

What you need to know if you are considering purchasing a heavy duty truck.

An Industry White Paper

What to Buy: PRE-OWNED VS. NEW?



Let's get to the point. Business is tough. You have decisions to make. And if one of your purchasing decisions has to do with replacing or expanding your fleet equipment, there are a few things you need to know. If you are responsible for deciding "what" to buy and "when" to buy equipment, please read on.

What to Buy: Pre-Owned vs. New?

"Should I buy used equipment?" The answer to that question is "Yes." And here are some very compelling reasons why.

Used equipment today does not carry the stigma that it did in the past. Buying used has become part of many large companies' business asset plans. Whereas buying pre-owned used to be considered only for the guy who "couldn't afford" new, buying used equipment today is for every company that is planning equipment acquisition during the next year. For those companies that want to maximize the value of their purchasing dollars, buying used is a smart business decision.

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Lower your cost of ownership

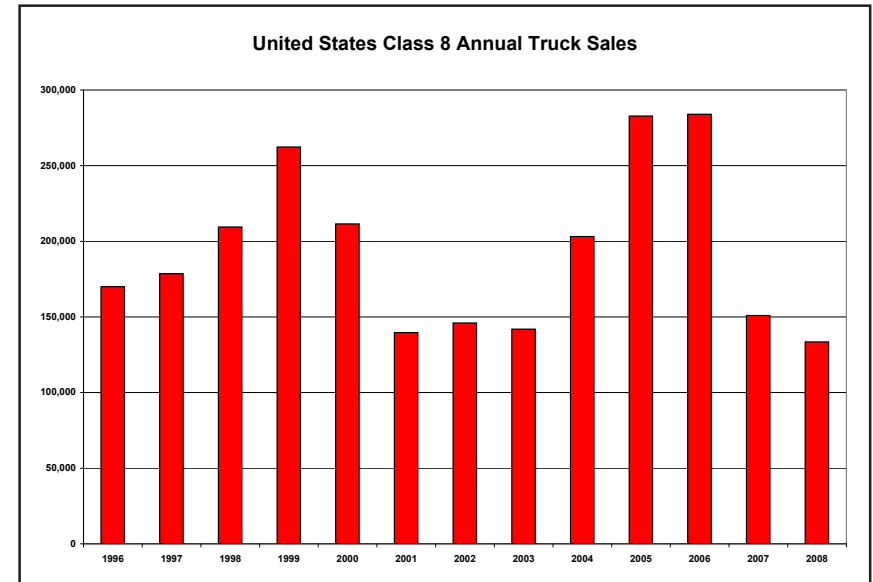
Although new trucks generally cost less to operate and maintain, the initial purchase price, F.E.T., and higher insurance costs means higher initial investment and higher CPM (Cost Per Mile). When a used truck buyer considers all operating costs - like maintenance and fuel, taxes, insurance and depreciation - they can quickly see that their total “Cost of Ownership” can be reduced with the purchase of used equipment.

Let’s look at an example and compare. Take a typical, fleet-maintained 2006 model with 300-350k miles selling for \$47,950, and compare that to a 2009 model selling for \$108,950. Both trucks have comparable specs and amenities. Look at the chart to the right and you can see the cost-savings, broken down by category. According to this analysis, you would save nearly \$23,000 over the course of 2 years when buying pre-owned vs. new. Buying used is a smart business decision.

Pre-Owned Truck		New Truck	
Truck Price	\$47,950	Truck Price	\$ 108,950
F.E.T.		F.E.T. @ 12%	\$13,074
Total Price	\$47,950	Total Price	\$122,024
% Down	15%	% Down	10%
Down Payment %	(\$7,193)	Down Payment of 15%	(\$12,202)
Amount Financed	\$40,758	Amount Financed	\$109,822
2 Year Operating Costs Of Pre-Owned Truck		2 Year Operating Costs of New Truck	
1st Year Dep. 20%	(\$9,590)	1st Year Dep. 30%	(\$36,607)
2nd Year Dep. 20%	(\$7,672)	2nd Year Dep. 25%	(\$21,354)
2 Year Ownership Depreciation	(\$17,262)	2 Year Ownership Dep.	(\$57,961)
Finance Percentage	15%	Finance Percentage	10%
2 Year Interest Expense*	\$6,114	2 Year Interest Expense*	\$10,982
Extended Warranty Cost	\$3,995	Warranty 5 Year / 500,000 (Included)	\$0
Miles Driven Per Year	125,000	Miles Driven Per Year	125,000
Fuel Cost per Gallon	\$2.50	Fuel Cost per Gallon	\$2.50
MPG	6.7	MPG	6.7
Total Fuel Cost (2 Years)	\$93,284	Total Fuel Cost (2 Years)	\$93,284
Total Maintenance CPM@.065 (2 Years)	\$16,250	Maintenance CPM@.04	\$10,000
Total	\$143,138	Total	\$166,126
Cost per mile	\$0.57	Cost per mile	\$0.66
Savings Per Mile	\$0.09		
Total 2 Year Cost Savings	\$22,988		

