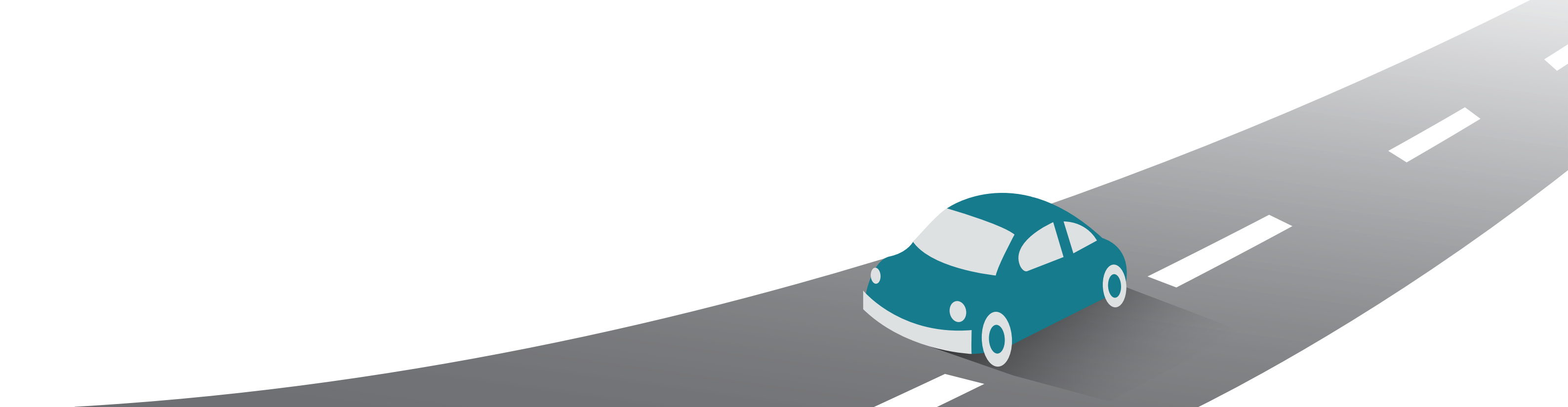
NEGOTIATING SKILLS AND TACTICS TO DRIVE COST FROM YOUR COMPANY CAR FLEET CATEGORY

An Insight Whitepaper



NEGOTIATING SKILLS AND TACTICS TO DRIVE COST FROM YOUR COMPANY CAR FLEET CATEGORY

Company car benefit for professional, managerial, executive and other client-facing employees remains a highly attractive incentive. It can be both a powerful and persuasive competitive advantage when recruiting and retaining top talent and helps an employer develop a standout rewards package. It can also, however, be a massive investment, and in larger businesses it is typically the second biggest indirect cost category behind labour. So, what can procurement professionals do to ensure the company car benefit remains attractive whilst ensuring the cost is driven downwards? Fleetworx look at the negotiating power plays that can be exploited to extract best vaue from the fleet supply chain.

WHAT IS YOUR CURRENT NEGOTIATING POSITION

A negotiating position can be broadly classified in 3 areas

- No opportunity to negotiate (weak)
- Some opportunity to negotiate (moderate)
- Good opportunity to negotiate (strong)

Knowing your negotiating strength vis-a-vis your suppliers is vital to planning your negotiating strategy and the tactics you will employ to reach the most favourable outcome.

- **Weak negotiating position –** this is the usual position of most internet shoppers. Buying from a website does not allow the buyer to negotiate on price. There is no opportunity for the buyer to offer an alternative price and the only discounts that the buyer may be able to win are those that are offered and controlled by the seller. Although not as rigid as this example, the negotiating power of a car fleet buyer is severely restricted if the buyer has limited knowledge of their fleet and is unable to offer a well-structured and detailed Request for Proposal (RFP). If this knowledge is missing, then the buyer is unable to sensibly negotiate as they don't really know what they want. The knowledge imbalance means that the balance of power shifts very firmly toward the supplier. This may sound extreme, but it is not uncommon for fleet buyers who are unfamiliar with the category to go to market with little or no knowledge of the demands of their fleet.
- **Moderate negotiating position –** being armed with relevant information that makes the buyer work a little harder to justify their position can very quickly move a negotiating position from weak to moderate. In our online shopping example, the switch from making a purchase online to a retail store presents much more opportunity to begin a bargaining discussion; the seller is present for one thing, the buyer can explain their position and use pricing examples of other suppliers to negotiate an appropriate discount. When buying car fleet, the ability to negotiate is significantly enhanced when equipped with some information about fleet construction; this is about knowing what you are going to market **with.** Creating the most compelling opportunity for the supplier(s) to quote against means they become excited about the prospect of the business and become engaged in the process. This then allows the buyer to begin negotiations based on the attractiveness of the opportunity to the supplier.

