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Cycling and the benefits of new fleet vehicles

Performance-driven fleet management

Why cycle your leased fleet vehicles?

Regardless of the type of fleet, every fleet professional should understand the importance of implementing a cycling schedule on their leased fleet vehicles. A cycling schedule is a planned replacement schedule for fleet vehicles based on miles or engine hours accumulated and/or months in service. As each fleet has different business objectives, the optimal cycling schedule will vary from fleet to fleet. However, whether you cycle your leased vehicles at 18 months or 36 months, the benefits of new vehicles may outweigh the short-term savings brought about by running your vehicles until the wheels fall off.

That said, setting cycling parameters alone will not necessarily give you the results you want for your fleet. In order to achieve savings and productivity results, it is often beneficial that once the optimal cycling parameters are determined, the schedule is adhered to correctly. Determining and adhering to the optimal cycling schedule for your vehicles is beneficial across several aspects of your fleet. In this white paper, we will outline the ways that replacing your fleet vehicles with new vehicles at regular intervals can benefit your fleet, including:

- 1. Minimizing total cost of ownership
- 2. Accessing new safety and technology features
- 3. Minimizing the risk of catastrophic failures, downtime and unplanned spending
- 4. Improving fuel economy
- 5. Better budget forecasting, cost anticipation and replacement planning
- 6. Ability to reevaluate vehicle selection choices for rightsizing
- 7. Additional benefits, such as boosting driver morale, controlling your company fleet image and easily adapting to the marketplace

1. Minimize total cost of ownership

It is equally important to consider all aspects of owning and operating a fleet when making vehicle and lifecycle decisions, not solely the cost of acquisition. Approximately 70-80% or more of total cost of ownership can be effectively managed as a result of cycling vehicles. TCO analysis typically includes acquisition costs, residual value, maintenance and fuel. Acquisition cost offset by the residual value determines the effective depreciation of each vehicle. In the image below, we have highlighted all of the components of your fleet's TCO that cycling and new vehicles can impact.



If you are concerned with cash flow and overall monthly costs, you may be tempted to run your vehicle until the wheels fall off, but this strategy will not usually provide the lowest cost of operation over the vehicle's service life. In many cases, extending the lifecycle of vehicles may cause other fleet costs to rapidly increase.

We will touch on this in more detail later in this document, but maintenance costs in particular are affected by an aging fleet, as the rate of unplanned maintenance tends to increase later in a vehicle's lifecycle. Resale value is also negatively impacted by extending a vehicle's lifecycle since more maintenance issues and a longer service life drastically decrease a vehicle's selling price.

Cycling your vehicles allows you to reduce your TCO by taking advantage of different manufacturer incentives and factory order pricing, minimizing acquisition costs, maximizing the proceeds from resale and therefore managing effective depreciation. The best way to maximize profit from resale is to sell the vehicle earlier in its lifecycle. Doing so results in a higher selling price than if you were to extend the service terms and wait to sell the vehicle until later in its life.

After leasing a vehicle, the vehicle's residual value begins to decrease until it reaches what is called the breakeven point. At the breakeven point, a vehicle's residual value reaches the same point as the remaining book value.

Similarly, there comes a point in every vehicle's lifecycle where the average total maintenance cost meets and then exceeds the fair market value of the vehicle. When that happens, you may be paying more for unplanned maintenance costs than the vehicle is actually worth.

It is only after a fleet vehicle reaches these breakeven points that fleet professionals should then consider cycling out the vehicle.

Depreciation, fuel and maintenance are all major contributors to your fleet's total cost of ownership, and all of them can be managed and minimized by setting and adhering to the appropriate cycling parameters for your fleet.

2. Access new safety and technology features

With safety top of mind for fleet professionals, the ability to implement the latest and greatest safety technology within your fleet is a key benefit of regularly replacing your vehicles with newer models.

The past few years have seen some pretty incredible vehicle technology and safety achievements, such as vehicle backup cameras and hands-free steering technology.

Many manufacturers are moving toward semi-autonomous cars, as these improvements have only served to make operating vehicles safer for drivers and their surroundings. It is predicted that the list of semi-autonomous features will continue to grow and existing features will be refined in the near future. For example, these are just a few of the advanced safety systems that have been implemented recently:

- Automatic emergency braking (AEB)
- Blind-spot warning (BSW)
- Lane-departure warning (LDW)

- Lane-keeping assist (LKA)
- Adaptive cruise control

With safety and technology improvements being developed at an ever-increasing pace, cycling your vehicles at regular intervals ensures that your drivers always have access to the latest vehicle technology to keep them safe while they are on the road.

3. Minimize the risk of catastrophic failures, downtime and unplanned spending

As a vehicle ages, it starts to require more non-scheduled maintenance repairs, which results in an increased average total maintenance cost. An older vehicle means a higher risk of catastrophic failure and more downtime due to non-scheduled maintenance, both of which spell bad news for your fleet.

Eventually, there comes a point in each vehicle's lifecycle where the average total maintenance cost meets and then exceeds the residual value of the vehicle. At that point, you're paying more for maintenance than the vehicle is actually worth.

