Drop in fuel price welcomed but transport businesses struggle with uncertainty

While August's drop in fuel price has been welcomed from many corners of society and business, the only constant for the transport industry is the uncertainty of roller-coasting fuel prices that force them to find a precarious balance between nurturing their client relationships and maintaining sustainable businesses.

Source: Supplied

With the courier and delivery industry being one of the fastest growing in South Africa, thanks to boosts in demand arising out of the Covid-19 pandemic and the proliferation of e-commerce platforms, it has been deeply impacted by the steep increases in fuel prices in recent months, with businesses being compelled to pass increased costs on to others in the supply chain.

"While the slight fall in the August fuel price is good news for businesses and consumers, fuel is a fundamental component of a distribution business's costs, and when there are sustained fuel price increases as there have been during 2022, our underlying cost base shifts significantly," explains Jason Lombard, CEO of DPD Laser. "Even with some reprieve now in August, our costs are still significantly higher than they were just six months ago. We now have to engage with clients through the supply chain again, to navigate the price changes, investing time and resources that could be used elsewhere in the business far more efficiently."

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This follows a 57% increase in the price of diesel between April 2021 and now, with more than one-third of that between January and June 2022. Those are increases that impact between 30 to 40% of a courier and delivery business's operating costs – particularly when it comes to larger trucks.

Lombard points out that very few delivery businesses operate on double-digit profit margins, adding that the recent fuel price increases could be enough to break and close down a business that had been moderately successful before the recent run of increases – if they don't pass those costs on to their clients.

Serious implications

"This is where it becomes truly difficult, with price increases having a snowball effect on consumers and the economy," he adds. "Consumers are already bearing the brunt of the fuel price increase in their transport costs, but it will soon start to cause the cost of even the most basic of foodstuffs to increase. In a country where so many people are already struggling to live above the breadline, the implications are really serious."

"The multiple pressure points of businesses being under the whip to recover the costs of doing business, and consumers buckling under the weight of the cost of living, creates a massively combative environment between the transport (logistics) sector and its customers, whether they're supermarkets, online shoppers, or everyday commuters," he says.

DPD Laser, for example, has navigated a way around the soaring fuel prices by offering contractual rates to regular clients, with an overlying fuel surcharge that's updated when the petrol price increases. "Levying a surcharge in this way means that if and when the fuel price comes down, our customers will benefit from the lowered costs too – and they will hopefully pass that benefit on to their clients as well," he says.

Managing costs

The South African delivery market is considerably different from its counterparts in Europe, where one delivery driver and their vehicle could easily make 30 – 40 deliveries within one city block, all within a couple of hours – and then do so using an electric vehicle that's not held hostage by soaring fuel prices. In South Africa, nearly half of business-to-consumer deliveries are to rural addresses, with drivers having to travel far distances over longer periods to make just one delivery. This geographic spread further exacerbates the cost impacts of continuous fuel prices.

While electric vehicles are on the horizon, they're still too expensive to buy for business use because of misplaced luxury goods import taxes, along with range anxiety created by a dearth of charging stations. What's more, electricity is scarce, unreliable, and costly in South Africa, and running a fleet of electric vehicles sustainably is still a long way off.

"Fuel price increases at this rate and pace are only just short of force majeure for all types of transport businesses, and they've happened at such a pace and in such a sustained manner that efficiency initiatives run behind the curve," explains Lombard. "Many clients see the cost of fuel as a supplier-related issue that shouldn't impact them, but increases of this nature simply cannot be borne by one party in the chain."

"We need to work together to manage the costs throughout the supply chain and keep one another and end-consumers informed at every point of their journey so that we can all take steps to cushion the blow of the increased costs, as we're surely not far away from an R30 per litre fuel price."

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