

Effects of rising fuel prices economics essay



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This research project is being written because currently the UK is experiencing a recession, which has escalated the price of fuel and is affecting the supermarkets. The research will examine the impact of fuel prices on different supermarkets and their approaches taken to boost sales and improve competitiveness. The intended reason for presenting this research project is to show how supermarkets can become more efficient and supportive.

In order to answer the research question the following criteria will be addressed:

Formulate a research specification

Implement the research project within agreed procedures and to specification

Evaluation of research outcomes

Present the research outcomes

The fuel prices will be compared and contrasted for the supermarkets during the past 5 years between 2008 - 2012. It will then make recommendations based on the findings of the research and analysis. This report is to be completed by 22nd April 2013.

Methodology

This research which is being provided has made use of different resources; lecture notes, textbooks, newspapers, discussions with family members and

internet websites for the different organisations mentioned e. g. Asda, Morrison's, Sainsbury's and Tesco

In order to complement the secondary data derived from research studies and published material, telephone interviews with several supermarkets will be conducted. The interview will include questions for the supermarkets both, as a consumer and a supplier of fuel directly to its customers.

The research objectives looking to be achieved by the end of this report are

Using available secondary data, to establish the pattern and trends of the impact of fuel prices on supermarkets in the last 5 years

Collecting primary data to obtain first-hand account from company personnel, about their decisions and adopted strategies to manage the impact of rising prices, both as a consumer and supplier of fuel

To make a set of recommendations on fuel incentive programme based on core product offerings

This study was conducted as part of a HND in Business unit which involves conducting research and then presenting this in the form of a research project which takes into account all the research gathered. The main purpose of this unit is to conduct research on a topic or any current issues. It was decided to conduct my research based around " How the increase in the cost of fuel is affecting supermarkets in 2008 compared to 2012". In order to help obtain individual and business views on how the price increase is affecting them, this will involve the gathering of information from 1: 1 telephone calls and face-to-face interviews with supermarkets. The

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completed questionnaires will help make an overall analysis of the data at the end, in order to produce an evaluative report based on the findings. With the research provided, this helped me look at gaining more insight into how different supermarkets are operating in the current recession and what changes would be made in order to cope with the increase in fuel prices. Therefore this led to the setting of the aim, about exploring further into how supermarkets are operating by the fuel price increase in terms of distribution and sales. With the production of this research project, the supermarkets will benefit the most alongside the oil companies and consumers. However, the petrol stations will also need information in order to succeed. The need for the report is to highlight the price variations and how supermarkets adapt to change.

Methodology Chapter

Currently the global economy is experiencing a recession. As a result of this, the economy and individuals are facing problems like a rise in unemployment levels which means it is becoming harder to get a job, fuel prices increasing and a decline in the overall market level. In conclusion the recession means that the business sector is hit the largest alongside consumers.

When doing the project there will be various steps involved. Firstly this will establish the goal of the overall chosen research topic " How the increase in the cost of fuel is affecting supermarkets", and then determine my sample in regards to views on how and why the fuel prices are affecting the supermarkets. The next step would be the creation of the questionnaire which is to be distributed amongst businesses and those being interviewed.

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The research collected from the questionnaire will focus on prices paid for fuel. The interviews would be conducted and then data collated.

Whilst carrying out my research into the topic about the fuel price increase the question which came to mind was “ Does the fuel price increase, as a result of the recession, affect supermarkets on a day-to-day operation?” In regards to this researched question, this has led to me thinking about the level of impact in which fuel prices is having on different supermarkets. Therefore this helped me choose this as my research topic “ fuel price increase”. In terms of the research question, my research objective which is being looked to be achieved is “ To identify the ways in which businesses operate in terms of distribution and delivery and how this contributes to success or failure”. Research into the topic of fuel prices was chosen as it is a continual business issue, relates to the economy and was an interesting topic to gain more insight into.

The other research idea “ Should healthy eating be promoted within schools?” was discarded as it does not link into business, but brings in more persuasive ideas regarding healthy eating. The research objective was to “ identify the ways in which healthy eating can be encouraged”. This type of issue is a continuing debate and has been discussed by the government and the NHS, leading to a variety of initiatives e. g. “ 5 a day”.

“ Should Microsoft technology be improved for businesses?” was the other research topic but was then eliminated as it already improves regularly and helps them become more up-to-date. The objective of this research idea was

“ To investigate into the type of features preferred by businesses and any improvements they would recommend”.

