Without a doubt, the top two challenges facing fleet managers are cost containment and safety. This pressure is emanating from senior management, mandating fleet managers reduce costs and minimize liability exposure.

BY MIKE ANTICH

When reading reports about the national macro-economy, it is easy to be lulled into thinking everyone is experiencing the same business conditions; however, for many companies the economy continues to be sluggish and uncertain. This has a direct impact on company fleet operations with management cautious about allocating additional capital and exerting pressure to control expenditures — both internally and for outside services. To get a pulse of the commercial fleet market, AF surveyed a wide cross-section of fleet managers and industry suppliers.

Here’s what they told us:

**Trend 1:**

**Cost-Containment Mandates**

While fuel costs have decreased, the costs for most other fleet categories have increased, resulting in upward pressure on a fleet's to-
Although fuel prices are currently low, it’s unlikely this trend will continue throughout the year. Vehicle acquisition, rising interest rates, and softening residual values are all factors that will contribute to overall rising costs for fleet managers, and, consequently, put budgetary constraints on fleet managers.

Lower fuel prices may lull some into thinking that fuel efficiency is no longer important, but, as we all know, $2 gasoline today can easily become $4 gasoline with the wrong newspaper headline,” said Norman Din, VP - strategic sales at Wheels Inc. “Costs are rising. Vehicle technology, rising interest rates, and softening residual values will all contribute to a period of rising costs, despite some relief from fuel costs.”

One area where costs are rising is with vehicle acquisition. When budgets remain static, rising acquisition costs put constraints on a fleet manager’s ability to spec vehicles appropriate to the fleet application. Even with “fleet-equipped vehicles,” acquisition costs are trending upward due to the increase in standard equipment.

“Higher vehicle acquisition costs are resulting from government safety and fuel economy initiatives,” said Janis Christensen, CAFM, senior manager, director corporate consulting for Mercury Associates, Inc.

“Rising cost of vehicles translates to higher ownership and running costs per mile. These erode profitability,” said Jeff Allspaugh, manager, North American fleet operations for Genus PLC.

Higher acquisition costs and budgetary constraints make it difficult for fleets to optimize a vehicle replacement schedule and acquisition strategy. In addition, it has a direct bearing on driver satisfaction and productivity.

**Trend 2:**

**Ongoing Concerns about Safety**

“Safety, safety, safety,” was the response from Michael Gates, fleet department manager for Crop Production Services (CPS), when asked to identify his top work challenges.

Concerns about the safety of both the driver and the vehicle is a perennial top issue for almost all fleet managers. In particular, the lack of compliance by drivers with the safety policy, specifically with cell-phone usage while driving.

In the connected world in which company drivers live and work, it is becoming increasingly challenging to enforce safety measures/policies aimed at reducing distracted driving.

“Companies expect their field employees to be working 100% of the time in the field. Since most of these employees drive significantly more miles than the average driver, it is difficult to achieve a safe balance for limiting/prohibiting the use of mobile devices while driving,” said one fleet manager who wished to remain anonymous. “A cultural change is necessary if we want to truly change behavior. In addition, I have seen our accident rate slightly increase year-over-year due to distracted driving, so it’s not only for the company employees, but for all drivers on the road.”

Another growing trend is the convergence of safety and sustainability. “Although two very different factors, they are playing a larger role in fleet consideration because they are being influenced by directives from the top. Companies recognize the value in both safety and sustainability to their employees, customers, and shareholders. Fleet managers need to understand and somehow quantify the value of both to their company,” said one fleet manager who wished to be anonymous.

Companies are continuously seeking ways to lower collision incidents and provide adequate training for drivers without increasing cost.

“With safety being stressed more and more, safety features in cars and trucks are becoming more in demand by the company. Some are simple to obtain through the manufacturer, while others are bundled into packages that just are not sensible to have on work vehicles,” said Bruce Ottogalli, transportation manager for SUEZ North America. “Back-up cameras are becoming standard equipment, but back-up sensors are not. Crash avoidance systems are only available in high-end vehicles. I’m sure this will change in the future, but how long will we have to wait?”

