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*Managing Third-Party Fleet  
Maintenance Service Providers*

Indianapolis, IN  
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**MERCURY**

# About the Presenter

Steve Saltzgeber, BSBM, MAOM, CAFS  
Manager, Mercury Associates Inc.

- More than 38 years' experience
- Fleet management consultant
- Served as a Journey Technician at Utah Transit Authority, local and state government fleet manager (City of West Jordan, States' of Utah and Georgia)
- Successfully transitioned from wrench tuner to manager of a \$1.5 billion (annual capital and operating budget), 50,000-unit fleet
- Former Vice President of Fleet Operations at Republic Services, Coca-Cola over 43 states and Canada
- NCSFA Distinguished Service Award, 2009
- Honda Leadership Award, 2005



# About Mercury Associates, Inc.

- Employee-owned firm incorporated and headquartered in Washington, DC area; employees located in 13 states and in Canada
- Largest dedicated fleet management consulting company in North America
- More than 600 clients served, with fleets of <100 to >200,000 vehicles and pieces of equipment
- Company's mission is to help organizations improve fleet management practices, improve fleet performance, and reduce fleet costs

# Key Mercury Associates Services

- Fleet Management Best Practices Studies
- Fleet Management Program Consolidation and Organizational Restructuring Studies
- Fleet Cost Analysis, Reduction, and Containment Studies
- Fleet Utilization, Optimization, and Rightsizing Studies
- Fleet Management Information System Requirements Definition, Acquisition, Implementation, Hosting
- Outsourcing Feasibility Studies
- Managed Competition Analyses

# Session Objectives

- Learn how to determine the tasks and activities necessary to truly develop an outsource partnership
- Learn how to use a structured approach to developing, negotiating and implementing a mutually beneficial third-party fleet maintenance provider partnership
- Learn the importance of using objective, quantitative data to evaluate third-party fleet maintenance provider activities efficiently and effectively



*Managing Third-Party  
Fleet Maintenance  
Service Providers  
(Partners)*

# Why is it important to Manage Providers?

## Real-Life Scenario:

- East Coast company outsources M&R services with well-known Third-Party maintenance provider
- Provider couldn't provide historical repair data or trends despite Service Level Agreement (SLA) which states:
  - ✓ Provider daily communications with Client
  - ✓ Provider meets company requirements. Failure = Cancel
  - ✓ Quality M&R adheres to standards
  - ✓ Provider to provide KPI reports on monthly basis
  - ✓ Provider to survey client employees quarterly
  - ✓ Provider to conduct quarterly business reviews

# Why is it important to Manage Providers?

## Real-Life Scenario:

### RESULTS?

1. *Provider fails to meet Client contract requirements, despite using standard template.*
2. *Vehicles maintained poorly. Downtime increases. Client frustration levels high. Client ready to cancel contract.*
3. *Client contacts Mercury to review Provider SLA performance and assist with contract negotiations and enforcement.*

- ✓ Provider daily communication with Client
- ✓ Provider meet many requirements. Failure = Cancel
- ✓ Quality M&R where standards
- ✓ Provider to provide KPI reports on monthly basis
- ✓ Provider to supply employee fees quarterly
- ✓ Provider to conduct quarterly business reviews



# Fleet Manager Perspective: Another Scenario

## Why an SLA?

- Shop would not work with an OEM dealer in Louisiana nearest to their location.
- Instead, they routinely traveled over 80 miles one-way to another dealer in the state's capitol which created an extreme burden on the shop personnel.

## Solution

- Set up a meeting with all parties including the shop, local dealer and OEM to RCPS the issues. (Trust)
- Designed an SLA with performance objectives on both sides to increase accountability for signature.

# Outsource Pros and Cons



Think about this...

