

Dedicated Contract Carriage Services:

Bringing Big Business Shipping Options to Small and Mid-sized Companies

By Brent Nussbaum, CEO
Nussbaum Transportation Services Inc., Normal, IL

For years, large OEMs and distributors have been using Third Party Logistics (3PL) and Dedicated Transportation Services firms to help them maximize supply chain management efficiencies and increase profitability. Unfortunately, many small to mid-sized firms have held the belief that using third party support was out of their grasp: that only large companies shipping tremendous volumes of goods had the means and budget to do so. If this was the case, it isn't any longer.

Today, smaller companies can realize the significant operational, service and cost efficiencies of dedicated transportation services. With the added pressures of high fuel costs, significant driver shortages and DOT compliance issues, managing a transportation operation has become more complex than ever before. Shippers of all sizes are quickly realizing that contracting for these services allows them to allocate their capital – human and physical – on their core business operations while providing better service to

their customers at a reduced cost. They are ridding themselves of the challenges associated with managing their fleet operations through the peaks and valleys of their business cycle and the liabilities any company assumes by operating a private fleet.

So what is dedicated transportation? A dedicated contract carrier (DCC) – sometimes also known as a third party logistics provider or 3PL – provides transportation solutions, equipment, fleet management and warehouse/facilities management services to meet the specific business needs of a single shipper. The dedicated provider can design a custom operation that can include: specialized equipment and services; driver recruitment and training; fleet management; DOT compliance and all other administrative activities.

Ultimately, the DCC becomes a transparent extension of the organization right down to equipment which can be identified with the company's logo and graphics.

How Does a Shipper Determine if Dedicated Contract Carriage is For Them?

A dedicated operation may be a good fit for the shipper if the product and/or services fit one or more of the following criteria:

Specialized Equipment – Even though most shipments moving in fleet or dedicated operations move on van type trailers, the type of product shipped or type of delivery service desired by the shipper or their customer may require specialized equipment for loading or unloading. Flatbeds, curtain side trailers, conestogas, refrigerated trailers, bulk trailers, straight trucks, and liftgate and crane-operated trailers are just a few of the examples of specialized equipment that can be used to accommodate the specific needs of the customer.

Personalized Services – Does the product require a specific type of delivery service and/or need to arrive at a specific time to meet the needs of the customer? Is the driver required to perform personalized unloading services such as delivery inside the customer's facility or perform other customer-related services such as inventorying product?

Transportation as an Added Value – Does the shipper place a value on the image of the equipment when performing deliveries to the customer? What value does image and service play in the overall marketing of the product?

Time-Sensitive Shipments – Does the manufacturer or distributor ship time sensitive shipments? Improving inventory turnover is critical to a lean distribution system, leading to cost reduction and increased profitability.

Consolidation of Shipments – Are there consistent inbound or outbound shipments that can be consolidated into daily or weekly moves, eliminating the need for shipping multiple LTL shipments at a higher cost?

High-Value Products – Is there a need to protect high-value shipments from damage or theft?

More and more small and mid-sized shippers that are either operating their own private fleet or are trying to manage a network of common carriers are now looking at dedicated transportation services as a means of streamlining their operations and improving their bottom line. If a company fitting any of these criteria is currently evaluating this option, it should consider the following eight factors as a part of its analysis.

Eight Benefits of Utilizing Dedicated Transportation Services

1. Reduce Liability

The minute any firm puts a truck on the road, it opens itself to significant liabilities. Few companies operating a private fleet properly account for these liabilities. Most would simply not have the resources necessary to absorb the financial blow resulting from a single serious accident, not to mention the negative press associated with such an event.

Dedicated transportation allows operations, logistics and transportation managers to greatly reduce these liability risks by transferring them to the service provider. In addition to assuming these risks, a DCC assumes the ever-increasing insurance expenses associated with them, the responsibility of operating and maintaining safe equipment, and the hiring and training of safe drivers.

It is also imperative that shippers evaluate and select dedicated partners that have demonstrated a consistent history of financial strength and safe operations.

2. Divert Capital Investments to Core Business Operations

Transportation is rarely a core competency for manufacturers and distributors that own and maintain private fleets. And yet, many of these firms pay a significant price for fleet ownership. Some have expressed the need for specialized equipment and personalized service as justification for this decision. The fact remains that the operational expenses of owning and operating a private fleet can divert vital financial resources away from other essential business operations more directly related to the company's mission, such as expanding manufacturing or distribution facilities or opening a new retail location. In cases where a private fleet operation does support a firm's core business, dedicated operations can help minimize the investment by supplementing the fluctuation in capacity as business necessitates.

3. Realign Human Capital

The amount of human capital required to operate an efficient fleet can be a significant drain on other operations. Most firms only measure their investment in fleet operation in terms of drivers and operations team. But when activities such as driver recruiting and training, DOT compliance, workers compensation issues, equipment purchasing and ongoing maintenance are included, operating a fleet draws valuable human resources from every department including human resources, finance, purchasing, and sales and marketing. Utilizing a dedicated partner can help realign human resources to those operations closest to the core business needs.

