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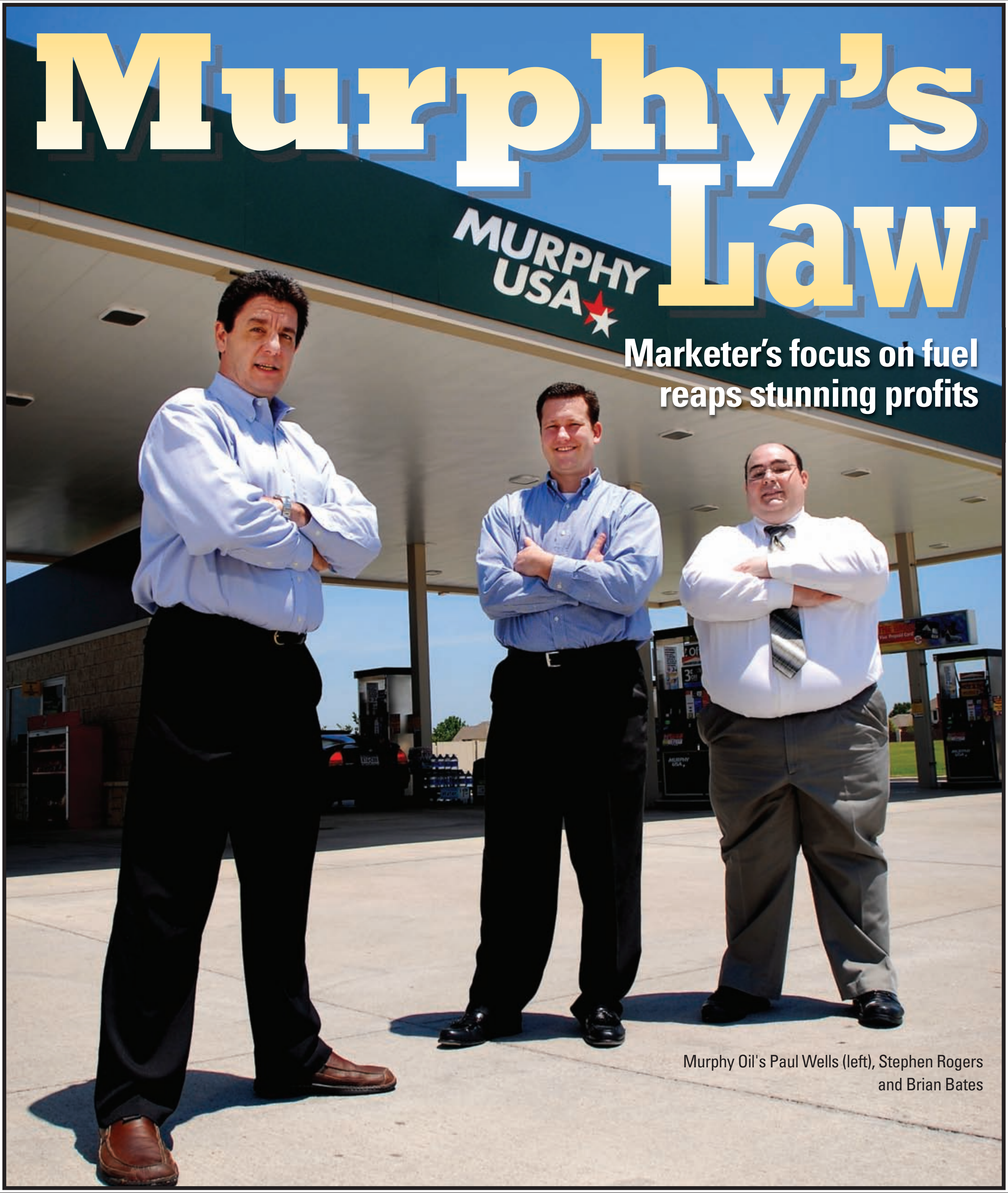
Murphy's Law

