Making Wise Fleet Management Decisions

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Total cost of ownership modeling-what it is and why you need it

Landscape contractors and all business owners that use vehicles and costly equipment to service customers wrestle with common fleet questions such as: "How long should I own (or utilize) a machine or asset?" and "When is the best time to dispose of it?"

If these two questions sound like they mean the same thing, please be careful. They're two distinctly different questions, derived from different perspectives. Yet, if considered together, they lead to one conclusion: identifying the ideal time to dispose of a fleet.

The question of "How long to keep an asset?" really means what's the life expectancy of a given asset and, consequently, what's the best time to dispose of it?

Landscape contractors, and the owners of all small businesses that rely upon vehicles and production equipment to service customers, need to build these expectations into their financial models so they can make sound fiscal decisions. Their goal is to utilize total cost of ownership (TCO) modeling to anticipate costs – direct and indirect – to budget more precisely and to avoid surprises. They must start with a solid model so they can track progress and expenses and make good decisions, such as when to buy, sell, hold, trade or scrap an asset.

Effective TCO models will eventually lead to a conclusion that the time has come to dispose of a unit based on its condition, cost, performance and/or future potential. In other words, the asset will be recognized as at the end of its useful life and it has to go. Decisions to dispose of equipment usually factor in variables such as depreciation, parts and service expense, downtime costs and the increased production possible by using newer, more advanced units. Ultimately, TCO models suggest when the overall expense of an asset is greater than its return. Consequently, instead of encouraging the fleet manager to squeeze extra life out of an asset, which is a common trend, TCO is just as likely to encourage disposal and/or replacement.

These types of decisions can't be measured in a bubble, however, and shouldn't be based solely on internal data. It's almost never in a company's best interest to exhaust the entire useful life of an asset, which is where the next dilemma enters: when to sell.

This decision tends to be more outwardly focused and usually encompasses considerations, such as fair market value (FMV) and general market conditions. Often used for leveraging opportunity and timing, this question usually plays out with those working to capture the top dollar for an asset. Contractors utilizing an FMV approach are keenly aware of the value of the item, are often less attached to the asset, and are open to frequent fleet changes.

Fair market data is available from industry sources, including manufacturers, auctions, dealers, data services, listings companies, brokers, and, yes, even eBay or Craigslist. Some of the most useful are auction houses and dealers. Auctions, especially no reserve auctions, are a great example of pure market demand, albeit measured at wholesale. An auction usually provides a true value of the equipment. Dealers also provide additional insights into marketability as well as the wholesale-retail price range.

So if we agree that it takes a TCO approach to measure an asset's cost or contributions, and we agree we need to understand FMV to learn the best time, when the asset is at its highest value point, to dispose of it. The next step is to create a plan.

Form a plan

It's important to secure a format that works for you, perhaps starting on the Internet and participating in peer groups such as LinkedIn. Online resources can help landscape companies create and monitor TCO for their fleet, as well as research fair market value. Peer group interaction and networking is a great help in avoiding costly mistakes made by others.

Next, build a fleet plan that takes into account three perspectives: your company culture, the manufacturer, and the all-important dealer channel. Most contractors do not focus enough on the dealer, yet they're vital to the process of acquiring and maintaining a healthy fleet. Service is a key driver after the sale, and owners need to make sure they have a dealer they can depend on and maybe even a place to trade-in.

The first data point for TCO modeling is you, the owner or the fleet manager. Develop a process to capture relevant financial data. This can be challenging because of blended fleet pools, field repairs made on the fly and rotating equipment between your crews among other factors. Even so, it's important. This data should quantify the money spent on fleet and break it down to the individual units being used. By isolating issues, the owner or fleet manager knows precisely where money is being spent.

The next data point is the manufacturer. They tell you a lot about their design intentions, hours of use expectancies, warranty rates, and finance costs. Don't be afraid to ask questions. Start with the manufacturer and find out what kind of life cycle they experience from their products.

Lastly, reach out to your dealer, and the customer references they provide, for additional due diligence on actual life cycle results. Dealers regularly juggle between new and used; retail and wholesale; features and benefits; etc. They're well-suited to identify what a used asset is worth and uniquely positioned to facilitate the transaction. Simply ask them the value and learn about retail versus wholesale and what this will mean long term to your company.

In summary, develop a fleet modeling process that benchmarks desired outcomes against actual performance. Measure data and compare trends to keep ahead of equipment problems. The last things any contractor wants is to be stuck with costly, ineffective tools to compete or complete jobs. Worse yet are downtime surprises while working with your equipment in the field.

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