

Fleet fuelling



For companies that rely on fuel as a business enabler, 2008 will be remembered as a year of unprecedented highs, lows and unpredictability. As the industry looks forward to 2009 and beyond, the critical issue is not whether prices will consistently rise or fall, but managing and, where possible, capitalising on the price volatility that is the new reality. It is inevitable that the global economic turmoil will create winners and losers in the fleet/haulier sector, as in all other markets. However, companies with comprehensive approaches to their fuel programmes can predict and control this critical operating cost and provide themselves a much needed competitive edge, writes FuelQuest CEO Matt Tormollen.

Before examining the key elements of a fuel programme, a review of oil demand and fuel prices is instructive. According to the International Energy Agency (IEA), global demand for oil contracted in 2008 for the first time since 1983 (*Oil Market Report*, 11 December 2008). Weakened demand is predicted for

2009 as well. If accurate, the two-year decline in global consumption would be the first since 1982 and 1983. Refiners are continuing to cut runs as margins erode; meanwhile, supply surpluses are increasing in Europe and are at historically high levels in the US. Gasoline and diesel prices in the US

exhibited huge price swings in 2008 – going from highs well above \$4/gallon in September and plunging below \$2 for gasoline and slightly above for diesel. According to the US Department of Energy (US DOE) in early January 2009, the retail diesel average of \$2.291/gallon was the lowest price in 2.5 years and a 52% improvement over the average high record of \$4.764 in July 2008.

For fleets, the reduction in diesel fuel prices translates directly into cost savings. According to *Transport Topics*, a news weekly covering US freight transportation, the decline in the price of diesel between the July 2008 peak of \$4.764 and the average retail price of \$2.291 on 5 January 2009 translates into a drop of fuel-related operating costs of 41 cents per mile for a fleet that averages 6 miles per gallon. However, prices will remain volatile as market news concerning economic performance, regional conflicts like the Russian and Ukrainian gas stand-off, and OPEC supply decisions will drive sharp price swings. In January 2009 alone, the average weekly price of diesel as reported by the US DOE changed from \$2.291 to \$2.314 to \$2.296 in consecutive weeks.

Managing costs

Price volatility undermines business predictability from an earnings and investment perspective. In this difficult environment, fuel management is a critical factor in business viability for fleets. Fleet owners should evaluate a comprehensive approach to fuel management that simultaneously provides security of supply and improves the economics of fuel buying and consumption. Five key areas should be examined, including:

- Spend analysis – determine market-by-market, site-by-site and route-by-route.
- Benchmarking – baseline and compare to published market metrics and established industry best practices.
- Supply strategy – balance supply security with cost and margins.
- Contracting – coordinate operations, accounting and legal teams to maximise opportunity.
- Execution – automate to ensure rigorous compliance to the fuel programme.

The first step in the process of managing fuel costs is documenting and interpreting spending patterns. Fleet owners should fully review purchase volumes, geographic distribution of demand, the fuel system infrastructure, fuel taxation regulation by location, and perform a detailed review of

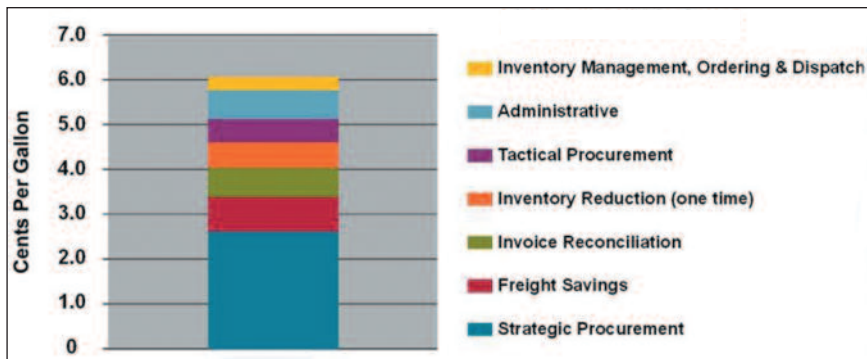


Figure 1: Cost savings by category

invoice line items for accuracy. Once these details are understood, overall performance can be assessed compared to established industry averages. By establishing this baseline, the financial opportunity relative to improvement can be objectively measured.

Developing accurate and effective baselines is a multi-faceted process. Comparison of detailed fuel costs to published fuel price indices from the Oil Price Information Service (OPIS) and Platts is imperative. The analysis should be by time series and across and within geographies.

This analysis indicates the potential savings opportunity, but not how to capture it. Figure 1 shows areas of potential savings gleaned from an analysis of the existing fuel programmes of more than a dozen fleet/hauliers in North America in 2008.

