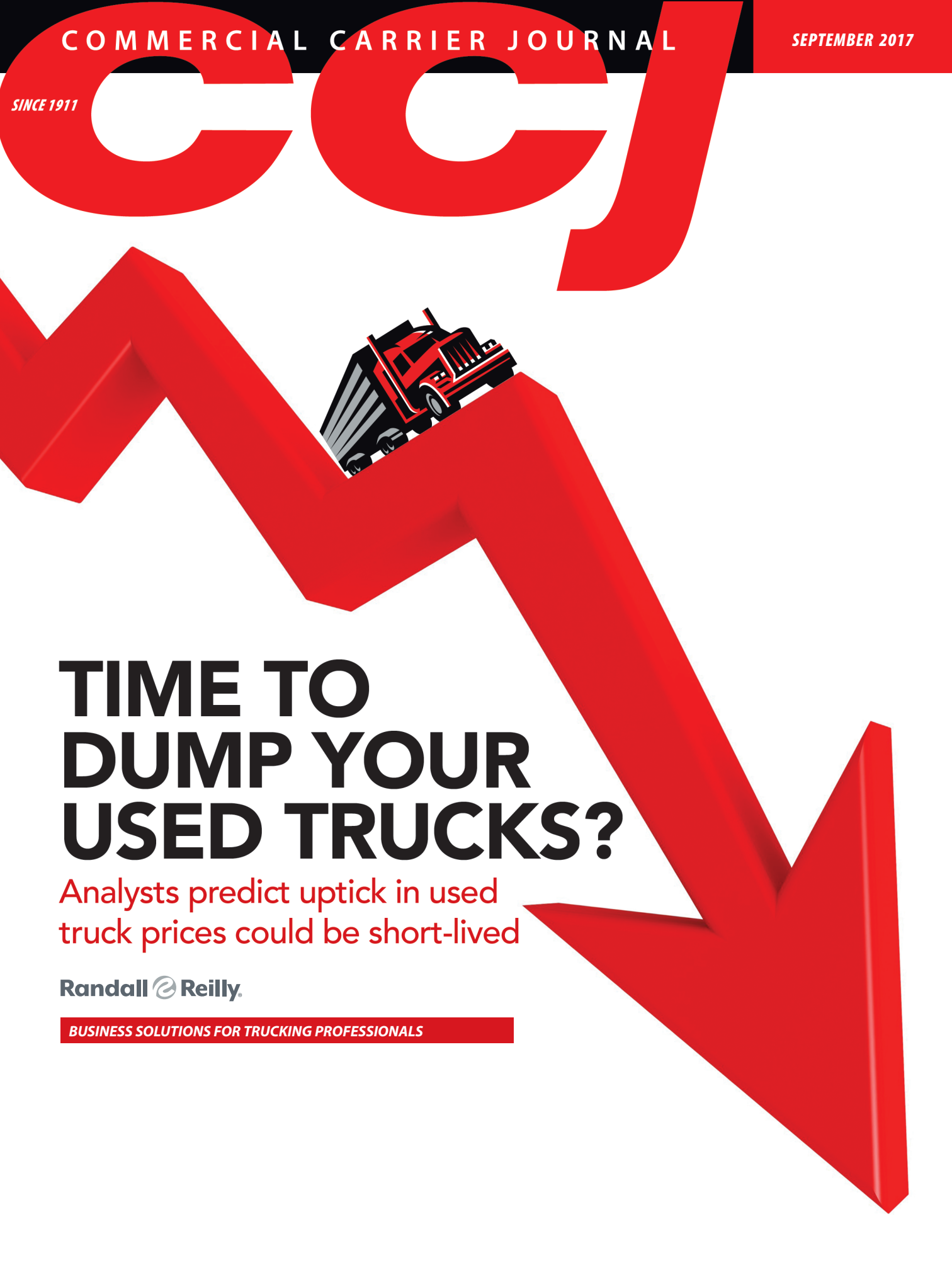


SINCE 1911



# TIME TO DUMP YOUR USED TRUCKS?

Analysts predict uptick in used  
truck prices could be short-lived

Randall  Reilly

BUSINESS SOLUTIONS FOR TRUCKING PROFESSIONALS

# TIME TO SELL



After significant drops in 2016, used truck prices have stabilized this year. But when 2014 and 2015 models hit the used truck market, an oversupply could send prices spiraling downward.

