upside

Thriving in the fuel retail sector: Outmatch your competition

An Upside report for full site profitability

In today's fiercely competitive fuel retail landscape, it's crucial to outdo your rivals. The leading fuel businesses consistently outperformed their competitors, achieving increased sales volumes, in-store purchases, and significant year-end profits. However, securing gallons in the present market scenario is increasingly challenging.

The average U.S. fuel retailer contends with at least one other gas station a mere 0.016 miles away and about 1.5 stations within a half-mile radius. Coupled with a surplus of choices for customers and a declining demand for gasoline since 2020, it's clear that winning in this market requires a distinct focus on key factors that influence a customer's choice.

The current victors in the market have recognized the changing dynamics and are going beyond traditional oil and gas strategies to outpace their competition.

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Understanding fuel station competitiveness

Who are the most competitive fuel retailers, and what factors attract customers to their stations? Common wisdom points to clean facilities, efficient transactions, excellent customer service, competitive sign prices, and rewarding loyalty programs.

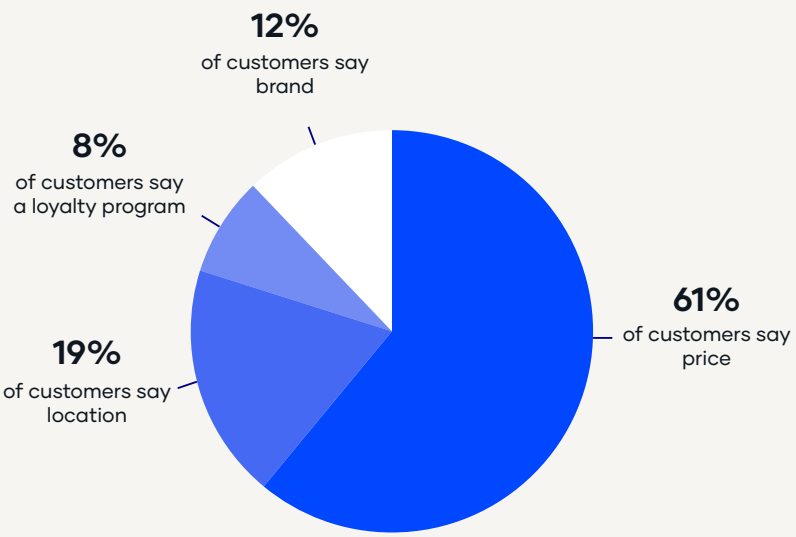
Unveiling the customer preferences: insights from upside

Our study with 25,000 retailers and a survey of 1,300 customers at best-performing Upside stations across the nation unveils some interesting insights. For instance, 33% of customers favor stations along their typical driving route, 32% appreciate quick accessibility, and 27% prefer proximity to other errand locations. However, once established, location can't be altered to attract more customers.

Does the customer experience hold the key? Our extensive industry experience affirms that excellent customer experience plays a vital role. While 15% of customers prefer sites with friendly staff, a more significant percentage (36%) value a sense of safety at the station.

What about the impact of branding? Though price typically dominates a customer's purchasing decision, brand loyalty programs (26%) and perceived fuel quality (22%) also influence their choices. Implementing and maintaining brand recognition is laborious and costly but can effectively attract brand-conscious customers. However, while these programs retain customers, they might not expand the customer base.

What is the most important factor for you when you buy gas?



What are all the reasons why you choose this specific location to fill up?

Convenience

- 33% on their typical driving route
- 32% quick ways to get in and out

Experience

- 15% friendly staff
- 36% feel safe

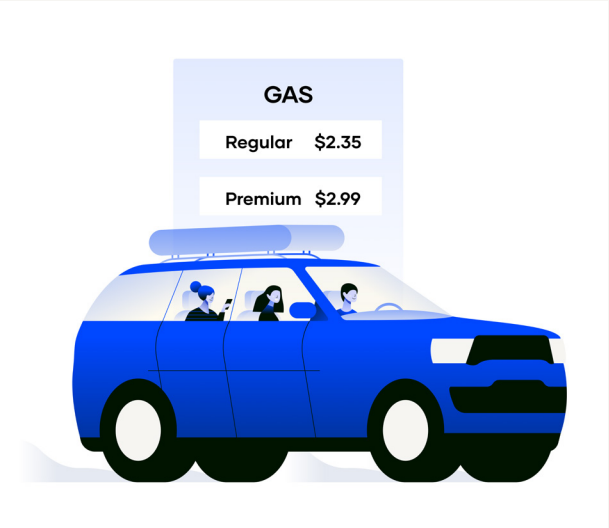
Brand

- X% brand's reward program
- 22% the perceived fuel quality

The role of sign price and loyalty programs in modern fuel retail strategy

The highest-performing stations in the nation have cleverly leveraged location, price, branding, and service quality to attract their customers. In an environment saturated with these strategies, the variables that retailers can actively manipulate are price and loyalty programs, drawing significant investments from the top retailers.

