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Trends in Public Sector Fleet Management 2008 - 2010

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Government Fleet Magazine



Trends to be Examined

1. High Cost of Fuel is the No. 1 Challenge Facing Fleets.
2. Impact of Budgetary Constraints on Fleet Operations.
3. Recruiting, Training & Retention of Technicians.
4. Forecast of Tires, Maintenance, & PM Expenses.
5. Fleet Vehicle Procurement Trends.
6. Resale Conditions in the Wholesale Market.
7. “Green Fleet” and Sustainability Initiatives.
8. Trends in Fleet Safety.
9. Accident Management Trends.
10. Changing Role of Public Sector Fleet Managers.
11. Privatization Initiatives and Managed Competition.



Fuel Prices Trends

Recent Fuel Prices Decline

- Average price of unleaded gas decreased to \$3.66.
- This is the 10th weekly decline in gas prices.
- However, gas is still .85 cents per gallon more expensive than same time last year.
- A weak economy is reducing fuel demand. Demand down by 5% vs. same time as year.
- Number of miles driven by Americans has decreased for 9 consecutive months. First decline since 1980.
- This is steepest decline since the 1970s, which was also a period of economic and energy turmoil.
- Demand off in Asia and Europe.
- Speculative trading in oil has decreased since Pres. Bush's announcement that off-shore oil drilling ban is waived and prospect of a slow economy.



Fuel Prices Cause Operating Costs to Increase 3% in 2007

- Overall operating costs for commercial fleets increased 3%, on average, in calendar-year 2007.
- The increase was directly attributable to the increased cost of fuel.
- In 2007, the price of a gallon of regular unleaded gasoline increased almost 7% over record high prices in 2006.
- From 2005-2007, fuel cost increased by \$600 per vehicle on an annual basis, based on driving 2,000 miles per month.
- Volatility of fuel prices make fleet budgeting extremely difficult.



Fuel Prices to Continue to Fluctuate

- Consensus that fuel prices will continue to fluctuate. The long-term trend is for an upward movement of prices.
- Demand for fuel continues to increase in China and India. Both countries are projected to consume more fuel than preceding year for foreseeable future.
- Demand for fuel to continue to outpace supply of fuel.
- Pricing and supply very sensitive to geopolitical events and natural disasters.
- No clear-cut government policy to decrease dependence on foreign oil.

High Fuel Costs Hit Fleets Hard

- Fuel consumption remains static but fuel costs have skyrocketed.
- Fleets with heavy concentration of diesel trucks were hardest hit since diesel costs increased more than gasoline.
- In 2007, ULSD was mandated, which costs more per gallon than regular diesel.
- There is greater pressure to shift to more fuel-efficient vehicles. Goal is to increase overall fleet mpg.
- More fleets are reevaluating their use of SUVs or moving to smaller SUVs.



Domino Effect of Higher Fuel Costs

- Tire costs have increased due to the high cost of oil. There have been multiple price increases.
- Towing and road service fees have increased.
- Many tow providers and mobile glass repair services have not only increased fees, but also added fuel surcharges.
- High fuel costs have caused the cost of mobile fueling services to increase impacting generally garaged fleets.

Ongoing Fuel Price Volatility

- Prediction is watch for the fuel price volatility to be repeated in 2009.
- Experiencing fuel price volatility since 2002.
- There are pre-existing weaknesses in the nation's fueling infrastructure.
- No new refineries built in the U.S. since the Garyville refinery Louisiana went online in 1976.
- This has resulted in limited refining capacity, especially for the production of reformulated gasoline, which increases the frequency of spot shortages.
- Refinery capacity is being added, but demand has outpaced capacity.
- An economic slowdown in 2008-2009 may decrease demand, putting downward pressure on fuel prices.



Fleets are Taking a Multi-Prong Approach to Control Fuel Costs

- Spec'ing 4-cylinder, instead of 6-cylinder engines but encountering driver resistance.
- Implementing anti-idling programs.
- Pilot programs to test hybrid vehicles. Several corporate fleets are going all-hybrid: Secura and Toshiba Medical.
- Adoption of telematic devices and GPS.
- Controlling fuel costs at the driver level by setting tighter and more frequent exception reporting.
- Increasing personal use charges to recoup fuel costs.
- Fleets are tightening fleet vehicle eligibility requirements.
- Driver education in maintaining proper tire pressure, less aggressive driving, and minimizing idling.

