

Fuel Prices, Inflation and Protecting Your Profit

Protecting Profit in Rising Cost Times

What's the Real Problem?

- Fuel is not the problem.
- Inflation is not the problem.
- Interest rates are not the problem.
- Not adjusting your prices is the problem.

If your costs go up and your prices don't, your profit disappears.

Turnover is vanity, profit is sanity, and cash flow is king.

What Is Increasing Right Now

Costs are increasing across the board:

- Fuel
- Materials
- Wages
- Superannuation
- Vehicles
- Rent
- Power
- Etc
- Interest rates

Fuel prices just mean this cycle is going to happen faster.

Prices should be reviewed at least every six months.

Fuel Impact Table

Item	Amount
Fuel per week	\$1,200
Fuel per year	\$57,600
Revenue	\$600,000
Fuel % of revenue	9.6%
Fuel increase	15%
Extra fuel cost	\$8,640

Option 1 – Per Job Increase

Jobs per year	900
Increase per job	\$9.60

Conclusion: Prices need to increase about \$10 per job just to cover the fuel increase.

Option 2 – Percentage Fuel Levy

Fuel as % of revenue is now **9.6%**, so a fuel levy of:

2% to 4% levy is reasonable for most service businesses.

Example:

Job value = \$800
Fuel levy 3% = \$24

Most customers will accept small increases. They do not accept poor communication or surprise invoices.

Small Cost Increases Kill Profit

Example business:

- Revenue = \$600,000
- Profit = \$60,000 (10%)

Costs increase \$12,000 due to:

- Fuel
- Insurance
- Materials
- Wages
- Interest

New profit = \$48,000

Profit dropped 20% even though revenue stayed the same.

Different Approaches

Service Trades (Electricians, Plumbers etc)

- Minimum charge
- Call out fee
- Fuel levy per job
- Travel time
- Increase hourly rate
- Group jobs by area

Builders

- Include fuel in overheads
- Increase margins
- Travel costs in preliminaries
- Variation for remote jobs
- Escalation clauses in contracts
- Shorter quote validity

Inflation and Contract Pricing - Be very careful locking in fixed prices.

Consider:

- Quote validity 14 to 30 days
- Price rise clauses
- Material rise clauses
- Fuel escalation clause
- Contingency 5% to 10%
- Stage payments
- Order materials early
- Review contracts regularly

During COVID this was the demise for many builders!!!!

Revenue is not important if the job is not profitable.

Impact On Employees

Your staff are also impacted by:

- Fuel
- Rent

- Food
- Interest rates
- Childcare
- Cost of living

This will lead to pressure for wage increases.

Businesses must improve:

- Productivity
- Scheduling
- Profit per job
- Pricing
- Systems

Otherwise wages go up and profit goes down.

Ways To Reduce Costs

- 4 day work week
- Start from home instead of depot
- Allocate jobs by area
- One suburb per day
- Pick up materials in advance
- Meet on site
- Reduce trips back to workshop
- Car pooling where possible
- Use phone/video meetings
- Better scheduling
- Charge travel properly

Less travel = more productive hours + lower fuel.

Do This Immediately

- Charge for travel
- Add a fuel levy
- Increase minimum charge
- Increase prices
- Group jobs by area
- Reduce unnecessary trips
- Check tyre pressure and vehicle loads
- Charge for second visits
- Confirm materials before leaving
- Improve scheduling

Next 1 to 3 Months

- Review pricing properly
- Track vehicle cost per km
- Track fuel cost per vehicle
- Improve scheduling systems
- Increase productivity
- Charge travel time properly
- Review minimum charge
- Focus on more profitable work

3 + Months

- Better systems and scheduling
- Reduce travel time
- More profitable jobs and clients
- Review vehicle types
- Improve business model

Final Message

Businesses don't fail because fuel goes up.

They fail because they don't adjust pricing when costs go up.

Know your numbers:

- Fuel cost
- Vehicle cost
- Labour cost
- Overheads
- Break even
- Profit margin

If you don't know your numbers, you are guessing. And guessing is not a business strategy.

Getting the work is important.

Doing the work is important.

But keeping the cash is what makes you wealthy.