REDUCING THE COST OF DEDICATED CONTRACT CARRIAGE

The key is to approach your dedicated fleet as a dynamic *strategy*, not a static *solution*.

By Mitch Plesha

When a 3PL gives you a dedicated fleet "solution" that assumes a static number of tractors at a relatively fixed cost, is it really a solution? Having alignment conversations with your customers is one smart way to strategically lower costs while still enjoying the predictable service and capacity of a dedicated fleet.

If or when your organization contracts with a 3PL to manage your dedicated fleet, you'll probably do it looking for greater predictability and control. Most supply chain managers outsource for dedicated contract carriage (DCC) based on at least one of the following anticipated benefits:

- Guaranteed capacity
- Ability to control quality of delivery service and freight handling
- Opportunity to ensure a relatively predictable transportation cost over time

It's why so many DCC providers promise you peace of mind and predictability as they promote their ability to manage your dedicated fleet.

But if you've already outsourced for DCC, you might be finding that *predictability* — especially as it relates to your fleet *costs* — is coming at a premium. Unanticipated inflexibility, or a fleet that's becoming prohibitively expensive to operate relative to normal fluctuations in freight volume, are complaints often heard from shippers who outsource for DCC.

Most companies experience fluctuations in shipment volumes on a weekly basis. No two weeks are exactly the same. Additionally, some shippers deal with freight volume fluctuations due to seasonality or business growth or contraction. Yet DCC contracts with some 3PLs require that your contracted costs remain constant, or carry financial penalties for scaling back your fleet's size. That's a case where a static, predictable DCC "solution" is not the answer you thought it would be.

When you look at your fleet, do you see tractors parked in the lot for long periods of time each day? That's an underutilized asset, and it's costing you money. But if a DCC provider rarely comes to you with ideas to improve asset utilization, reduce cost or upgrade customer service, you're locked into a "solution" that won't get more effective or efficient over time. The predictability of a dedicated fleet is good — unless it comes at the expense of continuous improvement and innovation.

Smart DCC Strategy: Talk Transportation With Your Customers

Fortunately, not all DCC providers and contracts work this way. Instead of providing a static *solution*, some 3PLs help customers approach DCC as a dynamic *strategy.* A strategy that adapts as your business evolves. A strategy that is proactively managed the way any business strategy should be: For improved outcomes at the same or reduced cost.

For example, Landair's experience providing DCC shows that more closely aligning with your customers on their pickup and delivery needs is one of the best ways to find fleet cost savings and efficiencies. That's because many dedicated fleet operations are based on assumptions regarding the customers' service expectations that were defined at the start of the operation, but have not been reassessed or updated since.

In fact, if your DCC partner is doing its job, it will help you identify where there might be opportunities to adjust customer delivery windows or operating parameters that can deliver new levels of efficiency. Or, it will proactively recommend changes your organization can make to yield operational efficiencies, resulting in reduced transportation costs.

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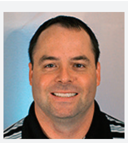

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Mitch Plesha's nearly 20 years of logistics-industry experience includes engineering analysis and strategy design across a range of supply chain operations, including dedicated transportation, distribution/ warehousing and transportation management.

Here are three examples of how simply having the right conversations with customers can help you be more cost-efficient with your dedicated fleet:

- **Drop trailers**
  Many companies utilizing DCC service require a live unload process at their customers' locations during open hours, most commonly between 8 a.m. and 5 p.m. This can lead to significant scheduling constraints and inefficient utilization of truck assets by having to schedule all deliveries during that relatively narrow window.

  But what if some of your customers have the flexibility to accept a drop-trailer service, agreeing to have their loads delivered (and empty trailers picked up) before 8 a.m. or after 5 p.m.?

  That scenario could significantly improve your asset utilization — potentially reducing the number of routes required for delivery, or allowing for slip seating of drivers so you can utilize fewer tractors more hours in the day. At current tractor and trailer costs, eliminating one tractor from the operation could pay for three or four additional trailers to support a drop-trailer model.

- **Time-of-day options**
  Especially in large metro areas, if pickups and deliveries are bunched during rush hours, it dramatically limits the number of stops a dedicated fleet can make. But if customers can accept deliveries before or after the rush-hour timeframe, now you've opened a window of opportunity to optimize fleet utilization.

  Each tractor in your fleet is available to make more stops and pickups over an extended delivery day. Repeat that pattern enough and soon you'll reduce the number of tractors needed to meet service commitments. Even if you don't eliminate multiple tractors, you'll be increasing capacity and operational flexibility in a cost-efficient way.

- **Value-added services**
  Sometimes getting customers to adjust their delivery window happens because you offer to make that adjustment easier. For example, let's say your customer is operating a factory on two shifts, but prefers not to staff a forklift operator to unload later-in-the-evening parts or materials deliveries. If your fleet drivers are trained in forklift operation, it's likely they can pass the certification necessary to drive a forklift in your customer's facility. You've helped your customer avoid an expense, while taking action to help optimize your fleet.

Managing Your DCC Strategy: Question Assumptions, Initiate Conversations

It can be difficult to approach customers to request a change in pickup and delivery patterns. But when those conversations include opportunities to create efficiencies for both parties, customers usually welcome the discussion.

In some operations, the option of having a drop-trailer waiting in the morning or to take deliveries in off hours, as opposed to having to deal with deliveries during the teeth of their working day, provides additional flexibility to the customer's own business. Plus, if optimizing a dedicated fleet helps you keep your products and materials more affordable, customers are savvy enough to recognize that as a win.

An asset-based 3PL like Landair is well positioned to help you manage your dedicated fleet as a dynamic, evolving strategy. We are accustomed to taking a freight carrier's mindset to optimizing fleet assets while still meeting customers' needs. Whether it means bringing in an additional truck and driver on short notice, or reallocating assets from your dedicated operation back to an over-the-road network, an asset-based 3PL is typically able to help you to realize cost savings by optimizing fleet assets, rather than face financial penalties for reducing fleet size mid-contract.

Your dedicated fleet can provide guaranteed capacity, high levels of service *and* become more cost-efficient over time. But to gain all three benefits, it helps to have a DCC partner experienced in fleet optimization. A partner committed to managing your dedicated fleet as a dynamic strategy, not as a static solution.

Need to manage your dedicated fleet more strategically? Visit www.landair.com and click on Request a Consultation, or call 1-888-LANDAIR (526-3247) to speak with a logistics engineer.