**Trend 3:**

**New-Vehicle Ordering Challenges**

The lack of a standard “model-year” is a widespread complaint by fleet managers. OEM production schedules have been a growing issue with the scattered model-year launch time frame. This manifests itself with early build outs and mid-year model changes, which make it difficult to manage.

In the past, fleet managers could generally count on the new model-year spec
Procurement is the new engine of change in fleet management, which has resulted in dramatic changes in the fleet purchasing and supplier selection process. And, influencing fleet safety is the environment, health & safety (EHS) department.

being ready for order by July or August and build-out occurring March through May. "Now, you have build-out occurring in January with the next model-year starting on April/May and actual production starting in June. It makes for difficult planning as well as difficulty in meeting agreed upon model-year volume requirements, when you lose half a year's worth of orders due to the shortened available order cycle," said one fleet manager who wished to be anonymous.

It is more difficult to have just a spring and/or fall delivery order/delivery cycle when the OEM cuts off some current model-year vehicles at the beginning of that model-year and introduces the next year's model within the first few months of the current model-year.

"Mid-year model changes, especially if you work with more than one OEM, can be time consuming. It requires fleet managers to redo all templates and vehicle configurations twice or more every year," said Phil Schreiber, fleet manager, North America for OTIS Service Center. "There are shorter production periods for each model-year. Order banks closed very early during ordering season, which forced end-users to rely more on out-of-stock purchases."

**Trend 5:**

**Segment Preferences are Shifting**

There are shifting fleet preferences in vehicle segments. For instance, there is a growing acceptance of crossovers as a commercial fleet vehicle. Once crossovers were considered an upgrade, but these vehicles are now in fleets in representative numbers similar to the retail industry. "They're not a luxury model, they simply make good total cost of ownership (TCO) sense because of their versatility and strong residual values," said one OEM who wished to be anonymous.

Another challenge is the lack of a good "minivan-sized" vehicle for fleets — both in cargo and passenger models. The other lament about van products is the length of time from order-to-delivery (OTD).

"While there are new options out there (Ford Transit Connect, Ram ProMaster City, and Chevrolet City Express), the OTD is generally five to six months as they are built in Europe or Mexico and then shipped to the U.S. The Chevrolet City Express does not have a passenger version and apparently has delays in OTD due to its tie-in with Nissan," said one fleet manager.

Order-to-delivery times for vans and trucks is a common issue with most fleet managers. "OEMs are pushing the new, smaller vans, but they all have the same time issues — very long waits. This is basically pushing us back to basic fleet vehicles and not being able to utilize the right equipment," said another fleet manager.

Another complaint is the lack of all-wheel drive in vehicles other than the SUV or pickup trucks. "Most fleets have the need for all-wheel-drive capability on their general mid-size sedans, as well as their vans — both minivans and larger vans," said an anonymous fleet manager. "The president of one OEM told us with front-wheel drive and snow tires, all-wheel drive was not needed. With fleet vehicles that drive hundreds of miles a day in both urban and rural areas, these vehicles do not meet our needs. An all-wheel-drive option is needed for these types of vehicles in order to ensure the safety of the drivers during bad weather."

One request from fleet managers is notification when there are changes to standard equipment on carryover models.
“I would like to have awareness when manufacturers remove standard items from new vehicles, such as spare tires, CD players, etc.,” said a fleet manager.

Also, the amount of new technology being introduced to fleet vehicles is daunting, especially if a company operates an in-house maintenance facility.

“One challenge is keeping up with technology. Every year, more and more technology is added into vehicles. If you manage your own fleet repair shop, techs need to keep up with training, and we have to find a way to provide it,” said Ottogalli of SUEZ North America.

From the other side of the desk, fleet suppliers lament the lack of fleet manager interaction with drivers and users when making fleet vehicle selections.

“The right vehicle is sometimes not selected for the right application. We are seeing more and more drivers in the wrong vehicle with the wrong upfit for their job. Drivers need to be included in the conversation early on, so that they can provide input before the vehicle and upfit specs are set. Consultation with the client’s fleet management provider can facilitate these conversations,” said one supplier who wished to be anonymous.

