

Operating in a Volatile Market



The Challenges and
Opportunities Facing
Private Fleets

POWER  **FLEET**

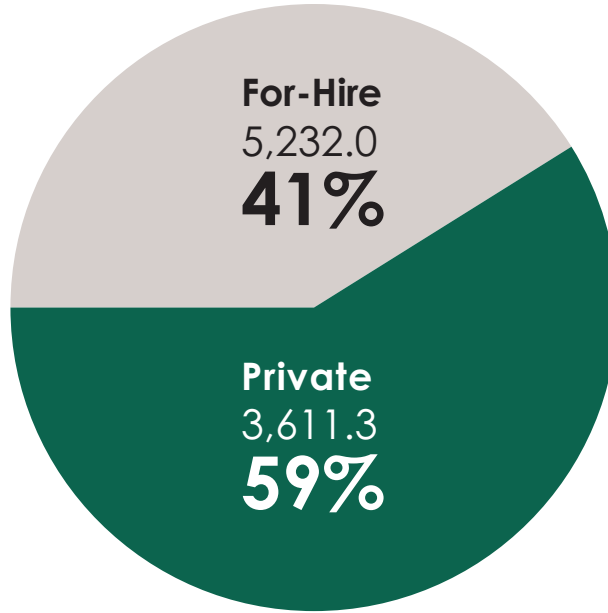
People Powered IoT





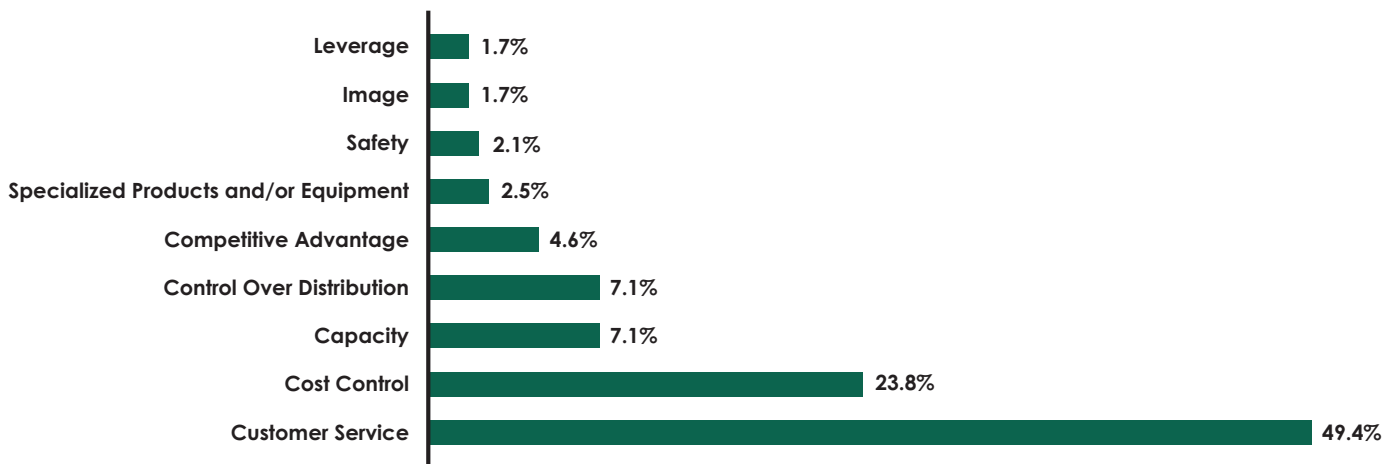
TONS OF COMMODITIES SHIPPED

Private Carriage and For-Hire Trucking (Million Tons)



U.S. Department of Transportation, Bureau of Transportation Statistics, and U.S. Department of Commerce, U.S. Census Bureau, 2017 Commodity Flow Survey, EC17TCF-US, 2017 Economic Census: Transportation, Washington, DC, September 2020

WHY PRIVATE FLEETS EXIST



National Private Truck Council's 2020 Benchmarking Report, page 5.





