

Reduce your fleet costs in nine simple steps

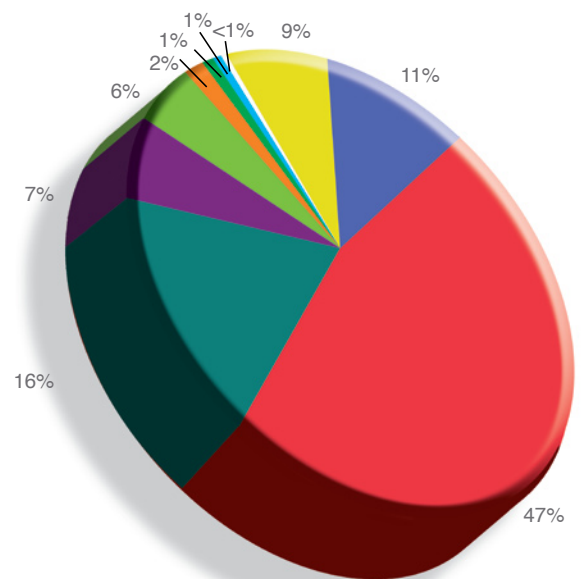
75% of fleets expect their costs to rise in 2010.¹ Running a cost efficient fleet is therefore more important than ever in order to keep your expenditure under control.

This simple guide outlines the key areas where cost efficiencies can be made, and how to achieve them.

To effectively take control of your fleet spend, you will need to have a sound understanding of what your fleet costs are and how they have changed over time.

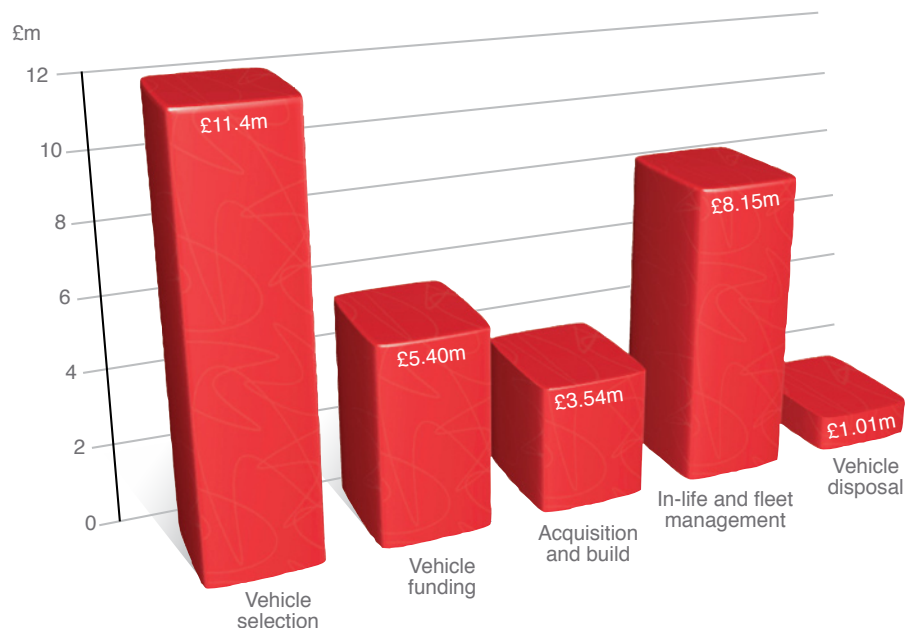
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|--------------------------------------------------|--------------------------------------------|
| <input type="checkbox"/> End of contract charges | <input type="checkbox"/> Vehicle insurance |
| <input type="checkbox"/> Daily rental | <input type="checkbox"/> Fuel |
| <input type="checkbox"/> Early termination | <input type="checkbox"/> Depreciation |
| <input type="checkbox"/> In-life costs | <input type="checkbox"/> Maintenance |
| <input type="checkbox"/> Accident Management | <input type="checkbox"/> Cost of funds |

Example fleet running costs breakdown



Hitachi Capital Vehicle Solutions is committed to generating cost savings for our customers. We have recently generated more than £29 million in savings over the contract life for eight customers alone. We have achieved this by analysing the operation and utilisation of their fleet and making recommendations to reduce costs directly, improve policy, drive environmental efficiency and reduce risk.

Customer savings breakdown



¹ 'Fleets braced for major price rises', Fleet News, 21 January 2010

We can help you to identify areas where cost efficiencies can be made. Use our online cost reduction calculator to see how much we could save your fleet.

