

Private Fleet Operations: Maintaining the advantage

Tech-savvy private fleet operators are able to justify the cost of their complex operations through high service levels, smart maintenance programs, and revenue generating backhaul opportunities that can make even the toughest CFO smile.

BY JOHN D. SCHULZ, CONTRIBUTING EDITOR

Private fleets have always been in the crosshairs of corporate bean counters. After all, if you're in the business of producing widgets, why bother with the additional cost of operating a private fleet of trucks?

Why bother? Well, at more than \$300 billion, private fleets make up the largest component of the \$680 billion trucking industry. As Coca-Cola, Sysco, Wal-Mart Stores, Pepsi Bottling Group, U.S. Foodservice, Haliburton, Tyson Food, Walgreen's, and other corporations can attest, their private fleets aren't considered mere cost centers. Instead, these savvy logistics operations consider their fleets a strategic operating advantage that can be used to win market share and satisfy finicky customers—and even enhance the role of the private fleet manager and the logistics department within the corporation.

Not that operating a private fleet is easy. Transportation, particularly trucking, has never been more complex. There are regulations galore, from the federal, state, and even local level

covering safety, environmental, technical, operational, and other aspects of the industry. Communities and states increasingly look at trucks as easy tax targets; and in the meantime, engines are constantly being designed to run cleaner, but only with increasingly complex maintenance issues.

While the list of issues affecting private fleet operations continues to grow, there remain three core areas that the savviest managers stay focused on en route to maintaining that strategic advantage:

Service. Timely deliveries to both internal suppliers and manufacturing centers as well as to customers can set the best private fleets apart from for-hire carriers. At their best, private fleet services can be seen as a defining operational advantage that can be justified to even the toughest internal financial officer.

Maintenance. Today's typical, \$125,000, Class 8 tractor-trailer is basically a computer on wheels. Engines require ever-complex layers of maintenance to run while emitting as little as 5 percent of the pollutants and

particulates that a typical heavy duty truck spewed a decade ago. To keep these trucks in check requires a level of expertise by the private fleet manager that didn't exist 10 years ago. Outsourcing can help in this regard.

Financial performance. True, private fleets cost money, but their costs can be mitigated through a series of moves. Today, the best private fleets operate as "blended" operations, with the ability to secure lucrative backhauls. Some private fleets operate very much as for-hire carriers when securing these loads, moves that can easily offset costs of running a private fleet.

Now, let's take a look at each of these core areas one at a time and discover what's setting the best private fleets apart from the rest.

SERVICE IS KING

America's manufacturers and retailers operate in a hyper-competitive marketplace. Today, it's not enough to be merely first to market. After all, even the best invention is often copied by rivals within weeks and brought to



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market by competitors claiming to be the leading vendor of a product or service—just think Apple and its iPhone.

Yet, transportation service can help differentiate your operation, and your private fleet is often at the core of that strategy.

Private fleets have long been asked to justify their operations (and higher costs) to upper management—this is certainly not new. However, a new breed of private fleet operators now can use their fleets' exceedingly high levels of service to not only justify their existence, but make the case that sales would suffer without the competitive

advantage that private fleets offer.

"The 'sacred cow' status that any private fleet may have had within a corporation has been assigned to the dustbin of history," says Gary Petty, president and CEO of the National Private Truck Council (NPTC) which represents nearly all the elite private fleets in the United States. "Even the most productive and safest private fleet has been asked to justify what they're doing and to quantify the level of service they're providing."

Today, the performance of private fleets is measured in ways unheard of just a few years ago. There are benchmarks on service times, cost, ability to

handle extraordinary situations, and other objective industry standards. Petty says that these measurements, often drilled down to competitors in similar industries, is a "big, big trend" among private fleets and enables the best fleets to continually monitor their performance, operationally and financially.

