

TRUCK FINANCE BUYING HGVs IN 2019



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INTRODUCTION

For those of you looking for a guide to finance options for buying trucks, this isn't the report for you. However, if you want to find out how, why and when commercial vehicle buyers will spend on new or used trucks, then this report has it covered!

The truck-buying market remains in a state of flux. On the face of it, new truck registrations started the year in a positive manner. Comparing Q1 2018 to Q1 2019, new truck registrations were up 21.2% – from 9,785 units to 11,859 units. Rigid trucks were up 12.9%; artics were up a staggering 32.3%. So far, so good. This type of upturn has only been seen in the past during periods of economic recovery or legislative change. But what has changed?

The truth is, nothing changed. And that is the problem. Business was busy preparing for Britain's exit from the European Union on 31 March and, without even the barest hint of what trading conditions would look like after this deadline, stockpiled to avoid tariffs should the UK's trading relationship with its largest partner revert to WTO rules under a no-deal Brexit.

The RHA reported that tariffs on an imported vehicle (and the majority of new trucks are vehicles imported from the EU) would be 22% for anything above 5-tonne GVW. So there is every chance that operators in need of a truck

registered them before the blown Brexit date. The industry awaits the publication of the second quarter sales figures for confirmation.

Despite the uncertainty there appears to be pent-up demand for new vehicles. But just how are operators buying such vehicles? There are a variety of options available – outright purchase, contract hire, operating lease or rental. Or maybe just taking advantage of the available stocks in the used market – where Euro-5 prices are subdued as demand slows thanks to the multitude of clean air and low emission zones cropping up across the country.

This research, conducted exclusively by *Commercial Motor* and *Motor Transport*, in association with Asset Alliance Group; Hireco; MAN Financial Services; Renault Trucks, Scania Financial Services and Volvo Trucks UK, shows how operators engage with the market when it comes to adding and replacing trucks on the fleet.

It also points towards two alarming trends developing in 2019 – firstly, a drop in appetite among truck operators compared to last year, and then the shrinking use of the used truck market, which finds itself increasingly polarised to one customer set, the small and micro-business. It also points towards just how diverse the market is and how vendors will have to adapt in the long-term to customers wants and needs.

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CASE STUDY: ASSET ALLIANCE



Reed Boardall grows double-deck fleet with Asset Alliance Group

Asset Alliance Group won a new contract worth £3m for 32 new double-deck refrigerated trailers with Reed Boardall, which operates one of the largest double-deck fleets in the country.

Operating out of its Boroughbridge site, 12 13.6 metre tri-axle double-deck Gray & Adams reefers joined a 300-strong trailer fleet, with an additional order of 20 to join later in 2019. The new additions will be completing round-the-clock deliveries of frozen food.

Each trailer was supplied on an operating lease contract, meaning Reed Boardall will manage its own vehicle maintenance, servicing and tyre management, whilst Asset Alliance Group will fund the finance of the vehicles for the seven-year contract.

The new additions mark an ongoing investment from Reed Boardall to upgrade its fleet and extends a longstanding working relationship between the two companies.



Graeme Richardson, MD – Transport Division, at Reed Boardall said: “We work our fleet intensively, so it’s essential we use trusted suppliers who meet our high standards when it comes to all aspects of our vehicles.

“Asset Alliance Group takes away the headache of coordinating the financing of the fleet, plus the nature of an operating lease means we know precisely what each trailer will cost per month for the duration of the contract. It is fully committed to supporting us and understand exactly what we need from a supplier.”

Paul Wright, sales director at Asset Alliance Group, said: “We’re proud of the working relationship we have built with Reed Boardall over the years. This latest fleet investment is testament to the ongoing trusting partnership.”

Established as a family business in 1992, Reed Boardall is one of the largest temperature-controlled food distribution businesses in the UK, storing and delivering frozen food into some of the UK’s best-known supermarkets.

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THE SURVEY

Of those that participated in this survey of *Commercial Motor* and *Motor Transport* readers and subscribers 19.3% were MD, chief executive or chairman level; 15.7% were owners; 32% senior management and 20.8% middle management, and 4.1% in junior management functions. Some 5.6% of those surveyed were owner drivers.

