

WHITE PAPER

Fleet Management: In-house or Outsource?



- Kimberly Teo & David Marshall

Introduction

Organisations commonly outsource fleet management to Fleet Management Organisations (FMOs), primarily to gain efficiencies, drive cost savings and to avoid being distracted by non-core activities. Many of these organisations then, over time, lose visibility and control of their fleet and don't know if it is being operated in the most cost effective way.

On the other hand, organisations who retain fleet management as an internal

function struggle to get all the efficiencies and cost savings they could expect from an outsourced model.

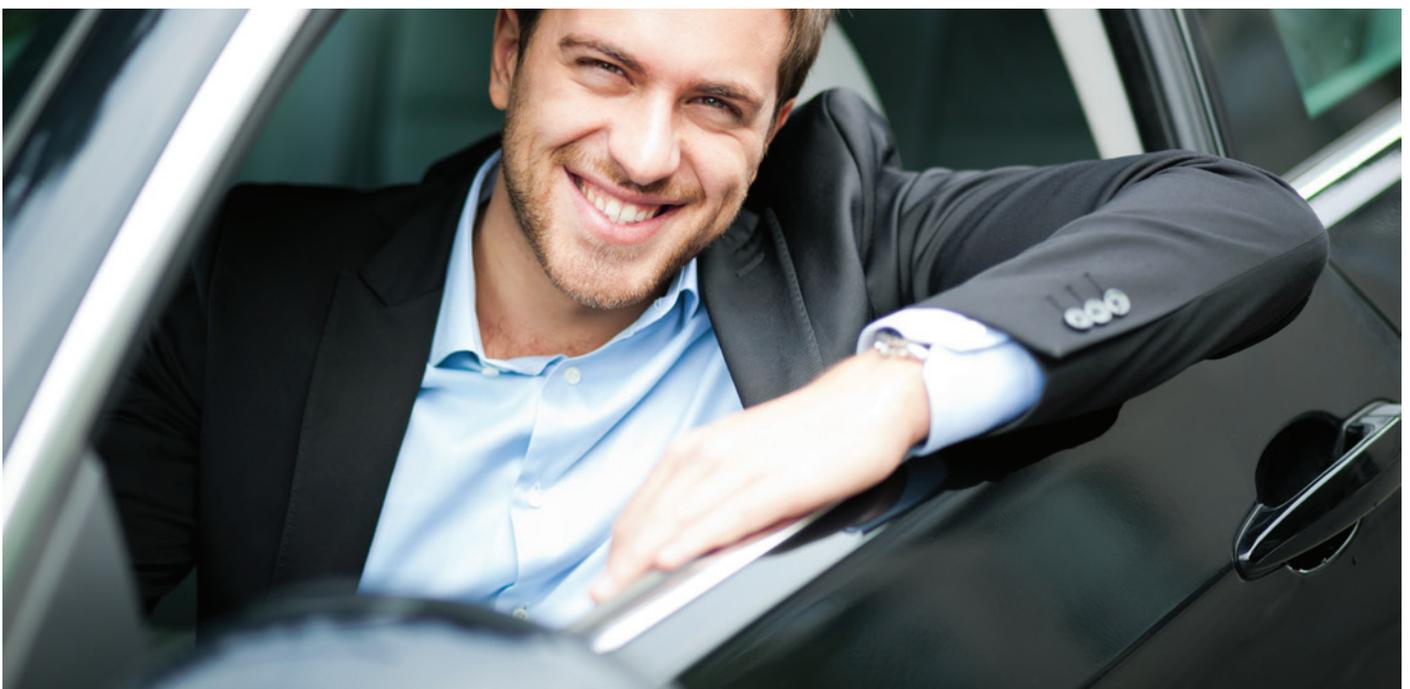
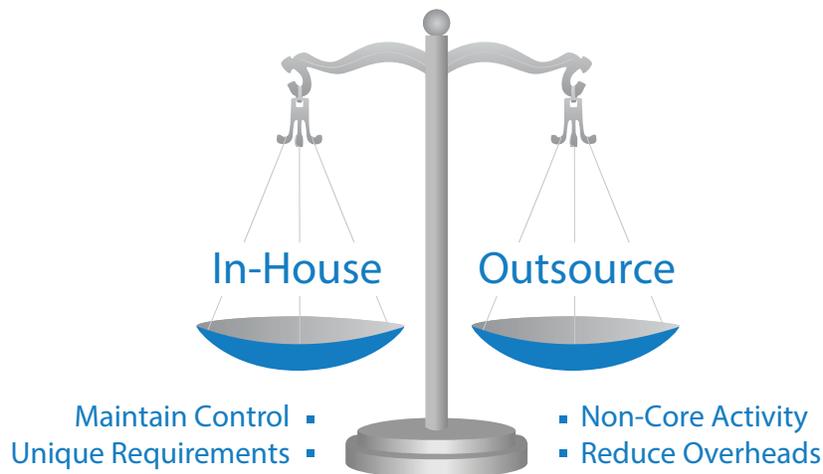
On the question of whether or not to outsource fleet management there are indeed two common mindsets. One is that fleet management is a non-core activity and therefore it should be outsourced. The other is that outsourcing adds an unnecessary cost with little or no added value compared to an internal fleet

