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Fleet Financial Mastery: Expert Strategies for Cost Management & Internal Billing

AGILE FLEET™
FLEET MANAGEMENT SOLUTIONS

Fleet Financial Mastery: Expert Strategies for Cost Management & Internal Billing

Among the multitude of challenges that fleet managers face each day, perhaps none looms larger than their need to accurately analyze and understand their organizations' cost allocation and billing procedures. This challenge is especially urgent for fleet managers in zero-profit, break-even organizations. When balancing annual budgets is one of their paramount performance tasks—perhaps *the* paramount performance task—fleet managers must utilize every tool and strategy that can best position them to achieve this requirement.

By its very nature, fleet management is a complex enterprise. To set rates and align expenditures precisely with revenues requires fleet managers to plan cost allocation across departments that often include a variety of vehicles, drivers, and different vehicle uses and requirements. To accurately calculate, allocate, and track costs between departments -- and implementing the billing strategies and procedures that will cover them -- is clearly no small or simple task. In addition to this task, fleet managers must also continuously seek ways to optimize their fleets' operations and performance.

These challenges can be met more effectively if fleet managers employ advanced tools and methodologies such as FleetCommander. When leveraged fully, FleetCommander's five innovative algorithms can provide managers with a nuanced, data-driven basis for calculating internal charges, and also facilitate an in-depth understanding of both fixed and variable costs and potential operational improvements. This white paper provides a comprehensive guide to both cost analysis and billing strategies in fleet management, and focuses on the critical aspects of rate setting, labor categorization, marginal costs, and the implementation and utilization of FleetCommander's robust billing algorithms.

Comprehensive Cost Analysis for Rate Setting

One of the most crucial steps that fleet managers are responsible for in leading zero-profit, break-even organizations is the establishment of accurate and sustainable rates for vehicle use. This process, known as rate setting, requires a detailed understanding and inclusion of the various costs associated with fleet operations. Let's explore the cost components that should be factored into the rate-setting process.

- **Acquisition/Disposition**: The initial cost of acquiring vehicles and the eventual expenses associated with their disposition are fundamental to rate setting. Fleet managers must accurately factor in the purchase price of new vehicles and the costs incurred when retiring old ones, such as resale or recycling expenses.

Depreciation: Another key factor in rate setting involves determining vehicle depreciation over time. Calculating accurate depreciation rates that reflect the diminishing value of the fleet is essential to the fleet manager's rate setting task.

Insurance: Fleet managers must also calculate insurance costs when setting their fleets' rates, including vehicle insurance (which covers damages to fleet vehicles), business insurance (which protects against broader operational risks), 'Loss of use' insurance (which covers the cost of not being able to use a vehicle), and each policy's deductibles.

Overhead and Administrative Costs: Management-related costs of running the entire fleet operation must also be factored into the rate setting calculation. This broad category includes:

- **Labor and Benefits**: Costs associated with the workforce employed in fleet management, including salaries, benefits, and any additional labor-related expenses
- **Office Supplies & Advertising**: The day-to-day running of the fleet management office, including marketing and promotional activities
- **Facility Costs:** Expenses related to the physical space used for fleet operations, such as rent, electricity, maintenance, and security.
- **IT, Phones, and Utilities:** Costs associated with technological infrastructure, communication systems, and the utilities necessary for fleet operations
- **Miscellaneous Expenses:** Any other indirect costs that contribute to fleet operations

Capital Improvements: Investments in enhancing or upgrading fleet facilities, equipment, and technologies fall under this category. These improvements often lead to long-term cost savings and efficiency gains.

Fuel: One of the most variable -- and significant -- costs in fleet operations is fuel expenses, which vary based on vehicle usage, fuel efficiency, and market prices.

Maintenance: Regular maintenance and repair costs are vital for keeping the fleet operational and safe. This includes routine servicing, parts replacements, and unexpected repairs.

Incorporating these diverse cost elements into the rate-setting process is not just about financial accuracy, fleet sustainability, and organizational transparency; for a zero-profit, break-even fleet manager, accurately incorporating these elements into rate setting plays an integral part in helping the organization meet its budget-balancing requirements. By comprehensively accounting for these expenses, break-even organizations can set rates that reflect the true cost of vehicle use, supporting informed decision-making and strategic financial planning.

