



# Improving pre-owned solutions by understanding the buyer

What selection criteria do buyers of pre-owned assets take into account in their decision-making and how can manufacturers and dealers learn from these insights?

**See what counts.**

# Introduction

The majority of today's business-to-business (B2B) customers are focused on buying and selling new assets<sup>1</sup>, and give little thought to pre-owned assets. Understandably, pre-owned buying behavior knowledge is limited within the B2B environment. However, with the rise of the "circular economy," the pre-owned segment is becoming increasingly important for Original Equipment Manufacturers (OEMs) and dealers. A better understanding of the behavior of this large segment of buyers is essential to build effective solutions.

To shed light on buyer behavior, this study was conducted by interviewing a substantial number of customers that have leased pre-owned assets through DLL in the Dutch construction, transportation and agriculture industries.

The main focus of this whitepaper is the difference between the traditional and pre-owned buying processes, as visualized in figure 1. The process for buying new assets is well documented and occurs in a straightforward sequence of steps. A direct outcome of the conducted interviews, a novel pre-owned process was determined to follow a distinct and dynamic system that will be explored in the following sections.

While new buyers tend to seek a particular asset configuration to fulfill a particular need, pre-owned buyers are more flexible and willing to compromise. Pre-owned buyers usually have more limited funding and are often focused on acquiring a needed service for the best price. Therefore it is advised that manufacturers and dealers approach these buyers differently.

Although new and pre-owned buyers are often compared as separate entities, it is important to realize that these aren't exclusive titles. The truth is that the new and pre-owned buyer is often the same person purchasing a mix of assets, over time and varying needs, that best supports their business.

The first chapter elaborates on the decision-making criteria pre-owned buyers take into account. Subsequently, factors influencing the risk perception of buyers associated with the pre-owned acquisition are described. The last chapter summarizes how manufacturers and dealers can anticipate to the behavior of pre-owned asset buyers.

## Buying process

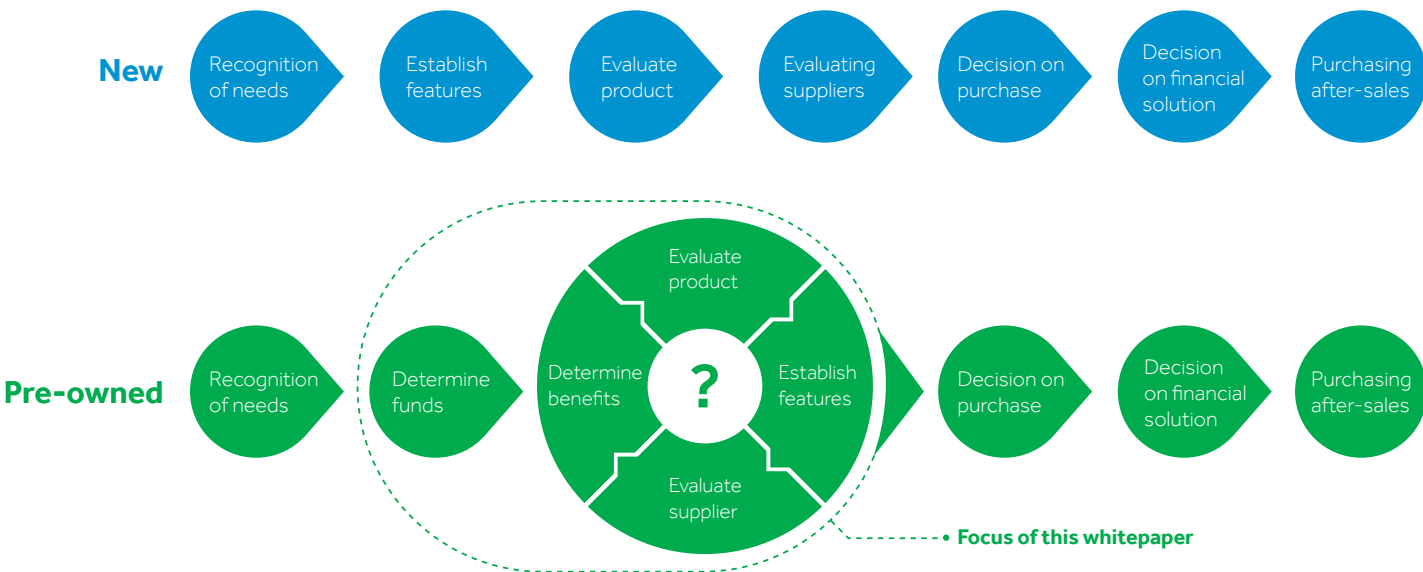


Figure 1; The buying process: new vs. pre-owned

1. Assets in this paper refer to equipment, systems, units or products produced by a manufacturer.

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# Buyers' reasons to acquire pre-owned assets

