Understanding Your Fleet Total Cost of Ownership

Strategies for understanding and managing fleet costs.

LeasePlan

What's next?

01–09

At a glance

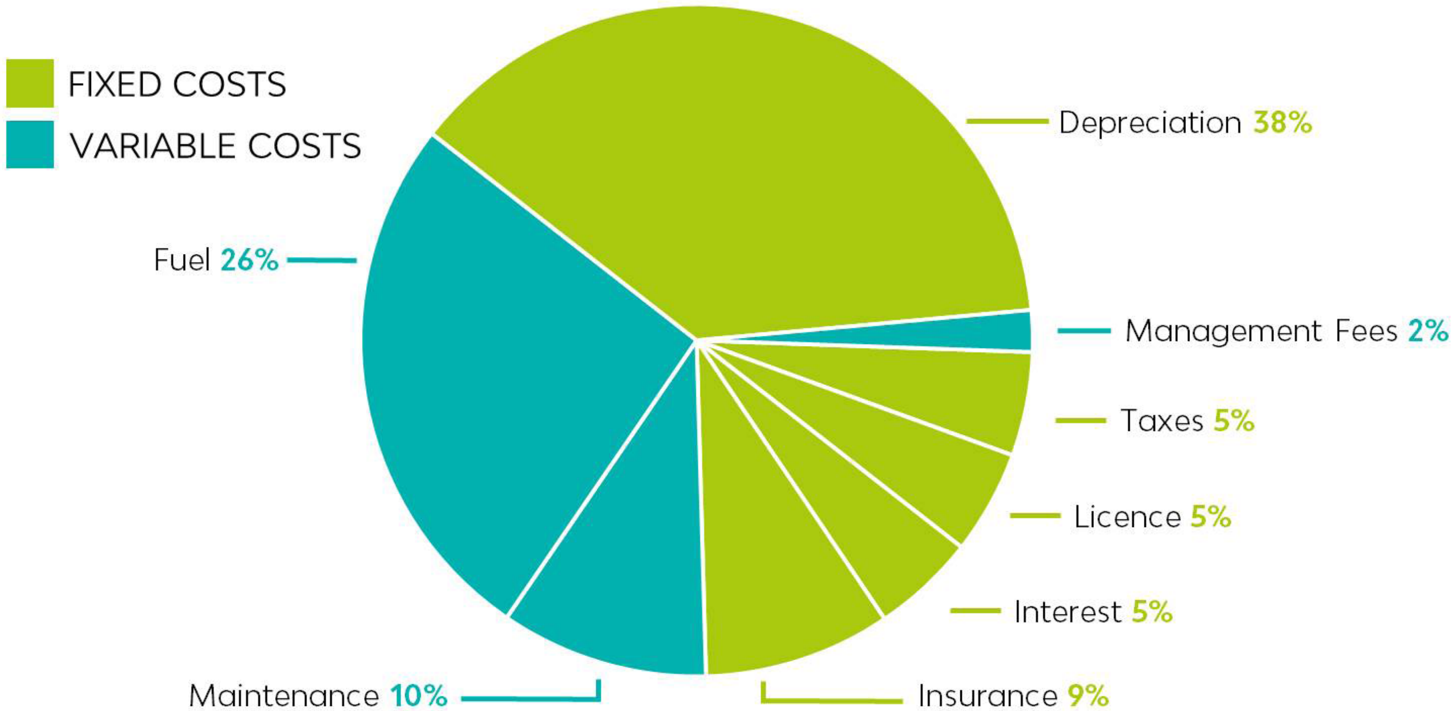
Introduction

As a fleet manager, you know how challenging and time-consuming it can be to keep track of each and every fleet expense. Fortunately there are tools to help you with the tedious work of collecting and comparing data.

But before you can manage your costs, you need a real understanding of them. This white paper provides an overview of the factors that make up your Fleet Total Cost of Ownership (TCO), and how you may be able maximize your fleet ROI.

Calculating the TCO

TYPICAL FLEET COST ANALYSIS



As seen above, the single largest cost in the Fleet TCO is the cost of vehicles. This is either measured as depreciation of owned vehicle (the difference between purchase cost and amount recouped at resale), or as the total lease cost over time. Next is fuel and maintenance. The rest of the TCO is the sum of insurance, interest, fleet management fees, licensing, and so on.

