CHAPTER 8: Introduction to Dedicated Fleet Pricing

Dedicated fleets are customer-specific operations where the customer has exclusive use of a fleet of trucks, trailers, and drivers for the movement of their products. Dedicated fleets are sometimes referred to as "Dedicated Contract Carriage." Shippers that require dedicated fleets usually have specialized transportation needs that are best met with customized services instead of standard one-way truckload transportation. Several examples of special shipper needs often served by dedicated fleets are listed below.

Common Reasons for Dedicated Fleets
Specialized trailer and/or tractor equipment
Intense driver labor requirements, especially unloading
Excessive number of stop-off deliveries
Heavy volumes of traffic under 200 miles
Shipper need for extraordinary on-time delivery service

Dedicated fleets are attractive to trucking companies because they generally involve less operating uncertainty than traditional one-way trucking operations. Dedicated fleets also offer less financial uncertainty because of the detailed dedicated contract relationship. The terms and parameters of the contract reduce the overall risk for the carrier. In most situations, the majority of risk is effectively shared with the dedicated shipper.

In its simplest form, the pricing for a dedicated fleet is basically a cost-plus decision. However, this book will discuss pricing methods that are much more sophisticated (and accurate) than a simple cost-plus approach. Several common methods of structuring dedicated pricing contracts and the advantages and disadvantages of each approach will also be discussed.

Common Types of Dedicated Fleets

Dedicated fleets are implemented to serve many specialized and unique transportation needs. Each fleet is custom-designed for the network and shipper it will serve. Described below are a few general needs that are commonly served by dedicated fleets, along with specific examples of actual dedicated fleets.

Multi-Stop Retail Distribution

A retail distribution fleet is designed to meet the needs of a retailer to deliver products to a group of retail stores. The customized solution might include multi-stop peddle runs, an on-site manager, and load-building optimization technology.[1] While making deliveries, drivers follow specific procedures for the unloading process such as handling products, obtaining signatures, and reporting cargo claims.

[1] Peddle runs are full truckloads that combine small shipments to multiple destinations into one truckload. The truckload is delivered by making brief stops at each destination or "consignee" location on the route.

Networks with a high number of stops per load are often served with dedicated fleets because most one-way carriers prefer to avoid loads with a large number of stops. The excess stops waste valuable time and cause the carrier to lose asset utilization. The number of stops will often cause dissatisfaction for typical over-the-road drivers because they generally prefer driving much more than making stop-off deliveries. With a dedicated fleet solution, drivers are hired to join the fleet and are made aware of the stops and other requirements during the hiring process.

Example Fleet: Several major retailers use a multi-stop retail distribution dedicated fleet to deliver tires to their retail locations within a specific geographic area. Each retail store receives one or two tire deliveries each week, depending upon sales volume. Each trailer can hold approximately 1,500 tires and the average tire delivery ranges from 100 to 350 tires per store. Therefore, an efficiently loaded outbound trailer will contain enough tires to make multi-stop deliveries to between 3 and 7 stores.

In order to save miles and reduce cost, the retailer or the carrier uses a transportation optimization software package to identify the most efficient routing of stores for each day's shipping. The optimization software will identify the routing solution that minimizes the total number of miles and total cost. This solution is achieved by loading the stores into the fewest number of trailers and by identifying the most efficient delivery route for each load.

The drivers for this type of fleet must usually assist with unloading the tires at each store. The unloading process is physically demanding, so not just any truck driver is capable of handling this workload. The unloading demands, along with the high number of stops, make a dedicated fleet essential for the success of this operation. The typical linehaul truck driver would be very unhappy if assigned to a load with these difficult stop-off and labor requirements. The retailers also have a high need for exceptional on-time delivery service, furthering the need for a specialized dedicated fleet.

Short Haul Regional Distribution

A short haul regional distribution fleet is designed to meet the needs of a shipper that ships a large number of loads within a small geographic area, usually from a single distribution center. In many cases, tractors will perform multiple outbound loads each day and return empty to the distribution center after each load in order to quickly be available for the day's next outbound load.

In some networks, the shipper may also have nearby vendor shipments that need to be delivered into the distribution center. Whenever possible, outbound trucks will pick up these vendor loads as they return to the distribution center. The ability to pick up some or all of these inbound loads can make the fleet very cost effective for the dedicated shipper.

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