There continues to be economic uncertainty among fleets manifested by extended cycling, right-sizing initiatives, and intense pressure to control costs. The consensus is the worst is behind us, but 2010 will be a tough road.

BY MIKE ANTICH

The economy went into a freefall in fourth quarter 2008 and first quarter 2009, creating a devastating impact on commercial fleets and the automotive industry in general. Currently, there is a sense among many that the turmoil in the commercial fleet market has stabilized after the past 18 tumultuous months.

“There should be signs of stabilization in 2010, but growth will be slow and spending will be done carefully,” said Bob Adamsky, who manages a nearly 500-unit fleet for Del-Air Heating & Air Conditioning in Sanford, Fla.

However, this assessment is not a universal industry consensus. Some see even more challenges ahead. “Like everyone else, we have more challenges than ever to face in 2010,” said Alicia Ham mond, fleet administrator for Ambius in Buffalo Grove, Ill.

Some challenges are “dark clouds on the horizon,” such as the potential volatility of fuel pricing, interest rates, and uncertainty of used-vehicle residual values.

“Every fleet, be it large or small, will be impacted by the challenges before them in 2010. Whether it comes in the form of fluctuating fuel prices, increased costs from manufacturers, leasing companies struggling to make ends meet, new governmental rules and requirements to be met, or the ever-present demand to ‘make it work’ while cutting costs at every possible corner,” said Chuck Kukal, fleet supervisor, administrative services for Infinity Insurance Co. in Birmingham, Ala.

Others believe 2010 will not be much different than 2009 for commercial fleets, which is not too comforting.

Based on responses from more than 100 commercial fleet managers, the following are the key issues facing their fleets in the 2010 calendar-year.

Economic Uncertainty Remains

Although the economic freefall has been halted, many companies are struggling in today’s economic environment, especially those in the housing and construction industries. Most companies in these industries have reduced new-vehicle orders and are decreasing the number of units in operation.

“Our industry is very much tied to building. We are in the following wholesale sectors: plumbing, pipe, valve, fittings, heating and air conditioning, water works, sprinkler systems, and appliances. All of these areas have been greatly impacted by the recession. Additional fleet downsizing appears likely,” said Rusty Evans, corporate fleet manager for Ferguson Enterprises in Newport News, Va.

However, other segments of the national economy are improving, resulting in a resumption of fleet vehicle orders.

“We held off on reordering many vehicles in 2009 because of the uncertainty of the economy,” said Keith Scolan, manager, global fleet for Illi-
nois Tool Works, Inc. in Glenview, Ill. “Now, with business looking better and cost savings in place, we are replacing vehicles that should have been retired last year, plus any vehicles due up this year.”

**Cost Containment Pressures Continue**

Most fleets report cost containment is a top priority for the 2010 calendar-year and most fleet managers feel confident about meeting these goals.

“I am confident that through active management and the sustainability program, this will be achieved. We haven’t had to delay ordering or downsize the fleet,” said Meegan Heritage, manager, sales & marketing operations for Biogen Idec in Wellesley, Mass.

More fleets are seeking cost reductions through operational efficiencies instead of cutting new-vehicle orders.

“We are looking more at our processes and finding where we can make cost-saving changes as opposed to reducing orders,” said Kimberly Fisher, fleet administrator, Nuclear Pharmacy Services for Cardinal Health in Dublin, Ohio.

This approach was echoed by Mark Leuenberger, fleet director at Cox Enterprises in Atlanta. “In 2009, we were able to apply resources to a variety of cost-saving initiatives. These included vehicle and upfit standardization, data development, selector list consolidation, and the creation of several company-wide policies and processes. One example was moving our executives from two- to three-year vehicle cycles. The tighter operating environment has also enabled some divisional fleet reorganization, such as the regionalization of our company-wide fleet personnel, which is having a positive impact on the bottom line,” said Leuenberger.

Another industry-wide cost-containment measure revolves around downsizing engine sizes. Switching to four-cylinder engines allows fleets (that are primarily automobiles) to maintain the same-size vehicles necessary to meet fleet applications without downsizing to smaller models.

