Procuring Fleet.
Buyer Beware!

Venson fleet management solutions

Company vehicles are an important asset for supporting core business operations and that's why our contract hire and fleet management solutions are created in response to our clients' needs and are based on our commitment to long term partnership and exceptional customer service.

Testimony to this is our customer retention rate of over 95%. Along with exceptional service we ensure our clients receive great value from their fleet, by delivering solutions that are based on impartial advice and that provide tangible financial return. We can do this because we've only ever specialised in managing fleets, so our knowledge and in-depth understanding of the market is the best in this sector and relevant to public, private, not for profit and emergency service organisations. We also believe in true partnership, working with fleet operators and their drivers to ensure they always receive the most appropriate solution to support their organisation's operational and financial needs.

venson

“In many spheres of human endeavour, from science to business to education to economic policy, good decisions depend on good measurement.”

Ben Bernanke

Fleet, for most employers, is the second biggest expense after staff.

It is therefore critical that the procurement of vehicles and related products and services is undertaken along best practice lines.

Vehicle leasing is the number one fleet funding method, but all too frequently the sole objective of the procurement process is price.

Of course, price is a factor in every procurement process, but it is far from the only one in fleet and should not dominate at the expense of other vital quality/service issues that are critical if vehicle operating excellence is to be achieved over the life-time of a contract.

Too often fleet is viewed as yet another commodity that is being purchased. As a result, the focus is on 'nailing' the best price. Having then achieved what in the eyes of the team procuring the service believes is 'the best price', they then move to the next procurement project whilst the fleet decision-makers implement and manage what has been agreed.

In the complex world of fleet, such an approach is far too simplistic. It is critical for an organisation to understand clearly what is being procured, how the service will manifest itself during the in-life period and how costs, real and hidden, will potentially rise during the contract period.

Procurement managers and departments have a key role to play in negotiating fleet deals, but not at the expense of other stakeholders, which includes fleet decision-makers.

In a business era in which 'signing on fees' and 'contributions to organisations' have become part of the fleet tender culture, as far as some organisations are concerned, Venson Automotive Solutions' fleet procurement Q&A lifts the lid on what is happening in the marketplace; aims to dispel many myths; and, ultimately, ensure that best practice is followed so public and private sector organisations obtain value for money and service excellence during the life-time of a contract.

This Q&A is not intended to be a guide to 'how to tender' – Venson has previously published 'top tips' tendering papers, which are available at http://www.venson.com/Media/ViewWhitePaper/15

Rather the Q&A reflects Venson's belief that too much emphasis is being placed on 'headline' price and, controversially, a trend for upfront payments.

Complete transparency with no hidden costs, no sweeteners and no sacrificing long term value for short term gain are the hallmarks of Venson, which is why the company is confident that by helping fleet managers and their procurement department colleagues, the company can put their cars and vans on the road to drive future business success.

Fleet procurement is complex as, when leasing a vehicle, it is a 'financial instrument' that is being purchased – not goods or services – within which are wrapped vehicles and potentially a range of in-life services. It is therefore critical that those employees undertaking the procurement process understand what they are buying and that the plethora of variables that comprise the price can change during the lifetime of a contract.

Q: Is it true that an increasing number of vehicle leasing and fleet management companies are prepared to pay a 'signing-on fee?

A: There are companies that are prepared to pay a 'signing on fee' or a so-called 'golden hello' to win fleet business. Initially that was limited to a few companies prepared to pay small amounts. However, today it is more commonplace for six figure sums to be reached for large fleets. Procurement managers may walk away from negotiations once concluded patting themselves on the back for securing such a deal, but it will invariably prove to be a false economy. In fact it will almost certainly be a case of 'buy now, pay later'.

Q: But am I right that there is no such thing as a 'free lunch'?

