



**Comments by Informed Sources to the  
Competition and Markets Authority  
Road Fuel Market Study**

**1 August 2022**

*Accurate, Reliable, Timely*

## At a glance

### CMA's proposed focus areas in road fuel retailing

- Informed Sources' expertise lies within the retail fuel market and specifically retail fuel prices. Therefore, our comments will focus on the retail fuel market and we will leave those more qualified to comment on the refining and wholesale markets.
- In its Rapid Review, CMA identified the following areas to further investigate:
  - Local and regional variations in price;
  - How retailers determine the prices they set at the pump; and
  - The role played by major supermarkets in road fuel retail markets and potential for further benefits.
- Informed Sources does not expect CMA to uncover anything substantive or not already commonly known by knowledgeable industry observers should CMA investigate the areas it proposes.
  - Variations in prices can largely be explained by different operating models and competition levels amongst petrol filling stations (PFSs);
  - Fuel pricing determinants include: costs, competition as well as sales and marketing strategy;
  - Supermarkets are typically low price, large volume players. Their operating model lends to this because they may already own (or lease) the real estate in which their petrol filling stations are located (particularly those that are co-located with supermarkets) and their already efficient supply chains.

### Steps to improve consumer outcomes

- The CMA Rapid Review recommended that an open data scheme might be an effective approach for government to increase transparency within the market. Informed Sources supports this view and has been actively engaged in markets where open data schemes and fuel price transparency have been introduced.
- In our view, an open data scheme would not likely lower fuel prices significantly but would enable those motorists for whom price is of great importance, to shop around for the lowest prices (this apparent contradiction is discussed later). We conservatively estimate the saving to individual motorists by shopping around to be £200 a year.
- Of the markets that have adopted open data schemes, some implementations have been more effective than others.
- Schemes in Australia in the states of Queensland and South Australia were relatively late adopters of fuel price transparency regulation and had the benefit of learning from other jurisdictions' mistakes. In our view, these respective state governments have had the most effective implementations for the following reasons:
  - Wide-spread consultation with stakeholders before the schemes commenced;
  - Both appointed an experienced private provider of fuel price aggregation services leveraging existing processes and technology that are fit for purpose;
  - Both determined it is not government's role to operate apps or websites in the market rather their role is to encourage private enterprise;
  - Both states were able to implement their schemes quickly and cost effectively as they relied on proven systems and processes from an experienced fuel price aggregation specialist.

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## Introduction

As a supplier of high-quality data to the retail fuel market, Informed Sources (Europe) Ltd, a UK based company, is pleased to provide comments to the Competition and Markets Authority (CMA) relating to its road fuel market study.

Informed Sources has been providing data services to the retail fuel market for over thirty years. We will therefore only provide comments related to the retail fuel market but note consumer outcomes might also be improved if measures are considered further upstream in the wholesale and refining markets.

Informed Sources is a global data and analytics organisation that collects and delivers market intelligence data worldwide. Internationally, we make our fuel pricing data and associated services available to fuel retailers, government agencies and third parties such as motoring clubs.

Further, Informed Sources has been delivering accurate, reliable and timely fuel price information direct to motorists through our fully owned subsidiary, MotorMouth in our home market of Australia since 2000. As will be discussed later in this submission, Informed Sources advocates openness and transparency in fuel prices and believes schemes adopted in the Australian states of Queensland and South Australia are superior to schemes in other jurisdictions. We also believe that the schemes in Queensland and South Australia benefitted from MotorMouth being available on day one as motorists could access real savings at the pump from these respective scheme's inception.

Our experience in supporting the retail fuel industry and consumers over a significant period of time means that we are uniquely placed to provide CMA with comments that are supported by evidence and experience.

We hope the CMA finds comments contained within this submission useful. We would be pleased to answer any questions the authority has in relation to this submission or the retail fuel market more generally.

# **CMA's proposed focus areas in road fuel retailing**

In its July 2022 Rapid Review, CMA identified three areas in which it is interested in investigating further. Below, Informed Sources provides its comments on each of these three areas.

## **1. Local and regional variations in price**

The observations made by CMA in our view broadly hold true, namely:

- a) Prices of supermarkets have been consistently lower than other retailers.
- b) Prices in rural areas tend to be higher than in urban areas.
- c) Prices in England have been higher than in other nations, and prices at an individual PFS tend to be lower the more local competitors there are in the surrounding area.