Understanding Direct Labor, Indirect Labor, and Marginal Costs

In fleet management, understanding and managing labor costs is crucial. Labor is categorized into two types: direct and indirect, each playing a distinct role in the operational and financial aspects of a fleet management operation. Direct labor is defined as the labor that is directly involved in performing maintenance services, otherwise known as billable hours. Examples of direct labor include changing the oil or replacing a tire on a vehicle. These tasks are quantifiable and directly tied to specific services provided. Indirect labor -- necessary tasks that do not directly contribute to a specific service -- is considered as unbillable hours. Examples of indirect labor include activities such as staff meetings, training sessions, and inventory management. Though they are not linked to a specific service, these tasks are essential for overall operational efficiency.

Understanding marginal costs is another fundamental aspect of effective fleet management, particularly when setting rates and assessing the overall financial health of the organization. Marginal costs are defined as the increase or decrease in total costs incurred by serving an additional customer or, in the context of fleet management, by managing one more vehicle or task. Marginal costs can vary significantly based on numerous factors like vehicle type, maintenance requirements, and operational needs. For example, the marginal cost of adding another vehicle to a fleet encompasses not just the purchase price, but also the incremental expenses of additional maintenance, fuel, and insurance. Similarly, a new service or operation brings additional costs, which might include, for example, direct and indirect labor and increased fuel consumption.

Understanding these costs is crucial for setting rates that are not only competitive but also reflective of the true cost of providing fleet services. It’s essential to compare your rates not just with competitors but also with similar organizations (such as other universities, if you work in a higher education setting). This comparison ensures that your rates are market-aligned while covering all marginal costs.

FleetCommander's Robust Billing Algorithms

FleetCommander offers a range of sophisticated billing algorithms, designed to cater to diverse fleet management needs. These algorithms provide flexibility in billing, ensuring that charges are accurately aligned with vehicle usage. Let's dive deeper into the billing algorithms that FleetCommander offers.

1 Standard Billing Algorithm A (Weekly, Daily, Mileage)

The vehicle use charge for this algorithm includes a weekly and/or daily charge. Days are counted as calendar days (e.g., 9/1/2020 9:00 AM to 9/2/2020 9:00 AM = 2 days). Weeks are calculated as 7 days, but a period of 5 days or more is rounded up to a full week. Reservations are billed for the number of weeks at the weekly rate and the number of days at the daily rate.

2 Standard Billing Algorithm B (Monthly, Weekly, Daily, Hourly, Mileage)

The vehicle use charge for this algorithm includes an hourly charge or a combination of monthly, weekly, and/or daily charges. Days are counted as 24-hour days and they are always rounded up (e.g., 9/1/2020 9:00 AM to 9/2/2020 9:01 AM = 2 days). Weeks are calculated as 7 days and are never rounded up. Months are calculated as 30 days and rounded up at 21 days (e.g., 51 days = 2 months). Reservations lasting 4 hours or less are billed for the number of hours at the hourly rate. Otherwise, they are billed for the number of months at the monthly rate, the number of weeks at the weekly rate, and the number of days at the daily rate.

3 Standard Billing Algorithm C (Monthly, Weekly, Daily with Minimum Charge)

The vehicle use charge for this algorithm includes either a minimum charge or a combination of monthly, weekly, and/or daily charges. The minimum charge is applied to reservations lasting 4 hours or less. It is calculated as half the rate per day. Reservations lasting more than 4 hours and 24 hours or less are charged for 1 day. For reservations lasting more than 24 hours, days are counted as 24-hour days and they are always rounded up. Weeks are calculated as 7 days, and they are rounded up at 6 days. Months are calculated as 30 days and rounded up at 3 weeks. While months are calculated as 30 days, a period of 31 days is always billed for one month, rather than for one month and one day. Reservations are billed for the number of months at the monthly rate, the number of weeks at the weekly rate, and the number of days at the daily rate.

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Standard Billing Algorithm D (Daily Charge, Mileage)

The vehicle use charge for this algorithm includes a daily charge. Days are counted as 24-hour days and they are always rounded up (e.g., 9/1/2020 9:00 AM to 9/2/2020 9:01 AM = 2 days). Reservations are billed for the number of days at the daily rate.

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Standard Billing Algorithm E (Monthly, Weekly, Daily with Calendar Day Counting)

The vehicle use charge for this algorithm includes either a minimum charge or a combination of monthly, weekly, and/or daily charges. It is the same as Algorithm C, except that days are calculated as calendar days, rather than 24-hour periods. The minimum charge is applied to reservations lasting 4 hours or fewer. It is calculated as half the rate per day. For reservations lasting more than 4 hours, days are counted as calendar days (e.g., 9/1/2020 9:00 AM to 9/2/2020 9:00 AM = 2 days). Weeks are calculated as 7 days, and they are rounded up at 6 days. Months are calculated as 30 days and rounded up at 3 weeks. While months are calculated as 30 days, a period of 31 days is always billed for one month, rather than for one month and one day. Reservations are billed for the number of months at the monthly rate, the number of weeks at the weekly rate, and the number of days at the daily rate.

