

# Operating Costs Flat for Fourth Consecutive Year

November 2016, By Mike Antich and Andy Lundin



*Graphic courtesy of iStockphoto.com.*

*Editors Note: This article is part of a five-part package dealing with operating costs in 2016. Read related articles that offer and in depth look at [Fuel Spend](#), [Tire Prices](#), [Fleet Maintenance](#), and [Preventative Maintenance](#).*

Calendar-year 2016 marks the fourth consecutive year that fleet operating costs have remained stable compared to the past four years, primarily due to the continuation of lower gasoline and diesel prices.

This, along with other findings, are revealed in *Automotive Fleet's* 25th annual operating cost survey, and are based on data provided by six survey partners:

- ARI
- Element Fleet Management
- EMKAY
- LeasePlan USA
- Merchants Fleet Management
- Wheels Inc.

This year's survey is based on the analysis of actual operating costs incurred by 634,515 vehicles operated by commercial fleets, which are managed by these six fleet management companies.

## Fuel Prices Continue to be Stable

Fuel represents 60% of a fleet's total operating costs, so the lower price per gallon of fuel has had a dramatic impact on overall fleet costs. However, it has had a dramatic impact on fleets operated by energy companies, which are operating on austerity budgets to offset the decline in retail fuel prices.

2016 OPERATING COSTS								
COMPACT CARS	<24,000 MILES		24,001-48,000 MILES		48,001-80,000 MILES		80,001-100,000 MILES	
	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH
GASOLINE	0.0769	\$113.23	0.0749	\$126.80	0.0731	\$148.63	0.0719	\$187.17
OIL	0.0113	\$8.62	0.0110	\$13.06	0.0103	\$15.18	0.0073	\$11.40
TIRES	0.1227	\$5.36	0.0226	\$14.31	0.0177	\$28.16	0.0073	\$18.20
MAINTENANCE/REPAIR	0.0131	\$11.95	0.0292	\$20.53	0.0348	\$55.36	0.0320	\$55.79
WARRANTY RECOVERY	(0.0004)	(\$0.15)	(0.0003)	(\$0.06)	(0.0003)	(\$0.29)	(0.0003)	(\$0.46)
<b>TOTAL OPERATING COSTS</b>	<b>0.2236</b>	<b>\$139.15</b>	<b>0.1373</b>	<b>\$174.56</b>	<b>0.1358</b>	<b>\$247.02</b>	<b>0.1184</b>	<b>\$272.11</b>

**Fuel represents 60% of a fleet's TCO, so the lower price per gallon of fuel has had a dramatic impact on overall fleet costs. However, it has had a dramatic negative impact on fleets operated by energy companies, both upstream and downstream.**

*Chart courtesy of Automotive Fleet.*

In addition to lower prices at the pump, these cost reductions have been amplified by the ongoing trend by fleets to spec smaller displacement engines, when applicable, along with increased driver training to encourage more fuel-efficient driving behaviors.

Although there may be less pressure for alternative-fuel vehicles, the focus continues to be to acquire the most fuel-efficient models that can fulfill the fleet requirement. In addition, new-model vehicles tend to have higher MPG ratings than predecessor models, due to light weighting, the proliferation of higher-speed transmissions, and more efficient powertrains. The increased implementation of telematics systems has also resulted in improved route optimization and easier identification of drivers who are engaging in driving behaviors that are decreasing MPG.

What is the forecast for per gallon fuel prices in calendar-year 2017?

