Hertz LEASING
POWERED BY DONLEN

Lease vs. reimbursement

6 reasons to lease your fleet vehicles

Overview

As a fleet manager, you need to decide which fleet practices are best for your company. Two common options are to lease vehicles through a fleet management company (FMC), or reimburse employees for business miles driven in their personal vehicles. While leasing and managing a company fleet may sound like more of a challenge than simply allowing employees to use their personal vehicles, leasing has a number of advantages over reimbursement. Through our research and experience, Donlen offers the following six reasons why you should choose leasing over reimbursement:

1. **Cost-effectiveness of leasing**
2. **Challenges with reimbursement**
3. **Driver satisfaction and morale**
4. **Control over fleet image and vehicle safety**
5. **Maintenance control and management services**
6. **Liability concerns under reimbursement programs**

Ultimately, regardless of the type of reimbursement program used in a lease versus reimbursement comparison—variable or fixed and variable reimbursement—leasing provides greater benefits to your fleet than reimbursing individual drivers.

Reason 1: Cost-effectiveness of leasing

When choosing to lease vehicles or use a reimbursement program, it is important to consider the cost effectiveness of each option. With the following case study, we found that leasing is generally more cost-effective than popular reimbursement policies.

By leasing vehicles through a fleet management company, your company gains centralized purchasing power, volume acquisition discounts, lower financing rates, and negotiated fuel and maintenance discounts. All of these advantages lead to a lower cost per business mile (CPBM) when compared to the CPBM under typical reimbursement programs. Leasing through a fleet management company also streamlines operations and saves administrative time. Under a leasing program, fleet managers spend less time on certain operational tasks as they would under a reimbursement program.

But don’t take our word for it—the data speaks for itself.

Donlen’s Strategic Consulting Services team compared the cost of leasing over different periods versus the costs incurred through two reimbursement programs: variable reimbursement and fixed and variable reimbursement. As the following data will demonstrate, leasing is more cost-effective than either reimbursement policy, assuming an annual business mileage in excess of 10,000 miles per year per driver.

Leasing vs. variable reimbursement

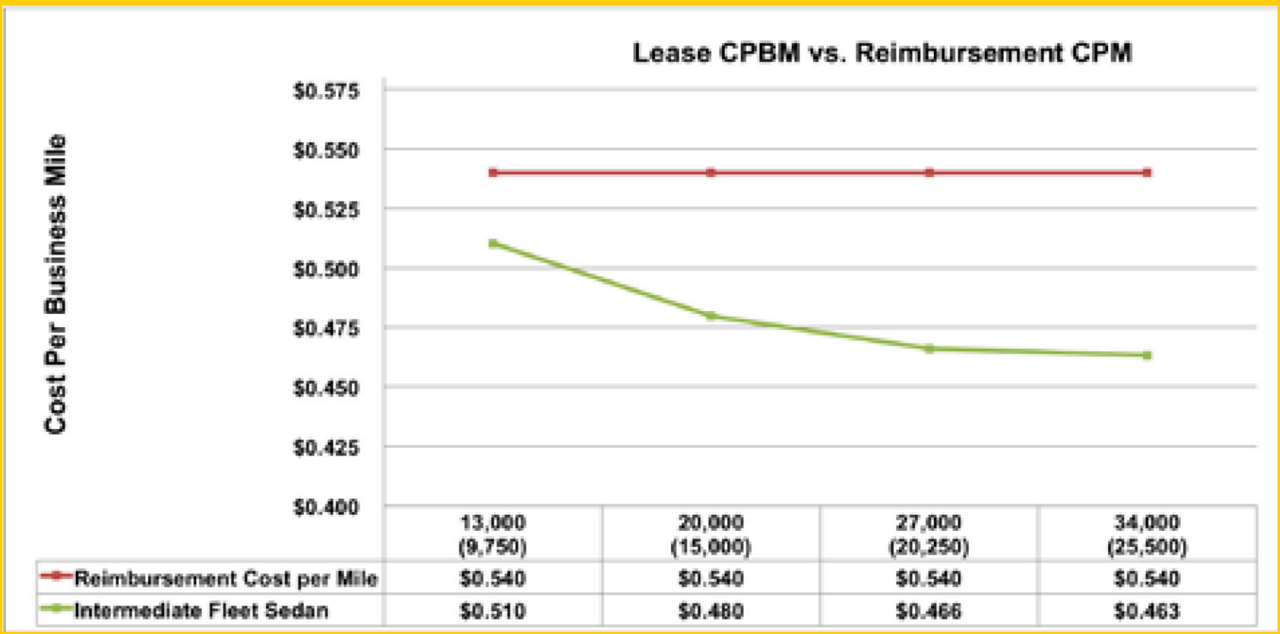
Companies that use a variable reimbursement policy reimburse drivers for each business mile driven. For 2016, the optional standard IRS reimbursement rate is $0.54 per business mile. While not mandated, many companies use this standard rate which is based on average retail costs, including depreciation and insurance, as well as fuel and maintenance costs.