The sample runs an average of 123 trucks. Ownership was spread fairly even across the survey, with 19.3% having a fleet size of one to five vehicles above 3.5-tonnes GVW and 10.2% having a fleet of six to 10 commercial vehicles. Some 17.8% had a fleet of 11 to 30; 10.2% had a fleet of 31 to 50 commercial vehicles; and 11.7% had 51 to 100 vehicles. At the top end, 9.6% of participants ran a fleet of 101 to 500 vehicles, while 10.2% ran 501 vehicles or more. However, 11.2% did not run a single vehicle above 3.5-tonnes GVW but still held an O-licence.

The average annual turnover was £99.3m, with almost a quarter (24.4%) achieving an annual turnover of less than £2m and a further 27.4% posting an annual turnover of £2m to £10m – meaning over half the sample (51.8%) account for small or micro-businesses. At the other end of the market 7.1% had a turnover of £500m plus.

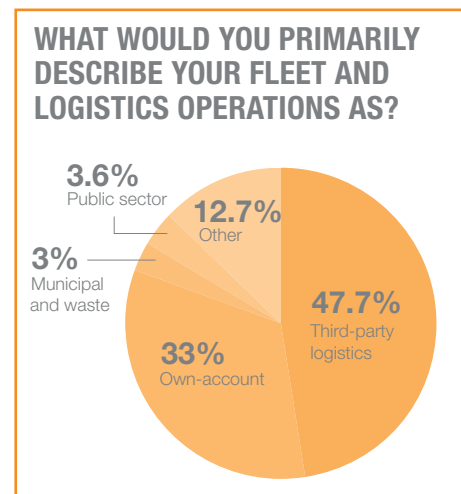
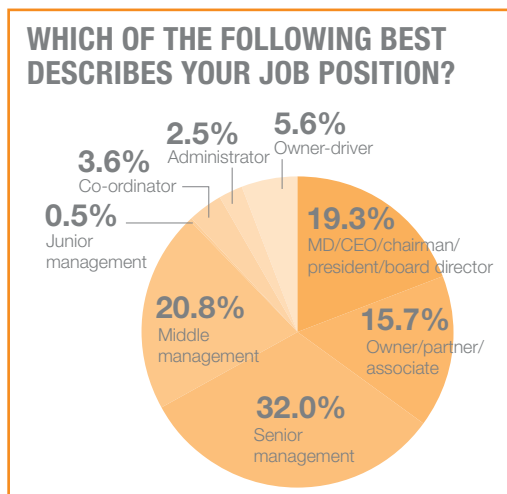
Comparing turnover to fleet size, operators with a turnover of less than £2m run an average of 5.8 trucks while operators with a turnover of £2m to £10m run an average of 30.3 trucks. Operators surveyed with a turnover of £10m to £20m run an average of 115 trucks but those achieving a turnover

of £20m to £50m ran an average of 80 trucks on the fleet. Of those achieving a turnover of £50 to £100m the average fleet size was 193 commercial vehicles; for businesses achieving a turnover of £100m to £500m the average fleet size was 295 and for businesses with an turnover of £500m or more the average fleet size is 409.

When it comes to their function, 47.7% of operators described themselves as third-party logistics while 33% identified as own-account. Municipal and waste and public sector accounted for 6.6% of respondents. Of the 12.7% that answered 'other', options included removals, shunting services and recovery.

Comparing type of operation to fleet size shows some surprising correlations: third-party logistics operators run an average of 120 vehicles, while own-account run an average of 119 vehicles. Municipal and waste operators run an average of 213 vehicles, while public sector runs an average of 135. Those identifying as 'other' run an average of 178 vehicles on fleets

Operators were most likely to have a base in the eastern or south-eastern and Metropolitan areas, closely followed by north-western, north-eastern and West Midlands traffic areas.



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CASE STUDY: HIRECO



Hireco helps Time Logistics to service a new contract with bespoke curtain-sided trailers

With over 40 years' experience in the transport industry, Hireco operates over 6,000 assets in the UK and Ireland, 70% of which are supplied to the country's top 100 transport companies, often on bespoke contracts of three to five years. One of the company's trademarks is the age of its fleet, which is one of the youngest, if not the youngest, in the business. With 10 depots and dedicated maintenance, finance and used sales companies, the Hireco Group takes the hassle away to provide a complete partnership with all customers.

Hireco is the country's biggest trailer buyer and has an extremely loyal customer base ranging from owner-drivers to multinational 3PLs. With a very agile, responsive team that can quickly adapt to new opportunities efficiently, it is constantly expanding into new markets. With no

limit to what Hireco can finance, it continues to expand at a ferocious rate.

