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ANALYSIS OF THE USE OF LEASING IN THE VEHICLE FINANCING IN ROAD TRANSPORT ENTERPRISES

Abstract

The article presents the use of leasing as a source of financing of vehicles by road transport enterprises. The research shows that it is a popular way of financing the vehicles and a good alternative to the use of own funds.

Keywords: road transport, vehicles, sources of financing, operational leasing, financial leasing

Introduction

Transport activity heavily influences the functioning and growth of the other economy sectors. This is due to the fact that every economic activity requires transport services, be it in the form of supply, production or distribution. To run an economic activity by a road transport enterprise is to sustain a number of motor vehicles and the connected potential of monetary funds. The accessibility of different possibilities of financing the fleet leads to a number of costs. Every purchase decision should therefore be prepared with an analysis, so as to make to optimal decision on what funds to invest. The number of purchased motor vehicles increases every year, therefore the market of financing sources of these vehicles also grows in importance.

The goal of the article is to analyse the offers of lessors on supply vehicles and to analyse the use of leasing as a method of financing the rolling stock in 2016.

1. Analysis of the road transport market

Transport is an activity of purposeful displacement of cargo and passengers (Marszałek, 2001, p. 7), with the use of appropriate assets, called the means of transport (Dz. U., 2001). The statistical data proves that the road transport is the dominant mode of transport. In 2015, 1505.7 mln tonnes were transported on road, which is 83.5% of all the cargo transported by all modes. In 2015, the road transport's performance was equal to 273.1 bn tonne km, which is over 4\$ more than the year before. In 2015, there was another growth, both in the volume of tonnage (2.7%) and the performance (11.2%).

The data which is available covers the whole road transport, i.e. the commercial and the economic. The share of commercial transport in the total transport in 2015 was 59.2% (892 mln tonnes) and the share of economic transport was 40,8% (613.7 mln tonnes). In regards to the performance, the share of commercial transport is much higher and is equal to 85.1% (232.4 bn tonne km) in 2015, whereas the share of economic transport is 14.9% (GUS, 2017b). In 2016, commercial transport haulage was higher by 7% than the year before and the performance was 12.6% higher. The performance of the economic transport also increased by 3.1%. The volume of the transported goods however decreased by 3.5%.

Investments in vehicles show an increasing dynamics over the years. The gross value of the fixed assets in the enterprises hiring more than 9 people in 2015 was equal to 43 329 mln PLN and increased by 11.2% in comparison to 2014 and by 23% in comparison to 2013. The share of motor vehicles in the fixed assets in road transport enterprises was equal to 73.4% in 2014 and 71% in 2015. The gross value of motor vehicles decreased by 7.5% in comparison to 2014 (GUS, 2017b).

The investments on motor vehicles had a share of 75.7% in the total investment value in 2015 and a share of 69.4% in 2015.

The number of cars and tractors registered in 2016 was 28.5 mln, which is a 4% growth in comparison to the previous year. The number of registered passenger cars increased by 4.6% in comparison to the previous year and had a value of 21.7 mln. The number of commercial vehicles also increased by 4.6% in comparison to the previous year to a level of 3.2 mln. The number of tractors also increased by 9.7% (361.7 thousand tractors). The number of registered buses also increased to 113.1 thousand vehicles (3% growth) (GUS, 2017c).

418 058 new passenger cars were registered in 2016 (17% growth in comparison to the previous year), 64 642 new commercial vehicles (12% growth), 21 278 new tractors (26% more than in 2015) and 5557 new buses¹.

There is an overall increase in the stock investments in road transport companies, therefore the available source of financing also grow in importance.

¹ Data of the central vehicle register.

2. The source of financing of the means of transport in road transport enterprises

2.1. The criteria for the choice of the transport sources of financing

In order to run a company, appropriate means of transport are required which are financed by different capitals. The structure of the rolling stock and its financing sources depends on the financial needs and the seasonality of the company's activity. Many factors are analysed in the choice of the appropriate source of financing (Róžański, 2016, p. 162). The most important are:

- type of assets and their destination;
- availability;
- costs;
- elasticity;
- financial leverage effect;
- handling risk.

