

A decrease in average tire expenses helped offset slight cost increases for higher frequency of repairs and preventive maintenance.

BY MIKE ANTICH

OVERALL FLEET CAR MAINTENANCE COSTS REMAIN FLAT IN 2010-CY

In calendar-year 2010, overall fleet car maintenance costs remained flat compared to 2009-CY. This is in contrast to the increased maintenance costs experienced in the 2009 calendar-year caused by deferred vehicle replacements.

“Commercial vehicle orders were up in 2010, driven by pent-up demand and a very strong resale market. Vehicle replacement in 2010 helped stabilize maintenance costs that had significantly increased during 2009,” said Chad Christensen, strategic consultant for GE Capital Fleet Services.

The return to more traditional replacement cycling will ultimately help lower maintenance expenses.

“Decreased average tire expenses in 2010 helped offset the slight cost increases for

maintenance repairs and preventive maintenance resulting from fleets replacing older, higher-mileage vehicles after delaying normal replacement cycles,” said Christensen. “The 2010 total maintenance spend, though, was 13 percent higher than 2008 costs, likely indicating it may be a long road back (if ever) to reduced expenses and pre-2008 vehicle replacement cycles.”

These were among the key findings of the 16th annual fleet passenger car maintenance study conducted by GE Capital Fleet Services, a fleet management company headquartered in Eden Prairie, Minn. The GE study is based on a survey of actual maintenance expenses incurred by 11,112 passenger cars during the 12-month period from Jan. 1-Dec. 31, 2010.

Extended Replacement Cycling Increases PM Costs

One area fleet operating costs increased was preventive maintenance, which experienced higher costs in 2010 compared to 2009.

“Preventive maintenance costs rose again in 2010 compared to 2009 and were 9 percent higher per vehicle when compared to 2008,” said Eric Strom, maintenance & safety product manager for GE Capital Fleet Services. “The average cost per individual



CHRISTENSEN

oil change service increased slightly year-over-year and was 10 percent higher (\$3) since 2008. There were no significant changes in OEM-recommended oil drain intervals in 2010, but that is already changing as a result of the new oil standards.”

Automakers are switching to new engine motor oils for improved fuel efficiency and engine protection. General Motors’ cars and trucks are being built with their own new-generation Dexos oil. Other OEMs, such as Ford and Chrysler, are also beginning the switch to a new oil standard known by its industry grading of GF-5.

“These new oils are designed to help engines run more efficiently and better protect them from wear. The protection properties of the new oils also have the potential environmental benefit of increasing the mileage interval between recommended oil changes,” said Strom. “Ford is specifying oil change intervals up to 10,000 miles with the new oil, while GM is relying on driving conditions and its oil life monitoring system. As it has with previous engine oil specification upgrades, GM is expected to adjust its oil life system to account for the new oils in the coming years.”

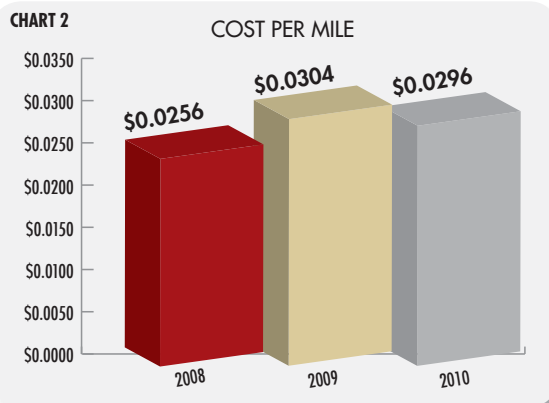
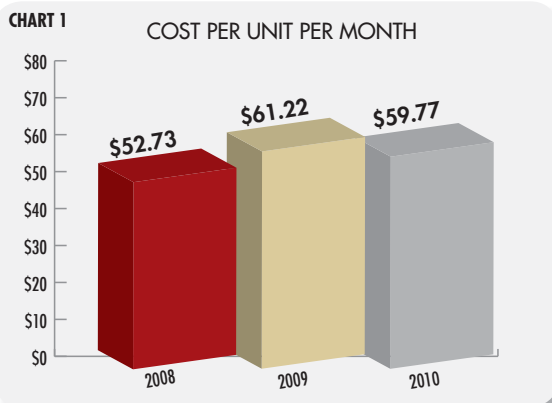
One consequence of the increased prevalence of oil change monitoring sys-

