PENSKE

BUYER'S GUIDE

Dedicated Contract Carriage

When it comes to choosing a Dedicated Contract Carriage (DCC) provider, it's important to identify your requirements and fully understand the benefits of a well-structured DCC arrangement before starting the selection process. That's why we created this guide – to make available the critical information you need to make the best decision possible.

Whether you currently operate a private truck fleet, utilize common carriers, or are evaluating the options available in ground transportation, this booklet will be a helpful resource in determining if DCC is right for you – and it provides a "how-to" in selecting a specific provider as your dedicated carrier.

Why is Penske distributing a guide that doesn't promote its own products? Penske has been providing DCC for over 25 years, and we're excited about the growth we're seeing in the industry. One of our observations is that there are many first time buyers of the product in today's environment. We also note that there are many new entrants into the market as potential providers of dedicated carriage services, and that the product itself has rapidly evolved in recent years. We're confident that the more you know about DCC, the more likely you are to seriously consider and ultimately choose Penske.

Penske appreciates this opportunity to assist you in choosing the best DCC provider for your business.

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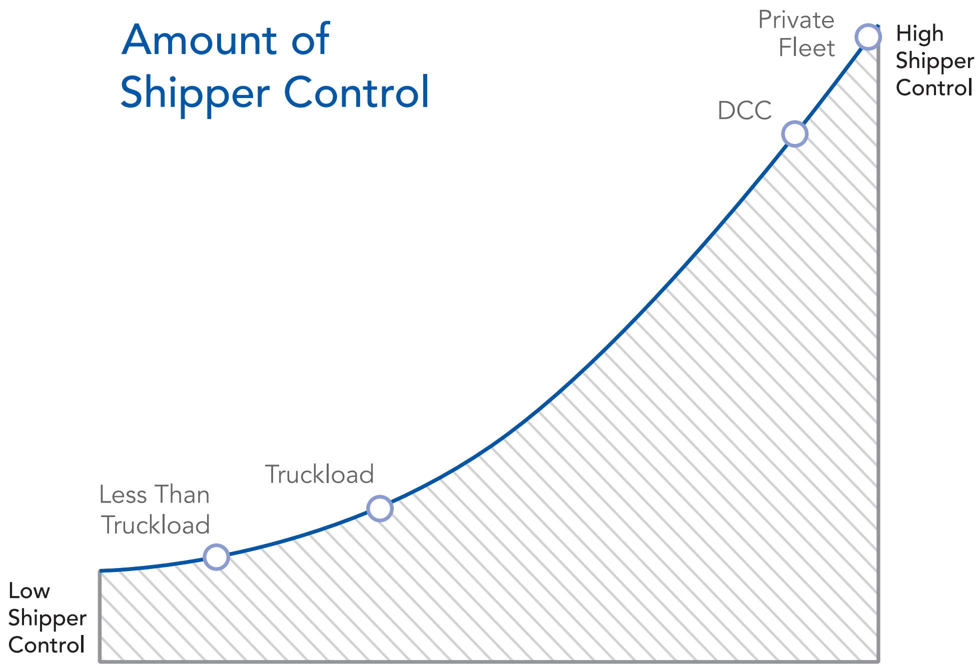

Amount of
Shipper Control
Private
Fleet
High
Shipper
Control
DCC
Truckload
Less Than
Truckload
Low
Shipper
Control

Choices in Ground Transportation

Private Carriage

Do it yourself with your own trucks and drivers.

- Businesses in service sensitive, competitive industries like the control associated with having a private fleet
- A private fleet operates primarily to transport its own goods
- Operators of private fleets take responsibility to insure against liability and cargo losses; they generally maintain an infrastructure in terms of safety and compliance to manage this risk

"This is my truck, my driver, and I can send them where I want, when I want to serve my customers."

Dedicated Contract Carriage

Have someone else do it, but manage the execution of the drivers and trucks.

- Businesses in service sensitive, competitive industries like directing the execution over equipment and drivers under a dedicated agreement, while relinquishing the responsibilities associated with managing a private fleet
- A dedicated contract carrier is a for-hire carrier dedicated and contracted to exclusively one particular shipper
- The DCC carrier insures for liability operating under their Department of Transportation (DOT) authority; responsibility for cargo damage or loss is dictated by the terms of the dedicated agreement

"I control the resources, without having to manage them."

Common Carriage

Have someone else do it, often including multiple third-party carriers.

