

SOME RETAILERS ARE STAYING AHEAD OF RISING FUEL COSTS BY LEVERAGING THE INTERNET, MAXIMIZING TRAILER LOADS, REDUCING DELIVERIES AND IMPROVING FUEL MILEAGE.

OUTFOXING FUEL

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Among the major costs with which food retailers must deal, diesel fuel used in trucking is probably the one over which they have the least direct control.

Driven by such unpredictable factors as weather and politics, diesel fuel prices experience considerable volatility, mostly in an upward direction. Last week, as crude oil prices reached record levels, the price of diesel in the U.S. stood at \$2.77 per gallon, up 11 cents from the prior week and up 51 cents from the same time a year ago, according to the Department of Energy. Of course, the price had soared above \$3 per gallon in the wake of Hurricane Katrina last fall.

“Higher prices [of diesel fuel] are here to stay in the near term,” said Bob Costello, chief economist and vice president, American Trucking Associations, Alexandria, Va. Costello spoke earlier this month at the Grocery Manufacturer Association’s Information Systems/Logistics Distribution Conference in Tucson, Ariz.

Moreover, this summer, a new ultra-low-sulfur diesel fuel will be required by environmental regulations. In addition to being more expensive, the new fuel will cause fuel economy to drop, Costello said.

Nonetheless, some food distributors are devising creative ways to counter the high price of diesel fuel. Representatives of four such companies participated in a panel discussion, “Fuel Costs - A Shift in Paradigms,” at the Food Marketing Institute’s Distribution Conference, co-located with the IS/LD Conference.

Wegmans Food Markets, Rochester, N.Y., decided “there must be an advantage” in using the Internet to procure fuel, said Michael Bargmann, senior vice president of distribution and manufacturing, and chief logistics officer of the chain, in his presentation at the Distribution Conference. So the retailer, which was already using Phoenix-based Intesource’s Web-based reverse-auction system to lower the cost of procuring goods and services, asked Intesource to extend the process to the purchasing of fuel.

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Intesource set up two sites for Wegmans, one an auction site that enables the 70-store retailer to buy fuel daily, based on the posting of “rack pricing” by the chain’s fuel suppliers. The retailer receives three to five daily bids via the site, sometimes consolidating the buys. “A lot more people [are able] to sell us fuel and that drives the price down,” Bargmann said.

The other site provides information on future pricing trends. To support that site, Wegmans hired a fuel consultant, “a critical part of our strategy,” Bargmann said.

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Wegmans discovered that the Internet auction system added “discipline” to fuel purchasing, replacing emotion with hard data. In addition, “when we put it on the Internet, we had a lot of people that began talking about the cost of fuel,” Bargmann said. “People were made aware of the opportunities on a daily basis.” This has added “depth” to a process that had been handled by a single individual.

Recently, Wegmans, based on information gleaned from its futures site and provided by its consultant, correctly concluded that the market had bottomed out and made what has proved to be a valuable longer-term contract buy. “We’re saving [up to] six figures,” Bargmann said. “So there’s a lot of opportunity.”

Filling Up Trailers

Grand Rapids, Mich.-based Meijer’s approach to containing fuel costs is to make sure that its store-bound trailers are filled as completely as possible, thereby reducing the number of deliveries. “You cannot change the price of fuel or the load limits of your trailers, but you can always fit more product on the trailer,” said Robert Mooney, vice president of distribution operations, in his Distribution Show presentation.

Meijer, which operates more than 170 supercenters, defines a full trailer, for grocery, perishables or general merchandise, as one that contains 42,000 pounds or 3,500 cubic feet of product.

Load planning is a key to shipping a full trailer, Mooney said. “Start with a plan instead of just picking the orders and trying to figure out how to fit everything on a trailer.”

Making sure shipments are weighed and cubed correctly - basic data accuracy - is another important element in maximizing shipments. “It really got us to clean up our act from a data standpoint in terms of getting ready to really measure this,” Mooney said.

Bowing to store pressure, Meijer had been in the habit of breaking up the perishables part of its warehouses into as many as 12 selection areas. This resulted in partial pallets rather than full pallets being shipped. “So, we worked on condensing down selection areas, trying to get as many full pallets as we could,” Mooney said.