AT A GLANCE

Overall fleet car maintenance costs remained flat in the 2010 calendar-year compared to 2009. Factors included:

- Decreased average tire expense.
- Improvement in overall vehicle quality.
- Pent-up demand for commercial vehicles.
- Strong resale market.
- Increased preventive maintenance costs.
- Higher maintenance labor rates.

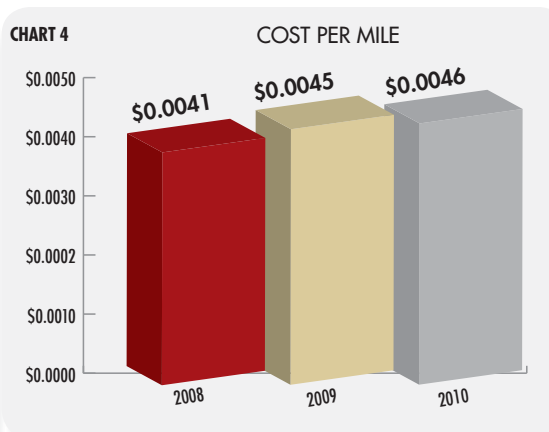
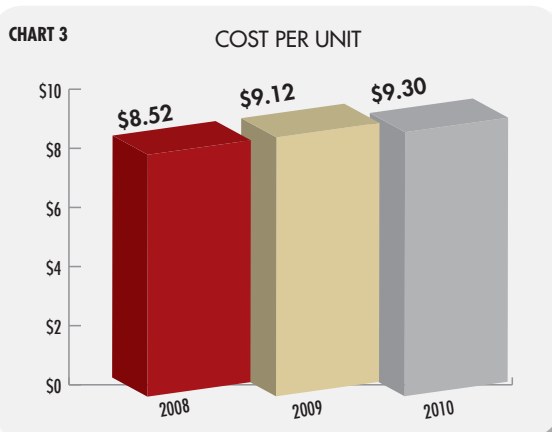
TOTAL MAINTENANCE SPEND



Charts 1 and 2 represent the average total maintenance spend per unit, per month, and per mile. Total maintenance costs include tires, maintenance repairs (unscheduled services such as brakes, suspension, engine, transmission, electrical, and other), and preventive maintenance for passenger cars. Fuel costs are not included.

SOURCE: GE CAPITAL FLEET SERVICES

OIL CHANGE SERVICES COST



Charts 3 and 4 depict the average costs per unit and per mile for passenger car oil change services. The average cost for individual oil changes stabilized in 2010 with only a marginal increase.

SOURCE: GE CAPITAL FLEET SERVICES

tems is that they have extended actual oil drain intervals for vehicles equipped with these systems.

“This can be a challenge when a repair provider applies a 3,000-mile window decal,” said Strom. “The new oil standards and oil monitoring system technology are a major industry culture shift for some fleets moving from a fixed mileage interval to a smart oil change indicator.”

Limited availability of the new motor oil could initially pose a challenge, and the new standards may be confusing to drivers and repair providers.

“Most repair providers are ready to provide GF-5, but OEM-unique motor oils may be more difficult to find early on outside dealer locations. In addition, the oil filters may be initially available only at dealers due to their new unique

designs,” added Strom.

Early pricing for the new oils indicated GF-5 was about 15 percent higher per service and \$2 to \$3 more per additional quart, but these prices are coming down.

“GM’s Dexos early pricing is higher on a per-service price basis, so GM fleets may see higher oil change costs until GM extends the oil change intervals,” said Strom. “This may be a strong motivator for fleets with 2011 GM vehicles to adopt their oil life monitoring system as the recommended oil change indicator.”