BY JAMES JAILLET

**U**sed truck prices tumbled throughout 2016. The average retail price of three- to five-year-old tractors plunged from \$73,300 in January 2016 to \$53,900 in December, according to J.D. Power Valuation Services.

Though prices stabilized in the first half of 2017 – holding near \$60,000 through June – that modest rebound might be only a calm before the storm. Tractors sold in 2014 and 2015 are expected to flood the market in numbers that should restrain pricing through about 2020, forecasts Steve Clough, president of Arrow Truck Sales.

It's possible a spike in demand for more truck capacity could occur, boosting demand for used trucks and countering the low prices resulting from the glut. However, projections for growth in freight movement and GDP are modest. If that holds, used truck

demand won't help absorb the excess supply, Clough says.

Demand for used equipment could be depressed later this year and into next, at least for some segments of the used market, says Don Ake, FTR analyst. Owner-operators and small fleets may be reluctant to buy as they comply with the electronic logging device mandate taking effect Dec. 18, he says.

"If they're uncertain about how this is going to impact them, they may run their truck a year longer than normal," Ake says.

On the flipside, should the ELD mandate restrict the industry's capacity, as many predict, and the freight market quickly accelerates, fleets could turn to the used market for cheap capacity, he says.

"If that's not the case, it's going to take a while for inventory and prices to come back [into balance]," Ake says.

"But that's the cycle of the market."

That market should present buyers further opportunity to score cheap deals on nice equipment, particularly on aerodynamic fleet-spec sleepers.

"There are some nice buys out there right now, and anybody that tells you there's not is kidding themselves," says Craig Kendall, president of the Used Truck Association and market manager for The Pete Store, a 15-store dealer group that spans the East Coast.

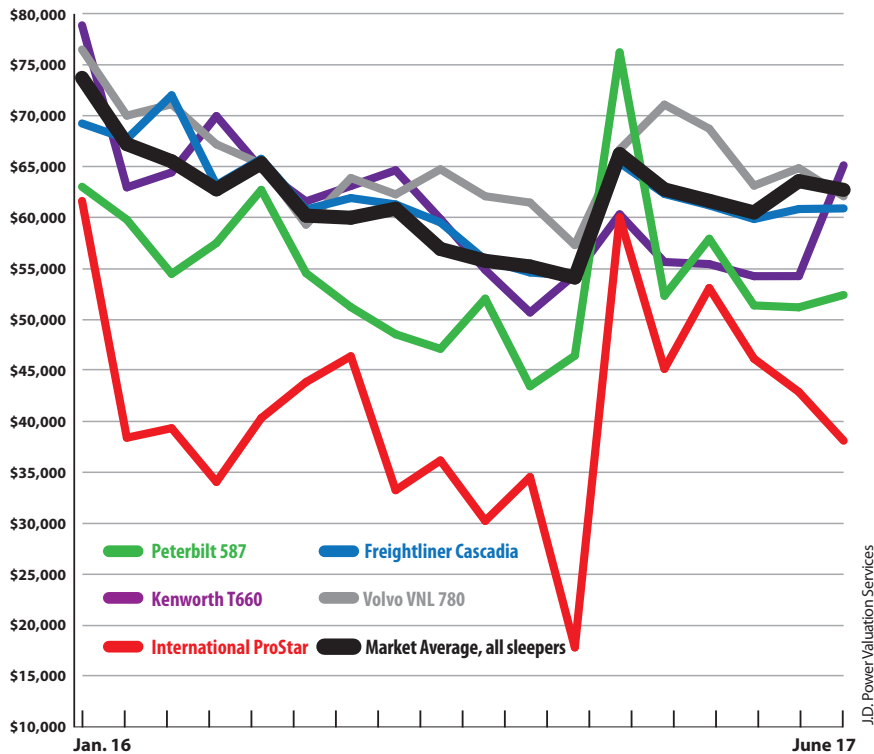
Used truck supply is predetermined, Clough says. It's based almost entirely on the number of trucks retailed new between three and five years earlier, the common turnover cycles for fleets.

