White Paper

PARTNERING FOR SUCCESS: SUPPLY CHAIN & FLEET MANAGEMENT

Presented by

ISM
INSTITUTE FOR SUPPLY MANAGEMENT

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BUSINESS MOVES BETTER WITH WHEELS

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Institute for Supply Management® (ISM®) is the first and leading not-for-profit professional supply management organization worldwide. Its 47,000 members in more than 90 countries around the world manage about US$1 trillion in corporate and government supply chain procurement annually. Founded in 1915 by practitioners, ISM is committed to advancing the practice of supply management to drive value and competitive advantage for its members, contributing to a prosperous and sustainable world. ISM empowers and leads the profession through the ISM® *Report On Business*®, its highly-regarded certification and training programs, corporate services, events and the ISM Mastery Model®. The Manufacturing and Non-Manufacturing ISM® *Report On Business*® are two of the most reliable economic indicators available, providing guidance to supply management professionals, economists, analysts, and government and business leaders. **www.ismworld.org**

About Wheels

Founded in 1939, Wheels founded the fleet management industry. Wheels is the largest privately held fleet management company in North America with $1.6 billion in revenue, $3 billion in assets, and operations to 56 countries. Wheels provides a full complement of products and services to manage fleets and handle all aspects of lifecycle management, from vehicle selection and ordering, to in-service upkeep and administration, to end-of-term resale. For more information visit **www.wheels.com**.

About NAFA

NAFA Fleet Management Association is the world's largest not-for-profit membership association for individuals who manage the vehicular fleet and mobility responsibilities for their employers. NAFA propels the fleet and mobility profession through its world-class certification, education, advocacy, and peer networking programs, and is an essential element of success for individuals involved in the profession.

About AFLA

In the 50 years since its founding, the Automotive Fleet & Leasing Association (AFLA) has emerged as a dynamic organization that promotes growth, expansion and professionalism within the fleet industry by providing education, research, technical standards, representation and advancement of member interests.

Authored by S. Marik Brockman

Partnering for Success: Supply Chain & Fleet Management

Fleet management is increasingly becoming a competitive lever for numerous businesses, whether to control operational efficiencies, boost customer experience in the form of faster delivery times, or ensure corporate culture and brand attributes extend through to retail or wholesale locations. Fleet management as an industry is expected to nearly double in size, from $19.9 billion in 2020 to $34 billion by 2025, according to Digital Journal's reporting on research from MarketsandMarkets.

Vehicle fleet management can include a range of functions such as driver health and safety, vehicle leasing and financing, vehicle maintenance, driver and fleet performance, licensing and compliance, supply chain management, telematics (tracking and diagnostics), and vehicle re-marketing. Key trends facing the sector include advances in telematics and tracking, the rollout of new 5G mobile networks, the rise of mobility-as-a-service (MaaS), a shortage of drivers, and the future of autonomous fleets.

Of course, the biggest trend hitting fleet management currently is the global COVID-19 pandemic. A study of 1.03 million vehicles by Verizon Connect between February 18 and May 5, 2020 revealed a 17% decrease in hours driven by April 7. Local passenger transportation, including taxis, public transportation and charter buses, experienced the worst drop with 58%. Five other sectors studied experienced a decrease. These groups were house works (for example, plumbing and electrical), landlines and cable TV, local trucking (citywide), and B2B services (like cleaning, equipment rental). Landscaping and gardening was the only sector of the six analyzed that experienced a 5% boost by April 7. By April 21, all sectors had experienced some improvement except local passenger transportation. The landlines and TV fleets returned to February levels by May 5 and landscaping and gardening had risen a total of 20%.

Summary

Our analysis of the relationship between procurement and fleet management functions, which includes our mid-2019 survey and follow-up interviews with industry experts, indicates that cooperation between these two functions is growing for increasingly strategic reasons. While traditional reasons such as the need for department level cost-cutting helps drive procurement and fleet collaboration, addressing the emergence and deployment of new technologies that improve fleet performance but can also drive complexity are generating more cause for collaboration. The need to support aggressive, overarching enterprise goals also brings the two teams closer together throughout the fleet management life cycle.