In order to define pre-owned buying behavior, one has to first understand the decision-making criteria that pre-owned buyers take into account. This section describes the factors driving organizational buyers to acquire pre-owned assets.

## Price-quality ratio

Both price and quality are major selection criteria for organizational buyers. Pre-owned assets that are properly maintained, refurbished or remanufactured allow buyers to acquire a reliable asset at a lower price. This enables organizations to get "A" quality brand assets for "B" or "C" prices.

**"We made an assessment of our needs and concluded that a pre-owned forklift gave us more value for money."**



Wire and cable assembly professional

## Lack of required funds

During periods of economic downturn and scarcity of financial resources, organizations are forced to carefully consider how to invest their capital. Interviewees acknowledged that due to these market conditions they could not internally justify the funds to acquire a new asset, especially when the asset is not essential for the daily operational activities.

There are also situations where the initial asset under consideration was new, but the buyer finally decided to obtain a pre-owned asset. It appears this is mostly a result of having insufficient financial resources or the observation that the pre-owned asset fulfills their needs in getting the job done for a much lower investment.

**"The primary reason for us to lease a pre-owned reach truck is due to the lower monthly payments."**



Fruit and vegetable wholesaler

## Money available for other business

Acquiring pre-owned assets as opposed to new assets, enables organizations to allocate their savings to other projects and investments required to grow their business, while still having the necessary assets required to complete daily operations. Furthermore, the lower price of pre-owned assets enables organizations to obtain a variety of equipment for the same amount of money that would otherwise be forgone on new assets.

**"We could only spend our money on the trailer once, so we needed to spend it in the most efficient way possible."**



Transportation provider

## Value depreciation

As soon as new assets leave the showroom, a significant part of the investment value is lost to depreciation as the asset can no longer be considered "brand new". Consequently, the difference between the initial purchase price and the resale value is greater for new assets in comparison to pre-owned. When pre-owned assets are acquired, the first buyer has already accounted for the "value vaporization." As such, depreciation expenses are smaller for pre-owned assets.

**"A pre-owned truck to me is worth as much as new, but for a lower price."**



Construction company



## Availability

Often, organizations can encounter longer transaction and delivery times when selecting a new asset at a show room. Alternatively, pre-owned assets are usually immediately available for purchase and use. While this may vary depending on the nature of the asset, the availability of pre-owned assets can be a big benefit if there is an immediate need for a certain service to be provided.

## Knowledge

Organizations without their own technical staff are dependent on dealers and third parties to distinguish high quality pre-owned assets from defective ones at the point of sale. This can lead to biased or inconsistent evaluations and highlights the advantage that organizations with their own technical staff have when it comes to purchasing used equipment.

## Flexibility

Due to fluctuations in needed capacity and utilization of assets, organizations have a need for back-up assets that often aren't in use but needed to work at irregular intervals of high capacity. While those assets are not used three shifts a day, 7 days a week and 365 days a year, they are no less important. To meet both the need for extra capacity and minimize investment in back-up assets, pre-owned may offer a price conscious solution over rental solutions.

**“We require back-up capacity during the summer and without pre-owned tipper trailers we simply had to say ‘no’ to our customers.”**



Construction company

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# Influencing pre-owned risk perception

It appears that pre-owned organizational buying behavior is strongly related to the level of risk associated with the purchase decision. This section describes which factors influence the buyer's risk perception.

## Business Criticality

Many perceive greater levels of risk when investing in pre-owned assets that directly impact the business's daily operational activities. Therefore it might be wise to approach risk-adverse companies with pre-owned non-essential equipment, such as a backup forklift, as opposed to indispensable assets.



