Increasing Fleet Profitability

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Whether you are operating a private fleet to support your core business or you are running a for-hire carrier servicing customers, the need to increase net income profits is an absolute requirement.

The larger fleet operating expenses such as labor, fuel, equipment and maintenance are not going away and many predict they will continue to increase in the coming years. Therefore, I have provided a few key strategies to help Fleet Managers lower their cost and improve their profitability results in these areas.

But first…… every fleet operation should have at least 5-7 metrics or Key Performance Indicators that are used to measure the operation. These KPI's are critical and must be metrics that will drive the desired profit results. The period of measurement can be daily, weekly, monthly, quarterly or yearly. I like to use the shortest possible time interval that gives the most accurate result. Therefore, some KPI's will be daily while others will be weekly or monthly. The biggest problem with KPI's is that once a manager reads the KPI they do nothing to improve the result. Or worse yet, they make excuses for a poor result. If you have the right metrics then you must use the data to make improvements. Examples of some good cost control KPI's for fleet operations are: cost/mile, cost/hour, MPG, revenue/mile, % of empty miles, % of loaded miles, revenue/truck, asset utilization (% an asset is used in a given period), trailer cube utilization (% loaded of a trailer), load factor (LBS. loaded vs. legal tonnage allowed), cargo claims ratio, accident ratio, and injury ratio. Notice that these metrics all compare one number against another number. That is important because if you just look at a single real number it may not tell the story. I encourage all fleets to use at least one metric that is tied to the labor, fuel, equipment and maintenance. These are the largest variable operating expenses so they can have the biggest impact on profitability.

Another indirect area of cost control or profit improvement is "Asset Utilization". This can be either people or property/equipment. The more a fleet operation can maximize its asset resources efficiently and productively the more profits they will make. Simply driving around using a tractor more hours or miles without obtaining revenue or improving efficiency will not generate profits. A few examples of improving Utilization might be: using a tractor two shifts in a 24 hour period instead of one shift, operating six days instead of five days by inserting a rotating 4-day work week to avoid unnecessary overtime, using only the square footage needed to operate efficiently instead of a huge building not needed and consider the option of backhaul loads to reduce empty miles and increase % loaded revenue miles.

Perhaps the biggest factor in improving fleet profits centers on labor expenses. Drivers have become the number one challenge for fleet managers. Hiring drivers, driver retention, Driver-DOT compliance, wages, benefits, accident claims, injury claims and overall insurance are all major costs to a fleet operation. In fact, the driver shortage and inflated labor expenses have caused many fleet operations to shut down completely and turn to a 100% outsourced carrier option. For those companies, the costs associated with internal drivers no longer makes fiscal sense and they are willing to pay a premium for external carriers to service their business. For this discussion, we will focus on ways to lower labor cost for fleets choosing to keep their internal operations. The key to lowering labor expenses starts with hiring good drivers. Good drivers are so hard to find and too many companies skimp on the wages and benefits. This creates high turnover and unnecessary hiring and training expenses. I recommend paying a higher wage, offering competitive benefits and investing in whatever else is needed to get the best drivers. A good driver will save the company money on safety, DOT compliance, accidents, injuries, quality customer service, equipment abuse, fuel efficiency and reduced Human Resource back office expenses. For example let's assume a good experienced driver costs $20/hour and works 50 hours a week. The wage cost is $57,200 a year. And an inexperienced driver costs $16/hour or $45,760. A difference of $11,440 a year or less than $1000/month. One accident, One injury with lost time, One DOT violation, One tractor engine abuse repair, One lost customer, One medical claim, One MPG difference over a year, Three new hires with training, etc. can all lead to more cost than the $4 per hour difference. And, it may not even be necessary to pay $4 more per hour to get the good driver. Sometimes it might only be $.50/hr. to get the good driver from the competition. The lesson here is to look way beyond just the wage cost when deciding on what it costs to hire or keep good drivers. Once you have a good driver, make sure you make every effort at every department level to keep this driver engaged and happy. Be honest, communicate often, ask for their input and compliment their good work on a regular basis. These factors cost $0 but they are the most neglected.

Another profit improvement strategy targets the equipment (lease vs. own) cost area. Unless you have a full-service lease agreement, vehicle maintenance cost is an unpredictable variable expense and can destroy the profits of a fleet operation. It only takes a few high dollar breakdowns to kill an otherwise great profit month. Maintenance cost cannot always be budgeted effectively. And studies show that a tractor maintenance expense will likely increase significantly between the years 6-7. This is relative to miles and it is no coincidence that leasing companies increase the rate/mile in future years in anticipation of this. So when leasing, be sure to understand the complete terms of the full-service lease agreement. There are many debates on whether to lease or own and each fleet operation will need to look at their own business model to determine the best route. I recommend that Accounting and Finance be deeply involved in any discussions before making any final decisions. Ask plenty of questions with the leasing company and have them explain the residual value at the end of the lease, the rate of monthly leases, the increasing rate/mile terms, what is specifically covered in a full-service lease, mileage penalties, etc. etc. And consider the travel expenses to and from the leasing company every time a unit needs service. Will the leasing company give you a replacement and if so what is the cost. Do not just look at the monthly lease rate. Also factor in the cost of having internal mechanics along with the tools, equipment, shop supplies, building expenses etc. etc. . It may be better to repair the equipment internally instead of having a full-service lease agreement. Especially if the fleet will be turned over every three years. Whenever leasing, do an analysis year by year and then for the life of the lease. If you are in immediate need of cash flow, leasing may be your only option. However, if you have good credit or cash you might want to consider owning with depreciation. The biggest mistake I see fleets make is that they do not understand the total cost and they do not involve Accounting and Finance.

The last variable fleet expense I will discuss here involves Maintenance cost. Primarily this includes Parts and Labor expenses tied to maintaining or operating the equipment needed to service the business. Having a trusted equipment vendor or a good internal shop manager can make a huge difference in controlling expenses. Remember, outside vendors make their profits from you. So use caution when a vendor tells you that you need new brakes when you thought you only needed an oil change. You will hear “it’s a DOT safety violation” if you don’t fix this or the vendor will tell you that you need 6 new tires when you could really move tires to a trailer for a couple months and only purchase two tires now. Having an internal mechanic who is knowledgeable on the DOT requirements and has the company’s best interest in mind can pay for themselves 10 times over. The general rule I like to use to control maintenance costs are: always fix safety issues immediately, always comply with the DOT regulations, then fix only what is needed unless you have a unit torn apart and the labor expense will double if you wait another month to change another low dollar part, don’t always buy the cheapest parts and don’t always buy the most expensive parts… go by value not price, put repairs and parts costs out for bid, always audit the repair invoices (I have caught thousands of dollars of added in cost for parts and labor that was absurd) and do not carry a lot of un-needed parts inventory. Unless you have a consignment agreement, any part on a shelf is cash flow. Also, make sure all the drivers are doing a thorough pre-trip and post trip inspection. Catching minor repairs early will decrease he chances of larger repairs later on.

In summary, Fleet Profitability is the relationship of top line revenue vs. operating expenses. The best fleet operations focus on both sides of the equation.