Stable fuel prices were the primary reason fleet costs remained flat. Also, national accounts did not increase prices for oil changes and replacement tires. Maintenance costs were up for fleets that extended vehicle cycling.

Operating costs remained flat for 2010, primarily due to stable fuel prices, which represent the largest category of fleet operating costs. Contributing to this trend is an ongoing migration by commercial fleets to downsize to more fuel-efficient four-cylinder engines, along with acquiring fewer SUVs. There has also been a trend to more expensive synthetic oils and new engine oil performance standards, but national account contracts have kept the price of oil changes stable. However, replacement tire costs increased due to extended vehicle cycling, which necessitated an extra set of tires.

These findings and others are revealed in Automotive Fleet’s 19th annual operating cost survey from data provided by survey partners:

- Automotive Resources International (ARI).
- Donlen Corporation.
- EMKAY Inc.
- GE Capital Fleet Services.
- LeasePlan USA.
- PHH Arval.
- Wheels Inc.

This year’s survey is based on analysis of actual operating costs incurred by 620,964 vehicles operated by commercial fleets and managed by these seven fleet management companies.

Fuel Prices Stabilize

Gas and diesel prices stabilized in 2010. This is in sharp contrast to the volatile pricing that occurred in the past several years.

“According to the Department of Energy (DOE), the average price per gallon of regular grade gasoline increased from $1.79 in January 2009 to $2.61 in December 2009, a 46-percent increase, with much of the increase occurring in the first half of 2009. By comparison, the DOE is forecasting an average price per gallon of $2.73 during the second half of 2010, which is down 3 cents from the average of $2.76 during the first half of the...
year,” said Sung Lee, fuel product manager for GE Capital Fleet Services. “Although fuel prices increased during the first part of 2010, concerns about the rate of global economic recovery caused prices to retreat from their peaks in April and May.”

EMKAY also cited stabilized fuel prices as a key factor in keeping operating costs flat. “Fuel prices have been fairly stable. Overall, most fleets started making changes to vehicle selectors shortly after summer 2008 and continued the trend to order smaller, more fuel-efficient vehicles when practical,” said Jim Tangney, vice president of acquisitions for EMKAY.

Some experts warn against complacency, however, noting the occurrence of a natural disaster or catastrophic event could send fuel prices back up.

“Much like last year, fuel prices have decreased. Due to continued economic uncertainty, we’ve seen the average price per barrel drop, which was reflected at the pump. However, we warn companies against becoming complacent about fuel costs. A catastrophic event, the economy, war, etc., can change things at any time,” said Tony Blezien, vice president, operations for LeasePlan USA. “The best thing is to be prepared for these cases and keep fuel on the radar, even when prices are low like they have been recently.”

PHH Arval also reports the impact of fuel prices have been slightly less this year as average prices for 2010 were fairly close to budget targets. “PHH’s fleet outlook for 2010 suggested gasoline prices in the $2.70 to $2.75 range, right in line with year-to-date average pump prices. Diesel prices have been slightly higher than expected, but not markedly so as we’ve seen in the recent past,” said Greg Stanford, director, market intelligence for PHH Arval. “Remember 2008 when diesel shot up to $4.75 per gallon?”

Many fleets have adopted a variety of strategies to mitigate the cost of fuel. “These include right-sizing, smaller engine specifications, driver behavior training, and make/model migrations to best-in-class fuel economy vehicles for given application needs,” said Brad Jacobs, client consultant, strategic consulting services for Donlen.

Fleets are also designing vehicle selectors to reduce fuel spend. “Many fleets have been very intentional in making selector choices with fuel economy in mind. Some put hybrids in service. Others are specifying four-cylinder rather than six-cylinder engines, which makes sense if the application is right. We’ve also seen dramatic reductions in fuel consumption when fleets use telematics to monitor driver behavior,” said Stanford.

Wheels also reports more fleets right-sizing selectors to increase fuel economy. “Fleets using sedans and small SUVs are choosing four-cylinder engines in 2011. Four-cylinders are being ordered on almost 80 percent of sedans and 65 percent of SUVs,” said John Bauer, manager of fleet analytics for Wheels.

