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Saturday, May 3, 2008

## Customers, firms share pain as gas costs rise

To offset high pump prices, fuel-dependent businesses change habits, shift expense to clients.

Jennifer Youssef / The Detroit News

With record-high fuel prices eating away profits, fuel-dependent businesses such as movers, truckers and delivery drivers are shifting into survival mode -- looking for ways to cut other expenses and, in some cases, passing the extra gas costs on to consumers and crossing their fingers that they don't lose their [business](#).

At the Village Florist of Romeo, owner Roz Mischley raised her delivery fees 50 cents and is planning more efficient delivery routes so drivers use less gas. Shamrock Cab Co. in Roseville is charging an extra 30 cents per mile and added a \$1 gas surcharge to the starting fee. And longtime trucker Leo Wilkins is looking at options to keep more money for each load he hauls since he's expecting to pay \$45,000 more for diesel this year.

Driving the changes are record-breaking fuel prices that remain stubbornly high. In Metro Detroit, the average price of diesel fuel, which powers big vehicles such as semis and service trucks, was \$4.30 a gallon on Friday, up from \$2.92 a year ago, according to AAA. Regular unleaded gas was \$3.63 on average, up from \$3.01 a year ago.



The last time St. Charles trucker Leo Wilkins filled his 300-gallon tank, it cost more than \$1,000. "It's killing the trucking industry." (Tom Fitzgerald / Special to The Detroit News)

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The higher prices are gouging everyone's pocketbook, but for those who depend on gas and diesel to make a living -- not just to get to and from work -- the pain at the pump is especially intense.

Adding to their angst is a reluctance to pass those extra costs along and risk driving away customers already struggling to cope with higher gas costs and other household expenses. But the [businesses](#) say there is only so much they can absorb before their survival is at stake.

The increased cost of fuel will be shared by customers and service providers alike, economists said. "Any time there's an underlying cost increase, it's going to be paid for by consumers in the form of

higher prices or it will come out of the producers' hide," said Charles Ballard, an economics professor at Michigan State University. "It's usually both. There are limits to how much producers can cut their profit margins."

Increased worldwide demand for gas and diesel and speculation in oil and gasoline futures markets are two major reasons for the rise in prices, said Jim Rink, a spokesman for AAA. He expects prices will stay volatile this month, when they typically hit their annual peak, and then start to moderate or come down as the summer progresses.

That can't happen soon enough for floral shop owner Mischley. Last year, she spent \$350 to \$400 each month to fill up the [minivans](#) that ferry her floral arrangements. Now it's costing \$700 to \$800.

"We've definitely taken a hit," she said.

She's raised delivery rates 50 cents for in-town runs and \$1 for longer distances. That still doesn't make up for the higher cost of gas, but she doesn't want to lose business by charging too much. Instead, she is clustering deliveries in similar locations so drivers are using the minivans less frequently and more

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**In a fix over fuel**

Record gasoline and diesel prices are squeezing service businesses, many of which are passing the costs along, according to a survey of nearly 1,900 service companies.

- 85 percent of service providers say fuel costs had hurt profits.
  - 60 percent were adopting fuel surcharges or higher rates.
  - 43 percent said customers understood why rates were rising.
  - 23 percent said they were cutting costs to make up for increased gasoline expenses.
  - 9 percent said customers responded angrily to higher bills.
- Source: *Angie's List*

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efficiently.

"We're being smarter about scheduling and planning routes," she said.

## Firms rethink operations

Like Village Florist, many companies are rethinking the way they function because of the high gas prices, said Alex Rosaen, a senior analyst with Anderson Economic Group in East Lansing. Some sectors will slow down or get smaller, but the effect won't be dramatic or devastating to the economy.

"If prices remain very high or get higher, gas-intensive industries will not grow quickly or they will shrink," he said. "That's really painful, but that doesn't mean (the industry) will go away. The world won't be unrecognizable."

Shamrock Cab Co. owner Larry Finazzo hopes that's true, but things aren't looking so good from where he's sitting. Business is down 20 percent since he had to raise his rates for taxi service in June from \$1.80 per mile to \$2.10 per mile to compensate his workers for the cost of gas.

He also raised the starting rate \$1 for a gas surcharge. Even with the increases, some of his longtime drivers have left the business because they couldn't make a living at it anymore, he said.

"I've been in the cab business for 30 years and I have never seen a situation like this before," Finazzo said. "I have never seen it so bad. Hopefully, I'll ride out the storm."

Because his drivers pay for their own gas, he's having a difficult time finding new workers. On top of that, he may have to raise his rates again in July because gas prices have gone up since the last hike, but he's hesitant to increase it too much for fear of scaring away his customers.

"At this point, I don't know what I'm going to do," he said.

Cab driver Barb Gorish, a four-year employee of Shamrock, is caught in the middle. Most days she makes decent money, but sometimes she can work all day for just a few bucks. One day this week, she was on the road for 10 hours and pocketed just \$3 after paying for gas and the car she leases.

"Some days you make it, some days you don't," said the 58-year-old Gorish of St. Clair Shores.

Burning less gas is the goal of Keford Towing in Novi, which operates seven diesel-powered trucks. At 10-40 runs a day, owner Tom Herrington spends an average of \$8,000 on fuel each month.

Nowadays, the trucks are only on the road when they are headed to a stranded motorist, whereas some used to patrol the highways and streets in search of cars that needed a lift.

"It has a crushing effect" on our bottom line, Herrington said of the rising gas prices. "We're definitely more cognizant of the number of miles (employees) are driving."

## Truckers hit especially hard

The trucking industry is getting hit especially hard. A report by investment banking firm Avondale Partners LLC said that about 42,000 trucks, or 2.1 percent of the nation's heavy-duty truck capacity, went out of business in the first three months of 2008, in large part because of gas prices.

To bring some relief to truckers, U.S. Sens. Olympia Snowe, R-Maine, and Sherrod Brown, D-Ohio, introduced a bill last week that will require 100 percent of fuel surcharges be passed through to the party that pays for the fuel -- usually the truckers -- so shippers aren't pocketing the extra charges.

Although diesel historically has been cheaper than gas since it's a gasoline byproduct, that's not the case today because demand for diesel is growing, especially in emerging countries, said Norita Taylor of the Owner-Operator Independent Drivers Association, a trade group that represents 400,000 truckers and professional drivers, 5,700 of them in Michigan.

Longtime truck driver Leo Wilkins, 62, of St. Charles remembers when he could fill his 2001 Peterbilt 18-wheeler for \$300. Now it's costing him more than \$1,000 to fill the 300-gallon tank. Three years ago, his annual diesel bill was \$35,000; this year, he expects it will be more than \$80,000.

"It's killing us. It's killing the trucking industry," said Wilkins, who delivers cars, large machinery and "anything that goes on a flatbed" to 48 states. He drives 120,000 miles a year and gets five miles to the gallon.

Sometimes he gets a fuel surcharge of 62 cents per mile, but it's costing him 82 cents per mile to make deliveries, not considering the cost of wear and tear on the tires, parts, road taxes and other expenses truckers incur.

He owns his truck and trailer, but right now he has a contract with a company that finds him work, so he only gets 75 percent of the pay. He wants to start finding his own loads so he can keep 100 percent of the fees.

It's more work for him and more trouble, but "it's getting to the point where I have to do it," he said.

Wilkins is holding off on buying a new pickup, which he typically does every three years. With less income, he has to be more choosy about how he spends his cash.

"We can't work for nothing," he said. "I drink milk and eat food, too."

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