



Fueling Transportation Costs

With diesel fuel hovering at \$4.00 a gallon, shippers are facing increases in the total transportation costs they are incurring despite a generally soft transportation market place.

When higher costs squeeze most companies face two choices. They can raise their prices, risking the wrath of their customers and the loss of market share to cheaper competitors, or they can sacrifice profits to keep prices steady and retain market share. But carriers have found a third way: fuel surcharges, which at times have actually turned into hidden profit centers. It is generally accepted that most major carriers have tipped the fuel surcharge scales, used to bill shippers, in their favor.

At first blush, fuel surcharges seem like a transparent, mathematically determined means for companies to recoup their expenses for the unexpected high price of fuel. The actual definition and formulas for calculating a fuel surcharge vary greatly by carrier. Today carriers apply the Fuel Surcharge Rate to the net, or discounted, transportation charges plus certain accessorial charges and surcharges.

For example: as of March 26th, ABF and Yellow Freight were showing an LTL surcharge of 30.7% and a Truckload surcharge of 61.4 % based on a diesel fuel cost of \$3.98 per gallon.

UPS and FedEx use an index-based surcharge that is adjusted monthly. Changes to the surcharge are effective the first Monday of each month and posted approximately two weeks prior to the effective date. For ground shipments the rate for both carriers was 6% from March 3, 2008 - April 6, 2008 and will be 6.25% from April 7, 2008 - May 4, 2008. Both UPS and FedEx have adjusted their list rates to a greater degree each of the last two years, and at the same time made a corresponding reduction of their fuel surcharge.

A Fuel Surcharge generally applies to the discounted transportation cost. It should be noted that for Truckload carriers, distance based calculations (per mile) are generally more equitable depending on the surcharge scale. Mileage fuel surcharges are predictable, can be budgeted, are controllable and take the profit out of the fuel surcharge, because carriers are getting reimbursed for what they do. Fuel surcharges based on a percentage of a truckload tend to be excessive. Here are a few real examples: We saw a shipment traveling 128 miles that was correctly charged at \$2627.30. The fuel surcharge based on a percentage was \$512.00. Another shipment rated according to the contract was going 1 mile with freight charges of \$1125.88 including fuel surcharges of \$219.45.

On parcel shipments the fuel surcharge is often added to additional charges like the residential surcharge, and the large package surcharge. As the transportation costs increase, so does the fuel surcharge. Those shippers who are seeing their surcharge applied as a percentage of freight costs increased by other factors, be it accessorials or surcharges, can find this approach to be expensive. In these cases negotiating discounts on transportation charges and concessions on surcharges can have a positive effect on the fuel surcharge as well.

The most important thing to remember when it comes to fuel surcharges is that they are negotiable. Smart shippers use their own fuel surcharge schedules to facilitate easy side by side comparisons and insure that charges are based on real costs. They also recognize that with the soft transportation marketplace they are really in the driver's seat.

To learn more about how Data2Logistics can support you in establishing a fair and equitable the fuel surcharge scale or assist in carrier negotiations and benchmarking, contact Karin Speaker at 239 707 7204 or karin.speaker@data2logistics.com .

A Call For Help

"We are concerned about fuel's direct impact on our industry and also its effects on the nation's economy," ATA President Bill Graves said late Thursday. "The industry is doing its part to conserve fuel, but we need help." American Trucking Associations called for a series of steps by the federal government to alleviate what it said was a "crisis" for the trucking industry caused by soaring fuel prices.

The ATA said it the trucking industry is experiencing the highest prolonged fuel prices in history. Historically, fuel represented the second-highest operating expense for motor carriers, but for some motor carriers, fuel is surpassing labor as their largest expense.

Some of the steps the ATA called for included:

- Releasing oil from the Strategic Petroleum Reserve;
- Establishing a national diesel fuel standard;
- Requiring speed limiters to be set at 68 mph or lower on all new trucks and setting a national speed limit of 65 mph;
- Suspending collection of the 12% federal excise tax on motor carriers' purchase of auxiliary power units and requiring states to grant a weight exemption for APUs;
- Allowing exploration of oil-rich areas now off-limits;
- Working with states to combat any fuel price gouging;

The ATA said that this year's fuel price tag for trucking would reach a record \$135 billion — \$22 billion over last year.