While sales cycle swings are inevitable, dramatically opposite market trends over the last decade threw the used truck supply into a more severe pendulum pattern.

The pre-buy ahead of 2007 emissions standards resulted in calendar 2005

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## Average Retail Selling Price of Selected 3-5-Year-Old Sleeper Tractors Adjusted for Mileage



J.D. Power Valuation Services

and 2006 being the two highest sales years on record. Then supply went the other way during the historically low build years of the Great Recession in 2008-09. Since then, used truck pricing has reflected a correction of either an abundant supply or a short supply.

Those low build years, extending into 2010, left used truck lots nearly empty in the years that followed, causing pricing to spike. Then, tighter capacity and stronger rates pushed new truck orders upward again in 2014 and 2015.

“That supply is already in the books, you could say,” says Clough. “We don’t know precisely when they’re coming back [as used trucks], but it certainly looks like we’re going to have higher supply coming in probably through 2019, 2020.”

Chris Visser, senior analyst for J.D. Power Valuation Services, agrees. Absent a major shift in demand, he says,

“we’re looking at 2020 before there’s any real change in supply.”

Ritchie Bros., the country’s leading auctioneer of used trucks, hasn’t seen many 2015 model-year tractors returning to market yet, says Mike McMahon, head of strategic accounts. “We will start seeing movement into the next year,” he says.

Kendall says much of that used inventory will be “late-model aerodynamic sleeper trucks” such as the Freightliner Cascadia, Peterbilt Models 386 and 587 and the International ProStar. Such tractors may be less expensive due to their supply.

“Classically styled trucks,” says Kendall, referring to the squarer-bodied Peterbilt 389, Kenworth W900 and Western Star 4900EXD, could be in shorter supply and therefore likely to cost more.

## SPEC'ING TRUCKS FOR RESALE

BY JASON CANNON

**W**hen spec'ing new tractors for a specific application, fleet managers must run a litany of cost-benefit analyses and return-on-investment calculations to maximize the truck's contribution to the company's bottom line.

Savvy buyers also realize the importance of spec'ing with an eye on the truck's eventual resale. Companies seeking the best returns from the sale of used equipment should anticipate what will matter to potential truck buyers several years down the road.

But even if fleets have resale in mind, they should spec for the truck's initial use rather than trying to read tea leaves in the used market three to five years later.

“It's certainly a good idea to keep the secondary market in mind, but you can't ignore your own needs,” says Steve Tam, ACT Research vice president. “If you're on the fence, maybe the secondary market consideration would tip that decision. A 15-liter [engine] may be the way to go – a Cummins – and probably a manual transmission rather than an automated transmission.”

Even though fuel has been relatively cheap in recent years, aerodynamic tractors recently have commanded higher prices than their conventional counterparts. Chris Visser, senior analyst for J.D. Power Valuation Services, says traditional aero add-ons such as cab extenders and fairings have shown to be worth an extra \$2,400 to a used truck “if it has all the skirts and side extenders.”

Buyers looking for a late-model aerodynamic Peterbilt 579 should be ready to open their wallet. “That really seems to be



**Aerodynamic tractors are bringing higher prices than comparable conventionals in the used truck market, and the Peterbilt 579 is one of the more popular aero models.**

the standout model thanks to low volume and the marketplace seeing value in that model," Visser says. "It's one of the newest models out there with all the lightweighting and aerodynamics."

Some customers are more brand-loyal. "There are customers that prefer to stick with the brand that they have," Tam says. "But there is that segment that says, 'Make me a deal, and if it's good enough, then I'll switch!'"

As for other features, Visser says, "Aluminum wheels – and they have to be dual, not single – a full aero package, horsepower in the mid-400 range and an 18-speed [manual] transmission is still the gold standard on the used market."