Marketer's focus on fuel reaps stunning profits

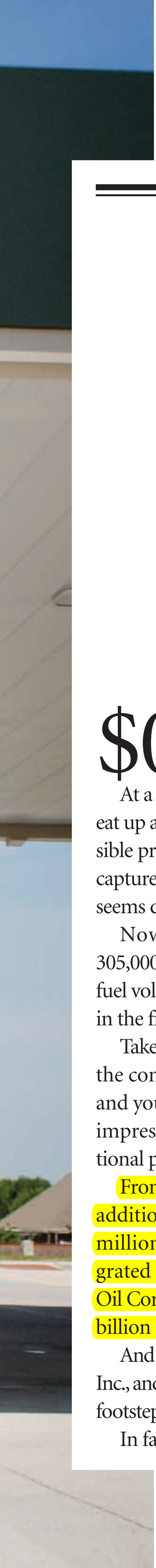


Murphy Oil's Paul Wells (left), Stephen Rogers and Brian Bates

BUSINESS PARTNERS: Murphy Oil USA Inc.'s partnership with Skyline Products on its price-management system has been mutually rewarding to both retailer and supplier, extending into an exclusive licensing agreement. Skyline's Aaron McHugh (left), Murphy's Paul Wells and Skyline's Vance Brown hang out at a Murphy site.

Photos

Photos by Brandi Simons



Murphy's Law

Marketer's focus on fuel reaps stunning profits

By Samantha Oller
soller@cspnet.com

$0.001. At a time when credit-card fees can eat up an estimated 8 to 9 cents of possible profit per gallon, the potential to capture an extra one-tenth of one cent seems downright inconsequential.

Now multiply that $0.001 by 305,000 gallons—the average monthly fuel volume at Murphy USA locations in the first quarter of 2008.

Take that $305, extrapolate it across the company's 976 sites nationwide, and you come up with an even more impressive figure: $297,680 in additional profit per month.

From $0.001 to nearly $300,000 in additional profit per month, or $3.6 million per year—even for an integrated oil company such as Murphy Oil Corp., El Dorado, Ark., with $18.4 billion in 2007 revenues, that's no small change.

MIXED MESSAGE: Promotional material highlighting the 3-cent-per-gallon discount Wal-Mart card users enjoy at Murphy, as well as cigarette price specials and a Gas Station TV monitor, maximize the marketing potential of the fuel-transaction experience at Murphy USA sites.

And for its refining and marketing arm—Murphy Oil USA Inc., and its high-volume, 20-state network located at the retail footstep of Wal-Mart Stores Inc.—it's reason to celebrate.

In fact, it's the potential of capturing as little as an additional one-tenth of a cent of profit that drives Murphy's internal innovation engine. Despite its reputation as an aggressive—and, some would argue, ruthless—fuel player, and regardless of the popular opinion that Murphy just "gives it away," the stark fact is that the marketer has profits on its mind every minute of every day.

About 10 years ago, Murphy began developing a means to flush out additional profits from fuel and to grab the reins of pricing across its rapidly growing network. The result: a patent-pending price-management system that first calculates price movements based on the competition, site volumes, cost of product and other factors. Then, it instantly pushes price changes from headquarters—remotely—down to the individual sites' point-of-sale (POS) systems, pumps and price signs, and verifies that those changes were made.

It's the holy grail of fuel pricing for most retailers, who today make do with process loops that travel only part of the way: increase fuel volumes but sacrifice profits. Call in price changes to store managers, and assume they'll follow through as directed. Change price at the POS, but adjust the price signs separately.

Murphy is one of the few retailers to have closed the loop, giving it the ability to change prices on the fly, keeping it one step ahead of the competition. And its reward for co-developing this technology: an additional 10% in volume every year, according to the company's retail team.

Of course, despite its considerable internal resources, Murphy couldn't do it alone. This is as much a story of what can be achieved in a mutually rewarding retailer-supplier partnership as it is one of innovative might. In this case, Murphy linked arms with Skyline Products, Colorado Springs, Colo., a provider of price signage and pricing-management software, to close the loop.

In an exclusive sit-down interview with CSP, Murphy officials shared what propels them to pursue a fuel-focused course at a time when virtually all convenience retailers are weaning themselves off fuel dependence in favor of higher-margin opportunities.

Further, Murphy, together with Skyline, discussed the evolution of this critical pricing-software alliance that makes Murphy arguably the most nimble price-setter in the country, sometimes changing prices multiple times in a 24-hour stretch.

"Really, at the end of the day, it's very simple," says Paul Wells, Murphy's vice president of retail operations. "Our whole model is just like Wal-Mart's: It's high-volume and have a low price. … But we operate really efficiently and we pass those savings on to our customers.

