GE Capital

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How to
Cut fleet costs

A practical guide to looking at ways to reduce fleet costs

Key Solutions
Thought Leadership

GE imagination at work

Welcome

2012 has brought renewed impetus to the subject of cutting fleet costs. The difficulties posed by gathering economic clouds means that across all sectors, fleet managers are looking at new ways of making savings.

This guide is designed to provide a structure for that process, taking you through five key areas of fleet expenditure and suggesting ways in each where you could make reductions without, in most cases, affecting service levels.

In each area, we outline three approaches - "Quick Wins" that you can put in place rapidly, "Further Steps" that may require a little more effort and "Radical Rethinks" that might mean significant changes in fleet policy.

Each is based on the thinking of our industry renowned Key Solutions fleet consultancy team, who can provide further guidance regarding any of the ideas in this guide.

Contents

Fuel savings

Many fleet managers believe that fuel is a cost that cannot effectively be managed - high diesel and petrol prices and their regular increases are inevitable and just have to be swallowed. In fact, there is much that can be done on your fleet to control fuel costs.

QUICK WIN:

Adopt a fuel card

£140,000 saving *

Many fleets use the Government's Advisory Fuel Rates (AFR) to reimburse drivers for business mileage. However, the AFR rates are currently much higher than the actual cost of fuel for many typical company cars. If you adopt a fuel card and issue it to drivers to replace AFR payments to employees, you will simply reimburse drivers at cost. In addition, you will gain a whole range of additional benefits from using a fuel card, including detailed reporting about your fuel expenditure that can highlight drivers and vehicles using excessive fuel, as well as a more robust system for reclaiming of VAT and probable elimination of any fraud that may exist.

Key Solutions view

The arguments for operating a fuel card are so strong that every fleet should adopt them.

FURTHER STEP:

Improve driver fuel economy

£42,000 saving *

The single biggest influence on fuel efficiency in any particular vehicle is driving style. A relaxed, considerate right foot means massive savings in fuel compared to a driver who is habitually aggressive on the accelerator. How do you make sure that a more fuel efficient approach is adopted? A good idea is to incentivise your drivers. Using the data that you gather from your fuel card, you will be able to see their current MPG performance and compare this against the fleet average for that make and model of vehicle, then set attainable but worthwhile targets and provide rewards for improvements. Those who persistently use more fuel than their peers in similar vehicles on similar routes should be considered for driver training. The cost of a driver training course can be rapidly offset if even a conservative **10%** improvement in fuel consumption is achieved.

Further reading:

Visit GE Capital's online Driver Toolbox to find our "Top 10 Tips to Make Your Fuel Go Further" at:
gedrivertoolbox.co.uk/docs/top_tips.pdf

Key Solutions view

Creating driver "**buy in**" around the idea of reducing fleet fuel usage will create genuine long-term cost benefits both for employer and driver.

* Based on a 500 vehicle fleet covering an average 10,000 business miles per annum.

RADICAL RETHINK:

Remove private fuel benefits

£60,000 saving **

Paying for private fuel used in company cars is something that has been offered by fewer and fewer fleets as gradual changes in taxation have made it less and less attractive to employees. For this reason, removing it as a benefit has been actively considered by many organisations especially where employers are able to provide figures for employees showing how little they gain when netted against tax. In companies where private fuel is a contractual entitlement, some kind of buyout process is usually put in place to complete the transition, effectively providing drivers with a level of compensation.

Key Solutions view

Removal of private fuel as a benefit is a move that is well worth considering.

** Based on a 500 vehicle fleet covering an average 10,000 business miles per annum where 10% of drivers receive private fuel.

Fleet management

Looking at some of the basic tenets of your fleet management policies in terms of how you buy vehicles, how you sell them and where you maintain them can have a substantial impact on the running costs of your fleet.

QUICK WIN:

Switch to a four year cycle

£180,000 saving *

Around **70%** of fleets currently use a replacement cycle in excess of three years. Whatever acquisition method you use, moving up to four years will deliver immediate and considerable savings by reducing monthly lease rates or vehicle holding costs. There are clearly human resources aspects to consider - most employees like to drive newer cars - but the durability of modern vehicles means that a four year cycle can be adopted with no discernable impact on operational capability.

A possible way to balance HR considerations is to trade back some of the saving made by adopting a longer replacement cycle to drivers in the form of an improved model when they next renew their car.

Key Solutions view

A simple cost win that, with managerial backing, can be achieved with the minimum impact on your organisation.

FURTHER STEP:

Renegotiate your vehicle buying

£60,000 saving *

You may need to call in support from your fleet management company but there are definite savings to be found by renegotiating your vehicle sourcing. A good start is to review the manufacturers that you have on your policy and attempt to improve on any discounts that you currently receive, which will mean intensive discussions with manufacturers and dealers. As part of this process, you may reduce the number of manufacturers who appear on your choice list in order to maximise your spending power. Also, depending on your needs, an excellent way of creating savings is to access one-off batch deals for a large number of vehicles or take advantage of short term special offers.

