Fleeting temptations

Don’t stray from strategy while wearing COVID-colored glasses

By ED SCHULTHEIS

Two facts we know today: COVID-19 is here and winter is not going to stop for it. So when it comes to your fleet, you need to consider its impact and whether there are areas that should be approached differently.

The current situation provides risks and opportunities. Be aware of both, but once you evaluate everything, you may decide to not act differently. To start, I recommend taking a step back and revisiting your pre-COVID plan for purchasing and general operations for 2020. Use that as your baseline. Then ask yourself, “Are there certain components of that plan I should consider revisiting, or should I stay status quo?” To help answer that, here are a few key areas to evaluate:

Supplier concerns

The supply chain has been challenged in many ways, especially when it comes to components sourced outside the United States. Borders have been closed, factories were idled, and intermittent closures still have production ramping back up. Being proactive is critical. Order early and don’t assume everything is status quo.

Disruptions are inevitable. You need to assess the risk level and overall health of the suppliers you work with. Will they still be here tomorrow and have the ability serve you in the same capacity?

Here are some questions you should ask your suppliers and yourself:

• What does your inventory look like?

• Are there parts that may have a longer turnaround time than normal? I’m not a fan of excess inventory, but some extras on the shelf may be warranted.

• Do you anticipate any price increases?

• Are there any issues with shipping such as increased costs or delays?

• For orders already placed, have you received a recent status update?

• What is your plan B? What are you doing to ensure you will have access to the supplies you need?

Purchase or lease?

Both have benefits, but start with evaluating your current cash flow situation. Given all the unknowns we face today, a general recommendation would be to optimize your cash flow. Leasing offers an advantage since there is not a large initial outlay of capital funds. Even if you have the capital readily available, it may be better to hold onto that for now.

Make sure you understand all the options available in structuring a lease. The two primary structures are open-ended and closed-ended, but other types exist. Open-ended leases can offer you much more flexibility, and in many ways are very similar to a traditional loan. Ask what the differences are from your potential lessor and include your financial

PURCHASING DECISIONS

Should you continue with purchases that had been planned? Or proceed with ones not planned when you come across a great deal? The same questions apply to both situations; challenge yourself to answer “yes” to most of these before you proceed.

1. **Do we really need it?**
2. **What are the impacts if I delay a purchase?**
3. **If I make the purchase:**
   - Can I serve my customers better?
   - Is it safer for my employees?
   - Can we become more profitable?
   - Will we become more efficient?
   - Will it make the company better?
4. **How stable is my customer base? Do I envision any challenges?**
5. **If it is a great deal, does the opportunity outweigh the risk when it comes to cash-flow implications?**

advisor in any decisions. If you are still uncertain, consider short-term rentals. Initial costs may be higher, but long-term risk is minimized, which may be best in the current environment.

New or used?

Buying new has several distinct advantages, but when it comes to specialty or seasonal equipment, used can be a great option. Depending on the need, look at both. Overall, I recommend you stay true to your original strategy and don't decide differently solely due to coronavirus concerns.

Is it a good deal?

Some dealers and manufacturers may offer enticing terms or interest rates. But is it really a good deal? As with everything else discussed here, this is still a bit of a moving target. I don't recommend you look at this through the COVID-colored lens. Look at it as you normally would. If terms are very attractive and the purchase was part of your overall strategy, I would proceed as normal. If the terms are attractive but it's not an absolute need or doesn't fit within your strategy, I would be cautious and not stray from your plans. Improved cash flow may be the better bet than the savings from a better rate.

Resale values

Resale is an important component to any fleet strategy: capture as much as you can in order to reinvest it. Early on in this pandemic resale values really took a nosedive, especially on the vehicle side. Recent data has pointed to that changing, in many cases back to pre-pandemic rates. But it's still a moving target, and many resale avenues are unavailable currently. My overall recommendation is to evaluate this before you decide to sell anything. Consider the following options:

- Potentially hold off on the purchase and eliminate the need for a resale
- Hold onto the asset until you are comfortable with the rate of return. Just be careful how long it sits as value will decrease as vehicles and equipment age.
- Proceed with the sale as planned as long as your return isn't significantly reduced. Evaluate how this could benefit your cash flow.

COVID should cause us to be prudent and cautious in our decision-making, but not necessarily cause us to stray too far from our initial planning or strategies. This is an unprecedented event, still full of many unknowns. What the norm was before is not the norm today and probably won't be the norm tomorrow. Take some time to evaluate the options and effects on your company. Capitalize on opportunities and minimize your risks. SB

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