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PRIVATE FLEET MANAGEMENT

Are private fleets about to hit a wall?

What are the nation's private fleet managers doing to help mitigate the costs of two new expensive regulatory initiatives? We found some of the best private fleet operators and most knowledgeable industry insiders to discover how they're preparing their operations for this ongoing one-two regulatory punch.

BY JOHN D. SCHULZ, CONTRIBUTING EDITOR

The trucking world is about to be turned on its regulatory head. An aggressive and costly new truck safety agenda is being rolled out this year by the Obama administration that promises to increase costs for all fleets. Carriers will have to spend more on equipment, personnel, and planning in order to comply with the new regs.

While few are disputing that the potential changes in trucking enforcement will toss the "bad apples" out of the bushel of 4 million truck drivers, the cost of making the highways safer for all of us will eventually be paid through higher driver wages that carriers will be offering to a diminished pool of available, qualified, legal drivers.

The changes are coming in two major regulatory initiatives: CSA 2010 and truck driver hours of service, known as HOS.

CSA stands for "Comprehensive, Safety, Accountability," a program that's being rolled out in earnest over the course of 2011. It's a new initiative designed to improve the efficiency of the Federal Motor Carrier Safety Administration's (FMCSA) enforcement and compliance program to achieve the agency's stated mission of reducing commercial motor vehicle crashes, fatalities, and injuries.

How big of a change is this? American Trucking Associations' President and CEO Bill Graves has called CSA

potentially the biggest change in the industry since trucking was economically deregulated in 1980.

Scott Willert, senior manager of private and dedicated fleets at Kraft Foods, calls CSA "a very significant change" in the way truck safety is measured and monitored. In fact, Willert says it has the potential to greatly reduce the availability of qualified drivers at Kraft, which operates more than 2,500 power units and 1,100 trailers. Willert says Kraft Foods "fully supports" the new initiatives because of their overall benefit to highway safety, but acknowledges the new system will be more complex, and expensive for all carriers.

In a nutshell, CSA uses a new safety measurement system that's more comprehensive and is better able to pinpoint specific violations to better identify high crash-risk behavior by drivers. It involves more interventions, and a wider range of inspections to try and match the government's enforcement efforts with fleet safety performance levels.

By their very nature, private fleets have a huge advantage over the for-hire sector when it comes to CSA 2010, industry officials and private fleet operators say: Their more stringent hiring and operational procedures are already in place.

"We don't think CSA will be a big problem for our members," says Gary Petty, president and CEO of the

National Private Truck Council. "When there's an economic turnaround, truck capacity may not be available to shippers at any price. So, from the private fleet perspective, we feel that this has a pretty positive outlook."

The second half of the double-whammy about to hit trucking is proposed changes on the HOS rules. A highly-charged political issue, HOS has the potential to reduce available truck capacity by about 9 percent if the legal daily limit on driving is reduced from the current 11 hours a day to 10 hours.

"A change in the HOS rules is going to have some effect on how we operate," says Greg Whisenant, a 16-year industry veteran and transportation safety manager for Shaw Industries, a Dalton, Ga.-based floor covering business that operates a sizable private fleet consisting of 900 drivers and 1,400 power units.

"We won't be able to get as many drop offs in a day if we went back to a 10-hour driving day," Whisenant says. "It's going to be a financial hit in some lanes where we now run single drivers, but might have to use a team operation. Teams are a tougher dog."

In a typical Washington move, the federal government has not actually ordered such a reduction, at least not yet; although FMCSA has indicated it would like to make that change. According to our reporting, the trucking



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industry is united in wanting to maintain the current 11 hours, though there will likely be reductions through greater mandatory off-duty time and other driving limits.

Again, while the private fleet sector is not immune from these changes, private fleet operators say that any changes in HOS will be mitigated by the very high-service, high-cost nature of fleet operations.

So, what are the top private fleet managers doing to help mitigate the costs of these expensive new regulatory initiatives? *Logistics Management* found some of the best private fleet operators and most knowledgeable industry insiders to discover how they're preparing their operations for this ongoing one-two regulatory punch.

