

What If “New” Autos Sold By OEMs To Daily-Rental Fleet Operators Were Delivered With Remanufactured Components?

The Big 3 are attempting to reduce their cost of sales by aggressively seeking price reductions from their component suppliers. Suppliers have responded to this initiative by using such time honored techniques as: improving labor productivity through the acquisition of high technology capital investment, re-engineering the manufacturing flow, redesigning their products, re-engineering their supply chains and others. The suppliers have been successful in reducing their prices, but for each percentage point of price reduction, the suppliers' organizations have experienced much pain.

What if the suppliers and the Big 3 began to think out-of-the-box and considered the use of remanufactured components during the assembly process for vehicles that were destined for daily-rental fleet operators? We could create more jobs through remanufacturing, a process that is 100% more labor intensive than that of new component manufacturing, and reduce the cost of vehicles to the rental-car fleet owners. Vehicle residual values would be marginally impacted, because after a 15-month fleet lifecycle, all parts are used, so remanufactured like-new parts that have been installed are no longer relevant to most buyers; most vehicles sold by the fleet operators would still be covered under a “new” car warranty. Unions would be interested in adding jobs, rental car companies would save on car investment and the EPA would find such an initiative environmentally friendly.

Below is an analysis of the economic impact of the initiative.

Analysis Of Remanufactured Components Used In The Assembly Of Automobiles Destined To Daily-Rental Fleet Operators	
Estimates	Description
17,000,000	Annual new light vehicles unit sales per year
45%	% of light vehicles that are autos
7,650,000	Annual autos unit sales per year
50%	US Big 3 share of auto market
3,825,000	US Big 3 annual auto unit sales
30%	% of Big 3 auto unit sales that are delivered to daily-rental fleet operators
1,147,500	Big 3 auto unit sales that are to daily-rental fleet operators
\$15,000	Cost of Sale per vehicle
35%	Material as a % of Cost of Sale
65%	Purchased components as a % of Cost of Sales materials
\$3,915,843,750	Components annual Big 3 purchases for assembling autos for daily-rental fleet operators
20%	What if % of these components that were to be remanufactured
\$783,168,750	Annual purchases by Big 3 of remanufactured components
30%	Remanufactured products cost reduction from new condition
\$234,950,625	Big 3 annual purchasing savings from remanufactured components installed on daily-rental fleet autos
1.8%	Big 3 annual auto component purchases savings from above initiative
\$6,000,000,000	Annual market size of remanufactured light vehicle components
13.1%	Annual increase in market size of remanufactured light vehicle components from initiative

Also note that over 30% of new light trucks are bought as capital investments for businesses. They could also be assembled with some remanufactured component content and the owners wouldn't care...as long as they have the same warranties as that of a new vehicle. One of the challenges would be the supply of sufficient cores; as a result the above would take several years to implement.

It is time for automotive OEMs to rethink their business model!