

Taking Cost out of Fleet Ownership

October 11, 2016

Alexander A. Schuessler, Ph.D.

Founder & President, International Group



Overview

Total Cost of Fleet Ownership (TCO) can be reduced by:

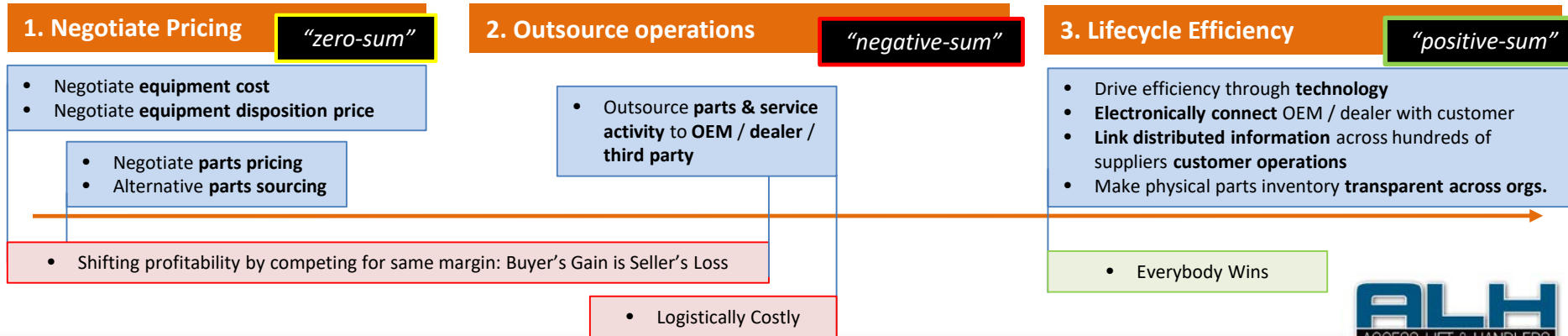
- **Decreasing Equipment Net Cost:** Reduce fleet acquisition cost and/or increase disposition price
- **Decreasing Equipment Operating Cost:** Reduce cost of parts and service across equipment lifecycle

Overview

Total Cost of Fleet Ownership (TCO) can be reduced by:

- **Decreasing Equipment Net Cost:** Reduce fleet acquisition cost and/or increase disposition price
- **Decreasing Equipment Operating Cost:** Reduce cost of parts and service across equipment lifecycle

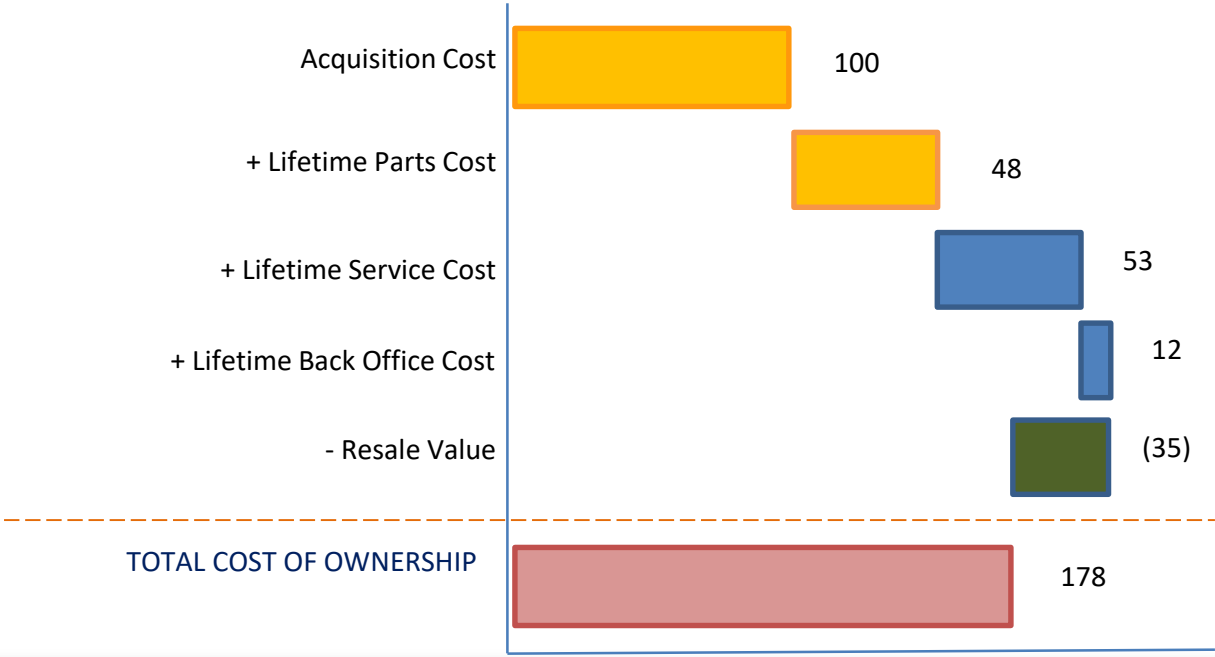
Methods of reducing TCO have evolved over time



