

FLEET INDUSTRY TRENDS

AND THE CHALLENGES AND OPPORTUNITIES
THEY CREATE



2005 ANNUAL CONFERENCE
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MERCURY

TRENDS AND CONDITIONS CONFRONTING FLEET MANAGERS TODAY

- ECONOMIC RECOVERY
- CONTINUING BUDGET CHALLENGES
- POLITICIZATION
- NATIONAL SECURITY CONCERNS
- NEW AUTOMOTIVE TECHNOLOGY
- NEW INFORMATION TECHNOLOGY
- OUTSOURCING



CONDITION: ECONOMIC RECOVERY

- **FLEET RENEWAL**
- **INFORMATION SYSTEM REPLACEMENT**
- **FACILITY IMPROVEMENTS**
- **RENEWED FOCUS ON BUSINESS FUNDAMENTALS**



CONDITION: CONTINUING BUDGET CHALLENGES

- **PERSISTENT REVENUE SHORTFALLS IN SOME REGIONS**
- **RISING FUEL COSTS EVERYWHERE**
- **BUDGET VERSUS COST CONTROL**
- **GREATER USE OF POVs**
- **FEDERAL BUDGET DEFICITS**
- **KATRINA/RITA EFFECTS?**



TREND: **POLITICIZATION**

- **Kansas Examining State Vehicle “Mess”**
- **Tennessee Governor Orders Review to See if State Fleet is too Large**
- **Pennsylvania Legislators Keep their Own Cars in the Budget**
- **NC Monitors Usage of State’s Fleet Vehicles**
- **Arizona Limits Use of Fleet Vehicles**
- **“What Should the Governor Drive” Campaign Kicks Off in Michigan**
- **California Bill Would End State Purchases of SUVs**
- **OH Lawmaker Proposes Fleet Cuts**



TREND: **POLITICIZATION**

- **FLEET MANAGEMENT ON THE RADAR SCREEN**
- **ELECTED OFFICIAL AND NEWS MEDIA SECOND GUESSING**
- **LOSS OF AUTONOMY AND MANEUVERABILITY**



TREND: **NATIONAL SECURITY CONCERNS**

- **RETHINKING FLEET DOWNSIZING?**
- **LAW ENFORCEMENT DIVIDEND?**
- **INTERAGENCY/INTERGOVERNMENTAL COMMUNICATION AND COOPERATION WEAKNESSES**
- **LOSS OF STATE AND LOCAL AUTHORITY AND RESPONSIBILITY**



TREND: **CHANGING AUTOMOTIVE TECHNOLOGY**

- **IMPROVED VEHICLE ENGINEERING AND MANUFACTURING**
- **ALTERNATIVE FUELS**
- **HYBRID ELECTRICS**
- **MAINTENANCE AND REPAIR CHALLENGES**
- **IMPACT ON VEHICLE RESIDUAL VALUES**
- **THE END OF OIL**



TREND: **CHANGING INFORMATION TECHNOLOGY**

- **DATA PROCESSING TO MANAGEMENT ANALYSIS AND REPORTING**
- **DATA CAPTURE RESPONSIBILITIES**
- **ERP EFFECT**
- **CLIENT SERVER TO ASP**
- **ON-BOARD SENSORS AND EVENT AND LOCATION TRACKING SYSTEMS**



TREND: **OUTSOURCING PRESSURES AND OPPORTUNITIES**

- **OUTSOURCING = SAVINGS (?)**
- **STRATEGIC SOURCING**
- **SUPPORT SERVICES**
- **FOCUS OF ASSET MANAGEMENT SERVICES COMPANIES ON GOVERNMENT MARKET**



RESPONDING TO CURRENT CONDITIONS AND TRENDS

- **RENEW FOCUS ON YOUR CORE MISSION AND FUNDAMENTAL BUSINESS PRACTICES**
 - ◆ **IMPROVE CUSTOMER SERVICE**
 - ◆ **REASSERT CONTROL**
 - ◆ **CONTROL COSTS**
- **UNDERSTAND AND LEVERAGE YOUR CORE COMPETENCIES**
- **HARNESS INDUSTRY CAPABILITIES**



WHAT IS YOUR CORE MISSION?

