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THE BENEFITS OF MULTI-BID VEHICLE FUNDING

CBVC Vehicle Management Ltd
2 Faraday Court, First Avenue, Centrum 100
Burton on Trent, Staffordshire DE14 2WX
United Kingdom
t: +44 (0)1283 351200
f: +44 (0)1283 564424
e: sales@cbvc.co.uk

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EXECUTIVE SUMMARY

This white paper discusses the various methods of procuring business contract hire funding for vehicles.

Possibly you have tried some of these methods and feel comfortable with your current acquisition methods.

Or possibly you are new to business contract hire and require some in-depth knowledge on the subject.

Whatever your position, we believe your business could benefit significantly by opting for a multi-bid funding approach.

My thanks to author Keith Allen, who has brought his extensive experience of fleet management and contract hire to this white paper.

I hope you find it useful.

Mike Manners

Mike Manners, managing director, CBVC Vehicle Management

INTRODUCTION

Although we are seeing an increase in private contract hire as benefit in kind (BIK) increases are impacting on perk car users, business contract hire is still the most popular funding method for company vehicles, especially for essential users and light commercial vehicles. However, how you procure contract hire can have a significant impact on your fleet costs.

For fleet operators looking at contract hire as the primary funding approach, there are three ways to procure and the advantages and disadvantages of both are summarised below.

1. *sole-supply – using one lease company;*
2. *multi-supply – gaining quotes from more than one lease company; and*
3. *multi-bid – gaining quotes from one fleet management company/broker with a panel of lease companies.*

We will now analyse the advantages and disadvantages of these acquisition methods.

SOLE SUPPLY ACQUISITION

With sole supply acquisition a business procures quotes from one lease company. Sole supply acquisition can be easier to administer but does not necessarily provide the most cost-effective solution. The advantages and disadvantages of sole supply acquisition are outlined below:

ADVANTAGES	
One master lease contract to administer	✔
Reduction in invoices	✔
Single point of contact relationship	✔
Full access to lease market	✔
Leverage opportunities using full fleet volumes	✔
DISADVANTAGES	
Exposure to short term pricing strategies	✖
Rate fluctuation due to residual value reviews	✖
Limited recourse on pricing variations	✖
No single lease company can offer the best price on all brands	✖
No single lease company will offer the best processes and quality	✖
Dependency on one source of funding	✖
Limited view on different market practices	✖

MULTI-SUPPLY ACQUISITION

With multi-supply acquisition a business can competitively procure leasing quotations from more than one lease company.

ADVANTAGES	
Ability to unbundle services	✔
Cost optimisation on each new vehicle order	✔
More consistency in TCO (no rate creep in a few months)	✔
Expanded scope of market information (sharing best practises)	✔
Flexibility to include best lease companies in each market	✔
Financial risk and dependency mitigation (multiple lease companies/rates)	✔
Good view of different market practises	✔
DISADVANTAGES	
Multiple contracts to administer	✖
Multiple invoices to administer	✖
Multiple relationships to administer	✖
Variable service levels	✖
Splitting the full leverage over the selected vendors	✖
Some key international players not willing to participate in multi-bid schemes	✖

MULTI-BID ACQUISITION

With multi-bid acquisition a business can competitively procure quotes from one fleet management company or leasing broker with a panel of approved lease companies. The advantages and disadvantages of multi-bid acquisition are summarised below.

ADVANTAGES	
Option to unbundle services	✔
One main contract to administer	✔
Multiple invoices managed by fleet management company/broker	✔
Mainly a single point of contact relationship	✔
Continuous pricing benchmark	✔
Cost optimisation on each new vehicle order	✔
More consistency in TCO (no rate creep in a few months)	✔
Balance between price and service	✔
Shared best practice on processes and quality	✔
Enhanced view on different market practises	✔
Expanded scope of market information (sharing best practises)	✔
Flexibility to include best lease companies in each market	✔
Financial risk and dependency mitigation (multiple lease companies/rates)	✔

DISADVANTAGES	
Access to lease market limited	✖
Splitting the full leverage over the selected vendors	✖
Some key lease companies not willing to participate in multi-bid schemes	✖

WHY USE THE MULTI-BID ACQUISITION METHOD?

