# Short-term SUCCESS?

**What is the best way to finance a commercial vehicle for short-term use? Peter Shakespeare looks at some options**


Asset finance has, for many years, been how most businesses acquire equipment. Its use is driven in most cases by a lack of affordability, as well as cash flow problems.

In the transport and logistics sector, there are two particularly popular types: a finance lease and an operating lease. Technically speaking, contract hire is a form of the latter; it is most appropriate if the business wants to replace the equipment well before the end of its working life (unlike finance leases, which recover most of the truck's value).

Contract hire or operating leases of three to five years are typical for commercial vehicles. Their popularity comes from industry demand for two potentially contradictory impulses: on one hand, a desire to have trucks in premium condition to meet legislative requirements; on the other, a financial need for fixed regular payments for those assets.

Long-term leasing agreements are starting to seem too high a risk for some operators faced by growing uncertainties in politics, business, seasonal fluctuations and shorter term haulage contracts.

"We are seeing assets financed on two- to three-year deals becoming increasingly popular," says David Potter, managing director of finance firm Asset Alliance (pictured). He continues: "They are typically on full contract hire because it lends itself to the flexibility customers need, addresses the compliance piece and ensures maximum uptime. As we buy the assets with our own money, we want to see the best return. Selling on at 18 to 24 months [does so], because there will still be an element of warranty and R&M package alongside. Also, they are lower mileage."

Asset Alliance sees most short-term acquisition relating to tractor units on two- to three-year deals, while rigids and more complex trailers are best financed over five to seven years. And in fact, the company's business – financing around 1,500 vehicles a year – is split 50/50 between short and longer term deals. Rates depend on term, specification and annual mileage. Potter says that typically a five-year deal on a tractor unit based on 110,000 to 130,000km a year would represent the lowest cost. If higher mileage is needed – 160,000 to 170,000km per year – a three-year deal is about the optimum, because the truck retains a relatively high residual value at the end of that time, he says.

The picture is similar at the leasing arm of OEM Scania. Tom Brewin, marketing manager of Scania Financial Services, states that a lease of 480,000km over three years for tractors is the optimum term. And he echoes David Potter's view on rigids. "Often the body is the determining factor; some very high-value specialised ones outlive the full life of the chassis," he says. Scania Financial Services will typically fund the whole package on a rigid, but normally over a much longer term than a tractor unit.

## NO RULES

But there are no hard and fast rules. Some smaller hauliers find a two-year contract hire deal best suits their operation because of the reliability a new, dealer-maintained vehicle brings.

Even shorter-term deals are available in some cases. Asset Alliance's 18 months-and-under package is called Flexi-Hire. In certain circumstances, a vehicle will be supplied for a minimum

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of one year, with the likelihood it will be retained for longer. The customer pays a premium for the first year and will have to commit to extend or return the vehicle well before the year is up.

After the first term, customers can take the vehicle on contract hire – should they want to maintain the vehicle themselves – or hire purchase if they ultimately want to own it.

For an 18-month term, spot hire may cost less than contract hire. However, Potter cautions that most spot hire vehicles are four- or five-year-old, high-mileage examples, which could prove costly in terms of uptime and fuel bills. Operators must look at the whole life cost and not solely focus on the monthly payment, he urges.

Self-funding or borrowing money from a bank to make an outright purchase is another option to fund short-term acquisition. A notable exponent of this approach is Maritime Transport. It purchases its own fleet, runs the trucks for 18 or 24 months and then sells them into second life through its own used truck business. As interest rates remain low, it has clearly made a convincing business case for this strategy. But the very popularity of contract hire would suggest that this is not an option open to many road transport firms.

A third route is to acquire vehicles through an OEM. For example, Scania Financial Services will finance acquisition of Scania and other truck marques for terms as short as 12 months, based on a purchase agreement where customers have a large percentage of equity in the vehicle. To give customers more control and flexibility, Scania offers a product that allows customers to overpay when cash flow is good and to take payment breaks if they are having a lean month.

For Scania, contract hire starts at three years; anything less will be referred to Scania Rental, according to Brewin. This separate part of the Scania business does offer fully serviced, short-term contract hire, as opposed to spot hire. However, he says that short-term acquisition is more expensive because all the depreciation is front-end loaded, and cannot be spread out over a longer term to reduce the regular payments.

Another acquisition option is used vehicles, which Scania also offers. As they are coming off of contract hire, and are typically three to five years old, a lease can be funded more affordably over a shorter period, given their condition. Purchase is also an option, if buyers want to take on the disposal risk.

A new service nearing launch from the truck OEM applies to used vehicles. 'Rent to Buy' will allow customers to initially rent the vehicle for an initial 12-month period, with the ability to hand it back with three months' notice, or to move the agreement to a two-year hire purchase agreement. According to Brewin, its hire purchase repayments will be lower than rental costs.

In conclusion, there is no definitive answer to the question of the best way to finance a commercial vehicle for short-term use. There are so many variables that determine the whole life cost of the term. Any short-term lease of a new vehicle will carry a premium. Spot hire carries the risk of reliability issues. Like many things in the road transport industry, the best solution is the one that works for an operator's particular circumstances. The best advice is shop around. TE