# TOTAL COST OF OWNERSHIP: A MOVING TARGET

**Determining total cost of ownership (TCO) is one of the most complex parts of owning and managing a fleet of vehicles. With expertise from managing thousands of vehicles, fleet management companies can use their automotive knowledge and infrastructure to help accurately determine comprehensive TCO to benefit your company.**

# Total Cost of Ownership: A Moving Target

When managing a fleet, it can be difficult to accurately track the ongoing expenses of each vehicle. Regardless of the make or model, a vehicle's total cost of ownership (TCO) can be influenced by a complex variety of factors, including standard fixed expenses, general operating expenses, incidental costs, lost opportunity cost during maintenance and downtime, as well as depreciation and resale value.

Some fixed costs — such as the purchase price and down payment at acquisition — can be easily measured, but other variables, like fuel and maintenance, can be difficult to track. If the person responsible for the fleet doesn't have an automotive background, it can be hard to determine which data points to monitor, or how to use that data to calculate true TCO.

## Difficulty of Measuring TCO

Fleet management companies (FMCs) have the tools and resources to look at the entire vehicle market across all original equipment manufacturers (OEMs), including the data and the expertise to understand market trends. Examples of these trends include vehicle resale values; future maintenance and repair cost fluctuations, assumed fuel costs; and upcoming manufacturer makes, models, and vehicle safety options.

It's important to view TCO comprehensively. Many companies focus on acquisition and depreciation costs and may consider all other costs as secondary operational expenses. In reality, these "other" costs make up the majority of fleet expenses.

By not staying up-to-date on changing fuel prices, it's easy to miscalculate the cost of fuel to the company. Fuel is typically the largest TCO expense — surpassing acquisition and depreciation costs. Recent data shows fuel alone was responsible for 22% of the total cost to own and operate a vehicle, according to the "2019 Fuel Trend Report" by Motus, a workforce management company specializing in calculating mileage reimbursements. Average national fuel prices are predicted to increase to $2.52 from January to June 2019, a 6.7% increase from December 2018's average fuel price of $2.37, according to the report.

Fuel prices may fluctuate week to week and can also vary geographically. According to the Motus report, factors affecting fuel prices include crude oil prices, refining costs and profits, distribution and marketing costs and profits, and taxes.

In order to accurately calculate a company's fuel consumption as well as maintenance and evaluate replacement schedules, it's imperative to track each vehicle's mileage — or at least look at similar vehicles with similar usage — to make educated decisions based on true mileage, rather than just one decision for all vehicles. A generic approach will net a generic answer that won't get to the heart of true TCO.

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## The Hidden TCO Factors

While TCO factors such as acquisition, depreciation, and fuel costs can be tracked with accurate reporting, other hidden TCO factors should be considered in the calculations. These include unexpected setbacks, driver habits, and vehicle optimization.

### UNEXPECTED SETBACKS

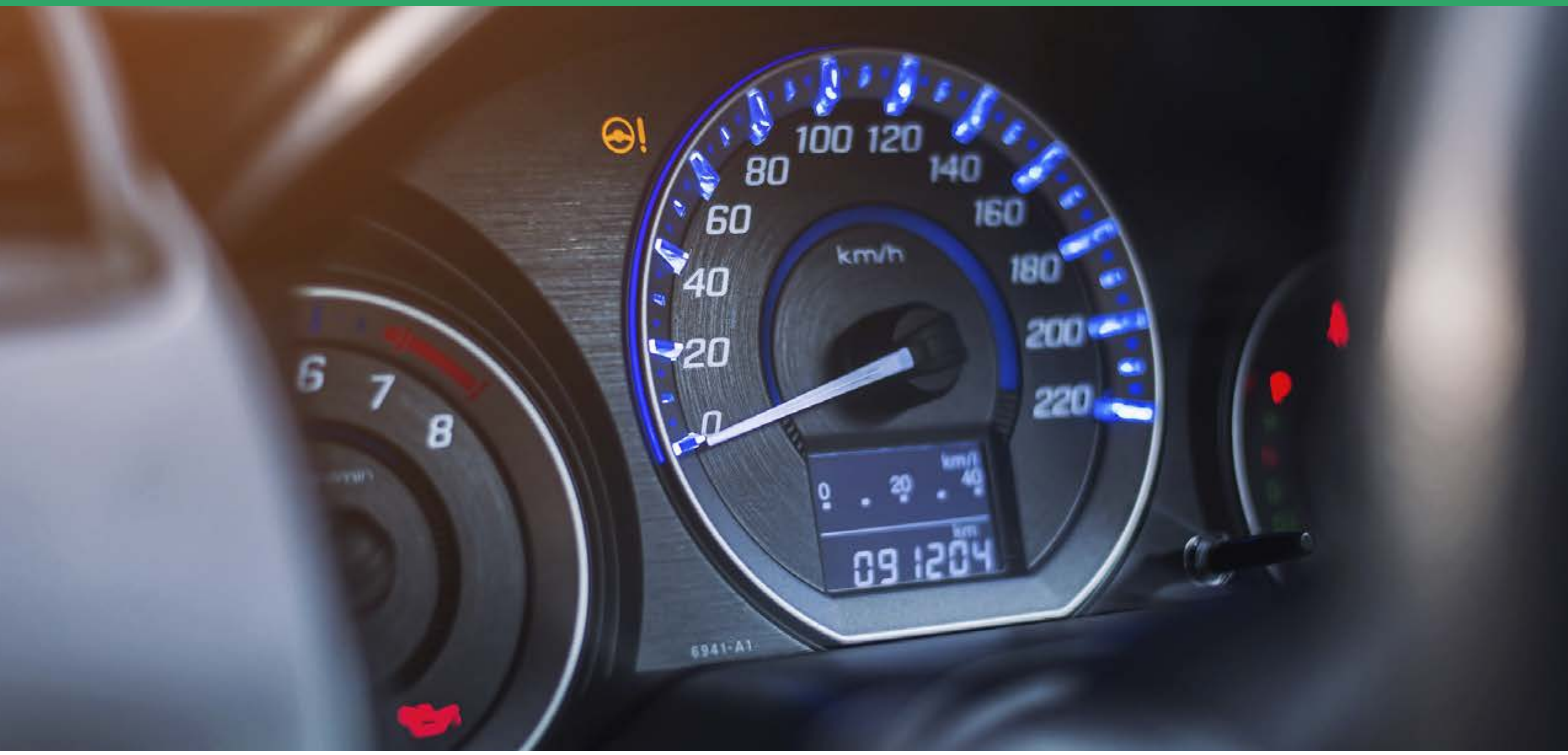
Unexpected factors may not be apparent to all fleet managers. These types of factors include the effects of accidents, recalls, and unscheduled repairs for a fleet. For example, after an accident, fleet personnel may need to make an adjustment to the resale value of the vehicle. Here, the fleet can use the expertise of an FMC to make adjustments to TCO calculations that may impact the optimal time to cycle a vehicle out of your fleet.