## Look and feel

As one might expect, an asset that is cleaned and polished is more appealing than a dirty looking asset. Buyers perceive that newer-looking pre-owned assets will function properly for a longer period of time than those that aren't as cosmetically appealing.

**"I am not comfortable with the acquisition when the pre-owned tractor is not maintained well cosmetically."**



Farmer

## Upfront checks

Organizational buyers that lack technical knowledge will be more dependent on external service suppliers compared to organizations having an internal technical staff. An upfront asset check performed by an external service supplier or an independent institute reduces the level of risk associated with the pre-owned acquisition and is deemed essential to assess the initial condition of the pre-owned asset.

## Warranty

Frequently, pre-owned assets are being sold without a warranty, which immediately makes them a more risky investment. When the manufacturer or dealer provides a comparable warranty on a pre-owned asset, buyers get a sense of comfort and the feeling that they are acquiring a solid asset with guaranteed service.

## Vulnerability

Interviewees acknowledge that assets with relatively more "vulnerable" components, negatively influence their risk perception. In other words, pre-owned assets that have a lot of wiring and components that are heavily subject to wear and tear, will make buyers more reluctant to purchase the asset.

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# Anticipating the needs of a pre-owned asset buyer

This section provides advice for manufacturers and dealers on how to anticipate to the buyer's decision making criteria for pre-owned assets.

It appears that much of the variation between the new- and pre-owned buying processes is due to a difference in needs, and as such, perceived objectives. This does not exclude that pre-owned buyers never acquire new assets, it simply means that they currently have different decision making criteria for manufacturers to consider.

## Be transparent

Regardless of whether an asset is pre-owned or new, buyers expect to know what they are getting. Presenting historical documentation related to prior application, usage intensity, performed maintenance, incurred defects, damages, and the configuration of the asset, are perceived as very important by the interviewees. Sometimes even more important than the documentation provided for new assets. Furthermore, it is advised to provide insights into upcoming and recurring repair and maintenance expenses as this might differ from new assets.

## Offer consultative selling

Using the needs of the buyer and services provided by the pre-owned asset as the basis for the initial conversation, enables the seller to build better solutions for the customer and minimize cannibalization risk<sup>2</sup>. Additionally, including repair and maintenance options could positively contribute to improved customer loyalty. This is especially true in situations where customers lack their own technical staff.

## Continue communication after point-of-sale

Communication between buyer and seller does not end at point-of-sale, rather the conversation evolves over time. Where information shared at point-of-sale focuses on providing historical information about the asset, communication afterwards is aimed at preventing asset downtime and building sustainable customer relationships. Instead of reactively repairing assets, sellers can proactively prevent failure by continuous communication with the buyer. In many situations, telemetry equipment could support sellers to better communicate on servicing.

## Proactively follow up on existing buyer – seller relationships

Existing relationships are very beneficial when buyers are looking to acquire the next necessary asset. Buyers are more inclined to acquire their assets via sellers with a proven track record and or positive historical experience. It is critical for sellers to proactively leverage from existing or past relationships to anticipate when buyers are in need of an asset.

<sup>2</sup> Best practises on how manufacturers can minimize cannibalization risk are available in the whitepaper: "Selling new by offering pre-owned assets."

# Checklist for improving pre-owned solutions



## Be transparent

Provide historical asset documentation and insights in upcoming repair and maintenance expenses at point-of-sale.



## Offer consultative selling

Focus on the needs of the buyer and services which are delivered by the asset.



## Continue communication after point-of-sale

Proactively rather than reactively communicate with the buyer after point-of-sale to prevent asset failure.



## Proactively follow up on existing buyer-seller relationships

Use the existing buyer-seller relationship to identify when buyers are in need of a new acquisition and anticipate behavior.



## Proactively present financial solutions at point-of-sale

Inform buyers about the possibility of leasing in order to accelerate the sale or realize higher sale prices.