**Trend 6: Fleet Decisions from a Procurement Perspective**

Today, procurement or strategic sourcing is very influential in vendor selection, contract negotiations, service-level agreements, and ongoing supplier management.

“The trend for quite a while has been the move toward fleet program decisions being made by procurement teams with minimal experience in the fleet industry,” said Ken Johnson, managing director, fleet solutions at Element Fleet Management.

As the years have passed, procurement is now the new engine of change in fleet management, which has resulted in dramatic changes in the fleet purchasing and supplier selection process. There has been an ever-expanding influence and role of the sourcing/procurement in the fleet-specific decision-making process.

“This has resulted in continued stress between procurement and those managing the fleet,” said Terry Langness, vice president, national sales for PARS, Inc. “Fleet is constantly asked where the next savings will come from.”

Not all procurement influences are bad, but sometimes the traditional fleet management factors, such as TCO, are not considered when making decisions.

“To some degree, a procurement-only perspective can minimize the value of true fleet management, and the skills required to take all factors into account,” said one responding fleet manager.

**Trend 7: Interdepartmental Friction**

Not only is procurement exercising greater say in fleet management decisions, but so too is risk management. Fleet managers are under pressure to minimize preventable accidents. Often the company HR, legal, and risk management departments are driving these pressures. For instance, corporate risk management has become more influential in the types of vehicles added to fleet selectors.

Another department with a growing influence on fleet safety is the environment, health & safety (EHS) department. EHS departments are extending their reach into fleet because company drivers are one of the largest sources of Workers’ Comp claims. The entire decision-making process in accident preventability management has evolved from being a fleet department focus to a function of a corporate committee, comprised of representatives from fleet, HR, legal, risk, sales, and operations.

“A major trend is the involvement of more and more departments in fleet who may or may not have any understanding of all that fleet is, but all of them know the ‘right’ way to manage a fleet,” said Kim-berly Fisher, fleet manager North America for National Oilwell Varco. “Since fleet is such a large spend and the oil industry is in a downturn, there are lots of eyes looking at fleet and they often are looking with tunnel vision. So, when they make a ‘suggestion’ about cost savings, I spend a great deal of time educating them on all the other areas that their idea will affect and why we can’t just pull the trigger on their idea.”

Many fleet professionals advocate that fleet managers must maintain the “sovereignty” of their fleets as a holistic entity.

“There are mounting pressures to break the fleet spend into pieces, such as acquisition, financing, fuel, maintenance, insurance, telematics, re-marketing, and compliance,” said Joe Stergios, corporate business development manager for Enterprise Fleet Management.

**Trend 8: Complacency of Low Fuel Prices**

Low fuel prices will most likely continue for the balance of the 2016 calendar-year. But, the anticipation is that ultimately the fuel price pendulum will swing toward higher prices. “There is a lot of uncertainty in the long-term fuel marketplace,” said Julie Bromley, manager of shared services for Reedy Industries Mechanical Group.

The majority of fleets continue to have strong fuel management programs even though fuel prices are low and are continuing to strive for higher average fleet-wide mpg.

“There needs to continue to be fuel discipline. With oil prices falling below $30 a barrel, fleets run the risk of taking their eye off the ball on fuel efficiency,” said from Dan Hannan, Executive Director Strategic Consulting for Merchants Fleet Management.

Lower fuel prices are prompting fleets
to reassess fuel consumption management and strategies. This includes the use of alternative fuels and fuel technologies and how current and near future fuel prices will affect momentum on these adoptions by fleets.

“It is critical to develop consumption reduction strategies that are long term and sustainable through the use of telematics, driver behavior management, vehicle spec’ing, and lightweighting. To grow our businesses, assets, miles driven, and, in turn, consumption, but, at the same time, reduce our carbon footprint, creativity and innovation will be key,” said Erin Gilchrist, fleet manager for the Safelite Group.

The difficulty in a low fuel cost environment is accurately forecasting fuel costs for budgeting purposes.

