



# VIEWPOINT

by Gene Scoggins

## Finding New Value in Truck Leasing

**B**ack when the economy was humming along, business logistics managers turned to leasing for their transportation programs because it enabled them to focus energy on their core business. Today, logistics managers' priorities have changed dramatically, but leasing still makes sense. Now, with all eyes on the bottom line, businesses choose leasing because it's a viable alternative form of financing for the transportation equipment they need. Among the benefits, leasing enables companies to:

■ **Reserve capital for growth.** Dedicated fleets require a huge financial investment. Rather than applying working capital to purchasing vehicles—or tying it up in long-term loans that reduce borrowing reserves—lease customers can put their money to work in programs directly related to their businesses' growth and profitability.

■ **Manage credit more effectively.** Company owners approaching their credit sources for equipment financing are finding potential limitations, such as restricting covenants, limited credit lines, and questions about established credit lines. Assets purchased through credit may result in higher rates for future borrowing. Leasing offers a way to avoid applying for more credit.

■ **Keep costs fixed.** When a business signs a full-service lease with programmed maintenance, it knows exactly what monthly transportation expenses will be during the contract period. In an unstable economy, full-service leasing can deliver bottom-line financial stability.

■ **Avoid depreciation losses.** Market fluctuations can affect the residual value of equipment as it ages and depreciates. Fleet owners may have invested \$85,000 in one tractor, expecting it to depreciate to a value of \$35,000 over seven years. But what happens if there is a surplus of equipment when it is time to sell, as there is today, where the supply of trucks is exceeding current demand? What happens when the true market value of the tractor drops to \$20,000? With a lease agreement, the lessor is left to deal with the loss in value; the lessee has no such worries.

■ **Deflect maintenance and repair concerns.** The growth in contract maintenance agreements within the truck leasing industry in recent years indicates this aspect of fleet management has begun to overwhelm some fleet owners. By outsourcing the contract maintenance, companies find they may not have to open new or additional shops for vehicle maintenance, nor will they have to hire

more trained technicians to handle the complex repair work. Also, the need to stock an inventory of parts for each vehicle manufacturer is no longer a worry.

■ **Try new technologies without the risk.** Hybrid vehicles and new trucks meeting U.S. EPA emissions standards cause a number of serious concerns for fleet owners. Will there be enough properly trained technicians to repair the vehicles and keep them in service? If a truck breaks down on the road, will companies be able to find the right equipment and labor to get it back up and running? Until these technologies are fully tested and proven, companies may not want to invest.

During my 30-plus years in the transportation industry, I have seen bad economic times before, but not one coupled with such a tight credit market. Whether because equipment leasing lets companies focus on their core competency or relieves credit and capital investment worries, it continues to be a wise choice for many. ■