Total Cost of Fleet Ownership

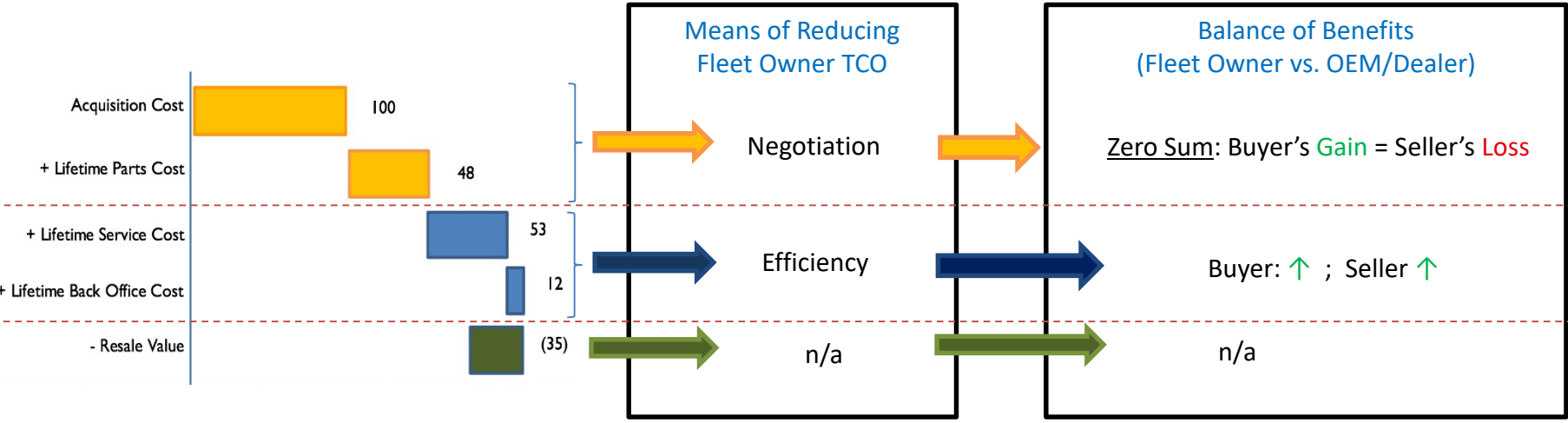
Equipment Lifecycle Illustration

(in \$ thousand)