Despite a shift to lighter-weight and smaller-displacement engines in newer trucks, bigger engines still bring premium prices.

"On the secondary market, as long as [customers] have access to bigger-bore engines, that's going to be their preference," Tam says. Detroit's DD13 sells for about \$3,000 less than a DD15 when spec'd in comparable three-year-old Cascadias, Visser says.

Regardless of bore size, Cummins engines – a premium at their initial spec – have maintained the brand's pole

position in the used market, Tam says. "It tends to do better than the vertically integrated partner," he says. "[Preference] can be application-specific, but I think the driver wants that engine, so they are willing to pay."

Visser believes Cummins' position as the preferred engine isn't undisputed and can vary significantly by make and model year. As proprietary engines increasingly become standard equipment, the price gap between integrated engines and Cummins powerplants has narrowed.

"On a late-model Freightliner, for example, [an ISX] is about \$500 to \$750 less than a DD15," he says.

Automated manual transmissions are beginning to seize chunks of new truck build rates, and while Tam says there's not enough data to determine whether trucks with an AMT will command higher resale prices than their manual cousins, he believes such a trend is unlikely.

"If history is any indication, the used truck buyer doesn't like change, even in this scenario," he says. "You've got guys today looking for pre-2000 equipment just because it doesn't have to have an ELD (electronic logging device) in it. I don't think they're going to take AMTs at a premium."

Visser disagrees, adding that the reliability of more modern AMTs, and the fact they have achieved standard position in many cases, have boosted their resale values.

Volvo's "I-Shift is pretty much the grandfather of all AMTs and is upwards of a \$2,500 add" to a used truck's price, he says. Freightliner's "DT12 is about a \$2,500 add versus a 10-speed."

About 60 percent of tractors selling as used for the first time now are equipped with AMTs, says Mike McMahon, head of strategic accounts for auctioneer Ritchie Bros.

That's traditionally been a deal-breaker for owner-operators, but the systems are becoming more accepted, says Craig Kendall, president of the Used Truck Association and market manager for The Pete Store, a 15-store dealer group.

Owner-operators and small fleets also have come around on other fleet-spec features such as 13-liter engines and 6x2 axle configurations. "They're more educated on fuel economy savings and performance, and they're starting to shift and purchase that equipment," says McMahon.

The longer a fleet runs a truck, the gap between what a particular spec can add to its value begins to close, especially if the warranty lapses.

"As trucks get older, that difference will diminish as condition factors come into play, along with maintenance records and mileage," Visser says. "If a truck has an existing warranty, that's a good selling point."

Trucks from large fleets, especially if equipped with a warranty, often come with a higher price, he says. "If a large fleet with a good maintenance program sells a truck, there's at least the perception that the truck is in good operating condition, and that is valuable to a degree."

**– James Jaillet contributed to this story.**

# CHANGE THE CHANNEL

If your used trucks are sitting unsold along the fence, it's time to rethink your sales strategy

BY JEFF CRISSEY

**M**eeting or exceeding market price should be the goal of any seller in a used truck sales transaction. Fleets looking to recoup maximum value for used trucks often turn first to private-party sales, a sales model free from transaction fees that include consignment costs and commissions.

Large fleets are adept at private sales of used trucks, but they have plenty of built-in advantages, including high inventories, wide varieties of truck makes and models, dedicated used truck sales staffs and the resources to effectively market and advertise their fleet of used equipment.

For small and mid-sized fleets, however, the hidden costs associated with private transactions can thwart even the best-intentioned fleet manager. Once a truck is removed from fleet service and prepared for resale, time is the enemy. The longer your used asset remains unsold, the more you incur in insurance coverage, storage and upkeep costs. Throw in depreciation that can drop a truck's value thousands of dollars each month, and those do-it-yourself savings quickly diminish.

Fortunately, several other sales channels exist to help you unload your used trucks and are worthy of consideration.