In the past, only a few fleets really focused on fuel efficiency. “Now, the times are different, and, on a large scale, we’re seeing smaller vehicles, fewer SUVs — replaced with either crossovers or sedans, and a strong upsurge in four-cylinder engines. In addition, many organizations are now considering telematics solutions to better plan routes to reduce fuel consumption,” said Scott Tepas, manager of data analytics for EMKAY.

Another opportunity to reduce fuel expense is through reducing the average age of the fleet.

“In many cases, additional fuel cost savings could be achieved simply by replacement of aged units,” said Jacobs. “Since 2005, the fleet-minded passenger sedan segment has shown up to a 10-percent fuel economy improvement, according to EPA fuel economy ratings. Fleets taking advantage of new engine technologies have seen the payoff in fuel spend reductions. With CAFE standards increasing through 2016, the opportunity for reduced spend through vehicle replacement should continue to grow.”

Forecasting Future Fuel Prices

The cost of fuel had a major impact on fleet operating costs in 2008 due to the rapid increases in cost at the pump, noted Bob White, vice president of operations for ARI. “This led to fleet managers evaluating fuel costs more closely, resulting in an increased emphasis on fuel economy as part of vehicle selection criteria. While 2010 levels stabilized, forecasted increases for 2011 will continue to encourage fleets to develop and implement fuel-saving strategies,” added White.

The average cost of fuel forecast by the U.S. Energy Information Administration (EIA) for 2011 is $2.90 per gallon, including taxes, across the country. “A number of independent analysts are forecasting the average fuel price to rise up to $2.96 per gallon, and we believe that to be a realistic estimate equating to an annual increased fuel spend for fleets in the 6–8 percent range,” said Blezien of LeasePlan USA.

EMKAY believes fuel will continue to rise incrementally. “If the economy continues to strengthen, we may see oil prices
rise quickly as it has historically; however, if the king of Saudi Arabia’s prediction of $75 per barrel can hold firm as it has in the past, and OPEC continues production, perhaps we will avert a quick rise in prices at the pump until the fall, when the DOE estimates gasoline prices at $2.90 per gallon. If gas prices rise incrementally, most fleets will likely factor this in budgets and make a few changes to how they operated in 2010,” said Les Lynott, manager, vehicle remarketing and analytics for EMKAY.

PHH Arval expects fuel prices to track with the state of the economy.

“With the tepid state of the economic recovery, pump prices for 2011 are expected to be marginally higher than they’ve been this year. A stronger economy would likely push prices higher,” said Stanford of PHH Arval. “Looking to 2011, the Department of Energy statistics on fuel stocks (oil, gas, and diesel supplies currently in storage), show very high inventory levels, a situation that should keep prices at moderate levels. Nevertheless, numerous factors such as increasing world demand for energy and the declining value of the dollar could push both gasoline and diesel fuel prices up next year.”

On the other hand, Wheels does not foresee an appreciable spike in the cost of fuel. “We don’t expect any significant change in fuel prices,” said Bauer.

Motor Oil Costs Remain Stable

Some fleet management companies report increased costs in preventive maintenance motor oil changes.

“Overall passenger-car segment oil changes are up 3 percent over 2009,” said Jacobs of Donlen. “Overall light-truck segment oil change costs are up 2 percent over 2009.”

One reason for the higher average costs is the increased specification by OEMs of synthetic motor oils.

“On newer model vehicles that traditionally ran ‘normal’ non-synthetic oil, the auto manufacturers are beginning to require use of synthetic oil. The reasoning behind this change is to reduce the number of oil changes required and allow these vehicles to run cleaner and more efficiently,” explained Dave Jankiewicz, director, maintenance and repair management for LeasePlan USA. “While there is an environmental benefit, synthetic oil changes do come at a premium, sometimes costing three times more than non-synthetic oil.”

White of ARI cautioned fleets to monitor maintenance schedules due to the increased price of the synthetic oils. “Many new vehicles utilize full synthetic and synthetic blends for engines, transmissions, and axles. This may help extend service intervals, but the costs tend to be substantially higher. Maintenance schedules should be evaluated closely, as costs for synthetic fluids can quickly increase a fleet’s operating cost,” said White.

