Choosing a Trucking Company: Fuel Subsidy Net cost

Well self-managed operators know their fuel costs. Not just approximately what percentage of their revenue was consumed by fuel, but detailed cents per mile costs.

Most operator contracts work with a fuel surcharge. The good ones are indexed to national or regional fuel prices, and the “bad ones” are determined by management (usually in a closed door meeting). If its management decided the tracking of net fuel costs will NEVER be predictable. If the company isn’t making enough money this month they just give less of a surcharge to their operators. Who can predict their earnings? Who can predict their ethics?

An indexed contract however, is tied to market rates. Management can’t cut it down without violating their agreement. It’s only these indexed contracts that are of any value. Non-indexed fuel subsidies are un-reliable long term (more than one month). In comparing contacts, or just having an efficient operation, finding net fuel cost is essential.

There are three steps to finding net fuel costs: total fuel expenses (amount deducted from the settlement), subtract fuel subsidy over the same time period, then divide by the paid miles traveled over the period. It produces the net fuel cost (per paid mile).

Many operators complain about the company not giving enough fuel subsidy. Company A gets 15 cents per mile while company B gives 30. Operators in this example who don’t know how to calculate a bottom line (and are on at company A) yell and scream about getting cheated out of what they deserve. Unfortunately this example is only giving half the necessary information. The unknown factor is the “base rate” (assuming no license insurance administration etc.).

Company A’s base rate may be $1.25 while company B’s may be $1.05. In this example company A would be netting $.05 per mile MORE than company B. Most good operators understand this, even without with a napkin and pencil

However, if there are license, insurance, administration etc. on either Company A or Company B a separate step that removes those costs must be taken. It is important to remember though that in these circumstances if the costs are fixed rather than tied to miles the base rate will vary depending on estimated or traveled miles. Operators must estimate the monthly miles to average the future cost per mile.

The level of math required is not rocket science or brain surgery but it’s critical to successful contract comparisons and income tracking. Every operator MUST know their net revenue less: fuel, maintenance, and (if applicable) lic&Insur&Admin. Without a method of tracking net costs, operators are left guessing what their next check will be (or should be) never mind what their actual income is, or even project their annual taxes. Tracking is essential.

There are several great tracking products on the market. Mygauges.com is one (popularized by Kevin Rutherford) but another one is VitalTravelApp.com which has an independent, simple yet versatile system (it even has built in e-mail capabilities for truck and trailer maintenance reports). Over the years I have also viewed many custom built (usually excel) spreadsheets, designed by operators themselves. Most of them are very detailed to the owner’s needs and extremely effective tools. Operators who take the time to write one of these rarely get caught in a place they shouldn’t be.

No matter which system you use, the bottom line is… every operator MUST use some type of system of measurement. Failure to track expenses can cause needless loss.