PRIVATE FLEET MANAGEMENT: From necessary evil to strategic asset

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Taking a holistic, integrated approach to fleet management can make a significant and continuous contribution to higher, company-wide productivity and lower costs. Our team sets out to help managers overcome current fleet-optimization issues and offers ways to create value in private fleet management.

Private motor carrier fleets comprise 82 percent of the medium- and heavy-duty trucks registered in the United States. According to the National Private Truck Council, private fleets also account for roughly 53 percent of all U.S. miles traveled by medium- and heavy-duty trucks. With slightly more than two million vehicles on the road, private fleets represent the largest single segment of the trucking industry.

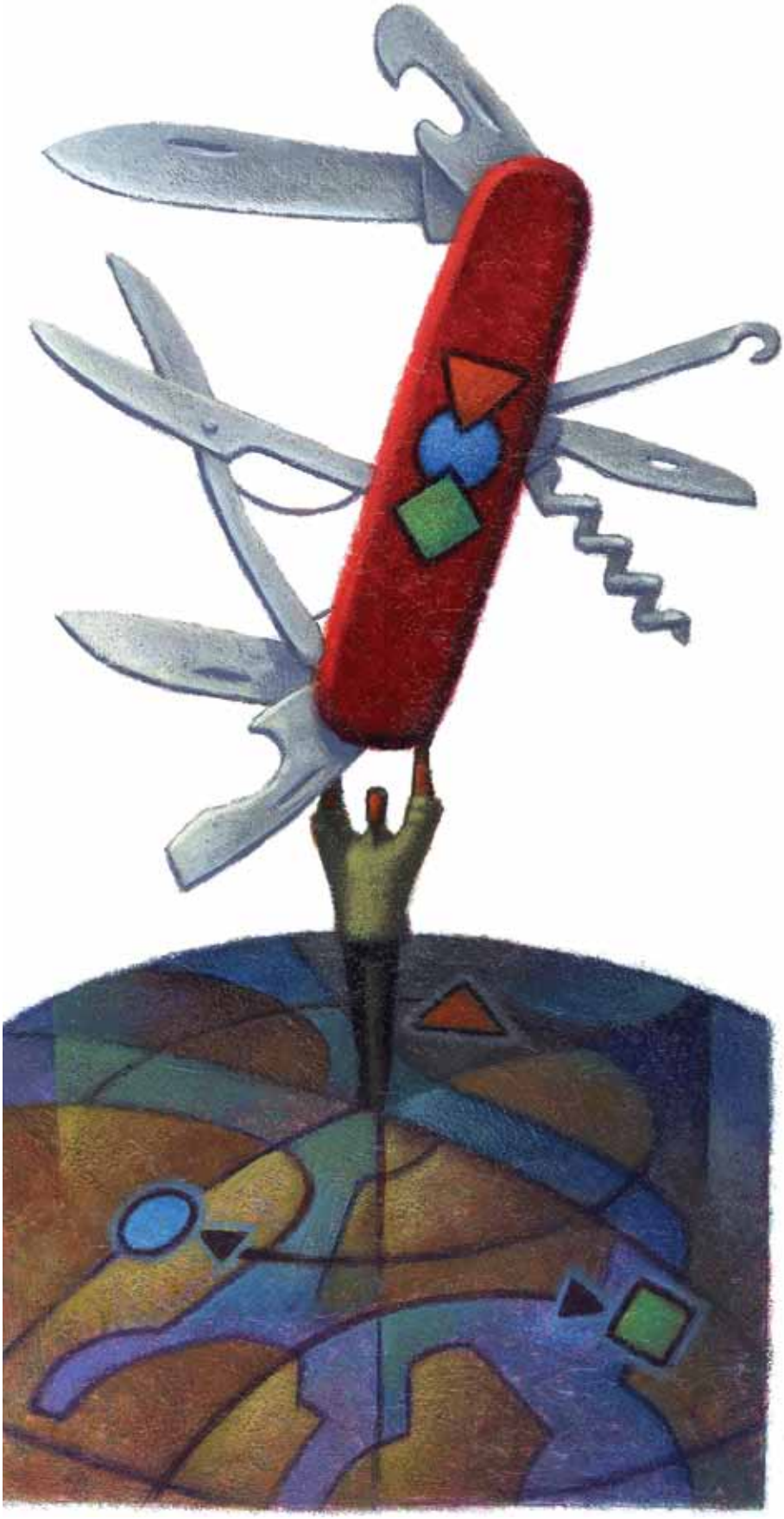
But even though private fleets constitute a majority of vehicles and miles traveled, there is still much confusion, misinformation, and disagreement about their value. For example, many operator-owners view fleet management as a consequence of doing business—a cost center, non-core competency, or even a "necessary evil."

