

How Fleet Managers Can Survive Managed Competition

By Paul Lauria and Randy Owen, CAFM

A number of public sector jurisdictions have adopted managed competition, as a means of ensuring that taxpayers receive the best services at the lowest cost available in the market¹. The premise of managed competition is that the procurement of services through competitive proposals -- rather than the traditional model of granting an in-house organization a monopoly -- drives improvements in service levels, quality, and costs.

Managed competition provides municipal employee groups with both the impetus and the opportunity to streamline their operations, adopt new business strategies, and pursue innovations that under normal circumstances would not be considered. The resulting improvements in efficiency and productivity often transform marginal performing 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 level improvements for a public sector jurisdiction.

Keys to Survival

Surviving managed competition requires that fleet management organizations become proficient at a wide range of business management disciplines that have traditionally not been a focus in the public sector. 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 at 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.



Beyond being prepared, there are a number of specific actions that fleet management organizations can take to enhance their chances of surviving managed competition (or an outsourcing initiative for that matter). These actions, which are listed below, are based on our work on managed competition and outsourcing projects with dozens cities and counties from around the country.

¹ Managed competition has been limited to date to the public sector. Private sector fleet organizations continue to face outsourcing, which may or may not involve a formal comparison of in-house fleet costs to alternative service providers.

Work On Your Image



The vast majority of public sector fleet management organizations 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. Consequently, many decision makers view these organizations as "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 consider the potential benefits of replacing the in-house organization with an alternative service provider.

Fleet managers must effectively market their services so that leadership of their agencies understands the importance, impact and value of fleet management services. Fleet managers must foster an image for their organization as one that manages assets worth millions of dollars, and one that delivers essential mobility services to their agency. Rather than "grease monkeys", decision makers should view employees of the fleet management organization as ones that make an important contribution to their agency's ability to deliver high quality and cost-effective services to the community.

Know 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 surviving managed competition, where many fleet related costs are not included in the cost analysis. For instance, asset management services, such as deciding when to replace vehicles, are normally excluded from managed competition. Moreover, the cost of many types of maintenance services, so called "non-target" services such as repair of accident damage, are 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 construct separate cost centers around your various lines of business. Therefore, a separate cost center (and budget) should be established for asset management activities, maintenance, parts, sublet services, fuel, motor pool activities, etc. A separate charge back methodology should also be established for each cost center (e.g., a monthly rate for asset management, a percentage markup for parts, and a fully burdened hourly rate for labor). Not only does this provide improved clarity and cost recognition, but it also improves your competitive position by correctly assigning costs away from services that will be subject to competition (such as

maintenance) to services that will be excluded from competition (such as asset management).

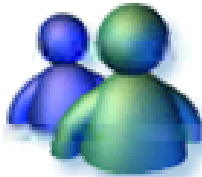
Understand Your Strengths and Weaknesses

An honest assessment of what your organization does well and not so well is essential to surviving 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 privatization 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 reengineered to be competitive should be outsourced.

Staffing and Productivity Are Key



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 towards 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 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 be efficient, they often cannot get approval for critical innovations, such as changing position classifications and compensation plans. However, as mentioned earlier, managed competition often presents the opportunity to gain approval for changes in the traditional way of doing business in the public sector that otherwise would never have any chance of approval. Thus, many organizations that have gone through this process have instituted performance based pay, have reengineered restrictive parts

procurement policies, and have greatly increased their training budget. Trying to compete with the private sector without instituting these types of innovations is like to fighting with one hand tied behind your back.

Don't Forget Your Customers

Don't forget your customers during the debate over competition. 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. As customer representatives are often included on committees that evaluate competitive proposals, having customers as your advocates can be a key factor in surviving managed competition.



Conclusion

The initiatives discussed above are not only keys to surviving managed competition and outsourcing; they are also keys to avoiding this issue in the first place. In other words, fleet management organizations that are well run, that provide high service levels with a low cost structure, and that have satisfied customers, are rarely targeted for managed competition or outsourcing. Even when such organizations are required to compete, the outcome is really never much in question.