*"...If you simply become a vendor then this will signal the end of our partnership!"*

--Rob Maruster, COO Republic Services

# Benefits to Utilizing Third-Party Fleet Maintenance Providers

- Focus resources on core business functions, saving money, and improving efficiency
- Provide contracts with vendors to leverage pricing
- Provide after hours services and repairs 24/7
- Enhance repair and service pre-authorization controls
- Provide solutions using customer care center technical staff
- Expert advisors drive savings with auto/truck expertise to meet customer's objectives
- Maintenance reporting combined with fuel data using online dashboards and suite of reports
- Provide consulting services and fleet policies and procedures for vehicle selection and cycling
- Provide customer reviews, establish action plans and goals

# Benefits to Utilizing Third-Party Fleet Maintenance Providers

- Develop customized schedules for PMs with OEM and customer input
- Design customized service level agreements (SLA) to aid with third-party fleet maintenance provider enforcement allowing customers to:
  1. Drive desired results that impact the customer's most important fleet operational needs
  2. Develop meaningful goals to address customer's needs, cost savings, fleet administration and driver output
  3. Define metrics, baselines and targets with periodic reviews by both the leasing company and the customer
- Provide total control of vehicle maintenance and repairs resulting in greater convenience for fleet managers and drivers
- Ensure compliance and increase productivity for customers

# Types of Third-Party Fleet Maintenance Providers

## **Local Service Accounts** (e.g., Joe's Diesel, Ford Dealer, etc.)

- Contract with a local garage or dealer
- Vehicles travel within a relatively small area or an area that has multiple locations

## **National Accounts** (e.g., Pep Boys, Firestone, Goodyear, etc.)

- Network of regional and national repair facilities with convenient locations that provide competitive pricing and warranties on parts and service
- Larger fleets typically utilize national accounts because of increased coverage and driver productivity concerns

## **Maintenance Management Company** (e.g., Dickerson, First Vehicle Services, ARI, etc.)

- Specializes in providing maintenance and fueling services for fleet vehicles and manages accounts of all sizes
- Can provide on-site maintenance for Clients
- Data is available via electronically

## **Leasing Company** (e.g., Enterprise, Element, Ryder, Penske, etc.)

- Provide fleets of all sizes a means to leverage benefits of scale
- Manage thousands of vehicles and partners to reduce costs and improve efficiencies
- Operate toll-free phone number (call centers) to schedule repairs and PMs
- Leasing service optional but not necessary to take advantage of the programs offered
- Allows organizations to focus on core business
- Fleet manager must manage and regularly audit costs and adherence to company policies

# Common Services Outsourced to Third-Party Fleet Maintenance Service Providers

Based on each Company's Core Competencies the Third-Party Fleet Maintenance Service Provider work that can be outsourced ranges from all to select services:

- M&R services, fueling, asset leasing and all vehicle related services
- Auto Body repair, fabrication and upfitting service work
- Component repair services (Engine, Trans, etc.) where warranty terms are available
- High risk liability repairs and certifications (Emergency Vehicle Repairs)
- Glass repair services
- Tire and brake service and repairs
- Warranty compliance
- Fuel management
- Emergency roadside and towing services
- Asset registration and licensing management
- Tolls and moving violation management
- Parts and inventory management services



*Typical Third-Party Fleet  
Maintenance Service  
Provider Performance  
Issues and Corrective  
Actions*



# Typical Problem Areas Found with Third-Party Provider Performance & Corrective Actions

- Unfamiliar with their own business processes and scope of services provided to Clients in their SLAs and contracts and failure to perform the day-to-day contract T&Cs relating to the execution and performance of the agreement
- Failure to audit the assets ensuring they accurately match the Client's current inventory
- Non-compliance with driver vehicle inspect report (DVIR) requirements, CSA compliance and driver/technician training procedures compared to industry standards
- Failure to provide timely reports and metrics required along with findings and recommendations to enhance continuous improvement of the service quality and total maintenance and repair costs of the fleet

