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## A GUIDE TO FLEET MANAGEMENT FOR SMALL BUSINESSES

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# INTRODUCTION

If you're a small business owner with a small fleet of vehicles, buying and running those cars and vans yourself may seem like the natural thing to do.

You could have a number of reasons for choosing to own your commercial vehicles outright, rather than using the services of a leasing company or fleet management partner. Perhaps you have reservations about 'outsourcing' and prefer to keep control of your fleet.

Perhaps you believe that hire companies are only interested in contracts with blue-chip organisations. You may even feel that vehicle ownership is cheaper than a rental agreement. Or perhaps you've managed your own vehicles for many years and you just don't see the need to upset the status quo.

Each of these attitudes is understandable, and often shared by small businesses across the UK. But many of the nation's smaller firms are also starting to recognise the benefits of leasing their vehicles.

These companies realise that working with a fleet management partner doesn't mean losing control. In fact, opting to hire instead of buying vehicles - and letting the hire company manage them for you - can provide greater flexibility, financial control and business agility. Leasing companies understand the needs

of small businesses and have developed a range of options to suit them. And, most importantly, leasing vehicles can be significantly cheaper than buying them (and we've got the evidence to prove it).

In this introduction to fleet management for small businesses, we examine the options available to small fleet operators and look at the pros and cons of outsourcing commercial vehicle management. Using independent research conducted by the University of Buckingham's Centre for Automotive Management (CAM) and Ford Retail, we demonstrate why contract hire represents the most cost-effective means of procuring and operating commercial vehicles in the long term.

But first, we consider one of the biggest problems facing small companies that own their vehicles and manage their fleets in-house: downtime.

# THE TRUE COST OF VEHICLE DOWNTIME

In November 2013, research from Ford Retail found that having vehicles off the road is costing UK SMEs up to £30,000 a year.

The report, based on the responses of 250 small business owners, revealed that each fleet vehicle spends four days off the road a year on average. This typically costs a business about £200 a day in loss of manpower and productivity (although one in ten respondents estimated the cost at closer to £600).

With an average fleet size of ten vehicles, the loss would be approximately £8,000 a year. However, for small businesses operating between 21 and 30 vehicles, the cost could be closer to £30,000.

Other key findings from the research:

- One-fifth of UK SMEs set aside just £1,000 a year for their fleet's servicing and maintenance needs, despite the true cost being closer to £8,000.
- The average SME will spend about 192 hours a year on vehicle management/administration\*

“Our research reveals that many of the UK’s small businesses are seriously miscalculating the true cost of maintaining their fleets, large or small, and in most cases spending far more than is necessary.”

Alan Maloney of Ford Retail.

\*This includes services, maintenance, fuel management, purchasing, replacing vehicles, tax and insurance, and ensuring vehicles meet the necessary legal requirements

*Did you know?  
The average SME  
fleet of ten vehicles  
clocks up a combined  
156,624 miles a year  
(source: Ford Retail).*

# THE BENEFITS OF LEASING & FLEET MANAGEMENT

Outsourcing the management of your fleet to a specialist provider means minimal downtime and maintenance costs.

All servicing, breakdown and other maintenance costs are included in your rental fee - right down to tyre inspections and replacements. If there's a problem with one of your vehicles, a replacement can be provided to keep things moving.

These are just two of the benefits that small businesses can enjoy by choosing to lease their vehicles. You should also consider the following:

## Financial benefits

### Tax benefits

Lease payments are tax deductible.

### VAT savings

If your vehicles are used exclusively for business, you can claim back 100% of the VAT.

### Preservation of capital

You won't incur major capital costs, unlike vehicle purchase.

### Better debt-to-equity ratio

Vehicles won't appear on your balance sheet.

## Other benefits

### New vehicles

You'll have access to the latest registrations.

### Exceptional choice

Your leasing company should provide a wide choice of models and manufacturers.

### Experience and specialist expertise

No need to recruit an in-house fleet manager - let the experts handle the day-to-day running of your fleet.

## WHY BUY? - THE OFFICIAL VERDICT

We understand the financial benefits of commercial vehicle leasing, and we know that renting rather than buying vehicles can result in significant long-term savings. But we don't ask small businesses to simply take our word for it. We offer academic evidence.

