Total Fleet Category Management

Take control of your fleet universe

fleetworx

savings • compliance • control

Total Fleet Category Management

Dozens of different suppliers, often in many different countries, create your company car fleet universe.

Keeping these suppliers aligned can be a very complex and time-consuming job. It only takes one supplier to venture off course and the slick, effective supply chain that you painstakingly created can grind to a sudden stop; impacting the mobility of your people and their ability to do their job.

Coordinating, managing and motivating your suppliers is the **Total Fleet Category Management (TFCM)** solution that Fleetworx delivers to many companies around the world who rely on a smoothly operating fleet system to run their business.

Fleetworx provide a totally encompassing service from sourcing to servicing that keeps all your suppliers in-line and delivering fleet excellence.

Coordinating, managing and motivating your suppliers is the Total Fleet Category Management (TFCM) solution that Fleetworx delivers

Why Fleet Must Be Managed Like a Category

The increasing need for companies to concentrate on core activities and outsource non-core means that functions such as fleet become the responsibility of non-specialists who take up control of one particular aspect mostly closely related to their discipline. Being managed across silos means that fleet is no longer managed like a category, with focus on best practice and efficiencies, and ends up being managed piece-meal with little regard for the interdependencies of each element of the supply chain.

HR, **Compensation** & **Benefits**, **Procurement** and **Finance** may all be involved in the running of their company's car fleet. They may all have specific responsibility for areas which cut across their function, but they may operate without a full appreciation of how their decisions impact on outcomes outside of their immediate remit.

A decision by **HR** to extend the car list and offer more choice to employees may in fact contravene existing manufacturer arrangements that have been negotiated by **Procurement**. This will result in manufacturer discounts being reduced and a more costly fleet. Conversely, if **Procurement** reduce the number of manufacturers to improve contract leverage, this will reduce the car list and make the reward package less attractive for **HR**.

Introducing policy decisions without considering the implications can cause real problems. If **Procurement** introduce multi-bids without consulting **Finance**, the knock-on effect could be a huge unexpected workload for legal and AP as they on-board and manage more suppliers.

This is why **Total Fleet Category Management (TFCM)** is hugely important. Taking a holistic approach to the category, which is normally the second largest cost spend in a business after labour, means huge gains in customer satisfaction, savings and overall efficiency.

TFCM encompasses all aspects of the fleet supply and management process. It removes the reactionary and isolated approach to fleet management that is typical of most businesses without a fleet function and replaces it with a programme of activity dedicated to the control of the car fleet.

A programme of activity dedicated to the control of the car fleet

How TFCM Supports Your Fleet

Many of these functions are carried out in isolation of the other. **TFCM** ensures that all areas are considered when making decisions, and the impact of each area is understood:

#1
Strategy
Policy review across regions and business units

#2
Sourcing
Sourcing exercise to recruit most appropriate suppliers

#3
Transition
Transitioning from the old supply chain to the new

#4
On-boarding
Onboarding the new suppliers and shaping data collection and analysis

#5
Commercials
Managing the contracts and monitoring the commercials

#6
Reporting
Measuring and analysing the efficacy of the supply chain

1. Strategy

In a business with no dedicated fleet function it is quite typical for fleet strategy to be devised and implemented by **HR**, but with the responsibility of sourcing the vehicles to sit with **Procurement**.

Both departments who, although expert professionals in their specialisms, may not necessarily have the exposure to the complexities of fleet strategy and how decisions can impact the business for years.

Single-supply or multi-supply is one strategic choice that has long-term implications and needs to be considered from a holistic category perspective. Some departments are often in favour of a single-supply agreement so they can build a relationship with one supplier, whilst other departments encourage dual or multi-supply so they can "horse-trade" the leasing cost and "bank" a saving.

The extent to which a fleet should be electrified is another strategic choice that needs to considered with a full appreciation of the implications across the business.

Collating and understanding data about a car fleet is vital to allow these decisions to be made in the interest of the business as a whole, and not just individual department objectives. Detailed data analysis creates accurate what-if scenario planning that can justify decisions.

Collating and understanding data about a car fleet is vital

2. Sourcing

The nature of company car fleet supply means that most supply agreements only get reviewed every 4 or 5 years, time enough for the landscape to have changed significantly and supply terms to become outdated and uncompetitive.

