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Opinion

# Are Carriers Paid Enough for Fuel?

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A question for shippers: Have your carriers asked for rate increases to cover higher fuel costs? If so, how did you react to their request?

The answer to that second question probably hinges on whether or not you knew at the time that fuel surcharges don't compensate carriers for all fuel-related operating costs.

Fuel surcharge calculations are based on a loaded-mile formula. Empty miles between the terminal and the client loading site — such as miles from the carrier's latest delivery to you or miles to the terminal for equipment repairs, trailer change-outs or tank cleaning — are not calculated as part of fuel surcharges.

Incremental fuel costs associated with running empty miles eat into carrier profitability and are the basis for carrier requests for fuel-cost relief through increased pricing.

At the time you signed your latest carrier contracts, there would have been some fuel recovery number for empty miles. However, recent increases in the price of fuel probably are well beyond the rates quoted when you signed your contracts initially, leaving your carriers unable to make a profit.

How do you determine what is a fair fuel-cost increase? The truckload incremental cost analysis formula that follows might help with calculations.

For demonstration purposes, let's say that since your previous contract negotiation, fuel costs increased by $1.50 per gallon. How does that affect the operating costs of your carrier?

Truckload carriers have revenue targets for their driver/trailer assets. On average, truckload carriers — either dry van or bulk — target a minimum annual revenue per truck of $200,000 to $225,000.

If we assume a modest 10% ratio of empty miles to loaded miles for truckload dry freight, that $1.50-per-gallon increase in fuel cost could add as much as $2,769 per year per truck in reduced profit for the carrier, using an average fuel consumption of 6.5 miles per gallon and 120,000 total miles driven per year.

That same $1.50 fuel-cost increase for bulk truck freight, using a very modest 20% empty-to-loaded mile ratio, translates into a $5,538 reduction in profit per truck.

These numbers don't include the time the driver spent idling at terminals or plants for loading or unloading, which could add as much as 20% to the carrier's fuel bill.

Shippers will find it helpful to use these calculations and other information to help prepare for discussions of carrier rate increases:

- Know your carrier's empty-mile ratio, average miles per year per tractor/driver and company-wide average mpg. Ask your carrier for these important numbers before the pricing discussions. You'll find that most carriers are proud of how well they are managing their operations and will have no problem sharing this ratio, given that it points to their overall efficiency. If your carrier won't release this information and is a public company, you probably can find this information in the carrier's annual report.
- Know what the carrier's average fuel cost was during your previous contract negotiation. If your contract became effective between March and September 2008 — when diesel fuel prices rose to more than $4.50 per gallon — your rates already reflect higher fuel costs, and you shouldn't be responsible for additional cost increases based on the current fuel price.

If that isn't the case, knowing what the fuel price was during latest contract renewal, along with your carrier's empty-mile ratio and average mpg per truck, enables you to calculate the fuel-cost effects on your carriers. Simply use the average targets for revenue per tractor/driver and annual mileage discussed above as the basis for the calculation.

- Further mitigate fuel-cost increases by implementing practices to reduce fuel consumption and greenhouse gas emissions at your plants, terminals and warehouses. Have drivers shut off tractors and wait in the driver room until loading or unloading begins. Initiate a no-idling policy at your facilities.

As the saying goes, "knowledge is power," and knowing your carriers' economic situation prepares you to negotiate a fair and equitable fuel-cost compromise and use your own operating policies to assist your carriers' cost-reduction efforts.

*ChemLogix LLC, Blue Bell, Pa., is a provider of chemical industry consulting services, transportation management systems, freight procurement and management, and intermodal transportation.*

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