

A discussion

Owner Operated vs. Third Party Vendor

As more and more companies move away from owning and operating a vanpool program for their employees, vanpool groups are faced with basically two choices: purchase a van and become an owner-operator, or acquire a van through a third-party vanpool vendor.

An *owner-operated vanpool van* is purchased and operated by one of the employees in the vanpool. The owner-operator makes the monthly payment to the bank, and manages the other reoccurring costs associated with operating the vehicle.

A *third-party vanpool vendor* is a company that specializes in providing a turn-key vanpool program to groups of employees interested in commuting together. The third-party vendor typically coordinates all facets of the vanpool's operation in exchange for an all-inclusive (except for gas) monthly payment.

When comparing these two options, it is important to consider all of the different factors that go into the operation of a successful vanpool:

Insurance: Insurance coverage on vanpool vans is an issue of tremendous importance. This is because the vans carry 7-15 people at a time, which can significantly increase the number of possible claimants if the van is involved in an accident (vanpool passengers are often the most numerous claimants). For this reason, third-party vendors include a large, single-limit liability policy in the monthly rate charged for each van. The standard liability amount is \$1,000,000. Uninsured Motorist Coverage ranges from \$30,000-\$100,000. Comprehensive and Collision coverage is included with *zero deductible*.

There are a few insurance-related problems that a person can encounter when they become an owner-operator of a vanpool vehicle. First, the cost to acquire the levels of insurance described above is significant for an individual. A few calls to insurance companies will confirm that the cost for Liability, Uninsured Motorist, Comprehensive, and Collision coverage in the amounts listed above can easily run \$175-\$300 per month. On top of this, there will usually be deductibles involved (especially for the comp/collision coverage). The option of carrying insurance at lower limits could put the driver at great personal financial risk in the event of a large claim. This is compounded by the fact that the owner-operator is liable not only as the driver, but also as the *legal owner of the vehicle*. Also, the ability to add additional drivers to the policy could be very limited.

It is the cost of this type of insurance, compounded by the additional financial exposure caused by being the owner of the vehicle, that has swayed most vanpool drivers (and employers, for that matter) away from becoming owner-operators.

Maintenance: The maintenance program provided through a third-party vendor usually requires little from the vanpool operator other than his/her cooperation. The vendor will pick-up, service, and drop the vehicle back off at the work site. For more serious repairs, a loaner van will be delivered to the work site, and the original vehicle will be transported to the shop by the vanpool vendor; this process is reversed when the repairs to the van are complete. With most third-party vendors, the maintenance program includes all maintenance until the van is retired.

An owner-operator would have a few dynamics to deal with when handling maintenance. The owner-operator would be responsible for taking the van in for all servicing or major repairs; this process can be somewhat time consuming. Also, the cost for all oil changes, safety inspections (state mandated), and repairs once the vehicle is out of warranty (usually 36,000 miles) would be the responsibility of the vanpool group. This cost can be fairly significant given the fact that the vanpool group would typically not be able to enjoy the fleet discounts and pricing for these services that are available to third-party vendors.

Loaner Vans: This is probably one of the most difficult problems for owner-operators to overcome. What happens when the van goes into the shop for a problem that will take a week or more to repair (mechanical or body damage)? In this event, the vanpool riders will have to continue paying for the van while it is in the shop, even though they will not have use of the vanpool van during this time (and will have to drive themselves to work). Many vanpool riders are inclined to not want to pay for the days when the van is unavailable. The monthly payment to the bank for the van will still be due, whether the van is in the shop or not. This loaner van issue will come up even when the van is being repaired under warranty (warranties won't pay for the rental price of a van).

Breakdowns: If the van breaks down on the way to or from work, it affects all 7 to 15 riders. Third-party vanpool companies are set up to deal with this situation relatively quickly, day or night. An owner-operated van will face the logistical problem of how to get a large group of people (on their way to or from work) picked-up if the van breaks down on the road.

Purchasing/Converting the Van: The pricing available to an owner-operator to purchase a van is significantly higher than the fleet pricing available to a third-party vendor. Additionally, it is far easier and cheaper for a third-party vendor to convert the van (individual seats, lights, etc.) if the vanpool groups chooses this option. These higher costs are factored into the monthly cost of an owner-operated van. Additionally, because of the rapid depreciation of these vans in the first two years, the owner is unable to consider selling the van until it is a few years old (or else they will most likely lose money on the van).

Empty Seats: If you lose ridership, most third-party vanpool vendors can switch you to a smaller size van fairly quickly. In an owner-operated van, there is no option to downsize the vehicle if ridership drops. The monthly cost will be divided among the remaining passengers (or absorbed by the owner of the vehicle).

License/Registration Fees: These fees, which will typically cost \$40-\$50 per month for a vanpool vehicle, would need to be handled by the owner-operator.

Pricing: There are generally three options for vanpool groups: owning and operating a van, renting a van from a third-party vendor on a month-to-month basis, or leasing a van from a third-party vendor on a fixed-term basis.

Being the *owner-operator* of a van gives you the most control over your vanpool and can be cheaper than a month-to-month rental agreement through a third-party vendor. The downside is that the owner-operator has to take on all of the responsibilities described above that would otherwise be handled by a third-party vendor.

A *month-to-month* arrangement through a vanpool vendor offers tremendous flexibility and includes all the services needed to keep the vanpool running smoothly. The downside is that this option is more expensive than leasing, and might cost more than an owner-operated van.

Leasing a vanpool through a third-party vendor gives you excellent pricing and includes the full-service program that only a third-party vendor can typically provide. The downside is that the lease is a fixed term (2, 3, or 4 years) and cannot be terminated early.