



March 16, 2020

*The past week has seen a development that may have gone largely unnoticed amid the concerns over Coronavirus; however understandable it is that it may have been missed, the fact is that it shouldn't have been: because it **will work to your advantage** – or set you up to be taken advantage of.*

*That development is the likelihood that 2020 will be a year of extraordinary volatility in truckers' fuel cost – starting with a dramatic collapse in Brent Crude prices last Monday.*

*In this environment, we believe it is especially important that forwarders understand the mechanics of truckers' fuel pricing.*



## Radical fuel price disruption in 2020? What we know today

- **Diesel is a major component of every trucker's cost.** In general, fuel accounts for fully 24% of a trucking company's costs – second only to the cost of driver labor.
- **Diesel prices move up and down with crude prices.** Crude typically accounts for around 54% of the pump-price of diesel fuel. While it might take a few weeks for pump prices to catch up, they generally move in sync.
- **And crude prices have fallen off a cliff.** As of March 13, crude prices are suddenly approaching just half of what they were just two months ago.
- **What goes down, must come up.** Truckers (and forwarders) can absolutely expect a drop in diesel fuel prices at the pump in the coming weeks – but that surely won't last forever. At some point – no one knows when – crude and diesel prices will reverse direction and head northward again.

**Only two things appear certain:** one, that truckers' fuel surcharges will be all over the place in 2020, starting in a couple of weeks. And two, that these important components of transportation cost won't manage themselves.

## The three ways truckers charge forwarders for fuel

The truckers serving forwarders typically use one of three approaches to charging for fuel:

1. All-in pricing that includes fuel. This approach makes fuel pricing opaque to the forwarder.
2. A set fuel percent which is adjusted periodically by the trucker, whenever the trucker sees fit.



3. A fuel chart that adjusts automatically, based on the weekly fuel diesel fuel price from the U.S. Energy Information Administration.

## Why forwarders often don't pay attention to truckers' fuel surcharge

It's complicated. It's a moving target. It's difficult to measure – and a pain to negotiate.

## Why forwarders are often missing the boat

Trucking fuel surcharges account for **over \$50 of a forwarder's cost** on the average shipment. *Savvy truckers know that forwarders often don't pay attention to fuel – and many take advantage of that fact.*

## How forwarders can control fuel cost

- 1) **Insist on automatic adjustment.** Identify those trucking vendors who do NOT automatically adjust their fuel surcharge weekly – and insist that they convert. The reason is simple: without the automatic adjustment, the truckers are in charge of when they raise or lower their rate. Like any businesspeople, *they will tend to be quick to raise their fuel surcharge (or flat price) when fuel prices are on the rise – but slower to reduce it when fuel prices decline.*
- 2) **Make sure your people compare shipment prices based on total cost, including fuel.** This is especially important for shipments booked with cartage carriers, whose zone-based rates are complex – and who are most likely to **not** use a fuel table that adjusts automatically each week.
- 3) **Quantify – and compare – what you are paying on the truckers' actual invoices.** Some truckers invoice late, and may apply a fuel percentage on the date that they invoice, rather than the date the order was executed.
- 4) **Review how fuel surcharges compare across your similar trucking vendors.** Different types of truckers experience varying impact of fuel on their costs – and fuel surcharge percentages should vary accordingly. Here's how the types of service rank, from lowest impact of fuel to highest:
  - Parcel
  - LTL
  - Cartage
  - Drayage and FTL

### Forwarders need a sophisticated trucking TMS to control fuel cost

The systems most forwarders use for import and export aren't focused on the particular issues of U.S. trucking – much less on the finer points of managing the \$50 forwarders spend on fuel surcharges on a typical shipment. Only a quality trucking TMS will give forwarders the granular information they need to avoid being taken advantage of – and instead enable them to use fuel volatility to build their bottom line in what is certainly looking like a challenging and uncertain 2020.

Compare the invoiced costs, in the same period, especially focusing on cartage and drayage carriers.

Within a region, all truckers pay about the same at the pump – but you are likely to see a huge discrepancy in the fuel surcharge included on your invoice. Once you have the data in front of you, it is easy to address those carriers who are charging above market.

