OUTSOURCING YOUR FLEET:
The good, the bad, the ugly and how to get the most out of it
Shaun Ramanat
Co-founder and Director, Flash Vehicles

Flash Vehicles
- Rentals, Leasing, Fleet Management
- Ride hailing capabilities
- Driver management
- Maintenance
- Fully outsourced turn-key fleet services
- West Africa based

Patrick Onderwater
Co-owner, pk trucks Holland

pktrucks.com
- Vehicle Sales
- Vehicle customization
- Parts Supply
- Maintenance
- Training
- Holland based
AGENDA

1. WHY OUTSOURCE?
2. WHEN IT GOES WRONG
3. THE GREAT DEBATE
4. BUILDING THE FOUNDATION
WHY OUTSOURCE?
WHY OUTSOURCE?

**PROBLEM:** Fleet management is an *expensive* and *complex* undertaking which is *inflexible* and a significant *distraction* from an organization's core objectives.
WHY OUTSOURCE?

- It’s not cost effective
- It’s non-core
- It’s not flexible
- It’s complex
WHY OUTSOURCE?

- Mobilization Costs
- Operating Costs
- Other Costs

- It’s not cost effective
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WHY OUTSOURCE?

- It’s not cost effective
- It’s non-core
- It’s not flexible
- It’s complex

- Mobilization Costs
  - New Vehicle and Equipment Capex
  - Parts Inventory Capex
  - Driver Recruiting / Training
WHY OUTSOURCE?

- Mobilization Costs

- Operating Costs
  - Driver Costs
  - Maintenance
  - Insurance
  - Management Oversight
  - GPS Tracking Service
  - Breakdown Response and Recovery
  - Licensing and Registration

- It’s not cost effective
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WHY OUTSOURCE?

- Mobilization Costs
- Operating Costs
- Other Costs
  - Cost of Downtime
  - Depreciation
  - Financing Costs

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## WHY OUTSOURCE?

### APPENDIX A: TOTAL COST TO OWN VS LEASE

All cost figures in USD

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Fleet</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Back-Up Vehicle(s)</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total Fleet</strong></td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Fleet Availability (% of working days)</td>
<td>96%</td>
<td>88%</td>
<td>84%</td>
</tr>
<tr>
<td>KM's per Vehicle per Month</td>
<td>3,970</td>
<td>3,970</td>
<td>3,970</td>
</tr>
<tr>
<td>Driver Headcount (incl. back-ups)</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

### Mobilization

- New Vehicle and Equipment Capex \(^{(2)}\) $617,925
- Parts Inventory Capex \(^{(3)}\) 16,500
- Driver Recruiting / Training \(^{(4)}\) 6,768

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
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</tr>
</thead>
<tbody>
<tr>
<td>New Vehicle and Equipment Capex</td>
<td>$617,925</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Parts Inventory Capex</td>
<td>16,500</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Driver Recruiting / Training</td>
<td>6,768</td>
<td>620</td>
<td>620</td>
</tr>
<tr>
<td><strong>Total Mobilization</strong></td>
<td>641,193</td>
<td>620</td>
<td>620</td>
</tr>
</tbody>
</table>

### Operating Costs

#### Driver Costs (Fully Loaded) \(^{(5)}\)

- Year 1: 120,000
- Year 2: 120,000
- Year 3: 120,000

#### Maintenance \(^{(6)}\)

- Year 1: 84,888
- Year 2: 127,332
- Year 3: 169,776

#### Insurance \(^{(7)}\)

- Year 1: 46,008
- Year 2: 46,008
- Year 3: 46,008

#### Management Oversight \(^{(8)}\)

- Year 1: 17,632
- Year 2: 17,632
- Year 3: 17,632

#### GPS Tracking Service

- Year 1: 8,910
- Year 2: 8,910
- Year 3: 8,910

#### Breakdown Response \(^{(9)}\)

- Year 1: 1,238
- Year 2: 1,238
- Year 3: 1,238

#### Licensing and Registration

- Year 1: 3,135
- Year 2: 3,135
- Year 3: 3,135

<table>
<thead>
<tr>
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</thead>
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<td>Driver Costs (Fully Loaded)</td>
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<td>169,776</td>
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<td>Licensing and Registration</td>
<td>3,135</td>
<td>3,135</td>
<td>3,135</td>
</tr>
<tr>
<td><strong>Total Operating Costs</strong></td>
<td>281,811</td>
<td>324,255</td>
<td>366,699</td>
</tr>
</tbody>
</table>