In our view, the reasons behind the above observations can be largely explained by different levels of competition and the different operating models of individual petrol filling stations (PFSs).

### **Supermarkets**

According to Informed Sources' NetWatch sites data base service, the UK comprises approximately 8,500 service stations of which about 20% are supermarket operated sites. As noted by the CMA in its Rapid Review, supermarkets account for 44% of fuel sales across the UK. The operating model of supermarket PFSs are typically different to other sites in the market. Differences include:

- a) Supermarkets may already own or lease the land in which their PFS operate from – particularly those that are co-located in supermarket car parks;
- b) Supermarket operated PFS will benefit from supply chain economies of scale – supermarkets leverage their already largely efficient transportation and warehousing infrastructure leading to lower costs compared to their rivals;
- c) Supermarkets likely use fuel as a loss leader to entice customers to make purchases in their forecourt convenience stores or co-located supermarkets where they can potentially make higher margins.

### **Rural areas versus urban areas**

Fuel prices in rural areas tend to be more expensive than urban areas for two main reasons:

- 1) Slightly higher transportation costs as the distance from fuel depots or terminals will typically be greater than sites located in urban areas;
- 2) Lower competitive intensity. Rural sites due to their lower population bases will often have considerably fewer PFS compared to urban areas. With fewer PFS and mixes of operating models, the competitive intensity will be less with sites not having to fight as hard on price to win volume. It should also be noted that whilst price is not the only determinant for why consumers chose to fill at one site over another, fuel is a homogenous product so price will always be a very important element in consumers' minds.

- 3) Mixed business model. Rural and outer suburban sites will often bring together fuel sales and car/motor repairs - the traditional “garage”. In these PFSs, the emphasis is on local/community business and low prices are not necessarily a selling point of difference.

## Prices in the UK have been higher than in other nations

The UK has by no means the most expensive fuel prices compared with other countries but nor does it have the lowest. As can be seen in the below graph published by the [Australian Government \(Australian Petroleum Statistics\)](#) which compares Unleaded 95 prices across international markets, tax is a significant component to the pump price in most markets. Looking at the UK, tax accounted for nearly 60% of the total price. Whilst this is comparable to many EU countries, the tax component in the United States is approximately 15% of the total pump price.

