

FUELLING BUSINESS

Keep It Full vs. Just-in-Time



Canadian retailers have a number of fuel procurement strategies at their disposal. One key strategic area that is often not managed as deeply as it could be is inventory strategy. While on the surface, this seems straightforward, inventory optimization holds a lot of promise.

Either intentionally or unintentionally, retailers often wind up in a “keep it full” strategy that is expensive and ties up needed working capital. Often this occurs because ordering decisions are driven by the supplier and their inventory needs versus actual convenience store demand. Turning this approach on its head to become a “demand-driven” supply chain can result in real savings in terms of both fuel costs and inventory costs. Among these alternatives is a just-in-time (JIT) fuel operational strategy that can optimize cost savings and free up cash.

Managing inventory is more complicated for Canadian retailers than their Southern neighbors due to unpredictable surges in demand (especially during the summer months), government regulations, lack of enough supply options in some areas and inclement winter weather.

So, how do Canadian retailers overcome their unique challenges and begin to ensure supply security while reducing their fuel costs? The answer is pretty simple — retailers have several “levers” at their disposal. At FuelQuest, we recommend the following for our clients: 1) Optimize your supply portfolio 2) Use a variety of holding strategies 3) Employ inventory best practices.

Optimize Your Supply Portfolio

In the U.S., we have 12 to 13 suppliers whereas in Canada there may be close to half of that. Canadian retailers may have fewer suppliers to choose from, but they can still take a proactive approach to fuel management. When possible, they can select supply partners that are more flexible on delivery capabilities or buy from the rack and manage transportation separately. Additionally, steps can be taken to minimize premium grade inventory levels. If able, fulfil a percentage of your fuel

inventory from contracted suppliers with a percentage coming from “opportunistic” or lower cost fuel purchases.

Holding Strategies

Another area to review includes your tank storage and actual tank sizes for fuel. Consider adding a larger tank size for higher volume fuels such as unleaded or mid-grade. Historic sales patterns will help determine which tank sizes to purchase for which fuels. Other holding strategies include investing in your own bulk tanks if you’ve experienced recurrent run-outs or are in an area that is no stranger to supply shortages. This extra capacity can prove useful when using inventory best practices. Unfortunately, due to different fuel properties, even retailers in Alberta can be “land-locked” or hard to deliver to when considering that purchases from Montana or other U.S. locations are restricted. U.S. fuel guidelines for benzene are incompatible (read less stringent) than in Canada.

Employ Inventory Best Practices

These can include load shifting (moving a load scheduled for today until tomorrow if market prices are falling) to reduce costs. Similarly, in a rising market you can move loads forward to today. Another inventory strategy is to have real time visibility into all of your inventory levels. With this insight (especially if available on a graphical interface that represents it geographically) you can reroute a delivery from one location to another based on demand — reducing run-outs. Finally, utilizing a state-of-the-art forecasting algorithm that takes into account exceptional days can result in consistently fewer operational mishaps and pumps that aren’t making you money.

According to the Petroleum Products Institute, the number of gas stations is decreasing while the stores are becoming larger and more efficient. Don’t forget to include fuel management in those efficiency efforts. While Canadian retailers have constraints to work within, there are advantages to be gained from employing proven fuel strategies.



About FuelQuest

FuelQuest provides on-demand fuel management, tax automation, and compliance solutions for suppliers, distributors, buyers, and traders of petroleum products and other energy commodities. FuelQuest’s solutions deliver operational and financial value to over 750 customers. These customers include leading global oil companies, international retailers, shippers and government entities. FuelQuest’s fuel management solutions help customers manage the complexity, regulation and market volatility for more than 17 billion gallons of gasoline and diesel fuel annually. Its Zytax solutions ensure compliance and accuracy for tens of billions of dollars of energy-related excise taxes per year. For more information, please visit us at www.fuelquest.com.

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