Fleet Management That Should **Never** be

No amount of internal fiscal pressure or external sales pressure can justify outsourcing fleet management functions whose performance is critical to providing high-quality assets and services to fleet users at a reasonable cost.

Never Outsource:
- Business Planning & Budgeting
- Policy Setting
- Supplier Management
- Performance Monitoring & Reporting
- Fleet User Advocacy
- Customer Relationship Management

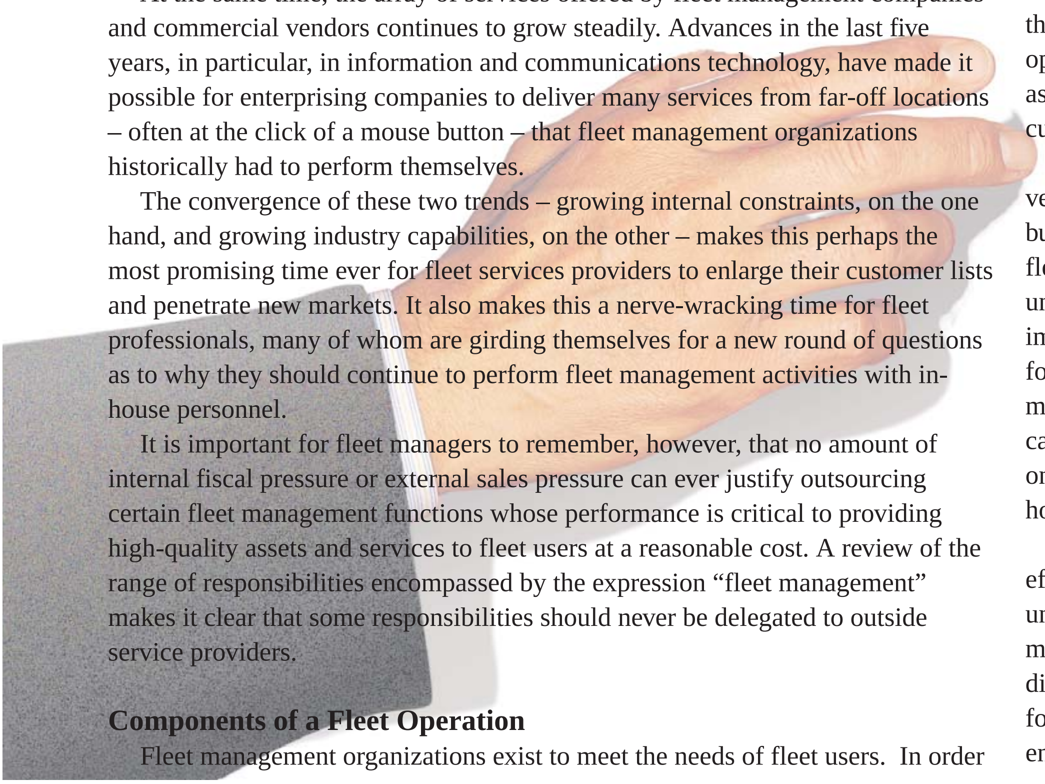
By Paul Lauria

For years, fleet managers in organizations of all types have been asked by their bosses the question: "Why don't we outsource our fleet management functions?" While the general prosperity of the 1990s allowed many fleet professionals to brush off – if not avoid altogether – this question, the difficult budget conditions and renewed focus on financial accounting and reporting in many organizations in the post-dot.com, post-stock market bubble economy make it an increasingly difficult query to ignore. Rightly or wrongly, management decision-makers in many organizations equate outsourcing with cost reduction.

At the same time, the array of services offered by fleet management companies and commercial vendors continues to grow steadily. Advances in the last five years, in particular, in information and communications technology, have made it possible for enterprising companies to deliver many services from far-off locations – often at the click of a mouse button – that fleet management organizations historically had to perform themselves.

The convergence of these two trends – growing internal constraints, on the one hand, and growing industry capabilities, on the other – makes this perhaps the most promising time ever for fleet services providers to enlarge their customer lists and penetrate new markets. It also makes this a nerve-wracking time for fleet professionals, many of whom are girding themselves for a new round of questions as to why they should continue to perform fleet management activities with in-house personnel.

It is important for fleet managers to remember, however, that no amount of internal fiscal pressure or external sales pressure can ever justify outsourcing certain fleet management functions whose performance is critical to providing high-quality assets and services to fleet users at a reasonable cost. A review of the range of responsibilities encompassed by the expression "fleet management" makes it clear that some responsibilities should never be delegated to outside service providers.



Components of a Fleet Operation

Fleet management organizations exist to meet the needs of fleet users. In order to meet these needs well, such organizations must effectively manage the four key components of all fleet operations:
assets, resources, shareholders, and customers.