Moreover, if you ask a typical fleet manager what his or her total fleet costs are, the answer will be something like "the sum of costs incurred for leasing or acquisitions, maintenance, fuel, insurance, and registration fees." Most organizations accept this approach, despite the fact that it usually—and often significantly—misrepresents the cost and complexity of owning and operating a private fleet.

The fact that many private fleets are considered non-core competencies isn't particularly surprising. With the exception of transportation companies and third party logistics providers (3PL), transportation is seldom deemed a strategic or differentiating asset. However, there is also the common implication that transportation departments are largely insignificant—that they have very little influence on the company's success and a correspondingly small effect on capital budgets.

Other than ordering transportation managers to trim costs, little senior-level attention is usually paid to this aspect of the business. As a consequence, specialized fleets tend to be larger and more costly than they need to be, because this is the easiest way to avoid service failures.

Fortunately, a growing number of companies are recognizing that substantial value can be gleaned from well-managed private or dedicated fleets, and significant improvements in cost, not simply belt tightening, are possible. With so much capital tied up in fleet assets, this is clearly the right way to think. Over the next few pages we'll



discuss fleet-optimization problems in more depth and offer ways to understand and create value in private fleet management.

COMMON TROUBLE SPOTS

Change is not easy, even among companies that are committed to reducing fleet costs while improving performance. One reason is that fleet costs are particularly difficult to identify and analyze. Hidden expenses are everywhere. In addition, many corporate fleets are the product of mergers and acquisitions, the result of which can be a patchwork of dissimilar, barely compatible support systems, decision-making responsibilities, processes, and HR skills.

In situations like these, it isn't uncommon for a company's CFO to manage transportation's financing and capital budgets; the treasurer or controller to oversee allocations of fleet-related capital; and the procurement organization to make purchasing decisions based on input from operational decision makers (e.g., COOs). Adding to the confusion, all these activities may be reflected across balance sheets, income statements, and multiple corporate and departmental budgets.

Further exacerbating the issue, the above functions may not be talking to each other about fleet management. And when they do, there probably won't be a great deal of hard evidence with which to make informed decisions about costs and performance. Even when there is sufficient data the people examining that data often lack the engineering and logistical insights to fully interpret what they're seeing.

Lastly, there are myriad practices that add costs and drag down productivity, including:

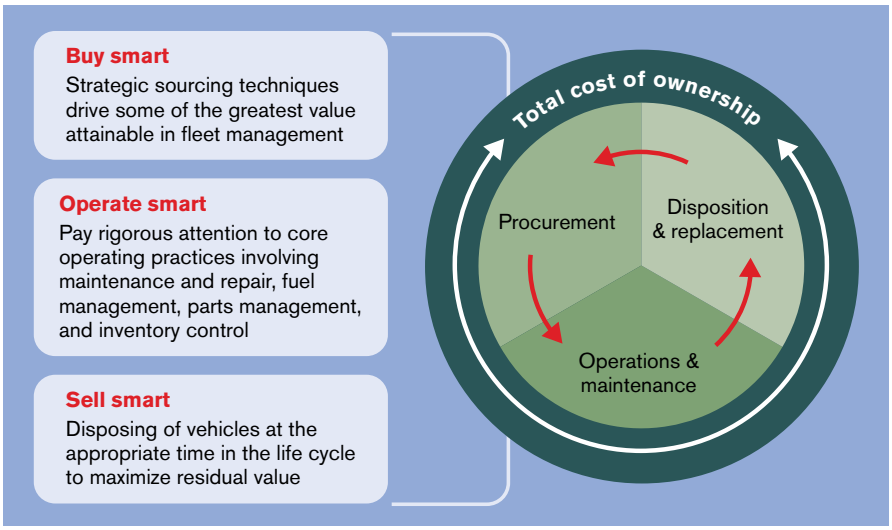
Redeployment of capital. Capital fleet budgets are frequently redeployed as capital reserves for other asset groups, thereby reducing maintenance budgets or the number of vehicles that can be

purchased. This increases the average age of fleet vehicles, which in turn raises maintenance and operating costs.

