WHITE PAPER

Negotiating with manufacturers

wheels

Overview

Over the last three decades, vehicle manufacturers have steadily become more aggressive when offering special incentives as an inducement for commercial fleets to use their products. As the value of the incentives has risen, they have played an increasingly important role in determining fleet cost. The truth is that “off street” incentives represent the only material opportunity most fleets have to impact fleet costs through price negotiations. With all other fleet spend categories, the price range is very narrow, leaving little opportunity to significantly impact costs through negotiations. In recent years, as the level of fleet incentives has grown, so has the delta grown between what different fleet customers net from those negotiations. This document will help guide you through the negotiation process, giving you the keys to ensuring that you are getting the best deal available for your fleet.

Preparing for success

There are many factors that affect a manufacturer's willingness to negotiate aggressively (that is, in the client's favor). As a general rule, when business is soft, incentive levels are greater. However, well-run fleets seem to be able to win very favorable incentives in any market by following some key guidelines and thoroughly preparing for the process. That preparation, more than anything else, will influence how productive your negotiations are. Following are some basic elements that should be included in your preparations.

Know your priorities

Decide what is negotiable and what isn't. Manufacturers may have reasons for wanting to promote a particular vehicle at various times, and your flexibility could pay big dividends. Consider whether non-cash incentives might fit your plans. Changing your replacement cycle or order timing could be of high value to manufacturers by allowing them to fill excess capacity. Know your fleet inside and out and determine what you are willing to change before you begin discussions with the manufacturers. The list of items that can be included in the negotiations is extensive. Try to think of everything that the manufacturer offers or that they can do that could assist in the success of your fleet operation. In many instances, the manufacturer may be able to provide something which has great value to you but is of little or no cost to them. For example, getting production schedules that allow you to precisely control the delivery timing of new vehicles can be of notable value in terms of the used vehicle market. By having your list of priorities prepared ahead of time, you will significantly increase the probability that your negotiations will be successful.

Be aware of market conditions

General market conditions affect all businesses; however, frequently there are circumstances that impact one manufacturer but not others, or affect a particular plant or even a single product. Knowing the market, and consequently what objectives, challenges and issues manufacturers are facing, will give you an edge in negotiations. For instance, when fuel prices are higher, demand for more fuel-efficient vehicles like hybrids and 4-cylinder models also increases, making it less likely that manufacturers will offer incentives on those vehicles. However, they may be willing to offer much more aggressive discounts on less fuel-efficient models in order to clear out excess inventory. You could then compare the lifecycle cost of both alternatives to see if the less fuel-efficient vehicle offers any savings potential.

Know the retail incentives being offered for all models you will consider, and use that as a starting point for your negotiations. As a volume customer, a fleet should get a higher incentive than the best retail offering. Learn the projected resale value of each vehicle on your list, and be aware of planned product introductions and/or discontinuations. A model that will no longer be produced might be available at a bargain price but may have a greatly diminished resale value. The more information you have, the stronger your negotiating position will be.

Become a more attractive customer

The more you have to offer the manufacturers, the stronger your position becomes. Fleets often think that the only thing they have to offer manufacturers is their order volume. On the contrary, there are many other qualities that manufacturers value and which can affect the success of your negotiations. Loyalty is at the top of that list. Manufacturers have demonstrated their willingness to reward customer/supplier relationships with more incentive dollars. They also value candor and integrity. Too often, they have negotiated in good faith without getting the volume committed. By developing a reputation of meeting your commitments, you will enhance your negotiating position.

In addition, manufacturers appreciate a customer who is knowledgeable and understands the industry. By approaching the negotiation in a professional manner and treating the manufacturers with courtesy and respect, you position yourself for greater success. It is also helpful to avoid certain tactics that tend to increase the manufacturers' resistance to your position, such as reverse auctions. This approach is unpopular with manufacturers because the auction tends to focus on a very limited number of variables, usually price, and ignores the broad range of other issues that are relevant to a successful negotiation. It is helpful to remember that the most successful negotiations are those that result in both parties feeling like they won.

What's negotiable?

Fleet management has become more complex over the last several years. One benefit of the added complexity is that there are more elements that are important to the success of fleet operations, and therefore, more that the manufacturers have to offer during incentive negotiation. Similarly, the list of what a customer has to offer a manufacturer has grown. As the stakes of those negotiations have increased, it has become more important for both parties to bring as much value to the table as possible. The following lists are not exclusive, but should be viewed as thought starters for what each party might offer in exchange for a winning agreement.

Manufacturers may offer	Fleets may offer
Invoice credits	Volume
Year-end rebates	Multi-national business
Early-order bonus	Model mix
Loyalty bonus	Specification level
Multi-national volume tiers	Delivery timing
Multi-year programs	Loyalty
No-charge options	Term of agreement
Option discounts	Replacement cycle
Price protection	
Guaranteed delivery	
Production schedules	
Extended warranty	
Additional services	
Upfitting	
Bailment pools	
Executive purchase programs	

Conclusion

There are many factors that can affect the success of your fleet's manufacturer negotiations. In the end, your success will largely hinge on how well you prepare and how effectively you handle the actual discussions. Enter into negotiations with the authority to make a decision. If you feel that the other party is not negotiating in good faith or does not have the authority to make a commitment, elevate your discussions to another level in the organization.

By approaching the negotiations with a positive win/win attitude, your chances of success go up dramatically. Remember that you will be doing business with your chosen supplier/customer long after the negotiations are ended. The manner in which the negotiations are handled will become the basis for that business relationship.

In addition, begin the process early. Manufacturers have a limited budget to spend on fleet incentives and they want commitments early for a minimum level of business. The best incentives are usually negotiated early in the model year. Finally, evaluate your success in terms of the total deal. Success will be defined by you. Negotiate well.

To learn more about negotiating with manufacturers, please contact a member of your Wheels Account Team or e-mail us at info@wheels.com.