THE ABILITY TO NEGOTIATE IS SIGNIFICANTLY ENHANCED WHEN KNOWING WHAT YOU ARE GOING TO MARKET WITH.

- **Strong negotiating position –** using our shopper example again, they can strengthen their negotiating position still further by having complete clarity about what they are going to market **with** (a knowledge of alternatives, for example, as outlined above) and complementing this by knowing what they are going to market **for**, so they may be looking to buy in bulk for resale or are targeting an end of line product. When buying car fleet, the knowledge of what you are going to market for can significantly strengthen your negotiating power and move you to a position of strength. Having clarity around the funding method that you wish to use, what services you will need and what your supplier strategy will be all strengthen the platform from which you are able to negotiate.

WHAT CAN BE NEGOTIATED IN FLEET?

The cost of fleet within a multinational business can typically approach $1.2m per 100 cars per year. A well structured bid process, coupled with a strong negotiating position, can deliver savings of up to 20% of this cost. Research into the **cost profile of a multinational's car fleet** has shown that over 50% of the cost is outside the parameters set within the contract, proving that contracts that are not correctly negotiated can lead to massive cost creep. The typical construction of a fleet contract where the balance of power sits with the supplier (weak / moderate negotiating position) is one with a plethora of punitive charges related to contract deviations, as well as poor network rebate rates. To mitigate this risk you need to increase your knowledge position, shift the balance of power back in your favour and take a position of strength in your negotiation.

But what knowledge is required to shift the balance of power back in your favour? What tactics can be used to exploit a strong negotiating position?

THE POWER ADVANTAGE OF THE FORMAL PROCESS

Negotiating a new fleet supply chain is a hugely complex task. A multinational business may have upwards of 50 suppliers across numerous countries and thousands of vehicles, and obviously managing proposals and quotes for such volume needs structure and discipline. To improve their power position the fleet buyer needs to have a firm grip on the quoting process and control their knowledge gain, the best way for which is to remove informality and inconsistencies and conduct a formal tendering process.

A formal tendering process will take the form of a 'Request for Proposal' (RFP) document which has structure and procedure. It ensures all suppliers quote against the same products and services and will allow fair and equitable comparison. It is important that this is professionally and competently managed so the benefits of the structure can be exploited, particularly so that all the components of the quotes are captured and recorded.

Conducting a formal process will also improve the power position of the buyer relative to the incumbent supplier(s). The more structure around the quoting process the more serious the incumbent will take the threat to their position.

THE POWER ADVANTAGE OF KNOWING WHAT YOU ARE GOING TO MARKET WITH

Researching the construction of your fleet and preparing a detailed RFP for suppliers to quote against can certainly improve your negotiating position. Unfortunately, the trend toward **removing non-core operations and outsourcing functions such as fleet** has left knowledge vacuums in many businesses, resulting in the suppliers knowing much more about fleet dynamics, cost, policy and application than the companies they supply.

Making decisions about fleet and negotiating with suppliers needs to be supported from a bedrock of solid information: information that is unfettered and undiluted, and paints the true picture of your supply needs. Only when you have this information, based on reliable data, can you make informed decisions about the preferred supply route and model the impact of a change in supply (i.e. switch to single manufacturer or single lessor).

> THE TREND TOWARD OUTSOURCING FLEET HAS LEFT KNOWLEDGE VACUUMS IN MANY BUSINESSES.

The challenge to your negotiating position comes when the balance of power switches to the supplier(s). With an incumbent supplier this happens when they hold all the fleet data and only feed limited and sanitised information to the client. The sometimes inadequate nature of this data compromises your negotiating power as it may not provide any basis on which they can be challenged and/or provide an argument for changing supply route.

KNOWLEDGE IS POWER

In order to strengthen your power, you need to be equipped with as much fleet data as possible, ideally being able to establish the whole life costs of your vehicles. This will put you in an excellent position to speak with confidence about the demands of your fleet.