management function.

This paper suggests that in most cases, for all but very small fleets, the best solution involves an internal fleet management role working with an outsourced FMO.

It should be noted that this paper addresses fleet management as distinct from fleet financing which is a separate subject.

Fleet Management



An FMO brings significant value through specific services

An FMO can perform many operational fleet management functions efficiently and cost effectively due to its scale and degree of specialisation. An FMO can also make valuable contributions on other more strategic aspects of fleet management, thanks to its deep industry knowledge.

Perform Operational Functions

There are a number of day to day operational tasks that are common across all of an FMO's clients. For these, an FMO will have the scale that allows for specialisation and expertise to deliver efficiencies and effectiveness that the client could not realistically be expected to match.

Acquisition and disposal of vehicles are just two examples of functions that can consume an internal Fleet Manager's time

and which an FMO will do more effectively with specialists for whom buying or selling cars is a full time job.

FMOs will ensure that maintenance and servicing costs are not excessive and that repairs covered by warranty are claimed against warranty. These are core functions of FMOs who employ experienced motor mechanics to pre-approve every service or repair proposed by vehicle service providers. Without this level of expertise and centralised control maintenance and servicing costs will not be fully in control.

FMOs also have the scale that makes them important customers of vehicle dealerships, auction houses and other service providers. They can leverage that position of being a large customer to negotiate lower labour rates and higher discounts with service providers and dealerships that would not be available to smaller customers.