- Businesses with dynamic volumes, and lower service level sensitivity, find benefit in leveraging less-than-truckload (LTL) and truckload carriers on a transactional basis
- Common carriers charge on a point-to-point and not a round trip basis; shippers in service sensitive businesses must balance customer service and cost considerations when utilizing common carriers versus the other modes mentioned
- An alternative to private and dedicated fleets is the use of truckload and LTL common carriers; these carriers assume responsibility for liability and cargo losses, and are not dedicated to the shipper

"My primary concern is cost. I'm less concerned about control and guaranteed availability."

Baselining Private Fleet Cost

To begin effectively comparing costs, you must conduct an objective assessment of your existing structure and spend. Assemble an internal team who can identify the direct and indirect costs associated with the operation of your private fleet.

Equipment Costs

- Lease payments on equipment (fixed and mileage)
- Equipment depreciation and cost of capital
- Fleet maintenance, parts, tires, towing
- License costs
- Sales tax on leases
- Property tax on leased/owned equipment
- Equipment repairs for damages, accidents
- Extra rental charges for equipment in accidents
- Painting or decal expense
- Onboard computer cost

Material Handling Equipment

- Pallet jacks
- Load bars
- Straps and tarps (flatbed operations)
- Hand trucks

Fuel and Road Expenses

- Actual cost of all fuel used
- Diesel exhaust fluid
- Fuel taxes
- Ton mile and third structure taxes
- Tolls

Driver Costs

- Driver's cell phone cost
- Wages and benefits
  - › Wages and payroll taxes
  - › Medical benefits for driver/dependents
  - › Workman's compensation/disability pay
  - › Vacation and holiday pay
  - › Life insurance
  - › Pension or 401K plan
  - › Bonuses/other incentives
- Other expenses
  - › Uniforms
  - › Safety and training pay
  - › Drug tests and DOT required medical exams

Assessment Team

Involve any department that provides input to fleet costs, or is subject to output of fleet costs:

- Finance
- Human Resources
- Risk
- Safety
- IT
- Dispatch
- Customer Service

Insurance

- Liability insurance
- Physical damage/theft insurance
- Cargo insurance
- Cost of deductibles on actual occurrences
- Attorney's fees in defending legal suits

Management Costs

- Cost of administration
  - › Processing driver's payroll
  - › Advertisements to recruit/hire drivers
  - › Purchasing department costs in buying equipment, insurance, material handling equipment
  - › Payables department time in paying all invoices to private fleet vendors
- Cost of supervision
  - › Wages
  - › Payroll taxes
  - › Vacation and holiday pay
  - › Workman's compensation
  - › Medical benefits (including dependents)
  - › Training costs
  - › Travel costs
  - › Private fleet policy meetings/performance reviews
- Cost of compliance
  - › Administration of safety policy
  - › Safety meetings/accident review committee
  - › Regulatory compliance (DOT, CSA, FMCSA)
  - › Maintaining driver qualification files
  - › Tax department time with fuel and road taxes
  - › Arbitration cost, union grievance costs, attorney's fees for labor issues

Baselining Common Carriage Cost

It is possible that a portion or all of the freight you currently ship on third-party carriers can be cost effectively handled with better service levels on a private or dedicated fleet. Below are the three steps to build the basis for a comparison of common carriage versus dedicated.

Step 1: Assemble the right data

- Gather freight bills associated with a normalized period of time in your business; at least two weeks of activity is best

Step 2: Select the right freight for DCC

- Determine the portion of common carriage activity that would be a target for comparison; considerations may include:

Dedicated Carriage		Common Carriage
High touch freight Inside delivery Short lead time Service is differentiator	Service	No/low touch freight Dock to dock 24 - 48 hour lead time Service isn't differentiator
Closed loop/round trips High density ≤250 miles ≥4 stops per route	Network	One-way moves/no returns Large/scattered geography <4 stops per route
Specialized equipment lift gates, moffits, <48 ft. Branded equipment	Assets	Standard equipment 48 ft. or 53 ft. Non-branded

Step 3: Calculate the cost of common carriage

- Combine lane rates and accessorial charges to determine an average lane rate; multiply this by the count of trips in each lane
- Add the cost of managing common carriage
  - › Transportation Sourcing – contracting, procurement, legal, financial and regulatory compliance, safety, carrier management (rates/services)
  - › Execution – order management, load planning, load monitoring, freight bill audit and payment, metrics
  - › Technology – software, hardware
- Consider other costs
  - › Time spent tracking material
  - › Tracking load status
  - › Dealing with customer service calls
  - › Dealing with carriers
  - › Producing and reviewing metrics
  - › Managing regulatory compliance

Service Considerations for Shippers

Common carriage does not generally offer custom service options, the benefits of which may outweigh cost savings in using LTL and truckload carriers.