Other Public Sector Initiatives to Reduce Fuel Spend

- Aggressive idle reduction programs.
- Cutting back on take-home vehicles.
- Focus on vehicle utilization, eliminating less fuel efficient vehicles.
- More stringent PM. Keep tires properly inflated.
- Driver education to drive more economically.
- Speed governors. Restrict top speed to 55 mph.
- Scheduling travel to reduce unnecessary driving. Keeping vehicles at job site. Route optimization. Reduce unnecessary loads. Use the right vehicle for the trip.
- Closer monitoring of fuel exception reports.
- Using GPS systems to monitor operator use and idling.
- Publicize end user fuel usage against same time prior year.
- Provide handout of fuel saving tips to drivers during all shop visits.
- Increasing fuel site security. Fencing fuel site locations, which are locked afterhours.



Summary of Fuel Management Trends

- Fluctuating fuel prices are consuming a greater percentage of a fleet's budget.
- Watch for fuel price volatility in 2009.
- Ongoing fluctuating per gallon fuel prices with prices trending upward.
- Weakness in the nation's fueling infrastructure and special fuel blends are key factors in volatility.
- Unpredictable price increases make it difficult to stay within budget or predict future budgets.
- Challenge is how to budget for the variance.

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The Impact of Budgetary Constraints on Fleet Operations



Competition for Scarce Resources

- Fleet operations is low on the priority list for most governments.
- New jails, bridge repairs, and other competing projects take priority over fleet.
- The cost of equipment is continue to escalate.
- Fleet costs are increasing but many fleets operating with a flat budget.
- Struggle to get money for shop improvements and diagnostic tools.

Common Cost-Cutting Initiative is to Defer Vehicle Replacement

- At Public Sector Fleets the Pressure is to Defer Capital Expenditures by Postponing the Purchase of Replacement Vehicles.
- This is Especially the Case If a Fleet Depends on Appropriations from Its Agency's General Fund Instead of a Fleet Replacement Fund.
- However, Legislators Have Been Known to "Raid" the Fleet Replacement Fund to Balance a Budget. The Fleet Budget is Not Sacred.
- Shortage of vehicle replacement money (capital fund) over multiple years has caused fleets to steadily age, which is putting pressure on maintenance resources.

Impact of Reduced Tax Revenues

- Shortfall in meeting capital & operating funding needs.
- Vehicle replacement is deferred.
- This results in increased maintenance costs & downtime.
- Less funds to train technicians.
- Hiring freezes or staff layoffs.
- Swings in fuel prices consume scarce budget dollars.

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**Recruiting, Training & Retention
of Qualified Technicians**



Shortage of Qualified Technicians

- Ongoing difficulty in finding qualified technicians due to competitive job market.
- Loss of in-house technicians to private sector.
- Private sector pay tends to be higher.
- Government operations often lack the funds & resources to keep staff up-to-speed on technological changes.



Exodus of Retiring Technicians

- Retirements. Some municipalities are reporting as much as 38% of technicians will be retiring in next 5 years.
- Operations lose institutional knowledge with these retirements.
- Difficult to replace retirees with qualified people.
- Biggest challenge is maintaining broad level of service in a tight labor market.



The Technician Shortage Promises to Get Worst

- The Automotive Industry Loses Approximately 60,000 Technicians Annually Through Attrition, Retirement, Promotions, or Career Changes.
- Only 2% of All High School Students are Interested in Becoming an Automotive Technician.
- There Will be an Additional 35,000 New Automotive Service Jobs Created Annually by 2015.



New Technology Will Further Decrease Number of Technicians

- The Increasing Integration of Computers into Automotive Design is Ratcheting Up the Skill Set Required by Technicians.
- As Vehicles Become More High-Tech There Will be Fewer Qualified Technicians on Staff.



Budget Constraints Further Impact Staffing Difficulties

- Limitations on Technician Pay Increases.
- Decrease in Training Funds.
- Decrease in Tool Allowance.
- All of this puts Government Agencies at a Competitive Disadvantage vs. Private Sector in Attracting Technicians.
- Challenge to increase technician productivity.
- Technicians spending more time on administrative duties, which reduces their billable hours.



