Role of non-fuel retailing services: the face of petro-retailing in India

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Abstract
The oil crises of the 1970s were the major driving factor which made the government to intervene in the oil & gas sector. Until the late 1990s, the country's fuel prices were controlled by the government through a policy called the Administered Pricing Mechanism (APM). Subsequent to the 1991 economic reforms in India, had given a new direction to the oil & gas sector.

The oil industry is divided into three streams like upstream, midstream and downstream. The upstream basically covers exploration and production of crude oil & gas, midstream covers movement of materials through pipelines and downstream covers marketing of petroleum products through retail outlets (ROs). In general term selling petroleum products through outlets is known as Petro-retailing business. Petro-retailing is the face of oil marketing companies and sells products/services directly to the customers. Petro-retailing in Indian market is facing many challenges like low margins, increasing cost of land in urban as well as in rural areas, since switching cost for customer is low and expecting high services leads to a very low loyalty for the outlets and increasing competition due to entry of private players like Reliance, Shell & Essar etc. To overcome all burning challenges oil marketing companies now thinking of offerings non-fuel services/allied services like convenience stores, ATMs, Fast food outlets etc. The basic objectives behind such offerings are not only to maximize the profit but increase the customer loyalty towards the company hence outlets.

The author has tried to understand the importance of allied services/Non-fuel retailing (NFR) offerings by oil marketing companies (OMCs) in India and its overall impact on the health of petro-retailing business. To support the investigation, author also has conducted a survey with 100 customers along with reviewing previous research done by research scholars, organization etc.

Introduction

The Indian Oil and gas market is characterized by the presence of large, diversified companies. They have highly vertically integrated operations throughout oil exploration, production, refinery, transportation and marketing. Leading Oil companies namely Oil and Natural Gas Corporation (ONGC), Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL), Reliance Petroleum, Essar and Shell are typically large, highly vertically integrated companies. They have large scale of their production and distribution networks to reduce costs and enhance profitability.

As on 1st April-2010, IOCL/Assam Oil Division(AOD) has maximum number of retail outlets i.e. 18643.However, HPCL and BPCL are far behind with just 9127 and 8692 respectively out of total 36492 outlets. In addition to that IOCL/AOD is also leading in Retail outlets by Superior Kerosene Oil (SKO)/Light Diesel Oil (LDO) Dealerships. IOCL/AOD has 3963 outlets; however HPCL and BPCL are just having 1638 and 1014 outlets respectively out of total 6615 dealer owned outlets (GoI 2010). World's third largest oil and gas group Royal Dutch/Shell has been operating successfully with more than 75 outlets in major cities of India as they have license to come up with 2000 outlets. Essar Oil is already doing well with around 1340 pumps and Reliance has seen a new dimension with deregulation after June 2010.

Methodology

After understanding the facts and information available in newspapers, magazines, research papers and various reports, authors has collected data through in-person face-to-face interviews. In-person data collection enhances the validity of data in many ways. First, it assures that a qualified respondent answers the questions. Second, it offers an opportunity to clear up ambiguities and finally it helps in keeping consistency across the respondents. The survey instrument was administered mainly in English and Hindi. Samples for the study consisted of the segment in all the age group. Convenient sampling drawn from branded retail outlets (ROs) mainly of Hindustan Petroleum Corporation Limited (HPCL), Indian Oil Corporation Limited (IOCL) and Bharat Petroleum Corporation Limited (BPCL) in Gandhinagar and Ahmedabad, Gujarat. The data were collected using a structured questionnaire from respondents while they were at fuel station for refueling their vehicles. Questionnaire mainly consisted questions related to customer preferences while visiting to particular outlets, the feature which attracts more at the outlets, preferred timing of visit to outlets, mode of payment and views on branded fuel etc.

Result of the survey

It has been found that customers visited to the particular RO because it was convenient for them. It means strategic location of RO is important. Even 70% customers stated that assurance and quality are driving factor while 37% cited due to ATM, air and water availability. Almost 38% number of people also cited infrastructure of the outlets including space, cleanliness, and fast services motivates them to visit at the outlets.

