



MANAGING FUELS PRICING TO MAINTAIN SALES GROWTH IN CHALLENGING MARKET CONDITIONS

KSS White Paper

1.0 INTRODUCTION

In the last seven years fuels retailers have seen unprecedented growth in both motor fuel sales and inside sales. The latest NACS State of the Industry 2008 survey documents a 62% increase in inside sales to \$169 billion and a 147% increase in motor fuel sales to \$409 billion since 2000 (with nearly 20% growth in motor fuel in just the past 2 years). This is unsurprising given the increase in fuel prices. However, extreme cost volatility, over \$5 a gallon gas and the threat of a recessionary economy are together changing customer buying habits and affecting core demand for staple products such as motor fuel and key food items. The challenge facing all fuels retailers is how to retain top-line sales and ride-out the worst of the current macro-economic cycle.

This paper outlines recommendations and steps to take that will help retailers of all sizes better manage fuels pricing to protect top-line sales and, where possible, identify and capture short-term opportunities for sales growth.

2.0 IT'S IN THE NUMBERS

The first step toward protecting, and in some instances growing, sales is to understand the environment and look for trends, changes in customer buying behavior and major item sales and margin performance. For many retailers the data is already there and all that's needed is a framework for analysis and the tools to do the job.

2.1 SPECIFY THE FRAMEWORK - IDENTIFY KPI'S AND RUN THE DATA

Motor fuel sales are straightforward – gallons, margin and profit by day, store and grade are the clear KPI's but they

don't tell the whole story. Analysis of inside sales per gallon will identify those stores where fuel prices can be managed to drive store traffic and increase overall sales levels. Inside sales KPI's will include transaction sizes, traffic counts as well as unit movement, sales and margin.

Once the measures are set, running store-level data for the past 3 to 6 months will begin to establish trends. The more data you have the better, for example 12 months or more will help establish seasonal affects, distinct from and in addition to other trends. Day of week data will help identify high and lower sales days.

2.2 KEEP MONITORING & USE ALERTS

With the KPI's set and analysis routines worked out, running daily updates on new incoming data will give you the basis for monitoring ongoing performance. Applying an effective alerting mechanism can then highlight, by exception, where significant changes are occurring and where action needs to be taken.

Automating this process, and scheduling the distribution of key reports, will take manual effort out and ensure you're in a position to respond to market events as they unfold.

3.0 ADAPT PRICING POLICY

Now that you have the data and insight into performance, it's time to consider motor fuels pricing policy. Given the major shift in prices in the past 12 months and seemingly no end in sight to cost and price volatility, its imperative that pricing policy is revisited more frequently and, where necessary, adapted to better reflect

the current market environment and competitive landscape.

3.1 MONITOR PROGRESS TOWARD GOALS & IDENTIFY GAPS

You've set your corporate goals and immediately 2 questions arise:

1. Are they still achievable in the current climate; and
2. How should they be adjusted if the answer to 1. is "No"

By analyzing current data and using widely available "drill-down" capabilities you can assess progress from corporate to individual store level and determine the likelihood of achieving your goals. As a result you can quantify the gaps, which is the starting point for adjusting the goals and/or adapting pricing policy.

3.2 MODEL THE IMPACT OF PRICING TACTICS

Modern fuels pricing tools can support changes to pricing tactics by rapidly quantifying their impact on volume, sales and margin, allowing analysts to try a range of tactical adjustments before selecting the ones that deliver the right results.

Scenario analysis and price simulation techniques can be applied as often as necessary to determine changes to pricing rules and other tactics.

3.3 RE-EVALUATE THE COMPETITIVE ENVIRONMENT

Has the competitive environment changed? With heightened price sensitivity and customers paying more attention to drive times and distances, has this changed their buying habits and reactions to competitor pricing? For example, are more people choosing to shop at club or discount stores and purchase fuel at those same stores where they can?

There is a good chance that the competitors you were tracking as your primary competitive threat have changed. The same models that can quantify the impact of pricing tactics in 3.2 above can be applied to re-evaluating competitor effects and relative strength. There may be opportunities to "steal" valuable market-share from a competitor.

3.4 CONDUCT FINE-GRAINED PRICE SENSITIVITY ANALYSIS

Identifying and capturing opportunities to recoup or grow volume can be achieved by looking more closely at customer price sensitivity. Analyzing customer price sensitivity by store and by grade can help deliver insight into daily variations that might permit you to adapt pricing tactics accordingly, for example offering lower prices on days when customers exhibit higher sensitivity, thus stimulating volume growth or not lowering prices when customers are less price-sensitive, thus preserving volume and margin.

3.5 CONSIDER MOTOR FUELS AND INSIDE SALES TOGETHER

Recent events have combined to reduce overall customer demand for motor fuels which in turn is having a negative influence on inside sales. The influence of motor fuels demand on inside sales is a key focus area for protecting overall sales. Finding the optimum balance between motor fuel volume (and margin) and inside sales can only be achieved through analysis of the numbers and setting fuel volume goals appropriately for every store. For example, driving motor fuel demand by lowering prices at certain locations may not always translate to higher store traffic and transaction sizes, and may put other customers off visiting the site if it appears overly busy. Conversely, other locations may see inside sales respond positively to higher fuel volumes.

Considering fuel and inside sales together can drive significant incremental sales.

3.6 CONSIDER PRICE OPTIMIZATION

Fuel price optimization is a process whereby a software application takes on the burden of evaluating 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 TRACKING & RESPONSE TIMES

Another important asset to help manage sales is to ensure you are in a position to spot changes in competitor prices at field level, have them reported promptly and respond quickly. In addition to 3rd party sources of competitor pricing, enabling your field staff PDA's or Blackberry's with simple applications to report price changes can make a big difference, both in reporting competitor changes and responding with new proposed prices.

Ensuring your head office pricing tools can turn around new price proposals quickly requires an appraisal of the pricing process and the extent to which

ABOUT KSS

KSS, the Fuels Pricing Experts, is the leading global provider of pricing software, analytics and consulting services to fuel retailers and wholesalers in the oil & gas, convenience store and retail industries. KSS helps fuel marketers identify and efficiently execute optimal pricing strategies. The companies US headquarters are located in Florham Park, New Jersey, and its international headquarters are based in Manchester, United Kingdom. For more information about KSS, please visit www.kssg.com.

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automation can be applied to the supporting tools in order to minimize the amount of administrative work in generating new prices.

There are lots of options in this area ranging from simple workflow improvements to considering whether it's time for a change in pricing system.

5.0 CONCLUSIONS

Fuels retailing markets continue to change and it's impossible to know what might be round the next corner. Recouping lost sales, maintaining sales at present levels or growing sales all require an end-to-end appraisal of the fuels pricing process and consideration of fuels pricing on other key business lines such as inside sales and other store services.

In addition to operational improvements, a fundamental question to pose is: "How long has it been since we last challenged our pricing policy and how confident are we that it still reflects the current market environment?"

In many cases small yet effective improvements can be brought about quickly and inexpensively and yet this in itself can be a challenge because the very same people that could find the answers are intensely involved in the pricing process and hence don't have the time.

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