## Dealer trade-ins

If your fleet typically purchases new equipment, you likely have an established relationship with at least one truck dealership in your area. Trade-in programs with dealers offer an easy divestment strategy, but that transaction often comes at a cost.

At present, dealer lots are flooded with used truck inventories, and your ability to get top dollar for your used truck trade-in is limited, even as you negotiate new truck orders. "There are very few mega-dealers that can take it on the chin for used equipment, and most smaller dealers don't have the cash to do that," says Darry Stuart, president of DWS Fleet Management.

Even in low-supply market conditions where dealers are actively looking for used trucks, trade-in offer values can't compete with those from private-party sales since dealers require enough cushion when accepting used trucks on trade to cover their own overhead costs and make a profit.

## Auction houses

If you have a number of used trucks to sell at the same time, auction houses can be an attractive bet. They typically bring together large groups of pre-approved and qualified buyers at the same time, creating better opportunities for a quick sale with no negotiation. Auctions come in two forms: reserved and unreserved.

Reserved auctions allow the seller to set a reserve price to guarantee a minimum return on a used truck sale. If no bidders cross the reserve price threshold and the truck doesn't sell, you'll still be charged for any auction-related fees.

Unreserved auctions guarantee your used trucks will sell since there are no reserve prices. Instead, the used truck is awarded to the highest bidder, and you net the winning amount less the auctioneer charges. The main disadvantage is you lose any control over the final sales price in the bid process.

## Third-party buyers

In addition to dealer trade-ins, transactions with third-party buyers offer an expedient means of selling used equipment. Once a third-party buyer agrees to purchase assets, they can make full payment as soon as the trucks pass inspection.

"Auctions certainly have their place, but time is money with used equipment," says Steve Clough, president of Arrow Truck Sales. "Used truck prices don't depreciate every day, but they do depreciate frequently. When we make a decision to buy [from a fleet], we want to get it to ourselves as fast as possible."

No matter which strategy you prefer, Stuart advises not to get locked in to any single sales channel; instead, explore all options for selling used trucks.

"Every transaction, every fleet and every deal stands alone, and sometimes complacency gets in the way of good business," says Stuart. "Make your decision based on the easiest method to dispose of the asset with the best profit or margin."