Other Factors Impacting Technician Turnover

- Minimum amount of money is spent on updating diagnostic tools. This has caused some younger technicians to leave for other jobs making it much worse for those who remain.
- Dealers are luring away the better mechanics with better wages and more comparable compensation and retirement packages.
- Many veteran technicians most likely would also leave but won't do so because they have invested so much in a non-portable retirement system.



Non-Fuel Fleet Operating Costs

Car Maintenance Costs Remain Flat

- Car maintenance expenses were flat for 2008. Improved manufacturer quality. More component requiring less or no servicing.
- Maintenance costs actually decreased, but savings were offset by higher labor rates and parts prices.
- Extended powertrain warranties introduced by the Detroit 3 will put further downward pressure on maintenance costs.
- Majority of expenses – approximately 68% -- continue to be in PM and replacing wear items (tires, brakes, etc.)
- Ongoing pressure for increased labor rates in high cost-of-living areas.
- Cost of some replacement parts will increase as the cost to transport them to market increases with the high cost of fuel.

Improved Vehicle Quality

- Improved vehicle quality has led to an actual decrease in repair and maintenance expenses.
- Lower maintenance incidents have offset labor rate increases.
- Under-the-hood components require less frequent servicing, such as coolants, spark plugs, transmissions, etc.
- However, increased technology such as TPMS, onboard nav system, etc., will increase costs. Although fairly reliable, when failures occur, these systems are expensive to repair.



Trend to Extend PM Service Intervals

- Over the past 5 years, maintenance intervals have increased.
- Vehicle manufacturers have extended recommended service intervals such as with spark plugs, transmission fluids, anti-freeze.
- More fleets are extending oil change intervals as a cost-cutting measure.
- More fleets are relying on vehicle onboard oil monitoring systems to determine oil change intervals.



Increased Cost for Replacement Parts

- The cost of replacement parts is increasing.
- High cost to transport parts being offset by higher component prices.
- Many components include oil-based materials and other commodities that are increasing in cost.

Replacement Tire Expenses are Creeping Upward

- Tire costs have increased due to higher cost of crude oil, a key component in making tires.
- Tire price hikes are continuing in 2008. All tire manufacturers have announced 2008 price increases of 4-6%.
- In 2007, there was a 2% to 4% price increase for car replacement tires, representing a \$3 to \$4 per tire increase.
- The trend away from 16-inch tires to larger 17-inch and 18-inch wheel sizes is causing replacement tire costs to increase.

Truck Tire Costs are Increasing

- Manufacturers have migrated from 15-inch to 16-inch wheel diameters as standard equipment.
- As a result, replacement tires are more expensive.
- The increased cost of oil has also caused tire prices to increase.
- Trucks are being kept in service longer which increases number of tire replacements over the vehicle's lifetime.



OEM Car Specs are Increasing Replacement Tire Costs

- There are a Growing Number of Vehicles Equipped With Larger Diameter Rims and Lower Profile Tires as Standard Equipment to Appeal to Retail Buyers.
- Logistical headache in stocking more tire sizes.
- Lower Profile Tires Cost About \$15 to \$20 More Per Replacement Tire.
- Most Standard Tires Run Average about 30,000 Miles Depending on How a Person Drives.
- Lower Profile Tires Get About 5,000 to 7,000 Miles Less Life.



Diagnostic Equipment Provides Greater First-Repair Resolution

- Reduced Cost and Availability of Diagnostic Equipment is Helping to Control Maintenance Costs by Increasing the Instances of First-Repair Resolution.
- Eliminates Past Practice of “Throwing Parts at a Repair” to Fix a Problem.
- Problems More Easily Pinpointed.



Operator Apathy and Equipment Abuse

- Operator apathy an ongoing problem.
- This includes operator misuse, abuse, and neglect.
- Some fleets are requiring vehicle and equipment users to perform pre-trip inspections.
- Fleet departments are seeking to identify the individuals who are abusing equipment.



Truck Maintenance Trends

Medium-Duty Truck Operating Expenses are Up

- Medium truck operating costs increased in 2008.
- The primary reason was the cost of ULSD diesel.
- CJ-4 oil required for 2007 engines is 10% more expensive than regular oil.
- Fleets looking at more aerodynamic trucks and modifying specs to increase mpg.
- Some fleets are installing telematic systems to monitor fuel usage and employ geofencing products.
- Fleets ordering trucks with idle cutoffs after 5 to 15 minutes.
- Cost of replacement tires has increased but use of recaps help mitigate expense. Also average tire tread life is averaging 80,000 miles compared to 50,000 miles 15 years ago.

