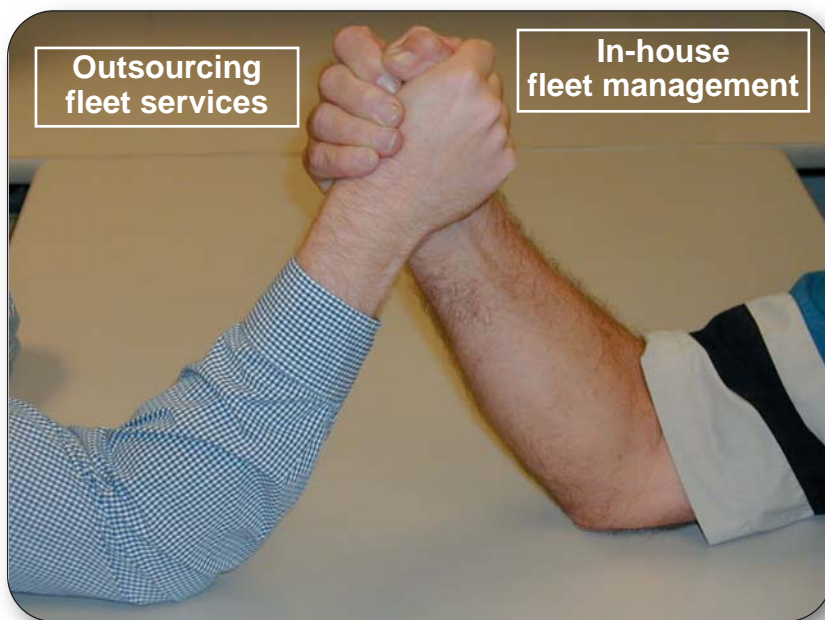


6 WAYS Fleets Can Succeed in a Managed Competition

Benchmarking fleet costs against peer organizations and ensuring that customers' operations become more productive are two of the key factors for fleet managers to enhance their fleets' success in a managed competition.

By Paul Lauria and Randy Owen



among fleet management professionals and their employees about the whole subject of outsourcing. One of the more notable outsourcing fiascos of the early '90s occurred in Fairfax County, VA, where a contract for the maintenance and repair of a 1,000-vehicle fleet was terminated only months after being implemented. To their credit, county officials were courageous enough to admit that they had made a mistake when they tossed out an under-performing contractor and brought the fleet maintenance operation back in-house (not all fleet maintenance services had been privatized in the county, so this was easier to do than might otherwise have been the case). Some fleets, however, have continued to suffer the effects of ill-considered or highly politicized decisions that were made in the initial flurry of fleet maintenance outsourcing initiatives.

Fortunately, lessons were learned from some of these early missteps and a more sophisticated approach to the consideration of outsourcing benefits and costs evolved. One major outcome of this evolution was the emergence of the managed competition project, a fleet management services contracting process in which the in-house fleet management organization is permitted to

In the mid-1980s, fleet managers started experiencing pressure from their bosses to investigate the desirability of, or actually proceed with, the outsourcing of fleet management activities that their organizations historically had performed in-house. The initial focus of these pressures was on fleet maintenance and repair services, and the decision to outsource or not to outsource usually was based on a simple comparison of contractor fee proposals with the costs of the in-house fleet maintenance operation. In other words, the merits of outsourcing were often viewed in very basic, black-and-white terms: contractors either could maintain the fleet more cheaply than could in-house staff or they couldn't.

Not surprisingly, this simplistic view of outsourcing resulted in some poor decisions to outsource services, along with considerable trepidation and resentment

compete against outside contractors. The rise of managed competitions reflected both an outcry from union and non-union workers that their jobs were being sacrificed in the pursuit of sometimes trivial cost savings, and the dawning realization by both fleet management professionals and their bosses that in-house organizations could be very competitive if they were given the opportunity to restructure their business processes and break through some of the bureaucratic red tape that so often hinders their competitiveness.

Although the interest of the last five years in managed competition seems to have abated somewhat, the current slowdown in the nation's economy suggests that this hiatus may be short-lived. Despite the mixed results of past outsourcing decisions, there is an undercurrent of opinion – particularly among elected officials in state and local government – that outsourcing is a sure-fire way to save money. It seems safe to say that shrinking profit margins in the private sector and disappearing budget surpluses in the public sector are going to renew pressure on fleet managers to consider outsourcing fleet management services. Smart fleet managers recognize that such a trend can be viewed either as a threat or as an opportunity. The reality is that it is both, and that the best way to deal with both is to be proactive – that is, to seize the bull by the horns. The fleet managers who are most vulnerable to the undesirable side effects of outsourcing are those who hide their heads in the sand or otherwise deny that their company or government jurisdiction might benefit from outsourcing. A managed competition may be the best opportunity you ever have as a fleet manager to take control of your own destiny; embracing it almost always makes more sense than trying to fend it off.

The premise of managed competition is that the procurement of services through competitive proposals – rather than the traditional approach of granting an in-house organization a monopoly – drives improvements in service levels, quality, and costs. Managed competition provides in-house fleet management organizations with both the impetus and the

opportunity to restructure and streamline their operations, adopt new business strategies and processes, and pursue innovations that under normal circumstances would not be considered. The resulting improvements in efficiency and productivity often transform marginally cost-effective organizations into competitive operations. If the in-house group is unable to institute required improvements and present a winning proposal, then a private firm is awarded a contract. In either event, managed competition can result in significant cost and/or service quality improvements.

SIX KEYS TO SUCCESS

There are six actions that fleet management organizations can take to enhance their chances of succeeding in a managed competition.