- **OPTIMIZE VEHICLE AVAILABILITY AND PERFORMANCE**
- **MAXIMIZE FLEET USER SERVICE AND SATISFACTION LEVELS**
- **CONTROL FLEET COSTS**
- **FACILITATE DECISION MAKER AND TAXPAYER AWARENESS AND SUPPORT**
- **ENSURE COMPLIANCE WITH APPLICABLE STATUTES AND REGULATIONS**



CORE FLEET MANAGEMENT BUSINESS PROCESSES

- **ASSET MANAGEMENT**
 - ◆ **SELECTION AND ACQUISITION**
 - ◆ **IN-SERVICING AND DEPLOYMENT**
 - ◆ **UTILIZATION AND OPERATION**
 - ◆ **MAINTENANCE AND REPAIR**
 - ◆ **FUELING**
 - ◆ **REPLACEMENT**
 - ◆ **REMARKETING**



CORE FLEET MANAGEMENT BUSINESS PROCESSES

- **BUSINESS MANAGEMENT**
 - ◆ **CUSTOMER RELATIONSHIP MANAGEMENT**
 - ◆ **FINANCIAL MANAGEMENT**
 - ◆ **PURCHASING AND
SUPPLIER/CONTRACTOR MANAGEMENT**
 - ◆ **HUMAN RESOURCES MANAGEMENT**
 - ◆ **RISK MANAGEMENT**
 - ◆ **INFRASTRUCTURE MANAGEMENT**
 - ◆ **INFORMATION MANAGEMENT**



WHAT ARE YOUR CORE COMPETENCIES?

- OPERATIONAL KNOWLEDGE
- CUSTOMER KNOWLEDGE
- MANAGEMENT KNOWLEDGE
- POLITICAL KNOWLEDGE
- INSTITUTIONAL KNOWLEDGE



INDUSTRY OFFERINGS THAT MAY LIGHTEN THE LOAD

- SELECTION AND ACQUISITION
- FINANCING
- UPFITTING AND IN-SERVICING
- MAINTENANCE MANAGEMENT
- FUEL MANAGEMENT
- ACCIDENT MANAGEMENT
- REMARKETING
- APPLICATION HOSTING



VEHICLE COST AND PERFORMANCE MANAGEMENT

AN “UNORTHODOX” APPROACH TO
MEETING FLEET USER NEEDS



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OVERVIEW

- **STATE OF MICHIGAN PROJECT HIGHLIGHTS**
 - ◆ **BACKGROUND**
 - ◆ **SIGNIFICANT FINDINGS AND CONCLUSIONS**
- **PRINCIPLES OF LIFECYCLE COST ANALYSIS**
 - ◆ **KEY FINDINGS FROM SALT LAKE COUNTY & ONTARIO PROVINCIAL POLICE**
- **IMPORTANCE OF REMARKETING**



STATE OF MICHIGAN

- **BACKGROUND (FY-04)**
 - ◆ **12,000 VEHICLES & PIECES OF EQUIPMENT**
 - 8,000 VEHICLES LEASED
 - ◆ **LEASING BEGAN IN 1992**
 - ◆ **OTHER SERVICES ADDED LATER ON**
 - ◆ **AVERAGE VEHICLE AGE 4.4 YEARS**
 - ◆ **AVERAGE ODOMETER 50,250 MILES**



STATE OF MICHIGAN

- **SCOPE OF PROJECT**
 - ◆ **REVIEW FLEET ASSET MANAGEMENT PRACTICES**
 - ◆ **PREPARE RFP & EVALUATION METHODOLOGY**
 - **ANNUAL CONTRACT VALUE \$50M**
 - **VEHICLE LEASING**
 - **FUNDING**
 - **MAINTENANCE MANAGEMENT**
 - **FUEL MANAGEMENT**



