Meeting the Fleet Fuel Cost Challenge
Strategies for Success

BY JOE MCDONALD

Fleet managers across the country saw a significant rise in fuel prices throughout 2005. Although the target is one that keeps moving, and with prices seesawing in fairly short timeframes, it's clear that the recent trend has been upwards. In the U.S., for example, while prices have dropped from the high levels reached in the third quarter of 2005, the range is still 10 percent higher than a year earlier. And even if prices continue on a downward path for some time, the question of what can be done to most effectively manage fuel costs is one for which fleet managers want the optimal answer.

Fleet industry experts estimate that fuel can account for as much as 25 percent of total fleet costs. As a result, there is an increasing focus on identifying and executing strategies for effectively managing business fleet fuel costs. Approaches can include:

- Ensuring that vehicle selection is most appropriate for the intended vehicle use
- Encouraging efficient driving practices
- Implementing fuel management programs that enable fraud detection and monitoring premium fuel purchases
- Fuel purchase hedging

Examining each of these strategies and their associated trade-offs can provide a concrete return on the time invested in the form of creating an optimal fuel management strategy for the business fleet.

Vehicle Selection

Since every extra mile per gallon (mpg) means fuel savings, appropriate vehicle choice can deliver substantial savings to the bottom line. For example, if a 1,000-vehicle fleet averaging 2,300 miles per month per vehicle increases from 24 to 28 mpg, the result can be savings of over $410,000 annually based on a fuel price of $2.50 per gallon.

Light trucks provide an example from another perspective. Half-ton pickups average 20-25 percent better fuel mileage than 3/4 ton trucks. As a result, if loads can be reduced enabling lighter trucks to be utilized, significant savings can be realized. However, fleet managers must keep in mind that heavy loading of lighter trucks will not only result in additional fuel consumption, but also in higher maintenance costs.

Savings can also be achieved by selecting sedans rather than sport utility vehicles or crossovers and, within the sedan class, downsizing from six-cylinder models to compact four-cylinder sedans.

Following is a chart illustrating fuel expenses for several vehicle types, assuming 25,000 miles per year and an average price per gallon of $2.50.

Vehicle Type	Miles per Gal.	Gals. per Year	Annual Cost
Hybrid Compact Sedan	42	595	$1,488
Compact Sedan	26	962	$2,404
Mid Size Sedan	22	1,136	$2,841
Minivan	20	1,250	$3,125
Crossover	20	1,250	$3,125
Small SUV	20	1,250	$3,125
SUV	17	1,471	$3,676
1/2 Ton Pickup	16	1,563	$3,906
3/4 Ton Pickup	13	1,923	$4,808

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While it's evident that mpg should be seriously considered when evaluating vehicle cost, fleet managers must also bear in mind other factors including appropriate vehicle use, storage/cargo space requirements, company image, driver perception, whether the vehicle will be used to transport customers or prospects, and safety issues. If fleet vehicles are used by highly compensated sales representatives, each generating over $1M in annual sales, then annual fuel costs of $3,000 may not be significant when weighed against such factors as company image and customer/prospect perception. However, if the organization has 1,000 sales representatives, resulting in annual fuel costs of $3M, it may be necessary to make some adjustments in vehicle selection to improve the bottom line. But be aware that moving to a smaller vehicle can engender unwanted cultural change for drivers and the trade-offs of such a move should be carefully considered throughout the decision-making process.

Driving More Efficiently

At a basic level, driving more efficiently will tend to lower fuel costs for every driver. Practices to encourage include:

- Avoiding rapid acceleration and braking
- Avoiding speeding
- Avoiding excessive idling
- Using cruise control
- Using overdrive gears

Regular communication to drivers about these efficient driving practices can contribute to overall fleet fuel savings.

Fuel Management Programs

The trade-offs in time and resources required to implement and enforce fuel cost savings strategies should always be considered. However, the benefits of an effective fuel management program almost always outweigh any time or resource investment. For example, a fuel management program is a useful tool for cost savings strategies that involve fraud protection or monitoring premium fuel purchases. In addition, the administration and reporting provided by a fuel management program significantly reduce the fleet manager's time commitment for realizing the benefits of such strategies. Finally, a managed fuel policy, complete with restricted fuel cards and proactive purchase monitoring, tends to deter drivers from fraudulent fuel purchases and premium fuel use.

