LeasePlan

Efficiently managing the end-of-contract procedure

What's next?

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The return of a lease vehicle at the end of the contract period is the 'moment of truth' for drivers, fleet managers and lease companies alike. Unexpected – and sometimes significant – costs for wear and tear often come to light during the vehicle appraisal. It is in everyone's interests to avoid these unwelcome surprises, in order to save time and money and also to eliminate disappointment and frustration.

At LeasePlan, we are keen to provide transparency around the end-of-contract period to ensure client satisfaction and loyalty. Therefore, in this white paper, we elaborate on what's next in terms of the tools and instruments to manage the end-of-contract procedure efficiently.

Based on a four-year lease cycle, roughly a quarter of the vehicles in a company's fleet reach the end of their lease every year. As a standard part of the end-of-contract process, each vehicle is independently appraised by a third-party expert. A report is drawn up about the vehicle's condition, and the lease company charges the client company for the costs of any wear & tear classed as 'unfair'. End-of-contract damage statistics reveal that over 90% of all returned vehicles display signs of 'unfair' wear & tear, and the associated costs can run into hundres of euros. Even though this cost may not passed on to clients in full, the invoice for end-of-contract damage often comes as an unexpected and unpleasant surprise for many companies, triggering questions and complaints – not only by fleet managers, but also by drivers if the costs are subsequently passed on to them internally. However, many of these charges can be avoided by creating greater awareness around the end-of-contract procedure.

Firstly, let's explore why these costs are being charged in the first place. As LeasePlan, we understand that a lease vehicle is a business tool and that intensive use over the course of the lease period will almost inevitably result in some visible signs of wear & tear in terms of minor scratches and dents. If, however, the damage/wear & tear goes beyond what is expected and acceptable given the mileage and age of the vehicle, costs will be passed on the client. This is done because such damage jeopardises the anticipated resale value of the vehicle at the end of the lease. Therefore, the damage will either need to be repaired before the vehicle can be resold or we must be compensated for this financial loss.

Lease companies, fleet managers and company car drivers all have a role to play in ensuring the end-of-contract procedure runs smoothly and without nasty surprises.
This can be achieved when there is:

- transparency about the procedure for all parties concerned
- clarity about the roles and responsibilities
- a culture in which damages are reported and repaired in a timely manner
- an end-of-contract vehicle appraisal conducted by an independent expert

The tools and instruments to efficiently manage the end-of-contract procedure revolve around creating awareness at every stage of the lease process, from the very start of the lease contract until the end. This involves ensuring that all parties have a clear understanding of their own roles and responsibilities.

Ensure a clear understanding of own roles and responsibilities:

Lease Company →	Client Company →	Driver
- Buys the vehicle = owner of asset - Set guidelines for maintenance (OEM specified intervals) and treatment of the car	- Provides vehicles to employees - Pays lease instalment and any extra costs - Sets guidelines & expectations for car usage by drivers	- Uses the vehicle - Pays extra costs for damages if stipulated in the car policy
Needs to specify upfront what is classed as fair/unfair wear & tear	Needs to communicate rights and obligations of company car drivers	Needs to maintain the vehicle Needs to report damage in a timely manner

The full impact of damage

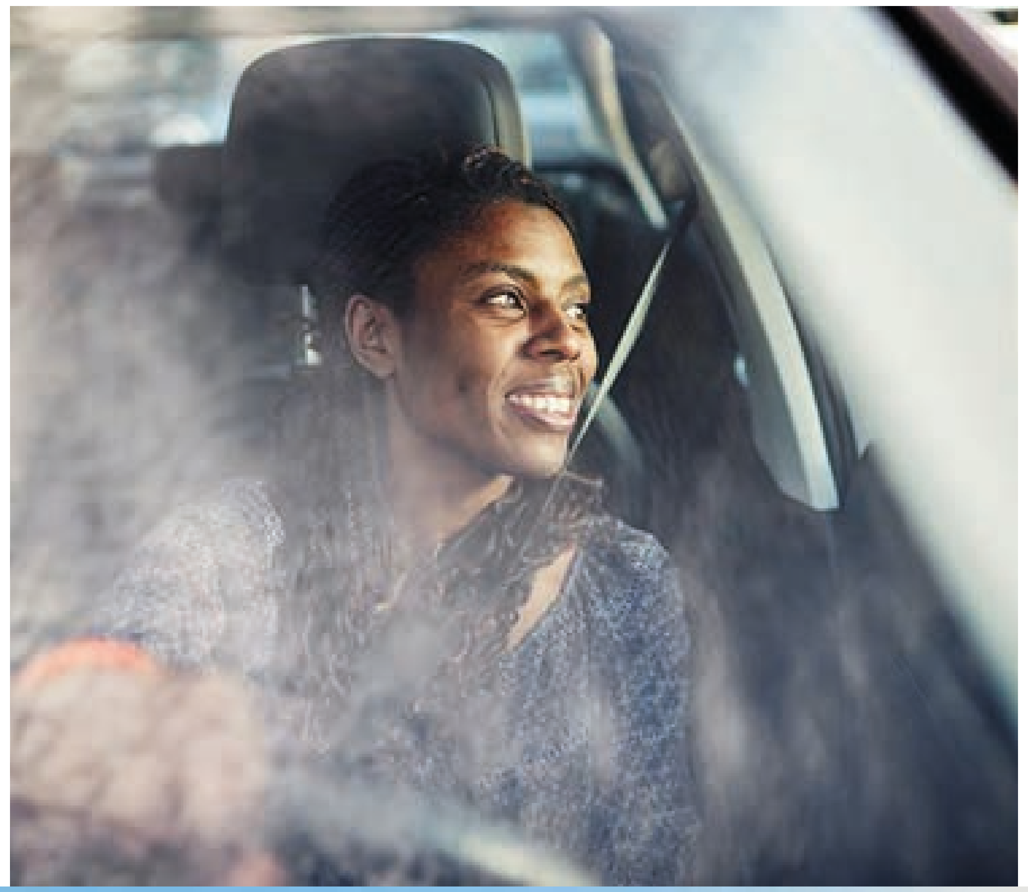
When a driver returns a lease car with damage, that will lead to costs for either repairing the vehicle or, in the case that the vehicle is resold without being repaired, a loss in resale revenue which must be compensated. But besides the cost impact, excessive wear & tear is a sign of other potentially harmful issues. For example, a damaged or poorly maintained vehicle can be a sign of reckless driving, meaning that road safety has been at stake. Meanwhile, if a sales representative shows up for customer appointments in a damaged car, that can have a negative impact on your company image. Therefore, there are various reasons why it is in your best interests to encourage drivers to take proper care of their lease vehicles.