“Cost containment will continue to be a primary focus in 2010. For us, that means keeping our acquisition costs and operating expenses in line,” said a fleet manager who wished to remain anonymous. “Once we’ve taken delivery of our remaining 2010 model-year vehicles, we’ll be roughly 50-percent four-cylinder engines. Within the next 24 months, we will have replaced all cars with a four-cylinder model.”

A new cost containment challenge is the 2010 EPA diesel emission mandates. The new regulations, which went into effect Jan. 1, will increase truck costs.

“The greatest issue in 2010 will be coping with the increased cost of trucks required to meet emission standards and weak residual values for our class of trucks idled by the economic slowdown,” said Evans of Fergusson Enterprises.

Other cost containment initiatives are focused at soft costs. “Most cost increases are in areas that are not always on paper or in clear view, such as driver downtime and lost revenue while waiting for a vehicle to be serviced,” said Adamsky of Del-Air. “Cost cutting in fleet operations will require more creative ways to find savings.”

**Fleets Extend Cycling**

In a recessionary economy, it is normal for management to demand expense reductions and limit capital expenditures. Since fleet is usually among the top 10 corporate capital expenditures, there is pressure to defer vehicle replacements.

“Vehicles will continue to increase their time in service as companies become more conservative on spending for equipment,” said Adamsky.

Many corporations held off ordering new vehicles in the 2009 model-year (and 2008-MY) due to uncertainties facing their businesses and the overall economy. This was particularly true for companies in the construction, healthcare, and automotive supplier markets, which implemented deep spend
reductions. One strategy has been to downsize the fleet by not ordering replacement vehicles. Many fleets abandoned their second order cycle or spring buy. Other fleets adopted temporary “freezes” on new-vehicle orders.

These measures usually were coupled with a decision to extend replacement cycling. More and more fleets are moving to a 75,000- to 85,000-mileage replacement parameter.

“Due to the significant downturn in the economy, all leases are being reviewed to determine if it is best to extend 12 months or replace as scheduled, taking into consideration the mileage and condition of the vehicle,” said Katie Rixman, fleet administrator for Brown-Forman in Louisville, Ky. “Most leases are being extended, and we hope residuals will be more encouraging next year.”

Many other fleets are investigating the feasibility of extending vehicle service lives.

“We are also exploring keeping vehicles longer,” said David McCauley, fleet manager for Red Bull North America, Inc. in Plano, Texas. “Instead of 3 years/75,000 miles, we are looking at 4 years/90,000 miles.”

Another factor contributing to longer service lives for fleet vehicles is the soft resale market. “While the economy played a small role, forcing us to become more cognizant of efficient asset utilization in lieu of adding net additions, the number one contributing factor was the abysmal secondary market for used commercial vehicles, where sales values were significantly depressed and the disposition cycles were exponentially longer,” said Steven LaPorte, business manager, North American transportation operations for Iron Mountain Information Management, Inc. “As a result, we judiciously extended the operational lifecycle of our equipment.”

Uneven 2010-MY Ordering

Many commercial fleets deferred 2009-model ordering. Some fleets purchased no replacement vehicles and skipped the 2009 ordering cycle altogether. A large number of commercial fleets decreased the volume of their 2009 ordering and are now playing catch-up with the 2010 model-year.

One factor influencing 2010 orders was some fleets have downsized due to the volume of layoffs in their sales and service staffs, eliminating the need for as many company vehicles as required in the past.

“Our 2010 orders were fewer than 2009 primarily because we downsized our sales force, redeployed new vehicles, and sold the older models,” said David Haslerud, fleet manager, Administrative Services for 3M in St. Paul, Minn.

Another fleet manager who wished to be anonymous cited a similar reason for the cutback in 2010 orders. “Vehicle orders will decrease for the (2010) spring order cycle. This is due to reassignment of surplus vehicles as a result of territory realignments,” said the fleet manager.