Visit:

www.hitachicapitalvehiclesolutions.co.uk/costsavings.

Nine simple steps to fleet cost control

1. Funding method

The cost of vehicles is, in most cases, the greatest spend associated with running a fleet. Most businesses have two options when it comes to funding their vehicles, either to purchase the vehicles outright or lease them.

Purchasing your vehicles outright requires a high outlay of capital upfront. This may mean tying up funds that could be better used elsewhere in your business, or sourcing a bank or other loan to cover the costs.

If you purchase your vehicles outright, you should regularly review whether this is still the best option for your business. You may find that you could get a preferential interest rate by leasing your cars, or that you could get a better return by investing the lump sum in a different area of your business and by so doing generate a greater return than the cost of leasing the vehicles.

Remember that any vehicles you own outright are a depreciating asset and your business is exposed to fluctuating residual values.

Tax should also be considered when reviewing your funding method. Most businesses will find that, if they can implement a policy that promotes fuel efficient vehicles, they will benefit financially from a leasing arrangement. This is because vehicles that are purchased outright by a business are not VAT recoverable, unless it can be shown that they will never be used for private use. Vehicles purchased by a leasing company on the other hand are always

VAT recoverable because they will be used by the leasing provider for business purposes. You pay VAT on the finance element of the rental but can claim back 50% of this cost.

In April 2009 the rules on leasing disallowances changed. Historically there was an expensive car disallowance for vehicles over £12,000. This has now been revised and for all vehicles registered from 1 April 2009 the tax rules support the Government's desire to encourage the use of environmentally friendly vehicles. Today provided the vehicle has CO₂ emissions of 160g/km or less there is no leasing disallowance, and for those cars emitting 161g/km or more there is only a 15% disallowance. As a result, the majority of businesses could benefit from significant cost savings by moving away from outright purchase to a leasing arrangement

At the same time, there was a significant change to capital allowances and Hitachi Capital also reflects this tax cost or saving in our contact hire rental quotations. This benefit is passed onto you. By controlling the vehicles staff choose your business can benefit from tax savings.

Although leasing is often an efficient funding method, for some businesses leasing will not be the best choice. Businesses that can not recover VAT, for example charities, may find that contract purchase is the most efficient funding method.

Establishing which funding method is the most efficient for your fleet can seem like a complicated task. Hitachi Capital Vehicle Solutions can help. We use KPMG's carWISE fleet financial modelling tool to independently forecast the cost of acquiring, operating and disposing of company cars and light commercial vehicles. Using this modelling software, Hitachi Capital can help you to

assess whether your business is funding its fleet in the most efficient way. This service is free and you are under no obligation.

Request your free fleet funding and policy review by emailing costsavings@hitachicapital.co.uk, alternatively visit www.hitachicapitalvehiclesolutions.co.uk/costsavings for more information.

2. Vehicle policy

Your vehicle policy has big impact on your fleet spend. Your fleet policy is a very emotive area for staff and so this must be taken into consideration before any changes are made, however considerable cost savings can be generated by ensuring your fleet policy is working to support your business.

Maximising contract efficiency is a good place to start when reviewing your vehicle policy. By analysing the most effective combination of contract term and mileage you can maximise the residual value of your vehicles whilst minimising your maintenance budgets, delivering cost savings.

The environmental impact of your fleet is important to consider on many levels, but not least because an environmentally friendly fleet is also a cost efficient one. Your business benefits from lower CO₂ emissions which is positive from a Corporate Social Responsibility (CSR) perspective and also means that you benefit from lower fuel costs. Your business incurs lower Class 1A NIC taxation and lower road fund licence (road tax) charges on fuel efficient models while your drivers pay less in benefit in kind taxation, so encouraging staff into low emission vehicles means everyone benefits.

Where vehicles are provided to employees to enable them to carry out their job, you should therefore understand what the vehicle is required for and then select the most suitable vehicle for this task, only providing larger or more powerful vehicles where they are genuinely required. Smaller vehicles have smaller engines and so use less fuel, saving you money. Smaller cars can also generate tax savings and can have safety benefits, particularly for young or inexperienced drivers.

Review the vehicles available to ensure you are selecting those that perform best in their class. Where job need requires a larger vehicle, best in class medium sized vehicles are comparable to smaller vehicles in terms of both emissions and running costs.

Where employees are eligible for "perk" vehicles it is still advantageous to encourage drivers into more fuel efficient cars. Your leasing provider can help you to select "status" vehicles with the best fuel economy and you could also consider offering staff incentives for opting to take low CO₂ models.