Transparency upfront

In order to provide maximum transparency, at LeasePlan we have developed an illustrated 'fair wear & tear guide'. This forms part of a certified inspection process which is unique in the European lease industry, since it has been independently reviewed and evaluated by TÜV Nord in line with its Fair Wear & Tear standard. With a combination of words and pictures, the guide clearly illustrates what we consider to be normal wear & tear and what is 'unfair' wear & tear, i.e. what type of damage is unacceptable upon return of the vehicle. Needless to say, we make a distinction between passenger cars and light commercial vehicles (LCVs) as the intensity of vehicle usage is different. This guide is available free of charge, and we highly recommend fleet managers to make use of it in their activities to build awareness among company car drivers about the vehicle return process and the concept of unfair wear & tear.

Creating driver awareness

The behaviour and attitude of company car drivers is perhaps the most crucial aspect in minimising unwelcome surprises for wear & tear costs. Ideally, drivers should be aware of their responsibilities from the very first moment they receive a company car, so that they treat the vehicle as if it were their own. Most end-of-contract damage charges could be avoided if drivers were to take proper care of their vehicles. Unfortunately this is not always the case. Therefore, it is important to clarify what is expected of drivers and to stipulate the employee obligations in a car policy or driver handbook, which explains the vehicle return procedure and the criteria for fair wear & tear. Alternatively, you can simply refer in the user agreement to the relevant documents on the LeasePlan website. By signing the user agreement, employees acknowledge their rights and obligations associated with having access to a company car. That starts with taking good care of the vehicle and having it properly maintained. If the car becomes damaged, the incident should be reported in a timely manner so that repairs can be arranged. Should the employee neglect to do these things, the company may consider passing on the unfair wear & tear costs to the driver as long as this is compliant with local law.



The reporting of any damage may form part of your company's Health Safety & Environment (HSE) policy, since many companies analyse the damage statistics as the basis for taking action to minimise future risks and maximise safety. Accident and damage prevention requires a company-wide safety culture in which all accidents and incidents – both major and minor ones – are reported and subsequently reviewed with the employee to explore ways to prevent them from reoccurring. Even the reduction of less severe incidents can offer benefits. For example, if your analysis shows that most of the damage is related to parking, it could perhaps be beneficial to equip all cars with parking sensors. Vehicle safety is not the only factor in the prevention of accidents and damage, however. Other aspects to consider include a policy addressing safety-related topics like distractions (mobile-phone use) or fatigue (journey planning), and making training available, such as to people who are exposed to higher risks or to employees who are involved in multiple incidents/accidents per year, to help them improve driving skills and behaviour.

Vehicle appraisal

Besides having clarity on what is considered to be acceptable and unacceptable damage, it is equally important for the vehicle inspection to be conducted by an independent expert. The condition of the returned vehicle should be recorded in a report providing a detailed overview of the damage found, including an estimate of the repair costs. This information should be supported by images showing the exact extent and position of the damage on the vehicle. The repair costs should be calculated using current market data from reputable OEM data providers. This approach will result in a fair and transparent representation of the true condition of the vehicle and hence a fair indication of the resale value of the asset. At LeasePlan, we make these appraisal reports available to our clients and we encourage fleet managers to share the reports with the relevant employees in order to raise their consciousness of the concept of fair wear & tear. After all, you cannot expect people to change their behaviour if they are unaware of the need to do so.

Conclusion

We can conclude that many of the unexpected end-of-contract costs are the result of a lack of awareness about the concept of fair wear & tear. Even though there are guidelines availalable explaining the vehicle return process – including the independent vehicle appraisal – and the financial consequences of unfair wear & tear, many drivers are not fulfilling their obligations. For some companies, this can lead to an unwelcome and costly surprise. Many of these charges can be avoided by creating transparency and clarity about the roles and responsibilities of the lease company, fleet manager and driver. Above all, it is crucial to involve the drivers in this process in order to raise their awareness of the importance of treating the lease vehicle with proper care and of reporting and arranging repairs for any damage in a timely fashion. A detailed car policy is an effective way to communicate the expectations to employees, possibly also as part of a company-wide safety culture. For help or advice on any of these issues, please contact your LeasePlan representative.

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