This project takes an Inductive approach, supported by secondary data gained from published reports and scholarly work. Also, primary data was obtained through a series of telephone interviews using semi-structured questionnaires. Implementing the inductive research approach was successful for this research project as the research question acquired various perspectives. Therefore, the overall conclusion could not be drawn until the research had been analysed.

One benefit of using the inductive approach was that “ the main categories emerge as data is collected and analysed” (BPP p234-235). However there were different limitations like it being time consuming and an intensive research method which required high levels of resources to help compare different views. Having collected all the information it would therefore not reveal any results at the end based on the analysis. This type of approach involves Qualitative data as the results were not number based and was targeted at a smaller population which consisted of supermarket transport managers who would have vast knowledge of fuel prices. This therefore helps ensure my results are valid, reliable and objective. The limitation experienced was that the reliability of the data was purely dependent upon my organisational skills and analytical knowledge.

As the questionnaire was my collection method alongside interviews, this meant that it helped me check the reliability of the gathered data and explore ideas deeper through the interviews.

For this research topic, the survey method will be implemented and will involve preparation of a questionnaire which will be answered by the various supermarkets. Using the survey method will help “ obtain information which can be analysed and patterns extracted and comparisons made” (Bell, 1999).

Non-Probability Sampling is a sampling method which is conducted and relies on the judgement of the researcher/s in terms of selecting their respondents. The sample size for the research used is smaller and this meant it could be targeted at specific respondents. The type of sampling method carried out for the research provided was

Convenience Sampling because it allowed communication to specific people within the company. This method does not require or use any sample design. This sampling method was chosen over others e. g Random, Systematic or Quota sampling method due to the reason that it helped provide useful information, as the sample was kept representative according to the organisations being investigated into.

Besides this type of sampling, Convenience sampling was more relevant to my research compared to Random Sampling, which would have involved the selection of the population randomly. It was decided as the 2nd type of sampling due to the fact that it works well with small groups.

The questionnaire will provide information from the perspective of supermarkets, being both consumers and suppliers. Supermarkets consume fuel as part of their distribution costs and supply fuel to customers at their petrol stations. A questionnaire was created in order to help acquire very

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specific information from the interviewees. Research was conducted first hand because there was no research team available. Asking specific questions will help provide precise data which can be compared and analysed in the report. However, questionnaire responses may be misunderstood and have an adverse impact on overall comparisons. Information obtained relates to the current situation and was gathered within a short span of time, resulting in brief answers.

The responses from the questionnaire will be put into a bar chart to show the comparisons of how the supermarkets are operating in terms of the fuel price increase. By putting the data in the form of a bar chart, it would help summarise the large set of data easily and can be understood. However there were other methods e. g. pie charts and histograms, which were discarded as the bar charts would represent the data more easily and at the end was able to make straightforward overall comparisons.

Table 1 – Research Action Plan

Task

17/05/12- 24/05/12

25/05/12- 31/05/12

17/09/12- 21/09/12

22/09/12- 28/09/12

01/10/12-09/10/12

08/11/12 - 15/11/12

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16/11/12 - 22/11/12

Topic Selection

Complete

Action Plan

Complete

Code of Ethics

Complete

Data Collection

Complete

Questionnaire

Complete

Research Obj

Complete

Sampling method

Complete

Proposal completion

Complete

Throughout this project the milestone progress reviews took place:

When the research topic was decided upon - 31st May 2012

On finalisation and gathering of literature sources mentioned in the literature review -

When the research project proposal had been done - 22nd November 2012

On completion of main report critique

Code of Ethics

To ensure, within this project, the content included is based on my findings

To monitor and record progress on the action plan progress table

Completion of the research project within the specified time limit

Questionnaire responses kept confidentially and not distributed amongst other interviewees

Only to use qualitative data once approved by interviewee

Interviewees receive copies of the final report

Advantages of surveys

Disadvantages of surveys

Focus on data in comparison to theory

Data implication can be ignored

Caters for small-scale qualitative research

Questionnaires and sampling could lead to lack in depth and detail

Allows use of tools like questionnaire and telephone 1: 1 interviews

Inaccurate or not honest responses

Results obtained fairly quick

Time consuming in terms of accuracy and honesty

If survey structure well organised then this means the analysis is made easier

Surveys provide a range

Sources of data and methods of data collation

It was decided that there were advantages to collecting and using further existing secondary data, such as time and cost saving. However, since the data has been acquired by someone else, it could be out of date or unreliable. Because of this, it is imperative that the research is checked to ensure it is accurate and reliable to use for the research question. The research into surveys, deduced that Denscombe (1998) had proposed pros and cons as follows:

