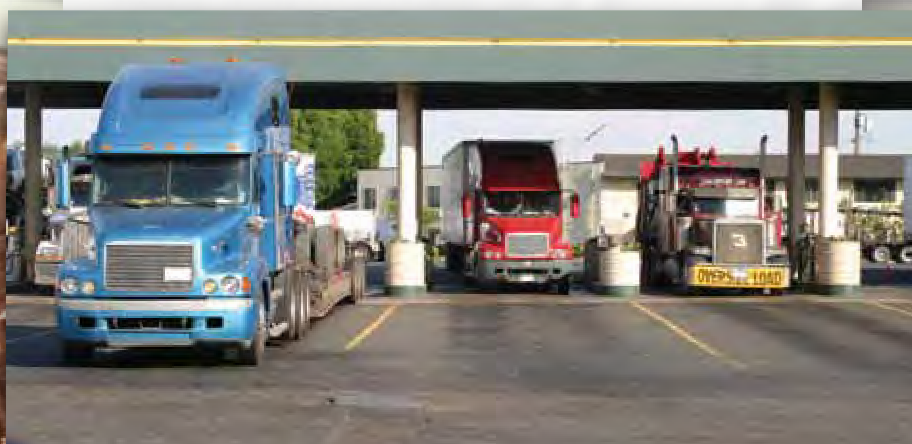
Squeezing Your Fuel Costs

Five Ways to Keep Fuel Costs Down and Profits Up

BY VIRGIL MAHLSTEDT



Yikes! With fuel prices soaring, we're getting ever closer to the trucking industry's nightmare of paying a "buck a mile" to run our tractors. If fuel is $4 per gallon and a tractor's fuel mileage is averaging 6 miles to the gallon, you're paying 67 cents per mile right there. Consider that fuel has recently gone a good bit above $4 per gallon and that you're probably not getting 6 miles to the gallon across your fleet, and it may be that you're already paying 70 cents, 80 cents, or more per mile.

TO DO MORE

There's more to the story, and the news isn't good. Unless you're very diligent about adjusting your fuel surcharge to reflect fuel price changes, you may not be getting back your fair share from your customers. Plus, your fuel surcharge isn't helping you pay for the added fuel costs coming from deadhead miles and Out-of-Route (OOR) miles. And even if you're staying right on top of your fuel surcharge so that you're getting fully reimbursed for rising fuel costs for billed miles, there's a lag time between when you pay for fuel and when you get paid. Given the large amounts of money involved, you may suddenly face a cash-flow pinch that makes it extremely difficult to run your business.

Can anything be done to combat these problems? Yes, and in fact, some of the steps you can take will not only help avoid losing money, they will also help you make more money. You can pay less for fuel, get paid by your customers more quickly, master your fuel surcharge, reduce your unpaid miles, and you can improve your fleet's fuel efficiency. The trick is having the right tools and knowing how to use them.

McLeod can help. Software has become an indispensable component of business success in the trucking industry. Many of the most pressing challenges become easily manageable through the use of information technology, and this is certainly true of fuel costs. It's bad enough that trucking companies need to purchase this commodity to do business. What may be worse is knowing that there are ways to curb this run-away expense and not putting the tools in gear that will do the job.