Dexos oils will be required on GM’s 2011 model-year vehicles. “The Dexos synthetic blend oils will have ‘backward compatibility’ and will be okay to use on earlier model-year vehicles,” explained Strom. “Improved fuel economy is the key

driver in the changes. Other benefits cited include less oil deposits, extended oil life, improved ‘oil robustness,’ and reduction of harmful emissions.”

OEMs are also making changes to their scheduled maintenance programs that will impact maintenance expenses in future years. “Several OEMs are adding what were previously ‘recommended’ services to their ‘required’ maintenance service schedules,” said Strom. “The OEMs are becoming more stringent that required services be completed on time. This has created more required service repair differences between OEMs and even within an individual OEM’s model line-up. As a result, service schedules have become more complex, increasing the need for awareness among fleets.”



STROM

REPLACEMENT TIRE COST

CHART 5 COST PER UNIT PER MONTH

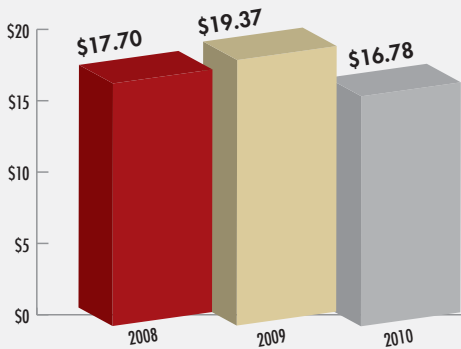
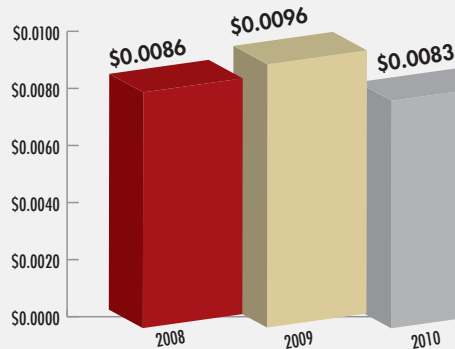


CHART 6 COST PER MILE



Charts 5 and 6 indicate the average cost of tires per unit and per mile. Replacement tire costs decreased in 2010-CY as compared to 2008 due to more frequent vehicle replacement, which reduced the need for additional new tires.

SOURCE: GE CAPITAL FLEET SERVICES

AVERAGE REPAIR COST PER UNIT

CHART 7 COST PER UNIT PER MONTH

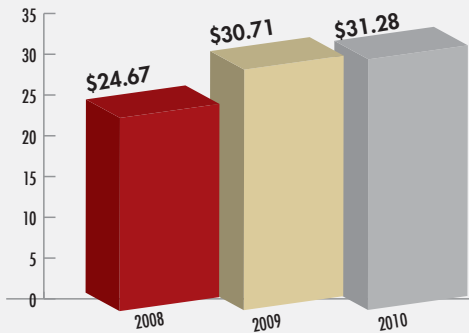
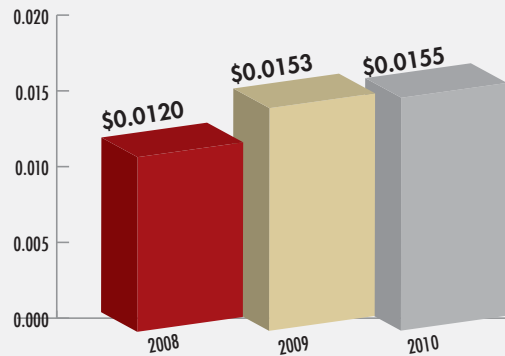


CHART 8 COST PER MILE



Charts 7 and 8 depict average repair costs per unit and per mile. Repair costs include unscheduled services, such as brakes, suspension, engine, transmission, electrical, and other services. Costs were basically flat as slight price increases were offset by additional vehicle replacement.

SOURCE: GE CAPITAL FLEET SERVICES

One concern is that non-compliance with the OEM-required services may create service repair warranty issues and reduce post-warranty opportunities.

“Despite additional required OEM services, some service intervals such as oil changes and spark plugs are being extended. However, the extended intervals carry risks, as often these service inspections may be too late in catching under-inflated tires or under-hood issues,” said Strom.