1. Be Proactive.

Succeeding in a managed competition requires that a fleet management organization become proficient in a wide range of business management disciplines that traditionally have not been a focus of fleet management organizations. These include strategic planning, customer relationship management, activity-based costing, marketing, contract administration, production control, profit and loss analysis, and pay for performance. Clearly, organizations cannot become proficient in such a range of activities overnight. Consequently, being proactive and well-prepared – even if you believe that “it will never happen to you” – is at the top of the list of keys to survival.

2. Work on Your Image.

The vast majority of fleet management organizations that might have to participate in a managed competition operate at least one maintenance facility where vehicles and equipment are repaired by in-house mechanics. In many such organizations, fleet maintenance comes to dominate staff's attention and define the organization's image. Conse-

quently, many decision-makers come to equate the fleet management organization with “the garage” where people with grease on their shirts change oil and fix flat tires. Such an image can lead decision-makers to undervalue the contributions of the fleet management organization, which makes it easier for them to overestimate the potential benefits of replacing the in-house organization with an alternative service provider.

Fleet managers must effectively market their services so that management appreciates both the importance and the complexity of fleet management endeavors. Fleet managers must foster an image for their organization as one that manages assets worth millions of dollars, and one that delivers essential mobility management services to their agency, jurisdiction, or company. Decision-makers should view employees of the fleet management organization not as “grease monkeys,” but as skilled technicians that make essential contributions to overall organizational performance and success.

3. Classify and Manage Your Costs.

According to an old adage, you can't manage cost if you can't accurately measure cost. Having an intimate understanding of your costs is especially important for succeeding in a managed competition, where many fleet-related costs are not included in the comparison of in-house and contractor cost proposals. For instance, the cost of asset management services, such as deciding when to replace and how to finance vehicles, normally are excluded from managed competition. The cost of many types of maintenance services, so called “non-target” services such as repair of accident damage, is also not included in the formal cost analysis. Finally, all indirect and overhead costs must be reviewed so that only avoidable costs are included in the in-house numbers.

One way to better understand your costs is to establish separate cost or

profit centers for each of your lines of fleet management business. For example, independent cost centers (and budgets) can be established to manage and control the costs of asset management services, fleet maintenance services, parts provisioning services, vendor and contractor management services, fueling services, motor pool operation, and so on. A separate cost charge-back methodology should also be established for each cost center (e.g., a monthly rate for asset management, a percentage mark-up for parts, a fully burdened hourly rate for maintenance labor, etc.). Not only does this provide improved clarity and cost recognition, but it also can improve your competitive position by ensuring that you (or a budget analyst) does not overstate the costs of in-house services that will be subject to competition (such as maintenance) while understating the costs of services (such as asset management) that usually are excluded from competition.

4. Understand Your Strengths and Weaknesses.

An honest assessment of what your organization does well and not so well is essential to succeeding in a managed competition. This process involves first developing a system for calculating cost and service level metrics across all of the functional areas of fleet management. Once you have documented your performance, you can then benchmark your numbers against peer organizations and (particularly) best-in-class organizations, such as those that have previously won a managed competition.

You should also compare the way you do business to potential competitors such as contract fleet maintenance companies and local equipment repair vendors. Understand what they do differently and incorporate those business practices that make you more competitive. Those functions that cannot be re-engineered to be performed competitively in-house should be outsourced.

5. Rationalize Staffing and Maximize Productivity.

Many fleet organizations are over-staffed, have high supervisor-to-technician ratios, and have excess administrative positions. Developing a lean-and-mean organization chart is an obvious important step toward being competitive. However, reducing staffing levels without improving productivity is a recipe for failure. Maximizing productivity and efficiency is important not only for reducing costs, but also for meeting service level performance standards that are normally included in contracts that result from managed competitions. Failure to meet these performance standards normally results in the payment of fines and ultimately can lead to contract cancellation.

The keys to maximizing shop production and efficiency really are not a mystery to most fleet managers. Productivity starts with the ability to recruit and retain top-notch fleet technicians, to pay them competitive salaries, and to motivate them to perform at the highest level. Training and good shop tools are also important, as is an efficient parts operation.

While fleet managers know what they need to do to be efficient, they often cannot get approval for critical innovations, such as rewriting position classifications and restructuring compensation plans. However, managed competition often presents the opportunity to make changes in the traditional methods of doing business that otherwise would never have any chance of approval. Thus, many organizations that have gone through a managed competition process have been successful in instituting innovations such as performance-based pay, less restrictive parts procurement policies, and aggressive technician training and certification programs. Trying to compete with the private sector without being able to implement these types of program improvements is like trying to win a fight with one hand tied behind your back.

6. Don't Forget Your Customers.

It is important to remember your customers during the debate over competition; after all, without fleet users there would be no need for fleet managers. Being competitive means more than that your shop operations are low-cost and productive. The real goal is to make your customers' operations more productive. Fleet management organizations that focus on understanding and meeting their customers' needs will have powerful allies during any managed competition. Since customer department representatives are often included on committees that evaluate competitive proposals, having customers as your advocates can be a key factor in surviving managed competition.

A Well-Run Organization is Rarely a Target of Outsourcing.

The initiatives discussed above are not only keys to succeeding in a managed competition, but to avoiding a managed competition or outsourcing initiative in the first place. Fleet management organizations that are well-run, that provide high-quality services at a competitive cost, that have satisfied customers, and that are understood and valued by management decision-makers, rarely are targeted for outsourcing. Even when such organizations are required to compete, the outcome of such competitions is almost never in doubt. Thus, one of the most important lessons for fleet managers that can be gleaned from the outsourcing and managed competition experiences of the past 15 years is clear: seize the day before someone else does! AF

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