WHITE PAPER

10 TIPS for better Fleet Management

by Valério Marques
CEO, Frotcom International

Who should read this paper?

CEOs | CFOs | COOs | Fleet managers | Finance executives

This paper shows that with a few good fleet management practices, it is possible to significantly improve cost efficiency, customer satisfaction and productivity, at the same time reducing downtime. These practices apply not only to large road transportation companies, but also to companies with just a couple of vehicles. In fact, some of the recommendations in this document apply to companies which currently do not have any vehicles of their own, as you'll see.

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It should be stated upfront that this document does not address most employee related issues often associated with vehicle tracking benefits, such as employee productivity and time management. Although those factors usually benefit from the use of vehicle tracking solutions, they are outside the scope of this document, which focuses on vehicle related issues and cost efficiency.

Vehicle-Centric Businesses...

Some businesses use vehicles as their primary source of activity. For instance, distribution and long haul companies sell the transportation of goods. Vehicles are, therefore, their central tool. We call these vehicle-centric businesses.

These businesses usually deal with fleet management in a very professional and systematic way. In most cases, the expertise to deal with all fleet management issues exists in-house.

If this is your group, you'll hopefully find that most of the tips suggested here are already being implemented in your company.

... and other businesses

Other businesses, however, such as restaurants, gardening companies, or banks, see their fleets not as their central tool, but rather as a need to an end. They need vehicles to take their goods or services to their customers.

Quite often, these companies do not have the internal expertise, time, or inclination to ensure the professional management of their fleets.

Therefore, fleet management often becomes a burden and is dealt with in a minimalist form. Cost efficiency methods tend to focus on easily controllable variables, such as fuel consumption, but miss some other very important aspects of fleet management.

If your company belongs to this group, maybe you will find new ideas or approaches in the following text.

Tips

Before we start looking at these 10 tips, bear in mind that they are not a recipe. Always make sure to see at what extent each one of them should be taken into consideration when it comes to your own company's situation.

Tip #1	Select fuel-efficient vehicles
Tip #2	Providing company vehicles to employees is usually better than reimbursing them
Tip #3	Ensure your vehicles are regularly serviced
Tip #4	Have your fleet correctly dimensioned
Tip #5	Showing off will cost you
Tip #6	Identify opportunities to reduce mileage
Tip #7	Lease/rent or buy?
Tip #8	Make sure you pick the correct lifecycle for your vehicles
Tip #9	Encourage adequate driving behavior
Tip #10	Use Frotcom

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Tip #1

Select fuel-efficient vehicles

The price of gas is always a major concern when it comes to fleet costs. In fact, typically fuel costs account for **12-20 percent** of a fleet's operating costs. This is usually one of the highest contributors to the fleet's cost, after vehicle depreciation.

However, at the time of selecting new vehicles, fuel consumption does not seem to be among the first criteria for many companies. And yet, this can have a huge impact on running costs. Suppose you choose a van with a consumption of 8 liters per 100km[1]. Suppose this van will do on average 3000km per month. That's 240 liters a month. If the liter costs 1.40€, that's 336.00€ a month.

Now imagine you had picked a different van, with a consumption of 7 liters per 100km. That's 294.00€ a month, a difference of 42€ a month. That's not a huge difference, we might think, but at the end of a lifecycle of, say, 3 years, this decision cost you 1,512.00€. Not pocket money anymore, wouldn't you say? And that's for just one vehicle. Multiply that by the size of the fleet and you may be surprised.

Additionally, as government policies worldwide tend to encourage less polluting vehicles, companies can also benefit from lower taxes, by choosing cost-efficient vehicles – which tend to be also less polluting due to their higher efficiency.

Tip #2

Providing company vehicles to employees is usually better than reimbursing them

Imagine a small IT company. The company has one software engineer who regularly has to provide on-site assistance to customers in the region. Should the company provide a vehicle to this employee, or would it be better to reimburse the employee for using his own car, supposing he agrees, by paying him a predefined value per km?
At first, one might think that it's just a question of comparing costs. If the value per km agreed between the company and the employee is low, it pays off to reimburse the employee for the use of his vehicle. Well, it is a question of money, sure, but not just that.

In principle, it only pays to use the employee's vehicle if using that vehicle occurs very rarely. In that case, incurring in costs with a company vehicle that will be stopped most of the time does not make sense. It would probably be preferable to make an agreement with the employee and use his car when needed. But for a more regular use, it will hardly make sense. Let's see why.

First, the real cost of ownership of a vehicle is usually higher for a private individual than for a company. Not only the cost of acquisition, but also insurance, financing and repair tend to be more expensive for private individuals. So, if your employee correctly reflects those costs in the cost per km reimbursed by your company, this will be a higher value than the one your company would pay for its own vehicle.