Tire Expenses Decline in 2010-CY

In the 2010 calendar-year, the average tire costs per car, per month, and per mile were reduced compared to 2009. “This can be attributed to fewer higher mileage two- and four-tire replacements as more fleets cycled older, high-mileage vehicles,” said Strom.

The average expense on a per-tire basis

increased as many national providers noted a rise in raw material costs and passed on moderate price increases. Raw material costs were higher in 2010 than in 2008 and 2009. “The raw material costs will continue to rise, and demand is currently outweighing production,” added Strom.

There are other factors putting upward pressure on tire costs. “The most critical tire cost factor will continue to be extended vehicle replacement. Larger rim diameters for cars will also continue to drive higher tire costs,” said Strom.

One consequence to larger rim diameters is inventory shortages at national account tire vendors. In addition, the proliferation of new individual tire models in the marketplace makes it difficult for tire dealers to keep all models in stock.

“Maintaining tire inventory has been a challenge, driven by the increasing number

of tire models and unique sizes. We are seeing more limited house brand tire availability, which some fleets recommend as a tire replacement preference,” said Strom.

Some OEMs are spec’ing traditional fleet cars with “summer-only” tires, which are posing a problem in Snow Belt regions.

“There is an industry trend to produce some fleet cars with optional summer-only high-performance tires, which later created a demand for winter tires, as the summer tires didn’t have the desired handling characteristics,” said Strom.

There are several other changes in national account tire programs that will influence fleet tire expenses in the future.

“National brand passenger tire prices are expected to increase up to 6 percent in the first half of 2011, although pricing specials will likely be offered on selected tire models,” said Strom. “More fleets are

buying low-rolling resistance fuel-economy passenger tires as a hedge against rising fuel costs. These tire models are expanding to SUV/CUV model vehicles.”

The forecast is for tire prices to increase through the end of calendar-year 2010 into the first half of 2011, “as raw material costs, such as natural rubber, are increasing. The key overall tire cost controllable is vehicle replacement cycling,” said Strom. “The next biggest factor, although not always controllable, is the OEM tire size, as the larger diameter tires can add \$100 to \$200 in additional expense per set of tires.”

Upward Pressure on Labor Rates

Maintenance labor rates increased in 2010 compared to 2009 and are anticipated to increase further in 2011.

“Many repair shops raised their hourly labor rates in 2010 to cover their internal expenses. Billed labor rates are expected to continue to rise in 2011 with some national brand stores adjusting their regional labor rates,” said Christensen.

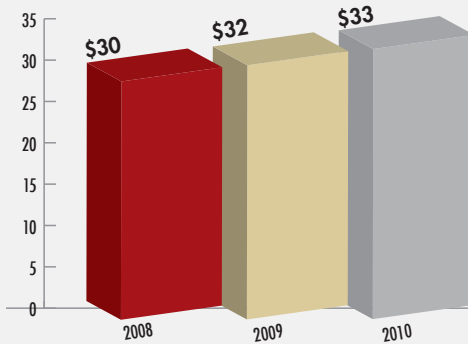
Costs incurred for training and new tools necessary to keep pace with new technologies, such as tire pressure monitoring systems (TPMS), engine diagnostics, and nitrogen tire inflation, increase a shop’s cost of doing business.

“Some of these costs will be passed back to customers in hourly labor rates and shop supplies,” said Christensen. “A number of repair shops are billing a higher hourly rate for hybrid car repairs to compensate for the required special training and equipment. We will be watching how electric vehicles will impact the non-dealer repair shops in terms of the training curve, equipment needs, and repair pricing.”

Parts costs are also expected to rise as raw materials and manufacturing costs increase and reduced inventories are more common. “It’s critical to ensure the quickest shipping method is selected for back-ordered parts to reduce vehicle downtime and rental costs. Fleets should ask for the shipping status of back-ordered parts when there are delays, as most OEMs have limited rental reimbursement policies and goodwill adjustments,” said Christensen.