Businesses keen to maintain driver choice whilst generating savings do not have to exclude higher emission vehicles. Instead of removing these vehicles from your user chooser policy, ensure that the additional

costs that will be incurred by choosing a less fuel efficient vehicle are borne by the driver. Your leasing provider can help you to develop a policy that enables this. One in three companies now has a CO₂ limit on choice.² Although drivers do value a choice of vehicles,

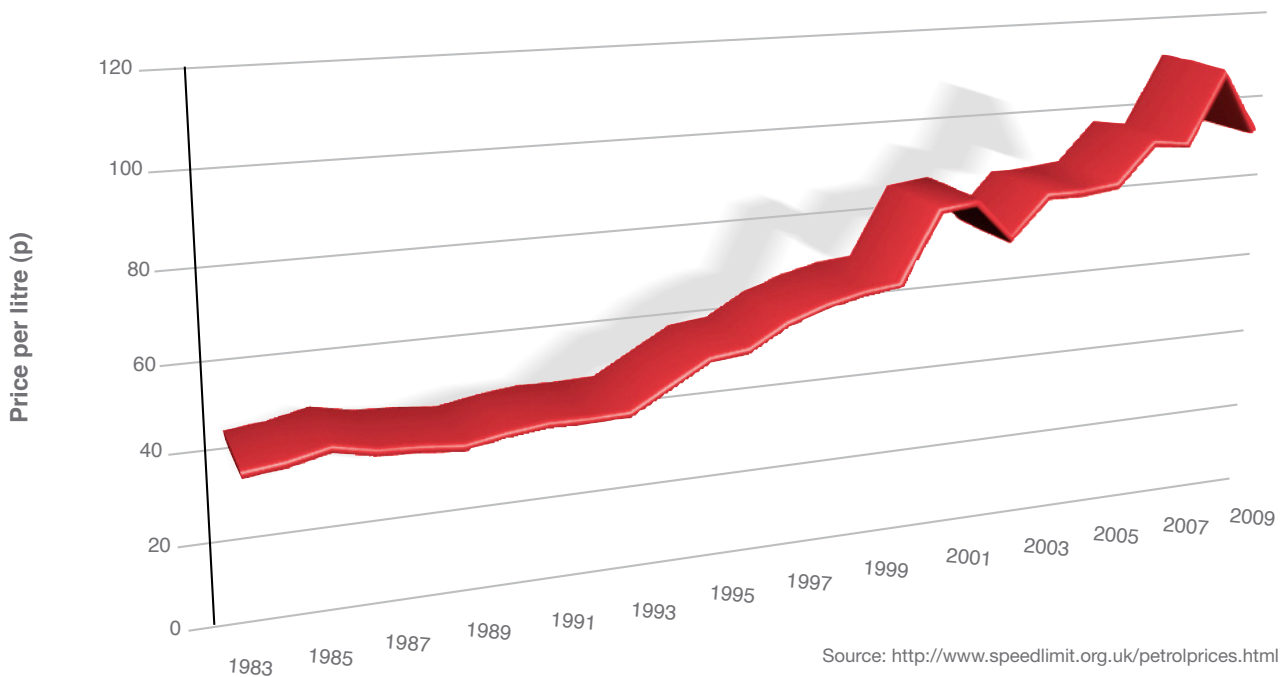
you could also consider restricting the choice to one or two manufacturers. By doing this you may be able to negotiate favourable terms with the manufacturer. If you lease your vehicles, your leasing provider will be able to negotiate with manufacturers on your behalf.

3. Fuel

After the vehicles themselves, fuel is often the greatest cost associated with running a car fleet. With the Petrol Retailers' Association predicting a 10p per litre rise in fuel costs by

the end of 2010 through tax changes alone³, fuel is a good place to start when looking for areas to drive down costs.

Average UK petrol prices 1983 - 2009



Fuel cards

Fuel cards enable you to monitor accurately how much you are spending on fuel and where and when your staff are filling up. They are the only accurate way of monitoring fuel used in relation to miles driven.

On their own fuel cards will not reduce your fuel spend but significant savings can be generated by making good use of the data they provide.