4. Leverage the Purchasing Power of a DCC to Reduce Costs

The impact of rising fuel costs is being felt by virtually every company in the country; however, those operating private fleets are among the most heavily impacted. Small to mid-sized fleets may be limited in their ability to obtain volume purchasing discounts with fuel suppliers. Dedicated service providers, on the other hand, with a larger number of vehicles in operation have significantly greater purchasing power translating into discounts which can be passed along to their customers.

Similarly, given the volume of trucks, trailers, parts and service DCCs purchase, they are in a position to negotiate better pricing and terms on behalf of their customers. Thus, while it may seem like a company's transportation costs would increase when they hire a dedicated partner, they are almost always significantly reduced.

5. Realize the Operational and Cost Benefits of High Tech Tools

Technology advances have created vast improvements in the degree to which the shipping industry can monitor and manage operations, creating efficiencies that reduce overall costs.

The range of high tech tools now used by DCCs is wide and impressive. Real time, 24/7 GPS shipment tracking can assist in bringing visibility to ensure on-time delivery and customer satisfaction. Satellite tracking is also used to monitor truck speed, RPM, driving-hours vs. off-hours and other safety factors. In-cab communications equipment makes it easier for drivers to submit their logs and paperwork, making them more productive and providing more accurate and timely information to insure DOT compliance.

Another tool DCCs utilize is route optimization software or TMS (transportation management software) which can design routes to insure efficiencies that result in a lowered cost of operation. However, this technology is not cheap. The cost for a state-of-the-art package has increased commensurately over the years, and can range upward of \$50,000, not including customization and staff training. Many small and mid-sized shippers simply don't have the resources (human and capital) necessary to justify this kind of an investment, particularly when faced with capital investment requirements more closely aligned with their core business operations (e.g., a new manufacturing line or distribution center).

Fuel optimization software is yet another tool. With the assistance of GPS, (global satellite positioning) this tool has the ability to direct the vehicle to the lowest cost fuel providers en route to destination. Used in conjunction with route optimization software, these tools have the ability to assist the DCC in utilizing equipment in the most efficient way, minimizing out of route miles and fuel cost, driving value to the customer.

A DCC that has already made this investment can provide the customer with the tools necessary to run a highly efficient operation without the human or capital investment and pass that along to the customer in the form of reduced cost.

6. Gain Increased Operational Flexibility to Handle Peak Shipping Periods Inherent to the Business Cycle

Throughout any given year, most companies experience promotional or seasonal peaks and valleys in their shipping cycles. Unfortunately, given the current shortage of drivers, it can be extremely difficult to find a sufficient number of qualified drivers to meet that surge. Furthermore, maintaining or renting excess equipment and hiring additional drivers to be used only during these peak periods are costly and inefficient.

Instead, a manufacturer or distributor can build in a buffer against capacity shortages by augmenting or replacing their fleets with the services of a DCC. Dedicated contract carriers with a greater number of customers and equipment are better equipped to flex the fleet to manage business cycles. Therefore, a private shipper can add capacity quickly, reliably and cost-effectively, without having to procure more equipment and hire additional drivers.

7. Reduce Overall Shipping Costs through Revenue Sharing

One of the main difficulties of managing a private fleet is optimizing routes to minimize deadhead (empty) miles. Whether the fleet is driving across state or across the country, hauling empty trailers back home is literally like throwing money out the window. A DCC can assist the shipper in procuring backhauls in a revenue sharing program to help eliminate deadhead, which in turn will drive the costs of the dedicated operation lower.

8. Advertising

Large private fleets have long recognized the value of building their market share with truck-side advertising. This medium of advertising offers one of the best returns on investment in marketing today as trucks and trailers are viewed by thousands of potential consumers each day. Unfortunately, many small to mid-sized manufacturers and distributors still believe that the cost and maintenance of fleet graphics are out of their grasp.

A DCC can offer their customers knowledge and assistance in the relatively inexpensive planning, installation and maintenance of fleet graphics; therefore, improving their market exposure and market share.

Summary

In a highly competitive manufacturing and distribution environment, speed of delivery is critical to a company's success. In fact, in a world where product quality and pricing have become the cost of entry, highly efficient and cost-effective product distribution can often be the final "differentiator" when a customer is choosing between competing brands. For years, this gave large shippers with greater resources a distinct advantage over smaller shippers. This no longer needs to be the case.

A dedicated contract carriage (DCC) firm can offer transportation solutions, equipment and fleet management services to meet the specific business needs of the smaller shipper. The dedicated provider can design a custom operation that can include: specialized equipment and services; driver recruitment and training; fleet management; DOT compliance and all other administrative activities. They can also manage the increasing complexities of high fuel costs, driver shortages and DOT compliance issues. Because of this, shippers of all sizes are quickly realizing that contracting for these services makes very good business sense. It not only allows them to provide better service to their customers at a reduced cost, it also allows them to allocate their capital – human and physical – on their core business operations.