



Reznick Group's Fuel Cost Recovery Estimation Model



Fuel Cost Recovery Estimation Model Today's Presentation

Fair amount to cover/limited time

Available after this session and over next
few days for questions, thoughts &
suggestions you might have

Reznick Group – Firm Overview

Among top 20 accounting firms in the US
30 years providing accounting, tax and business
services nationwide

One of fastest growing accounting firms in US

Among 5 largest accounting firms in Atlanta


Over 1,400 associates across the US

Over 200 associates in Atlanta office

10 offices across the US

Transportation industry one of Reznick's focus
markets

Trucking Today



- Extremely competitive
- Profit a real challenge
- Required response times much shorter
- Hammered by fuel cost
- Historical profit measurement tools lacking
- Historical business rules of thumb lacking
- Required profit detail and understanding greater
- Required management involvement increasing

Trucking Today

How Far on \$500 Worth of Diesel?





Fuel Cost Recovery Estimation Model What It Is...

Simple model that estimates a trucking company's recovery of its fuel cost

Fuel Cost Recovery Estimation Model

What It Does...

Estimates fuel cost recovery by matching fuel burned revenue dollars to fuel burned cost dollars

Fuel Cost Recovery Estimation Model Underlying Logic

Pick a time period

Measure the fuel burned cost

Measure the fuel burned revenue

(revenue received from customers to
pay for fuel burned)

Compare the two

Fuel Cost Recovery Estimation Model Underlying Logic

\$

Fuel Burned
Revenue Dollars

?

=

\$

Fuel Burned
Cost Dollars

Fuel Cost Recovery Estimation Model Underlying Logic

\$

\$

?

=

Fuel Burned
(Surcharge + Base Rate Component)
Revenue Dollars

Fuel Burned
Cost Dollars

Fuel Cost Recovery Estimation Model Dollar Matching

Dollar matching of fuel burned NOT fuel
bought

Fuel Cost Recovery Estimation Model

Time Period Analyzed

Watch cutoffs

Longer time periods help – months,
quarter, year



Fuel Cost Recovery Estimation Model Fuel Surcharge Formulas' Average “Kick In” Fuel Price

Determine average fuel price “kick in point” for various fuel surcharge formulas

Note: Will use this later when calculating Base Rate Fuel Burned Cost Component Revenue \$'s



Fuel Cost Recovery Estimation Model Company Miles Per Gallon

Determine company's overall miles per gallon

Note: Will use this later when calculating Base Rate
Fuel Burned Cost Component Revenue \$'s



Fuel Cost Recovery Estimation Model Fuel Cost Dollars

How much was spent on fuel burned during analysis period?

Obtain from computer data base or invoicing.

Assume Our Fuel Burned Cost was...

\$5,600,000.



Fuel Cost Recovery Estimation Model

Fuel Burned Revenue Dollars

Remember...potentially paid for fuel burned two ways...through fuel surcharge formula revenue (if there is one) and through base rate revenue.



Fuel Cost Recovery Estimation Model Fuel Revenue Dollars – Fuel Surcharge

How much fuel revenue was received through the fuel surcharge for the fuel burned?

Obtain from the computer data base or invoicing.

Assume Fuel Burned Surcharge Revenue was... **\$3,000,000.**



Fuel Cost Recovery Estimation Model Fuel Revenue Dollars – Base Rate

How much fuel burned revenue was received
through the base rate?

We will estimate this revenue.

Fuel Cost Recovery Estimation Model

Fuel Revenue Dollars – Base Rate

Estimated Base Rate Fuel Burned Component Dollars Assumptions:

- * Fuel Surcharge Formula Kick-In Price - \$1.20/gal
- * Fleet Average mpg – 6.0 mi/gal

$$\begin{aligned} \text{Base Rate Fuel Burned Component} &= \frac{\$1.20/\text{gal}}{6.0 \text{ mi/gal}} \\ &= \$0.20/\text{mi} \end{aligned}$$

Fuel Cost Recovery Estimation Model Fuel Revenue Dollars – Base Rate

Estimated Base Rate Fuel Burned Revenue Assumptions:

Loaded miles - 10,000,000 loaded miles

$$\begin{aligned} \text{Base Rate Fuel Burned Revenue} &= \$0.20/\text{mi} \times 10,000,000 \text{ miles} \\ &= \mathbf{\$2,000,000.} \end{aligned}$$



Fuel Cost Recovery Estimation Model Fuel Revenue Dollars – Total

Total Fuel Burned Revenue Dollars =

Fuel Burned Surcharge Revenue Dollars +
Fuel Burned Base Rate Component Revenue Dollars

= \$3,000,000 + \$2,000,000

= \$5,000,000.



Fuel Cost Recovery Estimation Model How Did We Do?

How did we do recovering our fuel cost?

We spent **\$5,600,000** on the fuel burned.

We received **\$5,000,000** to pay for the fuel burned.

We received **\$600,000** less to pay for the fuel burned than we spent on the fuel burned!

Fuel Cost Recovery Estimation Model

How Did We Do?

\$

\$\$\$\$\$\$

Do NOT =

Fuel Burned
(Surcharge + Base Rate Component)
Revenue Dollars


Fuel Burned
Cost Dollars



Fuel Cost Recovery Estimation Model How Did We Pay For The Shortfall?

The payment for the shortfall came from our profit – if there was enough profit.

If there wasn't enough profit to pay for the shortfall, the payment came from our profit until it was gone and then the balance came through a net worth reduction.



Fuel Cost Recovery Estimation Model Accuracy

- Is estimation model completely accurate? No
- Is it a reasonably good first pass estimate
of fuel cost recovery? Yes
- In which direction is it likely off?
Probably **underestimates** shortfall.



Fuel Cost Recovery Estimation Model Corrective Actions


What can I do to eliminate the short-fall?

Reduce non-revenue fuel burned as close as possible to zero.

Increase fuel efficiency as much as possible.

Buy fuel as price effectively as possible.

Do required homework and approach appropriate customers for necessary rate relief.



Fuel Cost Recovery Estimation Model What If A Customer Won't Give Necessary Relief?

Do not act in haste.

Find new business where customer will pay prices yielding an acceptable profit.

Move assets and drivers to those customers.

Let your competitors have the customers that pay prices yielding a loss.



Fuel Cost Recovery Estimation Model Questions?

Available after this session and over the next few days to discuss any questions, thoughts, & suggestions you might have.



Contact Information

Bob Matheson, Senior Manager
bob.matheson@reznickgroup.com

Reznick Group, P. C.
2002 Summit Boulevard
Suite 1000
Atlanta, GA 30319-1470
Cell: (404) 428-8541
Direct: (404) 845-4704
Fax: (404) 845-4705
www.reznickgroup.com