"If you look at our business, though, we sell mostly gasoline. And we need to make money on gasoline. It's easy to give it away; it's hard to make money doing it."

A 'Stroke of Genius'

The biggest misconception among Murphy USA customers is that the marketer's fueling locations are owned by Wal-Mart. Visit a Murphy USA site and it's easy to see why: The Murphy branding is minimal, sitting on the canopy and the pumps. In fact, at some sites, there is no Murphy branding because of local signage restrictions. Meanwhile, Wal-Mart promotional material peppers the site.

And the biggest misconception among other retailers?

"… Is that we're giving away gasoline," says Wells. "My job is to look at that independently and have a profitable, sustainable business. And so

Into the Box

The signs are there. In 2000, Wal-Mart Stores Inc. began ratcheting down its new store openings, from 340 as recently as 2006 to as few as 55 in 2008.

In 2005, Wal-Mart, which already operates its own fuel sites at its Sam's Club warehouse division, began testing its own fuel brand at Wal-Mart stores, although the outcome of that test was undetermined.

And in 2007, Wal-Mart's main fuel partner, Murphy Oil USA Inc., El Dorado, Ark., began buying up the land under its retail operations. As of February 2008, Murphy had acquired the land under 730 sites from Wal-Mart and plans to acquire more. The rest will continue to be governed by master agreements that vary from 10 to 15 years, with two successive five-year extension options.

"The venture with Wal-Mart … it's maturing," says Mark Gilman, an oil analyst with The Benchmark Co., New York. "It has an awful lot really to do with the saturation or growing saturation within the Wal-Mart network, and a bit of a slowdown, if you will, in Wal-Mart's own expansion.

"I think that the transaction last year where [Murphy] acquired much of the real estate under the stations was an important step in the evolving nature of the relationship, not necessarily severing the link, but weakening it quite significantly from one where they were essentially a tenant to Wal-Mart on the vast majority of their retail network."

For this reason, Gilman says, Murphy is stepping up construction of a new c-store concept—Murphy Express—designed as a separate,

TUNNEL VISION: The typical Murphy USA site features what vice president of retail operations Paul Wells likes to call an "inside-out c-store," with a small kiosk stocking a limited selection of candy and cigarettes inside, while coolers and fixtures placed outside form a small outdoor shopping floor.

that's what we strive for. Regardless of what's going on upstream or downstream, we have 976 sites that have to be profitable. If they're not, then there's not a compelling reason for the company to keep opening up more sites."

In fact, about 60 Murphy USA and stand-alone Murphy Express sites are planned to open in 2008 alone. More proof, Wells says, comes in the fact that Murphy sells more fuel at its retail sites than its refineries produce, making it a net buyer on the market. And then there is one of the company credos:

"We must have a profitable, sustainable business enterprise or we stand for nothing. We won't have a business. Profit is the ultimate judge of our success or failure."

"They've managed it well and differentiated themselves," says Gene Gillespie, an oil analyst with Howard Weill Inc., New Orleans. "The low-cost strategy has worked for them."

When asked about the common perception that Murphy often sells below cost, Gillespie cites figures to the contrary. "Their target is a 15% return on investment in retail, which is probably three times the national average," he says. "And I don't think there were more than one or two years when they didn't earn that 15% return. And over the period of time, they certainly have. But they weren't stuck with a lot of high-cost real estate. At the same time, they didn't

stand-alone offering from its Murphy USA Wal-Mart sites. Aimed at high-traffic locations preferably near but not on the same site as a Wal-Mart store, Murphy Express features a modest c-store up to 2,400 square feet—still small by industry standards, but a decent step up from the 250-square-foot kiosks. Each site also will boast an average of 12 MPDs.

"There are a lot of areas where Wal-Mart, for whatever reasons, they don't have enough room in their parking lot, or they don't own the land, so we just can't get on their parking lot," says Paul Wells, Murphy's vice president of retail operations. "So we just build close to them.

"[Murphy Express is] still small, just a really basic offering," he continues. "If you look at the model, they're very efficient, very inexpensive to build. And the biggest thing out front is a gigantic price sign." This is a change from the Murphy USA sites, where fuel-price signage is relegated to the canopy and Murphy branding is minimal.

Wells says the biggest difference between Murphy USA and Murphy Express is "mostly storage."