2016 OPERATING COSTS								
INTERMEDIATE CARS	<24,000 MILES		24,001-48,000 MILES		48,001-80,000 MILES		80,001-100,000 MILES	
	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH
GASOLINE	0.0747	\$150.32	0.0803	\$152.84	0.0776	\$168.38	0.0754	\$177.43
OIL	0.0063	\$8.06	0.0075	\$11.98	0.0076	\$13.72	0.0082	\$13.84
TIRES	0.0059	\$5.18	0.0119	\$12.53	0.0149	\$27.12	0.0143	\$30.51
MAINTENANCE/REPAIR	0.0083	\$8.21	0.0152	\$18.93	0.0260	\$38.56	0.0367	\$57.76
WARRANTY RECOVERY	(0.0003)	(\$0.31)	(0.0003)	(\$0.37)	(0.0006)	(\$0.95)	(0.0006)	(\$0.10)
<b>TOTAL OPERATING COSTS</b>	<b>0.0945</b>	<b>\$171.76</b>	<b>0.1147</b>	<b>204.98</b>	<b>0.1258</b>	<b>\$246.84</b>	<b>0.1342</b>	<b>\$279.44</b>

**In addition to lower prices at the pump, operating cost reductions have been amplified by the ongoing trend by fleets to spec smaller displacement engines along with increased driver training to encourage more fuel-efficient driving behaviors.**

*Chart courtesy of Automotive Fleet.*

As many have learned through experience, fuel prices are impossible to forecast with certainty, and are influenced by a number of external variables, such as macroeconomic activity, geopolitical situations, and domestic supply and demand.

Most fleet management companies use the U.S. Energy Information Administration (EIA) of the U.S. Department of Energy forecasts for internal planning and external fuel price forecast dissemination. The EIA projects fuel costs to rise modestly over the next 12 months.

The EIA Short-Term Energy Outlook forecast is for an annual average of \$2.26 per gallon of gasoline for CY-2017 from the current \$2.08 per gallon in 2016. The forecast of continued flat fuel prices will be an important factor influencing 2017 and 2018 model-year acquisition decisions.

2016 OPERATING COSTS								
MINIVANS	<24,000 MILES		24,001-48,000 MILES		48,001-80,000 MILES		80,001-100,000 MILES	
	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH
GASOLINE	0.1013	\$221.93	0.1093	\$233.75	0.1008	\$245.15	0.1006	\$254.52
OIL	0.0057	\$8.89	0.0075	\$12.48	0.0074	\$12.37	0.0077	\$13.59
TIRES	0.0066	\$6.27	0.0142	\$20.77	0.0149	\$24.66	0.0135	\$27.12
MAINTENANCE/REPAIR	0.0114	\$16.81	0.0187	\$35.23	0.0299	\$65.62	0.0424	\$73.52
WARRANTY RECOVERY	(0.0001)	(\$0.30)	(0.0003)	(\$0.072)	(0.0004)	(\$0.63)	(0.0004)	(\$0.60)
<b>TOTAL OPERATING COSTS</b>	<b>0.1250</b>	<b>\$253.90</b>	<b>0.1496</b>	<b>\$301.51</b>	<b>0.1521</b>	<b>\$347.17</b>	<b>0.1637</b>	<b>\$368.14</b>

**Fleet maintenance costs have remained flat over the past 12 months, compared to CY-2015, with the primary factor being increased overall vehicle quality. In addition, increased maintenance intervals have contributed to lower maintenance costs for fleets.**

*Chart courtesy of Automotive Fleet.*

In addition, the prediction for CY-2017 is that global supply and demand for oil will remain at today's levels, which will keep downward pressure on fuel prices. Another ongoing variable is that the percentage of imported oil has continued to drop with the increase in domestically sourced oil. This has lowered the impact of price volatility in oil-producing

regions mired in political instability.

2016 OPERATING COSTS								
FULL-SIZE VANS	<24,000 MILES		24,001-48,000 MILES		48,001-80,000 MILES		80,001-100,000 MILES	
	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH
GASOLINE	0.1441	\$225.74	0.1396	\$258.55	0.1343	\$268.52	0.1342	\$279.15
OIL	0.0069	\$7.72	0.0068	\$11.40	0.0070	\$11.96	0.0076	\$12.52
TIRES	0.0075	\$11.68	0.0154	\$23.15	0.0168	\$27.00	0.0174	\$31.87
MAINTENANCE/REPAIR	0.0183	\$15.91	0.0235	\$42.17	0.0371	\$60.61	0.0458	\$76.63
WARRANTY RECOVERY	(0.0001)	(\$0.08)	(0.0003)	(0.55)	(0.0002)	(\$0.47)	(0.0005)	(\$0.45)
<b>TOTAL OPERATING COSTS</b>	<b>0.1768</b>	<b>\$261.05</b>	<b>0.1851</b>	<b>334.72</b>	<b>0.1951</b>	<b>\$367.63</b>	<b>0.2046</b>	<b>\$399.72</b>

