Lease vs. Buy
Fleet Management Awareness Month Webinar

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Lease vs. Buy

• Why it is important to make good decisions regarding leasing vehicles from GSA* or purchasing them through GSA AutoChoice

• Public and private fleet managers must also compare commercial Lease vs. Buying vehicles

• Advantages and Disadvantages of Leasing vs. Buying
Importance of Lease vs. Buy Decision

• Required by GSA FMR B-30*
• Can produce substantial savings
• Is a fleet management best practice

* Pertains to Federal fleets
Basics of Fleet Costs: Typical Dollar

- Depreciation: $0.45
- Maintenance & Repair: $0.34
- Fuel: $0.19
- Indirect Costs: $0.02
Lifecycle Cost Analysis
Capital, Operating and Total Cost Trend Lines

(Single-Axle Dump Truck)

Total Cost of Ownership
Ideal Replacement
M&O Cost
Depreciation

Replacement Cycle (years)
What are Direct Costs?

• For Owned Vehicles:
  • Depreciation
  • Fuel
  • Maintenance
    • Labor, Parts, & Commercial Repairs

• For GSA* Leased Vehicles:
  • Sum of Monthly Fixed Charge and Mileage Charges, plus end-of-lease charges (charge back)

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Vehicle Cost Categories

• Variable or Operating Costs
  • Gasoline
  • Maintenance (oil)
  • Tires

• Capital or Fixed Costs
  • Market Depreciation
  • License & Insurance

• Costs for Your Owned Vehicles
  • Depreciation
  • Fuel
  • Maintenance (Labor, Parts, & Commercial Repairs)
Vehicle Cost Categories (Cont.)

- Costs for Your GSA* Leased Vehicles:
  - Sum of Monthly Fixed Charge and Mileage Charges
  - End-of-lease charges

- Overlooked costs?
  - Upfitting
  - Replacement Tires
  - Others?

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Depreciation Defined

• For accounting
  • A system of accounting methods that distributes (allocates) the cost of an asset, less salvage value, over the estimated useful life of the asset.

• For replacement planning
  • The decline in value of assets.
  • The initial purchase price minus the current fair market value (FMV).

• Note: Residual value -- another name for salvage value or re-sale value (For Federal fleets also see “Exchange/Sale”).
Lease vs. Buy

• Example of FMV Depreciation

• Purchase cost = $33,000
  • Upfitting cost = $2,000
  • Total cost = $35,000
  • Resale proceeds = $3,000
  • Life = 8 years
  • Depreciation
  • $35,000 - $3,000 = $32,000 ÷ 8 = $4,000/year
What are Indirect Costs?

• Salaries and benefits, and other expenses of all fleet management personnel
• Computer software, hardware, and support services and administrative supplies and equipment
• Cost of offices and garages (garage operating equipment) used for fleet management.
• Ancillary costs such as utilities and custodial services
• Tort claims resulting from accidents involving fleet vehicles
GSA* Leasing Pros

- Eliminates need for one-time significant cash outlay
- Reduces fleet management and administration time
- Responsibility for the fleet management information system falls upon GSA*
- Replacement of vehicles occurs in a timely manner

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GSA* Leasing Cons

- Information systems not integrated with owned fleet
- Many types of vehicles and equipment unavailable for lease
- Can be higher cost for certain vehicle types
- Can be higher cost for low-utilization vehicles
- Can be higher cost for rough service due to “refurbish” cost at time of turn in

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Owning (Buying) Pros

- Can be lower cost for certain types of vehicles or vehicles that have low utilization

- Can retain vehicles for longer period of time than required by GSA Fleet (advantageous for low-utilization vehicles)

- Can be lower overall cost when life-cycle costing drives the replacement cycle and vehicles are replaced at the most cost-effective time in the cycle

- Vehicles can be upfitted with special equipment more easily, and can be sold without having to remove the special equipment
Owning Cons

- Significantly increases fleet management/administration time
- Financial demands for replacement are less predictable
- Requires sufficient capital for timely replacement of vehicles
- Fleet age typically reaches high levels
- Places the burden on the component to provide an FMIS
Example: Break Even Point

Life Time Cost (Purchase vs. GSA Lease)
Sedan, Compact

Break Even Point
9,690 Miles Per Year

Cost

Miles Per Year

Purchase Cost
GSA Cost
Suggested Actions

- Develop Fleet Handbook, and support with training (to standardize data gathering and calculation methods)
- Identify all indirect costs at a few garages and extrapolate (e.g. indirect cost avg. is $X per vehicle)
- Develop TCO for selected vehicle types and assess cost differential against current age of fleet
- Undertake rigorous lease vs. buy analysis for key vehicle types and justify as required for the FMP*

*Pertains to Federal fleets
Summary

- Consider ALL costs when comparing leasing vs. buying
- FMP and FAST require drill-down analysis of leasing vs. buying
- Use a Total Cost of Ownership (TCO) analysis for owned vehicles
- Consider the “soft” and indirect costs associated with owning
- Higher annual mileage vehicles favor leasing
- Lower annual mileage vehicles with longer lifecycles favor owning
- Optimize owned vehicle lifecycles using TCO
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