



The  
**ADVANTAGE**  
NEWSLETTER

Brought to you by Advantage Truck Leasing 409B Hartford Turnpike, Shrewsbury, MA 01545

## **5 Questions to ask before making a truck purchase decision**

### **1. What's the best use of your company's capital?**

Whether your company is privately or publicly held, how it's capitalized and how it measures the success of business activities will determine the best use of its capital. Companies finance their business activities through equity and debt. Financial decision-makers (chief financial officers, vice-presidents of finance, etc.) spend much of their time ensuring that their companies leverage borrowing power (debt) and equity (retained earnings/ stockholders equity) in a balanced manner to get the highest return possible.

- *When buying new equipment that depreciates, like trucks, most organizations seek to gain a maximum amount of return on their investment. That's why financial decision-makers will evaluate whether the investment in equipment offers their companies a return higher than their "hurdle rate." That rate is usually defined as the company's weighted average cost of capital plus a nominal premium.*
- *If the equipment doesn't offer a return that's higher than the hurdle rate, then leasing may offer them a great alternative. Additionally, many financial decision makers will perform a net present value analysis of the lease or loan payment stream, which allows them to review the payments in today's dollar value.*

If you find yourself in similar circumstances, an ROI (return on the investment) calculation can show whether your company should use equity or debt to finance the equipment. Lease accounting treatment, which falls into two main categories—on-balance sheet and off-balance sheet—can favorably impact key financial ratios like ROA (return on assets) and ROI. If your company is measured on a key financial ratio

favorably impacted by lease accounting treatment, you should take this into consideration.

**Advantage Truck Leasing** can assist you if you would like to accomplish a similar analysis on the return on investment your company would experience if it leases or purchases equipment.

## **2. Are you in the trucking business or are you in another line of business?**

Many organizations have determined that by leasing their trucks and assigning their maintenance, roadside service, fuel tax reporting, and other administrative headaches to leasing companies, they can focus their employees' and managers' energies on activities central to their business. When employees and managers concentrate on delivering products, they can provide top-notch service and on-time performance to their customers. They also have time for activities that help the company gain new business. For many companies, investing time and resources in trucking related activity can be a slippery slope. Specifying the right equipment for trucks and handling maintenance requires the right knowledge. Transportation managers must keep up with the latest developments in trucking technology. Maintenance facilities must be properly equipped and staffed with well-trained technicians.

- *By outsourcing non-core functions related to trucking through a full-service lease, companies can fill the driver seats with their own people, while taking advantage of their leasing provider's equipment know-how plus equipment buying power and expertise.*

**Advantage Truck Leasing** can negotiate the best pricing on equipment, maintenance items and expendables and pass those economies of scale onto their lease customers. Without that benefit, a smaller fleet with fewer than 50 units can expect to pay a sizeable premium on parts, tires, outside repairs and other truck-related expenses due to economies of scale.

- *More specifically, do you know what your equipment's maintenance costs are? Most organizations have a good handle on their financing costs. Typically, equipment financing is a fixed known quantity. Unfortunately, the cost of maintenance is often not well-known or understood. But it should be.*

For small fleets, many lump all of their transportation expenses into general accounts. So, they have no real way of identifying costs on a per-unit basis. Unsure how to capture true maintenance costs for your trucks? You can purchase off-the-shelf software to help calculate this data. But the software usually can't take into account your parts and labor pricing. Plus, off-the-shelf software that tracks expenses doesn't usually take into account the administrative costs associated with managing a fleet. The time it takes to process repair orders, payables and receivables, plus track warranty work, licensing, permitting and compliance with U.S. Department of Transportation regulations, can all add up to major costs for companies. Those expenses may or may not be captured at the fleet or unit level. These items, traditionally thought of as overhead items, contribute to the overall cost of ownership and must be considered when deciding whether to lease or buy trucks.

- *Full-service lease providers can help you understand what your true maintenance costs are. Most have software they use for predicting and budgeting future maintenance costs.*

## **4. Do you have the right information or data to make a lease/own comparison?**

To perform an accurate comparison, you need to know 12 basic items or costs—seven for ownership and five for leasing:

### Ownership

- Initial cost of equipment: the original purchase price, including taxes, and additional equipment such as van bodies, tool boxes, headache racks, auxiliary power units, refrigeration units, etc.;
- Interest rate if considering a bank loan, length of loan, and down payment
- Length of asset life: how long will you use the equipment?
- Corporate tax rate (used to determine your company's net, after-tax benefits of depreciation write-off).
- Maintenance costs over the equipment's life.
- Administrative costs for licensing and tracking DOT compliance, plus the general and administrative costs associated with managing your fleet's maintenance.
- Net present value calculation of the monthly payments, finance cost, and maintenance cost over the equipment's lifetime.

### Lease

- Lease rate.
- Variable cost (mileage rate) if a full-service lease.
- Length of lease.
- Net present value calculation of the lease payments over the equipment's lifetime.
- Residual responsibility. Is it yours or does it belong to the lessor?

Again, it's vital to tally all associated administrative expenses under ownership and lease before you make comparisons. Once you have gathered this data, you can perform a net present value calculation on the lease payment, the finance cost and the maintenance cost over the equipment's lifetime. It's also important to look at the net after-tax cash flows under ownership and leasing. This will give you the true picture of how depreciation impacts ownership and leasing cash flows. The net present value calculation will estimate the future cash flows of ownership and leasing in today's dollars so you can make an informed financial decision. Need help with the calculations? Most leasing companies

“Several years ago, many fleets thought owning their own trucks made the most financial sense. But numerous changes, including the increasing complexity of both heavy- and medium-duty trucks and tractors; stricter government regulations; and the need for financial flexibility have brought full-service leasing to the forefront.”

have lease/buy tools that you can use to load with your fleet's data to perform these calculations.

## **5. What are the benefits of ownership and leasing?**

The benefits of leasing trucks are financial and operational. Financially, a company can preserve capital for other parts of its business that generate a higher return. Operationally, it allows a company to focus on core functions of its business.

Truck ownership has been perceived to provide better control, which may or may not be the case. In many situations, there is inherent risk associated with owning trucks. Some of these risks include the value of the equipment at trade-in time, unpredictable maintenance costs over the equipment life, obsolete or stranded assets due to improper replacement cycle and increased costs caused by hiring, training and tooling technicians to keep up with ever-changing truck technology. Those risks make it difficult, if not impossible, for a company to maintain a stable cash flow. Equipment failures, even when they're covered under warranty, can create delivery delays and adversely affect your company's income. Often, leasing can provide considerable flexibility to meet short-term and long-term equipment needs by custom tailoring a lease and maintenance package that matches the truck's useful life. Leasing results in a more stable cash flow as fleets make one monthly fixed payment for their trucks and their maintenance. A leasing company can, in many cases, offer a lower monthly payment than what you would pay to finance a truck since it uses the truck's residual value in determining the lease payment. Some leasing companies offer substitute vehicle programs that can provide comparably equipped replacement units while your trucks are being serviced or in the event they require additional time in the shop. In the long run, the lease and maintenance package allows your company to maximize uptime and productivity so that your drivers continue making their deliveries and earning your company money.



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