

THE TRUE COSTS OF OUTSOURCED MAINTENANCE & HOW TO COMPARE VENDORS

The most inexpensive vendor isn't always the one with the lowest bill rate. There are a number of cost factors that fleets need to consider when choosing an outsourced maintenance provider.

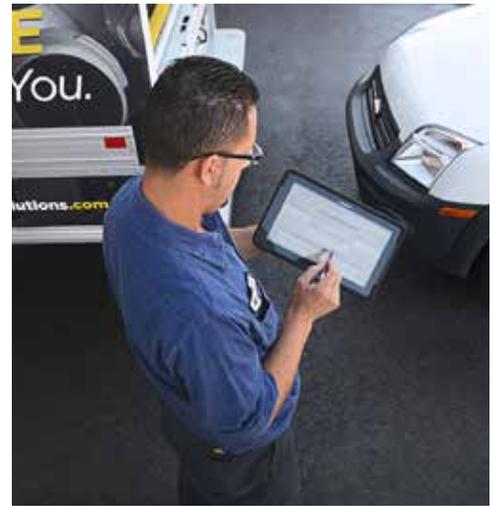
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When comparing the cost of third-party maintenance providers, the natural first step is to just look at their bill rates. But to properly evaluate maintenance providers, accurately forecast the fleet's spend, control maintenance budgets, and ultimately maximize the value of every maintenance dollar spent, there needs to be a deeper dive into all the elements that factor into fleet maintenance costs.

MEASURING PRODUCTIVITY

It goes without question, if a provider gets the job done in half the time, even if the bill rates are higher, this is a good value. However, the best way to evaluate productivity is by evaluating the time a vendor is charging for a task against an industry standard, such as Mitchell's or Motor's. These organizations provide standard times that a task should take. And by using the vehicle's VIN number these task times can be very specific, allowing the fleet to actually look at how long the service took versus the industry standard.

If it's determined it took very little time compared to the standard, and the vehicle is coming back frequently, then there is likely a quality issue because the technicians are working too fast. On the other hand, if the service takes too long compared to the industry standard, then there may be a proficiency issue that needs to be addressed with the third-party maintenance provider. Either way, productivity is an essential metric to make sure the fleet's third-party maintenance provider is doing the right thing and doing it efficiently.

Before working with a third-party maintenance provider, the fleet manager should ask how the maintenance provider ensures its technicians are productive and what reports can be provided to document this.

Productivity is essential for the operations of a company's fleet. If a third-party maintenance provider has great quality metrics, but the fleet's vehicle downtime is skyrocketing, then the maintenance provider is just wasting the fleet's maintenance budget and creating larger operational problems. Often as maintenance quality increases, productivity decreases, but this doesn't have to be the case.

It doesn't help to have a low-cost maintenance provider if higher-cost vendors still need to be used for certain, recurring jobs. Use of expensive additional third-party providers becomes necessary when a low-cost vendor is

THE AMERIT DIFFERENCE

At **Amerit Fleet Solutions**, we pride ourselves on providing **services** at rates that offer excellent value. Our rates are often at, or below, similar-quality competitors. So how do we provide low bill rates and low parts mark-ups while offering high levels of performance and quality? The answer is our scale.

We have more than 1,400 employees and operate in all major markets in the United States. Whether it be tooling, training materials, safety programs, or HR and back-office functions, we are able to spread our costs over a large base. Size and scale allow us to pass this savings on to our clients, without sacrificing the quality of our technicians, our customer service or the work we perform.

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not properly equipped or staffed to handle all the fleet's needs. Ensure that the vendor can handle all the work that the fleet needs it to complete prior to agreeing to engaging them as the fleet's maintenance provider.

EXAMINING QUALITY

Every fleet professional wants quality that he or she can count on. So it's crucial to know how the third-party maintenance provider measures quality. The most common measure is repeats, which are often called "come-backs," the fewer the come-backs the higher the quality. While this is a valid and important metric to measure the quality of a specific task, it is recommended to go deeper into the quality well to get the full picture of the third-party maintenance provider's ability to deliver quality service.

