Fuels Retail

Achieving high performance in a volatile and fast-changing environment

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A convergence of changing technology, increased regulatory and competitive pressures, disruptive market dynamics, and emerging consumer trends will bring dramatic change to the fuels retail industry over the next decade. The pace of change will continue to accelerate, straining legacy processes, systems and skills. Understanding what the future might look like and having a plan to compete in a new competitive environment are essential considerations for companies looking to achieve—and maintain—high performance in the years ahead.
The convergence of several market and consumer trends is fundamentally changing the fuels retail industry in the United States and placing additional pressure on volume and profitability. Consider the following:

**Falling demand**
As illustrated in Figure 1, US demand for motor fuel increased significantly from 1980 to 2005. Beginning in 2006, however, demand growth evaporated. The conditions that led to this decline—stagnant US economic growth, fuel price volatility, the growing appeal of alternative fuels and more stringent Corporate Average Fuel Economy (CAFE) standards—are expected to continue for the foreseeable future. This continuation means that sluggish demand for petroleum will likely be the “new normal” for the industry through at least 2035.1

**Emergence of alternative fuels**
Today, more than a dozen alternative fuels are in production and use or are under development, including compressed natural gas (CNG) ethanol (E85), electricity and hydrogen.2 As these fuels gain widespread adoption, they will present a significant competitive threat to traditional motor fuels. This threat is reflected in the anticipated sales of nontraditional vehicles in the coming years. According to the U.S. Energy Information Administration, sales of vehicles that use diesel, alternative fuels, and hybrid electric systems are projected to grow from 15 percent of new vehicle sales in 2009 to 42 percent by 2035.2 As illustrated in Figure 2, flex-fuel vehicles will represent 19 percent of total new vehicle sales and 47 percent of unconventional vehicle sales.4

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**Figure 1. US consumption of motor fuels is expected to be sluggish through 2035.**

<table>
<thead>
<tr>
<th>US liquid fuels consumption (million barrels/day)</th>
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<tr>
<td><strong>History</strong></td>
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<td><strong>2009</strong></td>
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<tr>
<td><strong>Projections</strong></td>
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The emergence of the “now consumer”

With vast quantities of information at their disposal and greater control over transactions than ever before, customers are in a position to demand more from their retailers. Tailored and personalized products, services and experiences are now expected, as are accessibility, convenience and a cohesive, integrated shopping experience across channels (see Figure 3).

The rapid innovation and proliferation of personal communication technologies are driving these new consumer expectations and, by extension, new customer experiences in all sectors—including the fuels retail industry. Drivers can now locate the nearest gas station from sophisticated integrated telematics systems or via a smartphone app (which also compares prices at nearby stations). Some regional players notify customers about fuel price changes and allow them to purchase fuel in advance or monitor prices via their smartphones. And shoppers at hypermarkets can use a smartphone app to prepare their shopping lists, download coupons and check their fuel rewards balance. As demand for fuel declines, the innovative use of technology to attract, retain and engage customers will become an ever more important factor in achieving competitive advantage.

Downstream competitive pressures

A number of trends beyond high oil prices and weak demand are poised to change the US downstream competitive landscape. At one end of the spectrum are structural changes in the refinery business, reflected not only in the above-average number of spin offs, sales and closures seen in 2011, but also in the number of recently announced refinery upgrade projects, which will allow refiners to accommodate new sources and types of crude oil and potentially increase their capacity. While the effect of these changes on the fuels retail industry is not fully known, it is anticipated that refinery owners and shareholders will be looking to recoup their upgrade investments and lower their cost to serve as they try to capture a greater share of a sluggish retail market. At the other end of the downstream spectrum is the continued expansion of hypermarkets and other nontraditional fuels retailers. With their combination of forecourt and backcourt offerings, hypermarkets offer attractive retail alternatives for fuel consumers and will likely continue to build more brand loyalty and market share.

Addressing the challenges and opportunities that will accompany these changes requires players in the fuels retail space to reexamine—and adapt—their existing business models, technologies and business practices. Those players that fail to do so risk losing market share and the competitive advantage that will underpin high performance in the years ahead.
Figure 3. Accenture research and experience have revealed five characteristics of the "now" consumer.

1. **Fragmented**
   Customers want tailored and personalized products, services and experiences. This means they are harder to target.

2. **Interconnected**
   Customers expect a brand experience across multiple channels and touch points. This means they are harder to reach and engage.

3. **Savvy**
   Customers are more knowledgeable than ever before and are comfortable integrating technology into their lives. This means they are harder to impress.

