WHITE PAPER

Establishing best practices for managing vehicle inventory

wheels

Executive summary

Corporate executives know the value of a company's vehicle fleet. Whether it's a tool that is directly connected to the production or delivery of a product or service, or part of a compensation package that helps you attract, hire and keep key employees, vehicles are closely connected to your success in achieving the business results you want. But fleet also represents a large expense, frequently being among the top spends for a company. The sheer size of the fleet budget, coupled with pressures to continually improve financial performance, result in high expectations for improved expense management. One of the most frequently overlooked opportunities for savings can be found in effectively managing vehicle inventory levels.

During the normal course of business, companies typically experience events that affect their need for vehicles, such as employee turnover, restructuring, expansions, contractions, acquisition or sale of business units, increases in workforce, staff reductions, new product launches, territory realignments, etc. As a result, the company finds that it either has vehicles without assigned drivers or drivers without vehicles; both scenarios adversely affect financial performance. For a typical company, those events would result in over 4% of its vehicles being idle at any time. The direct cost of carrying that idle inventory amounts to over $300 per year for every vehicle in the fleet. By applying best practices to inventory management, that cost can be reduced by over two-thirds, resulting in a savings of over $200 per year for every vehicle in the fleet.

On the surface, eliminating unassigned vehicles may seem like a relatively simple task. However, as with so many other things in today's business environment, there are conflicting agendas and values that make the choices about which vehicles to keep, which to eliminate, which to relocate and which to hold much more complex. This paper will guide you through the best practices so that your company too can enjoy the huge savings associated with sound vehicle inventory practices.

The importance of inventory management

A company's vehicle fleet is more than just an important business asset. It is a cost center that faces financial and productivity challenges, just like every other business unit. Efficient management of the fleet inventory is crucial to helping a company achieve its business and financial goals.

Consider that approximately 1 of every 5 vehicles in a fleet will change hands annually due to employees being promoted or leaving a company, new hires, corporate restructuring, territory realignment, or vehicles involved in accidents or requiring extended repairs. Each time these events occur, it causes either an excess vehicle and/or the need to acquire new vehicles. Fleet managers must decide whether to dispose of, move, store or acquire vehicles, and then go through the complicated logistics of matching drivers with the right vehicles.

If the fleet inventory isn't managed correctly, it can result in both additional expenses and lost productivity. When vehicle costs were lower and financial pressures less intense, it was common for companies to inventory unassigned vehicles until they were needed. It also was easier for managers if vehicles were always available to meet emergency requirements. As a result, many bad habits were developed and became institutionalized over time. The demands of today's business climate dictate that we reexamine those practices and adopt new methods that meet our business needs but that also keep costs at the lowest possible level. For effective vehicle inventory management, a company must first examine how fleet impacts its bottom line; this document covers the various steps involved in this process.

Estimating the activity

Determining how much activity occurs each year in a company's fleet is complex. Much of what makes this task so challenging is that the activity is not generally integrated in terms of timing, process, people and systems, making it difficult to identify and quantify the volume of work and resources used. Activity is generated by employees leaving the company, internal position changes, vehicles wrecked in accidents, mechanical non-repairs, new employees, product or service changes, corporate restructures and territory realignments. This activity results in a fleet having either too few or too many vehicles at any given time.

So how can a company plan? By tracking down some key pieces of information: What is the company's annual turnover rate? Is there any business activity or event expected in the coming year that may impact turnover? What is the company's accident rate percentage? What percentage of the total tends to be deemed non-repairable? What percentage of internal job changes (people moving from outside sales to internal positions, promoted from field sales to manager, etc.) does the company have annually? By answering these questions, a fleet manager can develop a close estimate of fleet activity for the coming year.

FORMULA FOR ESTIMATING ACTIVITY	
Fleet size	1,000
Annual turnover %	17
Annual accident rate %	23
Non-repair %	7
Internal job change %	5
EQUATION	
Turnover activity	Fleet size (1,000) * annual turnover (17%) *2 (see note below) = 340
Non-repair activity	Fleet size (1,000) * accident rate (23%) * non-repair (7%) = 16
Internal job change activity	Fleet size (1,000) * internal job change (5%) = 50
TOTAL ACTIVITY	Turnover activity (340) + non-repair activity (16) + internal job change activity (50) = 406 total incidences

NOTE: Turnover activity is multipled by two because there are two courses of action that must be taken. Each vacant position generates an excess vehicle and requires decisions about what to do with the vehicle. Then, when an employee is hired, a vehicle is required to get them productive, generating a second round of decision-making.

Reviewing current practices

Once a company has an idea of its fleet activity, it can begin to evaluate its current inventory management practices. Typically, the administrative burden related to these activities makes people focus on the execution. Yet there is another factor with equal or greater significance: the cost of managing the transactions. The individual activities often have associated costs extending well beyond the resources needed to deliver the result.

Establishing processes

If the current fleet management activity doesn't effectively meet the cost-savings goals of the company, new processes must be established to meet the objectives. The two categories where processes should be established are filling vehicle needs and managing excess inventory.

Filling vehicle needs

Companies often fill their vehicle need resulting from turnover by holding the old vehicle in the vacant territory until it is needed by the new employee. While it minimizes administration and ensures there is a vehicle when needed, it can often be a costly solution. The biggest factor affecting this cost is the length of the company's hiring cycle. From the fleet perspective, the cycle begins when a vehicle is no longer used by one employee until the time the vehicle is occupied by a new employee. It is not uncommon for this cycle time to be upwards of 90 to 120 days.

Fleet needs that are unrelated to turnover, such as corporate restructuring, territory realignment or vehicles involved in accidents, are often dealt with on a case-by-case basis. Should a factory order be placed, or do you need to purchase a vehicle from dealer inventory, a faster but more expensive solution?

