

## ■ If Oil's Down, Why Is Gas Still High?

**E**very time the price of oil drops, I get asked why the price at the pump stays high. With twelve years in the fuel business, it seems I'm always being asked, "Aren't the two linked?"

The short answer is, yes they are definitely linked, but as you guessed, there is a longer answer. When oil prices skyrocketed, the pump prices kept pace. Now that the barrel price has come down, the pump price is falling too, but slowly. You might call it a controlled descent, and there are several reasons for it.

Fuel prices are affected by a number of things. The price of oil is just one. Fuel is a retail product just like thousands of other things we need from day to day. But unlike other retail products, fuel is also a commodity, so supply and demand determine the price on the open market and ultimately at the pump. Also, unlike retail products, oil is used in many applications, not just as a fuel but also as raw material in manufacturing myriad goods, chemicals, foods, fertilizers, etc. When supply is abundant and demand consistent, prices are stable. But when supply is disrupted, short-term inventory is threatened, and this affects millions of businesses worldwide. We quickly see demand surge and prices spike. And there are so many things that can interfere with supply.

In 2007, a fire in a refinery in Ontario triggered an almost nationwide fuel shortage, and it became a perfect storm. It was an unusually cold winter, and when one of three refineries went offline, a fuel crisis began. Fuel normally brought by rail from Quebec was held up by a strike at the railway. Fuel normally brought by ship from Michigan was blocked by thick ice in the ports. Soon, commercial filling stations ran out of diesel, and businesses weren't able to operate. Needless to say, fuel was expensive if you could get it and even after supply returned, it was months before inventory was restored and prices came back down. But there's more to oil prices than bad luck and worse weather.

A huge part of the rise and fall in world oil prices is market forces, and this is where it gets a little complicated. There's oil in everything. And by that I mean there's very little in our lives that doesn't require oil to produce it, bring it to market, take it home, or put it on the table. That's why indicators like consumer confidence and employment rates also affect oil prices. Also, since oil is global, prices here are affected by demand elsewhere. In the spring of last year, we saw oil consumption in China and India rival that of the United States, and suddenly oil prices were rising even when U.S. consumption was falling. Commodity markets were trading oil just like gold, foreign currencies, and stocks. Now, with the turmoil in the stock markets and world oil consumption still fairly stable, oil is holding its value nicely because of another distinct advantage oil has: control of supply. Like diamonds and gold, if market prices fall too far, supply can be reduced until the price goes back up. All of this means that we should get used to high oil prices, but it doesn't mean there's nothing you can do. Learn these two words: Fuel Management.

Fuel Management is a concept whose time has come. It is the idea that if you collect accurate data on how you use fuel that you'll be better able to control consumption, reduce cost, and eliminate theft and waste. As an idea, it's not an entirely new one, and there are a number of fuel management companies that offer solutions of varying effectiveness.

The most basic systems comprise manual data collection and spreadsheets. The program relies on the consistency of drivers recording their daily odometer readings and fuel purchases, as well as the accuracy of the data entry person and the commitment of the manager to make sense of all the information and decide how to use it. However, these manual and semi-manual systems are susceptible to lost receipts, illegible faxes, inaccurate records, and data-entry errors. They also don't help the manager make any sense of the data. Only a system that is

fully automated can eliminate human error and add tools to help the manager understand the data. But that's not all a fuel management system can do.

Fuel Management refers to measuring all activities related to refueling, and there are many. Fuel supply is critical, and your fuel management system must begin with finding a professional fuel supplier who can deliver regardless of fuel shortages, adverse weather, and other challenges. Your fuel manager should give you online access to all your fuel records including price history, dockets, and fuel consumption across your fleet and broken down by vehicle. To eliminate human error, they should also use automated collection of fuel data and a positive identification system for digitally attaching the right fuel data to the right equipment. They should also assure you of high safety and environment standards, and be able to accommodate short notice changes to your equipment list or fleet profile.

A reliable fuel management system can save you up to 20% on your fuel costs. When combined with onsite delivery, you make productivity gains of at least 20 minutes per day, per vehicle. You also reduce the cost of labor, overhead, insurance, maintenance, and fuel consumption. With automated reconciliation of fuel data available online, you also reduce administration costs. And the biggest hidden savings area is theft. Onsite refuel practices eliminate theft, which many businesses reckon accounts for between 10 and 20% of fuel costs.

The most amazing thing about fuel management technology is that it shows you all of these costs that until now were not measurable. Which, unless you're using a fuel management system, are impossible to manage.

So no matter what fuel prices do, no matter how high oil climbs, or how slowly the pump price falls, you can always exert more control over your fuel expenses. It's just a matter of having the tools to measure and the systems to manage it.

*Jack Lee can be reached at (604) 513-0386 or [askthefuelexpert@4refuel.com](mailto:askthefuelexpert@4refuel.com).*

