

New Zealand Commerce Commission
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Submission on Market Study into the retail fuel sector – following consultation conference

Multiple sections of the Commerce Commission's Draft Report reference the importance and benefit of improved fuel price transparency to consumers. Particular emphasis is placed on price transparency for premium fuels. Yet, it appears the Commission does not intend to make a recommendation to implement a mandatory price transparency scheme. Wholesale issues generally seem to be allocated a higher priority given the apparent structural issues in NZ fuel refining/wholesale. These issues appear significant and will take a long time to resolve. We do not think such a timeframe will satisfy public expectations for speedy action by Government.

A mandated price transparency scheme could be brought forward quickly and for very low cost (whilst tackling the perceived issues at wholesale in parallel). Providing consumers with access to pricing information to make an informed choice in an efficient manner, fundamentally makes sense in the mind of the public. It will also remove the final, key barrier for innovative services (like the one we operate in Australia) offering value to consumers in New Zealand.

Board price transparency not sufficient

Consumers do not have reliable access to retail fuel prices now, yet they know there regularly is a spread of prices on their route or in their area. It does not make sense for a consumer to drive around to search board prices or pump prices to find the best price. There are crowd sourced apps where information may be dated and feeding prices into them takes effort. This seems unnecessary in an age where up to date and accurate pricing information is readily available for aggregation and distribution.

As a result, to their frustration, many consumers are reluctant price takers when they would prefer to be able to efficiently choose the best fuel price offer for them on their route.

It is also apparent that not all consumers have the same needs when it comes to fuel purchases. Some are clearly price sensitive, however some value the location and facilities more so. Most consumers want to be able to assess value in their own terms - which, in most cases, means having visibility of the offers in the market.

Successful transparency schemes in New South Wales, Queensland, Northern Territory and Western Australia

Accurate and reliable fuel price information has successfully been made readily available via the web and on mobile phones to millions of people in Australia. Further, these mandated schemes have provided the data foundation for applications to come forward by innovative new businesses and by existing channels with engaged users. Examples include NRMA Blue, RACQ, Compare the Market and (our own) EzySt (www.ezyst.com.au).

Low cost, low impact solutions available

It would be open to Government to introduce a mandated price transparency scheme that uses existing technology to automate price collection from retail fuel forecourts in real time upon a price change. This imposes no administrative burden on fuel retailers and ensures timely collection. We believe that over 90% of sites in New Zealand are suitable for such existing technology (which can be self-installed or installed remotely in most cases and in any event within a matter of minutes).

Premium fuels transparency

The draft report appears to support the mandated publication of premium fuels on price boards to achieve the outcome of improving the transparency of premium fuels. We respectfully question the soundness of this logic.

It will cost fuel companies significant amounts of money to upgrade their signage infrastructure to achieve compliance – consumers will no doubt expect such costs will almost certainly be passed on, increasing the cost of fuels.

And the benefit? Consumers will still need to drive around to find the best priced fuel.

Mandated price transparency via digital means can achieve a far better outcome without imposing cost on industry which will then be passed on to consumers.

We note that ~20% of EzySt fuel offers redeemed are for premium fuels, which supports the proposition that premium fuel customers see price as important. We actively encourage mandated price transparency for all grades including premium fuels.

Report expresses concerns with mandated price transparency

We were frankly surprised to see the draft report dismiss mandated price transparency without **any** supporting analysis – particularly in the context that almost all other subjects covered in the report are dealt with robustly. Further, there are multiple Australian States that have adopted mandated transparency after detailed analysis and continue to support those schemes. We are not suggesting that those States have achieved perfection however we think the topic justifies consideration particularly given the ease with which mandated transparency can be implemented.

We thought we should respond to the two concerns suggested:

1. Mixed results from other transparency schemes

The fact is mandated transparency schemes have enabled millions of people in Australia to have reliable and convenient access to real time fuel pricing information directly on their phone. Journalists can also now scientifically and accurately monitor prices in the market and report to consumers more easily on their findings.

