fuel buying smarts

From fuel cards to hedging, there are purchasing strategies for every fleet.

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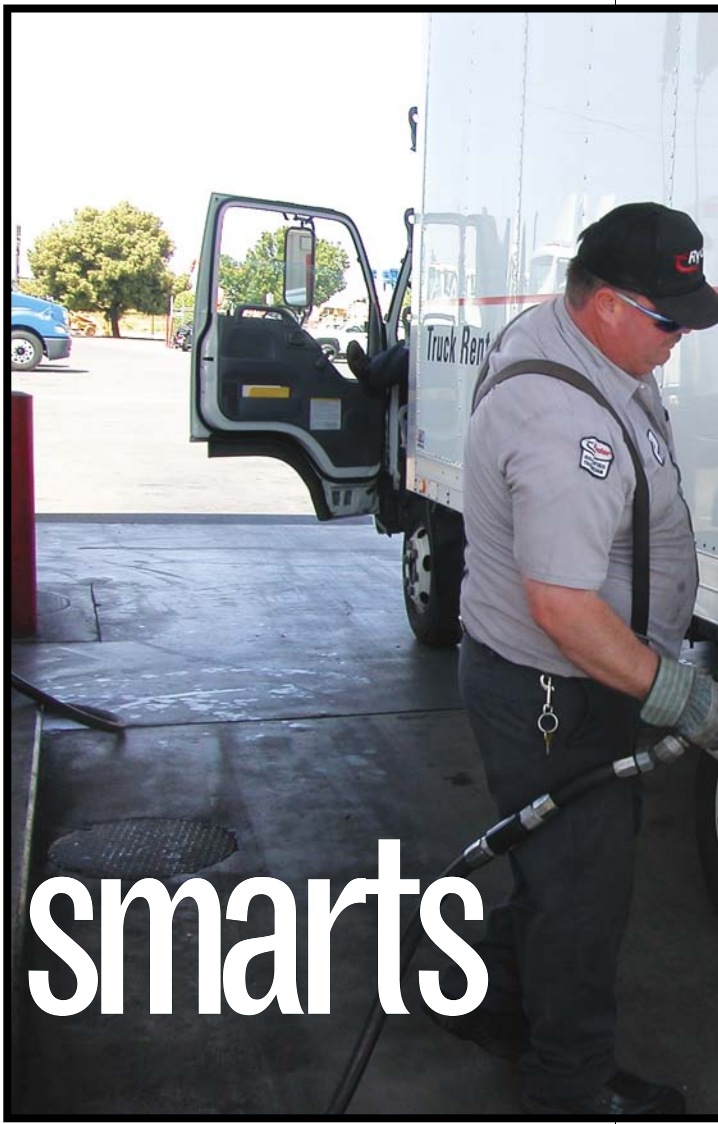

Whether fuel is two-something a gallon or four-something a gallon, every penny you can save is another penny toward the bottom line. There are money-saving fuel purchasing strategies out there for every size trucking company, from owner-operators to mega-fleets.

For a while last year, fuel became the largest expense for some fleets. Even in normal times, it is the second-biggest expense for many. "How do you manage your business when you can't control your largest or your second-largest expense?" asks Brad Simons, senior vice president for Oklahoma City-based Simons Petroleum, which has offered customers fuel cost control programs since 1984.

One of the first steps in developing or improving a fuel purchasing program is to put one person in charge. At a small fleet, someone may handle it along with many other responsibilities. At a large outfit, it may take a whole department.

That's what Mississippi-based KLLM Transport Services did last spring, appointing a full-time fuel manager and setting up a fuel crisis team. "We appointed him to do nothing but manage fuel costs, from dealing with our vendors on pricing to managing the drivers who have terrible mpgs and idle time issues," explains Kevin Adams, chief financial officer.

At Ryder, one of the largest fuel purchasers in the U.S., there's a separate company, Ryder Energy Distribution Corp. A full-time staff handles purchasing of 400 million gallons a year.

Some companies find it makes more sense to outsource this responsibility. That's where the Philadelphia-based Sokolis Group comes in. Its staff of nine acts as the outsourced fuel manager for fleets of 15 to 3,000.

President Glen Sokolis says the first step, whether you're using his company or doing it yourself, is a thorough evaluation and analysis of current fuel purchasing processes and procedures.

"Some people have bulk tanks when they don't necessarily need them," Sokolis says. "Other companies send drivers out to truckstops when they could have a mobile fuel company come in and fuel them on location. Some companies have a lot of trucks and should have bulk fuel but don't."