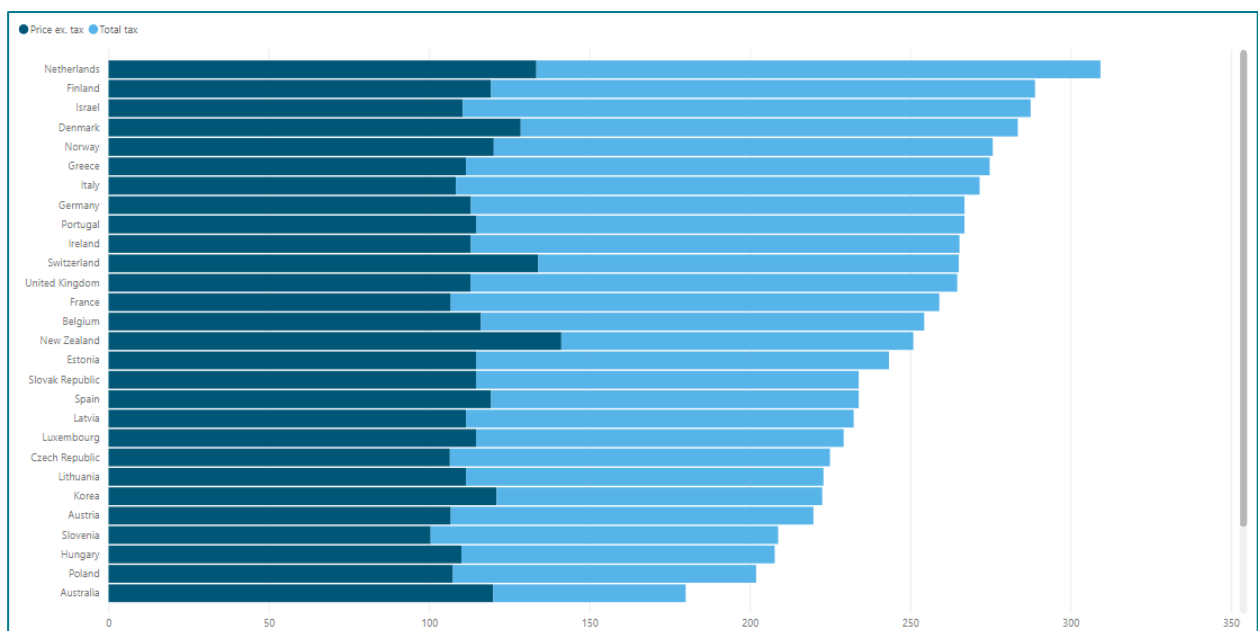


Figure 1: Q4 2021 International PULP95 prices (AUD)

## 2. How retailers determine the prices they set at the pump

About 85% of the retail price of fuel is cost of product and taxes, which leaves approximately 15% to cover wholesalers’ and retailers’ costs (including capital and operating costs, storage and distribution costs) and any profit. The percentage varies by location and over time.

### Costs

PFSs face widely varying costs for several reasons including, their operating structure, location and their business model/offer. For example, operating costs: one service station may be family-run and prepared to accept lower wages (as owners) than a competitor with employees

at union/award rates; another site might be old and have high repair and maintenance costs; another might have a large convenience store offer to spread its overheads with fuel sales.

Capital costs may also vary greatly. For example, a new site costing several million pounds requires a higher return on investment compared to an old site with written-down assets; another old site may have replaced its fuel storage tanks for environmental reasons and require higher prices to pay for this capital improvement; also land values can vary greatly by location.

## **Competition**

In national markets where there are strong competitive forces, the task of delivering an acceptable return on investment is challenging for retailers. Notwithstanding the decrease in site numbers in recent years, the retail sector remains dynamic with new entrants, some that have access to significant capital, fuelling takeovers and encouraging the organic growth of local retailers.

The relative strength of local competition is an important determinant of how a retailer sets its price. In competitive markets, if a retailer sets its price too high, it will experience a decline in volume. Conversely, if a retailer prices low in a competitive market, it will experience volume gain but at reduced margin. In less competitive markets, retailers are typically able to maximise their margins with much less threat of losing volume. The competitiveness of markets is generally revealed by the way in which retail prices track wholesale prices: in highly competitive markets, there is a close relationship. In markets with lower competition, the relationship tends to be less close (prices are “sticky”).

In all markets (competitive or not), there is a tension for fuel retailers trying to optimise volume and margin. In more competitive markets however, this tension for retailers is more dynamic and challenging and often results in lower fuel prices and greater volatility.

## **Sales and Marketing Strategy**

From a technical point of view, most fuels of a particular grade are very similar and different brands may have the same bulk supplier in a particular location in order to minimise supply costs.

However, brand matters to consumers regardless of the technical characteristics of the goods they are buying. This applies to a wide range of consumer goods that might be considered “homogeneous”. Retailers that have invested in fuel brands and innovated with products (such as 98 octane petrol and cleaner diesel) are able to charge a premium. A consumer’s purchase of fuel from a particular branded site brings with it a number of desirable benefits, including convenient location (close to a regular travel route), ease of driveway and forecourt access and egress, cleanliness of pumps and buildings, courteous staff, personal security, availability of convenience goods, quality guarantee (i.e., any damage from faulty fuel will be fixed), and rewards schemes. This package of consumer benefits has real value, in the sense that consumers are prepared to pay for them in the form of a somewhat (but not greatly) higher price.

Consumer behaviour explains why some retailers can charge higher prices on a sustainable basis for products that are similar from a technical point of view (both fuel and convenience goods). Retailers with weaker brands or sites need to charge lower prices to attract customers

or may establish themselves as discounters, so any perception of lower quality (regardless of the reality), is countered by a lower price.

We also see across the globe at the moment (due to global issues affecting price), an enthusiasm for finding cheaper priced fuel (evidence of this is an uptick in the use of Informed Sources' consumer app in Australia, MotorMouth). When prices rise sharply across a market (as we have seen in the first half of 2022), there is a consumer practice of "getting used to" what is reasonable. When a family's budget is conditioned to buying fuel at a certain price and there is a dislocation to a significantly higher price, then there is a larger percentage of the market that will go looking for cheaper prices.