Donlen compared the leasing total cost of ownership for an intermediate sedan, a typical fleet vehicle, on a cents-per-mile basis to the IRS reimbursement rate. In this scenario, an intermediate sedan is operated for 20,000 total miles annually—of which 75 percent, or 15,000 miles—are business miles. Under these assumptions, the cost per business mile for a leased vehicle is $0.48, or $0.06 lower than the standard IRS reimbursement rate of $0.54 per mile. To put this in perspective, you save about $900 per year per vehicle under a leasing program, or $2,700 over the entire life of the vehicle.

Not all employees drive 15,000 business miles annually, but leasing is still more cost-effective than variable reimbursement across typical mileage bands. The savings per business mile varies between $0.030 per mile for lower-mileage drivers to $0.078 per mile for higher-mileage drivers.

The table below illustrates typical annualized savings for a 400-vehicle fleet with a distribution of drivers across typical mileage bands.* Even including drivers with as low as 10,000 business miles in a leasing program generates savings when compared to variable reimbursement.

Lease Program	
Acquisition	
Base Invoice and Options	$ 22,700
Manufactures Incentive	$ (2,250)
Acquisition Cost	$ 20,450
Leasing	
Total Leasing Costs	$ 17,488
Operational Costs	
Total Fuel & Maintenance Spend	$ 8,494
Total Insurance / Service Programs	$ 4,698
Personal Use Fee	$ (4,320)
Total Operational Costs	$26,360
Remarketing	
Residual Value	$ 11,050
TRAC Adjustment	$ (4,774)
Total Cost of Ownership	
Total Lease Program Costs	$ 21,586
Total Lease Cost per Mile	$ 0.360
Total Lease Cost Per Business Mile	$ 0.480



When comparing the costs of leasing an intermediate sedan to the cost incurred through a variable reimbursement program, a 400-vehicle fleet can potentially save over $450,000 under a leasing program, depending on each driver's annual mileage.

Total Annual Savings	Cost Comparison				Total
Total Annual Mileage	13,000	20,000	27,000	34,000	
Total Annual Business Mileage	9,750	15,000	20,250	25,500	
Reimbursement Cost per Business Mile	$ 0.540	$ 0.540	$ 0.540	$ 0.540	
Lease Cost per Business Mile	$ 0.510	$ 0.480	$ 0.465	$ 0.462	
Lease Savings per Business Mile	$ 0.030	$ 0.060	$ 0.075	$ (0.078)	
Vehicle Count	75	125	150	50	400
Total Lease Savings	$ 21,938	$ 112,500	$ 227,813	$ 99,450	$461,700

Leasing vs. fixed and variable reimbursement

Companies who use a fixed and variable reimbursement (FAVR) policy reimburse drivers at both a fixed rate (independent of miles driven) and a variable rate. The fixed rate is meant to cover vehicle depreciation and insurance, while the variable rate covers fuel and maintenance.

We used the following typical reimbursement rates for our analysis:

- Variable reimbursement rate of $0.15 per mile
- Fixed reimbursement allowance of $600 per month

The table below illustrates typical annualized savings for a 400-vehicle fleet with a distribution of drivers across typical mileage bands.*

Under all mileage bands, with the exception of the top mileage band, a leasing program is more costeffective than FAVR.

Total Annual Savings	Cost Comparison				Total
Total Annual Mileage	13,000	20,000	27,000	34,000	
Total Annual Business Mileage	9,750	15,000	20,250	25,000	
Total FAVR Cost	$ 8,663	$ 9,450	$ 10,238	$ 11,025	
Reimbursement Cost per Business Mile	$ 0.889	$ 0.630	$ 0.506	$ 0.432	
Lease Cost per Business Mile	$ 0.510	$ 0.480	$ 0.465	$ 0.462	
Lease Savings per Business Mile	$ 0.379	$ 0.150	$ 0.041	$ (0.030)	
Vehicle Count	75	125	150	50	400
Total Lease Savings	$ 276,788	$ 281,250	$ 123,263	$ (37,800)	$ 643,500

Lease savings are not realized when comparing to FAVR in the 34,000 mileage band because the fixed reimbursement allowance assumes a constant depreciation rate independent of mileage—vehicles with higher annual mileage depreciate at a quicker pace, which the fixed reimbursement rate does not account for, leaving a portion of the depreciation costs uncovered. However, vehicles with lower annual mileage depreciate at a slower pace—in these scenarios, the fixed rate under FAVR overcompensates for depreciation costs, causing companies to spend more than necessary.