1. On-Time Delivery
DCC offers better on-time performance, typically measured in ±15 minute increments versus ±30 for common carriage.

2. Direct Store Delivery
DCC can deliver directly to stores, bypassing the distribution network of most common carriers.

3. Unattended Delivery
DCC can deliver material at off-hours so your locations are stocked and ready upon opening.

4. Product Damage
DCC drivers know how to handle your material and reduce damage/loss rates.

5. Brand Consideration
DCC can place your logo on both the transportation equipment and driver uniforms.

6. Customer Interaction
DCC gives you confidence that drivers interacting with customers will communicate your company's values.

7. Product Mixing
DCC ensures that your material will not be "mixed" with other companies' products while in transit.

Selection Process for Dedicated Companies

Having evaluated your transportation options – and the cost impact of each – you may have selected to outsource either all or a portion of your existing inbound or outbound transportation to a dedicated carrier.

From the completed analysis you should have a description of what you need. Now you must begin to manage the project of selecting an appropriate DCC provider.

Before meeting with potential providers, you should be prepared to describe the scope of your requirements in detail, as follows:

Step 1

- Select a period of normal business activity to model

Step 2

- Gather data that clearly identifies your outbound and inbound shipment activity for the selected period
- This allows the dedicated providers to model "what if" scenarios
- Elements of good data – private fleet moves and common carrier shipments
  - › Actual loads shipped by day outbound and inbound (day of month, day of week, time of dispatch)
  - › Tractor and trailer numbers
  - › Driver names
  - › Origin and street level address of destination
  - › Actual time the delivery was received
  - › How long the driver was unloading or loading at the delivery location
  - › Quantity delivered
- Elements of good data – common carriage moves
  - › Freight bills capturing moves during selected time period

Step 3

- Provide the data – preferably electronically – along with any business rules that should serve as constraints in modeling a solution, to the dedicated providers
- These rules might include acceptable delivery windows, critical to quality metrics, material handling requirements, specialized equipment, etc.

Step 4

- Allow the dedicated providers adequate time to model your data

On pages 12 and 13 of this document, you will find a functionality checklist to assist with evaluating the capabilities of potential dedicated transportation providers.

Common Mistakes When Converting to DCC

1. Providing Bad Data
Good data is the foundation to a solid working relationship; providing inaccurate or generalized data creates complications.

2. Assuming Retention Rates
Before assuming key associates will transition to the dedicated provider, understand the compensation, vacation, benefits and reporting structure.

3. Underestimating Cost of Driver Turnover
Driver retention enables great customer service. Knowing the routes, the delivery requirements and procedures, and the ability to maneuver at a customer's location and dock are all vital for a successful dedicated operation.

4. Failing to Manage Change
A smooth transition requires attention to detail. You will need to transfer in-depth knowledge of your requirements and expectations to the dedicated provider in a relatively short amount of time.

5. Ignoring Connectivity
Automating the exchange of data, visibility and actionable reports are features that help drive cost savings. Make sure your plan includes these features from day one.

6. Misjudging Cost Per Mile
The most effective way to reduce cost is to eliminate miles. A lower cost per mile is not always the most "efficient" cost if it means more miles.

Understanding DCC Pricing

It is important to understand the most common dedicated pricing approaches so that you may select the best fit for your business.

Fixed and Variable Pricing

Fixed/variable pricing is generally viewed as the best way to align the shipper and dedicated carrier with common goals. The carrier has the fixed and unavoidable cost of the assets and permanent resources covered while the shipper can benefit from leveraging fixed cost against more activity.

- **Fixed weekly charge**
  - › Equipment
  - › Technology
  - › Start-up
  - › Management
  - › Benefits for labor
  - › Portion of overhead and margin
- **Variable charge (per mile/stop/hour)**
  - › Driver pay
  - › Fuel
  - › Workman's comp
  - › Payroll taxes
  - › Equipment maintenance cost
  - › Insurance
  - › Portion of overhead and margin

Mileage Rate Pricing

Carrier charges a flat rate per mile, applied to all activity. This model works well in a very static environment and provides the shipper predictable costs.