A much more efficient method is a cost-driven approach, which ensures a company is making the right decision for each request. How can a fleet manager accomplish this? By looking at all possible solutions concurrently and including in each solution all costs associated with that choice.

Cost-driven management can produce savings that range from $700-$1,500 per incident. These savings are realized through asset redeployment and avoiding adding unnecessary new vehicles to the fleet. In the scenario outlined on the previous page, a mid-range savings of $1,100 per incident would save an additional $17,600 per year.

Managing excess inventory

If the typical solution is to leave a vehicle idle in inventory until a new employee is hired, the following formula can help determine the approach's potential cost to a company.

EXCESS INVENTORY COST FORMULA	
Fleet size	1,000 vehicles
Hire cycle	90 days
Annual turnover %	17
Idle vehicle cost per day	$20 (daily average based on monthly vehicle lease cost and any additional fees such as storage. Adjust to fit your typical vehicle cost)
Excess inventory	Fleet size (1,000) * annual turnover (17%) = 170
Idle inventory cost	Hire cycle (90 days)* $20 = $1,800
TOTAL	Excess inventory (170) * idle inventory cost $1,800 = $306,000

Factoring in the excess vehicles in other territories when calculating the vehicle need equation would often result in redeployment of these idle vehicles. If a company was able to change its idle vehicle cycle time from 90 days to 30 days, the resulting cost savings would be $204,000 per year (60 days reduction * $20 per day * 170 incidences).

How can a company realize these savings? By maintaining an accurate listing of available vehicles and making the right decision for what to do concerning each excess vehicle. In addition, there can also be costs associated with disposing of excess vehicles at the wrong time or when they could be redeployed. The list should include all vehicles, even those that managers are holding for reassignment. The fleet manager needs to look at all factors associated with the excess vehicle to determine the best disposition. Here is an overview of what should be included in your decision criteria:

- What is owed vs. price the vehicle is estimated to bring at market
- How soon is the vehicle needed
- Vehicle condition
- Vehicle location and cost to relocate to area where needed
- Vehicle market value
- Lifecycle of vehicle and current status in cycle
- Costs incurred while vehicle is idle
- Costs relative to the vehicle value
- Whether there is another vehicle in the fleet that should be disposed of and this one kept

Another key factor in successfully managing the decision-making is to audit the excess inventory on a regular basis.

As you can see, managing vehicle inventory is a complicated but necessary part of successful fleet management. The amount of data that must be collected and the time to analyze it can be overwhelming. A comprehensive vehicle inventory management program can help you ensure that your fleet is being used effectively to meet your company's overall business goals.

Communicating the process

Two factors that will greatly influence the success of your program are communication and support. Effective inventory management requires a concerted effort across the organization. The cost savings that can be realized make this effort worthwhile.

Once a fleet manager has established best practices, they must be promoted to the entire management. Operating units outside of fleet operations will need to support the program in order to achieve success.

The second element critical to effective communication is early notification. The earlier fleet operations personnel know about a vehicle need or an excess vehicle, the better decisions they can make. Often, fleet operations doesn't know about a vehicle need until fleet gets notice from a hiring manager. The manager often doesn't remember to request a vehicle until the employee shows up asking for a car. A company's human resources department can be a crucial conduit in this process. If a company has a new and exiting employee notification process, a fleet manager should ask to be included. If such a process does not exist, a fleet manager can create one by developing a vehicle requisition and excess vehicle notice form for managers to complete and submit. In addition, many companies have a corporate awareness of activities that will affect vehicle inventory levels, such as a planned restructuring, a headcount reduction or a new product release. Being involved in a communications channel that will alert you to such pending events in advance can translate into substantial savings for the fleet.

A suggestion for the fleet manager would be to have regularly scheduled meetings with all vested parties such as human resources, sales/marketing and/or operations/service organizations within the company to keep abreast of staffing or organizational changes that may affect the fleet.

Managing vehicle requests

Making the most cost-effective choice for a new vehicle request requires concurrent assessments of all possible solutions: excess vehicles, factory order/rental, manufacturer or fleet provider pool and dealer inventory. The assessment itself should consider all factors, including relocations costs, procurement premiums, interim vehicle costs, timing and type of vehicle needed. Once that decision is made, a company needs to execute all components to ensure successful delivery. These tasks include communicating with all stakeholders, making arrangements for vehicle relocation, rental vehicles and maintaining vehicle and driver data.

Expending resources for excess vehicle management

Managing excess vehicles is an administratively intensive job that requires substantial resources. An organization needs to evaluate the book value of the vehicle against the market for the vehicle. It needs to assess where the vehicle is in its "life" relative to the replacement cycle. The company needs to determine the immediate or estimated need for the vehicle based on current and anticipated fleet activity. Finally, it needs to look at ancillary factors such as the level, location and condition of each vehicle and the volume and age of the excess inventory. Once the decision is made, other related tasks such as vehicle disposition, storage, relocation, tracking and reconditioning can be addressed. An ongoing audit of the inventory is also a critical component in optimizing excess inventory use. All of this may mean that additional staff is required to effectively manage this process. However, the investment will be well worth the cost, as the savings your fleet can generate are substantial.

Conclusion

A fleet management provider can assist in developing best practices for managing vehicle inventory. A company may also consider outsourcing the duties to avoid the administrative burden on internal resources, while still realizing the value.

When a company looks to outsource these duties to an outside firm, it should look for an organization with an established track record in vehicle inventory management and one that is applying the most advanced strategies and the latest technology to helps its clients effectively reduce its fleet expenses and administrative costs.

To learn more about the Wheels Vehicle Inventory Management program, please contact a member of your Wheels Account Team or e-mail us at info@wheels.com.