Financial times

With ongoing cash-flow constraints, and faced with the rising cost of vehicles, more operators are turning to finance and leasing options. John Challen examines the options

The recession may have passed, but the hangover lingers on for many in transport. So, hamstrung by increased operating costs, but, at the same time, looking to increase efficiency and reliability, fleet bosses can be thankful for finance and leasing businesses – which are thriving.

One of the major players in the market, Hitachi Capital, has increased its business by 100% in the past four years and is hoping for a further 50% in the next four, according to Mike MacDougall, UK head of commercial vehicle sales. "We've got a prospect evaluation process and we engage with the customer to assess their needs," he says. Indeed, in some cases, a team is placed with the operator to find ways of improving efficiency and saving costs.

"We go out with drivers and look at what they are putting in the van and how they are using it," explains MacDougall. "We might downsize the van – someone might be using a long wheelbase, hi-roof Transit-sized van, but when you look at the space or payload, you can spec a smaller vehicle that is more suitable, fuel efficient and cost effective."

Value for money

MacDougall explains that operators can choose from five finance options, ranging from a set-up similar to a third-party logistics contract to straight leasing. "Not everyone fits into those five," he concedes. "Sometimes you have to build a hybrid."

The type of financial product is very dependent on the operator and its fleet size, says MacDougall. "Larger fleets are looking for [online data] where they can see compliance, downtime and fleet costs," he explains. "On a large fleet, not having this information can affect their business, but, in smaller companies, everything is handled by the transport manager."

During the recession, Hitachi Capital has backed away from smaller companies, because of the risk, admits MacDougall, but he reveals that, from April next year, the firm will be targeting SMEs (small to medium enterprises) with a new offering. Among other things, this will enable customers to 'build' vehicles, and specify them, via the company's website. "This will allow them to get an indication of what the rental costs will look like," he explains.

Interestingly, he expects an increasing demand for larger vehicles, driven by new legislation. "We've seen a move towards 18 tonners, but people seem to have missed out the 10 to 12 tonne market." His theory: "When you've got 7.5-tonnes, Euro 6 alone means adding around 400kg, which brings payload down and can cost, for some vehicles, an extra £4,000–7,000. When you look at the total cost of one of the trucks, and how much more you can get on them and earn from them, it is more beneficial to train their drivers up to 18-tonners."

The smart money

Once on a financial package, though, it's worth watching what you're doing. One worrying trend – letting LCV contracts slide past their renewal date – makes little sense, compared to opting for a new vehicle, according to GE Capital's Fleet Services division.

"This is different to the contract extensions that occurred during the 2008 recession," explains Simon Cook, LCV commercial leader for GE Capital UK. "Then, companies were battening down the hatches. The 'renewal apathy' we see now is caution prompted by much milder economic uncertainty.

"However, this tendency to let renewal slide in the belief that it will save a few pounds is usually a false economy, because a new van is often the more cost-effective choice," insists Cook. "When customers talk to us about potential contract extensions, we sit down with them and crunch the numbers. In many cases, going for a new van is cheaper." TE