# Typical Problem Areas Found with Third-Party Provider Performance & Corrective Actions

- Review M&R transactions regularly to audit the reasonableness of the contractor's invoice charges, the adequacy of and level of detail in the invoices, and the appropriateness of the performance
- Regular Review Maintenance, Repair Transactional Data and Audit PM Currency and Warranty Compliance:
  1. Inspect the PM checklists for content and completion
  2. Validate follow up repairs are properly recorded, and ensure a corresponding work order was created to repair the defect noted during the PM inspection process
  3. Review sampling of repair records to determine the reasonability and consistency with industry benchmarks
  4. Review sampling of warranty claims for repairs and parts claimed under warranty and dollars recovered and determine if Provider is actively seeking warranty assistance and reimbursement from the manufacturer and is refunding in accordance with contractual T&Cs
  5. Review selected repair transactions to verify that prior authorization occurred for work performed by a 3<sup>rd</sup>-Party fleet maintenance provider and subcontractor and if such work exceeded the approved dollar (\$500) thresholds

# Typical Problem Areas Found with Third-Party Provider Performance & Corrective Actions

- Audit Annual DOT Inspection and Compliance Process:
  1. Sample assets to review the documentation associated with performing the required annual DOT inspection.
  2. Perform audit on a sample of DVIR write ups to determine if the appropriate regulatory processes are being followed, whether defects are being corrected in a timely fashion for the type repair performed, and if the documentation is in compliance with DOT standards.
  3. Observe daily dispatch processes to determine if the drivers are completing the DVIR accurately and review the follow up process to determine if the process follows regulatory guidelines.
  4. Perform review of FMCSA Comprehensive Safety Analysis (CSA) roadside inspection violation data, reviewing the Safety Measurement System (SMS) and assess how the company compares to the industry.
  5. Assess how provider utilizes SMS data ensuring compliance with FMCSA's established scoring thresholds with a focus on the "Vehicle Maintenance Score". (*Clear indicator of how Provider is performing PMs and DVIR quality control processes.*)

# Typical Problem Areas Found with Third-Party Provider Performance & Corrective Actions

- Conduct Roadside Maintenance and Towing Transactional Review
  1. Review sample of roadside maintenance and towing to determine if defects noted are reasonable requiring roadside maintenance and towing expenses
  2. Whether defect was corrected promptly to avoid unnecessary downtime and if the charges passed on company were accurate and can be validated in the contractor's invoice and historical documentation kept for each asset
- Inspect Vehicle Fuel Records and Validate Charges
  1. Sample fueling records to determine if company authorized the fueling transaction in accordance with the contract
  2. Review vehicle fuel transactions to compare to area fuel pricing averages to validate the reasonableness of the price per gallon billed to the company

# Typical Problem Areas Found with Third-Party Provider Performance & Corrective Actions

- Verify Environmental Compliance
  1. Perform periodic inspections of the contractor's facility to determine if both meet the terms of the contract (e.g., prohibition of storing lubricants, oils, solvents or waste)
  2. Determine if in compliance with the regulatory agencies governing environmental laws and document such activities with respect to industry accepted best practices
- Inspect "Extra Repair" Transactions for Proper Authorization
  1. Audit samples of the PM and DVIR follow up repairs to determine if the failure occurred prematurely due to a breach in the routine PM inspection and repair processes
  2. Determine if premature breakdown of the equipment is the result of any negligence by the Provider

# Typical Problem Areas Found with Third-Party Provider Performance & Corrective Actions

- Validate Labor Rate Charges and Odometer Mileage for Compliance with Contract Terms
  1. Perform audit of sample work orders and invoices for maintenance and service work performed ensuring the contractor's stated national discounts for labor rates, parts, and services are applied in accordance with the contract terms and conditions
  2. Require the Provider to conduct a vehicle equivalent analysis (VEU) to determine the reasonableness of the contract costs compared to the industry and similar client costs
- Failure to Conduct Routine QBR with Providers
  1. Review contract T&Cs and evaluate Provider performance
  2. Review quarterly metric compliance
  3. Discuss problem areas and develop action items
  4. Review previous issues identified and corrective actions taken to resolve issues



