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Reduce the Total Cost of Operation (TCO) for your materials handling equipment

If you can't effectively measure the total costs associated with your equipment, how can you successfully manage it?

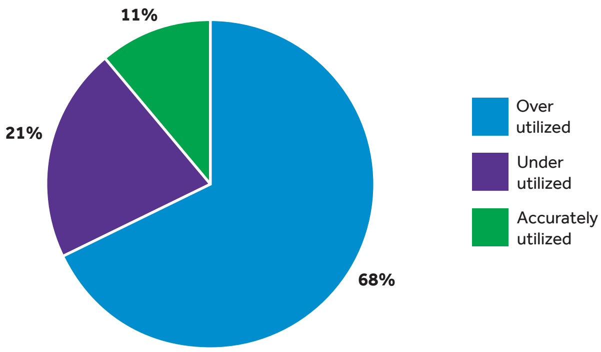
financial solutions partner

Just about every company that finances its materials handling equipment has, at one time or another, been charged overtime at the end of a lease or forced to keep equipment with escalating maintenance costs due to improperly structured finance contracts. If your organization has been immune to these aggravations, consider yourself lucky.

Why is this such a common occurrence? Oftentimes, it's because the Operations and Finance teams are not working together to effectively manage their fleet. It is no secret that these two departments have different perspectives and priorities, but the Total Cost of Operation (TCO) of your fleet is dependent upon a continuous dialogue between them. They need to communicate regularly regarding the 'health' of the fleet, which can only be determined by combining financial information with usage data and maintenance records. By analyzing this information together, organizations are better equipped to maximize their TCO.

Get rid of the guesswork

The foundation of TCO / Fleet Management is the structuring of a lease by estimating the expected annual usage of the asset. Unfortunately, this process has always been a guessing game. At DLL, our independent analysis of meter reads at end of term revealed that usage estimations are wrong 89% of the time. That means that nine times out of ten, materials handling equipment is either over- or under utilized compared to the lease allowances. When equipment is under utilized, it means the monthly payment is higher than it needs to be. And when it is over utilized, it means hefty overtime charges at the end of the contract.



It's easy to understand how this happens when you consider the conflicting motivations of the stakeholders involved in structuring a lease contract. Operations teams typically dislike overtime and request more contract hours than they need in order to avoid surprises at the end of term. Finance teams, on the other hand, are often focused on negotiating the lowest monthly payment and are later shielded from the mid- and end-of-term results of their choices (i.e., little or no in-term flexibility, restrictive and costly return conditions, high overtime fees, little or no end-of-term flexibility for extensions).

What does this mean for your business as a whole? Ultimately, it means a more expensive fleet to operate when you consider the 'Total' Cost of Operation. In order to guard your organization against the pitfalls of this guessing game, ask yourself the following questions:

1. Do you pull quarterly or annual meter reads to monitor the utilization of your fleet?

2. Do you regularly compare actual utilization data with lease contract allowances?
3. Do you base your decisions to return equipment on the condition of the asset rather than the expiration date of the lease?

If you responded 'no' to any of these questions, your organization may have lost sight of one of the most important and impactful aspects of fleet management – leveraging data to maximize utilization.

Leverage data to make smarter decisions

A collaborative relationship between Operations and Finance is not only important up front when lease contracts are being structured, but throughout the entire lifecycle of the assets as well. By monitoring actual usage data and regularly comparing it to the lease contract data, organizations are able to make critical decisions that can help lower the TCO of their fleet.

Take, for example, a fleet of forklifts that is leased for five years based on an estimated usage of 2,000 hours per year (10,000 contract hours). Halfway through the contract, data analysis reveals that some of the forklifts have been used 4,000 hours per year, while others have only been used 1,000 hours. Armed with this knowledge, you can now work with your financing partner to shorten the term of the over utilized assets in order to avoid overtime charges and escalating maintenance costs. You might also decide to extend the term of the under utilized equipment at a lower monthly payment that matches you're actual usage. Steps like these, if taken on a regular basis, can save organizations hundreds of thousands of dollars in overtime, maintenance and overpayment costs.

One common challenge is that it can be extremely difficult to gather meter reads on a regular basis, and the larger the fleet, the more complex this task can be. If your fleet professionals have access to the data, the task is fairly simple. But surprisingly, many large organizations resort to having someone manually pull meter reads on a quarterly or annual basis. Others never do it at all. Unfortunately, that means Finance teams never have access to the data they need in order to restructure out-of-balance contracts or effectively structure new ones.

If you are concerned that your Finance and Operations teams are not on the same page with regards to your fleet, here are a few tips that can help bridge the gap:

– Host an off site workshop with your Operations, Finance and Fleet groups to dig into the TCO model, and schedule quarterly health checks to discuss the status of your fleet. Invite your finance partner and maintenance suppliers to the meetings so they can share best practices as well.
– If your organization does not have a web application or platform to house all TCO information, create a spreadsheet that includes the operational, finance and maintenance data related to each asset in the fleet. Update the data at your quarterly meetings in order to identify issues and manage through them as soon as they become evident.
– If you do not have access to this data, or if your fleet is too large for excel to effectively handle, look for Software as a Service (SaaS) solutions that can house this information or find a fleet-centric financing partner that provides these tools as a value-add for your entire fleet (not just the equipment you are leasing with them).

Effective fleet management is an ongoing process that relies on regular analysis of data, including usage, maintenance costs, contract allowed hours, contract terms and conditions. Far too many companies have eyes wide open at the beginning of the contract, only to ignore their assets until the time of return. As we wait for innovations such as usage-based leasing and fleet-centric leasing methodologies to become more accepted and prevalent, the importance and ability of your finance and operations executives to speak the same language when it comes to fleet management cannot be emphasized enough. Continuous communication between the two departments and the data-driven decisions it drives will afford your organization years of successful TCO management.

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Theo Rennenberg is the Fleet Solutions Account Manager in the Construction, Transportation and Industrial Business Unit (CT&I) of DLL, a provider of fleet equipment financing and fleet management services in more than 30 countries. He is a 40-year veteran of the equipment distribution industry and has specialized in fleet management throughout his career.