The trucking industry is in a constant state of flux today.

Thanks to the unrelenting volatility in consumer demand and the tightness in available truckload and less-than-truckload capacity the trucking industry is in a constant state of flux today. The cyclical nature of the trucking market has created an environment where shippers and carriers see crests and troughs within the market. While this seasonality could be conducive for small and medium-sized shippers looking to find capacity, a fluctuating truckload market is inconvenient for large, enterprise shippers.

This is because shippers of different sizes differ fundamentally in their positioning within the trucking market. Smaller shippers are interested in ensuring the freight rates remain as low as possible, be it on dedicated contracts or the spot market. However, for large shippers looking to move hundreds of truckloads every month, having access to guaranteed truck capacity trumps the need to keep freight expenses low.

Higher service levels and better control of the transportation network often lead enterprise shippers to own and operate private fleets. For instance, big-box retailers like Walmart and Target run private fleets with trucks that number in the thousands, making them some of the largest trucking players in the market. During 2020, amid

the COVID-19 pandemic, online ordering and home deliveries grew exponentially, causing many private fleets to add new assets to their operations to grow their capacity.

The US Department of Transportation estimates that private fleets haul roughly 41% of all commodities moved within the trucking market in the US. Private fleets are built to be cost-effective to the shippers, helping maintain flexibility and streamline operations regardless of market volatility. In addition, the National Private Truck Council's survey of private fleets revealed that customer service was the top reason private fleets cite as the reason they are in business.

That said, the fortunes of a private trucking fleet keep oscillating. Private fleets are typically seen as cost centers to companies, especially in a market where capacity is loose and freight rates are low. The operational expenses of a private fleet are tremendous, considering that everything is done in-house—including employing truck drivers, equipment maintenance, regulatory compliance, and insurance premiums.



The Complexities Surrounding Private Fleet Operations

Optimizing equipment to meet peak demand.

The primary objective of running a private fleet is to secure shipment movement throughout the year, especially during times of a capacity crunch in the market. Aside from running dedicated private fleets, shippers also reserve a portion of their shipment volume to be hauled by for hire carriers through dedicated contracts, brokers and the spot market.

This has to do with demand volatility. During times of weak demand, shippers with private fleets will have to justify their truck numbers, as idle equipment will be a waste of resources. While pushing the entire shipment via a privately-held fleet of trucks and trailers will mean comprehensive control over freight operations, it will come at the cost of an overburdened bottom line. Shippers tread carefully, looking to optimize their hauling operations with a mix of private fleet capacity, dedicated contracts, and the spot market.

The capital/operational expenses associated with buying/leasing new equipment cannot

be ignored either. In times of loose capacity availability, private trucking fleets are faced with tough financial questions to answer—as engaging with for-hire trucking companies will make business sense. This aside, when shippers are experiencing a financial crunch, capital expenses regarding trucking equipment will be at the top of the list of costs to be cut down.

Keeping up with regulatory compliance

With a variety of regulations governing trucking operations, strict compliance with guidelines could become tedious. Unlike dedicated contract carriers, enterprise-owned private fleets face more challenges with compliance as their operations are split between several segments - one of which is trucking. On the contrary, a carrier firm exists solely for moving freight, making compliance more straightforward.

The roadmap to the federal mandate of electronic logging devices (ELDs) is a good example. While implementing ELDs across an



entire trucking fleet was laborious, the situation became more complicated for private fleets as many of its operations were tied together to its hauling activity.

The immediate aftermath of the ELD transition saw more drivers forced to miss out on keeping up with delivery schedules, as they ran out of hours of service (HOS) before they reached their shipment destination.

Compliance also comes with its own set of costs as with the ELD mandate, costing shipper's money to install the hardware and software in its back-office, aside from training drivers on how to use the system and its interface.



Tackling the possibility of nuclear verdicts.

One of the biggest concerns within the trucking industry is the increasing occurrence of punitive lawsuits against trucking firms involved in road accidents. The statistics are heavily stacked against trucks in truck-car collisions, and often wrongly so—the American Trucking Associations in a study found that cars are responsible for 80% of all accidents involving a truck.