AVERAGE COST PER PM

CHART 9

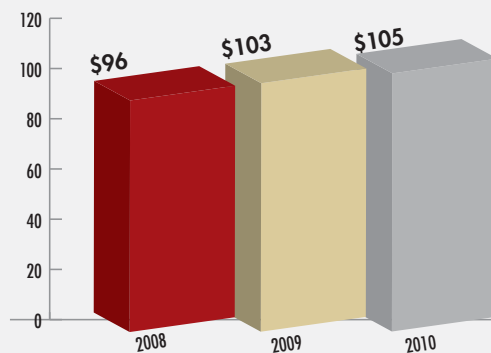


Average cost of an individual preventive maintenance (PM) incident over a three-year time period increased from 2008-2010. The slight uptick in PM expense is driven by higher oil change prices and to a lesser degree, a shift to synthetic oil recommended for some models.

SOURCE: GE CAPITAL FLEET SERVICES

AVERAGE COST PER NEW TIRE

CHART 10



Average per-tire costs are up 9 percent over the past three years, due mainly to increased petroleum costs, a key ingredient in tire manufacturing, and the OEM use of unique tire sizes.

SOURCE: GE CAPITAL FLEET SERVICES

Vehicle Quality is Higher

Industry-wide, overall vehicle quality increased in 2010 compared to prior model years.

“OEM vehicle quality continues to improve with a declining number of warranty claims,” said Strom. “There were isolated one-off vehicle model component premature defects, but OEMs are recognizing and acknowledging these early on and issuing service bulletins and campaigns more quickly. Also, OEMs’ increased powertrain warranties continue to have a positive impact on maintenance operating costs.”

Although an initial concern, the increased adoption of new technology by OEMs, such as TPMS, navigation, sensors, etc., has yet to impact car maintenance costs.

“Many of the newer vehicle technology tools are geared toward improved safety and driver infotainment — information and entertainment devices at a driver’s fingertips. So far, the incident failure rate and maintenance for these new technologies

has not been an issue,” said Strom.

One exception was TPMS, which encountered initial problems when vehicles equipped with the technology were brought in for service.

“Many were not reset properly due in part to non-dealer shops’ lack of experience with TPMS and labor charges that varied by OEM system. While some providers have incorporated a flat TPMS service charge, other repair providers have billed it as an additional service as it may require additional labor and new tools versus non-TPMS,” said Strom.

Identifying Maintenance Trends

On average, fleet maintenance and repair costs were relatively flat from 2009 to 2010. However, fleets with extended vehicle lifecycles did experience increased expenses.

“In 2010, accelerating replacement cycling of a fleet’s older, higher-mileage cars was the key factor in stemming the 2008-2009

steep increases in overall maintenance expenses," said Christensen. "This trend is a positive step when facing the automotive industry's cost increases for parts and tire manufacturing, distribution, and retail delivery. Fleets will feel continued pressure to justify replacement cycling, as this will be key to mitigate increases in maintenance expenses."

What are the trends for fleet car maintenance expenses going forward into 2011 and beyond?

"Maintenance and tire expenses are significantly impacted by higher-mileage cars evidenced by many fleets' 2009 increased expenses. Managing the optimal vehicle replacement cycle plan can help keep overall maintenance expenses in check. Proper vehicle cycling can also offset the current 2-percent rise in the Consumer Price Index for motor vehicle maintenance repairs," said Christensen.

As the economy improves, the trend to extend service life is slowing, with fleets starting to revert to traditional replacement cycles.

"From 2008 to 2009, fleets were 'defleeting' due to the economy and downsizing operations or were extending replacement cycles due to capital expenditure constraints. Now that most fleets have been right-sized, the strong resale market coupled with the availability of capital is contributing to the shortening of cycles that should continue through 2011," said Trudi Beardsley, strategic consulting



BEARDSLEY

manager for GE Capital Fleet Services.