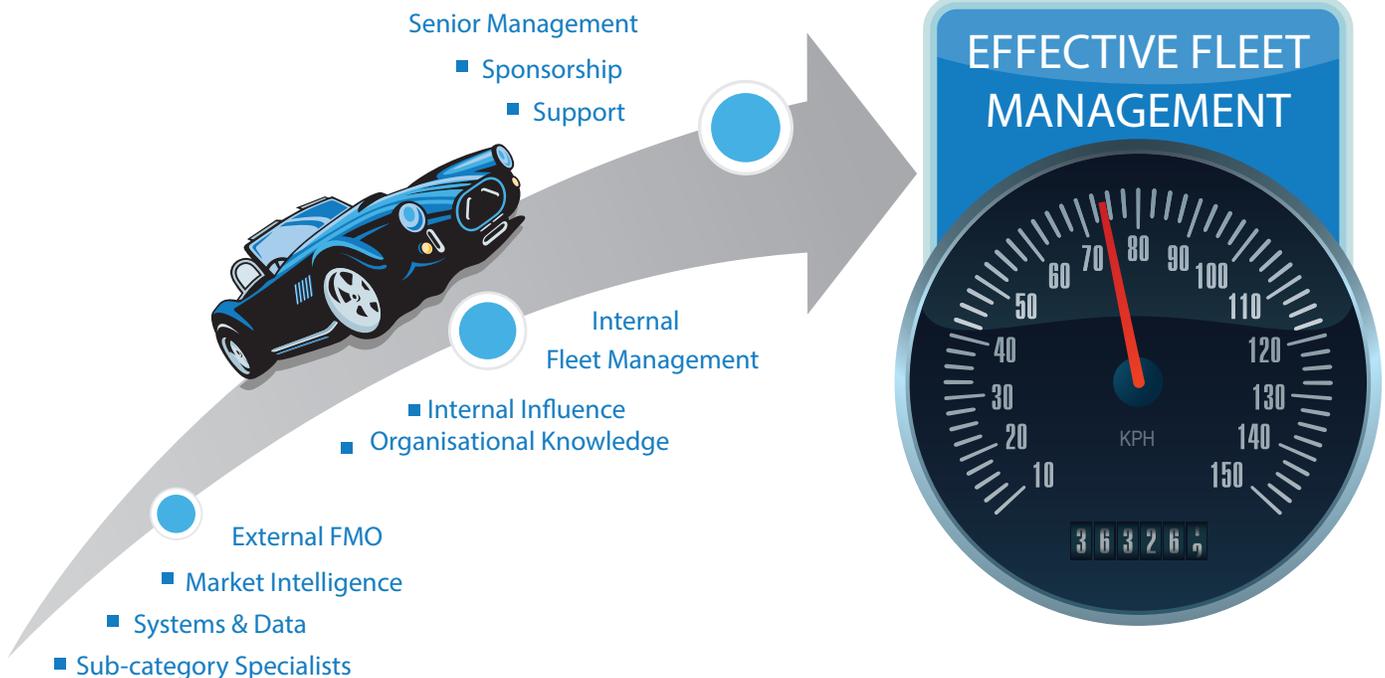
Assist in Policy Development

Reduction in operating costs and better management of some of the administrative functions can provide the justification for outsourcing fleet management to an FMO, but there are other benefits that can be obtained as well.

An FMO is capable of adding a lot more value than simply carrying out operational fleet management tasks such as pre-approval of maintenance and servicing. The most significant reductions in whole of life costs for a fleet can often be found by addressing an organisation's policies and practices.

FMOs are aware of trends and innovations in the automotive and fleet management industries. They are able to benchmark an organisation against industry best practice and more importantly they are able to quantify the cost of any gaps.

As an example of a policy change delivering significant savings, it is not



uncommon for organisations to reduce total cost of fleet ownership by up to 25% while still providing fit for purpose Tool of Trade vehicles by changing from full size sedans on three year operating leases to mid size sedans on four year operating leases. In this example, the change in policy can deliver significant financial benefits with limited impact on driver experience.

It is, however, very common for organisations to continue to buy or lease particular vehicle models and to turn them over every three years because that has always been policy or practice. An external FMO provides a well informed external benchmark of practices and identification of opportunities for improvement and should challenge internal policies accordingly.

Involvement of an FMO in a client's vehicle selection process ensures that whole of life cost is considered, but FMOs are usually excluded from the process

An Internal Fleet Manager can complement the FMO by focusing on certain tasks

There are many reasons why an organisation should retain internal fleet management functions as well as engaging an external FMO. The two roles are complementary with each being necessary but not sufficient for optimum fleet management performance.

Experience with many organisations shows time and again that those with a strong internal fleet management function in conjunction with an active FMO partner are able to operate their fleets more effectively and at lower overall costs.

Implement Policy changes

A good FMO will have knowledge of current best practices and developments in the automotive and fleet management

industries and should ensure that improvement opportunities for clients are identified. The FMO should be expected to regularly propose alternative policies and practices that would result in overall cost reductions; however, the FMO is unlikely to be able to champion those proposals throughout the client organisation or to implement changes.

Obtaining management endorsement for and then implementing policy and practice changes requires an internal Fleet Manager with insights into the organisation's fleet requirements, internal politics and barriers to change. A Fleet Manager must have appropriate authority and a high degree of diplomacy and influencing skills to effectively implement improvements to policy and practice, and an external FMO cannot be expected to perform this role for the client.

