

# HOW LONG SHOULD WE KEEP OUR COMPANY VEHICLES?

(Source: <http://www.mayfairleasing.com/blog/?p=23>)

Everyday your employees use them to get to where they need to go. They hop in and turn the key with little thought as to what the vehicle is costing your company. However, as a business owner or fleet manager, you know that every mile that your employees put on is an added expense for you. So how do you keep the cost of company vehicles to a minimum?

The answer is extremely simple: optimal cycling. Although these words do not mean anything to you now, they should shortly. Often companies buy a vehicle and run it into the ground because they feel it is the most economic thing to do. A well structured lease program will actually guard against this and still provide you with all of the flexibility of ownership, plus you will be able to minimize the money you invest in your vehicle fleet, but more on that another day.

So, what is optimal cycling? Simply put it is figuring out the point in a vehicle's life where maintenance costs are still low and your depreciated value and the market value of the vehicle are equal.

Let me back up for a second. When you drive a vehicle off of the lot you immediately lose market value, which is no surprise. From there market value will continue to plateau and drop over the life of the vehicle. Depreciation is similar but the loss in value happens gradually over time. However, maintenance costs start at relatively zero and then spike and rise over time. Below is a great slide that illustrates how these three values decrease or increase over time.

The idea behind optimal cycling is to find the exact point in a vehicle's lifespan where all three values meet. This is the point in which keeping the vehicle any longer will require you to spend more money on maintenance than the vehicle is worth. Although you may think you are saving your company money by not buying a new vehicle, you are actually losing money that could come from the sale of the old vehicle and lease of a new vehicle that does not have the high cost of ownership.

To determine this point in a vehicle's lifespan requires careful documentation of the vehicle's history, as well as carefully track your maintenance expenses. The two key factors to determining a vehicle's value are mileage and condition. By monitoring these on a consistent basis you are able to pinpoint, and plan for, the exact moment when you should get rid of the old car and bring in the new car. And although this may sound counterintuitive, sometimes a new vehicle is the best way for your company to save money.

