Reward Like a Heavyweight on a Middleweight Budget

5 Practical Steps to Help You Deliver Stand-Out Company Car Reward, WITHOUT increasing your cost.

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Introduction

Company car benefit is an undisputed component of employee reward packages. It is well understood that company cars can be a key driver in recruitment and retention and allow an employer to develop a standout rewards package. However it is also starkly visible and highly emotive.

As aggressive niche providers offer company car benefits in the 75th and 95th centile, firmly established and successful businesses operating mid-market and offering mid-market benefits struggle to retain and compete for key talent. Matching these benefits pound for pound is not an option, as cost containment remains a key business objective. However it is possible for correctly constructed company car benefit design to elevate the perceived value of the benefit above the actual cost of its delivery. To throw a punch like a middleweight but to land it like a heavyweight.

By its very nature, the median value of any company car benefit design is that which is delivered by the majority of the companies operating within that sector. To move out of that position and become a top percentile provider requires some smart policies: company car benefit design that is cleverly crafted to deliver cars that belie the actual cost to your business.

Company car benefit is an undisputed component of employee reward packages

Smart Policy (1) Optimising replacement cycles

Optimising replacement cycles

Before you even think about anything else, this is the starting point. Deciding if you are on the optimum replacement cycle is the first step in introducing smart policies that will deliver cars with perceived value in excess of their true cost. Many companies still operate a 3-year replacement cycle, but increasingly companies who wish to improve the value of their rewards package are moving to a 4-year replacement cycle. Although a seemingly innocuous change, it can add some real value to the chosen car without adding to the cost base for the provider.

Using a life-like example, let's guide a company through the smart policies that will enhance their company car reward.

Smart Policy 1 in action

Stan Smith has been offered a position with HighTech Services Ltd. He has a very credible CV and has 3 job offers on the table. He is highly motivated by reward and the company car package will dictate which job offer he accepts. HighTech Services is keen to recruit Stan but feel their company car package is only of mid-market value. Their base offer is a:

Base offer

BMW 318i SE 4dr Auto , 36 months, 60,000 miles

This car has a P11D value of **£26,525** and a with-maintenance monthly lease of **£452.19.**

HighTech Ltd are unable to invest more in the lease so they need to instil smart policies to create more value against their fixed monthly cost.

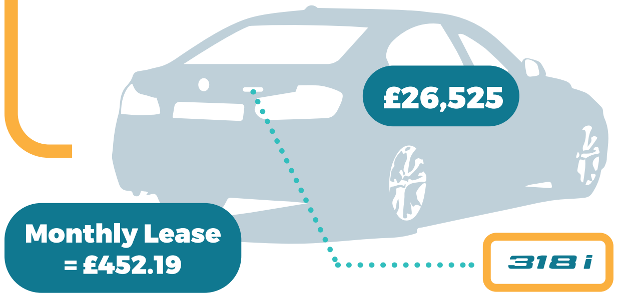
The first option available to HighTech Ltd is to extend the replacement cycle from 36 months to 48 months.

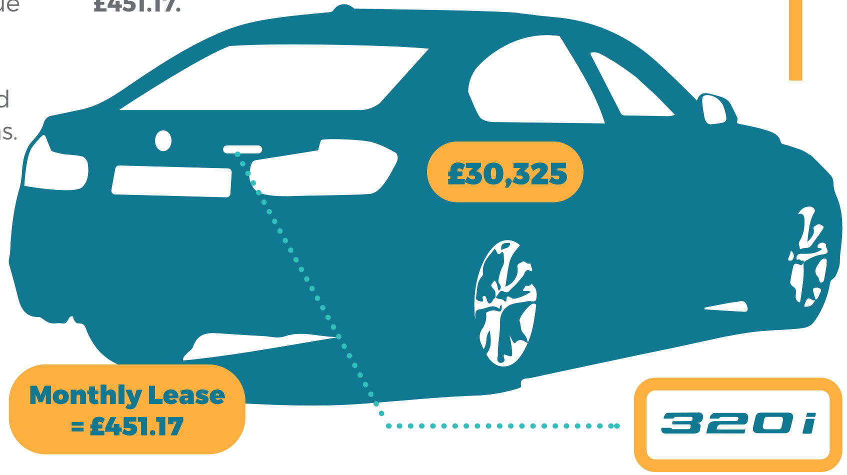
Doing so results in an immediate improvement to:

Smart Policy 1

BMW 320i SE 4dr Auto (+£1600 of options), 48 months, 80,000 miles

This car has a P11D value of **£30,325,** an increase of 14%, but remains on a with-maintenance monthly lease of **£451.17.**





Deciding if you are on the optimum replacement cycle is the first step in introducing smart policies that will deliver cars with perceived value in excess of their true cost.

