characteristics. Treating multiple locations with the same broad-brush pricing approach ignores local site-level opportunities to grow volume or margin or defend against competitor price changes.

The key to making these processes work efficiently is to consider them as end-to-end processes and automate them wherever possible. This can be achieved by providing your field staff with remote handheld devices such as Blackberry's and PDA's to communicate changes at site level as they happen.

3.0 SPEED OF RESPONSE IS CRITICAL

Once you have the data and you're able to identify, by exception, where change is needed, responding quickly is vital to minimize losses or take advantage of short-term opportunities.

Your pricing system should therefore be able to:

1. Automatically send out notes to site staff and area managers to prompt for competitor surveys and other data points, including raising alerts to delays in receiving this crucial data;
2. Generate new prices, by site by grade, according to pre-defined pricing rules that represent your pricing policy or strategy;
3. Provide the option to automatically approve new prices if they meet pre-defined criteria or present them, by

exception, to your pricing staff for approval;

4. Quantify the impact of the proposed changes in volume and margin terms;
5. Automatically submit approved prices for implementation at site level, through fax, SMS, direct integration with Point-of-Sale or Back-Office system or direct to electronic price display signs;
6. Confirm that the change has taken place and highlighting those sites where implementation delays are occurring.

4.0 MONITOR PERFORMANCE & HIGHLIGHT ISSUES

Good reporting and business intelligence tools are able to continuously monitor performance right down to individual site and grade level, over varying time zones.

Consider whether your current reporting environment can deliver rapid assessment of site performance, across your network, and allow you to drill-down to discover the root cause of performance issues. Does it allow you to identify which pricing tactics are working and, for those that aren't, how to adapt them? If not, then this can be resolved very quickly and inexpensively through investment in new reporting and business intelligence tools. If you have already addressed the data capture and storage requirements in section 2.0 above you can quickly leverage the investment to improve business performance.

5.0 CONCLUSIONS

The overall profitability of your network depends on fuel, convenience store, car wash and other site-based services.

Depending on the site and local market characteristics, how you price fuel will have a direct impact on the performance of these other categories. Through straightforward analysis you can identify those sites where relatively small changes in fuel prices can drive demand for these other categories to the point where the site overall makes a stronger profit contribution.

Equally, identifying those sites where fuel pricing does not significantly impact store or other site-level services can prevent you making costly fuel price reductions that do not translate into increased site profit.

In volatile markets, understanding the impact of rapidly moving fuel prices on demand for other site services can make the difference between profit and loss.

6.0 RECOMMENDATIONS

Fuels pricing is a complex and emotive process. It is characterized by high volumes of transactional and market data that are usually dispersed across multiple applications. Recent increases in the volatility of costs and prices make this process extremely challenging and at current cost levels the squeeze on margins in the tightest it's been for many years.

While it may require some upfront investment, improving the pricing process to cope better with the cost and price volatility is a sure fire way to positively impact margin performance and defend your market position against the actions of competitors.

To assess the potential value of improvements to your pricing processes, to deal more effectively with volatility, conduct an objective and thorough review of the end-to-end process. This review should consider how and when you capture relevant data, how that data

informs decision-making and the new prices.
subsequent speed of implementation of

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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