Some costs are fixed and others are variable. When you're looking to lower your fleet TCO, the place to start is the variable costs.

Lowering your variable costs

Choose fuel-efficient vehicles

At 26% of the TCO, fuel is your largest variable cost. Depending where your fleet operates, your fuel cost may be far higher than the estimate above; and they are only going to rise: the Canadian government plans to impose a national carbon tax in 2018 similar to that imposed in Ontario in 2017.

	April 2014	April 2015	April 2016	April 2017	April 2018
St. John's	136.4	109.1	101.5	133.8	131.0
Charlottetown and Summerside	137.8	105.2	99.9	110.3	123.5
Halifax	136.1	108.2	100.3	112.1	124.2
Saint John	134.5	105.8	96.8	111.3	122.9
Québec	138.2	111.4	101.7	115.0	131.7
Montréal	144.0	117.6	109.4	124.5	137.9
Ottawa	133.2	103.1	99.8	115.6	133.6
Toronto	135.0	105.2	102.3	116.0	133.7
Thunder Bay	142.7	106.6	103.6	119.0	135.4
Winnipeg	126.9	93.7	90.3	101.7	121.1
Regina	128.2	95.5	88.2	102.7	116.9
Saskatoon	130.6	96.7	90.4	102.1	117.6
Edmonton	118.1	93.4	83.7	103.9	122.5
Calgary	123.4	95.3	90.4	108.3	125.2
Vancouver	147.2	123.6	114.7	138.8	155.1
Victoria	136.3	118.3	105.9	128.8	147.2
Whitehorse	133.9	109.4	99.8	119.5	130.9
Yellowknife	138.9	113.9	108.4	118.7	128.9

To save on fuel, a growing number of fleets are moving to electric and hybrid vehicles. Depending on the mileage and the type of driving and territories, hybrids claim 50% to 70% better gas mileage—savings that, in some cases, justify their higher initial capital cost.

Minimize abuse at the gas pump

Studies have shown that you can cut fuel costs by as much as 15% simply by clamping down on abuse and misuse. In your fleet the number may be lower or higher—you'll never know until you analyze your fuel purchases.

The questions are simple: where was the fuel purchased? Is one driver buying more fuel than their vehicle or route could reasonably consume? Are they only buying at gas stations that are on their route? Are they buying the kind of gas that their fleet vehicle uses? Getting the answers, for an entire fleet, is a daunting task.

Unless you have technology on your side!

Use a fleet card to consolidate fuel and maintenance bills

One solution is to enforce the use of a fleet card for all fuel and maintenance expenditures. A one-card system, such as LeasePlan offers, collects, records, and reconciles every fuel and maintenance expenditure in the entire fleet. The LeasePlan system aggregates, consolidates, analyzes and justifies every purchase, from every fuel vendor. It provides complete drill-down detail on individual purchases. You can quickly and easily track spending activities and identify buying patterns to "red-flag" suspicious purchases.

Management fees

At approximately 2% of the Total Cost of Ownership, management fees represent one of your smallest fleet costs. As a fleet manager you should look for a management company that provides maximum value for its fees. Look for:

- technical innovation and leadership in the tools that help you optimize your fleets' performance
- hands-on service to help you select and equip your fleets for maximum return
- experience and guidance on critical decisions such as leasing vs. purchase/resale
- proven dedication to your company's needs

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Train drivers to save fuel

Changing driver behaviour can also save on fuel. According to the U.S. Department of Energy, rapid acceleration and heavy braking can increase fuel consumption by 33% in highway driving, and 5% in the city. Reducing idling is another way to modify driver behaviour to save on fuel.

