Management and Finance of Forklift Trucks

Identifying Fleet Management Requirements in Germany and the Nordics

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1. Introduction
1.1. About the Research

During the first four months of 2015 Invigors interviewed over 25 buyers and operators of forklift trucks in Germany and Nordics. The aim of these in-depth interviews was to understand how forklift trucks were purchased, financed and managed, and to identify Fleet Management requirements which would meet the needs of the business and minimise the Total Cost of Ownership (TCO).

Participants in the research were drawn from companies operating over 100 forklift trucks within each of the countries covered. These included manufacturing, logistics, retail and environmental services organisations.

Figure 1 - Industry Sectors

Manufacturing 65%
Logistics 19%
Retail 12%
Environmental Services 4%

Many of the companies represented in the research were multinationals, and most operated over multiple sites within the country where the interviews took place. 12% of companies operated on single sites only.

Figure 2 - Site Distribution

Multinational 65%
Multi-site 23%
Single site 12%
Those interviewed for the research were senior managers involved in the acquisition, operation and fleet management of forklift truck. These included Purchasing Directors and Managers, Logistics and Supply Chain Directors, Fleet Managers and Operations Directors.

**Figure 3 - Role of Respondent**

1.2. About Invigors

Invigors is a specialist management consultancy focused on supporting clients in the asset finance, vehicle leasing and fleet management sectors. Our clients include the asset finance divisions of banks, independent finance companies as well as vehicle and equipment manufacturers and fleet management companies. Invigors consultants operate throughout Europe and Invigors is part of the worldwide Alta Group.

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2. Executive Summary

2.1. Forklift Fleets

- While the survey covered companies with a fleet size of over 100 forklift trucks, the majority of those interviewed operated a fleet size of between 100 and 200. Most were operated on a single shift basis though some companies operated their fleets more intensively. A mix of light and heavy duty applications was identified in the research.

- Companies covered in the research used mainly established, international, quality brands including Jungheinrich, Linde, Still, Hyster, Yale and Toyota. Nearly all companies operated more than one brand, with nearly half of those surveyed operating 3 to 5 makes of forklift truck.

2.2. Purchasing Process and Criteria

- The initial requirements are normally identified and drawn up by the operating functions. While the requirement for replacement trucks is driven by equipment lifecycles, the acquisition of additional trucks to a company fleet depends on business expansion.

- The business requirements are translated into a specification for the forklift trucks drawn up by the operating department, usually in conjunction with the purchasing function. Other players such as fleet management, health and safety, and forklift operator representatives may have an input too.

- Nearly all of the companies surveyed had a relatively small pool of suppliers of forklift trucks. The majority of companies would seek a quotation for the specified requirement, which would then be evaluated against the specification and purchasing criteria. This process is typically managed by the purchasing function, with input from operating departments in the final supplier selection.

- The primary purchasing criteria was the need for the forklift trucks proposed by the supplier to meet the specification in terms of the capabilities and performance of the vehicles.

- The service capability of the dealer or manufacturer was the second criteria evaluated by respondents, covering elements ranging from call-out response to routine maintenance. Service capability included both quality, in terms of skills and expertise, and availability in terms of geographic coverage and response levels.

- Price was the third most important criteria, with the majority of respondents stating that they evaluated supplier bids against Total Cost of Ownership (TCO).

2.3. Finance

- Leasing appears to be the preferred means of financing the acquisition of forklift trucks. Over three-quarters of the companies surveyed currently lease forklifts and half of these only use leasing.

- Others have a mix of leased and purchased forklift trucks, though leasing appears to have become more popular. Although older trucks had been purchased outright, newer ones were leased.

- The supplier i.e. dealer or manufacturer, was the primary source of finance for forklift acquisition where trucks are leased. Survey respondents commented that leasing is seen as convenient and cost-effective, and that the supplier’s finance offer is an integral part of the forklift truck package.
2.4. Fleet Management

- Companies were fairly evenly divided between the 46% which managed their fleets entirely in-house, undertaking fleet administration, service and repair internally, and a further 42% which undertook fleet administration internally while outsourcing maintenance and repairs. The remaining 12% outsourced Fleet Management entirely to a third party, usually the supplier in the form of manufacturer or dealer.

