

# **Pricing 101: Decoding Retail Fuel Prices and Key Players**

## **How Are Retail Gasoline Prices Set?**

When people are asked who determines the price of gasoline at a local station, many might believe the station owner sets the price, often grumbling about how much fuel eats into their monthly budget. However, this isn't the full story.

Station owners aim to increase their market share by maximizing the number of gallons sold at the highest possible profit margin compared to their competitors. It's a delicate act of balancing the station's price to reflect the "value" perceived by customers while ensuring maximum sales volume.

## **Competition in the Retail Fuel Market**

Retail fuel prices, unlike spot and rack prices that can change daily, usually change 3-4 times a week. Dynamic pricing, where prices change more than once a day, is rare unless market conditions are extremely volatile. Retailers seek to balance margins and volumes to optimize profits while maintaining their brand's competitive position relative to nearby stations.

Retailers must keep a close eye on their competitors' prices, especially when up against "hypermarteters" like Wawa or Costco, who often lower fuel margins to drive in-store sales.

## **Changes in Branded Retail Stations**

Twenty years ago, most gas stations in the U.S. were branded with names like Exxon, Mobil, Chevron, Shell, or Texaco, and many consumers had brand-specific gas cards. However, the past 15 years have seen significant changes. Major oil companies have consolidated, and many branded stations have been sold, leading to a more competitive market.

Hypermarteters such as Wawa, Costco, Walmart, Sam's Club, and Safeway have entered the fuel market, further intensifying competition. Additionally, major oil companies have shifted away from owning and operating retail sites, preferring to focus on fuel supply and oil exploration.

## **Company-Operated Stations**

Major refiners own and operate company-run stations, a model that had been declining. Recently, however, some majors are reconsidering retail operations to ensure a steady supply chain amid changing energy demands. In these stations, the refiner owns the land and infrastructure and hires the staff. They supply fuel directly and set the prices.

## **Lessee Dealers**

Lessee dealers lease the station's real estate and equipment, operating the station under a long-term contract with a branded distributor or jobber. They typically purchase fuel directly from the major oil company via the jobber, with prices based on the rack price plus transportation costs. These dealers often receive rebates and incentives to remain competitive.

### **Jobber/Dealers**

Jobbers resell fuel to various customers, including municipalities and retailers. They purchase fuel at the rack or spot market and own multiple stations, some branded and some not. Large jobbers, known as "superjobbers," operate sophisticated fuel-buying operations, setting retail prices based on rack indices.

### **Open Dealers**

Open dealers are independent station owners who usually buy fuel from local resellers and own their real estate and equipment. They use the delivered cost from the jobber as a basis for setting their retail prices. Unlike branded dealers, open dealers often lack supplier support during tight supply conditions, making competition crucial.

### **Chain Retailers**

Chain retailers like Kroger, Walmart, Sam's Club, Wawa, Costco, and Safeway have become significant players in the U.S. fuel market. They own and operate their stations, buying large quantities of fuel on rack and spot bases. These retailers often use fuel as a loss leader to attract customers to their stores, featuring highly competitive prices.

### **Future Trends**

The retail fuel market is expected to continue evolving, with refiners divesting retail sites, hypermarketers increasing their presence, and jobbers expanding through acquisitions. The chain of price influences will continue to cause volatility from the NYMEX to the retail level.

Fuel purchasing is complex, involving rapid market changes and strategic decision-making. Understanding the fuel chain from start to finish is crucial for navigating this dynamic market.