Supermarkets will have cartels “ Organization of the Petroleum Exporting Countries (OPEC)” who will sell fuel to wholesalers e. g. Shell and then sell it to Tesco. This will mean that Tesco will be dependent upon OPEC when getting their fuel. Whilst OPEC is a cartel, this means they would be known to dominate the market and want to get suitable prices. If Tesco were to make agreements with OPEC, they would find it hard because OPEC will not receive any benefits. Overall this issue would have a big significance on Tesco

because they don't have any control with aspects such as how much petrol OPEC will supply to them as well as the prices charged.

Justify the chosen methodology

Morrison's Faculty team was involved in the collection of the primary data. They answered the questions accurately and the information provided, led to a better understanding about their operations. This helped to obtain the correct data, which provided other essential data based around current and future actions.

There are minimal academic literature based around the topic of fuel prices which can be studied in order to help draw up an overall judgement based on the findings. This is a systematic topic and has been discussed by various experts in this field.

Since secondary data collation involved collecting information from that which someone else had collected, the information was reviewed before including it in this research project. It was necessary to compare the different sources of secondary information and to include it after review.

http://i.dailymail.co.uk/i/pix/2012/03/16/article-0-12327C8B000005DC-223_468x343.jpg
<http://www.gscape.com/images/econ/charts/WeeklyFuelPrices130212.gif>

UK Fuel Prices for Monday 17th September 2012

Avg

Min

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Max

Unleaded

140. 05p

133. 9p

152. 9p

Diesel

144. 39p

138. 9p

156. 9p

Super Unleaded

147. 72p

139. 9p

159. 9p

Premium Diesel

153. 02p

146. 9p

161. 9p

LPG

74. 94p

67. 7p

83. 9p

According to <http://www.theupcoming.co.uk/2012/03/20/inflation-continues-fall-despite-the-rise-in-petrol-prices/> The Consumer Price (CPI) Index rate of inflation had fallen from 3.6% in January to 3.4% the following month during February.

David Kern, the Chief Economist at the British Chambers of Commerce said, "The marked increases in world oil and food prices since the beginning of the year are worrying and support our view that further declines in domestic inflation, both this year and next, will not be as sharp as the Bank's Monetary Policy Committee".

Conferring to the Daily Express on Tuesday 15th May 2012, Morrison's announced they were going to reduce their petrol prices by 2p a litre. This action being taken would lead to price wars occurring between both supermarkets and petrol stations e. g. BP, Esso and Texaco. As a result of Morrison's decreasing their fuel prices, this has led to other retailers looking to consider doing this. The main reason why Morrison's has chosen this is because it will help them stay more competitive especially in the current UK recession. With retailers like Tesco, they were considering 2p cut in prices as well as their 5p off vouchers on top.

In accordance to the Telegraph published online, it mentions that "The cost of oil has jumped 30pc over the last four months, raising fears that the

recent easing in inflation would be temporary. Petrol prices rose 3.5p per litre during last month to £1.35 while diesel increased 3.3p to £1.40”.

<http://www.telegraph.co.uk/finance/economics/9549808/UK-inflation-eases-in-August-despite-rising-fuel-costs.html>

It is known that having high fuel prices will mean that various industries e.g. Primary Sector, Secondary Sector, Tertiary Sector and the commercial industry who rely on any form of transportation will find themselves having to increase their prices in order to maintain their profits and be cost effective.

According to the Daily Express as of Thursday 6th September 2012, it mentions about The Office of Fair trading (OFT) looking further into the fuel price increase and their inquiry will address competition issues and concerns over price co-ordination. From customers views they reckon that when the price of crude oil decreases, this is not being reflected at the pump as quick as they would like.

The Daily telegraph published 21st March 2012, talks about due to both fuel prices and food, this is therefore leading to higher living costs. There have been experts who warn that “ the situation is unlikely to improve in the short-term. Experts have warned that drivers may either change their job or quit as a result of an increase in fuel duty. It has been proven that “ A hike in fuel costs at the start of the holiday season will backfire as many people are already cutting back”.

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Jayne Atherton mentions in the Metro newspaper on Wednesday 21st March 2012 that most “ manufacturers are likely to raise prices because of the spiralling cost of oil”. It’s believed that any added rises in the cost of oil will be a “ significant concern”.