When the price (be that "higher" or "normal") gets accommodated into the budget over time (with reprioritisation of other expense items or pay increases etc), then the enthusiasm for searching falls away to the regular group of individuals who always need or want to chase lower prices.

### 3. The role played by major supermarkets in road fuel retail markets

The CMA notes that supermarket PFSs tend to have consistently lower fuel prices. This observation is accurate in our view. Informed Sources commissioned an intensive study into fuel prices in 2017 in an area north-east of Birmingham whereby our staff manually collected fuel prices at 26 service stations in Birmingham. Prices were observed multiple times per day over a twenty-day period. Whilst this study was conducted in 2017 during "normal and stable times" and long before the current period of sustained high prices experienced throughout much of 2022, Informed Sources has no reason to believe that the observations from this study, and particularly the interplay between competing sites, are any less relevant today.

In the graphic below for the Walsall area only, we have clearly identified the three supermarket brand lines. Easily found at the bottom of the graphic.

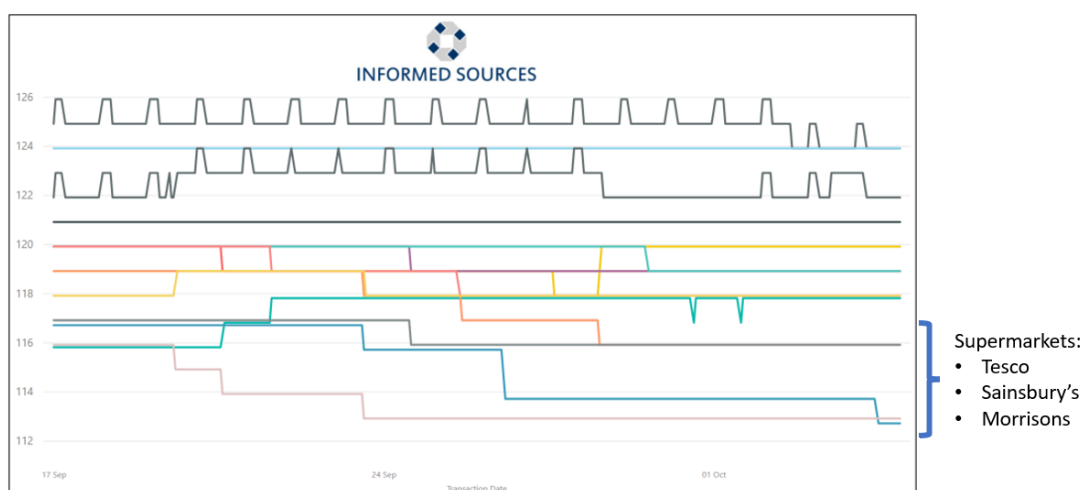


Figure 2: 2017 Birmingham fuel prices by site type (Unleaded 95). Source: Informed Sources

We believe this is evidence that supports the CMA's view that supermarket sites were on average lower priced than company operated sites.



## Improving consumer outcomes

Operating across multiple countries around the globe, Informed Sources has witnessed various approaches by governments to place downward pressure on fuel prices. In our experience, there is no silver bullet. There are, however, measures that governments can implement that are more effective than others.

Open data and increased fuel price transparency is one such measure.

The UK market has a degree of fuel price transparency already. PFSs display price boards on their sites to allow passing motorists to view prices before turning into a site. Further, there are a number of price apps in the market although closer inspection of these apps' points to significant limitations. Of the apps operating in the UK that we viewed, they either provided average prices (in place of actual PFS prices) or their pricing data was old and stale (and presumably inaccurate). Technology, however, has the ability to make fuel price information more readily available and to lower search costs.

Whilst putting more fuel pricing information into the hands of motorists through open data will not necessarily reduce fuel prices, there are numerous benefits including:

- it allows motorists to save money by shopping around for the best deal;
- it is quick to implement if using existing and proven technology and processes;
- it is exceptional value to the government and taxpayers compared with other measures such as reducing taxes or duties;
- it can foster innovation amongst technology providers such as app developers who compete to provide the best sources of fuel price information in the market for consumers. Not only could the existing fuel price apps in the market improve their offers but also new entrants would emerge giving motorists even greater choice on where to search for fuel prices.

Over the last twenty years, some governments around the world have introduced fuel price transparency schemes with some, in our view, doing so more successfully than others.