Either random or anticipated, internal or external, instituting quality audits is a very good way to supplement a fleet's measure of quality. Amerit, for instance, performs random quality inspections on its work and shares the results with its clients. The company also encourages its clients to perform audits on its service, particularly when it is operating on the fleet's property in the fleet's



WHEN IS THE RIGHT TIME TO OUTSOURCE?

There are several situations that can cause fleets to consider outsourcing maintenance.

These include:

- Insufficient assets to support a brick-and-mortar garage.
- Technician shortages.
- Overloaded maintenance staff.
- Lack of management to oversee repairs.
- Too many accidents on the job.
- Operating a decentralized fleet.
- Taking on more specialized assets.
- High maintenance costs.
- Renewed focus on core competencies.

The number of assets that a company must have in order for outsourcing to make sense varies from vendor to vendor. Amerit has developed solutions for customers with as few as 10 assets.

shops. Many of Amerit's clients develop a thorough list of inspection points, based on the fleet's own corporate standards and culture. Random audits ensure that a third-party maintenance provider not only adheres to its own quality standards but satisfies the fleet client's expectations as well.

Another way to gauge quality is to identify when the vehicle is coming back for reasons other than the initial repair. Even if the return is outside the usual 30-day window, taking a longitudinal view of what is happening to these vehicles can uncover deficiencies in quality that are usually overlooked. Fleets should look at what is happening to these vehicles. Why are they coming in outside the standard service parameters? Are things being missed because the tech is focused on only one task? Does the third-party maintenance provider proactively inspect the vehicle before it leaves the shop?

As an example, Amerit performs a safety check on each vehicle prior to returning it to fleet service. Its technicians check the lights, fluids, and tire

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pressure, etc., which takes a short amount of time and helps ensure the vehicle is operating correctly and safely. More important it saves time and money for the fleet client down the road.

When evaluating a potential third-party maintenance provider, the fleet should examine what the maintenance provider does to promote quality. For example, look at what kind of processes the provider has, what is the quality of its management team; does it have a stated policy around quality and defects; does it measure its operations in a consistent, visible, and trackable way? All these things are the hallmarks of a supplier who not only talks quality but lives it every day.

EVALUATING TECHNICIAN PROFICIENCY

The saying “get it right the first time” is particularly important for third-party maintenance providers and the fleets they serve. Low-skilled technicians are more likely to misdiagnose a problem, leading to unnecessary work and parts costs. Additionally, poor quality work means higher costs over the long term while it also shortens the useful life of the fleet’s vehicle and leads to expensive unscheduled repairs and increased vehicle and employee downtime, which affects profitability.

WATCH OUT FOR PARTS MARK-UPS

While bill rates are the most immediate way to evaluate costs, parts mark-ups are equally important. Many third-party maintenance vendors make a significant amount of their money on parts mark-ups, using lower bill rates as a “loss leader.” It is quite common in the outsourced maintenance industry for some vendors to mark-up parts by 30%, 40%, 50%, and more. These mark-ups are often not disclosed to the customer.



Vendors should be willing to disclose what their parts mark-up is, and allow the fleet to audit their books to confirm that their costs are what they say they are.

EYEING PARTS COSTS & REBATES

The other side of the parts equation to consider is the cost that a vendor is actually paying for parts. Parts providers offer discounts to customers that spend a lot of money with them. For example, Amerit has successfully negotiated discounts of 20% or more from the national parts vendors it works with based on its volume.

Fleets should ask the vendor to provide their cost for a bundle of items that the fleet frequently purchases to ensure pricing is competitive.

In addition to earning profit from parts mark-ups, some third-party maintenance providers will receive rebates from their parts providers. To avoid this “double dipping,” fleets should specifically ask whether the third-party maintenance provider receives rebates and, if it does, whether the fleet will also benefit from these rebates. Transparency is key. The third-party maintenance provider should be open and transparent with all of its costs and mark-ups so the fleet knows the truth behind the numbers, and gets the best value for the fleet.

MINIMIZING RISK

The maintenance shop abounds with risks, but a properly insured and managed garage, with properly trained technicians, mitigates that risk to the fleet, its vehicles, and the company it serves.