Closely Managing Fraud

Fraud is an area where the potential for savings is dependent on drivers' current behavior. If there is little current fraudulent activity, the opportunity for savings is necessarily minimal. However, it's clear that monitoring fraud is a "must be done" action item and there are several tools that will prove useful to every fleet manager who is considering or reviewing a fraud detection program.

A policy manual that clearly specifies the conditions for fuel card usage is the initial fraud deterrent. Points to cover in the manual include rental car fueling procedures, entering accurate mileage, purchase of the appropriate grade of fuel and consequences for non-compliance.

In addition, a fuel management program provides the monitoring that is key to detecting and eliminating fraud. It includes monitoring activities through PIN usage, card limits, reports that identify multiple same-day transactions, high dollar transaction reports and transaction audits.

Automating Premium Fuel Purchase Monitoring

While the initial perception is typically that monitoring premium fuel purchases is an area with huge savings potential, the practical realities often result in a different scenario. The average price difference between regular unleaded and premium fuel is typically about $.09 per gallon and premium fuel purchases typically run about 10 percent of total fleet fuel purchases. Given those figures, the administrative time needed to stop all premium fuel usage would tend to offset most, if not all, of the potential savings. This is especially true if there is no fuel management program in place.

With such a program, fleet managers can take a far more strategic—and usually more effective approach. They can, for example, generate a premium fuel usage report each quarter that identifies drivers responsible for the top 80 percent of premium fuel purchases and, based on the

continued on page 26

 continued from page 25

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report, can send e-mails to repeat offenders and their managers reminding them that purchasing premium fuel is against fleet policy. These messages can be further reinforced with documentation explaining that premium fuel is not necessary for proper vehicle care. In this way, fleet managers can reduce or eliminate policy non-compliance among those individuals costing the company the most in premium fuel purchases without expending excessive time and resources.

Additional Benefits

Premium fuel monitoring and fraud detection are two key deliverables of a fuel management program. Additional benefits include:

- Easy access to data/actionable reports
- Integration of fuel management data with other fleet costs (e.g., maintenance, collision and rental charges)
- Seamless payment mechanism
- Integration with other fleet systems that enables automation of certain key processes such as automatic fuel card issuance when a new vehicle is ordered

To effectively leverage these benefits, the fleet manager must fully understand how to use the information delivered by a fuel management program. Recommended practices include:

- Fully utilizing data provided by fuel card vendors, which includes detailed information on the retailer, the brand and grade of fuel, number of gallons purchased, cost per gallon, total cost and odometer reading. Data from these cards can also identify and categorize non-fuel purchases such as food, oil and car washes.
- Using some type of regional fuel comparison report to recognize good driver behavior in locations where expenditures are below average
- Identifying surplus or underutilized vehicles through a fuel usage report

Hedging

As fuel prices soared throughout 2005, hedging fuel purchases became a technique that gained wide visibility throughout the national business media. Hedging is actually a form of risk management. A fleet manager pays for the assurance of consistent pricing by buying contracts to purchase fuel at set prices in the future. This strategy may be appropriate for fleets with strict budgeting parameters where a steady price is more important than the lowest price. For those focused on cost savings, however, hedging is a losing proposition if prices trend downwards as they did from the third quarter of 2005 to year-end, so it should realistically be viewed as a fuel purchase savings gamble.

Joe McDonald

Making the Right Choice

There are multiple viable strategies for managing fuel expense. Factors such as driver behavior, fleet composition, available resources among the fleet office staff and the overall nature of the business must all be weighed in determining optimal fuel management strategies for each organization. The benefits that can be delivered by a formal fuel management program are worth consideration by virtually every fleet manager engaged in the battle to lower fleet fuel costs.

Ed. - Joe McDonald is director of account management at Wheels, Inc. and directs all account management initiatives.