One advocate for the company is Jason Palmer at Time Logistics, who engaged with Hireco recently when his operation needed equipment to help fulfil a recent contract win. Hireco sourced a number of bespoke 4.2m curtain-sided trailers for Palmer on a tailored contract hire solution.

"With all the advantages of a fixed cost contract, a full maintenance and breakdown management package, and freedom from the risk of disposal values at the end of the term, contract hire represents an outstanding fleet financing option", explains Chris Heather, sales manager at Hireco. "Contract hire allows your business to manage cashflow by way of fixed monthly costs. Additionally, with our reliable maintenance arm Serviceco, which guarantees full O-licence protection, it gives the operator freedom to concentrate on their core business."



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BUYING PATTERNS

More than one in five operators (22.4%) did not make an HGV purchase in 2018, with 40.8% making a purchase of between one and five commercial vehicles. On average, those surveyed purchased 26 HGVs in 2018, a figure significantly weighted by the 6.3% that made a purchase of 101 or more HGVs in 2018, and the 5.7% that purchased 51 to 100 HGVs in the same year.

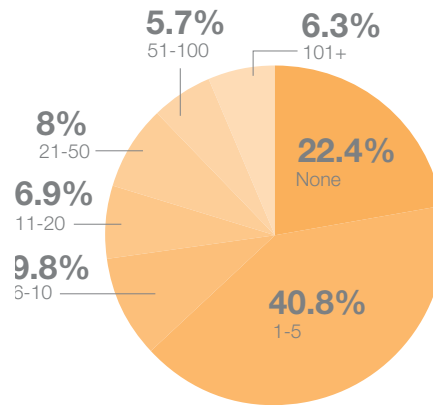
So far in 2019 (our survey was completed in July 2019) HGV buyers have been slightly more reserved than they were in 2018. An average of 23 commercial vehicles have been purchased by operators in 2019, compared to 26 in 2018. Or to put it another way, the market for purchasing commercial vehicles has contracted by a pretty substantial 11.5%.

Meanwhile, 36.2% of those surveyed had made no HGV purchases so far – a staggering 13.8 percentage point difference when compared to the whole of 2018. Some 32.8% had purchased between one and five HGVs (again down on the 40.8% who had made such a purchase in the whole of 2018) and 9.2% between six and 10. The market at the top end is also down with 4.6% of operators making a purchase of 101 or more HGV in 2019 (down from 6.3% in 2018) and 4% making a purchase of 51 to 100 HGVs (again down, from 5.5% in 2018).

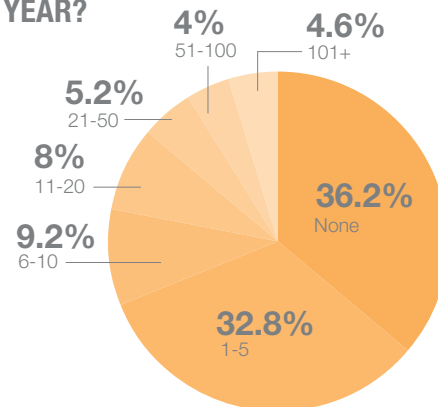
Looking forward to the remaining months of 2019 it appears there is no pent-up demand to increase this level of fleet refresh and replacement. Asked about the intent to purchase before the close of the year the average remains the same at 23 vehicles.

A third (33.9%) said that their intent in not to purchase any more vehicles in the remainder of the year, while 37.4% said that they would purchase between one and five vehicles. There is relief for the market at the top end, with 5.2% of those surveyed expecting to purchase 101 or more HGVs in the rest of 2019.

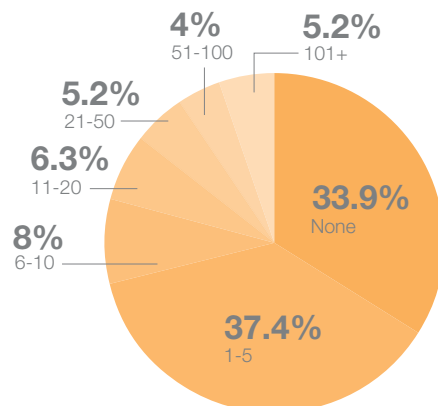
HOW MANY HGVs DID YOU PURCHASE IN 2018?



HOW MANY HAVE YOU PURCHASED SO FAR THIS YEAR?



HOW MANY HGVs DO YOU INTEND TO PURCHASE IN THE REMAINDER OF 2019?



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CASE STUDY:

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Nu Vision Logistics extends fleet with quick turnaround at MAN Financial Services

Nu Vision Logistics extended its fleet with two new MAN TGXs 26.500 6X2/2 BLS XLX on a three-year contract hire agreement.