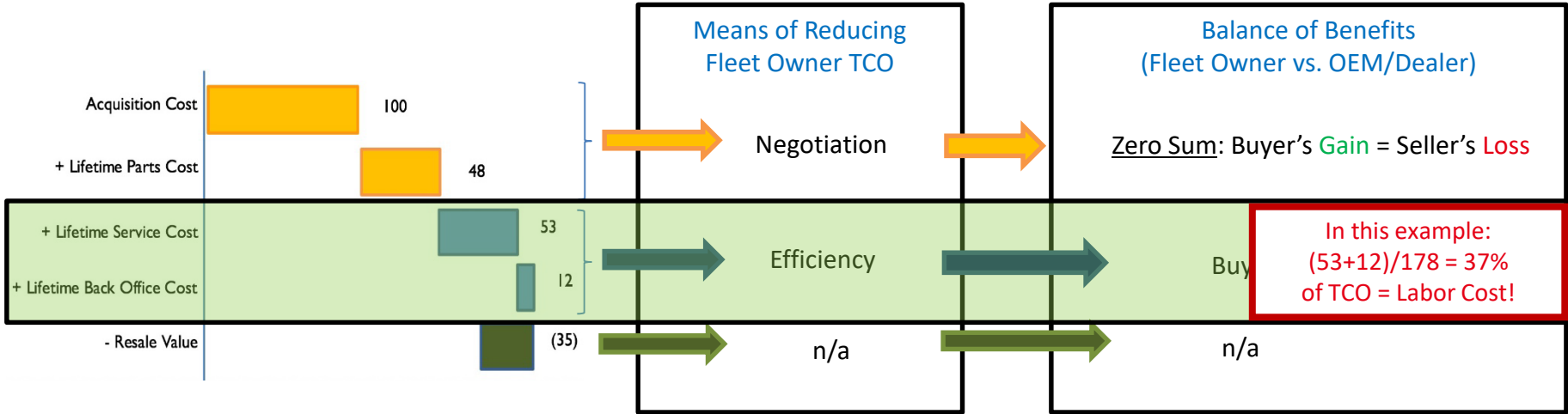
Total Cost of Fleet Ownership

How to reduce TCO & who benefits?



Total Cost of Fleet Ownership

How to reduce TCO & who benefits?



Preliminary Conclusion



- **COST:** Labor typically is the **largest component of TCO**
- **OPPORTUNITY:** Labor savings carry the **largest opportunity for efficiency and cost improvement**
- **BALANCE OF BENEFITS:** Driving labor savings for the fleet owner can have **direct benefits for the manufacturer and distribution**

- **REVENUE:** **Every hour saved on repair = one hour improvement in uptime**, with associated **increase in revenue** (via financial utilization)

True Total Cost of Ownership -- Parts, Service, Finance, IT



True Total Cost of Ownership -- Parts, Service, Finance, IT

Parts

- **Value:** Parts can be 1-2% of your **total spend value**, but...
- **Frequency:** 70 – 90% of your **total purchase orders** will be for parts

Service

Back Office



True Total Cost of Ownership -- Parts, Service, Finance, IT

Parts

- **Value:** Parts can be 1-2% of your **total spend value**, but...
- **Frequency:** 70 – 90% of your **total purchase orders** will be for parts

Service

- **Frequency:** Each time there's a part, there's service
- **Cost:** Service is the most costly form of labor in your company

Back Office



True Total Cost of Ownership -- Parts, Service, Finance, IT

Parts

- **Value:** Parts can be 1-2% of your **total spend value**, but...
- **Frequency:** 70 – 90% of your **total purchase orders** will be for parts

Service

- **Frequency:** Each time there's a part, there's service
- **Cost:** Service is the most costly form of labor in your company