Fleet industry contractors and vendors are capable of managing some, but not all, of these components of a fleet operation. Accordingly, understanding the nature and importance of each of them is crucial for understanding which fleet management functions may be candidates for outsourcing and which ones should always be performed by in-house personnel.

Assets: Historically, being an effective fleet manager meant understanding how to specify, acquire, maintain and repair, replace, and dispose of vehicles and equipment. The focal point of fleet management endeavors was the assets themselves,

Functions Outsourced

and, in the past, fleet managers were drawn overwhelmingly from the ranks of former maintenance technicians – that is, individuals who understood the “mechanical” end of the business of operating and maintaining motorized vehicles and equipment.

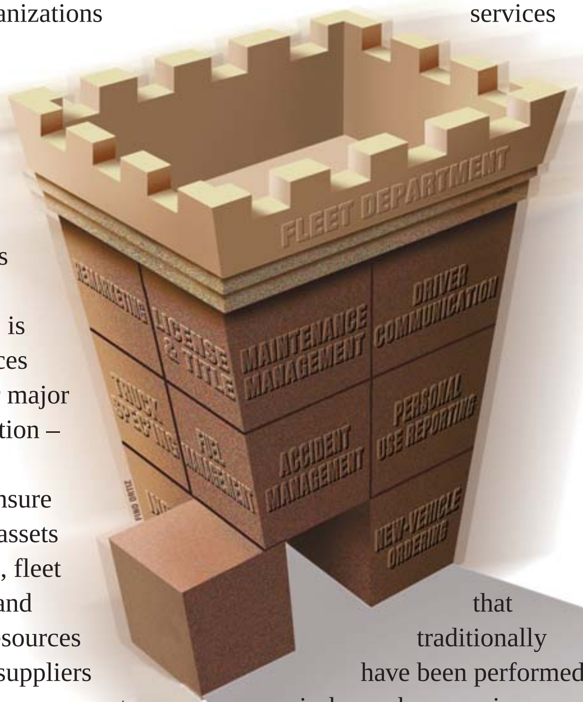
Today, however, few fleet professionals would dispute the fact that their jobs are no longer dominated by the “technological” demands of operating a fleet – that is, by the nuts and bolts of developing vehicle and equipment specifications, designing preventive maintenance programs, and making repair-versus-replace decisions. In part, this is due to the fact that advances in automotive technology and increasing regulation in such areas as environmental protection and occupational safety and health have made it more difficult and expensive to perform certain kinds of maintenance and repair services in-house. The last two decades have witnessed the virtual disappearance of in-house machine shops, for example, as large, in-house fleet maintenance operations have taken to outsourcing most component rebuilding and repair work to vendors.

The focus of fleet management endeavors also has shifted because advances in information technology have flattened organizational hierarchies, resulting in the *devolution* of many non-asset-related management and administration responsibilities to fleet organizations. For example, many such organizations today handle procurement and accounting functions that used to be the province of central purchasing and finance departments. The introduction of client-server computing platforms and graphical user interfaces in the late 1990s also marked the beginning of a noticeable shift of fleet-related data processing responsibilities from central information technology organizations to fleet management organizations.

While the list of services that can be procured from contractors and vendors is extensive, it does not begin to encompass the totality of fleet management, however. This is because most of these services address only *one* of the four major components of a fleet operation – the assets themselves.

Resources: In order to ensure that vehicle and equipment assets meet their customers' needs, fleet managers also must secure and manage a variety of other resources such as personnel, external suppliers of goods and services, and management tools. The fleet services industry may stand ready to assist organizations with virtually all of their asset management needs, but such assistance is not free. Thus, even if an organization has determined that it can better meet fleet user needs by outsourcing certain asset management functions, fleet managers still must secure the funds needed to pay suppliers and the personnel, management tools, and other internal resources needed to manage supplier performance and costs.

As fleet management professionals who have outsourced services know, it's a jungle out there! There are relatively few guidelines, standards, or benchmarks for specifying, pricing, evaluating, or measuring the quality of services. Countless organizations have discovered through painful experience that outsourcing is no panacea, ultimately spending more on their fleet operation when they were certain that outsourcing would allow them to spend less. Sometimes such outcomes result from working with unscrupulous suppliers. More often, however, they result from a lack of accountability rather than a lack of ethics on the part of contractors and vendors.



Outsourcing services that traditionally have been performed in-house has a curious effect on many organizations: it turns management challenges that fleet professionals used to ponder, study, analyze, argue about, and even agonize over into financial transactions that are boiled down to annual target and non-target prices in a cost proposal or rows of charges on an itemized monthly invoice. This transformation of management decisions into purchasing transactions often results in the *dissociation* of fleet management decision-making from fleet management expertise. In many cases, vehicle operators become the primary points of contact with service providers, and the principal decision-makers regarding the selection and management of these providers are purchasing officials and internal auditors rather than fleet management experts.

