



# ***International Foodservice Distributors Association***

## ***Fuel Purchasing Options***

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James Nicolaou, FuelQuest, Inc.

- **Ben E Keith Company**
- **FuelQuest**
- **Product Pricing and Procurement Strategies**
- **Industry Trends**
- **Best Practice Solutions**
- **Questions**

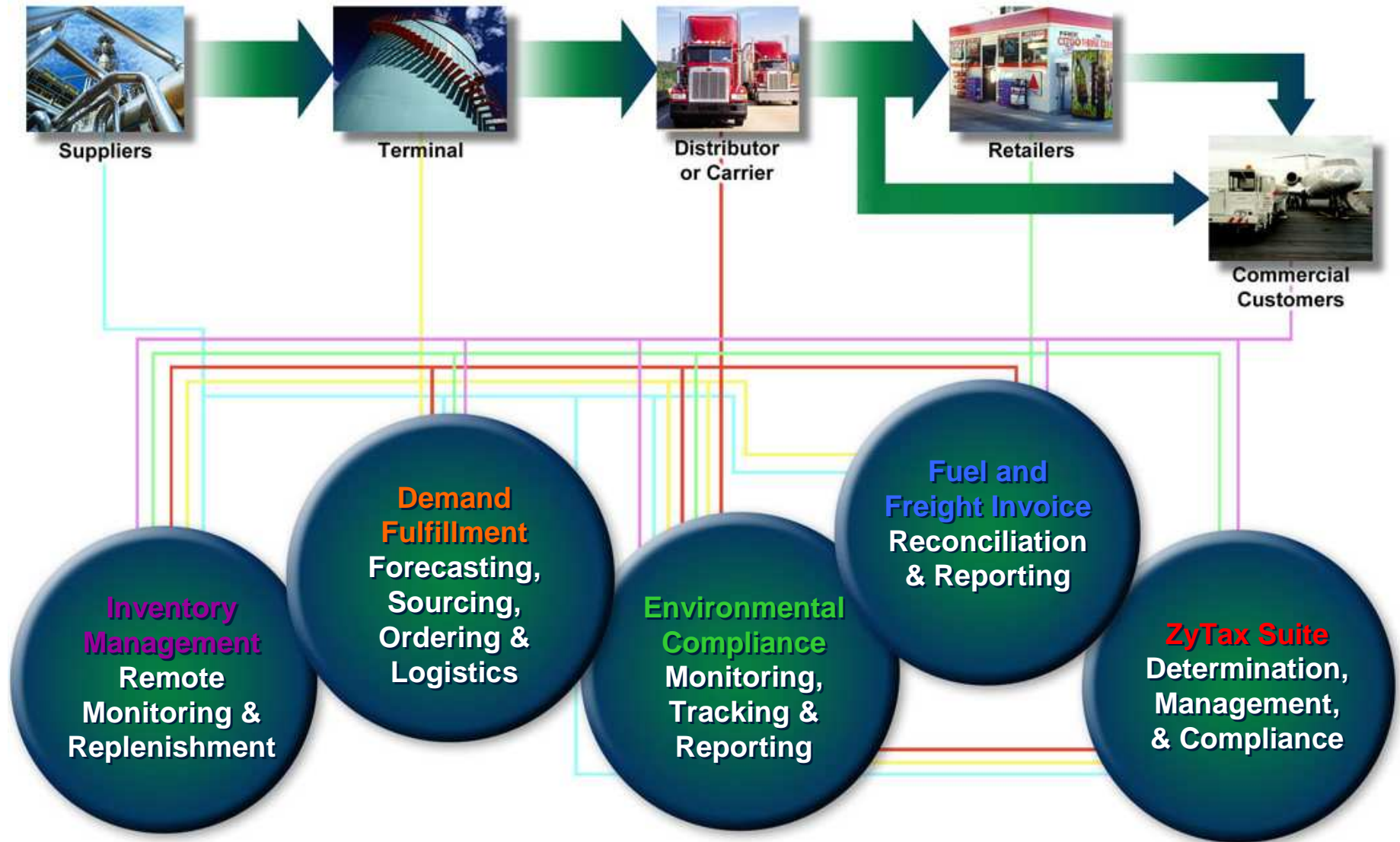


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- **The Industry Leader in Supply Chain Management and Tax Automation Technologies for Suppliers, Distributors and Buyers of Petroleum Products**
- **We drive Value and Profitability for our Customers by allowing them to:**
  - **Source or Purchase Motor Fuels and Lubes at the Right Cost**
  - **Lower Freight Costs and Improve Fleet Utilization**
  - **Optimize Inventory Levels and reduce Retains and Run-outs**
  - **Avoid Non-Compliance Environmental Penalties and reduce Risk**
  - **Improve Sarbanes-Oxley Compliance**