Downtime is another soft-dollar cost that needs to be measured. A good, proactive maintenance program may help reduce unplanned downtime. Companies should note that it is impossible to eliminate unexpected maintenance and repairs entirely, but with a preventive maintenance program, knowing what to do when something happens will reduce the amount of downtime for a vehicle. Industry averages for actual time down, in combination with the fleet's actual cost per hour or day of downtime (including the driver's salary and loss of revenue), can assist in adjusting TCO calculations.

### DRIVER HABITS

Risk management and safety-related costs, along with wasteful vehicle operating costs (such as idling, poor routing, and overpriced repairs) should be factored into TCO calculations.

Telematics solutions help provide companies with data to monitor several of these hidden factors. Reporting from telematics programs may help managers track vehicle locations, mileage, speed, and when the vehicle is operated (such as after regular work hours or on




weekends). A telematics program may provide support to identify idling or suggest routing optimizations, which may help reduce fuel costs and excessive mileage that cause faster wear and tear. Additionally, telematics can help fleet managers make changes to driver safety, which can be set up to alert for unsafe driving habits, such as harsh braking or sudden acceleration.

All these wasteful habits can contribute to excessive fuel consumption and other costs, ultimately impacting your vehicles' and fleet's TCO.

### VEHICLE OPTIMIZATION

A TCO analysis of every fleet vehicle should be performed annually. A comprehensive analysis evaluates each vehicle and determines its operational efficiency. The fundamental question every fleet manager should always ask is how long should a vehicle be kept in the fleet? By looking at an FMC's data on different types of vehicles, a fleet manager can access specific calculations, which helps evaluate if a vehicle would be more efficient in its operation. This predictive data provides a financially-focused view of when to maintain a vehicle in the fleet or cycle a vehicle out.

To help with this process, an FMC partner can provide expertise to help companies make decisions by looking at TCO holistically.

For example, Enterprise Fleet Management's dedicated account managers provide clients with expertise to evaluate TCO information with a local, hands-on approach. An Enterprise Fleet Management Account Manager works with clients to complete customized and comprehensive analysis and makes recommendations based on the results. Enterprise Fleet Management provides clients with the data, while the decision is made by the client to ensure fleet decisions align with the organization's overall objectives.

***After gaining insight from the fleet's data, Enterprise Fleet Management's Account Managers can offer expert guidance, gained from years of experience managing the vehicles at Enterprise Rent-A-Car locations.***

## How an FMC can Help

Having a hands-on account manager is just one way an FMC, such as Enterprise Fleet Management, can help fleets measure and determine the most important and relevant TCO factors. When fleet personnel can determine the cost to operate each of the fleet's vehicles and calculate the proper replacement policy, productivity will be maximized.

For example, after gaining insight from the fleet's data, Enterprise Fleet Management's Account Managers can offer expert guidance, gained from years of experience managing the vehicles at Enterprise Rent-A-Car locations. This insight gives Enterprise Account Managers the ability to provide companies with cost-effective vehicle cycle plans to maximize TCO.

Located in more than 50 regional offices, each account manager spends time getting to know his or her fleet customers and their company objectives firsthand.

While TCO can be one of the more complex parts of running a fleet, backed by the expertise of an FMC like Enterprise Fleet Management, it can be measured accurately and comprehensively to make long-term savings a reality.

## About Enterprise Fleet Management

Owned by the Taylor family of St. Louis, Mo., Enterprise Fleet Management operates a network of more than 50 fully-staffed offices and manages a fleet of more than 470,000 vehicles in the U.S. and Canada. The business provides full-service fleet management for companies, government agencies and organizations operating medium-sized fleets of 20 or more vehicles, as well as those seeking an alternative to employee reimbursement programs. Enterprise Fleet Management supplies most makes and models of cars, light- and medium-duty trucks and service vehicles across North America. As the largest buyer and seller of vehicles, Enterprise is the undisputed expert in remarketing.

**For more information about Enterprise Fleet Management, visit www.efleets.com.**