



Effective Remarketing Case Study

Making the best choices for vehicle resale and disposal programs

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When making effective choices for vehicle remarketing, fleet managers are able to consider a variety of alternatives for disposing of used equipment. To employ best practices for their fleets and realize the highest possible resale value, they take into account a number of factors, including available remarketing services and markets for used equipment.

Remarketing considerations are also part of a fleet's initial decisions about replacement cycles. Using management systems, benchmarking data and other information sources, they are able to determine optimal trade cycles as well as project resale values with a high degree of accuracy.

Like all fleet management decisions, remarketing choices must ultimately result in a measurable return on investment. Constant evaluation and consideration of remarketing alternatives is therefore an ongoing process for successful fleets.

For three leading fleet managers, all of these factors are in place, and while taking different approaches, their stories reflect the effective choices about vehicle disposal and remarketing that are they are making.

From Direct Sales to Leasing at E.ON U.S.

“When we switched our fleet over from owned vehicles to leased units ten years ago, the question of how to dispose of used equipment essentially disappeared,” says Bill Doggett, Manager Corporate Transportation at E.ON U.S. “Now, we simply turn in vehicles at the end of the lease.”

As a company owned fleet, however, Doggett relates that E.ON U.S. had developed tried and true practices for vehicle disposal. “When our fleet was company owned,” he explains, “we had a program to sell used units directly to end users.

“Over time,” Doggett continues, “we developed a list of contacts, including contractors and equipment resellers. We found that those companies were interested in the same types of equipment, especially knowing that it had been specified and maintained properly. Most of our equipment sold quickly, about 95 percent to companies in Kentucky and the rest in southeastern states.

“When we were selling our used vehicles,” Doggett relates further, “we found that we could realize 25 to 30 percent more resale value by disposing of them directly rather than using a third party, such as a reseller or an auction company. Also, our legal group was involved so any liability concerns were addressed.”

After transitioning the E.ON U.S. (then known as LG&E Energy) fleet to a lease program, the company provided its lessor with contact information for its former

buyers. Today, that supplier uses the list and other information to sell E.ON U.S.'s vehicles after they are taken out of service.

E.ON U.S. originally switched to a leased fleet to conserve capital and to be able to field newer vehicles compared to a fleet that had a ten-year trade cycle for certain types of equipment. “Even if we returned to a company-owned fleet, Doggett says, “it’s not likely that we’d go back to remarketing our used equipment directly or even take them to auction ourselves.”

Among the reasons for that decision, Doggett explains, are the higher safety standards in place for equipment today. “Utility contractors are using the same equipment as utility fleets,” he states. “We are not interested in risking liability for our used equipment after it’s sold. It would be in our best interest to sell them to a remarketer, or the remarketing subsidiary of one of our suppliers.”

There are also financial considerations. “While we’d likely get substantially less for used vehicles by either selling them through a third party or selling them to a remarketer,” Doggett says, “it would cost us less than if we had to take on the work of preparing them for retail sale. In addition, we would not have the same risk of liability or the administrative expenses associated with the entire process.

“In the end,” Doggett concludes, “turning in vehicles at the end of a lease or using industry resources to dispose of used equipment are now our best options.”

E.ON U.S., headquartered in Louisville, Kentucky, is a diversified energy services company that owns and operates Louisville Gas and Electric Company, a regulated utility that serves 318,000 natural gas and 390,000 electric customers in Louisville and 16 surrounding counties, and Kentucky Utilities Company, a regulated electric utility in Lexington, Kentucky that serves 518,000 customers in 77 Kentucky counties and five counties in Virginia.

Finding Value in Auction Services at Southern California Edison

“Prior to the recent rule issued by the California Air Resources Board (CARB) regarding Diesel Engine Reduction,” says Chet Snyder, Fleet Asset Manager, Transportation Services Department at Southern California Edison (SCE), “we remarketed our equipment through direct sales outside of California as well as by utilizing an auction company. Since we can no longer sell used diesels in California that do not meet 2009 compliance standards, we now strictly utilize an auction company to remarket our used equipment.

“An auction company,” Snyder continues, “provides us with greater remarketing exposure inside and outside of the state. We also have specific processes in place that ensures we meet specific compliance laws. This partnership allows SCE and the auction company to share in the responsibility and accountability of the rules and laws of remarketing diesels.”

Prior to 2008, Snyder notes, SCE spent a considerable amount of money and effort to prepare equipment for remarketing and ensure the vehicle was safe.

“We utilized our own resources in-house,” he explains, “but it became apparent that we did not see much benefit from our efforts in a return on our investment. At the same time, we did not want to sell something that could potentially come back to haunt us.”

Partnering with an auction company, SCE developed a process for vehicle evaluation regarding state and federal safety laws and another process to ensure compliance with state environmental and DMV laws. The auction company is responsible for making sure those processes are followed and enforced. This includes ensuring all sales paperwork is completed and that all DMV VIN Stops are in place before the sale is completed.

“We measure the effectiveness of this program in three ways,” Snyder relates. “One is by having a very low number of errors in documentation and administration. We cannot sell a diesel vehicle in California that does not meet current CARB and DMV requirements or we are in violation of the law. Our processes have eliminated all registration errors.

“Secondly,” Snyder continues, “we are now remarketing our used fleet in less than 30 days compared to 90 to 120 days previously, which has improved our monthly financial recovery. Third, by using the services of an auction company, we freed up two full-time employee positions because we didn’t need those people to perform most of the administrative work as well as make minor repairs on equipment to assure it meets safety requirements.”

