

Conerly on the Economy:

Businesses Strategies for Higher Fuel Prices

William B. Conerly, Ph.D.

Re-evaluation: Some of the ideas on this list may have been considered a few years ago in the normal course of business. Don't dismiss them out of hand, though. Fuel prices have risen sharply in the last year. A fuel-saving idea that was not cost effective then may very well be cost effective at today's prices. Furthermore, new technologies have improved significantly in many fields, including from engine efficiency, software effectiveness, battery technology, etc. Finally, your business has changed in the last few years. (If it hasn't changed at all, a burial may be in order!) Ideas that didn't make sense in 2000 may be critical to success in 2005.

Vehicle Maintenance: This one is pretty obvious. If you're not running your internal combustion engines with a good maintenance program, it's high time to begin. Get up-to-date software to help you stay on track.

Driving Behavior: Your drivers may need to be reminded that better driving saves fuel. Don't allow unnecessary idling.

Routing Software: Companies that make deliveries should investigate routing software. Businesses are reporting mileage reductions of 10 percent and more. That not only saves fuel, but it also saves labor costs. A few years ago, small fleets found the software expensive relative to potential cost savings. Now, however, the software is cheaper and more effective, computers are cheaper, the destination data is more likely to be transferable without keying in addresses by hand. Add in to that mix the higher fuel costs and labor costs, and businesses may find that routing software is now a money-saver.

New Equipment: Fuel efficiency has increased tremendously in recent years. Financing costs for all kinds of equipment are still low. And now, in many categories prices are falling. Car dealers are most prominent. As sales volumes have dropped, Detroit is offering some pretty attractive incentives. This may be true of other kinds of equipment, but it's hard to generalize about everything from forklifts to generators. It may be worth replacing some equipment now, especially for businesses which have been dragging their feet, trying to keep geriatric gear running long past a reasonable lifespan.

Raise Prices or Add Fuel Surcharge: This makes the most sense when your competitors are in the same position you are in. However, if you are running diesels in an application where competitors are running electric motors, you may not be able to raise prices without losing customers.

Reduce Sales: Whoa! Am I crazy? We've just come out of a recession, when everyone was scrambling after customers. It seems crazy to turn customers away now. But listen up. My friends at the Pacific Northwest Group go into factories in the continuous process

sectors (paper, steel, etc.) and measure all of the inputs and outputs, as part of their optimization consulting. They are finding that as factories approach 100 percent of capacity, their costs rise sharply. Oftentimes, the increased production was prompted by discounted sales. When the companies reduce their operating rate and end the sales discounts, their sales volume goes down, but costs fall even further. The net result is higher net income.

Conerly Consulting LLC
4500 Kruse Way, Suite 350
Lake Oswego, OR 97035

503-675-3138
503-675-3139 (fax)

www.ConerlyConsulting.com
Bill@ConerlyConsulting.com