



Dedicated
Contract Services

OVERCOMING THE CHALLENGES OF PRIVATE FLEET MANAGEMENT WITH OUTSOURCING

The obstacles are enormous for every company that operates its own private fleet. There are a growing number of complex regulations to follow and a shortage of qualified drivers. At the same time, operating and insurance costs are increasing, and there is a greater need for flexibility to meet a range of customer expectations. An increased reliance on new technology, including the federal mandate to use electronic logging devices, makes operating a private fleet more complicated.

Amid this difficult environment, more companies are evaluating their overall operations and are considering the use of dedicated fleet providers, or outsourcing.

WHY COMPANIES USE THEIR OWN PRIVATE FLEETS

Decades ago, it was almost a necessity for companies to operate their own private fleets. However, the Motor Carrier Act of 1980, which deregulated the trucking industry, fundamentally changed the operating environment and created new competition and opportunities.

Despite those changes, many companies have continued to use private fleets. Businesses believe they alone can provide the level of customer service and on-time deliveries demanded by customers. It also gives them peace of mind that they have sufficient capacity for their shipments.

As transportation costs continue to rise, customer demands continue to evolve. On top of that, the regulatory landscape continues to become more complicated following a resurgence in rulemaking efforts, including a revision of hours of service (HOS) rules back in 2004. This resurgence is encouraging many businesses to take a fresh look at using dedicated fleet providers instead of operating their own trucks directly.



THE CHALLENGES OF PRIVATE FLEET MANAGEMENT

RISK AND LIABILITY

Even for the safest private fleets, traditional liability insurance can be expensive, with continually rising premiums and high deductibles. The American Transportation Research Institute found commercial truck insurance premiums averaged 7.5 cents per mile in 2016.¹

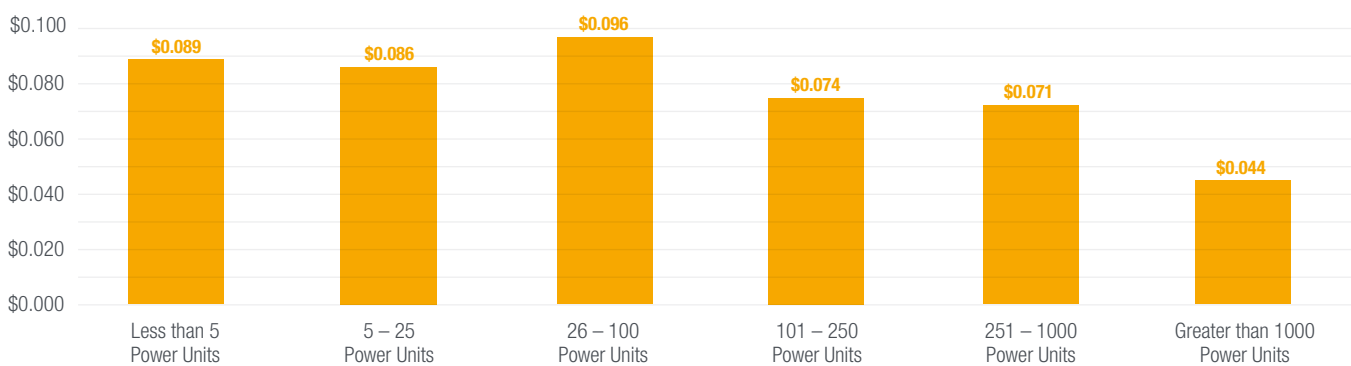
Average Marginal Costs per Mile, 2008-2016

Motor Carrier Costs: Truck Insurance Premiums								
2008	2009	2010	2011	2012	2013	2014	2015	2016
\$0.055	\$0.054	\$0.059	\$0.067	\$0.063	\$0.064	\$0.071	\$0.074	\$0.075

Source: American Transportation Research Institute, "An Analysis of the Operational Costs of Trucking: 2017 Update," October 2017.