4. **Time-starved**
   Customers want a convenient experience, as well as the accessibility and transparency needed to make informed decisions. This means they are harder to please.

5. **Conscious**
   Customers are concerned about value and about their health and the environment. This means it is harder to win their trust.
Envisioning high performance

Understanding what the future will look like and having a plan to compete in the changing fuels retail environment are essential components to achieving—and maintaining—high performance in the years ahead.

Given the uncertainties of market conditions, oil prices and consumer demand, many companies may feel that developing a go-forward strategy at this point is premature. We disagree.

The ongoing Accenture High Performance Business research program has repeatedly shown that top companies distinguish themselves by effectively balancing current needs and future opportunities. They achieve this balance through a “competitive essence” that enables them to succeed in today’s markets and also capture and profit from new markets going forward. As they plan their next steps, they are willing to trade some of today’s performance for tomorrow’s gain. And, as some of our most recent research has revealed, they are not afraid to identify—and act upon—market insights that they feel will shake up the competitive landscape.5

Through our work with clients around the world and across all industries, we have seen first hand what is possible when companies exploit market changes for their advantage (see sidebar on page 9). There is no reason that companies in the fuels retail industry cannot enjoy the same type of success by capitalizing on the opportunities—and sidestepping the challenges—that lie ahead. At a minimum, we believe that fuels retail companies should use this time of change to reexamine how they currently conduct their business, generate revenue and engage with customers. Accenture has identified several areas that we feel are worthy of consideration.

Transform pricing

In the next 20 years, there will be increased competition among multiple fuel and vehicle platforms. As described in recent research,6 Accenture anticipates a mixed landscape that will not only feature both plug-in hybrid electric vehicles and full electric vehicles, but also include advanced combustion engines, a greater use of biofuels, natural gas vehicles, hydrogen fuel cells and other fuels such as diesel. Although adoption of alternative fuel vehicles is low today, as technology improves it is highly likely that such fuels will become viable alternatives for many consumers (see Figure 2). There are, in fact, already signs that innovative pricing schemes will be necessary for traditional motor fuels to compete with alternate fuel sources that may have very different cost characteristics.
So, how should fuels retailers think about competing in an evolving transport world? Other industries provide telling clues.

A number of industries have successfully applied new pricing schemes to grow sales and attract and retain customers. US utility companies are prime examples. In deregulated markets, these companies offer consumers myriad pricing options that lock in rates for a predetermined period of time. Fuels retail suppliers could offer a similar pricing model that allows wholesalers or retailers to pre-pay for a certain volume of fuel at a fixed or variable price. The locked-in rate could last for 30 days, 60 days or an entire year, depending on the amount and duration of risk each party is willing to assume. The commodity price risk in such schemes could be assumed by either the fuels retailers or by sponsoring parties such as banks.

A “lock-in” rate might also be made available to drivers. Today consumers in Houston can pay a local electric utility a flat fee of $89 per month for unlimited charging of an electric vehicle at home and via charging stations in parking garages and businesses. Such a flat-fee option, coupled with a wider selection of vehicles, provides a very real and cost-effective alternative for consumers with typical driving patterns. It is not inconceivable that retailers would be able to adapt a similar program for consumers interested in buying traditional motor fuel at a fixed rate. Pricelock, an online auction system for buying and selling fuel, already allows businesses to select the maximum price per gallon for gas or diesel they are willing to pay. When fuel prices exceed that cost, Pricelock pays them the difference. Pricelock also offers fuel surcharge protection for shippers and trucking companies to help them manage their fuel price volatility exposure. Similar online programs are emerging for individual drivers, too. MyGallons.com, for example, allows US consumers to buy gasoline at current prices and use gallons from their fuel reserve when prices rise. Fuel credits are stored on prepaid gas cards, which can be redeemed at a number of filling stations across the country.

Fuel suppliers might also consider partnering with auto manufacturers to transform existing pricing models. In a potential partnership scenario, automakers could include the price of the supplier’s fuel for one, two or three years into the purchase or lease price of the car. Alternatively, they may offer a purchase incentive that significantly reduces the cost of gasoline at select stations for a period of time. In either case, auto buyers would then be able to fill up at any of the suppliers’ stations during the offering period without paying for fuel, or doing so at a steeply discounted rate. For them, the days of searching for the best gasoline prices would be over. Automakers have already indicated their willingness to use such pricing schemes as a way to attract customers. From May to July 2008, Chrysler rolled out its “Let’s Refuel America” program, which provided new car buyers a fuel card that could be used to purchase fuel at $2.99 per gallon to travel up to 12,000 miles per year for three years. In July 2009, Hyundai launched a similar program that offered fuel price protection ($1.49 for 12 months) for buyers of select models. The program contributed to vehicle sales increases of 47 percent in August and 27 percent in September of that year.