GE Capital Fleet Services saw moderate oil price increases in 2010. “The OEM-recommended intervals for oil changes and other variables, such as synthetic, non-synthetic, and crankcase capacities did not change,” said Eric Strom, maintenance & safety product manager for GE Capital Fleet Services.

However, EMKAY reported stable oil prices. “Vehicles are having longer and longer durations between intervals, but overall cost of service remains basically stable,” said Tangney.

ARI similarly reported stabilized oil prices. “Oil prices also saw increases in 2010 over 2009 levels, but have remained relatively stable throughout the year. The costs for oil and other lubricants should increase commensurate with gas and diesel percentage increases in 2011. Changing technologies in engine design, lubricant specifications, and manufacturer requirements will continue to have an effect on overall fleet costs,” said White.

Several national brand providers introduced oil change fleet pricing specials in 2010 to increase store traffic, according to Strom. “The fast oil change providers continued with local- and regional-based pricing versus a consistent national brand-pricing model,” he noted.

Forecast of Motor Oil Costs

The increased use of synthetic motor oils was partially offset by stable national account pricing negotiated by fleet management companies.

National account providers have no plans to increase the cost of oil or the cost of non-synthetic oil changes, according to Jankiewicz of LeasePlan USA. “However, it will cost more for fleets with 2011-MY vehicles that require synthetic oil, which is more expensive at every facility. I would suspect independent repair facilities will increase pricing based on their internal cost structures at the typical 3-5 percent.”

EMKAY “sees a general upward pricing trend, but minimal due the large number of retailers and competitive environment,” explained Tangney.

However, Strom of GE Capital Fleet Services believes oil costs may take a dramatic turn to higher costs in the next several years due to significant industry changes in motor oils.

For example, General Motors is introducing Dexos oils, which will be required on its 2011 model-year vehicles. “The Dexos synthetic blend oils will have ‘backward compatibility’ and will be okay to use on earlier model-year vehicles,” explained Strom. “Improved fuel economy is the key driver in the changes. Other ben-
benefits cited include extended oil life due to improved ‘oil robustness,’ and reduction of harmful emissions."

Another upcoming change Strom notes is GF-5 motor oils.

“The American Petroleum Institute (API) adopted new engine oil performance standards for vehicles with gasoline engines. Most automobile manufacturers are expected to recommend oils that meet GF-5 standards. GF-5 is also expected to be backward compatible, but may not be suitable for all OEMs, as several have specific specs,” explained Strom. “The cost impact of new motor oils may be double or more than a conventional oil change. The next several years will be interesting to see if aftermarket repair providers continue to stock conventional oils or if they shift completely to GF-5 or comparable oils.”

Factors Influencing Tire Costs

Replacement tire prices remained relatively stable in 2010.

“We saw overall tire operating expenses hold fairly steady year-over-year despite moderate 2010 tire manufacturer increases in individual passenger and light-truck tire costs,” said Strom of GE Capital Fleet Services.

Bauer of Wheels also believes tire prices will remain steady. "After increasing when the price of oil increased, tire prices have been steady the past year and will probably continue in the same range," he said.

Same-size tire replacements did not change dramatically. "Tire prices are impacted obviously by rubber prices, but are also tied closely to the cost of a barrel of oil with the manufacturing and shipping costs. All those costs have remained fairly stable, which helped tire prices stay fairly steady. However, vehicles are coming with larger and larger wheels, making average tire sizes bigger. Consequently, average tire prices are up for fleets," said Lynott of EMKAY.

Also noting increased tire prices due to larger tire sizes is LeasePlan USA.

“Much like the past few years, manufacturers continue to increase the size of tires on newer model vehicles, which elevated tire prices and resulted in higher tire costs for those clients with affected vehicles in their portfolio,” said Dave Doyle, director, maintenance and repair management for LeasePlan USA. “The larger-sized tires are inherently more expensive because the more material it takes to make the tire, the more it will cost for the buyer. Unfortunately, we do not see this trend slowing down any time soon. In addition, raw material costs were higher this year than in 2008 and 2009. But, thus far, the increase hasn’t affected our clients because of established national account pricing that keeps tire costs stable.”