Sokolis recommends trucking companies look at what

they're paying for fuel, and ask themselves if it's a good price, and how they know it. "Audit it – don't take their vendors' word for it that it's a good price…. [Evaluate] everything from your bulk fuel to your fuel cards."

And make sure you review your fuel purchasing program on a regular basis to make sure you're still pursuing the right strategies for your company.

It's in the Cards

Fuel cards can not only offer per-gallon price discounts and rebates, but also give you more control over your fleet's fuel purchases.

Fuel cards aren't just for big fleets. With rising fuel costs, there has been increasing interest in fuel cards among guys who didn't even consider themselves "fleets."

"A lot of these guys are too small to go out and work out their own discounts or rebates," says Jake Sitler, general manager of sales for Multi Service Corp., which specializes in offering fuel cards to small fleets (30 trucks or fewer.) "We pool all of our portfolio together to negotiate discounts with the truckstops, then give that back to the customer if they run that network. It kind of levels the playing field for these smaller guys."

Size is one of the questions asked in a Web-based evaluation of fuel card options by FleetCards USA, which offers a number of fleet card programs from different providers. The company recently added a feature to its web site called FleetMatch. This service guides fleet owners through a short series of questions and comes up with a fuel card recommendation.

Even if you don't use their service, the questions are a good place to start in the process of selecting a fleet card. You need to look at how you currently purchase fleet fuel and how that's working for you; whether your fleet returns to a central facility at the end of the day; the size of fleet; and the type of business, such as landscaping, government, interstate trucking or construction.

You also need to identify what's most important to you, says Mike Noles, president of FleetCards USA. Are you more interested in the discounts or rebates you can get? Are you more worried about whether your drivers are using their cards appropriately, and therefore are more interested in cards that offer controls? Are both equally important?

"For a lot of fleets, a discount of 5 cents a gallon is nothing compared to what they could be losing because of inappropriate use by their drivers," Noles says.

With the right information and controls, a fuel card can offer controls such as limiting the number of gallons that can be bought at one time and how many times the card can be used each day.

KLLM was able to get its compliance with its fuel network and fuel optimization program up from 86 percent to 95 percent by restricting its fuel cards so they would only work at the best fueling locations as determined by the fuel optimization program. (If there is a valid reason for the driver to go to another location, he can call and get special permission.)

Another question to consider: How important is it that the card be able to be used anywhere?

"We'll find a lot of fleets go into the selection process assuming they need a card that's accepted everywhere," Noles says. "But we'll often find in consulting with a fleet, maybe a fleet has nine or 10 vehicles and they all come back to the same place at the end of the day. Really, that type of fleet wouldn't need universal coverage, just one fuel station close to where their depot is."

Another thing to keep in mind when evaluating fleet cards is how the fees you pay stack up against the discounts you get. And it's not just the fees YOU pay that matters. Sokolis says if a fuel card is expensive from the retailer's standpoint, you may not get as big a discount.

Some small fleets may be tempted to just use a MasterCard or other general credit card that lets them earn airline miles or other bonuses. But Danielle Viduarro, director of sales for TruckersB2B, which offers rebates to trucking companies through fuel cards, says that's not always a smart way to go.

"A, they're paying credit card price instead of cash price," she says. "B, they're losing control over what that driver's buying. He could go do his Christmas shopping at Wal-Mart and leave the company the next day. And C, they're not earning rebates on fuel."

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Building a Network

Most carriers of any size will negotiate a discount deal with truckstops. These discounts are typically "retail minus" (a cents-off discount off the retail price) or "cost plus" (a certain amount over the truckstop's cost for the fuel.) For larger companies, some deals can automatically give you the better deal each day, cost-plus or retail-minus.

"The problem with retail minus is, if you're paying a high price for retail, you're still paying a high price with the discount," says John Rettiger, vice president for TAC Energy, a nationwide bulk fuel distributor that offers a number of price control programs. "The thing with cost plus, very rarely can a customer accurately explain exactly what the cost is. Is it a published index, is there a pumping fee, does it include freight?"

As Sokolis says, "Retail minus sounds like a good deal, but if someone sets the price of fuel at $6 a gallon and offers 20 cents off, how good a deal is that?"

Should cardlock facilities be part of your network? They have the advantage of convenience, being typically located in industrial parks where trucks have to go to pickup and deliver, and there's nowhere for drivers to waste time buying snacks or playing video games. However, Sokolis says, you could pay a high price for that convenience. Cardlocks typically aren't required to post the price on site, he says. The key is to make sure you've negotiated a good rate.