Meanwhile, the high cost of accidents is accelerating. In courtrooms throughout the United States, juries have been siding with plaintiffs for millions of dollars, leading two large insurance companies to completely withdraw from the trucking market.² Outsourcing transportation can shift some of the potential liability exposure away from the business and to the transportation provider. It also helps avoid the damage to its reputation that can result from even one serious highway incident.

Respondent Truck Insurance Premium Costs per Mile by Fleet Size



Source: American Transportation Research Institute, "An Analysis of the Operational Costs of Trucking: 2017 Update," October 2017.

DRIVER RECRUITMENT AND RETENTION

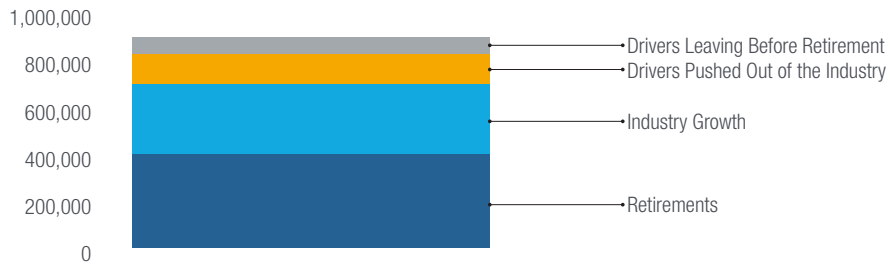
For many years, the transportation industry has been plagued by a shortage of drivers, and the problem is projected to skyrocket. The overall pool is shrinking because of a high number of retirements and strict federal hiring regulations. Drivers are also becoming more specialized and juggling a greater number of hands-on responsibilities, making it harder to find the right driver for the job.

The median age of drivers is about 49 years old, nearly 7 years older than the median age of all U.S. workers. The American Trucking Association believes the industry will need to hire 898,000 new drivers, or 90,000 per year for the next decade.³ Replacing retiring drivers is expected to be the largest factor, accounting for 49% of new hires.



Increased regulations covering training requirements for entry-level drivers and stricter scrutiny of medical issues such as drug testing and sleep apnea will make finding the drivers of the future that much harder.

Total Drivers Needed from 2017 through 2026 by Reason



Source: American Trucking Association, "Truck Driver Shortage Analysis 2017," October 2017.

Competing private fleets offering signing bonuses and other perks can make it more tempting for drivers to seek new positions. There are growing opportunities for drivers in the construction, oil, and natural gas sectors as America continues to develop into one of the world's leading low-cost energy producers.⁴

All this means the costs of recruiting, training and retaining drivers are becoming more burdensome, yet dedicated fleet providers are already adept at tackling these tasks.

LOGISTICS MANAGEMENT AND NETWORK OPTIMIZATION

According to "The State of Logistics Outsourcing" 75% of companies using outsourced transportation and 93% of outsourced transportation and logistics services providers found the relationship has contributed to reducing overall costs.⁵ The survey also discovered that 73% of 3PL users and 90% of 3PL providers agree that the use of 3PLs offers new and innovative ways to improve logistics effectiveness.

Dedicated fleet providers measure performance through key performance indicators (KPIs), which are jointly developed with each customer. Dedicated fleet providers take the time to understand customers' individual requirements and delivery models.

Dedicated fleet providers are also skilled at handling unexpected situations that arise due to weather, equipment failure, or manpower shortages. They can customize their operations to design a more efficient system with round-the-clock visibility. They can also leverage existing company resources or other transportation providers during emergencies.





KEEPING UP WITH REGULATORY REQUIREMENTS

The regulatory environment facing today’s drivers is more complex than ever before. By the end of 2017, most drivers were required to utilize an electronic logging device to meet hours-of-service regulations.⁶ These products can be costly to initially purchase with additional outlays required for installation, employee training, and general system upkeep, making it more difficult to see a quick return on investment.