Another factor impacting replacement tire costs is an aging inventory of fleet vehicles.

“Aging fleets and resulting tire replacement costs impacted many fleets in 2009. The marginal improvement in the economy led fleets to begin replacing some of their aging vehicles in 2010, and that trend is expected to continue during 2011. However, many aging vehicles remain in fleet use, so tire costs will continue to have an effect on overall fleet costs,” said White of ARI.

This observation was also made by Donlen. “With fleets deferring replacements, additional tire costs have been accrued, where in the past a vehicle would have been sold prior to tire replacement,” said Jacobs.

Replacement Tire Pricing Trends

The rubber industry forecasts additional price increases on the horizon as well. “Increased demand prompted some of the price increases, as tire shipments are projected to increase 8 percent in 2010, according to the Rubber Manufacturers Association,” said White of ARI.

Many national tire brand manufacturers have increased prices, “noting the increase in raw material costs. Other providers were able to hold the line on fleet price increases, although their consumer prices were raised,” said Strom of GE Capital Fleet Services.

Replacement tire costs for light-duty trucks increased more than passenger car tires.

“Replacement tires for the light-truck segment are up 6 percent over 2009,” said Jacobs of Donlen. “Passenger car segment tire costs are up 2 percent over 2009.”

With the increased tire sizes comes the corollary issue of keeping the proliferated volume of tire sizes in stock.

“With the preponderance of new individual tire models in the marketplace, it becomes difficult for tire dealers to keep all models in stock. Consequently, this limits the amount of brands and models in their inventory for customers to choose from,” said Doyle of LeasePlan USA. “There are also more unique tire sizes in the marketplace that are vying for a position in the tire dealers’ inventory. The fewer options, the less you will be able to shop around for the best price. For these reasons, it’s important fleets take tire sizes into account, as well as replacement costs, when determining the vehicles for their selector list.”

Another impact on replacement tire prices is extended vehicle lifecycles.

“Fleets extending vehicle lifecycles have been the key factor in overall tire cost increases,” said Strom of GE Capital Fleet Services. “The problematic issues of replacement tire availability for several OEM vehicles with unique tire sizes con-

### Chart 3

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- **2010 OPERATING COSTS - MINIVANS**
- **MINUS: 58,855**
- **TOTAL UNITS:**
- **<24,000 MILES**
- **24,001-48,000 MILES**
- **48,001-80,000 MILES**

### Operating Costs

**2010 operating costs - minivans**

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continued in 2010. Several popular vehicles had tire sizes with only limited availability at OEM dealer or non-major national tire brand stores. This could result in a driver going to another tire store for convenience and run the risk of non-OEM size tires being installed as the driver becomes impatient, or a store insists a non-OEM tire size is okay.”

One factor behind extended vehicle lifecycles is decreased fleet budgets. “Due to cost containment and budget tightening, many fleets kept vehicles in service longer than the originally planned lifecycle. This led to higher tire replacement costs,” explained White.

While tire prices increased on the retail side, “tire pricing remained relatively flat among fleet customers because of our national account pricing agreements,” said Doyle.

Bauer of Wheels agreed. “Tire prices should continue in a similar range.”

Forecast of Tire Prices

Additional tire price increases are expected through the end of calendar-year 2010 into the first half of 2011, “as raw material costs, such as natural rubber, are increasing. The key overall tire cost that is controllable is vehicle replacement cycling,” said Strom of GE Capital Fleet Services. “The next biggest factor, although not always controllable, is the OEM tire size, as the larger diameter tires can add $100 to $200 in additional expense per set of tires.”

Labor rates will remain stable due to the economy experiencing slow and steady growth, but an upward trend to fleet tire costs will ensue following larger tire sizes, noted Lynott of EMKAY.

“In addition, there is likely to be upward pricing pressures due to supply drops in the remainder of 2010 and into 2011. Rubber harvests in 2010 were dramatically impacted by poor growing conditions in Thailand, Indonesia, and Russia. Bloomberg forecasts in 2011 a supply shortage of 60,000 tons of rubber. Bridgestone, Goodyear, and Cooper raised prices slightly once earlier in 2010 and again in October 2010 based on recent speculation in rubber prices,” said Lynott.