"I always joke we have the inside-out convenience store," he says of the Murphy USA locations. "So most people have inside what we've got out on the driveway. We have that no-frills offer. We've got coolers and Frito-Lay outside. There's always the temptation to keep growing and getting bigger and bigger. We just have to remain disciplined."

The company plans to open 35 Murphy Express sites in 11 states this year alone, compared to 25 Murphy USA sites, with North Carolina home to more than one-quarter of them.

"I think it's been somewhat of an experiment to see if that works—if, in fact, they can get volumes and also generate much more nonfuel income," says Gene Gillespie, an oil analyst with Howard Weill Inc., New Orleans. "If you can get the real estate at a reasonable price, nonfuel income can be extraordinarily important in improving your margins. The question is, how many high-traffic areas are there and how many opportunities will they have? I think they're going to build in the next 12 months about 35. They've got three now of these locations. And so far, the jury's out, but so far, they've been extraordinarily successful."

For the two sites open just late last year, the performance so far has been staggering. Volumes per store hit more than 600,000 gallons by March 2008, while merchandise profits reached just below $40,000. Compared to the 305,000-gallon output of Murphy's Wal-Mart sites—and their $15,000 in merchandise profits per store—the potential of these independent operations is substantial.

develop their retail network like most of the majors did—just to dump product."

As integrated oils go, Murphy is one of the smallest in terms of market capitalization, but it has successfully pushed that needle from $2 billion to $15 billion in a matter of a few years. Exploration and production generated 73% of the company's 2007 net income, with oil and natural-gas drilling focused in Canada, the Gulf of Mexico, Malaysia, Ecuador and the Republic of Congo.

Three refineries—two in the United States and a recent acquisition in England—churn out a total throughput of 268,000 barrels per day. In addition to the 976 stores and 148 Spur-branded dealers in the United States, the company also runs more than 160 company-owned Murco-branded sites in the United Kingdom.

Despite the heavy influence of refining, especially when margins are strong, 55% of the EBITDA generated in 2008 thus far by Murphy's refining and marketing arm has come from the retail side of the business, according to a May analyst presentation.

Murphy does not break out its refining and marketing revenues, partly for competitive reasons and out of deference to its partnership with Wal-Mart. But Mark Gilman, an oil analyst with The Benchmark Co., New York, estimates that Murphy is generating a run rate of about $100 million a year after taxes and earnings from its marketing arm alone.

"On the basis of a 975-station count, that's a total investment of around $1 billion, $1.25 billion," he says. "So you're talking a 10% earnings return, cash return, that's going to be higher than that, and that's in a weak retail-margin environment."

The partnership with Wal-Mart—

Technology Transfer

Despite the conventional appearance of its Murphy USA sites—a small kiosk overseeing four or more MPDs—Murphy Oil USA Inc. has a surprising willingness to test new technology running through its company culture.

Gas Station TV, Oak Park, Mich., first began working with Murphy on a five-station pilot in 2006, with initial advertisers including Allstate Insurance and Chevrolet.

"It was successful from our advertisers' standpoint," says David Leider, CEO of Gas Station TV. "It was also successful from Murphy's standpoint where the idea of TV at the pump enables them to offer different products and services they sell at the kiosk, whether it's prepaid phone cards, candy, soda to drive people into their c-store area, their kiosks, to purchase products. And they were very satisfied with the results from that, and we grew from there."

Today, Murphy has 108 sites featuring Gas Station TV's 20-inch LCD monitors in Dallas, Houston, Atlanta, Tampa and Detroit. Current national and local advertisers include Chevrolet, Progressive Insurance, General Electric and Nestle; Wal-Mart Stores Inc. does not advertise on the system. Leider says retailer and supplier are working together on a growth plan for the program while the current marketing efforts continue to evolve.

"I think we get smarter and smarter with what kind of promotions we run: beverages, snacks, phone cards, lottery. We learn on a monthly basis how things perform," says Leider. "And I think we're going to understand how things perform based on seasonality. I just think it's a constant optimization loop.

"It's been a great partnership today, and I think that really falls under the spirit of innovation," he continues. "They were the first oil company to step up and say they were interested in TV at the pump. We certainly appreciated that they took a chance with a small company to do that."

Murphy has also installed fuel-additive dispensers from Additech Inc., Houston, at more than 100 sites, a partnership that stretches back to 2004. It's all part of an effort to maximize that fuel transaction, which is the centerpiece of Murphy's retail offer.