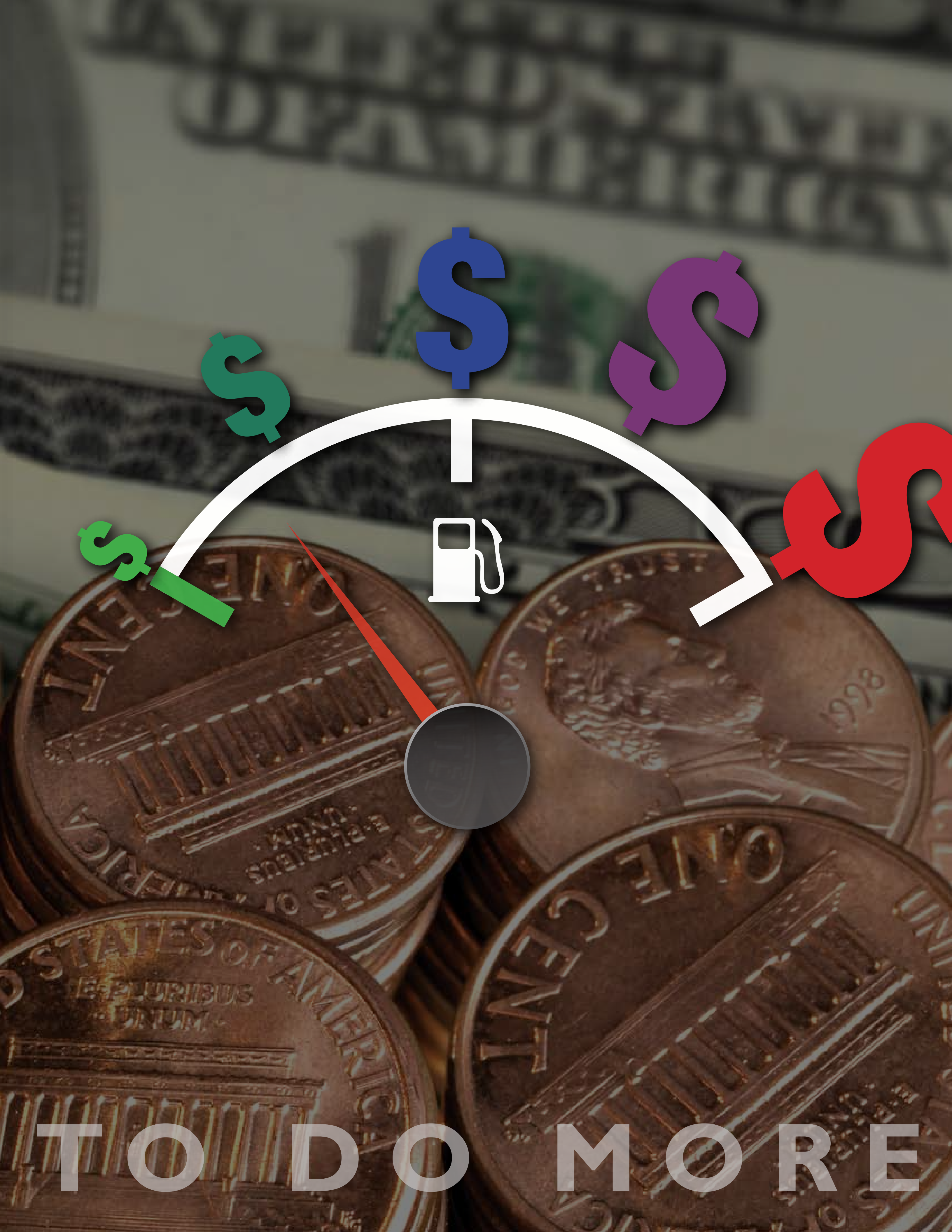
Five Ways to Handle Fuel Costs

1. Pay less for fuel.

How much are you paying per gallon at the pump? Fuel prices vary and you may think your drivers are doing a good job of finding the best prices, but how do you know? McLeod's LoadMaster® Dispatch Software makes it easy to find out. With LoadMaster at work for you, you'll have a record of every fuel purchase made by every truck driver in your fleet. A report on the average price you paid for fuel last month (or last week or last year) can be viewed at any time. Compare this figure to the national average price and you'll know where you stand.

The next figure you want to see is how much money you could have saved if you somehow knew exactly where to get the best prices on fuel every time you tanked up. McLeod's FuelMizer Fuel Optimization System can tell you that. FuelMizer uses a global knowledge base to direct you to the best places to buy fuel along every route taken by each of your drivers. Every truck stop in North America is geo-coded into this databank, and fuel purchases at all locations are constantly monitored. Using this steady flow of real-time data, fuel prices are updated in FuelMizer every thirty minutes.

The end result is that FuelMizer will enable you to pay less for fuel. You'll save 3 cents, 5 cents, or more per gallon. Multiply these savings by the number of gallons of fuel you purchase each month and suddenly these few cents of difference translate into thousands of dollars saved. Paying less for


TO DO MORE

fuel shows up directly on the bottom line, so saving several cents per gallon can mean the difference between profit and loss on each day's business.

2. Keep fuel costs from adversely affecting your cash flow.

It's easy to be complacent about fuel surcharge billing. After all, the idea is that the fuel surcharge will keep in a fully expense-recovered state, and if the price of fuel remains reasonably steady, everything works as it should. The problem is that when fuel prices spike, you're left holding the bag temporarily, because there's always a lag time between the time you pay for the fuel and the time you get the increased fuel surcharge payments from your customers.