Use telematics to monitor routes and driver behaviour

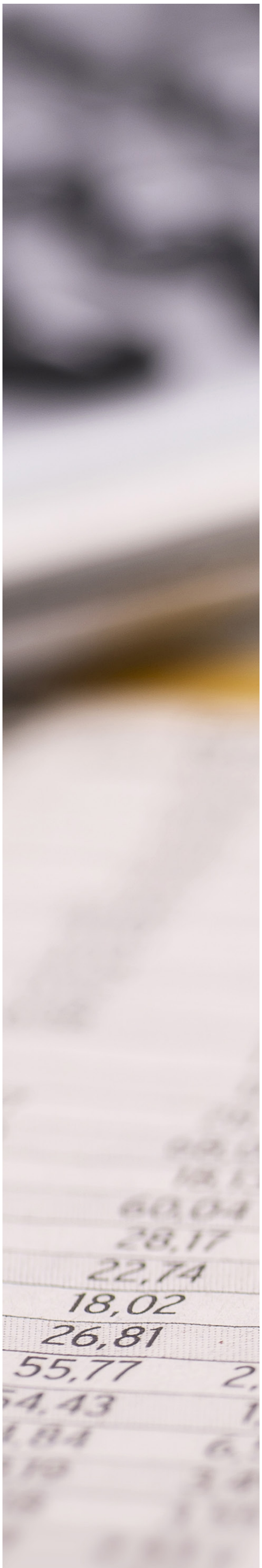
A companion solution is telematics, which use GPS and onboard electronics to track vehicles. Telematics can ensure that drivers keep to their routes and schedules. They can virtually eliminate some kinds of fraud: when drivers know that they are being tracked, they are less like to use a company vehicle for non-company use, or submit a bill from a gas station that's far from their prescribed route. Telematics are also valuable for controlling aggressive driving behaviours that burn fuel and increase the risk of accidents.

With a one-card system, telematics and the supporting analytical software, you can have the tools at hand to identify and reduce fuel fraud, and pinpoint the few drivers whose driving behaviours need to be reviewed. The savings can directly affect your company's bottom line.

Reduce costly unplanned breakdowns with preventative maintenance

When a fleet vehicle is in the shop, or disabled at the side of the road, that vehicle is no longer producing revenue and is keeping your driver from doing their job. A second vehicle may need to be dispatched taking yet another driver from their work and increasing downtime even further.

Properly maintained vehicles reduce unscheduled repairs and downtime, keeping your drivers productive, and ensuring that the vehicles are safe. A good fleet policy will have a regular maintenance schedule that is enforced with the drivers through reminders and alerts when maintenance is upcoming or overdue. With telematics installed, you don't need to rely on your drivers or service staff to follow through on their maintenance schedule. You can build in automated service schedules that keep vehicles in top shape and prevent maintenance issues before they occur.



Taking a hard look at the fixed costs

Optimize vehicle specifications

Choosing the right vehicle—and the right specifications—is critical to minimizing TCO. Over-spec'ing vehicles drives costs up. On the other hand, a lower-cost but under-equipped vehicle can affect productivity, and may break down more often, as well as bring in a lower return at resale.

Vehicle selection is one area where your fleet management company can apply their expertise in selecting the optimal balance of features and specifications to deliver value and performance.

Optimize fleet depreciation through strategic purchase and resale

Vehicle depreciation is your single largest cost. At 38% of the Fleet TCO, it is larger than fuel and maintenance combined. With a well-run fleet, you are able to minimize your depreciation costs by buying and selling vehicles at the optimal times of the year when you are achieving both the lowest capital cost and the highest value at resale. Ensuring your vehicles are "fit for purpose" and are equipped to not only serve your business needs but also retain the best used value key factors in optimizing your depreciation.

Safe driving keeps insurance costs low

Another fleet cost is insurance. And while the TCO analysis above considers insurance a fixed cost, we all know how rates rise after an accident. To minimize your company's insurance rates, take action with effective driver training/re-training programs, and use telematics to monitor driver behaviour. Some insurance companies have reported a 45% drop in accidents when telematics are implemented; those savings can be significant. Ensuring that you are checking your drivers MVR on a regular basis to identify any high risk drivers is another way to monitor your insurance costs.

Understanding your TCO is the beginning

Only when you understand your Fleet Total Cost of Ownership can you begin to take action. If you equip yourself with the tools to gather the vehicle usage data—beginning with a fleet card and extending to telematics—and the technology to analyze and report on the data, you can make a significant difference. Working with the experts in your fleet management company on vehicle specification and selection and on the many variables in the lease-or-purchase equation will also have a major impact on your TCO and your ROI.

We do more than provide vehicles. At LeasePlan, we offer guidance that comes from decades of human experience across the globe with companies, drivers and vehicles.

At LeasePlan, our mission is to provide innovative, sustainable vehicle leasing solutions whoever you are and wherever you need to be — so you can focus on what's next.

We manage your fleet, so you can manage your business.

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What's next?

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