"Just like you merchandise a full-blown c-store, you should be merchandising and marketing your pumps to the customer," says Paul Wells, Murphy's vice president of retail operations. "With so many pay-at-the-pump transactions, our customers never come into a store anyway. And so this is just a way to present your customers with a different offer."

Wells says Murphy was also one of the first retailers to play with island vending, but it took the systems out after deciding that its current "inside-out" c-store arrangement—with coolers and fixtures placed directly in front of the kiosk—worked better.

What's behind this spirit of innovation? "It's to make us more efficient," says Wells. "We have to be efficient to keep our costs down. To invest in technology, it has to have a payout and an ROI for us, and that's why we do it."

It's a hidden side to Murphy that most customers—and many competitors—likely never see.

"Obviously they're on the footpad at Wal-Mart, and a lot of people may have perceptions about that, but they're one of the most technologically innovative companies in the world," says Leider of Gas Station TV. "It's like the wizard in 'The Wizard of Oz': You have a very sophisticated kind of operation behind the curtain. And I think that's very clever of them."

which Gillespie refers to as "a stroke of genius"—was aimed at generating money and giving value to the refining system. "They couldn't continue to just be a merchant refiner," he says of Murphy's pre-Wal-Mart marketing business. "They were either going to have to get into the business and create some earnings and cash flow, or get out. So they thought this would provide a reason to exist in the downstream, and it has."

Need for Speed

But Murphy's evolution from a merchant refiner to tech-sophisticated street fighter was not immediate—or simple. In fact, the journey toward closed-loop price management and high-volume, continually profitable fuel sales began a decade ago.

"When we first started building Murphy USA sites, we built unattended sites. And the challenge was, how do we manage the pricing of those locations?" Wells recalls. "They were scattered all [over] the United States. … How do you change the prices of those?"

The "how" typically came courtesy of janitorial staff, who, in addition to their upkeep duty, would change each site's price signs as directed.

Murphy's early pricing analysis took place on Excel spreadsheets. In the spirit of continuous improvement, after the company decided this approach wasn't adequate, it moved to a system in which store managers dialed into a touch-tone phone system and input the results of their price surveys and store volumes, which would then be dumped into a rough database for analysis.

When Murphy partnered with Wal-Mart in 1996 and was on track to build 150 sites a year, the touch-tone approach was, clearly, sadly inadequate. By then, Murphy had migrated to Sequel databases; Wells and software analyst Brian Bates, began working on a pricing system that could manage hundreds of sites.

"The key was being able to change the prices remotely," says Wells. "Our whole model was centralized pricing as opposed to letting the district managers and the division guys set the prices. By doing that, we had immediate confirmation that the prices changed."

The development process came in small, gradual, conscientious steps. "We would work on the specific portions and get them working, and then we'd just fill in each piece after that," says Bates. "We wanted to take one part and make sure it worked all the way through, and see if we were having any trouble with that before we went on to the next. Because if you couldn't get a working model there, then anything after that wouldn't be of benefit if you didn't have the key pieces in place."

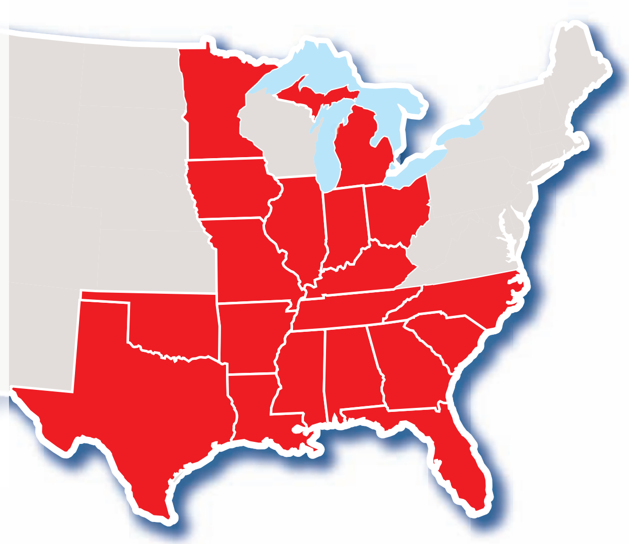
It's a strategy that Wells likens to "blocking and tackling": first develop, test and finalize operational details, and then proceed to the next step.