Maybe you can make what you think is a "good deal" with the employee and agree to pay him less than the "fair" or "market" value. But in the end he will not be very happy with it. This is not a desirable situation and usually gives place to a renegotiation or – what could be worse – a dispute.

There are additional arguments that recommend you not to use reimbursement as a practice. For instance, is his car's image compatible with the company image you want to transmit to your customers? You don't want his car to be too old or too flashy. But it's not up to you to say because, after all, it's not your company's car.

Moreover, if the vehicle is used to carry tools, materials or spare parts, it may even be incompatible to use the employee's car.

Last but not least, you cannot easily control the safety of your employee's vehicle. You cannot make sure of its maintenance, so there will be no possibility to guarantee that the vehicle is in perfect conditions.

[1] In this calculation, liters, km and euros are being used. You can easily convert them to your preferred units using sites such as www.convertworld.com

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Tip #3

Ensure your vehicles are regularly serviced

As stated above, regular maintenance is paramount for safety reasons.

Moreover, irregular service frequently leads to downtimes, which affects your company's productivity and your customers' satisfaction. But as if those were not compelling enough reasons, bear in mind that a well maintained vehicle will generally use less fuel and produce lower gas emissions.

Tip #4

Have your fleet correctly dimensioned

You don't want to have too many vehicles nor too few. In the first case you will have paid too much money on vehicles which are not used and sit idle for long periods. In the latter case, you will lose capacity and will not be able to provide services you need to, because there are simply no vehicles available.

Have in mind that although idle vehicles do not add to the fuel cost, other costs will still be present: depreciation, leasing or renting; maintenance; and insurance, among others.

Dimensioning a fleet in the correct manner can be tricky, because you cannot always predict with the necessary anticipation the services you will need to provide and therefore the optimal fleet dimension.

You can easily identify underutilized or over utilized vehicles through inspection of the vehicles' odometers, through the fleet fuel card reports or through a vehicle tracking system.
Whenever possible, try to level out the mileage of your company's vehicles in order not to exceed the planed ones, especially when your leasing or renting contracts stipulate a limit in the mileage, after which you will need to pay extra.

For instance, consider the possibility to once in a while switch vehicles between your employees, so that employees who travel less will be switched to vehicles with a higher mileage and vehicles with less mileage will be switched to employees with higher travelling needs.

Some companies in the area of distribution may also benefit from vehicle routing optimization software. These packages usually allow the user to optimize the daily routing, having as a goal to minimize the total number of vehicles needed.

Tip #5

Showing off will cost you

Of course your employees will ask you for the latest vehicle models with all the add-ons they can think of. But is that really a wise choice? Usually not.

You should choose vehicles with the right characteristics for the job. Unnecessary add-ons and features may look nice but will surely not improve your company's cost efficiency. When it comes to contracting company vehicles, stick to the basic needs.

This principle should be followed at all levels of the hierarchy, including the board. Sometimes, board members will be tempted to have the company provide them a top model vehicle with a lot of extras. These vehicles are not only very expensive; they tend to depreciate a lot. So, not only you pay more for them, you will also find it hard to sell them at what you consider a fair price. Even if you opt for leasing or renting, the same depreciation applies and your financial partner needs to compensate with a higher monthly cost.

Tip #6

Identify opportunities to reduce mileage

Use all the information and software tools at your disposal to identify unnecessary trips.

As the number of vehicles in the fleet increases, it will become more frequent for vehicles to be used in a non-optimal manner, resulting, for instance, in duplicated trips or

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unauthorized usage of vehicles.

To avoid this and reduce mileage, use vehicle tracking software, planning software and any other forms of control that might suit you.

If you have a vehicle tracking system, you will be able to detect such circumstances easier and act accordingly.

Remember that unnecessary trips will represent not only an increase on fuel costs, they also add to maintenance, vehicle depreciation, and tire wear, to name but a few.

Tip #7

Lease/rent or buy?

The simple answer is: depends. There are many issues that you have to take into consideration in order to make the best call for your company.

Here are some of those issues:

- If you lease/rent, you deduct the annual sum of the costs charged monthly by the leaser in your company's revenue annual declaration. So, if you start a lease/rent in August, you deduct 5 monthly fees that year. If you buy the vehicle, you inscribe it as an asset and depreciate it annually for the corresponding fraction, until it reaches the standard lifetime. So, for a standard lifetime of 4 years, you deduct/depreciate ¼ of the total investment each year. Even if you do it in August.
- If you lease/rent, you do not have to invest the total value of the vehicle. You can finance your purchase, of course, through a loan, but usually this carries a higher interest rate. And because at the end of the lease/rent you return the vehicle, the monthly value you pay is lower than the one you would pay for a loan.
- If you lease/rent, there is always a mileage limit. If you use the vehicle more than the limit mileage, you have to pay extra for it. So you must be sure to contract the appropriate mileage limit.
- If you lease/rent, there are usually included services such as maintenance, tires, insurance, etc. This makes the monthly fee higher than just leasing/renting the vehicle itself, but you don't have to worry about unexpected repairs and corrective maintenance.
- The service may also include a substitute vehicle in case the first one is retained for repair. In that case, make sure the contract stipulates a vehicle type compatible to the kind of activity you will need to execute. For instance, if you need to carry materials, make sure the contract specifies a vehicle type that has that capacity; otherwise it will do you no good.
- If you buy the vehicle, you will need to decide when and where to sell it. Since this is probably not your company's activity – buying and selling vehicles – you may sometimes find it hard to make good deals. With leasing/rental, this is not something for you to worry about.
- When you purchase a brand new vehicle, it depreciates as soon as it leaves the dealer, as you know. But, when you lease, you don't have to worry about depreciation.
- Especially in case of transportation companies, owning the trucks instead of leasing/renting may have some significance on the balance sheet. You expect a trucking company to have trucks as assets.

Tip #8

Make sure you pick the correct lifecycle for your vehicles

Regardless of opting for renting, leasing or buying, you must plan upfront the correct lifecycle for your vehicles. Should you rent or lease for 24, 36 or 48 months? In case you decided to buy instead, when should you sell?

In order to answer this question, you need to understand that two costs have antagonist behaviors as time goes by.

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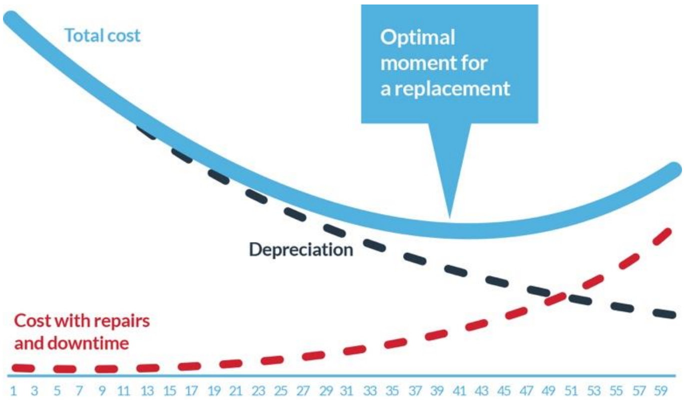
With time, depreciation of the vehicle will evolve slower. This means that after a certain number of months, the cost of depreciation does not vary much from one month to the next. From this point of view, you should keep the vehicle forever, as it is not losing significant value anymore.

On the other side, if you keep vehicles for too long, repairs and downtime will rampage.



Therefore, if you want to find the optimal moment for replacement, you need to know when the sum of both curves reaches a minimum.

This is not easy to achieve, but you can have an estimated guess by looking at your company's records of previous vehicles. You will probably be able to see when repairs and unscheduled downtime starts to grow quicker.

Tip #9

Encourage adequate driving behavior

What good does it do to choose lower consumption vehicles if your drivers have no mercy on the engine?

Make sure that your drivers understand the difference in fuel costs, gas emission, maintenance costs and risk of accident when their driving behaviors change.

Consider having your drivers frequenting a defensive driving course. These training courses show how to minimize the risk of collisions, injuries and fatalities, at the same time reducing consumption and engine stress and liability exposure. This is achieved by having proper conduct behind the wheel. Some of these trainings courses can even be provided over the web, so cost is usually not high.

Tip #10

Use Frotcom

You would expect this from a guy that is behind Frotcom, of course. So let's get it over with.

Why does Frotcom help you manage your fleet?

When you choose Frotcom[2], a small unit containing a GPS receiver and GPRS communication module is installed in each vehicle of your fleet. This unit will transmit to a centralized Data Center, information about location, speed, ignition and sensor data (optional). Your fleet manager will be able to control all the vehicles' movements: where they are, where they were, when they began the journey, for how long they stopped and so on.

This makes it possible for you or the fleet manager to act immediately in case the fleet's usage does not follow the plan.

Optional add-ons include various sensors, a navigation module for drivers, two-way text communication, CANBus control of fuel, engine and tachograph, automatic driver identification and a cost management module.

Now, add to this the power of automatic reports which digest the most important facts about your vehicles' performance and a set of alarms administered by you. See how much easier it will be to properly control your fleet?

About the author: Valerio Marques is Co-founder and CEO at Frotcom International, a global provider of vehicle tracking systems for fleet management. Valerio has been working in vehicle tracking for the last 20 years. Frotcom International is a privately held company based in Portugal, providing fleet management solutions for clients around the world. Clients span from small companies with just a couple of vehicles, to cross-border road transportation companies with thousands of vehicles.

[2] You can find additional information at www.frotcom.com, or contact your local Frotcom office.

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