LeasePlan USA also noted the increased expense of raw materials as a cause of increased tire prices.

“Due to the growing expense of raw materials used in tire manufacturing and distribution, such as rubber and petroleum, we expect a modest price increase in 2011. According to U.S. Department of Labor statistics, all raw material prices increased over the past 12 months, with natural rubber costs rising 89 percent since June 2009,” said Doyle of LeasePlan USA. “As part of our commitment to assist clients in their maintenance cost-saving initiatives, we consult annually with tire manufacturers to forecast tire pricing and identify trends to help clients avoid some of these associated costs.”

Also, national account vendors used to play a bigger part in absorbing tire cost increases.

“In the past, national account vendors were financially able to absorb these costs instead of passing them onto their customers. We foresee, in the near future, that they will no longer be able to do that,” continued Doyle.

Next to fuel, tires are the second highest operating cost for a fleet. “Many newer vehicles have larger tires, which result in higher tire replacement costs. This has become a focal point for many fleet managers from a vehicle selector standpoint, as the costs for replacement tires can vary as much as 30 percent or more for different tire sizes on the same vehicle. In addition, the rising demand for tires from the manufacturing and replacement sectors are forecast to result in increased tire pricing during 2011,” said White of ARI.

Flat Maintenance/Repair Costs

Maintenance and repair costs were relatively flat from 2009 to 2010, noted Bauer of Wheels. Overall maintenance and repair costs for fleets utilizing a typical vehicle lifecycle have improved. However, fleets extending vehicle lifecycles have experienced increased expenses.

“OEM quality improvements, fewer repetitive repairs, and increased powertrain warranties continued to have a positive impact on maintenance operating costs. Fleets with extended replacement cycles have often outweighed these expense factors, though, as higher mileage vehicles are creating challenging vehicle repair versus no-repair decisions,” said Strom of GE Capital Fleet Services.

Industry-wide, the vehicles in service at commercial fleets are aging. “Over the last 24 months, fleets chose to keep vehicles on the road at mileage tiers that in the past would have placed the vehicle at an auction,” said Arnie Barnes, manager, managed maintenance program for PHH Arval.

Many fleets that retained vehicles longer than normal saw increases in overall maintenance and repair costs in 2010, noted White of ARI. “These aging vehicles may have component failures that normally happen after a vehicle is taken out of fleet service. In addition, dealer consolidation, increased labor and material costs, and required tools and training have all contributed to increased costs at repair facilities,” said White.

Parts delays also contributed to an increase in repair costs in 2009; however, that trend seems to have reversed slightly in 2010.

“I don’t see any major changes year to year. Labor rates have remained steady. The one positive factor is that there are not the
long parts delays we experienced in 2009 that impacted rental costs significantly,” said Tepas of EMKAY.

Parts delays are still occurring, however, and Doyle notes that “one notable difference is the lack of supply through the OEM dealer network on certain parts. There have been many instances of back-ordered parts this year. Due to sourcing issues, such as plant shutdowns, cutting shifts, etc., the gap in availability has adversely affected vehicle downtime and increased rental expenses for our clients.”

Two major factors impacting maintenance repair costs are the increased preponderance of technology in fleet vehicles as well as the new diesel emissions standards.

“Telematics technologies are used by fleets to gain access to diagnostic trouble code (DTC) activity initiated by onboard engine computers. Customers are increasingly using this information to initiate maintenance as needed — increasing vehicle safety and reducing wasted maintenance expense and costly downtime,” said Strom of GE Capital Fleet Services.

Tire pressure monitoring systems (TPMS), now standard on many vehicles, assist with safety measures and proper maintenance, but do increase costs.

“Newer features and technologies, such as TPMS and diesel particulate filters, led to increased maintenance costs in order to keep vehicles in proper operating condition,” noted White of ARI.

EMKAY has seen more of an emphasis on electronics options, such as navigation, SYNC, and other electronic bells and whistles. “Cars in general just have more electronics, which make repairs more expensive. Although repair costs may have increased, many of those electronics features are for safety, which actually reduce the cost to fleet from a risk management perspective,” said Tepas.