### Other Costs

#### Cost of Downtime \(^{(10)}\)

- Year 1: 9,900
- Year 2: 29,700
- Year 3: 39,600

#### Depreciation \(^{(11)}\)

- Year 1: 189,688
- Year 2: 189,688
- Year 3: 189,688

#### Financing Cost \(^{(12)}\)

- Year 1: 105,109
- Year 2: 105,109
- Year 3: 105,109

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<td>Cost of Downtime</td>
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</tr>
<tr>
<td>Depreciation</td>
<td>189,688</td>
<td>189,688</td>
<td>189,688</td>
</tr>
<tr>
<td>Financing Cost</td>
<td>105,109</td>
<td>105,109</td>
<td>105,109</td>
</tr>
<tr>
<td><strong>Total Other Costs</strong></td>
<td>304,697</td>
<td>324,497</td>
<td>334,397</td>
</tr>
</tbody>
</table>

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**Case Study Example:**

- **Core Fleet:** 15 units in Year 1, 15 units in Year 2, and 15 units in Year 3.
- **Back-Up Vehicle(s):** 2 units in Year 1, 2 units in Year 2, and 2 units in Year 3.
- **Total Fleet:** 17 units in Year 1, 17 units in Year 2, and 17 units in Year 3.
WHY OUTSOURCE?

Case Study Example:

APPENDIX A: TOTAL COST TO OWN VS LEASE

<table>
<thead>
<tr>
<th>Summary Metrics</th>
<th>Own</th>
<th>Lease</th>
<th>Savings / (Premium)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capex Required</td>
<td>$634,425</td>
<td>-</td>
<td>$634,425 on total contract</td>
</tr>
<tr>
<td>Average Cost per Vehicle per Month*</td>
<td>$3,273</td>
<td>$2,925</td>
<td>$348 per vehicle per month</td>
</tr>
<tr>
<td>3-Year Impact to Earnings Before Tax</td>
<td>$1,944,364</td>
<td>$1,579,500</td>
<td>$364,864 on total contract</td>
</tr>
<tr>
<td>Avg. Fleet Availability**</td>
<td>89%</td>
<td>98%</td>
<td>na</td>
</tr>
<tr>
<td>Cost Predictability</td>
<td>No</td>
<td>Yes</td>
<td>na</td>
</tr>
</tbody>
</table>
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- Procurement
- Human Resources
- Finance and Accounting
- Logistics
- Maintenance
- Operations
- Management
WHY OUTSOURCE?

- Procurement
- Human Resources
- Finance and Accounting
- Logistics
- Maintenance
- Operations
- Management

Fleet Management
WHY OUTSOURCE?

Case Examples (avg)

- Procurement: 13%
- Human Resources: 18%
- Finance and Accounting: 7%
- Logistics: 92%
- Maintenance: 83%
- Operations: 17%
- Management: 3%

Fleet Management
### WHY OUTSOURCE?

**Case Examples (avg)**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>13%</td>
<td>Procurement</td>
</tr>
<tr>
<td>18%</td>
<td>Human Resources</td>
</tr>
<tr>
<td>7%</td>
<td>Finance and Accounting</td>
</tr>
<tr>
<td>92%</td>
<td>Logistics</td>
</tr>
<tr>
<td>83%</td>
<td>Maintenance</td>
</tr>
<tr>
<td>17%</td>
<td>Operations</td>
</tr>
<tr>
<td>3%</td>
<td>Management</td>
</tr>
</tbody>
</table>
WHY OUTSOURCE?

OUTSOURCED Professionals and Specialists

Fleet Management
WHY OUTSOURCE?

Core Objectives

- Procurement (99%)
- Human Resources (99%)
- Finance and Accounting (99%)
- Logistics (99%)
- Maintenance (?)
- Operations (99%)
- Management (99%)
WHY OUTSOURCE?

- It’s not cost effective
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WHY OUTSOURCE?

