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Small Business

## Cost of Fuel Moves to Top of Worry List

By ELIZABETH OLSON

As if small-business owners don't have enough to juggle, an expensive new worry hit them this fall: the rising cost of energy.

Soaring energy prices after Hurricanes Katrina and Rita struck small businesses across the board: from gasoline to power their vehicles to natural gas for heat.

Two-thirds of small and medium-size businesses surveyed this fall by OPEN, the small-business unit of [American Express](#), said higher energy costs had had a significant or moderate impact on their business.

A second survey by PNC Financial Services, released in October, showed that energy costs had surpassed spending on employee health care - which, for several years has been at the top levels of concern - as the single biggest worry of small-business owners. Forty percent of those surveyed expressed worry about it, followed by 21 percent who singled out interest rate increases and 18 percent who were concerned about health insurance costs.

Last spring, concerns expressed by small-business owners were almost the mirror opposite - with interest rate increases at 26 percent, followed closely, at 24 percent, by health care costs and with energy costs trailing at 18 percent.

The concerns changed as "prices for energy began going up last summer," said Stuart Hoffman, chief economist for Pittsburgh-based PNC Financial Services. "Then Katrina hit."

While gasoline prices have been coming down from their September highs, Mr. Hoffman said that gasoline this winter is expected to be up 15 percent to 20 percent over last winter, and natural gas prices up by 40 percent to 50 percent.

Companies that rely heavily on fuel are reeling. Runabout Couriers, a Florida company ([www.runaboutcourier.com](http://www.runaboutcourier.com)) that delivers mail and packages in the Cocoa and Orlando areas, has experienced the greatest increase in fuel prices "since we went into business" 12 years ago, said Michael L. Milam, the company's vice president.

In September, Runabout Couriers spent \$4,525 on fuel - more than twice the \$2,610 it spent that month in 2004, said Mr. Milam,

Increased prices have forced companies to choose between passing costs on to customers or swallowing them and hoping for relief later. The survey by OPEN found that 40 percent of businesses absorbed the higher costs while 26 percent raised prices and 33 percent reduced

their energy use to offset price increases.

Runabout Couriers, which has 10 employees and 10 vehicles, passed on some of the higher cost while reducing energy consumption. It also instituted a sliding scale of delivery fees, starting with "economy" service - meaning delivery could take several hours - to "rush," where delivery is within two to three hours, to "emergency" where half-hour guaranteed delivery also commands the heftiest price, \$34, he said. And it added a fuel surcharge to customer accounts.

"We haven't lost any customers," Mr. Milam, 31, said, though some larger accounts were unhappy.

To conserve energy, the company reorganized its pickups and deliveries, using software to plot the routes for maximum efficiency. And to ship lighter items, it bought three Chevrolet Cavaliers, which get about 30 miles per gallon, twice what its cargo vans and pickups average.

Metro Rooter, a commercial and residential plumbing-repair company in Jacksonville, Fla., has found a measure of relief for soaring gasoline and diesel-fuel prices in volume discounting. "We have not been able to offset that completely so we've been eating that increase and it's coming out of our bottom line," said Hugh McLean, Metro Rooter's business manager. Because of a longstanding relationship with a local distributor, Mr. McLean is able to reduce fuel costs by 3 cents a gallon for the company's 30-vehicle fleet. Even so, he said the company would spend about \$300,000 for gas and diesel this year, up about 25 percent from 2004.

To reduce costs, Mr. McLean is trying to improve routing, especially for jobs like septic tank cleaning that can be scheduled in advance. He also negotiated a better contract for cleaning Metro's uniforms and trimmed some marginal costs like cellphones - saving about 6 percent this year on the total costs.

Still, as with many businesses surveyed by OPEN, Metro's profit margin has been squeezed, he said.

His main worry not so long ago, health care costs, has slid down a few notches. "We've been able to negotiate some savings in that area and our yearly increase has gone down from the double-digits to about 9 percent," he said. "Fuel is the new No. 1.

Energy costs have also affected other more unusual businesses like the C. J. Mushroom Company in Toughkenamon, Pa., about 30 miles southwest of Philadelphia, a producer of white-button mushrooms. It is an energy-intensive business because the 8,000-square-foot growing areas made of concrete blocks must be kept at a constant temperature and humidity level and must be ventilated at all times. Additional energy is needed to keep the areas sterilized.

"We're paying three times for natural gas what we were paying two and a half years ago," said Clinton Blackwell, 61, the owner. Even the peat moss he imports from Canada to use in growing the mushrooms has become more expensive because the trucks that deliver it pay more for gasoline and pass the cost on.

Trying to control costs through the winter, Mr. Blackwell bought natural gas on the futures market to assure a better price of \$10.50 per million cubic foot, significantly lower than the \$15

he was paying in October.

But his other options are limited. Like Metro Rooter, he does not want to lay off workers who are trained and familiar with the work. And he can't raise prices because the market won't allow it.

So he has been reviewing whether to pare employee medical and retirement benefits and other costs, like cellphones. "Of course, there's always cutting the salaries of the principals," he said, referring to himself and his son and daughter who work on the mushroom farm.

Even so, Mr. Blackwell is optimistic. "We're going to spend the winter trying to control our energy costs and emerge in the spring with our production back up," he said.

Is there any silver lining for struggling small-business owners? Mr. Milam, in Florida, found one.

Some businesses, including pharmacies and assisted-living centers "got scared by the fuel price volatility," he said, "and they decided that rather than making deliveries themselves, they would hand them over to us."