



How to Combat the Impact Rising Fuel Costs Have On Your Business

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With fuel prices soaring, business leaders must once again find ways to offset the negative impact fuel surcharge clauses in standard service agreements have on profit margins. Many standard service contracts allow the provider to pass through rising fuel costs to their customers. To counter the surcharges, managers must scrutinize all their agreements, identify the services where fuel surcharges will pinch profits and take steps to drive inefficiencies out of the programs.

PR9.NET April 18, 2006 - Madison, WI -- With fuel prices soaring, business leaders must once again find ways to offset the negative impact these variable costs have on profit margins. The impact on business comes from fuel costs being passed through to them in many standard service contracts, such as waste and recycling, freight, laundry service. Managers must scrutinize their agreements to identify the services where fuel surcharges pinch profits.

The fuel additive, MTBE (methyl tertiary butyl ether) is the latest culprit. Failing to secure governmental liability protection concerning groundwater pollution, petroleum refiners are quitting MTBE cold turkey in May. With no tapering period, the replacement, ethanol-blended gasoline will take six months to ramp up to fill the gap in production.

Further complicating the matter, ethanol-blended gasoline cannot use the same distribution and storage systems as MTBE-blended gasoline. This is because the MTBE systems contain water. When water mixes with ethanol-blended gasoline, it separates the ethanol out. So in many areas petroleum refiners will be forced to deliver ethanol-blended gas via tanker and rail rather than pipelines, further driving up costs.

Line items like freight are large and tend to get some attention because surcharges in these agreements can get large very quickly, but the real risk comes from the numerous smaller line items that businesses have like waste, recycling, and laundry. Together, these may only amount to 4 or 10 percent of a businesses overall budget. In times like these it's important to take a look at the total amount these surcharges across all contracts.

For example, during last summer's diesel price hikes, fuel surcharges added up to 14% on top of the standard monthly fees haulers collect from their customers. At one national waste hauler, fuel surcharges will not disappear until diesel drops to \$1.23 per gallon. In the Midwest, prices are currently at \$2.73 per gallon and headed up.

One solution to this profit squeeze is to have skilled third parties scrutinize cost reduction opportunities. This allows managers to combat the surcharges by getting their expenses in line without disrupting their strategic priorities or side tracking their staff's valuable time, says Tim Johnson, President of Midas Management Consulting LLC. Says Johnson, "if you are going to see price hikes and if you are obligated to buy your service provider their diesel, then it makes sense to ensure that there are no inefficiencies in your programs that are costing you extra."

Johnson advocates reviewing waste disposal and recycling programs in an effort to optimize service frequencies and equipment because the fewer times the trucks come, the lower costs will be.

Freight agreements can also be renegotiated in order to drive down costs in a similar fashion. Says Johnson, "most businesses are savvy enough to negotiate a discount off the base rate, however many fail to negotiate the numerous surcharges." For example, FedEx and UPS have approximately 85 surcharges that they employ to recapture the fees they seemingly give up with the discount off the base rate said Johnson.

The key to this profit-saving strategy is to look for reputable contingency-fee consultants says Johnson. Using this approach, businesses minimize their financial risk by avoiding paying up front costs. In this model, "businesses pay only for performance, and even then out of recovered funds," said Johnson.

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About Midas Management Consulting LLC

Midas Management Consulting LLC (Midas) is a national solid waste management consulting company headquartered in Madison, Wisconsin.

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