**One area that is putting upward pressure on maintenance costs is labor, especially in high-cost of living metro areas. But, maintenance still represents a relatively small segment of overall operating costs at just 10% of total operating costs.**

*Chart courtesy of Automotive Fleet.*

## Tire Prices to Remain Stable

The second highest operating cost is replacement tires, whose pricing has been stable in 2016. A key reason for the stabilization in replacement tire prices is less volatility for the commodities used to manufacture tires, namely oil, rubber, and steel. These lower materials prices have contributed to keeping replacement tire costs flat.

## Maintenance Costs to Remain Flat

Fleet maintenance costs have remained flat over the past 12 months, compared to CY-2015, with the primary factor being increased overall vehicle quality. In addition, increased maintenance intervals have contributed to lower maintenance costs for fleets.

2016 OPERATING COSTS								
LIGHT TRUCKS	<24,000 MILES		24,001-48,000 MILES		48,001-80,000 MILES		80,001-100,000 MILES	
	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH
GASOLINE	0.1361	\$175.73	0.1382	\$233.99	0.1420	\$259.34	0.1398	\$269.22
OIL	0.0068	\$8.73	0.0095	\$14.71	0.0104	\$16.86	0.0106	\$15.07
TIRES	0.0104	\$8.41	0.0173	\$19.76	0.0225	\$36.02	0.0233	\$39.30
MAINTENANCE/REPAIR	0.0150	\$16.27	0.0234	\$37.44	0.0381	\$56.96	0.0525	\$88.53
WARRANTY RECOVERY	(0.0001)	(\$0.01)	(0.0001)	(\$0.13)	(0.0005)	(\$0.38)	(0.0003)	(\$0.29)
<b>TOTAL OPERATING COSTS</b>	<b>0.1684</b>	<b>\$209.12</b>	<b>0.1883</b>	<b>\$304.78</b>	<b>0.2129</b>	<b>\$368.81</b>	<b>0.2261</b>	<b>\$413.83</b>

**The second highest operating cost is replacement tires, whose pricing has been stable in 2016. A key reason for the stabilization in replacement tire prices is less volatility for the commodities used to manufacture tires, namely oil, rubber, and steel.**

*Chart courtesy of Automotive Fleet.*

An ongoing issue is parts availability, where the manufacturer supply chains are not able to keep up with demands for certain components — primarily related to warranty or recall covered work.

The widespread use of just-in-time manufacturing has created situations where demand exceeded production capacity and created unforeseen downtime waiting for parts deliveries.

2016 OPERATING COSTS								
SUVs	<24,000 MILES		24,001-48,000 MILES		48,001-80,000 MILES		80,001-100,000 MILES	
	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH	CENTS PER MILE	DOLLARS PER MONTH
GASOLINE	0.1006	\$203.87	0.1004	\$218.11	0.0990	\$230.82	0.0974	\$228.67
OIL	0.0060	\$9.11	0.0080	\$12.36	0.0083	\$13.92	0.0095	\$13.33
TIRES	0.0074	\$6.36	0.0124	\$24.22	0.0166	\$26.15	0.0176	\$27.28
MAINTENANCE/REPAIR	0.0097	\$14.02	0.0139	\$30.81	0.0266	\$42.50	0.0389	\$59.44
WARRANTY RECOVERY	(0.0001)	(\$0.13)	(0.0003)	(\$0.31)	(0.0005)	(\$0.74)	(0.0004)	\$0.03
<b>TOTAL OPERATING COSTS</b>	<b>0.1239</b>	<b>\$233.36</b>	<b>0.1345</b>	<b>\$285.19</b>	<b>0.1500</b>	<b>\$312.69</b>	<b>0.1632</b>	<b>\$327.69</b>

