

## OWN OR HIRE A FLEET

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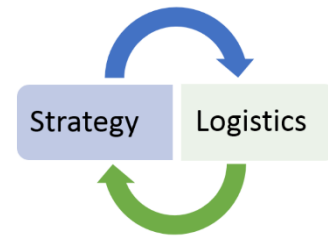
Firms can create a competitive advantage through how well they utilize transportation resources. Often, firms get trapped in a myopic perspective when they view transportation merely as an activity that involves the physical movement of goods between origin and destination points. While in many cases, firms



view transportation as a part of their non-core competency, which often leads to the outsourcing of transportation function. In other words, firms may be more inclined towards hiring the fleet instead of owning the same when they view transportation function as a part of their non-core competency. For example, JC Penney, one of the largest retailers in the U.S, didn't view transportation as their core-competency; therefore, they didn't own the transportation network and relied on third-party logistics firms. On the other hand, Walmart, which is also a retailer, has been building its transportation resources and equipment aggressively. In fact, Amazon which relied on external partners e.g., USPS in the past, now has been moving towards building its distribution and transportation network. Since owning versus hiring decision is often driven by factors other than core-competency, this article aims to shed insights by highlighting some important factors that can also influence owning versus hiring decisions.

In recent years, global supply chains have become more complex than ever. This requires companies to cater geographically separated customers while facilitating just-in-time deliveries both for in-bound and out-bound shipments. Firms need to focus on delivering and receiving the right product at the right time, in the right quantity and quality, at the right cost, and to the right origin/destination. Obviously, there involve multiple hurdles in synchronizing transportation activities in such a manner. These complexities often drive a firm's decision towards owning and hiring transportation resources. Let's turn our attention to three important factors that can impact the owning versus hiring decision. Please note that the below-listed factors are not a comprehensive list of factors that may impact hiring versus owning decisions.

Factor # 1: Aligning logistics/transportation strategy with corporate strategy: Alignment of logistics/transportation strategy and overall corporate strategy is crucial for the long-term success of the companies. For example, Walmart has long realized that building its own fleet should be very much integral part of its corporate strategy. It's no secret that Walmart's corporate strategy is grounded in low cost merchandising. Indeed, Walmart has been very successful due to its "everyday low prices" strategy. This was only possible because Walmart built its own transportation infrastructure with more than 6,000 trucks and 60,000 trailers over time. In fact, Walmart operates its own distribution centers and has integrated transportation resources well with its other supply chain functions. These arguments indicate that a firm's strategic perspective towards transportation can lead to ownership of transportation resources and equipment.



Factor # 2: Driver Shortages: Specifically, in the U.S, driver shortage and driver turnover are big problems in the transportation industry. Driver shortages may create unnecessary hurdles for a company if they own their fleet, especially if a company has company-drivers rather than owner-operators. The driver shortage problem has led many companies to turn towards specialized third-party logistics firms that provide complete solutions that include assigning the carriers, managing the inventory, and warehousing.



Factor # 3: Volume uncertainty: While we know that demand cannot be forecasted with 100% accuracy, there always exist errors in forecasting demand. Even if one deploys sophisticated statistical techniques to forecast demand, it remains a challenge to deal with unsystematic errors that could stem from sudden volatility or demand variability. Because such events may lead a firm to pay its logistics partners (third-parties) even for non-utilization of dedicated capacity. As a result, volume uncertainty may increase the likelihood of owning rather than a hiring decision. Since this can allow a firm to better coordinate the internal variations and incur fewer transaction costs. This suggests that a firm could be better off in owning its own fleet rather than hiring one when there is high volume uncertainty.

