

Free up working capital with sale and rentback

Businesses often fail, not through lack of profits, but because of a lack of cash reserves.

Cost control and cash flow management are the main issues facing all businesses as they battle to counteract the impact of global economic turmoil.

Therefore, as companies put every aspect of expenditure under the spotlight, now is the time to undertake a root and branch review of their fleet funding strategies.

It is against that background that a shorter-term approach for long-term business health is called for, which has led to an increasing number of organisations focusing on vehicle 'usership' and not 'ownership' by turning to vehicle rental.

Traditionally, rental is viewed as an option to fulfil a temporary vehicle shortage, but the development of a range of products such as longer-term rental and Northgate's launch of sale and rentback has broadened its appeal to a wider range of customers.

Building strong cost-control measures into fleet policies requires sound knowledge of taxation and

'Under sale and rentback companies benefit from an immediate cash injection'



financial analysis, but it also requires directors to think outside the traditional box labelled 'fleet funding'.

Outright purchase and various forms of leasing are invariably viewed by financial advisers as the main funding options, but all carry elements of risk at a time when businesses are faced with tougher lending conditions as banks tighten their lending criteria.

Days of easy borrowing are over

The impact of tougher lending conditions means that businesses needing to borrow funds to finance the purchase of vehicles will find it more difficult as banks become more selective about who they lend to and at what interest rate.

These changes in the money markets have also directly impacted leasing companies who are also experiencing higher borrowing costs that are being reflected in increasing monthly hire rates.

Simultaneously, vehicle residual values have declined with some models falling by up to 30% over the past year, further impacting on the financial health of a business with over valued assets.

Under sale and rentback, companies benefit from an immediate cash injection into their business if they outright purchase, which is the most common funding method.

Northgate buys all or part of the fleet from the customer and then rents the vehicles back - immediately replacing old vehicles with new. This removes expensive depreciating assets

from the balance sheet and gives the business a more modern and cost-effective fleet.

This approach can improve a company's gearing ratio and enhance the bottom line.

It is also more tax-efficient, including being able to recover VAT; particularly attractive for fleets operating LCVs where they can maximise its reclaim to create a more competitive offering for customers.

With the money previously tied up in vehicles unlocked, it can be used to fund development of core activities.

Flexible method of acquisition

The fleet is now effectively contracted to Northgate for just 10 months before reverting to a completely flexible solution, making it an ideal strategy for companies that need vehicles without risks or long-term commitment.

Not only that, but the residual value risk is now passed to Northgate, which also takes responsibility for and foots the bill for keeping the fleet serviced and maintained, in one monthly fee.

Phil Moorhouse, Managing Director of Northgate Vehicle Hire, said: "We view 'sale and rentback' as the smart move for forward-thinking businesses. Organisations should view rental as a flexible method of vehicle acquisition rather than being burdened with the fixed cost that ownership or leasing entails."

Firms turn to rental to meet cash flow needs

The economic downturn is stimulating demand for commercial vehicle rental.

In a survey of almost 500 businesses hit by the onset of recession many companies said they intend to hire rather than buy or lease vehicles in the future.

That was one of the key findings of a survey into how businesses intend to cope with the economic turmoil which was carried out by Northgate, Britain's largest vehicle hire company, which operates a fleet of 68,500 vehicles from more than 80 rental locations.

Almost a third of the 483 companies questioned reported a slump in business as a result of the economic slowdown.

And many of these companies said they intend to increase their use of contract-free rental because they still required vehicles to meet customer demand.

Northgate Vehicle Hire Managing Director Phil Moorhouse explained: "This is where vehicle rental as opposed to leasing or outright purchase comes into its own.

"Firms can budget more effectively and have the flexibility to increase or

reduce the number of vehicles operated at anytime without financial penalty."

Some companies view extending fleet replacement cycles as an option amid economic slowdown, but Mr Moorhouse warned: "Companies that take this route inevitably find that vehicles become more expensive to operate as running costs rise and residual values fall.

"Additionally, businesses running ageing vehicles will not be benefiting from the latest fuel efficient and safety features offered by today's newer models."



Phil Moorhouse

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