² PricewaterhouseCoopers 2009 Monks survey

³ Fuel Pricing 2010 - "brace yourself", Petrol Retailers' Association, 5 January 2010

The data that a fuel card system provides enables you to monitor expenditure and identify those drivers who appear to be using more fuel than would be expected. These drivers can then be targeted to find out why their fuel use is high and steps can be taken to reduce this. Businesses should consider rewarding low fuel users and putting measures in place to lower the fuel consumption of those with higher than expected fuel use. If monitoring this data is too much of an administrative burden, your vehicle leasing provider can take on this activity on your behalf. The money saved is often greater than the cost of outsourcing this activity.

Fuel types

Reviewing the fuel types of the vehicles on your fleet can also generate considerable savings in fuel costs.

The two main choices are petrol or diesel vehicles. Petrol engines offer the best driving performance but diesel engines offer greater fuel economy. However, the driving performance of diesel engines has improved greatly in recent years and, as a result, fleet vehicles are increasingly diesel models. Diesel models are predicted to make up 42.2% of fleet vehicles in 2010.⁴

The main alternatives to diesel or petrol models are hybrid or electric vehicles.

Hybrid vehicles are a combination of a conventional diesel or petrol engine with electric power. Hybrid vehicles offer greater fuel efficiency than conventional diesel or petrol engines by collecting and reusing energy that would normally go to waste. Hybrid

In addition to enabling you to monitor your fuel usage and spend, fuel cards offer a simplified administration process and can reduce the burden on your payroll team. Fuel card invoices are approved by HMRC for tax purposes so there is no need to collect receipts.

Fuel cards can also be used to detect fraud, for example drivers who are apparently filling up with more fuel than they could have used or filling up vehicles that are not part of your fleet. In addition, fuel cards can also be used to identify drivers filling up with premium fuels.

models are widely available and, due to their fuel efficiency, attract lower road fund licence and benefit in kind tax as well as lower fuel bills, so are growing in popularity as the choice of models grows.

Electric vehicles are carbon neutral which means they are not subject to road tax or congestion charging. Electric vehicles have a limited range before they must be recharged and they are not suitable for long-distance motorway travel, making them unsuitable for many fleets. It is also often difficult to find recharging stations. However, if your vehicles only make short, urban trips electric vehicles maybe a cost effective option in the long term. The cost of buying or leasing electric vehicles is greater than conventional cars but the cost of electricity to charge the vehicle is only a few pence a mile so electric vehicles do offer the potential to make fuel cost savings.

⁴ www.smmmt.co.uk

“Free” fuel

If your fleet policy enables drivers to claim back the cost of private as well as business fuel consumption, review your policy.

It is rarely cost effective for drivers to claim for private fuel consumption as they incur benefit in kind taxation which generally exceeds the cost of the benefit they receive. Drivers are often unaware of this however so a well promoted educational programme highlighting this fact could encourage staff to opt out, a win-win situation.

You should also ensure that private fuel is not offered to new starters and consider removing the benefit from existing staff. The motivational impact of making changes to the policy for existing staff is a factor that should also be assessed before making this decision. You could choose to buy staff out of the scheme through a one-off payment which would generate business savings in the long run but also work to maintain staff satisfaction.

Journey planning

While a lot of emphasis is put on finding the most fuel efficient vehicles or driving down fuel consumption, it is often just assumed that all the journeys made are essential.

There are many ways in which the number of journeys made each year by your fleet can be reduced which will ultimately save money by reducing fuel consumption but also by reducing wear and tear on the vehicles so reducing costs in other areas including servicing and tyres.

If you don't already have a scheme in place, consider implementing a car share scheme encouraging staff to travel to work but also to external meetings together.

Telephone or video conferencing is also a good alternative that can generate significant cost savings as well as having a positive impact on your business' carbon footprint. Telephone or video conferencing also has other business benefits, for example efficient time management as staff are freed up from the need to spend time travelling in order to attend meetings.

4. Maintenance

Regular maintenance reduces costs in the long run by guarding against preventable damage through wear and tear. Vehicles that are regularly serviced are also more fuel efficient. However, it is vital to ensure you have control of your maintenance costs.

If your fleet is made up of new vehicles, put a clear process in place to claim back costs through manufacturer warranties where this is applicable.

Ensure that you give your drivers guidance around how to book their vehicles into garages for routine maintenance. If you currently allow your drivers to select the garage of their choice you are unlikely to be taking the most cost efficient route.

By selecting suppliers you can agree set rates for work, you may also be able to negotiate on prices by agreeing to put all your vehicles through a single supplier.

Smaller fleets may find this more difficult however leasing providers agree favourable terms for their entire fleet, you may therefore find that you can generate cost savings by using a leasing provider's maintenance network. Many providers will allow you to use their maintenance services even if they do not fund your vehicles.

