Effective Fleet Management Strategy for Municipal Fleets

PWX Minneapolis MN
August 30 2016

Chris Hill MBA, CMC
1974-78 Fleet Manager, Leasemaster
1978-83 Fleet Manager, General Foods
1983-85 Fleet Manager, Reichhold
1985-93 Fleet Manager, Honeywell
1993-94 Director Total Fleet Management, Triathlon Leasing
1994-97 C. Hill Management Inc. Fleet & Travel Management
98-2002 Manager Fleet & Equipment, Enbridge Gas Dist.
2003-04 Fleet Manager, City of Toronto
2004-11 Manager Central Fleet, City of Hamilton (Ontario)
2012-13 CEO, Electric Mobility Canada
2014-16 Sr. Associate, Fleet Challenge
What Do You Want To Be Known For?

- A trusted and valued supplier of high quality services that enables users to deliver their peak performance?
  
  OR
  
  - Manager of yet another internal source of mediocre service that gets in the way and adds no noticeable benefit?

What Council Wants
Agenda for Part 1

- What is “Strategy”? How does it differ from “Tactics”?
- Building a procedure to find strategic solutions
- Problem identification
- What needs to be addressed?
- Strategy options for fleet management
- Developing tactics to implement the strategy by management function (Finance, Information Technology, Operations, Human Resources, Marketing and Communications)

Agenda for Part 2

- Creating Your Fleet Strategic Plan
- Who controls fleet expenses?
- Tactics by management function - developing these for your own fleet situation
- A model Fleet Strategic Plan
Part One – Strategic Planning

What Is “Strategy”?

- According to Wikipedia, ‘Strategy’ (from Greek στρατηγία stratēgia, "art of troop leader; office of general, command, generalship") is a high level plan to achieve one or more goals under conditions of uncertainty.

- 'Strategy' is part of everyday business language and is often used in the wrong context (‘Create Operational Excellence’ is not a strategy – it is a goal).

- The core of any strategy is about making choices of where to play and how to win, supplemented with a 'why' (the objective) and the 'how' (doing it).
Defining “Strategy” and “Tactics”

1. Situation: *What have we got?*
2. Objective: *What do we want?*
3. Strategy: *What is the most effective way to get it?*
4. Tactics: *How we are going to do it?*

- Case Study -
What we do

Objective: To manage fleet assets to achieve peak performance in the delivery of the organization’s product.

Creating Objectives

- Developing a solution framework – problem identification
- “What needs to be addressed?” (WNTBA)
- WNTBA and Strategy Options
- Sort the problems and issues by management function:
  - Finance
  - Information Technology
  - Operations
  - Human Resources
  - Marketing and Communications
Part Two – Creating Your Strategic Plan

**Agenda for Part 2**

- Creating your Fleet Strategic Plan
- Who controls fleet expenses?
- Tactics by management function: Finance, Information Technology, Operations, Human Resources, Marketing and Communications - *developing these for your own unique fleet situation*
- A model Fleet Strategic Plan
What we do

Finance

• Control and accountability
• Budget-based relationship or transaction-based relationship
• User budget line items for fleet expenses
• Life-cycle Analysis (LCA)
• Cost controls and reduction targets
• Leasing
Three Main Generators of Fleet Costs

1. Number of units in service
2. Number of miles driven
3. Type of vehicles in the fleet

Who effectively makes these decisions - the fleet manager or the users?

Recovering Costs* Through Chargeback Rates

1. Having the budget in fleet is inefficient – it's the users who really control the cost drivers.
2. Users must budget for reserve fund, fuel, repairs, driver training and licence renewals, with line items in their own operating budgets. The relationship is based on transactions, not who has the budget.
3. User behaviors will not be the most economical unless users are accountable for costs.
4. Having prices for transactions, such as mechanic labor rate, parts, and fuel allows comparison to outside contractors.

* Attribution: Kelly Walker Associates
5. Fleet has advantages over outside contractors; usually costs for facility rental, utilities, insurance are covered elsewhere, or shared with other departments.

6. Fleet has disadvantages compared to outside contractors: mechanics are on salary instead of piecework; wages are higher; simple jobs (oil changes) don’t have the volume to justify a headcount at a lower wage rate.

7. Ideally, users receive a “bill” to be paid when they pick up the keys.

8. Resistance to more work by accounting department to recover costs.

9. Inadequate fleet information system must be adjusted to handle transaction costs.

10. Users will try to avoid expenses by cutting back on oil changes and inspections. *Fleet polices and procedures must be well-defined to prevent this.*
Recovering Costs Through Chargeback Rates (4)

- The most effective response by users is to reduce the number of fleet units (#1 generator of fleet costs) by turning in the “just-in-case” units.