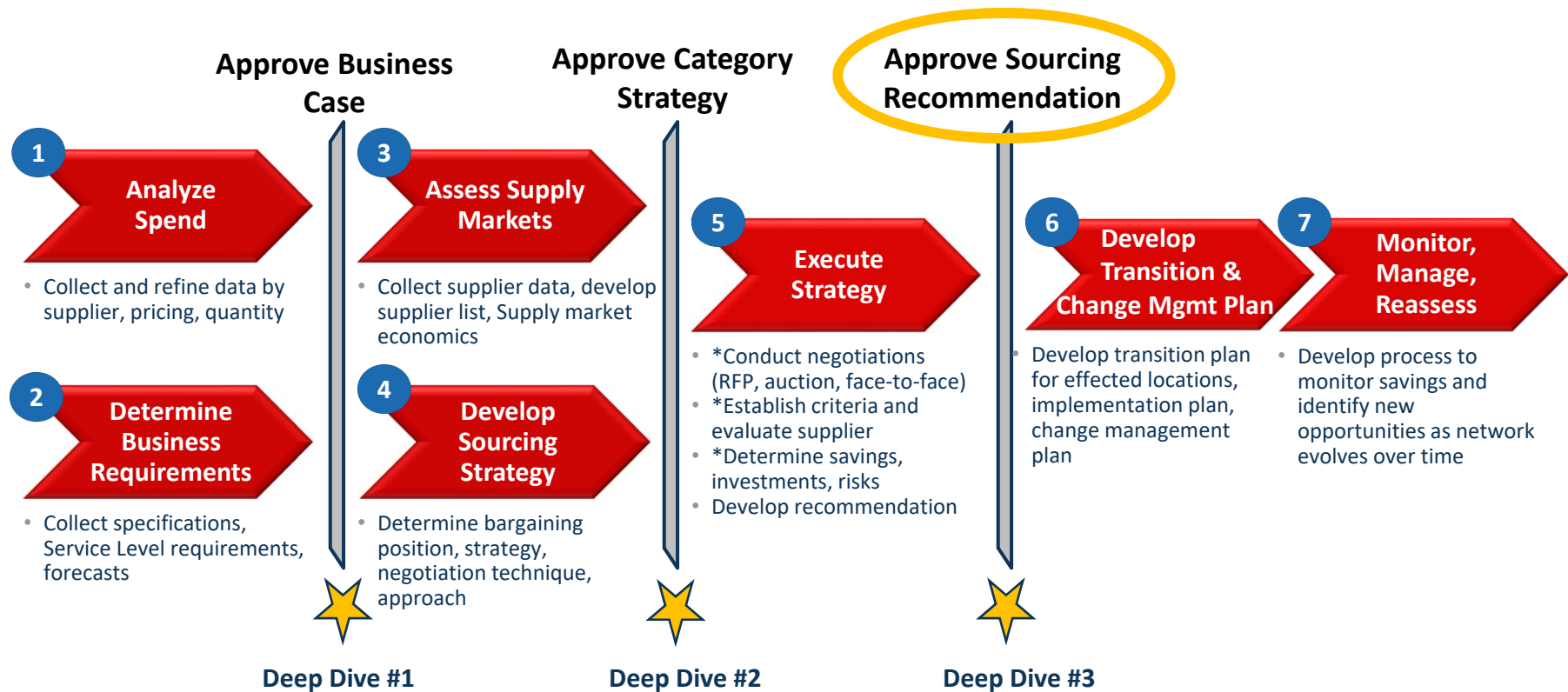
*Procurement Processes to  
Drive Third-Party Fleet  
Maintenance Service  
Provider Performance and  
Compliance*