Example of Hidden Costs in Maintenance Bill Rates

	Vendor A	Vendor B
Bill Rate	\$75.00	\$60.00
Labor Hours Vendor <small>B takes 10% longer to complete the work</small>	2	2.2
Labor Cost	\$150.00	\$132.00
Parts Cost Vendor <small>B's cost is 10% higher</small>	\$150.00	\$165.00
Mark-Up	20%	30%
Parts Cost	\$180.00	\$214.50
Parts + Labor Cost	\$330.00	\$346.50
Drive time to/from shop Vendor <small>B's shop is an extra 10 minute drive each way</small>	20 min.	40 min.
Transport Rate	\$50.00	\$50.00
Transport Cost	\$16.67	\$33.33
TOTAL COST OF JOB	\$346.67	\$379.83

driving practices to providing personal safety equipment to the employees.

Generally speaking, a third-party maintenance provider should indemnify the client against any sort of injuries or events on its property and most importantly, on the fleet's property. However, if the third-party maintenance provider often operates in an unsafe environment, those indemnifications will only go so far, and the fleet and its company might find itself in a situation where the injured party may come after the fleet, especially if the incident occurred on the fleet's property. Therefore it is critical that the fleet has confidence that its maintenance provider operates in a safe manner.

WAITING ON VEHICLES

Fleet vehicles sitting in a yard waiting to be fixed bleed profit every hour of unnecessary downtime. Often a result of improper staffing levels, inflexible work schedules, or simply from overbooking, long wait times impact fleet operations and profitability. The third-party maintenance provider should be asked how it manages wait times and ensures the fleet's vehicles receive priority service.

TRANSPORT: THE FORGOTTEN COST

The cost of transporting vehicles is an often forgotten element when making the decision to award a third-party maintenance provider a fleet's business. It costs money to transport vehicles to and from a garage — labor costs, mileage, fuel — it all adds up. Transporting vehicles long distances for service also impacts vehicle availability, tire wear and tear, driver/operator hours, and shuttle expenses, which are all important factors that must be factored into the fleet's budget.

CUSTOMER SERVICE

One of the final aspects that should be evaluated when looking at third-party maintenance providers is customer service. Obviously, if all the other aspects are in line, but the people who will be providing the service are not being responsive,

The fleet should be aware that if a third-party maintenance provider does not maintain proper insurance levels, the fleet's company may be on the hook in a lawsuit even if the accident or situation is the third-party maintenance provider's fault and happened on its property. Fleet should ask the third-party maintenance provider for a copy of its Certificate of Insurance, and consider whether this insurance is sufficient to protect the fleet and its company in case of an accident.

When outsourcing maintenance, the fleet should always ask about the safety record of the service provider. The third-party maintenance provider may have a good track record of fixing vehicles with few come-backs, but if the provider has a rash of accidents, an unsafe work environment, doesn't have a stated safety policy, its technicians are often seen working without safety glasses or other PSEs, or has OSHA complaints, the fleet and its company's liability exposure and risk will likely go up. It will also undermine confidence in the third-party provider.

When looking at safety, Amerit recommends that fleets make sure they are providing a safe environment for the technicians who are working on fleet vehicles. This includes everything from HAZMAT training to injury prevention, safe

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not addressing the fleet's needs, are being rude to the fleet's drivers, or are not effectively completing maintenance paperwork, and not invoicing properly, then this should likely be a deal breaker.

While all the other aspects of evaluating the costs of engaging a third-party maintenance provider are very important, at the end of the day, this is a customer service business and a third-party provider must go the extra mile for its clients. For

example, Amerit prides itself on going the extra mile — working the hours that its clients want them to work, operating shifts during the fleet's routine downtimes, effectively handling road calls, performing safety checks on every vehicle, and routinely going above and beyond standard hours and standard aspects of the contract, because, ultimately, Amerit is responsible for the health and welfare of its clients' vehicles.

ABOUT AMERIT FLEET SOLUTIONS

With over 100,000 vehicles and assets under contract in nearly 550 locations nationwide, **Amerit Fleet Solutions** is one of the largest providers of dedicated fleet maintenance and management services in the U.S. today. No other fleet maintenance company can compare to our depth of knowledge and expertise in maintaining and managing the broad spectrum of vehicle and asset types, including alternative fuel vehicles; managing a diverse on-site workforce; creating customer-driven service programs and leveraging best practices in fleet services and processes to improve performance, profitability and uptime.