

Roundtable “Competing in a High-Price Environment”



This high level roundtable was led by its dynamic Chairman Alan Beale, Managing Director, Elgas. Participants were John Walsh from Amerigas (US) - www.amerigas.com/
Alex Huijgen, SHV Gas (Netherlands) – www.shvgas.com/
Matthias Perez, Gasco Chile - www.gasco.cl
Masatak Uruma, Showa Shell (Japan) - www.shell.co.jp

Mr Alan Beale introduced the panelists and set the scene by discussing recent market fluctuations that have buffeted the LP Gas industry worldwide. He then asked Masataka Uruma from Showa Shell in Japan to talk about the structure of his business. Mr Uruma introduced his business by discussing the LP Gas market in Japan and noting that in Japan LP Gas distributors require a special license to handle LP Gas.

Mattias Perez in Chile then introduced himself and stated that Chile and Japan have a lot of similarities in market structure noting that Chile is totally dependent on imported products as there is no domestic LP Gas production. He told the crowd that recently supplies of Natural Gas to Chile had been disrupted for political reasons which had caused a spike in LP Gas sales.

Alex Huijgen in the Netherlands, introduced the SHV business model stressing that SHV emphasizes strong local brands and not just SHV. John Walsh discussed the structure of UGI and Amerigas noting that they are the largest distributors in the US with 3500 distributors and 600 sales and service locations throughout the US.

Mr Beale then asked about the increase in prices and what each of these businesses was doing in order to mitigate the unpredictable and steep price increases. Mr Walsh that price increases made positioning against competitor fuels that much more important and noted that an intelligent communications strategy becomes key. Mr Huijgen said that for SHV the price changes were very different in different regions of the world depending on local government policy and that it was therefore difficult for SHV to create a single overarching policy. As an example he cited Europe where price impact had been minimal because it had affected all fuel. Price had an impact in other regions, he said. Mr Perez noted that price had indeed spiked in Chile and this had been augmented by the coldest winter on record in 2008. He noted that Chile was topographically a difficult country to install Natural Gas infrastructure and that this gave an advantage to LP Gas. Mr Uruma pointed to a trend of Japanese consumers cutting back everywhere which was disturbing. Over the last year Mr Uruma said a drop in consumption of LP Gas of about 5-7% had been noticed.

Mr Huijgen said that SHV had noticed similar trends across the board in their operations all over the world. He thinks that the LP Gas industry will have to treat the customer a bit different, offer more services, explain more about LP Gas and generally work a bit harder to sell LP Gas to consumers and retain existing clients. Mr Walsh seconded this stating that Amerigas began trying to offer innovative packages of services tailored to particular markets through price fixed services (hedging). He said that as part of this campaign, Amerigas had launched a new communications plan to educate customers on how

to save energy and noted that they had received a very positive initial response that pointed to client loyalty to the company.

Mr Beale then asked for questions from the floor with the first one going to Mr Uruma about the new “Jumbo” cylinders and their uses. Mr Uruma answered by stating they were designed for use in small noodle shops and were perfect for the Japanese market because they are easy to handle and efficient in terms of delivery. This was followed by a question to Mr Walsh on the hedging technique to offer stable prices in an unstable environment. Mr Walsh said that the technique involved contacting customers in the summer time with an offer for 12 months at an unchanging price paid for upfront. When they received enough offers they would go to suppliers for that amount of product at a pre determined fixed price. To offset lower margins they charged a monthly fee. 20% of their customers chose this route which helped ensure customer loyalty while securing demand.

Mr Beale noted that many in the business used techniques to offset price volatility but that the key to success was in not giving customers a reason to look elsewhere – supply customers with products and offer good, timely, innovative service.

Mr Beale then asked Mr Huijgen what SHV was doing to find new business to which Mr Huijgen answered that first they were concentrating on retaining the existing customer base. Second they try to identify new customers through market surveys and other tools to find out what potential customers need with an emphasis on local conditions. Mr Perez emphasized innovation and innovative products noting that quality is very important for LP Gas industry in Chile. The reputation for the service of the LP Gas industry is very high. Some of the innovations he cited were 24-7 phone information service, truck drivers who can charge mobile phones etc. etc. In Japan, Mr Uruma noted, they visit the customers quite often to get feedback. They try to accommodate requests from customers and try to control costs throughout the supply chain in all their operations.

Mr Beale then asked about competing fuels and how the industry could do better. Mr Huijgen noted that due to price volatility and the climate change issue, opportunities were growing all over the world but that the industry must position itself so that it is perceived as part of the solution and not lumped in with part of the problem. The industry simply must communicate more effectively that it is part of the solution. Mr Perez noted that in Chile, as in much of the developing world pollution issues are critical and that this is a great advantage to LP Gas. Gasco has invested a lot in educating children on the harmful effects of pollution and how LP Gas can help, thus creating a new generation of customers. Mr Uruma noted that in Japan members of the sales staff visit households to make spontaneous safety checks on a random basis. This creates mutual trust that can last during a down cycle.

As a last question Mr Beale asked for an outlook on the future of the industry. Mr Uruma noted that there would likely be consolidation in the Japanese market as smaller retailers would not survive but that those that do will do so based on innovation such as working with renewable energy sources and offering innovative products. Mr Perez said that despite price fluctuations people are seeking new energy sources which should benefit the industry world-wide. Mr Huijgen thought that the outlook for LP Gas is very good but that the industry has to actively reposition itself to take advantage. The opportunities are there but will have to seize them. Mr Walsh was very bullish about the industry's future noting that in the short term the industry will do well by consolidating and increasing the discipline of operations. He stressed that the industry is in an ideal position to increase market share.

Mr Beale thanked the panellists and the crowd and closed the session.