

# Automotive Upstream Remarketing Whitepaper



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# Automotive Upstream Remarketing

## **Purpose of Upstream Remarketing**

With the rising costs of vehicle ownership, upstream remarketing has proven to be an effective tool in minimizing overall lifecycle costs and vehicle depreciation. Depending on the methods used, fleet managers can realize significant cost savings through decreased number of days to sell and increased potential in the residual value of vehicles sold.

## **What is Upstream Remarketing?**

Upstream remarketing refers to the practice of offering end-of-term fleet vehicles for sale prior to the delivery of the vehicle that is replacing it. Commercial fleets, public fleets, fleet management vendors, and daily rental companies typically order a new vehicle several weeks before it is time to replace an end-of-term vehicle. During this time, it is possible to remarket the end-of-term vehicle so that as the new vehicle is delivered, the old vehicle is already sold. This process offers several benefits, reducing or eliminating the traditional "days to sell", thus generating savings in depreciation, interim interest, and other costs.

There are several ways to approach upstream remarketing; however, our experience has shown that the most effective method is via electronic posting of the vehicle to the Internet. Using a secure website, companies can offer their off-fleet vehicles to the driver, company employees, or other members of the buying public.

## **Approaches**

Since vehicles awaiting replacement are typically being driven while the new vehicle is on order, it is difficult to pre-market the vehicle using traditional methods. It is usually not feasible to keep the car idle, parked in a sales lot, and it is often difficult to bring large numbers of buyers together in one location to view and bid on the vehicle. Electronic posting of the vehicle via the Internet solves these problems.

### **Buy-now, open-bid, or closed-bid auction.**

- A buy-now auction is a "first come, first serve" auction where the sale price is clearly stated and no bidding is required. The sale price listed is the price you pay.
- An open-bid auction includes those seen in the popular Internet auction sites like eBay, AutoTrader.com or Cars.com and is the most widely known type of electronic auction. Open-bid auctions start with a minimum or floor price. As bids are received for the vehicle, the current price increments and is displayed to the other bidders. Your

bid must be higher than the current price in order to be considered an eligible bid. At the end of the auction, the high bidder wins.

- A closed-bid or “sealed-bid” auction is similar to open-bid in that the minimum price is set and bidders must enter a bid price that is higher than the minimum, however, in a closed-bid auction, each bid amount is kept secret from other bidders. At the end of the auction, the bids are “opened” and the winning and losing bidders are notified of the outcome.

### **Approaches to potential buyer eligibility**

- Driver-only – Only employees who are eligible to drive a company-provided vehicle are allowed to bid on and purchase vehicles.
- Driver priority – The driver gets first choice. Then the vehicle is remarketed to employees or other buyers. As discussed later, this method can be used as an incentive for drivers to take better care of their vehicles by offering discounted pricing for their own vehicle which other employees are not entitled to.
- Employee only – remarket to any company employee, rather than to a specific driver. This approach is typically used when vehicles are not assigned to a single driver.
- Non-company employees – the vehicle is offered for sale to individuals outside of the company, that is, family, friends, or the general public.

### **Approaches to vehicle pricing**

- Guidebook pricing – There are many guidebooks and pricing sources to choose from. Often, there are also many levels of pricing available within a given guidebook. Fleet administrators should choose the pricing level based on the overall goal of the program (employee perk vs. maximizing resale amount).
- Different pricing for driver vs. employee – This gives the driver an incentive to maintain his vehicle by offering a discounted price for the purchase his own vehicle. If the driver is not interested in purchasing the vehicle, it can then be offered at a slightly higher price to the other employees of the company.

### **Key Factors**

- **Program goal** – The first order of business is to determine the goal of your upstream remarketing program. Is your goal to provide a perk to the employees of the company, to maximize the sales return on the used vehicle, or a combination of the two? The answer to this question will make it easier to determine how to price and present the vehicles. If your goal is to provide a perk to the employees, then the pricing can be set lower to facilitate this. “Buy Now” auctions are usually the best choice for this since each employee is given an equal chance to purchase the vehicle and there is more control over the

price paid for the vehicle. If your goal is to maximize resale price, open-bid or closed-bid auctions will generally be the best auction method provided there is an adequate number of potential buyers.

