



INCREASING RESOURCE PRODUCTIVITY & EFFECTIVE KNOWLEDGE SHARING

1.0 BACKGROUND

High fuel prices, extreme cost volatility and the effects of the credit crunch are together driving customer demand downwards. As a result fuel retailers are struggling to deal with the dual challenges of maintaining volume sales and crippling credit card fees. Survival in this environment is dependent on an ability to capitalize on any opportunity, no matter how small, by getting the most out of the pricing resources available. To achieve this retailers need more productive pricing processes comprising efficient business workflows, the ability to share pricing best practices among all members of a pricing team and supporting technology to make the process more agile and responsive to market events.

This paper outlines recommendations and steps to take that will help make the most of existing pricing resources and create competitive advantage.

2.0 PRICING BY EXCEPTION

The first step toward increasing productivity is to price by exception – only expending time and energy on new price decisions where it's most needed. Many of today's pricing processes are manual by nature, very effort-intensive and, as a consequence, suffer from a lack of agility, leaving stores for lengthy periods before they can be re-priced. Delays in pricing lead to volume and margin leakage that can be hard to make right. These existing processes also cannot prioritize or highlight which stores need attention.

2.1 IDENTIFY WHERE CHANGE IS NEEDED

Pricing by exception first needs some means to determine where and when price

changes are needed and, among those stores needing a price change, which take priority. This can be achieved by defining key performance indicators (KPI's) or specific pricing rules that feed an alerting engine, to focus pricing analyst attention. For example, you might specify a KPI around volume sales or volume running rate such that when a lower threshold level is breached, this creates an alert to the pricing analyst to go and investigate why volumes are down. Similarly you could set-up a pricing rule around a competitor, or group of competitors, that would trigger an alert if competitor prices broke through a given threshold (e.g. competitor changes price by more than x cents).

2.2 AUTOMATE PRICE GENERATION

At the heart of productivity gain is the need to generate new price proposals automatically, according to pre-defined rules and protocols that explicitly represent your pricing policy. This has the twin benefits of speeding up the generation of new prices and ensuring that all prices comply with company policy, with no errors.

By documenting pricing policy or strategy as rules, analysts can then focus their time on those situations that cannot be handled by fixed pricing rules, such as a competitor changing pricing tactics or strategy, resulting in a significant shift in your price positioning in the market.

2.3 APPROVE BY EXCEPTION

The final component of pricing by exception is to limit the amount of time pricing analysts actually spend checking and implementing prices. A similar approach to identifying if a price change is needed can be applied here, i.e. by setting KPI targets and management rules to effectively filter whether new price proposals need analyst authorization.

If new price proposals have been generated according to the pre-defined and documented pricing policy, and they meet KPI criteria, then they should be capable of being implemented without the need for checking and approval by a pricing analyst. However, there will always be instances where new price proposals may not be appropriate to short-term changes in local market conditions or they may break certain management rules and in these situations the analyst has to approve, amend or reject. For example you may have a particularly price sensitive store where changing prices more than once daily has a detrimental impact on customers. If this is the case you should set-up rules to prevent new prices being proposed more than once a day.

With an effective alerting, prioritization and approval capability in place, analysts can more easily assess where to devote their attention. The next step is to ensure they can make the best decision possible.

3.0 INCREASE DECISION EFFECTIVENESS

Making better pricing decisions, i.e. decisions that produce desired results, can be achieved in two stages as follows:

3.1 SHARE KNOWLEDGE & BEST PRACTICE

How can you reproduce the performance of your best pricing analyst across the rest of the team? One way is to find a means to consolidate data, share knowledge, capture experience and, where possible, document so that knowledge lives on. Today's pricing tools offer a number of capabilities for capturing knowledge and sharing it, such as the following

- Freeform notes, attached to stores, that create a library of expertise

concerning the unique performance of individual outlets

- Off-line pricing scenarios that permit analysts to try different pricing tactics, quantifying their impact on volumes and margins without the need for price change at the store
- Pricing models that reproduce real store performance in a simulated environment and can be used for training new analysts or re-playing real-life situations for education purposes

Another way is to identify effective working practices through workshops, specifically focusing on how they can be translated into the daily routines that all analysts can follow and supported, where possible, by appropriate pricing technology. For example, establishing priorities over which competitors represent the strongest threat to your stores can be done through the use of price modeling tools.

3.2 MODEL THE IMPACT OF DECISIONS

Modern pricing tools can support pricing decisions by rapidly quantifying their impact on volume and margin, allowing analysts to try many different prices or combinations of prices in a very short space of time before selecting the ones that deliver the right results.

3.3 CONSIDER PRICE OPTIMIZATION

Fuel price optimization is a process whereby a software application takes on the burden of step 3.2 above, using price models to try many thousands of combinations of prices, for every store, until it locates the set that meet a given volume objective at maximum margin. Their advantage is that they can perform this task in seconds, enabling them to respond to changes in the market or competitive environment as they occur.

4.0 PRICE IMPLEMENTATION

The last step in extracting greater productivity from your pricing resources is to consider how you implement new price proposals. Key questions to ask are:

- How do you communicate price changes to your stores?
- Is your method of communication the most efficient in regards to response time?
- Are your existing processes geared around staff changes at site level?
- Do you verify that price changes are made at the store and are they implemented promptly?
- How can you balance the need to change price with the need for store personnel to be serving customers?

Technology can make a dramatic difference, from using PDA's, Blackberry's and even simple SMS text messages for communicating price changes, to introducing simple feedback mechanisms to confirm prices are implemented, all the way to electronic price display signs to

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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automate the implementation process from decision to display.

5.0 CONCLUSIONS

Productivity gains in fuels pricing are not restricted to any one specific area and are entirely unique to each retailer. How you determine which areas to focus on and in what order will depend greatly on your current set-up and the experience of your pricing team. However, KSS Fuels' 15 years experience in the industry proves there are always gains to be had. And generally some of them can be inexpensively and quickly achieved.

In many cases productivity challenges haven't been addressed yet because the very same people that could find the answers are usually so intensely involved in the pricing process that they don't have the luxury of time to devote to identifying where improvements can be made or sharing their working practices with other, perhaps more junior staff.

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