Owner Operators Threaten Strike

What started as a small, online grassroots effort now appears to have the potential for something bigger. At least 1,000 other truckers from across the United States have committed so far to join in a strike on April 1.

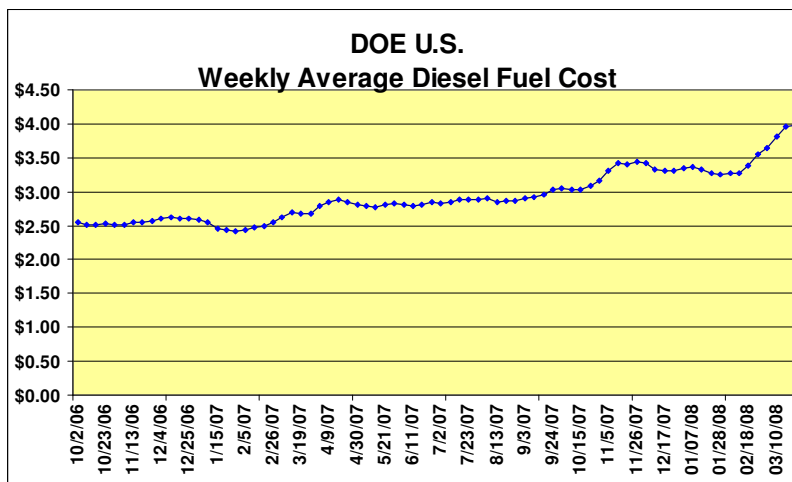
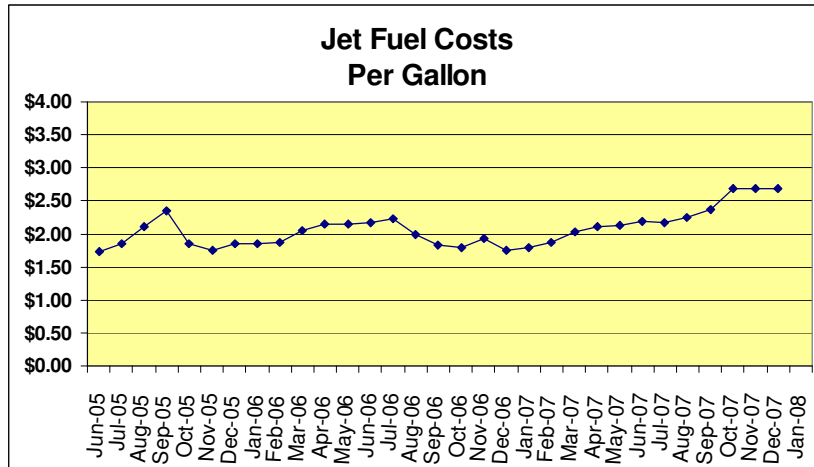
At issue is the rising cost of diesel fuel, which has reached or exceeded \$4 per gallon in at least 17 states. Most drivers do not expect his strike to bring down the per-gallon price of gas, nor do they expect to have any effect on the oil companies.

What they would like to accomplish is to see the federal and state governments, suspend federal and state fuel taxes. One trucker put it this way, "Our federal government is subsidizing railroads, airlines, banks and farmers meanwhile; we're being taxed to death."

The Owner Operators Association wants to talk to lawmakers and truckers to make certain that surcharges being charged to shippers are getting back to the people who paid for the gas. Surcharges are supposed to compensate for high fuel charges, but they must be negotiated with each shipper, and the truckers who pay at the pump aren't always first in line to receive the surcharges.

Shippers should be very concerned about the plight of smaller carriers. Bankruptcies among smaller carriers are increasing. When owner operators leave the market place not only is there a loss of capacity, there is a loss of a partner that tends to be more flexible and able to meet shippers' special needs when they arise.

Fuel Prices



Contact Us

If you have information you would like to see included in this and future issues, please contact Cathy Candia at cathy.candia@data2logistics.com or 609.683.3934.