Key Solutions view

Negotiating deals of this size can be difficult and, if you don't have the right purchasing skills, it may be worth looking for support from your fleet management company.

* Based on a 500 vehicle fleet covering an average 10,000 business miles per annum.

RADICAL RETHINK:

Switch to non-franchised dealers

£30,000 saving *

For some time, there has been a slow but certain move towards fleets buying more and more service and maintenance from non-franchised dealers. The best independents now work to a very high standard and can deliver labour rates, and sometimes parts prices, well below those found in most manufacturer networks. There are some serious points to consider including any potential warranty issues that may arise, and whether an independent network can provide the geographical coverage necessary for some fleets. However, this is an avenue well worth investigating.

Key Solutions view

The best independents can provide a customer experience that rivals franchise dealers at a much reduced cost.

* Based on a 500 vehicle fleet covering an average 10,000 business miles per annum.

Car choice lists

Drivers tend to prefer a wide choice when it comes to deciding on their next company car. But choice tends to bring costs. By putting sensible limits in place, substantial savings can be made across your fleet operations.

QUICK WIN:

Moderate CO_2 and MPG capping

£36,000 saving *

Rewrite your choice list to remove any cars with CO_2 figures of more than 160g/km and average MPG figures below 45mpg, and you could realise savings of around **£36,000** a year in fuel, National Insurance, and Benefit in Kind taxation. This should be achieved fairly easily with around two-thirds of the cars on the market currently meeting these targets, so there will still be plenty of options from which to choose. Some types of car may not meet these requirements, notably larger 4x4s and sports models, but they are vehicles that you may have already excluded from your fleet policy.

Key Solutions view

There are strong cost and environmental arguments for adopting a basic capping level of this type.

FURTHER STEP:

Stricter CO_2 and MPG capping

£85,000 saving *

A further step in capping CO_2 and MPG would be to move to 140g/km and 55mpg vehicles. This will also create a win-win situation for both driver and employer with reductions in NI, BIK and fuel costs, and also help future-proof against likely forthcoming changes in legislation which will make ever more stringent emissions demands. Around one third of vehicles on the market currently meet these targets, so creating a choice list will require some degree of care. It may also mean looking beyond petrol and diesel vehicles to established hybrid models as well as the electric vehicles and plug-in hybrids starting to become available from mainstream manufacturers. There is clearly a strong environmental argument to this approach that may help to create enthusiasm for the idea within your organisation.

Key Solutions view

Newer vehicles with lower CO_2 figures, especially those using new drivetrain technology, are making targets of this type more practical.

RADICAL RETHINK:

Remove choice

£300,000 saving *

Effectively remove choice altogether by adopting just one job-need car and one management model, and you can potentially access the biggest estimated saving in this whole guide. Yes, this is something that is hardly likely to be popular with drivers but their concerns can potentially be met by being able to provide a much better car than they could otherwise be offered through the increased buying power that this type of arrangement provides. There are certain industries where recruitment and retention are key issues and such a radical move should not be considered - but if you are operating in a tough sector and really want to batten down the hatches in 2012, this is a move worth thinking about. A welcome bonus for fleet managers is that it makes vehicle reallocation very simple.

Key Solutions view

For most fleets, this would be a dramatic policy move, but the cost arguments make it worthy of serious thought.

* Based on a 500 vehicle fleet covering an average 10,000 business miles per annum. .

Vehicle funding

How you fund vehicles is a question that is at the core of your fleet management decision making. There are many options and choosing the right one can reduce expenditure significantly.

QUICK WIN:

Lease or purchase?

£60,000 saving *

Many fleets either lease or buy their vehicles based purely on historic precedent. However, making the right choice from outright purchase and the many leasing options available could deliver you considerable savings. Factors that need to be considered include cash flow, taxation, VAT and the transfer of risk. To make the best choice, you need to have a firm grasp of the financial implications of each acquisition method and to do so, you may need to look for outside help from the experts. However, once a decision has been made, it should be possible to implement it relatively easily with little or no impact to the driver population. Interestingly, research from GE Capital's regular Company Car Trends report shows that there has been a definite shift towards contract hire since the last recession.

Key Solutions view

A good fleet consultant should be able to take you through the pros and cons of each acquisition method and help you make the right choice.

FURTHER STEP:

Align cash allowances to company car costs

£36,000 saving **

Many fleets that offer a cash option in place of a company car are actually paying more than simply providing a vehicle to the employee, and bringing them into alignment will provide worthwhile savings. To complete this exercise, you first need to build up a firm picture of what each company car grade is costing you including mileage reimbursements and then compare it to the cash option that you provide. If you are overpaying, you need to take steps to bring the packages into alignment. The arguments for doing this are strong in terms of equitability and should bear scrutiny internally but there are are a number of points to consider including any commitment that cash takers may have to existing personal leases or loans and the notice period you should provide regarding any changes.