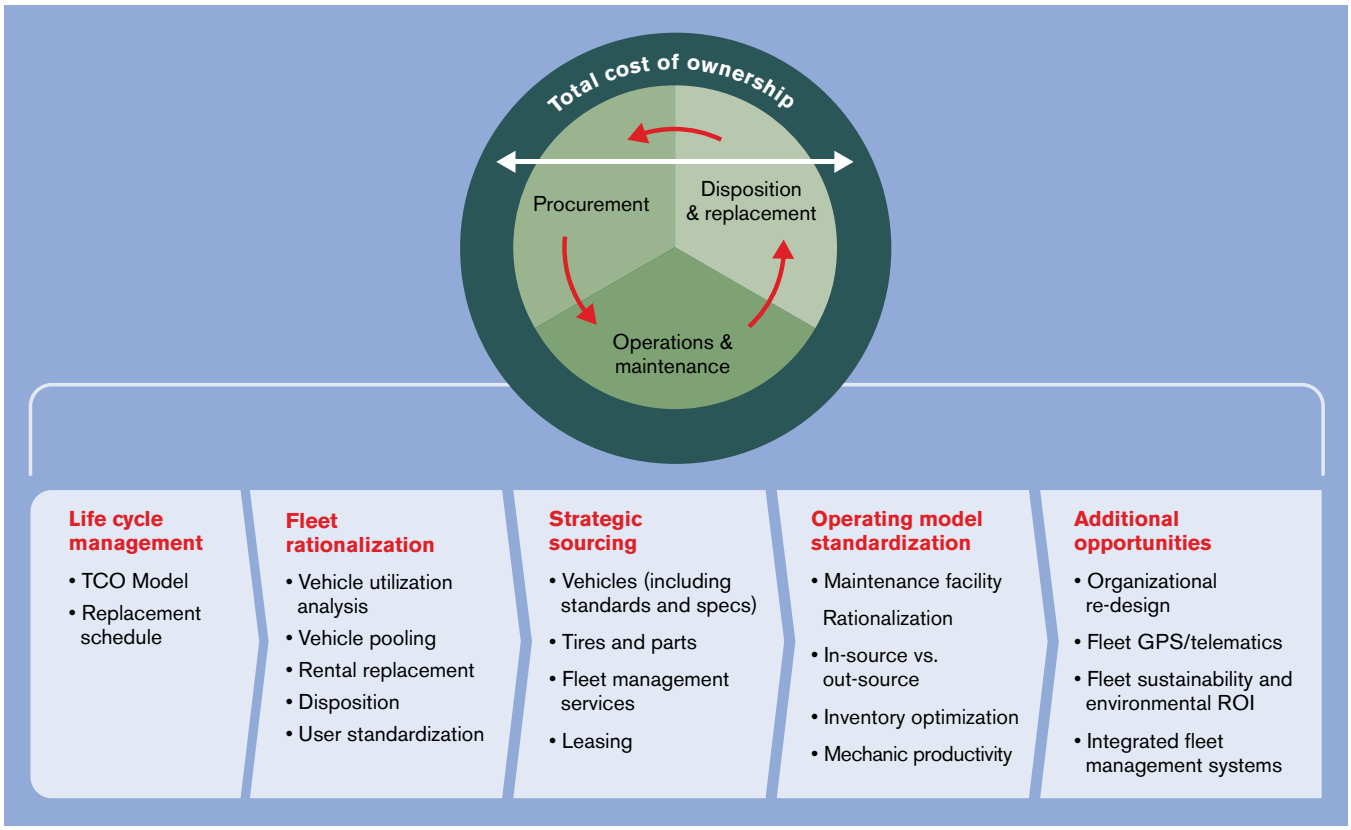
It's an easy trap to fall into ("We got through last year without buying new vehicles, so let's try to do it again this year"). Sooner or later, however, this is the path to the "perfect storm"—when an entire fleet requires sweeping overhauls or replacements in a concentrated period.

Poor replacement policies. Inconsistent buying patterns, opportunistic buying, and loosely defined replacement criteria make coordinated fleet management far more difficult. For example, new or evolving capital restrictions often force companies to disregard their own replacement guidelines, so fleet managers end up in the same scenario as noted above—holding on to aging vehicles longer than they should.

Insufficient standards. Without rigorous standards and clear buying criteria, companies end up purchasing vehicle types based on what they want, rather than what they need. A common example is buying vehicles with expensive options—such as 4x4 capabilities—that are rarely used. Another is owning a variety of makes or models, a practice that can dramatically increase maintenance costs and boost spare parts inventories. Owning multiple brands also reduces buying



An integrated view of the three major fleet lifecycle activities–procurement, operations & maintenance, and disposition & replacement–can help companies calculate private fleet TCO.



