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A32 A Look Ahead

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Regulations, Business Trends Put Pressure on Private Fleets

Issues Go Beyond Drivers, Equipment Practices

By Daniel P. Bearth
Senior Features Writer

Operators of corporate-owned truck fleets are facing pressure to keep up with a growing number of regulations while also dealing with legal and business issues that go well beyond the traditional realm of equipment maintenance and driver management.

Rob Getz, CEO of ITS Compliance Inc., a firm that helps with fuel-tax reporting and licensing activity, said he has seen a dramatic increase in the number of private fleet operators seeking assistance with compliance, in part, because companies have been reluctant to add staff.

"The trend is definitely to explore the use of third parties," said Getz, who pointed out that 80% of new clients for his business are from companies that previously managed compliance in-house.

As an example, energy services firm Halliburton Co. signed a multiyear agreement with MiX Telematics to provide fleet management, safety and compliance services for its fleet of more than 15,000 vehicles.

Likewise, SRS Distribution Inc., a company based in Irving, Texas, that distributes roofing materials in 39 states, contracted with Descartes Systems Group to automate its drivers' hours-of-service logs using a cloud-based telematics system.

"We needed a solution that would simplify compliance with HOS regulations and time and attendance tracking," said Charlie Battler, regional fleet and safety manager at SRS. "We've eliminated paper logs and reduced errors with a system that we can rapidly roll out to new drivers."

Another factor driving the decision to outsource compliance services, Getz said, is the push by many states to target large fleets for fuel-tax audits in an effort to make up for shortfalls in road funding.

At the same time, the Federal Motor Carrier Safety Administration is targeting high-risk carriers by analyzing data in its Compliance, Safety, Accountability program, while the cost of litigation and insurance are also raising the stakes, Getz said.

Carol Heinowski, manager of logistics, safety and compliance at supermarket operator Meijer Inc. in Grand Rapids, Michigan, said she is concerned about possible HOS changes.

"The 34-hour restart is a concern for us," Heinowski said, citing uncertainty caused by the passage late last year of a highway funding bill that contained a drafting error that could result in the elimination of a provision.

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Rob Getz
CEO
ITS Compliance Inc.

Comments from fleet managers surveyed by Transport Topics for the 2016 Top 100 Private Carriers list illustrated the wide range of issues they continue to wrangle with.

"The driver shortage is still real," said Joseph Tuturice, associate director of transportation in North America for Mondelez International, a company spun off from Kraft Foods and based in East Hanover, New Jersey. "When our economy begins driving a volume of goods to consumers, companies will need to increase their pay to retain fleet drivers. This escalation will definitely increase shipper cost in a competing marketplace."

If demand rises at the same time that fleets are dealing with new safety regulations, Tuturice warned, it "will add to the driver capacity concerns in the trucking industry as a whole."

"The unknowns are: If the rule will stay as it is today, be gone completely or will the two-hour off-duty periods between 1 and 5 a.m. snap back into place?" Heinowski said. "That will impact how we currently do our driver scheduling during our busy times."

Another regulatory issue for both private and for-hire fleets is an increase in the number of drivers flagged for potential health problems.

"We're finding that ever since doctors received training to be on the National Registry [of Certified Medical Examiners], many have become much more stringent in issuing medical cards," Heinowski said. "They are requiring additional tests, such as cardiac stress tests, even though it is not something mandated by DOT.

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Regulations

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"Drivers are having issues getting these stress tests done because they have to be ordered by a family physician or specialist who say that they are not needed," she said, "and even the insurance companies are refusing to pay for these tests because they say they are not medically necessary. Thus drivers are caught in a Catch-22."

The cost of testing is a big issue for drivers, Heinowski said.

"One driver had to pay $800 for a stress test that his doctor said was not medically necessary," she said. "He eventually was given a one-year medical card. But he's already said he'll leave the industry and find another job if it's going to cost him $800 every year just to get a medical card."

In the TT survey, issues related to drivers are mentioned most often as the most disruptive issue facing private fleet operators.

"Driver shortage is the clear No. 1," said Anthony Nicol, transportation asset manager for Owens & Minor Inc. in Mechanicsville, Virginia.