Indian customers still believes in making payment through cash at least at the pump/outlet. It has been found that around 74% of customers believe in paying in cash. As far as peak time at the RO is concerned evening time is most prefer timing for them to visit at the pump. It has been found that 60% of ATM users get the fuel and only 30% are used to convenience stores. Around 40% of the customers visited at ATM buy nothing.

Regulations and emerging issues

Soni (2011), in the similar studies confirms that in 2009, 32% of India's primary commercial energy consumption was derived from petroleum (BP, 2010) and almost 79% of the domestic crude oil demand was met imports (TERI, 2010). According to current estimates, this percentage will increase to 91% by 2030/31 (TERI, 2009).

The Indian government controls prices by requiring downstream companies, commonly referred to as Oil Marketing Companies (OMCs), to sell petroleum products at below-market prices. This, of course, results in 'under-recoveries'- which the Rangarajan Committee (GOI, 2006) defines as "the difference between the cost price and the realized price'. Until the late 1990s, the country's fuel prices were controlled by the government through a policy called the Administered Pricing Mechanism (APM). Even after dismantling the APM, prices of Motor Spirit (MS), High Speed Diesel (HSD), and domestic Liquefied Petroleum Gas (LPG) kept under government control. However; government has decontrol the pricing of branded fuel in 2002. The financial loses to OMCs are generally paid in three ways. First, the government provides the budgetary subsidies on the sales of LPG and kerosene. Secondly, until 2008-09, the government provided off-budget assistance in the form of special bonds called 'Oil bonds' where maturity of bonds takes up to 20 years. In 2010-11 budget speech finance minister declared that no further oil bonds will be issued and that any subsidies allocated to the sector will from the now on be explicitly met from budgetary allocations (Soni, 2011).

Interestingly, almost 40% of the Centre's indirect tax revenue comes from the petroleum sector. Customs duty, levied by the central government, is 5% on crude oil and 7.5% on petrol & diesel. It also levies excise duty of Rs. 14.35 per litre on petrol comprising nearly what we pay. The excise duty on diesel is Rs. 4.60 a litre. The state government also imposes sales tax and VAT and it varies from 18% to 30% or more. Overall the tax revenue comes from fuels has been three to four times the subsidy which the government has paid on them in three of the last four years (Modi, 2011).

In a meeting held on Friday, June 25, 2010, based on the recommendations of Kirit Parikh report on a Viable and Sustainable System of Pricing of Petroleum Products the Empowered Group of Ministers (EGoM) took a major policy decision on the country's retail fuel pricing. After long deliberation for more than a year, the EGoM has freed the price of petrol from the government's control, which was truly a path-breaking decision (GOI, 2010).

Petro-retailing issues and challenges

Sarkar (2009) has observed that petroleum retailing is different from other retailing (like apparels, white goods, food stuffs, etc.). Petroleum retailing is specific need drive while other retailing may treat by customers as 'leisure' activities. This divides the Indian petroleum shopper into four distinct segments. They are routine chore doer, time poor (the rabbit), trust seeker and prestige seeker. The main characteristics of routine chore doer customers are; looks for instant service at the retail outlet including vehicle repairs and maintenance services. The time poor customers characterized by his needs and convenience and other non-fuel related services. The trust seeker customers are unique to emerging market, is driven by a strong relationship with the retailer and 'quality-guarantee' is driver for purchase decision. The prestige seeker customers are brand conscious and potential target for premium fuel. To cater the need of the customer according to their characteristics is a real challenge. Petro-retailing challenges also includes high investment cost and delayed payment on return on investment (ROI), customer loyalty to the particular outlets are very less and switching cost for them is zero. These all burning issues and challenges have opened the door for Non-Fuel Retailing/allied services.