"Transportation hangs out there like any vulnerable component of a company," Petty says. "Transportation people are used to being looked at as a secondary or tertiary value proposition. But any decline in customer service will almost certainly mean an increase in a company's overall costs. A private fleet

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can be a key differentiator in a company's efficiency and quality of service."

MAINTAINING MAINTENANCE

Today's trucks are more complex than ever. Besides computers, there are "old line" problems such as changing the oil at correct intervals and maintaining proper tire pressure.

But don't look for mechanics to be wasting time checking tire pressure manually. Today, the best private fleets have devised a system where a truck's tires can be measured in motion with an instant printout available detailing the pressure for all 18 tires. And as the best managers know, it costs money



even if one of those tires is not suitably inflated.

But tires are just one part of the private fleet truck maintenance puzzle. Just ask The Salvation Army, which serves more than 5,000 communities and 30 million Americans a year. The Army's fleet operations are divided into two sections—east and west of Colorado. The Western fleet has 350 trucks, and, according to Henry Filoteo, business administrator for the Army's Adult Rehabilitation Center, maintenance on those vehicles had been a problem since the organization had been buying used trucks and using outside shops to

handle maintenance and breakdowns.

Eventually, the Army decided to replace the Western fleet, first in California, to reduce costs and meet that state's tough emission standards. It bought 54 Kenworth T270 Class 6 trucks to add to its fleet of 350 vehicles operating out of 22 locations. The dealer arranged to set the Army up with a contract maintenance agreement on both its existing fleet and new trucks.

Interestingly, Filoteo says, the person in charge of overseeing the Salvation Army's maintenance at Kenworth was a person the organization had helped get back on his feet many years ago—as is the case with several of its truck drivers.

In California, the Army operates 230 trucks and must meet the toughest air quality standards in the country. It formerly kept capital expenditures low by buying used trucks. But Filoteo says that the practice was not cost-effective in the long run. "The Army usually puts about 30,000 to 35,000 miles a year on its trucks," he says. "But because the trucks were older models, they were usually out of warranty, leading to 30 percent failure rates and high maintenance costs."

So the Army exchanged those sky-high maintenance costs for the higher capital expenditures of buying new trucks. As a result, the Army reduced its overall fleet expenses, thus freeing up more of its donations for charitable purposes and lowering overhead.

MONEY, MONEY, MONEY

The best private fleets today often can be excused if they operate much like the best for-hire fleets. It's true that they're often operationally identical to the best common carriage fleets such as Schneider National, Swift Transportation, or J.B. Hunt.

Batesville Casket Co., an operation *LM* covered last year, generated nearly \$3 million in backhaul revenue in a recent year. Of that amount, \$1.1 million was generated from non-Batesville customers.

The challenge for Batesville was to develop the best possible way to obtain external backhauls to offset empty miles and raise some revenue. It chose to operate 53-foot, 102-inch high trailers to help in obtaining those backhauls. Although a 53-foot trailer is not absolutely necessary for raw materials and caskets internally,



that extra capacity really helps in the backhaul, for-hire market.

Having those 53-foot trailer operating on the backhaul makes Batesville's private fleet operate very much like a for-hire carrier—and makes the company very competitive to non-Batesville customers taking advantage of its competitive backhaul rates. This is "found money" that can easily be used to justify the cost of Batesville's private fleet operations.

Increasingly, top executives at companies that operate private fleets say that they recognize the value proposition associated with a well-run fleet. There are productivity and service enhancements only available to private fleet operations.

Tim Yatsko, Wal-Mart's senior vice president and chief strategic officer, was formerly the company's senior vice president of transportation and director of private fleet operations. While he was running Wal-Mart's private fleet a few years ago, Yatsko explained why the retailing giant chose to operate a private fleet.

"It greatly enhances our ability to assist the communities in which we serve," says Yatsko. "Wal-Mart has chosen to run with its private fleet of more than 7,200 trucks because it's cost-effective, offers leverage against common carriers Wal-Mart utilizes, is flexible to meet ever-changing customer

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demands, offers maximum network efficiency, and enables Wal-Mart to react quickly in disaster situations such as that caused by Hurricane Katrina five years ago.”