Other companies are right-sizing their fleets, which minimizes the number of required replacement vehicles. “Based on the economy, we are taking steps to right-size our fleet — moving vehicles around and running them a little longer. Therefore, the net effect is fewer orders for the 2010 model-year,” said a service fleet manager.

However, other fleets are increasing their fleet orders. “We are currently increasing the size of our fleet with an expanded customer service program,” said Hammond of Ambius.

Other fleets accelerated their diesel truck purchases to avoid the Jan. 1 deadline when only diesels compliant with the new 2010 EPA diesel emission standards can be sold.

“I ramped up my replacement orders to purchase trucks to avoid utilizing the 2010 models built after Jan. 1,” said Lisa Kneeggs, fleet manager for Coinmach Corp. & Appliance Warehouse. “Anticipation of price increases and new driver responsibilities to maintain the required urea (diesel exhaust fluid) will be challenging for years to come.”

The new diesel emission standards have increased fleet acquisition costs since 2010-compliant diesel engines are more expensive than predecessor models. The increased costs average $6,000-$10,000. In addition, factors such as the use of diesel exhaust fluid with selective catalytic reduction (SCR) systems and advanced exhaust gas recirculation (EGR) systems will play a large role in increased fleet costs for years to come.

Fleet managers also fear increased cost burdens on OEMs, such as the new CAFE requirements, may lead to higher acquisition prices and smaller incentive programs.

Concerns About Reduced Franchised Dealer Footprints

OEM downsizing of franchised dealer networks has many fleet managers concerned the closures will negatively influence fleet operations in terms of increased OTD times, along with longer commutes by drivers to courtesy delivery dealers for replacement vehicle pick-up or warranty repairs.

Many fleet managers cited concerns about widespread dealership closings among the Detroit 3. These concerns were typically posed as questions: “With the closing of dealerships, how fast can we get warranty work done? Will driver productivity decrease due to additional windshield time
to find dealerships? Will courtesy delivery charges increase significantly?"

"I am beginning to see a lot of problems (more than usual) at the dealer level with courtesy deliveries. More and more, dealers are not doing these deliveries, and my drivers have to drive 60-80 miles one way to pick up a car. I had several cars that had to be re-routed because the dealer refused to accept the car from the transporter. The reason I was given is that the dealer is no longer doing courtesy deliveries. I can see this becoming the next hot problem for my kind of fleet," said a fleet manager who manages a 1,000-plus vehicle fleet.

Another concern was raised regarding vehicle availability and OTD delays. "Vehicles may be harder to obtain due to factory production schedule changes, and OTD delays will most likely be prevalent," said Heritage of Biogen Idec.

Fuel is Fleet’s Damocles’ Sword

Fuel prices have declined dramatically from astronomical highs in 2008. The global economic recession has been a key factor for downward pressure on fuel prices, which caused worldwide fuel consumption to drop sharply. In addition, the deep recession forced many fleets to downsize due to widespread corporate layoffs, contributing to a decrease in overall fuel spend.

Although fuel costs have stabilized, fleet managers are wary of sudden price fluctuations as seen in 2007 and 2008. "The recent moves in the price of fuel and the weakening dollar make me very nervous," said an insurance company fleet manager.

Forecasting fuel prices is difficult due to pricing volatility and sensitivity to external variables. However, the consensus holds that low fuel prices are a temporary phenomenon. The wild card as to how long fuel prices will stay low is contingent on the strength of the global economic recovery. This uncertainty is the watchword for most fleet managers.

"Budgeting for fuel is a challenge; up or down — who knows?" said Kneegs of Coinmach Corp. & Appliance Warehouse. Another fleet manager who wished to remain anonymous said he budgeted for a 7-percent increase in fuel prices for 2010. However, many fleet managers are wondering whether they budgeted enough for fuel.

"As the economy rebounds, will the price of fuel increase? If so, did we as a company budget accurately?" said another fleet manager who also wished to remain anonymous.