## Be aware of buyer's procurement policies

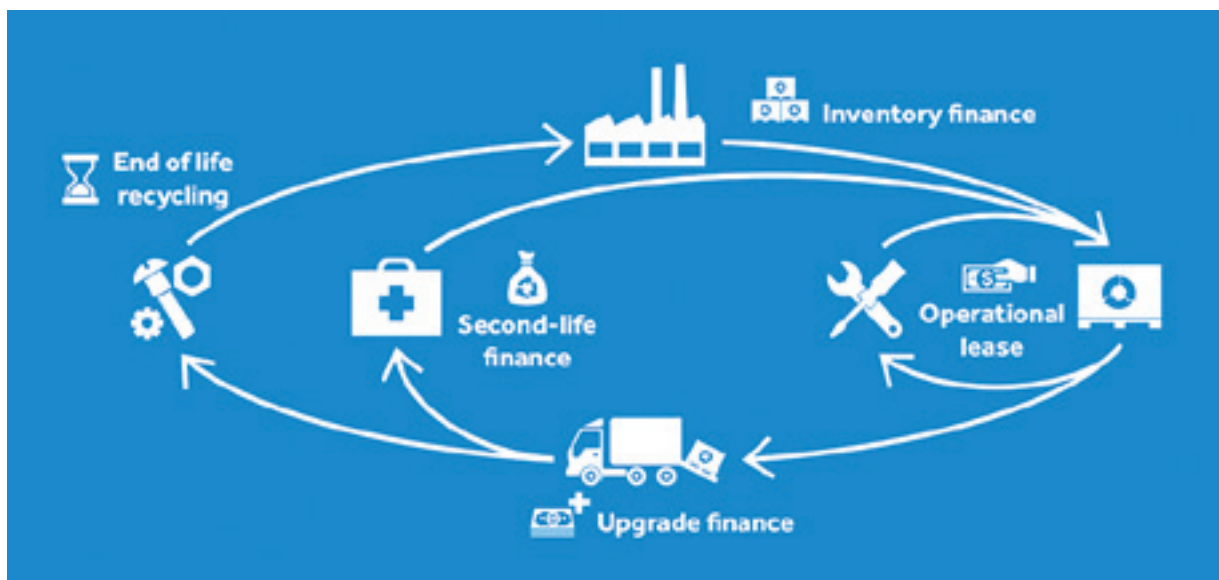
Be aware of buyer's procurement policies enabling or preventing buyers to purchase pre-owned assets.

## Proactively present financial solutions at point-of-sale

Today, manufacturers and dealers frequently offer leasing to buyers reactively. Particularly for pre-owned assets where financial services are less common. Therefore it is advised to proactively include pre-owned asset financing as one of the possibilities for buyers to acquire their asset.

## Be aware of buyer's procurement policies

It is advised to be aware of buyer's procurement policies, enabling or preventing buyers to purchase pre-owned assets. Frequently, purchasing policies do not allow for acquiring pre-owned assets.



## Closing note

### The circular economy

The traditional linear economy model is based on a take, make, dispose system where raw materials are extracted from the earth, assets are made, sold, and eventually discarded by the user to potentially end up in a landfill or the incinerator. The circular economy model is aimed at keeping raw materials in closed loops. This model relies on usage rather than ownership of assets. It enables manufacturers to maintain more control of their assets throughout the technical cycle and offers the potential for product services to become an increasingly important profit center for manufacturers.

### DLL Life Cycle Asset Management

DLL recognizes the opportunity to obtain value during the full technical life cycle of assets (Life Cycle Asset Management). This is accomplished by providing tailored financial solutions such as:

- Operational lease
- Fleet management
- Stock finance
- Second Life finance
- End-of-life treatment

These include repair, maintenance, refurbishment and remanufacturing services by DLL's manufacturing partners. This enables manufacturers, dealers, end-users and DLL to extract more value from the quality of the assets. In line with this strategy, DLL has developed a series of whitepapers and expects to develop more in the future ([www.dllgroup.com/lcam/whitepapers](http://www.dllgroup.com/lcam/whitepapers)):

- "Realising opportunities of a circular business model"
- "Complement new equipment sales with pre-owned assets"
- "Sustainable returns by recovering used assets"
- "Improving pre-owned solutions by understanding the buyer"

At DLL, it is our passion to find original, integrated solutions that help to resolve real-world challenges. We constantly think about how we can be a financial solutions partner every step of the way for the businesses we work with in order to help our customers to rethink how we use and get the most out of our assets together.

## Contact

### Author

Michael Rinaldi, Daan van den Burg  
and Sjoerd van der Zee

### For more information

Please contact your DLL representative or  
[E lcam@dllgroup.com](mailto:lcam@dllgroup.com)

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