Fleet Forum

Innovative Strategies for the Road Ahead

UNDERSTANDING TOTAL COSTS OF OWNERSHIP

What is Total Costs of Ownership (TCO)?

Total cost of ownership (TCO) is a financial estimate intended to help buyers and owners determine the direct and indirect costs of a product, in our case vehicles. TCO, when incorporated in any financial benefit analysis, provides a cost basis for determining the total economic value of an investment.

A TCO analysis includes total cost of acquisition and operating costs as well costs related to replacement or upgrades at the end of the life cycle.

Why is TCO Important in Fleet Management?

The TCO defines the cost of owning a vehicle from the time of purchase by the owner, through its operation and maintenance to the time it leaves the possession of the owner.

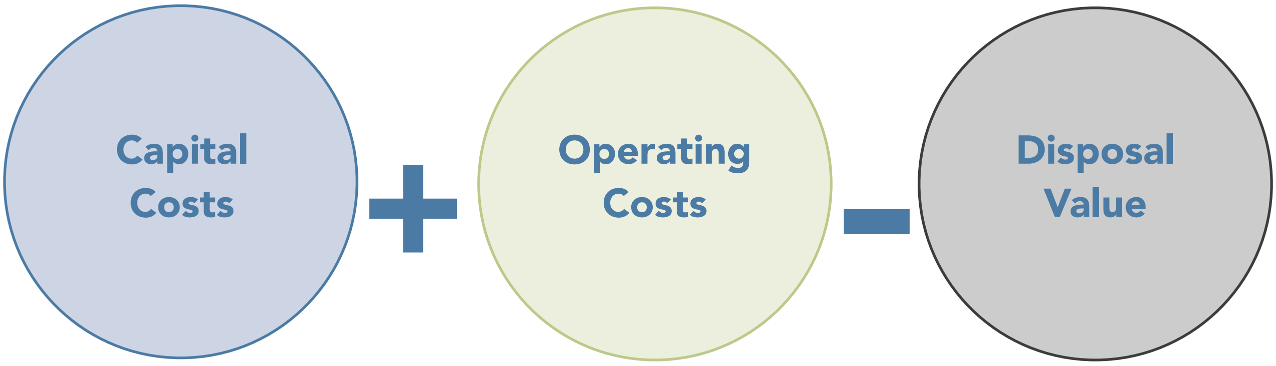
TCO is useful when making decisions around:

- Budgeting and planning
- Asset lifecycle management
- Vehicle selection
- Vendor selection
- Lease vs. buy decisions

If organisations do not take all the costs related to owning a fleet of vehicles (when calculating their fleet costs), it can lead to a series of challenges (e.g. insufficient funds to maintain and repair the vehicles, to hire a fleet manager or to organise driver training.

What costs should be considered?

The formula to calculate the TCO of a vehicle is as follows:



Total Cost of Ownership

Capital costs:
These are the costs of purchasing the vehicle and putting it into service, including transport and accessories.

Operating costs:
Expenses of running the vehicle, including fuel, staffing costs, insurance and maintenance and repair. Make sure to also include costs for driver training.

Disposal value:
This includes the proceeds of the sale when the vehicle is sold.

Fleet Forum has developed a TCO calculator, which can be used for the above-mentioned purposes. For more information on using Total Costs of Ownership, contact us on: info@fleetforum.org.

How Can We Apply TCO?

The more aware the Fleet Manager is of the full financial implications of providing transport to staff, the better placed they are to optimise it.

Management Decisions	Why is TCO Important?
Budgeting and planning	• Making and allocating a budget for fleet that includes all the costs related to fleet will ensure that the organisation has sufficient funds to operate its vehicles in an effective and efficient manner. • Having full insight into the TCO of a vehicle will allow the Fleet Manager to accurately provide fleet cost inputs when programme proposals are being drafted.
Asset lifecycle management	• Having full insight into the TCO of a vehicle will help in determining the optimum lifetime of the vehicle per vehicle type. • It can also help the Fleet Manager in determining which vehicles should be disposed and what disposal method is most cost-efficient.
Vehicle Selection	• Capturing and measuring the TCO of different vehicles makes and models in the fleet can guide the Fleet Manager's decision-making when purchasing vehicles. • For example, Vehicle Model A might have a lower purchase price than Vehicle Model B, but the TCO of Vehicle Model B might be lower because the costs to maintain and repair the vehicle are cheaper. If we only consider the purchase price, we might think we are being the cost-efficient option, when this is actually not the case. • In urban environments, using the TCO approach can also give the Fleet Manager the leverage to advocate for the use of sedans, instead of 4x4s.
Vendor Selection	• Having full insight into the TCO of a vehicle will help in reviewing the different service providers on the market (in terms of maintenance and repair, rental etc.) and determine which provider offers the most cost-efficient service.
Lease vs buy	• Most organisations consider using rental companies when i) Programmes need additional transport capacity for a specific period of time, where procuring vehicles would not be appropriate or cost effective, ii) For short-term projects with 6 – 12 months duration and iii) the availability of rental service providers is good and less expensive (e.g. in capital cities). • To get an accurate understanding of the potential cost savings, the Fleet Manager should use the TCO approach to conduct a cost comparison between buying and renting vehicles in the respective context.