- Where forklift trucks were leased, maintenance was usually included in the leasing contract. One of the benefits of leasing cited by several respondents was that maintenance could be included in the contract, and therefore costs were predictable and could be easily budgeted for.

- Existing Fleet Management contracts included maintenance and service, together with repairs, although accidental damage was excluded in most cases. Insurance was also included in the majority of contracts, and most appeared to include cost reporting which, with the exception of a couple of suppliers, appeared to be fairly rudimentary.

- Fleet Management requirements which were not entirely met by existing contracts included:
  - Coverage of multiple brands within a single contract
  - Coverage of multiple countries to suit multinational organisations
  - Greater flexibility within contracts to manage the size of fleets to meet changes in demand.

- There was also some interest in sustainable or green solutions and telematics, though the business case for investing in this type of technology needs to be made clear.

- Compared to the scope offered by Fleet Management contracts today, the research highlighted an opportunity for multiple brand and multi-country contracts, though meeting the former is likely to be a challenge for existing suppliers. There is also a requirement for greater flexibility and clearly an opportunity for technologies such as telematics, together with more sophisticated Fleet Management systems. A combination of these would deliver greater productivity, more environmental benefits and lower TCO.
3. Forklift Fleets
3.1. Types and Operation

The survey focused on companies operating at least 100 forklift trucks in the country where the interview took place. The majority of companies in the research had a fleet size of between 100 and 200 forklift trucks. Just under 20% had between 200 and 300 trucks and a further 15% had 300-500 trucks. Only a small minority had a fleet size greater than 500 forklift trucks.

Figure 4 - Forklift Truck Fleet Size

Over half the companies surveyed operated their forklift trucks solely on a single shift basis. Just under a third also operated their trucks more intensively up to a three shift cycle, while 15% operated up to two shifts per day.

Figure 5 - Fleet Utilisation

Half the companies covered in the research operated their forklift trucks on both heavy and light duties. Just under 40% of companies utilised their forklifts on light duty applications only, while the remainder operated only heavy duties. Light duty applications were typically in warehouse and logistics operations, while heavy duties were in factory and plant operations.
3.2. Brands

Companies interviewed in the research clearly showed a preference for established, international, quality brands. German companies tended to use German brands such as Jungheinrich, Linde and Still, with some mentions for Toyota, Hyster, Yale, and Clark. In the Nordics, Toyota, Linde and Still were the most frequently mentioned brands.

Most companies also operated more than one brand of forklift truck within their organisations. Nearly half operated between 3 and 5 different brands and a further 30% had two makes of forklift. Only 13% of those surveyed operated a single make forklift truck in their organisation and these were generally standardised under a full service contract from a single supplier.
4. Acquisition and Finance

4.1. Purchasing Process

While the actual purchasing process would vary between companies, overall there were some consistent themes in how forklift trucks were acquired.

Figure 8 - Forklift Truck Acquisition Process

The initial requirements are normally identified and drawn up by the operating functions – typically the warehousing and logistics operation, or factory or production facilities. The requirement for replacement trucks is driven by equipment lifecycles, while the acquisition of additional forklifts depends on business expansion. This stage of the process is usually integrated with the company’s annual planning and budgeting process.

The business requirements are translated into a specification for the forklift trucks drawn up by the operating department, usually in conjunction with the purchasing function. Other players such as fleet management, health and safety and forklift operator representatives may have an input too. Covering the key parameters for forklift operation, the specification draws on long term knowledge and usage experience.

Nearly all of the companies surveyed had a relatively small pool of forklift trucks suppliers. The majority of companies would simply seek a quotation for the specified requirement from this small number of suppliers. Quotes would then be evaluated against the specification and purchasing criteria. This process is typically managed by the purchasing function, with input from the operating departments in the final supplier selection.

