

Comparison of Company- and Employee-Provided Business Vehicles



Deloitte & Touche completed a major study assessing the pros & cons of company-provided vehicles. Here's a summary of the study results. A complete executive summary is available for a small fee from NAFA Foundation Inc.

In many industries, employees need to use motor vehicles to carry out their day-to-day responsibilities. A company that requires vehicles for employees to perform their functions has to choose the method of providing these vehicles. The company can provide employee vehicles through purchasing or leasing arrangements, or it can require its employees to provide the vehicles and reimburse the employee for business use. Companies use several methods to determine reimbursement amounts, including fixed allowances, variable reimbursements based on miles driven, and a combination of the two.

In today's competitive marketplace, companies are concerned about meeting vehicle needs in the most cost-effective manner. The analyses performed by a company when deciding how to best meet its business vehicle needs are complex. Some key criteria used in this type of analysis include:

- An identification of vehicle types that best meet the company's need.
- A comparison of total costs associated with each vehicle required.
- The allocation of those costs between company and employee.
- The potential impact on recruitment and training costs.
- The impact of intangible factors, such as the benefit value to

Variable Operating Costs: These costs are incurred in relationship to the miles driven — fuel, oil, tires, maintenance, and repairs.

Decision Criteria

The primary purpose of the surveys conducted by D&T was to gain an understanding of the decision criteria CEOs, CFOs, HR managers, and fleet managers considered in evaluating the provision of business vehicles. D&T wanted to find out if the decision was made on the basis of cost only or if other factors were considered.

Those who responded to the survey were asked to assess the importance of various factors in de-

termining how vehicles were provided for their company. A recent survey conducted by career services firm Lee Hecht Harrison indicated that the number of job seekers who would like the use of a company car has declined from 53 percent in 1999 to 28 percent in 2003. These results suggest that benefit value of a company-provided vehicle is dependent upon the overall health of the economy and the overall unemployment.

Reliability & Safety

Both reliability and safety are impacted by the age and condition of the vehicles being used. In an employee-provided program, decisions concerning retention cycles and preventive maintenance are left to the employee. Employees often base decisions on their personal financial situation, retaining the vehicle longer than optimal and foregoing some preventive maintenance procedures. Companies often attempt to eliminate the sub-optimal employee decisions by setting policies that mandate the age and mileage of the employee's vehicle. These mandates do not guarantee that employees will follow policy and properly maintain and replace their vehicles.

In a company-provided vehicle program, the company is able to control the age of the vehicle, and ensure that proper preventive maintenance takes place. From a reliability and safety standpoint, a company-provided vehicle program is preferable because of the control provided.

Importance of Vehicle Costs

After reliability and safety, the most important factor in determining a company's vehicle provision method is the total vehicle cost. The D&T study quantifies costs associated with three typical business vehicles: the intermediate sedan, the SUV, and the minivan. The costs are presented for both company-provided and employee-provided vehicles. D&T

Table 1
Importance of Factors In Determining Vehicle Provision Method

	CEO	CFO	HR Mgr.	Fleet Mgr.
Reliability	4.50	4.38	3.78	4.57
Safety	4.43	4.25	3.71	4.54
Total Cost of Vehicle	4.11	4.08	3.73	4.43
Liability	4.00	3.88	3.52	4.04
Control	3.90	3.55	3.23	3.86
Employee Satisfaction	3.60	3.38	3.05	3.55
Public Image	3.21	2.93	2.90	3.66

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employees, company image, reliability, and service levels.

The primary focus of the Deloitte & Touche (D&T) study was to identify the diverse criteria associated with the business vehicle decision, and to quantify and compare the costs of these vehicles. Vehicle costs were categorized as fixed costs and variable operating costs.

Fixed Costs: These costs remain constant over the life of the vehicle—acquisition cost (net of the residual value), financing costs, insurance, licenses, and registration.

termining how vehicles were provided for their company. The ranking was done on a scale of 1 to 5, with 1 indicating a low-importance factor and 5 indicating a high-importance factor.

While the absolute values for each group varied, the relative rankings for all groups were consistent. High importance was placed on reliability, safety, and total vehicle cost.

The relatively low ranking of employee satisfaction in each of the polls suggests that, currently, the company vehicle is being viewed

standardized vehicle-usage characteristics so that company-provided and employee-provided costs were comparable.