When analysing the source of financing, one has to consider what item is the company purchasing, what is the planned use of the vehicle and how long it will stay in the company. The availability means that an appropriate value of the assets are required to be a guarantee for the credits. The cost of the source of financing itself (including the interest) also has to be taken into account as well as the credit payment schedule. The enterprise has to consider the changing market situation and adapt elastically to the customer needs and the possibilities to increase the stock funding so as to react more efficiently to the customer needs. The enterprise should also consider the structure of the liabilities and their impact on the effectiveness of the use of equity. Every source of financing is connected with a risk level regarding the expectations on the future profits and possibilities of reaching it (Rutkowski, 2016, p. 241).

When choosing the source of financing of the transport means, the enterprise uses its own and external funds. The own funds are the revenues on the economic activity, the retained profit, the emission of regular or privileged shares. The purchase of the means of transport using the own funds is the cheapest way of financing them. The only costs are the lost profits. In the moment of purchase, the ownership of the car is granted, which allows to freely control the means of transport when using and selling it (Kalinowski, 2016, p. 122).

Credits, leasing, bonds (Wojewódzka-Król, Załoga, Eds., 2016, p. 606) are the external capital as well as the tenancy, rental and lending (Rokicki, 2013).

Obtaining a credit is connected with additional costs, resulting from the credit granting procedure (e.g. availability fee, management fee, fees for the solvency documents). Furthermore, the profitability analysis has to include credit interest which is currently at a level of 3.5%. Banks may require an own contribution of up to 50% of the value of vehicle in order to minimise the risk (Rokicki, 2013, p. 123).

Long term rental, tenancy and lending are not a way of financing the vehicle but they are a way of controlling and using it. Long term rental means that the rentee pays a certain rent over a declared usage period. The rentee covers

the costs of the use of vehicle and the maintenance costs are covered by the renter. The tenancy is different in that the maintenance costs are also covered by the tenant. The person who uses the car covers the costs connected with the use of it (Rokicki, 2013, p. 123). The issue of bonds happens very rarely in the transport market, but it can be worthwhile in large stock purchases.

2.2. Leasing in the financing of transport means

Road transport enterprises are more and more interested in financing the means of transport through leasing. This is due to the fact that the leasing firms are more flexible than banks and the procedures of being granted a leasing are shorter and less complicated. The increasing competition on the leasing firms market also plays a role in this.

Leasing is a civic contract, in which the financing entity grants the right to use the means of transport over a given period in exchange for the payment of leasing instalments. The bureaucracy connected with the leasing are simpler than in the case of a credit. Leasing doesn't require any collateral apart from the vehicle itself. The use of the means of transport can happen in one of two ways: as an operational leasing or as a financial leasing (Pruchnicka-Grabias, Szelałowska, 2014, p. 91).

The financial leasing is granted for a period of over a year (similar to the normative use period) and is connected with introducing the leasing object into the fixed assets register and depreciating it by the user. At the same time, after the payment of the last instalment, the object can become the property of the user (Pruchnicka-Grabias, Szelałowska, 2014, p. 124). There is also a combination of these two types of leasing which is the mixed leasing. For the purpose of accounting it is treated as a financial leasing and for the purpose of taxation as operational leasing. Mixed leasing transaction is divided into two phases. The first one is the contract of the operational leasing which doesn't end into a propriety switch. In the second phase, the object is leased financially, however at a lower value level, which includes the payments up-to-date. Mixed leasing ends with an automatic transfer of propriety onto the user.

The forms of leasing can be furthermore divided into direct and indirect leasing. In the direct leasing, the producer of the leased vehicle is also the lessor. In the case of indirect leasing, at least three entities are involved: the supplier, the user and the leasing firm.

The leasing firm purchases the vehicle from the producer indicated by the user and then leases the purchased item to the user (Pruchnicka-Grabias, Szelałowska, 2014, p. 124).

3. Comparatory analysis of the chosen lessors

Offers of the four car dealerships, which offer leasing services have been analysed. Leasing conditions of the four cargo vehicles were taken into account:

Volkswagen Transporter, Mercedes Van, Nissan NV 200 and Renault Traffic. The comparison of the lessor' offers is shown in the table 1.