Efforts to transform pricing could generate benefits throughout the fuels retail value chain. For producers and suppliers, volume commitments might help ensure a secure foothold in a market where overall demand is falling. Volume pricing for end customers could also improve brand loyalty. For wholesalers, the value of pricing transformation lies in potentially saving money by locking in favorable fuel prices. For retailers, lock-in rates or partnership agreements might require more flexible onsite payment-processing and/or accounting applications to accommodate the new pricing structures. Costs associated with implementing new systems and point-of-sale terminals would likely be offset by the benefits of the new pricing programs, including increased foot traffic and, presumably, additional sales of other products sold at their locations.
Identify opportunities to exploit new and existing revenue sources

While the lion’s share of fuel retailers’ revenue comes from the sale of fuel, margins are razor-thin. Given that the forecourt is extremely competitive (and will become even more so if fuel demand declines as expected), savvy retailers are looking to gain an edge over their competitors by focusing on winning in their more profitable nonfuel categories such as food, beverages and other backcourt merchandise. In this regard, fuel retailers are similar to any other type of retailer. And like traditional retailers, they can take steps to create a more satisfying customer experience and drive nonfuel revenue gains.

Accenture research into the characteristics of high performance in various retail sectors has found that retail leaders accurately estimate profitability of their various store spaces and reallocate their spaces and brand selections as needed to drive revenue growth. They also excel at offering a set of product ranges that span multiple categories that customers want and that positively impact the bottom line. Decisions on what to offer and at what price are made consistently across multiple product categories and in the context of a changing store environment where refurbishment, seasonal promotions or brand changes are all too common. Such decisions are also based on store-level analyses of product trends, customer preferences and individual stores’ inventory capacities. Finally, successful retailers track customer attitudes and behaviors in response to new offerings so that immediate action can be taken to adjust the range or brand portfolio if necessary. Some fuel retailers have also started to take advantage of the wealth of consumer data, track customer attitudes and leverage customer analytics to reassess their backcourt offerings.

Another area for fuels retailers to consider is product/service innovation—or offering something entirely new that will help attract and retain customers and, at the same time, capture new revenue streams. Partnerships can potentially help retailers take advantage of such new revenue opportunities. This is especially true if retailers are able to share and leverage customer information. In fact, at least one major auto manufacturer leverages customer and telematics system data to generate unique leads and email marketing campaigns to support the growth of local dealer businesses. In one example, a customer gets in a small car accident and within hours of the incident receives an email with a discount to a local body shop for repairs. In another scenario, a fuel customer is alerted that it is time for an oil change—either through a personalized advertising panel, via her gasoline receipt or by the clerk at the checkout counter. The retailer is able to make the oil change determination because its systems are linked to those of the driver’s telematics system, which logs miles traveled. If the filling station offers oil changes, the attendant could schedule the service right away. If it does not, the attendant could refer the customer to a nearby facility which would, in turn, pay the fuel retailer a referral fee.

To establish revenue-generating relationships, Accenture believes fuel suppliers and retailers can once again learn from their nonfuel retailing peers. According to Accenture research, high performers in other retail segments balance their broad reach and their local flexibility. They establish what are described as “super global/super local” operating models that centralize core activities at either the global or local level. In the fuels retail arena, it is very difficult for any one organization to optimize a global and a local operating model. Rather, accountability should be split among those businesses suited to address the nuances of global or local communities. Specifically, large fuel suppliers are positioned to think about which relationships would serve customers across their sites globally and regionally. At the same time, they should encourage and even enable wholesalers and retailers to carry out specific programs within a targeted local community. It is the local operators that are placed to take advantage of local dynamics and consumer preferences.

Know the customer—and act on insights to personalize their experience

Our research has shown that customer relevance is an increasingly important concept to retailers striving for high performance. It is easy to understand why—especially given consumers’ desire for highly personalized offerings and experiences. By developing a better understanding of the consumer and the marketplace than their peers, fuel retailers can deliver more appealing products and services to their customers across multiple categories.

The key to improving the revenue potential of each customer lies in understanding as much as possible about buyers’ needs, preferences and purchasing behaviors. Building customer analytics capabilities can pay off in a number of ways and allow fuel retailers to truly engage with their consumers at the local level. Tailored advertising or product promotions at the pump, for example, could encourage customers filling their tank to come inside the store to make a last-minute purchase. Alternatively, leasing advertising space at a fuel retail location to other businesses can present valuable information to consumers and also generate additional revenue.
As fuels retail companies use this time of change to reexamine how they currently conduct their business, generate revenue and engage with customers, Accenture has identified several areas that we feel are worthy of consideration:

- Transform pricing through mechanisms such as volume incentives, price caps or strategic partnerships with auto manufacturers, among others.