**"Make your decision based on the easiest method to dispose of the asset with the best profit or margin."**

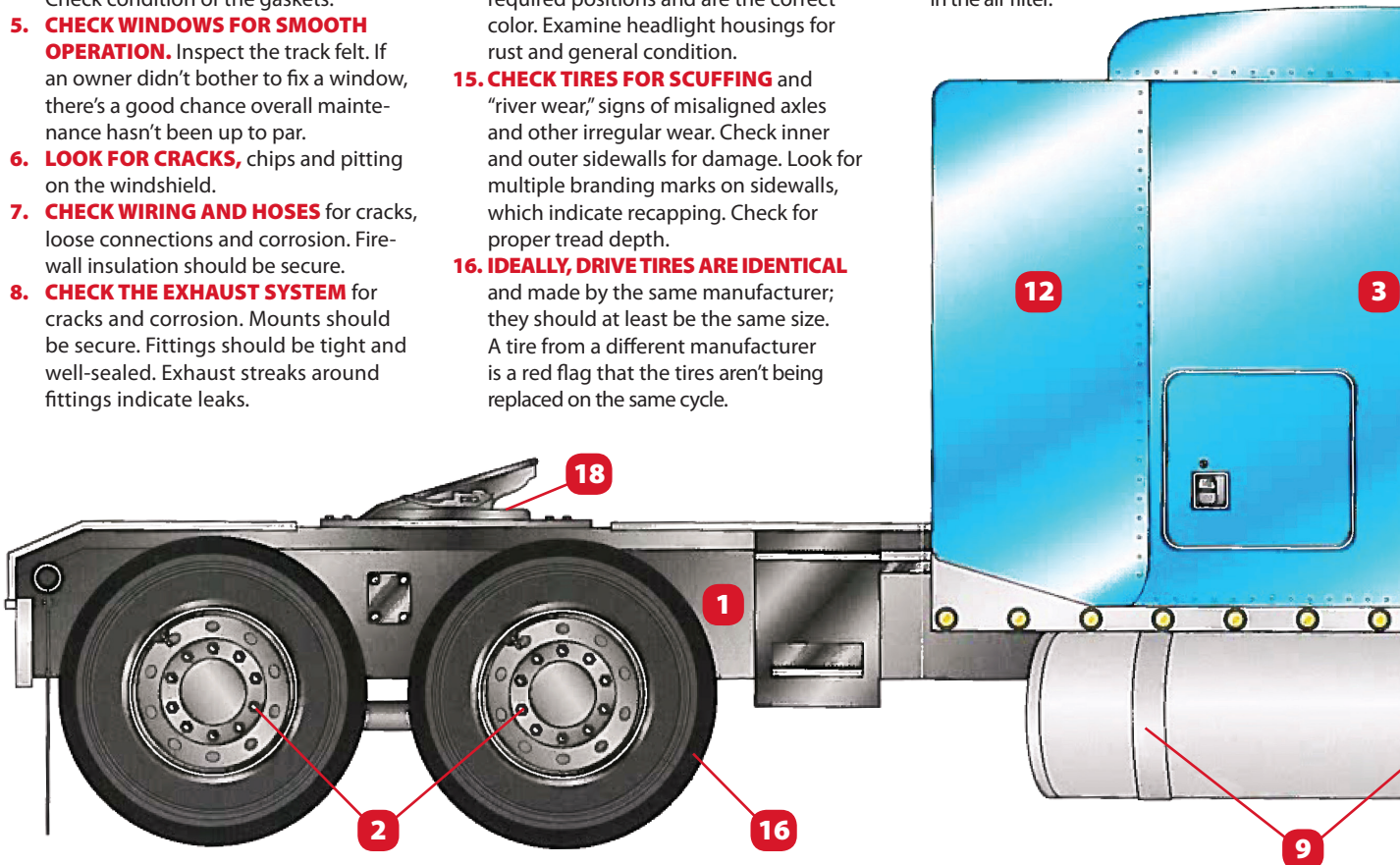
– Darry Stuart, president of DWS Fleet Management

# PREPPING A USED TRUCK FOR SALE

Commanding top dollar for your equipment on the used truck market takes more than cleaning/refurbishing the cab interior and fixing cosmetic blemishes. While those are important, the chart below outlines mechanical items that smart buyers will look for – and you should inspect and repair – prior to the transaction.