A small number of companies participating in the research had framework (or master) agreements with one or more forklift truck suppliers. These had been negotiated by competitive tender and specified terms, discounts, etc. for the forklifts as well as service agreements. They had usually been in place for a number of years. In these cases the specification is assessed against the framework agreement and supplier catalogue, with quotations sought from the preferred suppliers.

Other companies used a full-blown Request for Proposal (RFP) for forklift truck procurement. This was typically used for larger volume purchases or, if there was a framework agreement in place, where there was a non-standard requirement which was not covered by the agreement. Some companies issued an RFP every 3-5 years, which was used to select the preferred suppliers, from which quotations would be sought. RFPs were managed by a project team including operating functions, purchasing and finance.

4.2. Purchasing Criteria

As previously noted there was a general preference for well-established, international, quality brands. As one German respondent noted: “No experiments with low price forklift trucks from the Far East here.” Companies would consider a number of these preferred brands based on previous experience and reputation.
Against that background, the primary purchasing criteria was the need for the forklifts proposed by the supplier to meet the specification in terms of the capabilities and performance of the vehicles. This would cover aspects such as lift capacity, dimensions/weight, etc. as well as any specialist options required in respect of the operating environment. Clearly any offer from the supplier needed to meet the specification and there was little, if any, evidence of companies being willing to make significant trade-offs in this area.

The service capability of the dealer or manufacturer was the second criteria evaluated by respondents, covering elements ranging from call-out response to routine maintenance. Two elements of service capability were key:

- Quality in terms of skills and expertise.
- Availability including geographic coverage and response levels.

Service availability was especially important to companies with operations in remote or rural locations (e.g. food manufacturers). Response levels were generally important to all respondents, since forklift trucks were a critical part of operations, and downtime needed to be minimised.

While price is important to all the companies surveyed, it generally took third place after the other two criteria. The majority of respondents stated that they evaluated supplier bids against Total Cost of Ownership (TCO). Definitions of TCO varied though all included maintenance and repair costs over the lifetime of the vehicles, and TCO was applied whether forklifts were leased or purchased outright. The lifecycle of forklift trucks also varied from 3-5 years in some cases (typically where vehicles were leased), up to 10 years or more where vehicles were purchased outright.

A minority of respondents just took the initial capital cost into account when evaluating bids. Typically these undertook maintenance and repair in-house and did not necessarily track these costs or allocate them directly to forklift operation, usually because forklift maintenance was a minor part of a wider maintenance function. These companies also bought forklift trucks outright rather than leased them.

A smaller minority of companies evaluated Total Cost of Usage (TCU) though these were on full service contracts and could accurately allocate rental, service and other operating costs against forklift usage.
4.3. Finance

Leasing appears to be the preferred means of financing the acquisition of forklift trucks. Over three-quarters of the companies surveyed currently lease forklifts and half of these only use leasing. A number of these were on full service contracts, with a couple standardising on a single preferred supplier.

Others have a mix of leased and purchased forklift trucks, though leasing appears to have become more popular, with a number of respondents in this group stating that, while their older trucks were purchased outright, newer ones are leased.

Only around a quarter of those surveyed solely purchased forklift trucks outright. These tended to be the smaller, privately held companies which placed a greater emphasis on ownership, rather than usage.

The supplier i.e. dealer or manufacturer, was the primary source of finance for forklift acquisition where trucks are leased. Some respondents commented that leasing is seen as convenient and cost-effective, and that the supplier’s finance offer is an integral part of the forklift package. Only one company had arranged finance through its house bank and another used a number of external funders.
5. Fleet Management
5.1. Fleet Management Implementation

Respondents were asked how forklift truck fleets were managed in their organisations. Companies were fairly evenly divided between the 46% which managed their fleets entirely in-house, undertaking fleet administration, service and repair internally, and a further 42% which undertook fleet administration internally, while outsourcing maintenance and repairs. The remaining 12% outsourced Fleet Management entirely to a third party, usually the supplier in the form of manufacturer or dealer.

