Choosing a trucking company: Another Fuel Surcharge Issue

I have a friend who is a Sr. VP of a large retailer and also belongs to a few buying groups. Collectively they buy and ship hundreds of millions of dollars (north of a billion) of product per year. The other day, over our soft and medium basted breakfast, he asked what was up with fuel surcharge.

When asking for a freight quote he would be told the rate and then informed "plus fuel surcharge". The problem is, different companies have different fuel surcharge rates, 10%, 20%, 30% or even using cents per mile (amount and system varying from company to company). The picture he gets is a very inconsistent fuel cost impact. In my friends mind someone is exaggerating. The fuel surcharge costs just appear to be a politically correct method of increasing freight rates.

The industry having inconsistent presentation of fuel surcharge is confusing (and therefore bad) for everyone. Instead of exposing and educating the customer to a realistic price point fluctuation of fuel expenses, the perceived cash grab is just a point of irritation. They no longer want to hear the rate plus fuel surcharge, just "the bottom line". These are very smart people with sharp pencils, who become insulted by back door phraseology costs. It reduces good faith.

The industry may have a few large players but it is dominated by small companies. These smaller independent companies (and some larger ones) too often have their own in house methods of presenting industry costs. It makes perfect sense to them but compared to others confuses the customer.

With all honesty it is really nobody's fault. Each independent company has the right to display their rates however they see fit, however, it's the trucking company's integrity that is often questioned when they present "differing weights and measures". Inconsistent fuel surcharge systems (percentage or rate per mile) blocks the "fuel surcharge message". The FSC was intended to expose the impact of market fuel costs. Inconsistency blurs it.

This situation is not without its mirror to Lease/Owner operators. Every trucking company has the responsibility of dealing with market fluctuations in fuel cost as applied to their Lease Operators (those paid by mile not percentage). However, the method each company uses is often still very different from each other.

Sometimes its just a numbers shuffle, like $1.00 per mile and $.45 fuel surcharge verses $1.25 per mile and $.20 fuel surcharge. But other times the clarity isn't nearly as predictable: $.75 cent fuel cap vs. $.45 fuel surcharge. This situation requires both calculations and assumptions and even more research on the fuel surcharge (how much does the FSC go up when fuel costs jump 10 cents per liter?).

Using the above illustration, we all know there are operators out there claiming they're being shafted $.25 per mile ($.45 - $.20). Unfortunately, they don't know what they're talking about. They're not communicating an understanding of the bottom line business math.

Communicate Appropriate Business Logic

It's also important to understand the implications of flawed "business logic".

Lease Operator contracts (which include fuel surcharges) have NOTHING to do with the trucking industry (or company's) fuel surcharge issues. They are separate.

If a trucking company overcharges customers for fuel surcharge it is irrelevant to Lease Operators, and visa versa. The agreement to place your truck on a company is an agreement between the operator and the company and has nothing to do about the agreement between the company and its customers. When operators complain the company isn't transferring the customer surcharge to them, it shows their lack of knowledge regarding business relationships.

What if the company suddenly stopped charging fuel surcharge all together and just quotes the bottom line figure (as I illustrated above). Obviously the quotes INCLUDE fuel surcharge, it's just not specifically listed. According to the logic of the zealous operator the company could argue for cutting their surcharge to the operators accordingly. Operators need to be careful and understand the implications of what they're saying.

Lease Operator contracts must specifically deal with market fluctuations in fuel price as it relates to the operations of one highway tractor... and that alone!

The industries lack of consistency (and operator disinformation) only requires the operator to be much more sophisticated in both contract comparisons and negotiations. Proper analysis and communication is often critical to long term survival.

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