NOT SINCE DEREGULATION...

Trucking veterans say CSA 2010 has the potential to be the biggest thing to affect the industry in three decades of deregulation. The ramifications of CSA are multifold—legal, operational, planning, and financial.

First, let's look at some of the myths associated with CSA: it will kill the trucking industry; that no one will make any money after CSA starts rating everyone; more "good" drivers will lose their jobs; that it was begun to create more government revenue; and that you have

nothing to worry about if you're a carrier with a current "satisfactory rating."

It is none of that. In reality it's a sophisticated program that will use technology to gather data collected at roadside inspections and through crash reports to identify unsafe carriers and drivers in an attempt to pinpoint their exact problems.

In short, it gives the federal government and state enforcement personnel more accurate tools to cite and crack down on the estimated 150,000 "bad apples" who give truck driving a bad name and are involved in a disproportionately high percentage of accidents that lead to the 40,000 or so truck-related fatalities every year.

It takes the best points of the current audit system and enhances and supplements it with other tools in an attempt to improve truck fleet safety through a less intrusive, more focused fashion. Data involving fleets and individual drivers will be uploaded monthly, creating more visibility and accountability on both sides.

The system's methodology is complicated but can be summarized in three words—more, better, faster.

"It's just a new way of accounting for the rules," says Tom Moore, executive director of the NPTC Institute and vice president of public affairs. "It creates a minimum standard of truck safety compliance. But our members are so far beyond these minimum levels. If you're

already above and beyond and over the top, it's not going to be a huge adjustment."

Still, there will be adjustments. Individual driving records will be available to both carriers and shippers. Private fleet drivers average about three more years of driving experience at their current companies, and managers say the advent of CSA will cause them to work even harder to keep the good drivers they already employ. "Drivers are going to be given better pay, better equipment, more sophisticated technology, and other

incentives that make the job worth keeping," Petty predicts.

Fleet managers agree. Kraft Foods' Willert predicts that the shorter length of haul and more regular schedule that characterize many private fleet operations tends to attract very well qualified drivers and minimizes turnover—Kraft Foods' driver turnover is less than 5 percent, compared to around 100 percent for truckload sector in total.

"In that respect we would anticipate that private fleets as a group may be less affected than contract carriers," Willert says. However, this could change though with the aging workforce and eventual need to replace current drivers.

Kraft Foods is one of thousands of private fleets directly affected by the changes, however. As Willert explained: "The vast majority of our freight is handled by contract carriers. As such, we are putting in place enhanced monitoring of CSA scores as well as considering changes to our contract language to reflect the new expectations. In the case of our private fleet, the safety and compliance programs we've had in place—electronic logs, regular safety training, and incentives based on safety performance—mean that for the most part it has just been a matter of educating our team on the new expectations."

Jim Angel is a former private fleet manager with Atrium Co., a manufacturer of

Private fleets



aluminum and vinyl doors and windows. Angel currently is product manager of safety and compliance for PeopleNet, a provider of Internet-based and integrated onboard computing and mobile communications systems for fleet management. He sees a stark difference between the safety cultures at the top private fleets compared with the typical for-hire carrier.

"Private fleets have the name of their company on the side of the trailer in huge letters," Angel says. "They have much better control of their operations. They're willing to use speed governors. They're interested in better fuel mileage. On the flip side, the for-hire guys hanging on by a shoestring are just interested in survival."

If survivability isn't the main concern on the private fleet side, profitability surely is. Kraft Foods is one of many well-run private fleets taking early steps to educate its work force about CSA ramifications when it is fully implemented later this year.

"We're focusing on educating our management teams and driver groups," Kraft's Willert says. "Through these discussions our people have given us ideas on what we can do to help them—such as the development of a maintenance kit that drivers can use on the road for small repairs or quick fixes that will get them to a shop. The conversations have also allowed the drivers to ask questions and share their concerns."