Sign Price



Loyalty Programs

To clarify, leading retailers are using sign price and loyalty programs optimally. The evolution of sign pricing software and loyalty programs has propelled the industry forward. Now, the most competitive retailers are riding the next innovation wave, introducing novel ways to engage customers and influence their purchasing habits, enticing more customers to select them and increase their purchases on-site.

The retailers adapting to changing times are winning the most customers and outpacing their competition.

Pricing dynamics and fuel retail success

Price holds the top spot in influencing a customer's purchasing decision. Historically, retailers determined their pricing based on various factors such as fuel production costs, additional taxes and fees, the perceived brand value of the fuel, store location, services offered, and most significantly, their competitors' actions and publicly displayed sign prices.

Alan Meyer, President of Meyer Oil Co. in Illinois, illustrates a common strategy:

> **Since I've been here, our strategy has not been to drive the market down, but to price with the lowest competitor in any given market. And for the longest time, that was really just store managers calling me and saying, "Hey, this guy went down." We would go down to match, and so on.**
>
> Alan Meyer, President of Meyer Oil Co. in Illinois

Retailers would typically respond to their closest competitors' actions, adjusting their prices based on the competitors' prices. Generally, a store manager would manually track their competitors' sign prices and make their own pricing decisions when these signs are altered. This cumbersome and inefficient process diverted the store manager from critical tasks, including customer service.

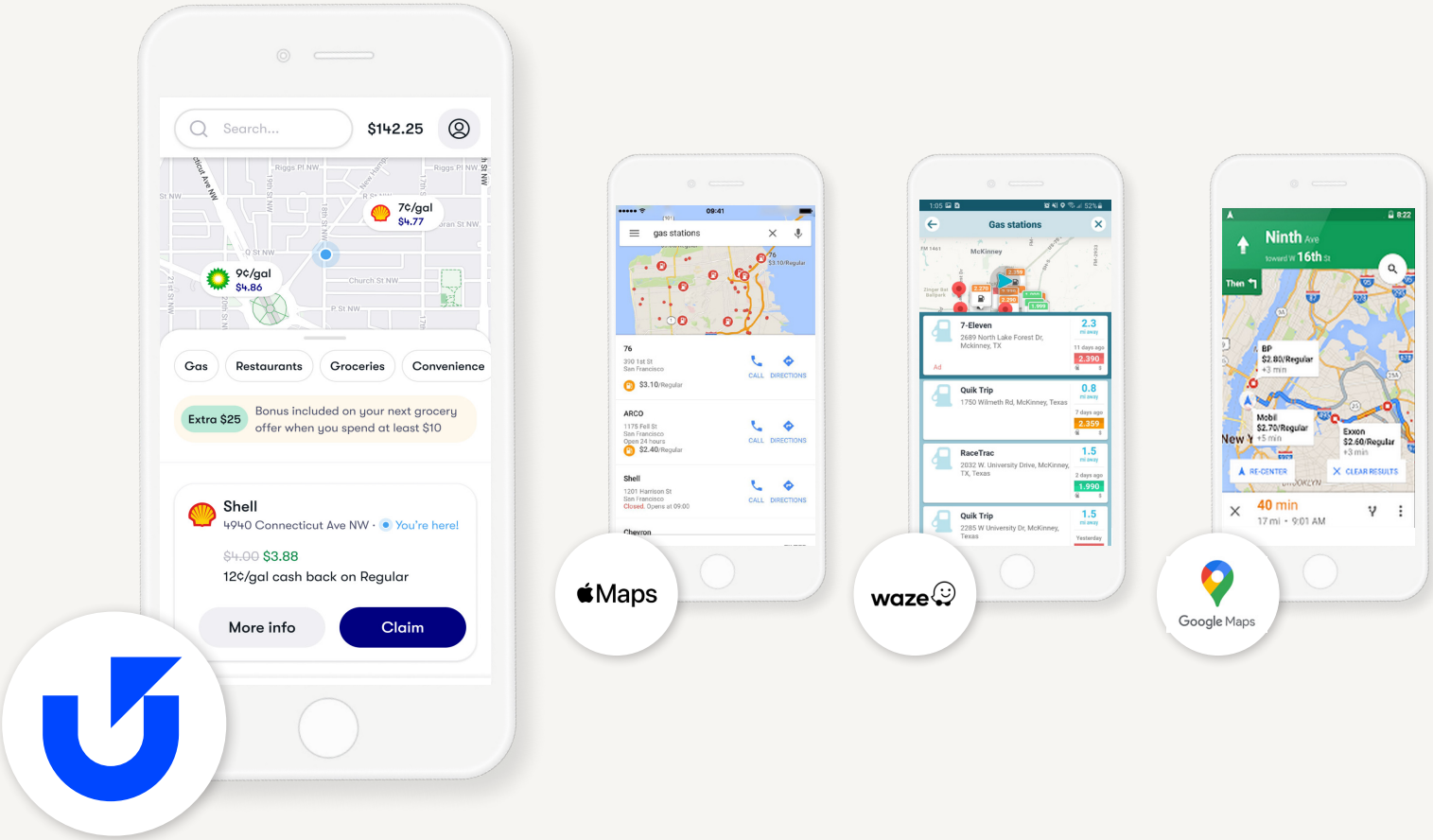
More importantly, this reactive approach is not beneficial for business. **Pete K., the owner of The Auto Wash Group** in Pennsylvania, aptly states:

> **One operator puts their price a little bit lower, and the next one drops, drops, drops, drops. I call it the race to the bottom because everybody wants to continue to maintain their volume, and then they sacrifice their margin.**
>
> Pete K., Owner of the Auto Wash Group in Pennsylvania

However, pricing strategies have significantly evolved. Technological advances offering instant notifications about competitor price changes first revolutionized pricing. Further transformations ensued with new entrants like Walmart and Costco.

Alan Meyer notes that he is focused on “getting a little bit more margin out of every gallon and waiting until two stations move before we drop our price.”

In the current era, customers are more price-conscious than ever. Apps like Google Maps, Waze, and Apple Maps display real-time prices and influence customers’ purchasing decisions by directing them to the lowest price. While the demand for fuel remains steady at post-COVID levels, customer options are expanding with new entrants like unbranded retailers and sophisticated chains.



Sign price will always remain relevant, but traditional tactics associated with it are labor-intensive, erode margins, and only reach customers within sight of the sign.

Successful retailers recognize the importance of price for customers and have expanded beyond the physical confines of their sign price. They capture customers where they spend time - online and in their cars - even when not driving past their stations.

Navigating the evolving landscape of loyalty programs

Loyalty programs are made to retain customers so a nearby competitor's sign price does not sway them. In the past, loyalty programs focused on a standard cents-per-gallon discount whenever customers filled up at their station. Over time, these programs have advanced to offer more personalized discounts and offers, including discounts on food purchases or different fuel grades.

Of the surveyed customers, **26%** list a fuel brand's loyalty program as one consideration in choosing where to fill up. But in reality, the number of purchases associated with loyalty programs is much lower.

In an analysis of 1.7 billion transactions nationwide, customers use fuel loyalty programs for only 5% of their purchases. That leaves 95% of transactions nationwide that are not attributable to a loyalty program. This is a huge segment of fuel purchasing that current methods ignore.

5% of all fuel transactions are associated with a loyalty program

Thinking through impact to the bottom line, retailers have said that loyalty reports show them that loyalty customers buy more than non-loyalty customers. But the most competitive retailers find that this information is not enough. Customers that choose to join loyalty programs are naturally more inclined to buy more—also known as selection bias—so there is no clear indication that the program is making them behave differently.

Retailers want to know how much a loyal customer buys due to the discount they're getting. Otherwise, they are likely giving away margin by paying the loyalty customer a discount on what they would have bought anyway.

Eric Schmitz, President and CEO of Schmitz Services in Virginia, says:

> **"My experience with the loyalty programs that I've used is a lack of information. They say, 'Ok, we're charging you $59.22 for your rewards activity and previous day's sales.' We never really see what we were getting charged for and what we got in return for that charge.**
>
> Eric Schmitz, President and CEO of Schmitz Services in Virginia

An analysis of 30,000 loyalty program customers found that they spend 25% more after they join a loyalty program. So it seems that loyalty does move the needle on overall spend. However, it's still unclear whether that increase in revenue is profitable for retailers. If retailers spend more on the loyalty program than they are making with this increased customer spend, it's bad for business.

Eric Schmitz has moved beyond loyalty. He uses marketing techniques with more precise measurements to understand the impact of dollar incentives on each customer. He knows that for every $1.00 he spends giving non-loyalty customers a discount on fuel or C-store items, he's earning $1.86.

