

Fuel Costs Perspective

June 2011

Among the host of transportations related issues (e.g., Hours of Service, CSA - Comprehensive Safety Analysis, Cap & Trade Legislation, The Highway Bill, capacity shortages, etc.) that have the potential for significantly increasing your freight costs and adding to the complexity of your supply chain there is the **immediate impact of escalating fuel costs**. Some pundits are suggesting that transportation costs could go up by as much as 10% to 20% within two years.

The question becomes “what are you doing to mitigate the impact of \$4.00+ per gallon diesel fuel and the resulting fuel surcharges on your business?”

At current prices if your freight moves 1,000,000 miles a year and your fuel surcharge is \$.50 per mile your business is paying out \$500,000 in addition to freight charges and any additional surcharges. These charges can rapidly increase as your total miles change, for instance:

- At 5,000,000 miles with fuel surcharges at \$.50 per mile the impact is \$2,500,000
- At 10,000,000 miles with fuel surcharges at \$.50 per mile the impact is \$5,000,000
- At 15,000,000 miles with fuel surcharges at \$.50 per mile the impact is \$7,500,000
- At 20,000,000 miles with fuel surcharges at \$.50 per mile the impact is \$10,000,000
- At 50,000,000 miles with fuel surcharges at \$.50 per mile the impact is \$25,000,000
- At 100,000,000 miles with fuel surcharges at \$.50 per mile the impact is \$50,000,000
- At 120,000,000 miles with fuel surcharges at \$.50 per mile the impact is \$60,000,000

In the last few weeks diesel fuel costs have gone down a little, but do you believe that they will get much lower than 2010. One of our client’s fuel surcharge averaged \$.41 per mile in their last fiscal year on 60,000,000 plus miles for a total of \$30,000,000 in addition to their freight charges of approximately \$120,000,000.

So we ask again, what are you doing to mitigate the impact of \$4.00+ per gallon diesel fuel and the resulting fuel surcharges on your business?

- Have you educated top management about the impact of increasing fuel costs and what you are doing to mitigate there impact?
- Do you have a core carrier program?
- How frequently do you talk to your core carriers?
- What are your carriers doing to increase their miles per gallon?
- What are you doing to help your carriers reduce fuel usages and reduce your freight costs?
- Are you carrier friendly?

REM Associates can help you answer these questions and provide you with help reducing freight costs and mitigating the effects of fuel surcharges.