“We are currently enjoying the low swing, but fuel is a volatile commodity influenced by the dollar valuation, political winds, and foreign influence. Pressures can result in severe percent changes in cost over the course of 12 months,” said Allspaugh of Genus PLC.

Another factor is pressure from user groups to lobby for larger vehicles and use the fuel spend reduction as an offset to the higher acquisition prices.

“While the cost of fuel continues to fall, it becomes more difficult to justify smaller, more fuel-efficient vehicles. The trick bag here is that, if fleets relent to the pressure and get larger, less fuel-efficient vehicles now, they could be in a major bad way if fuel prices start to rise again,” said Tim Pate, Midwest regional sales manager for PARS Inc.

**Trend 9:**

**Softer Resale Values on the Horizon**

The fleet industry has enjoyed a strong used-vehicle market for several years as demand in the wholesale market has exceeded inventory supply. However, the increase in used-vehicle supply due to the high volume of trade-ins, resulting from record new-vehicle sales and off-lease vehicles returning to the market, will cause prices to soften.

“New-vehicle sales are soaring, and many of those sales are retail leases. That is a dangerous one-two punch for commercial fleet operators. Many companies have been adjusting their depreciation downward over the past few years based upon the very strong used-market potentially pushing fleets to extend their lifecycles as the used-market weakens,” said Joe Pelehach, vice president of Motorlease Corp.

This concern was likewise voiced by Brett Switzky, fleet, trucking & record retention manager for American Family Mutual Insurance Co. “We, too, are wondering how the record number of new vehicles being built and sold will affect the used-vehicle market,” said Switzky.

**Trend 10:**

**Reimbursement Never Goes Away**

Many fleets offer drivers the option of reimbursement or a company vehicle. Younger employees look at reimbursement because they view it as “extra cash” in their pocket, versus money for the upkeep of their personal vehicle being used for business purposes.

“Lease versus reimbursement will continue to be a hot topic for financial managers. Millennials/younger workers continue to want options other than a company-provided vehicle, and hiring managers continue to bend and conform to younger, talented recruits,” said Langness of PARS, Inc.

Lower fuel prices may make the reimbursement option more appealing to some employees.

“Many companies simply accept the IRS Standard Allowance as the amount that they reimburse drivers. Even with the adjustment downward this year, the very low cost of fuel, if it continues, may draw some drivers away from a company-provided vehicle to an allowance program because they will believe that the change will improve their financial situation,” said Pelehach of Motorlease.

**Trend 11:**

**Diesel SCR Emissions Equipment**

Responding fleet managers who manage diesel-powered assets were quick to bring up issues dealing with diesel emissions equipment.

“Diesel truck technology is causing additional downtime and expense,” said Gregg Hodgdon, director of fleet operations for E.A. Sween Company/ Deli Express.

This was seconded by Ottogalli of SUEZ North America. “Diesel emissions technology keeps changing and, for the most part, any diesel that utilizes 2010 emissions systems has been nothing but a headache. It’s a combination of how the system works and the driver not paying attention to what the truck needs. About 90% of breakdowns are re-gen issues. For that reason we are getting away from diesel trucks and changing all of our medium-duty trucks to the new V-10 gasoline engine from Ford,” said Ottogalli.

**Trend 12:**

**Drowning in Regulations**

Fleets are constantly scrambling to stay current with the ever-changing safety and environmental regulations to ensure compliance. Increasing regulations, in general, at the jurisdictions below the federal level has been a trend for years and is continuing unabated.

“States and local municipalities continue to add (or revise existing) regulations, ostensibly to address public safety or otherwise exert control over segments of the industry for the public good,” said one fleet manager. “In reality, these efforts represent money grabs to increase local tax/fee revenues without affecting the local voting citizens. These efforts add direct costs to the companies in the form of compliance fees and expenses, and indirect costs in decreasing driver efficiency.”
Other legal and regulatory issues are broaching new ground, leaving fleet managers confused as to how to handle various situations. One example is the medicinal use of marijuana or the legal recreational use of marijuana in the states of Colorado, Washington, and Oregon.