Patrick McNutt, vice president of fleet operations for Darling Ingredients Inc. in Irving, Texas, cites turnover as the biggest issue, while executives at a number of other fleets, including plumbing distributor Ferguson Enterprises Inc. and beverage hauler Pepsi Bottling Ventures, singled out the shortage of technicians.

Ed Pritchard, senior vice president at Houston-based Silver Eagle Distributors, mentioned driver training needs and sleep apnea as major concerns. At Ashley Distribution Services Ltd., the trucking arm of Ashley Furniture Industries Inc., fleet executives Steven Ralston and Larry Corey said health and wellness, along with a shrinking number of drivers that meet the company's standards, stand out as the most disruptive issue.

"Not enough young people [are] entering the profession," said Kevin White, director of fleet optimization

ACI Worldwide via YouTube

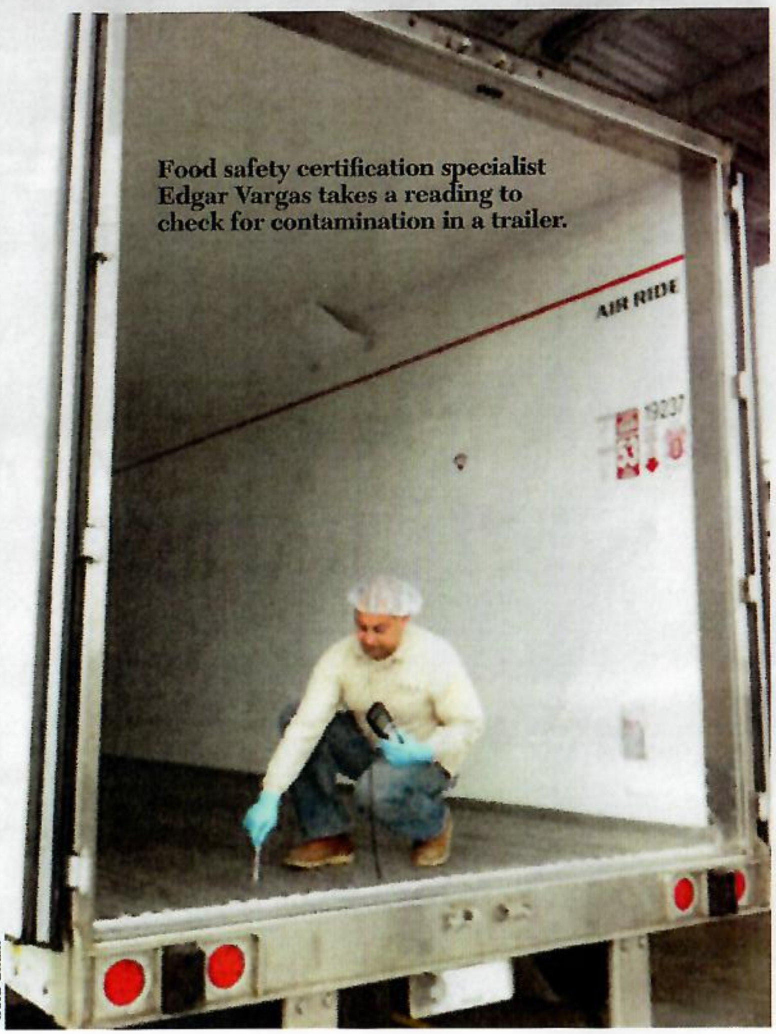
Silver Eagle Distributors' workers load a truck. The company is concerned with driver-training rules.

Some of the concerns for managers of large private fleets are issues that are beyond their control.

In the past year, for instance, the Federal Trade Commission has acted to block mergers involving food service operators Sysco Corp. and U.S. Foods, and oil field service firms Halliburton Co. and Baker Hughes Inc., arguing that combining the operations of these companies would violate antitrust statutes and harm customers by eliminating competition in the market.

In both cases, company officials argued that the larger enterprises would save money, in part, by using their fleets to distribute goods more efficiently. A merger of Sysco and US Foods would have created the largest private fleet in North America with a combined fleet of more than 12,800 tractors.

