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Managing fuel costs for business

Large companies can adopt a number of strategies to tackle fuel costs – from investing in more fuel efficient vehicles to hedging and buying direct from oil companies. Technology that delivers operational and behavioural changes encouraging fuel-efficient driving can prove most effective however. This white paper considers the challenges faced and how this can be achieved.

Top tips

- Businesses should tackle rising fuel costs from a change management perspective, implementing an appropriate company-wide efficiency policy.
- They should set up a communications plan to engage with all drivers.
- A reliable fleet management system should be used to measure performance and track the success of the efficiency initiative.
- The system should offer management insights into fleet activity, relaying information in real-time and in a clear, concise dashboard.
- Drivers should be empowered to make a change in driving style.
- Offer immediate feedback to drivers on their performance behind the wheel, with progress updates to positively effect change.
- Introduce navigation devices with live traffic information for efficient, stress free, driving and reduced mileage.
- Reward fuel efficient driving, celebrate success.
- Offer driver training to those who Are underperforming.

The rising fuel cost tide

A rising demand for oil has been widely predicted by economists worldwide – and at the pump, this is set to continue hitting fleet businesses hard.

The average diesel price in Europe has risen by 92% since 2005 and premium unleaded prices by 112% according to The European Commission's Market Observatory for Energy[1].

The business challenge

High fuel costs, combined with today's highly competitive business environment and tight margins, have put companies under increasing pressure to scrutinise their operational performance.

Fuel is frequently regarded as the largest single cost in running a vehicle fleet. For a 7.5 tonne rigid HGV, fuel bills account for between 23 and 27 per cent of vehicle and driver costs depending upon mileage[2]. When leasing a light commercial vehicle, fuel accounts for 19 per cent of the lease price, with insurance accounting for 11 per cent and maintenance a further 10 per cent[3].

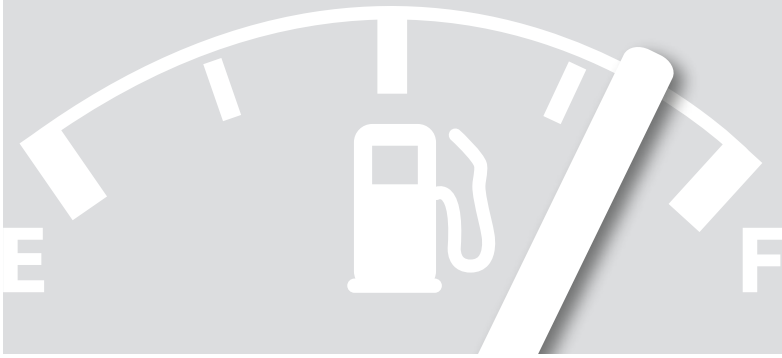
For large fleet operators especially, sudden spikes in fuel costs can significantly dent profitability. Conversely, even small improvements in fuel usage can generate a sizeable profits boost.

Furthermore, the social responsibility commitment such companies demonstrate towards the environment by cutting consumption and harmful emissions can also be a powerful commercial tool.

Fuel saving options

As fuel expenditure is not a fixed business overhead, fluctuating depending upon vehicle type, mileage and driving style behind the wheel, companies can take a number of steps to reduce fuel consumption.

Upgrading a fleet by purchasing or leasing more fuel efficient vehicles can have a considerable impact, although the cost of doing so will frequently be



financially prohibitive. For organisations with fleets of 500 or more vehicles, fuel hedging can be worth considering to reduce expose to price volatility. This involves buying oil commodity options to lock into a fixed price in advance. While most expect fuel prices to rise over the long-term however, there remains less certainty in the short to medium-term. Ensuring vehicles are properly and regularly maintained can also be an influencing factor. Clogged air filters and poorly tuned engines can reduce mpg, while a study has revealed how fitting the right tyres, inflated to the correct pressures, can cut fuel consumption by up to 15 per cent[4].

The quickest, most effective solution

The most logical and compelling solution for realising an immediate return is to positively influence driving behaviour, promoting a more eco-friendly, fuel efficient performance behind the wheel.

In order to achieve this effectively, companies require fleet visibility and clear management information, starting with an insight into the fuel efficiency of every vehicle and driver in the company. By setting a benchmark on fuel efficiency for an entire mobile workforce, managers can pinpoint substandard driving performances for individual employees. However, simply identifying a problem is not sufficient to improve fleet-wide mpg – businesses need to discover the root cause. Driver behaviour data is required to inform businesses where improvements can be made to optimise driving performance, from reducing incidents of speeding[5] or idling to eradicating harsh steering or braking.
Advanced fleet management technologies can provide this information - relayed to managers' computer screens via fleet management software - and offer businesses the required tools to release significant operational savings.

They can allow fleet operators to monitor driver speeds by generating detailed speed analysis reports and even offer on-board diagnostics, enabling fleet managers to measure and reduce fuel costs by taking live data direct from vehicles. Moreover, all of this information can be reviewed retrospectively or in real time, both for individual employees or entire fleets, enabling companies to target fuel efficient driver training where it is most needed.

Real time visibility also enables managers to locate their drivers and direct them to the next nearest job in seconds, meaning vehicles travelling fewer miles.

Involving, helping and empowering drivers

Positively influencing driver behaviour requires the empowerment of drivers to really effect change.

Recent advancements in TomTom's sat nav devices include real time driver feedback to employees. This means drivers themselves can now see their fuel efficiency, or be warned of speeding or excessive steering and braking, by a simple alert on their sat nav – a significant step in giving tools to the driver to facilitate learning whilst driving, and putting the responsibility with the driver to improve their driving style in line with efficiency and safety targets.

Sat nav device with live traffic information can also help users route around congestion and avoid inefficient start-stop journeys.

Business best practice

Reporting functions of fleet management technology enable driver performance data to be measured against predefined business targets. If businesses introduce processes to monitor and utilise this effectively, not only can this directly impact the bottom line, it can help managers establish safer, greener driving policies.

Businesses are advised to use the technology in conjunction with driver training and those that do so can establish sustainable driver improvement programmes.

Furthermore, celebrating success can dramatically effect change. Although drivers know that businesses have an obligation to manage their assets efficiently, employee incentive programmes can play a key role in encouraging engagement. Fleet drivers with the best annual mpg, for example, might be rewarded with a cash prize or all employees could enjoy a percentage of fuel cost savings as part of their remuneration.

According to independent estimates[6], improved driving styles can typically reduce fuel consumption for cars and vans by around 15 per cent. Research conducted by global sustainability consultancy Environmental Resources Management (ERM) meanwhile, in association with Vodafone and TomTom, revealed that for vehicles upwards of 7.5 tonnes, driver performance tools can result in more than a 28% improvement in average mpg/liters per 100 k.

For large vehicle fleets this can mean annual fuel savings of six, and in some cases, seven figures.

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1 In January 2005, net of duties and tax, the average diesel price was €0.39 and premium unleaded €0.32. By January 2013, the average diesel price had risen by 92% to €0.75; unleaded by 112% to €0.68.

2 The Freight Transport Association, Manager's Guide to Distribution Costs 2011, January 2012 Update Report.

3 Athlon Car Lease, total cost of ownership average values, February 2011.

4 Volvo Trucks and Michelin, January 2012.

5 Driving at 70mph uses 15 per cent more fuel than at 50mph, while cruising at 80mph can use up to 25 per cent more fuel than at 70mph; UK Department for Transport.

6 Energy Saving Trust's Smarter Driving Campaign, 2012