An educational programme for drivers highlighting the need to make repairs early

5. Driver training

Driver behaviour has real impact on fuel consumption. A study by SAFED showed that the average driver reduces fuel consumption by over 10% following fuel efficient driver training.⁵ Driver training therefore pays for itself in the long term and offers cost and driver safety benefits.

Training drivers can be a quick and easy way to see an immediate decline in fuel consumption without having to spend any money upgrading to the most efficient vehicles.

Following driver training, accident, incidents and claims can be reduced by as much as 50%. Driver assessments mean that only the most at risk drivers need to be trained, increasing cost effectiveness. A business

6. Accident management

The cost of repairs for minor bumps and own fault accidents can soon mount up. Make sure you are keeping a log of all accidents including the driver involved and the cost of repair; this is good practice for managing duty of care but also enables you to identify trends. Most businesses will find a small percentage

can also generate cost savings. It is more cost effective to repair a small chip in a windscreen or a small scratch on bodywork than it is to replace the entire windscreen or repair a scratch that has been allowed to become rusty. Ensure that drivers report any damage immediately so it can be assessed and repairs made where necessary. This will also guard against end of life recharges if your vehicles are leased.

running 1,592 vehicles recently identified 277 high risk drivers. These drivers were given training at a cost of £52,000. In the first year alone, this generated a 32% reduction in accidents and a saving of £122,000.⁶ As this example demonstrates, driver training can be a self-funding way of delivering long term cost savings.

In addition to the saving made through accident reduction, reducing the number of accidents incurred by your fleet generates a reduction in administrative activities such as logging incidents and reducing vehicle downtime. It also reduces related costs for replacement vehicles and generates improvements in the sale value of vehicles and can improve the image of your business.

of drivers are responsible for the majority of incidents.

Remember it is not just the cost of repairs that accidents generate. Accidents also incur costs through sick days taken to recover from the incident and increased insurance premiums. When monitoring accident spend, ensure all

⁵ www.dft.gov.co.uk

⁶ Figures provided by Cardinus Risk Management

costs are taken into account to give you a true picture of the sums involved.

Review your fleet policy to ensure that the cost of repairs for own fault accidents are covered by the driver, not the business. This will help to ensure that drivers treat the vehicle like their own, and may in itself generate a reduction in accident damage. You could also consider incentivising safe driving.

Driver training can be a very effective way of tackling the small minority of drivers who are frequently involved in accidents. The cost of training is often less than the cost of repeated repairs and by providing training for

those drivers flagged as high risk you are also addressing your duty of care responsibilities. Some insurers will offer preferential rates if you can show that you have a robust driver training programme in place and that accident rates are low.

You could also consider holding regular driver awareness days for staff. The sessions can help promote good practice, such as checking tyre tread depth, and can be timed to help prevent accidents occurring at peak times, such as the start of winter. If you lease your vehicles, your provider can assist you in setting up these awareness days.

7. Daily rental

Daily rental is a good way of supporting your owned or rented fleet. But unchecked rental can be a cost hungry solution.

Staff may be inclined to pick vehicles with more powerful engines than they are used to, or a higher grade of vehicle with a luxurious specification. A smaller, fuel-efficient car might be more than adequate for their journey, but without any monitoring of the rental process in place, this level of excess is likely to go undetected.

Employees will also often order cars far sooner than they need to be delivered or keep them for longer than their actual business need dictates.

If you are using more than one rental supplier consider consolidating this. The key to cost saving where rental is concerned is to move rental choice from a driver-based decision to a policy driven one. Your rental supplier should be able to help you to implement this.

Integrating an element of control into your daily rental process ensures you are getting the best value from your staff, vehicles and expenditure. This means that drivers only spend the minimum amount time required in rental cars. Our experience with customers shows that as much as 20% can be saved in rental costs on an equivalent number of hires when a business moves from an unmanaged to a managed rental solution.

Hitachi Capital's proactive daily rental team work to drive down our customers' costs. We offer fleets spending £12,000 or more annually on daily rental a no obligation rental review. This free review gives detailed recommendations about how your rental spend could be reduced based on your individual rental and business needs. To take advantage of this free review, email us at costsavings@hitachicapital.co.uk or visit www.hitachicapitalvehiclesolutions.co.uk/costsavings.

8. Whole life cost analysis

If you lease your vehicles, looking at the monthly rental figure alone doesn't give you a true calculation of the total cost of the vehicle to your business. To get this true cost you must also look at the out of contract costs such as insurance, fuel, NIC and tax. This is called a whole life cost analysis.