For smaller companies, there are opportunities to join groups or services that aggregate buying power to offer discounts. One of those is TruckersB2B. There is no cost to join the eight-year-old service, which has more than 20,000 fleets signed up. The average size is about 20. TruckersB2B has established a network of more than 600 fuel stops, including Pilot, TA, Rip Griffin, and Petropath of Canada. Fleets can use their Comdata, ESS or FleetOne fuel cards. (TruckersB2B also offers discounts or rebates on tires, new and used trucks, insurance, software, tax services and other products.)

In a savings calculator on its web site, Truckers B2B shows that a 25-truck fleet that averages 6.5 mpg and runs an average of 10,000 miles per month per tractor could save more than $11,000 in a year if 80 percent of

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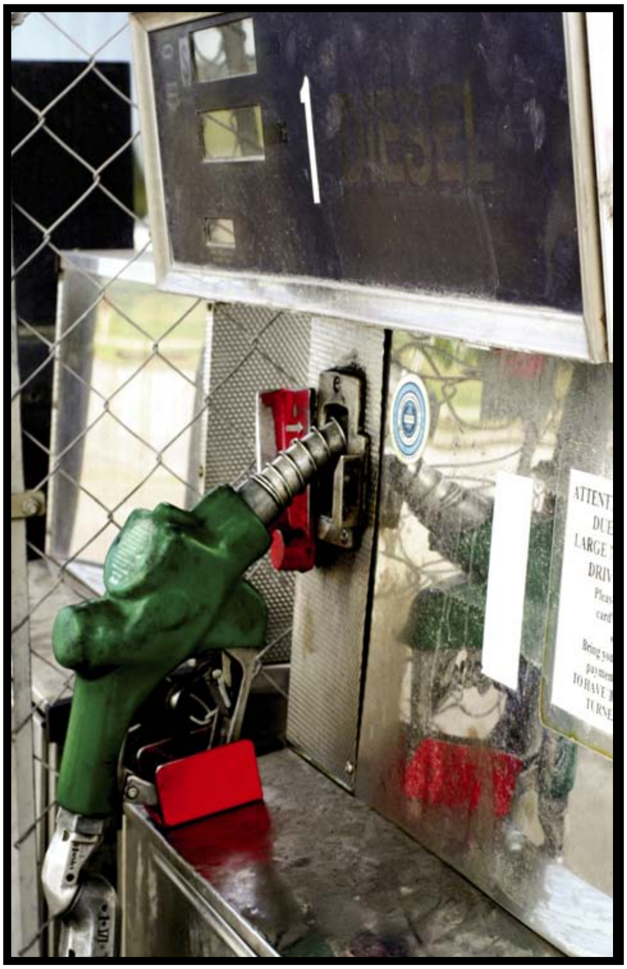
the fuel was purchased in the B2B network.

Discount fuel programs also are offered by the Owner-Operator Independent Drivers Association in conjunction with FleetOne, while T-Chek has a program called eOwnerOperator.

Whether you set up your own fuel network or use one set up by a card provider or other entity, the key to saving money is getting your drivers to use it.

"In the past, fleets have said, 'I can't tell my drivers where to fuel, they'll quit,'" says Danielle Vidaurre, director of sales for TruckersB2B. "But now they say they will tell their drivers where to fuel."

Sokolis says it's critical to communicate to drivers about why it's important to fuel at the designated network facilities, how it affects the bottom line of the company and therefore their jobs. Make sure they easily can access information about the network, whether that's through a mobile communications system or a hard copy directory of locations. Frequent fueler cards often allow drivers to earn points by fueling that they can redeem to buy personal items at the truckstops. You may be able to work with truckstop operators to help offer additional incentives, like coffee coupons.



DEBORAH WHISTLER

Putting Computers to Work

Fuel optimization software analyzes the amount of fuel in a tank at any given point along a route, the price of fuel along the route, and identifies the best places to purchase fuel along the route based on these parameters. (This can sometimes mean purchasing a minimum amount of fuel at one stop in order to have enough fuel available to make it to a better stop further along the route.)

One of the things that fuel optimization does, explains the ProMiles web site, is take fuel taxes into account. "Most drivers look at the price shown on the pump without taking into consideration the amount of refundable/creditable fuel tax included in that price. At the end of a quarter … the fuel that seemed cheap during the quarter can end up costing a fortune when filing IFTA reports."

Fuel optimization can work alongside other fuel purchasing strategies, by loading data on your fueling network, fuel cards, negotiated discounts and bulk facilities.

It's critical to communicate to drivers about why it's important to fuel at the designated network facilities, how it affects the bottom line of the company and therefore their jobs.