A: That is absolutely correct. Procurement managers and their colleagues may award a contract believing that they have 'locked down' a deal and secured a 'golden hello' or whatever, but vehicle leasing and fleet management companies will get the cost of any such payment back during the lifetime of the contract. There is not a lot that is 'fixed' in a vehicle leasing contract. In short nothing is 'free' and the reasons that vehicle leasing and fleet management companies will find for changing prices are all legitimate!

Q: Therefore, fleet vehicle procurement is completely different to businesses procuring other goods or services?

A: I could not have put it better myself. It is virtually impossible to think of another product or service that will be acquired by an organisation, the price for which will potentially change on a daily basis due to their being so many variables, as outlined above, that impact on the final price. Vehicle leasing can be considered to be a 'dark art', but it is not. Vehicle leasing is best described as "a financial instrument linked to a service with a product tied into it" and that is something that procurement teams when conducting negotiations must understand.

A company that opts to lease vehicles is paying for a financial instrument, which additionally may include or exclude vehicle maintenance as well as a range of other in-life services, and is directly attached to a car or van. However, critically, the car or van in a leasing wrapper is not a product being bought in the way that office furniture or cleaning services are purchased. In those cases the contract can be for a fix term and at a fixed cost and only influenced by inflation.

Q: So explain your earlier comment about 'buy now, pay later', tell me how vehicle leasing suppliers will do that and what should I be looking out for?

A: Procurement managers regularly speak of 'locking down' a contract or that they have secured 'open disclosure' on the benchmark cost of a basket of vehicles on their car or van fleet. They then try and calculate the financial saving of the new contract versus the previous deal by taking the tender price and multiplying that by the volume of vehicles and the length of the contract. But that tender price is based on a specific moment in time – it is a snapshot.

Over the following months numerous variables will change: manufacturers will introduce price rises, residual values will reduce (occasionally they may even rise), interest rates and the cost of funding will change, there will be changes in service, maintenance and repair costs, discount terms that vehicle leasing companies receive from manufacturers may alter and car and van models will be facelifted or even replaced. Costs relating to all those factors contribute to a monthly lease rate.

The result is what the industry calls 'rate creep' and monthly rental costs will gradually increase and the price of a vehicle will change as those variables are all factored in to the price of each new vehicle introduced to the fleet during the contract period. Therefore, over the life of a three or four-year contract, the supplier will have recouped the cost of the 'signing on' fee or the cost of supporting a 'social impact project'. Consequently, the reality is that it is virtually impossible to challenge vehicle leasing providers on how they set monthly contract hire rates – let alone for a procurement person that has little knowledge as to how the fleet market works.

If something is cheap there's a reason for it

Q: Is it not easier for me to simply turn to a vehicle broker to acquire my company cars and vans?

A: You may think so, but the reality is somewhat different. Brokers' monthly lease rates are frequently cheaper than those from contract hire and leasing companies, but there are easily explained reasons for that. The majority of brokers will source vehicles that manufacturers want to 'get rid of'. For example, models that are on run out or are subject to 'special terms' for a limited period of time. Therefore, they offer a 'best buy on the day' scenario. As a result, a top spec model that fits into a company car choice list may be available at a knock down price one day, but not the next so one employee may get the vehicle and a colleague may not. That is a recipe for disgruntled staff.

Furthermore, fleet decision-makers will end-up dealing with multiple suppliers, there will be no consistency of service or supply, no partnership or relationship built and fleet benefits such as pooled mileage will be unobtainable. Just as with a 'signing on fee', do not be swayed by the headline attraction – in the case of brokers the monthly vehicle rental – but look below the surface as to what is actually being bought.

Q: Am I correct in thinking that if something is cheap there is a reason for it?

A: Right again! It is critical that if quotes obtained are out of line with the market then the question that must be asked is "why"? The answer is almost certainly that a supplier is attempting to "buy" business at a price that will be unsustainable across the lifetime of the contract. As a result the perceived "saving" will evaporate and will, in all likelihood, become a cost.

Q: Explain what you mean by a "perceived saving becoming a cost"?

