enterprise
FLEET MANAGEMENT

WHY A MULTI-CHANNEL RESALE APPROACH WILL IMPROVE VEHICLE VALUES

Many companies rely on a single resale channel when cycling vehicles. Using a hands-on multi-channel approach will maximize resale revenues.

Why a Multi-Channel Resale Approach will Improve Vehicle Values

Traditionally, fleet managers across virtually all industries often use a single resale channel, e.g., auctions or dealer trade-in, to replace vehicles their companies rely on to operate. A single channel approach is the typical option for most companies, often because they are unaware of the availability or benefits of other alternatives, or find researching and applying multiple resale channels too time consuming to pursue on their own.

Vehicle decision makers often believe there are advantages to using a single channel to sell all company vehicles. The perception is often that a single channel approach develops relationships and volume that produces better sale pricing and results. In reality, while a single channel approach may help simplify the process, it rarely produces the best resale price. A multi-channel approach will position an organization to capture maximum value, as the resale channel matches each vehicle to the optimal buyer pool.

To generate the largest return on investment for company-owned vehicles, it's critical for companies to use a multi-channel resale strategy. By definition, a multi-channel approach involves evaluating all channels: trade-ins, auctions, or reselling the vehicle to a dealer. In the days of tight margins and increasing budgetary pressures, return on investment for company assets is a crucial, bottom-line consideration for every fleet decision, including the resale value of each vehicle in the fleet.

Anatomy of the Remarketing Channels

There are several vehicle resale channels (also known as remarketing channels) companies can use to sell their vehicles, including trade-ins, online sales, physical auctions, and selling to dealers.

TRADE-IN

More commonly associated with a typical consumer vehicle transaction, companies of all sizes — but particularly small businesses — utilize the trade-in approach to sell an individual vehicle. Vehicles are often traded in when they have high mileage and limited or no useful life left. This is perhaps the most straightforward of the resale channels. Trade-ins are viewed favorably because funds generated from the transaction can be used to offset the cost of a new vehicle.

While a quick and simple process, fleet managers do need to keep in mind that the resale value realized using the trade-in option will often produce low wholesale values. To get the best price, fleets will likely have to negotiate with a professional car buyer, which could be a time-consuming process and still result in a lower-than-desired trade-in price.

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ONLINE MARKETPLACE

Another individual option for selling a vehicle is online sales, using websites such as Craigslist. This approach carries a variety of risks. These risks run the gamut from the time lost to possible physical danger to company personnel showing a vehicle to a stranger. Also consider the risk of the unknown financial situation or backing of prospective buyers when selling privately. Can the buyer get financing? Will their check or funds come through for the purchase? Additionally, consider all of the headaches that may follow from selling to an individual, including disputes that could arise after the sale, as well as the time and cost required to complete the administrative tasks involved with the sale, such as transferring the title.

AUCTION SALES

For companies with large fleets, an auction program is one of the most common resale channels for a variety of reasons: **1)** auctions provide sellers the ability to run a large number of vehicles through the auction lanes, **2)** sellers can feature vehicles simultaneously through multiple online auction portals, and **3)** it's among the fastest ways to dispose of vehicles. However, this channel has some limitations that fleet managers need to keep in mind when considering an auction for remarketing.

Without a dealer license, fleets have to run their vehicles in public auctions with high auction fees. The fees will ultimately take away from the net proceeds, which averages about 10-15%. Plus, these types of auctions often don't allow you to set a minimum bid. This type of sale offers a risk of additional fees without a guaranteed sale price. Additionally, online auction buyers typically only have access to basic information — make, model, mileage, and trim — about the vehicle. Because vehicles are often purchased "sight unseen," there is little to no ability for buyers to know the true quality and condition of the vehicle.

Fleets must be aware of the time commitment, logistics and fees associated with vehicle resale auctions. This is critical if they do not have the proper infrastructure and support.

DIRECT TO DEALER

Selling vehicles to dealers — not trading in for another vehicle — is perhaps the best way to gain maximum resale value. However, companies may find that they are unable to get the maximum resale price, because the company decision maker may not possess the same level of knowledge or expertise that the dealers have.

To get maximum ROI, the direct-to-dealer approach relies on partnering with the right fleet management company (FMC) to leverage dealer relationships to cycle the right vehicles at the right time to the right dealer.

Coupled with an understanding of the local market, locally based FMCs can connect their forecasted vehicle cycling with the needs of local dealers to get premium pricing. Unlike a typical auction or companies who sell vehicles remotely, FMCs that have a local office with a dedicated resale team can take into account all of the upgrades and features that may resonate with buyers in the market.

In addition to getting premium pricing, the selling process of going directly to a dealer, which averages about 20 days, is streamlined and ultimately easier for fleets compared to other resale channels. Once the FMC identifies the ideal time to sell, they will pick up the vehicle, handle all of the necessary reconditioning, and find the appropriate resale channel specific to the vehicles.