"Many trucking companies have cut diesel fuel costs through negotiated discounts and have issued diesel fuel network cards to their drivers. This is a good start," says Prophesy on its web site in describing its FuelLogic product. "However, a network's fuel prices will vary, often by 16 cents or more on their cost per gallon from one truckstop to another on a single interstate in a given state, and the only way to take advantage of this fuel price variation is by using … fuel purchase optimization software." Prophesy claims it can save customers as much as 7 to 10 cents per gallon.

Fuel optimization can integrate with your enterprise software. IDSC ExpertFuel, for instance, from TMW, is designed for truckload carriers of 50 trucks or more. It works with your dispatch and mobile communications systems to give drivers fuel purchase and route plans at the time of dispatch. The optimization software calculates current fuel prices, fuel level, vehicle fuel consumption, state tax implications, fuel network implications, out-of-route miles, route policies, terminal fueling policies, tank fill policies and driver amenities.

Some fuel optimization programs are available as part of or an option for routing software. Rand McNally's IntelliRoute, for instance, has an IntelliRoute Fuel module. PC*Miler has a fuel optimization offering as well.

There are also Web-based fuel optimization services available for a minimal monthly fee, such as ProMiles, IDSC's *www.fueladvice.com*, and Maptuit's FleetNav Express.

Buying in Bulk

Buying fuel in bulk and fueling trucks at your own facilities offers you more control and the opportunity to save by purchasing wholesale vs. retail. Those savings must be balanced against the costs of installing and maintaining your own fueling tanks and pumps.

"A lot of our customers like to buy in bulk because they get a much more consistent price," says TAC's Rettiger. "When you're buying over the road, you're going to have a lot of variability in your cost and it's more difficult to manage."

There are also opportunities to use smart inventory management to take advantage of the fluctuating fuel prices by filling your tanks when the prices fall, instead of just automatically filling the tank when it gets to a certain "empty" level.

"You can take advantage of markets that are somewhat volatile by actively managing the ordering process," Rettiger says. "We're watching the market every minute. We can put a load off or push a load up" to get you the best possible cost.

The big drawback is the capital costs of putting in tanks and equipment, and being responsible for repairs and liable for environmental compliance. So there's generally a size threshold for where bulk fueling makes sense.

"Our rule of thumb is that if you're 15,000 gallons or more a month, then you can justify having a 10,000-gallon bulk fuel tank," says Sokolis. Smaller tanks, he believes, are generally not justified because of the potential for theft and the fee to have fuel delivered.

When purchasing fuel to fill your bulk tanks, Sokolis says, don't forget the value of relationships in pursuit of savings. "You negotiate the best deals possible, you audit those deals, but you establish relationships along the way. If you're not consistently buying from the same vendor, you're going to have a hard time getting fuel in an emergency."

Ryder establishes relationships with two or three vendors for the flexibility to get a lower daily price and to keep relationships in place.

"We try to align ourselves with the strongest player in each market," says Paul Orrico, who heads up Ryder's fuel buying efforts. "Then we have a backup supplier, more than one in some large cities." Ryder also hires common carriers to pick up and deliver the fuel, so they can easily switch between fuel suppliers in order to get the lowest price or ensure supplies.

Let the Fuel Come to You

For fleets where all the vehicles come back to one location every night, mobile fueling may be a viable alternative.

"A lot of major companies use this service, like FedEx, and Coca Cola and Pepsi Cola," Sokolis says. Not only do companies save money on not having to put in bulk fuel tanks, but they also don't have the environmental and regulatory liability for those tanks. And as an alternative to sending drivers to fill up at a retail station, he says, you're saving the time it takes the drivers to do that – time that can better be spent making deliveries.

"A lot of people think the upcharge for the service can be high," Sokolis says. "And it can be, if not properly negotiated. But they save these costs for the driver, for the fuel it would take to get to the gas station, the time the driver might have to spend in line to get fuel, and they can have better control of routing their vehicles, because now the guy doesn't have to stop and get fuel."

Hedging Your Bets

Fuel hedging made the news last year when Southwest Airlines was able to report profits that were achievable because it had locked in lower fuel prices with contracts hedging future fuel costs. Between 1998 and mid-2008, reported *USA Today*, Southwest saved $3.5 billion over what it would have spent if it had paid the industry's average price for

Information is Power

In order to make the best buying decisions, it helps to know as much as you can about fuel prices. Larger fleets subscribe to services such as the Oil Price Information Service, or get proprietary feeds from their fuel suppliers. Fuel management consultant Glen Sokolis notes that knowledge of the product is key to successful negotiations with truckstops and other fuel vendors. He compares it to buying a car. "The better you know what the price of the car is [to the dealer], the better off you are to negotiate your deal."

