

## Delivery Cost Confusion Remains

by John H. Nardozzi, CPA

As I write this article my desk is piled high with responses to our eleventh annual survey of oilheat dealers. Although we are several weeks away from tallying the final results, one question clearly stands out as an unresolved issue: "Excluding product (oil) what is your estimated cost per delivery?"

Alarming, a significant number of dealers either do not know this important number or, even worse, have a skewed and incorrect view of their delivery costs. A quick scan of the survey returns thus far show several dealers who believe they are paying as little as ten cents per delivery - or less.

Looking at the results from the last five years of our survey, we see that cost per delivery is rising as the cost of such elements as insurance, payroll, vehicle expenses and employee benefits climb. Still, the five year average falls into a range that is far higher than the pennies per delivery some dealers believe they are paying.

1997:	\$11.75
1998:	\$15.14
1999:	\$18.04
2000:	\$17.36
2001:	\$20.16

In some cases, the dealers' math is off. Still others express their cost per delivery in terms of cents per gallon (a valid method). But it is clear that a number of oil-

heat dealers are unaware of the many factors that go into determining an accurate cost per delivery.

Why is it so important to know what it costs to make a delivery? It's very simple. In an industry that measures profits in fractions of pennies, delivery cost is one of the most controllable factors contributing to the bottom line.

You can't control the cost of oil, the price of a new truck, the premiums you are paying for insurance or the cost of health care for your employees. But you can take steps to make your deliveries more efficient. And every penny you trim from the cost of delivery is added to your profitability.

Based on more than fifty-five years of experience working with oilheat dealers, we have established a standard of measurement that accurately measures delivery costs. This standard method of measuring delivery costs includes the following elements, all of which must be considered if you are to obtain a true picture of what deliveries are costing you...

- Driver Payroll
- Payroll Taxes
- Employee Benefits
- Vehicle Cost
- Vehicle Expenses
- Insurance (except health and life, which are included in Employee Benefits)



# “Benchmarking” Delivery Costs for Fun & Profit

The formula for determining delivery cost is:

**ADD:** Driver Payroll + Payroll Taxes (use 8% of payroll or actual) + Employee Benefits (use 11% of payroll or actual) + Vehicle Cost (cost ÷ 10 years x number of vehicles) + Vehicle Expenses + Insurance (except health/life)

**DIVIDE:** this figure by the total number of stops per year to get an average cost per delivery

Unfortunately, it appears that many dealers are unaware of the size and scope of many of these factors. Or, if they are aware of them, choose to ignore them when figuring their cost per delivery. These factors were selected to provide a balanced, consistent way to measure the real cost of delivery. ALL must be considered in order to get an accurate assessment of what an average delivery is costing you.

Let's put the formula to use in evaluating delivery costs for a typical oil company. The company sells 1,800,000 gallons of oil per year, at an average of 185 gallons per drop. With 2,000 customers, the company's three trucks make 10,810 deliveries per year...

Driver Payroll (all drivers)	\$ 85,500
+	
Payroll Taxes (@ 8% )	\$ 6,840
+	
Employee Benefits (@ 11% )	\$ 9,405
+	
Vehicle Cost (cost ÷ 10 years) x 3 vehicles	\$ 25,000
+	

Vehicle Expenses	\$ 33,000
+	
Insurance	\$ 55,000
<b>Total Delivery Costs:</b>	<b>\$214,745</b>
 Divided by total number of stops: ÷ 10,810	
 Average cost per delivery	<b>\$ 19.87</b> (214,745 ÷ 10,810)

This formula will work for almost every oilheat company, producing accurate, measurable statistics. For the oil company in this example, a one-dollar reduction in cost of each delivery will result in an additional \$10,810 in profit.

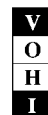
More impressively, if this dealer could improve efficiency to the point where he could eliminate one drop per year for each customer, an additional \$39,720 would drop straight to the bottom line!

If you are one of the many dealers who responded to Gray, Gray & Gray's survey with an uncommonly low cost per delivery, take another, closer look at this important operational "benchmark." Delivery may be costing you more than you think. The result is a lost opportunity to greatly improve your company's profitability.

*If you would like more information on how to determine the cost per delivery, please contact John Nardozi at (781) 407-0300, or via e-mail at: [jnardozi@graygraygray.com](mailto:jnardozi@graygraygray.com).*



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