Shareholders: The third major component of any fleet operation is shareholders – and the senior management officials who represent them and serve as intermediaries between them and managers of fleet and other line organizations. It is management's job to both advise and carry out the wishes and directives of the shareholders, the people who own the corporation. In terms of public sector fleets, most governmental entities do not have shareholders *per se.* However, senior government officials typically are guided by an executive officer and/or a legislative body of some sort who, in turn, represents a group of taxpayers, citizens, and voters – the figurative "shareholders" of the entity or jurisdiction.

In both types of organizations, management officials are expected to make myriad decisions regarding areas of organizational endeavor in which they have no particular technical expertise. For most organizations, fleet management is such an area. Usually, in fact, high-level officials not only have limited knowledge of fleet management principles and techniques, but also have limited interest in this and other internal support activities whose quality and costs are largely transparent to external customers and taxpayers. The danger this poses is that top-down management decisions

Fleet management organizations exist to meet the needs of fleet users.

made in ignorance of such principles and techniques can seriously undermine the efforts of the fleet management organization, the performance of the fleet, and, ultimately, the ability of the larger enterprise to meet the needs and expectations of its shareholders.

Customers: The final and, in many ways, most important component of any fleet operation is internal customers and drivers, the individuals and organizations that use vehicles and equipment to do their jobs. It may be stating the obvious to say that fleet management organizations exist to serve fleet users, but the proactive management of customer service levels and relationships is an often overlooked facet of fleet management.

As the array of services offered by the fleet industry has grown, so too have the expectations of fleet users. Many users want to know why they can't obtain services from their in-house fleet management organization that they see advertised for sale by local and national service providers. As more and more organizations introduce fleet cost charge-back systems that draw user attention to the costs of the fleet assets and services they utilize, these users also want to know why their internal charges are what they are and how they compare with costs charged by external service providers.

Even though the front lines of customer service may be manned by contractor or vendor personnel, it is the fleet manager's responsibility to ensure that fleet users' needs are being met.

What Not to Outsource

As the foregoing discussion suggests, there are a number of fleet management functions that should never be outsourced. Many fleet managers may not think of these as being *fleet* (as in vehicle and equipment) management functions, but they are duties that undeniably should be part of the job description of any proactive, influential, effective fleet manager.

Business Planning and Budgeting: Planning and budgeting are important for securing the resources needed to serve fleet users and for using those resources wisely – regardless of whether the resources consist primarily of contractor or vendor-provided goods and services or in-house personnel, facilities, equipment, and supplies. A good business plan, updated annually, tells both decision-makers and customers that the fleet management organization intends to control rather than be controlled by fleet performance and costs. It is essential for gaining managerial autonomy and influence over enterprise-wide decisions and practices that affect the fleet operation.

Detailed, realistic, and defensible budget and budget control processes are critical for obtaining the financial wherewithal to execute the business plan. Money is as critical to a business plan as fuel is to a motor vehicle, and it is the budget process that determines how much fuel a fleet management organization has to run on from year to year. In an organization that finances fleet costs through user charges, the operating budget, including the corporate overhead costs that are allocated to the fleet management organization, also is the foundation on which cost-competitive charge-back rates are built.

Policy Setting: Many fleet-related policies are determined by the overarching mission and business practices of the company or agency that operates the fleet. For example, policies governing the types of assets in the fleet, the manner in which they are to be assigned and deployed (e.g., to individuals, divisions, motor pools, etc.), and whether or not employees may take them home should reflect the particular business needs and objectives of specific organizations. Their formulation could not possibly be outsourced, although outside consultants certainly can *assist* in developing them.

Most policies governing the management of finances, fixed assets, personnel, inventories, facilities, vendors, and so forth by an in-house fleet management organization are enterprise-wide in nature. Although such policies rarely are promulgated by fleet managers, therefore, it is incumbent upon such managers to work with their colleagues in other divisions and agencies to try to tailor procedures to meet the fleet management needs of the organization. For example, getting mechanics to increase their productivity so as to make maintenance services performed in-house more competitive with those provided by local vendors may require the fleet manager to work with the human resources director to get the employee classification and compensation system to link pay rates and raises with quantifiable performance goals and levels.

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Supplier Management: As the Roman poet Juvenal famously asked, "But who will guard the guards themselves?" Outsourcing asset management functions does not get an organization out of the fleet management business. It simply changes the nature of some of its fleet management responsibilities. Rather than manage the assets, the organization must manage the asset managers.

