Holman

Driving What's Right

ACHIEVING GREATER CAPITAL FORECASTING CERTAINTY

Achieving Greater Capital Forecasting Certainty

A consistent replacement strategy and predictable capital funding forecasts are building blocks for a cost effective and reliable fleet budget that serves your business and drives revenue.

Inconsistent replacement modeling leads to erratic capital funding requests that may or may not be granted, which causes uncontrollable impacts that can have far reaching effects that last for years.

THESE IMPACTS CAN BE CRIPPLING TO YOUR BUSINESS:

- INCREASED DOWNTIME
- HIGHER RENTAL EXPENSES
- INCREASED MAINTENANCE COSTS
- REDUCED DRIVER PRODUCTIVITY

When you can prioritize replacements and develop accurate capital acquisition forecasts, you can replace the most critical vehicles in your fleet in a timely manner.

Maximizing Your Fleet Budget

Having flexibility in terms of cash flow and strategic investments may feel empowering. However, without a structured plan for which vehicles you need to replace when and why, you can quickly find yourself scrambling to replace vehicles reactively rather than with a calculated approach toward maximizing your investment.

Data analysis and predictive modeling have changed the ways you can approach replacement cycling and capital funding. The ability to see your fleet's data allows you to develop actionable, proactive plans based on real-time information, not simply intervals of age and mileage.

The traditional age-mileage formula can often overlook a number of variables that affect your total cost of ownership. You could inadvertently cycle vehicles out of your fleet that still have value, or alternatively, you could keep a vehicle in service too long, costing your business more money on repairs.

Another time-worn method that you abandon is driving vehicles until the cost of repairs exceeds the value of the vehicle. This is important, since often what will signal a vehicle's end under this model is a major component failure. This kind of failure without fleet management planning for replacement can result in significant downtime and reduce the vehicle's resale value.

DRIVE MORE CONSISTENT FLEET BUDGET PLANNING BY USING ANALYTICS TO DETERMINE THE OPERATING AND FUNDING COST OF A VEHICLE OVER ITS LIFESPAN.

Using Analytics To Understand Replacement Cycling

You now have access to as much data as you are willing to collect. Fleet management platforms and telematics' ability to translate your fleet's data into actionable insights gives you a revolutionary understanding of your vehicle's performance in terms of return on investment.

FACTORS IN REPLACEMENT CYCLING

Access to fleet data doesn't guarantee success, of course. There are several variables to consider when developing a reliable replacement analysis. It is important to have the tools that help you take the data from overwhelming to actionable, so that you can spot problems quickly and address them before they get out of hand.

The variables include:

- DEPRECIATION
- MAINTENANCE AND REPAIRS
- COST OF MONEY AND CASH FLOW
- INSURANCE
- FUEL
- DOWNTIME
- MARKET CONDITIONS

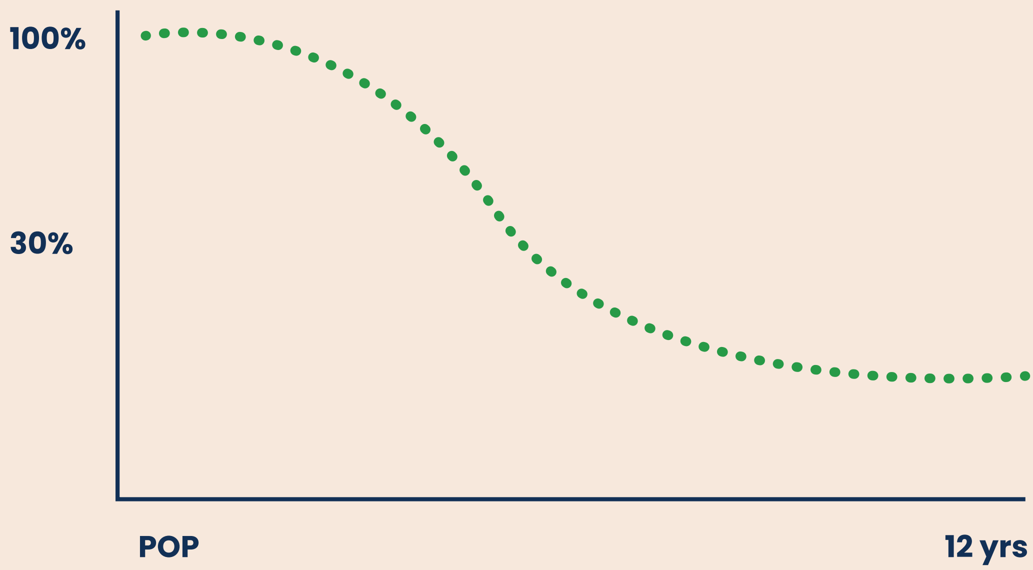
PREDICTIVE MODELING can help **SEE BEYOND** current failures. **IT CAN ANTICIPATE** potential disruptions and help you **TAKE ACTION** before they happen, ***SAVING TIME, MONEY AND AGGRAVATION.***

Factors In Replacement Cycling

DEPRECIATION

Depreciation is the total of the price you paid for the vehicle, plus any acquisition costs, minus the resale value, net of any selling expenses. Depreciation is often the largest cost of owning a vehicle during the first several years of its useful life. As a vehicle ages, there is a diminishing rate of savings each year that a vehicle is kept in service.