Yatsko is hardly alone. Private fleets today are being run by an increasingly

a leading Midwestern retailer of home and farm supplies. It operates a fleet of 54 trucks out of its Moberly, Mo., distribution headquarters, and it prides itself on service to its end users—even the four-legged ones.

At some rural Midwestern loca-



Continental Floral's private fleet allows the wholesale florist to change a route if a customer misses a truck and gives it the flexibility to add capacity at holiday times.

shrewd, technologically savvy “new breed” of operators who have knowledge of their company's success from a variety of perspectives—operational, sales, environmental sustainability, and financial, just to name a few.

“Today's private fleet manager is not a one-trick pony,” NPTC's Petty says. “They're all part of a leading edge. The first thing you see with these top guys is that their ability to adapt to new technology is way ahead of the curve. They're very sophisticated.”

The technology arms race can take many forms. There is a rush to capture real-time, per-run, per-driver scorecard performance because those critical performance measurements are a key matrix to determining value—and justifying cost. According to Petty, the best managers measure everything and try to maximize value.

BUSINESS IS BLOOMING

One example of a private fleet becoming a true competitive differentiating point is Orscheln Farm & Home,

Orscheln drivers offer drinks “on the house” for certain creatures. Watering troughs are arranged outside rural stores so that horses belonging to Amish farmers who park their horse-drawn buggies can refresh themselves.

Orscheln executives have found that having their private fleet drivers tend to the Amish horses is a way for the company to “connect” with its customers. It also puts a human face to the company in winning trust and, hopefully, more business. It's also a way of differentiating the company in the marketplace.

There are other ways private fleets enable companies to market themselves better through service—especially when sales windows are in tight time frames.

Continental Floral is a San Antonio-based florist that traces its roots back to 1954. Because the lives of cut flowers are so short and its markets are so diverse, a private fleet is necessary to handle the unusual waves of demand associated with Valentine's Day, Mother's Day, and other floral holidays.

Denny Anderson is Continental's director of transportation for its private fleet that logged 2.7 million miles last year. A former truck driver, Anderson is keenly aware of what keeps his drivers happy as he worked his way up from a driver in 1992, to dispatcher in 1995, and now to his current post.

“We used to have a lot of driver turnover,” says Anderson. “But after being out on the road, I changed the way everybody looks at drivers. I give them flexibility to be home for anniversaries, birthdays, whatever. As a result, we have retained our core drivers, and no longer have a problem with turnover.”

Continental's private fleet allows this wholesale florist to service customers in a way that its competition cannot, Anderson says. It can change a route if a customer misses a truck, and there's the flexibility to add capacity at holiday times.

Anderson says that for-hire carriers often have minimum charges that can be expensive if only a box or two of flowers is shipped; and some for-hire carriers have holiday surcharges as high as 20 percent.

“Our private fleet is constantly proving its worth to us, and has for a long time,” Anderson says. “We are just able to stay on top of things better with our private fleet.”

Continental leases its 53-foot trailers with Thermo King reefers through PacLease and says it has enjoyed a 1-mpg improvement in fuel economy with the newer trucks. That 1-mpg saving adds more \$180,000 to its bottom line due to better fuel economy throughout its system. PacLease provides a maintenance technician on site in San Antonio to further save on repairs.

According to Tom Moore, NPTC's vice president, the Continental story is a perfect example of a private fleet being able to fit into a company's overall strategy and cost structure. The savvy fleet managers understand what its company's sales force is trying to sell, says Moore, and supports that mission.

“And as we see predictions of a coming driver shortage and capacity tightening, private fleets will become even more valuable to a company's overall mission,” Moore predicts. □

—John D. Schulz is Contributing Editor to Logistics Management