



Fuel Costs and the Impact on Your Bottom Line

Over recent times fuel prices have been steadily increasing. Businesses are feeling the 'squeeze' and starting to pass the rising costs onto consumers, affecting the cost of everything from taxis to groceries. Economists predict the cost of fuel to continue to rise over the long term, some even saying the cost could reach \$2.00 per litre in the medium term. There are two main factors in the increase – the cost of crude oil and the cost of refined petrol and diesel. The cost of fuel at the pump is impacted by exchange rates, demand for oil, uncertainties around supply, local market competition, taxes and duties.

So what can you do to ease the pressure and reduce the squeeze for your business?

The cost of fuel is determined by factors outside our control. Your business may not be feeling the impact of these costs now; but sometime soon these costs will almost certainly be impacting on your bottom line.

While we cannot control rising fuel costs, all is not lost as opportunities exist in other areas of your business to counteract these. Have you considered spend categories that are not directly impacted by the cost of fuel? Consider things like your print category or telecommunications. These areas can be targeted for savings that can assist in counteracting the increased rates in incontestable spend. It is even more pertinent now to develop and maintain good relationships with your suppliers. This might mean negotiating preferred supplier agreements or preventing 'leakage' from your preferred suppliers.

Management Toolbox can work together with you and your suppliers to reduce costs in specific categories and improve your bottom line. We have significant experience in Procurement and in undertaking projects such as category reviews and process improvement

Efficiency

By understanding the factors that impact on your business, for example your cost structure supply base and the broad market in which you operate, you are in a position to reduce inefficiencies and make substantial cost savings.

Negotiations with and/or management of suppliers in categories not impacted by fuel prices will help your business to counter spend in those categories which will rise significantly due to petrol price increases.

Businesses will need to become accustomed to higher fuel costs. Even if fuel costs do come down (which is not predicted to occur in the near future) targeting areas of cost savings will have a positive effect on the bottom line of your business.

Cost Reduction Techniques

- Understand
 - Your own business including total costs and needs versus wants
 - Market players and dynamics of the market
- Prepare for negotiations
- Increase your spend with preferred suppliers
- Reduce supplier numbers
- Work with other customers to leverage volume
- Have alternatives and substitutes available
- Develop contingency plans and an ability to change suppliers
- Benchmark prices
- Manage supplier performance