



Understanding all sides of the story

Total Cost of Ownership

Once you have defined the activity for your fleet and run a fit for purpose evaluation, the next step is a whole life costing. At Custom Fleet, we have developed a whole life costing methodology based on our experience. This is a holistic costing methodology that takes into account the total cost of ownership associated with the vehicle across its lifetime.

Key Elements of the Total Cost of Ownership

30% Depreciation

For an average-sized fleet, depreciation is the largest cost – most of which occurs in the first two years of a vehicle's life. Depreciation costs are dictated by two main factors: the original cost of the vehicle and its resale value.

There are several strategies you can use to manage depreciation including:

- keeping the vehicles well maintained to increase resale value
- purchasing vehicles that balance low purchase prices with a high expected resale value
- selling the vehicle at the optimal time to get the best resale proceeds (owned vehicles)
- cycle the vehicle at the optimal time to get the most financial benefit (leasing).

Running the vehicle for longer enables you to spread the depreciation further and lower the overall cost. However, this should be balanced against maintenance costs which increase as the vehicle ages. Finding the right balance is the key to managing depreciation.

28% FBT

Fringe Benefits Tax is payable by an organisation to reflect the benefit available to an individual using a business vehicle for private purposes. So when an organisation provides Tool of Trade vehicles to their employees, FBT accounts for a substantial amount of the total cost of ownership.

20% Fuel

Fuel can be a large portion of your fleet costs and should be considered as part of the total cost of ownership when making purchasing decisions. A fuel efficient vehicle with a high purchase price may have a lower total cost of ownership than a cheaper, less fuel efficient one. If your vehicle is expected to travel a lot of kilometres then this can make up a larger part of the costs.

10% Maintenance and repairs

As fleets age, maintenance and repairs become a bigger portion of your fleet costs. The best way to reduce these costs is to keep the age and kilometres of fleet vehicles down whilst ensuring they are maintained according to manufacturer guidelines.

Some companies with owned fleets track these assets on their balance sheets, and hold on to these vehicles past the point of full depreciation. While a vehicle may be fully depreciated on a balance sheet, the maintenance costs may begin to ramp up quickly and become more costly than replacing with a new vehicle.

Typically there will be an optimum term and kilometre for the type of vehicles you need, which maximises the usage and minimises the cost. Operating a replacement schedule that aligns to this optimum term and kilometre limit is usually the most cost effective way to keep maintenance costs down.

6% Financing

One of the key differences between leasing and owning in this expense category is the impact on expenditures. When you lease fleet vehicles, the fleet and financing become an expense. Leasing vehicles allows you to free up capital that can be used to help your business grow in other ways.

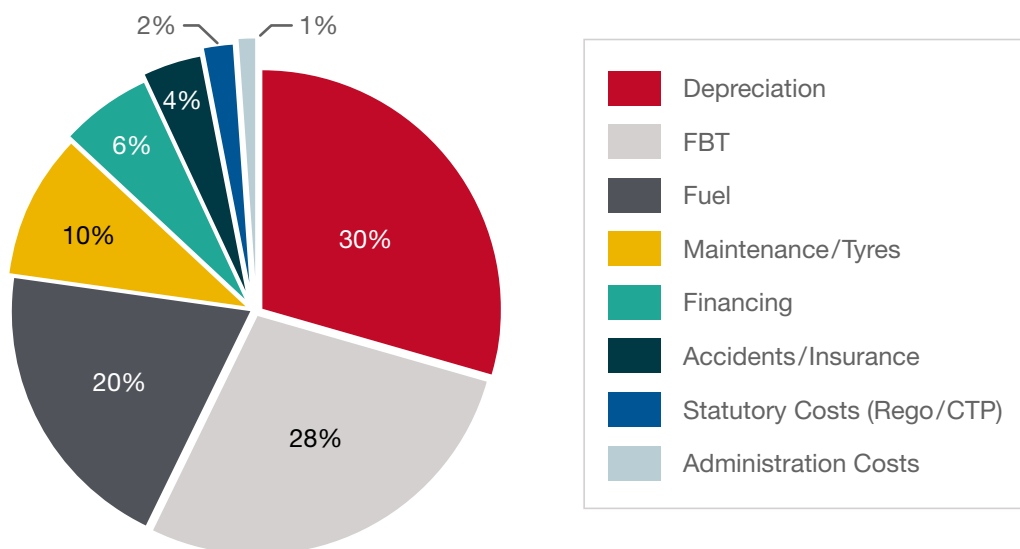
When you buy vehicles, they are a capital expenditure. Owning fleet vehicles ties up capital in depreciating assets. This nuance has implications for vehicle replacement and the ability to get the right vehicles on the road at the right time in order to have the biggest impact on depreciation and fuel costs.

Summary

It's important to focus on all the costs in running a fleet vehicle. Often, organisations base their decisions on just the upfront purchase price. It is important to assess each aspect of the total cost of ownership to ensure you select the most suitable, cost effective vehicle for your fleet.

Depreciation and fuel make up around 50% of your total cost, therefore these are the areas where you can make the biggest cost savings. Focus on selecting the right vehicles, cycling these vehicles at the right time, getting the highest proceeds for remarketing, and having fuel efficient options.

Key Elements of the Total Cost of Ownership



Want to understand what's right for your fleet?

Speak to a Custom Fleet specialist on 1800 812 681



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