FLEET MANAGEMENT

Understanding Commercial Fleet Financing Options

Now, more than ever, understanding fleet financing options can help you move forward and save money. Optimize your fleet with cash flow opportunities while maximizing your total cost of ownership and vehicle resale values.

LEASING OPTIONS: FACTORS TO CONSIDER

Leasing as a finance option for new vehicles helps companies expand their ability to acquire vehicles by opening a new line of credit – and freeing cash flow for other business-critical expenses. A company can choose to finance or refinance fleet vehicles depending on their operational needs and risk tolerance.

Broadly, there are two lease types commonly used by commercial fleets: open-end and closed-end leases. Each have their benefits and limitations, so organizations should take into consideration their need for flexibility. Determining the best lease for the fleet can be made through evaluation of several data points and financial analysis.

To understand the options associated with leasing and how it can benefit your fleet operation, a fleet management company (FMC) partner can provide analysis and clarity around your options. Many, like Enterprise Fleet Management (EFM), will conduct a complete analysis even if you don't currently work with them.

Leasing Options: Factors to consider

The most commonly used financing options are open-end and closed-end leasing. An FMC partner can provide more information around other payment options, including self-funding and open-calculation leases, depending on your organization's situation and operational objectives.

Open-End Leasing Option

An open-end lease is the most frequently used commercial fleet leasing product, offering organizations increased flexibility in acquiring, operating, and selling their vehicles. This agreement's flexible nature is due to a terminal rental adjustment clause (TRAC).

Within the terms of an open-end lease, the lessor (typically an FMC) and the lessee (company operating the fleet) agree on the residual value of the vehicle and to a set number of payments in equal amounts based on the anticipated date of replacement. With terms ranging in from a minimum of 12 months, open-end leases provide organizations with more flexibility allowing them to extend or terminate the agreement at any time after the original term's length. Unlike closed-end leases, open-end leases don't have limitations for mileage. An open-end lease offers fleets opportunities to build cash value by preserving capital, controlling depreciation, and taking advantage of better resale opportunities.

Open-End Lease – Quick Facts

- NO MILEAGE RESTRICTIONS
- MAXIMIZE RESALE EQUITY WITH RESALE MARKET TRENDS
- HIGHER DEPRECIATION RATE
- AUTO-INDUSTRY INSIGHT BENEFIT
- FLEXIBILITY TO REPLACE/SELL UNITS

Once the lease is terminated, the lessor (the FMC) is responsible for the vehicle resale, and, if the resale amount is greater than anticipated, then the lessee receives a reimbursement. If it's less than expected, the lessee is required to pay the difference, in most circumstances. This is why partnering with a fleet management company that has a track record of reselling vehicles, at a high value through multiple channels, such as a local dealer network, is so valuable to the total cost of ownership (TCO). Fleets that choose open-end leases can set the depreciation factor used to amortize the capitalized cost (within limitations). Different factors can be used for different vehicles based on specifications and usage. Managing the length of a lease for open-end agreements must be carefully executed by someone with significant remarketing experience or with the help of an FMC partner to gauge vehicle maintenance cost, mileage, and current resale market trends to maximize the value. The FMC partner will find the right remarketing channel that best fits the vehicle, e.g., a dealership or an auction.

Closed-End Leasing Option

A closed-end lease is similar to a consumer, retail lease, and is best suited for fleets or companies that have low mileage and are looking for a fixed vehicle payment. With a closed-end lease, the lessee can turn the vehicle in at the end of the term for no additional costs or fees if the terms of the agreement are met.

By fixing the cost of depreciation — as with a traditional consumer lease — closed-end leases offer more certainty to those fleet managers concerned about the volatility of the used car market, since the costs are fixed at the outset. The result is a set monthly payment that ends at the conclusion of the lease term.

Conversely, closed-end leases can carry stiff penalties for violating terms of the agreement, such as exceeding mileage limitations or increased wear and tear. Closed-end lease agreements extend for a specified period of time, typically a three-year term with no flexibility to end early. A company would be required to hold onto the vehicle for the entirety of the leasing period. Therefore, a closed-end lease may not be the best option for a fleet that tends to generate high mileage or wants more flexibility to quickly cycle its vehicles.

