Dynamic Pricing Policy - The concerns

Why is the issue?

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

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What is dynamic pricing policy?

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

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- In the previous regime of fortnightly change in fuel prices, the retailers managed their inventories based on expected prices.
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- 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.
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- 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.
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- e.g. To sell high priced inventories at low prices, will be disincentivising.
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- The same situation will also arise when crude oil prices become highly volatile without any clear downward or upward direction.
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- Retailers lost as much as Rs 400 crore in the first two weeks of the roll-out of the dynamic pricing.
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- This has the potential to introduce inventory uncertainties and disrupt the well established smooth supply chain.
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Source: Financial Express

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