

Lease or Own?

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Hannaford and Meijer approach their trucking fleets differently, the former leasing its tractors and the latter owning them



Hannaford leases 75 of its 100 tractors and plans to convert the rest to leases by 2013.

A question that has long bedeviled consumers shopping for a car — whether to lease or to own — is one that food retailers and wholesalers are increasingly asking about their trucking operations as they grapple with rising costs and new environmental regulations.

Retailers have historically favored owning their fleets, sometimes supplementing their efforts with third-party carriers (dedicated contract carriage). For example, Food Lion and Sweetbay, two units of [Delhaize America](#), rely entirely on wholly owned trucking fleets to deliver products to their stores. [Meijer](#), Grand Rapids, Mich., also relies on vehicles that it owns.

“With interest rates at historic lows, most [retailers] are deciding to continue to purchase their own [transportation] equipment,” said Rhett Asher, vice president of industry relations for the Food Marketing Institute, Arlington, Va. Most grocers hold on to their purchased trucks for eight to 10 years.

But the pendulum may be starting to swing toward leasing. According to the National Private Truck Council's 2011 Annual Benchmarking Survey, 42.5% of surveyed companies (35% to 40% of whom are involved in food distribution) lease tractors, 42.5% own tractors and 15% own and lease. In recent years, the percentage of companies leasing has fluctuated from 37% two years ago to 50% last year.

Hannaford Bros., Scarborough, Maine, another Delhaize subsidiary, in 2009 decided to switch from owning its trucks to leasing them (while still purchasing trailers). For Chris Huff, director of transportation for Delhaize America, who is based at Hannaford Bros. but oversees all of Delhaize's U.S. subsidiaries, the Hannaford

conversion represents a test case in the merits of leasing vs. buying that may ultimately lead to truck leasing at the other Delhaize America chains.

Why did Hannaford opt to lease tractors? It started when Huff and Hannaford Vice President Gerry Greenleaf began discussing whether they were operating the Hannaford trucks, which average about 120,000 miles per year, too long before replacing them. “We were running [each tractor] for 700,000 miles or seven years, whichever came first,” Huff said. “But we recognized that by the fourth year, the maintenance expense was starting to escalate by 1 or 2 cents per mile.” From a mileage perspective as well, by the 500,000-mile mark the vehicles “started to go downhill as far as maintenance expense for engines and transmissions,” he said.

The decision was made to run fleet equipment for 500,000 miles and then garner maximum value from the resale market. But then the executives asked themselves whether the next step should be to buy new replacement vehicles — a costly proposition that would divert capital from store construction — or lease them. “We needed to understand more about leasing,” Huff said.

One of the leasing vendors considered by Hannaford was Fleet Advantage, Fort Lauderdale, Fla., whose chief executive officer, John Flynn, also advocates a four-year replacement cycle. Flynn educated Huff and Greenleaf about flexible leasing opportunities, outlining the advantages of leasing new, more fuel-efficient vehicles made possible by government mandates to improve emissions and fuel economy.

Hannaford found Flynn's arguments persuasive and began leasing 25 of Fleet's vehicles, tailored to the retailer's requirements, to replace seven-year-old tractors. Today, Hannaford leases 75 of its 100 tractors and plans to convert the others to leases by 2013. The chain has had “great results,” said Huff, with Freightliner Cascadia tractors and Detroit Diesel DD15 engines, which require fewer oil changes.

“The timing felt right,” Huff said. “On the environmental side, we wanted to improve our mileage. We also wanted to reduce maintenance costs and get away from cap-ex requirements.” Hannaford continues to do its own maintenance, though some retailers who lease trucks also prefer to farm out maintenance responsibilities for increasingly complex trucking systems.

Reliance on Data



XataNet onboard system used by Hannaford to track vehicle performance.

Hannaford leverages three “information streams” to manage and measure its leased fleet. One is data generated by onboard computers and software, supplied by Xata, Minneapolis; that data is also provided to Fleet. Another is an annual review by the Environmental Protection Agency's SmartWay program of Hannaford's improvements in miles traveled and fuel consumed, based on raw numbers supplied by the chain. And the third is an array of metrics periodically provided by Fleet as part of the

vendor's “continuous improvement” program that includes fuel savings and carbon reduction over time.