In 2013, the Why Buy? report\* was published by Professor Peter Cooke of the University of Buckingham's Centre for Automotive Management (CAM). This report, which looked specifically at LCV provision, explored the proposition that "for most businesses, commercial vehicle rental would be more cost effective than purchasing".

Following a detailed consideration of both options for commercial vehicle acquisition (leasing and ownership), Prof Cooke concluded that "the case comes down strongly in favour of hire in all but a few instances".

The report explored each facet of purchasing and leasing. While owning vehicles outright does of course have some advantages (unlimited mileage, for example), they were shown to be outweighed by the benefits of renting.

Prof Cooke's findings indicate that leasing vehicles typically

**Increases productivity** as a result of reduced 'off-road' time

**Lessens risk** because businesses are not exposed to rising purchase prices and the fluctuating used vehicles market

**Releases capital** that would otherwise be locked up in rapidly depreciating assets

**Reduces stress** by passing responsibility for compliance and legislation on to someone else, leaving business owners free to concentrate on growth

\*Click here to download the full report

# FLEET OPTIONS FOR SMALL BUSINESSES

Prof Cooke's report also explores the different options available to businesses seeking a leasing and/or fleet management service. Vehicle rental companies will typically provide a range of options, offering varying degrees of flexibility.

Firstly, there is simple **finance leasing**. Typically supplied by bank-supported leasing companies, this option comes with no additional support in terms of fleet management. It is simply a means of acquiring vehicles without purchasing outright. The user must manage and maintain the fleet themselves, as this 'bare bones' arrangement effectively represents a loan to buy the vehicles and nothing more.

Typically, rental companies will also offer **long-term flexible rental** and contract hire packages, under which the vehicle provider is entirely responsible for the management and maintenance of the fleet.

With a long-term flexible rental agreement, the customer will usually sign up for six to 12 months but maintains the right to return the vehicle without notice. They also have total flexibility to scale the size of the fleet up or down, depending on their requirements.

Contract hire is another option. Aimed at businesses seeking a more long-term solution, a contract hire agreement sees the customer commit to hiring the vehicles for a minimum period (usually three years). They cannot return the vehicle before that time is up without honouring the full contract amount.

The leading rental companies will offer variations on these typical packages, and aim to combine the benefits of different options in one solution. Businesses could find an agreement that fits somewhere in between long-term flexible rental and contract hire.

## An example of how this could work:

The customer signs up to a three-year deal with an agreed % annual rate increase written into the contract, but they also have the right to return the vehicles at any point during the three years with a minimum notice period (for example, 14 days). In the event that some or all of the vehicles are returned early, the rate is retrospectively adjusted back to the flexible rental cost and the customer pays the difference on those vehicles (essentially they can never be worse off than the flexible rental rate, but could be significantly better off than if they terminated a contract hire agreement in years one or two of a three-year deal).

# OWNING YOUR FLEET

Despite the clear advantages of leasing vehicles in many cases, it's important that small businesses consider all the options available to them.

As the Why Buy? report indicates, there are certain circumstances in which owning vehicles is likely to hold more appeal to fleet operators than renting. Prof Cooke outlines the following benefits for LCV purchase:

- The operator has complete control over its vehicles and can treat them as it wishes, subject to legal and any contractual requirements.
- The operator can dispose of vehicles as and when it sees fit and set replacement cycles according to its own rules.

- Vehicle acquisition may utilise any spare funds the business does not have an alternative use for.

In addition, there are two more situations in which vehicle ownership represents the preferable course of action. These are based on specific business scenarios that would make it difficult for a leasing company to meet the potential customer's requirements.

## 1. If your business isn't creditworthy.

For obvious reasons, a vehicle provider is unlikely to enter into an agreement with a company that has poor credit. However, with many rental and leasing companies offering increasingly flexible products and payment terms, it is advisable to check first.

## 2. If you require an unusual vehicle specification.

Although leasing companies often have specialist vehicles in their fleets, they may not be priced competitively for more unusual requirements because of the need to balance rental rates with estimated disposal value at the vehicle's end of life. In cases like this, buying the vehicles may make more sense.