Key Solutions view

Many 'cash for car' policies were put in place using historical parameters and fleets should consider re-examining their cash options with current information.

RADICAL RETHINK:

Implement vehicle specific funding

£200,000 saving *

In a sense, this is the ultimate funding solution – tailoring an acquisition package for each specific driver and vehicle in your fleet or, more practically, basing several packages on a number of typical driver and vehicle profiles. This will require a large degree of fleet and financial expertise but the potential savings are enormous. At the end of the exercise, you might find that **30%** of your fleet is run on a personal car ownership plan, **40%** on contract hire, **20%** take a cash option and **10%** use contract purchase. As a simple example of the savings possible, simply moving a typical sub-111g/km company car from contract hire to contract purchase could save you around **£12,000** per annum based on 50 vehicles.

Key Solutions view

This is big project and one that will take some time to implement but the gains that are available mean that it is worthy of serious consideration.

* Based on a 500 vehicle fleet covering an average 10,000 business miles per annum.

** Based on a 500 vehicle fleet covering an average 10,000 business miles per annum with 100 cash takers.

Vans and light commercial vehicles

The uniformity of vehicle type and operational need that characterises most light commercial vehicle fleets means that a wide variety of effective cost reduction measures are available.

QUICK WIN:

Keep up the pressure

£18,000 saving *

Tyres that are running at the wrong pressure are not only a safety concern but also create extra friction on the road surface that mean faster wear rates and increased fuel use to a degree that many fleet managers find surprising. To solve the problem, simply issue your drivers with handheld tyre pressure monitors at the cost of a few pounds per unit, ensure they know how to use them properly and make it part of their responsibility to check their tyres at least once a week. It's a fast and easy way to make a genuine saving.

Key Solutions view

Flat tyres use more fuel and wear faster. Keeping up the pressure means safer vans that are lighter on diesel and on tyres.

FURTHER STEP:

Use route planning software

£42,000 saving *

One of the most neglected parts of fleet management is the actual planning of the journey. Software that optimises a route for each of your vans based on the operational needs of each day, minimising the miles travelled and avoiding known areas of congestion, will bring a new dimension of efficiency to your fleet. It will reduce mileage and cut journey times - in the process, meaning savings in areas as diverse as fuel, tyres, accident rates and even penalties resulting from missed service delivery deadlines. There are many kinds of software on the market and working through the benefits and disadvantages of each may require a degree of expertise.

Key Solutions view

Route planning software requires upfront expenditure but will provide a strong return on investment over many years.

RADICAL RETHINK:

Review your ancillary equipment policy

£88,000 saving *

Most van fleets make use of some form of expensive ancillary equipment, ranging from basic racking to sophisticated technical equipment. However, ordering, use and maintenance of this equipment tends to happen in a fairly haphazard fashion on many fleets. Completing an audit of your ancillary equipment and putting policies in place that cover its acquisition and use can have definite financial benefits. A good place to start is to conduct a review of all your suppliers in this area to ensure that you are getting a good deal. However, you should also look closely at subjects such as what happens to ancillary equipment when a vehicle is defleeted - is it just included with the van when it may have a separate resale value? Also, could it be reused in a new vehicle?

Key Solutions view

On some fleets, the cost of ancillary equipment adds considerably to the cost of each van and managing it properly is essential.

* Based on a 250 vehicle fleet covering an average 20,000 business miles per annum.

In addition, you might like to consider some of our following

10 more cost saving ideas for LCV's

1. Downsize to smaller vehicles where possible and appropriate to save fuel
2. Check actual mileage versus contracted mileage
3. Consider a driver training programme to save fuel
4. Remove unnecessary weight from vehicle
5. Consider switching to electric vehicles where use of these is appropriate
6. Choose white vehicles and add livery rather than odd colours which reduce residual
7. Switch to non-franchise dealers rather than a main dealer
8. Investigate the benefits of bunkered fuel
9. Review ancillary equipment, fitted and amend specification or shop around for alternatives.
10. Fit speed limiters which will help to save fuel, wear and tear and accidents

Summary

The ideas presented here should give you some serious food for thought about the possibilities that exist on your fleet for making cost savings - from the moderate to the radical.

However, every fleet situation has at least some unique requirements and if you need any further advice, please get in touch. Our Key Solutions consultancy team has helped a diverse portfolio of customers unlock their fleet potential and will be pleased to discuss your needs.

Your online Toolbox for essential driver support

Whether you manage your company's fleet or are a driver, Toolbox by GE Capital is packed with essential information, latest guides and tips for the journey ahead. Simply visit **gedrivertoolbox.co.uk** to find out more.

Key Solutions Thought Leadership

For more guides as well as case studies, tools, benchmarking and much more visit
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