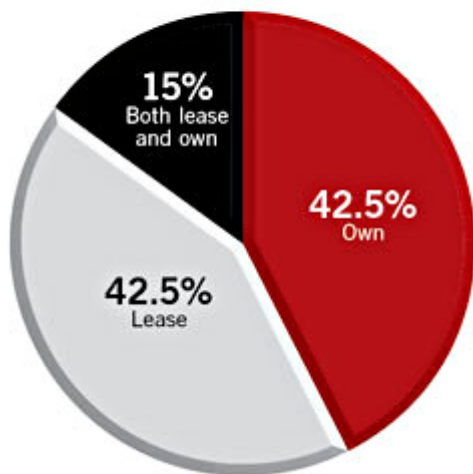
Hannaford's reliance on trucking metrics reflects the growing adoption of onboard technology to measure vehicle and driver performance. According to the NPTC Benchmarking Survey, 81% of private fleet owners now use onboard technology compared to less than 50% six years ago.

Fleet has calculated that Hannaford saved more than 137,000 gallons of diesel fuel in 2010 after switching to the more efficient vehicles in the leasing program, and projects that the chain will eliminate 460,000 gallons by 2014. In terms of emissions, in 2009 Hannaford reduced carbon dioxide by 1,388 metric tons, particulate matter by 1.61 metric tons and nitrogen oxides by 50 metric tons, according to Fleet.

The savings in fuel resulting from more efficient engine technology, based on the current cost of diesel, will pay for the cost of a new replacement vehicle from Fleet in about 39 months, Flynn said. Hannaford is also enhancing the fuel economy of the vehicles, Huff noted, through tests on trailer "side skirts" designed to smooth air flow, super single tires and air-inflation systems. Huff declined to cite the cost of the Fleet program.

TRACTORS: LEASE vs. OWN

(% of companies leasing vs. owning tractors)



SOURCE: National Private Truck Council 2011 Annual Benchmarking Survey

Driver behavior, of course, also has a significant impact on fuel economy, and, helped by Fleet metrics, Hannaford addresses bad habits such as idling, shifting gears improperly and accelerating too hard. Improvements in driving can boost mileage by 0.3 of a mile per gallon, said Flynn. "The driver is literally in the driver's seat when it comes to achieving a lot of fuel economy goals," noted Tom Moore, vice president of education, NPTC.

Driver behavior is also being impacted by the Compliance, Safety and Accountability (CSA) program, introduced in December 2010 by the Federal Motor Carrier Safety Administration. The program measures the safety performance of drivers and penalizes companies that fail to correct poor performance. CSA is often not as much of an issue for private fleets, whose more predictable schedules attract more qualified drivers than "over-the-road" fleets that spend long periods away from home.

According to Gary Petty, president and CEO of NPTC, private fleets tend to have very low turnover, compared with 79% annual turnover for large truckload carriers. Hannaford, for example, has been able to

keep its driver turnover close to zero, said Huff. The low turnover puts private fleets in a good position to weather the 300,000-driver shortfall in the trucking industry, Petty noted.

While the results from leasing have thus far been positive for Hannaford, a decision on converting Food Lion and Sweetbay to leasing won't be made until 2013, "when we will have had three to four years of leasing experience and will look at turning in the first group of leased tractors," Huff said. If the ROI, based on maintenance and fuel savings, continues to hold up, "then I think you'll find leasing expanded to the rest of our banners."

Still, he hedged somewhat, adding, "It's always possible that based on our financial needs we decide that a four-year, 500,000-mile cycle is right, but we elect to purchase instead of lease. It depends on the needs of the organization and our capital requirements."

At the same time, he acknowledged that leasing “allowed us to go on a four-year, 500,000-mile cycle,” something Hannaford could not previously afford to do.

Hannaford also employs a dedicated third-party carrier, Hutchins Trucking, South Portland, Maine, to handle about 20% of its deliveries. “I find it valuable because it helps us with seasonality and the peaks and valleys of our business,” while reducing labor and capex requirements, said Huff. Other Delhaize chains don’t use third-party carriers.

But the impact of the recession, which caused a rollback in trucking availability among third-party carriers that has still not returned to pre-recession levels, is forcing some food retailers to rely more on their private fleets, noted Adriano Melluzo, group director of sales for the food and beverage industry, Ryder System, Miami. The NPTC survey reports that 61% of private fleet owners expect their fleet to grow in the next five years.

Meijer's Approach

On the other side of the leasing/owning coin, Meijer, Grand Rapids, Mich., has opted to own its fleet of tractors. Meijer declined to comment on why it chooses to own rather than lease its vehicles, but one clue to its strategy is that 189-store chain runs its own truck maintenance shop.

