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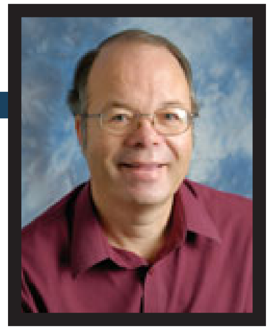

Vehicle Downsizing has Made Company-Provided Vehicles More Competitive Against Reimbursement

Commercial fleets began a widespread migration to four-cylinder engines and downsizing to a smaller class segment of vehicles in 2006. "Many of our customers have downsized vehicles to reduce costs when possible from a fleet application perspective," said Amy Blaine, VP - consulting, analytics and sustainability for Donlen. "Many clients have already migrated from six- to four-cylinder sedans. Some clients are starting to offer compact vehicles for segments of their fleet. The smaller engines, higher mpg vehicles have driven the cost of fleet down fairly significantly."

In particular, fuel costs and depreciation, the two largest fleet expenses, have been lowered by smaller displacement engines have lowered fuel costs and vehicle segment downsizing. "This has caused the breakeven point of a company-provided vehicle to shift downward, both in terms of minimum monthly miles and total costs," said Mark Smith, VP, strategic accounts for GE Capital Fleet Services. "This means more drivers would qualify for company vehicles now than in the past. Historically, many fleets have set their breakeven points at around 15,000 annual miles. The breakeven point now could be 10,000 annual miles or, in some cases, even lower. However, the breakeven point is heavily influenced by the vehicle selected, as well as the reimbursement/allowance amount. If an organization chooses to under-reimburse its drivers, a company car may be more expensive."

Proof is in the Numbers

Comparison calculations of company-provided vehicles vs. driver reimbursement, favor the company-provided option. "For example, consider a Ford Taurus driven 2,100 miles per month with 15-percent personal use," said Suzanne Benzion, manager, strategic consulting for PHH Arval. "The average monthly lifecycle cost for a fleet to operate the vehicle is approximately 41.8 cents per mile depending on capitalized cost, replacement, etc. Applying a $110 personal use chargeback to the driver would equate to a monthly cost of $878 to provide a company vehicle. The 2013 IRS reimbursement rate is 56.5 cents per business mile, which, in this example, would equate to a $1,009 monthly reimbursement. The company-provided cost would be a $131 monthly savings over the reimbursement cost. In this example, a reimbursement rate of 49.1 cents per mile or lower would favor reimbursement from a purely economic perspective. If a fleet utilizes a less expensive vehicle, such as the Ford Fusion, the argument for a company-provided program is even more compelling — $774 or 36.9 cents per mile vs. $1,009. This shift in economics is a central reason why fleets are reviewing reimbursement policies and re-thinking what it would cost to manage a company-provided fleet."

Another factor contributing to lowering the mileage threshold for driver eligibility for a company vehicle has been today's strong resale values. "Given the high resale results over the last few years, lease vs. reimbursement analyses have shown it can be advantageous to lease at around 10,000 annual miles. Historically, it was around 12,500 miles for a typical fleet sedan," Blaine said.

Calculating the breakeven point of a company vehicle is complex, but eliminating concerns over budgeting, also works in the favor of leasing. "We have seen a high number of companies convert from reimbursement to an open calculation lease because of the advantages for budgeting," said Bryan Steele, senior VP client relations for LeasePlan USA. "With an open calculation lease, there is no residual risk and maintenance is fixed, allowing for easier budgeting and, in some cases, showing to be up to 40-percent cheaper than reimbursement."

Every Company's Situation is Unique

Three factors that influence the breakeven point of a lease vs. reimbursement analysis are residual values and net depreciation, vehicle mpg and fuel per gallon pump prices, and reimbursement rate. "The margin between the two programs has continued to decrease, allowing a company-provided vehicle to become a more cost-effective option for many fleets," said Chris Morgan, director, strategic consulting for ARI. "However, each company's situation is unique, and a comprehensive analysis should be conducted to establish a cost estimate before policy changes are implemented. It is important for companies to monitor changes in costs associated with primary influencers and understand how they impact overall costs. For example, the wholesale used-vehicle market is slowly shifting back to normalized resale values, affecting vehicle depreciation. This may require a change to a lease term or vehicle type to ensure that a company-provided vehicle remains cost effective."

In the final analysis, downsizing offers several advantages, including the unintended benefit of further tilting the cost/benefit ratio to favor company-provided vehicles.

Let me know what you think. AF

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