Select by TCO

Many companies are reconsidering the basis of their car selection policy and moving away from basic or effective rental costs and toward Total Cost of Ownership or Wholelife costs. Using this approach means the true cost of the vehicle is calculated using a number of factors in addition to the vehicles rental price.

These factors can vary but generally cover:

Lease cost | **Insurance** | **Fuel** | **Maintenance** | **Company taxation cost**

It can also cover writing-down value allowances and national insurance costs.

Indeed the more elements that are included to the process, the more complex and sophisticated the systems needed to manage this. The building blocks of an effective TCO selection model are the core data associated with each vehicle. This data will sit with the leasing provider, and its interpretation into an effective selection policy will rely on the skill and experience of that leasing provider. Suppliers, however, will have different levels of sophistication and experience, so it is vital that the subject of TCO is discussed with them and your expectations are made clear.

TCO brings into focus all the cost associated with each company car. By doing so it allows a better understanding of the total cost of running that vehicle. Looking at one figure, rather than looking at costs in silos without ever consolidating them to one cost line, means a tighter focus on spend and value. Using the TCO as a means of vehicle selection can produce a higher value car for the same monthly allowance, provided all the associated costs of the TCO are lower. As fuel efficiency and CO_2 emissions can form a significant part of the TCO of a vehicle, it is possible for a premium model with a low CO_2 emission rate and good fuel efficiency to have a better TCO than an averagely-efficient volume model. The same premium model may be out-of-class for an employee if only the lease value is considered when making a selection, but could be within reach when viewing the TCO: a clear benefit for recruitment and retention.

TCO brings into focus all the cost associated with each company car. By doing so it allows a better understanding of the total cost of running that vehicle.

Smart Policy 2 in action

Stan Smiths company car offer has moved from a BMW 318iSE to a BMW 320iSE Auto by introducing Smart Policy 1 and simply extending the replacement cycle.

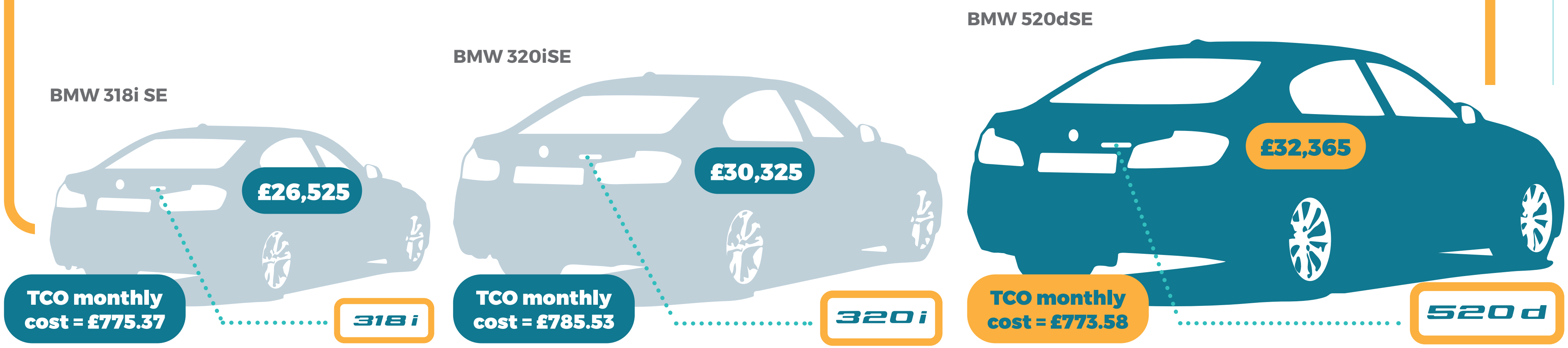
Taking a Total Cost of Ownership approach, HighTech Ltd now considers all the factors that influence the true cost to the business of providing Stan with a vehicle. They are now looking at fuel efficiency and CO2 emissions and comparing against other makes and models. By considering the Total Cost of Ownership they have improved the vehicle offer once again to a:

Smart Policy 2

BMW 520dSE Auto, 48 months, 80,000 miles

This car has a P11D value of **£32,365,** an increase of 22%. The monthly leasing cost for this vehicle would have been **£463.31,** however as HighTech Ltd have switched to a TCO model of selection, the comparison is now between the TCO monthly cost.

The TCO monthly cost for the original BMW 318i SE was **£775.37,** this moved to **£785.53** for the BMW 320iSE, but has now reduced to **£773.58** for the BMW 520dSE. Showing an actual monthly saving for a car worth 22% more.



Manufacturer Negotiation

This is a very effective way of maximising your investment in your fleet stock. Robust negotiation with the manufacturers can provide volume related discounts and bonuses. The more skilled these negotiations, the larger the benefits. Individual skill and experience will dictate the approach to these negotiations, although whoever is sitting on that negotiating table needs to be equipped with the following:

Contemporary market knowledge

This comes with experience and exposure to the market place but it will help the bargaining position if you know what has been on the table for other businesses and therefore what is possible.

Detailed knowledge of fleet

It is important to have a clear understanding of your bargaining position, so knowing the full detail of your fleet make-up and what can be offered on a solus deal is crucial. For example, there may be some senior employees who have certain vehicles written into their employment contracts which cannot be bargained with.

Outlining Manufacturer Opportunity

Knowing the detail of your replacement cycle and how many cars become available each year is vital. This will act as a powerful enticement for a manufacturer.

Understanding conquest business opportunities

Understanding the rivalries that exist between manufacturers will help you develop trigger points that make opportunities look more attractive

Optimum level of flex for maximum return

It is crucial to negotiate the terms so that they contain the optimum level of flex for you, whilst delivering the maximum return. It is important to create the terms in such a way that manufacturers can't claw back their investments if targets aren't achieved.

Robust negotiation with the manufacturers can provide volume related discounts and bonuses, the more skilled these negotiations, the larger the benefits.

Smart Policy 3 in action

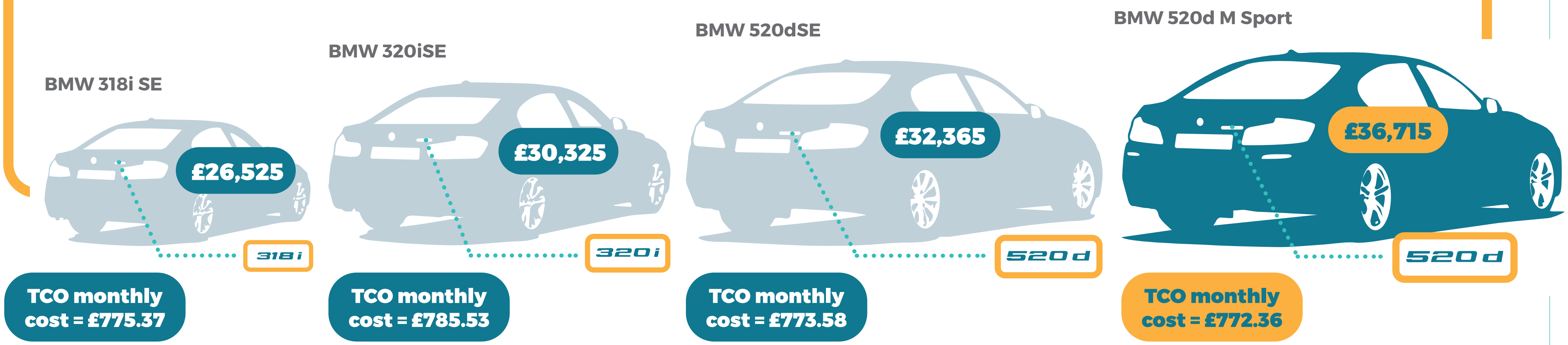
After using Smart Policy 2 and applying a Total Cost of Ownership principle, HighTech Ltd have again enhanced Stan Smith's company car.