- **Quantity**
  - Not enough: over-utilized, costly downtime
  - Too many: under-utilized, wasting resources
  - Same goes for drivers and maintenance staff

- It’s not cost effective
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WHY OUTSOURCE?

Fleet Mix

Owned

Required

It’s not cost effective

It’s non-core

It’s not flexible

It’s complex
Requirements change. Being able to react and adapt quickly and appropriately is critical. Outsourcing can accommodate this.
WHY OUTSOURCE?

- Outsourcing provides flexibility
  - Fluctuate quantities
  - Fluctuate models/fleet mix
  - Fluctuate the duration of commitment
  - React quickly

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WHY OUTSOURCE?

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WHY OUTSOURCE?

- **Vehicles** are expensive, complicated machines
  - Maintenance
  - Disposal risks
- Driver training and management
- Cost predictability
- Performance management

- It’s not cost effective
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Flash Vehicles drivers pose with the TBI SL team while they received medals for their efforts during the Ebola crisis.
WHEN IT GOES WRONG
WHEN IT GOES WRONG

Outsourcing is not all sunshine and daisies. If we’re not careful, an outsourcing arrangement can put us in a vulnerable position.
WHEN IT GOES WRONG

Common Pitfalls

- Tender processes and selection
- Contracts, service agreements
- Nature of the relationship
- KPI’s and performance management
WHEN IT GOES WRONG

Common Pitfalls

- **Tender processes and selection**
  - Unclear requirements
  - Inadequate vendor KYC
  - Unclear vendor capabilities/capacity
  - Unknown track record of vendor
Common Pitfalls

- Tender processes and selection
- Contracts, Service agreements
  - Vague language
  - Short-sighted
  - Insufficient depth
  - Inflexible
Common Pitfalls

- Tender processes and selection
- Contracts, service agreements
- Nature of the relationship
  - “Us vs them”
  - Competing interests
  - Poor communications
  - Lack of transparency
WHEN IT GOES WRONG

Common Pitfalls

- Tender processes and selection
- Contracts, service agreements
- Nature of the relationship
- KPI’s and performance management
  - Lack of reporting/visibility
  - No means to measure effectiveness/value
PK Trucks site: extensive fleet and world class facility
THE GREAT DEBATE
THE GREAT DEBATE

Break into groups

Group(s) A:
Based on real experiences, examples and discussions in the session, make arguments for outsourcing.

Group(s) B:
Based on real experiences, examples and discussions in the session, make arguments for not outsourcing.

For the purposes of this exercise, we will focus on “solely owned” or “solely outsourced” and not a combination of the two.

Both sides choose their top 3 points to present to the group.

Both groups are given a chance to make a rebuttal.
BUILDING THE FOUNDATION
BUILDING THE FOUNDATION

Common Pitfalls

- Tender processes and selection
- Contracts, service agreements
- Nature of the relationship
- KPI’s and performance management
BUILDING THE FOUNDATION

Common Pitfalls

- Tender processes and selection
  - Be open, specific and thorough with requirements
  - Do your diligence
    - Consultation visits
    - References
    - Evidence capacity: performance, HR, financial

- Contracts, service agreements

- Nature of the relationship

- KPI’s and performance management

- Clearly set your terms and expectations from the outset
BUILDING THE FOUNDATION

Common Pitfalls

- Tender processes and selection
- Contracts, service agreements
- Nature of the relationship
- KPI’s and performance management

- Carrots and sticks
- Break clause/ability to exit
- Specific
- All-encompassing
- Balanced
BUILDING THE FOUNDATION

Common Pitfalls

- Tender processes and selection
- Contracts, service agreements
- Nature of the relationship
- KPI’s and performance management

- Collaborative partnership
- Align incentives
- Joint ownership team
- Communication is key
- Align values
BUILDING THE FOUNDATION

Common Pitfalls

- Tender processes and selection
- Contracts, service agreements
- Nature of the relationship
- KPI’s and performance management

- Set KPI’s, include them in the agreement
- Measure and track them
- Regular reporting
- Scheduled reviews
- Carrots and sticks
Common Pitfalls

Tender processes and selection

Contracts, service agreements

Nature of the relationship

KPI’s and performance management

ALSO...

- Implement measures to screen for corrupt practices
- Changed management process: Internal
- Incremental approach
THANK YOU!