- Identify new revenue sources in more profitable nonfuel product and service categories.

- Create a personalized experience, based on deep knowledge of consumer preferences, that attracts new customers and bolsters brand loyalty.

- Simplify the customer experience, using emerging personal technologies.
Social media applications can play a big role in learning about customers and ultimately creating a more dynamic and rewarding interaction. At Accenture, we have helped retailers harness the potential of personal technology to increase the pull of their stores. A number of retailers, for example, post special sales announcements for their followers on various social networking sites. Others send mobile coupons that are redeemable only in their stores. Still others reward users for simply showing up to their stores. Fuel retailers could certainly employ similar tactics. Further, they could once again combine a global and local perspective in their use of social media to not only promote branded loyalty programs, but also offer unique and highly valuable experiences that local consumers want.

There are, of course, numerous methods beyond social media to offer customers a differentiated and personalized experience. What if you knew that Customer X routinely purchased a specific soft drink when she filled up her tank? Now imagine how powerful—and personal—it would be to present that consumer with a free drink on her every fourth visit? She would feel special and valued. And, in all likelihood, she would come back again and again. Establishing dedicated fuel lanes for the most valuable customers or simply acknowledging the customer by name can also go far to facilitate repeat business.

**Go mobile**

Consumers today are starved for time. They want to carry out their purchase transactions as quickly and easily as possible. One of the most important ways retailers can simplify the customer experience is by taking advantage of mobile applications that enable multiple transactions via a single device.

Starbucks illustrates how it can be done. The coffee company makes it possible for customers to pay for their purchases with their smartphones. The mobile payment solution, which is available at nearly 8,000 locations, is part of the free, downloadable Starbucks Card Mobile App. To pay for their purchases, customers simply hold their mobile device in front of a scanner to scan the app’s on-screen barcode. The purchase is deducted from the card balance. In addition to enabling mobile payments, the Starbucks app allows customers to manage their Starbucks Card account, check their card balance or rewards status, reload their card, and even find a nearby Starbucks store.

One US-based regional fuel retailer—via its mobile payment application—enables customers to pay for fuel or merchandise by simply texting a message to a specific number. In return, they receive a code, which they then enter at the pump’s touchscreen. The mobile payment system manages the transaction as it would a debit-card purchase. As an added bonus, the system also offers users gas prices guaranteed to be the lowest posted within the last 24 hours at more than 1,000 branded locations.

The solutions that these two companies and others are making available today are certainly creative and provide near-term examples of how mobile payment solutions are already taking hold in the retail space. Longer-term solutions based on near field communications (NFC)—which enable transactions, data exchange and wireless connections between two devices—are expected to further simplify the customer experience and take customer convenience to a whole new level. NFC technologies will be particularly prominent in the mobile phone market. According to market research, NFC-enabled mobile phones will make up more than 53 percent of the mobile market by 2015. At that time, NFC is expected to also be the most-used solution for mobile payment. What is more, NFC is expected to enable mobile wallets, providing customers the opportunity to combine payment, loyalty, offers and coupons at the point of sale.
The emergence of apps as described here may be as valuable to retailers as they are to consumers. This is because these apps present an opportunity to shift consumers to less expensive forms of payment. Each time a customer uses a mobile wallet or text app rather than a credit card, the retailer may be able to avoid some of the credit card fees that have historically diminished retailers’ already-thin profit margins. Additionally, mobile payment technologies are already boosting customer loyalty and enabling the delivery of advertising that will play a bigger role in driving revenue than the actual payment functionality. In the future, it is assumed that every mobile wallet will have a loyalty and advertising scheme included. Fuel retailers have a unique opportunity to achieve first-mover advantage by incorporating these mobile technologies into their business models.