In a more recent decision involving American Air Liquide Holdings' purchase of Airgas Inc., FTC approved the deal on the condition that Airgas sell to Matheson Tri-Gas assets used to produce a number of bulk gases, as well as dry ice and packaged welding gases sold in retail stores. John Molnar, an attorney for Matheson Tri-Gas, said the company's current fleet of 206 tractors will about double in size when the company completes the purchase of Airgas assets.



Food safety certification specialist Edgar Vargas takes a reading to check for contamination in a trailer.

Cold Chain

Russ McNeil

United States involves a merger between two European-based grocery operators, Koninklijke Ahold and Delhaize Group. Under terms of a settlement announced in July, the two companies will sell 81 stores to seven different buyers to preserve competition in 46 local markets in Delaware, Maryland, Massachusetts, New York, Pennsylvania, Virginia and West Virginia.

New rules promulgated by the US Food and Drug Administration also are adding new layers of oversight to companies that produce and transport food and agriculture products.

Nearly a third of the Top 100 Private Carriers are in the food service, agriculture and food processing business, and would be directly affected by the new rules, which require increased documentation and tracking of goods in transit.

"Most companies don't understand what goes on when food is in transit," said John Ryan, a former food inspector and president of Sanitary Cold Chain, a company that provides instruction and certification for food handlers and motor carriers. "We're getting calls from large companies to certify their managers."

Besides training, Ryan said, he expects to see more testing by fleets to

Don Buciak — Flickr

Federal antitrust authorities said a combination of Sysco Corp., above, and US Foods, right, would have hurt competition.

detect signs of contamination in trailers used to haul fresh produce and raw agriculture products. He also expects to see changes in the way food is handled because the new rules require tools and equipment used to transport food to be "cleanable." Fleets that deliver to McDonald's restaurants, for instance, are now required to use plastic instead of wooden delivery trays.

Frank Morgiewicz, CEO of Arrowstream, a company that provides logistics services to food service companies such as US Foods, said he has cut the number of carriers used to transport food to 63 from 200 to ensure compliance with the FDA regulations.

"There's a lot of pressure on shippers," said Morgiewicz, who has worked previously to set up supply chains for PepsiCo and Yum! Brands. "Five years ago, we would see a lot of product commingled in trailers, with perishable and frozen food or dry and refrigerated goods sharing space. We're seeing far less commingling now."

Looking ahead, Sean Monahan of A.T. Kearney Inc., a strategic consulting firm, said technology and regulations "will change the rules of the game," and companies that build the skills to adapt to the disruptions will "likely come out ahead."

A deal between Airgas Inc. and American Air Liquide was approved on the condition that some assets be sold to a third company.

"The market has seen an increase in shipper demand for visibility and control into all transportation management activities and assets in order to enable their optimization," Monahan wrote in a recent State of Logistics report for the Council of Supply Chain Management Professionals.

Henry Popplewell, president of SkyBitz Inc. in Herndon, Virginia, said he sees a pickup in demand for trailer and asset tracking from oil and gas companies in an effort to get better utilization from their fleet of trucks and more productivity from drivers.

On the technology front, the Federal Aviation Administration is developing rules for the use of commercial drones, and many local governments have changed regulations governing taxis to accommodate the use of car-sharing apps. Retailers such as Wal-Mart Stores and Amazon.com want to use drones to deliver products to customers, and Staples Inc. is one of a number of companies using Uber Technologies and other shared-ride app services to make local deliveries.

"Disruptive forces, such as technology that includes the Internet of Things, analytics, robotics and 3-D printing, and operational constraints, such as regulations, driver shortages and infrastructure bottlenecks, will evolve at breakneck speed," Monahan said. "Changes in environmental, trade, safety and labor regulations may accelerate, slow or even change direction, depending on the political leadership at any given moment.

"While we can aspire to shape regulations and spur innovation to achieve our desired future scenario," he said, "we cannot predict with certainty which scenario will actually materialize. Consequently, strategy formulation needs to take account of all of them."