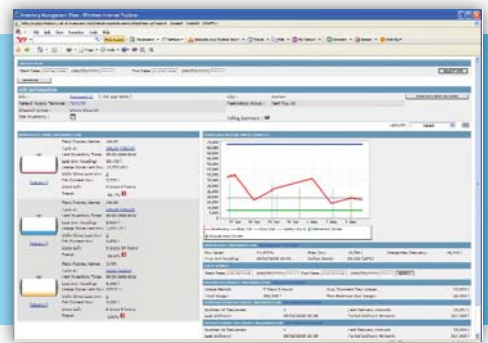


Managing Fuel Volatility

Is there a Better Way?

Couple the current fuel price volatility with issues of supply security and all fleet operators are faced with the dilemma of how to manage an increasingly complex motor fuel supply chain. Ryan R Mossman, Vice President & GM Fuel Management at FuelQuest, explains how outsourcing this difficult challenge to external experts can reduce costs, increase supply security and allow fleet operators to focus on their core business.



My favourite Latin quote - “Age quod agis” - means “Do what you are doing” and “Do well what you do.” This couldn’t be more appropriate in today’s volatile fuel markets. A fleet company’s core business is to deliver freight from A to B on schedule. A fuel management outsource team’s core business is to procure and manage fuel at the lowest cost.

By outsourcing fuel management, fleet operators get the best of both worlds: greater supply security at a lower cost while re-deploying resources to improve their core business. Furthermore, you reap these benefits without incurring the overhead costs of maintaining fuel procurement staff and technology.

Key benefits of outsourcing

- Lower fuel costs
- Increased supply security
- Reallocated resources to the core business
- Reduced administrative burden
- Acquired expertise of a complex supply chain

Should you outsource?

While outsourcing is attractive for most fleets there are a few factors such as size, purchasing behaviour and fuel infrastructure that determine which fleets will benefit most. One factor that does not play into the decision is the type of freight you haul. Fleets of all types including food distributors, waste management, parcel/couriers and bus companies among others can all benefit from outsourcing.

The most important determinants of whether outsourcing is right for you is do you buy bulk fuel (ie delivered/stored at your company’s depots) and, if so, how much? If you are currently purchasing more than four million litres in bulk fuel annually you are probably in a position to benefit from outsourcing. If you purchase more than 250 million litres, then hiring your own team of experts and purchasing fuel management software might enable you to gain the lower costs and supply security otherwise offered by outsourced experts.

Other determinants include how you might change your purchasing behaviour to fall into the approximate ranges above or how you can alter your infrastructure to buy more bulk fuel. To the former, specifically can you buy less at a retail station and use your own fuel more? To the latter, you can evaluate whether it makes more sense to invest in an internal fuel depot. Just in mar-

gins it could typically be two to three pence per litre difference between buying retail versus buying bulk.

Ways to outsource

Outsourcing your fuel can take on a number of forms. The key areas to outsource are inventory management, procurement and financial reconciliation. By outsourcing these three components you are covering the full life cycle of your fuel needs: from the need to have fuel in your tanks to reconciling invoices and payments. The three most common options are outsourcing to a supplier (either an oil company or distributor who monitors your fuel and replenishes with their own or sub-contracted fleet), a haulier (a fuel transporter who monitors your fuel and replenishes with an independent supply and their trucks) or an independent third party (a firm that manages your fuel and other fleets’ fuel without being tied to a supplier or fuel haulier).

Advantages of outsourcing to a supplier include favourable contract prices and enhanced supply security (depending on their commitment to you and their strength in a region). The principal disadvantage is that you are locked into one fuel supply option. Depending on who determines the order time, a supplier might optimise their fuel position at your expense in terms of both price and inventory levels.

Advantages of outsourcing to a haulier include potential enhanced security of supply if they have special supply relationships and expertise around hauling logistics. However, depending on who determines the order time, a haulier might optimise the timing of the load to maximise their truck utilisation at the expense of the price you pay.

A third option gaining in popularity is centralising internal operations and allowing an independent third party to optimise inventory levels, time buying decisions based on market dynamics, secure supply arrangements that cover tight supply situations and resolve billing and invoice discrepancies. If truly independent, this mode of outsourcing prevents any conflict of interest between you and your suppliers and hauliers.

If you operate a fleet and consume more than four million litres of fuel a year, then you should examine possible fuel outsourcing options. The main benefit is the peace of mind that you have supply during shortages and knowing that whether the market is rising or falling, you will reduce your fuel expense.