As a result it now benefits from MAN Financial Services comprehensive full-service offering, which includes the gold repair and maintenance package, road fund license and safety inspections and servicing.

The TGXs will help deliver dedicated courier services, pallet distribution, warehouse storage, home delivery and exhibition and events service at the Nuneaton-based firm.

Jon Thorpe, operations director at Nu Vision, said: “The key benefit of using MAN Financial Services was how quick the turnaround process was. In an industry where everything is time critical it made perfect sense to use MAN Financial Services to ensure we were fit for purpose as soon as possible.

“There are numerous financial services available, but our experience has shown that it is best to deal with such matters under one roof for consistency and efficiency. We did not have to look far as it was recommended by MAN and I would highly recommend this service to present and future customers.”

With the continued growth of the business and the level of satisfaction with the product Nu Vision have already ordered an additional vehicle from MAN.



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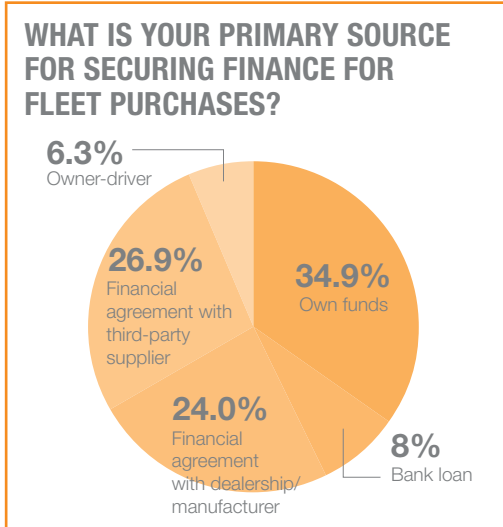
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METHOD OF PURCHASE

The primary method of acquiring HGVs by those surveyed is to buy a new truck on rental, lease or hire purchase – an option favoured by 41.7%. This is followed by the outright purchase of a new vehicle, favoured by 34.9%. The purchase of a used vehicle from franchised dealer stock was the primary method for 9.7%, and a used vehicle from a independent dealer was favoured by 7.4%.



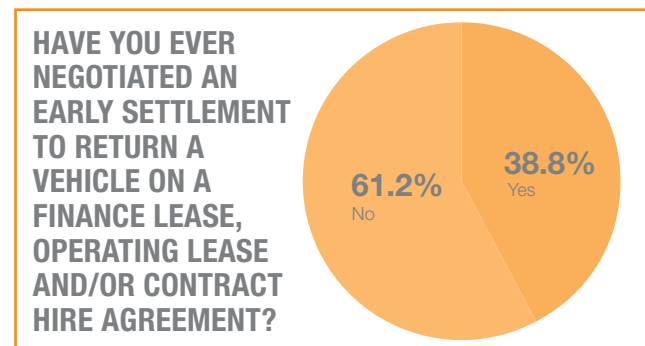
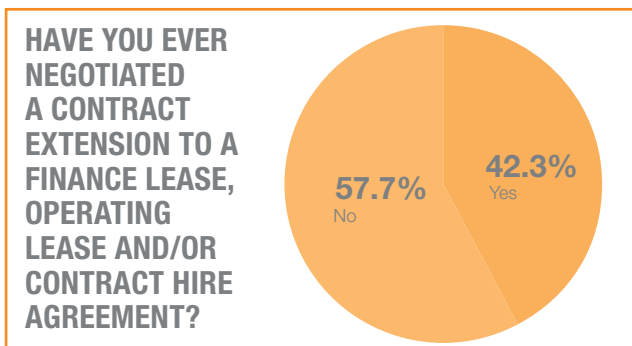
No one source of finance dominates when it comes to fleet purchases: just over a third of operators (34.9%) surveyed use their own funds. The second-most popular option (used by 26.9%) was a finance agreement with a third-party supplier, while under a quarter (24%) favour a finance agreement with a dealership or manufacturer. Only 8% use a bank loan.