The challenges back then were the same as for any early adopter. Because no other retailer or supplier appeared to have developed a similar system, the Murphy team had no benchmark or technical resource. The database technology was new. Communication problems between headquarters and individual sites were continual, largely because Murphy's bandwidth—the

Murphyland

According to company figures, Murphy USA's greatest chunk of market share on a per-state basis is in Arkansas, where it commands 11% of fuel sales. Texas, Oklahoma, Louisiana and Mississippi follow with market share of 7% to 8%.

Alabama	56
Arkansas	49
Florida	84
Georgia	63
Illinois	26
Indiana	31
Iowa	21
Kentucky	32
Louisiana	55
Michigan	23
Minnesota	9
Mississippi	35
Missouri	42
North Carolina	40
Ohio	41
Oklahoma	50
Tennessee	65
South Carolina	28
Texas	221



Source: Murphy USA

company was and continues to be on a 100% VSAT network—was much narrower back in those early days.

But within two years, the vision of remote pricing was beginning to materialize. The resulting system is broken down into four steps: competitive data collection, pricing analysis, price-change implementation and confirmation of the price change.

The process: Store managers conduct pricing surveys several times each day. Back at the store, they log onto a Web portal and input the results, which, along with the previous day's sales, are time-stamped and sent directly to Murphy's pricing system. Fuel managers have access to not only the most recent pricing but also the four previous prices for each competitor. They then weigh volume sales and trends, costs and pool margin cents per gallon.

"It's just a strategy of where I'm at—a penny above or below," says Wells. Preset business rules allow faster pricing decisions.

"The way the pricing system works, it makes it really easy to analyze the data and make a business decision on which way you want to go on the price," says Wells. "So we have our folks take a look at it, they can see what's going on in the marketplace, do an analysis and make a pricing decision, send a new price, hit the button and move on. So it's very efficient." The system also allows for scheduled price changes.

"Our whole culture is about having a sense of urgency."

PAUL WELLS *Murphy Oil Corp.*

Before, Murphy headquarters would hand-fax each site to alert the store manager to the what and when of a price change. "With the new system, not only does it change it out at the price sign and on the dispenser, but it also automated that whole fax process," says Wells. "We were taking a ton of time to do our pricing every day, and this really made it efficient to price lots and lots of sites really quickly and multiple times a day."

When it comes to executing price changes, the industry norm is four to six hours, according to Aaron McHugh, product development division manager for Skyline. "Murphy, by having all sites on WAN or satellite early on, that was very innovative, because most companies we're talking to now are just now completing this task," he says.

When asked how long Murphy typically takes to execute a price change, Wells is diplomatic. "Let's just say we have a sense of urgency about getting that price to the street," he says. "[It's] significantly faster than six hours."

Turning Up the Volume

When the Murphy first forged its partnership with Wal-Mart nearly 10 years ago, Murphy had projected its average volumes at 175,000 per store. By 2005, it had surpassed that goal by more than one and a half times the original projection. From 1999 to the first quarter of 2008, Murphy grew average fuel volumes by 60%. It's a rise the retailer partly attributes to its embrace of price-management technology.

Average fuel volume per site

1999		183,000
2000	+15.3%	211,000
2001	+0.5%	212,000
2002	+2.8%	218,000
2003	+6.0%	231,000
2004	+6.1%	245,000
2005	+9.4%	268,000
2006	+6.7%	286,000
2007	+3.1%	295,000
2008 (Q1)	+11.7% (vs. Q1 07)	305,000

Sources: Murphy USA, CSP
** Percent change from a year ago*

Pricing Logic

So what guides Murphy pricing?

"It depends on what the market's doing," says Wells. "You may have a different response when costs go up 10 cents a day than on a day when there's no movement. It could be a Thursday or Friday vs. a Monday. It may be different on a site-by-site basis, depending on different volume issues."

What is certain is that rare is the day—or hour—that someone is underselling Murphy, especially after calculating in the 3-cent-per-gallon discount Wal-Mart credit-card users earn at the pump.

Bill Douglass, CEO of Douglass Distributing Co., Sherman, Texas, is intimately familiar with Murphy's pricing maneuvers because most of his chain's 16 Lone Star Food Stores are located within a mile of a Murphy USA. One common move, he says, is that Murphy will drop prices on a Friday night, again on a Saturday and then raise them by midnight on a Sunday.