Once you have created a full analysis of your fleet, it is important to create the most compelling opportunity for the supplier(s) to quote against. The proposal needs to excite the supply chain and be timed so that you are putting the best opportunity forward. After your analysis you should have a model of the replacement cycle to which you are operating. To put yourself in the strongest possible position this should show that the majority of the fleet are nearing the end of their replacement cycle, showing the new supplier(s) that there is a substantial prize to be won with the right terms. Going to market in a lean year with few vehicles actually at the end of their cycle will not excite the suppliers and will significantly strengthen their negotiating position. For example, they may be looking for long-term exclusivity agreements and may also provide aggressive initial pricing in the knowledge that they will have time to creep this up before any serious volume threatens their margins.

The suppliers will be asking certain questions that will determine their interest and the more you can control the stronger your power position:

1. Is it in a country in which I want business?
2. Will it offer a potential profit?
3. Is it available now?

If you can offer business that will satisfy these questions, then you will be in a much stronger position to control the negotiation.

THE POWER ADVANTAGE OF KNOWING WHAT YOU ARE GOING TO MARKET FOR

In addition to having a detailed understanding of your fleet, your power position can be further strengthened by having clarity over what you're going to market for – the funding products and management services that you require.

You may decide to purchase your vehicles outright and then buy the maintenance and management services necessary to operate a car fleet. Most European countries provide bundled solutions and it is less common to buy vehicles and then separately purchase the support services. Knowing the locally preferred supply methods will give you a tremendous advantage here and conversely, asking for something that simply doesn't exist in the market will seriously damage your credibility and shift power to the supplier.

If you are leasing the vehicle then knowing your preferred funding method will help you negotiate more effectively. Are you planning to fund by:

- **Operating lease –** this type of lease means the client carries no risk and can plan for fixed leasing costs across the life of the contract. At the end of the term the lessor will recover the vehicle and dispose of it taking either a profit or a loss on the resale.

- **Finance lease –** this lease gives the client the potential of some reward at the end of the term when the vehicle is sold on, maybe generating a profit. There is also some risk however if the vehicle does not make its residual value and the sale results in a loss.

> REMEMBER, PURCHASING FLEET IS UNLIKE THE PROCUREMENT OF COMMODITIES. RATHER THAN A ONE-OFF PURCHASE, THE BUYER/LEASE SUPPLIER RELATIONSHIP WILL BE LONG-TERM, WITH CONTINUED TRANSACTIONS THROUGHOUT; NONE OF WHICH CARRY ADVANCE PRICE GUARANTEES. A COMMITMENT TO PRICING TRANSPARENCY IS THEREFORE ESSENTIAL.

If you favour an operating lease you need to be aware of the profiteering tactics applied at the end of the term, regardless of whether the lessor makes a gain on sale. Tactics such as punitive end of contract charges for vehicle damage may be applied to either enhance or claw back lost revenue. Asking for clarity about this at the outset of the negotiations will improve your power position and demonstrate your knowledge of supplier revenue tactics.

Taking a finance lease means the lessor has no opportunity to make a gain on the end of term sale, so they will apply other methods of generating additional revenues, such as

1. Transactional fees and kick-backs around purchase and sale of the vehicles

2. Management fees and kick-backs for services provided

Having knowledge of these tactics will put you in a much stronger negotiating position to challenge the supplier(s) on their revenue models.

> IT IS IMPORTANT TO DECIDE ON A SINGLE SUPPLIER OR MULTI-SUPPLIER STRATEGY.

Wrapped around the funding method is the need for maintenance, services, and insurances. Knowing how these services are likely to be applied will help your negotiating position over the maintenance budgets that the supplier will quote. For example they might over-estimate the budget resulting in a windfall at the end of the term. Entering negotiations with historical data on maintenance spend will help set a more realistic number, and support windfall profit sharing negotiations on servicing and consumables.

In addition to the negotiation of funding method and services, it is also important to consider the **supplier strategy to be employed**. You will need to consider whether you want a single supplier to service your fleet requirements, and that could be sole supply across all your markets or a single supplier in each market, or employ a multi-supply strategy, under which you will need the support of a specialist company to manage the multi-bidding that would come with this option.

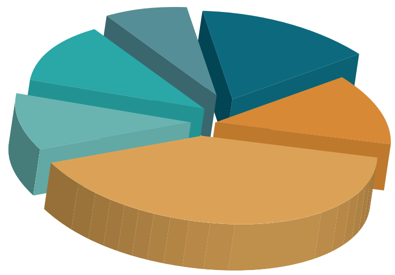
There are pro's and con's to each method, but it is vital to analyse the difference of each supply option and its impact on the outcome. And this only comes with having a detailed understanding of your fleet dynamic and knowing what you are going to market with. It is helpful to know your businesses capacity for setting up and managing suppliers before you embark on a strategy that might extend or churn your supply chain. Knowing this helps you decide whether it is best to have an international supplier with broad coverage or a local supplier with specific market knowledge and capabilities. Only then, can you make a judgement on whether they will deliver a commercially sustainable solution.