Even with the $37,800 loss in the top mileage band, switching to a leasing program still leads to potential savings of $643,500 when compared to FAVR.

**The above examples are typical scenarios and intended to illustrate the opportunity for savings through a leasing program when compared to common reimbursement programs. Vehicle counts for each mileage band were based on a cost-comparison analysis for one company's fleet. Donlen can analyze your individual scenario using your fleet program parameters to estimate savings you would incur by switching to a leasing program.*

Reason 2: Challenges with reimbursement

In addition to typically being less cost-advantageous than leasing, companies utilizing reimbursement policies face a number of challenges.

Operation expenses vary by location

Many of the components of operational cost are variable—fuel, maintenance and labor rates, to name a few. Drivers who work in high-cost areas may encounter greater operation expenses compared to drivers in low-cost areas.

Under any reimbursement policy, two drivers may be reimbursed the same amount despite incurring different operation expenses.

Fuel prices fluctuate often - reimbursement rates do not

Similarly, the reimbursement rate is rarely changed, while fuel prices fluctuate often—under a variable reimbursement policy, drivers may be under- or over-reimbursed for fuel costs. This becomes a problem with fixed and variable reimbursement as well, as the flat allowances offered to drivers are difficult to adjust with fuel price fluctuation.

Mileage does not always reflect work performed

Through mileage-based reimbursement policies, two drivers who perform the same amount of work may acquire different mileages. Like operation expenses, acquired mileage is also dependent on location. If a driver works in an urban area where buildings and locations are closer together and easier to access, the driver may incur less mileage than a driver in a more rural area. While both employees perform the same amount of work, the rural driver is reimbursed more than the urban driver. As a result, mileage-based reimbursement could make lowmileage drivers feel they are under-paid, compared to high-mileage drivers.

FAVR requires more administrative time

When utilizing a fixed and variable reimbursement policy, reimbursements must be calculated individually for each driver, which takes a considerable amount of administrative time. Administrative time is also expended by tracking driver compliance with IRS rules, because the reimbursement becomes taxable if the driver is out of compliance with a single IRS rule.

Employers lack control over employee vehicles

Besides complications with over- and under-reimbursement for drivers, employers lose control over the types of vehicles used by customer-facing employees, as the vehicles used by company drivers are owned by the drivers themselves. Leasing a fleet allows you to choose appropriate vehicles for your employees to drive, a benefit covered in more detail in Reason No. 4: Control over fleet image and vehicle safety.

Reason 3: Driver satisfaction and morale

Drivers who use personal vehicles for company business may have less productivity incentive. They also may become dissatisfied with incomplete or unequal reimbursement and with paying maintenance expenses out-of-pocket. Leasing vehicles with a fleet management company can lead to improved driver satisfaction, productivity and morale.

Drivers may be more willing to perform work in company-owned vehicles than in their personal vehicles, boosting driver productivity. Driver reluctance to perform certain tasks in personal vehicles can result from a variety of factors, including the capabilities and features of the individual vehicle (which, if utilizing a reimbursement program, your company has no control over) and the out-of-pocket expenses that often are not covered by reimbursement allowances.

When using company-owned vehicles, drivers do not have to worry about paying for planned or unplanned maintenance out-of-pocket, and they will generally be more satisfied in a vehicle that is consistently cycled.

Finally, the provision of company cars to employees serves as an added employment benefit for your company, attracting motivated and talented workers.

Reason 4: Control your fleet image and vehicle safety

When you reimburse drivers for work done in personal vehicles, you have little-to-no control over the types of vehicles driven by customer-facing employees. Leasing vehicles lets you control the types of vehicles driven by employees—by leasing your own vehicles, your company gains power over fleet image and safety.

The quality of a fleet reflects the quality of your company

Leasing vehicles through a fleet management company allows you to control your fleet image. You value employees who will represent the business well—the same applies to vehicles. Leasing vehicles allows your company to express itself to current and potential customers.

The vehicles you lease can increase company visibility and communicate what your company does and values. You control vehicle appearance when leasing from a fleet management company, whether that control manifests in particular vehicle models, company branding or the modernity of vehicles driven by employees.

If employees simply use their personal vehicles, one driver may encounter customers while driving a Volkswagen Beetle, while another represents her company in a sports car with flames painted on the sides. An employee's car can form the basis for a customer's first impression of your company, and you want to ensure that the customer's impression is positive and accurate.

Gain control over vehicle safety features

When you allow employees to drive their personal vehicles for business, you have no control over the safety features in employee vehicles, or when the vehicles are cycled.