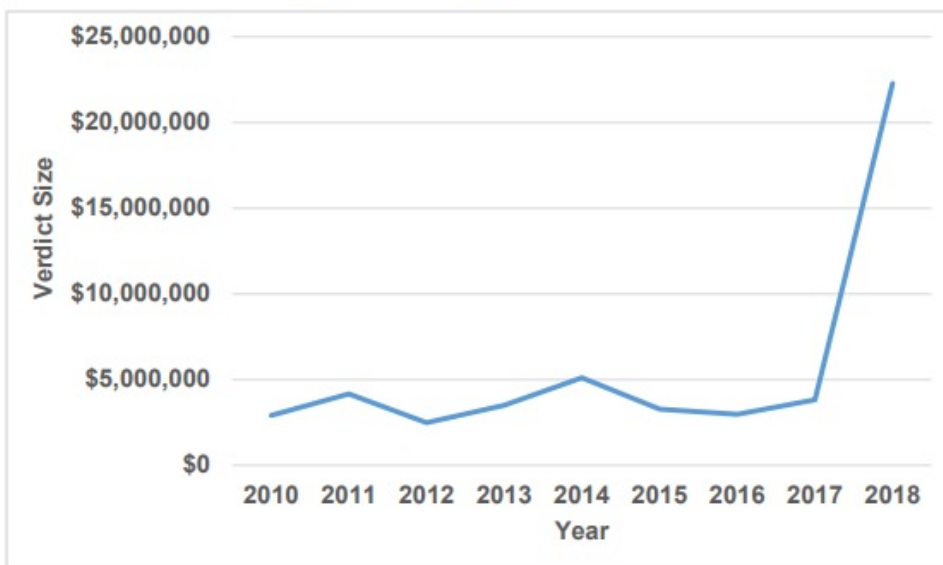
That said, it is more than just lawsuits that trouble trucking fleets; it is about the size of the damages claimed. The number of nuclear verdicts—jury-awarded compensation

for damages that exceed \$10 million—has seen a phenomenal increase. The American Transportation Research Institute (ATRI) estimated¹ that the average value of compensation grew by 967% between 2010 and 2018.

The average verdict size rose 51.7% per year between 2010 and 2018 due to nuclear verdicts.

For a private fleet that runs hundreds of trucks, safeguarding their operations from such lawsuits is critical. Insurance premiums have been steadily rising over the years, thanks to the oversized risks of providing cover for fleets.

Figure 5. Average Size of Verdict



¹ *Understanding the Impact of Nuclear Verdicts on the Trucking Industry*, Page 18. American Transportation Research Institute.



Contending with driver shortage and retention issues.

Driver shortage has been a long-standing issue within the trucking industry. Considering that the average truck driver age today is nearly 50 and a growing number are nearing retirement, the driver shortage problem could be at risk of steeply climbing. The industry has struggled to attract younger people to join the trucking community due to the hardships associated with being a truck driver. Long-haul drivers often spend several days on the road, sleep in their cabs, and can be on assignments for weeks away from their families.

Private fleets experience a significantly lower driver turnover rate at an estimated 18% vs 90% for truckload carriers. However, with an aging workforce and tight driver market, it is crucial for private fleets to offer attractive incentives and benefits for their drivers to continue working with them—ensuring seamless operations.

Nonetheless private fleet drivers have historically been some of the highest-paid in the industry. In the National Private Truck Council's 2020 Benchmarking Report, the average private fleet driver compensation increased 11.5% in just five years with the average annual pay at \$73,325 with a couple of fleets reporting maximum driver pay in excess of \$150,000².

Handling backhauls and maximizing capacity utilization.

While digital loadboards and freight marketplaces have given for-hire carriers reasonable opportunities to get loads on their backhauls, filling backhauls has been a headache for private fleets. Optimizing the network is critical as empty backhauls cost companies money. Private fleets rarely have in-house backhauls, so they work out ways to fill backhaul capacity.