A: It is essential to monitor the delivery of what has been procured not only against contract cost, but against service expectations. As mentioned previously, procurement managers invariably use phrases such as 'open disclosure' and 'locking down' when believing that they have 'nailed down' a supplier and obtained an apparently good deal. But, in all likelihood the contract will not be fully transparent. As previously highlighted, the potential for 'rate creep' and how monthly lease rates can quickly rise because of the numerous variables composed in calculating rental terms. However, there are many other issues that if not effectively monitored can quickly become a "cost" to fleets and an absolute minefield for the unwary. For example:

- **End-of-contract charges – notably mileage and damage – are an easy way for vehicle suppliers to levy significant fees. However, they can be mitigated during a vehicle's lifetime by applying mileage pooling and ensuring that any damage is immediately repaired.**
- **Similarly early termination charges can prove to be a lucrative revenue earner for suppliers if not tightly negotiated up-front and then monitored.**
- **A damage waiver fee is something that many procurement managers ask for, but it can become easy for leasing companies to inflate the damage repair bill and recoup not only the waiver fee, but additional cash.**
- **Vehicle downtime, particularly if it is unscheduled, is a huge fleet cost and the knock-on effect in terms of business efficiency can be significant – costing organisations several thousands of pounds per day – and can cause reputational damage. Freight Transport Association figures suggest that planned van downtime averages three days a year with unplanned downtime amounting to a further five-six days on average at a cost of hundreds, if not thousands, of pounds per day. If vehicle downtime is not managed efficiently replacement vehicle costs may be incurred. However, while a hire car may do the job that is unlikely to be the case in terms of a hire van, which will not be equipped to meet the operating requirements of a fleet and thus the knock-on costs can be huge in terms of business inefficiency and a failure to meet customer appointments resulting in lost productivity. It is therefore vital that vehicle downtime management is a key component of the contract with a chosen supplier.**
- **Contract hire with maintenance at its minimalist involves the supply of a vehicle and drivers booking their own car or van in for a service, which takes time, and the garage then being paid for work undertaken. However, from a fleet perspective contract hire with maintenance can be so much more so it is critical to understand what 'with maintenance' means. For example, does it include: service scheduling, service due reminders and vehicle collection and delivery?**
- **Poor customer service from a chosen supplier is also a 'cost'. For example, it might take five minutes or more for a fleet department member of staff or a driver to have a telephone call answered. Based on the average UK wage, multiplied by the number of calls relating to a specific vehicle during its operating life and multiplied by the size of the fleet it can add up to a significant cost.**
- **Many efficient commercial vehicle fleets require night-time service, maintenance and repair (SMR) to keep vehicle downtime to a minimum. The debate around the cost of using a franchise dealer versus an independent garage for SMR work is almost as old as the fleet industry itself, but independent outlets are not always open 24 hours. Furthermore, there may be issues around the use of non-OEM parts when undertaking repairs at independent garages. Independent garages may have lower labour rates than franchise dealers, but the total cost of a repair with all issues factored in may not be lower.**

Furthermore, it is not unknown for procurement departments to ignore the terms and conditions outlined in their own tender documents for the sake of obtaining a perceived 'good price'. That can particularly apply to the availability of out-of-hours servicing, which while the requirement maybe outlined in the tender document might be ignored in favour of a cheap deal. Similarly, a tender document may require that a supplier does not take any action that may invalidate a vehicle's warranty, but subsequently the use of cheaper non-OEM parts is allowed which could do just that. Measuring consistency of what is delivered against the specification of the tender document is crucial to ensuring value is obtained. Service delivery failings are a 'cost' to fleets. Venson can calculate the 'cost' of all of the above inefficiencies and it is essential that procurement teams understand the impact on fleet operations and do not get blinded by a cut price deal. There can be many 'hidden' costs and Venson wants procurement and fleet teams to better understand the 'true costs' of a fleet operation and not simply to have their eyes on the lowest price that, in truth, is far from reality.

How much of a tender document should be about price and how much related to service or quality?

Q: So how much of a tender document should be about price and how much related to service or quality?