Companies have come under increasing pressure to save money. In the current market, monthly lease rates can vary quite dramatically, sometimes by as much as £20 to £50 per month.

With multi-bid acquisition, price advantages can be delivered by searching the lease market for the best lease rates whilst offering a company the operational ease of a single point of contact. The primary benefits of using a fleet management company or broker to manage multi-bid acquisition are summarised below.

BENEFITS OF MULTI-BID ACQUISITION

- ✔ more control and flexibility;
- ✔ competitive procurement of best value;
- ✔ transparent pricing;
- ✔ reduced vehicle lifecycle cost; and
- ✔ improved levels of service.

The benefits of multi-bid acquisition will become increasingly important to a company as lease rates fluctuate and service levels fall. By not 'putting all its eggs in one basket' a company will also minimise its exposure to the risk associated with the liquidity of single-supply acquisition.

It is always sensible, wherever possible, to have more than one line of credit in fleet funding especially in the current market where there is likely to be significant volatility as the economy looks to get back on track following the global coronavirus pandemic.

Lease company portfolios are known to be volatile, with rate changes occurring on a quarterly basis. With multi-bid acquisition, advantage can be taken of these changes to ensure a company always accesses the best deal available in the market at any given point in time.

The key reason why there can be such a difference in monthly lease rentals is the residual value used in setting the lease rates. The following section explores some of the primary reasons for fluctuations in leasing company's views on projected residual values.

WHY DO MONTHLY RATES VARY FROM LEASE COMPANY TO LEASE COMPANY?

MULTI BID RENTAL SAVING DIFFERENCE ILLUSTRATION

Vehicle Mercedes-Benz A 250 e AMG Line 8G-DCT Saloon 4 door

	Finance Rental per month	Maintenance per month	Total Ex VAT	Rental Inc NR VAT	Total Contract Cost	Difference from Best
Lease Co 1	£378.81	£41.95	£420.76	£458.64	£22,932.05	£3,465.31
Lease Co 2	£323.60	£41.79	£365.39	£397.75	£19,887.50	
Lease Co 3	£343.24	£46.13	£389.37	£423.69	£21,184.70	£1,297.20
Lease Co 4	£324.67	£58.39	£383.06	£415.53	£20,776.35	£888.85

Business Contract Hire profile 1 x47 Fully Maintained, 10,000 miles per annum

Correct as of 26/06/20

One of the primary variables in arriving at a monthly lease rate is the projected residual value that a lease company places on a vehicle as is demonstrated in the above table; and as this is a forecast it is judgemental. Consequently, each lease company will have a different view on the projected residual value. This is the major reason as to why lease rates vary by supplier. As shown above, the impact of Leascos 1, 3 and 4 having a more conservative view on the residual value than Leasco 2 results in higher monthly lease rates.

Summarised below are the factors that result in leasing company's projected residual values varying so much.

FREQUENCY OF RESIDUAL VALUE REVIEW

There are a number of factors other than someone's judgement as to why residual value projections can vary so much between leasing companies.

For example, the frequency and timing of when these companies review and amend residual values varies, with some companies amending on a quarterly basis and others on a six-monthly basis. As residual value projections tend to be based on current market values any changes in sentiment in the market, as well as the overall economic outlook, will impact on these values, which will also vary between lease companies.

ENTRY PRICING

Lease companies are notorious for entry pricing, especially for single-supply acquisition. Over the term of a contract the lease company will increase its rates as the client becomes tied in to the full-service package. The way lease companies maximise value is by reducing the residual value position over time. To counter this, larger fleets can negotiate profit share agreements, but these tend to be subject to terms and conditions that limit pay-out of profit share. Multi-bid acquisition, with up to quarterly price reviews, ensures continued competitive prices are provided through the term of any contract.