New 2007 Diesel Regs

Increased Cost of Trucks

- Acquisition costs increased due to new emission equipment and anticipated for 2010 model trucks.
- Emission changes have increased a truck's initial acquisition cost and increased maintenance requirements.
- Ultra Low Sulfur Diesel costs more than regular diesel.
- Cost of CJ-4 motor oil is 10% more expensive than regular oil.
- Engines are more complex. Additional technician training need to service these engines.

Overloading is the No. 1 Cause of Unscheduled Maintenance for Trucks

- More fleets are seeking to lower their acquisition costs by selecting lower GVW trucks.
- Fleets are spec'ing trucks with lower than 26,000 lbs. GVW to avoid having to hire drivers who have a CDL.
- Due to the driver shortage, there is a limited number of CDL drivers and those that have CDLs command higher salaries.

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Trends in Vehicle Procurement



High Cost of Fuel is Impacting Acquisition Decisions

- The high cost of fuel is beginning to influence new-vehicle acquisition decisions such as type and size of model acquired.
- Increased percentage of 4-cylinder engines in fleets.
- Lifecycle costs being influenced by higher residuals for more fuel-efficient vehicles and lower cap costs for smaller vehicles.
- Fleets adopting minimum MPG requirements to place vehicles on the selector.
- Balancing act is providing high fuel economy vehicles while keeping drivers happy.

Factors Influencing 2009-MY New-Vehicle Acquisitions

- Fuel efficiency considerations a greater factor in selector decisions. Many fleets adopting minimum MPG requirements before vehicle is added to selector.
- Companies are looking to “right-size” cargo-carrying vehicles and large SUVs in reaction to higher fuel prices.
- Companies are searching for van replacement vehicles as OEMs exit this market segment.
- Amount of rifle shot monies available from OEMs will influence volume and make of models acquired.
- Corporate “green” initiatives prompting placement of hybrids on selectors at more companies.
- Push to reduce fleet carbon footprint is a real and growing corporate trend, especially among multi-national companies.

More Vehicles Being Kept in Service for Longer Periods

- Trend to extend vehicle service life. However, length of service in 2007 was static compared to 2006.
- Improved vehicle quality allows extended replacement cycling.
- Caution: Almost 35% of a Vehicle's Lifetime Operating Costs Occur in the 68,000 to 80,000 Mile Range.
- Currently, fleets keeping intermediates in service between 29-36 months.
- Minivans in service an average of 31-37 months
- Full-size vans: 46 months.
- Light-duty pickups: 40-45 months.
- SUVs: 29 months.



Trucks are Being Kept in Fleet Service for Longer Periods

- More Fleets are Operating Trucks at Higher Mileages.
- On average, medium-duty trucks are kept in service 70 to 80 months and approximately 160,000 miles.
- Trucks have lowest depreciation cost per month because fleets keeping them in service longer than other vehicle types.
- Medium-duty truck quality at all-time high, which is allowing fleets to extend service life.

Re-Examination of Type of Vehicles for Fleet Application

- More Truck Fleets are Investigating Feasibility of Using Compact Pickups Instead of Full-Size Pickups to Minimize Acquisition Costs.
- Downsizing to a Half-Ton Instead of Three-Quarter Ton Van.
- Overloading is a Risk Since the Vehicle is Smaller But Payload is Not.



Impact of Upcoming 2010 Diesel Emission Standards

- Cost of new engine anticipated to increase by approximately \$4,000.
- Anticipate a pre-buy of 2009 models to avoid first-year 2010 engines.
- Other fleets will extend cycling parameters to avoid first-year 2010 engines.
- Addition of urea injection system will take up space on a truck's frame and constrict some upfits.
- Some government fleets are pre-buying diesel units to avoid 2010 model price increases and potential "first-year" problems.

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Trends in Fleet Telematics Applications



Telematics to Move Downstream to Smaller GVW Trucks & Cars

- Since the late '80s, telemetric has been used by the over-the-road truck industry for delivery scheduling, route optimization, and driver communication.
- The widespread use of satellite tracking and communication technology in the Class 8 market will migrate to the Class 3 to 7 market.
- One factor driving this trend is the ability to provide real-time mileage reporting. Mileage reporting is a major challenge for fleet managers so this feature is attractive.
- Ability to provide remote diagnostics to identify impending problems while the vehicle is on the road.



