

Analysis of 2016 Fleet Fuel Spend and 2017 Forecast

November 2016, By Mike Antich

What Do You Pay For in a Gallon of Regular Gasoline?

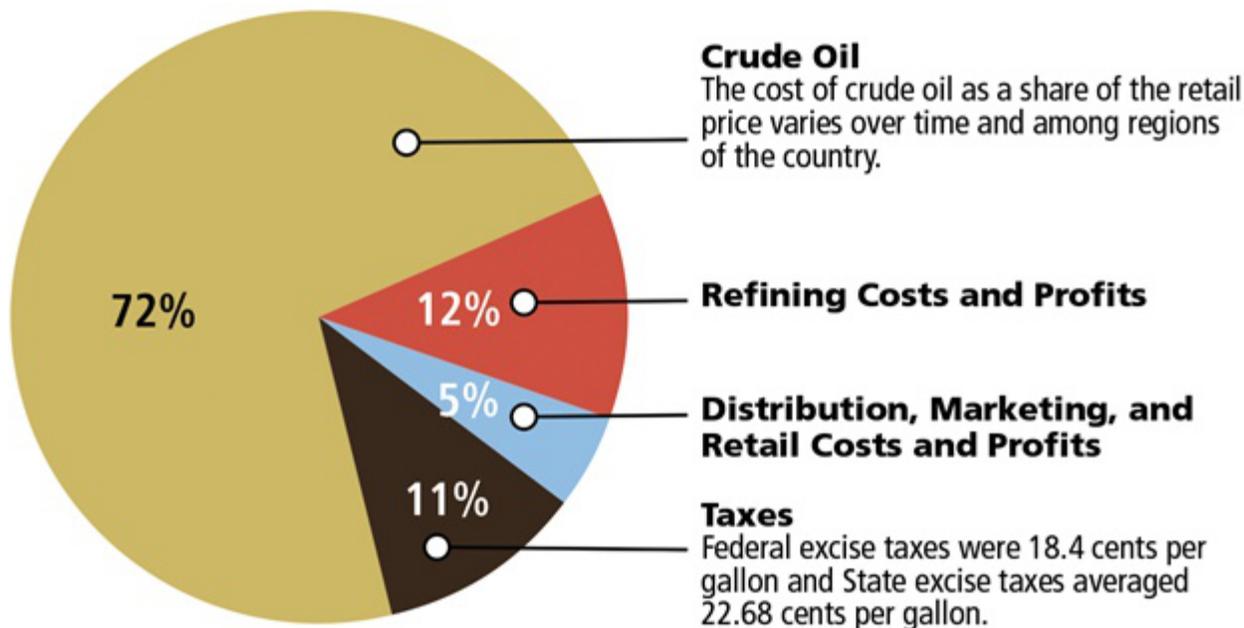


Chart courtesy of Energy Information Administration

Editors Note: This article is part of a five-part package dealing with operating costs in 2016. Read related articles that offer and in depth look at [Tire Prices](#), [Fleet Maintenance](#), and [Preventative Maintenance](#), as well as an [overview of operating costs in 2016](#).

The stability of fuel pricing over the past 36 months has been the No. 1 factor contributing to keeping fleet operating costs flat in calendar-year 2016.

“Compared to 2015, prices in 2016 have declined almost 20% for gasoline and almost 15% for diesel. The steady decline in prices have helped reduce costs year over year,” said Chad Christensen, strategic consultant for Element Fleet Management. “As the market moves through the last few months of the year, prices are expected to decline further. However, recent news from OPEC may change this seasonal trend and drive prices up slightly.”

Another perspective on the decline in fuel costs is offered by EMKAY.

“Mileage accumulation has increased nearly 2.5% across the entire EMKAY portfolio from January to September 2015

versus 2016, while overall fuel expenditures have decreased by approximately 7.5%,” said Mandi Ginsburg, manager, service operations for EMKAY.

However, lower prices at the pump have been a double-edged sword for many fleet customers over the past 12-18 months.