The infrequency of re-sourcing a car fleet means the exposure to the process of the fleet team/stakeholders is minimal and for some it may be a completely new experience. So, understanding the best way to approach the market to negotiate the best deal can be challenging for the non-specialist.

Car fleet negotiations are unlike other categories. They can be highly complex and a multinational business may have upwards of 50 suppliers across numerous countries and thousands of vehicles, and obviously managing proposals and quotes for such volume needs structure and discipline.

To be in the best negotiating position it is necessary to follow these guidelines:

Formalise the process – going to market at the right time is vital to generate the right reaction from the suppliers. They need to see a sourcing opportunity that excites them and that contains enough vehicles at the end of their replacement cycle. They will be asking:

Is it in a country in which I want business?

Will it offer a potential profit?

Is it available now?

Know what you are going to market with – researching the make-up of your car fleet and preparing a detailed RFP for suppliers to quote against is important when negotiating your supply solution. It is vital that this is created from a solid foundation of quality data that helps make informed decisions about the preferred supply route and the impact of change in supply [i.e.switch to single manufacturer or single lessor]

Know what you are going to market for – in addition to having a detailed understanding of your fleet, you also need to have clarity over what you are going to market for – knowing the funding products and management services that you require will help strengthen your negotiating position.

Remember, purchasing fleet is unlike the **Procurement** of commodities. rather than a one-off purchase, the buyer / lease supplier relationship will be long-term, with continued transactions throughout; none of which carry advance price guarantees. A commitment to pricing transparency is therefore essential.

2. Sourcing (cont.)

Once the hard work of **negotiating the best deal has been completed** the harder work begins of transitioning the supply from the old supply chain to the new.

It is great negotiating a fantastic deal that promises big savings, but in order to realise the savings it is essential that the old supply chain is managed out carefully, whilst the new supply chain is held to their commercial and deliverability promises.

Adopting a **TFCM** approach means once a new deal has been negotiated, the same team are then responsible for making the transition as smooth as possible, and because they were involved in negotiating the promises of the suppliers and know the detail, they can more easily ensure they are delivered.

Adopting a TFCM approach means once a new deal has been negotiated, the same team are then responsible for making the transition as smooth as possible

3. Transition

It is not uncommon for fleet tendering projects to fail to result in change.

After the new supply route has been decided upon and the rewards are calculated, it is fairly typical for businesses operating medium and large car fleets, especially pan-European, to actually struggle to implement the new supply chain.

This is not because substantial savings could not be achieved or service levels vastly improved, but because the anticipated 'Pain of Change' was not palatable to key stakeholders in the business; or those stakeholders could not perceive how the roll-out could happen without severe business disruption.

A **Total Fleet Category Management** approach can significantly improve this process as the appropriate expertise, systems and resource are applied at the right point and in the right amount.

There are a number of stages through which a business must go to **successfully transition a car fleet.** These stages can be time consuming and complex but having the appropriate knowledge and correct procedures will certainly help smooth the process:

When managing a fleet transition programme it is vital to construct the plan around the following priorities:

1. Ensure business continuity
2. Deliver uncompromised savings from the new supplier asap. (It is important to be on enhanced terms quickly so the savings benefit is not lost by slow implementation)
3. Minimise local operational impact
4. Quickly implement local operational services
5. Avoid service degradation and increased costs from outgoing supplier

Appropriate expertise, systems and resource are applied at the right point and in the right amount

3. Transition (cont.)

Stage 1 - Vendor Management

- Supplier engagement
- Service level management
- Active pursuit of supply chain data **(old supplier)**
- Performance review **(new supplier)**
- Rebate management **(new supplier)**

Stage 2 - Data Collection & Management

- Active pursuit of supply chain data
- Validating data set

Stage 3 - Cost Validation

- In-life contract damages evaluation
- Settlement agreement & rebates evaluation
- End of lease contract damages evaluation **(old supplier)**
- Validation of commercial agreement with new supplier **(new supplier)**

Stage 4 - Authorisations

- Early termination recharges
- Contract rewrites
- Policy exceptions **(new supplier)**