In addition, if a company operates a Class 3 or larger truck fleet, there is a never-ending series of changes to federal motor carrier safety regulations (FMCSR), with the new hours-of-service (HOS) rules being the most recent example.

“It seems as though every other month there is a revision, reversal, or cessation to a rule, which makes it exceedingly difficult to ensure the drivers and field management teams are trained, understand, and are positioned to comply with the new rules or interpretations, not to mention the difficulty the enforcement agencies must have in training their frontline resources to understand and consistently and accurately enforce the regulations,” said Ralf Wessel, manager, global security, global fleet and corporate facilities at AGCO Corporation.

These regulatory changes cover a wide variety of fleet management functions ranging from environmental to privacy to compliance issues.

“One regulatory change that will impact the management of commercial vehicles is the 2017 electronic logging device (ELD) implementation and management,” said Wessel.

Agreeing with this assessment is Colin Sutherland, executive vice president global sales and marketing for Geotab.

“The new electronic logging device (ELD) needed to comply with the hours-of-service regulations will require some local delivery or service vehicles to keep log books. One helpful tip for determining whether or not your fleet is exempt is to focus on the 100 air-mile radius rule — are you in or out? If your drivers operate outside of the circle, you need to be complying with the regulations and using ELDs,” said Sutherland.

**Trend 13:**

**Technology Is a Change Agent**

Technology is reshaping the fleet management industry. “The landscape for connected vehicles and autonomous cars will affect our fleets, roles, roadways, business model, and drivers,” said Gilchrist of Safelite.

Agreeing is Mark Klein, strategic account manager for Safe lite Solutions, who, at one time, was also the company’s fleet manager.

“Advanced Driver Assistance Systems (ADAS) usage will continue to double every year. Commercial fleets will need to prepare for ADAS as it relates to cost and calibration during glass replacement,” said Klein. “Mobile technology will be commonplace in fleet within the next five years. Those that do not use it will contrast sharply from those that do. It will be important to plan and to embrace the speed of information this technology will bring.”

As the cost for telematics declines, both for hardware and the monthly service expense, the usage of telematics is growing among fleets. “More fleets are utilizing vehicle telematics to improve safe driving behaviors and operational efficiencies,” said David Meisel, senior director - transportation & aviation services for Pacific Gas & Electric.

The Safelite telematics program reduced fuel burn by 1.5 million gallons in 2015. “We are using technology and innovation to influence driver behavior. We monitor how a driver drives a vehicle asset, the type of fuel used, and compliance with maintenance schedules. By understanding this, we can influence in real- or near-time scenarios aimed at reducing risk, increasing safety, reducing cost, increasing efficiency, eliminating idling and waste, and minimizing environmental impact,” said Gilchrist.

Telematics and the software embedded into a vehicle allows tracking a vehicle’s whereabouts, and even the driver’s driving habits.

“How are fleet operators going to deal with that information and ability? Privacy laws are presumably in play, but may stand in stark contrast to a fleet’s desire to know how and where their vehicles are driven. And, there are likely to be continued discussions about the connected car and a driver’s desire to have those connective features, which, again, may conflict with privacy rules,” said Pelech of Motorlease Corp.

Another area where technology is impacting fleet management is in the area of data management and analytics.

“Data management has become extremely important. Fleets need to effectively manage available maintenance and vehicle data, synthesize it, and then transform the information into meaningful KPIs. This is the heart of an effective and competitive fleet management organization,” said a fleet manager who wished to remain anonymous. “This ties in with fleet optimization, which identifies sustainable cost-savings opportunities and achieves them by utilizing a methodical approach such as lean six sigma to uncover and implement operational efficiencies.”

Agreeing is Tom Callahan, president of Donlen, who adds the caveat that data management is important, “but you need to make this data actionable.”

Commercial fleet managers must consider what the entire industry will look like five to 10 years from now when making their current recommendations.

“Technology and innovation will continue at a very rapid pace. Early adopters will be ahead of the pack and resisters will fall behind,” said Klein of Safelite.

The next trend will be the generation of predictive information through telematics connections with engine diagnostics, said Brad Jacobs, manager, Strategic Consulting for Merchants Fleet Management.