On the one hand, lower retail prices for both gasoline and diesel have been a welcome relief for fleets that, in some cases, have seen their costs reduced by 25-30%. On the other hand, industries directly or indirectly attached to the price of oil (upstream to downstream) have experienced a real squeeze in revenue and cash flow.

At A Glance

- In 2016, fuel prices have declined almost 20% for gasoline and almost 15% for diesel compared to the preceding 12 months.
- The Energy Information Administration (EIA) projects fuel costs to increase over the next 12 months.
- The forecast is that the national average per gallon price of gasoline will increase to \$2.26 in CY-2017. It is currently \$2.08.
- The average per gallon price of diesel price is forecast to increase to \$2.71 in CY-2017 compared to \$2.30 in 2016.

“Since fuel costs make up a large portion of fleet spend, flat fuel prices have resulted in lower overall fleet operating expense. As fuel prices slightly decreased from 2015 into 2016, most fleets have benefited from lower expenses. For other fleets directly or indirectly related to the oil industry, lower oil prices have cut into revenue resulting in less investment in new vehicles,” said Romy Bria, director, fleet management for ARI.

It is well documented that fuel prices influence vehicle acquisition decisions. New- and used-vehicle markets tend to react to fluctuations in fuel prices. When prices are low, consumers may be more willing to consider larger, less fuel-efficient vehicles.

In recent years, lower fuel costs created an upward trend in truck and compact SUV resale values, resulting in a lower cost per mile and making these vehicle classifications more affordable to operate.

“With fuel price per gallon down more than 20% compared to 2015, it continues to become a smaller percentage of total spend for fleets. The lower fuel prices have also strengthened the secondary market for light trucks and SUVs, making those vehicles even more appealing to fleets,” said Bill Croke, manager of TotalView Analytics for Merchants Fleet Management.

Lower fuel prices have also impacted the sales of hybrids and alternative-fueled vehicles (AFV).

“With pump prices currently averaging \$2.20 per gallon, we continue to see minimal demand for hybrid, plug-in, and electric vehicles during the vehicle selection process in 2016,” said Becky Langmandel, director of strategic modeling and analytics research team at LeasePlan USA. “Clients understand that some of the non-fuel total cost of ownership variables will offset the fuel savings. Transaction prices are often higher for hybrids and AFVs, so depreciation is inversely correlated to fuel prices. Therefore, lower fuel prices equate to higher depreciation for AFVs.”

As with most commodities, fuel prices fluctuate, driven by seasonal driving demand and weather conditions. One welcome relief to this multi-year period of fuel price stability has been the minimization of unpredictable pricing volatility that resulted in unanticipated price spikes that ravaged fleet budgets in past years.

With domestic oil production at high levels and the need to import oil trending downward, outside factors are less likely to have an impact on fuel prices than in the past.

Another factor driving acquisition decisions, especially at multinational companies, is corporate sustainability initiatives. Since higher fuel efficiency translates into lower emissions, sustainability mandates encourage acquisition decisions to focus on smaller displacement, more efficient engines.

Fuel-Spend Reduction Strategies

There continues to be the normal seasonal cyclical in fuel prices in the fall and spring, but the key factor is that this pricing cyclical does not have an upward trajectory and prices are behaving very similar to those in 2015.

“Whether retail prices are either higher than normal or lower, the basics behind effective fuel cost management remain the same. Fleets should always be focused on understanding their fuel expenses and controlling costs. An effective fuel management program should include a written and well-communicated fuel management policy to ensure drivers and fuel card users understand the expectations around card use and fuel conservation,” said Bria of ARI. “Fleets should also put measures in place to constantly monitor MPG and cost per gallon (CPG) performance across asset types and seek to create as much visibility as possible around transactions and spending trends at the driver level.”

A key factor moderating fuel spend is the overall increases in vehicle fuel economy. “As fleets continue to replenish their portfolios with newer assets, those assets are more fuel-efficient, which serves as a natural hedge if fuel prices rise,” said Brian Simek, senior manager for fleet repair services for Wheels Inc.