Closed Ended Lease - Quick Facts

FIXED, MONTHLY PAYMENT	VEHICLE IS RETURNED AT END OF TERMS
MILEAGE LIMITATIONS	SPECIFIED END OF TERMS DATE
REDUCED RISK OF VOLATILITY FROM USED VEHICLE MARKET	ZERO CLOSING EQUITY

CHOICES BEYOND LEASING

While leasing continues to be the most common way for fleets to finance their vehicles, that doesn't mean it is the right instrument for every fleet. Other options that a proactive FMC will help evaluate include:

- **Outright purchasing** of vehicles make sense for companies that have a strong cash position and operate fleets with low-mileage vehicles or vehicles with specialized upfits like utility bodies, cranes, or storage systems. Many of these specialized or low-use vehicles have much longer lifespans than a standard sedan, SUV, or truck.
- **Reimbursement** is a commonly used option for executive vehicles. C-suite or VP-level employees who receive an allowance for their personal vehicle use this plan, often as part of a compensation package. Other common examples of reimbursement may include sales or healthcare employees that use their personal vehicle to drive to locations for their work. Employees receive compensation for the use of their vehicle. However, when reimbursement is used in this capacity, it typically costs the company more based on cost per mile data and the government reimbursement rates. A fleet analysis can help determine if a lease or employee reimbursement is the better option per organization.
- **Rental vehicles** provide companies with access to vehicles that are only needed occasionally or for very specialized purposes. Additionally, rental vehicles may supplement short-term vehicle needs for a specific project or team. Adding rental vehicles can help many companies, such as seasonal companies maximize vehicle utilization. By partnering with a fleet management company that has a rental branch, such as Enterprise, the company can optimize fleet efficiencies and save a lot of money.
- **Ride-share** is a trending alternative for mobility. Companies in dense urban centers utilizing rideshare services may have employees with less of a need for daily access to a vehicle.

Taken together, fleets have an increasingly large menu to pull from when determining what options work for them to mobilize their workforce at varying investment levels.

Choosing a leasing option should involve analyzing the current and future needs of the fleet holistically. This means developing a comprehensive fleet acquisition plan that takes into account:

- Vehicle purpose
- Type of vehicle
- Vehicle mileage or hours of service
- Available purchase incentives
- Projected resale value

Collectively this data should be compiled for each vehicle and then reviewed for the entire fleet.

Critical questions to ask during this information-gathering process include:

- Are there underutilized vehicles?
- Do usage patterns indicate an opportunity to right size the fleet?
- What cash position is the company in, and does the company want to reserve their cash flow?

Ultimately every decision related to leasing has an economic component impacting your fleet of vehicles. When each component is evaluated, this provides visibility into the TCO of the vehicle. TCO information helps determine what type of vehicle financing may be appropriate.

An open-ended lease offers companies flexibility to to acquire and dispose of its vehicles. Flexibility for fleet vehicles is important, especially during times of unpredictability, when a company may need to cycle vehicles in and out earlier than expected. This can happen due to a variety of factors, but most likely because of a shift in the resale market. Alternatively, there could be an instance when the fleet needs to hold onto the vehicle longer — either in anticipation that the market value will increase or because the fleet continues to need the vehicle for an immediate, revenue-generating purpose.

An FMC partner's acquisition and remarketing expertise can provide invaluable information when conducting a holistic analysis of the fleet. Recommendations can be made by the FMC for how the company could fund its vehicles based on business goals, budget flexibility, current fleet operations and needs, and knowledge of the local resale market.

To learn how Enterprise Fleet Management can help your fleet with its leasing decisions, contact your local Enterprise Fleet Management office or visit efleets.com to request a free Fleet Analysis.

THE ENTERPRISE ADVANTAGE

Enterprise Fleet Management provides each of their clients an individualized and consultative approach to help them manage their fleets — including strategic advice for which leasing option makes the most sense for their fleet.

Enterprise Fleet Management local Account Managers customize a fleet plan based on the client's needs. The Account Manager has a proactive approach to managing the vehicle from acquisition, including incentives and leasing, to resale, including identifying the optimal timing for disposal. Each plan is presented with a recommended resale target date along with the estimated resale value based on extensive industry knowledge, local resale partnerships, and expected usage. Enterprise Fleet Management Account Managers meet with fleet personnel throughout the year and evaluate the fleet management plan, helping clients reflect on the current and future realities of the fleet. The goal in every case is to have a plan that results in the most efficient use of capital for the customer.

Enterprise, which owns one of the largest fleets in the world, also has a multi-channel resale network to help fleets find the best price for their vehicles. It is an approach that takes the guesswork out of the entire vehicle lifecycle process.

The majority of Enterprise Fleet Management Account Managers have been promoted from rental branches, giving them the experience to evaluate the client company's situation and the need for an integrated acquisition plan which may include leasing, rental, and ride-sharing opportunities for full fleet utilization.

Leasing decisions should involve analysis to help make the decision, but, with a strong FMC partner, such as Enterprise Fleet Management, fleets can have confidence choosing the right option by having a holistic view of the operation, paired with business and budget goals, and the ability to handle risk while being flexible.