The next step will define the components of the overall supply strategy. Developing a supply strategy ultimately yields a portfolio of alternatives that is

mapped to business need, logistics and geographic infrastructure. How and where one purchases in the overall fuel supply chain can have significant impact on fuel costs. Depending on the size and location of fleet assets, changing a business model to acquire bulk storage or becoming a licensed fuel distributor can have significant positive financial impact. Regardless, a rigorous evaluation of retail, wet hose, bulk and hedging strategy is required to create a supply portfolio that can adequately capture the available savings opportunity.

Once supply portfolio options are understood, a coordinated approach to contracting will yield the lowest cost operational result. Ensure that procurement have involved operations, accounting and the legal department, and allow adequate time for the overall contracting process. Centralising contracts with suppliers provides greater negotiating power and performance visibility. In addition, specific

mandatory business process requirements can be specified as minimum requirements to suppliers. These requirements can provide the basis for subsequent automation steps and process efficiency gains. For example, electronic exchange of credit, payment and bill of lading information can facilitate business process automation with back office solutions.

Finally, focus on execution once the supply portfolio has been established. Implement technologies and processes to minimise fuel sourcing costs, optimise routes and ensure billing accuracy. A comprehensive approach to automation will marry solutions at both a strategic and tactical level. Fuel supply optimisation solutions enable sourcing at the lowest cost by geography among suppliers and automate financial reconciliation and tax compliance. Route optimisation solutions minimise mileage and can suggest least cost refuelling options along a route. In developing an overall automation plan, it is important to map the value delivered by a solution back to both the opportunity baseline and supply portfolio options.

In summary, the fleet industry is faced with a new reality of unprecedented price volatility. However, even in these harsh economic conditions, opportunities do exist to capitalise on the market shift through a comprehensive approach to fuel management. By following a rigorous step-by-step approach to evaluation and implementation, margins can be gained to provide true competitive advantage in an increasingly difficult environment. ●

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Meanwhile, the supermarkets have continued their pattern of steady growth, with all brands in the grouping adding sites – except Somerfield, which closed five outlets. Total site numbers in the group increased by 22 in the course of 2008 (see p5).

The 12 companies that make up the other retailers category (those with 19 sites or less) opened or acquired 23 forecourts in 2008 (see p6).

However, the small and unbranded sector which makes up the balance of the UK network continued to struggle with tough retailing conditions, closing some 61 outlets (see p6), to number 1,077 in total by year-end.

Fuel prices in 2008 were significantly higher than the previous year, reflecting sky-rocketing global oil prices – reaching a high of 118.50 p/l for unleaded petrol in July and 132.10 p/l for diesel. Prices only began to drop in November – falling to 94.87 p/l for petrol and 108.69 p/l for

diesel. Prices fell a further 5 p/l in December. By the close of the year, unleaded prices had averaged 107.46 p/l (versus 95.40 p/l in 2007); while diesel prices closed the year at an average price of 118.22 p/l (versus 97.88 p/l) (see p12).

Petrol sales remained fairly steady by the close of 2008, with a rise of just 22,000 tonnes on year earlier levels. However, they remain 15.30% below decade earlier levels. In contrast, diesel sales actually dropped in 2008, falling by 132,000 tonnes to 20.905mn tonnes – probably due to the significantly higher prices during the year. That said, diesel sales in 2009 were still 34.80% higher than those of a decade ago, illustrating how strong the move to diesel has been. High global oil prices appear to have had an impact on total motor vehicle use during 2008, with total motor fuel sales falling by 110,000 tonnes to close the year at 39.360mn tonnes (see p14). Meanwhile, registered UK vehicles reached an all time high of 33.957mn, with each forecourt supplying

an average of 3,658 vehicles (see p17).

The proportion of biofuels in the overall fuel mix in the UK rose significantly in 2008 following the introduction of the Renewable Transport Fuel Obligation, which entered into force on 15 April 2008. This places an obligation on road fuel suppliers to ensure that a target percentage of their total road fuel sales are biofuels – starting at 2.5% by volume in 2008/2009. As a result, all diesel now sold in the UK contains a biofuel element. Sales of bioethanol are also on the rise – site numbers rose from 565 in 2007 to 805 in 2008 – although at a slower pace as bioethanol is more difficult to transport and store due to its hydroscopic properties (see p16). Meanwhile, the number of outlets retailing LPG increased to 806 in 2008, reflecting the continued growth of the alternative fuels market. ●

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Notes: All numbers are as at end-2008 unless otherwise indicated.