After the sale, the fleet decision maker can choose to apply the resale revenue to another vehicle. FMCs are instrumental assisting companies with what to do with resale revenue, whether they should use it to acquire new vehicles or redirect the capital to other needs.

Each channel has its benefits, and a company's FMC partner is crucial to helping their clients identify when the conditions are right to use one channel over another.

TIMING IS EVERYTHING

Depreciation is one of the biggest fleet expenses, and is often not fully considered when making purchasing or leasing decisions. Depreciation can be controlled by properly timing the purchase and resale of the fleet's vehicles.

When selling a vehicle to a dealer or using the auction channel, timing is crucial — selling at the wrong time could mean a difference of $2,800 for a typical 3-year-old vehicle. Because locally-based FMC personnel have market trend knowledge and relationships with dealers, they can help fleets anticipate the best time for cycling a vehicle out of their fleet.

The most successful fleet managers and FMCs consider the resale process starting during the purchasing/leasing phase. By planning the optimal time to purchase based on knowledge of the vehicle manufacturers' business, companies can save significantly on purchase price. For example, if a fleet delays acquisition from the introductory pricing to maximum pricing — typically vehicle original equipment manufacturers (OEMs) step up pricing four times from the introductory price — it could cost the fleet hundreds of dollars. Whether its spread across an order of several or several hundred vehicles, mistiming this step could mean the fleet is spending substantially more than if it timed its acquisition to the introductory pricing period.

The Cost of Companies Selling to Dealers

It is important to note that while companies can sell vehicles to dealers, it may require a dealer's license to cycle large numbers of vehicles.

A "large number" in this context is a relative term. For instance, in some states, you have to have a dealer's license to sell four or more vehicles per year. A third-party, such as an FMC with a dealer's license will remove that necessity, expense, and the administrative burden from the selling company.

Additionally, companies need to time resale to effectively take advantage of the optimal selling period, which occurs in late summer/fall and in the early spring. Timing the resale correctly is the key to maximizing resale value, which offsets the cost of the vehicle — whether it's purchased or leased.

The most important aspect of an FMC relationship is finding the partner who will prioritize the fleet's needs in every aspect of the relationship, particularly in properly acquiring and disposing of vehicles.

Timing acquisition and resale together will help save money on the front-end and improve revenue on the backend. Any error in timing of vehicle acquisition will increase fleet costs; the same is true for mistiming the resale window, which will cost fleets thousands in lost revenue. This is why it is crucial to find the right FMC partner to leverage their expertise and their knowledge of the local market to correctly time vehicle acquisition and resale.

FINDING THE RIGHT FMC PARTNER

Since many companies don't have the time or expertise to handle complex fleet functions, such as remarketing, outsourcing to the right FMC partner can help fleets apply the correct strategies to maximize every aspect of a vehicle's lifecycle.

Most companies with fleets of more than 20 vehicles would benefit by having an FMC partner to spearhead a multi-channel resale program. Additionally, having a partner with a non-centralized operation will result in better insight into the fleet and the vehicle needs of the local market. Locally-based fleet management personnel can leverage relationships with dealers to help fleets realize maximum resale values, forecast for the best time to sell, and determine the optimal resale channel for each vehicle.

FMCs with dedicated resale personnel provide the specialized knowledge and expertise needed to maximize resale revenue. These partners will handle all of the details tied to resale, including paperwork and reconditioning, offering a streamlined process. Additionally, some FMCs will stop lease payments once the vehicle is picked up and ready for resale. Others will charge until the vehicle is sold.

The most important aspect of an FMC relationship is finding the partner who will prioritize the fleet's needs in every aspect of the relationship, particularly in properly acquiring and disposing of vehicles. The right FMC partner can help fleets realize up to $2,500 in acquisition savings per vehicle; and the right resale strategy can net $1,500 per vehicle — a combined savings of $4,000. The numbers begin to add up quickly, especially if a fleet cycles a large number of vehicles.

Ultimately, maximizing value from a multi-channel resale program is dependent on choosing the right partner who will work with the fleet and its stakeholders to be as efficient and effective as possible.

About Enterprise Fleet Management

Owned by the Taylor family of St. Louis, Mo., Enterprise Fleet Management operates a network of more than 50 fully-staffed offices and manages a fleet of more than 470,000 vehicles in the U.S. and Canada. The business provides full-service fleet management for companies, government agencies and organizations operating medium-sized fleets of 20 or more vehicles, as well as those seeking an alternative to employee reimbursement programs. Enterprise Fleet Management supplies most makes and models of cars, light- and medium-duty trucks and service vehicles across North America. As the largest buyer and seller of vehicles, Enterprise is the undisputed expert in remarketing.

For more information about Enterprise Fleet Management, visit www.efleets.com.