**An ongoing issue is parts availability, where the manufacturer supply chains haven't been able to keep up with demands for certain components.**

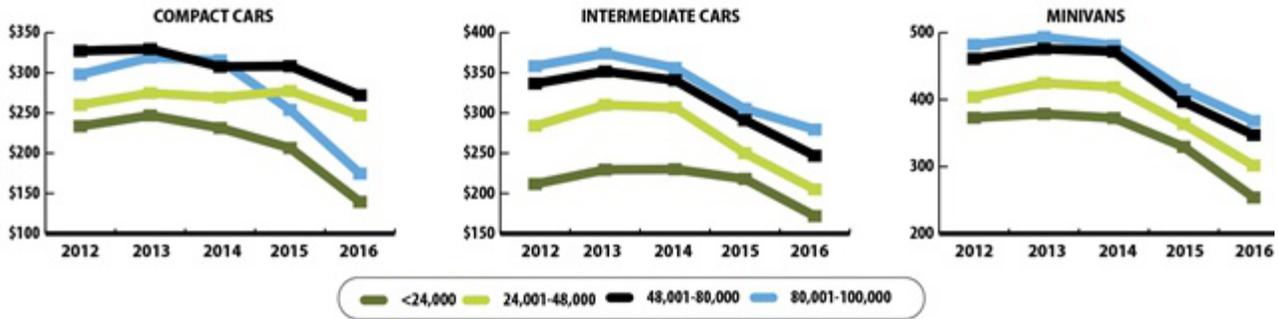
*Chart courtesy of Automotive Fleet.*

In addition, there has been a general uptick in parts pricing. However, vehicle quality continues to remain high, helping to offset these expenses.

Another area that is putting upward pressure on maintenance costs is labor. But, maintenance still represents a relatively small segment of overall operating costs at just 10% of total operating costs. In order for maintenance to have a dramatic impact on total operating costs, it would require far more significant increases than what is anticipated in the future.

The following four articles provide an in-depth examination of 2016 operating cost trends and a forecast of expenses for the 2017 calendar-year.

## Total Car Operating Costs by Mileage Band: 2012-2016



## Total Light-Truck Operating Costs by Mileage Band: 2012-2016

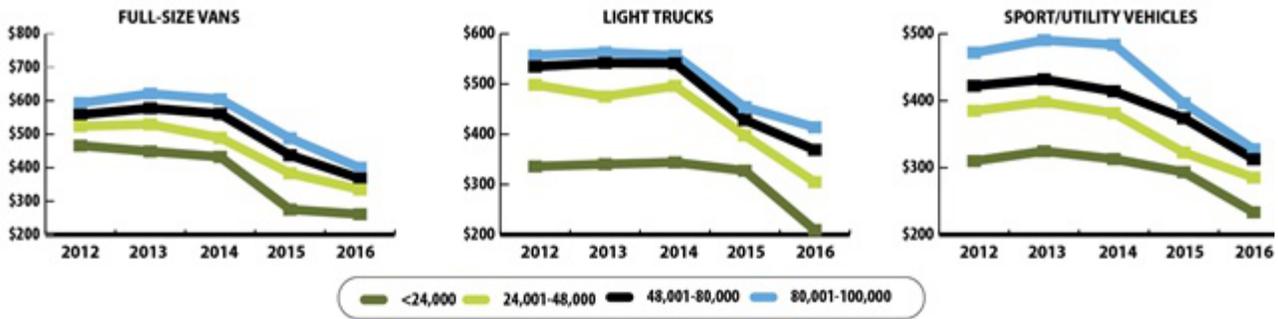


Chart courtesy of Automotive Fleet.