Transport Topics

Private Fleets Strive for Efficiency With New Trucks, Collaborations

By Daniel P. Bearth
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Private fleet operators are responding to demands of their corporate parents for cost savings, faster and better delivery service and lower carbon emissions by investing in more fuel-efficient trucks, collaborating with other shippers to increase utilization of equipment and, in some cases, outsourcing freight hauling to common carriers and third-party logistics firms.

Interest in natural gas-powered trucks also is increasing as the cost differential with diesel-powered trucks narrows and natural-gas fueling stations become more plentiful.

Fleet managers also are using more sophisticated data analysis to monitor their drivers and to measure the performance of their vehicles. This has prompted some mangers to replace aging equipment and dramatically shorten the length of time that trucks are kept in service, company executives and industry experts said in interviews with Transport Topics.

"Many companies are looking at short cycling their fleet," said Michael Quimby, vice president of sales for PHH FirstFleet, an equipment leasing and consulting firm in Fort Lauderdale, Fla. "Keeping new trucks reduces the maintenance and uses less fuel than older models."

Many shipper-owned fleets do not adequately consider the cost of maintaining older vehicles.

"It's like a hockey stick," Quimby said. "After 38-39 months, we see a huge spike [in the cost of maintaining trucks] because companies never build in the cost of maintenance in their cost models."

That is changing as fleets gain access to information about the performance of individual drivers and trucks.

A "truck by truck" analysis of more than 300 tractors at Red Classic Transit, a subsidiary of Coca-Cola Bottling Co. Consolidated in Charlotte, N.C., for example, led recently to the replacement of 56 trucks.

The analysis conducted by Fleet Advantage, a Fort Lauderdale-based equipment leasing and consulting firm, found that trucks built between 2008 and 2010 were costing more to operate than other trucks in the fleet because of poor fuel economy and a higher incidence of breakdowns, mostly related to emissions controls.

A loaded Coca-Cola truck leaves a distribution facility in Utah. Beverage fleets account for nearly one-quarter of all tractors on the Transport Topics Top 100 Private Carriers list.

George Frey — Bloomberg News

The over-the-road trucks, which are used to haul beverages to stores and grocery distribution centers and to bring empty bottles and other supplies to the bottling plant, are operated by Red Classic Transportation Services, a wholly owned subsidiary of Coca-Cola Bottling Co. Consolidated. CCBCC is the largest independent bottler for Coca-Cola Co. in the United States and ranks No. 81 on Transport Topics' 2013 Top 100 Private Carriers list.

Justin Perdelwitz, finance director for Red Classic, said replacing the poorly performing trucks with new models improved the fleet's overall fuel economy by one-half mile per gallon and increased hauling capacity by 15% because the trucks could run more miles.

More importantly, the analysis led to a major change in philosophy about how long trucks should be kept in service.

"We had a cradle-to-grave concept," Perdelwitz said. "We were good at disposing of scrap metal."

By closely monitoring the performance of individual trucks, Perdel-

Red Classic monitors the performance of its trucks to decide when to replace them.

Red Classic Transportation Services

witz said the company is able to determine the optimal time to replace a vehicle, which he says is "as soon as fuel economy, maintenance costs or market conditions indicate that it is advantageous to replace it . . . ."

"Fuel is 70% of the cost per mile," Fleet Advantage Vice President Mike Meehan said. "We look at repairs, the cost of new vehicles, resale value, etc. Everything is dwarfed by the cost of fuel."

Meehan said the average fuel economy for pre-2007 model trucks was about 6.5 mpg and, after declining from 2008 to 2010, fuel economy now "is headed up again."

"We see 7 mpg, and I have no doubt there is a 10 mpg truck out there in the not too distant future," Meehan said.

The prospect of more fuel-efficient trucks is changing expectations for private carriers such as Red Classic that are set up to operate as for-hire carriers as well as private fleets.

Ron Drogan, president of Red Classic Transit, said the company is expanding its services to other shippers to generate more revenue and profits for CCBCC.

Drogan, who joined Red Classic a year ago after spending 17 years at Danish shipping firm Maersk and working for a private investment firm, said he wants to leverage the company's expertise in beverage distribution to generate business from other shippers.

