Lease vs buy

What's right for your business vehicles?

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‘What makes the most sense – to lease or to buy?’

When a company needs one or more vehicles to support its business, the key question should be: ‘What makes the most sense – to lease or to buy?’

Small and medium-sized companies (SMEs) often fail to ask themselves this question, either because they just act out of habit or because they believe that their current solution is the best available option. But it is an essential question for every business, as the ‘lease versus buy’ decision has financial and operational consequences for all types of companies.

Leasing is sometimes perceived as an expensive option, but appearances can be deceptive. A true ‘lease versus buy’ comparison involves some complex analytical challenges, since the decision impacts not only on the company cash flow, income statement and balance sheet, but also on organisational efficiency in terms of managing the vehicles.

Is it perhaps time for you to reassess your stance on leasing versus buying? To help you make the right decision, this white paper compares the advantages and disadvantages of both leasing and buying, highlighting some factors that are often overlooked.

Stages of a vehicle's lifecycle

Mobility is an essential business enabler for countless companies nowadays, and they all face the same key decision: whether to buy or lease the vehicles they require. To achieve a fair comparison between leasing and buying, companies should carefully analyse the total cost of ownership (TCO) of both options. Each separate stage of the vehicle life cycle involves different considerations and decisions to be made.

01. Sourcing

Selecting the vehicle that is best fit for purpose at the right price.

02. Funding

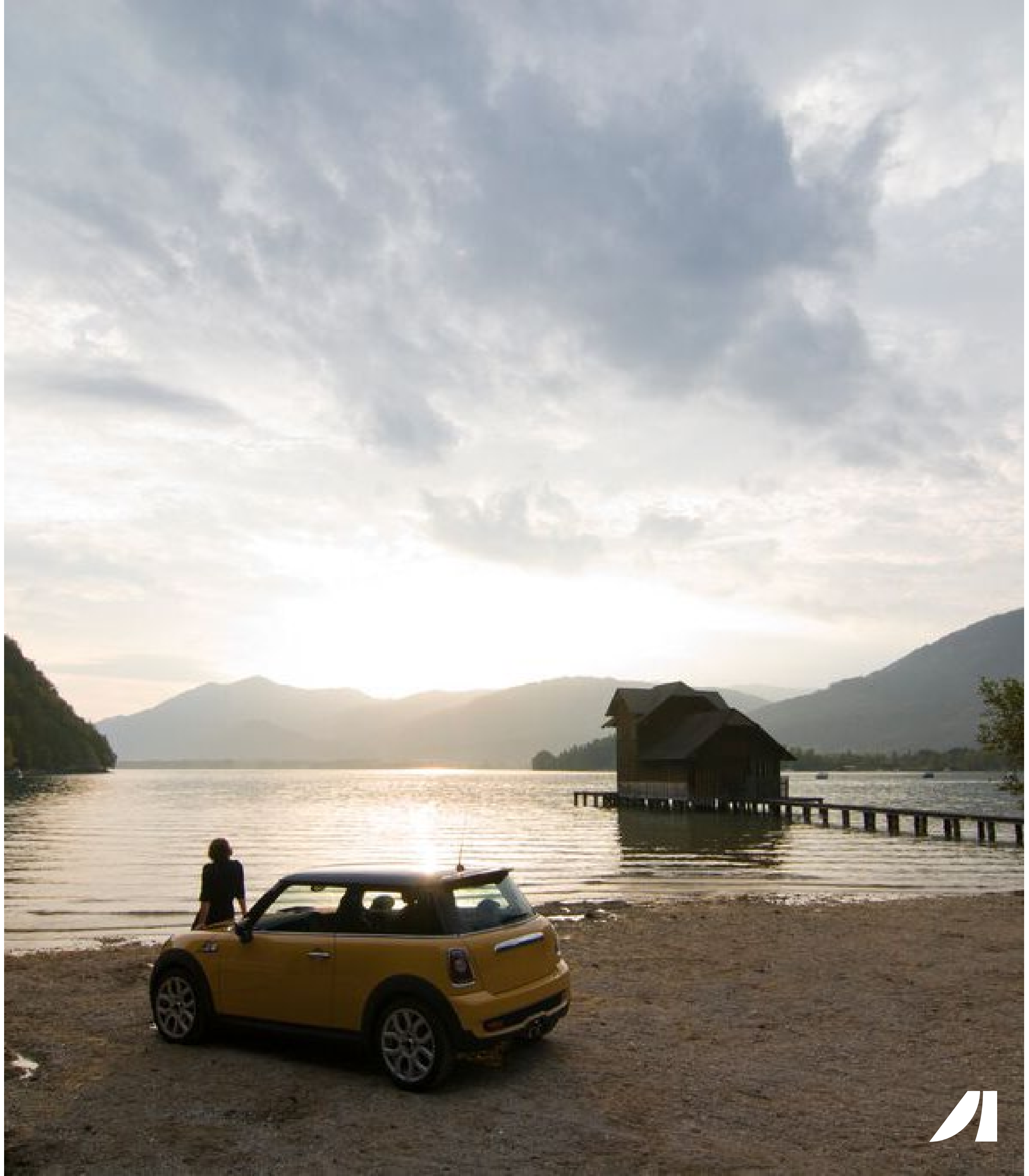
How you finance the vehicle (purchase, loan or lease).

