

**Modernizing Fleet
Operations:
How to Implement Changes
(And help the medicine go down!)**

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My Experience

- **21 years with the City of Calgary, being the Fleet Services Manager at the time of leaving.**
- **5 years with the City of Minneapolis.**
- **Implemented significant changes at both locations which have in-house fleet operations.**

We have come a long way!

Government fleet operations have come a long way. From being an extension of finance or other departments, they rightfully have earned their place as important contributors to civic activities. Yet, many have not taken the next logical step to change the way they operate. They still don't have much of a "customer" perspective and still use old methods to charge for their services.

Best Practices

Ask any fleet consultant and he will recommend the following:

- **Establish fleet operations as business enterprises (Internal Services Fund)**
- **Establish various activities such as fleet supply (leasing), maintenance, fuel as separate businesses**
- **Establish activity based costing (ABC) methodology**
- **Use fully burdened costs**

Best Practices

- Establish separate charge out rates for the above activities
- Regularly benchmark charges with the private sector in the region to compare competitiveness
- Constantly compare with other agencies for best practices
- Identify services that are not cost-competitive and investigate out-sourcing
- Monitor profit/loss accounts for each business and take suitable action

Change is All Around

These demands can be a tall order.

In the early 90s I noticed a trend which brought about a significant change in the way a few fleet operations delivered services.

Outsourcing, rightsizing, reengineering, managed competition, etc. became popular mantras and many government agencies implemented such changes in their fleet operations.

Change is All Around

The consequences were unknown at that time but there was a general thinking that somehow the private sector was more efficient, less costly and provided superior customer service. In a majority of cases, lack of true cost and service details were possibly the reasons. Many regretted the changes as we now know.

Continuation

Back in 2005, I presented a paper at the APWA Conference at Minneapolis on “Activity Based Costing for Fleet Operations.” You may consider it as part one of this presentation. It dealt with how to establish fleet operations as true internal service funds and demonstrate their value to elected officials and senior administration. The paper is still available on line to anyone interested at

<http://www.apwa.net/documents/meetings/congress/2005/handouts/1241.pdf>

Why Change?

Simply, the pressure is on. Frequently, we read about some government fleet operation or the other criticized for lack of accountability. Moreover, our customers are demanding changes.

I will present my personal experience, participation and what I learned in implementing changes at two locations in two countries: Calgary, Canada and Minneapolis, US.

Why Change?

When I became the Fleet Manager at Calgary in '93, the combination of change happening across the continent and customer complaints kicked off a major shakeup in our department. Even City Council had become critical of us. So, I held a number of discussions with my Director and we decided we had to change our operation or someone else would change it for us and we might not like it. Since this was a major change, we went about it in a cautious and step-by-step way.

What was Wrong?

Till the mid-90s, Calgary, like many other municipalities, had a centralized fleet operation and charged customers all-inclusive rates. There was no emphasis on cost control or on customer service. Over the years, this had created a significant amount of friction between fleet operations and its customers. Customers were called “users” and our attitude was that they took whatever medicine we gave them. “Users”, however, did not like our medicine and were miffed for the following reasons:

Why Customers Demanded Change?

- They had very little control on their fleet costs
- They had very little control on their fleet make-up
- They had very little control on maintenance and damage costs
- They had very little input in fleet policies
- They had very little influence on fleet replacement planning
- Those who abused their fleets and those who looked after them were treated the same in terms of costs
- Those who ordered excessive options and those who did not paid the same rate
- Those who used their fleet heavily and those who used them lightly paid the same rate
- And so on

How TO Change, Then?

Step 1: Establish a plan

Like in any major initiative, some good planning goes a long way in helping change implementation.

In '94, the fleet operations management team at Calgary went off-site to discuss where we were and where we needed to be. We had to identify what change meant.

Step 1: Establish a Plan

We had to develop a plan to implement change. We had to be brutally honest about our shortcomings. We had to redefine our vision and mission statements. Neither of them, for example, even alluded to the fact that we had “customers”.

Step 1: Establish a Plan

We realized that all existing policies were stacked heavily to the benefit of fleet operations and not our customers. After much agonizing, we decided to scrap them all and rewrite them with significant customer input. Customer consultation and involvement were considered essential part of the first few steps. In short, we needed the medicine.