The Report does not outline the source of the “mixed results”. We are aware that some economists or research bodies have sought to compare the impact of average retail fuel prices before/after scheme implementation in Australia. This is inherently challenging because fuel pricing can be impacted by significant external factors that change over time e.g. changes in the wholesale market and the Australian dollar. Comparing before/after scheme implementation on a like for like basis is extremely difficult. In addition, as volume information is not available, we understand no one has been able to validate that consumers who use price transparency apps actually do shop at cheaper sites.

Such analysis has its uses but we encourage the Commission not to lose sight of the key benefit of mandated price transparency apparent from first principles analysis – it enables consumers who want to find the better prices that exist in the market, to find those prices.

2. Mandated price transparency could make price coordination easier

We suggest that fuel companies already have sufficient knowledge of competitor price changes to implement their pricing strategies (i.e. there is already sufficient price transparency amongst competitors). Many have access to advanced software which predicts the impact on volume of price changes. Mandating fuel price transparency would not change this and therefore it is not correct to say doing so would make it easier to coordinate (Note: we are not suggesting that fuel retailers do coordinate on price).

Consumers, on the other hand, do not have access to the same information or software. Mandating price transparency would go considerable way in removing this imbalance. Importantly, it would enable price sensitive consumers (i.e. those who need cheaper prices the most) to efficiently shop around.

Trial mandated price transparency nationally as an interim solution

We suggest that implementing a three year trial of a price transparency scheme would provide sufficient time to generate confirmatory evidence of the benefits of a scheme. It would also meet consumer expectations for a timely response from government.

EzySt

Our intention is to launch EzySt in New Zealand as soon as possible, however there is a significant barrier for us in that NZ does not have a price transparency scheme. This is a key building block for providing consumers access to EzySt.

EzySt is a consumer marketplace platform where fuel retailers make special, off-board fuel prices available to consumers. Consumers can locate those offers on their route and compare them against retail prices generally. Note, EzySt is **not** a loyalty scheme but importantly an environment for retailers to compete effectively for customers. It allows retailers to tailor their offers based on customer needs – for example, providing the lowest prices to those that simply want the lowest price.

EzySt users in Australia seek fuel and convenience offers across a range of fuel grades, both premium and base grade. We also see strong repeat usage which reinforces our belief that there is a customer need.

Our offer to New Zealand

If Government brings forward a mandated price transparency scheme, we will:

- Participate in a tender process to operate a mandated price transparency scheme and believe we can achieve this for a low monthly fee. Relevantly, we understand our service would support automated price collection in real time to ~90% of fuel retailers in New Zealand. Aside from installing our software (which takes only a couple of minutes and we believe in most cases can be done remotely), this is very much “set and forget” compliance from the perspective of the fuel retailer.
 - We would of course make data collected available via API to third party app developers, research bodies, Government etc for no cost.
- Actively work to launch EzySt in New Zealand. If we operate the transparency scheme, we would seek to launch EzySt on day 1 of the scheme.

We would be delighted to provide further information on any aspect of the above if you think it would be of value.

Yours sincerely



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ABOUT US

Mick Jarvie and Ben Everitt launched The Pricing Project after extensive experience working in the Australian fuel industry. Our combined responsibilities have included: regulatory oversight and management, pricing operation and strategy, retail network operations, and corporate strategy and governance. The Pricing Project recently brought in Damian Funnell as its new CIO and director. Damian owns and operates the successful Choice Technology business based in Auckland.

The Pricing Project and Choice Technology are currently undertaking a number of projects in the retail fuel industry, namely:

- the development of software for fuel retailers to use for the generation of digital fuel and convenience offers to consumers on a segmented basis – EzySt (www.ezyst.com.au).

- sales of proprietary smartphone applications which enable consumers to pay for fuel through their mobile phones (developed by Choice Technology in Auckland). An example is the 'GAS UP' smartphone application used by Gasoline Alley.
- the provision of software to fuel retailers which automatically detects price changes and reports them to Australian State Government fuel price transparency schemes. This program, PriceSync, is intended to eliminate the administrative burden of complying with price reporting obligations (while reducing the incidence of non-compliance) and improve the timeliness and accuracy of scheme data. It is currently available for free to retailers in Australia.