Meijer also noticed that its warehouses were not consistent in the volume of product being stacked on a pallet, with cubic feet ranging from the high 50s to the low 70s. “We set standards for that,” Mooney said. “We got everybody achieving the highest level in terms of the amount of product expected to be put on a pallet.” The chain also began to monitor and control warehouse “outs” or “scratches” that result in less-than-full pallets delivered to stores.

Mooney also recommended hand-stacking of cases in the back of trailers. “Large bulky cases hand-stacked can have a large payoff,” he said.

To promote better trailer loading, Meijer began compiling daily and weekly reports by commodity and by warehouse. “People could see how the other buildings were shipping the same commodity. It got a little competition going,” Mooney said.

Last year, for the first time, Meijer shipped more trailers of perishables than grocery products, indicating more success in cutting shipments of groceries than perishables. Overall, though, the program has worked well for the chain over the past several years. In 2005, Meijer assessed its trailers to be 85% full on average, compared with 70% in 2001. At the 2001 fullness level, Meijer would have shipped 30,000 more trailers than it did last year. “As we got 5% more product on trailers, we shipped 5% fewer trailers,” Mooney said.

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Working With Stores

The method Publix Super Markets, Lakeland, Fla., uses to cut fuel costs also focuses on reducing the number of deliveries to its 876 stores. Unlike Meijer, though, Publix emphasizes collaboration with stores rather than maximizing trailer loads.

In addition to reducing the number of deliveries, Publix's new approach looks at the best timing of deliveries for certain product categories. "As our business changed over the years, we were not convinced we were actually delivering those categories on the right days when stores really needed them," said Robert Schuler, vice president of distribution, another panelist.

An important part of Publix's revamping of deliveries is "buy-in" from stores. "We wanted to make sure they understood we were going to take into account the different types of stores we were serving," Schuler said.

To that end, Publix developed a "matrix" of store factors, such as square footage (24,000-65,000 square feet) and sales volume (which could vary by several hundred thousand dollars annually). Design elements were also considered, including the size of back rooms and storage coolers. Using the matrix, Publix can "identify the best [delivery] solutions for the greatest number of stores," Schuler said.

The delivery system also reflects the seasonal change in sales at Publix's many Florida stores, which surge during the winter and decline in the summer, as well as changes in competition.

While positive, retail participation in the delivery process has not been as "aggressive" as Publix would like, Schuler said. "So we're working with [stores], accommodating special requests. As retailers gain confidence, they should get more aggressive and dial down on exceptions."

Still, the upshot, Schuler said, is that Publix has been able to reduce the number of deliveries (he did not provide specifics) while changing the "cycle" of deliveries. This has not only translated into "significant savings" on fuel but savings of labor employed in warehouses as well.

"We have saved millions of dollars in the last 12-18 months and expect that to grow," Schuler said. "As fuel prices increase, we see this as important to our future."

Better MPG

H.E. Butt Grocery Co., San Antonio, borrows the techniques of Wegmans and Meijer while adding some of its own. "We have bought fuel during the lowest market swings and run a maximum payload on each truck," said the fourth panelist, Ken Allen, senior vice president of supply chain logistics for H-E-B.

In addition, the chain, with about 300 stores, invests in technology and equipment to improve the fuel mileage of its vehicles. For example, H-E-B has found that lower-friction Michelin tires "get a little better mileage," Allen said. Automatic assessment of wheel alignment has also helped improved miles per gallon.

Last year, H-E-B tested the shifting capacity of automatic transmissions on 10% of its new fleet. "We proved that saved fuel and it will be specified in all purchases for later this year," Allen said.

The chain also looks at the "aerodynamic features" of new tractors and tries to get the lowest-weight tractors available, Allen said. "We also work with drivers to reduce idle time."

H-E-B is working with the Texas state government to allow retailers to pull longer and heavier vehicles. "We're piloting a 53-foot dual trailer and trying to validate the safety and see what it does to the environment and the economy," Allen said.