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Why are more companies
outsourcing their
PRIVATE FLEETS?
Is the investment
too much
to manage?

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Why Shippers Can't Afford *NOT* to Convert Their Private Fleets



By Clifford F. Lynch

Private fleet operations might initially seem like a good freight management solution for companies concerned about cost, capacity and control. However, for many — particularly mid-sized companies — that simply isn't the case. This article takes a look at six popular myths around the supposed benefits of maintaining private fleets.



UNLESS YOU'VE GOT THE PURCHASING POWER of a Fortune 500® company, the economics of private fleet ownership for medium-sized businesses do not justify the investment. Companies should focus on their core competencies and leave transportation and supply chain management to the experts rather than spreading resources thin and mismanaging the complex issues involved in moving freight.

Billion dollar businesses are developed using flexible shipping and logistics solutions for a reason! The majority of firms just don't have the resources to manage costs and meet fluctuating volume demands, particularly given today's ever-shrinking capacity due to the near impossibility of attracting and retaining qualified drivers.

Private fleet managers for these firms are simply trying to figure out how to transport freight from point A to point B, never mind focusing on customer service, liability, fuel costs, training, the capital costs associated with a trucking fleet and other expenses.

This article reviews some popular myths regarding dedicated transportation services and discusses why mid-sized companies are tending toward outsourcing their transportation needs.

Myth #1: Running a private fleet makes more economic sense

For some of the largest firms, that may be the case — the behemoths with the size to achieve economies of scale on costs like fuel, equipment and insurance. But for everyone else, especially mid-sized businesses, the headaches and unpredictable costs of operating a private fleet can make it unpleasant and — worse — unprofitable. Mid-sized firms can't match the buying clout of the big guys, but they're up against the same financial pressures as the major carriers. Not a winning proposition.

There is also that not-insignificant issue known as the bottom line. The capital costs of carrying transportation assets on the books loom large when there are better investments with better returns that can be made for most firms. If the difference between the cost of the fleet and the cost of handing it to a dedicated carrier is less than the shipper's operating margin, the private fleet makes no economic sense at all. Add in the increasing challenges sparked by changing hours of service (HOS) regulations and Environmental Protection Agency (EPA) requirements and you have a strong argument for outsourcing to a dedicated carrier.

More threatening than most realize is the oft-overlooked issue of liability. Typical liability insurance is not only dauntingly expensive but is rendered virtually irrelevant by sky-high deductibles. At the same time, vehicular accidents account for more than a third of all wrongful death suits, and juries in the United States frequently award plaintiffs upwards of \$10 million per verdict. With both insurance premiums and jury awards rising, businesses must face the fact that one major accident could spell financial ruin. Why not transfer that burden to a major carrier with the means to bear it?

Myth #2: Private fleets mean better customer service and greater visibility

Again, not so fast. Yes, private-fleet drivers run familiar routes to familiar customers carrying familiar products, and in trucks branded and designed to function as rolling billboards crisscrossing the continent. Drivers get to know the unique service requirements of their accounts and positive customer relationships develop accordingly. All that would give private fleets the upper hand over common carriers — if common carriers didn't share the exact same capabilities.

Dedicated carriers can also assign drivers to accounts exclusively, to function like regular employees of the hiring firms. Those drivers can run the familiar routes to the familiar customers carrying the familiar products just like private carriers would, and it's just as easy to outfit one trailer with company-branded graphics as it is another. In fact, many companies find that service levels measurably improve after a private fleet conversion...as does the company's bottom line.

Myth #3: The driver shortage hardly affects private fleets

As we are all painfully aware, a national driver shortage is one of the top challenges facing the trucking industry today. Given the variability of our economy and the advanced average age of current drivers, the situation will only get worse. This is as true for private fleets as it is for dedicated carriers. The solution? Aggressive programs to recruit and train new drivers and retain the ones already on board.