Shippers Continue to Outsource a Diversity of Logistics Services

Outsourced Logistics Services	Percentages of Users	Outsourced Logistics Services	Percentages of Users
Domestic transportation	83%	Inventory management	17%
Warehousing	66%	Product labeling, packaging, assembly, kitting	29%
International transportation	63%	Order management and fulfillment	20%
Freight forwarding	46%	Service parts logistics	18%
Customs brokerage	46%	Fleet management	10%
Reverse logistics (defective, repair, return)	31%	Information technology (IT) services	27%
Cross-docking	29%	Supply chain consultancy services provided by 3PLs	15%
Freight bill auditing and payment	34%	Customer service	11%
Transportation planning and management	25%	LLP (Lead Logistics Provider) / 4PL services	11%

Source: "Third-Party Logistics Study: The State of Logistics Outsourcing," 2017.

The hiring process is becoming more burdensome with the U.S. Department of Transportation’s establishment of the commercial driver’s license drug and alcohol clearinghouse.⁷ It not only requires companies to report drug testing violations but to also annually query the clearinghouse for every driver they employ.

That is a separate program from the controversial and complicated Compliance, Safety, Accountability (CSA) program, which could potentially disqualify drivers for any number of driving or equipment-related violations. The CSA program, established seven years ago with a goal of identifying those carriers most at risk for accidents and targeting enforcement resources accordingly, developed a host of shortcomings due to faulty analysis of roadside inspection data to establish a motor carrier’s risk profile. That is currently undergoing an extensive re-evaluation, brought on by a National Academy of Sciences report issued earlier this year that specifically highlighted such flaws and how to fix them – a process expected to take some time.⁸

SEASONAL/FLEXIBLE CAPACITY

Many businesses that utilize their own private fleet make equipment decisions based on the critical peak season. They also have to balance downtime from illness, vacations, and injuries. As a result, these high-priced vehicles depreciate while sitting idle for long stretches.

Even for companies that do not face significant seasonal fluctuations, sudden demand surges can leave private fleets scrambling to obtain additional resources.

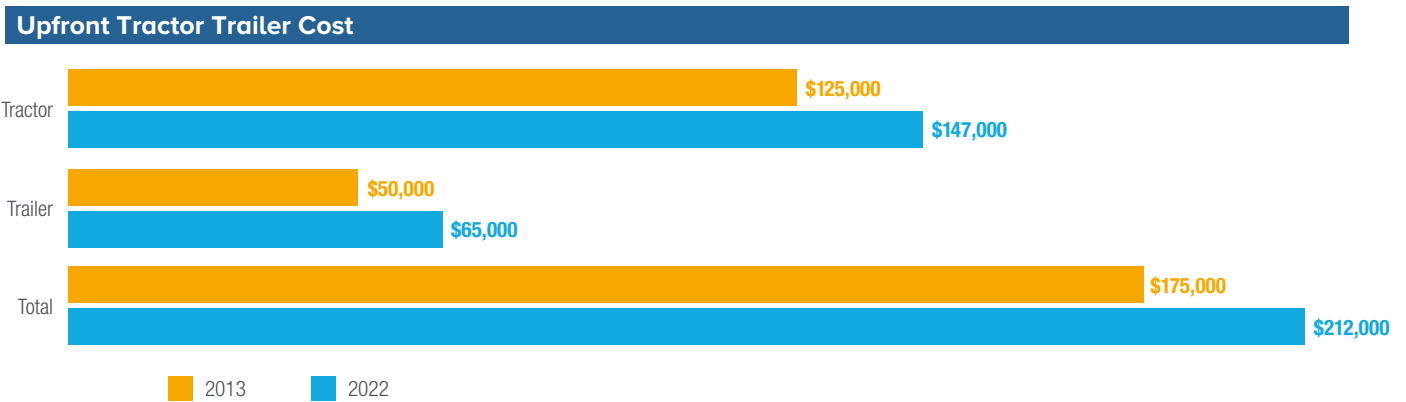
Outsourcing to dedicated fleet providers offer businesses the peace of mind to rapidly scale up or down based on demand and geographic location. It also provides a level of rate stability that nearly always turns into a bargain compared with contractual rates or the far more volatile spot market.