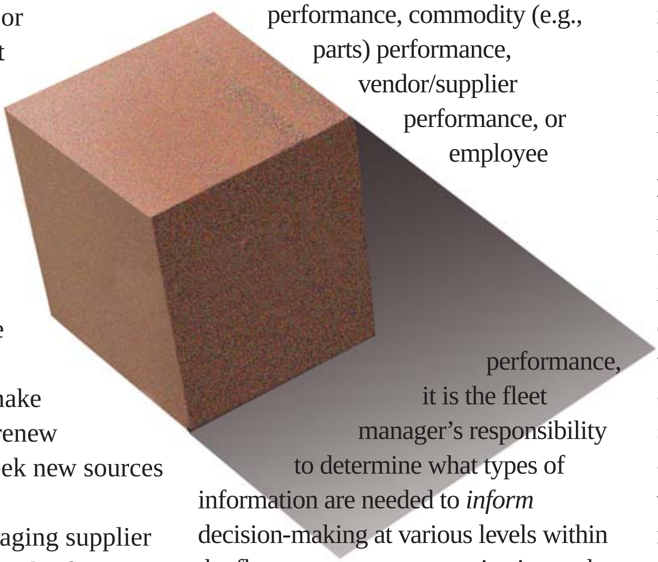
The management of suppliers begins

with the classic make-versus-buy question: Which functions should be performed in-house? Which should be outsourced? and Why? These are questions that only a fleet manager, acting in concert with other analysts and decision-makers within his or her organization, can answer.

Once a decision has been made to "buy," the fleet manager must develop specifications for the goods or services to be procured; develop specifications for the submission of proposals or bids; secure and evaluate supplier offers; and execute purchase orders or contracts that ensure that suppliers deliver resources of the quality and in the manner that they have promised. The fleet management organization also must monitor the performance of purchased goods and services over time and make decisions as to when to renew contracts and when to seek new sources of supply.

As noted earlier, managing supplier performance is difficult to do if most communication occurs directly between vehicle operators and vendor/contractor customer service representatives. Complacency is the biggest threat to controlling the quality and costs of suppliers' goods and services, and can only be avoided by acknowledging that supplier management is a fleet management responsibility that can never be delegated to others.

Performance Monitoring and Reporting: Many major fleet management companies have developed Internet-based, user-friendly performance measurement and reporting tools that make it possible to monitor key facets of fleet utilization and costs. Such services derive performance data predominantly from vehicle-specific purchase, maintenance, and fueling transactions, however, and thus do not begin to address all of those facets of fleet and fleet management organization performance that should be monitored on an ongoing basis. Similarly, in the case of organizations that manage and maintain fleet assets in-house, a wealth of performance data can be gleaned from sources other than work orders and fuel tickets, including vehicle usage logs, pre-trip inspection forms, employee time records, customer satisfaction surveys, accident reports, motor pool rental records, and the like.



Whether measuring asset performance, commodity (e.g., parts) performance, vendor/supplier performance, or employee performance, it is the fleet manager's responsibility to determine what types of information are needed to *inform* decision-making at various levels within the fleet management organization and the larger enterprise that it serves; to see to it that this information is in fact provided to each type of decision- maker; and to assist in its interpretation and use. If an organization is to make informed decisions about its fleet operation, these tasks cannot be left to outsiders to perform.

Fleet User Advocacy: A key responsibility of fleet managers is to serve as a liaison between an organization's shareholders, as represented by its senior management team, and its fleet users. As discussed earlier, management decision-makers may take actions that unwittingly undermine the effectiveness of the fleet management program and the performance of the fleet if they do not receive proper technical guidance in fleet management principles and techniques from fleet management professionals.

A case in point is the decision of many organizations in recent years to adopt an Enterprise Resource Planning (ERP) system such as *SAP* or *PeopleSoft* to provide automated support for a wide range of management and administration functions, including fleet management. It is incumbent upon fleet managers to make the case for using a stand-alone or "bolt on" fleet management system. Otherwise, they – and their customers – may find themselves stuck with an information system that cannot compute one of the most basic measures of fleet performance – cost-per-vehicle mile.

Customer Relationship Management: Customer relationship management goes hand-in-hand with fleet user advocacy. Whereas the latter involves reaching up to management decision-makers to ensure that they understand the importance of the fleet operation to overall organizational success, the former requires reaching out to fleet users to understand what vehicles, equipment, and services they need in order to do their jobs. In the absence of such an understanding, fleet managers cannot protect fleet user interests from potentially harmful management decisions and directives from above. They also cannot fine-tune their own services and those of any contractors or vendors they have engaged to meet fleet users' needs effectively.

Inasmuch as the customers are the *raison d'etre* of all fleet management organizations, reaching out to them for input and feedback on a regular basis and in a systematic way is imperative. Fleet managers should never attempt to outsource a responsibility that is so central to one's day-to-day mission and essential to one's long-term survival.

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