Free Cash Flow – The "Lifeline" of Business
The Impact to Free Cash Flow of Company Vehicles

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This white paper will help you better understand that free cash flow is an important measure for any business. Free cash flow is simply operating cash inflow minus operating cash outflow minus cash outflow for capital acquisitions such as equipment or vehicles. In addition to improving operations, a company's fleet of vehicles can offer a viable opportunity to improving free cash flow.

Companies that have increasing amounts of free cash flow are considered to be the strongest financially. Free cash flow provides flexibility to businesses and lessens the need for debt; and less debt reduces business risk. Accordingly, free cash flow is an attribute often used to determine business values. To illustrate the importance of free cash flow, a business that increases its annual free cash flow by $10,000, can increase the value of the business tenfold — or $100,000 (assuming a cost of capital of 10% and that the cash flow is perpetual).

Not surprisingly, businesses are constantly looking for ways to increase cash flow.

One often overlooked way to improve free cash flow is the effective use of your fleet of vehicles.

Many businesses own and manage their fleet or provide reimbursement for use of employees' vehicles, but a close look at the overall cost of doing this may warrant the outsourcing of these tasks to fleet management professionals.

When comparing an outsourced fleet management plan to a "do-it-yourself" program, it's important to understand the key benefits that fleet management professionals bring to the table in terms of improving free cash flow. From a financial perspective, the following issue is critically important:

- ☐ Fleet Management companies allow for flexible leasing arrangements, which can lessen the amount of debt on a company's balance sheet as compared to traditional loans. This can reduce the financial risk of the business, improve the cost of capital, and increase the value of the business.

From an operational standpoint, a well-designed fleet management program can improve the free cash flow of a business model in many ways, some of which are detailed below:

- ☐ The ability to gain access to the best possible price on a particular vehicle, minimizing the additional after market costs, and tapping into all of the possible avenues to maximize the resale value of the vehicle.

- ☐ Implementing the right vehicle replacement plan based upon histories of repairs, mileage patterns, warranty coverage, and improvements to fuel economy of new vehicles.
- ☐ Reducing driver downtime due to repairs or accidents.
- ☐ Ensuring that maintenance costs covered by manufacturer warranties are recovered.
- ☐ Minimizing the risk of costly errors due to oversight of automotive experts
- ☐ Buying and selling vehicles at the right time of the year and providing an objective viewpoint on the vehicle make and model.

In summary, the level of free cash flow is one of the key determinants of a successful business model. Increasing free cash flow can have a dramatic impact on the value of your business. One resourceful approach to increasing free cash flow is to outsource your fleet. Not only could outsourcing increase the value of your business, this decision would allow you to focus attention on core activities and where your passion lies – and not dealing with the headaches of managing your fleet.

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