Our analysis of the topic follows the structure of our survey, which was organized into these categories: Influence, Operations, Perceptions, Value, Fleet Suppliers and Systems & Technology. The final section, Moving Forward, provides specific advice on how to improve the likelihood that procurement and fleet not only achieve their specific goals but can work together to help achieve overarching enterprise goals.

Influence

The survey began by seeking an understanding of the current degree to which procurement is involved in fleet management. Over a third of procurement teams are not involved (34%), with about a fifth of that group, or 7% overall, planning to become involved.
But the overarching trend is toward tighter integration. Two thirds of organizations (66%) surveyed reported their procurement personnel is at least somewhat (30%), fairly highly (18%), or heavily involved (18%) in fleet management.

In terms of how involvement has developed over the past five years, procurement's degree of influence over fleet management has increased somewhat or substantially for over half of respondents where there was already involvement (53%).

This growth in collaboration begs the question about what has kept procurement and fleet teams from working more closely together in the past. David Hayward, a Director on the Board of NAFA Fleet Management Association, shared his perspective on aspects of the historical relationship between the two groups. The first thing to note is that "the degree of procurement's influence in fleet decision making can depend on the degree of industry or company profitability." Procurement's role is likely to be higher in tight-margin sectors like service businesses, for example, delivery or residential support (landscape, plumbing, electrical). In higher-margin sectors like pharmaceutical sales, fleet management may have more autonomy.

"Size of the fleet is also a big determinant" according to Dave Durepo, past President of the Automotive Fleet & Leasing Association (AFLA). "There are so many facets to managing a fleet, from understanding pros and cons of makes and models, intricate leasing and maintenance considerations, working through accident claims, or accurately calculating total cost of ownership, "not knowing all of these facets is why it is difficult for procurement to get involved" but the more these fleets grow and impact overall business performance, the more supply chain management practices can benefit the complexity.

When looking at degree of involvement reported by organizations of different size ranges (by employee count) in our survey, it was more likely that larger organizations reported heavy involvement while smaller organizations reported less, relative to their representative population among survey takers (see Table 1).

For procurement professionals involved in fleet management, efficiency improvements are the highest-ranking reason out of six choices provided, followed by lower costs, more sharing of knowledge and information, and supply chain transparency. The lowest two ranking choices were stakeholder alignment and "additional leverage to get capital budgets."

For those not currently involved in fleet management, but who plan to be, efficiency improvements and lower costs were also the highest two ranking benefits for considering closer collaboration. The remaining rankings are similar to those who are currently involved in fleet management.

For those with procurement teams that aren't involved in fleet management, the following might hinder the integration of procurement and fleet (in order of importance):"conflicting priorities; speed of decision-making; different information technology systems; poor communication; and inefficiencies.

Table 1

	% Share of survey Respondents	Procurement isn't involved at all in fleet management and there are no plans to involve them	Procurement isn't currently involved in fleet management, but there are plans to increase involvement	Procurement is somewhat involved in fleet management	Procurement is involved in fleet management to a fairly high degree	Procurement is heavily involved in fleet management
Less than100	**7%**	9%	11%	8%	3%	7%
100 - 499	**19%**	21%	23%	18%	19%	16%
500 - 1,999	**23%**	22%	18%	28%	20%	23%
2,000 - 4,999	**13%**	13%	5%	14%	17%	14%
5,000 - 9,999	**11%**	9%	14%	11%	15%	9%
10,000 or more	**26%**	26%	30%	21%	26%	31%
	100%					

Operations

While we now know two-thirds of procurement professionals are involved in fleet management, how many fleet managers are involved in the procurement process? A whopping 89% of respondents reported their fleet manager is somewhat (28%) or substantially (61%) involved.

A majority of fleet managers are either matrixed into a reporting relationship with procurement (36%) or report directly into the procurement/supply chain function (19%), with another 8% having at least a dotted line to procurement, for a total of 63% of fleet leaders with an organizational tie to procurement. Budget responsibility for fleet management falls most often to procurement/supply chain (24%), operations (17%), fleet/transportation (16%), finance/accounting (9%), sales (7%), and facilities (5%).