Irrespective of how good an FMO is fleet management practices will not be maintained as they should be without an internal Fleet Manager.

Manage Compliance to Internal Policies

Fleet non-compliance issues are usually, individually, not of great strategic importance, but if non-compliance becomes endemic then the cost to the organisation can be substantial. A poorly managed fleet can easily cost 10% more than a well managed fleet of the same size and identical policies. For a fleet of 300 vehicles a 10% cost blow out could equate to around \$500k per year.

The role of an FMO is to provide processes and reports that make it easy for compliance to be managed by the client.

At a day to day operational level FMOs will identify potential non-compliant requests and will provide management reports that highlight non-compliance to policy. An FMO can, under instruction, refuse to process non-compliant requests; "no tow

bar" means no tow bar. But an FMO cannot effectively enforce policy.

Below are some examples of the types of day to day compliance issues that cannot be effectively handled by an external FMO:

- Maintenance of an accurate driver details database
- Reallocation of existing vehicles to limit the acquisition of new vehicles even though an employee expects a new vehicle
- Re-assessment of entitlement to a vehicle when an employee has a change of role (e.g. 4WD required in regional areas, not in suburban areas)
- Escalation of issues about poor driver behaviour such as overdue vehicle servicing
- Vehicle model selection and level of entitlement (e.g. limited range of vehicles available to drivers)
- Failure to complete log books or FBT declarations

Experience with many organisations consistently confirms that if the responsibility for fleet policy compliance is left to operational managers, who have other priorities and sometimes limited knowledge of the policies, compliance will suffer. Effective compliance management requires an internal Fleet Manager with a mandate to enforce agreed policies and rules. The internal Fleet Manager must have appropriate authority and a high degree of diplomacy and influencing skills to develop relationships with drivers and operational managers. It is not a job for a junior administrator.

Perform Administrative Tasks That Require Driver Contact

There are a number of operational tasks, which require direct contact with drivers and are therefore better performed by internal resources than by an FMO. Examples of

these tasks include:

- Distribution of infringement notices, registration stickers and fuel cards
- Collecting FBT declarations (if this is still done manually)
- Organising completion of FBT log books

Some organisations seek to outsource all aspects of fleet management and administration, including direct communication with drivers and their managers, but this rarely works well.

Organisations generally have established communication channels and internal mail systems that provide the most efficient means for direct contact. An internal Fleet Manager needs to develop a strong internal network of contacts in order to do his or her job effectively.

Structure and Manage the FMO Relationship

When selecting an FMO and negotiating a contract it is important to understand:

- What is, or could be, the client organisation's appetite for change
- The different features of available outsourced fleet management services products
- The implications of the service products and options

Some FMOs will promote the benefits of a 'no risk', all encompassing fully maintained operating lease (FMOL) structure. Others will propose an open book, 'pass through cost' structure. Most FMOs will offer some features of each, or at least they will consider some features of each if

requested. Each FMO will promote its own preferred service offering.

The structure of the outsourced services model should be appropriate for the size of the fleet and the level of internal fleet management resources that will be allocated

It is very common to encounter clients that are disgruntled due to a perception of poor performance by their long serving FMOs. At the same time it is common to find that the FMOs are frustrated that their management reports and other attempts to deliver value have been thwarted by lack of interest by those same clients.

For example, clients might complain that their 'end of lease over kilometre penalties' are very high but in response the FMO will point out that they constantly provide recommendations for lease re-structures but can get no response from the client.