These and other strategies can potentially build stronger relationships with consumers and drive additional revenues. Importantly, they also can position wholesalers as better, more committed customers to suppliers. In the past, when demand was high and supply was limited, being a good customer was not a consideration. Now, as the market for fuels retail is shrinking, refiners can be more selective in choosing their wholesale customers. Those wholesalers and retailers that can demonstrate a commitment to creating a branded experience and more meaningful customer relationships are likely to be viewed more favorably.
From vision to reality

There is no single, “correct” way for fuels retail companies to chart a path to high performance. Each organization is unique. Likewise, each will need to determine how to leverage the emerging market trends for competitive advantage. That said, Accenture believes there are certain things organizations can do today to capitalize on the promises—and overcome the challenges—of the new fuels retail landscape.
To prepare for the changes that are transforming their industry, fuels retail organizations should:

- Acknowledge that the industry changes will not only affect their businesses, but also require a strategic response.
- Reexamine their business models and identify potential ways to create new forms of competitive advantage.
- Invest in mobility solutions, social media and analytics to better serve customers of the future.
- Identify opportunities for collaboration with other industry players—or even organizations outside the industry.
- Build capabilities that will allow them to understand and act upon customer insights.
- Adopt an iterative, long-term approach to address the industry challenges with new programs for revenue creation and customer engagement should be prepared to take an iterative, long-term approach. Companies that are successful have learned to continually innovate, seek out new opportunities and revisit existing programs to align with business priorities.
Companies within a number of industries have taken advantage of challenging market environments to recast how they generate revenue, build market share and engage with their customers.

**Texas electric utilities**
Following the 2002 deregulation of the Texas utility market, 85 percent of commercial customers and 40 percent of residential consumers have switched providers at least once. In this volatile environment, forward-thinking utilities began offering a variety of plans and pricing models to meet their consumers’ specific needs. Houston’s energy consumers, for example, can now choose among 60+ different pricing schemes and hedge their bets against rising prices in exchange for long-term commitments. In addition to offering more attractive pricing options for consumers, retail energy providers in Texas also invested significantly in meeting the needs of the “green” consumer. Texas now leads the nation in wind power, with 25 percent of the nation’s generation capacity. It is the national leader in overall wind installations, the first state to reach 10,000 megawatts of wind energy installations, and home to seven of the nation’s 10 largest wind farms, including all top five. Finally, Texas utilities are now offering loyalty programs to attract and retain customers—something that was unheard of in a regulated utilities market. TXU Energy, for example, has teamed with Southwest Airlines to offer the TXU Energy LUV 2 Fly rewards program. Additionally, TXU Energy recently distributed more than $30 million in “cash back rewards” to enrolled customers for their 2010 electricity usage.

**Print advertisers**
As more and more consumers turned to online news sources for information and social networking sites for classified listings, revenue from traditional newspaper advertising is declining. Total ad spend on both print and digital was calculated at US$25.8 billion, the lowest since 1985. Some newspapers accelerated their shift to online advertising, began distributing content via social media sites such as Facebook, and wisely adapted their business models to better serve their readers—and secure new sources of revenue. By investing early and aggressively in a subscription-based Internet distribution model, for example, the *Wall Street Journal* overtook *USA Today* as the nation’s top newspaper (by circulation) in 2009. Rival *New York Times* launched multiple subscription packages for access to its website and other digital content.

**Traditional retailers**
With the proliferation of personal technology devices, retailers knew they needed to adopt mobile commerce capabilities that reflected how consumers wanted to shop. Within just a few short years, an effective mCommerce strategy has become a mandatory means of reaching consumers. Coda Research Consultancy, for instance, estimates m-commerce sales in the US will be $2.42 billion in 2010, up from $1.2 billion in 2009. By 2015, Coda predicts m-commerce sales will skyrocket to $23.8 billion, representing 8.5 percent of all e-commerce revenues in the country. A number of retailers have already accelerated their mobile efforts to provide a seamless shopping experience. At one clothing retailer, shoppers can buy clothes shown in print ads by snapping embedded QR codes with their mobile phone camera. A consumer electronics store is using embedded QR codes with their mobile phone camera. An interactive digital catalog is accessible from another clothing retailer’s advertisement in 20 digital magazines; by tapping on an image, browsers can buy products. And online boutique invites customers to vote on potential clothing designs. If a style gets enough votes, the design will be produced and sold by the company, and participants will be notified via email.
Conclusion

Changes are looming for the fuels retail industry. Driven primarily by supply and demand imbalances, the emergence of alternative fuels and new customer expectations, these changes will fundamentally alter how fuels retail companies go to market, attract and retain customers, and achieve profitability.

Examples from other industry sectors suggest how fuel retailers can thrive while navigating the new fuels landscape. New pricing schemes, new revenue sources and new ways of interacting with customers are just a few of the strategies poised to play an important role in defining fuel retailers’ future success.

At Accenture, we believe those companies that are willing to reexamine—and possibly adapt—their existing business models, technologies and business practices today are much more likely to be the industry’s high performers tomorrow.

Endnotes


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