- Dedicated carriers commonly seek volume minimums from shippers when this pricing model is used

Accessorial Charges

Accessorial charges will generally apply to any pricing structure. They are usually unpredictable events such as fuel costs which fluctuate regularly.

- Delay and detention
  - › Driver time spent at deliveries and pickups over the agreed upon assumption
- Fuel surcharge
  - › Fuel cost over the base fuel pricing included in the rates
- Extra resources
  - › The cost of additional drivers, truck and trailers over the base
- Lumper fees
  - › Cost of unloading/loading service required by certain customers

Remember that regardless of the structure, pricing you receive will reflect a certain number of assumptions made by the provider, and you should be prepared to work with them to understand the cost implications of those assumptions.

Quantifying the Cost: DCC vs. Private Fleet

Step 1: Multiply your basic operating statistics against the quoted variable charges.

Step 2: Add applicable fixed charges to arrive at a cost per week for the modeled activity.

Step 3: Level set each providers' pricing by adding applicable accessorial charges.

Use your baseline private fleet cost to determine if there is an advantage with DCC.

Quantifying the Cost: DCC vs. Common Carrier

Step 1: Total the freight charges for modeled shipments.

Step 2: Apply the dedicated carrier's variable charges, and any applicable fixed charges, to the operating statistics generated from the modeled data set.

Step 3: Level set each providers' pricing by adding applicable accessorial charges.

Compare your common carrier spend with the dedicated cost to complete your evaluation.

Questions to Help Understand the Carrier's Operating Model

1. On-Site Management
How will the provider manage drivers – remotely or with on-site managers?

2. Driver Turnover
How will the provider view drivers and the cost to recruit/train them? Are they assets or commodities?

3. Asset Imagery
Will the provider brand their assets? Should the driver/truck communicate your brand/logo/imagery? Will the provider regularly wash the equipment?

4. Equipment Management
How does the provider plan to manage equipment? Will you have visibility to assets in use?

5. Maintenance
How will the provider maintain their equipment? What provisions do they make in the event of a breakdown while out making your deliveries?

6. Replacements and Extras
How will the provider procure extra or replacement assets? Will there be trucks and drivers available when you need them?

7. Roadside Assistance
How will the provider respond in an emergency? When trucks go down, how quickly are they back up?

Dedicated Operating Models

Within the DCC space, there are different operating models characterized by the companies providing transportation services. On one end of the spectrum you have service oriented models, delivering dedicated like a private fleet, and on the other end you have volume models, delivering truckload-like service.

Consider the cost and service implications of driver turnover.

Here's an example of a fleet of 40 drivers, each working 255 days per year.

	Average Turnover	FTE Turnover	Lost Workdays	Replacement Cost Impact
Best-in-Class	15%	6	540	$54,000
Traditional Dedicated	60%	24	2,160	$216,000
Traditional Truckload	90%	36	3,240	$324,000

- ***Full Time Equivalent (FTE) turnover:*** *Drivers being replaced within a year*
- ***Lost workdays:*** *Assumes 90-days lost productivity due to recruiting/training each replacement driver*
- ***Replacement costs:*** *Estimates cost using $9,000/driver industry average*

Because of the significant cost and service issues that high driver turnover can generate, select an operating model capable of meeting your service requirements and supporting your business with the best long-term value.

Preparing for Organizational Change

The decision to outsource does not have to be disruptive to your organization if you identify and manage the transition process. Senior leaders must demonstrate commitment and identify clear-cut goals and objectives. Solicit input from all departments and personnel impacted by the project.

Be Honest and Transparent with Employees

- People fear change
- Be confident with employees
- Be prepared that not everyone will be able to transition

Prepare an Announcement for Your Employees

- Name a transition team with well-defined roles and responsibilities
- Have a well-groomed project plan
  - › Begin with the end in mind
  - › Track progress
  - › Weekly team meetings to confirm progress
- Be prepared to answer questions about:
  - › Job security
  - › Time frame for transition
  - › Interview schedules
  - › Vacation time/tenure with new company
  - › Pay structure
  - › Benefits/insurance

Set a realistic "go live" date

- Depending on the scale of the implementation, operations can begin within days or weeks
- Work with the transportation provider to ensure that your needs will be met by the start-up timing

Equipment

- Ensure all equipment obligations have been resolved
- Ensure any new equipment has been requested
  - › Confirm deadline on equipment being in place

When two organizations come together to successfully manage change, the stage is set for gains beyond what may have been envisioned at the outset.