Fixed Costs are Less

The fixed cost category included all costs associated with placing a vehicle in service, including purchase price; incentives, rebates and financing; registration fees; licenses; sales tax; insurance; and the residual/resale value of the vehicle. Based on the analysis in Table 2, companies, on average, pay \$1,917 to \$2,637 less in total fixed vehicle costs than individuals. This cost difference is pri-

others, now publish factory invoice pricing and list available incentives. This additional information has narrowed the knowledge gap, reducing the advantage fleet managers had in improving the individual's understanding of the dealer's negotiating position. However, the fleet buyer still has the advantage of buying in volume. Average factory invoice prices were \$18,514 for the sedan, \$25,587 for the SUV, and \$21,901 for the minivan.

The average fleet buyer pays approximately \$495 below the factory invoice for sedans, \$591 below factory invoice for SUVs, and \$571

facturers have increased incentives and rebate offers to keep volume up during a sluggish economy. These incentives often take the form of low financing options or cash rebates. In most cases, manufacturers' special financing options equal the value of rebates. Incentives are generally available to both individual and fleet purchasers. In a recent research report issued by Merrill Lynch, analyst John Casesa reported that February 2003 incentives amounted to \$2,225 per vehicle, up 10 percent from January, and 33 percent higher than a year ago. Analysts say they do not expect incentives to end anytime

Table 2
Fixed Cost Comparison

Cost Component	Sedan			SUV			Minivan		
	Company	Employee	Difference	Company	Employee	Difference	Company	Employee	Difference
Vehicle Purchase	\$18,019	\$18,662	(\$643)	\$24,996	\$26,024	(\$1,028)	\$21,320	\$22,062	(\$742)
Finance Costs	686	1,564	(878)	1,034	2,182	(1,148)	996	2,413	(1,417)
Registration Fees & Licenses	210	210	0	218	218	0	250	250	0
Sales tax	1,081	1,120	(39)	1,500	1,579	(79)	1,280	1,324	(44)
Insurance	861	1,218	(357)	861	1,218	(357)	1,043	1,477	(434)
Residual Value	(6,665)	(6,665)	0	(12,538)	(12,538)	0	(8,322)	(8,322)	0
Total Fixed Costs	\$14,192	\$16,109	(\$1,917)	\$16,071	\$18,683	(\$2,612)	\$16,832	\$19,469	(\$2,637)

The fixed cost comparison included all costs associated with placing a vehicle in service, including purchase price, incentives, rebates and financing; registration fees; licenses; sales tax; insurance; and the residual/resale value of the vehicle. Based on the analysis presented in Table 2, companies on average, pay \$1,917 to \$2,637 less in total fixed vehicle costs than individuals. This cost difference is primarily due to purchasing leverage available to corporate fleets.

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Vehicle Purchasing Advantages

The fleet manager has two advantages over the individual to help obtain lower prices: volume and knowledge of the dealer's cost.

The starting point in buying a vehicle is the dealer's cost, or factory invoice price. Historically, the fleet buyer had access to information, such as factory invoice amounts and dealer incentives, that was unavailable to the individual buyer. Web sites, such as edmunds.com, carsdirect.com, autobytel.com, intellichoice.com, and

below factory invoice for minivans. Estimating the price paid by individuals is somewhat more difficult. No large databases provide this information. Numerous Web sites discuss what a knowledgeable buyer should pay for a vehicle, and often list target prices for each vehicle. Based on these guidelines, the individual buyer should expect to pay \$148 above factory invoice for a sedan, \$437 above factory invoice for an SUV, and \$161 above factory invoice for a minivan.

Incentives, Rebates, & Financing

In the past few years, auto manu-

soon. Industry over-capacity and high fixed costs will pressure manufacturers to maintain sales volumes. For the purpose of the study, D&T assumed that the rebate option was selected and treated as a reduction of the factory invoice price.