When designing a fleet solution, final specifications for fleet purchases are mostly determined by fleet 77% of the time, split between categories of "fleet in the vast majority of cases" (57%) or "fleet mostly, procurement sometimes" (20%). On the flip side, 15% report it's "procurement mostly, fleet sometimes" (9%) or "procurement in the vast majority of " (6%).

In terms of how "savings resulting from procurement's involvement in fleet are reported," 80% is reported to fleet/transportation (44%) or procurement/supply chain (36%).

Perceptions

The degree of common understanding for procurement and fleet of each other's needs and goals leads to a breadth of perceptions captured in our survey. We began by asking whether fleet transactions were routine for procurement or "an annoying bottleneck." A strong majority (63%) said fleet decisions were routine in most cases (28%) or in most cases (35%). Only 11% claimed it was a bottleneck more often than not, and 19% said it was either routine or a bottleneck depending on the supplier or other factors.

We also asked how often procurement is a bottleneck when making operational fleet decisions. About one quarter (24%) said never, but two-thirds (67%) said procurement was sometimes (53%), mostly (10%), or always (4%) a bottleneck. Clearly, this question doesn't speak to how often any department in these respondents' companies might answer the same about procurement, whose quality and cost control job is a difficult one.

What are the perceived focal points for procurement when dealing with fleet? Survey choices provided a breadth of options. In rank order, those chosen most were "supporting procurement's goals" (36%), "price mostly, but also other factors" (35%), "total cost of ownership (TCO)" (28%), "supporting fleet's goals" (24%), "price, to the exclusion of all/most other factors" (12%), and "speed-to-decision" (7%). Demographic splits across procurement and fleet manager respondents and manufacturing/non-manufacturing groups were largely similar, except that procurement reported greater emphasis on TCO.

When asked how much fleet-related knowledge procurement possesses, nearly two-thirds (65%) of respondents said that procurement was either highly (23%) or somewhat (42%) knowledgeable. Slightly over one-third, or 35%, perceive procurement is not very (24%) or not at all (11%) knowledgeable.

To what extent does procurement seem interested in understanding fleet's goals, and vice versa? The results are presented in Table 2. Combined results for both questions are surprisingly similar, but the results vary a bit by audience. Procurement was 50% more likely to say procurement has a "great deal of interest" in understanding fleet's goals, while fleet experts from AFLA/NAFA were twice as likely to say fleet has a great deal of interest in understanding procurement's goals.

This result reveals a behavioral reality of a higher belief in one's own intentions while simultaneously being uncertain of another's intentions. It is understandable that without explicit communications or an overt and obvious means of actively listening, alongside typical business processes, collaborative sincerity may be missed.

Value

Total cost of ownership is an important metric in fleet's purchasing considerations. When asked if procurement incorporates a fleet category's TCO

Table 2. Interest in Understanding Fleet/Procurement Goals by Other Team:

To what extent does procurement seem interested in understanding fleet's goals?	Total	Members/ Non-Members	AFLA/NAFA	Manufacturing	Non-Manufacturing
There is a great deal of interest in understanding the category and its goals	35%	42%	28%	35%	33%
There is some interest in understanding the category and its goals	42%	42%	41%	44%	41%
There is little/no interest in understanding the category goals	19%	10%	26%	16%	21%
Only procurement goals matter	5%	5%	4%	5%	5%

To what extent does Fleet seem interested in understanding procurement's goals?	Total	Members/ Non-Members	AFLA/NAFA	Manufacturing	Non-Manufacturing
There is a great deal of interest in understanding procurement and its goals	35%	23%	45%	26%	37%
There is moderate interest in understanding the procurement and its goals	46%	46%	47%	49%	47%
There is little interest in understanding the procurement and its goals	15%	24%	8%	23%	12%
It seems that only fleet's goals matter	3%	7%	0%	3%	3%
	637	288	349	140	419

into their decision process, responses were spread fairly evenly across all responses, from procurement does not consider TCO for "the vast majority" of its fleet decisions (17%) to procurement incorporates TCO for some (24%), most (21%), or a vast majority (21%) of decisions. Even "don't know/not sure" (17%) was within a few percentage points of the average answer.

Procurement's focus on fleet TCO is seen by respondents as attributable to input from both teams (48%), the fleet team sharing its TCO knowledge with procurement (35%), or procurement's own TCO knowledge (15%).