The purchase of a used truck is predominantly favoured by smaller fleet operators. Cross referencing the method of truck purchase against fleet size shows that buying used is only an option chosen by those with 10 or fewer trucks on the fleet. It is barely considered by anyone with a fleet above this size. A remarkable 69% of those buying a used truck from an independent dealer had a fleet size of one to five vehicles, whereas 35% of those buying used from a franchised dealer have a fleet size of six to 10 vehicles. Those with a fleet size of 11 to 30 vehicles will also consider used sales – 23% of those selecting to buy used from a franchised dealer had a fleet size within this range. Buying new is the only option for anyone with a fleet size of 101 or more vehicles

However, operators do say they have used various types

of finance options when purchasing an HGV in the past. Hire purchase received the most responses (19.2% of all answers submitted), followed by self funding from cash reserves (15.5%); contract hire (13.4%); finance lease (11.6%); asset finance (9.2%); operating lease (8.4%); rental (8.4%) and bank loan (5.8%). This finding suggests a willingness for operators to explore a number of purchasing options.

Operators are, in the main, reluctant to renegotiate finance contracts: just 42.3% of operators have negotiated a contract extension to a finance lease, operating lease and/or contract hire agreement, while 57.7% have not. Equally, 38.8% have negotiated an early settlement to such agreements, while 61.2% have not.



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CASE STUDY: SCANIA FINANCIAL SERVICES

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Scania helps Ashville become one-stop shop for groundworks

Ashville Aggregates continues to expand its Scania fleet with a range of multi-purpose Scania trucks becoming a one stop shop for groundworks.

With no previous experience or family legacy behind him, Ashville Aggregates MD Daniel Louisy started out with a single used grabber, it now has 20 multi-purpose lorries, with Scania making up 50% of the fleet.

Having purchased non-Scania used trucks in his early years, Louisy encountered a problem: "I was trying to purchase additional used trucks, but I found that I was not getting a response. The sales rep wouldn't return my calls. I received a call from Maks Stabrawa from Scania (GB) and the rest is history."

Stabrawa's knowledge encouraged Louisy to purchase new Scania trucks – the Euro-6 Scania supported an improved total operating economy compared to older trucks, whilst enabling diversity meaning they can operate multi-functional requirements.

Karl Wicks from Scania Financial Services provided a tailored financial solution to purchase the new trucks. Ashville finances its vehicles on hire purchase with Flexi-Buy and R&M.

Wicks was able to spread the deposit over several months, deferring some payments to create a lower manageable monthly payment. Louisy explained: "Karl took the time to understand my business and its needs before structuring the deal. Being able to spread my deposit enables me to have better cash flow and to grow my business."

The key difference to other truck and finance providers, Louisy explains, is that "Karl and Scania Financial Services understand running lorries and that's important to me. I will only buy Scania going forward and the service from Maks and Karl makes doing a deal simple and I trust that they will put the interest of my business first".

On the working relationship Wicks said: "It's a pleasure to work with Daniel, he knows what he wants to do and being able to work in partnership with Daniel and Maks to support his ambition and help his business grow is rewarding."

Due to the successful partnerships in place in the South East region Scania Financial Services now has an additional relationship executive, Katie O'Sullivan, who supports the services on offer to customers.



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CONCLUSION

Operators have never had so much choice when it comes to funding the purchase of a commercial vehicle, but it appears that despite the many options on the menu, there is little appetite for more.

When it comes choosing a favourite, operators have diverse tastes. In the main operators prefer to buy new trucks rather than used trucks by a ratio of almost 4:1. The majority (50.9%) prefer to use a finance agreement – either from a dealership, manufacturer or third-party supplier – and favoured options are hire purchase, contract hire and finance lease, although funding from cash reserves is also a popular method.

What should concern suppliers of trucks, and of truck finance, is the slowdown in demand for trucks. The findings of this survey show that the market for buying new and used commercial vehicles has contracted by 11.5% year-on-year, with no forecast for a bounce back in the remainder of 2019.

It is worth noting that this forecast from our survey sample came before the Office for Budget Responsibility said that it believed the UK

economy would shrink by 2% by end of 2020 if there was a no-deal Brexit under new prime minister Boris Johnson.

However, there are legislative reasons driving the purchase of new commercial vehicles – such as clean air zones in Leeds, Manchester and Birmingham that require all HGVs to run at Euro-6 to enter major conurbations. Many operators have run Euro-6 since its introduction 2014 and market penetration is high, but some operators will run very specialist commercial vehicles with long life-cycles. It is here where the most creative financing options will be appreciated.

The declining market forecast means vendors will have to work harder to secure what business is out there. Yet the good news is that operators are open to options. A finance package, be it contract hire, operating lease or rental, is the favoured option by over half of those surveyed. Clearly there is more room for adoption of finance packages for buyers potentially facing a squeeze on cash reserves. Offering customers piece of mind when it comes to cost control will be key to success in the coming months.