Forecast for Widespread Remote Diagnostics and Monitoring

- The use of onboard technology will become the norm in the fleet industry.
- Data from the engine will be automatically transmitted, providing real-time information on the status of the engine, along with GPS positioning and other info such as idle time and speed of the vehicle.
- Onboard sensors will ensure emission compliance. In some states, such as California, remote diagnostics can ensure that drivers no longer need to have their vehicles tested for emissions.



Implementation of Fleet Telematics Programs is Growing

- Major fleet management companies offer telematic services for commercial fleets.
- Early adopters of telemetric are ServiceMaster, GEICO, Ryder, Kindercare, Wal-Mart, UPS, Cox Enterprises, Truly Nolan, and long-haul trucking companies.
- Currently there are 2.5 million telemetric units in service, managing vehicles, trailers, mobile workers, and other assets.
- C.J. Driscoll and Associates predicts the market will expand to 5.8 million units by 2010.
- Companies can see a 2-10 times ROI on fleet telemetric.
- See the February 2008 issue of Automotive Fleet for real-world ROI on telemetric investments by fleets.
- Devices helped control fuel expenditures by identifying excessive idling, under-utilized and over-utilized vehicles, unauthorized usage of vehicles, and route optimization.

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Wholesale Market Conditions for Used Fleet Vehicles

Slowdown in Wholesale Market

- Truck and SUV resale values plummet due to high cost of gasoline.
- Compact car resale values strong due to higher fuel economy.
- Most buyers of used fleet vehicles are subprime buyers. These buyers are now finding it increasingly difficult to get funding.
- Housing and construction slowdown has decreased demand for work trucks and full-size vans.
- Home equity loans have dried up eliminating a source of vehicle funding.
- Vehicles continue to sell at auction, however, they to be priced to current market demand.



Resale Market Conditions for Intermediates and Compacts

- Resale values for intermediate sedans were stable.
- Resale prices for compact models continues to be strong, but most fleets do not have many of these vehicles.
- Compact cars with higher fuel economy are benefitting from higher fuel prices.

Resale Conditions for Passenger Minivans

- Resale values for passenger minivans continues to remain in the doldrums due to changing consumer preference to crossover-type vehicles.
- Minivan prices have been soft for the past 7 years indicating a broader consumer preference change.
- Despite decreases in number of minivan models, prices continue to remain soft.
- Minivan market needs to be viewed as two segments. Extended wheelbase models and short wheelbase. Extended wheelbase, seven passenger models are doing better than short wheelbase.

Resale Conditions for Cargo Vans and Work Trucks

- Prior to 2008, cargo van resale market was stable.
- Cargo vans for most of 2007 continued to sell quickly, especially when equipped with a V-8 and painted white.
- However, slowdown in construction and housing markets decreased wholesale demand for these vehicles in the fourth quarter 2007.
- Inventory of vans in the market exceeded supply due to a number of fleets short-cycling vans.
- Resale values for cargo vans and work trucks not expected to pick up until next spring when seasonal labor companies such as contractors and landscapers enter market.
- Vehicles continue to sell but need to be priced to market demand.

Resale Conditions for Light-Duty Pickups

- Used pickup truck sales to consumers have softened due to high cost of fuel.
- In 2008, pickup resale prices have softened with slowdown in the contractor/construction market.
- Pickup truck market is segmented into two categories: work trucks and trucks used to haul passengers, such as the better equipped extended cab models.
- Pickup trucks have been perennially strong sellers in the wholesale market reflecting strong demand in the retail market. However, resale values are softening.

Resale Conditions for SUVs

- Resale for large SUVs continues to be soft as high gas prices is impacting resale prices.
- Sport/utility vehicles (SUV) resale values for compact models (such as Liberty and Escape) are stronger than large SUVs.
- SUVs need to be well-equipped and appropriate to the region (i.e. no 2WD models in snow belt, but OK for Texas and Florida).

