Businesses can soften the blow of relentless fuel price hikes

Fuel-price increases have been relentless over the last few months, resulting in higher operating expenses for businesses that are having to fork out more money for the same amount of fuel consumed previously.

Source: Pixabay

Standard Bank fleet-card transaction data shows that fleet users paid an average price of R14 per litre of diesel in January, which means that it cost R3 360 to fill up a 60-litre tank four times in a month.

Now, however, with the price sitting at R20/litre, that fleet user would have to cough up over 40% more (R4 800) for the same amount of fuel. When extrapolating the cost for 11 months, that's an extra R15 000 a year.

Today's per barrel price of Brent crude oil ($75/barrel) is a far cry from the per barrel price of $18/barrel that Brent crude fetched in April 2020 due to a glut in the market amid the outbreak of the Covid-19 pandemic.

The drivers behind the fuel price hikes

The picture has vastly changed with an undersupply in the market now largely driving the price of crude oil up. Naturally, the Organization of the Petroleum Exporting Countries (OPEC) wants to sell the commodity at a high price, yet many of its members (oil-producing nations) are weary about current prices as they reckon Elon Musk could kill the oil industry with electric vehicles (EVs). In other words, if OPEC doesn't bring the price down, it could speed up the transformation from petrol or carbon-fueled vehicles to EVs.

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As such, there is reason to believe that there could be a reduction in fuel prices in the months to come. The United States and China have, what are known, as strategic reserves, some of which will be released into the market, and, although not guaranteed to materialise, could generate some cost-ease soon.

More businesses take to the road but face high cost of transportation

There has, without a doubt, been an increase in road users and a rise in the quantity of fuel consumed for logistics purposes, especially since the arrival of Covid-19 and a resultant spike in online shopping and demand for home delivery for essentials like groceries.

While the number of litres of fuel consumed for typical passenger vehicles is down by 30% due to the shift to remote working, operators of medium and large commercial vehicles that move everything - from inputs for production to goods and services - are up significantly.

Following changes in consumer buying behavior over the past two years, it has become critical for businesses to gear up to provide home delivery, or beef up existing fleets. But the cost of fuel for transportation - which has risen far by over 41% between January and December with inflation over that period running at 5% - is placing serious pressure on businesses, particularly those that are unable to pass such increases onto their customers.

In addition, toll fees went up by 4.8% in March while maintenance has risen by 5%. Not to mention other cost pressures that businesses are facing outside the sphere of transportation.

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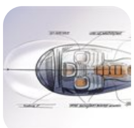
Bringing the rising cost of fuel down

In the current environment where fleet capabilities remain a business imperative but rising transport costs and expenses continue to weigh on cash flow, focusing on savings and efficient ways of managing fleets are critical to retaining key assets like people and vehicles.

One way of keeping fuel expenses down is by participating in a diesel savings programme. Through partnerships with leading oil companies, Standard Bank's diesel savings programmes save their client-base millions of rands by enabling them to procure diesel at preferential prices across the country. A fleet of 10 vehicles using 20,000 litres a month typically saves about R15,000 per month or R180,000 a year on a Standard Bank diesel savings programme.



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Standard Bank also recently launched Visa Fleet Card, South Africa's first chip and PIN fleet card. Visa Fleet Card is secured by a PIN and is very difficult to clone. Visa Fleet Card is being issued to petrol-powered vehicles with a dedicated driver. In addition to the heightened security, this card has the added benefit of reduced fees.

Another area where businesses often miss savings opportunities is by not managing and controlling risk. This comes down to having information available on day-to-day fuel consumption and driver behavior. When introducing a fleet card to a fleet, analytics reports are made available in real-time that help to highlight if a vehicle or driver is moving uneconomically, to determine the causes thereof, to respond appropriately, and to initiate savings to dampen the impact of increases in the costs of fuel among others on the business.

ABOUT THE AUTHOR

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