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CASE STUDY: RENAULT TRUCKS



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Three top spec T Highs for McAteer Recycling

One of Northern Ireland's leading waste specialists, McAteer Recycling, put into service three top specification Renault Trucks Range T520 High 6x2 twin wheel tag axle tractor units on a five year Start & Drive hire purchase contract with Renault Trucks Financial Services.

Supplied by Diamond Trucks, these are the first T520 Highs to join the company's mixed fleet of 25 tractors and rigids. Vehicle selection was based on reliability, economy and performance, as well as the strength of the dealer network.

In McAteer Recycling's bold blue livery, with colour-coded cab components, the T520 Highs work on a scrap recycling operation, collecting semi-processed materials destined for the main recycling processors in Belfast, or for the ports for treatment in the UK, Spain and beyond.

"We always said we'd buy the T High when it came out in right hand drive. The drivers love them," said director Eamonn McActeer.

The company opted for a five-year Renault Trucks Start & Drive hire purchase contract through Renault Trucks Financial Services (RTFS) that guarantees maximum uptime.

Providing an on balance sheet solution with all the benefits of economic ownership of the vehicle, the total peace of mind that all repair and maintenance costs are covered is a real plus, McAteer said: "We took advantage of a 0% finance offer with RTFS over five years that's fully warranted for the life of the contract, so for five years all we have to worry about is fuel and tyres. It's real peace of mind for us. Now we're looking to order a further five T Highs, and although the 0% finance deal is no longer available, we'll still be going with the RTFS Start & Drive contract over four years for risk-free maintenance and repairs."



Renault Trucks' longer term four- or five-year low rate finance offers provide all the upsides of a contract hire repair and maintenance agreement without the worry of vehicle return condition or downtime during the defleet process at the end of the contract.

Pulling BMI 75cu yd HardBox Scrap tipping trailers, McAteer Recycling selected the top powered Renault Trucks DTi 13 litre Euro-6 engine, which produces 512hp and 2550 Nm of torque. "The steel-bodied scrap trailers mean we're heavy even when running empty so we need the extra power. Coming out of Dublin, it's hilly enough terrain that we need to power up, and if this means more can be done in a day, we're earning more money," McAteer explained.

Despite the heavy work, McAteer is pleased with fuel performance: "Five months on the road and the trucks are getting better mileage as they run in, even on our work they're pushing 8.1mpg. When you're running as many trucks as we are, every drop of fuel you save counts."

Reliability is also a key factor for McAteer Recycling, and the support from the Renault Trucks dealer network is highly valued. McAteer said: "Matthew Keys at Diamond Trucks is very easy to do business with and, as we're working all over Ireland, we also rely on the Renault Trucks network - Toal Truck Services in Armagh and Setanta in Dublin. We know we can get the support we need wherever we are."

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CASE STUDY: VOLVO FINANCIAL SERVICES



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CARS feels safest of all with Volvo Financial Services

For more than 20 years, CARS (Classic Automotive Relocation Services) has specialised in the transportation of prestigious motorcars. Cars and motorcycles are transported by all modes of travel, including road, sea and air. They operate on a global basis with offices in the UK, the Netherlands, New York, Los Angeles, Dubai and Japan, or via a network of agents.

From their base near Bury St Edmunds, CARS operate 36 heavy commercial vehicles including both rigid and tractor units, working closely with Volvo since 2007. The current fleet is maintained by Volvo Truck and Bus East Anglia at the local depot in Chedburgh, Suffolk.



Volvo worked closely together through Matt Kubot at Volvo Truck & Bus Centre East Anglia and Andy Page of VFS (Volvo Financial Services) to provide CARS with a tailored solution including maintenance and lease to support their fleet.

Within the package, the nearby Volvo Trucks depot at Chedburgh provides maintenance facilities at convenient times to meet the needs of the customer.

Chris Dale, group transport manager at CARS, said that he sees Volvo Trucks as a true business partner and the overall offer as a 'One Stop Shop' for supply, maintenance and funding. In addition, VFS provides credit facilities and digitally exchanged finance documentation which makes them easy to do business with.

This year, Volvo Trucks is supplying eight FH 500 6x2 tractor units to complement their fleet.

The new Volvo units will be used for delivering customers' vehicles to many high profile events including the Goodwood Festival of Speed, the Gumball 3000 rally, the Mille Miglia and the Rallye Monte Carlo Historique.



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