VEHICLE DEPRECIATION



Vehicles typically lose about 70% of their original value between the time of purchase and the six-year mark. After that, depreciation slows considerably; vehicles tend to only lose about 20% of their value over the next six years.

MAINTENANCE AND REPAIRS

While depreciation should be a large part of your overall analysis, maintenance and repairs should also play a significant role. Most vehicles are covered by manufacturers' warranties during the first several years of use, which can significantly offset your costs. As vehicles age, however, maintenance costs tend to increase. If a vehicle is no longer covered by a warranty, increasing maintenance costs can begin to affect the savings you achieve by keeping a vehicle in service longer. Vehicles can also lose resale value as they age, especially if the regular preventive maintenance is not completed.

COST OF MONEY AND CASH FLOW CONSIDERATIONS

The cost of money – sometimes called the cost of opportunity – is simply an approach to evaluating the value of the investment that you are making when purchasing new vehicles.

If you finance your vehicles
The cost of money is the interest rate that is paid on the money borrowed.

If you purchase your vehicles
The cost of money is the interest rate you could have earned if that money had been invested elsewhere.

INSURANCE AND FUEL

Insurance and fuel are both lesser variables to consider, but should still play into the overall equation. New vehicles generally cost more to insure, because the risk of loss is greater.

However, new vehicles tend to be more fuel efficient than those that have been in your fleet for several years. Balancing these factors into the overall analysis will help determine a fuller picture of a vehicle's impact on your overall budget.

DOWNTIME

Downtime is more than just the cost to repair a vehicle – it includes getting the vehicle to a repair facility, rental, lost productivity, and administrative costs.

These expenses can add up quickly if you are not on top of the vehicles that are experiencing regular failures. Solid replacement analysis based on fleet data can help you anticipate and take action.

MARKET CONDITIONS

You should also consider market conditions, although it should not be a deciding factor. However, there are times when certain vehicles are in high demand. Spring through fall is the best time to sell used vehicles. If you do have a segment of vehicles that are in high demand, consider the benefits of adjusting your cycling to maximize the resale value and take advantage of a hot market.

The average *DOWNTIME COST* to a fleet is $450-$760 per driver/day

Replacement Analysis In Action – A Solid Foundation Of Certainty

Your well-crafted replacement analysis can help you evaluate the best time to replace vehicles in order to minimize your total cost of ownership. You can also apply this analysis at the beginning of a vehicle's service life in order to set parameters for replacement considerations. As a vehicle ages, the value it returns to your fleet flattens.

But when you find the point when a vehicle is no longer delivering optimal performance as an investment, you can prevent it from becoming a drain on your budget. Having the foresight to determine that point will allow your company to gain more from your fleet, both operationally and as a revenue driver that impacts the bottom line.

An Overview Of Financing Options

After you have completed the replacement planning process and prioritized vehicles for replacement, ask yourself an important funding question: should you lease or purchase? Depending on your fleet's specific situation and access to credit or financing, your decision can impact the number of vehicles you can replace within a particular planning cycle.

So what are the basic differences between these options and what should you consider when making the lease-versus-purchase decision?

LEASE

A lease is the financing of a vehicle for only the time that the vehicle is driven (depreciation) plus a finance charge. The lessee is the party renting the vehicle under a written lease from the lessor (owner). The lessee is generally responsible for maintenance, repairs, insurance, wear and tear and all other variables that occur from operating the vehicle.

TWO KINDS OF LEASES ARE GENERALLY AVAILABLE TO COMPANIES WITH FLEETS:

OPEN-END LEASE

In an open-end lease, the lessee chooses the depreciation term, which ideally is suited to the life and utilization of the vehicle. At the conclusion of the lease, the lessor applies the proceeds from the sale of the used vehicle to the remaining book value. Any loss or gain on the vehicle sale will be debited or credited to the lessee upon settlement.

CLOSED-END LEASE

A closed-end lease allows the lessee to "walk away" from the leased vehicle at the end of the lease term with no liability for increases or decreases in the expected residual value of the vehicle. However, It is important to note that the lessee will be liable for any damage to the vehicle as well as any wear and tear or mileage in excess of allowances outlined in the lease agreement.