Fuel price transparency schemes have been established in the following markets:



*Figure 3: Markets where fuel price transparency schemes operate*

Whilst governments in the above markets have all introduced fuel price transparency schemes with the same objective – to provide motorists with access to more information to make informed purchase decisions when at the pump, their execution has been varied.

In the Informed Sources home market of Australia, rather than being managed at a national level, fuel price transparency regulation has been considered by respective state governments with some states then deciding to proceed with implementing their own fuel price transparency schemes.

The states of Queensland and South Australia were relatively late adopters of fuel price transparency regulation (implementing schemes in 2018 and 2021 respectively), however this provided the benefit of learning from other jurisdictions' mistakes.

In both Queensland and South Australia, fuel retailers are required to upload prices to an appointed aggregator within 30 minutes of a price change at the pump. The aggregator is then required to process these prices and make them available via open data protocols to registered third parties via Application Programming Interface (API) with those third parties then publishing the pricing data on their websites and apps.

A key component of the Queensland and South Australia schemes is their focus on ensuring minimal red tape and disruption to fuel retailer businesses who are required to provide their fuel pricing information.

The schemes in Queensland and South Australia provide flexibility to retailers who are able to upload their pricing information using a number of methods that are fit for purpose and developed specifically for fuel retail businesses.

Some of the notable observations about the schemes in Queensland and South Australia include:

- 1) Both schemes were introduced as trials with the respective governments wary of any negative impact the scheme may have on fuel prices. Ultimately, the schemes were deemed to not have had any significant impact on fuel prices but were seen as beneficial by the motoring community and became permanent;
- 2) Both governments outsourced the operation of the scheme to an experienced third party through a tender process. This third-party operator is responsible for aggregating the data from all fuel retailers in those states and providing support, both technical and operational to fuel retailers and third parties accessing the data. Informed Sources was appointed as the aggregator to run the schemes in both Queensland and South Australia;
- 3) Neither government introduced their own portal to display fuel pricing information. They were instead keen to foster innovation by allowing registered third parties to access the aggregated fuel pricing data by API and to create their own apps and websites. Informed Sources operates the MotorMouth fuel pricing app in the Australian market and is one of many apps to access the data and share for the betterment of motorists in each jurisdiction;
- 4) Once the respective governments made their decision to proceed with fuel price transparency schemes and also their approach, these schemes were able to be implemented both quickly (within a few months) and cost effectively because they leveraged Informed Sources' existing systems and processes; and

- 5) Both governments recognised that implementation of these schemes would not significantly lower fuel prices rather provide motorists with access to greater fuel pricing data to allow more informed purchase decisions.

## UK particular practices

Based on experience with the UK retail fuel market, Informed Sources has previously found that many retailers are operating pricing systems that only allow prices to be changed once per day. Their systems are relatively old and any price transparency scheme would need to be sympathetic to this to minimise the cost and disruption to retailers.

Further, the dominant pricing data supplier provides data for 'yesterday' at 9:00am this morning. This too little and too late approach coupled with one price per day solutions acts as huge damper to competition and responsive price setting.

Attempts by varying governments to stop retailers from accessing pricing data have been spectacular failures. Notable here is the German BKA's MTS-K. In addition to being impossible to stop, it is counterproductive. As retail fuels are largely homogeneous to the consumer, price plays a significant part of the purchasing decision and as a retailer, knowing there is a lower price at a competitor is a pretty good reason to lower your own price.

## The insignificant impact on prices conundrum

Within other sections of this submission, it has been stated that price transparency initiatives will not likely have a significant impact on prices. Yet, such initiatives at the same time can save motorists who are prepared to shop around approximately £200 per annum.

How does this conundrum work?

1. Assume that the UK (or any 1<sup>st</sup> world country) retail petrol market is basically competitive and reasonably efficient
  - If it was grossly overly profitable or under-profitable then there would be participants entering or leaving the market in large numbers. This is not happening.
  - There are changes in ownership due to maturity in the fuels industry; refocussing on convenience and the pending change to EV. . . that is different.
2. However, all markets (and indeed the UK) can be at least a little more competitive and achieve a slight improvement.
  - In petrol retailing terms, maybe an 'on-average' improvement of 1 or 2ppl
  - An improvement but not significant
3. However, transparency allows those consumers who need to buy cheaply or those who want to buy cheaply to do so with greater ease.
4. That means that some volume will move to the retailers who are lower priced
  - It's not a lot of volume but at least enough to reward lower priced retailers
5. This tensions the market up (or should I say down) by maybe 1 or 2 ppl

So, not a significant impact across the market on price but nonetheless, relief for those who need or chose to search for lower prices.