CAPITAL EXPENSES

The cost of a new, modern Class 8 tractor is \$125,000 and predicted to continue rising as new technology is added to meet safety and emissions regulations.⁹ Also, multiple trailers are purchased per tractor, varying in cost by type and increasing the company's total expenses. The costs of carrying these assets on a balance sheet can loom when seeking other areas to invest with better returns. Even for those leasing trucks for their private fleet, there are strict requirements to follow and hurdles to cross. In 2019, changes to accounting standards may require companies to recognize leased vehicles as assets and liabilities on the balance sheet.

Either way, the higher level of electronic sophistication of today's trucks further boosts maintenance costs for tractors and trailers. In addition, rising diesel prices further strain returns on these investments. If history serves as an indicator, fleet operators are not immune to \$4 a gallon fuel costs. By avoiding these expenditures, companies are able to make capital investments with better returns.¹



Source: 2013 vs 2022 analysis of Class long-haul trucking TCO, Frost & Sullivan



MISCONCEPTIONS ABOUT OUTSOURCING FLEET MANAGEMENT

LOSS OF SUPPLY CHAIN CONTROL

Companies often believe that outsourcing their transportation needs means losing the ability to make day-to-day decisions. The reality is that outsourcing comes with on-site client managers who provide collaborative assistance in making critical choices. Managers and their assembled team of professionals are held accountable to performance metrics and are expected to share data and report on progress toward unique KPIs. Client managers can simultaneously help manage multiple warehouse locations and transport routes, seeking greater efficiencies and minimizing waste.

CURRENT DRIVERS WILL LOSE JOBS

Experienced, safe drivers remain in demand, and dedicated fleet providers welcome these qualified individuals into their company. These drivers are able to enter into a great working environment, while maintaining their established routes that provide the work predictability and home time that is so highly cherished.

Existing drivers are highly valued by dedicated fleet providers because they are already well trained and knowledgeable about the customer. As drivers move to dedicated fleet providers, businesses can focus on their core areas and not worry about the responsibility of employing drivers.

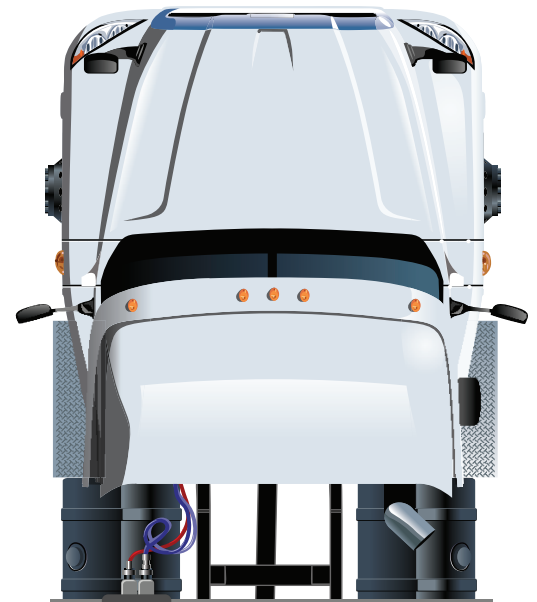
DECREASED CUSTOMER SERVICE

In “Third-Party Logistics Study: The State of Logistics Outsourcing,” 81% of customers and 98% of providers stated that the use of outsourced transportation and logistics services has contributed to improved performance.¹⁰ Trucking firms already understand how important customer service is to their own company’s business. Dedicated fleet providers know the delivery experience is an extension of the goods they are shipping, and that customer service is among the highest-ranking factors.