03. Operating

In life costs like insurance, fuel, maintenance, tyres, repairs, accident & breakdown management.

04. Selling

Disposal of vehicle. Risk of selling at lower than book value.



01. Sourcing

Selecting the vehicle that is best fit for purpose at the right price.

Which vehicle is the best fit for your situation and offers the best value for money?

Buying a vehicle rather than leasing it gives you maximum autonomy, flexibility and freedom of choice. You can select whichever vehicle you or your drivers want, request quotes from dealers and place the order with the supplier of your choice. If your company is building a sizeable fleet, it can be possible to negotiate attractive price discounts by using the same local dealership for all purchases based on the promise of future service contracts as well as business/employee referrals.

However, finding the right vehicle for the right price in the right location can be time-consuming and requires a certain level of knowledge and negotiating skills. While leasing can sometimes mean less freedom of choice in terms of vehicle models and dealerships, you always retain ultimate control over the vehicle choice.

You not only outsource all the ‘hassle’ but also benefit from the lease company’s expert advice and support in selecting the right vehicle for your situation based on the whole life cost. You are also assured of the lowest possible price thanks to central sourcing which improves purchasing terms.

And, thanks to their strong relationships with the vehicle suppliers, lease companies have the best access to the newest technologies, enabling you to capitalise on advancements such as improved fuel economy, safety, telematics etc... Even if you require highly specialised vehicles to support your business activities in a specific sector, e.g. construction or food, lease companies can often arrange vehicles that are highly customised in line with your specific technical needs.

02. Funding

How you finance the vehicle (purchase, loan or lease).

Once the vehicle has been chosen, the next step is to arrange funding.

To make a sound comparison between the ‘cost of money’ in buying versus leasing scenarios, you need to consider the weighted average cost of capital if you purchase the vehicle against the interest cost that you will be charged in a leasing scenario. Buying one or more vehicles requires you to invest capital in them – tying up money that you could otherwise have spent on your core business. Unless you are a cash-rich company, the money that you lock into your vehicles will come at a cost, either from borrowing or because your investment needs to make a return.

In contrast, leasing enables you to obtain the vehicles you need without using precious operating capital or dipping into credit lines that could be used more beneficially to further build your business. In a lease structure, you pay a fixed monthly fee for the entire lease term to cover depreciation and interest costs based on the vehicle’s investment value and its anticipated resale value at the end of the contract. This also supports better forecasting and cash-flow planning thanks to reduced uncertainty and risk.

Last but not least, from a funding perspective, there is the issue of warranty. All new cars come with a basic warranty, but it is not always clear what that actually covers. For complete peace of mind, it is necessary for owners to purchase an extended warranty, often at considerable expense. In the case of a lease vehicle, even the cost of serious mechanical problems is included in the monthly lease instalment, meaning that the lease company bears the risk rather than exposing you to nasty – and potentially costly – surprises.