Step 2: Involve Customers

No change can be successful if there is no customer buy-in.

We created a customer liaison committee which met several times over the course of change implementation and monitored the progress and approved changes.

This committee was comprised of senior managers from customer departments.

I feel this level of buy-in is essential.

Step 2: Involve Customers

All draft new policies, as developed, were submitted to this committee and changes made based on discussions and its input. Broadly, we all agreed that all-inclusive fleet rates had to be scrapped and fleet charges for supply, maintenance, fuel etc. had to be charged separately.

Step 2: Involve Customers

The existing all-inclusive rates had a number of components:

- Fleet supply (lease) or the capital cost of ownership
- Maintenance including PM, breakdown, annual inspections etc.
- Fuel including field supply
- Tires and tire repair service
- Some body repair
- Insurance
- Operator training

Step 3: Implement changes in increments

In implementing any major initiative, small, quick successes are essential to ensure continued support. Since this was a major change and no one had any previous experience, we decided to go about it by taking baby steps. The whole process, started in '95, took three years to complete.

Step 3: Implement changes in increments

The first challenge was establishing fleet supply costs for existing units. No accurate acquisition cost data were available. I scrutinized old purchase orders and used some judgment to establish acquisition prices. I developed a spreadsheet into which, all details such as the purchase price (including accessories and attachments), the cost of service preparation, the in-service date, the anticipated life and salvage values and fleet operations' overheads based on ABC were entered.

Step 3: Implement changes in increments

Customers were given a say in establishing unique life cycles and salvage value upon mutual agreement. Thus, more expensive units with lesser anticipated life attracted higher annual rates.

Step 3: Implement changes in increments

Then, we changed the replacement planning process completely. Instead of it being determined entirely by some fleet analyst as in the past, fleet units were first sorted by their age. This list was refined to consider their usage, either miles or hours.

Next, the list and costs were discussed by the management team which included Finance to ensure there was support from the budget office for the required funding.

Step 3: Implement changes in increments

Then, it was circulated among the maintenance foremen for their input and finally, it was sent to all customers for their input. The finalized plan thus had many levels of input. Still, customers were consulted again before an acquisition was made if they had any last minute changes to make.

Step 3: Implement changes in increments

Next, we decided to charge for insurance and fuel separately. Insurance costs were an interesting experience. Prior to this exercise, the lump sum insurance charges from risk management were distributed across the fleet based on the average purchase price of a class of units for lack of a better way. Thus, dump trucks and ambulances, which were similarly priced, attracted the same insurance overhead.

Step 3: Implement changes in increments

But, the ambulance is inherently a riskier fleet to operate. Under the ABC methodology, their rates changed significantly. The dump truck insurance costs went down while those for the ambulances, up. This is a good example of how cost allocation can get distorted in an all-inclusive rate system.

Step 3: Implement changes in increments

Fuel costs were much easier to establish. Using ABC, we collected all costs associated with acquiring, storing and dispensing fuel. This was spread over the amount of fuel dispensed annually and by each customer.

Step 3: Implement changes in increments

The next step was to separately charge for body repairs from the all-inclusive rates. We established a shop rate for the body shop. Some customers observed that many private establishments had lower rates.

Since our body shop could not handle all the repairs needed for a large fleet anyway, we established contracts with local shops and gave customers a choice where to take their units. Our body shop foreman was also freed to bid his charges to repair and customers were free to choose where they took their unit.

Step 3: Implement changes in increments

Interestingly, after some experimentation with the private sector, majority of customers noticed no cost benefit with them and preferred the services provided by us.

Step 3: Implement changes in increments

Hitherto, maintenance costs were still charged as a lump sum to various customer entities. These were the last to be converted to a pay-as-you-go system. For both fuel and maintenance charges, we analyzed cost histories for various customers for the previous three years and adjusted their budgets accordingly.

Step 3: Implement changes in increments

Using ABC, we established a shop rate, a cost for shop supplies and environmental charges. Nothing new here; we were emulating the private sector. Thus, we were also able to benchmark our shop rate with private vendors in the region to determine if we were cost-competitive.

Step 3: Implement changes in increments

Finally, driver and operator training costs were similarly removed and separate contracts established with customers for such services.