## TRUCK

- 1. EXAMINE FRAME** for cracks, welds or bends. Rust bleeding from bolt holes indicates loose bolts.
- 2. LOOK FOR CRACKS** and signs of deformity or attempted repairs on the wheels. Rust around lug nuts indicates slippage.
- 3. RUN YOUR HAND ALONG THE BODY PANELS** to check for proper fit. If the surface feels inconsistent, try attaching a magnet to check for plastic body fillers. Surface rust indicates that structural integrity may be compromised.
- 4. OPEN AND CLOSE DOORS** to make sure they seat, latch and lock properly. Run your hand along the bottom of the doors to check for jagged or rusty edges. Check condition of the gaskets.
- 5. CHECK WINDOWS FOR SMOOTH OPERATION.** Inspect the track felt. If an owner didn't bother to fix a window, there's a good chance overall maintenance hasn't been up to par.
- 6. LOOK FOR CRACKS,** chips and pitting on the windshield.
- 7. CHECK WIRING AND HOSES** for cracks, loose connections and corrosion. Fire-wall insulation should be secure.
- 8. CHECK THE EXHAUST SYSTEM** for cracks and corrosion. Mounts should be secure. Fittings should be tight and well-sealed. Exhaust streaks around fittings indicate leaks.
- 9. EXAMINE FUEL TANK STRAPS** and gaskets for wear and slippage. Check tank itself for wear and leaks. Crossover line, if installed, should be free of fraying and cuts. Shutoff valves should operate smoothly.
- 10. CHECK STABILITY OF MIRRORS.**
- 11. INSIDE THE CAB,** listen for leaks in brake valves. Check seat operation. Make sure drawers, doors and appliances work well.
- 12. CHECK TRAILER SERVICE LINES** and gladhand connectors for damage and leaks.
- 13. NOTE WEAR IN RIVET AREAS** and mounting brackets of sleeper and cab exterior.
- 14. ENSURE LIGHTS WORK** in all federally required positions and are the correct color. Examine headlight housings for rust and general condition.
- 15. CHECK TIRES FOR SCUFFING** and "river wear," signs of misaligned axles and other irregular wear. Check inner and outer sidewalls for damage. Look for multiple branding marks on sidewalls, which indicate recapping. Check for proper tread depth.
- 16. IDEALLY, DRIVE TIRES ARE IDENTICAL** and made by the same manufacturer; they should at least be the same size. A tire from a different manufacturer is a red flag that the tires aren't being replaced on the same cycle.
- 17. CHECK THE RADIATOR** for bent, missing or plugged fins. Look for signs of oil or fuel in water, which could signify leaking injector sleeves. Make sure connections are free of corrosion. If fluid color seems off, the engine probably overheats regularly.
- 18. CHECK FIFTH WHEEL LOCK** by stretching truck and trailer.
- 19. ENSURE THE STEERING LINKAGE IS TIGHT.**
- 20. WATCH FOR UNEVEN STEERING TIRE WEAR,** which can signify alignment or front-end problems.
- 21. JACK UP THE FRONT AXLE** and shake the tops of tires sideways to check for kingpin and wheel bearing play.
- 22. LOOK FOR EXCESSIVE CONTAMINANTS** in the air filter.



## BRAKES AND SUSPENSION

**23. CHECK TORQUE ARM BUSHINGS FOR WEAR.**

**24. CHECK LEAF SPRINGS AND FRONT SUSPENSION** for cracks and wear.

Watch the suspension as the truck is driven slowly across an uneven surface. It should move smoothly and respond quickly. Air springs should have no cuts, gouges or audible leaks.

**25. CHECK BRAKE LINING.** Lining must be no thinner than ¼ inch. Oily stains on the shoes indicate a previously failed wheel seal and potentially oil-soaked linings.

**26. FEEL INSIDE THE BRAKE DRUM,** if so equipped, to determine wear. With the brakes released, tap each drum with a piece of metal to see if it's cracked. Check for corrosion, wheel seal leaks and cracked friction material.

**27. LISTEN FOR LEAKS IN THE AIR LINES**

and brake canisters while someone applies the brakes. Watch the amount of pushrod travel to determine if the automatic slack adjusters are working. Make sure all linkage hardware is present.

**28. WITH THE BRAKES RELEASED,** firmly shake the S-camshaft to determine bearing wear.

**29. CHECK CONDITION OF AIR LINES TO BRAKES.**

**30. LOOK FOR HUB LUBE** on the inside of wheels, which indicates a failed wheel seal.

**INSPECT DIESEL PARTICULATE FILTER**

for cracking and breakage. Test the diesel oxidation catalyst by forcing a regen. If the temperature difference between the two DOC sensors is less than 500 degrees during the active regen, it's probably time the DOC is replaced.

**CHECK THE FUEL FILTER FOR**

**BLACKENING,** which could indicate oil is mixing with fuel through a leaking injector. Check fuel tanks for the same thing.

**IF THE TRUCK HAS DISC BRAKES,** check the actuator and caliper, and ensure the pad makes contact with the rotor. Check condition of the rotor.