A: Tender documents are invariably split 60:40 one way or the other – price versus quality – but frequently, quality of service gets lost in translation. What's more, many vehicle leasing and fleet management suppliers will respond to tender documents by promising the earth, but cannot always deliver. Unfortunately, fleet operators do not take a 'whole life costing' approach and prefer to look at headline price alone; they do not consider the whole customer service package each organisation offers and, crucially, they do not do any research in terms of both visiting potential suppliers and meeting members of staff that will be account managing or speaking to existing customers to ensure services that are promised are delivered. Even more surprising than that is that some procurement processes do not even ask for potential suppliers to present their solution to them.

Therefore, Venson recommends taking a 'full balanced score card approach', appropriately weighting and measuring key criteria including capability, risk, financial stability, corporate social responsibility, value for money and price to ensure that the organisation with the highest score wins the contract. When scoring a tender response, price should account for 25-40% of the scorecard in terms of capability. Anyone who scores more than 50% for price – unless it is a very simple commodity which vehicle leasing is not – is missing a trick and making price too important. The biggest issue for many organisations is confusing value for money with price.

Q: If a procurement department writes the tender document and manages the process what involvement should the fleet manager have?

A: An organisation's procurement department may well compile the tender document and take the lead in the process, but it is vital that they take advice and information from key parties with appropriate skill sets. Clearly when putting together a fleet-related tender the advice and expertise of the company's fleet manager and fleet department is essential. However, it is also crucial to involve a range of other personnel that can give vital insight to ensure an appropriate tender document is compiled. That might include: the finance manager/department, the HR manager/department, the legal manager/department and the health and safety and environmental manager.

Additionally, do not forget the role drivers play, particularly those at the wheel of light commercial vehicles. Vans are these employees' 'offices' and it is important that they are correctly specced to match the requirements of the job – drivers are invariably best placed to know exactly what is required. Taking the collegiate approach ensures that the tender can be written taking into account all issues that relate to the fleet decision-making processes. Ensuring that the appropriate skill sets are involved will mean that the tender document fully reflects the organisation's position on a range of issues and that will ultimately help to ensure that the supplier eventually chosen is strategically a good fit.

Q: Therefore, fleet decision-makers can bring much to the procurement process?

A: Fleet is typically a company's second biggest expense after its employees so it pays to ensure that the process for purchasing vehicles, fleet services and related products runs along best practice lines. Therefore, employees with fleet responsibility should clearly identify what is required and establish the criteria. Unfortunately, too often there is a lack of clarity is terms of what is required and what suppliers should deliver because those making the purchasing decisions do not necessarily understand the complexities of fleet. All too often tender documents contain a little bit about the fleet and the fleet policy and a lot about a company's purchasing strategy, which appears to be the same whether those making the decisions are sourcing for fleet or any other corporate requirement such as office stationery.

Nevertheless, it is vital that a company's procurement department provides technical support and ensures that the purchasing process from start to finish is managed against corporate compliance procedures. The most successful tender processes are those where the fleet professional has outlined the requirements and then works in tandem with the procurement department to identify suppliers that can deliver the objective and at the same time keeps internal stakeholder departments onside.

Q: So you are telling me that does not always happen?

A: It most certainly does not. Too frequently, procurement managers take what is written in response to a tender document at face value and do not question what an apparently slick supplier's sales and marketing operation is saying. Fleet manager/department involvement is critical from the very start – defining the requirement and writing the tender document – through the selection process and on to implementation. However, too often a contract is awarded and fleet managers are left to 'get on with it' without having had any input into the decision-making process.

What's more, Venson is also aware of fleet managers that have been excluded from the procurement process and have watched in horror as a contract has been awarded to a supplier that they know from their marketplace knowledge and networking with their peers does not have the capability to meet the service delivery required or even of that of the previous incumbent, but the price was lower. Unfortunately, some procurement managers have simplified fleet purchasing down to "the price on a particular day", but nothing can be further from the buying reality where fleet is concerned.