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Custom Billing Algorithms

In addition to the standard billing algorithms, FleetCommander also offers custom billing algorithms that can include combinations like rental rate plus mileage rate, rental rate plus exact fuel costs, only fuel costs, or even no billing at all.

Each of these algorithms provides a unique approach to billing, enabling your organization to choose the one that best aligns with your usage patterns and financial goals. The flexibility to select or even customize a billing algorithm ensures that FleetCommander can adapt to a wide range of operational needs, simplifying billing processes while ensuring accuracy and fairness in charges.

Optimize Your Billing Process with FleetCommander

Creating a streamlined and effective billing process involves several key steps, starting with the selection of the appropriate billing algorithm for your organization. This decision ultimately drives the success of everything that happens next: implementation, execution, and resolution. In other words, your algorithm selection becomes the heart of your billing strategy, and this decision must be made analytically. As detailed above, FleetCommander offers five standard billing algorithms, in addition to custom options that can be tailored to your organization's specific fleet usage patterns and financial goals. Again, choose carefully and wisely. Your algorithm selection provides vital information - and hopefully successful results - when you are evaluating what rates to set for your organization.

Once the appropriate algorithm is chosen, the next step involves collaborative efforts with key departments such as accounting, risk management, and auditors. Their collective expertise ensures that the billing strategy comprehensively addresses all financial and risk-related aspects of your organization's operations. It's also essential that staff members are thoroughly trained and comfortable with the chosen billing algorithm, understanding its nuances and the implications of any changes during a rental period.

From selecting the ideal billing algorithm to seamless implementation and continuous support, Agile Fleet is your dedicated partner in optimizing your fleet operations. Our expert team collaborates with you at every step, ensuring a tailored, efficient, and successful fleet management experience

Effective client communication is another cornerstone of a successful implementation of the billing process. Providing clients with easy-to-understand rate sheets and user-friendly rate calculators aids in transparent cost estimation and enhances the overall efficiency of the billing system.

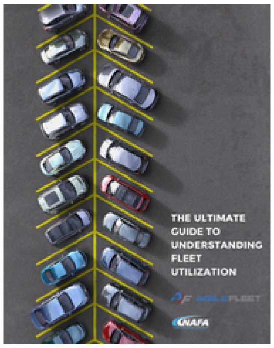
Moreover, once your billing system is in place, your organization can maintain its competitiveness and financial sustainability by regularly analyzing how your rates compare to your competitors and other organizations.

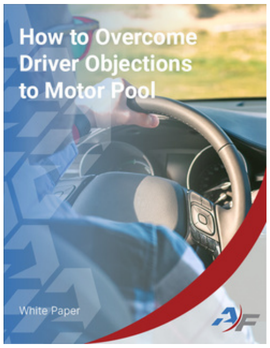
By incorporating these factors into their planning, fleet managers can successfully establish a billing process that is efficient, user-friendly, and conducive to a successful fleet management operation. Remember, budgets don't balance themselves easily or automatically. Proactive fleet managers will achieve these results through careful analysis, decision-making, and execution of their plans.

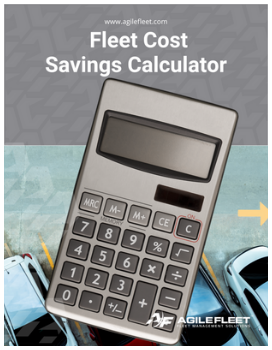
The Agile Fleet Way

At Agile Fleet, we understand that navigating these choices can be complex. That's why we are not just a service provider – we are your dedicated partner. Our team of experts is committed to guiding you through every step of the billing implementation process, ensuring that the billing strategy you choose aligns perfectly with your organization's unique needs. From the initial selection of the most suitable algorithm to the final stages of implementation, we are here to provide support, insights, and solutions. And our support doesn't end there. Even after the implementation of FleetCommander, Agile Fleet's Customer Success department remains at your service, functioning as a continuous support system to ensure our clients experience continued success and optimal usage of our fleet management solutions. We are committed to making your fleet management journey as smooth and efficient as possible and we are here to help, every step of the way.

Resources for the Fleet Management Community







Ready for the next step?

Schedule a consultation with our team of fleet experts. We'd love to learn more about your specific needs. We can provide a 10-year fleet savings assessment, provide a demo, and share stories of how we've helped other organizations. Scan the QR code to get started!

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