"The result is and will continue to be decreases in maintenance spend due to less frequent critical repairs and more repairs covered under warranty. Subsequently, downtime and administrative burden will decrease as drivers get back on the road quicker due to less critical repairs occurring

and less phone calls above approval limits to the fleet administrator. Fleets continuing to extend replacement parameters through 2011 will see maintenance costs increase and will be under more pressure from upper management to reduce the maintenance spend budget even though they do not have approval for capital expenditures to replace inefficient vehicles with new vehicles." ☞

REPAIR COST BY MONTHS IN SERVICE

CHART 11

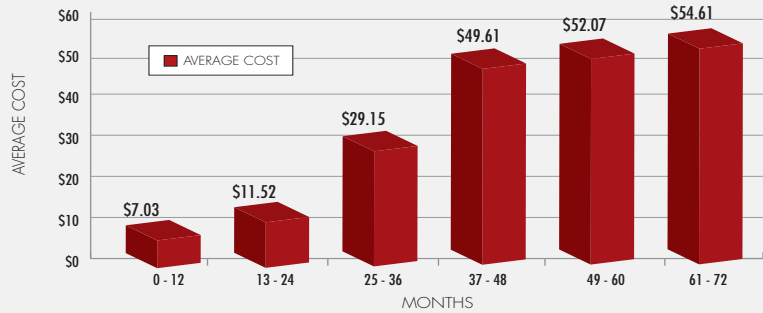


Chart 11 displays 2010 average repair costs for vehicles within a given month range. The chart reflects the climbing repair costs of aging vehicles.

REPAIR COST BY ODOMETER BAND

CHART 12

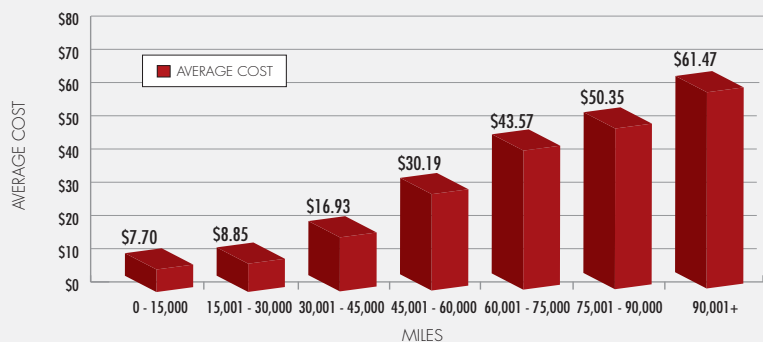


Chart 12 displays rising repair cost trend at higher mileages. Results support cycling older, higher-mileage vehicles to reduce costlier repairs and driver downtime.

GROWING IMPACT OF TELEMATICS ON FLEET MAINTENANCE

Telematics technologies are being used by fleets to gain access to diagnostic trouble code (DTC) activity initiated by onboard engine computers. Fleets are increasingly using this information to initiate maintenance as needed, in addition to increasing vehicle safety and reducing wasted maintenance expense and costly downtime. Based on actual fleet use, telematics has been a key factor reducing fleet maintenance expenses.

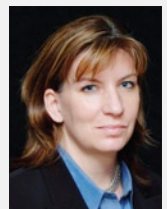
"Monitoring vehicle condition and usage patterns through telematics-based tools reduces the frequency of preventable accidents and the amount of vehicle wear and tear," said Dyan Finkhousen, mobile resource intelligence strategy leader for GE Capital Fleet Services. "Within the first six months of a telematics deployment, businesses will see a 10-percent reduction on average in the amount of time that monitored vehicles operate at speeds in excess of posted speed

limits. This behavioral change has a direct and positive impact on the incidence of preventable accidents, reducing repair costs and insurance burden."

Telematics tools are also used to convey diagnostic trouble code detail generated by the vehicles.

"This enables businesses to proactively evaluate the information and, where appropriate, initiate preventive maintenance to avoid costly and disruptive on-road catastrophic failures," said Finkhousen.

The use of GPS for routing helps reduce vehicle wear-and-tear. "Vehicle engine hours drop in direct correlation to the routing efficiencies and vehicle idling time and non-compliant use reductions that accompany telematics deployments," added Finkhousen.



FINKHOUSEN