WHITE PAPER

Measuring things that matter

wheels

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Fleet management involves an abundance of data. There are so many things that can be measured, so many data points to be tracked from month to month and from year to year. Hundreds of data points relate to a vehicle's equipment alone, even before it is ordered—and numerous chances to collect data will present themselves once that vehicle is on the road.

This is a data-intensive business. Think of how many opportunities there are to gather information on a fleet vehicle—fueling events, maintenance events, registration, driver-reported mileage, order status, upfitting equipment specifications, etc. With this data, a number of metrics can be calculated to assess your fleet operation: miles per gallon, cents per mile, depreciation per month, accidents per million miles, total annual cost per vehicle. Which ones make the most sense? Which measurements give you the clearest picture of the performance of your fleet?

Because there is so much data and so many measurements, it is easy to get overwhelmed or to become so focused on certain measurements that you lose sight of the big picture. It is easy to get wrapped up in the daily transactions to the extent that you forget to take a step back and look at some of the summaries that best show what is working in your fleet and where there may be room for improvement.

What you should measure is completely determined by what you are trying to accomplish with your fleet. While everyone today is interested in minimizing fleet costs, there are also worthy goals of maximizing driver productivity or satisfaction and achieving administrative efficiency. Rather than trying to guess what your specific goals might be, we will review the most important measurements to support general fleet management. What is certain is that if you don't know what you want to accomplish with your fleet, you have no chance of collecting the data that will support those business decisions. Yogi Berra has it right: if you don't know where you are going, you won't get there.

> "You've got to be very careful if you don't know where you are going, because you might not get there. -Yogi Berra"

We'll start with the assumption that the most prevalent need in fleet management today is to minimize cost while still achieving your business objectives. Let's face it, the easiest way to minimize fleet cost is to eliminate the fleet. But most of us do not have that choice. Our fleet is a critical part of our business, and the option to eliminate it is not viable either because it is an industry standard or an employee expectation, because specialized vehicles are required to support the job function, or because mileage accumulation is at a level where purchasing vehicles and services wholesale offers significant savings.

So let's assume that the fleet is critical to the success of your business. The person responsible for the fleet will want to identify the primary goals and expectations for the fleet office. For the sake of argument, let's talk about three of the most common goals:

1. Minimize depreciation
2. Increase driver productivity
3. Minimize operating costs

This paper will examine each of these goals independently and look at the things you can and should measure to best achieve each goal.

Minimize depreciation

To paraphrase Descartes, it is not enough to have good data; the thing is to use it well. Depreciation gets a great deal of attention because it makes up the largest percentage of your fleet cost—roughly half, even with rising fuel costs. The three most important factors to consider when attempting to minimize depreciation are: 1) What vehicles are to be included in your selector? This includes examining which vehicles best meet your business needs while offering low initial cost and attractive manufacturer incentives; 2) What is your replacement cycle? This includes considering the loss of revenue or sales due to having vehicles unavailable because of unscheduled maintenance as the vehicle life is extended; and 3) Exactly when do you replace those vehicles? To adequately answer this question, you must plan when you want the used vehicles to be available in the resale market and order your new vehicles accordingly.

> "It is not enough to have a good mind; the main thing is to use it well.
> -Rene Descartes"

The top five criteria you should measure and monitor to minimize depreciation are:

1. Replacement planning – A critical part of your planning process is to run a replacement report that projects the miles and months in service for every vehicle in your fleet. Obviously, one of the most important pieces of information necessary to run this report is accurate mileage. Spend time evaluating the accuracy of your odometer data. Are drivers entering the mileage correctly when fueling (if you use a fuel card)? Are the odometer readings from your maintenance provider accurate (if you use a maintenance provider)? If you have bad data, how is it corrected? Some fleet management companies have developed ways to edit and correct faulty mileage data. While some provide a way to manually fix entries that are obviously incorrect, others have developed sophisticated algorithms that "smooth" the mileage based on previous entries. Because correct odometer readings are so critical for effective fleet management, the importance of systems that increase accuracy cannot be overstated.

In most cases, you will want to replace the majority of your vehicles in the fall to take advantage of the strong seasonal resale market. Choose your replacement parameters and run a report showing which vehicles will surpass those parameters as of your scheduled replacement date. It is easy for this date to sneak up on you—schedule a day to run the report and evaluate the results in the late spring or early summer so you can place orders in the summer and have new vehicles available in early fall. Having a replacement policy that allows some flexibility lets the fleet manager extend or shorten lifecycles to ensure that vehicles are sold in favorable markets. For instance, rather than stating that vehicles will be replaced at 36 months and 65,000 miles, the policy might state that the target replacement mileage is 65,000 miles, with a maximum mileage of 75,000 miles and a minimum of 24 months in service.

