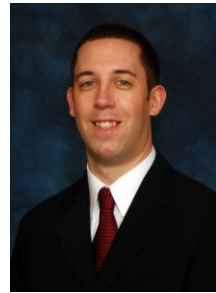




# IGNORING VITAL SIGNS MAY TANK FUEL DISTRIBUTORS



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**T**he business of fuel distribution and home heating oil grows more complex every day. As the economy continues to struggle, fuel distributors must continue to find new ways to maximize profits while keeping expenses at a minimum. For a business to thrive in today's economic climate, it is no longer acceptable to focus solely on the bottom line. One must take a closer, more in-depth look at how each part of the business relates to the others.

## **Vital Signs**

The key to operating a profitable business is to continually examine the performance and financial indicators of the company--the "vital signs." These indicators are as important to the life of your company as a customer's fuel tank is to their warmth in the winter. The business' vital signs will project how the company as a whole will perform. Ignoring vital signs, as well as the warnings that they may provide, can be detrimental to the financial health of your business.

There is a tremendous amount of information available to business owners from reporting systems and software, accountants and advisors. The key is to identify and focus on the indicators that provide the most valuable information about your company. These include delivery route efficiency, payroll expense monitoring, company overhead and financials. All of these indicators should be analyzed to identify trends and changes over time. It is shortsighted to look at any measure for a single period of time, because it's not as meaningful as comparing it to a budget or past performance.

## **Delivery Route Efficiency**

When it comes to keeping costs at a minimum and maintaining a successful operation, efficient delivery routes can play a key role. They can mean reduced gasoline costs, less wear and tear on vehicles, and a higher profit margin per employee, as each worker should be able to complete more deliveries in a normal eight-hour work day. Various ratios can give you insight as to how well your company is planning these routes. For example, a key indicator to look at on a month-to-month or even a year-to-year basis is the number of gallons sold per delivery on a specific day. A steady decline in this number may indicate that it's time to reevaluate your delivery routes to ensure that profits are being maximized every time a truck leaves the depot. Many newer resources, such as global positioning systems and other advancements in technology, are available to help track your routes in a more timely and cost effective manner. In the end, better delivery-route planning will ensure that you are getting the most bang for your buck.

## **Payroll Expense Monitoring**

In tandem with proper delivery route management, monitoring payroll expense and staffing levels with respect to deliveries can prove to be beneficial to the growth of your company. This is most apparent when comparing delivery personnel overtime expense to the total salaries of all drivers. It is not enough simply to look at how much is spent in overtime alone. For example, overtime costs declining over a three-year period may lead you to believe that there is improvement in this area, but that may not be the case. If total salaries among delivery personnel are also declining, the effect of lower overtime costs is substantially weakened. Only when comparing the relationship between the two can it be determined if staffing is at an adequate level to meet the delivery requirements of your business.

It may seem illogical to hire more delivery personnel when the emphasis nowadays always seems to be on reducing costs. However, monitoring payroll expense with the assistance of key indicators may signify that that's exactly what you need to do in order to remain profitable. Furthermore, it is extremely important to keep in mind the following when adding new personnel: the cost of insurance premiums, pension expenses and the quantity of available delivery trucks. If these are areas of concern with regard to maintaining or lowering expenses, then the idea of bringing new delivery personnel on board to reduce overtime expense may need to be reevaluated. Effectively monitoring payroll expense can be a tricky endeavor, but with good advice from your accountant and the use of key indicators, it is more easily managed.

## **Company Overhead**

An analysis of your overhead expenses will identify how much money is available for owner compensation and benefits. You should include all company expenses and then deduct compensation, taxes, benefits, perquisites and cost of sales. The remaining expenses equate to overhead. Measuring overhead allows you to determine if the company is functioning efficiently. Businesses should develop and utilize a budget to insure that expenses are carefully managed. If a company is underproductive, the overhead will appear artificially elevated.

## **Financials**

Financial indicators include cash flow, profit and loss. Few companies analyze cash flow to ensure that there is sufficient cash to cover operating expenses and expenditures. Businesses should develop a cash flow budget in addition to an operating budget. In fuel distribution, where seasons play a significant role in company activity throughout the year, cash flow can fluctuate immensely. Establishing a line of credit will help your business through these periods if cash is tight.



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## Driving Change

A careful analysis of your vital signs and key indicators can provide insight to where improvements need to be made to ensure the ongoing financial health and success of your business. Even after modifications have been implemented, you should continue to measure and modify your goals and plans for the future based on the new information.

It is important to share this data with those in charge of running key areas of your business. This will help to establish measurable and attainable business growth goals. Examining and monitoring your vital signs will not only help to keep your business from tanking, but also revive it.

As a diversified certified public accounting firm, Cowan, Guteski & Co., P.A. is committed to being an active partner in their client's growth by delivering value-driven accounting and profitability consulting services to clients in the Fuel and Energy Industry. For more information on the services available to meet your unique needs, contact Jason Laretta at 732-349-6880 ext. 7729 or [jlaretta@cowanguteski.com](mailto:jlaretta@cowanguteski.com).