Some private fleets put their backhauls in the for-hire trucking market. This is a necessary hedge for companies, as it helps them run fleets without burning through too much of their operational budget. Companies running private fleets can also partner on a symbiotic relationship where they haul freight for each other on obscure lanes they already operate in.

To improve capacity utilization, companies will have to pay heed to operational challenges that impact fleets. Bumper-to-bumper visibility is now of prime importance as this will help companies stay on top of fleet utilization.

² National Private Truck Council 2020 Benchmarking Report, page 51.

Opportunities for Private Fleets to Provide Value

Utilizing telematics for improved utilization and safety.

To improve visibility into trucking operations, it makes sense for companies to look at installing asset tracking technology and sensors that can provide bumper-to-bumper visibility into freight movement and status.

In addition to location and load status, holistic solutions can provide images from HD freight cameras, dashcam videos, door open/close sensors, temperature, humidity, pressure, light measurement sensors and an integrated accelerometer to provide deeper insights.

For instance, temperature sensors can be used for real-time temperature monitoring, alerting the operations management when there is a

discrepancy in conditions. This is useful in the context of non-durable, temperature-sensitive freight like pharmaceuticals or refrigerated/frozen food. Refrigerated trailer telematics solutions can integrate with the chillers to make remote changes, clear alarms and fault codes, and even offer remote start/stop capabilities - going beyond only monitoring the asset.

Technology provides a wealth of data for maximizing equipment utilization, but the key is leveraging that data to inform decisions. Best-in-class software systems make it easy to see real-time assets on a live map as well as provide a dashboard with dynamic AI-powered interaction with a fleet's assets and cargo database without manually running reports.

“Now, more than ever, transparency and efficiency are the best defense against supply chain vulnerabilities.”

Jeff Bowman
Corporate Logistics Director
Rusken Packaging



Pursuing data integration and interoperability.

Data integration is another step closer to improving operations. Enterprise companies often use several highly disparate technology systems, varying across several product generations and data specifications. Data streams also lie siloed within the organization, split between different working groups.

Integrating data and unifying data streams across a common data standard will help glean better insights into freight volumes and available capacity. Technology like demand sensing can help companies maximize fleet utilization, planning schedules several weeks in advance, and positioning drivers on lanes that run close to places of their choosing.

Companies contending with legacy and 'clunky' software should talk with transportation management system (TMS) providers and upgrade to recent versions. Paper-based processes must be phased out and transitioned

to the digital medium. With electronic records stored in the cloud, fleet management can access records anywhere and, on the move, unlike systems that store data offline.

Freight monitoring can go beyond tracking assets while over the road, including tracking forklifts and material handling equipment in warehouses or distribution centers.

Integrating data from these different logistics verticals could create cross-organizational visibility that ensures precision control over freight movement. For enterprises, private fleet operations teeter between being an operational cost center to being an inherent part of 'perfecting' the end consumer experience. While private trucking operations do help companies plan better, it does come with its fair share of complexities. Managing operations seamlessly will need companies to have a judicious mix of technology in logistics operations. This will ensure they stay in control of logistics operations—not just trucking, but end-to-end freight movement.