The typical fleet is financed using open-ended variable rate leases, priced between 0 and 100 basis points over commercial paper rates. According to Federal Reserve data, in 2002, 30-day commercial paper rates varied from 1.26 percent to 1.81 percent, with an average of 1.67 percent. The typical individual has a 48-

Table 3
Price Above or (Below)
Factory Invoice

	Sedan	SUV	Minivan
Fleet Purchase	(\$495)	(\$591)	(\$571)
Individual Purchase	\$148	\$437	\$161
Difference	(\$643)	(\$1,028)	(\$732)

Based on this analysis, the fleet buyer can use his or her advantages to negotiate a lower initial price for the vehicle.

month loan, with a fixed interest rate (typically a premium above the Prime rate) and a 10 percent down payment. Individuals who require business vehicles normally do not use lease financing because low mileage restrictions are placed on leased vehicles. Manufacturers' Web sites that offer leasing to individuals list maximum mileage of 15,000 miles per year with penalties of 15 cents per mile for mileage in excess of the allowance. Based on the average fleet mileage per vehicle of 64,000 miles, the leasing option for individuals would result in an extra charge of \$3,413.

According to several Web sites offering automobile loans, in March 2003, an individual with good credit would pay 5.6 percent on a 48-month auto loan with a 10 percent down payment. Under a "typical" fleet program, the company would pay an average of 68 basis points over the commercial paper rate, or 1.9 percent for an open-end lease. The interest rate differential between these two options is 3.7 percent, resulting in a savings of \$878 on a sedan, \$1,148 on an SUV, and \$1,417 on a minivan.

If interest rates change over the vehicle life, fleet rates would be adjusted, whereas individual rates would stay the same. Fleet buyers often have the option to lock in interest rates and convert to fixed rates if they anticipate upward movement in interest rates. For the

purposes of the study, D&T assumed that the interest rates would remain constant.

Insurance is Lower

Individuals pay significantly different insurance premiums based on driving records and residential location. Insurance Information

The significant difference in maintenance costs is the result of greater purchasing leverage available to fleet operators.

Institute figures demonstrate that for collision and comprehensive coverage, an individual paid an average of \$388 in 2000. The Institute estimates that 2002 premiums will be 14 percent higher, or \$443.

Most companies self-insure for collision and comprehensive coverage and include liability coverage in their general liability coverage. Fleet management companies provide the costs of accident repairs, paid in lieu of insurance premiums. The average accident repair cost of an entire fleet is \$313 per vehicle per year.

Based on the estimated cost of insurance, expenses for company-owned vehicles are lower than comparable costs for an employee-provided vehicle by \$357 for sedans and SUVs, and \$434 for minivans.

Operating Costs are Lower

Variable operating costs include fuel, oil, maintenance repairs, and tires. Variable operating costs for a company-provided vehicle are \$2,004-\$2,477 lower than the operating costs of employee-owned vehicles, primarily due to the company's purchasing power for maintenance repairs.

Maintenance Costs Less

Maintenance repairs include preventive care such as oil changes, brake inspections, exhaust systems, and other mechanical repairs. Accident damage repairs are excluded from this category.

Fleet management companies report the average fleet's cost-per-

mile for maintenance repairs is 2.01 cents. Fleets also receive warranty-recovery payments reducing maintenance repair costs even further. These warranty-recovery payments are in lieu of using dealers for warranty repairs. Payments range from 25 cents per mile for sedans and SUVs to 75 cents per

mile for minivans.

The significant difference in maintenance costs is the result of greater purchasing leverage available to fleet operators. Additionally, maintenance costs cited by Runzheimer International are for vehicles with an average age of four years, and 60,000 miles, which is differs from D&T study assump-

Table 4
Interest Cost - Sedan

	Company Lease	Employee Purchase
Purchase Price	\$19,100	\$19,782
Down Payment	0	\$1,978
Net Financed	\$19,100	\$17,804
Interest Rate	1.9%	5.6%
Term	33 Months	33 Months
Residual Value	\$6,665	\$6,665
Total Interest Paid	\$686	\$1,564

Rates are now at the lowest they have been in more than a decade, but the relationship between the rates has remained relatively constant. Over time, the commercial paper rate has been approximately 3 percent below the Prime rate.

tions. Average repairs on older vehicles should be expected to be higher than those on a newer fleet.

Fleet Management Expense

In the survey of fleet managers, 62 percent of respondents estimated annual costs of administering their fleet was less than \$399 per vehicle. As a result, D&T estimated the average annual cost to be \$350. This cost contains all admin-

istrative overhead costs pertaining to operating a fleet, including:

- Selecting vehicles.
- Negotiating with manufacturers.
- Obtaining licenses and registrations.
- Maintaining cost, usage, and maintenance records.
- Processing employee expense payments related to the vehicles.

