

Investment & Finance Guide

Tips for Buying, Selling, Merging, Acquiring and Branding Petroleum Properties

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Fleet Operators Turn to **Outsourced Fuel Management** to Mitigate Price Volatility and Costs **Without Compromising Supply Security**

By Ryan Mossman

Fuel experts combine best practices and advanced technology solutions to better predict operational expenses, preserve working capital and protect operating margins.

For companies with fleets to power, equipment to operate and cargo to deliver, fuel is an essential part of business. Therefore, minimizing costs and ensuring supply security to procure and manage bulk fuel are top priorities for fleet operators.

Considering fuel is now one of the largest costs for fleet owners, recent gasoline and diesel price volatility has directly correlated to less predictable operating expenses and margins. This is leading to the re-evaluation of underlying assumptions and risk controls about how fuel price volatility is built into a fleet's business model.

Fleet operators charged with managing supply portfolios and maintaining adequate stock levels, often at multiple sites, should consider a centralized approach to their fuel management. Because the premium is placed upon security of supply, many fleet operations tend to overstock, which can result in overpayment and increased inventory carrying costs. This supply chain complexity combined with erratic price cycles caused by the market and unpredictable weather patterns, causes concern for CFOs and business unit managers when attempting to minimize expenses during recent history's thin margins, all while remaining competitive.

This is precisely why many commercial and industrial fleets, ranging from food distributors, aggregates and mining companies, LTL trucking organizations to waste management and bus fleets, are outsourcing fuel management to expert teams to:

1. centralize the fuel management process,
2. help mitigate the impact of price volatility,
3. drive OPEX predictability,
4. optimize deployment of working capital and
5. ultimately, gain competitive advantage by better managing fuel price volatility and the timing of fuel purchases.

“Buying smart, or making the critical decisions on when to dispatch or delay transports of fuel has never been more critical.”

– Tom Kloza
Chief Oil Analyst, OPIS

“Recent record fuel prices made us realize the need to delve deeper into each aspect of our fuel supply chain in order to gain deeper insights into our daily fuel management operations. The combination of FuelQuest’s deep industry knowledge and its FMS solution will enable us to obtain real-time inventory management processes.”

– Marlin Kling
President & COO,
Midwest Motor Express



Today more than ever, reducing these balance sheet liabilities, controlling the total fuel spend and maximizing asset utilization have become strategic imperatives for leading fleet companies.

Minimizing Costs from the Outside-In

Utilizing outsourced solutions such as FuelQuest Fuel Center®, FuelQuest's fuel management service, fleet operators can access sophisticated benchmarking and detail in order to better manage operational budgets and centralize control—yielding new levels of visibility across the organization. Fuel Center drives average savings of 4 to 6 cents per gallon by combining deep industry expertise, best practices used by some of the world's preeminent fleet companies and its industry-standard fuel management solution.

With additional levels of automation and rigor around forecasting, procurement, management and financial reconciliation, outsourcing fuel management also allows staff to focus on their core areas of expertise—logistics, customer service and operational excellence. John Fershtand, director of fleet operations and energy management for Ben E. Keith, comments, “We’re in the food business not the fuel business. By outsourcing our fuel management to Fuel Center, we are able to focus on what we do best while the FuelQuest experts manage the fuel.”

Often, the complex supply chain inhibits an internal fuel department's efficacy when it comes to accurately valuing inventory or tracking in-ground volumes. This difficulty in accurately forecasting volumes and usage severely limits an operator's capacity to price protect. An effective outsourcing arrangement can equip fleet operators with real-time access to all operational, purchasing, pricing and financial reconciliation activities and information.

Take for example an internationally-based fleet operator with a total of 100 sites in the U.S. and Canada. With Fuel Center, this company was able to consolidate and centralize its fuel procurement across multiple

divisions. Prior to outsourcing its fuel management program to the Fuel Center team, this company was operating with a de-centralized fuel procurement strategy. After deploying Fuel Center, the company's fuel procurement program went from dealing primarily with local jobbers and distributors to dealing directly with local refineries obtaining a balanced portfolio of OPIS and Platts-based contracts, fixed-price contracts and spot purchases; all driving documented savings in excess of six cents a gallon.

