

6 COST-EFFECTIVE STRA FOR PURCHASING

Do some homework before making an out-of-stock purchase to avoid paying higher prices. Read on for tips to planning a dealer stock purchase. **By Sean Lyden**

Purchasing light-duty trucks out of dealer stock is substantially more expensive than factory orders — as much as \$1,000-\$2,000 more per unit. A primary reason for this cost difference is that dealers typically stock vehicles tailored to retail customers, who prefer more options than offered on stripped-down fleet trucks. More equipment means more money, compared to the pricing of getting exactly what is needed — and nothing more — with a factory order.

The law of supply and demand also comes into play, which may make a dealer hesitant to sell a vehicle from inventory at the discounted fleet price.

“I’ve had dealers flat out say,

‘No, I can’t sell you this truck,’ because of the mere fact they don’t have much inventory and prefer to sell that unit retail for more profit,” according to Ron Jawidzik, fleet and remarketing manager, Merchants Leasing. Jawidzik is responsible for purchasing, disposition, and transportation of Merchants’ fleet vehicles and works closely with manufacturers to develop fleet programs for clients.



JAWIDZIK

But no matter how well vehicle purchases are planned out to take advantage of factory order pricing, uncontrollable events still exist — factory production delays, vehicle collisions, mechanical failures, and new business — that trigger the need to purchase trucks out of stock.

How can the pain (and cost) be minimized when the unexpected happens and an out-of-stock purchase is necessary?

AT A GLANCE

Minimize the pain and cost of an unexpected out-of-stock purchase by planning properly. The following are just a few strategies:

- Create a spec sheet detailing the exact type of vehicle desired from the dealer.
- Make sure upfront that the dealer can provide a rush order on a vehicle if needed.
- Determine how much the company will spend to eliminate having to haggle.
- Establish a relationship with a dealer to help ease the vehicle search, selection, and purchase process.



1 CREATE TARGET SPEC SHEETS. DO THIS FOR EACH TRUCK TYPE — VANS, PICKUPS, UPFITTED CHASSIS CABS, ETC. Identify negotiable specs (e.g., a short box pickup is preferred, but an 8-foot bed is an alternative, depending on availability) and non-negotiable (e.g., diesel engine only). This way, when the need for an out-of-stock vehicle arises, the spec sheet can be sent to the dealer stating, “This is what I’m looking for. What do you have in inventory that is closest to this spec?”

2 SELECT AN OUT-OF-STOCK DEALER COMMITTED TO THE COMMERCIAL-FLEET BUSINESS. “If you call a dealership and ask for the commercial fleet department, but the receptionist responds, ‘Excuse me?’ you know you’re in trouble. That’s not the dealer you want to do business with,” Jawidzik advised. “The dealer you want to do business with has a dedicated commercial fleet manager or department that knows the ins and outs of selling vehicles to fleets and will have the large inventory you need to pull from when you need it.”

When a truck is needed fast, will this dealer stand a chance to fill the need? Find out upfront. If possible, visit the dealership in person to physically see its inventory. This will pro-

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TRUCKS FROM DEALER STOCK

vide a feel for whether the dealer is up to the task.

3 ESTABLISH OUT-OF-STOCK PRICING GUIDELINES BEFORE A PURCHASE IS NEEDED. Since the exact spec'ed truck may not be available, prices on stock vehicles will vary. When establishing pricing guidelines, decide how much the company is willing to pay relative to dealer invoice on the vehicle.

For example, "We're willing to pay \$X over [or under] invoice. Is this agreeable to you?" Getting an agreement upfront will help prevent the headaches of having to haggle with a salesperson for each purchase.



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4 CULTIVATE A PARTNER-TYPE RELATIONSHIP WITH THE RIGHT OUT-OF-STOCK DEALERS. "Partner with a dealer?" is just one question that may come to mind. Others include: "How would this result in the best price? What about shopping multiple dealers with

each out-of-stock need? Won't the lowest price be available this way?"

Conventional wisdom says yes. In theory, fierce competition for fleet business should drive down cost. However, the fleet manager is investing a lot of time contacting multiple dealers, determining whether they can actually deliver what is needed, reviewing their offers, and then deciding which truck to purchase. This protracted process can actually diminish savings in the pursuit for the lowest price.

When partnering with dealers, the familiarity that comes with a long-term relationship can actually work in fleets' favor with pricing and make the vehicle search, selection, and purchase processes as quick and easy as possible.

