Soaring oil, commodity costs spark new ways of doing business

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Gus & Grey

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While soaring oil prices have swiftly increased transportation costs, the overall volatility of commodities is leading to short- and long-term changes in strategy for businesses big and small.

Consumers and businesses will feel the impact far beyond the gas station.

"Fuel has always fluctuated. I have never seen it this dramatic," said Leonard Olson, president of dedicated transportation at Warren-based trucking giant Universal Logistics Holdings Inc.

The Russia-Ukraine war and sanctions have hiked up already high costs. The average price of regular gas in metro Detroit this week jumped 28 percent from last month to more than $4.27 per gallon as of Thursday afternoon, mirroring big price jumps nationwide, according to Dearborn-based AAA. Diesel is up 28 percent to $4.90 per gallon in metro Detroit. At the same time, commodities from nickel to aluminum have hit record highs.

"It's going to be another challenging year for anybody who imports and provides a service in the global supply chain, with different challenges than the year before," said Charles Klein, Detroit station manager for freight shipper OEC Group.

Meanwhile, consumer inflation continues to rise, affecting the bottom lines of customers and businesses alike. It jumped 7.9 percent over the past year, the U.S. Labor Department reported Thursday — the sharpest spike since 1982 and likely only a harbinger of even higher prices to come. The increase reflected the 12 months ending in February and didn't include the oil and gas price surges that followed Russia's invasion of Ukraine on Feb. 24.

Managing volatility

But after the logistics mess of the past two years amid the COVID-19 pandemic, and the blockade of the Ambassador Bridge last month to boot, the supply chain has learned a thing or two about volatility. One major takeaway: passing along costs with greater efficiency.

"Fuel pricing is really indexed," said Olson, who oversees 2,000 truck drivers, including 800 in metro Detroit. "What that means is the fuel price will go up. Those costs are pushed back to customers. My assumption is that those shipper costs will also translate to an increase in costs to the consumer."

The bulk of business in Olson's division is automotive, which has flowed relatively uninterrupted despite oil price increases, because the nonpractical alternative would be shutting down production. In some cases, customers are deciding to delay shipping for a day or two until a trailer is full so they get more freight for their buck.

"Obviously, fuel is a major cost of a logistics organization," said Mark Anderson, president and CEO of Romulus-based United Road. "It is especially painful when you not only get higher costs, but you get a very sudden and drastic increase."

Olson said the situation has forced Universal to have "some difficult discussions" with customers related to price adjustments, but most have rolled with it because they need to move material.

The volatility of commodities and the ongoing truck driver shortage has also changed the way Universal approaches business. For dedicated transportation, a three-year contract is typically the norm. Universal has cut that to two-year terms because the economics have been so difficult to predict. The cost of procuring chassis to support new business has skyrocketed, for example, and the company has had to increase driver salaries by as much as 15 percent to compete.

"Some of our contracts, when negotiations came up, we reduced (terms) so we're better able to react to market environments like this," Olson said.

Where Universal has seen the most disruption from oil price increases is with noncontractual, spot business. Olson said those customers, who are usually smaller and often retailers, are delaying shipments and consolidating loads as much as possible.

"When you're going into more retail or anything else that's out there, I think you are more susceptible to the increase in fuel," he said. "The suppliers and shippers are really going to have to make decisions how badly they need the product."

Rising costs eat up profits

Those decisions are made by small business owners like Tara Grey, who operates Gus & Grey in Eastern Market. She has had to cut products as rising costs eat up the jam manufacturer's profits.

"I'm definitely seeing an increase in my cost of goods for everything from jars to lids to labels to even fruit," said Grey, whose side hustle started 10 years ago has turned into a full-time pursuit. The company now has products in 30 states, including metro Detroit grocers Vince & Joe's Gourmet Market and Westborn Market.

Grey said FedEx recently hiked her shipping costs by 15 percent, around the same margin of increase she has absorbed for jars and lids and soon to be for bubble wrap and boxes.

She just increased the wholesale cost of her product from $5.25 to $5.50 per jar of jam, reflecting a 20 percent increase in the cost of jars from her supplier Detroit-based Porter Bottle Co., which is absorbing price increases from its supplier. Once it leaves Grey's hands, the retail markup is anywhere from 30 percent to 100 percent

"It's just turning into kind of this tricky game," she said. "It is a specialty product, but we don't want to just cater to a certain clientele. We want everybody of any income to be able to enjoy it."

"I'm definitely seeing an increase in my cost of goods for everything from jars to lids to labels to even fruit," Gus & Grey owner Tara Grey said of her Eastern Market-based jam business.

When the price of Michigan cherries doubled recently, Grey stopped making that flavor. A few months ago, she shipped in 6,000 specialty tins from China. What she thought would cost $600 turned out to be $3,000. Grey tabled the idea of new specialty launches indefinitely as a result.

"Larger companies have been able to absorb more. It's been very tough on family-owned businesses," said OEC Group's Klein, adding that he has seen a dropoff in the shipment volume of low-priced goods due to transportation costs.

Fuel for ships hit a historic high last week, exceeding $1,000 a ton, according to Ship & Bunker. The average cost to ship a 40-foot container across the ocean this week was about $9,200, up 83 percent from a year ago, according to the Drewry World Container Index.

Grey is considering air freight, but the cost of trucking it away from the airport grows exponentially with fuel prices. The seemingly nonstop increases have Grey contemplating the future of her jam business.

"That's something I think about every day," she said. "I'm hoping that this year we're actually going to turn a profit. I really hope that things level out."

Rethinking supply chain

In fact, the volatility has economic leaders and business executives contemplating the future of the supply chain. It's brought new life to the idea of reshoring — returning production and manufacturing of goods back to a company's original country — especially as the automotive industry shifts to electric vehicles.

Earlier this week, the price of nickel — a main ingredient in EV batteries — soared to record highs and was suspended from trading in some markets because of the war in Ukraine. Russia supplies around 10 percent of the world's nickel supply, highlighting the risks of foreign supply and prompting automakers such as Ford Motor Co. and General Motors Co. to promote the movement for domestic mining.

Those risks have led to shifts in big picture thinking at Southfield-based Superior Industries International Inc.

Until the Russian attack on Ukraine began, the company had sourced 20 percent of its aluminum from a single supplier in Russia, president and CEO Majdi Abulaban said on a call with investors earlier this month. Its procurement team scrambled to make purchase arrangements in North America as the cost of the commodity spiked.

"Long supply chains don't make sense," Abulaban said. "They're disruptive. You have geopolitics, you've got freight costs, you've got all kinds of things going on. So, you are going to see a big push for localizing in region, where the carmakers make their vehicles."