Diesel emissions regulations have been top of mind for all fleets operating diesel vehicles.

More stringent federal diesel emissions standards have created additional expenses in 2010 that didn’t exist in the past. “For instance, the new generation of diesel vehicles requires more maintenance and repair costs than ever before. Diesel exhaust fluid and the associated exhaust particulate filter are just two examples of this trend,” said Doyle of LeasePlan USA.

The new diesel emissions technology is also impacting maintenance. “Most of the older vehicles being replaced with the new diesel engines have shorter preventative maintenance intervals than the new vehicles. Any increased cost will be offset by less frequent maintenance,” noted Bauer of Wheels.

Parts shortages due to the economic downturn have also led to increased costs for alternate replacement parts, as well as increased downtime.

“Some parts suppliers have gone out of business, while others have struggled to survive as vehicle production has diminished during the last two years. Vehicle production increased recently and continues to gain momentum, but it has still not fully recovered to previous levels,” said White of ARI.

Similar to other operating expense categories, decreased fleet budgets are also impacting maintenance and repair.

“The most significant factor impacting maintenance costs is outside the automotive venue — it’s the extremely conservative posture many companies are taking toward increases to capital and operational expenses. Fleets are choosing increased service lives for vehicles, which is driving up repair costs. This number ranges from 5- to 8-percent increases over 2009 spends,” said Barnes of PHH Arval.

Forecast of Maintenance & Repair Costs in 2011

Most of the participating fleet management companies agree maintenance and repair costs will rise in 2011.

“Labor and parts costs are expected to continue to increase in 2010-2011. Fleet costs will be similar or slightly higher than the 2009-2010 consumer price index (CPI) maintenance and repair index increase of 2 percent,” said Strom of GE Capital Fleet Services.

One factor contributing to the increase in maintenance and repair costs will be price increases from service providers.

“Many providers have been careful not to raise their pricing given recent economic factors; however, vendors cannot continue to absorb increases to their business costs without passing them along to the customer at some point. We predict a 3- to 5-percent pricing increase with parts, labor, and shop supplies (i.e., disposal of fluid, brake cleaners, etc.) at independent repair facilities going into 2011. At these facilities, shop supplies typically cost 3 to 5 percent of the hourly labor rate. However, due to national account pricing, most national account providers do not charge for shop supplies,” said Doyle of LeasePlan USA.

Improved vehicle quality and extended powertrain warranty coverage have helped offset the increased costs.

“Vehicle quality and reliability continue to improve, and manufacturer warranties are supporting that trend. Preventive maintenance is vital to keep vehicles in safe operating condition, as well as keeping the vehicle warranty in force. While PM costs are projected to increase in 2011, regular PMs will also help to avoid costly repairs and related downtime expenses,” said White of ARI.

Wheels continues “to see less frequent component failures as manufacturers improve vehicle quality. Most major component failures are the result of inattention to preventive maintenance,” said Bauer.
However, extended vehicle lifecycles threaten to increase the cost of maintenance and repairs.

"Fleet operating costs vary by mileage and have been rising. On balance, they are higher in 2010 than they were in 2009," said Stanford of PHH Arval. "The impact, however, has been masked by positive factors relating to standing costs, such as depreciation and interest. Many fleets extended service lives in response to the economic crisis that hit in 2008. This year, as they have begun moving back to normal replacement cycles, net depreciation costs are down significantly because of lower book values at sale and what has been a stronger resale market in 2010."

Similar concerns about extended cycling were voiced by LeasePlan USA.

"The concern moving into an era where pricing on many aspects of maintaining a vehicle continues to increase is the potential of extending service intervals. As the service intervals increase, the amount of times that vehicle is inspected for safety and possible component failure decreases," said Jankiewicz of LeasePlan USA. "The main reason a manufacturer recommends maintenance schedules is to ensure the oil change is performed within the proper time frame. However, an added benefit of having oil changes performed based on the recommended service interval is being able to catch failures before they happen. Fewer inspections could lead to higher repair, tire replacement, roadside assistance, and driver productivity costs in the long run."