To see how this lag time can put you in a cash bind quickly, let's look at some numbers concerning fuel expenditures. Say that an average truck runs 10,000 miles each month. Dividing that by 5.5 miles per gallon shows that the truck is using just over 1,800 gallons of fuel each month. Multiply that by four dollars (per gallon of fuel) and you see that you're spending $7,200 per truck each month for fuel. If you have 100 trucks in your fleet, then your monthly fuel bill is $720,000! This is a bigger number than people outside the industry tend to comprehend. If the price of fuel starts going up like a rocket one month, the fuel surcharge money coming in for hauls you made last month won't offset your cash outlay for fuel this month. You'll have to get your hands immediately on thousands of dollars that probably weren't in your budget plans.

The solution is to get paid more quickly. You want to reduce your days-of-sales-outstanding (DSO), and the tool for doing that is McLeod's DocumentPower™ system. Through a powerful combination of software features, DocumentPower can reduce DSO by a minimum of three days and by as much as ten or twelve days. Workflow tools, document imaging capabilities, and terminal kiosk scanning work together to streamline your billing practices. You can determine quickly if any paperwork is missing, you can get documents transmitted electronically by drivers out on the road, and you can get invoices transmitted electronically directly to the accounts payable manager at your customer. Your customers are billed sooner so you get your money sooner. It's a highly valuable business improvement.

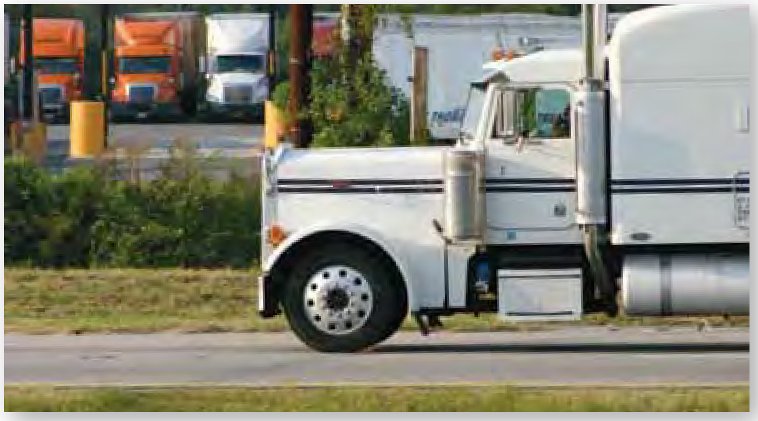
3. Ensure that your fuel surcharge is correct.

Given that the fuel surcharge is designed to protect you against losing money on loads when the price of fuel goes up, the fundamental challenge is finding an accurate way to calculate the amount you should charge. An example of a simple formula would be to set your fuel surcharge so that you get 2 cents per loaded mile for every 10 cents that the price of fuel rises. If your fleet is averaging 5 mpg, you'll be covered.

The next step is to ensure that you are staying on top of fuel price changes and applying the formula consistently. The best way to do this is through automation, which LoadMaster supplies. LoadMaster provides a formula-driven solution that monitors fuel prices all across North America and auto-adjusts the rates for you. This guarantees that the fuel surcharge figure on each invoice reflects current fuel prices, not those from last week or last month.

THE ABILITY

Unfortunately, the challenge of getting reimbursed fairly for your fuel expenses doesn't stop there. The additional difficulty is that calculating your fuel surcharge can get much more complex than the simple formula mentioned above. How should you account for the extra fuel expenses that come from empty and OOR miles? What about the fact that your actual loaded miles are often higher than the shortest-mile figure that is used to calculate your rate and fuel surcharge? To muddy the waters further, some shippers want the fuel surcharge as a flat fee tacked on the cost of the load, some want it as a percentage of the linehaul, and some want it by mileage. With different methods in play, how do you know if the surcharge payments coming in are actually covering your fuel expenses when the price of fuel rises?



Answering this question requires in-depth analysis of your loads—by lane, by customer, by commodity, and more. LoadMaster delivers all of this in its lane-analysis reports. You can view categorized data which will tell you everything you need to know to evaluate the accuracy of your fuel surcharge. You'll see if there are any shortfalls and be able to find out why.

In the process, you'll be able to examine more then just the fuel surcharge. For example, you can look at a customer's loads for last month, compare the loaded miles and the empty miles, and see the fuel surcharge average. This will show you quickly how much money you should be bringing in through your rate and fuel surcharge to cover not only your loaded miles, but also your OOR and deadhead miles. You can see the excess fuel costs that come with hauling freight for each customer. You may change the fuel surcharge, you may change the rate, or you may change both, but one way or another, you have to get the amount of money it costs to make a profit.