Each major change was implemented gradually to give us, our customers and the budget office time to digest new realities and adjust the budgets accordingly. We did discover that some fuel and maintenance allocations needed refining. One of the pitfalls of an all-inclusive rate mechanism is the lack of discipline to gather and allocate costs accurately. Hence, the prior year histories were not accurate reflections of true costs.

Step 4: Outsource where beneficial

Although some jobs were already outsourced at Calgary such as radiator repair, glass repair, major engine and transmission overhaul etc., during this exercise it became evident that some of the services provide by us were not cost-competitive.

For example, a quick oil and filter change for most light fleet units could be performed more effectively and inexpensively by the local Jiffy Lubes. Many of their geographic locations were also beneficial to customer operations such as Parks and Streets.

Step 4: Outsource where beneficial

Hence, we established contracts with several such providers across the city. To prevent unauthorized charges, we put strict limits on what services could be provided by them. Aside from the oil and filter change, if wiper blades or light bulbs needed replacing, they had to call our maintenance control office for authorization.

Step 4: Outsource where beneficial

We did continue to provide similar services to any customer who chose us over the private vendors. But this was at our shop rate and other costs. The fact that customers had a choice pleased them immensely.

Step 4: Outsource where beneficial

One other outsourcing that proved very effective was field tire repair. The local tire dealer who was on contract for supplying tires was also able to perform repairs and replacements of tires in the field. This saved a considerable amount of time and effort in not having to tow the unit into the shop.

Step 5: Celebrate success

All along, our intent was to provide our customers a true choice. We wanted to be the service providers by choice, not by mandate. Once all cost components were separated and costing models established, we opened up the choice component from January 1, 1998.

We called it “First Choice ’98”, had a celebratory kickoff and gave customers complete freedom to obtain any service from any provider. The experiment with the body shop gave us confidence to follow this path.

Step 5: Celebrate success

Customers were not “captive” anymore but free to choose their service provider. When we first proposed this bold step, City administrators were concerned that we might open a floodgate for City departments to rush out to the private sector and lose control over fleet operations. However, after a few assurances, they gave us their cautious approval with the proviso that at the first sign of trouble they would scrap such agreements.

Step 5: Celebrate success

Well, there was no feared exodus but some minor benefits to the organization were immediately visible which we would not even have noticed under the previous scenario. Customers could now get an estimate for any service we provided and compare it to the private sector. One customer, who needed a few cars, for example, noticed that GM was offering zero percent financing even for government operations.

Step 5: Celebrate success

The fleet rate calculation includes an interest rate to cover inflation, borrowing cost etc. It typically was around some 5%. GM providing a zero interest lease choice was beneficial to the whole City. I might have lost a small business but the organization and the taxpayers as a whole gained for here was an external agency absorbing the loss on interest rate. But, I gained immense customer respect.

Step 6: Learn from open competition

One major customer wanted to take our First Choice '98 seriously and outsource the maintenance of backhoe loaders. They felt they would get better and faster service from the vendor. We agreed to establish a formal experiment. We divided the fleet evenly such that neither provider had an undue advantage. One half was maintained by us and the other half, by the vendor.

Step 6: Learn from open competition

At the end of the year, the customer decided that the service provided by the vendor was not superior to the service provided by us and indeed to ferry the units back and forth and wait in line with all other vendor's customers did not result in faster service or lower costs. They decided to switch back to us. Now we had a customer who was satisfied with our costs and service. Unproven opinions about better costs and service from the private sector were firmly put to bed.

Step 7: Benchmark and monitor performance

With ABC and establishing our operations as separate businesses, it became very easy to monitor the financial performance of each segment. We discovered another opportunity to reduce our costs by contracting with a company that delivered fuel to the field of major fleet operators in the region. We sold our fuel trucks, reduced the cost of service and transferred the environmental responsibility to a vendor.

Step 7: Benchmark and monitor performance

We had several businesses established under ABC such as long-term fleet assignments, seasonal fleet assignments, pool cars, maintenance, fabrication, body shop, stockroom, fuel, hired fleet, rental fleet and such. We were able to monitor which business was making money and which was losing.

We could thus tweak the rates or implement change specifically in the area that was not performing well. Most importantly, we could explain to our customers' satisfaction how we arrived at any of their charges.

