
A **Comdata** white paper

Five Tips for Negotiating Fuel Costs

Fuel management experts weigh in on how to get the best fuel price for your fleet

Regardless of your industry, you know that fueling a fleet of vehicles can be expensive and that managing this spend can be a hassle. Fleets who have found ways to negotiate fuel costs and streamline their spending have seen significant savings. These companies show that understanding where their fuel spend is going and knowing how to approach a negotiation can save time and money, resulting in an immediate and significant impact to the bottom line. Follow these tips and you'll be on your way to considerable fuel savings for your company.

1. Understand How Fuel is Priced

Understanding how fuel is priced is key to ensuring your success in negotiating a good price for your fleet.

- > **Refineries turn barrels of crude oil into products like gasoline and diesel fuel.**
- > **These products are sold wholesale to racks.**
- > **Racks are located in most major cities.** A complete list of racks can be found at <http://www.opisnet.com/market/rackcode.HTM>



Racks then sell these products to gas stations and truck stops. Racks may price fuel differently for each customer, based on the volume of fuel that each purchases. A merchant who buys a large volume of fuel from one rack may pay less per gallon than a lower-volume retailer.

- > **Retailers determine cost per gallon by taking a number of factors into account:**
 - > Rack price (wholesale)
 - > Taxes: including federal, state, superfund, and usage service taxes
 - > Freight: what it costs to transport fuel from the rack to the retail location, which is then translated into a cents-per-gallon cost
 - > Miscellaneous, mark up, and pumping fees: additional fees that each station decides at its own discretion

2. Recognize Discount Types

As a volume fuel buyer, you have several options for negotiating the price your company pays for fuel. Typically, the more volume you bring to the retailer, the greater your power to negotiate discounts will be. The most common discount types are retail less and cost pricing. A retail less discount means that you will pay a pre-determined amount less than the merchant's retail fuel price. For example, one company may negotiate a discount where it pays 3¢ less than retail per gallon. In this case, if retail is \$2.80 per gallon, this company will pay \$2.77 per gallon (Scenario 2).

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Although retail less discounts are fairly common, cost plus will usually give you the better deal. In cost plus, a fleet is expected to pay a pre-determined amount above what the retailer paid wholesale per gallon.

For example, if a retailer purchases fuel at \$2.80 per gallon wholesale from the racks, a customer with a cost plus discount might be expected to pay \$2.85 per gallon (Scenario 1). Because margins on fuel can sometimes be quite large, most companies find that cost plus pricing saves them more money than does retail less pricing. In some cases, fleets with enormous volume are able to negotiate “cost minus” discounts, where they pay a certain amount under the retailer’s wholesale cost per gallon.

Many retailers are open to negotiating “better of” deals, where a retail less and a cost plus discount are determined, and the fleet receives whichever of these two discounts is less expensive. The box above illustrates how a fleet with a cost plus 5 discount, a retail less 3 discount, and a better of deal fares differently, according to fluctuating fuel retail and wholesale prices.

Scenario 1	
Retail Price	\$3.00
Wholesale Price	\$2.80
Retail Less Price	\$2.97
Cost Plus Price	\$2.85
Fleet pays Cost Plus	
Scenario 2	
Retail Price	\$2.80
Wholesale Price	\$2.73
Retail Less Price	\$2.77
Cost Plus Price	\$2.78
Fleet pays Retail Less	

3. Prepare Your Negotiation

The most important thing to have before approaching any retailer for fuel price negotiations is a picture of your overall fuel spend and gallons purchased. If this is something that you do not currently track, it’s not too late – there are several companies who provide this service for customers, and a few, such as Comdata, who can dedicate a Fuel Management Specialist to help you collect the facts you need to initiate a successful fuel negotiation.

Understanding the big picture of your company’s fuel spend essentially helps you to understand your bargaining power and is important because it can help you see opportunities and patterns that might otherwise be overlooked. For example, a fleet company who purchases fuel at many different locations may realize an opportunity to consolidate fuel spend to fewer locations, thus enabling that company to negotiate better volume discounts.

4. Know Who Will Negotiate

Most truck stops are open to fuel price negotiation – the more business you do with them, the more likely they will be to discuss fuel prices. Convenience stores may also negotiate fuel discounts with fleet companies based on volume. The key takeaway is that negotiating fuel discounts is widely prevalent among truck stops and certainly has a presence at many convenience store locations.

Insider Tip: Look for a membership group of fleets that is able to negotiate discounts based on the group’s high volume. For example, Comdata’s Fuel Consortium includes many of the top 10 commercial fleets, as well as many smaller fleets, offering an estimated collective monthly volume of 47 million gallons. That’s enough to get this Consortium a great discount at participating locations!



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5. Set Your Metrics for Success

The only way to know if you have been successful in negotiating fuel discounts for your company is to set your metrics in advance. Before doing that, though, it is important to take into account that all fleets are different and may receive varying discounts from retailers based on volume and national recognition. A large, national fleet may receive different discounts compared to a small, local fleet; stations close to racks may price differently from stations farther away; and a fleet of owner-operators could see different prices from a fleet of company-owned vehicles.

Understanding your current fuel spend is the first step on your way to setting appropriate metrics. If you pay less for fuel after negotiating than you currently do, then you are moving in the right direction. You should also measure the success of your fuel negotiations by benchmarking against what similar fleets pay for fuel. Some may find it sufficient to benchmark against national or PADD (Petroleum Administration for Defense Districts) averages, but these averages are based on retail pricing and will not help you understand how your discounts stack up against other companies.

To get the most accurate benchmarks, you may need to work with a specialist to help you understand what kinds of discounts fleets similar in size and type to yours are receiving for fuel. Companies like Comdata offer benchmarks studies based on net of retail fuel prices, including low, high, average, and median prices according to size (in gallons) categories. Understanding how your company's discounts compare to others can show you how successful your negotiations are relative to others and can also help to set the stage for your negotiations.

Summary

Knowing how to negotiate effectively with fuel merchants can go a long way towards your bottom line. Following the five tips listed above will help you better understand and prepare for your negotiations, and can result in major savings for your business. Working with a strong fuel management team can help provide the guidance and insider tips necessary to achieve the lowest fuel costs for your fleet.

Why Comdata?

Comdata Fuel Management Solutions provide customers with a team of specialists who work to minimize fuel costs and maximize fuel efficiency. We know that running a fleet of vehicles is challenging, so we offer our customers numerous tools, such as the [Low-Cost Fuel Index](#), that can help you make the most of your money. Fuel Management Solutions are a complementary service for every Comdata customer. To take advantage or for more information, contact your Comdata Customer Relations Representative today, or visit us at <http://www.comdata.com/solutions/fleet/fuel-management/fuel>.

Comdata provides 24/7 customer service for customers and cardholders, and a dedicated support team to guide you through set up, implementation, and to answer questions once your paperless payroll program has launched. Comdata also offers real-time capabilities for managing your paycard program, and enhanced reporting to help you analyze and ensure the success of your program.



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