There's money to be saved and deals to be struck on new commercial vehicle purchases. Laura Cork checks out the bottom line on fleet finance

Funding the driving force

Some transport operators are understandably still reluctant to purchase new trucks and vans. Others, however, are investing in replacements, gaining all the benefits of fuel and cost saving, not to mention improved reliability. Many also stick with their favourite marques – and many others may steer towards their favoured means of finance. But the recession has driven a change in the provision of funding, with finance providers clamouring for your business, so it could be time for a rethink.

Arguably, some of the best deals to be had are with the manufacturers' in-house finance divisions. After all, their primary aim is to help shift as many vehicles as possible for their parent company. Their USP, they say, is that they not only know the vehicles inside out, but they also understand the challenges faced by fleet operators.

"The banks have dipped in and out of this market, and they can't tailor their products as easily as we can to fit the needs of the customer," says Alex Matthews, who heads up Mercedes-Benz Financial Services (MBFS). So it's not the banks that like to say yes, he'd claim, but businesses such as his.

As well as sector and vehicle knowledge, he highlights the benefits of the one-stop shop approach: "If you buy from us and finance through us, there's only one set of documents to sign when you pick up the keys. Our package is competitive, not only in terms of finance, but also the residual value, and the repair and maintenance element... We've had to get competitive on finance because we want to help sell more vehicles."

Terms typically range from two to seven years, either underpinned by residual values or fully amortising deals. Contract hire remains popular – at Mercedes-Benz, it's also promoted under the Charterway brand – but providers have also come up with bespoke products to meet market demand.

The MBFS version is called Agility. It's been around for a while, but business uncertainty during the economic downturn has seen operators seeking a more flexible solution. Agility now accounts for around 20% of MBFS's business – up from a single-digit share pre-recession. In essence, it's a contract purchase deal, with bells on: "At the outset, we guarantee the future value of the vehicle and, when the contract finishes, the customer has several options," Matthews explains. "If you want to keep the vehicle, you pay us that guaranteed value and you own it outright. But if you want to hand it back, there's nothing extra to pay. Or you can trade it in for another vehicle and use the equity as part-exchange on the new one."

Sounds appealing? And if you have to take on new vehicles to service a contract that you're unsure

The finance options

Some finance providers use slightly different terms for the same product, so check the small print. However, the main types are listed below.

Contract hire
Vehicles are hired for a predetermined period at a fixed monthly fee, which often – but not always – includes add-ons such as R&M. The finance is off balance sheet and the vehicle is returned to the provider at the end of the hire.

Finance lease
An on-balance sheet package, where the provider retains ownership of the vehicle. At the end of the term, the lease can usually be extended or the vehicle is returned to be sold.

Operating lease
An off-balance sheet option, the vehicle is provided for a fixed monthly fee and ownership is retained by the provider.

Hire purchase
This appears on your balance sheet and enables you to purchase a vehicle over an agreed period, paying a monthly fee. There's usually a balloon payment at the end, although the monthly payments can be increased, if you don't want to be hit by that.

Contract purchase
Similar to hire purchase, it's another on-balance sheet option. Generally, this has lower monthly payments than hire purchase and the vehicle can be purchased with the final payment or returned to the provider.

will be renewed, flexibility in the finance arrangement will certainly be a boon.

DAF Truck's in-house finance arm, PACCAR Financial, is also funding more truck sales than it did at the onset of the financial crisis. Managing director Steve Barfoot points to the banks' increasing reluctance to lend, particularly to transport, as a key reason. And, over at MAN Financial Services, CEO Peter Collins agrees: "We're far more likely to understand an operator's business and assets than the grey, beleaguered banking sector, which is currently trying to deliver a government policy without having to take any risk."

Sum of the parts
More and more customers, they all say, want packaged solutions that include finance, repair and maintenance – and, when the time comes, someone else to take control of the vehicle's disposal.

That said, unbundling fleet finance costs could save you a packet. That's the claim made by BT Fleet which, as well as running its own Openreach division, offers fleet management, maintenance and finance services for a host of other operators. Its stance is that there are real savings to be had from separating fleet services, such as maintenance and breakdown recovery, from standard leasing contracts.

It does this by taking on what it describes as 'multi-panel bid funding' for its customers – finding the most competitive provider for each vehicle type in a process where the finance provider bids for their preferred part of the contract. The result? Up to 20% difference in cost across the nine leading companies is the impressive claim.

Operators can also punch above their weight by sourcing finance through a leasing specialist. Mark Anderson, vehicle finance director at Academy Leasing, says his firm can secure better deals than if operators go direct. "For example, if a customer wants 50 Berlingos, we would go directly to Citroen and negotiate a better deal with the manufacturer," he asserts. "This has worked well for a number of our clients."

Anderson says the cheapest method to fund new vehicles is still contract hire. And choosing the right term removes other costly pitfalls: "Around 50% of light commercial vehicles on the road would fail their MOT, which obviously represents a problem for operators," he points out. "So, for example, a three-year contract hire would ensure all servicing is covered and the vehicle wouldn't even need an MOT before the end of the term."

Pick the right vehicle and the returns should roll in, with lower maintenance costs and fuel savings, too. But there's also the issue of compliance, says Anderson, indicating the looming spectre of emissions-based taxation on vans. "Currently, there is a flat rate of £3,000 for benefit in kind, but this could soon become emissions-based, raising the cost for those who still operate older, less efficient vehicles."

As for trucks, Euro 6 has been driving new vehicle sales, though operators have largely split into two camps – those who want to dive in and those who prefer to wait and see. "With Euro 6 acquisitions, there are other considerations to take into account," notes Barry Hymers, managing director of broker LHE Finance, part of Dawsonrentals. "The technology is so much more advanced that non-manufacturer R&M becomes a perilous undertaking. And, if you're going to spend the additional amounts for Euro 6 vehicles, wouldn't you also want to make sure your drivers are performing as well as the vehicles? So the extra cost of fleet management systems needs to be weighed up."

Brokers, he argues, can help operators to build a credible proposition that can be the difference between success and failure. "And remember, it's not the operator who pays the brokerage fees, but the lender," he points out. Firms like his have a panel of funders to call on – with an appetite for the sector.

Whether you choose manufacturers' in-house finance, banks and asset finance firms, or leasing specialists, there are real deals to be had. It pays to shop around.