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**“Green Fleet” and
Sustainability Initiatives**

Initiatives to Reduce Greenhouse Gas Emissions

- Political pressure to be “green” and reduce carbon footprint; however funding is not always available.
- Many multi-national corporations have adopted strategies to reduce greenhouse gas emissions.
- Fleets are establishing emission baselines and developing selectors to achieve these goals. Examples are USG, PPG, Novo Nordisk, Ecolab.
- According to PHH survey, 40% of fleet managers said corporate interest in “green” initiatives has grown significantly.
- 77% of fleet managers in past year have been asked by senior management about environmental impact of fleet.
- However, this overall corporate goal often contradicts with mandates to lower fleet operating costs.
- Being a good corporate citizen sometimes overrules cost considerations.
- Other initiative to right-size fleet. Weyerhaeuser shifting drivers away from SUVs to AWD Taurus and Fusion sedans.

Carbon-Neutral Fleets

- City of Seattle has announced a commitment to become a carbon neutral fleet.
- Abbott became the first Fortune 500 company to commit to creating a “carbon neutral” fleet.
- Abbott discovered that 12% of its corporate-wide greenhouse gas emissions were generated by its 6,500-vehicle fleet.
- Abbott to design selector to decrease carbon footprint.
- Selector to include hybrids and high-fuel economy vehicles.
- It will be realistic, however, in ensuring the vehicle choices continue to satisfy its sales force.
- Xerox, J&J, Merck, USG, Novo Nordisk are other fleets focused on GHG reduction.

Growth of Hybrid Vehicles in Government & Commercial Fleets

- Many companies want to portray an environmentally friendly corporate image. A number of companies are running pilot programs using hybrids.
- From lifecycle perspective, it is difficult to get hybrids to “pencil out”.
- Municipal fleets have made sizeable investments in hybrid vehicles. Currently, 11 percent of NYC’s fleet is comprised of hybrids, representing 2,437 units. Other government fleets with large number of hybrids are Los Angeles, Houston, State of California, State of Washington, and State of Oregon.
- Several corporate fleets are made the corporate decision to go to all-hybrid fleets. These include Toshiba Medical and SECURA Insurance.
- Other fleets acquiring hybrids includes State Farm, Pepsico, DuPont, Cooper Tire & Rubber, Estee Lauder, and Cephalon.

Growing Interest in Hybrid Trucks

- Light-Duty Truck Hybrid Action Group.
- This consists of 21 of the largest mixed fleets in North America are working with NTEA to develop hybrid truck applications.
- ServiceMaster early proponent.
- Florida Power & Light first company to put medium-duty hybrid in service in may 2006. FPL plans to convert 1/3 of its 2,900 vehicles to hybrids by 2010.
- FPL leading a group of 30 utilities to develop a pilot hybrid truck program. 14 of these companies have put 24 hybrid trucks in service.
- DOD providing funding for this program.
- Technician shortage will present a challenge in maintaining these vehicles, however.

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Trends in Fleet Safety



Safety Moves to the Front Burner

- Over the past several years, safety has re-emerged a hot issue for many fleet managers. There is increased concern about vehicle and driver safety and minimizing liability exposure.
- Although the cost of fuel is cited as the number one fleet challenge, fleet safety is a close second.
- With some fleets, it is their primary challenge.
- Management pressure to minimize corporate liability exposure.
- More cars are being totaled today because of the high cost to repair vehicles.



Driver Distraction Causing an Uptick in Preventable Accidents

- Fleets are seeing an uptick in preventable accident frequency, primarily due to driver distraction.
- Drivers are being asked to do more in the same allotted time causing them to multi-task behind the wheel.
- Fleets are tightening cell phone usage policies, texting, and/or eliminating electronic devices in company vehicles to keep employees focused on driving.



Safety Concerns Beginning to Influence Selector Decisions

- More involvement by risk management in influencing vehicle selection. For instance, some fleets are putting increased emphasis on NHTSA crash test ratings.
- Only vehicles with high safety ratings are allowed on the selector.
- Fleet managers are hesitant to acquire vehicles not advised by the risk department out of concern if something should happen. They don't want it to happen on their watch.




Trends in Fleet Accident Management

Proliferation of Airbags

- Three years ago, the average car was equipped with only two airbags. Now it is not unusual to see five airbags in a vehicle.
- In a frontal collision, fleets must replace the deployed driver- and passenger-side airbags, along with knee airbag. Many fleets err on the side of caution and replace all airbags in the vehicle, even if they did not deploy.
- Three years ago, a car may have \$10,000 in damage. Today that same car, involved in the same accident, would most likely have \$12,000 to \$14,000 damage due to the increased airbags.
- Sometimes the increased dollar amount will require the vehicle to be totaled.