The Internet has made it easier for even small players to keep track of fuel prices, whether that be retail prices at truckstop or wholesale prices at the rack. The U.S. Energy Information Administration, part of the Department of Energy, publishes national and regional average retail diesel prices each Monday at *www.eia.doe.gov*. The Oil Price Information Service has teamed up with AAA to offer free, daily state-by-state and national retail fuel price averages at *www.fuelgaugereport.com*.

jet fuel. That's equal to about 83 percent of the company's profits over that same time period.

Of course, airlines are not the only companies who hedge fuel costs. Some trucking companies do it, as well.

In its simplest terms, when you hedge fuel, you agree to purchase fuel (either in real "wet" gallons or on paper) from one source over a longer period of time, typically a year, at a pre-determined price.

The risk, of course, is that you could end up paying more for your fuel than the market price if fuel and oil prices go down, as they did this year.

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"Hedging is great when you need a predictable or budgetary number," says Ryder's Orrico. (Ryder is not directly involved in hedging but has many customers who do.) "It's not good if all you're trying to do is beat the market."

Sokolis, in fact, prefers to call it "price insurance," as opposed to hedging. "It's all about taking a large variable in your budget and taking it off the table so you don't have to worry about it. If my business can run well at $3.50 a gallon, so be it if it goes down to $2.50 or goes up to $5 – I know I have $3.50 fuel all year long and I'm safe."

The concept of hedging sounds simple, but the reality can be quite complex. There are fees associated with setting up fuel hedging contracts, and you may have to post collateral to get the hedge contract. How much of your fuel should you hedge? How frequently should you do it? What type of hedging contract should you use?

One company that has tried to make the hedging process easier is Simons Petroleum. Simons' programs, called "wet-gallon hedging," are available to fleets smaller than those that typically use hedging programs offered through financial institutions They don't require a minimum purchase, and the hedging program includes both bulk fuel purchases and fuel purchased at Simons' Pathway fuel network of about 200 truckstops. Margin calls and those other technical trading terms are handled by Simons in the background.

Brad Simons recommends that customers start by hedging the amount of fuel that is not covered by the fuel surcharge. Idle time, out of route miles, deadhead miles, and refrigeration units all use fuel that can't be billed to the customer.

"Typically around 30 percent of a carrier's volume cannot be recovered through the fuel surcharge," Simon says.

BTI Special Commodities, Des Moines, Iowa, has been doing hedging contracts with Simons for several years. It's been so successful, they are hedging much more of their fuel purchasing than the 30 percent Simons recommends. At times, they have had as much as 90 percent of their gallons committed to fuel contracts.

But BTI, a national flatbed carrier with about 100 trucks, has two people who keep up with the hedging daily. Gary Handley, the safety director, and Controller Teri Netusil share the fuel purchasing duties, watching the NYMEX like a hawk, alongside their regular responsibilities.

Hedging has "helped us immensely in mitigating our fuel costs," Handley says. Even as prices plummeted in the second half of the year, he says, they were still ahead of the ball game.

"We're not necessarily looking for the cheapest we can get into, although that's important," Netusil says. "What we're trying to do is cover that upside so we all sleep better at night."

Balancing Act

When you're analyzing purchasing strategies, it's important to consider how they mesh with other company goals and departments. Saving a few cents per gallon may not help the bottom line if it makes other costs go up.

"People at times become obsessed with the price of the fuel," says Glen Sokolis, and don't take into consideration that they could burn more in fuel than they save if a driver has to go off-route by a few miles to get that cheaper price.

Keep drivers in mind when building your fuel network. "Ultimately we don't turn the key in the truck," says Gary Hess, vice president of safety and recruiting for Risinger Brothers Transfer in Morton, Ill., which has about 225 power units. "We can make suggestions, recommendations, even demands, but drivers are going to stop the truck where they want to. Even though they may stop in a fuel stop in your network to buy fuel, they could leave there to go across town to get to the truckstop where they actually want to spend the time. From a risk management standpoint, now you're talking two parking events. Too large a number of accidents occur in truckstops, and now you've doubled your risk. In that case we may save a few pennies on fuel but spend a few dollars in accidents."

Whichever strategies you choose for your fleet, the important thing is that you're taking actions to control and save money on your fuel purchasing. "As fuel prices have come down, it's really not a time to be complacent about it," says FleetCard USA's Mike Noles. "We're going to be dealing with fluctuating fuel prices, and it's extremely important to make sure you've got effective tools in place to help you manage that cost of fuel."