Stage 5 - Fleet Governance Processes

- Invoice management

Stage 6 - Savings Tracking

- Savings reporting
- Savings tracking
- Savings audits **(new supplier)**
- Strategic initiatives **(new supplier)**
- Tactical interventions **(new supplier)**

Stage 7 - Commercial Compliance

- Contract adherence
- Contract reviews **(new supplier)**

Having the appropriate knowledge and correct procedures will certainly help smooth the process

4. Onboarding

Integral to a successful transition process from old supply chain to new is the smooth onboarding of the new suppliers. A **TFCM** approach makes data vital. It is the tool by which fleet decisions are governed, removing the uncertainty in changing car policy or removing suppliers. Capturing all data points from the management of a car fleet, including supplier invoices, PO's and lease commitments, results in a huge data source which needs storing in a flexible and accessible platform.

Centrax™ is the proprietary data platform employed by Fleetworx. It is a management information system that is central to **Total Fleet Category Management**.

A system such as **Centrax™** should have 3 main functions to deliver **TFCM**

Tracking

Tracking supply chain behaviour via the collation of every piece of data relevant to the supply chain and storing it in numerous category specific deposits.

Task Allocation

Outlining the operational elements needed for the focused and precise management of the car fleet supply chain. Allocating tasks to create an accurate structure from which to manage suppliers.

Strategy

Delivering evidence-based decision making and strategic choice. The data and operational functions of the platform build a solid foundation from which to report and interpret results.

A platform such as **Centrax™** supports the following functions which are essential for the effective onboarding of suppliers:

Data consolidation
Establish reporting level capabilities with each member of the supply chain and implement the necessary reporting flows on dynamics and costs from each supplier.

Document management
Securely retain copies of all individual vehicle lease schedules and supplier agreements

Invoice management
Validation of all inbound invoices, uploading invoice files and invoice approval

Supply chain approvals
Vehicle order approval, repair authorisation, early termination recharges and policy exceptions.

The onboarding process embeds systems and procedures that create the foundations for **TFCM**. The data that is collected provides information and insight that simply cannot be unlocked without these systems. Subsequently, it makes tracking the commercials and understanding the impact of policy and strategy much easier.

5. Commercials

An unfortunate **unintended consequence of outsourcing** non-core activity is the loss of knowledge within the outsourcing company. Within the fleet sector this can manifest in a knowledge imbalance between the client and their supplier: in favour of the supplier. Because the supply chain has a greater knowledge than the companies they supply, the client is then faced with the very real risk of huge cost creep.

TFCM ensures the interests of the client are always at the forefront of any contract negotiation and the terms are examined and managed very tightly.

There are a number of elements to a leasing contract, which not only cover headline rental costs, but also include factors such as bolt-on services around maintenance, transparency, interest and margin. Having a handle on all these elements can be a huge challenge for a fleet stakeholder, as it is highly likely the contract will be complex with numerous opportunities for the supplier to add cost.

Indeed, **data analysis of a large pan-European business** with a fleet of over 2000 cars found that of the annual £20m cost of running the car fleet, a staggering 24% was unplanned variable costs that were not tied down with the original contract: costs that can all attract additional margin and fees from the supply chain, resulting in significant cost creep.

Understanding the total cost can be difficult, as one thing is certain, list price or rental costs alone do not clearly reflect the expected total cost of running a fleet.

Integral to a lessor's costing model are sophisticated means of applying margin to consumables and services. In fact these margins drive the majority of the revenue for the lessor, accounting for around 70% of income.

It is a common misconception that the only negotiable revenue elements are the management fee and the margin on the financing interest. This however is not the case.

There are in fact 6 cost categories within a typical leasing contract that are used to generate revenue, and adopting a **TFCM** approach will ensure you are in the driving seat when negotiating and managing the contract:

1. **Management fee**
2. **Margin on interest rate**
3. **Network rebates**
4. **Contract deviation**
5. **Gain on sale**
6. **Maintenance spend**

The Ebook, ***Fleet Contracts: Avoiding Commercial Trapdoors*** explains the value of each category, along with the risks and interventions associated with each.