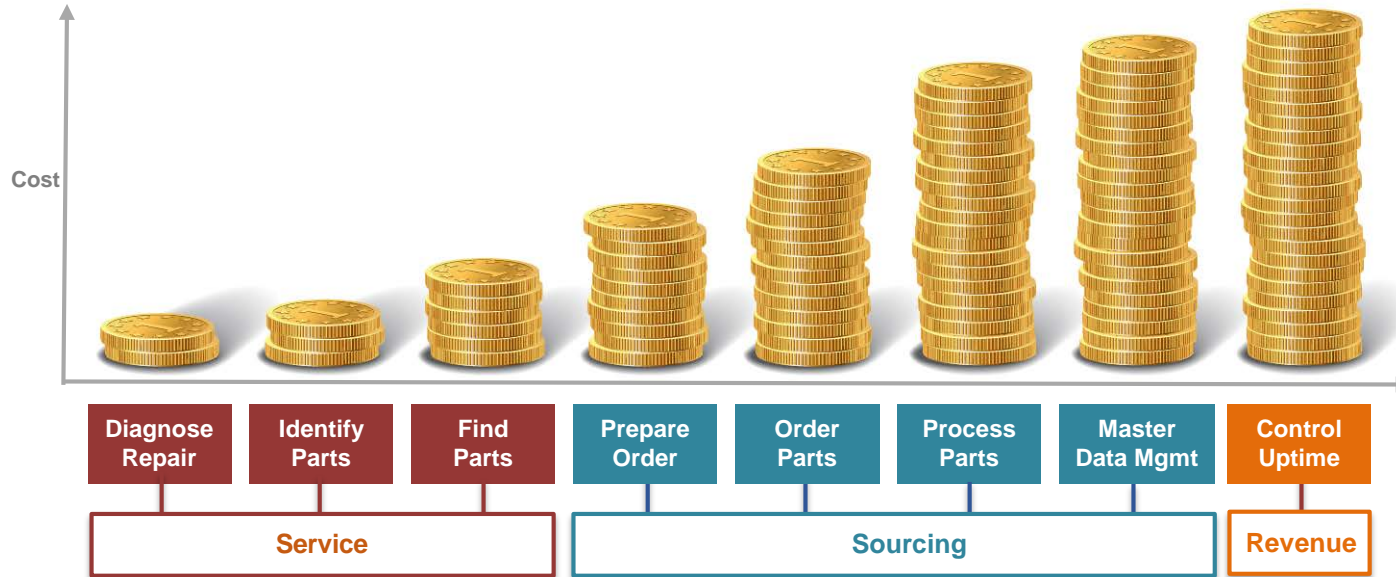
Back Office

- **Finance:** Because parts spend is most frequent and most complicated, it is most labor-intensive contribution to **Finance / Accounts Payable**
- **IT:** Because parts information keeps changing, it is the **largest item master data management challenge**



True Total Cost of Ownership -- Parts, Service, Finance, IT

An organizational workflow view of TCO



70-90% of the time fleet owners buy something, they go through this!

True Total Cost of Ownership -- Parts, Service, Finance, IT

SERVICE

What?

How?

Why?

Diagnose
Repair

Identify
Parts

Find
Parts

Deliver serial-specific information into the service workflow

Integration with owner's fleet management system

Show parts availability across multiple locations and companies

Integration across multiple stocking systems

Fleet

- Improved Cost of Service, Faster Turnaround, Increased Uptime

OEM & Dealer

- Decreased Cost of Service Support, Decreased Parts Errors, Increased Loyalty

Fleet

- Decreased search & down time

OEM & Dealer

- Increased parts sale volume

- Sunbelt Rentals freed up 580 hours of 'wrench time' per \$5 million equipment location, annually (RER 2008)



CONFERENCE
& AWARDS 2016



ACCESS, LIFT & HANDLERS
ALH

khi

True Total Cost of Ownership -- Parts, Service, Finance, IT

SOURCING

What?

How?

Why?

Prepare Order

Order Parts

Process Parts

Master Data Mgmt

- Auto-populate work order, purchase requisition, purchase order, & receiver
- Conduct buyer/seller match at time of order

Integration with procurement system

Fleet

- Increased order accuracy, decreased downtime, decreased back office AP time & cost

OEM & Dealer

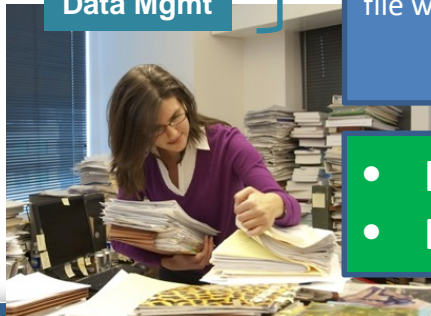
- Decreased order errors and AR time & cost
- Decreased AR time

Auto-populate item master file with OEM information

Fleet

- Decreased data management time and cost
- #### OEM & Dealer
- Decreased mis-orders / service support cost

- Decreased AP department 35% while doubling size of fleet & revenue
- Decreased centralized category tech mgmt staff from 35 to 2



True Total Cost of Ownership -- Parts, Service, Finance, IT

Uptime & Revenue

- For each hour of service time savings, you **improve fleet availability by one hour**
- Therefore, **making service more efficient directly increases uptime**

True Total Cost of Ownership -- Parts, Service, Finance, IT

Uptime & Revenue

- For each hour of service time savings, you **improve fleet availability by one hour**
- Therefore, **making service more efficient directly increases uptime**

Specifically:

Improved fleet availability results in:

- ✓ *Improved revenue (multiply by financial utilization)...*
- ✓ *Which comes at a **low incremental cost***
- ✓ *With strong impact on **earnings**, as **majority of new revenue goes to “bottom line”***

RSC Case Study

- **Asset Utilization:** *5% improvement*
- **Revenue Growth:** *3% improvement*
- **Cost Control:** *2% savings*

EBITDA: 9% improvement

Closing Summary

- Operational efficiency improvement for fleet owners is a **positive-sum** enterprise. It is good for fleet owner, manufacturer, and dealer
- For OEMs most effective means to drive down TCO is to **connect with, and directly support** the fleet owner's equipment lifecycle through **integration**
- The impact of the OEM extends beyond the customer's service department, to the **back office (finance and data management)**
- Benefits for the OEM are not just greater customer loyalty, but **direct cost savings in service support**, as well as **direct increases in parts business**
- Uptime improvements are a direct, natural consequence of cost efficiency improvements and will increase **financial yield and profitability**