In the chart below, you can see the estimated point at which repairs exceed the residual value of a 2017 midsize sedan.



As you can see, at about 87,500 miles, the estimated residual value and the estimated repairs for this vehicle are equal, and then, past that point, maintenance costs surpass the value of the vehicle. By determining the breakeven point between your vehicle's estimated maintenance costs and residual value, and cycling your vehicles prior to that point, you not only reduce your risk for unplanned maintenance spend, you also maximize your proceeds from resale.

The bottom line: When you set and adhere to the right cycling parameters for your fleet, higher maintenance costs can be avoided as newer vehicles will be in better condition and have less unplanned maintenance issues.

4. Improve fuel economy

Due to the Corporate Average Fuel Economy (CAFE) standards, regulations intended to improve the fuel economy of cars and light trucks manufactured for sale in the United States, car manufacturers are

constantly striving to increase the fuel economy of their vehicles.

Generally, newer vehicles have an increased potential of improved fuel economy. As a result, it's recommended that you switch out your older vehicles for newer ones to take advantage of these potential improvements.

The graph to the right was taken from page 5 of the EPA's "Light-Duty Automotive Technology, Carbon Dioxide Emissions, and Fuel Economy Trends: 1975 - 2016" Executive Summary Report¹. The data demonstrates the mostly steady improvements in fuel economy through the years.



¹ Environmental Protection Agency. "Light-Duty Automotive Technology, Carbon Dioxide Emissions, and Fuel Economy Trends: 1975 – 2016. United States, 2016.

5. Better budget forecasting, cost anticipation and replacement planning

Adhering to a cycling schedule allows you to plan ahead to fulfill the needs of your business. Instead of reacting to unplanned maintenance costs and vehicle downtime, it allows you to proactively forecast your business' budget, anticipate necessary costs and set replacement dates for aging vehicles that are nearing the end of their service cycle.

Finding the cycling schedule that best fits your fleet vehicles allows you to determine the window of opportunity to replace your vehicles before they start costing you more money than they're worth. This sort of prior planning can generate significant savings on behalf of your fleet.

6. Reevaluate vehicle selection choices for rightsizing

It's possible that, over the years, your business objectives may change. Vehicles that you ordered a few years ago may no longer suit the current needs of your fleet, and therefore may be needlessly increasing your TCO.

By setting and adhering to cycling parameters, you allow your fleet the flexibility to meet your business objectives. At the end of a vehicle's lifecycle, you can evaluate whether the size of the vehicle and upfitting are optimal for your fleet, and, if not, you can switch it out for a right-sized vehicle that may better meet the needs of your fleet and reduce your TCO.

Additional Benefits

Boost driver morale

Drivers often look at their company-provided vehicle as a perk or benefit of employment. While the vehicle is meant to be used as a tool to transport employees for business purposes, the quality of the vehicle is almost as important as the purpose of providing it. If you're providing your employees with beat-up, older vehicles

that tend to have frequent issues with maintenance, they probably won't feel too great about driving it around town or picking up clients. Adhering to a cycling schedule eliminates that concern as it provides your employees with newer vehicles that are in good condition and that they can feel confident driving.

Control your company fleet image

The driver isn't the only one affected by the quality of the vehicle they're driving. Your company's image is directly associated with the image of the car that you provide for your employees to conduct business. If your fleet is full of older vehicles that should have been cycled, it may not communicate an image of high-quality service. Newer vehicles are in better mechanical condition, come equipped with the latest technology and safety features, are more aesthetically appealing and promote a high-quality image of your company to those you'd like to do business with.

Easily adapt to the marketplace

The fleet vehicle marketplace changes quite frequently. For example, fuel prices may increase and you may find yourself stuck driving an aging, fuel-inefficient pickup truck, which would drive your fuel costs through the roof. By cycling, you may have an opportunity to sell the fuel-inefficient vehicle as a net gain and acquire a more fuel-efficient one to help control fuel spend. However, an analysis should be completed to determine if cycling out the vehicle is the most beneficial plan of action. It's all dependent on the state of the marketplace.

Conclusion

Creating a fleet cycling schedule is different for every fleet. Each fleet, whether it uses heavy-duty trucks or passenger vehicles, has its own unique business objectives and vehicles required to complete those objectives. In order to maximize your fleet's efficiency through cycling, you must take your business' goals, key performance indicators (KPIs) and many other factors into consideration.

With the right cycling schedule for your fleet's unique needs, the benefits of cycling and new vehicles are numerous. By setting and adhering to cycling parameters, you can minimize your TCO, take advantage of new safety and technology features, minimize the risk of catastrophic failures, downtime, and unplanned spending, improve fuel economy, increase your budget forecasting ability, cost anticipation, and replacement planning, reevaluate vehicle selection choices for rightsizing, boost driver morale, control your company fleet image and easily adapt to the marketplace.

Cycling and its resulting benefits will make your fleet more efficient and cost-effective. Adhering to a strict cycling schedule allows you to plan ahead to meet your business objectives, leaving you prepared to overcome whatever challenges lie ahead.