

MONEY

TALKS

For fleet managers who have delayed vehicle acquisitions, now could be the time to seize the efficiencies offered by new technology. And, for some, combining outright purchase and contract hire is an effective choice, as Laura Cork discovers

The well-documented decline in truck registrations since the start of 2014 – attributed to the pre-Euro 6 surge late last year – could finally be over. Figures from the Society of Motor Manufacturers and Traders (SMMT) reveal that truck sales soared 66% in October, compared to the same month last year. And, while the SMMT sounds a note of caution about reading too much into one month's results, it is surely an indicator that the tide may be turning.



So, for operators looking to cash in on the efficiencies offered by Euro 6 vehicles, how best to fund these? Purchase and contract hire have long been the two favourite financing methods for all commercial vehicles, but it's not a case of all or nothing. Mixed funding policies can also work.

For some operators, contract hire holds particular appeal if they already outsource vehicle maintenance, since the monthly fee delivers vehicle and service in one neat number. In contrast, for others with their own workshops, taking new vehicles on contract hire relieves the strain for in-house technicians faced with maintaining ever more complex technology.

Let's look at two examples: transport and distribution business Anglia Freight, which uses a third party maintenance provider, and animal feed manufacturer Harbo, which maintains vehicles itself. Both made their first move from outright purchase to contract hire this year – and both, interestingly, have decided to keep their purchasing strategy mixed, with



a foot in both contract hire and purchase camps.

First to Anglia Freight. The Eye, Suffolk-based operator was facing a problem earlier this year – several vehicles in its 35-strong fleet were ageing and, with additions needed, finance director Doug Shawcross saw an opportunity in contract hire to spread some costs with a fixed monthly price.

Split purchasing

“During 2014, we have acquired six 18-tonners and six tractors,” he explains. He split the acquisitions, buying three tractors outright from Mercedes-Benz, and taking the other three tractors and six 18-tonners – all Renault vehicles – on a five-year contract hire through BRS. “We've been running Renaults for a while and have been hearing good things about the Euro 6 vehicles, so we wanted to bring them on board,” explains Shawcross.

The timing of the call from BRS was perfect, he adds. “BRS approached us and they were able to offer the package we were looking for, as well as great value for money.” What's more, BRS has taken over management of vehicle inspections and servicing. “We spend a lot on servicing, so to have that cost wrapped up in the monthly fee was very appealing,” confirms Shawcross. This is all the more important with high-mileage vehicles: Anglia's latest additions are contracted for 140,000km per year.

The company's existing service provider was Roy Humphrey, also based in Eye, and as the local Renault Trucks dealer, it will also look after the new



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vehicles. "We already had the relationship with Roy Humphrey, but there is an added management benefit for us, with BRS controlling that account," comments Shawcross. And as finance director, he needed no convincing of the benefits of a fixed-price deal. "A contract hire arrangement is all-encompassing. You know exactly where you are in terms of budget and there are no hidden extras."

The vehicles are now all in operation, with the last three delivered in September. And, while these are early days, Shawcross is confident that BRS will deliver on its promises: "We have built a rapport with Mark Pitcher, our contact at BRS. He has continued to manage our relationship rather than handing over to a service team, and that's important to us."

Looking ahead, Anglia Freight will, says Shawcross, continue with this split strategy for outright purchase as well as contract hire, basing each decision on factors such as current market conditions and residual values.

Food for thought

While Shawcross accepts that the inclusive service element of contract hire may be of limited appeal to operators with an in-house maintenance capability, in fact this was one of the draws for Billy McTavish, transport and logistics manager at livestock feed manufacturer Harbro. The Turriff, Aberdeenshire-based firm has taken delivery of its first Mercedes-Benz vehicles – three Actros 2551 BigSpace tractors – and the acquisition marks a change in buying

Units of measure

A recent convert to contract hire is Drinks Enterprises, which has been hiring trucks from Ryder on short- and long-term rental since it was established in 1997. Earlier this year, the alcoholic beverages specialist took five Euro 5 derogated trucks – all 26-tonne curtainsiders – on a five-year contract hire deal from Ryder, which includes maintenance.

"Fixing our transportation costs for the next five years gives us more certainty over our outgoings and helps with future planning for the business," says Rashpal Jabble, co-founder and managing director.

The trucks are based at Drinks Enterprises' Southall, West London depot, and will be maintained by Ryder at its nearby Feltham location.

strategy, with the vehicles acquired via CharterWay contract hire agreements through Mercedes-Benz Financial Services. "Previously, we've bought outright and done our own maintenance," explains McTavish, but the support package and competitive rates made contract hire a "very attractive" package.

When he joined Harbro a year ago, he decided to re-evaluate the company's choice of vehicle suppliers, their products – and its purchasing strategy. "Vehicles represent a large investment and the technology is more complex, so it becomes more and more challenging to maintain them in house."

Harbro's new policy, says McTavish, is to fund replacement "standard" vehicles – as he describes tractors and curtainsiders – with contract hire, and to use outright purchase for specialist vehicles, such as blower trucks, used to deliver feed to farms. "We'll continue to buy and maintain the specialist vehicles in house. They are a special build and we run them for longer to get maximum value," he explains.

The new Actros vehicles are delivering an impressive fuel performance – beating Harbro's fleet average by 12%. But while fuel efficiency was a major consideration, so too was reliable support. "We focused on the quality of the back up... We weren't just looking for a vehicle supplier: we wanted a partner to support our transport needs," he explains. Local dealer Mercedes-Benz Commercial Vehicles Aberdeen supplied the vehicles and will undertake all inspections and maintenance for Harbro.

But, while the opportunity to leave Euro 6 servicing to the experts was a factor in his decision, McTavish says vehicle type will determine the funding choice. "We will use contract hire for off-the-shelf vehicles. It gives us worry-free vehicle operation and we know exactly what we'll spend on that vehicle during the course of the agreement."

Like Anglia Freight, mixed financing will continue for Harbro. "We have a fleet of 48 vehicles and, long term, I would see that being split 50-50 between outright purchase and contract hire." **TE**