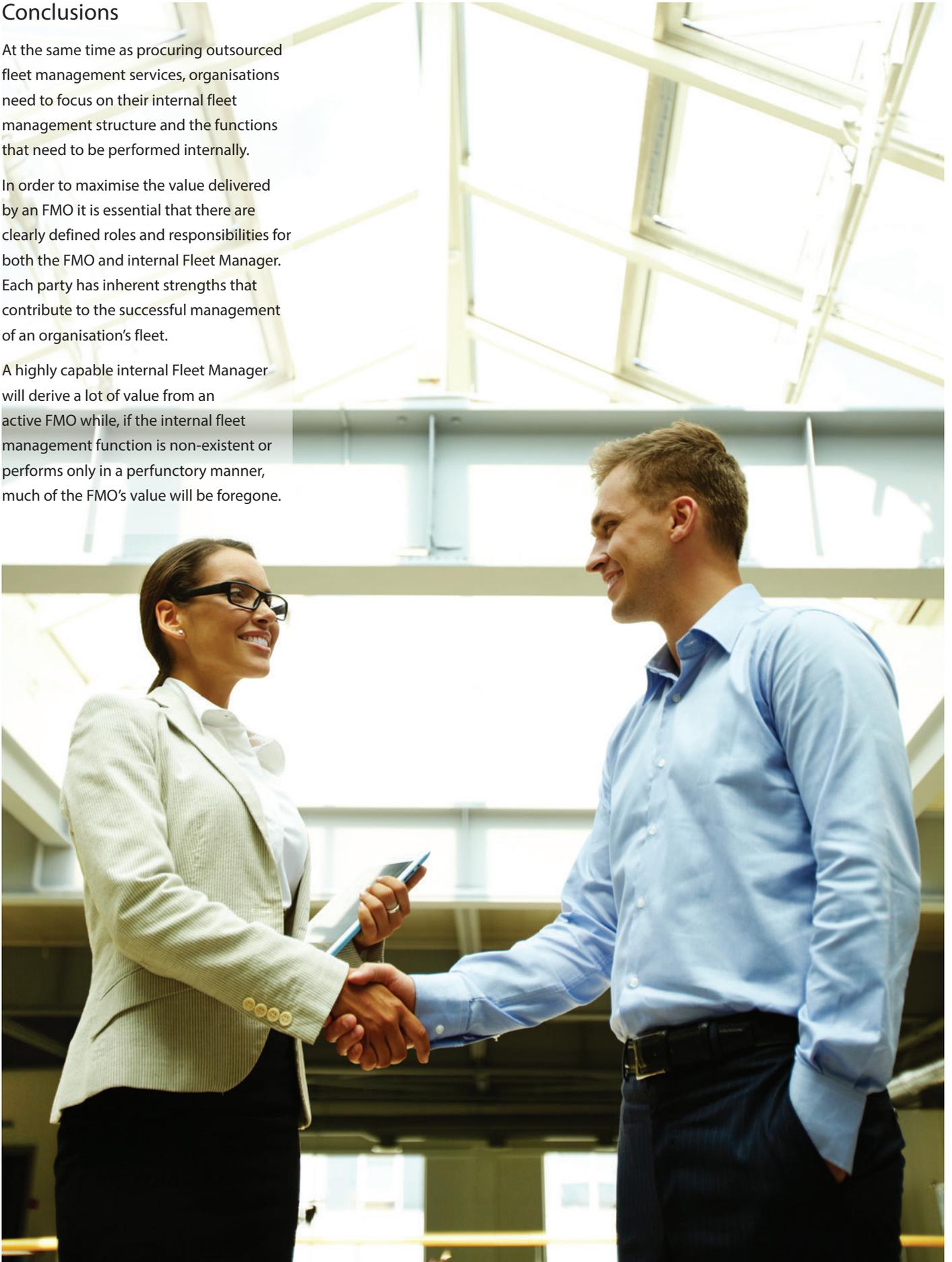


Conclusions

At the same time as procuring outsourced fleet management services, organisations need to focus on their internal fleet management structure and the functions that need to be performed internally.

In order to maximise the value delivered by an FMO it is essential that there are clearly defined roles and responsibilities for both the FMO and internal Fleet Manager. Each party has inherent strengths that contribute to the successful management of an organisation's fleet.

A highly capable internal Fleet Manager will derive a lot of value from an active FMO while, if the internal fleet management function is non-existent or performs only in a perfunctory manner, much of the FMO's value will be foregone.



About the Authors



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