THE POWER ADVANTAGE OF MEASURING COMMERCIAL SUSTAINABILITY

Understanding the **commercial trapdoors** inherent within fleet supply contracts will put you in a very strong negotiating position. The declared management fee of leasing providers will typically only account for approximately 10-20% of their overall revenue stream, meaning the bulk of their income comes from the margin on the additional services and the penalties on contract deviations. If you can anticipate these and successfully intervene on the cost creep risks that these pose, then it is much easier to measure the commercial sustainability of the supply arrangement.

For example, the difference between the actual spend on maintenance and/or tyres and glass and the collected budget can often go unsupervised. It is up to the skill, knowledge and available resources of the negotiator whether these will be returned, shared with you, or retained by the lessor.

LESSOR REVENUE MODEL



- Management fee
- Margin on interest rate
- Network rebates
- Contract deviation
- Gain on sale
- Maintenance spend

Knowing there are negotiating positions on the fixed cost elements and understanding where the margins sit allows for stronger negotiaton.

Having robust controls in place after a strong negotiation will help keep the deal competitive, which, because of the cyclical nature of a procurement governance process, means that it is easier to gauge the contract performance and make a decision on the need to review the category. If these controls and measurements result in sufficient transparency to prove that the deal remains competitive, then it can save huge efforts in taking the category back to market.

Even if the deal can be negotiated to the point where the **commercial trapdoors** are closed and the relevant components can be measured, it is essential to anticipate the ability of the supplier to deliver against the deal.

THE POWER ADVANTAGE OF ANTICIPATING OPERATIONAL DELIVERABILITY

Don't get carried away with the ease of buying from a particular supplier if they can't deliver what you need. Buying car fleet services involves the negotiation of operational contracts with complex commercials and it is vital that a slick sales process does not gloss over the ability to deliver and embed the solution. Understanding the operational challenges that your company faces in running it's car fleet, and what solutions the market offers, will put you in a strong position when trying to establish whether the supplier really meets your needs.

TO REALISE THE NEGOTIATED SAVINGS IT IS ESSENTIAL TO CAREFULLY MANAGE OUT THE OLD SUPPLIER AND INTRODUCE THE NEW.

When reviewing the metrics of different suppliers the first cut should be made on who can deliver the required service, with the second on cost and value.

Once the hard work of negotiating the best deal has been completed, the harder work begins of transitioning the old supply chain to the new. It is great to negotiate a fantastic deal that suggests big savings, but in order to realise the savings it is essential that the old supply chain is managed out carefully whilst the new supply chain is held to their commercial and deliverability promises – but that is something for another day!

FLEET NEGOTIATION CHECKLIST

Fleet is not just another category, and its specialist nature makes it completely different to any other. Its commercial complexities mean that in order to negotiate yourself to a position of strength it is vital to understand how the supply chain functions. However, it is possible to manoeuvre yourself into a stronger negotiation position by following the checklist below.

Checklist

- Formalise the process
- Establish the fleet dynamic
- Decide on the lease type
- Decide on service and maintenance needs
- Know your preferred supply option service
- Eliminate commercial trapdoors
- Base selection on metrics

Alternatively, support can be provided by fleet supply chain specialists such as Fleetworx. Fleetworx work with procurement functions in multi-national businesses across sectors such as pharmaceuticals, technology and software. We complement general procurement specialists by combining data analytics with technology and expertise, to ultimately drive cost from the fleet category. The savings that Fleetworx deliver through our cost-saving and carbon-saving fleet policies means we typically deliver a 8 to 1 return on investment.

ABOUT FLEETWORX

Fleetworx is a unique company car supply chain specialist. We provide client-side support in the design and delivery of cost-saving and carbon-saving company car policies and mobility solutions.

Fleetworx supports organisations that need robust company car fleet management in the UK and across EMEA. Our expertise and practical influence spans the entire fleet supply chain, with the primary objective of delivering savings, compliance and control. Our focused and impartial approach is proven to deliver a significant return on investment.

To understand more about Fleetworx and how we can help you manage your company car fleet supply chain please contact Graham Rees or Tom Osborne for an informal chat.

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