2. Depreciation analysis – Take a look at how the vehicles coming off lease have performed from a depreciation standpoint. If a vehicle lost half of its value in two years, then your depreciation reserve should be just over 2% per month. If a vehicle is popular in the resale market, you may be able to take advantage of a more aggressive replacement schedule, or perhaps you can lower your reserve to minimize monthly costs. If the resale market is soft, you may want to consider increasing your reserve amounts to avoid large disposal deficits when you sell your used vehicles. Remember that resale values are strongly influenced by the season in which vehicles are sold. Your fleet management company can supply all of the relevant data and make recommendations for appropriate reserve rates. If you are considering vehicles not currently in your fleet, your fleet management company can provide the data to evaluate how any fleet model typically performs.

3. Sold unit expenses – Run a report that summarizes all of the costs associated with a vehicle throughout its life. The report should include total depreciation as well as all operating costs. For example, one vehicle may have a higher initial cost, but it may depreciate more slowly or have lower operating costs. In this instance, you may discover that the total lifecycle cost of the “more expensive” vehicle is actually much less than the vehicle with a lower initial cost.

4. Inventory – Prepare thorough documentation of all the vehicles in your fleet to negotiate the best incentive package with a manufacturer. Not surprisingly, manufacturers are willing to provide the best deals to those who consolidate all of their volume with a single manufacturer. Having the details of your fleet, including total annual purchases and current mix by model and manufacturer, can give the manufacturer the information needed to offer you the best possible incentive package. Don’t forget to take into account any fleet vehicles you may have in Canada, Europe or the rest of the world.

5. Order status – Once you have determined which vehicles need to be replaced, be relentless in pursuing the best possible replacement timing. Utilize internet ordering to shorten the order placement cycle. Take advantage of the immediacy of e-mail when communicating with drivers. Then monitor orders as they are placed and follow up with drivers who lag behind, making clear the importance of ordering quickly. Remember that the value of a used vehicle in the resale market can drop quickly at certain times during the model year.

Monitoring these five pieces of information will give you the best opportunity to minimize your total depreciation.

Increase driver productivity

In the current business environment, things like productivity are often considered to have "soft" cost impact. Some companies only look for hard and easily quantifiable measures with a number attached to them. Yet there are significant savings to be gained from addressing productivity issues, as making your drivers more productive allows them to make more sales calls or increase billable service hours.

> "Success is achieved by the large and small victories that can be measured every day. -Wheels view on Fleet Management"

The five most important pieces of information to monitor if you want to increase productivity are:

1. Driver name and address accuracy – Something as simple as inaccurate driver address data can lead to numerous mistakes and a surprising amount of inefficiency and lost time. Monitor your driver database and audit it for accuracy on a regular basis. This helps avoid communication delays with drivers, particularly when timing is important—for example, when ordering new vehicles or renewing registrations each year.

2. Accident rate and severity – The amount of money spent on accidents for the typical fleet is staggering. This includes not just the cost of repairs to the vehicle and personal injury liability, but also the lost driver time due to both vehicle unavailability and recovery time from injuries. Running regular Motor Vehicle Record (MVR) checks to identify high-risk drivers is helpful in identifying those who are more prone to accidents. A driver with a high rate of violations can be targeted for specific safety training. Many safety programs include point programs that standardize violations across multiple states. Once the safety programs and training are in place, monitoring accident rates can help determine the effectiveness of the programs. Such measurement can also provide documentation of the money that your program saved the company.

3. **Oil change report** – Monitoring drivers' compliance with preventive maintenance schedules helps minimize maintenance problems that can lead to unscheduled downtime. Look for a report from your fleet management provider that identifies drivers who have gone over 6,000 or 7,000 miles without an oil change. The best indication of preventive maintenance compliance is the average mileage interval between oil changes. For example, consider a driver who is currently overdue for an oil change but has had 12 oil changes over the vehicle's 50,000 miles. This driver is more compliant than a driver who just had the oil changed last week, but for the first time in 30,000 miles. If possible, have your maintenance provider send a reminder to drivers who are due for an oil change.

4. **Review maintenance by category** – Look at total expenditures on maintenance in your fleet by major categories such as brakes, transmissions, tires, etc. Reviewing these costs can help you determine if you have the right vehicles in your fleet. For example, some fleets may be using a light-duty truck when changing job requirements have now made a medium-duty truck more appropriate. Excessive wear on brakes and an unusually high number of transmission problems can indicate the need for a vehicle with a greater load capacity. At the same time, a report on your maintenance expenses by category can help you determine if your vehicle lifecycle is too long. Sometimes extending the life of the vehicle to minimize depreciation can lead to higher total costs because of increased maintenance expense and downtime.

5. **Registration activity** – Most fleets utilize a re-registration service provided by a fleet management company to simplify the registration process and ensure compliance in all states and counties. Sometimes there is action required by the driver to comply with local requirements. For example, some states require an annual emissions test prior to re-registration. In these cases, it is especially important to contact drivers whose vehicle registration is nearing expiration and encourage them to complete requirements, to keep your fleet properly licensed and on the road.

