

How Royal Farms Turned Around Their Fuel Pricing Strategy

RESULTS:

- **Saved half a penny per gallon** driving record fuel sales and profitability
- Reduced time to change fuel prices from **days to minutes** per store
- **Eliminated** worker's comp claims related to physically changing price signs

CHALLENGES:

- 95 stores, 95 different fuel pricing strategies
- Unresponsive and frustrated store managers
- Lower fuel profitability driven by ineffective internal processes

SOLUTION:

- Thorough analysis of issues impacting fuel profits
- Centralized fuel price management and strategy to headquarters
- Automated processes with fuel pricing software to eliminate delays, human error and data entry issues

Retail fuel makes up the largest revenue for the more than 95 Royal Farms fuel-selling convenience store locations. Rob Rinehart, Director of Retail Petroleum, knew their poor operational daily blocking and tackling in the fuel pricing process was keeping their fuel profitability and gallons performance from hitting its full potential. Most companies don't want to face their broken inner-workings and areas of costly processes. But Rob also knew that he could save the company millions by discovering and solving the real problems.

The Ugly Truth

Rinehart put together a team to document the current process and the true cost of making a single price change at any given store. Each day they would receive competitive price surveys through PDI's competitive report. Rob found that stores that hadn't sent in their competitive reports were circled in red and manually chased down one by one.

"We would have stores hang up on us or we would have to call back three times to speak to the store manager. It was taking two people half a day every day to get through the fuel pricing process. There were 95 stores making 95 different fuel pricing decisions. We also discovered that 25%-50% of the stores had not made price changes from the previous day. Worse, we caught store managers holding a 'friends and family hour' on gas prices. We had a real problem. Something had to change."

Calculating Lost Opportunity

Putting pencil to paper, Rinehart's team found that it would take between 12-72 hours for a price change to be implemented. If a price change was announced on Friday evening, often it would not be implemented until

We saved half a penny per gallon driving record fuel sales and profitability in the first year. This was largely due to automation with PriceAdvantage software and Skyline's electronic price signs.

— Rob Rinehart, Director of Retail Petroleum, Royal Farms

Monday morning. The estimated lost revenue was enormous. Next, they calculated the cost of manually changing signs and learned that it took one-and-a-half employees away from customers for over 30 minutes to change a price sign. There was also the cost of worker's compensation claims related to physically changing the numbers. Then Rinehart's team focused on delays and human errors in data entry. "Once a month a store would enter a price like \$0.25 and we'd be selling fuel at a quarter for half a day."

A Royal Turnaround

Now that they could quantify the issues, the goal became to maximize overall gross profit on a per store basis. The first step was to centralize all fuel pricing decisions at the home office. Rinehart reports, "Since we've centralized, we have seen pricing consistency and huge profitability increases."

Next, putting the store managers and employees back in front of customers prompted Rinehart to implement Skyline Product's electronic price signs so prices could be changed from inside the store. "Soon, other stores began asking when they would be getting these signs," says Rinehart.

Last, Rinehart automated price changes in a closed-loop system using Skyline's PriceAdvantage fuel price management software. This allows Rinehart to make price changes to all 95 stores in a matter of minutes, and receive confirmation that the changes took place. "There is an art to fuel pricing. You can't replace your strategy with an algorithm. You can, however, gain a strong competitive advantage by automating the execution of your strategy," says Rinehart. "This market is a penny-up, penny-down game. PriceAdvantage gives me all the information I need to create the optimal price for each store, and then have it posted at the street quickly."

"We were able to calculate the increase in profitability with the electronic price signs, but adding the fuel pricing software is when we saw the real returns."

Royal Results

The tangible results have been enormous, and the intangible have helped create a new culture at Royal Farms. "We now have market knowledge, a centralized strategy, confirmation of price changes and evidence to prove it. What used to take 12-72 hours per store now takes *less than an hour* for all 95 stores," states Rinehart. As a bonus, there has been a major shift in the store managers' perspective from "I don't know if I want to do it", "They will never know" or "I'll do it on Monday" to "Let's get it done!" They see that it has made their lives easier, and there is visibility and enforceable consequences for noncompliance. "By my calculations, we saw a return on our investment in half the time I had originally estimated," muses Rinehart. "We made changes that let us focus on beating the competition and maximizing our profitability for every store, every day."

"My advice to others is stop getting pencil-whipped and chasing your stores. It doesn't have to be that way anymore. Get price changes done in 30 seconds and let your store managers get back to their customers."

PriceAdvantage is a division of Skyline Products, headquartered in Colorado Springs, CO. For more information on PriceAdvantage, visit www.sellmoregas.com.

For more information on Royal Farms, visit www.royalfarms.com.

For more information on PDI, visit www.profddata.com.

I knew I would save the owners over a million dollars year one just because we had a consistent centralized pricing theory and controlled all execution from headquarters.

— Rob Rinehart, Director of Retail Petroleum, Royal Farms