



Rolling on Opinions

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With a 12,4% increase year to date in August, (19,6% yearly equivalent), fuel represents the most important management aspect on the economic side of medium to long-term transport service contracts. Remember it is the greatest running cost of a road transport fleet.

Therefore, the question arises as to how to manage it, what is the best model (preferably systematic and objective) that allows transport service providers to recover costs that are not under their control, and prevents pricing abuses based on exaggerated fuel inflation or weight.

Such a model requires reasonably understanding and negotiating on three different areas: the costing model (including the corresponding updating mechanism), the inflation rate and the weight of fuel on a vehicle running cost.

Fortunately Internet provides a simple way to solve the inflation issue. There are objective sources of information online that provide data on fuel costs over the last few years. In Portugal, the Geology and Energy Department (Direcção Geral da Geologia e Energia) is an example.

Unfortunately, for the remaining parameters (costing model and fuel weight), there are no credible sources of information.

In order to provide a more solid dimension of the problem under discussion, as for the fuel weight on the fleet cost structure, shall we consider a company that consumes 100.000 euros per year on transport services. If annual inflation on fuel is 20% and the weight of fuel on the transportation cost structure is 20%, the increase on the transport services invoice will be 4.000 euros. If the weight is 30%, the increase will be 6.000 euros (a 50% increment). On a tenfold base invoice, the increment will be as well. Believe me, based on my professional experience, I can state

that these are feasible values, so would be other values diverging more than these. It all depends on bargaining power and interests between parties.

So, the question is: what is most correct best price-updating model?

Is it an automatic one? Is it a model that considers a delay relative to fuel increases? Or perhaps a monthly or quarterly moving average? What should be the reviewing period?

Likewise, determining a reasonable value for the weight of fuel on the cost structure is also very important.

It is then necessary that someone works on this problem, someone unbiased and equally distant from both service providers and customers, having the credibility as well as the vision required.

The situation is, as can be noticed, there is no organization in Portugal with these characteristics. There is no published report about this matter that can effectively be used as a reference for transport contract negotiation purposes. Until this happens, each one will roll on his or her opinion as to what is a fair model.

Here is the challenge, then, at least to the most outstanding agents, either service providers or customers, to form a work group to deal with this subject. The results of this will certainly save attrition and deterioration on relationships between partners, as well as relevant costs related to negotiating processes?

By Joaquim Pereira