Company Profile

Indian Oil Corporation (IOC) is India's largest downstream oil company. The company is engaged in refining of petroleum, pipelines-crude oil and petroleum products, marketing of petroleum products, and research and development activities. The IOC group of companies owns and operates 10 of India's 20 refineries with a combined refining capacity of 64.7 million tonnes per annum (1.3 million barrels per day). The company's sales turnover (inclusive of excise duty) touched an all time high of INR 3, 28,744 crore while profit after tax touched INR 7, 445 crore. The company continued to retain its leadership position and registered sales growth of 4.3% over the last year to 72.92 million tonnes of products. The overall petro-market share went to 49.6%, though various specific petro-products continue to face a tough challenge (AGM, IOCL 2011).

Bharat Petroleum Corporation Limited (BPCL) is a petroleum company that focuses on refining, processing and distributing petroleum products. The company operates refineries at Mumbai and Kochi with a capacity to process about 12 million metric tons of crude oil per annum (MMTPA) and 7.5 MMTPA respectively. It also operates Numaligarh Refinery through its subsidiary Numaligarh Refinery Limited (NRL) which processes about 3 MMTPA. The company's operates through two business segments: downstream petroleum i.e. refining and marketing of petroleum products; and exploration and production of hydrocarbons (E and P segment). BPCL's products include: fuels, gases, lubricants, solvents and special products (Datamonitor 2010). On the financial front , the net profit for the year at INR 1547 crores was in the line with profit achieved in the previous year when it stood at INR 1538 crores (AGM, BPCL 2011).

Hindustan Petroleum Corporation (HPCL) is one of the leading oil refining and marketing companies in India. The company's infrastructure includes refineries; and liquefied petroleum gas (LPG) bottling plants and storage facilities. HPCL accounts for about 20% of the market share and about 10% of the nation's refining capacity with two coastal refineries, one at Mumbai and the other in Vishakhapatnam along with a joint venture refinery at Mangalore. The Indian government has a controlling stake in the company. HPCL operates through two businesses: refining and marketing. HPCL also owns and operates the largest lube refinery in India, which produces lube base oils of International standards and accounts 40% of the India's total lube base oil production (Datamonitor 2010).

Reliance Industries (RIL) is a private sector company in India. The company operates through three major business segments: refining, petrochemicals, and oil and gas. It has presence in more than 100 countries around the world. Reliance operates the third largest refinery in the world at Jamnagar, Gujarat. The company exported 22.1 million tonnes of refined products in FY2008 (Datamonitor 2009). Indian refinery companies using modern technology including hydro cracker to process complex and sour crude oil in some of their refineries. This type of crude oil is $4/bbl-$5/bbl cheaper than Brent crude oil.

Essar Oil (EOL) is the first private company in India to enter into petro-retailing sector through franchisee model. It has around 1340 retail outlets in the country. EOL incorporated in 1989 in the field of Exploration and Production.EOL is fully integrated Oil Company and having a 10.5 MMTPA refinery in the west coast of India. Essar plans to increase its presence in retail outlets to 5000 outlets and expand refinery capacity up to 36 MMTPA in coming years. It has signed agreements with Aegis Logistics Limited for Auto LPG and with Sabarmati Gas for supply of CNG (Firstcall Research 2010).

Royal Dutch Shell is the largest and most diversified international investor in India's energy sector among all global integrated oil companies with nearly US$1 billion invested already. It is the only global major to have a fuel retail license in India. Besides being a major private sector supplier of crude, products, chemicals and technology to public/private sector oil companies, Shell also has key interests in lubricants, bitumen while operating an LNG receiving and re-gasification terminal, as well as a significant Technology centre and a financial business services centre. India has been a focus country for investments from the global Shell Foundation, which has already spent over USD 10 million and impacting more than 2 million people (Shell 2011).

Non-Fuel Retailing Services

The phase-wise increased decontrol of fuels , growth in demand sector from rural, urban and highway customers, entry of private players in petro-retailing and diversity in consumer taste and preference has been the major drivers for Non-fuel services at the outlets. Sen (2005) has observed that petroleum retail outlet is moving from a mere "point of sales" to the "core of competitive differentiation". The oil marketing companies in India has shifted its orientation from selling to marketing. Even PSUs increasingly becoming customer-centric in their outlook to protect their market share.