PORTFOLIO MANAGEMENT

A lease company manages its business on a portfolio basis in the knowledge that, when projecting future values, it will not achieve consistent results on the resale of vehicles as numerous factors affect used car values.

All leasing companies will use standard trade guides such as CAP and Glass's to benchmark future values, but companies will have different appetites for various vehicle makes and models as well as cars versus commercial vehicles. Also, if a lease company has too much exposure to a certain type of vehicle it will price accordingly, and it may price aggressively on certain vehicles it wants in the company portfolio. The pricing approach of residuals needs to ideally match what the lease company believes will be the future market demand hence why it needs a portfolio approach and a good spread of product.

ABILITY TO RE-MARKET

How leasing companies re-market vehicles can have an impact on residual values as different sales channels will generate different values. For example, selling direct to franchised dealers or car supermarkets will generate higher values than putting vehicles through the auction process. Also selling a vehicle direct to the driver will, in the majority of cases, always generate the highest sales values as well as eliminating de-fleeting costs.

Some leasing companies will sell all their vehicles through auction as opposed to others that may adopt a multi-channel remarketing approach. The sales values achieved on re-marketing vehicles will clearly be a factor that is considered when a leasing company sets its residual values.

DEPRECIATION RATES/CURVES

In setting residual values everyone is aware that vehicles do not depreciate in a straight line with the depreciation curve steep in the early period of a contract and becoming flatter over the period of time. Leasing companies will have different views on how a vehicle depreciates over time so even if they have the same residual value at 4 years and 80,000 miles, they may have a different residual value at 24 months and 36 months. Consequently, when looking at leasing rates over a matrix of different terms and mileages, it is not always the case that one leasing company will have the cheapest rates over the varying terms.

BENCHMARKING

Many fleets use a basket of vehicles to benchmark prices across a number of companies based upon a fixed term and mileage.

While this is a sensible approach, there can be problems further down the line. Once that initial review is completed and a lease company is appointed it is rare for those precise vehicles on those actual periods and mileages to be ordered. After all, drivers cover different mileages, manufacturers bring out new or upgraded vehicles and the whole basis for that original price comparison moves quite quickly.

At this point, price increases can go undetected unless you continue to benchmark based upon the vehicles you are actually ordering. However, many fleet operators don't continue to benchmark regularly enough because of the level of administration involved.

CONCLUSION

The purpose of this white paper has been to demonstrate why multi-bid vehicle funding, utilising the services of either a fleet management company or a leasing broker, delivers best value when procuring business contract hire for vehicle fleets.

Leasing company rates can vary significantly at any point in time for the reasons described in this paper. If you are running a fleet of say 400 vehicles, then over a four-year term you could potentially be saving over £380,000 based on saving £20 per month per vehicle by adopting a multi-bid approach to procurement.

The main benefit of adopting a multi-bid approach is price transparency where leasing companies are consistently having to bid on a vehicle by vehicle basis for business so that competition remains in place throughout a contract period. Also, especially in the current market, it ensures that a business has more than one line of credit and is not over-dependent on one leasing supplier.

The multi-bid approach is also relevant when using other finance products such as finance lease and is also the methodology adopted by leasing brokers when marketing private contract hire to consumers. Brokers are effectively sourcing the best deals in terms of vehicle acquisition price from the dealer networks as well as sourcing the best finance rates from funders. One of the primary reasons for the increase in private contract hire is not just the simplicity of the product and the move to a usership model but the fact the premium brands have been made affordable through competition facilitated by brokers.

Keith Allen is a highly experienced industry executive with more than 25 years working in vehicle financing and asset management. With a background in accounting and finance, he became a sector consultant in 2019 following seven years as managing director of ARI Fleet. Prior to this he spent 17 years at ALD Automotive Group plc, latterly as managing director for 13 years and formerly finance director for four years.

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