By looking at the whole life cost you can make smarter vehicle choices that will generate cost savings.

Hitachi Capital is committed to delivering cost savings to our customers through whole life costs analysis. To ensure we offer the latest, independent advice we work with KPMG, a leading provider of professional services including audit, tax, financial and risk advisory.

Using KPMG's carWISE fleet modelling tool, we are able to independently forecast the cost of acquiring, operating and disposing of company cars and light commercial vehicles

9. Outsourced fleet management

Efficiently managing a fleet of vehicles is a time consuming and specialist task. You can do this by having an in-house team of fleet experts, or you can outsource some or all of the work to a fleet management specialist.

Outsourcing some or all of your fleet management can generate cost efficiencies for example through greater purchasing power, lower maintenance rates, more efficient rental

(LCVs). This tool can also be used to calculate cash allowances, including the financial impact on employees.

The key benefits of utilising a whole life cost model are twofold;

1. You select vehicles based on their actual cost to you
2. If you operate a user chooser policy this enables you to ensure that your employees pay a trade up/down that is appropriate to the actual cost of their chosen vehicle

To take advantage of our free, no obligation fleet funding and policy review which looks at your fleet from a whole life cost perspective email costsavings@hitachicapital.co.uk, alternatively visit www.hitachicapitalvehiclesolutions.co.uk/costsavings for more information.

bookings, access to policy advice and higher residual value rates when the vehicles are sold.

Deciding whether to outsource fleet management is a complex decision, you will need consider whether the resource required to effectively manage the costs and risks involved in running your fleet in-house could be better utilised meeting the needs of core activities elsewhere in your business.

How can Hitachi Capital Vehicle Solutions help?

Hitachi Capital is committed to delivering cost savings for our customers. We offer a number of free resources to help drive down fleet costs. Visit www.hitachicapitalvehiclesolutions.co.uk/costsavings to access our:

- Fleet cost savings calculator
- Fleet cost reduction target generator
- 10% daily rental cost reduction challenge
- No obligation fleet policy and funding review

Running a cost efficient fleet is a complex and time consuming task. Hitachi Capital Vehicle Solutions has more than 25 years' experience

of delivering innovative and cost effective fleet solutions for small, medium and large car fleets. We are also experts in the management of specialist commercial vehicles.

Hitachi Capital can help you to identify areas where cost efficiencies could be made in your fleet. We offer a free, no obligation fleet funding and policy review for fleets of 50 or more cars or light commercial vehicles.

To take advantage of this no obligation service, email costsavings@hitachicapital.co.uk or visit www.hitachicapitalvehiclesolutions.co.uk/costsavings.

Fleet cost reduction check list

Funding

- Review which funding method is best for your business
- Request your free, no obligation fleet funding and policy review from Hitachi Capital, visit www.hitachicapitalvehiclesolutions.co.uk/costsavings

Vehicle policy

- Review you vehicle contract lengths
- Ensure you are providing the most appropriate vehicle for the job
- Encourage “perk” drivers to opt for fuel efficient vehicles
- Consider restricting your policy to one or two manufacturers

Fuel

- Consider implementing a fuel card scheme
- Monitor fuel consumption by driver and tackle over use, consider offering incentives for low fuel users
- Review the fuel types of vehicles on your fleet, would diesel offer greater economy?
- Review your “free” fuel policy
- Champion an efficient journey planning scheme

Maintenance

- Implement a clear policy for booking routine maintenance
- Put agreements in place with a preferred supplier, or use a third party's maintenance network
- Educate drivers to ensure small knocks are repaired promptly

Driver training

- Implement a fuel efficient driver training scheme
- Risk assess drivers
- Implement a driver training scheme for high risk drivers

Accident management

- Ensure your policy makes drivers responsible for the cost of own fault accidents
- Monitor accidents and identify drivers involved in multiple incidents
- Hold awareness days for all drivers to lower accident risk

Daily rental

- Consolidate suppliers
- Put controls in place to ensure staff opt for the most appropriate vehicle for the minimum time period
- Consider moving to a managed rental solution
- Challenge Hitachi Capital to save you 10% on your daily rental spend, visit www.hitachicapitalvehiclesolutions.co.uk/costsavings

Whole life costs

- Calculate the total cost of your vehicles to your business
- Request your free, no obligation fleet funding and policy review from Hitachi Capital, visit www.hitachicapitalvehiclesolutions.co.uk/costsavings