TAMING THE TIGER
5 BEST PRACTICES
FOR BUYING BULK FUEL
Likewise, the amount of bulk fuel your company needs is often a fixed quantity that can’t be reduced in any meaningful way, even though that need exposes your entire operating budget to the notoriously volatile commodities markets.

**So how do you tame this tiger?**

**Simple: Take advantage of industry-leading solutions.**

In this paper, we establish five best practices for purchasing bulk fuel. We take our cues from the investment markets, offering actionable advice on how to meaningfully reduce costs, with examples of how other companies have benefitted from doing so.

Our best practices include:

- Secure an index-based contract for the majority of fuel volume.
- Leave some portion available for “spot” purchases.
- Practice intelligent market timing.
- Establish fixed freight & clearly defined rates.
- Regularly audit your invoices for accuracy.

Whether you’re a convenience store owner looking to cut high expense, low margin product, or a business that has on-site fuel tanks for your company vehicles, these strategies can help you cut costs and better manage your fuel expenditures.

**BEST PRACTICE #1**

**Secure an index-based contract for the majority of fuel volume.**

It’s easy to be misled into a contract that’s better for your distributor than for your business. Be careful not to commit 100% of your bulk fuel needs to one contract or distributor, or to agree to non-transparent pricing deals. Instead a smarter option is to secure an index-based contract for the majority of bulk fuel purchases (we suggest 70–80% of total volume).

An index-based contract works exactly how it sounds: A supplier provides fuel not based on retail prices, but at a wholesale price derived from an independent benchmark index. These benchmarks, usually reported to and published by third-party publishers such as OPIS, Platts, or ARGUS, establish a baseline price per gallon; the price you pay is generally some fixed amount above or below that index.
Index-based prices usually break down as shown in the box at top left. Indexed contracts help reduce price volatility at more competitive prices than can usually be achieved on the open market. Even with the additional charges, you often still end up paying less than you would at the pump. Indexes can also help establish some price predictability, thus protecting the bulk of your fuel spend from daily price fluctuations. It’s the same basic logic behind constructing an investment portfolio primarily out of index funds, instead of just buying and selling the same stock day after day.

Several different indexed pricing options exist. For example, index plus index minus schemes generally change some fixed margin over or under a fluctuating aggregate of national, regional or rack wholesale fuel prices. Fixed price contracts, meanwhile, allow customers to pay a single price for their fuel, no matter where the benchmark in question moves.

Before deciding on an index-based contract, you should first understand historical prices for your region, typical contracts for your market, and which suppliers in your area offer what indexes. Keep in mind that not all indexes are beneficial for the buyer, and some programs are less transparent about their costs than others. Determining which index solution is appropriate for you can require a great deal of analysis — in which case you’re often better off outsourcing the heavy lifting to experts.

Still, no matter which index you choose, you should establish some means to track your company’s fuel purchases over time. That way, you can analyze and quantify future fuel purchases and ensure that, come contract renewal time, your index still offers the best bang for your buck.

### BEST PRACTICE #2

**LEAVE SOME PORTION OF FUEL VOLUME AVAILABLE FOR “SPOT” PURCHASES.**

The downside to index-based pricing is that, should market prices fall below your index, then you stuck facing the bill for the difference. Committing 100% of your fuel volume to an index just leaves you chained to the benchmark, unable to outperform it or avoid overpaying when fuel prices rise. It’s just like investing: too little exposure to risk can be just as harmful as too much.

That’s why we suggest leaving some portion of your fuel volume open for daily “spot” purchases, or purchases of fuel at current commodity market prices. We suggest roughly 20-30%: a portion small enough that you avoid exposing your budget to too much volatility, but which leaves you enough wiggle room to exploit favorable market fluctuations and capture special deals, such as when suppliers have to quickly unload an excess of product.

What’s more, leaving some fuel volume open for “day deal” spot purchases allows you to capture location-based price differences when they arise. If prices at a nearby site drop below those offered by your indexed contact, then you can devote your “spot” volume to purchasing fuel from the lower-priced supplier.

### BEST PRACTICE #3

**PRACTICE INTELLIGENT MARKET TIMING.**

Experienced financial advisors will tell you that market timing for market timing’s sake is a fool’s errand; generally you’ll just end up chasing yesterday’s prices with today’s money. Sometimes, however, the moves the market will make are so clearly telegraphed in advance that they demand to be exploited. In these cases, market timed purchasing can save you significant cash on your fuel expenses.

For example, traders and fuel managers familiar with the oil markets know that hurricanes tend to mean regional supply shortages and rising fuel prices across the Southeast. So it went for Hurricane Isaac: in the summer of 2012. In anticipation of weather-related price volatility, the WEX Fuel Advisors team dispatched 200,000 gallons of fuel to supply sites across the Gulf market in the week before the storm projected landfall. This fuel went to areas not directly in the hurricane’s forecast path, but which still pooled and traded from the same markets. By simply fueling up before the hurricane hit, customers saved an average of 25 CPG, or $55,000.

