Car Allowance Vs Company Car: A perspective

Given that we are in one of the most challenging economies that we have faced in recent memory, it's not surprising to see companies responding with a true survival instinct. How and where can we reduce expenses is the dominating discussion.

All areas of the company are under scrutiny and the fleet is no exception. With fleet expenses being one of the top five highest costsin most North American organizations, it makes sense that it would attract attention as a source of expense reduction.

Often companies looking for a quick way to reduce fleet costs will look at converting to a car allowance program. The perception is that by moving to a car allowance program there will be an immediate hit to the bottom line. If the fleet is currently an owned fleet, the reduction in the capital costs may appear attractive. If the fleet is leased, a move to a car allowance would likely create a reduction in outgoing fleet dollars. Internal administration costs may be reduced as car allowance programs require less company time to oversee. It's easy to see how a move to car allowance would appear to be a source of expense reduction. However, in making any decision to go to a car allowance program, ***all*** costs associated with a car allowance program should be considered. Many of these costs are hidden or are difficult to quantify and may significantly offset the original perceived savings.

This is true in any economy but is even a more of a factor in a difficult economy. With car allowance programs, drivers are making decisions, not the company, concerning the vehicle that will be doing the company's business. Companies have very little control over these decisions and are vulnerable to driver decisions during, normal economic times and especially so during tough economic times. During an economic downturn, drivers, like corporations, are in cost cutting mode, which in turn affects the decisions made regarding their vehicle.

For example, if drivers are worried about job security, they may not replace an older vehicle. Drivers are unlikely to enter into a 3 or 4 year commitment to a car payment if they are worried about job security. So they continue driving a higher mileage vehicle requiring more repairs. What is the impact on the company of the driver's decision? Will the driver have more downtime for breakdowns and repairs? Will the driver stay on top of repairs and routine maintenance if personal finances are tight? Will that driver rent a car to continue on scheduled appointments? What is the likely decision should they perceive that their allowance amount would not cover these expenses? How will driver decisions around repairs affect client service levels and sales productivity?

For the company, an older vehicle translates into employee downtime, underserviced clients, and reductions in sales calls. Over time, this could have a significant affect on the company's overall business revenues with many of these vehicles on the road.

Another example of companies having very little control over driver decisions during tough economic times is in the case of a driver leasing a vehicle with a mileage

restriction. In attempt to keep their vehicle costs down, if the driver has opted for a lease with a mileage limit, there may be a cut back on business mileage in order to avoid the over mileage charges at lease end. A 40,000 kilometre overage, at $.10/km, would mean a serious expense to the employee of about $4,000 at lease end. It's probably naive to assume the average driver has saved for this contingency out of their monthly allowance payment. What is the potential cost to the company if this employee is cutting back on business mileage? For the company with many such drivers, it could mean a significant impact on overall business revenues.

If the driver perceives his car allowance amount is not covering these additional vehicle expenses, such as repairs and lease end penalties, padded mileage claims may become an issue. Reimbursements go up. Internal administration expenses go up as more auditing is required. Raising allowance amounts does not always solve the problem as drivers tend to max out the allowance amount on getting the most car for their buck. Besides, increasing allowance amounts will further erode the predicted savings of going to a car allowance.

Another area the company may feel the impact of an employee decision in tough times is auto insurance. Employees pay their own premiums. If a new car means an increase in premium to the driver it affects his/her replacement decision. More significantly, a driver may reduce his or her coverage including liability coverage, in an attempt to reduce costs. This leaves the company vulnerable with respect to personal injury claims. Insurance expert, Dave Chambers from Ten Star Financial advises that companies share liability with their drivers when they are doing company business in their own cars. A lawsuit would likely name both the employee and the company, given company pockets tend to be much deeper. Companies may be covered under the general liability of their current commercial policy but they should check to make sure. Insurance costs could rise if the company must add non-owned automobile coverage.

Another impact of a car allowance program is in terms of human resources. In tough economic times quality candidates looking for a job will likely look closely at the impact of benefit programs including company car programs. Generally a car allowance program is seen by job candidates to be inferior to a company provided car. The company could lose a competitive edge in terms of recruiting and retaining quality employees.

As companies deal with the tightening of credit, individual drivers are also dealing with the same challenge. In the past, getting credit through the dealer has been a relatively straight forward thing for most buyers. With credit availability tightening, the potential for having employees unable to obtain credit has increased. Companies will be faced with employees who just will not qualify for a loan or lease. Companies thinking of a move to a car allowance program should ask themselves how they will deal with this situation. Are they prepared to co-sign a loan with an employee? Are they prepared to let go an otherwise great employee?

A final consideration: A move to a car allowance program is in reality not a “quick” way to reduce expenses. A phased in approach, over a few years, would be necessary to control losses. Huge loses on resale would be incurred if the entire fleet were sold at

once and there would be no opportunity to write down capital costs on newer vehicles. The anticipated reduction in fleet expenses will not be completely realized for at least 3 years. Not exactly a “quick” fix.

So, a move to a car allowance program, especially during tough economic times, should be carefully considered. It may be that the predicted savings are significantly eaten into or even offset by hidden costs elsewhere.

Perhaps an alternative for companies looking to reduce fleet expenses as a way to cope with tough economic times is in ensuring their current fleet expenses are rationalized and reduced as far as possible. There are many ways companies can reduce their current fleet expenses. In fact, in my 15 years of experience as a consultant, I have not worked with a fleet yet that hasn’t had the potential for at least some reduction in their fleet expenses. It would make sense to ensure current fleet dollars are being optimized before moving to another program with its own set of drawbacks.