Minimize operating costs

The final group of measurements we will examine focuses on reducing fleet operating costs. Sometimes we shy away from these measurements because we are afraid of what we might find. But finding mistakes or driver non-compliance creates an opportunity for improvement—another step forward, as Edison said. Because these measurements are ongoing and always changing, monitoring them can be time-consuming. That is why it's so important to select a few measurements most relevant to your fleet goals and to monitor them on a regular basis. Looking at them daily or weekly will rarely yield savings significant enough to justify the time spent studying daily or weekly reports. It is best to evaluate performance quarterly, or even semi-annually, to identify opportunities to reduce these costs.

> "I am not discouraged, because every wrong attempt discarded is another step forward.
> -Thomas Edison"

1. **Fleet expenses** – It is useful to create a summary of all fleet expenses, everything from fixed expenses like depreciation, funding, taxes and management fee to variable expenses like fuel, maintenance and accident repairs. Comparing these expenses at a summary level from one quarter to the next, or from the same quarter year-to-year, can offer some insight into how your fleet expenses are changing. For example, looking at fuel expenses over the last three years would show dramatic fluctuations, even if your fleet size remained constant. In such circumstances, you may want to consider a vehicle with better fuel performance as a way to significantly reduce operating costs.

2. **Billing reports** – Audit your bill to make sure you are paying the appropriate amount each month. For those with large fleets, it is too difficult to manually audit every expense item every month, but it is possible to do spot checks either on individual vehicles or on a particular expense type each month. For example, one month could include an audit of depreciation reserve calculations and a check to make sure the amounts are applied appropriately to the book value of each vehicle. The next month could include an audit of used vehicle invoices to monitor all associated charges. Another month could focus on service fees, auditing to make sure fees are accurate and are being charged to the appropriate vehicles. Most fleet management companies are quite careful in their billing procedures, but mistakes do happen and can be identified through a well-planned audit process. Breaking the items up over the course of the year makes the process manageable.

3. **Fuel** – There are a number of ways you can measure fuel expenses if you use a fuel card that supplies level III data. A report detailing low fuel card usage will help you identify under-utilized vehicles and drivers who are not using the fuel card program. Under-utilized vehicles can be an enormous drain on fleet resources and should be eliminated unless they can be frequently used as emergency-need vehicles (in lieu of rentals). In addition, a fuel management program makes it possible to monitor premium fuel usage and non-fuel purchases. In both cases, it is helpful to identify habitual offenders and communicate with these drivers to remind them of company policy.

4. Maintenance by category – As explained before, this report can help identify repeated maintenance problems and allow you to factor them into your decisions about models, equipment and lifecycle.

5. Violations – Municipalities are increasingly taking advantage of new technology to issue traffic violations. Government agencies are installing cameras at intersections and toll booths, with the cameras triggered to take a picture of the license plate when a violation occurs. Fines are then sent to the owner of the vehicle. In some cases, these fines must be paid right away to avoid incurring heavy late fees; in certain instances, the entire fleet in that state is jeopardized by not paying the violation. Monitoring these violations, making sure they are paid on time, and letting drivers know about the cost are all sound strategies for minimizing this growing fleet cost.

Conclusion

If we want to achieve our fleet goals, we have to be specific about what we measure and monitor. There is the story of the child who reaches into the cookie jar and grabs so many cookies that he can't get his hand back out of the jar. There are a lot of cookies in fleet management. Know what you are trying to accomplish with your fleet and then pick only those measures that will have the biggest impact on meeting your goals. Based on a thorough understanding of those goals, your fleet management provider can help you identify the best measures to gather and help you develop a report schedule to simplify the process. On the following page we have provided a sample report calendar* that recommends when to run and analyze various reports based on sound fleet management practices.

> I went to a general store, but they wouldn't let me buy anything specific.
> -Steven Wright

To learn more about managing your fleet, please contact a member of your Wheels Account Team or e-mail us at info@wheels.com.

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SAMPLE REPORT CALENDAR

Report name	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Comments
Order status			✓	✓	✓				✓	✓	✓		
Stock vehicle orders													As required based on out of stock volume.
Year to date order activity			✓			✓			✓				Helps monitor tier levels for incentives.
Replacement date projection													Used for rigid miles and months policies. Not recommended in most cases.
Replacement planning						✓					✓		
Oil change report	✓			✓			✓			✓			
Welcome letter/ reminder							✓	✓				✓	
Violations detail		✓			✓			✓			✓		
Driver summary payroll													As required at tax reporting time.
Fleet expense comparison		✓			✓			✓			✓		
Sold vehicle expense comparison						✓						✓	
Premium fuel usage	✓						✓						
Low fuel card usage				✓						✓			
Fuel card purchases													As needed to fulfill requests.
Non fuel usage		✓						✓					
Regional fuel comparison			✓			✓			✓			✓	

* The reports listed in the schedule are all currently available on FleetView™, Wheels online fleet management tool.