Is this, perhaps, exactly what is required? Let's imagine that there was a significant impact on prices downwards. Which fuel resellers would feel the consequences greatest? Surely the small, local operators that provide a useful community service in remote areas and who also act as a downward influence in outer suburban areas.

So, rather than it being a problem that there is not a significant impact generally on prices, it is in our view, good that an initiative like this produces only small ripples.

## Conclusion

CMA is considering further investigation into the following areas within the retail fuel market:

- Local and regional variations in price;
- How retailers determine the prices they set at the pump; and
- The role played by major supermarkets in road fuel retail markets and potential for further benefits.

Informed Sources does not expect CMA to uncover anything substantive that has not previously been part of the fuel price debate and is doubtful of any measures that could reasonably be implemented related to the areas where investigation is proposed. Informed Sources would however welcome assisting CMA should it proceed with its investigation in any way possible.

Informed Sources is firmly of the view that a fuel price transparency and open data scheme would provide real and tangible benefit to consumers. Such a scheme would not likely lower fuel prices. However, it would provide motorists with the information needed to shop around and save money at the pump. Importantly, fuel price transparency regulation would be relatively quick to implement, cost effective and have long term benefits to motorists. For these reasons, Informed Sources is of the view that introducing fuel price transparency regulation is the best option available to the UK Government as a mechanism to improve consumer outcomes.

Informed Sources has been a witness to and participant in a number of fuel price transparency schemes in other jurisdictions. In our view, the schemes in the states of Queensland and South Australia within the Australian market have been the most effective. The respective state governments behind these schemes:

- consulted with stakeholders prior to implementation to understand their needs including the importance of reducing impost on fuel retailers, many of whom are small businesses;
- fostered innovation with tech firms wanting to publish fuel prices and not introduced their own websites and apps to compete with private industry;
- used an experienced aggregator to deliver the software solution and to provide support for retailers and data publishers; and
- have had a pro-active approach to compliance to ensure fuel retailers enter their prices in a timely manner which in turn has provided motorists with confidence that the pricing information is reliable and accurate.

In our view, regulation of fuel price transparency using the same model as Queensland and South Australia could be easily adopted within the UK market and would quickly improve consumer outcomes by being available within a matter of months. We also believe it would realise real savings that could add up to hundreds of pounds per year for individual UK motorists.

## Recommendations

Informed Sources believes that further investigation into the retail areas outlined by CMA will lead to better knowledge of the industry. Given the high level of distrust that is typically exhibited by the motoring public towards fuel retailers, an investigation which sheds further light on the industry and dispels myths could be useful.

***Recommendation 1:*** Investigation into the retail areas proposed by CMA would likely provide greater transparency about the operation of the retail fuel market and dispel commonly held myths shared by many motorists.

The CMA Rapid Review recommended an open data scheme as an effective approach for government to increase transparency within the market. Informed Sources echo's this view and believes that increased fuel price transparency and open data through new regulation can be an enormously useful means to assist motorists save money at the pump and can have lasting, positive effects and is in our view the best option available to the UK Government.

***Recommendation 2:*** Introduction of an open data scheme on fuel prices would allow motorists to access information to allow informed purchase decisions and to achieve real savings at the pump.

Specific recommendations to government relating to implementation of an open data scheme therefore are:

- 1. Undertake research and due diligence on introduction of fuel price transparency regulation;*
- 2. Undertake a regulatory assessment and perform meaningful stakeholder consultation with fuel retailers (and/or industry associations), motoring clubs and other stakeholders;*
- 3. Draft appropriate regulations and seek engagement from stakeholders before passing to the Parliament;*
- 4. Assuming the Parliament passes the regulation, seek an experienced provider of aggregation and support services through tender or other competitive process;*
- 5. Engage with motoring clubs to market the scheme and encourage motoring clubs to provide fuel pricing information via apps and websites to their constituencies;*
- 6. Establish an education and compliance framework to ensure fuel retailers submit their pricing data in accordance with the regulation;*

Informed Sources would be pleased to engage with the government including sharing our experiences with other jurisdictions. Should the opportunity arise, we would also welcome being considered as a provider of aggregation and support services and are very well credentialed in this area.