Sarkar (2009) has observed that petro-retailing in India are facing challenge for many reasons. One of the challenges for the RO is to retain their customer as switching cost for the customer is almost nothing. Since investment for opening an outlet is high and same time margin is also very low, OMCs are trying to get maximum margin from the space available at the outlets after offering Non-Fuel services through their strategic partners. The utilization of space is again a real challenge. The objective of NFR is to enhance the customer footfalls and to increase the sales of petroleum products and revenue. Cohen & Bradfield (2001) suggested that customer might prefer to refuel in a particular filling station simply because it has clean toilets available. Vora (2011) has observed that revenue have been growing from the NFR/allied services of the petrol-retailers. Indian oil has achieved NFR worth of INR 83 crore for the year 2010-11, up by around 15-20% over the previous year, while HPCL's revenues from non-fuel retail operations increased by 16% to INR 37 crores for the year 2010-11 against Rs 32 crores for 2009-10.

Along with NFR/value added services companies took initiative in brand building. The brand building initiatives by Oil Marketing Companies (OMCs) helps them to retain their existing customers. Anirvana & Ravi (2011) observed that Bharat Petroleum Corporation Limited (BPCL) was the first company to introduced branded fuel called 'SPEED'. HPCL and IOCL also joined with BPCL and introduced 'POWER' and XTRAPREMIUM in petrol and 'TURBO' and 'XTRAMILE' in diesel respectively. BPCL has introduced retail branding a 'PURE FOR SURE' while HPCL introduced a concept called 'CLUB HP' and IOCL with 'XTRACARE'. The overall objective of all three companies had been to focus on delivery quality products and services to their customers. Rathod & Patel (2005) has suggested that in order to generate petrol customers, it is very important to understand the consumers buying behavior. Consumer buying process are being affected by various factors like brand name, name of the petrol pump and services offered, perceived product and service quality, perception of brand, perception of petrol pump and perceived value .Even Onojaefe & Bytheway (2010) suggested that " in emerging economies, where there are no establishes brands, aggressive branding strategies might be needed".

Sen (2005) in his report has identified the need for Non-Fuel retail in value migration, creating differentiation and building/leveraging competencies. In US, NFR contributes almost 40% of sales, in Europe it contributes 35-40% and in India, it contributes less than 1% only. The NFR has to play a big role in building/leveraging competencies through developing alliance with the parties that understand NFR better. The reason is NFR is different ball game and winning the game is different from petro-retailing.

Non-Fuel Retailing models and initiatives

Generally, retail outlets in India and their offerings are divided into three categories namely Fuel, Non-fuel and services etc. The fuel selling is the core business of any retail outlet (RO). However, selection of retail outlets by the customers are highly influenced by strategic location of the outlets, the services offered by the outlets through their staffs, ambience of the outlets and performance of the fuel in terms of quality and quantity etc. The non-fuel retailing includes convenience stores. Typically services are divided into related services where car wash, auto finance, parking and repair facilities are provided where as unrelated services includes courier services, photo shop, travel agent, launderettes etc. The RO decides the offer from their outlets on the basis of demographic condition of the area and strategic locations of the outlets.

The needs and demands of the fuel customers at the RO are vary from rural to urban customers and highway customers. That is why all OMCs offers different types of products/services from their ROs after understanding the need of rural customer, urban customer as well as highway customer respectively.

The entry of private players in petro-retailing and deregulation of retail petrol prices in June last year has brought a level-playing field for public and private sector alike. Essar Oil Limited (EOL) has established partnership with more than 20 brands including Amul, Pepsi, Western Union Money Transfer and Bosch. EOL is also trying to have partnership with agro products, telecom and banking/finance sectors. Currently nearly 460 outlets out of 1381 retail outlets NFR capabilities (Mitra 2011 & Vora 2011).