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Economics 101: Supply and Demand.



Truck Values...and a Little History

You might be wondering “What is my equipment worth?” Or “What conditions affect the value of used equipment?” Short answer, Economics 101: Supply and Demand. Supply: New truck production and sales hit 10 year lows during 2007-2009. That means there will be fewer 3-4 year old trucks available as we move into 2010 and beyond. Today, due to the economy, used truck inventories are high...prices low. We have been seeing unprecedented rate of price deterioration over the past 12 months - aerodynamic trucks by some 25%, “big & squares” by as much as 33%.

By 2011, most economists agree that we should begin seeing freight tonnage begin to increase as the economy starts coming out of the doldrums. The demand will definitely begin to increase for buyers looking to replace units or expand their fleets. Used truck inventories will be lower...prices higher. There are a limited numbers of buyers out there today and plenty of trucks. And as the economy begins to recover over the next few quarters, the demand will definitely increase and we may see plenty of buyers and a limited number of trucks.

And then there’s the EPA. What’s the EPA got to do with lowering cost of ownership? Well, a few things. EPA regulations affected sales, pre-buys and prices in 2004 and

2007. But EPA 2010 regulations are now going to substantially raise the purchase price of new trucks – in some cases by as much as \$10,000 per unit. What will happen when new truck prices increase? Used truck prices will increase as well. So in effect, there are two separate conditions that will begin putting upward pressure on prices. First, the higher prices on 2010 models will increase the future prices of used equipment, which will result in higher prices on those 3-4 year old models. Second, the current low production output will decrease future supply, while the demand will be escalating. The bottom line is that there’s never been a better time to buy and waiting to buy may adversely affect your ability to replace or expand your fleet in the future.

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Why Now?

There are quite a few reasons to consider replacing or expanding your fleet in today's market. In today's challenging economy, comparative prices for pre-owned trucks have never provided so much value. Today's buyer can get more truck, more features and better fuel economy for fewer dollars. Plain and simple, you get more truck for the money.

In "normal" economic conditions, sales history and statistics tell us that a 4-year-old truck sold for approximately 50% of the cost of a new truck. In today's economic conditions, that percentage is now in the vicinity of 33%. That means instead of getting 2 used trucks for the price of a new one, buyers can now get 3 trucks for the price of a one new truck! This disparity has never had such a spread...and we probably will not see it again in the near future. The comparative prices for used trucks have not been at current levels for nearly twenty years.

Due to this current economic climate, the used truck marketplace has a large supply of high-quality, low-mileage. That means that today's buyer can buy more truck with more features and better fuel economy for fewer dollars. Today's used truck pricing translates to a superb value for your used truck buyers...a silver lining to today's economic clouds.

But not only are the costs less expensive, but the quality is better than used equipment of the past. From safety...to comfort...to maintenance costs...to economy and fuel mileage...your customers are definitely getting more features and benefits with their purchase than ever before.

Today's economic conditions have put pressure on all aspects of doing business. As many owner/operators and small-medium sized fleets can attest, expense management is key to their financial success. While equipment procurement can be a large expense, managing that expense can, in the long run, make a difference in your profitability. Although fuel prices have come down recently, fuel economy should still play an important role when choosing your next truck – at some point, prices will rise again. (As this is being written, they are on the rise again.) A fuel-efficient truck will prepare you for the future.

So not only does it make smart business sense to buy used while they are readily available and value-priced, but the smart time to buy is now because the economic conditions will probably not repeat themselves for some time.