Related: [50 Ways to Reduce Fuel Spend](#)

A similar observation was made by ARI. “Some fleets have taken advantage of lower operating expenses to cycle out older vehicles with the additional capital,” said Bria.

A variety of acquisition decisions and fleet management decisions are contributing to increased average fleet fuel economy and reduction in overall fuel consumption.

“Most fleets implemented fuel reduction policies when fuel prices were high, and focus has been on maintaining those policies in anticipation of prices rising again,” said Croke of Merchants Fleet Management.

Fleets are rightsizing their vehicle selectors to take advantage of fuel-efficient technologies, weight reduction measures, higher-speed transmissions, and appropriate drivetrains to meet their business necessity.

“Since fuel cost is still one of the top contributors to the overall operating cost per mile, fuel economy for internal combustion engine vehicles remains a top focus during the vehicle selection process. For most light-duty vehicles, it now ranks behind depreciation as the top expense category,” said Langmandel of LeasePlan USA.

The biggest danger to today’s lower fuel prices is complacency, on the part of both drivers and fleet managers, and the mistaken belief that fuel reduction initiatives do not require the same emphasis as in the past. “Flat fuel prices have shifted some fleet’s focus away from cost-reduction strategies,” said Bria of ARI.

Many believe that the current stability in fuel prices may be short lived and, ultimately, fuel prices will start an upward trajectory. This has caused some fleets to investigate fuel hedging, which is a contractual tool used to reduce exposure to higher fuel costs by allowing a company to establish a fixed or capped cost.

“The U.S. Energy Information Administration (EIA) expects the average gasoline price to increase slightly in 2017 from an average of \$2.08 in 2016 to \$2.26. Likewise, the average diesel price in 2017 is expected to increase from \$2.30 in 2016 to \$2.71. Based on this, I would expect fleets to explore opportunities to lock-in lower prices through hedging or other financial tools,” said Christensen of Element Fleet Management.

New fleet technology, in particular in the area of analytics, shows much promise in helping to further evolve fuel management strategies.

“Telematics provides visibility to driver behaviors that contribute to increased fuel usage, and fleet customers are using telematics data to reduce fuel costs. Fleet managers can use the data to identify and act to reduce excessive and avoidable idling, harsh acceleration, harsh braking and speeding as well as have visibility to after-hours usage, where personal use is not approved,” said Bob Clark, manager of telematics and commercial motor vehicle compliance at

Wheels Inc.

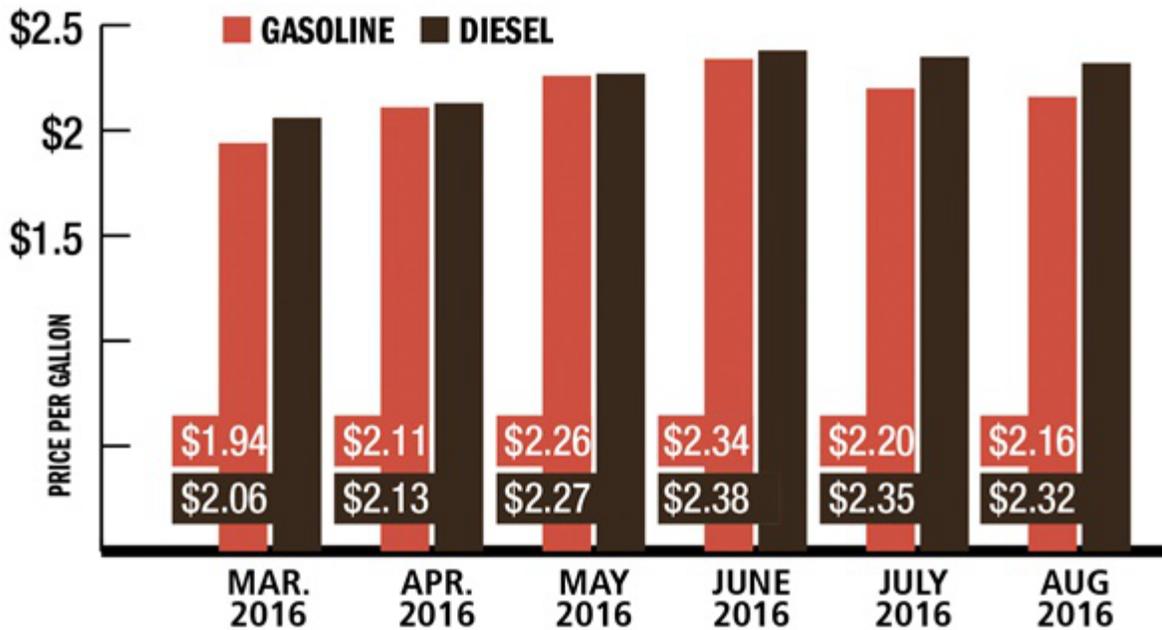
There is a limit as to how much fuel savings a fleet can wring from the types of vehicles acquired without impacting the fleet application. One of the best ways to control fuel expenditures is to control driver behavior.