Increased Prices for Replacement Parts

- Prices on Replacement Parts have increased.
- Manufacturers using more plastic to reduce curb weight and engine electronics to meet CAFE requirements. Plastic parts more prone to damage.
- Rear bumpers with back-up sensors cost more to repair.
- Replacement of damaged electronics adding cost to accident repair expense.
- Curb sensors, back-up cameras, lane departure sensors may reduce accidents, but when damaged increase repair costs.
- Navigation system, audio and DVD system in mid- to high-end cars must be purchased new and cannot be sourced through recyclers and aftermarket suppliers. This drives up the cost of repair.



Other Accident Management Trends

- Greater vehicle complexity is increasing accident repair costs.
- Complexity requires a higher level of technician expertise, which increases labor costs.
- Key components, such as electronics, are installed in sections of the vehicles commonly damaged in a collision.
- Manufacturers Are Now Selling More Assemblies Rather Than Individual Parts.
- It used to be that if you had a damaged quarter panel you would just buy that part. Now you have to buy the integrated body side unit that contains the quarter panel.
- More decisions not to repair “cosmetic-only” damage to control accident management costs.
- Trend to more paintless dent repair (PDR). Helping to offset cost increases in other areas.
- Greater focus on drivers who have multiple accidents.



Summary of Accident Management Trends

- Increased number of airbags is increasing repair costs.
- Increased cost for replacement parts.
- Manufacturers are selling more assemblies rather than individual parts.
- More plastic components increases costs.
- Replacement of damaged electronics adding cost to accident repair expense.

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The Changing Role of Public Sector Fleet Managers



Consolidation of Public Sector Fleet Functions

- Many municipalities are seeking to flatten the management of the organization.
- In the past, you may have had a police dept. fleet manager, fire dept. fleet manager, and a public works fleet manager.
- At some municipalities, these functions are being consolidated into a single municipal fleet manager function.
- Also, government fleet managers are taking on additional responsibilities such as capital improvement management, sanitary/sewer, and facilities management.

Increased Scrutiny by User Groups

- There is increased scrutiny of fleet managers by fleet user organizations, who are paying increased attention to the cost of fleet resources and the services they utilize.
- They want to know why their internal charges are what they are and how they compare with costs charged by external service providers.



Privatization Initiatives



Key Targets for Privatization

- City of Richmond, Va, considering privatization of maintenance dept.
- Parts Department.
- Tire Operations.
- Fuel Management.
- Paint & Body Department.
- Towing.
- Maintenance/Service Department.



In Lean Times, Management is Investigates Outsourcing

- Fleet operations are under mounting pressures to identify cost savings to help balance budgets diminished by decline in tax revenues and higher fuel costs.
- Increasingly, management and/or politicians are challenging fleet managers to consider subletting or outsourcing some in-house services as a way to reduce costs.



A Well-Run Fleet Organization is Rarely a Target of Outsourcing

- Fleet management organizations that are well-run, that provide high-quality services at a competitive cost, that have satisfied customers, and are understood and valued by their management, are rarely targeted for outsourcing.
- Well-run fleets with a high level of customer service are supported by user departments. User departments more open to privatization initiatives if the existing fleet operations provides low customer service.
- End users are powerful allies during privatization initiatives.

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**Summary:
Predictions for 2008-2009
and Beyond**

8 Predictions for 2008 and Beyond

1. Fuel price volatility will continue into 2009.
2. Budgetary constraints to become more pronounced.
3. Green fleet initiatives will play a greater role in new-vehicle acquisition. Increased number of hybrid models available from OEMs will facilitate this trend.
4. Non-fuel operating costs will remain flat in 2009.
5. Tire expenses continue to increase.
6. Ongoing technician shortage to become more severe.
7. Used-vehicle resale prices will be “troublesome” in 2009 due to subprime buyer funding difficulty.
8. Accident repair costs will trend upward.

