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TRANSPORTATION LEASING

Europe is booming for transportation leasing

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Transportation is one of Europe's fastest growing leasing markets with new vehicle registrations booming across the continent recently. According to figures from the Association des Constructeurs Européens d'Automobiles (ACEA), EU and EFTA registrations for new medium and heavy commercial vehicles (over 3.5 tonnes) rose by 5.9 per cent in the first quarter of the year and those for new heavy commercial vehicles (over 16 tonnes) grew by 10.1 per cent.

In addition, recent statistics from Leaseurope, the European Federation of Leasing Company Associations, show that, at €125bn, cars and heavy commercial vehicles (HGVs) made up 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 the result of a combination of three key trends. Firstly, today's manufacturers are more inclined to present rental options to customers rather than just trying to complete sales on purchase price terms. By factoring a residual value (RV) 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 that exists within the lessor community. The automotive market, in particular, is exceptional in providing to the public 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 RVs.

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

Finally, there are several issues driving greater customer uptake of leasing across Europe. Within any large fleet operator, there will be many decision-makers or stakeholders for the lessor to consider. And to be successful in pitching for new business, the lessor must obtain buy-in from all these groups.

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

There is also a growing realisation among operators that opting for a leasing option means that they do not need to be involved in the disposal of the vehicles and do not carry the residual risk at the back-end of the finance agreement.

Taken as a whole, these factors are helping to ensure that the traditional 'must own the asset' mentality is steadily losing ground across Europe. Leasing is rapidly becoming the "product of choice" throughout the transportation sector.

A myriad of benefits

Companies can achieve a wide range of benefits by opting for the leasing approach as a vehicle acquisition mechanism.

Leasing enables companies to retain cash by eliminating the need for down payments, and most 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 many flexible payment structures available.

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

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. An effective 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.

It is also more advantageous if the lessor can draw on experience and knowledge obtained outside Europe, as well as leverage methodologies from a country such as the United States, where road transportation is such a significant part of the economy.

Lessees should seek out flexible lessor partners who understand how all the key market issues affect the business and can demonstrate an ability to customise a solution to the operator's specific needs. Lessors in the sector demonstrate flexibility in this way by taking residual value risk on their own account. This capability is particularly beneficial when it comes to accommodating the needs of customers at the end of the primary lease term.

With current extended lease times on new vehicles, operators need to work with sympathetic lessors who can accommodate lease extensions.

Of course, as in all leasing categories there is still some pressure on margins in the transportation sector. Lessors can address this by ensuring they add value in the asset management process. Certainly, the market is moving in this direction with the success of contract hire arrangements (effectively an operating lease with bundled services). Key Equipment Finance is a leading advocate of such an approach across all sectors and has significant experience both in Europe and in the US.

Bright future

Several factors are coming together to drive interest in asset financing options from lessors, lessees and manufacturers alike. As a result, the obvious benefits of the leasing model are becoming too difficult to ignore.

Having made the decision to acquire their vehicles in this way, operators in the transportation sector are now increasingly focused on selecting a lessor with the experience and expertise to support their growth and enable them to meet their long-term business objectives.

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