In the end, if you're not charging enough for your fuel surcharge, you're simply giving money away. That's why the lane-analysis reporting feature is so valuable. These reports don't care how you calculated the fuel surcharge. They only care about the amount of money you received for the fuel surcharge and the number of miles it took to get that amount, which gives you a rate per mile. It sounds like a simple, basic calculation, but it's very elusive if you don't have a good software system.

4. Reduce your unpaid miles (empty and OOR miles).

Everyone in trucking wants to reduce unpaid miles. One approach is to analyze historical data, look for areas where you can improve, and implement strategies for bringing your unpaid mileage numbers down. LoadMaster can give you access to this data and analysis. You can then use this information to train your staff to be diligent about limiting deadhead miles when accepting loads and you can train your drivers to keep OOR miles to the bare minimum.

But you don't have to stop there. You can also take pro-active action to reduce OOR and deadhead miles, if you have real-time visibility into your operations. By employing McLeod's ETA/OOR module along with mobile communications technology on your tractors, you can detect OOR movement quickly and stop it before it even occurs. The OOR feature monitors each tractor's route and maps it against the route that was planned. Whenever a driver veers too far off the charted course, you'll know. You can be in contact right away and nip the problem in the bud.

TO DO MORE

The same strategy can be applied to deadhead miles by using McLeod's Rapid Alert Notification System module. Say that you want to contain empty miles to 8% of the paid miles for any load and one of your operations dispatchers decides to send a truck to get a load that involves 20% empty miles. You'll get a Rapid Alert instantly letting you know that someone has gone over a preset limit, and you can intervene before the load has been executed. You can correct it now, versus reading about it in a report next week. You can stay on top of your profit margin now, instead of learning at the end of the month that you're losing money.

5. Help your drivers and your tractors get the best MPG possible.

One of the most elementary methods for controlling fuel costs is do whatever you can to get more miles to the gallon. If you're not getting the overall mpg figures you expect, you know that the problem basically comes down to your drivers and your power units. A driver's skill set at operating a truck can affect the miles per gallon more than you may think. The same truck with two different drivers may produce fuel mileage readings that vary by as much as one or two miles per gallon. And if a tractor has mechanical issues that are being ignored, you may be wasting fuel every time you run a load with that piece of equipment.

Without the right software, there's no simple way to locate the root causes of low overall mpg figures, especially if you're slip-seating your drivers. With the right software, you can gather fuel mileage data on both your drivers and your tractors, bring the two sets of data together, and find the source of the bad mileage figures. Then you can take actions to improve.

In order to discover which drivers are burning too much fuel, LoadMaster users can go to a report called MPGs by Driver. To get data on tractor mpg, LoadMaster offers two options. One is using your in-house fuel tax information, and the other is to interface with any of the leading equipment maintenance software solutions. These programs collect a wide assortment of information about each tractor, including fuel economy. If you use one of these programs, LoadMaster can access the data and help you analyze it.

It may also be useful to view driver mpg data as part of a broader perspective on each driver, and this can be done by importing the mpg data into the Driver Scorecard module. This module assigns or deducts points to drivers according to various criteria, such as mpg, freight damage, and overall loaded miles. This simplifies the work of evaluating driver performance and determining which drivers need help.

THE ABILITY

A Penny Saved Is a Penny Earned

Fuel costs play a massive role in the transportation business. Although you can't control the price of fuel, you can control the leaks in the bucket. And in the process of handling your fuel costs, you can make some impressive improvements to your business. Here are some examples:

- **You can improve your cash flow overall**—When you reduce your DSO for your fuel surcharge, you are also getting the entire invoice paid more quickly. Improved cash flow helps your business in multiple ways.
- **You can gain visibility into which lanes, customers, and commodities are most profitable**—When you conduct lane analysis to see if your fuel surcharge is accurate, you can see which loads are bringing you the highest return. This can be highly valuable information for making the right decisions about loads and customers in the future.
- **You can save money by reducing your deadhead**—When fuel costs push you to take steps to reduce deadhead, you save on fuel, but the benefits go further. Having fewer deadhead miles translates into getting loaded more quickly, which improves your asset utilization, makes your drivers happier, and reduces the wear and tear on your equipment.

The simple fact is that taking these steps to confront your fuel costs brings you benefits across the board, and these benefits affect your bottom line in many ways. As someone way back in our history once said, "A penny saved is a penny earned." When the issue is fuel costs in the trucking industry, you've got a lot of pennies at stake.

TO DO MORE


UNITED STATES OF AMERICA
ONE CENT