An integrated fleet management program requires that all TCO-related activities (e.g., procuring, operating, and replacing) be analyzed, measured, and managed as a group of interdependent fleet management functions.

leverage with OEMs.

Waste and abuse. Companies may not be doing enough to curb costly practices such as excess idling, unsafe driving behavior, unreported vehicle use, nonexistent or underused pooling programs, and poorly coordinated or managed maintenance and repair programs.

NEW DIRECTION

Transformational change is seldom associated with fleet management. Pragmatic and continuous improvement is more common. Thanks in no small part to rapidly advancing technology, however, continuous improvement is highly achievable.

Regardless of the means (transformation or continuous improvement), the goal should be to give fleet management a new edge by reducing its costs, improving its effectiveness, and ultimately positioning it as a value-added competitive weapon. This is basically a two-part proposition:

1: Use "total cost of ownership" (TCO) principles to reduce operating costs and improve asset management. Understanding, and subsequently reducing, TCO can be represented emblematically by the continuous process diagram shown in the figure "Buy Smart, Operate Smart, Sell Smart"(page 32).

2: Develop a comprehensive "integrated fleet management program" focused on improving strategic and competitive value. The components of this multi-part initiative are illustrated in the second figure.

These two fundamental concepts are interrelated: Building a successful integrated fleet management program requires a deep understanding of your fleet's TCO, and the result of a properly executed integrated fleet management program is a significant reduction in your TCO. Together, these concepts can help unlock a significant amount of unrealized potential.

TOTAL COST OF OWNERSHIP

TCO is an easy-to-understand, but tricky to calculate, number that fleet owners can use to discern how similar vehicle costs compare across your fleet and against others, how these costs trend over time, and when vehicles should be replaced.

Onboard innovations

TELEMATICS MAY BE THE HIGHEST-PROFILE INNOVATION for helping private fleet managers understand vehicle operations and reduce costs. However, there are other opportunities with strong potential that quickly pay for themselves.

These include wide-base tires and automatic tire-inflation systems, both of which minimize roll resistance and aerodynamic drag. The U.S. Environmental Protection Agency believes that using wide-base tires on a long-haul truck can save more than 400 gallons of fuel per year, while cutting CO2 emissions by more than four metric tons. Low-viscosity lubricants can create similar benefits.

Advances in tractor-trailer aerodynamics also affect fuel consumption. Here, the EPA has determined that tractor-roof fairings, cab extenders and side fairings can significantly reduce wind resistance, thus improving fuel economy and eliminating up to five metric tons of CO2 emissions annually.

—Pitts, Reiss, Hirsch

To calculate TCO, it is extremely important to develop or purchase an application for capturing, validating, consolidating, storing, retrieving, and sharing operating data on each vehicle. Such a system should capture costs from fuel and maintenance records, as well as less-obvious metrics such as acquisition, insurance, and registration details. The most important contributors to TCO include:

- acquisition costs, including upfitting and delivery;
- maintenance and repair costs;
- operating costs (fuel, title/tax/registration, permits, insurance, etc.);
- administration and overhead costs;
- technology costs;
- fleet management services (3rd party);
- residual value;
- auction fees;
- life cycle (in years); and
- miles driven per year.

Using the data elements above, an organization can calculate TCO, develop optimal replacement cycles and create scenario-based tools to understand how changes in the fleet can affect the company's overall financial performance.

There are many tools available to capture the data needed for TCO modeling. GPS telematics, for example, can help companies track vehicle locations while remotely monitoring speed, breaking, gear-shifting, idle time, and out-of-route miles. Industry research has shown that telematics can reduce fuel consumption by up to 14 percent, while paring vehicle maintenance costs by roughly the same amount.

Telematics-related information also enables companies to understand tradeoffs that relate to myriad other fleet-management decisions, such as buying-versus-leasing and extending the life of vehicles. Plus, captured information can be shared up and down the organizational chain, thus bringing higher-level people into the decision-making process.

Transportation management systems (TMS) are another technology moving rapidly from luxury to necessity. As fuel prices rise, the ability to consolidate shipments into more cost-effective loads and optimize routes becomes even more important; and private fleet managers who formerly perceived TMS as an unaffordable option may now wish to rethink that decision.

INTEGRATED FLEET MANAGEMENT

Armed with better TCO information on loading, routing, and vehicle use, companies are better positioned to elevate the overall fleet management program: rationalizing transportation assets and specifications; pooling and disposing of vehicles as needed; optimizing sourcing, maintenance and repair operations; and revisiting administrative policies.