Industry observers point out that companies sometimes decide to lease rather than own in order to avoid having to run an up-to-date maintenance operation capable of handling the latest trucking technology. “The complexity of the new engines is causing fleet operators to say they want to outsource maintenance,” said Ryder's Melluzo.

Moreover, Meijer has been able to keep pace with advancements in trucking technology and design while owning its fleet. For example, in 2009 Meijer became the first company in the U.S. to purchase tractors from Daimler Trucks North America, Portland, Ore., with engines that met the federal 2010 emissions regulations. The chain purchased 75 Freightliner Cascadia tractors equipped with Detroit Diesel DD13 engines that include BlueTec emissions technology; the units were delivered last year.

The DD13 engine is one of a family of new fuel-efficient, reduced-emission engines developed by Detroit Diesel in collaboration with the Department of Energy 21st Century Truck Partnership Program. Introduced in 2008, the engine was designed to meet current and future emission regulations while reducing fuel consumption and dependence on foreign oil. The engines are able to deliver “near-zero tailpipe emissions,” in Meijer's case eliminating 525 tons of nitrogen oxide and 9,300 tons of carbon dioxide, according to Daimler Trucks North America.

Detroit Diesel said its BlueTec system, an evolution of the selective catalytic reduction (SCR) technology developed by Daimler, delivers a fuel economy improvement of up to 5 compared to EPA 2007 engines. “The trucks will actually save Meijer money by reducing fuel consumption by more than 800,000 gallons of diesel fuel and reducing fuel costs by more than \$2 million over the lifetime of these vehicles, as compared to deploying less advanced technology,” said Daimler.

The 189-store Meijer chain, which owns its own tractors, also runs its own maintenance shop.

According to Tom McCall, vice president of logistics for Meijer, the pairing of the aerodynamic Freightliner Cascadia with the DD13 engine effectively matched Meijer's criteria for reliability, fuel economy, durability and serviceability.

“We're extremely proud to be the first company in the nation to place an order for these 21st century trucks equipped with the BlueTec emissions technology,” said McCall, in a statement.

This was not the first time Meijer has been cited for improving the efficiency of its fleet. In October 2007, the U.S. Environmental Protection Agency SmartWay program awarded Meijer its Environmental Excellence Award for leadership in conserving energy and lowering greenhouse gas emissions from its transportation and freight activities.

In replacing its old trucks, Meijer announced that it would donate 35 used tractors to 14 Midwest food banks (which got two tractors apiece) as well as to law enforcement and academic institutions.

Increasing Backhauls

While trucking costs over the past few years have risen as the economy has improved, the biggest cost factor remains diesel fuel, up \$1 per gallon from a year ago. Tire costs have also shot up because of a dramatic rise in the cost of raw rubber.

Higher fuel costs are somewhat eased by more efficient vehicles, but for Meijer one of the best ways to address rising costs has been to increase the number of backhaul deliveries its trucks do after delivering products to stores, preventing trucks from coming back to the DC empty.

Robert Mooney, group vice president, wholesale and manufacturing, Meijer, Grand Rapids, Mich., has said at past FMI supply chain conferences that backhauling is a key for retailers looking to compensate for rising costs. “A huge amount of money is being left on the table in terms of empty transport miles,” he said.

However, many companies, including Meijer, are looking at taking backhaul revenues and applying them against the expense line in order to show a net savings “and provide an incentive to go after backhauls,” said Mooney.

Mooney said that Meijer was pursuing arrangements where it uses backhauls to carry goods to third-party warehouses. “Getting into the for-hire business and hauling other people's freight — that's where the industry is going to have to go,” he said.



Meijer also makes sure that its store-bound trailers are filled as completely as possible, thereby reducing the number of deliveries. “You cannot change the price of fuel or the load limits of your trailers, but you can always fit more product on the trailer,” said Mooney.

Meijer defines a full trailer, for grocery, perishables or general merchandise, as one that contains 42,000 pounds or 3,500 cubic feet of product.

Load planning is a key to shipping a full trailer, Mooney said. “Start with a plan instead of just picking the orders and trying to figure out how to fit everything on a trailer.”

Making sure shipments are weighed and cubed correctly — basic data accuracy — is another important element in maximizing shipments. “It really got us to clean up our act from a data standpoint in terms of getting ready to really measure this,” Mooney said.