SUBJECT MATTER
ADVICE ON THE BENEFITS OF FINANCE LEASING

RELEVANT TO
FLEET DIRECTORS, FINANCE DIRECTORS

BOOMING across Europe

Patrick Gill, Country Manager - Ireland for Key Equipment Finance International, explains why transportation is one of Europe's fastest growing leasing markets.

There has been a rapid rise in new vehicle registrations across the continent recently. The Association des Constructeurs Européens d'Automobiles (ACEA), recently stated that EU and EFTA registrations for new heavy commercial vehicles (over 16 tonnes) grew by 10.1 per cent and those for new medium and heavy commercial vehicles (over 3.5 tonnes) by 5.9 per cent in the first quarter of the year.

In addition, recent statistics from Leaseurope, the European Federation of Leasing Company Associations, demonstrate that, at €125 billion, cars and heavy commercial vehicles (HGVs), constituted the largest segment of the European equipment leasing and hire purchase market during 2005, up over 18 per cent on the corresponding figure for 2004.

This growth is primarily due to the fusion of three trends. First, today's manufacturers are more inclined to present their products on a rental basis to customers. By factoring a residual value and other support packages into the equation, they can provide a much broader added-value offering to their customers.

Second, there is the high level of awareness about transportation among lessors. The automotive market, in particular, is exceptional in providing a raft of sales statistics broken down by manufacturer and vehicle category. In parallel, significant levels of commercial data are available on current and future vehicle residual values.

As a result, lessors can become well informed about key industry trends and those vehicle types, both new and used, that are performing well. This knowledge helps both to mitigate lessor risk and make vehicle leasing more appealing.

Finally, from the customer perspective, there are several issues driving a greater uptake of leasing across Europe. Within any large fleet operator, there will be many decision-makers or stakeholders for the lessor to consider, from logistics and operations directors to engineers and from chief executives to chief financial officers (CFOs) and financial directors (FDs). Lessors must obtain buy-in from all these groups.

CFOs and FDs tend to focus on cash flow, depreciation and accounting rule changes which have helped to take operational leasing off the balance sheet, therefore making it more attractive for lessees. Conversely, operations directors will be more interested in the low periodic rental and vehicle holding costs that an asset finance option provides.

Leasing is rapidly becoming the "product of choice" throughout the transportation sector.

Operators are also increasingly aware that choosing a leasing option means that they do not need to be involved in vehicle disposal and do not carry residual risk at the back-end of the finance agreement. Taken as a whole, these factors are helping to ensure that the historical "must own the asset" mentality is steadily losing ground among lessees. Leasing is rapidly becoming the "product of choice" throughout the transportation sector.

A RAFT OF BENEFITS

Companies can achieve a wide range of benefits by opting for a leasing approach as a vehicle acquisition mechanism. One of the most important is the ability to conserve cash within the business. Paying cash for vehicles, or even making large down payments, can deplete reserves and could, in certain circumstances, ultimately lead to the business failing if insufficient funds are available to pay off creditors on demand.

Leasing allows companies to retain their cash by eliminating the need for down payments. Also, the majority of leasing contracts in the transportation sector are fixed-rate, which means that the CFO will have known costs to manage for the period of the lease, making budgeting and forecasting relatively straightforward.

Equally, owner-operators can optimise budgets by taking advantage of the flexible payment structures available. Leasing comes in many different forms, which can be tailored to meet a customer's precise requirements. Today, options exist that let users design a financing plan around the needs of their business, whether the priority is guaranteed ownership; specified purchase options or varying monthly payments to match seasonal cash flow.

CHOOSING A LESSOR

So once the decision has been taken to go down the leasing route, how do vehicle operators decide to which lessor they are best suited? For those operating "cross border", there are significant benefits in working with lessors who have a presence on the ground in a large number of European countries.

To successfully offer operators a consultative approach requires face-to-face contact and lessors need to be able to deploy country-specific teams expert in local law, local tax and accounting processes as well as the local business culture.