Figure 12 - Fleet Management Implementation

Fleet Management was undertaken fully internally where companies had a more general repair and maintenance resource (e.g. for factory operations) in which forklift maintenance could utilise marginal resources and was seen as a relatively minor requirement. This was also undertaken internally where forklift trucks were owned outright.

By contrast, where forklifts were leased, maintenance was usually included in the leasing contract. One of the benefits of leasing cited by several respondents was that maintenance could be included in the contract and therefore costs were predictable and could be easily budgeted for.

The survey asked respondents if their companies had evaluated fully outsourcing the Fleet Management of their forklift trucks. Half stated that they had not evaluated outsourcing (yet), either on the assumption that it would be more expensive than their current arrangement, or from the perspective that it would not meet the requirements of the business.

Figure 13 - Evaluated Fleet Management Outsourcing
A third of companies surveyed had evaluated outsourcing Fleet Management and claimed to have implemented it (although some still undertook basic fleet administration in-house). Of those who had evaluated outsourcing but rejected it, some had not found it cost-effective compared to management in-house, while others found it difficult to meet the very specific requirements which existed in their sites.

There were several benefits perceived to outsourcing Fleet Management including:

- Cost-effectiveness – lower headcount and investment enabling company to focus on core business
- Provides cost transparency – costs can be forecast and budgeted and also managed and controlled more accurately.
- Provides the best outcome in terms of TCO and meets the business requirement for outsourcing.
- Supplier has the right skills and expertise to deliver this service.

Where Fleet Management was undertaken completely in-house, this was justified on the basis that it:

- Utilises marginal resources in terms of existing technical support facilities, and is not a core part of the business.
- Fits in with the policy of outright purchase in respect of forklift trucks and a corporate preference for ownership.
- Allows maintenance requirements to be fully controlled with no need to compromise.

5.2. Fleet Management Contracts and Requirements

Existing Fleet Management contracts covered in the research all included maintenance and service together with repairs, although accidental damage was excluded in some contracts. Insurance was also included in the majority of contracts, though a couple of companies handled this separately under more comprehensive corporate insurance cover. Respondents also commented that their Fleet Management contracts included cost reporting though, with the exception of a couple of suppliers, this appeared to be fairly rudimentary.

Around half of the companies’ Fleet Management contracts covered replacement vehicles and 40% also claimed to include telematics solutions, though not all organisations had fully implemented this yet with a couple of respondents stating that this was still under evaluation. A few contracts offered flexible invoicing though the majority provided just standardised monthly billing.

Respondents were asked what they would like to see in Fleet Management contracts to enable them to better meet the requirements of their business. Services such as maintenance, repairs and insurance were seen as hygiene factors and an integral part of any Fleet Management contract.

Fleet Management requirements which had the widest appeal were the ability of contracts to cover multiple brands, multi-country or multi-location contracts and contract flexibility. Most companies surveyed operated multiple forklift truck brands within their organisations and the ability to cover new and existing fleet in a single contract was seen as a distinct advantage.

Most companies were multinational operations and, although purchasing was generally centralised within countries, the ability to cover more than one country in a Fleet Management contract was considered to offer benefits to the business. Respondents also sought flexibility in contracts, so that forklift trucks fleets could be flexed within the contact duration to cope with peaks in demand, or to meet seasonal business requirements.

There was also some interest in sustainable or green solutions, particularly from companies with a strong focus on environmental issues and Corporate Sustainability Reporting. Telematics was another area of interest, though some respondents wished to understand the cost/benefit analysis and business case before investing in this type of technology.
Compared to the scope offered by Fleet Management contracts today, the research highlighted an opportunity for multiple brand and multi-country contracts, though meeting the former is likely to be a challenge for existing single franchise suppliers. There is also a requirement for greater flexibility and clearly an opportunity for technologies such as telematics together with more sophisticated Fleet Management systems. A combination of these would deliver greater productivity, more environmental benefits and lower TCO.
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