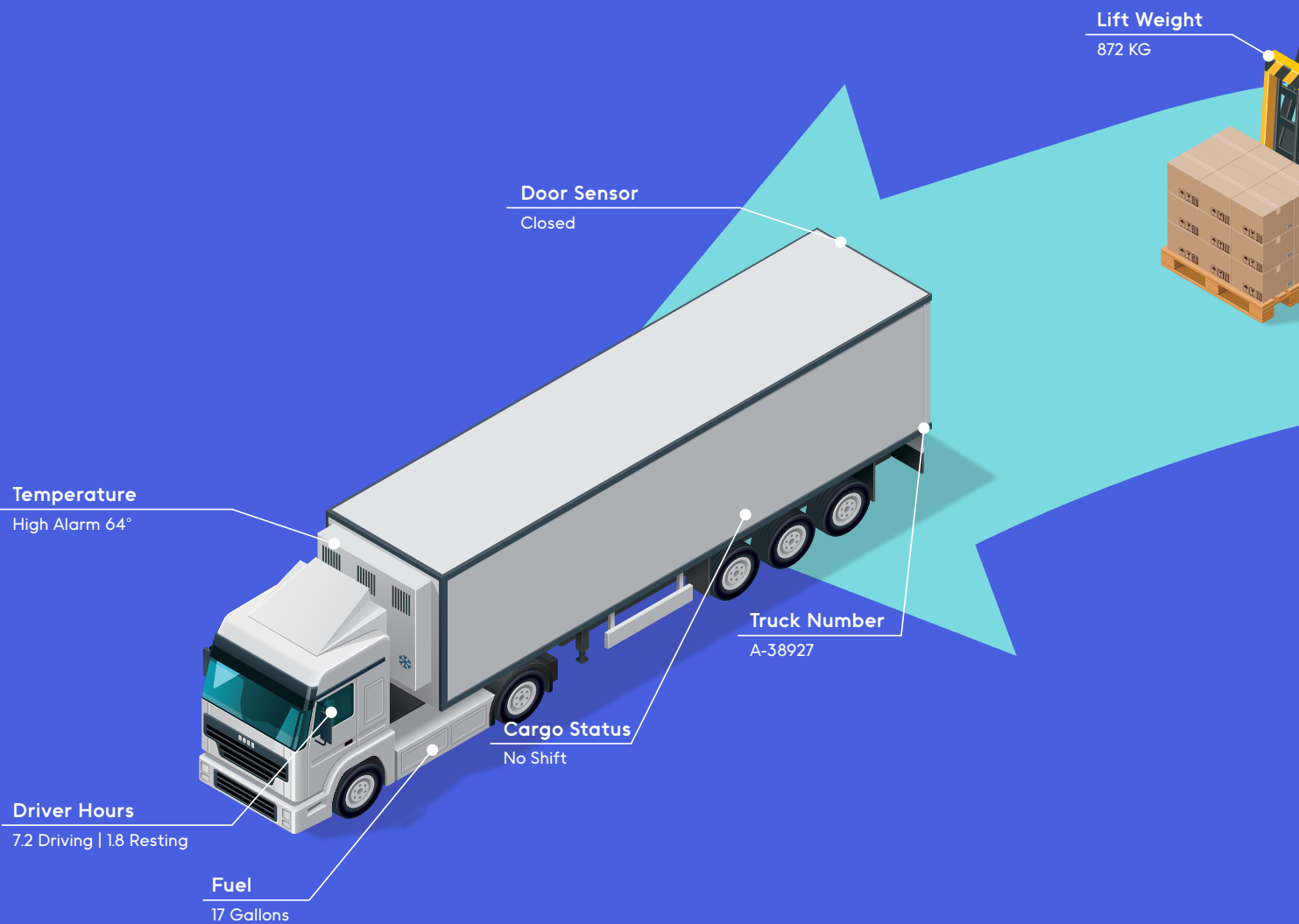


Freight monitoring can go beyond tracking assets while over the road, including tracking forklifts and material handling equipment in warehouses or distribution centers.



Power up your supply chain visibility.

Find out how PowerFleet can help you improve safety and productivity of your material handling equipment and over-the-road assets. Request a consultation with one of our experts to get specific recommendations for your company.





Driver ID Number

123.133.251.42.SDX2-A

Speed

4MPH



Location

34.1° N, 118.2° W

Temperature

Nominal 71°

About Powerfleet

People Powered IoT

Powerfleet (NASDAQ: PWFL; TASE: PWFL) is a global leader of internet of things (IoT) software-as-a-service (SaaS) solutions that provides a single pane of glass to manage both fleets and assets in order to optimize utilization and maintenance, driver behavior, and fuel consumption, all delivered by a world-class customer success team.

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