

Why TCO Matters So Much to Our Customers



by Friedrich Baumann, President, Aftersales & Alliance Management

One of the best parts of my Aftersales job is meeting customers, developing relationships with them, and understanding their business models and challenges. With Vision 2025, Navistar's strategy to become the premier solutions provider and OEM of choice, we move the customer to the center of everything we do; and so I am planning to have more and more of those customer visits in order to listen and understand their needs.



These conversations bring home a critical lesson: Every customer "drives" their own unique business model. Our customers represent an incredible variety of trucking applications, vehicle configurations and service requirements. And if we are going to be a true business partner to our customers, we need to understand what exactly they require from us to be successful and profitable.

One constant amid the variety is that our customers buy trucks not because they want to, but because they have to, in order to be competitive and grow and make money. Making money in trucking also means they have to manage their Total Cost of Ownership (TCO). It should not surprise, then, that Navistar's Aftersales team is focused on TCO management for our

International® brand.

Successful operators and fleets keep a close watch on four different major Key Performance Indicators (KPIs) that factor into TCO. And being smart business people, they relentlessly measure their trucks' performance on these four KPIs, by competing brand and by model year, to see which brands are performing better than others. We win or lose by those comparisons!

These four indicators are:

1. Fuel efficiency, measured in miles per gallon. After driver cost, fuel is the biggest expense; and the newer the vehicle, the better the performance.
2. Maintenance and repair costs. In general, our big-fleet and other sophisticated customers exclude the costs recovered through warranty, as well as the cost of tires and crash repairs. But fleets also look at whether they have more crashes with one brand than another.
3. Downtime. Fleet customers calculate the total hours of unplanned downtime per brand, and divide that figure by the total number of vehicles and hours that are available from each brand in their fleet, to see which brand causes the relative fewest unplanned business interruptions.
4. Residual value. TCO is not solely about how much a customer pays for the vehicle at the time of purchase; it is rather about the asset's loss of value during the life cycle when the customer uses it – not that different from a personal car purchase consideration. The less of a loss I have while operating the truck, the better my write-off during that time – which also means I can afford to spend more on a truck, as long, as I get more money for it when I sell it again. Residual value is a major area of focus for our brand, especially since our newer truck platforms like the LT and MV are starting to show up in the secondary marketplace. Because the better the residual value, the better the pricing we can get for our new trucks!

Each fleet balances these KPIs in different ways. Some operators carefully manage the use of their vehicles and sell them after just a few years, so they can secure maximum resale value. Others may run their vehicles for 10 years

or even more. It all depends on the individual company's business model, including the applications for which the company uses the vehicle, and how active it elects to be in the used truck business.

One reason it's so important to understand each customer's unique business model is so we can advise them, upfront, on the best possible truck specification and extended warranty package for their needs, and give them the best possible maintenance while in operation. That's where Aftersales comes into play. And our new Aftersales division at Navistar brings together every facet of our business after the sale of the truck ... including oversight of parts sales and distribution, service management, integrated warranty, and dealer network management and development ... in order to increase each customer's Uptime and reduce their TCO.

For Navistar, TCO is something we are very passionate about. To be a great partner, we need to listen, understand, and deliver on our customers' expectations!

Keep on truckin'!

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