Determining an effective supply strategy

The outsourcing process begins with an in-depth spend analysis that takes into account the entire lifecycle of fuel needs to help owners gain clarity around the true cost of a gallon of fuel. The independent third-party team takes into account spending trends, supplier arrangements, market dynamics and other business processes to recommend opportunities for gaining efficiencies. This establishes a best practices baseline from which the program will be measured and compares current operations to industry standard pricing and performance. “Having the right strategy and identifying goals for a fuel program is imperative to purchasing fuel at the best price. A group needs to compare its fuel spending to an industry average,

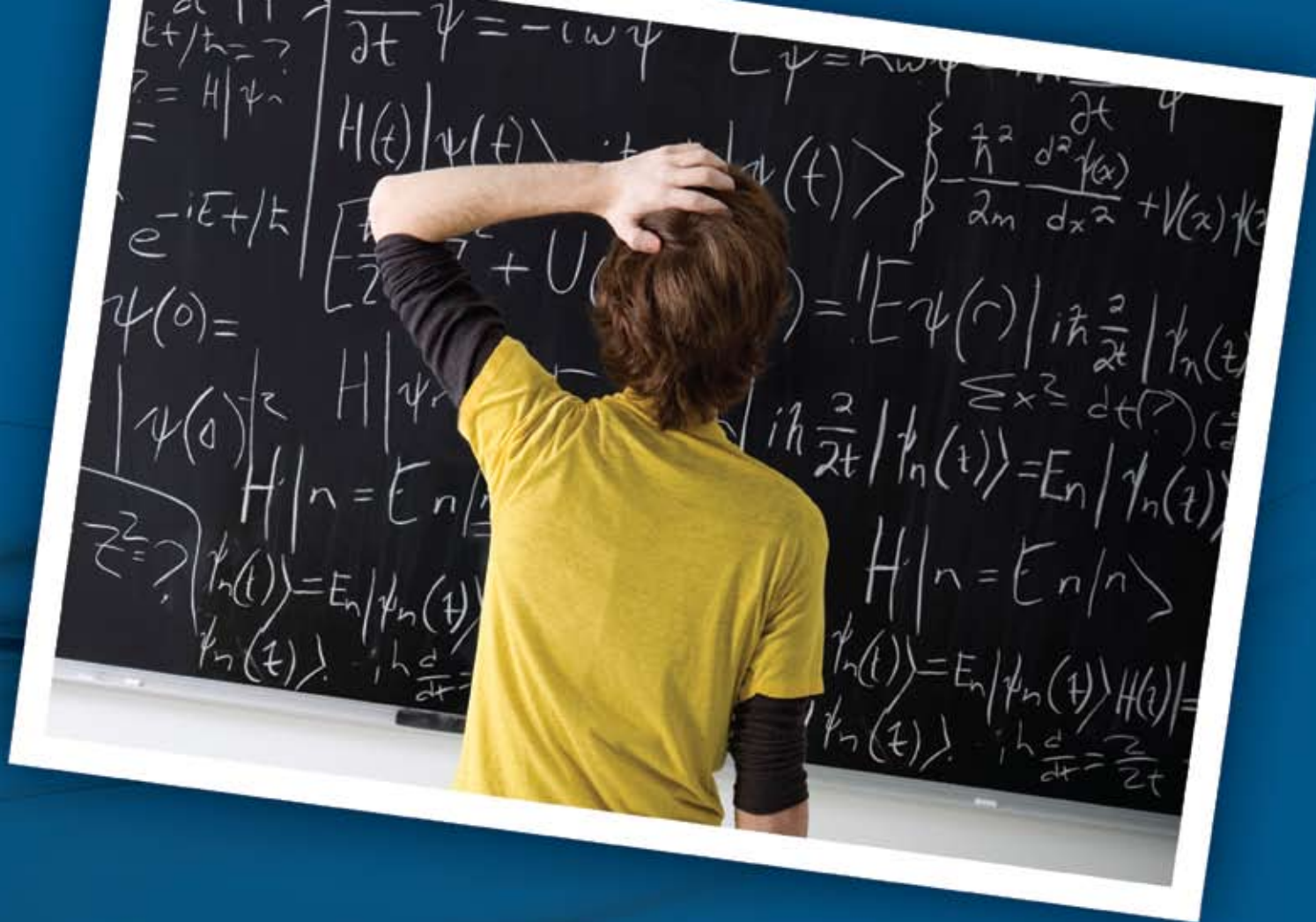
usually using one of the fuel price indexes such as Platts or OPIS,” instructs Ryan Mossman, vice president/general manager – Fuel Services, Fuelquest. “Only after setting goals for the fuel program and assessing current fuel buying strategies can a fleet operator make decisions on when and how to utilize long-term, fixed-price contracts, index-based contracts or when to buy in the spot market.”