Fleet Suppliers

Building on our above understanding of procurement's involvement, respondents were asked to what degree procurement selects fleet suppliers and to what degree fleet requires procurement's approval to select a supplier. One-third (33%) reported that procurement doesn't select any fleet suppliers while the other two-thirds (67%) stated that procurement selects some (30%), most (23%), or all suppliers (14%). The distribution of required approval lined up with who makes the final selection. Fleet doesn't require any procurement approval for 23% of survey-takers while 30% require approval on some suppliers, 22% say approval is required on most, and 24% say procurement's approval is required on all fleet suppliers.

Once deals with suppliers are made, the degree to which respondents say procurement does or doesn't manage fleet suppliers is highly correlated with whether respondents are fleet practitioners. More than half (56%) of fleet practitioners say procurement does not manage any fleet suppliers versus 26% of procurement/supply management professionals surveyed. Procurement manages some, most, or all fleet suppliers: 74%, according to procurement practitioners versus 44% for fleet practitioners.

Where procurement is involved in fleet supplier relationships, responses about how tactically or strategically procurement deals with fleet suppliers were consistent regardless of audience. A plurality (40%) of respondents reported that their procurement dealt with fleet suppliers, either strategically or tactically, "depending on the supplier, procurement professional and/or circumstances involved." Thirty percent said procurement was either mostly or entirely strategic, and 18% said they were mostly or entirely tactical.

When procurement is more tactical with fleet suppliers, a majority (52%) say procurement leverages for price and frequently bids out for new business "sometimes" and another 31% report this occurs "often or always." Compared to fleet practitioners, procurement practitioners were

twice as likely to say that, in tactical situations they "often or always leverage for price (20% and 40%, respectively). This could be a hair-splitting nuance since the totals of "sometimes" plus "often or always" were virtually the same across both groups, but it is interesting to note that a more proactive approach by procurement to "often or always" leverage price and solicit new bids is reported by those closer to procurement than fleet.

Across demographic groups, responses were largely consistent when asked how fleet suppliers view the procurement team. More than half (56%) said procurement is viewed as "a preferred customer" (30%) or "an indispensable or strategic partner" (26%) while 25% said procurement was "one of many, nothing special" (17%) or "more of a nuisance" (8%). A surprising 20% of respondents said "don't know/ not sure," perhaps because the question required speculation about the impressions of a broader group, not just the perspective of the survey taker.

For both procurement practitioners and fleet practitioners, it was agreed that fleet suppliers can create value in the relationship with procurement by providing services that add value, working toward common goals, driving a collaborative relationship, and offering the lowest price. The least effective way to create value was by "making procurement aware of how they're perceived by the fleet supplier" followed by "understanding their perceived value by procurement."

In terms of whether fleet suppliers educate procurement teams and if there are any related benefits, responses were distributed. The most collaborative response was the most common with 30% saying a fleet supplier "educates procurement, yielding practical benefits for my organization." Almost as large a proportion (27%) said whether education is offered was dependent on the individual procurement and fleet practitioners.

Systems & Technology

Modern, scalable technology is central to the success of any operation. According to Jim Fleming, Program Manager of Learning Solutions at Institute for Supply Management® (ISM®), "Studies completed by ISM and CAPS Research indicate that Industry 4.0 (also known as the Fourth Industrial Revolution) is driving a technology ecosystem transformation at a rate so comprehensive that up to 90% of source-to-settle activities will be completely automated by 2030." Fleming adds that this development "is inclusive of all procurement and logistics functions across the supply chain. Due to a lack of agility, transparency and visibility, organizations that do not leverage such advancements will not be able to compete."

A key subcategory within technology needs are whether fleet managers use a system for accepting and evaluating requests for proposal (RFP). Seventeen percent use a system consistently, and another 21% say this this is a requirement, with results largely consistent across manufacturers and non-manufacturers. Another 10% say using a system "depends on the level of spend." Remarkably, 40% say they do not use one, and another 12% are not sure.

An in-house developed system was the most popular choice for managing proposals at 29%, though slightly less likely for larger companies and manufacturers. The second most likely system was SAP Ariba at 27%, overall. SAP Ariba was the top choice, above in-house systems, for manufacturers and large companies. Overall, DirectRFP and Coupa were a distant third and fourth place, at 5% and 2%, respectively.