**IF YOU HEAR ANY STRANGE NOISES**

after the engine has been running for five to 10 minutes, inspect all electrical lines for abrasions and chaffing. All connections should be secure and corrosion-free. **ccj**

## OTHER TIPS

**DRAIN AIR TANKS AND LOOK FOR OIL,** which can indicate that the compressor should be replaced.

**CHECK FOR LEAKS** in the fuel lines and fittings between the pump and injectors.

**LOOK INSIDE THE OIL FILLER TUBE** for a milky white substance, which indicates condensed water vapor.

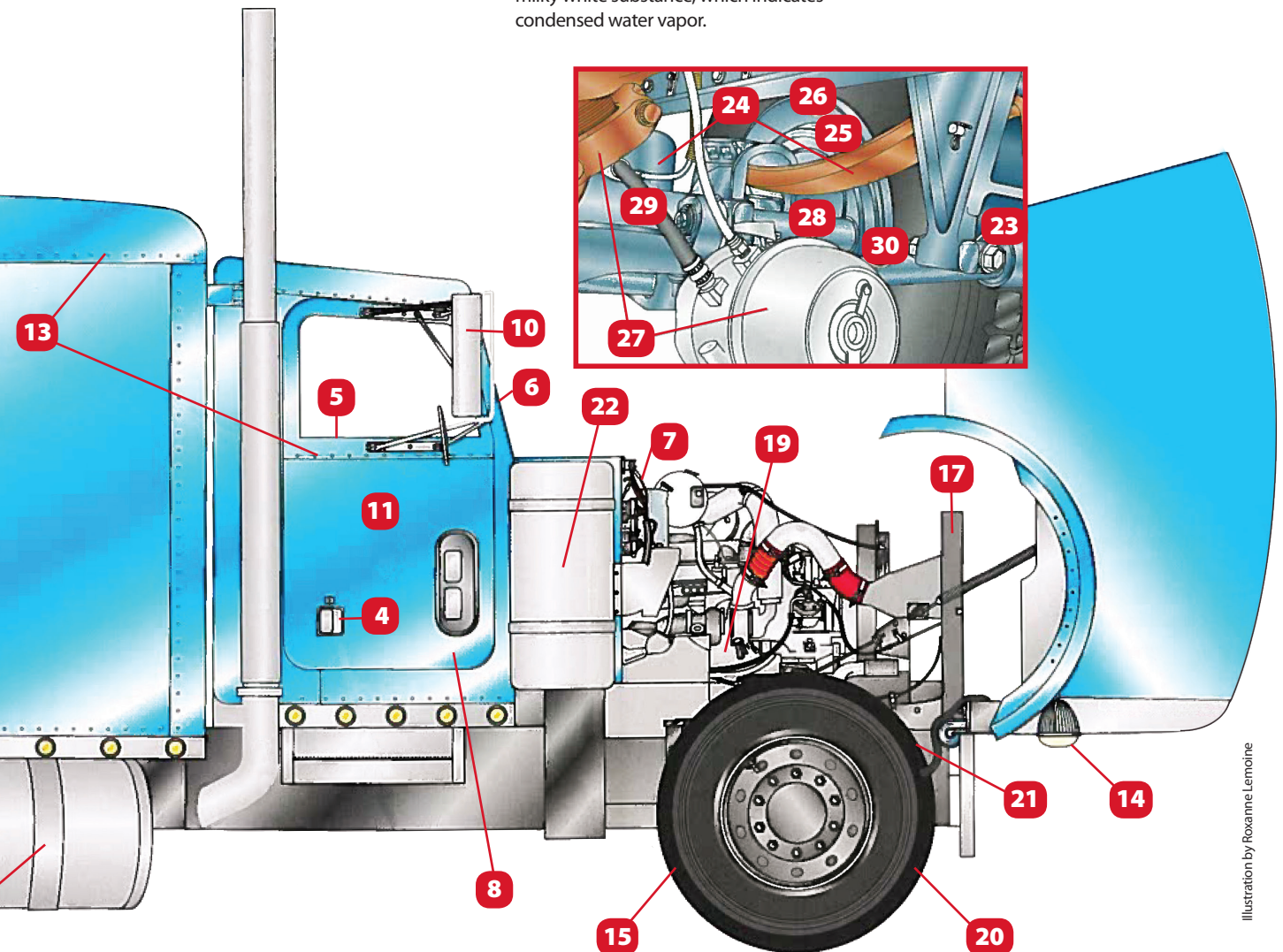


Illustration by Roxanne Lemoine