6. Reporting

Operating fleet as a holistic category means that key decisions are made with an appreciation of how they will effect the category right down to a base level. **TFCM** ensures that strategic choices can be made in the comfort of understanding how they will impact on the whole of the fleet category, from lessor change, to maintenance contract amends and financing options. All decisions can be made from a bedrock of reliable data which creates focused information about choices.

Numerous management information reports support the **TFCM** approach adopted by Fleetworx. They are extracted from the supply chain data which is collated via the installed systems and processes: all underpinned by the relationships built between the fleet team and the supply chain.

1. Benefit load factor

The average monthly or annual cost of running a company car, by grade and by country. This report supports business planning by determining real company car operating costs when recruiting into job functions across a business.

2. Finance Report

A top-line report that shows all fleet costs incurred during a specified time period. This report provides a granular account of expenditure, and helps predict allocations from invoicing for future months. This method of reporting ensures that large invoice values can be allocated in broadly the correct proportions when the ability to process line item invoicing is limited for whatever reason.

3. Accounts payable

Supplier invoices are inputted to **Centrax™**, the Fleetworx proprietary MIS and interrogated for excessive costs or data anomalies. Once the report has been reviewed it is then approved to the AP system by the nominated person within the client operation.

4. IFRS / US GAAP Report

This reports greatly simplifies the process of reporting on leases with a term of more than 12 months, as is required by IFRS / US GAAP. Rather than having to deal with dozens of individuals lessors to understand their car fleet lease position, a company working to **TFCM** principles will have all that information in one single report, greatly reducing resource and time.

5.PO forecasting and monitoring

A hugely beneficial and valued report for fleet clients, this provides forecasted PO values for the coming financial period. After analysing previous FY spend, the current fleet dynamics are reviewed, asking questions such as is the supplier a legacy supplier, will returned vehicles be replaced by vehicles with a new supplier? This analysis produces a forecasted spend. Having this oversight of anticipated spend and subsequent PO allocation means there are no surprises for the **Finance** department, whilst ensuring business continuity with the fleet supply chain.

6. Reporting (cont.)

6. Under/Over mileage
Capturing the mileage of every fleet vehicle helps understand likely over/under mileage rates and the need for subsequent contract re-writes. Having a **TFCM** approach means that this can be fed back into future contract negotiations around mileage charges.

7. Order Approval Report
An important part of the governance process. Reporting on order approvals/rejections helps retain a full audit trail and monitors the history of each contract.

8.Cap-Ex
Cap-ex reporting and forecasting helps to budget fleet costs according to fleet growth, replacement cycles and non-contracted costs

9. Savings
Taking a holistic view of the category as dictated by **TFCM** means all fleet information is collated centrally and interrogated for improvements in policy and/or supply routes. Savings reporting becomes a valuable by-product, and can be used to demonstrate the value of strategic choices and procedural actions.

10. Cost
A cost report needs to provide insight to a granular level, and a system like **Centrax™** is able to report on high-level summaries or in-depth analysis of country/vehicle/employee. This report is hugely flexible and can be interrogated for bespoke analysis as well as regular management reports.

11. Lease commitment
The report allows visibility on the remaining costs owed on their leased assets. It is able to break down each individual lease into the component parts [lease, maintenance, insurance, tyres etc]

TFCM is a discipline choice. It is a "way of life" to ensure that fleet is managed in a way that is beneficial for the whole business.

It ensures the smooth supply of vehicles, under the best terms and at the best cost for the business with the best possible cars for the employees. It pulls together all the disparate parts of fleet supply and makes them work within a coordinated framework that produces results.

For more information on how TFCM can work in your business contact Graham Rees - grees@fleetworx.com

TFCM is a discipline choice. It is a "way of life"

About Fleetworx

Fleetworx is a unique company car supply chain specialist. We provide client-side support in the design and delivery of cost-saving and carbon-saving company car policies and mobility solutions.

Fleetworx supports organisations that need robust company car fleet management in the UK and across EMEA. Our expertise and practical influence spans the entire fleet supply chain, with the primary objective of delivering savings, compliance and control. Our focused and impartial approach is proven to deliver a significant return on investment.

To understand more about Fleetworx and how we can help you manage your company car fleet supply chain please contact Graham Rees or Tom Osborne for an informal chat.

e: enquiries@fleetworx.com

www.fleetworx.com

+44 (0)1926 353300