When asked about the ability of the systems to capture all costs inherent in a fleet RFP, nearly one-third (31%) agreed their system was so configured, but a full 52% of responders said their system was deficient, either because it "only configures the system to capture monthly fees and one-time costs" (11%), it is "only used as a record keeper" (21%), or because it cannot capture all costs such that "calculations are done outside" the system (20%). In terms of integration with emerging technologies, such as radio frequency identification tags (RFID), Internet of Things (IoT), and artificial intelligence (AI), we asked which applicable benefits were most important. Tied for first among 10 response choices were "improvement of processes/workflows" and "increased transparency and visibility to attain joint goals" (see Table 3).

The biggest challenges to integration with emerging technologies, out of 14 choices listed, were "investment (not time) needed to develop capability," "lack of time/resources to develop and maintain," and "lack of technical expertise" (see Table 4).

Table 3. Potential benefits of technology integration for respondent's team/organization:

Choice	Average Rank
Improvement of processes/workflows	2.5
Increased transparency and visibility to attain joint goals	2.5
Higher productivity	3.0
Insights gained from analytics	3.1
More consistent application of rules	3.8
Reducing data input errors	4.1
Freeing up resources for other work	4.2
Mitigation of potential supply risk	4.9
Allowing 24/7 processing operations	5.7
Reducing head count	7.6

Table 4. Potential challenges of technology integration for respondent's team/organization:

Choice	Average Rank
Investment (not time) needed to develop capability	3.2
Lack of time/resources to develop and maintain	3.4
Lack of technical expertise	3.4
Requires too many IT resources to implement	3.9
Willingness of employees to embrace new technologies	4.0
Reluctance of management to be an early adopter of emerging tech	4.3
Lack of time/resources to properly train employees	4.3
Investment (not time) needed to maintain capability	4.4
Data security	5.5
Requires too many IT resources to maintain	5.7
Technology isn't flexible or adaptable enough	5.9
Concern regarding over-automation	6.3
Work rules not compatible with RPA	6.9
Concern that employees will be displaced	7.1

Moving Forward

Through interviews with experts, communication between procurement and fleet management teams is essential for overall organizational success. When asked how the two groups could best achieve success, David Hayward of NAFA said "honest, open dialogue" was the key. Rightly or wrongly, he adds, "Procurement may come in to make decisions and then disappear until the next RFP. Or fleet may run separately. The whole organization or division should set goals, like saving 10% company-wide in 2021, and then procurement and fleet work together to achieve it."

Jack Leffler, Assistant Vice President of Client Relations for Wheels, agrees: "Procurement and Fleet (Operations) are ultimately two sides of the

same coin. It is important to accept that both sides work for the same organization and have the same corporate goals. Operations' role is to educate Procurement on the way fleet supports the business and adds value to the organization. Procurement's role is to partner with Operations and help to achieve the best possible deal with all vendors or services involved. Only when both sides do their part can any organization achieve a best in class fleet program."

Providing insight on best practices, Leffler described more specifics for readers to consider. "The best model seems to be one in which both fleet and procurement attend business reviews with their supplier partners, and both take an active role in decision making for the fleet," he said. That fleet, he explains, "will express their needs and procurement will work with them and with the suppliers involved to fulfill those needs. A model in which both teams support one another and embrace the same goals always yields the best results."

Dave Durepo, past President of the AFLA, also weighed in on best practices: "Everyone has to be service minded. Start with 'yes' and listen to your customers, internally and externally, to make sure you deliver on your promises and your goals."

Methodology

Institute for Supply Management® (ISM®) conducted a survey in mid-2019 to examine the relationship between supply management and fleet management functions. The survey captured 1,031 responses, with 560 supply management and/or procurement practitioners ("procurement") (both ISM customers and practitioners not affiliated with ISM), and 471 fleet management practitioners ("fleet") from NAFA Fleet Management Association and the Automotive Fleet & Leasing Association (AFLA).

A total of 32 questions covered topics across seven content categories, plus four demographic questions. Questions were organized into these categories: Influence, Operations, Perceptions, Value, Fleet Suppliers, and Systems & Technology.

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