The consensus view among fleet observers is the global recession seems to be bottoming out, so the fuel price forecast for 2010 is dependent on the slope of recovery for the global economy. The faster the recovery, the greater the probability of higher fuel prices due to greater demand for a finite resource. The long-term forecast of fuel prices, however, is they will trend upward.

Sustainability Still Strong

Green fleet and sustainability are still important to commercial fleets, but many fleet managers report corporate management now sees "green" only through an economic perspective.

"My fleet will continue to focus on the asset (the total number and size of vehicles) and driver behavior as primary strategies to lower our carbon footprint. We will continue to review and adopt technology as economically feasible. The operative words are economically feasible," said one fleet manager who wished to remain anonymous.

Despite these economic concerns, many companies remain fully committed to achieving self-imposed sustainability targets, which often include their fleet operations.

"We have a corporate sustainability initiative in place with a goal of reducing our company’s overall carbon footprint by 2015," said Heritage of Biogen Idec. "I am responsible for developing and delivering the fleet efficiency initiative. Its objectives are to reduce fuel consumption/emissions, increase mpg and our EPA greenhouse gas (GHG) score, and develop a realistic GHG reduction goal. Changes made in support of the sustainability initiative will result in containing or reducing year-over-year fleet costs, while benefiting the environment."

Companies are adopting a variety of tactics to meet green fleet initiatives, such as buying more hybrids, adopting anti-idling policies, switching to four-cylinder engines, increasing overall fleet mpg, and migrating to smaller classes of vehicles.

Resale Values Uncertain

Economic indicators, as well as public and expert opinions, generally concur the recession is over and, though high unemployment remains a concern, at least a mild recovery is underway, wrote Tom Kontos,
The ongoing sluggish business environment, high maintenance costs and decreased resale values, which threatens to increase future utilization rates; however, trucks are being kept in service for longer periods, reducing maintenance costs due to lower 접근. In addition, leasing originations declined in 2008 and 2009, which means fewer off-lease units entering the wholesale market and predict a used-vehicle market. Vehicle market observers are bullish on the future.

In addition, many fleets report they have changed replacement parameters and are keeping vehicles in service longer. As a result of deferring 2009 replacements, many models taken out of service in 2010 will have much higher mileage, negatively impacting resale values.

The economic downturn has helped reduce maintenance costs due to lower utilization rates; however, trucks are being kept in service for longer periods, which threatens to increase future maintenance costs and decrease resale values. The ongoing sluggish business environment is the key reason for the soft resale market.

“Those decreases in utilization rates have been the big drivers in the industry,” said one fleet manager who wished to remain anonymous. “It is really not too different from other years, in that we are challenged to do more with less. What is different is that we are being encouraged to be more radical in our ideas. In other words, nothing is sacred,” said a fleet manager who wishes to remain anonymous.

Other fleet managers shared similar perspectives. “With all the downsizing within companies, the buzzwords are ‘do more with less.’ It’s now to the point where companies have gotten so thin, the new buzzwords are ‘what are we not going to do anymore.’ And that bothers me,” said one fleet manager who wished to remain anonymous.

Doing more with less not only impacts fleet managers, but also fleet drivers, posing a communications dilemma.

“An added challenge that we are facing is limited access to our drivers. As our drivers are being asked to do more and expected to increase their performance and results, we are restricted in how and what we communicate to them,” said a fleet manager who wished to remain anonymous.

Other fleet managers say they are thriving on the rapid-fire change occurring in our business. “I’ve had more fun this year managing our fleet than any year since I started in the business 10 years ago. The challenging economy has created opportunities. Taking advantage of some deals has netted savings and forced us to search for ways to do things more efficiently, which will again reduce our costs. The most rewarding thing I do is find solutions that save time and money. It feels good to be able to deliver big-dollar expense savings when the revenue side of the business is struggling,” said one fleet manager in the Southeastern U.S.

Other fleet managers find dealing with challenges, in and of themselves, rewarding.

“The most rewarding part of my job is that there is always a challenge, and even more so today,” said one fleet manager.