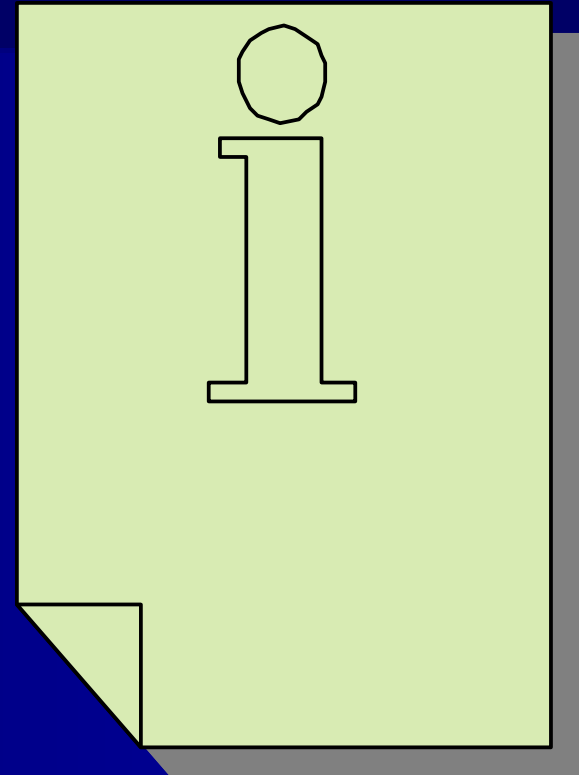
STATE OF MICHIGAN

- **SCOPE OF PROJECT**
 - ◆ **EVALUATION OF FLEET MANAGEMENT SYSTEMS**
 - ◆ **ASSESSMENT OF FLEET FINANCIAL MANAGEMENT & COST CHARGE-BACK METHODOLOGIES**
 - ◆ **EVALUATION OF VEHICLE ASSIGNMENT AND USE, INCLUDING POV MANAGEMENT PRACTICES**
 - ◆ **REVIEW OF MISSION, AUTHORITY, CUSTOMER RELATIONSHIP PRACTICES**



STATE OF MICHIGAN

- **SIGNIFICANT FINDINGS**
 - ◆ **CONTINUE USE OF FLEET MANAGEMENT COMPANY**



LEASING

- **IMPACT ON BALANCE SHEET**
 - ◆ **OPERATING LEASE “RENT-LIKE”**
 - OFF-BALANCE SHEET
 - USUALLY LOWEST PAYMENTS
 - POTENTIAL TAX CONSEQUENCES
 - ◆ **CAPITAL LEASE “PURCHASE-LIKE”**
 - ON-BALANCE SHEET
 - BUDGET FUNDING MAY BE REQUIRED UP-FRONT



LEASING

- **FLEXIBILITY**
 - ◆ **OPEN-END**
 - **FLEXIBLE LEASE PERIOD**
 - **RESIDUAL VALUE ADJUSTMENT**
 - ◆ **CLOSED-END**
 - **FIXED LEASE PERIOD**
 - **EXCESS MILEAGE, WEAR & TEAR**
 - **“WALK-AWAY” LEASE**





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DEBT FINANCING

- **BORROW FROM CAPITAL MARKETS**
 - ◆ CERTIFICATES OF PARTICIPATION, OTHER BOND PROGRAMS
 - ◆ BANKS, COMMERCIAL FINANCE COMPANIES
 - ◆ LEASING
- **ALTERNATIVES NOT REASONABLE FOR MICHIGAN**
 - ◆ HIGH UPFRONT COST
 - ◆ ECONOMIC CONDITIONS OF STATE
 - ◆ STATE ALREADY HAD COMPETITIVE INTEREST RATES
 - ◆ INTEREST COST OFFSET BY HIGHER RESIDUALS, LOWER M&R COSTS



COMPETITIVE VEHICLE PRICING

- **CLOSE TO “APPLES-TO-APPLES”
COMPARISON OF OTHER STATES**
 - ◆ **LEASE VS. STATE BIDS**
- **USE OF FLEET PRICING TOOLS**
 - ◆ **PC CARBOOK**
 - ◆ **KELLEY BLUE BOOK**
 - ◆ **DEALER INVOICE VS. LOWEST BID**



MAINTENANCE MANAGEMENT

- **> 90% M&R OUTSOURCED**
 - ◆ **ONLY 1 STATE GARAGE (FOR VTS-MANAGED FLEET)**
 - ◆ **M&R SAVINGS HELP COVER DEBT FINANCING**
- **COMPENSATION BASED ON PERFORMANCE VS. MAINTENANCE \$\$**
 - ◆ **OUT-OF-NETWORK ISSUES**
- **OUTSOURCED UPFITTING SIGNIFICANTLY LOWER COSTS VS. STATE'S GARAGE**



