To buy or not to buy

Financial constraints continue to worry transport operators, so sometimes the best approach to commercial vehicle fleet revitalisation may not be buying new. John Challen looks at finance and leasing opportunities

Despite increased sales of LCVs and HGVs following the recession-hit years of 2008/2009, the commercial vehicle market is still lacking in confidence. Fears of a double-dip recession, as well as much publicised recent crises within the Euro Zone, have seen off any change in the contagion of caution that has increasingly afflicted growing numbers of fleet managers, faced with difficult decisions over vehicle investments.

However, there is no doubt that more flexible purchasing options, such as certain finance deals and lease packages, are helping some fleet managers to overcome their angst. One beneficiary is Hitachi Capital, which has witnessed a 96% increase in sales, year-on-year, from transport operators moving to this path, rather than buying their vehicles outright.

"A lot of companies, even multi-nationals, are tending to keep hold of their cash, but are still looking at acquisitions, rather than investing in depreciating assets," comments Jon Lawes, divisional managing director of Hitachi Capital's dedicated commercial vehicle site.

"The beauty of contract hire with maintenance, which is our core product, is that someone else makes the large capital outlay in the beginning and just charges a monthly cost. So you can have fixed contracts where you can match expenditure with the income stream you are going to receive from your customers," he adds.

The idea of allocating fixed costs to the budget sheets over the life of a vehicle, as well as eliminating any risk and residual values from the equation, is proving increasingly popular with operators. It is also an approach that has seen Hitachi Capital put an extra 2,500 commercial vehicles on the road this year, compared with 1,300 in the previous 12 months. Lawes explains that the company now has 24,000 vehicles in service, half of which are owned by Hitachi Capital, and the other half fleet managed for customers.

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If you're not looking for a long-term finance relationship, there are alternatives – such as epyx's 1link Hire Network, to which Marshall Leasing has recently signed up.

The web e-commerce platform is designed to create an efficient route through which commercial vehicle fleet managers can do business with daily rental suppliers. A variety of tools allows hire booking to be controlled with a fine degree of detail. For example, small van hire in a certain geographical area can be allocated to a specific supplier, with others specified as back-up. Panel van hire in a different area can also be linked to a different daily rental company.

"As a company, we choose the technology we adopt very carefully, with the aim of reducing processing costs and increasing service standards to our customers," comments Martin Brown, operations manager at Marshall Leasing. "In line with the other 1link platforms that we use, Hire Network will allow us to meet these objectives."

Under the terms of the deal, 1link Hire Network will allow Marshall to handle bookings and invoicing online for the first time. Brown says it will replace earlier software and create a process that is faster, lower cost and more accurate.

"Typically, our biggest growth has come from large corporate organisations," he reveals. "For example, we recently signed DHL and Pilkington Glass as customers, and we handle 25% of Asda's home delivery fleet. These deals have come in addition to further growth in the contracts we have with many long-standing clients. All customers are tending not to buy new vehicles, and we are seeing more and more people challenge what they currently do and review their current providers."

Lawes believes this fresh approach to vehicle acquisition is especially true in the public sector. "A lot of local authorities and government agencies have to reduce their costs and improve their efficiency. They can only really do that by discontinuing what they currently do," he says. "The leasing and fleet management approach will help improve what they can achieve in that market."

One-stop shop

Beyond the finance dealings themselves, though, Hitachi Capital is also able to handle all of the processes involved with building a leased fleet, maintains Lawes, who urges operators to look at all available options when considering alternatives to outright vehicle purchase.

"If you are running 500 vehicles and the fleet manager makes changes to cut downtime, you may only need 480 vehicles. This is typical of the situations we are increasingly dealing with," he says.

"We focus on bringing down vehicle whole life costs, making sure it is compliant and reducing downtime. We also offer design and specification services, and build the vehicle," explains Lawes.

"We have engineers who undertake this work to help improve productivity. They pay for the vehicle, arrange delivery and then, when it is in operation, manage the compliance, downtime and overall costs." Lawes adds that Hitachi Capital is aided by 650 approved garages nationwide, as well as a network of engineers tasked with auditing them to make sure the required standard of garage work is maintained.

"We offer leasing lengths of between three and 10 years," he adds. "We work out the economic useful life [or whole life cost] and recommend the best type of lease that works for the operation to the customer, after conducting our own analysis."

The Euro 6 factor

Interestingly, though, there is another factor starting to influence fleet managers' decision-making when it comes to procuring new vehicles – and that concerns changing engine emissions legislation. "A big challenge for us, as well as fleet managers, is the upcoming introduction of Euro 6, because of the additional costs associated with achieving compliance on trucks," he observes.

"A lot of our customers are now looking at acquiring Euro 5 vehicles early, to save paying those extra costs." Not that tractor units have been, or will be, a big part of Hitachi Capital Commercial Vehicle Services' business, he concedes. "Typically, our trucks are specialist vehicles, with, for example, a crane attached or specialist bodies," explains Lawes. "We are not in the distribution market, as fleets there tend to buy straight from the manufacturer and will probably continue to do so. But, although it is difficult to say what will happen in the future, I think our growth [in van acquisitions] will continue."

With registrations of more than 300,000 vehicles per annum for vans and around 50,000 for HGVs, it stands to reason that there is plenty of potential for finance companies to grow – but manufacturers are also keen to get in on the act.

Packages such as Agility, from Mercedes-Benz, Iveco Finance, MAN Financial Services, Volvo Truck Finance and PACCAR Financial, for DAF vehicles are proving popular – and, in the used market, the story is much the same. For example, Volkswagen Van Centres recently offered interest-free finance deals for 12 months on selected Caddy and Transporter models, available in the company's used van scheme and, according to the company, given the initiative's success, similar offers could well follow in 2012.