Armed with the data from the spend analysis, the outsourced fuel management team assimilates the intelligence to proactively balance security of supply, desired cost and margins. Aggregating volumes and centralizing control creates forecasting, sourcing, inventory management and reconciliation synergies

“For companies that have the right systems, processes and expertise to manage fuel themselves or via a partner, volatility provides opportunity to capitalize on price movements based on forecasted inventory. Companies that don't manage fuel any differently than other purchases or de-centralized fuel contract management will likely be challenged by competitors that do.”

– Matt Tormollen
President & CEO, FuelQuest

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Managing your fuel supply chain got you puzzled?

FuelQuest's Fuel Management System (FMS) is the largest fuel management network in North America with over 15 billion gallons of fuel flowing through its system annually serving customers such as UPS, FedEx Ground, Walmart/Sam's Club and Conoco-Phillips. FuelQuest offers solutions that streamline the fuel supply chain, reduce costs and gain predictability of supply.

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and strengthens negotiating power with suppliers.

For example, Midwest Motor Express chose Fuel Center to optimize fuel sourcing and inventory management in order to help manage its exposure to price volatility. As a shipping and customs brokerage services provider, Midwest Motor Express fleet operations provide shipping services throughout the United States and internationally. The company's entire bulk operations are optimized through Fuel Center; the result is a savings of over two cents per gallon on strategic sourcing alone and a total savings of 4 and ½ cents per gallon.

FuelQuest's fuel management team creates strategic supply relationships to ensure a right-sized supply portfolio to meet the ever-changing needs of the fleet on a site-by-site basis. Because fleet operations and fuel consumption can vary from year to year, creating a more flexible supply arrangement is preferable to contracting annual fuel volumes.

This strategic procurement plan enables fleet owners to gain strategic consulting on supply portfolios and negotiate long-term supply contracts in addition to index-based contracts. This deep contracting and sourcing intelligence feeds into benchmark studies to ensure they are purchasing competitively versus other fuel buyers, including competitors. Further, the team can evaluate both fuel prices and freight for given markets as measured against industry averages and can conduct supply and transport RFPs accordingly. This level of supply and freight optimization ensures the efficient use of third party carriers to mitigate variances in delivery costs. The bottom line: greater operational flexibility and lower costs.

Fuel Center also identifies short-term (spot) tactical buys based on market conditions to achieve near-term gains. For instance, Fuel Center has access to thousands of daily price feeds to instantly facilitate more informed purchasing decisions. Also, because intraday prices can fluctuate nearly 15 cents per day in some markets, timing (load shifting) fuel purchases enables fleets to capitalize on price volatility when ideal spot market buying opportunities present themselves. As an example, an internationally-based customer outsourced