Q: Is there anything else that I should be aware of in terms of procurement pitfalls?

A: There are many and Venson can explain, but one obvious problem can occur at end of contract. It should be remembered that although a fleet contract may be awarded for three years, the reality will be that the customer/supplier relationship will continue for many more years even if a new contract is awarded to another supplier. Let's take the scenario of a four-year vehicle replacement cycle within a three-year supplier contract. Cars and vans delivered by the previous supplier could be on the fleet for almost a further four years after the contract has ended. As a result, it is not a three-year relationship, but a seven-year partnership. If the supplier was perceived as 'poor' during the period of the three-year contract – and if they were good why would a company change – imagine what service will be like during the run-out of the remaining vehicles. In short, it is vital to know exactly what is being signed up to as there is no 'come and try it' option, have a clear understanding of what the costs are over the contract period and, during the lifetime of the agreement, continually challenge suppliers against service level agreements (SLAs) and Key Performance Indicators (KPIs) and benchmark activity.

Q: Accepting the complexity of fleet, describe the ideal procurement scenario?

A: We have already started to do that above in terms of stakeholder and fleet decision-maker involvement. A good tender document will focus on what's important to the fleet decision-maker, the fleet operation and the organisation as a whole, although a certain amount of "corporate governance" box-ticking is inevitable. To ensure that ultimately the "right" purchasing decision is made and the "right" supplier appointed it is important that:

- **The organisation issuing the tender has a high-level of market place knowledge so the "right" suppliers are asked to tender;**
- **Potential suppliers tendering for fleet business have knowledge of the organisation; an understanding of the fleet set-up and the objectives of the exercise;**
- **There is a cultural fit between the parties. This soft aspect is so often overlooked, but it is so important that the right "feel" exists from day one of what will often be a long-term relationship. A master/slave relationship, either way round, is not conducive to a successful contract period.**

It is therefore a good idea that a prequalification stage embracing a 'request for information' from potential suppliers is part of the procurement process. Responses from potential suppliers to the "request for information" should then be weighted and scored to enable a shortlist of potential suppliers to be compiled – perhaps a maximum of four or five – who will then respond to the formal tender document. Such research will result in a targeted tender exercise being carried out involving potential suppliers that are likely to be able to deliver having screened out those that have failed to impress. It then comes down to a discussion about value for money, but critically also, company cultural fit and how certain fleet operating scenarios will be managed. Asking a potential supplier to respond to precise operational scenarios enables them to fully detail the actions they would take and gives the fleet decision-maker the opportunity to compare and contrast in the real world. As a result, the tender document reflects what is happening on the fleet and should tackle specifics. The objective and the areas of concern should be clear with a precise list of questions to which suppliers can respond defining what is both essential and desirable. Having received 'full and final offers' from each short-listed supplier, the score card approach mentioned previously should be used to select the ultimate supplier. In life you generally get what you pay for and that includes when tendering for fleet services.

Q: So Venson Automotive Solutions can help in the procurement process?

A: It is almost certainly true that procuring vehicles and related services from a supplier will be the single biggest ticket deal undertaken by a business in terms of its complexity. Trust and transparency, which Venson continually preaches, are the two key words when selecting supplier partners and not an 'us and them' situation, which is too often the option pursued through many procurement processes. Business is about people and that means getting under the skin of potential suppliers during the tending process and building relationships. However, too frequently price dominates when the focus should be on how potential suppliers can add value to a fleet to drive operational efficiency and effectiveness.

Further information:

Venson Automotive Solutions' 'Successful Tendering for Fleet Services – Part 1 Firm Foundations'
– http://www.venson.com/Media/ViewWhitePaper/15

Venson Automotive Solutions' 'Successful Tendering for Fleet Services – Part 2 Successful Supplier Relation'
– http://www.venson.com/Media/ViewWhitePaper/16

The Fleet Industry Advisory Group guide to 'Perfect Purchasing'
– www.fiag.co.uk

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