While this type of measurement is the norm for online marketplaces like Amazon, it is completely new to fuel. It has forced the most established fuel retailers to rethink the way they find and retain customers, taking on new tactics that more effectively influence the 95% of purchases that are unrelated to loyalty programs in this volatile market environment

Strategies to outperform your fuel competitors

Find your future customers > Get customers to choose you > Earn proven profit

Sign price and loyalty programs will continue to attract customers that are physically nearby or have a strong brand affinity.

What about the other customers looking for fuel?

Let's discuss how you can find those future customers and then get them to choose you in the most profitable way possible.

Finding your future customers

You have already won over your loyal customers, so now it is time to start talking to those who don't know you yet. Today your location, sign price, and loyalty program only reach a small segment of potential customers. You need to find new customers where they are—online and in the context of their daily lives—in addition to the customers that drive by your station.

Over 30 million customers use Upside to decide where to buy fuel. That number grows daily as big banks and other top apps—like GasBuddy, DoorDash, and Instacart—push Upside offers to their cardholders and drivers. Because these new customers are online, Upside knows where and when they are in their cars looking to fill their tanks. The platform reroutes those customers right to your station. So you reach new customers regardless of whether or not they can see your sign price.

This targeting is important because it finds all available demand on the road, regardless of market conditions. In all regions, over **63%** of the customers that Upside brings to participating stations have never been to the location before because those customers were buying all their fuel from your competitors. During COVID-19 alone, Upside users were purchasing gas 82% more than the average customer because as the driving population changed, so did we.10 During the pandemic, Upside could target delivery drivers and essential workers wherever they were. That is something sign price will never be able to do.

63% With Upside, 63% of customers are new	**82%** Upside customers purchased 82% more than average customers during Covid-19

Upside is not a replacement for your sign price. Instead, it is the add-on that expands your reach. Competitive retailers lean on Upside to focus on the most important factor for customers—price—to find new and non-loyal customers.

Making customers choose you

Once you find these new customers, the next challenge is to attract them to your station as often as possible, in the most profitable way possible. Offering personalized, margin-bound incentives changes customer behavior and encourages them to choose you, not your competition.

Competitive retailers price down to the customer level to determine the minimum possible incentive to get each person to choose their station more often. They figure out how each customer usually behaves and the maximum amount each customer is willing to pay for gasoline in your area. Then they provide incentives directly to customers while they are on the road.

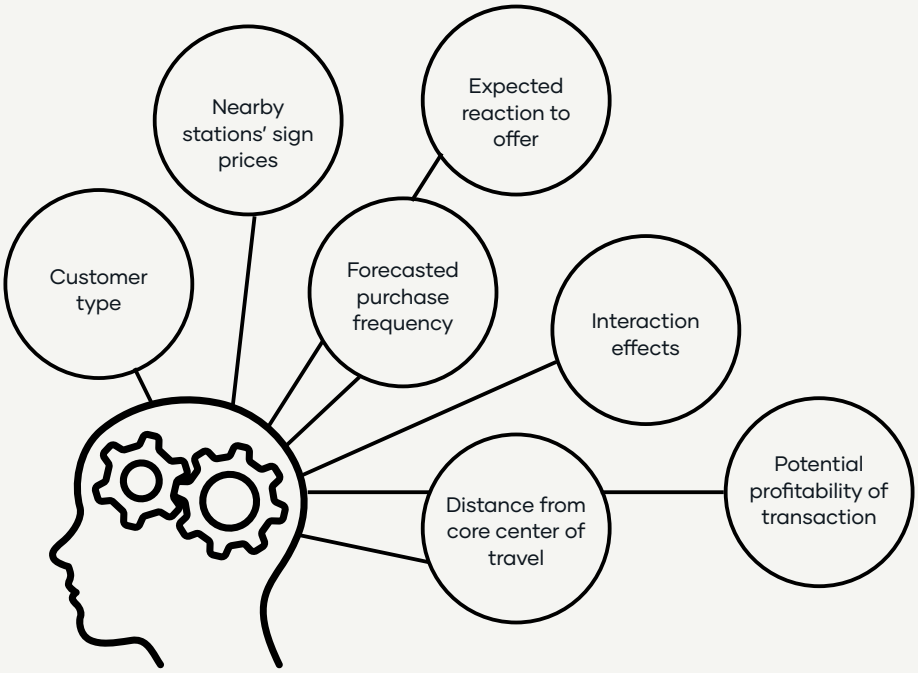
Theoretically, sophisticated retailers can do this on their own using the data they already have. But competitive retailers spend so much time on providing an exceptional customer experience that they outsource this process to Upside.

