

## "Diesel Margins"

Do you discount your Diesel price? Chances are that you do, or you have done so in the past. We've all done it at some point with the firm belief that the benefit outweighs the cost.

Here are some issues to consider:

- The Department of Energy (DoE) calculates our margins and profitability based on the assumption that we take full retail margin on Diesel. If you discount, you are making your business less profitable than the benchmark.
- Most Dealers discount to increase their volumes or as a reaction to price sensitive customers complaining about the pump price.
- If you discount to increase volumes, consider the following. Let's say you sell 40 000 litres of Diesel per month at full margin - 95.3 cents per litre (cpl). You decide today to discount your pump price by 10 cpl in the hope of increasing volumes and getting more customers. To make the same profit as last month, at the discounted price this month you need to sell more litres of Diesel:
  - o  $10\text{cpl} \times 40\,000\text{ litres} = \text{R}4000$  (profit discounted)
  - o  $\text{R}4000 \text{ divided by } 85.3\text{ cpl (discounted margin)} = 4689\text{ extra litres needed to make the same profit}$
- o You therefore need an 11.7% increase in Diesel volumes just to make the same profit as before
- o So if you increase your litres by LESS than 4689 litres per month, you are actually less profitable than before
- Let's take another scenario. You've been selling 40 000 litres of Diesel at 85.3cpl (discounted margin) and you decide to charge full margin from this month onwards. To make the same profit as last month you can actually afford to lose volumes:
  - o  $10\text{cpl} \times 40\,000\text{ litres} = \text{R}4000$
  - o  $\text{R}4000 \text{ divided by } 95.3\text{ cpl (full margin)} = 4197\text{ litres}$
  - o You can therefore lose 4197 litres of Diesel and still make the same profit as before
  - o Of course, if you don't lose any litres you make an additional profit of 10 cpl on ALL your Diesel volume:  $40\,000 \times 10\text{cpl} = \text{R}4000$  additional profit
- Let's say you discount Diesel because customers complain about the price. Remember – Fuel is a "grudge" purchase. No customer will ever be "happy" about buying fuel, at any price. Making SOME customers happy by discounting Diesel for ALL customers is not the answer. If the complaining customers buy sufficient volumes you can consider opening an account and giving them a discount you've agreed on.

### BEST PRACTICES:

**DON'T** increase your Diesel price by more than a few cents at a time. If you have been discounting Diesel by 10 cents rather increase your pump price by 3 cents per month for the next 3 months. This will make the impact bearable on very price sensitive customers.

**DO** acknowledge that some customers may complain and may even go to another site. Remember that you are making more cents per litre on all your customers and customers use your business for its convenience first and price second. Chances are that those customers will find it more inconvenient to use another site and will probably come back to your site.

**DO** consider discounting your Diesel price for specific customers, not everybody. You can do this by using your Local Accounts system and discounting the price for specific customers who buy a minimum volume of Diesel from your site. That way you and the customer benefit equally.

**DO** remember that when the retail margin increases (3.5cpl in SEP) you have to adjust your Diesel margin yourself by adding the price increase e.g. 21 cpl and the retail margin increase e.g. 3.5 cpl

### QUICK WINS:

Don't ever assume you know how your customers will react. Ask them. If in doubt, do a survey. Ask your Diesel customers if they fill up at your site because of convenience or pump price. You will be surprised at the percentage of customers for whom price is not as important. If you are discounting Diesel, remember you are discounting for EVERY customer, not just the very price sensitive ones. Also, price sensitive customers who have an opportunity to voice their opinion to somebody in charge or who can have their questions answered are far less likely to change their buying behaviour when prices change. This is therefore something you can manage. It is reasonable to charge customers the full retail margin on Diesel. It is a fair margin. Just because you can change the price does not mean you have to.

**FUTURENT Consulting assists and supports the Fuel Industry to become profit efficient. Contact us at any time. We focus on:**

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