"We have a great level of expertise that we can sell outside of beverage," Drogan said, noting that the company provides over-the-road trucking, direct store delivery, freight brokerage and fleet maintenance services. It is on track to generate $100 million in revenue this year.

"Two years ago, we did 90% of our business with CCBCC," Drogan said. "Now it is 78%."

Other companies also are taking steps to upgrade their fleets.

Costco Wholesale Corp., in Issaquah, Wash., is leasing 30 new Kenworth T680 tractors after seeing a 7% improvement in fuel economy compared with its existing trucks with 2007-model diesel engines.

"This translates into a potential savings of $18,645 per unit over a five-year lease," said Olen Hunter, director of sales for Pac-Lease. "Costco stands to save a total of $575,000 in fuel costs over the next five years with these [trucks]."

Costco ranks No. 93 on the Top 100 Private Carriers list with 282 tractors.

Fleet Advantage's Meehan said he believes many private fleets will shift to owning trucks for much shorter periods of time, especially for trucks used in high-mileage applications.

"A short life cycle is the best way to control costs," Meehan said, noting that many for-hire truckload carriers keep trucks in service for three or four years or until the warranty period expires to avoid the

IFCO Systems

IFCO Systems provides reusable containers for loading produce, fruit and other freight. IFCO is No. 96 on the TRANSPORT TOPICS Top 100 Private.

Top 10, Tractor Growth

1 Nabors Industries	1,544
2 Agrium Inc.	1,496
3 McLane Co.	1,250
4 Halliburton Co.	724
5 Schlumberger Limited	455
6 CHS Inc.	428
7 Weatherford International	422
8 Key Energy Services	395
9 Nuverra Environmental Solutions	389
10 Wal-Mart Stores	381

Source: Company reports

Top 10 Trailer Growth

1 Wal-Mart Stores	4,777
2 Key Energy Services	1,834
3 Darling International	1,813
4 Schlumberger Ltd.	1,526
5 Nabors Industries	1,462
6 McLane Co.	1,367
7 Halliburton Co.	1,142
8 AmeriGas Partners	830
9 Clean Harbors Inc.	741
10 Prairie Farms Dairy	680

Source: Company reports

Top 10 Tractor Decline

1 PepsiCo Inc.	-2,451
2 Nestlé USA	-2,017
3 Bimbo Bakeries USA	-179
4 Univar Inc.	-143
5 International Paper Co.	-123
6 Publix Super Markets	-89
7 Walgreen Co.	-86
8 Darling International	-81
9 Basic Energy Services	-75
10 Coca-Cola Co.	-71

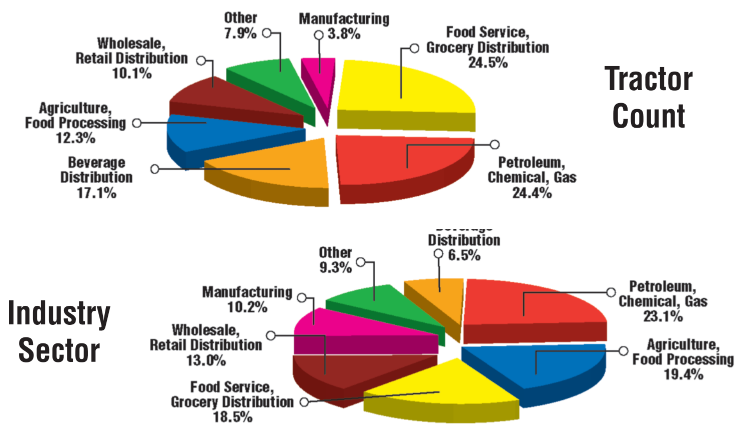
Source: Company reports

Top 10 Trailer Decline

1 Nestlé USA	-650
2 CVS Caremark Corp.	-590
3 Foster Farms	-487
4 Coca-Cola Bottling Co. Consolidated	-381
5 Basic Energy Services	-375
6 United Rentals Inc.	-256
7 Bimbo Bakeries USA	-234
8 Army & Air Force Exchange Service	-148
9 Pilot Flying J Inc.	-147
10 Shaw Industries Group	-129