Kraft has also developed computer-based training for employees and tied this to an incentive program where employees are awarded points to use for prizes for completing the training. "We are also monitoring our data and promptly addressing any issues that arise," Willert says.

THE MOST CONTENTIOUS ISSUE

No trucking topic evokes a hotter response than the proposed HOS rules that were formally proposed in a rulemaking set out by Federal Motor Carrier Safety Administration (FMCSA) on Dec. 23.

The government has been fiddling with HOS revisions since 1999. In that time, the industry has endured at least two changes, and the federal government has fought at least three lawsuits challenging the propriety of its proposed changes. Throw in three changes in administrations—with Republicans

likely to be perceived as softer on the industry than Democrats—and the result is utter confusion when it comes to any type of long-term planning.

The federal government is due to come out with a final rulemaking this summer that could reduce the actual driving time of an operator from 11 to 10 hours. In addition, there are proposed changes requiring more half-hour breaks during a driver's on-duty time, current 14 hours in a day. That could also reduce productivity. But there are provisions that would allow the standard 14-hour window to be extended to 16 hours twice every eight-day driving period.

Just the thought of reducing driving time by one hour causes trucking executives to break out their pocket calculators to estimate the cost and inefficiencies that would result. That's because their networks are built typically on a series of regional distribution centers, serviced by TL and LTL moves, typically with "pedal runs" of about 200 miles to 400 miles—easily accomplished in one day's driving.

If that driving time is reduced, analysts say, it would be nothing short of chaos. Dick Armstrong, chairman of Armstrong Associates, a supply chain management consulting company, predicts a one-hour reduction would be "very disruptive."

The biggest immediate impact of HOS will likely be the cost and the increasing calls to end the 70-year-old outdated practice of paper log books, often called "comic books" by drivers and industry officials.

Shaw Industries was among the first private fleets to recognize that the government was going to crack down on HOS, forcing violators to use electronic on-board recorders (EOBRs) instead of paper logs to track hours. The company was an early adaptor and has used electronic logging for nearly a decade.

"I wish they were mandated for all carriers," Whisenant says. "I'm already running legally, but am competing on backhauls with some drivers who are shaving a 30 minutes here and 30 minutes there off their actual driving time. It isn't fair."

HOW TO AVOID THE BRICK WALL

In NPTC surveys, the overwhelming

reason for operating a private fleet was service. If HOS were reduced, that would strain available for-hire capacity even more, further tipping the service equation in favor of private fleets.

"As capacity is affected and some carriers fall to the wayside, rates are going to go up," says Peoplenet's Angel. A recent Morgan Stanley survey showed 84 percent of shippers expect rates to go up at least 5 percent because of CSA as capacity is going to get stretched. If an hour of driving time was also eliminated, that would effectively cut capacity by 9 percent and raise carrier costs.

Private fleet advocates say this all plays to their advantage. "Companies will make the investment to go to private fleets to get their product to market," adds Angel. "If loads are sitting on their dock for two days, somebody in C-level management is going to say, 'Enough of this, we're going to get our own trucks.'"

Other wild cards in the CSA equation are how the insurance companies and plaintiff lawyers will react to this flood of new safety data now available to all. If, say, a shipper is involved in an accident and knowingly used an unsafe operator, how much does that increase one's legal liability? The limit is bound only by the fertile imagination of plaintiff lawyers, insiders say.

"Negligent hiring lawsuits are possible," Angel says. "All these tentacles are out there. We've yet to see how the effects of CSA and HOS will rear their head. But on the other hand, it will make the highways safer for everyone."

Mostly everyone agrees CSA and HOS are works in progress. "Consistent enforcement across individuals and regions is a concern, especially in the 'start-up' period," Kraft's Willert says. "We understand CSA is something of a work in progress that we expect will be refined over time. We would like to be involved in any conversations and forums that are taking place. This will give us a chance to hear what is being experienced so far and to share our thoughts and ideas."

There doesn't seem to be any shortage of thoughts and ideas, but the real concern is the significant costs for everyone. □

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