HR/Safety

- Pre-hire process
- Point of contact for questions/interviews
- Complete process before "go live" date
- Training and site inspections
- Implement programs and communicate to new hires

Technology

- Confirm site location and connectivity
- Order the necessary equipment (phones, pc's, etc.) and confirm delivery of equipment will meet deadline
- Develop reporting metrics
- Develop billing system/requirements
- Confirm order inputs/shipment notifications

Review Implementation After Start-Up

- Daily progress during the first two weeks
- Weekly reviews during the first month
- Quarterly reviews during the first year

Functionality Checklist

General Features

General Features	Excellent	Acceptable	Poor
Carrier's financial strength	☐	☐	☐
Carrier's CSA scores	☐	☐	☐
Years of experience in DCC	☐	☐	☐
Carrier's operating network compared to your area of operations	☐	☐	☐
Preventative maintenance network	☐	☐	☐
Road service network	☐	☐	☐
Carrier's operating network compared to your corporate network	☐	☐	☐
Management stability	☐	☐	☐
Depth of overall logistics capabilities	☐	☐	☐
Insurance coverage	☐	☐	☐

Specific Features

Specific Features	Excellent	Acceptable	Poor
Experience within your industry	☐	☐	☐
Experience with your delivery requirements	☐	☐	☐
References within your industry and delivery requirements	☐	☐	☐
Existing fleet equipment condition and appearance	☐	☐	☐
Local presence with resources for backup and synergies	☐	☐	☐
Plan for staffing supervision for your operation	☐	☐	☐
Carrier's scalability and flexibility	☐	☐	☐
Willingness to form true partnership	☐	☐	☐

Driver Resource Features

Driver Resource Features	Excellent	Acceptable	Poor
Recruiting plan	☐	☐	☐
Hiring standards	☐	☐	☐
Driver compensation plan, including benefits	☐	☐	☐
Training procedures	☐	☐	☐
Appearance standard	☐	☐	☐
Turnover compared to best in class	☐	☐	☐
Creative pay for high level service and performance	☐	☐	☐

Functionality Checklist

Value Add Features

	Excellent	Acceptable	Poor
Size and experience of logistics engineering department	☐	☐	☐
Capability to model "what if" scenarios	☐	☐	☐
Engineering tools	☐	☐	☐
On-board computer capabilities	☐	☐	☐
Logistics technology department	☐	☐	☐
Depth of engineering software tools	☐	☐	☐

Operation Support Features

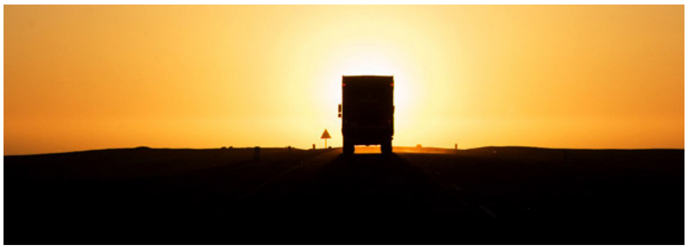
	Excellent	Acceptable	Poor
Customer synergies for shared equipment and driver resources	☐	☐	☐
Regional management accessibility	☐	☐	☐
Backhaul department to fill empty miles	☐	☐	☐
Safety culture	☐	☐	☐
Defined continuous improvement processes	☐	☐	☐
Emergency roadside assistance	☐	☐	☐

Reporting Features

	Excellent	Acceptable	Poor
Customer portals	☐	☐	☐
Real time visibility	☐	☐	☐
Standard reporting metrics	☐	☐	☐
Custom reporting	☐	☐	☐

Transition Planning Features

	Excellent	Acceptable	Poor
Defined plan with timelines	☐	☐	☐
Toll gate reviews	☐	☐	☐
Project management	☐	☐	☐
Experienced team	☐	☐	☐
Contingency plan	☐	☐	☐



Moving Forward

Having taken a successful first step in outsourcing transportation to a dedicated provider, it's time to think about governance of the relationship.

You will establish a rhythm of interaction with the provider, and now you have the opportunity to take the relationship from successfully achieving tactical benefits to jointly targeting broader strategic goals.

Penske Logistics

Penske Logistics is a wholly owned subsidiary of Penske Truck Leasing. With operations in North America, South America, Europe and Asia, Penske Logistics provides supply chain management and logistics services to major industrial and consumer companies throughout the world.

Penske Logistics delivers value through design, planning and execution in transportation, warehousing, international freight forwarding and carrier management.

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