Indian Oil Corporation Limited (IOCL), as NFR model developed several alliances have been forged with leading brands like Hindustan Unilever Ltd., Dabur, Ferns & Petals, MTR Foods, PVR Cinema, UAE Exchange, Reliance Capital, DHL Couriers, etc to name a few. Indian Oil's Xtra Rewards is the country's one and only on-line Rewards Program for cash customers and have already touched 1.25 lakhs customer base, the programme has a wide range of alliance partners like Domino's Pizza, JK Tyres, Rediff-Shopping, MTR Foods, Vishal Megamart, PVR, Onida and Gulf Car Care Products (IOCL's website).

Vora (2011) has observed that Hindustan Petroleum Corporation Limited (HPCL), in talk with Indian Railway Catering And Tourism Corporation (IRCTC) to set up restaurant chains along the highway. The HPCL already has taken wonderful initiative through Club HP outlets. The Club HP outlets have been carefully selected to ensure that they can offer high quality 'vehicle care'. Each Club HP Mega and Max outlet is equipped with a service station. In addition, the outlet provides vehicle consumable and accessories, all under one roof. More and more outlets will progressively upgrade to "Authorized Service Stations" as part of their association with various vehicle manufacturers. The 'Quick Care Points' are being offered to consumers for free check up of vital elements such as engine oil, brake oil, battery water, coolant, fan belt, radiator hose etc. by the specially trained "Club HP" attendants. In addition, a quick inspection of the tyres is done and recommendations given in case any immediate action is required. The 'Digital Air Towers' the specially designed digital air pressure equipment not only ensures accurate air pressure in the shortest time but also adds to the comfort and safety of travel. HPCL has also taken the lead in providing ATM facilities at its outlets in association with leading banks and selected Club HP outlets have already been equipped with SBI ATMs. HPCL has also tied up with Skypak Financial Services which is providing "Drop boxes" at all "Club HP" outlets in a phased manner. Consumers can utilize these drop boxes to pay bills relating to a variety of service providers. All one has to do is drop the bill and payment instrument (Cheque / Demand Draft) for the designated service provider and Skypak will route the same to the correct destination at no extra cost (HPCL's website).

Each "Club HP" outlet extended basic amenities such as "safe drinking water" through water purifiers, hygienic rest room facilities, food counters, basic medicines and first aid facility. HPCL also tied up with Coca Cola India to provide beverages and bottled water as well as snacks at all "Club HP" outlets. To cater the need of the rural customers, HPCL is providing value added and innovative services at its retail outlets 'Hamara Pump' low cost outlets for the convenience of rural farmers. 'Hamara Pump' is a simple retail format with a small store in rural market where 'Godrej Aadhar' of Godrej Agrovet has joined hand with HPCL to provide all agriculture support to rural farmers (Corporate News 2006).

Bharat Petroleum is the oil marketing company in the country with over 8000 retail outlets spread across the length and breadth of the country. The petrol pumps displaying a prominent *Pure For Sure* signage have become landmark destinations as the movement has gained momentum across the retail network of BPCL. BPCL now offers a robust and automated network of retail outlets, which leverage technology to deliver the assurance of quality and quantity promise, ensure integration of payment with fuelling and improves the service efficiency. With the emergence of innovative retailing in the country and a growing demand from consumers for a superior shopping experience, Bharat Petroleum has launched its convenience retailing initiative under the "In & Out Convenience Store" brand. The "In & out Convenience Store" is a unique concept where a number of typical household task are aggregated under one roof for the benefit of the customers. Strategic alliances have been formed with major brand owners and retailers in the country to provide a wide range of products and services. The major food partners of BPCL are McDonalds, Cafe Coffee Day, Subway, Coffee Day Express and Pizza Hut. As on date, the "In&Out Convenience Store" has a network strength of over 320 stores across more than 100 cities in the country, bringing in unmatched convenience at the petrol station. In addition to convenience store the 'V-Care' Centers provide customers with reliable, transparent and value for money services for the basic vehicle care needs. BPCL have tie ups with Hero Honda and General Motors for being their authorized After Sales Service Centers apart from the other brands of cars and two-wheelers (BPCL 's website).

