Transport Topics
Letter to the Editor
July 10, 2006

Fleet Strategy

Your June 12 article on Schneider National's fleet strategy describes a replacement plan many carriers are currently employing: Buy as much 2006 fleet as possible to avoid the higher anticipated purchase and operating costs of 2007 power units.

Unfortunately, many carriers could be seriously hurt in the future as a result of their current fleet acquisition plans.

An example will best illustrate the point: Company X has 700 rigs and replaces 50% of its fleet in 2006. The economy is good, profits are high, lots of capital is available and they avoid the 2007 engine-cost penalty for several years.

Fast forward to 2011 and the following scenario: The U.S. economy is in recession, there is over-capacity in the trucking industry and capital is tight.

Company X now has 350 rigs purchased in 2006 that need to be replaced, but not only do they not have the capital to replace 50% of their fleet, the recession has significantly depressed used-truck sales and pricing. That means the company is burdened with the higher running costs associated with an aging fleet and a cost structure that will only get worse with each passing year until the economy and capital availability turn around. They also will have too many rigs parked, because of overcapacity in an industry also suffering from depressed used-truck pricing.

Acquiring a "fleet bubble," a large, disproportionate percentage of fleet in one year, is one of the most common fleet strategy mistakes companies make and it can be a problem significant enough to force years of poor financial performance or even bankruptcy.

Developing and managing an effective fleet strategy is a very complex, yet necessary, process that begins with defining the "optimal life cycle" of your equipment. In other words, you need to understand first, from a cost perspective, at what age your company's equipment should be replaced. Once that is defined, companies should replace fleet based on the optimal life-cycle as much as possible. If that cycle suggests replacement at the end of five years, 20% of the fleet should be replaced each year.

Avoiding the "2007 engine penalty" can be part of a sound fleet strategy. There definitely is a cost-avoidance benefit. Carriers just need to be cautious that they don't over purchase and mindful of what could happen five years down the road.

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Opinion and Comment

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