Think of this sequence as an "integrated fleet management" program with the nine basic "mile markers" detailed below. One can derive benefit from focusing on just a few of these elements, but the real value comes from a comprehensive implementation, accomplished in a logical order and supported by a proactively designed

organization and up-to-date technology.

1. Collect and validate data:
- Assess vehicle quantities and VINs, age of units, classes of vehicles
- Gauge last 12 months of costs
- Calculate mileage and utilization

2. Rationalize the fleet:
- Reduce overall fleet size by using best practice utilization data
- Replace long-term rentals with surplus units
- Reduce average age to best-practice standards

3. Rationalize specifications:
- Reduce variations in standards and specifications to ensure a smaller number of larger classes
- Reengineer specifications that exceed work requirements

4. Pool assets:
- Allocate vehicles designated for assignment to pools (geographic or local) or for disposition
- Improve management of short term rentals

5. Dispose of surplus assets:
- Eliminate excess vehicles identified through rationalization

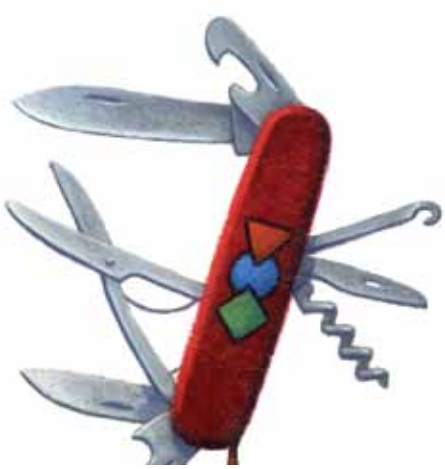
6. Revisit/revise sourcing decisions:
- Launch a multi-year Strategic Sourcing initiative for all major classes using a levelized replacement calendar
- Implement bid-optimization technology

7. Rationalize maintenance and repair:
- Reengineer operating practices (e.g., move maintenance to 2nd or 3rd shift where possible, implement vendor-managed inventory practices, automate time and productivity reporting, benchmark mechanic productivity)

8. Optimize finance and administration:
- Evaluate benefits/drawbacks of lease versus own
- Compare costs and benefits of insourcing versus outsourcing
- Leverage fleet-management services
- Assess/enhance maintenance & repair (M&R) administration (e.g., call center, vendor management)

9. Develop a new fleet model:
- Implement or enhance a life cycle management program
- Institute levelized replacement policies
- Rationalize specifications based on function
- Right-size the fleet by eliminating low-use vehicles

Throughout the program, it will also be important to compare fleet capabilities to industry peers and top performers in other industries, and to define key performance indicators that allow you to accurately measure success. Several other program-wide components are similarly vital. One is intra-organizational collaboration—working across departments to fully understand transportation objectives and obtaining executive support for transportation.



A shift in corporate mindset is is equally valuable: moving from a "cost of doing business perspective" to a "strategic asset" point of view.

The latter is doubly important, because finding a "champion" who understands the real value of fleet management is often a make-or-break factor. A shift in corporate mindset is equally valuable: moving from a "cost of doing business perspective" to a "strategic asset" perspective. Oftentimes, the fleet is a window through which customers view the company; and no matter what the reality on your factory floor, local service counters, or distribution center, the delivery segment of the supply chain is what customers see.

MOVING AHEAD

Taking a holistic, integrated approach to private fleet management can make a significant and continuous contribution to higher, company-wide productivity and lower costs. It's also likely that companies will increase visibility into their true fleet-management costs and enjoy better employee/crew productivity and morale—all of which create a better image and experience for customers. Based on Accenture's experience, potential benefits can include:

- reductions of 5 percent to 10 percent in fleet operating expenses;
- capital deployment improvements of 10 percent to 15 percent—the result of reducing asset costs and quantity requirements, and improving asset utilization;
- increasingly accurate tracking of performance across business units; and
- new abilities to integrate fleet management into a company's or business unit's strategic roadmap—consequently improving revenue-generation potential and enhancing the customer experience.

Lastly, a word about sustainability. More and more companies are paying attention to how their products are made and the environmental impact associated with production and transportation. Companies with clear and consistent sustainability programs manage all aspects of their supply chain, from emissions, to safety, to the waste stream.

In the process, they glean a competitive market advantage over industry peers that have not acted similarly. Innovative fleet management can be a significant contributor to a company's sustainability initiatives, delivering benefits and competitive advantages that are, in all likelihood, highly sustainable. ☐

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