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FlexForm Technologies LLC

FlexForm Technologies in Elkhart, Ind., feels the impact of fuel surcharges on its bottom line. Freight companies are charging more to ship manufacturing materials to offset rising fuel costs.

Fuel surcharges squeeze suppliers

To make up for rising fuel costs, some transportation firms bump up freight rates.

By Tim Moran / Special to The Detroit News

Amid rising fuel prices, smaller auto suppliers may be losing profits by mismanaging shipping and delivery charges, warns one logistics expert.

Transportation companies that move raw materials and finished goods have been adding increasingly high fuel surcharges to ordinary freight rates -- up to 15 percent -- in an attempt to recapture the cost of diesel and jet fuel, said Bill Barrett, president and CEO of Trans-Man Logistics Inc. in Taylor, which coordinates shipping for many small and medium-size parts makers.

"Surcharges are a lot more than price increases," Barrett said. "It's gotten to a point now, because of the cost of fuel, that most carriers are applying a percentage to their total cost of the freight charge."

Higher fuel surcharges come as rising oil prices are pushing up the cost of fuel, as well as other petroleum-based products, and influencing the price of natural gas, which is used to make some raw materials for plastic auto parts. The costs are squeezing suppliers already struggling to cope with high steel prices and vehicle production cuts.

Since March last year, the average price of diesel fuel at the pump has risen about 40 percent, from $1.65 per gallon to about $2.30, according to the Department of Energy.

For a truckload of freight, typically defined as 20,000 pounds or more, the fuel surcharge can be 15 percent or more of the total cost of shipment, Barrett said. For less-than-truckload freight, the surcharge averages about half of that.

On its Web site, Connecticut-based trucking firm Bailey's Express Inc. says the "price of diesel fuel has become one of our largest operating expenses." The company imposes a surcharge of 10 percent on less-than-truckload freight and 36-cents-per-mile for truckload freight.

Harry R. Hickey, sales manager at FlexForm Technologies LLC in Elkhart, Ind. said rising oil prices have helped push up the price tag on the 5.5 million pounds of polypropylene resin the company buys annually to make fiber panels that back interior car door panels and trim pieces.

"It impacts us in two ways," he said. "We import natural fibers from all around the world so those fibers become more expensive due to the higher cost of freight. Secondly, although polypropylene is made from natural gas, not oil, the cost of gas trends right along with oil. Oil has been steadily increasing over the past 20 months and so has gas. The end result, (polypropylene) costs are up over 55 percent during this same period."

Hickey estimates the fuel surcharge to be "couple hundred dollars" on a trailer loaded with 30,000 to 40,000 pounds.

"It detracts directly from your bottom line," he said, "but it's one of those costs that we don't have control over."

Erich Merkle, senior auto analyst at Grand Rapids-based IRN, Inc, said oil-driven cost increases are worrisome to suppliers, but raw materials are a bigger concern than transportation. Shipping charges are only a small percentage of any supplier's total expenses -- generally less than 6 percent

"(Shipping costs) may be an issue," he said. "But I think they are facing larger issues than that, even, in terms of steel and plastic resins."

Chuck Koehn, acting executive director for the Automotive Industry Action Group, which represents 1,600 suppliers and manufacturers, also said transportation costs are a secondary concern for parts makers given the escalating costs of raw materials and health care.

"It's just one more cost increase that has to be born and, somehow, absorbed by the supply chain," Koehn said.

Barrett said that while fuel surcharges may add just a few hundred dollars to a shipment, the costs are like a slow drip from a faucet and can add up over time. With larger manufacturers pressing for cost reductions, internal costs are one area that suppliers can control.

In a business where, increasingly, every penny counts and bankruptcy threatens many suppliers, Barrett said, even freight costs can offer a tactical advantage.

Tim Moran is a Metro Detroit freelance writer.