



# ENSURING FUELS PRICING COMPLIANCE

## 1.0 INTRODUCTION

The business world continues to get more complex, regulated, and litigious. Developments such as Sarbanes-Oxley greatly raise the bar of expectation and responsibility in the area of business governance. Unprecedented crude oil prices and the effect on pump price levels have increased public sensitivity to fuel prices. Ongoing fuels price volatility has heightened the awareness of “below cost” selling in some markets, and natural disasters like hurricane Katrina have brought more regulatory focus on price gouging. Consumers and consumer interest groups are also becoming more aware of pump pricing and the variances that exist in a market, resulting in a growing number of investigations into anti-competitive practices.

As a result, all fuels wholesale and retail businesses are at increased risk of claims, investigations, and potential lawsuits. These actions can be brought on by government agencies (both state and federal), competitors, consumer action groups, and a myriad of other interested parties. In this environment, all fuels operators should have sound systems in place to exert appropriate control over the price-setting process. It is essential that these pricing systems not only generate the appropriate retail prices, in an efficient and reliable manner, but it’s also critical that they provide the “Preventive” and “Defensive” capabilities necessary to protect your business from both financial and negative market impact.

## 2.0 INFORMATION RETENTION & AUDIT TRAIL

Anyone who has been involved in responding to a discovery request or defending any sort of claim will know first hand that the hardest part is assembling

the information. Claims often come long after the event, by which time paper records have been archived, staff has left, and the details of their pricing decisions have long been forgotten. The cost in time and money to respond to even simple discovery requests can be staggering.

Here are six (6) tips and features that you should ensure your pricing systems provide to prepare you for these audits:

1. Don’t leave the rationale for price decisions in the heads of your staff, as they may not be around later when a discovery exercise is required. Even if they are available, they may not be able to recall the rationale for making a change in pricing strategy, let alone have the supporting data and rationale for a series of pricing decisions.
2. Ensure your pricing system has an audit trail and that it can be archived electronically, for accessibility in years to come
3. The audit trail should capture all the facts relevant to each price decision. These include:
  - Who made it
  - What was the trigger
  - What price rules were applied, and
  - What were the relevant competitor prices at the time

While this may sound like a lot of data, it can be captured automatically as the transactions occur. The storage cost is trivial compared to the cost of trying to pull this information together, whether it’s a week or several years past.

4. Cost and competitor surveys are a key component of pricing decisions. The audit trail should provide a clear linkage of what cost and competitor prices were in effect when a pricing decision was made.
5. Make sure the audit trail extends to cover all changes to pricing rules and strategy settings. It helps to know when a rule was changed, who changed it, and ideally, a quick note or simple reason code explaining the change.
6. Ensure that you can check compliance with the prices generated. Problems can arise because sites implement prices different from those recommended by their Central Office, circumventing any of the preventative controls that have been established. Monitor compliance reports and set up alerts to automatically inform you when site prices do not comply with your official recommended price.

### 3.0 PREVENTING & MONITORING COMPLIANCE

Having stressed the importance of ensuring you are equipped to defend your pricing position, it goes without saying that prevention in the first place is the best option. Beyond prevention, continuous monitoring is also a vital process to ensure that any problems that do arise are identified quickly and immediate action taken.

Here are eight (8) tips and features that you should ensure your pricing systems provide:

1. Understand and document the regulatory environment and

continuously monitor for updates. Communicate significant changes to your pricing staff so that they understand the legislative and/or regulatory requirements and how they impact the pricing process.

2. Ensure that your pricing system can set hard and fast rules that prevent the generation of a price that contravenes a regulation. For example, if a state of emergency is declared then your pricing system should already have the relevant pricing rules and protocols ready to be implemented without delay.
3. If selling below cost to match a competitor price, then you should set up alerts to monitor competitor surveys closely, to ensure that they are received on a timely basis. Delays in receiving and processing surveys can cause you to set erroneous and costly prices. Demonstrating a methodical survey process, especially when selling below cost, will significantly strengthen your audit position.
4. Ensure that your pricing system can set rules that reflect the other aspects of your pricing strategy, and that any manual overrides to these are recorded with an appropriate reason code or explanation.
5. Jurisdiction of rules and regulations may vary by market area. A pricing system should be able to create, manage, and apply any rules to the relevant sites.
6. Fundamental controls governing the end-to-end pricing process, (pricing decision to changing the POS system and price display signs) are essential. A good pricing system will receive and record time-stamped confirmations of POS changes; operators with automated price display signs can benefit from similar automated

confirmations relating to price changes. Alerts and exception reports can be used to flag up when a delay in the process occurs, allowing delays to be quickly acted upon.

7. Ensure there are proper access controls over your pricing system. User roles will ensure that only authorized staff can access the system and perform functions such as changing pricing tactics or strategies, and then only for the sites for which they have responsibility.
8. Review audit logs and exception reports on a regular basis.

While it requires some upfront investment, improving processes in areas such as pricing can provide tremendous returns. Costs, complexity, and response times are reduced, internal controls can be strengthened, and staff effectiveness levels increased. All of this results in a very compelling ROI.

The potential risks of an investigation, and subsequent fines, carry both a heavy financial burden and negative publicity that can damage brand image and financial performance for many months and, in higher profile cases, for many years.

## 4.0 CONCLUSIONS

Fuels pricing is a complex and high profile process. It is characterized by high volumes of transactional and market data that are usually dispersed across multiple applications. The supporting technologies are often in-house developed software or based around generic tools like Microsoft Excel, resulting in a control environment that is difficult to implement, monitor and maintain.

## 5.0 RECOMMENDATIONS

The most effective short-term action is to conduct an objective and thorough review of the fuels pricing processes with the goal of identifying potential gaps and risks. This review should consider all aspects of the end-to-end process, including data capture, decision-making processes, the roles and responsibilities of the people involved, to the subsequent implementation of new prices.

### 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](http://www.kssfuels.com).

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