After tough manufacturer negotiation, it is not uncommon for some manufacturers to offer discounts off up to 27% on some models.* In Stan Smith's case an improved discount can be applied which will increase the list price of the vehicle whilst retaining the TCO monthly cost. Therefore, after Smart Policy 3, Stan Smith's company car offer is now a:

Smart Policy 3

BMW 520dMSport Auto, 48 months, 80,000 miles

This car has a P11D value of **£36,715.** The good news is that Stan is also able to include £1000 of options without adding to the TCO monthly cost of **£772.36.**



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*Any manufacturer support is discretionary. The above numbers are for illustrative purposes and do not reflect any specific discounts offered by BMW.

Create a highly competitive supply chain

Close management of the supply chain is an essential ingredient of good company car benefit design. The supply chain can be vast and disparate and by its nature is prone to cost creep, especially when it settles after first being introduced. Cost creep is a common phenomenon and is the result of relaxing the processes and controls that were instilled when a contract was first introduced. The following tactics help maintain rigid control of the supply chain and ensure it remains highly competitive:

Regular benchmarking

Keeping abreast of market developments and benchmarking your supply chain against industry standards will maintain tight control of their deliverables. Observing their work from close quarters, and having a well-informed understanding of the many variables at play in a company car program, will help manage cost and ensure cost creep is kept to a minimum. Benchmarking may not be a simple process, and may induce the need for a specialist to oversee it, but it is the best way to ensure cost containment within a company car benefit program.

Competitive Supply Scenario

Inviting a number of suppliers to quote can be an effective way of obtaining the most competitive price on the day. This can be resource intense, and the number of suppliers who can offer can be limited, but it can be an effective tactic for delivering real value.

Robust Commercial Terms

The construction of the commercial terms should be robust and well planned, with the resulting agreement being transparent and very competitive. A company car supply chain has many hidden areas of cost, and the more transparent the terms, the less likely those costs will increase. Costs such as contract adjustment costs, maintenance recharges and end-of-contract refurbishment costs are all costs that can creep upwards if not managed closely. For a full list of hidden costs see Fleetworx's whitepaper "The Unintended Consequences of Outsourcing Company Car Fleets: And How to Avoid Them.

Regular formal tendering

All opportunities to supply the various components of a company car benefit program should be formally tendered and opened to the market periodically. It should not be the expectation of the incumbent that any renewable or additional services are automatically provided by them. All services should be reviewed independently and taken to market to establish best practice and best value.

Close management of the supply chain is an essential ingredient of good company car benefit design.

Smart Policy 4 Create a highly competitive supply chain (cont.)

Smart Policy 4 in action

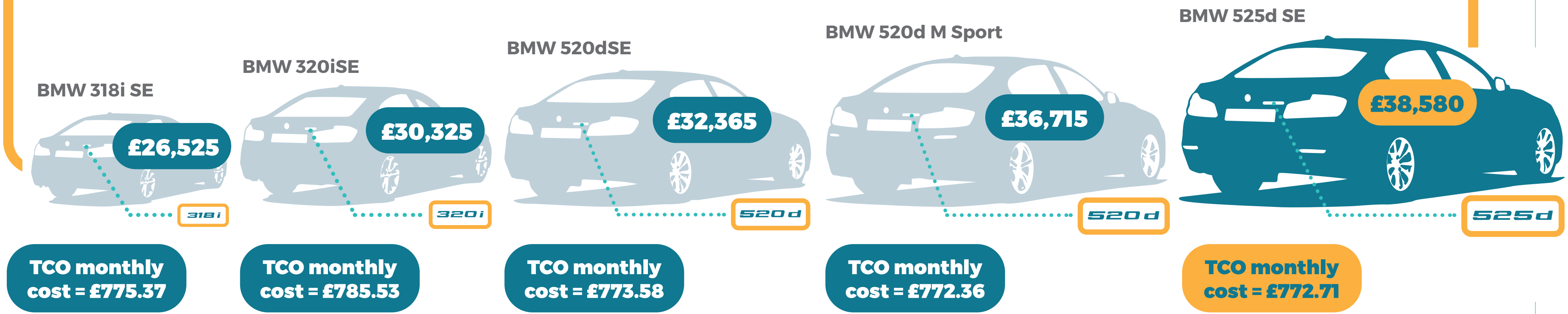
After the introduction of smart policy 3, Stan Smith's car offer has increased again to a BMW 520dMSport Auto. Quite an improvement from the BMW 318iSE.