“Fleet migration to smaller displacement engines continues to slow from prior years, as clients have exhausted options around vehicle selection within required segments or for specific fleet applications. The current focus is on impacting driver behavior within the selected vehicle, so the frequency of fleets looking to telematics for additional fuel savings continues its upward trend,” said Langmandel of LeasePlan USA.

Historical Gasoline & Diesel Trends

National Avg. Gasoline & Diesel Price Per Gallon Trend

March 2016 - August 2016



Charts courtesy of Wex.

This observation was echoed by EMKAY. “More interest is being focused on the benefits of telematics platforms. Clients are utilizing the devices to monitor idling time, trip history, and route optimization to identify risks and lower overall fuel expenditures,” said Ginsburg of EMKAY.

Forecast of Fuel Prices in 2017

All fleet management companies base their fuel price forecasts on those projected by the EIA.

Another indicator used to forecast future fuel prices is the oil futures market, where investors buy future oil contracts based on anticipated prices as a form of hedging or as an investment to sell at a future date if actual prices are higher. The oil futures market seems to reinforce the contention that oil prices will continue to remain flat. A key indicator is that the global inventory of oil continues to exceed current user demand.

“Fuel prices are impossible to forecast with certainty, but will be a function of economic growth, supply/demand, and currency fluctuations,” said Brian Simek, senior manager for fleet repair services for Wheels Inc.

Most fleet management companies use the EIA forecasts for internal planning and external fuel price forecast dissemination.

“The EIA Short-Term Energy Outlook forecast is adjusted for seasonal patterns but currently reports an average of \$2.08 per gallon for the remainder of CY-2016 and an annual average of \$2.26 per gallon for CY-2017,” said Paul Fortin, economist and vice president of strategic modeling and analytics research team at LeasePlan USA. “Since this near-term projection is close to the current run rate (and previous projections), LeasePlan does not see any major impact on fleet operating costs or purchasing decisions in the foreseeable future.”

The forecast of modestly rising fuel prices will be a factor influencing 2017 and 2018 model-year acquisition decisions.

“The EIA projects fuel costs to rise over the next 12 months, and with that increase fuel spend will once again start moving to the forefront of overall fleet spend. This could lead fleets to increase the pursuit of better fuel economy in their vehicles,” said Croke of Merchants Fleet Management

Since fuel cost is still one of the top contributors to the overall operating cost per mile, fuel economy for internal combustion engine vehicles remains a top focus during the vehicle selection process.

In addition, as fuel prices rise, they will impact the resale values of less fuel-efficient vehicles.

“As fuel prices begin to rise, the secondary used-vehicle markets will begin to adjust accordingly. The average wholesale price of light trucks and SUVs is 21% higher than where it was two years ago, and that will begin to trend downward,” said Croke of Merchants Fleet Management. “Likewise, the resale value of smaller, more fuel-efficient vehicles will begin to rise.

Related: [2015 Fleet Fuel Spend Analysis & 2016 Forecast](#)

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