In an industry that typically faces annual turnover rates of more than 100 percent, this is no easy task. Who better to take on the challenge than large nationwide carriers with the expertise and infrastructure to develop and maintain large-scale recruitment, training and retention programs? Common



carriers are rising to the occasion with innovative programs aimed at enticing new drivers to a life on the road. Advertising campaigns targeted to demographic groups not commonly represented in the industry are widespread, and economies of scale make them far less costly than any programs individual companies could launch.

The common carriers also have the advantage of existing relationships with railroad, freight brokerage and logistics companies, often lines of business of the carriers themselves. If capacity becomes an issue, they can go to Plan B...and beyond. A private fleet, in the same situation, would face a more challenging and restricted set of options.

Myth #4: Common carriers offer nothing private fleets can't do for themselves

This is a misconception that costs shippers money and opportunities to improve service every day. New technologies have opened up a brave new world for the transportation industry. From satellite communications to trailer tracking systems, shippers have options that were unimaginable just a few years ago. Better tracking and visibility cuts costs and increases customer satisfaction. Why take chances on lost or empty trailers and frustrated customers when a dedicated carrier can transform you into a true twenty-first-century shipper?

However, investing in these tools for a small private fleet would be cost-prohibitive for most firms. The capital outlay would outweigh any benefits — benefits that would accrue quickly under a dedicated carrier with the size and scale to justify the investment.

Common carriers also offer state-of-the-art supply chain engineering capabilities far beyond the reach of most private fleets. With expertise in logistics, transportation management, industrial engineering, network optimization and process improvement, they are masters of finding opportunities to reduce costs, improve service and minimize both trucks and miles. Vehicle routing and scheduling, inventory optimization and improved operating margins are just a phone call away. In the competitive global marketplace the transportation industry serves, topnotch engineering can make a real difference in the bottom line.

Myth #5: Running a private fleet has no negative impact on the rest of the business

Some private fleet managers subscribe to the philosophy that if you want it done right, you'd better do it yourself.

That's fine in theory, but it can be downright dangerous in practice. After all, you wouldn't say that if you needed a root canal — you wouldn't go to dental school, get a license, buy all the equipment and hire a staff just to have control over the procedure.

Like dental practices, private fleets are complex operations with their own unique set of requirements and regulations. They take time, energy and, above all, money to run efficiently and at peak performance. There is no way that level of expenditure wouldn't affect the rest of the business — the physical assets alone weigh down balance sheets and detract from a firm's overall financial health. Shippers wouldn't become dentists just to get a root canal and they shouldn't maintain private fleets just to ship their freight.

There are several large carriers with dedicated shipping and logistics management as their core competencies. Choosing one of them frees up assets so shippers can invest more in the competencies of their own business.

Myth #6: Private fleet conversion means local drivers will lose jobs

Some private fleet managers balk at converting to dedicated carriers because they think local drivers may lose their jobs. Not so, according to industry trends. Most carriers make efforts to retain drivers already trained and knowledgeable about routes and customers. And why wouldn't they? Safe, reliable drivers are hard to find — and safe, reliable drivers with institutional knowledge are a precious resource. Dedicated carriers assuming shipping responsibilities for private fleets are well aware of that and are motivated to take advantage of it.

Summary

Private fleet operations might initially seem like a good freight management solution for companies concerned about cost, capacity and control. However, for many — particularly mid-sized companies — that simply isn't the case. Converting to dedicated carriage results in better customer service, more flexible capacity, less risk exposure and improved profits. Shippers must calculate the true cost and risk of operating a private fleet and weigh these against the many advantages and economies of scale a large dedicated carrier can provide. Once they do, they might be surprised to find that they can't afford not to convert their private fleets.



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Mr. Lynch is a member and past president of the Council of Logistics Management and has received numerous awards in the field of logistics. Among them are the CLM Distinguished Service Award, the Traffic Management Magazine Professional Achievement Award, the University of Tennessee Department of Marketing and Transportation Distinguished Alumnus and the President's Award for Outstanding Contribution to the American Society of Transportation and Logistics.

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