On the highways, BPCL offers a home away from home to the truckers and the tourists in the form of the Generation Next OSTSs/OSTTSs (One Stop Truck cum Tourist Shop) branded as 'GHAR'. These includes a Food Court for Tourists and a Dhaba for truckers, a dormitory with beds, a Safe, Secured and Spacious parking for trucks and cars, a vehicle wash facility, Saloon, Laundry and Tailor shop, a Kirana shop, Bathing facilities, toilets for Truckers and Tourists, Children's Play area, Amphitheatre for entertainment, Health care centre, 'Smart fleet' Customer service centre etc (BPCL's website).

Das (2007) has observed that Reliance Industries Ltd (RIL), which has presence in petroleum retailing, is likely to enhance its non-fuel revenues. By extending non-fuel services relating to convenience shopping, fast food and other services. The company through 'A1 Plaza services' across various highways which provide all sorts of facilities to customers, such as restaurants, telephone facilities and refreshing rooms. Reliance has also set up over 120 automobile service centers (R-Care) to go with the A1 Plazas. They ensure easy access to reliable repairs. RIL had branded 150 of their retail outlets as 'Qwik Mart', a chain of quick service, quick transaction stores. They offer convenience through multiple offerings under one roof, speed of service and value-based pricing. They will be sub-branded as 'Commute' for those located within cities, 'Journey' for those on highways, and 'Neighborhood' for those in residential areas. Even all Reliance petrol pumps provide water from water coolers with Aqua guard purifier. They also provide air filling facilities, cleaning the front glass.

Conclusion

As some national economies deregulate and emerging economies takes shape, market and competitive forces change. It might be expected that the competitive strength of companies within those economies will depend greatly on their image, as created through marketing and other initiates like Non-Fuel retailing. India is an emerging economy with increasing consumptions of goods and services due to increasing per capita income and high growth of GDP. The Oil Marketing Companies in India can see a great future in coming years for managing high profits and growth.

Setting-up of NFR activities at any retail outlet is easier than running it with profits. It requires a thorough research of the region and the location where the outlet is planned to be set-up. It has been observed that in many cases customer visit to the outlet, do the transaction from ATM, enjoy the services of available convenience store and restaurants and go away without taking fuel. In such cases the ultimate objective of NFR is not achieved. Consumer's attitudes change constantly and are influenced by such variables as age, income, lifestyle, and household composition. Knowing your customer is the key to success on NFR. Customer's needs and trends vary from region to region therefore these activities have to be specifically targeted to each RO and customized according to the demographics of the region.

To make NFR successful the representative of the companies need to have continuous communication with their existing dealers/franchisee to motivate them towards benefits of having other services at the outlets. Same time it is also important to maintain a balance between selling fuel and offering other services. NFR in any case should not be the priority of any dealer at the cost of compromising the sales of fuel irrespective of profits and margins. The value of NFR activities are directly affected by both the entrance of new competitors in the catchment area and the entrance of new products being offered by competitors. Hence, it is very important to know what your competitor is doing.

Limitations and Future Research

The known limitation of the research is smaller number of participants where only 100 participants for the survey could contact. Even all participants were identified from few outlets from Gandhinagar and Ahmedabad though such demanding research topic requires large number of respondents provided resources are available. Even availability of secondary data has its own limitation. The main reason might be that this field is still grey. As far as scope for future research is concern, authors find that research may be conducted at national level where rural, urban and highway customers can be contacted for getting valuable insight and reflections.

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Note: Readers may refer companies' website to know more about initiatives taken by Oil Marketing Companies (OMCs) in India towards NFR.

Company's websites:

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Essar Oil Limited (EOL): www.essar.com
Hindustan Petroleum Corporation Ltd. (HPCL): www.hpcl.com
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Shell India: www.shell.com