# Partner with Your Procurement Team

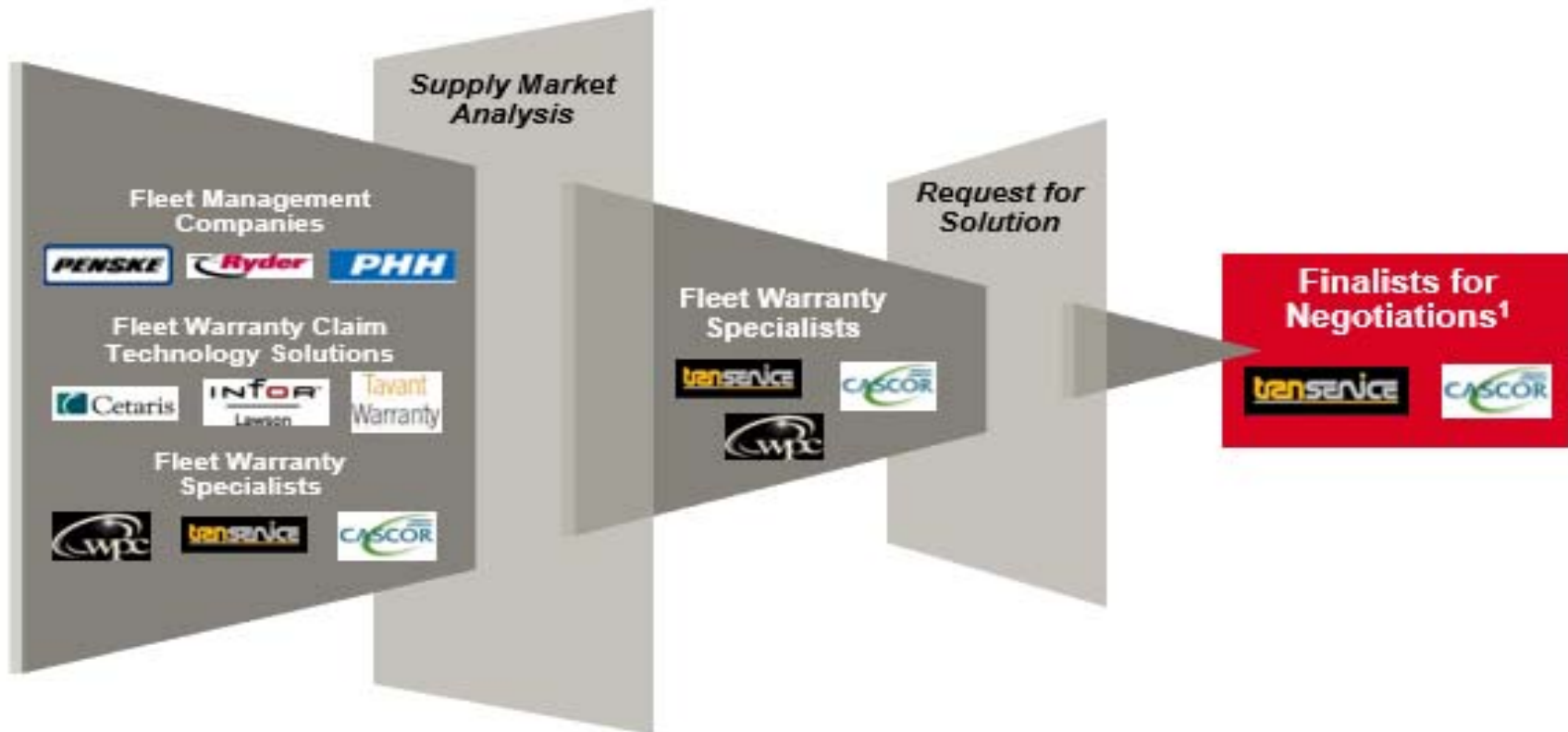
- Use the 7-Step process to design, develop and distribute winning solicitations
- Effective Procurement Strategies can provide win-win third-party provider (partner) solutions and adequate competition
- Bid specifications include mutually beneficial “Service Level Agreement (SLA)” with performance and compliance metrics
- TCO driven bid solicitations that include detailed specifications and processes to select qualified third-party providers (partners)
- Bids and final contracts define “Quarterly Business Reviews (QBR)” to review partnership performance
- Bid solicitation processes include award best and final pricing and terms



# Example: 7-Step Strategic Sourcing Process



# IDENTIFY Potential Providers



# Develop Bid qualifications, Specifications, Services and QC metrics

- What activities and items are included in the Provider Contract/SLA bid specifications?
  - ✓ Scope of services and assets covered under the T&Cs
  - ✓ Communication processes, phone numbers and contact information
  - ✓ Billing, accounts receivable and payable processes
  - ✓ Charges, fees and costs (fixed monthly, variable fees, hourly rates)
  - ✓ Target versus non-target M&R defined
  - ✓ PM Compliance intervals, tasks and follow up repairs
  - ✓ Pick up, delivery and mobile M&R services
  - ✓ Pre-determined M&R approval thresholds
  - ✓ Statutory, DVIR process, and CSA compliance accountability