## MORE THAN A COST SAVING

Choosing to rent fleet vehicles rather than buy them is not just a question of cost. And when businesses sign a rental agreement, they're not simply taking advantage of a cheaper way to acquire commercial vehicles.

As well as the financial advantages, there are a host of other benefits to outsourcing the provision and management of vehicles, many of which we've already touched upon.

Among the strategic benefits of LCV outsourcing listed in his report, Prof Cooke noted that the leasing company "provides a high level of service and support against an appropriate hire agreement".

This level of professional service is a key additional benefit of choosing to hire your fleet, and should not be

underestimated. There are several aspects to it. Firstly, small businesses can access a dedicated fleet management team that simply would not be justifiable as an internal resource. But they also benefit from a high standard of customer care when things go wrong: 24-hour breakdown and recovery, mobile mechanics and an expert at the end of the phone who knows the fleet inside-out.

Of course, specialist vehicle rental companies also have years of industry experience that makes them an ideal partner, with the know-how to recommend the right vehicles and give advice in other key areas.

However, businesses are provided with more than just expertise when they choose a fleet management partner. They also gain access to the latest

technology. New systems to make vehicles safer, more efficient and simpler to monitor are being developed all the time. It's the job of leasing companies to keep up with these technological advances and pass them on to their customers, making their lives easier.

*"Decisions to move from company-owned vehicles to outsourced - a hired fleet - are essentially cost based. However, there are a number of additional strategic, management, financial and operational issues to be considered, as well as choice of vehicle provider."*

*Prof Peter Cooke  
Why Buy? report*

Here are a few more advantages of outsourcing fleet management to a specialist provider:

### Telematics

Telematics systems enable fleet operators to track the whereabouts of their vehicles, plan routes in response to real-time traffic updates and monitor the performance of their drivers. Of course, installing the technology is not cheap, but working with a fleet management partner can make it affordable.

### Fleet management tools

Businesses that allow a specialist company to look after their fleet can also benefit from the latest fleet management tools. Some providers have developed

innovative platforms that essentially provide a window into their back-office systems. This means businesses have live, remote access to information about their vehicles - including those that are off the road - and can easily monitor the latest developments in servicing, maintenance and compliance.

### Additional specification requirements

Small businesses can find it difficult to get hold of particular pieces of equipment if they buy their own vehicles. They may not know which suppliers to approach, or be charged a high price for one-off modifications. On the other hand, specialist vehicle providers have the experience, know-how and contacts to kit vehicles out with custom

requirements at a moment's notice. This means businesses that need to source tow bars, beacons, Chapter 8 livery or other additions will see their needs met quickly, with a minimum of fuss, by partnering with a fleet management firm.



## CONCLUSION

While there are certain scenarios in which buying commercial vehicles outright can still work for a small fleet, the advantages of partnering with a specialist company (to provide and manage the vehicles) are too numerous to ignore.

Choosing a fleet management partner is not simply a cost-motivated decision, as the outsourcing arrangement also brings a number of strategic and operational benefits into play.

As well as the large fleet of vehicles at their disposal, vehicle hire companies like Burnt Tree have the contacts, relationships, industry expertise and buying power to help small businesses run their fleets in a responsive, cost-effective and highly efficient manner.



## ABOUT BURNT TREE

As one of the largest commercial fleet operators in the UK, we've got a lot of miles under our belt. Our national network of strategically placed locations means you can find us throughout the UK.

When you choose Burnt Tree, you get the country's leading independent commercial vehicle rental and contract hire company on your side. Whether you need a fleet of vans for five years, a specialist vehicle built to your exact specifications or a car for a single day, we work hard to be the rental partner you can rely on.

From the moment you call us, visit us or land on our website, you'll enjoy the best service we can give, tailored exactly to your business needs. You'll benefit from the expertise of a knowledgeable and friendly team, get help with choosing the right vehicles, and experience fast, efficient maintenance that keeps you on the road and cuts your downtime to a minimum.

Our clients range from individuals and small private businesses to major blue chip organisations and local authorities across England, Scotland and Wales.

So, whatever your needs, choose Burnt Tree for the right vehicles, the best service and a team that's dedicated to keeping you and your business on the road.

[www.burnt-tree.co.uk](http://www.burnt-tree.co.uk)