> **At our one station, about a third to a quarter of our volume now is on Upside. We're giving part of our margin away, but my margins haven't suffered whatsoever since Upside really solidified the model and the calculation and the daily offers.**

Larry Jannes, Chief Financial Officer & part owner of Superior Auto Care Group in Virginia

Unlike most loyalty programs that are tiered based on customer spend, Upside's algorithm uses 24 pricing factors— based on four years of data spanning 170 million offers—to help you understand customers. That way, you can provide compelling customer promotions while maximizing net profit. All this is done using the anonymized processor data retailers already pay for. So there's nothing new the retailer has to do. Upside does all the work.

Example factors in Upside's pricing algorithm



Not only are 63% of these customers entirely new to your location, but they are high-value customers. They come 2.3 times more each month than the average customer.11 This kind of targeting is especially useful. At the same time, your pumps sit idle since 99% of Upside transactions happen when you have the capacity at your pumps to take on more customers.

When customers use Upside alongside your loyalty program or proprietary app, those loyalty customers visit 187% more than usual.13 Making both programs available to customers maximizes the investment most retailers have already made in their loyalty program since Upside keeps promotions within the available margin to guarantee profit. Some retailers even integrate Upside into their app to simplify customer experiences.

As Upside influences behavior and puts more customers on-site, those customers can experience everything that makes your business more competitive, like facility upgrades, better customer service, and exp

2x Upside customers fill up 2x more than the average customer	**99%** Upside brings 99% of customers while pumps sit idle	**187%** Loyalty customers visit 187% more when you layer on Upside

Ensuring proven profit

The most competitive retailers track how much a customer's behavior has changed as a result of a discount, so they can prove they are allocating their budget as effectively as possible. The best ways to increase profit are by getting new customers to choose you, regular customers to buy from you more often, and customers on-site to go to higher profit centers inside your convenience store. You can do all three by offering personalized incentives directed at the customers who need them.

New customers should choose you,

regular customers should buy from you more often,

and customers on site should go to higher profit centers inside your convenience store (c-store).

Once we get a customer to choose you, **Upside can prove the positive impact on every transaction.** This measurement methodology has been tested by more than 25,000 retailers nationwide and independently verified by Guidehouse (FKA Navigant), a leading consulting firm with expertise in rigorous methodological reviews. Retailers can track and compare the behavior of customers who use Upside with customers who do not so that you can see the real-time impact in the most scientific way possible. While this is table stakes for online marketplaces like Amazon, this methodology is the first of its kind in brick-and-mortar retail.

With data science on their side, stations on Upside see a 3% to 7% increase in volume for individual stations in the first 12 months.14 In instances like the COVID-19 global pandemic, Upside drives gallons that help stations retain their volume while other stations are down double-digits.

For **Maximo Alvarez Jr., Vice President of Sunshine Gasoline** in Florida, the share of total volume that Upside drove increased by 71% during the pandemic.

> **Before the pandemic, Upside was driving around 2.5% of all Sunshine's Chevron volume. Since April 2020, it's increased to close to 5%.**

Maximo Alvarez Jr., Vice President of Sunshine Gasoline in Florida

This increase in volume is entirely profitable. Retailers on Upside increase gallons sold and only pay for customer promotions that earn them more profit from each transaction than they initially expected. That way, you can pay for promotions that attract new customers and improve your regular customers' experience, all while coming out ahead.

Once on-site, Upside incentivizes customers to go into the C-store to get more value from every customer visit. In an analysis of 2.9 million transactions, customers with Upside promotions go into the C-store **three times more often** than other customers

Take it from Imad Khalil, President of Kelly's Fuel Mart in Michigan:

> **If we aren't making any money, neither are they. They're not charging us monthly memberships, subscription fees, anything like that. We're guaranteed to make a certain percent profit. If we don't, they're going to pay out of their pocket to make sure we get there. And that shows that they're not playing around.**

Imad Khalil, President of Kelly's fuel Mart in Michigan

With personalized promotions and strict measurement, competitive retailers are not only winning the most customers but ensuring that they earn profit with every customer.

Simply put: they are protecting their margin while they grow.

Getting started with your profitability journey

Today's market challenges present an opportunity to think differently about your business. Customer buying decisions are most heavily based on price, and the tools you have used to win customers to date have gotten you far.

Now it's time to find your future customers and change their behavior so you earn proven profit and outmatch your competition.

Takeaway

Interested in learning more about how your stations can outmatch the competition?

Learn more