The annual administrative cost-per-vehicle is a function of the number of vehicles in the fleet and the amount of administrative work re-

sales tax, and fuel costs will be different for each location. The level of effort required to maintain a database in support of FAVR can be significant and might equal or exceed the cost of administering a company-provided fleet.

Based on the average annual administration cost of \$350 per vehicle, the costs of administering a fleet of company-provided vehicles over the vehicle life is \$962 for sedans and SUVs and \$1,167 for minivans. These costs are not incurred with

avoid paying a portion of the sales tax by turning in vehicles prior to the end of the lease period. For this study, D&T assumed a six percent sales tax paid at the time of purchase.

Resale Values are Comparable

Residual value, the amount the vehicle can be sold for at the end of its retention cycle varies based on many factors, including regional supply and demand, vehicle condition and mileage, and the sales method. Fleets dispose of vehicles

Table 5
Variable Operating Cost Comparison

Cost Component	Sedan			SUV			Minivan		
	Company	Employee	Difference	Company	Employee	Difference	Company	Employee	Difference
Fuel	\$4,665	\$4,722	(\$57)	\$7,307	\$7,397	(\$90)	\$5,562	\$5,630	(\$68)
Maintenance Repairs	1,126	3,008	(1,882)	1,126	3,008	(1,882)	856	3,196	(2,340)
Tires	405	470	(65)	405	470	(65)	461	530	(69)
Total Variable Costs	\$6,196	\$8,200	(\$2,004)	\$8,838	\$10,875	(\$2,037)	\$6,879	\$9,356	(\$2,477)

Variable operating costs include fuel, oil, maintenance repairs, and tires. Variable operating costs for a company-provided vehicle are \$2,004-\$2,477 lower than the operating costs of employee-owned vehicles, primarily due to the company's purchasing power for maintenance repairs. Maintenance repairs include preventive care such as oil changes, brake inspections, exhaust systems, and other mechanical repairs. Accident damage repairs are excluded from this category.

quired by company policy.

For employee-provided vehicles, this function includes establishing mileage/allowance rates, processing of employee expense payments, maintaining policy statements, and tracking mileage. D&T estimated expense related to administering employee-provided programs is negligible where flat mileage rates or fixed allowances are used.

If the company elects to use a FAVR program, the administrative effort required can be an issue. Companies must track representative costs for each location and vehicle type to support calculations used to establish the FAVR payments. For a national company with vehicles located across the country, a database that documents the fixed and variable costs applying to employees at particular locations must be maintained. Many costs involved in both fixed and variable calculations, such as registration fees,

employee-provided vehicles, unless a FAVR program is elected.

Registration & License Fees

Vehicle and registration costs are the same for individuals and fleets, but vary from state to state. Over the life of the vehicle, the national average for registration fees is \$201 for sedans, \$218 for SUVs, and \$250 for minivans. Included in this amount are personal property taxes, which vary depending on municipality, but have the same impact on the cost of company-provided and employee-provided vehicles.

Sales Taxes Vary

Sales-tax rates vary by location, but are the same for both the company and employee. In 35 states, sales taxes on leases are charged when the lease payments are made, based on the payment amount. This results in a slight cash-flow timing benefit for companies leasing in these states. In addition, many companies

in various ways. Fleets primarily sell through auctions, but they also sell to employees, wholesalers, and retailers. Many sources, such as Kelley Blue Book, Black Book, AMR, online sites, such as www.intellichoice.com, and others, publish "wholesale" prices. For this study we utilized average auction prices published in *Automotive Fleet* magazine. Sedans averaged 36 percent of the original invoice price, and minivans averaged 38 percent of invoice, while SUVs averaged 49 percent of the original invoice.

