Choosing a trucking company: Fuel Costs and Operator Contracts

One of the many things I learned at the 2014 Truck world in Toronto (April) was that EX-lease/owner operators don't trust trucking company's fuel compensation packages and potential lease/owner operators hesitate to get into the industry for the same reason.

I met 1050 operators and about 250 Ex or potential operators. Nearly every Ex/potential operator communicated the primary concern as fuel costs. Their secondary concern was truck maintenance but we rarely got into any dialogue about it.

There are primarily three systems used by trucking company contracts to generate fuel cost stability for their operators: Fuel cap, fuel surcharge and fuel rebate. There is no right or wrong system, only sufficient or insufficient formulas. No matter which of the three a trucking company provides the important part is the figures (within the formulas) not the system itself.

Fuel Cap was introduced as a major option around 2000/2001. It is the system where an operator pays no more than a set amount per leter/gallon. The system shot up in popularity as companies competed to attract operators. However, there were administrative difficulties in some lanes/loops (as well as abuse by some operators) and eventually many companies switched to a fuel surcharge.

Fuel surcharge is, by far, the most popular system available in operator contracts. It is the system where the trucking company pays an additional bonus in cents per mile whenever the cost of fuel rises (and reduces the bonus when fuel costs fall). The difficulty is, however, too many fuel surcharge formulas are insufficient to stabilize fuel costs for the average operator. If a company changes their fuel surcharge <u>formula</u> more than once every 2 years it should be clear that the formula has not been thought through enough.

Fuel rebate may be the most confusing system out there, not because it IS confusing but because it's not as popular as fuel surcharge (something different always seems to be viewed that way). Fuel rebate calculates a cash rebate on the fuel cost rather than cents per mile "bonus". If a fuel purchase was $600.00 there would be a deduction of $600.00 and a corresponding "deposit" of say $175.00 (net fuel cost of $425.00). The formula for calculating the deposit would be what the operator must understand in order to compare different contracts.

Since there are three very different formats for adjusting fuel costs, comparing contracts can get somewhat confusing or even conflicting. If some variables are also subject to "change without notice" the accuracy of comparisons can also disappear "without notice".

A lease operator (defined as being paid by the mile) should NEVER be exposed to market fuel cost variations. If the operator gets a consistent 6.5mpg they must have a consistent fuel deduction every month. If the fuel goes from $2.00 per gallon to $7.00 per gallon the lease operator should NEVER experience any variation in their pay statements.

Unfortunately this is not the experience of operators under some contracts. The contracts are flawed, inconsistently calculated and poorly constructed. Too many times the necessary risk factors are either not properly accounted for or placed in the control of management who decide at their leisure.

The control of net fuel costs must be in the formula not in the hands of management, otherwise it becomes like Oliver twist…

"…please sir, can I have some more?"

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…. more? MORE FUEL SURCHARGE?

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