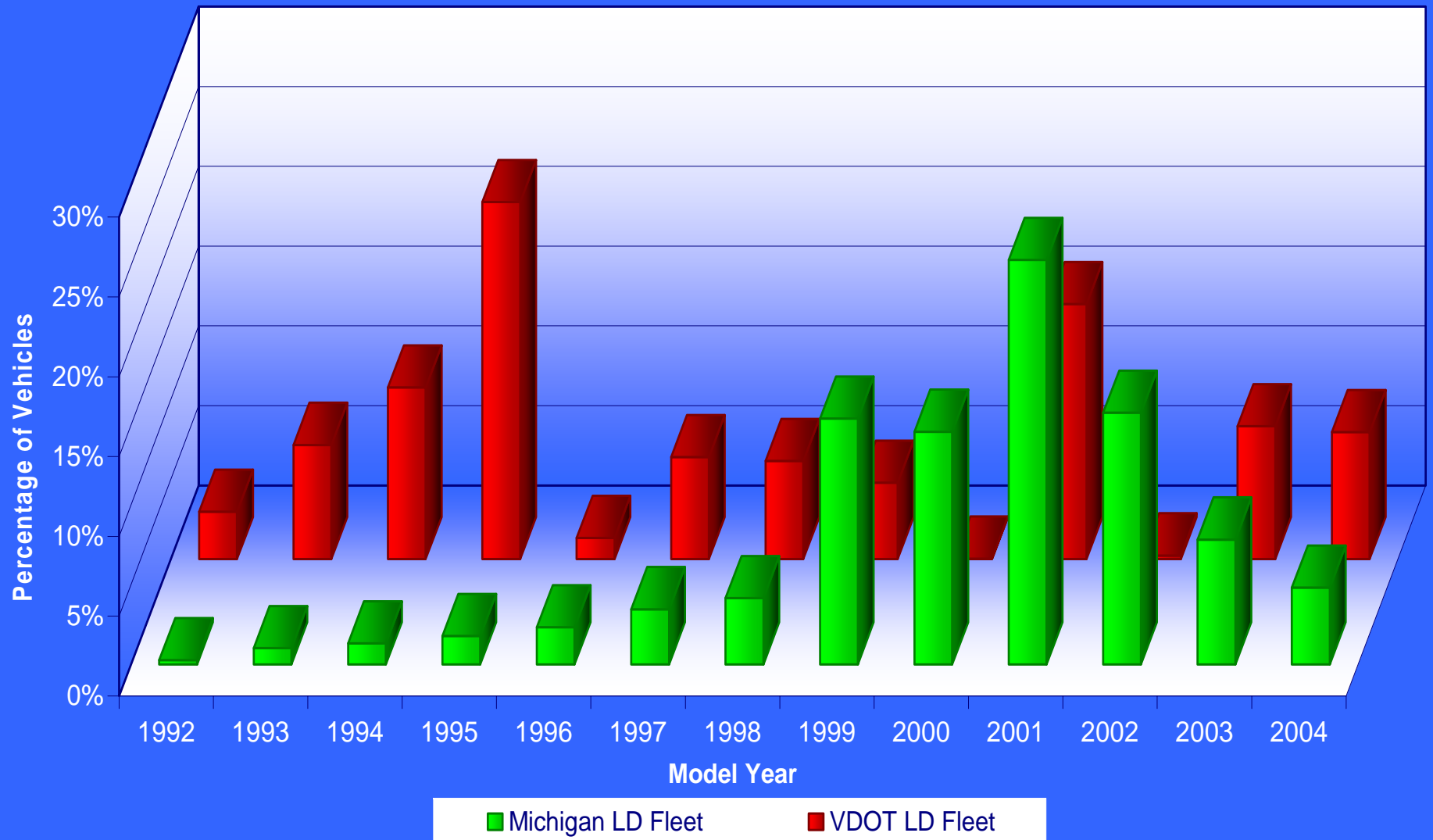
VEHICLE REPLACEMENT PRACTICES

MICHIGAN V. VIRGINIA DOT

- **CASH FUNDING**
 - ◆ 3,000 V. 6,000 LD VEHICLES
 - ◆ AVERAGE AGE 7.3 V. 4.4 YRS
- **UNEVEN VEHICLE REPLACEMENT**
 - ◆ INCONSISTENT FUNDING
 - ◆ NO “FREE” CASH!
 - ◆ LACK OF INCENTIVE TO DISPOSE OF UNDER-UTILIZED VEHICLES



Distribution of Light-Duty Vehicles by Model Year (State of Michigan and Virginia DOT)



