

KNOWING

Is Half the Battle

Benchmarking helps operators regain control over fleet fuel costs.

by David Zahn

It has been a rollercoaster year so far in terms of fuel prices. Diesel and gasoline have risen above \$4 per gallon, and oil has surpassed the \$100 per barrel mark. The fuel market has also experienced great volatility in fuel prices. February saw gas prices rise 17 cents in one week, and May saw a drop of 22 cents in just one day. These price swings are not atypical. The continued unrest in North Africa and the Middle East are at the heart of rising prices in the first half of the year. The question many are asking is whether 2011 will prove as bad as what we saw in 2008. Possibly.

It is also certainly possible that 2011 will set a new watermark in fuel prices.

When costs spin out of control, fleet managers look for opportunities to gain back operational control and reduce costs where they can. They look for ways to streamline their operations and improve their fuel buying. Unfortunately, many aggregate companies are unaware of their operational strengths and weaknesses in terms of fuel management — particularly in how they compare against the rest of the industry. Without this basic understanding of fleet fuel management performance, it



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is impossible to make decisions on where to make improvements and gird against a worsening fuel market.

Like GI Joe says, "Knowing is half the battle." In this economy, plant managers must assess their fuel management performance or run the risk of continued budget overruns and throwing away dollars that would normally go straight to the bottom line of the company. It is time to know where you stand so you can fight through these tough times.

So, where do you start? First, analyze past fuel management practices and results, and, second, benchmark against the rest of the industry. Examples of the areas to examine include:

SPEND ANALYSIS.

- Purchase volumes,
- Geographic distribution of demand (if applicable),
- Fuel systems infrastructure,
- Fuel taxation exemption status by location and use, and
- Actual invoice line item charges.

BENCHMARK.

- Best practices,
- Published fuel price indices (such as OPIS),
- Time series analysis against published indices, and
- Ongoing performance improvement targets.

The process of benchmarking is rather straight forward. Ideally, a team of fuel experts looks at past purchases (i.e., invoices) for a period of time (usually between six months to two years) and compares them to different price indices for that period. Additionally, the team looks at operational processes, licensed distributor potential, supplier and carrier incidences of error, and more to determine where operational advancements are available. A detailed report is presented at the end with results and recommendations for further action.

Performing this analysis and benchmarking can certainly take time and require resources that are not necessarily available in an organization, but there are third-party companies, such as FuelQuest, that specialize in performing this type of study. By going with a third-party, you immediately plug into people, processes, and tools to complete an entire benchmark process in a short amount of time without taxing your internal resources. Once you have a benchmark in hand, you can make more informed decisions about where to implement operational improvements, as well as have the ability to measure whether changes have moved the ball forward from your benchmark baseline.

Will other countries in North Africa and the Middle East experience political turmoil placing world oil supplies in jeopardy? Will the rest of the world react appropriately to curb rising fuel prices? Is there another world event waiting around the corner to send fuel prices even higher? The future is unclear, as the events we are seeing were unfathomable just six short months ago. In these unpredictable and difficult times, it is incumbent upon aggregate companies to grab hold of their fuel management processes looking for ways to improve efficiency and lower costs — for some as much as 4 to 6 cents per gallon. Companies even have the opportunity of gaining a price advantage in the market as fuel tends to be one of the largest expense items (for many, high fuel costs are actually making it number one). Attaining these outcomes requires data that can only be attained via a low investment benchmarking process. As G.I. Joe says, "Knowing is half the battle." Go Joe! **AM**

David Zahn is the vice president of marketing for FuelQuest and is responsible for managing marketing and partnership initiatives. He can be reached at dzahn@fuelquest.com or 713-222-5719. For more information, go to www.fuelquest.com.

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