"It's an aggressive strategy," he says. "And they don't take a little bite out—they take big bites, sometimes 10 cents a gallon. They're trying to drive traffic to their location at a moment when they don't think other companies are positioned to respond."

Within the many small towns in which Wal-Mart and Douglass Distributing operate, Murphy sets the price. "Everyone else has to respond," Douglass says. "They don't have to match them, but they give up business if they choose not to."

Jim Smith, president and CEO of the Florida Petroleum Marketers and Convenience Store Association, Tallahassee, Fla., says Murphy is also a tough competitor in the state on the wholesale side of its business. "They're fairly aggressive on the wholesale prices, too, to keep those people branded Spur competitive," he says. "So I guess it's a mindset that exists all throughout the hierarchy in El Dorado."

Another Murphy pricing maneuver, Douglass says, is pricing its stores the same over three counties, seemingly despite market conditions. But if you ask Wells, Murphy does not conduct any block pricing. Rather, it analyzes each store individually, factoring in price elasticity and the local competition. It does sometimes change pricing more than once and sometimes two to three times a day, guided by the price-management system.

"The model basically is designed to maximize both volume and margin at the same time, and that's the beauty of it," says Wells. "When you say 'price optimization,' [other models] may not include that volume component. They tend to be more margin-driven. This model does both—it maximizes volume and margin at the same time. That fits in perfectly with our business model."

PRICE PERFECT: When it comes to price changes, speed to the street is critical for Murphy Oil, known for its especially aggressive pricing and high volumes. The company worked with Skyline Products to fully connect its proprietary, home-grown price-management system with Skyline's signage, and to integrate some of the supplier's own pricing-software expertise.

Closing the Loop

Around 2001, Murphy had inched forward enough in the development process that it was now looking for a means to connect the price-management system to its electronic price signs via its AutoGas POS. Its sign vendor at the time, however, was unable to provide the technical support, and so at the annual NACS Show, Murphy Oil and Skyline met and began collaborating.

"Murphy had this vision; they already had a lot of centralized-management pieces they were working on at headquarters, but they hadn't yet gotten the sign connected," says Skyline's McHugh. "So we played an active role in developing software to support that vision."

Skyline worked with AutoGas' software team—with Murphy's oversight—to integrate the POS system to the price signs. The result: When Murphy changes a price in its centralized pricing system, it automatically changes it at the store level, the POS, the dispensers and the price signs.

But this was only one piece of the loop; confirmation that the three scroll price signs at each Murphy site responded faithfully to the price-change request was the other.

"For us especially, speed to market is critical," says Wells. "As volatile as the market is today, with price changes, you have to make sure a price gets to the street ASAP. You can't afford to wait. When there are 10-cent swings in the market as there were last Friday, you've got to get your price to the street and need immediate confirmation that it hit."

“For [Murphy], because price is No. 1, that is their advertising, that is their billboard.”

AARON McHUGH *Skyline Products*

The current Murphy price-management system borrows technology originally developed from Skyline’s work with Department of Transportation signage, including the well-known Amber Alert digital signs that span across expressways. Software, as opposed to a camera, actually polls each store’s three price signs remotely through the POS to verify that the price change occurred. If the software cannot read a digit, that particular figure shows up as a question mark.

“For them, because price is No. 1, that is their advertising, that is their billboard,” says McHugh. Because of the crucial role of pricing, he says, Murphy will send out a technician to a site within two hours to address any signage issues.

Despite the focus on store-level operations, however, Murphy has had to adapt its management philosophy to accommodate the breadth of its store count.

“With [nearly] 1,000 sites, you can’t manage each site individually; by that point, you manage by exception,” says Bates, Murphy’s software analyst. “That’s where the whole Skyline solution of getting information back as far as when the price change occurred, or didn’t occur, helps us to manage. So instead of calling 975 sites saying, ‘Hey, what’s your price, did you change,’ we can say, ‘Hey, these 15 sites haven’t changed pricing.’ ”

The system also provides records of costs, a feature especially important for Murphy’s operations in states with below-cost laws, including Minnesota and Florida.

“Typically in most of those laws, you can follow competition into below cost, but you can’t initiate that,” says Vance Brown, vice president of business development for Skyline. “With our system, you know exactly when you get the report in of what your cost is, and you can show how you’ve reacted to it, and you’ve got the data.”