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## About Informed Sources

Informed Sources is a global data and analytics company that commenced operations in 1987 by collecting fuel prices in Australia. Since its inception, Informed Sources has been at the forefront of innovatively collecting, packaging and reporting data and now delivers its services to more than twenty countries. The company established a permanent presence in the UK over ten years ago by opening an office in Edinburgh.

Informed Sources provides a range of data and technology services to fuel retailers as well as to other commercial clients, government agencies and regulators as well as motoring clubs.

We pioneered fuel price exchange and aggregation services in the late eighties originally as an industry-based solution by collecting fuel prices manually and providing to our fuel retail clients and then moved the service to an electronic exchange in 1996. More recently, we have delivered our fuel price aggregation service to governments implementing fuel price transparency schemes.

## About MotorMouth

Within our home market of Australia, Informed Sources provides petrol pricing information direct to motorists via our consumer awareness initiative, MotorMouth. This service was established in 2000 and is now the leading source of pricing information for motorists in that market.

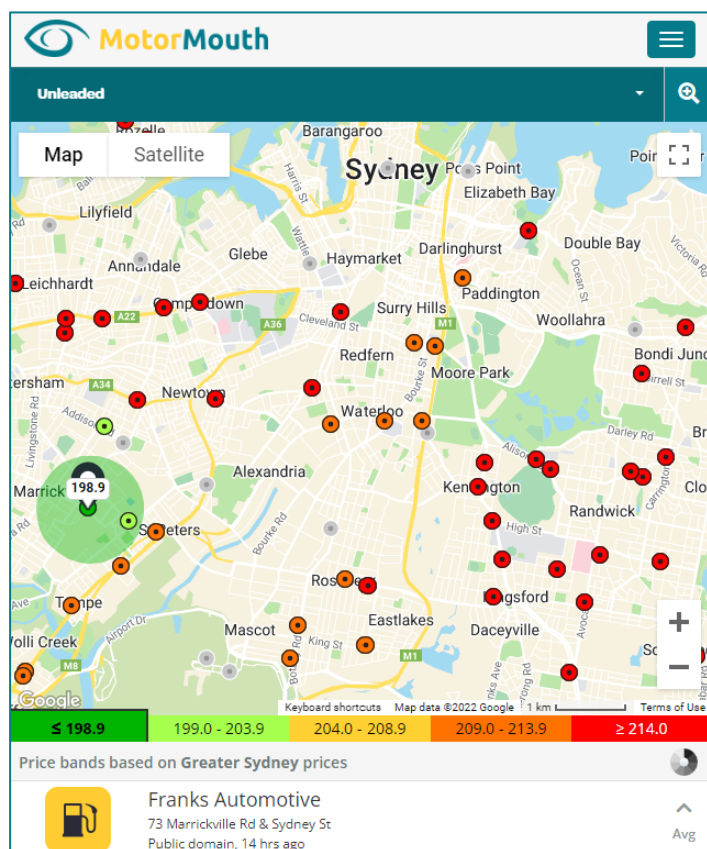


Figure 4: Image taken from MotorMouth website on 30 June, 2022

MotorMouth fuel pricing data is sourced

- electronically, from participating fuel retailers;
- public sources;
- directly from service station site operators, who can input their prices using our online service [www.myPriceboard.com](http://www.myPriceboard.com); and

Service station operators who do not participate in Informed Sources' subscription-based Oil PriceWatch service can freely upload prices to [www.mypriceboard.com](http://www.mypriceboard.com) free of charge at any time or via the MotorMouth smartphone app.

Fuel prices from all MotorMouth data sources are consolidated and made available via MotorMouth platforms free of charge to consumers and to third parties taking our Application Programming Interface (API) services, such as app developers, motoring clubs, information service providers such as Compare the Market and media who often chose to disseminate fuel pricing information.

When the Queensland and South Australian Governments introduced their respective fuel pricing transparency and open data schemes, MotorMouth was there from day one of those schemes to access the data and share with motorists to help them make real savings at the pump.

Our online research, created to establish consumer views and attitudes on petrol pricing, showed 87% of users had changed their petrol purchasing habits as a result of using MotorMouth.

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