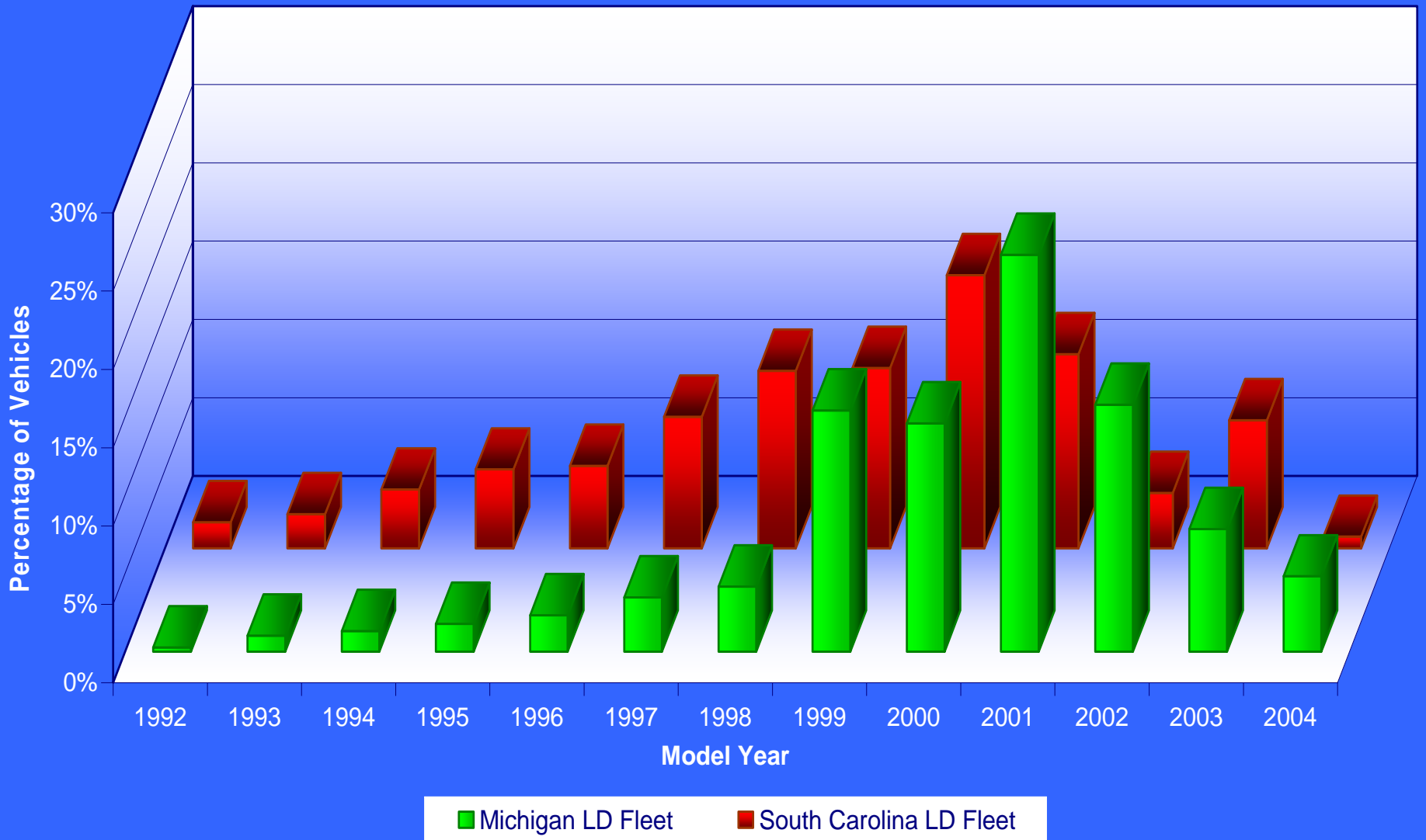
VEHICLE REPLACEMENT PRACTICES

MICHIGAN V. SOUTH CAROLINA

- **FLEET REPLACEMENT RESERVE FUND**
 - ◆ 4,200 V. 6,000 LD VEHICLES
 - ◆ AVERAGE AGE 6.3 V. 4.4 YRS
- **RESERVE FUND EXPENSIVE TO ESTABLISH**
 - ◆ UP-FRONT \$ OR HIGH INITIAL RATES