# Supply Chain Value Drivers



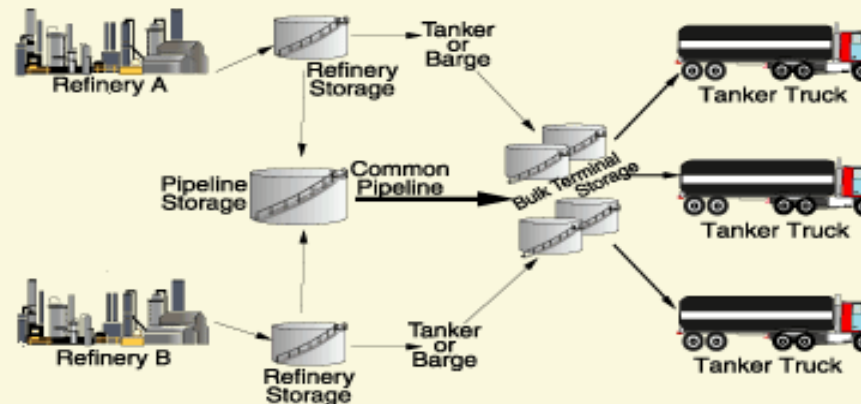
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# Oil Company Structure

- Independent business unit philosophy – each function must generate it's own profits
- Follows the supply chain structure
  - Exploration and production
  - Refining
  - Supply and distribution
  - Marketing

Transfer pricing occurs at each transition in the process – Insight into these “market” prices is key to your supply negotiations

