THREE WAYS TRUCKING CAN PROFIT FROM INVESTING IN FUEL EFFICIENCY
AN EQUIPMENT FINANCING & LEASING PERSPECTIVE

Citizens Commercial Banking™

Fuel conservation has been a management topic in trucking for years, but 2015 may mark the tipping point for green initiatives to pivot from politically proper to a strategically smart investment imperative. Certainly, industry efforts to reduce both fuel usage and emissions have already achieved meaningful results. In conjunction with the Environmental Protection Agency (EPA), nearly 3,000 SmartWay Partners across the freight supply chain have saved 120.7 million barrels of oil in the past decade – the equivalent of taking more than 10 million cars off the road for a year.[1]

But regulatory, market and economic factors all point to moving fuel efficiency up the management priority list. The first-ever greenhouse gas and fuel efficiency standards for heavy- and medium-duty trucks issued by the EPA and the National Highway Traffic Safety Administration (NHTSA) now require that by 2018 new trucks achieve a 20% reduction in fuel consumption.

In terms of energy independence for the U.S., the reduction of 22.3 billion gallons of oil imports annually is meaningful, but the savings of $50 billion in fuel costs to trucking companies is substantial. Fuel price increases and volatility are key factors in profitability.

*"In February 2014, Peterbilt Motors Company announced that their Cummins SuperTruck demonstration tractor-trailer achieved **10.7 mpg** under real-world driving conditions."**

Source: http://www.peterbilt.com/about/media/2014/396/

What's more, market pressure is increasing for green shipping options. A 2014 report from the Consumer Federation of America reveals that nearly 3 out of 4 U.S. adults favor regulated reduction of trucking fuel use – even though only 56% recognize that improved fuel efficiency will actually reduce the cost of consumer goods and services.[2]

Beyond public opinion and regulatory requirements, today's slow-growth rate environment makes the economic advantages of increasing fuel efficiency increasingly compelling. Averaging 39% of operating costs[3], fuel usage is the biggest target in the expense column.

Here are three investments in fuel efficiency that can pay big dividends.

I. SLOW DOWN

Restating the obvious, **reducing speed saves money**. And, counter to common perception, slowing down does not compromise driver productivity or on-time delivery when managed well. Reducing truck speed from 75 to 65 mph delivers up to a 27% reduction in fuel consumption[4]; at an average of $70,000 in fuel annually, that's a savings of almost $19,000 a year per rig.

Slower speeds require less work from the power train as well, reducing vehicle maintenance costs, increasing tire life and extending truck life. The investment required to implement speed limits is minimal, as most heavy trucks already have speed limiters installed.

Dropping the limit set from 65 to "the double nickel" (55 mph) can yield a full one mpg savings – as much as 20 gallons saved for every 1,000 miles driven.

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Additional low-cost strategies that can deliver meaningful savings include:

- Limit on-duty idle time to <15 minutes, and use hotels rather than allowing overnight idling, since big rigs can burn a gallon of fuel or more per hour when idling.
- Eliminate pay-per-mile policies, which encourage drivers to speed.
- Implement systematic tire-pressure monitoring, which reduces both fuel use and emissions; for every 10 psi of tire underinflation, expect a 10% reduction in mpg.

What's more, by early 2015, it's likely that the NHTSA and the Federal Motor Carrier Safety Administration (FMCSA) will require speed limiters to be in use on all heavy vehicles in any case, so it's best to start realizing the benefits sooner rather than later.

II. DRIVE SMART

Optimize routes to eliminate less than full truckloads; cross-shipping and deadheading improves driver productivity and equipment utilization, in addition to decreasing fuel usage. An investment in optimization software – and the training or staff required to use it well – can tune driver assignments, route planning, fleet positioning and more. All of these can minimize fuel expense – while improving other key metrics like on-time pickup and delivery, driver productivity and satisfaction, and revenue per truck.

At less than $1,000 per truck and about $250 annually, adding telematics to a fleet can supercharge fleet management intelligence. Advanced telematics allow monitoring of idle times, fuel efficiency, driver speed and required maintenance – all of which point to reduced cost, not to mention improved safety. While investing in software or equipping a large fleet with telematics can be costly, a smart financing solution can make it affordable and even support a shorter ROI.

III. INVEST IN EFFICIENCY

Like most trucking companies, you likely have a mix of old and new equipment. The older the vehicle, the less likely it's fuel-efficient. But with an average starting price of over $100,000 – more for natural gas-powered or diesel electric hybrids – the investment required to replace tractors is not one made without a careful financial analysis. To maximize the ROI from your efficiency gains:

- Baseline your fleet: rank order your vehicles based on highest fuel consumption and efficiency.
- Run the numbers: assess the cost and benefit of retrofitting or replacing by vehicle.
- Invest where the return is highest: high usage and low mpg.
- Then, run the most miles where your fuel efficiency and emissions control is best.

While running alternative fuels can reduce fuel use, emissions and cost – natural gas saves as much as $1.50 a gallon – care must be taken in matching the fuel to the purpose. Hybrid electric power isn't suited for high-speed, long-haul operations; natural gas may be a fit for these, but the fueling infrastructure may not fit your routes.

Whether you are planning to upgrade your fleet or incrementally improve your vehicles on the road, cost-efficient equipment financing and leasing alternatives can make an investment in fuel efficiency affordable, and support a higher ROI. The investment to meet the EPA's 2018 requirements today would be paid back in fuel savings in less than 7 months, and continue positive returns of nearly $1,000 monthly, based on industry averages.

The ROI of Efficiency

	Current	*Retrofit*
Average Truck Efficiency	6.5 mpg	7.8 mpg
Average Monthly Miles	10,000 miles	
Average Fuel Cost	$3.88 per gallon	
Average Monthly Fuel Cost	$5,969	$4,974
Average Monthly Savings		$995
Forecast Cost of Retrofit		$6,215
Average Financing Cost (@ 7.5%)		$466
Payback Period		<7 months

Source: Consumer Federation of America, "Paying the Freight: the Consumer Benefits of Increasing the Fuel Economy of Medium and Heavy Duty Trucks," February 2014

While growing regulation of fuel economy will force trucking companies to invest in meeting tighter standards, a close look at the ROI of fuel efficiency will draw an increasing number of thoughtful executives to accelerate fleet modernization. Whether starting with a pilot program to achieve incremental success and prioritize investments, or creating a multi-year sustainability strategy, forward-looking trucking companies will find that fuel efficiency is a new driver of profitability.

See http://www.thetruckersreport.com/infographics/cost-of-trucking/

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