Step 8: Partner with customers

Along with First Choice '98, we established service level agreements (SLA) with all customers. SLAs clearly defined responsibilities for both parties. It was important to notify our customers our shop rates, for example.

SLAs also explained that preventive maintenance flagging was not entirely a fleet operation's responsibility. Customers had a major role to play and thus were partners in effective fleet operations.

Step 8: Partner with customers

We installed “Next Service Due” stickers and informed drivers and operators to call us when that reading was reached. SLAs described the consequences of ignoring PM, or federally mandated inspections or maintaining records if the work was outsourced to a private vendor and so forth.

Step 8: Partner with customers

SLAs also provided customers to place restrictions on us on maintenance expenses beyond which they had to be consulted before proceeding. Decisions whether to proceed with maintenance or to write the unit off in case of severe damage involved customer input. They also explained clearly our in-house warranty for 60 days on labor charges.

Step 9: Reap the benefits

With policies developed in consultation of all major customers, fleet replacement planning with their input and annual SLAs, customers felt consulted and kept informed. Complaints dwindled to almost nothing. Fleet operations which were considered bureaucratic and not very customer-friendly were now partners with customers in a joint exercise.

Step 9: Reap the benefits

Complaints to senior administrators and Council members also reduced dramatically. One Council member formally recognized the positive changes implemented at fleet operations at a Council meeting. He then went on to become the mayor, a very supportive one at that!

Step 10: Consider problems as challenges

Change was not without challenges. For example, many shop technicians felt insulted since they had to get customer authorization to spend beyond a pre-set limit. They felt that they were the best judges in making such decisions and why bother with customers? Customer scrutiny of work orders and charges were also something new to them. Even the basic concept of accepting some of their colleagues as “customers” was hard for them.

Step 10: Consider problems as challenges

ABC and billing on a pay-as-you-go basis involve more accounting activities compared to parceling out fleet operations budget based on empirical formulas. Mid-course corrections were needed for one or two years until true costs and budgets are established. Technicians and foremen had to realize that customers were watching their costs and had to scrutinize and ensure billings were accurate.

Minneapolis experience

I was hired to implement similar (not all) changes at Minneapolis in Nov. 2002. The process was much simpler and faster the second time around for me. My previous experience came in very handy. Customer consultations during which I explained my vision for the change were followed by wider communications with budget office and other stakeholders. We were able to put most of the processes in place by July of 2003.

Minneapolis experience

We set a goal of moving towards the new business model by January 1, 2004 to accommodate the budget cycle. We accomplished this goal and experienced similar customer satisfaction within a year.

One major fleet operating department, which was using the private sector for fleet supply, fuel, maintenance etc. became a new customer for us. I am happy to observe that their satisfaction rate is quite high. Since then, we have added businesses from other smaller customers.

Minneapolis experience

One other change implemented in Minneapolis is contracting Enterprise rent-A-Car to supplement our light fleet needs. We eliminated all 12-passenger vans that the Division carried for occasional needs. Their utilization was very low and a cost-benefit analysis under ABC clearly showed they were a big loss.

Minneapolis experience

Since changing fleet operations and implementing ABC, other departments have also followed implementing similar changes. ABC is becoming the preferred way to distribute overheads and other costs for many centralized operations. This is seen as a credit to Fleet Services that implemented it first in the City of Minneapolis.

Conclusion

Implementing change is a major effort and takes dedication and hard work. Customer support is critical for which their inclusion and constant consultation are essential. Any change is challenging. But the fruits of the endeavor are sweet indeed.

Conclusion

Some steps to follow:

- **Get customer input and establish fleet operation policies that make sense to both you and your customers.**
- **Take a methodical approach.**
- **Start the process with small steps that are easy to achieve; a few early successes breed more successes.**
- **Don't hesitate to tackle more difficult issues.**

Conclusion

- **Be prepared to make a few mistakes but move on and make corrections as required.**
- **Inform and consult with all stakeholders (customers, unions, finance, budget office, senior administration etc.) on a continual basis throughout the process.**
- **Celebrate successes.**
- **Don't forget to have some fun and a sense of humor. They help the medicine go down more easily.**



Questions?