03. Operating

In life costs like insurance, fuel, maintenance, tyres, repairs, accident & breakdown management.

Once the funding has been arranged, the running costs are the next phase in the vehicle life cycle.

Operational considerations include insurance, fuel, maintenance, winter/summer tyre changeovers, breakdown recovery, and the handling of any repairs, accidents and possible claims as well as parking tickets/fines. In a buying scenario you will either have to manage all these yourself in-house – such as by issuing company credit cards or reimbursing employees for fuel costs – or outsource them to a supplier – perhaps your local dealer for maintenance and repairs, and your existing broker in terms of insurance, accident management and claims handling.

However, this aspect of the TCO is often underestimated. Irrespective of the number of vehicles, efficiently managing them involves a considerable amount of work; all these activities require time to find the right supplier, negotiate the right price, to scrutinise incoming invoices and pay them on time, and this can place a significant burden on your fleet manager or administrative department.

03. Operating

In life costs like insurance, fuel, maintenance, tyres, repairs, accident & breakdown management.

In an operational lease setup, the lease company takes care of managing all the operational services, allowing you to focus on your core business. As a guaranteed cost component within the lease agreement, maintenance – including both preventive and unscheduled maintenance as well as roadside repairs – is carried out throughout the vehicle's useful life by an approved supplier, based on service level agreements (SLAs) and approval processes for the work that needs to be done.

Tyre changes are likewise included in the lease instalment and performed at approved garages with SLAs and eliminate the problem of storing the spare set of tyres. In terms of fuel, each lease driver receives a fuel card (available in various options) offering good coverage and potential discounts, plus the lease company can provide fuel reports that give you insights into consumption, costs and related CO2 emissions.

Insurance is another fixed cost component, precisely aligned with the start and end date of the lease contract, as is claims handling, breakdown recovery and accident management (including a replacement vehicle). All of this minimises downtime and offers process efficiency gains for you as a lease customer.

04. Selling

In life costs like insurance, fuel, maintenance, tyres, repairs, accident & breakdown management.

At the end of the life cycle, once the vehicle has reached a certain age, it needs to be sold or disposed of.

This entails a significant risk component for vehicle owners, who have two options: either to depreciate the vehicle to zero and book the sales proceeds as a positive result, or to determine an anticipated resale value and depreciate the vehicle accordingly. In this case, there is the risk that the vehicle ends up being sold at below the anticipated value, resulting in financial losses.

In a closed-end or operating lease agreement, the lease company forecasts the likely residual value at the start of the contract term and calculates your monthly instalments (including depreciation and interest) accordingly. This relieves you of both the worry and the risk of a lower-than-expected resale value at the end of the lease period.

Lease vs buying in short:

01. Sourcing:

Leasing: Offers expert help in choosing the right vehicle and access to the latest models. There may be fewer choices, but lease companies handle the details for you.

Buying: Gives you full control over the vehicle choice and the ability to negotiate prices. However, finding the right vehicle can take time and effort.

02. Funding:

Leasing: Requires little upfront money and has fixed monthly payments. It helps keep your cash flow steady and covers repair costs, reducing financial risk.

Buying: Needs full payment upfront or a loan, which ties up your money. You may also have to pay for extended warranties to cover repairs.

03. Operating:

Leasing: The lease company takes care of maintenance, insurance, and fuel management for a fixed monthly fee.

Buying: You must manage all costs and services yourself, which can be time-consuming and complex.

04. Selling:

Leasing: The lease company handles the sale of the vehicle, so you don't worry about its resale value.

Buying: You take on the risk of selling the vehicle and may lose money if it sells for less than expected.

The lease versus buy decision involves more than just comparing the monthly costs of interest and depreciation against lease instalments. Each stage of the vehicle life cycle impacts the total cost, whether leased or owned, over its useful life.

To gain a complete understanding, consider not only the financial implications but also the value of the support and services provided by a lease company. Such services can reduce the workload for fleet managers and administrative staff, ultimately saving you money.

If you’re interested in leasing or would like to find out more, contact Ayvens.

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