It’s an aggressive pricing strategy that admittedly hasn’t won Murphy many fans among its competition. But for the company, it’s not personal; it’s simply business, a matter of matching the value proposition of the massive retail offer looming behind each of its fuel sites.

“For our model, having a competitive price at the street, that low price, that wins loyalty, and being in the Wal-Mart parking lot, we’re kind of like them—no gimmicks, just here’s our best deal for you,” says Wells. “That’s just always been our model. Our offer’s been really simple. It’s really straightforward. And it just comes down to blocking and tackling.”

Nonfuel Margin Dollars Balloon

With 200-square-foot kiosks on most of its lots, Murphy USA’s monthly nonfuel margin dollars per store hit $12,800 in 2007. Compared to the NACS SOI 2007 per-store average of $32,405, it seems a modest profit. But consider that Murphy grew these dollars by more than 19% from the year prior—vs. 4.9% for the NACS SOI participants—and the numbers come into perspective.

Murphy’s projected monthly nonfuel margin dollars when it first opened its Wal-Mart locations was $1,900. By the first quarter of 2008, it had beaten that goal more than sevenfold.

Nonfuel margin dollars per store per month

1999	$2,171
2000 +47.9%*	$3,211
2001 +43.1%*	$4,594
2002 +15.7%*	$5,315
2003 +24.9%*	$6,637
2004 +2.9%*	$6,827
2005 +24.8%*	$8,520
2006 +25.9%*	$10,729
2007 +19.3%*	$12,800
2008 (Q1) +30.7%* (vs. Q1 07)	$14,173

Sources: Murphy USA, CSP
** Percent change from a year ago*

Nowhere to Go but Up

Murphy's pending patent covers the process from data collection to implementation. Skyline, which had been developing a similar patent-pending pricing system, partnered with Murphy rather than compete, and it received exclusive rights to the Murphy patent. This further bolstered Skyline's PriceAdvantage pricing software, which is engineered to fit a broader array of retailers and accommodate more POS systems, and integrate the price-change confirmation and signs.

Beyond the business arrangement, however, the folks at Murphy and Skyline see the collaboration as an industry ideal.

"This is about partnerships and working with folks you trust and respect," says Wells. "You can do some great things when you work together and combine resources and share ideas. And it's about partnership. It's not each of us trying to make money off each other. … They've helped us be more successful. We always tell people we work with, 'Just keep me from doing something really stupid.' You have to have that mutual respect."

> **"With [nearly] 1,000 sites, you can't manage each site individually; by that point, you manage by exception."**
>
> **BRIAN BATES** *Murphy Oil Corp.*

"All the things they've done wrong, we're the beneficiaries of that," says McHugh of Skyline. "The product on the market has been refined from their expertise. We didn't have the sitting-in-the-chair, fuel-pricing knowledge. … There are so many other pieces that matter. For the profitability to take place, all of those pieces need to be in place."

Although Murphy could not share its total investment costs, Brown with Skyline says that an 18-month return on capital is not unusual for retailers who implement the full PriceAdvan-

FUEL FOR THOUGHT: With the world's largest discount retailer behind most of its retail fuel sites, Murphy Oil has made price the key to winning customers' loyalty. With fuel volumes reaching an average of 305,000 gallons per site in the first quarter of 2008, it's a message that Murphy is communicating clearly.

tage software system, from software to price signs. Murphy is one of only a handful of customers with the entire loop in operation.

While Skyline and Murphy each combined individual patents-pending technologies to create PriceAdvantage, true to its embrace of continuous improvement, Murphy continues to refine and tweak its own proprietary system, placing greater distance between itself and its competitors.

"There are always enhancements to the system," says Wells. "Our whole job, when we price gasoline, is finding not only those pennies but tenths of a cent over time. And wherever you can find those pennies and tenths of a cent over time, that adds up. And a pricing system that they have and that we've worked on helps you find those pennies and those tenths. And we're just always thinking about where else they could be."

One place Murphy hopes to extend the system's reach is upstream, says Stephen Rogers, who helped guide the system's latest stage of evolution as the company's manager of retail IT development. "I think the retail's pretty solid," he says. "Then you start looking at the wholesale price. It all comes down, at the end of the day, to the profit. The whole supply chain needs to be completely analyzed." ■