Ideally, a preferred relationship would entail an e-mail exchange with a dealer-partner detailing specifically what is needed. The e-mail would state, for example, "Here is what I'm looking for. [Include desired spec list.] Can you get me something close to this spec? By when? How much will it be based on our agreed upon pricing guide-

DEALER STOCK vs. FACTORY ORDER PRICING

What drives up dealer stock pricing compared to factory orders? There are four primary factors:

- **Extra equipment.** With factory orders, purposely de-content the vehicle to strike the right balance between equipment and price point for the lowest possible price for a truck to perform as needed. With dealer stock, work with what's available.
- **Limited inventory.** As a result of the market downturn that began in 2008, dealers are stocking fewer vehicles. This limits choices and allows dealers to charge more per unit.
- **No price protection.** Factory orders often include price protection, providing beginning of model-year pricing, no matter the delivery date. Stock purchases are subject to the periodic factory price increases throughout the model-year.
- **Delivery and/or dealer trade charges.** Suppose the vehicle needed is not in the local dealer's inventory, but they can get it from another dealer — 300 miles away. The dealer will need to add transportation costs to the price of the vehicle.



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Purchasing Strategies

lines?” And that’s it.

Since a relationship already exists with dealer-partners, they know what spec variance is acceptable, how and where the vehicles should be delivered, and how to streamline the purchase process to ensure what is needed is provided in a timely manner.

5 WORK WITH DEALER-PARTNER TO STOCK VEHICLES CLOSE TO THE

DESIRED SPEC. How many vehicles have been purchased out of stock in the past year? If the number is five, 10, 15 or more, it may be possible to work something out with the dealer-partner to stock vehicles close to the spec. This creates a win-win and increases the likelihood of having compatible vehicles on hand in an emergency. The dealer also cultivates a loyal customer relationship, while still able to sell that spec’ed vehicle to other customers.

“I’ll call up a dealer with a need for a ¾-ton Chevrolet cargo van,” said Jawidzik. “After the third time I call the guy within a month and a half, the sales rep says, ‘Geez. Maybe I should



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stock more of these. What’s your typical spec?’ That’s the kind of dealer I’m looking for. I’ll say something like, ‘I need side and rear glass, ¾-ton cargo van. Nothing else special.’ The rep says, ‘That’s a pretty easy item for me to move. I’ll order more for stock because I know you’ll keep calling me.’ ”

6 LEVERAGE THE FLEET LEASING/MANAGEMENT COMPANY, IF ONE IS USED. Managing an out-of-stock dealer-partner network becomes more challenging the larger and more widespread the fleet.

“Out-of-stock purchasing gets difficult when your home office is based

out of Boston, but you have drivers all over the country. You have a driver in Billings, Mont., who needs a vehicle immediately and chances are you are not going to have any purchasing agreement or relationship established with that local dealer,” said Jawidzik.

The dealer-partner near the home office is still an option, but that would require tacking on several hundred dollars to the purchase price in freight charges

to deliver the vehicle out-of-state, which could make the purchase cost-prohibitive.

If leasing vehicles through a fleet management company, leverage their resources to streamline and handle the out-of-stock purchase process. Most of these companies already have a national, or at least regional, “preferred dealer” network in place, and can bring to the table volume purchasing power for advantageous out-of-stock pricing.

THE BOTTOM LINE

The key to saving money is to plan for stock purchases before they are actually needed. Otherwise, it results in scramble-mode, calling numerous dealers, trying to find what’s needed — fast. When a dealer knows it’s a rush order, he or she may not offer the best price. Minimize the “damage” by putting the dealer stock purchase plan in place upfront. **WT**

THE FOUR MOST COMMON CAUSES FOR UNAVOIDABLE OUT-OF-STOCK PURCHASES

What events trigger the need to purchase from dealer stock, despite good planning?

- **Factory production delays.** The OEM has an issue with a parts supplier, delaying delivery of critical parts to the factory, which halts production. A truck is needed on time.
- **Vehicle totaled in collision.** Vehicle was in a major accident on Thursday, and a replacement is needed by Monday.
- **Sudden mechanical failures.** The truck blows a head gasket, and the repair cost would be more than the vehicle’s value. There’s no time to wait for a factory order to replace the vehicle.
- **New job contract.** “Your company is awarded a new contract on the 20th of the month, and you’re in a rush to purchase 10 new vehicles, equipped and ready to work by the first of the month. This happens all the time and there’s little you can do to prepare,” said Ron Jawidzik, fleet and remarketing manager, Merchants Leasing.

WHAT TO LOOK FOR IN AN OUT-OF-STOCK DEALER PARTNER

- Dedicated fleet department.
- Agreement to your pricing guidelines.
- Sufficient commercial truck inventory.
- Willingness to stock vehicles close to your spec.