Identifying the price employees are able to obtain for their vehicles is difficult. Some may sell vehicles to other individuals and obtain the "retail" price, while others will trade in on a new car. When trading in, most dealers quote the wholesale-published price, then give a higher amount for the trade. This practice can be deceptive, as the dealer may give more for the "trade-in allowance," but give less in discount on

**Table 6
Maintenance Repairs Costs**

	Sedan	SUV	Minivan
Fleet Cost Per Mile	1.76¢	1.76¢	1.26¢
Individual Cost Per Mile	4.70¢	4.70¢	4.70¢
Difference	2.94¢	2.94¢	3.44¢
Miles	64,000	64,000	68,000
Impact	\$1,882	\$1,882	\$2,339

Based on the chart above, maintenance costs for company-owned vehicles are lower than individually owned vehicles by \$1,882 for the sedan and SUV, and \$2,339 for the minivan over the estimated vehicle life.

the new vehicle. The dealer knows that he can buy a comparable vehicle at auction, so the amount actually realized by the employee is essentially

Company-provided vehicles offer an opportunity to exercise control over vehicle reliability and safety that cannot be achieved with employee-provided vehicles.

the auction price or less. For purposes of this study, D&T estimated that the employee vehicle would be sold for the same amount as the company vehicle. Comparison of the *Automotive Fleet* auction prices to the Kelley Blue Book "trade-in" prices confirmed that the employee and the company would receive essentially the same amount for resale.

Fleet Fuel Cost is Slightly Lower

In the past year, fuel costs have varied dramatically. During 2002, the average cost-per-gallon of self-serve unleaded regular varied from \$1.135 per gallon to \$1.476. The American Automobile Association (AAA) reported the March 2003 average price for self-serve unleaded regular was \$1.679 per gallon. The price of fuel varied greatly from state to state, from a low of \$1.506 in Georgia to a high of \$2.174 per gal-

lon in California. Many fleets utilize fleet fuel-card programs to help control their costs. A recent review of those programs in *Automotive Fleet* indicates that most programs charge fleets pump prices, offering no significant savings. A few programs offer negotiated discounts off the pump price or publish discounts up to three percent of the pump price.

In order to maintain comparability, we have assumed a gasoline price of \$1.65 per gallon for individuals and \$1.63 for fleets, EPA-published mileage ratings, and 60 percent highway/40 percent city-driving ratio. Based on 64,000 miles, the total fuel cost for fleet sedans is \$4,665, while an employee-provided sedan records a total fuel cost of \$4,722. For SUVs, the total fuel cost of the company-provided vehicle is \$7,307, while the employee-provided vehicle fuel cost is \$7,397. For minivans, the fuel cost is \$5,562 for company-provided

vehicles and \$5,630 for employee-provided vehicles.

Therefore, it appears the fleet buyer enjoys a slight cost advantage for fuel, spending \$57 less on fuel costs for a sedan, \$90 on an SUV, and \$68 for a minivan, than an individual employee over the life of the vehicle.

Cost Advantage With Tires


Throughout the vehicle's lifespan (64,000 miles for sedans and SUVs or 68,000 miles for minivans), you can expect to purchase one set of four tires, including valve stems, tire disposal, mounting, and balancing. Fleet data indicates that national contracts keep average tire costs 15-20 percent below market price. Fleet tire costs average \$405 for sedans and SUVs and \$461 for minivans. Individuals can expect to pay \$470 for sedans and SUVs, and

\$530 for minivans. Again, fleet managers enjoy a slight cost advantage for tires in comparison to individual employees.

The Study's Conclusions

The Deloitte & Touche study found that the key criteria in making business vehicle decisions, in order of importance, are reliability, safety, and cost. Company-provided vehicles offer an opportunity to exercise control over vehicle reliability and safety that cannot be achieved with employee-provided vehicles. From a cost perspective, the company's buying power results in significantly lower total vehicle costs than can be achieved by the employee. The net cost to the company of a company-provided vehicle is modestly lower than for an employee-provided vehicle, with the employee absorbing the higher costs of employee-provided vehicles. The only instance in which the employee-provided vehicle is less expensive to the company is when the employee is reimbursed for a lower percentage of the total costs than the business mileage ratio would dictate.

In a stronger economy, with lower unemployment, we would anticipate the benefit value of a company-provided vehicle could become an important factor in attracting and retaining highly qualified employees. This anticipated benefit would strengthen the case for maintaining a company-provided fleet.

In the end, the decision to provide a business vehicle is one that must be analyzed carefully and thoroughly. Each situation is unique in terms of vehicles required, mileage driven, etc., and as such, company management should take time to perform a detailed cost/benefit study before making this important decision. 

A complete executive summary of the Deloitte & Touche study can be acquired for \$25. To order your copy, please call the National Association of Fleet Administrators (NAFA) in Iselin, NJ, at (732) 494-8100.