PURCHASE

Using cash or debt to purchase vehicles allows you to own them outright, and the equity belongs to your organization. You can purchase vehicles with cash or debt. If you pay for vehicles in full with cash, this can restrict your cash flow, but you will be free from paying interest on them.

If you choose to finance the purchase, monthly payments will be based on the full cost of the vehicle. These payments are generally higher than if leasing, where payments are based on the length of time you plan to use the vehicles. It may also limit or exhaust your lines of credit, which can potentially restrict future business decisions and investments. Some of the benefits to purchasing are no mileage restrictions and no penalties.

Purchased vehicles tend to align replacement cycles with the full depreciation of the vehicle, which usually keeps them in service beyond the warranty period. As the vehicle ages, maintenance and repair costs increase, as does the likelihood of major component failures happening.

LONGER REPLACEMENT CYCLES KEEP OLD VEHICLES IN SERVICE AND CAN NEGATIVELY IMPACT YOUR COMPANY'S BRAND AND IMAGE.

Lease vs Purchase – Considerations, Myths and Facts

Prior to acquiring vehicles, you should conduct a lease versus purchase analysis that will take into consideration all of your organization's unique circumstances as well as the prevailing financial climate.

IMPORTANT CONSIDERATIONS

EVALUATION OF CASH FLOW

What is the cash flow position of your organization? Do you want to conserve its working capital? Does the cash flow allow your business to afford the type of vehicle that is needed?

MYTH

Purchasing a vehicle is cheaper than leasing one.

FACT

As a general rule of thumb, the break-even point on a vehicle is approximately four years. You can expect to pay 30 to 60 percent less for the same vehicle at the same price if the vehicle is leased short-term.

CONSIDERATION OF CURRENT BUDGET RESTRAINTS

Is your organization facing any budgetary constraints? Are lower monthly payments more important than long-term cost savings?

MYTH

Hefty fees are charged when the vehicle is turned in.

FACT

Nominal transactional fees are charged on open-end leases. Closed-end leases typically allow 10,000 to 12,000 miles (16,000 – 20,000 kms) annually and charge 15 to 20 cents per additional mile (kms). On a closed-end lease, the lessee can negotiate higher limits on mileage in exchange for higher monthly payments, and this may allow for some savings.

RULES, REGULATIONS OR OTHER CONSTRAINTS
What is your organization's position regarding vehicle acquisition? Regulated companies, such as utilities, generally purchase vehicles. There may also be regulations that limit your options.

UNDERSTANDING VEHICLE USE
What is the history and utilization pattern of your fleet vehicles? Do your drivers put a lot of miles/(kms) on the vehicles? Are they doing primarily urban driving with lots of stops and starts, or are they driving long distances?

MAINTENANCE, DOWNTIME AND RISK
What is your organization's tolerance for major repair risks and downtime? Is it important to renew the fleet every three to four years to avoid unpredictable breakdowns?

MYTH
Early termination of a lease is difficult and heavily penalized.

FACT
In a closed-end lease, the lessee needs to make all payments before terminating the lease. Most leasing companies permit early release from open-end leases without penalties after a minimum time period. The lessee is still liable for the book value of the vehicle.

CONCLUSION

YOUR FLEET SHOULD BE A STRATEGIC ASSET THAT DELIVERS VALUE

A sound replacement cycle that is driven by data and analysis of fleet trends, together with an approach to financing that meets the existing needs of your business, can help create a fleet that is no longer simply a cost to your organization but rather a strategic asset that delivers value.

In the age of advanced analytical tools, you should no longer have any uncertainty around the what, when and why of vehicle replacement.

This in turn allows you to have more certainty in your fleet funding and budgeting. The result is a fleet that delivers more value and helps your organization generate revenue.

Holman Driving What's Right

ABOUT HOLMAN

The Holman story started nearly a century ago in 1924 with one Ford dealership in Pennsauken, New Jersey. Even then, the company's purpose went beyond just cars and trucks, sales and profits; it was about people.

Today, Holman is one of the largest family-owned automotive service companies in North America. Our headquarters stands in Mount Laurel, New Jersey, and our 6,000+ employees are in all corners of North America, the UK and Germany.

Our seamlessly integrated teams and systems deliver a unique spectrum of automotive services: fleet leasing and management, vehicle upfitting and accessories, parts and logistics, commercial and retail vehicle sales, and commercial and personal insurance and risk management.

Rooted in the Values and Principles of The Holman Way, we are continuously Driving What's Right.

Learn more at holman.com
(856) 778-1500
Global Headquarters • 4001 Leadenhall Road
Mount Laurel, NJ 08054 • United States of America