Fuel price rises aren’t just climate driven, however; political crises in the Middle East can also translate to higher prices at the pump in domestic markets. In February 2012, when the Iranian nuclear dispute was heating up, as was the situation in the Arabian Gulf, spot prices across the Middle East were sure to influence the oil markets at home. Indeed, the West Coast gasoline markets jumped an average of 20 cents per gallon in conjunction with the news. The same day the scandal broke, WEX Fuel Advisors dispatched fuel into any storage site in the market that could hold additional inventory. As prices climbed, each customer saved roughly 20 cents per gallon, or $25,000.

Other leading indicators of price increases include refinery turn-arounds or outages, pipeline disruptions, trading spikes in the commodities markets, regulatory changes, and even political press announcements. Sometimes successfully predicting fuel price rises is as simple as turning on the news.

Often, however, the best market timing isn’t about betting on current events as much as it is intelligent inventory management. An action as obvious as filling up your tanks when prices fall, instead of waiting until tanks are empty, can prevent substantial losses in your fuel budget. And if regional prices are clearly on the rise, it just makes sense to move delivery of tomorrow’s load to today, or to switch to a supplier outside your affected region.

Even if you already have a contract for 100% of your volume, you can and should still take advantage of market timed purchasing for day-to-day moves, because the savings can be significant.

### BEST PRACTICE #4

**ESTABLISH FIXED & CLEARLY DEFINED FREIGHT RATES.**

It’s not enough to secure below-pump prices for your fuel if you’re still being overcharged to have it hauled to your storage tanks.

Most freight carriers base their rates on some combination of the U.S. National Average Diesel Fuel Index and a surcharge calculation methodology that differs from company to company. Not only are these charges highly variable, but there’s usually little transparency in how they’re calculated. That means end users are often charged excessive freight rates or have hidden costs built into their contracts.
5 best practices for buying bulk fuel

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Fuel price rises aren’t just climate driven, however; political crises in the Middle East can also translate to higher prices at the pump in domestic markets. In February 2012, when the Quran burning scandal broke at an airbase in Afghanistan, it set in motion protests across the Middle East that were sure to influence the oil markets at home. Indeed, the West Coast gasoline markets jumped an average of 20 cents per gallon in conjunction with the news. The same day the scandal broke, WEX Fuel Advisors dispatched fuel into any storage site in the market that could hold additional inventory. As prices climbed, each customer saved roughly 20 cents per gallon, or $25,000.

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**INDEX-BASED CONTRACT CONSIDERATIONS:**

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**“SPOT” PURCHASE STRATEGY**

20 – 30%

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What’s true for investors is true for fuel buyers – transparency is everything. Just as you should understand the fees behind any fund you purchase, you also should understand exactly what you’re paying for in freight rates.

Therefore, when negotiating a bulk fuel contract, we recommend you establish a fixed freight rate, with all charges clearly explained in your agreement. Fuel surcharges should be split from demurrage charges, and so on, and any ancillary charges that could occur should be openly outlined and defined.

One regional energy provider had contracts with its suppliers stipulating that each of the company’s storage tanks had to be managed independently. As a result, the company was forced to order more frequent tank wagon loads — roughly 52 per month — rather than taking fewer full transport loads.

WEX Fuel Advisors estimated that by renegotiating their contracts so that they only took delivery of full transport loads, the company could eliminate $6,143 per month in unnecessary freight charges. The total annual savings would be over $73,000.

**BEST PRACTICE #5**

**REGULARLY AUDIT YOUR INVOICES FOR ACCURACY.**

On average, 10% of all invoices are billed outside the agreed-upon terms, leaving fuel purchasers paying an average of 5 CPG above their contract price. That’s why it’s so important to regularly audit your invoices for accuracy; even the largest and most sophisticated systems can fall prey to invoice errors. In fact, the larger the company, the higher the probability mistakes will be overlooked.

Due to inaccurate invoicing, one rental car company had been paying above their contracted fuel price, paying for non-mixed loads even though full load quantities had been delivered. The locations incorrectly invoiced accounted for roughly 10% of the rental car company’s yearly fuel usage. Fixing this simple invoice mistake resulted in an annual savings of $214,000.

Just as you’d regularly review your investment portfolio, you should have a regular schedule and procedure to review your invoices, including fuel, freight and hidden fees that may not be part of your agreement. Don’t take your vendor’s word that your invoices are accurate. Evaluate what you’re charged for often to make sure you’re not paying incorrect prices or outside your original contract terms.

**CONCLUSION / SUMMARY**

In this paper we’ve established five best practices that will assist fuel purchasers in buying bulk fuel. These include:

- Secure an index-based contract for the majority of fuel volume.
- Leave some portion available for “spot” purchases.
- Practice intelligent market timing.
- Establish fixed & clearly defined freight rates.
- Regularly audit your invoices for accuracy.

You may not be able to let eradicate fuel expenses entirely, but with these strategies in place, you can better manage and tame your fuel costs so that they don’t bite you back.

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**% OF INACCURATE INVOICES**

- 10%