SHANKAR IAS PARLIAMENT
Information is Empowering

Dynamic Pricing Policy - The concerns

Why is the issue?

\n\n

Dynamic pricing has left the Indian fuel retailers worried about their profit margins.

\n\n

What is dynamic pricing policy?

\n\n

\n
- This means that the prices of these transport fuels are changed daily by the OMCs based on the movement of international crude oil prices.
\n
- Prior to this, the revision in fuel prices happened on a fortnightly basis.
\n
- It is part of an effort to remove the burden off subsidies on the exchequer & the Oil Marketing Companies (OMCs).
\n
- It smoothened out price fluctuations & thereby benefited OMCs and the consumers.
\n

\n\n

Why are the retailers worried?

\n\n

\n
- In the previous regime of fortnightly change in fuel prices, the retailers managed their inventories based on expected prices.
\n
- But with a business requirement of stocking for a much longer period than a day, daily fuel prices left the retailers worried about their fixed profit margins.
\n
- With the current fixed commission of Rs 2.2/litre on petrol and Rs 1.5/litre

on diesel, the net profit for a dealer at the end of the month will be dependent on the way the dealer manages overhead costs, transport, working capital, etc, and not the inventories.
\n

- e.g. To sell high priced inventories at low prices, will be disincentivising.
\n
- The same situation will also arise when crude oil prices become highly volatile without any clear downward or upward direction.
\n
- Retailers lost as much as Rs 400 crore in the first two weeks of the roll-out of the dynamic pricing.
\n
- This has the potential to introduce inventory uncertainties and disrupt the well established smooth supply chain.
\n

\n\n

\n\n

Source: Financial Express

\n