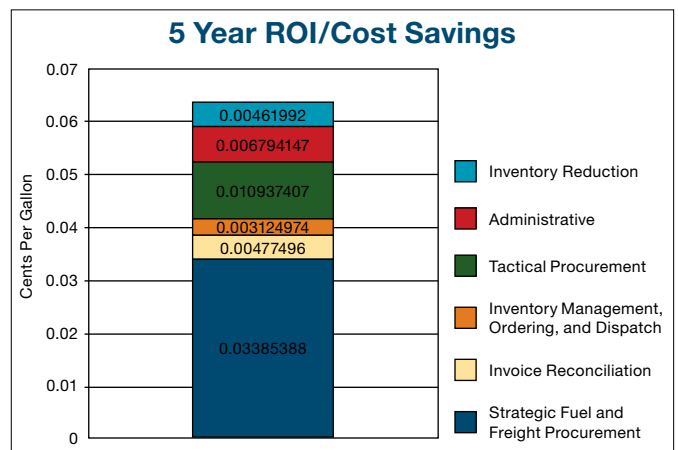
“The key to controlling operating costs related to fuel is not whether prices will rise or fall, but managing and capitalizing on price movement. It is possible to optimize price in both rising and falling markets.”

– Ryan Mossman
VP/GM Fuel Services, FuelQuest

its fuel management process to the Fuel Center experts and saved \$60,000 a year through tactical load shifting strategies.

Through real-time visibility into inventory levels and intra-day pricing within geographical regions, our experts can fill tanks when the prices are favorable and hold off as long as possible when they aren't. This precise degree of real-time visibility helps fleet owners avoid overpayment of excess inventory, optimize working

capital management and assist in optimizing inventory, a key enabler to timing loads. If additional sites are added or an increase in bulk fuel volumes is required, the Fuel Center offering can be scaled to meet any fleet fueling requirement without the need for additional overhead.



FuelQuest Fuel Center® Cost Savings; Source: FuelQuest, Inc.

With an effective outsourced arrangement, the impact of supply shortages can also be diminished to ensure the fleet has the fuel it needs at the right time at a competitive price.

Increasing Transparency and Command of Financial Reconciliation

Once supply and transport options are vetted and inventories optimized, the final link in the supply chain is financial settlement. Leveraging FuelQuest's Fuel Management System (FMS), the Fuel Center team can compare and verify accuracy of quoted price, bill-of-lading, invoices, delivered gallons and freight and

taxes – all essential factors to increasing operational transparency and controlling fuel costs.

By automating financial reconciliation and ensuring tax compliance, Fuel Center increases operational transparency and rapidly resolves billing and invoice discrepancies via financial matching. This means the fleet operator can control and manage fuel costs in a centralized, end-to-end manner from procurement to management and financial reconciliation. Reducing the administrative burden on the internal team allows those resources to be re-allocated to other value-added areas of the business. Utilizing Fuel Center, a leading transportation company was able to save \$350,000 took out in administrative costs.

The end-game for fleets choosing to outsource fuel management is the operational predictability that comes with supply security and lower overall fuel costs. Supported by a team of fuel experts, fleet companies can now manage any level of fuel volumes in the same economical and sophisticated way as the largest companies in the world—without the need for additional overhead costs. By reducing financial

exposure to volatile markets, fleet owners can create a competitive edge, secure in the knowledge they are obtaining fuel required to power their fleets at a lower rate versus their competition.



Ryan Mossman

Vice President/General Manager – Fuel Services

Ryan Mossman, vice president and general manager of FuelQuest's Fuel Services, leverages his years of experience applying technology and business process improvements to help energy, retail, commercial and industrial clients. He leads both of FuelQuest's outsourced fuel services divisions; Fuel Center and Alarm Management Systems (AMS). Ryan's FuelQuest experience includes leading large scale supply chain optimization, technology and business process implementations at large fleet and energy companies including UPS, US Freightways, and Chevron. Prior to FuelQuest, Ryan was a vice president of Spur Digital and founder of McKinley Powell, an IT consulting and strategic marketing firm for the oil and gas industry with an international client base, as well as a consultant for Accenture. Ryan has an MBA from the University of Texas and an economics degree from Columbia University.

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