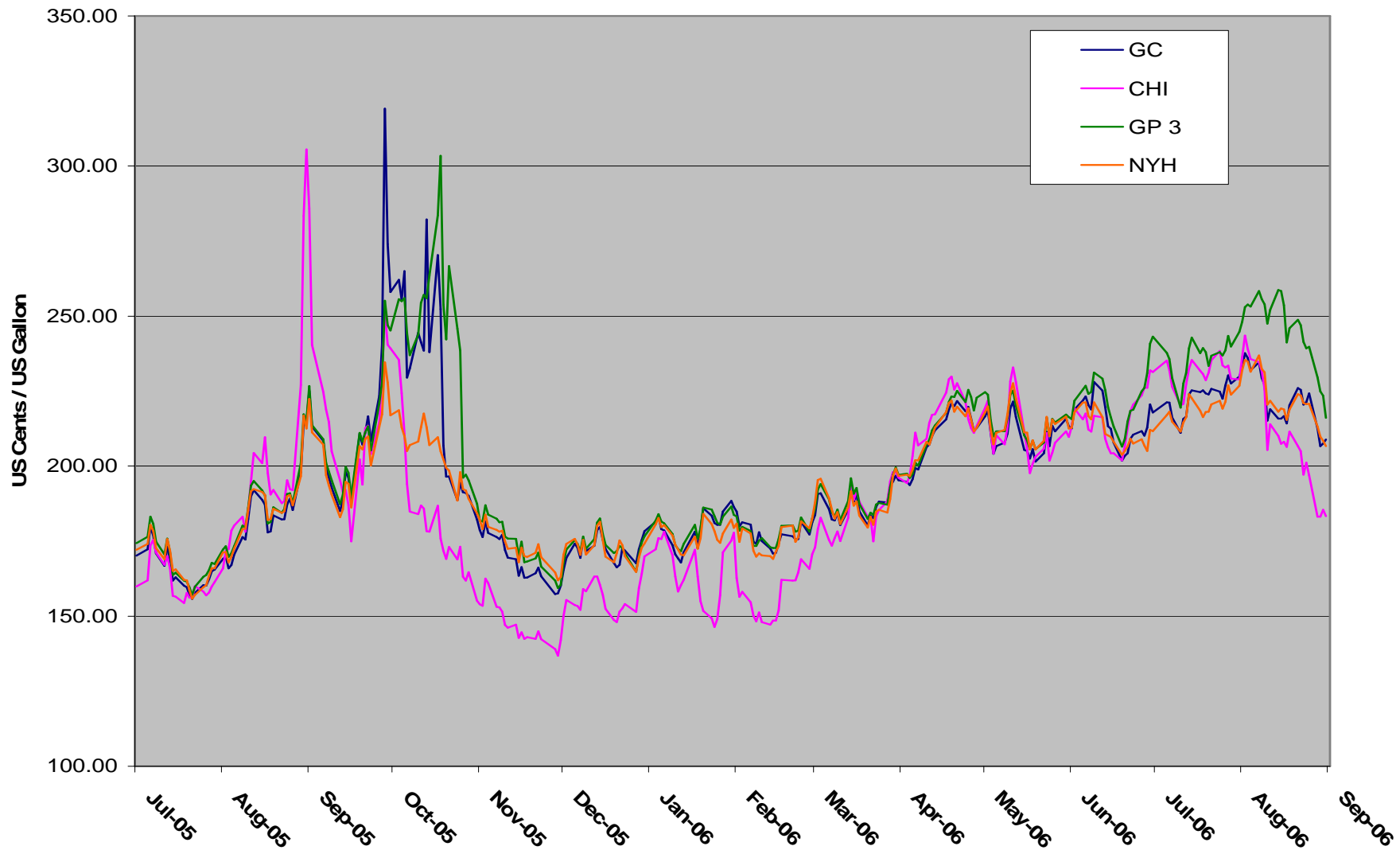


- **Market values are established daily**
  - **Reported by Platts and referred to as Spot Market**
  - **Used for transfer pricing between refining and marketing**
- **Primary distribution costs**
  - **Pipeline tariffs between refining centers and distribution terminals**
  - **Terminal costs**
- **Landed terminal cost**
  - **Spot market product value/transfer cost**
  - **Primary distribution cost**
  - **Terminal expenses**

- **Oil companies estimate the market closes**
  - **NYMEX prices**
  - **Basis differential between the NYMEX and the spot bulk market**
  - **This determines the approximate transfer price or base cost**
- **To this cost add the cost of:**
  - **Pipeline transportation, terminal costs, cost of capital, payment terms, service items and margin is added**
- **Local market or rack prices are a what the local market will bear but over time the low end of the market are the costs defined above plus a margin to provide the service**
- **Retail supplier margins vary greatly and are determined by local supply and demand conditions and not the price of crude oil or product at the refining source**

# Product Pricing

- Rack prices are set independently by oil companies and independent marketers
- Ultimately local or regional supply and demand conditions determines the rack price



# Procurement Strategies

- **Supplier Delivered**
  - Supplier arranges for product delivery
  - Typically a non transparent fee is included for the service
  - Limits your flexibility due to order time
- **Rack Procurement**
  - Customer contracts with carrier for delivery
  - Should lead to lower costs
  - Increased flexibility
  - Creates an additional invoice
- **Spot**
  - No commitment, therefore no security
  - Day to day pricing
- **Contract**
  - Commitment, therefore some degree of security
  - Platts, OPIS, NYMEX based
- **Keep full or order based**
  - Carrier or Supplier maintains your inventory
  - Customer orders per their requirements

- **What is Platts**
  - Bulk or spot market value
  - Commonly used transfer mechanism between refining and marketing
- **Contract Structure**
  - Platts average index
  - Plus a location differential which includes
    - Primary transportation
    - Terminal expenses
    - Cost of capital and payment terms
    - Truck transportation if applicable
    - Supplier Margin
- **Pros**
  - Lowest cost over time
  - Manages supplier margin
  - Protection in tight markets
  - Leads in down markets
- **Cons**
  - Leads in up markets
  - Rack prices tend to be lower in liquid markets

- **What is OPIS**
  - Reference for refiner/market spot market prices for a specific market or city
  - Report individual, average, and low prices with standard payment terms
- **Contract Structure**
  - Primarily a discount off the average
- **Pros**
  - Lags in up markets
- **Cons**
  - Lags in down markets
  - Will under perform a good Platts contract

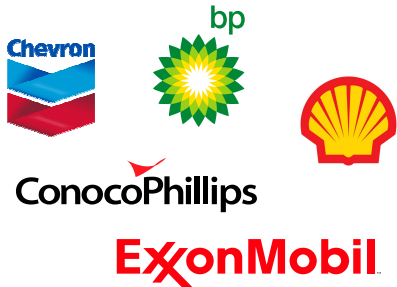
# Fixed Price Contracts

- **Fixed price contracts**
  - Lock in a predetermined amount of product at a fixed cost
  - Great for budgeting-don't look back
  - Risk that market will decline after you've locked in
- **Contract structure**
  - New York Mercantile Exchange (NYMEX)
  - Futures exchange
  - Regular gasoline and diesel
  - 1,000 barrel or 42,000 gallon contract units
  - For delivery in New York Harbor (<1%)
  - NYMEX price plus a differential for
    - Quality
    - Location, Margin, etc.

