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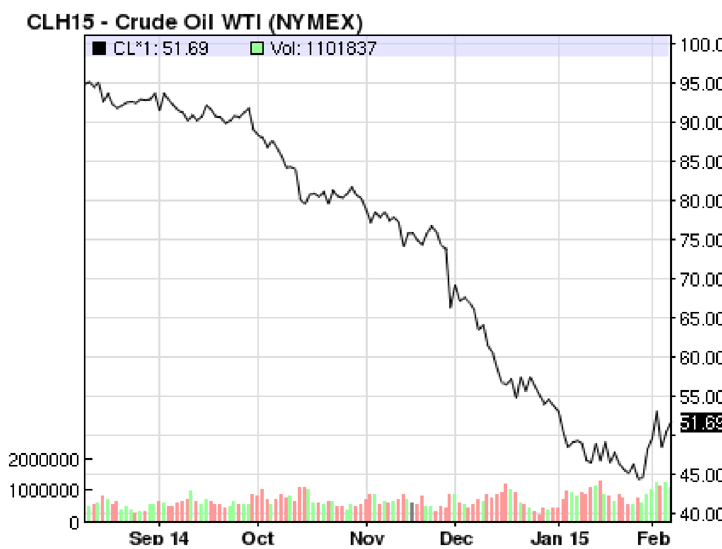
SHIP SMARTER AND SAVE

FALLING OIL PRICES – HOW IT IMPACTS YOU

With the price of a barrel of oil dropping most shippers are thinking that they will have a cushion in there transportation budgets that will offset anticipated carrier price increases. However, we only wish that these mechanisms were so simple. The six month cost of a barrel of oil chart, provided by NYMEX shows a steep steady decline. But most shippers have not seen their fuel surcharges drop proportionately.



Here is why:

1. For each carrier there are timing lags and adjustments to their fuel surcharges, the structure of the fuel surcharge tables, and the manner in which carriers purchase fuel.

2. Carriers regularly review and update their fuel surcharge tables. For a large carrier like FedEx, this will take place on February 2nd for their Express, Ground and Freight business units.

3. There is a timing lag of approximately six to eight weeks before fuel surcharges are adjusted based upon changes in fuel prices. For example, the fuel surcharge index in effect at FedEx in November was set based on September fuel prices. This results in a lag between the cost of fuel on the way down as well as a lag when fuel is increasing.

4. The structure of the carriers' fuel surcharge table for does not adjust for direct changes in fuel price but allows for the fuel surcharge revenue charged through to customers to remain unchanged as long as fuel prices remain within certain bands.

5. In many instances fuel is purchased under contractual arrangements tied to various indices around the world. Approximately 75% of jet fuel purchased by FedEx is based on the index price for the preceding week, with the remainder of their purchases tied to the index for the preceding month, rather than based on daily spot rates. While a daily spot price of jet fuel declined almost 30% from the end of August to the end of November, the average monthly price they paid for jet fuel under their contractual arrangements did not change by a similar corresponding amount.

While the price of oil and the talk about fuel surcharge increases and decreases may grab the headlines, don't take your eye off the ball. This is one of those pay me now or pay me later situations. Carriers look at the total profitability that they derive from moving your freight. That includes the freight costs, accessorial charges and the cost of fuel. You should take into consideration the five factors described above to determine the long term impact of the carriers operating ratio when you negotiate freight charges and think that failing fuel costs are a windfall for you as a shipper.

Our Professional Services team stands ready to support you in controlling your transportation expenses and freight cost analysis. Please contact Leif Holm-Andersen, Executive Director of Professional Services at Leif.holm-andersen@data2logistics.com or +1 239 425 8050.