Source: Company reports

Top 100 Business Sectors



Source: Company reports and interviews

Top 10 Straight Truck Growth

1	AmeriGas Partners	4,670
2	CEMEX USA	1,415
3	Nestlé USA	1,351
4	Nabors Industries	762
5	McLane Co.	214
6	Beacon Roofing Supply	213
7	Reyes Holdings	179
8	Weatherford International	131
9	Clean Harbors Inc.	118
10	Gordon Food Service	101

Source: Company reports

Top 10 Straight Truck Decline

1	Schlumberger Ltd.	-963
2	Bimbo Bakeries USA	-804
3	Agrium Inc.	-592
4	Key Energy Services	-553
5	Bridgestone Americas Tire Operations	-548
6	United Rentals Inc.	-445
7	Halliburton Co.	-310
8	Dean Foods Co.	-250
9	Darling International	-145
9	Ferrellgas Partners	-145
10	ABC Supply Co.	-131

Source: Company reports

cost of repairing and maintaining older vehicles.

The challenge for many private fleet operators is getting money allocated to buy new equipment because in many large corporations, the fleet "traditionally gets the last call for capital," Meehan said.

Meadowbrook Meat Co., a 1,000-truck food-service fleet acquired by Dallas-based McLane Co. in 2012, is replacing as many as 500 tractors this year, according to a statement on the company's website. A spokesman for McLane said the purchases are closer to 400 but declined to provide more details about the reasons for the big buy.

The rising cost of new equipment and fuel is forcing many companies to consider new approaches to transportation, including hauling freight for other companies.

Co-mingling a load of chilled beverages and medical equipment, for example, would allow shippers not only to fill empty space in trailers, but turn their fleets into profit centers, said Eric Lowitt, author of *The Collaboration Economy*. Lowitt also is a consultant for Maine Pointe LLC, a firm based in Boston that helps companies to develop sustainable global supply chains.

Lowitt said companies also are looking for ways to move goods and reduce emissions by shifting freight from truck to rail and investing in hybrid- and alternative-fuel vehicles.

"Until a few years ago, sustainability simply meant that companies wanted to do the right thing," Lowitt said. "It was touchy-feely. Then three to five years ago, something clicked. Wal-Mart introduced a supplier score card with 15 sustainability metrics and started measuring its carbon emissions per unit item shipped."

Wal-Mart also has experimented with alternative fuels, testing trucks powered by natural gas and waste grease, with the objective of improving the average fuel economy of its trucks by 50% between 2005 and 2015.

Other companies have followed Wal-Mart's lead by using more fuel-efficient modes of transport.

Shaw Industries, a manufacturer of carpet and flooring, is using rail intermodal to ship products from Georgia to California and Texas instead of using a team of truck drivers.

"They are getting huge savings," said Robert Gernon, another Maine Pointe consultant and trucking industry specialist.

For most companies, adding trucks is the "last option," Gernon said. Instead, shippers are looking to improve utilization of existing assets by collaborating with other shippers.

For instance, Shaw Industries is working with rival carpet manufacturer Mohawk Industries to transport resins, while U.S. Gypsum and U.S. Pipe collaborate to get flatbed transportation service, Gernon said.

Shaw and Mohawk rank No. 40 and No. 61, respectively on the Top 100 Private Carriers list.

Gernon likened the push for sustainability to the move for quality that many manufacturing companies have pursued for years.

Sustainability can be quality "on steroids," he said.

"Companies are asking, 'If we can reduce energy consumption 10% without affecting service, what's the impact on profits?' There's a lot of money to be saved," Gernon said.

Computer maker Hewlett-Packard switched to lightweight plastic pallets, for instance, and saved $50 million in shipping costs.

Lowitt said company executives are becoming more involved in transportation issues because they see a potentially large return on investment by changing the way goods are moved.

"We're working with a global beverage company," Lowitt said. "They are completely rethinking their truck usage for two reasons: intermodal and backhauling."

By shifting goods from truck to rail and hauling goods for other companies, Lowitt said the company is projecting "billions" of dollars in potential savings.

However, for collaboration to succeed, Lowitt said, anti-trust laws need to be changed to allow companies that are close competitors to work together to provide transportation services.

"We're at the point where regulations are preventing innovative companies from collaborating to reduce emissions," Lowitt said.

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