- **Volume**
  - **Ratability**
  - **Minimum / Maximum**
- **Basis**
  - **Commodity (Denver rack LSD # 2 vs. NYMEX HO)**
  - **Location (Houston rack vs. NYMEX)**
- **Credit**
  - **Is the counterparty able to perform**
  - **Financials, net worth**
  - **Bank guarantee, letter of credit**

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- **Supplier Consolidation**

- 10 – 15 Majors
- 4 SuperMajors



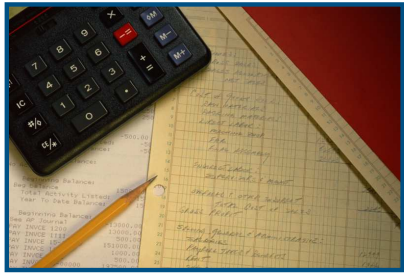
- **Suppliers demanding efficiencies and ratable movements**

- Centralized Financial Reconciliation
- Logistics Optimization
- Site Level Monitoring and Analysis



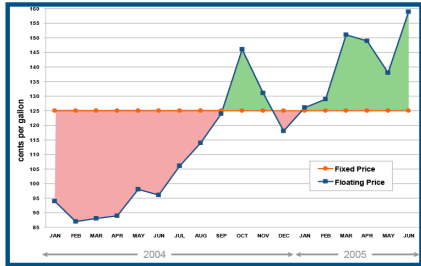
- **Fuel Price Volatility**

- Daily Price Moves
- Forecast Tools



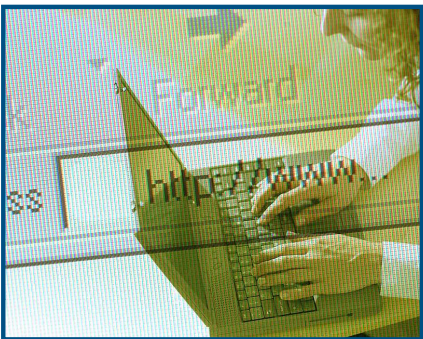
## ■ Procurement

- Process
- Change-Management
- Reliable partners
- Contract pricing



## ■ Risk Management

- Futures
- Options
- Participation



## ■ Technology

- Real-Time Visibility
- Employee Tools
- Back-Office Automation



- **Custody Transfer**

- **Delivery Point**
- **Logistics**



- **Inventories**

- **Just-In-Time**
- **Carry**
- **LSD / ULSD**
- **BioDiesel, Ethanol**
- **Regional Blends**

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# Strategic Sourcing Critical Steps

- SWOT Assessment
- Benchmark
- Formulate strategy
  - Consolidate
  - Aggregate
- Price Mechanisms
- RFP Process
- Strategic Relationships
  - Availability
  - Security
- Inventory Optimization
- Best Practice Integration
- Financial Reconciliation
- Metrics



# Strategic Sourcing Best Practices

Competitively Strongest

Delivered -  
Supplier  
Managed

Delivered  
Daily Spot

Delivered on  
Contract

Wholesale  
at Rack

Bulk and  
Wholesale

Fuel Management System

Outsourced Fuel Management Services

	Delivered Daily Spot	Delivered on Contract	Wholesale at Rack	Bulk and Wholesale
<ul style="list-style-type: none"> <li>▪ Buys all volumes on a delivered basis – Single Supplier or Marketer</li> <li>▪ No Transparency Price/Freight</li> </ul>	<ul style="list-style-type: none"> <li>▪ Buys all volumes on a delivered business at published price</li> <li>▪ Numerous suppliers</li> <li>▪ Price floats w/ delivery</li> </ul>	<ul style="list-style-type: none"> <li>▪ Delivered from few Strategic providers via contracts</li> <li>▪ Advanced inventory controls and contract management capabilities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Buys most volume on contracts from the rack</li> <li>▪ Robust freight procurement process</li> <li>▪ Licensed distributor in few key tax jurisdictions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Buys volume at both the rack and in bulk on contract</li> <li>▪ Licensed distributor for most if not all operating locations</li> <li>▪ Robust tax calculation and compliance capabilities</li> </ul>

Level 1

Level 2

Level 3

Level 4

Level 5

DECREASING

CUSTOMER

FUEL COST

Decreasing net fuel price 4 to 6 cents per gallon

# Strategic Sourcing Benchmarking

## Strategic Fuel Sourcing Sample Audit Results



### Background and Results Summary:

At these locations the client was purchasing full truck loads of LSD, HSD, and Unleaded. The actual purchase price is represented by the blue chart line. When these purchases were analyzed using a Mark-to-Market index utilizing our Best-Buy Analysis Module, we found that the client was on average out of the market in cents per gallon as represented on the dial below. By utilizing our service, this client stands to save in excess of \$600,000 a year on their bulk fuel purchases, or over \$85,000 per site!

**Savings Available  
in Cents Per Gallon**

- **Take control of the supply chain**
- **Drive competition by going upstream**
- **Integrate prices, contracts, accounts payable**
- **Archive Bill of Ladings and Fuel contracts / invoices**
- **Leverage investments in Automated Tank Gauges for remote polling**
- **Monitor inventories for real time data**
- **Take advantage of price volatility**



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