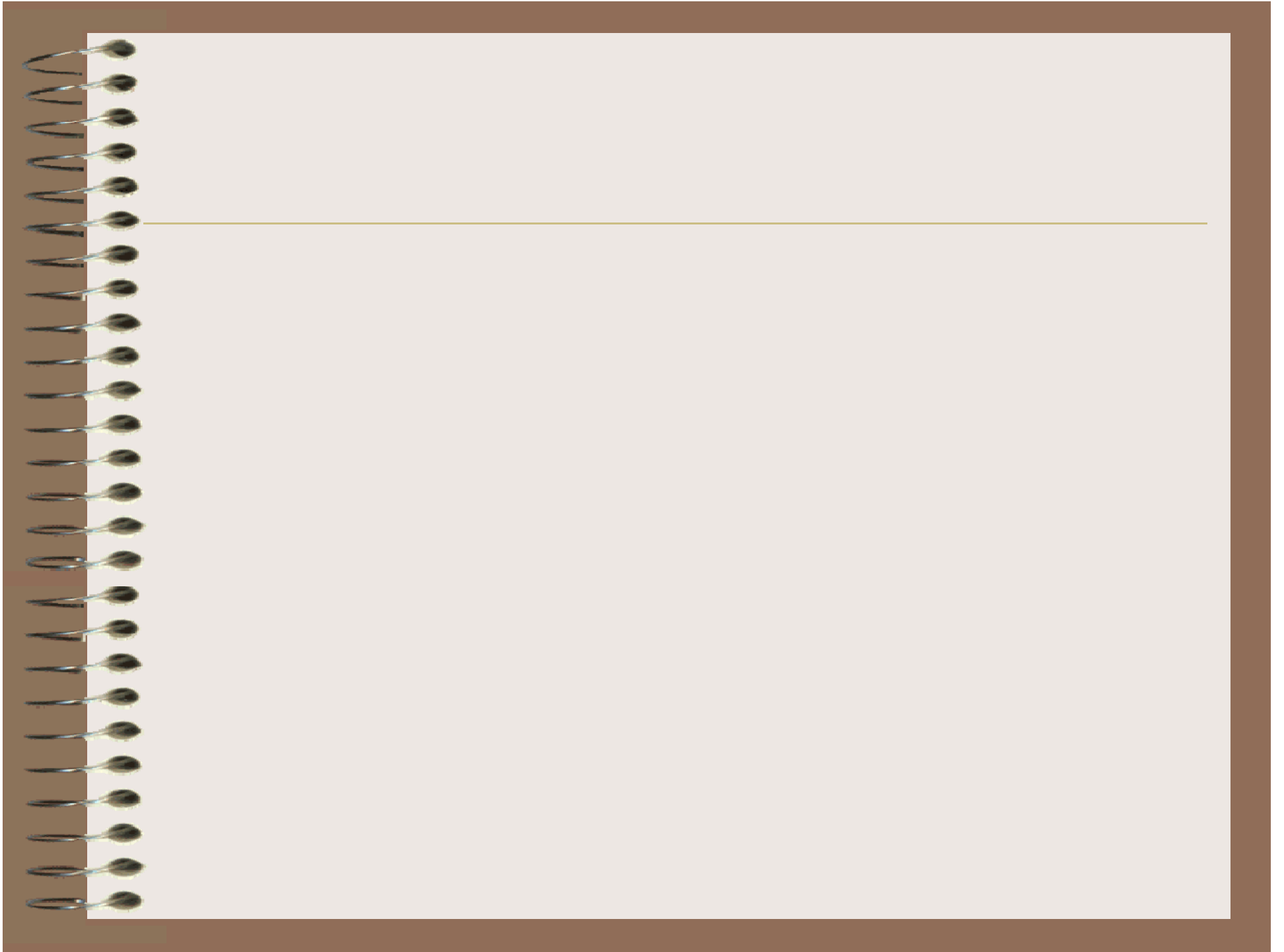
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Thank You!

Mike Antich

Editor

Government Fleet Magazine



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- CUT TEXT

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Strategies to Cope With Privatization Initiatives



What to Do Before a Privatization Initiative Even Occurs

- Maintain High Customer Service With Your User Groups.
- Outsource Inefficient or Specialized Tasks.
- Know Your Internal Cost of Services.
- Strive to Attain ASE Blue Seal Certification to be Competitive Against Private Sector Vendors.

Know Your Costs In Advance of Privatization Initiatives

- City of Pittsburgh privatization program saved less money than anticipated.
- Track All Internal Costs Both Direct and Indirect Costs.
- Create Reports for Specially Designed for Management.
- Avoid Voluminous Report, Instead Create Reports That Quickly Identify Exceptions, Cost Justifications & Key Trends.