Leasing allows you to decide when vehicles are cycled. As vehicles age, they become more prone to breakdowns and other issues, increasing the money drivers have to spend for maintenance of personal vehicles (under a reimbursement program) and decreasing driver safety. Consistent cycling of vehicles helps you take advantage of newer safety features. You also can add features to vehicles that employees may otherwise not install in their personal vehicles.

Reason 5: Maintenance control and management services

Maintenance control and management services

Leasing through an FMC lets you take advantage of specialized maintenance programs that can decrease fleet spend, improve vehicle safety and increase driver compliance.

Vehicle maintenance programs

Vehicle maintenance programs offered by the FMC ensure that vehicles undergo regular preventive maintenance before more costly problems arise.

With drivers maintaining personal vehicles, you have no control if an employee follows a preventive maintenance schedule or even makes necessary repairs. Because you cannot ensure that the driver is using a reliable vehicle, if the vehicle breaks down, productivity decreases and costs increase for the driver.

Donlen's National Account program offers lower maintenance costs and keeps drivers in compliance with regularly scheduled maintenance. A managed maintenance program will increase driver compliance. As maintenance will no longer be an out-of-pocket expense, drivers have more incentive to take care of company vehicles.

Other fleet management programs

When leasing through an FMC, you can utilize other cost-saving tools, analyses and processes.

Donlen's DriverPoint® Telematics program collects data on driver and vehicle performance. Partnered with our FleetWeb® platform, fleet managers can view when vehicles are due for maintenance, which drivers are out of compliance and which areas of operation (acceleration, fuel purchases, etc.) could be improved to further drive costs down.

With mobile apps, such as Donlen's DonlenDriver™ Mobile and FleetWeb™ Mobile, fleet managers can access data for their fleets on-the-go, while drivers can determine the best and closest maintenance and fuel vendors, view vehicle and mileage information, and more.

Reason 6: Liability concerns under reimbursement programs

You may be concerned with assuming liability of fleet vehicles when switching to a leasing program. However, liability is still a major concern for reimbursement fleets, sometimes even more so than for fleets owned or leased by a company.

You can still be held liable for accidents caused by your employee in a personal vehicle

If your driver gets into an accident while driving within the scope of his or her employment, you can still be liable for the accident, even if the vehicle is not company-owned.

Under “respondeat superior,” you can be liable if your employee was driving for a work-related reason or conducting work business. Scope of employment is often interpreted very broadly. For example, if your employee gets in an accident while driving a personal vehicle on a personal errand talking on a personal cell phone, if the call is a business call, you can still be liable. An actively-managed company fleet with clear cell phone and vehicle use policies (that apply at all times) can help avoid accidents that lead to liability.

You can be held liable for negligent maintenance of your employee’s vehicle

You can be held liable for accidents that result from your employee’s car being in poor condition.

When a pizza delivery driver lost control of his personal car and collided with another vehicle, Domino’s was held liable for negligent maintenance because the employee’s car had worn tires. The jury verdict against Domino’s was for $32 million. As described in Reason No. 5, you have more control over vehicle maintenance if the vehicles are company-owned rather than employee-owned. This control not only results in potential productivity savings, but can shield an employer from an expensive negligent maintenance claim.

You can be held liable for negligent hiring, supervision or retention

If your employee does any work-related driving with a personal vehicle and there is an accident, you may have direct liability for negligent hiring, training or supervision of your employee. If you are found liable for gross negligence in hiring, training or supervision, you may even be required to pay large punitive damages awards. If you lease from a fleet management company, your drivers are more likely to have gone through motor vehicle record reviews, safety training and telematics monitoring. This reduces the risk of your drivers causing accidents and reduces the chances that you will have to pay large punitive damages awards if they do.

Your drivers may not be insured in accidents and your insurance may not apply

Your auto liability policy may only apply to company cars, and your general liability policy may exclude claims arising from cars driven on company business. This could leave you without third party coverage when your employee is in a car accident with a personal vehicle and you are found liable under any of the theories described above.

Conclusion

In the end, leasing vehicles through a fleet management company is usually a better choice than using a reimbursement program. When compared to the reimbursement program options, leasing is generally the more cost-effective option, as it takes into consideration more components of the total operating cost of a vehicle and prevents unnecessary spend.

Leasing saves you time and cost, as fleet managers do not have to deal with calculating reimbursement allowances, and many of the components to fleet management are handled by a partnered FMC through maintenance and management programs.

With better control over the types of vehicles in your fleet as well as the programs offered by FMCs, you can ensure that drivers remain satisfied, safe and in compliance, reducing the likelihood of accidents or, when accidents do occur, that you will be held liable.

Looking to start leasing your fleet vehicles? Donlen has the right leasing options to help you find the best solution for your fleet, and our customized fleet leasing program is just one aspect of Donlen's personalized approach to fleet management.

For more information, contact us today by email (info@donlen.com) or by phone (1-847-664-7730).