SCE is currently developing and implementing new processes and procedures designed to enable long range planning for future vehicle replacements. “We recently incorporated software to provide a baseline for our multi-year

replacement plan,” Snyder explains. “At SCE we lease the vast majority our vehicles and our strategy for replacements was primarily focused on age, condition, repair costs and workplace utilization. Resale value was not a primary consideration because we would typically keep vehicles well past the lease payoff period, and when the vehicle was sent to salvage the company kept any proceeds.

“Today,” Snyder continues, we are in a much different financial environment. Our new leases mirror the types available for passenger cars. Only 80% of the acquisition cost is leased and the lease terms are significantly shorter. Because there is now a 20% “balloon” payment, vehicle condition and salvage value at the end of the lease are now critical. Decisions need to be made prior to the end of the lease whether to sell the asset, re-lease it, or buy it outright.”

Due to this change in its operation, SCE has added a financial/lease management group to its operation. The primary focus of this group is to track the upcoming schedule of lease end dates to provide the necessary review and ensure the asset value is optimized. The strategic goal is to acquire and dispose of fleet vehicles to keep balance with client needs, new technology, governmental requirements and vendor production abilities, as well as budget.

“We have considered other remarketing alternatives such as online auctions and trade magazines for used equipment,” Snyder says. “Online auctions work well

but we have found we get a better return on investment when a potential buyer can kick the tires and see the equipment. Magazines advertisements work well for specialty equipment. Even auction companies that only have one or two events per year do not work well for us because it takes too long to sell the units, and especially with the volatility in the economy a few months may cost considerably.

“Good auction companies understand the market and its needs,” Snyder adds. “They know about utility vehicles and equipment and pricing. They interview end users to determine needs and target groups they will advertise and market to in the future. That all leads to a good turnout that creates competition between buyers and helps drive up the price of our used equipment.”

Southern California Edison, an Edison International company, is one of the nation’s largest electric utilities, serving a population of nearly 14 million in a 50,000-square-mile service area within Central, Coastal and Southern California. The SCE fleet consists of 5,900 vehicles that range from passenger and light trucks to Class 8 equipment.

Online Auctions are Benefiting the City of Moline, Illinois

“We use the Internet for most of our vehicle disposals,” says J.D. Schulte, Fleet Manager for the City of Moline, Illinois. “Our disposal revenues increased by over 60% when we moved to Internet auctions instead of having a once a year local auction. This has been a remarkable tool for the City of Moline since we started using it aggressively in 2005.

“In 2007, we also started creating online videos of our equipment and posting links to them on the auction site,” Schulte continues. “The videos demonstrate that a hydraulic system works properly on a unit and includes a walk around the unit where we point out any specific features or defects. After starting this practice, we realized another increase in revenues from the sale of equipment because it helps unsure buyers feel more comfortable with a sight-unseen purchase.”

Schulte explains that the online auctions are the result of a Moline City Council resolution that authorized the fleet operation to dispose of surplus equipment in a way that’s most advantageous. “Online auctions were chosen in part because they give us flexibility,” he notes, “and because we’re often selling specialized equipment, buyers want to see it beforehand. This way, we find there are fewer emails and questions, and just as important, everything is usually sold quickly.”

The City of Moline fleet employs an ongoing online auction, which eliminates the need to sell all used vehicles and equipment at one time. Bidding for a typical seven-day auction is started at the unit's depreciated value. While some equipment has sold for the minimum, most sales are significantly higher than the unit's trade-in value, even when the online auction fees and the cost of shipping and delivery— handled by an outside source for a flat fee that is capped at a pre-determined percentage of the sale price— are taken into account.

To attract a wider audience to its online vehicle and equipment auctions, the City of Moline fleet builds profiles on buyers and notifies them when similar units are available. The city also uses the local media to promote sales, through press releases and by proposing news stories covering the program.

For the majority of purchasing decisions and to determine optimum replacement cycles, Schulte relates, lifecycle cost analysis is used.

“When a vehicle is acquired we establish an amortization schedule with an anticipated salvage value when the unit will be disposed,” he explains. “We also anticipate how many years the unit will be in front line service and put in a calculation for inflation.”

For example, a typical snowplow/salt spreader that is also used for leaf and brush collection and road and street maintenance throughout the year may be

placed on a ten-year schedule. This does not automatically mean it will be replaced in ten years, but financially it prepares the fleet to fund depreciation through the end of the ten-year period and make plans to purchase a replacement when the unit is no longer cost effective to keep.

“With proper planning before a vehicle is purchased and the use of online auctions,” Schulte concludes, “we have not seen any drop in resale values. Our fleet is an enterprise so any proceeds from the sale of used vehicles or equipment go back to our vehicle replacement reserves. That helps replace vehicles in an effective period, and more importantly it means we’re using fewer tax dollars to keep the fleet up to date.”

One of the Quad Cities, Moline, Illinois is a community of 42,000 located on the Mississippi River alongside neighboring Rock Island, Illinois, and Davenport and Bettendorf, Iowa. The city’s fleet of about 380 vehicles and pieces of equipment is managed by Fleet Services, a division of the Public Works Department. Operating like an enterprise fund, Moline Fleet Services has responsibility for specifications, acquisition and upfitting, maintenance and repair services, replacement schedules and removal and disposal of assets.

BOOSTING RESALE VALUE

Effective remarketing programs are essential to the overall success of any fleet operation. Determining the most beneficial alternative for disposing of used

vehicles and equipment leads to both a higher return on investment and an increase in management productivity.

The choices made by the managers at two utilities and one municipal fleet reflect not only what works best for their operations. They also serve to illustrate how careful evaluation of alternatives leads to effective results.