# Develop Bid qualifications, Specifications, Services and QC metrics (Continued)

- What activities and items are included in the Provider Contract/SLA bid specifications?
  - ✓ KPI defined & reporting frequencies (daily, weekly, monthly, quarterly)
  - ✓ Peer reviews and industry benchmarking comparisons
  - ✓ Warranty management
  - ✓ Asset washing schedules
  - ✓ Technician qualifications, certifications and training records
  - ✓ Periodic customer satisfaction surveys
  - ✓ Insurance and indemnity coverage
  - ✓ Audit review processes
  - ✓ Termination and litigation language

# Develop Bid qualifications, Specifications, Services and QC metrics (Continued)

- What activities and items are included in the Provider Contract/SLA bid specifications?
  - Shop scheduling processes and management tools
  - Up-to-date diagnostics equipment
  - Mobile repair service vehicles for emergency roadside M&R services that include:
    - ✓ Mobile equipment maintained in good condition and meets regulatory requirements
    - ✓ Accredited and licensed Mobile technicians (ASE, CDL, etc.)
    - ✓ Diagnostic equipment matching client assets
    - ✓ Mobile RO system to capture data
    - ✓ Perform mobile PMs and minor repair services
    - ✓ Mobile parts inventory standards based on historical use
    - ✓ Tire & Brake services

# Develop Bid qualifications, Specifications, Services and QC metrics (Continued)

- What activities and items are included in the Provider Contract/SLA bid specifications?
  - Quarterly Business Reviews
  - Fueling and fluids management program and processes
  - Provider M&R policies, procedures and standards
    - ✓ Data quality, integrity, capture and online client access
    - ✓ Quality assurance (QCI) and compliance processes
    - ✓ Root-Cause Analysis and Corrective action processes (resolution time limit)
    - ✓ Road-call and emergency response
    - ✓ Standard Repair Time schedules
    - ✓ VMRS coding standards
    - ✓ Repeat repair identification and resolution processes

# What Client Metrics should be measured and monitored by the Third-Party Provider?

## Standard KPIs Generally includes in SLAs:

- Preventive maintenance (PM) compliance % and overdue PM updates
- Downtime, Repairs per 1,000 miles or breakdown frequency rates
- Average road-call downtime hours and asset availability
- Extra vehicles required due to downtime
- Repeat (i.e., Comebacks) repairs by ATA VMRS codes
- Quarter-over-quarter cost comparisons by vehicle/class
- Asset utilization and percentage of units out of service
- Service incidents per vehicle per year
- Actual versus estimated timing on all repairs
- Actual versus estimated costs on all repairs
- Vehicle Maintenance Index (VMI) trending by quarter

# Client and Provider Fee Structures and Questions for Final Consideration

- Will the target costs be based on VEUs?
- Will you use service based fees for non-target costs?
- How will the incentives for provider compliance be based?
- Will penalty fees for provider noncompliance be charged?
- How will existing parts inventories be handled? – Will provider purchase inventory?
- How will the high transition costs on implementation to repair existing assets be handled?
- How will non-target cost increases be handled as the fleet ages?
- How will disagreements over equipment abuse vs. wear be addressed?
- How will changes in fleet size and asset age be tackled during contract?





Questions?

# For More Information

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*[www.mercury-assoc.com](http://www.mercury-assoc.com)*

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## **Mercury Associates Inc. - Business Plans and Service Level Agreements**

<http://www.mercury-assoc.com/resources/documents/2008-RMFMA-Business-Plans-and-SLAs.pdf>

## **National Association of Fleet Administrators (NAFA) CAFM**

<http://www.fleetcertification.org/individual-certification/cafm-program/>

## **Fleet Financials Magazine - How to Audit Contract Vendors: Ensuring Top Performance**

<http://www.fleetfinancials.com/article/story/2015/02/how-to-audit-contract-vendors-ensuring-top-performance.aspx>