



Strategic leasing

What is turning some truck buyers into truck leasers?

BY WENDY LEAVITT, DIRECTOR OF EDITORIAL DEVELOPMENT

Truck leasing used to be all about meeting unexpected equipment needs for a relatively short time. Today, it is a long-term business strategy, not a short-term tactic for an increasing number of fleets, and the typical full-service lease agreement involves much more than just equipment. The Truck Rental and Leasing Assn. (TRALA) estimates that 1,003,160 leased or rented vehicles are currently in operation, about 31% of them through full-service lease agreements.

"Leasing is stronger than ever," observes John Deris, vp-sales for Ryder System's Fleet Management Solutions Central Region (www.ryder.com). "Events of 2006 alerted a whole new group of fleets to leasing for the first time. Even without the added costs and uncertainties

caused by the 2007 emissions standards, the expense associated with owning and maintaining a fleet is no longer a predictable number. As a result, people who have never considered leasing before are considering it today.

"People used to call us up and say,

"I need a truck right now," he recalls. "Today we are seeing a much more strategic approach to leasing. That means leasing decisions are reaching the CEO, CFO and COO levels. Leasing has become a long-term, strategic move for a company, not just a tactic to deal with an immediate need."

"Our sales were up significantly in 2006 and about 62% of that new business came from the ownership market, from companies that used to buy trucks," notes Jim Molinaro, senior vp-sales for Penske Truck Leasing (www.gopenske.com). "That percentage is consistently growing, too. The need to manage costs and improve productivity is driving former buyers to leasing. It has always been that way, but whenever the economy softens, the need becomes more acute."

"We expect our leasing fleet to double by 2010," notes Olen Hunter,

director of sales for PACCAR Leasing (PacLease) (www.paclease.com). "Our customers are constantly challenged to increase productivity and reduce operating costs and leasing helps them to do that. With just-in-time operations, for example, a hiccup anywhere in the system can create huge expenses."

"A perfect storm of factors is driving the growth in leasing," adds Deris. "Even some larger fleets are exiting ownership now. There is a real shake-up going on today — a tremendous market shift."

There are a number of very specific issues swirling together to create the perfect storm that is driving so many new fleet customers to full-service leasing. They include the shortage of trained diesel technicians, the growing complexity of the trucking business, ever-changing regulations and the need to understand and deploy new technologies in order to stay competitive, not to mention all the usual worries about managing risk, improving customer service, safeguarding profitability and growing the business.

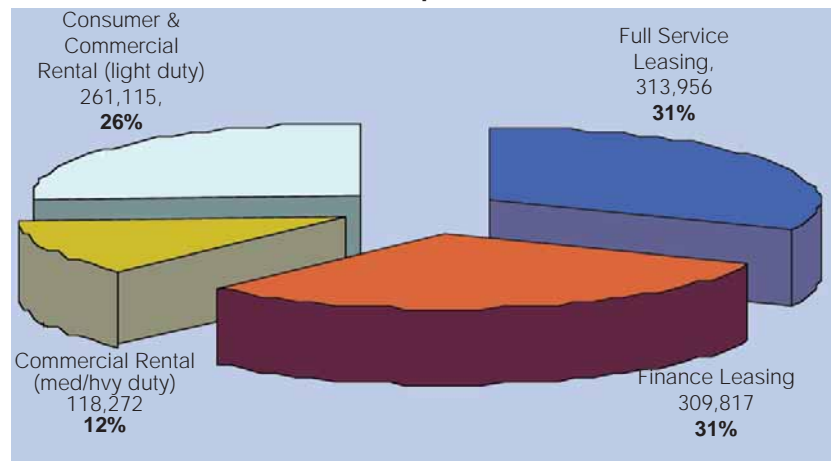
THE LABOR SHORTAGE

If industry forecasters are correct, trucking will be shy some 38,000 technicians by 2010, so it is no wonder fleets are ready to augment their own labor pool with help from leasing companies. "The technician shortage is a big issue," Peter Vroom, president and CEO of TRALA, recently told Fleet Owner. "The skills needed to work on trucks today are completely different than in the past. With technicians harder to find, leasing looks more attractive from a maintenance perspective."

Rollins Orkin Inc. is one fleet that has seen the benefits of outsourcing maintenance to a leasing partner. Mike Gibney, the company's director of claims and loss control explains: "We are an entirely leased fleet," he notes, "and we turn our trucks every three years. Our vehicles typically run 125,000 miles per year and some log more than 200,000 miles. Repair costs would just get out of hand if we owned and maintained our own trucks."

The flood of new technologies in-

Truck Lease & Rental Vehicle Fleet in Operation 1,003,160 Units (estimated)



to the industry is putting steady pressure on fleets large and small to keep up or fall behind and yield business to their more nimble competitors. In many cases, however, keeping up means acquiring hardware and software, changing processes, training staff and developing support systems to keep everything running smoothly. According to many in the leasing business, relief from this perpetual scramble to stay even is another reason leasing is attracting new customers.

"Leasing really makes sense any time new technology is introduced to the trucking industry," says Hunter. "Our full-service lease programs insulate customers from the uncertainty that goes along with any new technology and truck ownership."