It’s mentioned within the Metro newspaper dated 25th September 2012 about 2 supermarkets starting a fuel price war; Asda and Morrison’s. In terms of this price war, Asda say they will cut their prices on both unleaded and diesel by 3p to 135. 7p and 139. 7p. Conversely Morrison’s also took the same action by reducing their prices 3p. This price war will therefore lead to other supermarkets e. g. Tesco, Sainsbury’s, Esso, Texaco and BP, wanting to follow the same procedure. Asda had an income tracker report done in 2008 which showed “ the huge impact high fuel prices have on the average family’s monthly budget”. During August it was reported that apart from fuel prices staying low last year, the costs at the pumps had rose.

Within the Daily Mail on Saturday 22nd September 2012, it says that as oil has been rising slowly over months from \$100 a barrel to \$115 a barrel, this has pushed petrol prices and energy bills up for different UK households. Oil prices have however fallen dramatically within previous days with fears about the slowdown in the global economy hitting demand.

The metro newspaper on 10th October mentions that as cost of fuel continues to rise, this is urging motorists to stay off the roads. As motorists vanish, most are staying off the roads to help save money and also reduce their unnecessary trips. “ The only constant they see is the fact wages aren’t increasing in line with inflation but there are other costs particularly petrol

and diesel that are going up. Ross McGuinness makes a decision about them “having no option but to cut back and some people have cut out their cars”. His study into the fuel price increase leads to the debate about how prices are increased and passed on.

As argued by Brian Madderson, he mentions that when purchasing fuel which costs £50, 000, 60% of the cost is made of fuel duty and VAT. This cost is paid by small retailers to the government through the supplier before the tax is collected from the customers. This led to him believing “that is absurd”. Furthermore Chris Hunt, General Director at UK Petroleum Industry Association, stated that “rising fuel costs are down to emerging car sales markets within China and India”. Chris Hunt also argues that increasing fuel prices will decrease number of sales, but will on the other hand lead to “oil suppliers across UK, not profiteering”.

With the 3p increase in fuel duty, it was believed that benefits would arise such as creating of over 70, 000 jobs and boost economy growth by 0. 2%. Sky news also states that “We appreciate the Government’s aspiration to reduce the deficit but know that hiking fuel duty up by 3p in January will only make things much worse.” This therefore shows that the change would make the deficit greater and not help the economy become more stable.

FairFuel UK’s national spokesman Quentin Willson said: “We have always argued that fuel duty shouldn’t be the Treasury’s sacred cash cow - it should be used as a lever for growth.

George Osborne mentioned that the current fuel price increase which was set for January is to be “scrapped”. This was demolished with the aim to

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help the pressure put on workers and families who are currently in need. This increase was also considered carefully as it would coincide with the rail fares increasing and changes to child benefits. Going ahead with the 3p rise, “ doesn’t make sense for economic recovery and deficit reduction.”

Lee Boyce argues that with the petrol price decrease, it is still making consumers pay more at the pumps. The AA, goes along with Lee Boyce’s idea concerning the prices not dropping enough. In relation to the prices paid by customers, it was found by AA that “ drivers were also once again suffering from a ‘ price postcode lottery’ where motorists in one area were charged as much as 5p a litre more than drivers a few miles away.

“ Before 2002, the real price of fuel had been dropping, which led to a decrease in the numbers of fuel-poor households”. “ The real price increases since 2003, resulted in a doubling of the fuel poor from 1. 2 million households in England in 2003 to 2. 4 million in 2006”. In the White Paper, the government predicted some possible future fuel price scenarios and their likely effect on fuel poverty numbers. The graph below illustrates this:

Figure : England Households in fuel poverty

Graph 1: England households in fuel poverty

“ One of the best insights into why the UK is failing on fuel poverty comes from a statement in 1976 by an early campaigner, Marigold Johnson, when commenting on the rise in fuel prices after the first oil crisis in 1973. It was believed it was “ Society’s failure to plan for an age of high-cost fuels”.

“ Subsequently, fuel prices have risen and at faster rate than the RPI (Retail Price Index), during every year since 2003. Increase size in 2005, 2006, 2008 has been severe. With an increase of 105% in residential fuel prices since 2000, this sets against a RPI increase of 26%, which represents a real fuel price increase of 62%.

“ Residential fuel prices within the UK, have effectively increased by 84% between 2000 and February 2009 for the average household.