- **Pricing method** – Whether buy-now or bid style auctions are used, the opening price amount will determine how successful your program will be. Pricing the vehicles too high will discourage bidders. Pricing too low could potentially erode returns to the company, especially if buy-now is used.
- **Number of potential bidders** – If there are few potential employees/bidders, the best auction style will probably be buy-now. Open- or closed-bid auctions will be less successful. Typically for bid style auctions, the more potential bidders, the higher the final price.
- **Length of Internet Auction** – The length of time a vehicle is displayed on the auction is another key consideration whether it is five days, one week, two weeks, or more. You must provide enough time for adequate exposure, however, not too much time so that buyers begin looking elsewhere. Timeframes that we have found to work well for most clients are 5 to 7 days for closed-bid auctions, and approximately two weeks for buy-now auctions.

### **Best Way to Upstream**

Thousands of vehicles are sold each year via the Internet, however, in order to be successful in attracting buyers and marketing vehicles electronically, “sight unseen”, it is important that the sale is backed with as much detailed information as possible. This includes comprehensive electronic condition reports, multiple detailed photographs, and full disclosure of any defects or problems with the vehicle.

It is also important that the upstream process begins as early as possible. The best case scenario is to begin as soon as the order for the new vehicle is placed. There are several steps involved in a typical upstream sale process before the vehicle can be posted to the Internet auction site, and this extra time can be used to make sure all the details are covered.

If the driver is given first choice to buy, the vehicle must be priced and the driver needs to be contacted to determine if they are interested in purchasing the vehicle. If the driver is not interested, a vehicle inspection must be scheduled and completed. After the condition report and photos are received, they must be reviewed to determine if the condition meets the guidelines for an employee sale. The vehicle must then be priced for the employees before the vehicle is posted to the web site.

### **What Companies Can Expect from a Successful Program**

Successful upstream remarketing programs will realize from 35% – 65% upstream sales. Some companies have even seen 100% of their vehicles sold to employees; however, these tend to be companies that have many employees and just a few desirable vehicles to sell.

The key to avoiding failure is communication. All parties involved must be familiar with the program and policies. Notify potential employee buyers often via company newsletters and email. Be sure the program is visible to the employees through the use of banners, flyers, and embedded links in email notifications.

### **Advice for Fleet Managers**

Establish a written policy regarding the upstream remarketing program and stick to the policy. Make sure the program and policy are well communicated to all parties involved, which may be the entire company. Communicate with the potential employee buyers often throughout the sale process, not just once at the beginning of the program.

### **How Flexco Can Help**

The most significant thing that sets Flexco apart is the ability to customize the upstream remarketing solution to meet its clients' needs. We realize that every client requires something different, so we have built our remarketing websites with the flexibility to allow the client to make the site their site. We can support any upstream remarketing method, whether it is driver sale, employee sale, or general public. We can also use any auction method, including buy-now, closed-bid, or open-bid sales.

The Flexco Employee Sale website can be branded or co-branded with the client's logo. The website can be accessed via secure login or via an "extranet", where registered users can navigate to their own private page through customized links on the client's Intranet site.

Whether your fleet is leased or owned, Flexco offers a complete, turn-key solution and manages the entire process from start to finish. We handle all communication with the driver, employees and other potential purchasers. We handle the paperwork and perform all of the title management procedures. Funds from the proceeds of the sale are forwarded within 48 hours. We can also let the client handle as much of this as they choose.

Flexco has comprehensive online tools available to the fleet administrator to track the progress of their vehicle sales from initial consignment, to the completion of the sale, and all steps in between. A full suite of reports is available to quickly analyze the success of the program, and for decision support to help determine if any changes should be implemented.

Flexco offers **free consultation** to assist fleet administrators in finding the right solution for their needs and long term goals. Please visit our website at [www.flexcofleetservices.com](http://www.flexcofleetservices.com) for more information.