Experience has proven that a tightly managed and focused supply chain can reduce the leasing cost by £30 per month per vehicle. If this saving is invested back into the car value, Stan Smith will now be eligible for:

Smart Policy 4

BMW 525dSE Auto, 48 months, 80,000 miles

This car has a P11D value of **£38,580,** an increase of 45%, but remains on a TCO monthly cost of **£772.71**



Reduce incidental/unplanned spend

Impact, damage and associated insurance costs are all incidental spends which drive up the overall cost of the company car program. Cutting down on these costs make it possible to build that amount back into the car value. Providing the employee with the obligation to shoulder the damage and insurance liability is one method that is proven to bring down these unplanned spends.

Experience shows that drivers who take the risk on damage liability show a reduction in low-speed impact incidents of up to 70%. This reduction in incidents results in lower unplanned spend; meaning the saving can be invested in the car value.

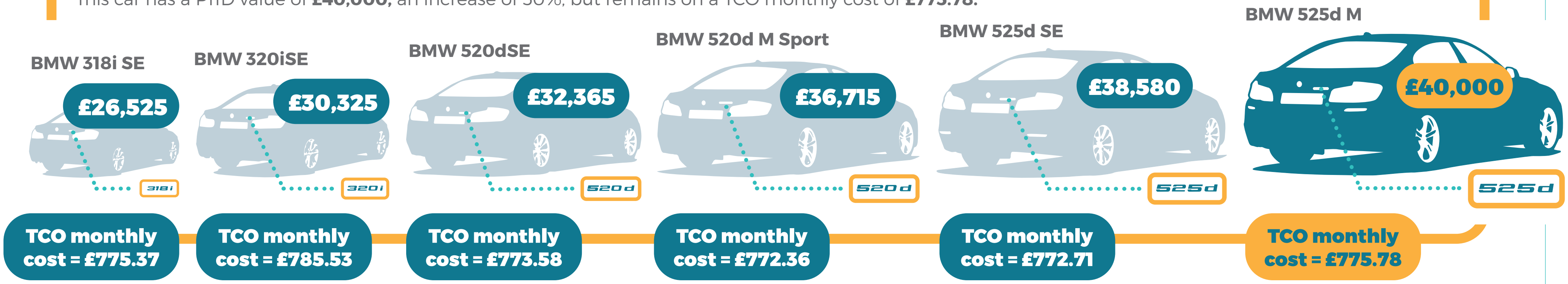
Smart Policy 5 in action

Stan Smith now has BMW 525dSE Auto waiting for him, but the introduction of the fifth smart policy can reduce costs by a further £720, and because of the previously improved discounts, this results in an additional £1480 to invest in the car value. Stan is now eligible for:

Smart Policy 5

BMW 525dMSport, 48 months, 80,000 miles

This car has a P11D value of **£40,000,** an increase of 50%, but remains on a TCO monthly cost of **£775.78.**



When employee expectations are increasing and recruitment and retention remain a strategic value, enhancing a company car benefit design through smart policy making can deliver real results. The example used here demonstrates that by paying close attention to the detail of a policy and maintaining tight control over the supply chain, an employer can move their company car benefit from mid-market to being a 90th centile provider, with no increase to their cost base.

Smart Policy Summary

SP 1 – Optimising Replacement Cycles

SP 2 – Select by TCO

SP 3 – Manufacturer Negotiation

SP 4 – Highly Competitive Supply Chain

SP 5 – Reduce incidental/unplanned spend

BTW: Stan took the job!

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.

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 for an informal chat.

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