Dedicated fleet providers are able to assign specific drivers to particular accounts, allowing them to run familiar routes and better understand critical delivery windows and special handling needs. The result is an improvement in on-time service and the building of a mutually beneficial relationship.

COSTS ARE TOO HIGH

Once a business thoroughly understands the total ownership costs associated with operating a private fleet, it becomes clear it is too costly NOT to outsource transportation needs. Dedicated fleet providers already have long-established purchasing power advantages with equipment and vehicle parts manufacturers, fuel suppliers, and insurance firms. And that purchasing power advantage is what allows dedicated fleet providers to lower their costs of operations in the long term.



81%
OF CUSTOMERS

&

98%
OF PROVIDERS

stated that the use of outsourced transportation and logistics services has contributed to improved performance.



A 2017 American Transportation Research Institute analysis of trucking operation costs indicated that truck and trailer purchase/lease payments rose 19 cents/mile in 2016. Driver pay and benefits are rising, representing more than one-third of operational costs on a per-mile basis.¹¹

When companies use dedicated fleet providers, they often find hidden costs that have been taking a toll on the balance sheet and employee resources. These include highway tolls, locating backhauls, handling cargo damage and theft, regulatory compliance, technology investments, and responding to emergency maintenance.

BUSINESS TOO SPECIALIZED

Using a dedicated fleet provider ensures the ability to tailor a fleet solely on a customer's specific distribution requirements. That means optimizing the size and configuration of a fleet from a countless number of tractor-trailer combinations.¹² The result is greater flexibility and efficiency of specialized equipment at various facilities in multiple locations. It also brings the benefit of trained personnel ready to handle everything from unattended deliveries to unexpected business changes.

LOSS OF BRAND IDENTITY

The employees and equipment utilized by dedicated fleet providers are an extension of the customers' business. Drivers often wear their customers' uniforms, using trucks outfitted with the logo of the company they are serving. They act as ambassadors on behalf of that company when interacting with managers and employees during deliveries.

The use of modern, clean, and technologically advanced trucks gives a company's brand an additional boost to complement the improved delivery experience.





FINAL THOUGHTS

The transportation business continues to grow in complexity. The regulatory environment is more difficult than ever before, and recruiting and retaining drivers are expected to become even more challenging in the coming years.

Combined with higher expenses and liability risks, it is crucial for all companies operating their own private fleet to re-evaluate the real operating costs. They also need to re-assess some of their previously held beliefs regarding the benefits their private fleets provide.

Companies that undertake this critical review are likely to discover that outsourcing their freight transportation needs to the right dedicated fleet provider can offer a better return on investment, setting the stage for bottom-line growth.

REFERENCES

1. American Transportation Research Institute, "An Analysis of the Operational Costs of Trucking," October 2017.
2. Fleet Owner Trucks at Work blog, "Trucking insurance: It's a new ballgame," October 2016.
3. American Trucking Associations "Truck Driver Shortage Analysis," 2017.
4. "Third-Party Logistics Study: The State of Logistics Outsourcing," 2016.
5. "Third-Party Logistics Study: The State of Logistics Outsourcing," 2017.
6. Federal Motor Carrier Safety Administration. Dec. 22, 2016.
7. Federal Motor Carrier Safety Administration. Dec. 2, 2016.
8. Fleet Owner, "Doing the Math: CSA doomed, fitness proposal useless," May 2016. Fleet Owner, "NAS report highlights flaws in SMS data quality," Jun 2017.
9. Cannon, Jason. "What Does a Class 8 Truck Really Cost?" Commercial Carrier Journal, Jan. 25, 2016.
10. "Third-Party Logistics Study: The State of Logistics Outsourcing," 2017.
11. American Transportation Research Institute, "An Analysis of the Operational Costs of Trucking," October 2017.
12. Smith, Jennifer. "Trucking Companies Increase 'Dedicated' Fleets for Use by Clients." Wall Street Journal. Feb. 23. 2017.