- Most fleets have 25%+ excess units. Peak demand user activities can be met through sub-contracting.

Inputs and How You Recover Them

<table>
<thead>
<tr>
<th>Input (what you pay directly)</th>
<th>Transaction pricing (your products and services)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Labour (employee costs)</td>
<td>1. $/hour</td>
</tr>
<tr>
<td>2. Materials</td>
<td>2. Cost plus markup</td>
</tr>
<tr>
<td>3. Outsourced services</td>
<td>3. Cost plus markup</td>
</tr>
<tr>
<td>4. Overhead</td>
<td>4. Covered in markup and labour</td>
</tr>
</tbody>
</table>
Life Cycle Analysis

- Illustrates total life cycle cost of fleet vehicle types/categories
- Determines what age units should be considered for replacement (ideally before costs rise and reliability/safety is reduced, and before major capital expenditure or refurbishment is necessary)
- Assists fleet managers with capital strategies to optimize vehicle life cycles and return on investment
- A first step in long-term capital planning - eliminates guesswork

Lifecycle Cost Analysis

![Vehicle - Life Cycle Analysis](image)
Information Technology

- Systems
- Data capture and input
- Reports produced – eight key performance measures that matter to users
- Budget management
- Benchmarking

What The User Wants – 8 KPIs for Fleet

1. Suitable KPI #1: Miles/year or hours
2. Reliable KPI #2: Work orders per year
3. Safe KPI #3: Accidents/million miles
4. Affordable KPI #4: $ cost/km or $ cost/mile
5. Energy Efficient KPI #5: MPG or Litres/100 km
6. Environmentally-friendly KPI #6: Greenhouse gas per year
7. Available KPI #7: Labor hours maint. /year
8. Compliant KPI #8: Regulatory/safety rating
What we do

Operations

- Shop Hours
- In-house Mechanical Services
- Contracted (outside) services
- Parts
- Fuel
- Driver Training
- Safety and Regulatory Compliance
- Procurement
- Remarketing

Human Resources

- Creating a high quality of life at work
- Labor relations with union staff
- Handling grievances and collective agreements
- Technical training for mechanics
- Non-union staff
- Succession planning
What we do
Marketing and Communications

- Fleet Strategic Plan
- Senior management/Council approval
- Fleet Advisory Committee
- Green Fleet Plan
- ISO standards
- Membership in associations

A municipal fleet has a diverse range of equipment including cars, medium and heavy trucks, trailers and specialized off-road vehicles used for maintaining municipal property and infrastructure. Most have a central garage, works yard and bulk fuel facility. Some have multiple sites.

Focus and Manage

- Lowest Cost
- Fastest
- Least Disruptive

Strategy

Opportunity Assessment

1. More costly and split among many suppliers.
2. Disruptive for users, can't focus on main job.

Recommended Strategy

1. Improving labor relations and internal communications through increased interaction between management and staff.
2. Finding technical training for mechanics.
3. Managing non-union employees.
4. Handling grievances and collective agreements.

Situation, Objective and Strategy

Tactics by Management Function

- Operations
  1. Developing a customer service model in standard operating procedures.
  2. Creating Service Level Agreements with users.
  3. Managing small equipment with replacement cost below $5,000.
  4. Assessing service 'after-hours' to perform scheduled maintenance when trucks are not needed.
  5. Improving and shortening the procurement process.
  7. Improving the safety record.
  8. Managing bulk fuel and multiple fuel sites.

- Human Resources
  1. Improving labor relations and internal communications through increased interaction between management and staff.
  2. Finding technical training for mechanics.
  3. Managing non-union employees.
  4. Handling grievances and collective agreements.

- Marketing and Communications
  1. Creating a Fleet Advisory Committee.
  2. Preparing a Green Fleet Plan for consideration by Council to include an affordable and sustainable approach to new vehicle and fuel technologies.
  3. Participating in organizations that give the municipality an opportunity to demonstrate leadership.

Define the Objective

The core business of Fleet is to acquire, repair, maintain and dispose of light, medium and heavy duty mechanized equipment used in municipal operations. Answer the question: 'What Needs To Be Done?' Identify these top priorities and choose the best strategy to accomplish them.

Tactic

- Fleet Strategic Plan
- Senior management/Council approval
- Fleet Advisory Committee
- Green Fleet Plan
- ISO standards
- Membership in associations

© C. Hill Management Inc. 2014
All rights reserved.
Thank you for attending. Please fill out your comment form before you leave.

chill@fleetchallenge.ca