Distribution of Light-Duty Vehicles by Model Year (State of Michigan and State of South Carolina)



LIFECYCLE COST ANALYSIS

- **KEY FINDINGS SALT LAKE COUNTY & ONTARIO PROVINCIAL POLICE**
 - ◆ **FORD CROWN VICTORIA INTERCEPTOR**
 - ◆ **SLCO 15,500 ANNUAL MILES**
 - **REPLACE AT 62,000 MILES 4 YEARS**
 - ◆ **OPP 41,000 ANNUAL MILES (66 KMS)**
 - **REPLACE AT 62,000 MILES (100,000 KMS) 1.5 YEARS**
 - ◆ **TYPICAL LAW ENFORCEMENT REPLACEMENT: 100,000+ MILES**



SIGNIFICANCE OF LCA

- **VALIDATES ASSUMPTIONS**
 - ◆ **INITIAL COST VS. TOTAL LIFE COSTS**
 - ◆ **OPERATING EXPENSES VS. CAPITAL COSTS**
 - ◆ **IMPORTANCE OF MANAGING DEPRECIATION AND MAXIMIZING RESIDUAL VALUES THROUGH EFFECTIVE REPLACEMENT AND REMARKETING PRACTICES**



STATE OF MICHIGAN

- **REMARKETING KEY TO LOWERING DEPRECIATION COSTS**
 - ◆ **MULTIPLE CHANNELS**
 - **INTERNAL SURPLUS AUCTION**
 - **ON-LINE AUCTION**
 - **ADESA TRADITIONAL AUCTION**



STATE OF MICHIGAN

- **PERFORMANCE STANDARDS BUILT INTO CONTRACT**
 - ◆ **COMPARISON OF RESULTS VS. BENCHMARK**
 - ◆ **MEASURE DAYS-TO-SELL**
 - ◆ **FILL SEASONAL NEEDS**
 - **BY-PRODUCT OF TIMELY VEHICLE REPLACEMENT**



UNDERSTANDING CURRENT MARKET CONDITIONS

- **RESIDUAL VALUE & FLEET COSTS**
 - ◆ **KATRINA & RITA**
 - ◆ **FUEL**
 - ◆ **EMPLOYEE SALE PRICE MARKETING**
 - **EXCESS TRADE-INS**
 - **PULL-FORWARD EFFECT**



CURRENT MARKET CONDITIONS

- **WHAT'S HOT**
 - ◆ **COMPACT CARS**
 - ◆ **HYBRIDS**
 - **960% MARKET GROWTH SINCE 2000**
 - **STILL < 1% OF GLOBAL MARKET!**
- **WHAT'S NOT**
 - ◆ **MID-AND-FULL-SIZE SUVS**
 - ◆ **FULL-SIZE PICKUPS**



THE FUTURE

- **EXPECT ONLY MODEST DECLINES IN RESIDUALS**
 - ◆ NOT A REPLAY OF 2001-2003
 - ◆ MAY DECLINE 2007???
- **UNKNOWNNS**
 - ◆ UPTAKE IN RETAIL LEASES
 - ◆ FUEL PRICES
 - ◆ CHINA
 - ◆ MOTHER NATURE
 - ◆ TERRORIST EVENT



THE FUTURE

- **MORE SOPHISTICATED FORECASTING & ANALYSIS**
 - ◆ UNPRECEDENTED AMOUNT OF DATA
- **GROWTH OF ONLINE AUCTIONS 24/7**
 - ◆ BUYING WITHOUT SEEING



THE FUTURE

- **CONTINUED WEAKNESS**
 - ◆ **MID & FULL-SIZE SUVs**
 - ◆ **FULL-SIZE PICKUPS**
- **MORE TOTAL LOSSES AFTER MINOR CRASHES**
 - ◆ **EXPENSIVE HIGH-TECH SAFETY FEATURES**
- **NEW BENCHMARKING STANDARD FOR FLEETS TO MEASURE RESIDUAL RESULTS???**



FOCUSING ON BUSINESS FUNDAMENTALS

- UTILIZE LIFECYCLE COST ANALYSIS TO SUPPORT BUYING AND REPLACEMENT POLICIES AND DECISIONS
- THINK “REMARKETING” RATHER THAN “SALVAGE”
- EXPLORE FINANCING ALTERNATIVES



QUESTIONS



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