"There is an enormous thirst for technology," observes Deris, "but the investment required for technology

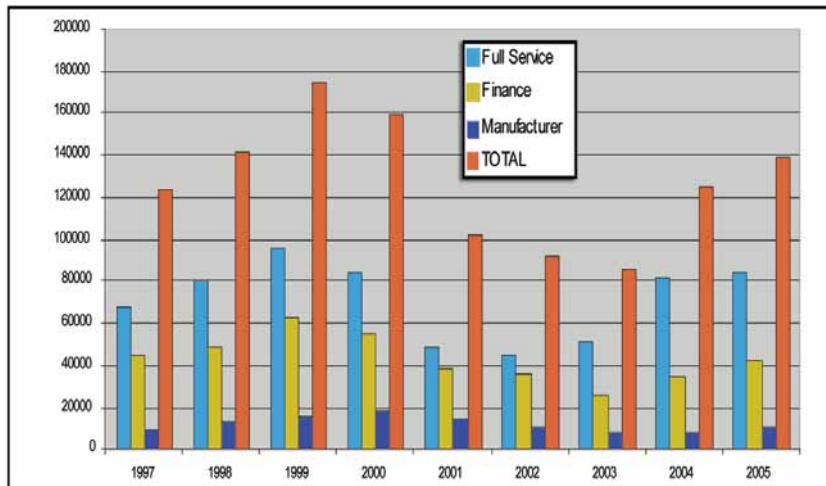
can be very expensive. With leasing, you don't have to buy the whole technology 'bottle,' you can just take a drink when you need it. We can offer this because we spread the cost of new technologies across our entire customer base. In many cases, technology is the key to success. It drives efficiencies and helps fleets plan and prepare for the future."

OPERATIONAL COMPLEXITY

Leasing companies, like truck OEMs and other industry suppliers, have been steadily adding services to help their customers deal with the growing complexities of running a fleet operation. "Trucking equipment is getting far more sophisticated and regulations governing operations, from hours-of-service (HOS) to security, are getting more complex," says Vroom. "It makes operating in trucking far more com-



Leasing/Rental — New Vehicle Registrations Classes 3-8



plicated than in the past. That plays to the new image of the leasing company as a 'risk manager.' They are establishing the base cost for the lease and maintenance for the fleet, which relieves the fleet of a large measure of uncertainty and transfers that risk to the leasing firm."

"The industry is becoming more complicated," agrees Penske's Molinaro. "Even when it comes to understanding and complying with regulations, customers appreciate having some support, someone to talk with to help clarify things. We've done seminars on HOS, for instance, and now we are looking at the new regulations coming from CARB (the California Air Resources Board) to determine what they will mean for fleets. We really try to be proactive, to focus on the customer and how we can help."

"Today we work with our customers on a very consultative basis," adds Deris. "We are very engaged in their operations. In many cases, for example, we are assisting our customers in developing plans for expanding their businesses. They are using our infrastructure and our facilities to expand or to enter a new market without adding infrastructure themselves."

CASH FLOW AND CAPITAL

With a full-service lease, companies pay for the use of equipment, not for the equipment itself. This can improve cash flow and preserve

working capital for other things, such as business expansion. It also allows each lease payment to be 100% tax deductible.

"[Leasing] normally means a big savings, up to 25% less in some cases, in your monthly payment as opposed to financing to own," explains Hunter. "In a lease, the cost of the vehicle, apportioned tax and license, finance charge (set interest rate for the lease term) and calculated cost-per-mile maintenance expenses, minus the calculated residual value, determine your monthly payment. That may seem like a lot of charges, but in reality, it's not. Keep in mind you're dividing those costs over the lease term."

STRATEGIC THINKING

"There is no question that leasing has become part of a company's strategic thinking, part of their growth strategy," says Molinaro. "And when customers lease, they want much more than a truck. They want us to help them be more competitive, to expand their business. Today, if you aren't thinking about what you can do next to add value, you won't be around very long."

"Helping fleets to reach their business goals is really what we are involved in now," agrees Deris. "We ask our customers, what are your plans? Where are you going? What are your operational challenges? Leasing is definitely not just about equipment anymore." ■

Coverage counts

If real estate value is all about location, success in the leasing business is all about coverage — about having service depth where customers need it, when they need it. Ryder has some 900 facilities, for example, while Penske has nearly 1,000.

The quest for coverage has resulted in a number of mergers and acquisitions in leasing. Last fall, for instance, NationalLease Purchasing Corp. (www.nationallease.com) and AmeriQuest Transportation and Logistics Resources Corp. announced that they had signed an agreement to combine both organizations under the NationalLease umbrella. Their combined leasing organization includes more than 700 locations in the U.S. and Canada.

"Certainly we see the consolidation trend among leasing firms continuing," Peter Vroom, president and CEO of TRALA, recently told Fleet Owner.

"Ryder bought Ruan and General Car and Truck; Penske bought out Rollins Truck Leasing. Now the NationalLease and AmeriQuest merger creates the third largest player in the market. It makes sense to merge," Vroom continues. "Each has a built-in customer base, and while dollars go out to make the deal, the benefits in return are large over time through a bigger customer base, larger network and more services and expertise."

Fleets considering leasing should be coverage conscious, too. Don't just think about where you need service right now; think about your business expansion plans and where your full-service leasing partner might be able to lend a hand.

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