“ When the cause of a fuel price rise is international energy costs, then the problem, is, to an extent, out of the government’s control. “ Government and OFGEM (Office of the gas and electricity markets) are trying to ensure that price increases which are passed onto the customers are justified”.

“ Governments own coffers are receiving more money from the VAT levied at 5% on rising fuel prices”.

“ It would be expected that there is recognition regarding fuel poverty policy consisting of disastrous effects in which rapid fuel prices can have on the fuel poor, particularly since 2003”.

“ The potential impact of these price increases on progress towards meeting the targets set out in The UK Fuel Poverty strategy means efforts will need to focus on finding most sustainable way of tackling fuel poverty”.

“ During 2008, world oil prices were US \$145 and during 2009 went down to \$39, leading to predictions about fuel price levels and fuel poverty extent being difficult”.

Current Fuel prices

Average

Minimum

Maximum

Unleaded

138. 6p

132. 9p

151. 9p

Diesel

143. 3p

137. 9p

156. 9p

22. 2 Domestic freight transport: by mode

Great Britain

percentage

1999

2000

2001

2002

2003

2004 5, 6

2005 7

2006

2007 8

2008 9

2009 10

Goods moved (billion tonnes kilometres)

Petroleum products

Road1

ZBZP

5. 0

6. 4

5. 8

5. 2

5. 5

5. 7

5. 5

5. 6

5. 1

6. 5

4. 8

Rail2

ZBZQ

1. 5

1. 4

1. 2

1. 2

1. 2

1. 2

1. 2

1. 5

1. 6

1. 5

1. 4

Water3

ZBZR

48. 6

52. 7

43. 5

51. 7

46. 9

46. 9

47. 2

37. 8

36. 4

36. 4

36. 4

of which: coastwise

ZBZS

33. 3

26. 0

23. 1

24. 2

23. 3

26. 6

30. 3

22. 7

25. 0

26. 5

27. 1

Pipeline9

ZBZT

11. 6

11. 4

11. 5

10. 9

10. 5

10. 7

10. 8

10. 8

10. 2

10. 2

10. 2

All modes

ZBZU

66. 7

71. 9

62. 0

69. 0

64. 1

64. 5

64. 7

55. 8

53. 3

54. 6

52. 8

Coal and coke

Road1

ZBZV

2. 2

1. 5

2. 1

1. 5

1. 5

1. 2

1. 5

1. 3

1. 6

1. 0

1. 0

Rail2

ZBZW

4. 8

4. 8

6. 2

5. 7

5. 8

6. 7

8. 3

8. 8

7. 7

7. 9

6. 2

Water3

ZBZX

0. 5

0. 2

0. 5

0. 3

0. 5

0. 3

0. 4

0. 5

0. 5

0.5

0.3

All modes

ZBZY

7.5

6.5

8.8

7.5

7.9

8.5

10.2

10.4

9.8

9.5

7.5

Other traffic

Road1

ZBZZ

150.5

151.5

150.6

152.7

154.7

155.6

156.4

159.7

166.4

156.0

137.6

Rail2

ZCAA

11.9

11.9

12.0

11.7

11. 9

12. 5

12. 2

11. 8

11. 9

11. 2

11. 4

Water3

ZCAB

9. 6

14. 6

14. 8

15. 2

13. 5

12. 3

13. 3

13. 5

13. 9

12. 7

11. 9

All modes

ZCAC

172. 0

178. 0

177. 4

179. 6

180. 0

180. 4

181. 9

185. 0

192. 2

179. 9

161. 0

All traffic

Road1

KCTA

157. 7

159. 4

158. 5

159. 4

161. 7

162. 5

163. 4

166. 7

173. 1

163. 5

143. 5

Rail2

KCTB

18. 2

18. 1

19. 4

18. 5

18. 9

20. 4

21. 7

21. 9

21. 2

20. 6

19. 1

Water3

ZCAD

58. 7

67. 4

58. 8

67. 2

60. 9

59. 5

60. 9

51. 9

50. 8

49. 7

48. 6

Pipeline

KCTE

11. 6

11. 4

11. 5

10. 9

10. 5

10. 7

10. 8

10. 8

10. 2

10. 2

10. 2

All modes

KCTF

246. 2

256.3

248.2

256.0

252.0

253.0

256.8

251.3

255.3

244.0

221.3

Percentage of all traffic

Road1

ZCAE

64.0

62.0

64.0

62.0

64.0

64.0

64.0

66.0

68.0

67.0

65.0

Rail2

ZCAF

7.0

7.0

8.0

7.0

7.0