Non-scheduled maintenance events will also be impacted by higher costs. "We expect growth in the cents-per-mile of non-scheduled maintenance events driven by higher mileage vehicles. Without significant economic changes, this cost per mile could be in the 8- to 10-percent range," said Barnes of PHH Arval.

Some see the trend to extend service life slowing, with fleets starting to revert to traditional replacement cycles. "From 2008 to 2009, fleets were defleeting due to the economy and down-sizing their operations or were extending replacement cycles due to capital expenditure constraints. Now that most fleets have been right-sized, the strong resale market coupled with the availability of capital is contributing to shortening of cycles that should continue through 2011," said Trudi Beardsley, strategic consultant manager for GE Capital Fleet Services. "The result is and will continue to be decreases in maintenance spend and more repairs covered under warranty. Subsequently, downtime and administrative burden will decrease as drivers get back on the road quicker due to less critical repairs occurring and less phone calls above approval limits to the fleet administrator. Fleets continuing to extend replacement parameters through 2011 will see maintenance costs increase and will be under more pressure from upper management to reduce the maintenance spend budget even though they do not have approval for capital expenditures to replace inefficient vehicles with new vehicles."

Fleet managers are encouraged to take a more vocal stance in advocating against extended cycling. "Fleets looking to save money by deferring replacements, or extending cycles, have been hit the hardest by increased maintenance spend and catastrophic failure exposure," said Jacobs of Donlen. "The net result, in many cases is higher operating costs driven by variable cost increases. Lifecycle costing, backed by live industry data and having a plan in place to differentiate between cash flow and net effective costs, is a must when discussing total cost of ownership initiatives with key stakeholders."

### Changes to Warranty Recovery

Extended powertrain warranties from manufacturers have affected overall recovery dollars. "The OEMs held steady in 2010 with their post-warranty recovery policies. Overall recovery dollars are down slightly due to the OEM extended powertrain warranties. The key factor to limited post-warranty recovery continued to be the higher mileage and older vehicles," said Strom of GE Capital Fleet Services.

PHH Arval also witnessed a decrease in warranty recovery dollars. "Warranty recovery has dropped due to many factors. The manufacturers have, to varying degrees, reduced the monies they are willing to contribute. Fleets have tended to not replace some units, keeping instead the older models not eligible for assistance due to age or mileage. Most units on the road now are covered by longer powertrain coverages, which make what was warranty recovery into a no-charge warranty repair," said Barnes.

The overall economy and vitality of the automotive sector also factor into the OEM's ability to support warranty recovery programs. "There continues to be a decline in policy, after warranty assistance and goodwill from GM, Ford, and Chrysler, as well as other major manufacturers. This is due to the downturn in the economy and the manufacturers' ability to support these programs. However, the longer warranties on powertrain components have led to more warranty coverage by the manufacturers for these repairs, resulting in less claims for these more expensive components," said White of ARI.

(See page 30 for a forecast of fleet costs for 2011 and beyond.)
It will become more expensive to operate a fleet in the coming years. Vehicle acquisition costs will increase. Fuel prices, in all likelihood, will trend upward and maintenance costs will ratchet higher due to more companies adopting extended replacement schedules. In addition, vehicle-related taxes will increase.

**Higher Acquisition Costs:** Government-mandated combined car and truck corporate average fuel economy (CAFE) standards will increase to an average 35.5 mpg for the 2016 model-year. It is estimated the new CAFE standards will cost OEMs $52 billion to be in compliance and add an average $926 to the cost of buying a new vehicle, perhaps much more, within five years. In all likelihood, most or all of the cost to automakers will be recovered through higher vehicle prices. In addition, as manufacturers build to demand (and not capacity), there will be downward pressure on incentives.

**Higher Vehicle-Related Taxes:** In 2010, of every $100 spent on fleet, $5 went to taxes. This compares to $4.10 in 2006 and $3 in 1983. This cost promises to increase further in the coming years, especially in an era of record governmental deficit spending. State and municipal taxes, as well as traffic violations, will be higher due to government budget shortfalls.

States and other governmental jurisdictions are scrambling to find ways to generate new revenue to offset lower tax revenues. In addition, unlike the federal government, most states are required to balance their budgets. Many jurisdictions opted to generate new rev-
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