Most of the companies offer similar leasing conditions, as the tables show. The main criterion for the choice of the leasing company is therefore the preference in regards to the brand of the vehicle and cost factors (e.g. the price of the car). Usually, the leasing firms offer the Full Service Leasing option. This is a solution which is used by a growing number of road transport companies. It allows to decrease the fleet maintenance costs. It's characterised by, among others, a low own contribution, constant and low instalments and a service packet (insurance, substitute vehicles, tyre purchase, maintenance). The formalities of the leasing contract are reduced to the bare minimum, thanks to which the entrepreneurs gladly use the offers of the lessors.

Furthermore, the lessors have a high bargaining power with the car producers, which allows them to reach a price reduction level of up to 20–30%, which is important when leasing a larger number of vehicles by the companies².

Table 1. The lessor offers on commercial vehicles

Specification	Nissan Business Finance	Lease & Drive Mercedes	Flexi Leasing Mercedes	Profit Lease Volkswagen	Leasing 101% Renault
Vehicle type	Nissan NV 200	Mercedes Van	Mercedes Van	Volkswagen Transporter	Renault Traffic
Vehicle price	63 911 PLN	169 740 PLN	169 740 PLN	106 294 PLN	90 897 PLN
Leasing type	Operational	Operational	Financial	Financial	Operational
Own contribution	From 0%	Dependant on the period and mileage, at least 5% of the vehicle value	Dependant on the period, at least 5% of the vehicle value	From 0% to 30%	10% of the value
Leasing period	From 24 to 60 months	From 24 to 60 months	From 24 to 60 months	From 24 to 60 months	From 24 to 60 months
Leasing instalments	Equal, from 2.17% of the vehicle value	Low monthly instalment, 1% of the car value	Low overall costs	1.6% of the vehicle price	1.4% of the vehicle price
Mileage limit	Up to 200 000 km	Up to 50 000 km a year	Unlimited	20 000 to 80 000 a year	Unlimited
After the leasing period	Vehicle return	Vehicle return	Repurchase for 1% of the car value	Repurchase value dependent on the period and mileage	Repurchase after 24 months: 19%, after 36.48 and 60 months: 1%
Interim reviews	Included, in authorised workshops	Additional fee	Additional fee	Included	Additional fee

² <http://www.flota.com.pl>.

Table 1. cont.

Specification	Nissan Business Finance	Lease & Drive Mercedes	Flexi Leasing Mercedes	Profit Lease Volkswagen	Leasing 101% Renault
Insurance	Full insurance packet	Full insurance packet	Full insurance packet	Full insurance packet	Payable and additional 3.9%
Assistance	24 h, substitute vehicle	24 h, substitute vehicle	24 h, substitute vehicle	Included	24 h

Source: (own elaboration)

4. Use of leasing in the financing of the purchase of road vehicles

Polish Statistical Office (GUS) performed a research on 106 companies offering leasing in 2016. This research was used to analyse the source of financing of the road transport. 73 entities declared the leasing activity to be their dominant activity.

The presented data show that the means of transport are the main position in the structure of the new leasing contracts. They have a value of 74.45% of all the new contracts' value. Passengers car had as share of 54.5% of the value of the vehicles, while the cargo vehicles had a share of 14.2% (GUS, 2017a).

Road motor vehicles was the largest groups of the leased assets. 334 thousand vehicles were leased, 77.2% of which were new. In this group, the passenger cars were dominant – 230 thousand, 80.7% of which were new. 53 thousand other road vehicles were also leased, 48 thousand of cargo vehicles and 1942 buses.

The value of vehicles leased by the lessors was 38.0 bn PLN (GUS, 2017d). Leasing of the transport means contributed to 71.6% of the value of the financial leasing contracts and 82.3% of the value of the operational leasing contracts. In the case of the mixed leasing contracts, the vehicle leasing had a share of 47.5% of the contract's value in 2016.

Table 2. The value of new leasing contracts in 2016 according to the type of leasing (in mln PLN) and the share in total value of leasing contracts on the purchase of road transport means

	Financial leasing		Operational leasing		Mixed leasing		Total
	value	share	value	share	value	share	
Road transport means	26 684	0.703	11 248	0.296	28	0.001	37 960
Passenger cars	14 237	0.684	6 577	0.316	0	0	20 814
Cargo vehicles	3 264	0.605	2 119	0.393	8	0.001	5 391
Buses	903	0.913	86	0.087	–	–	989
Other vehicles	8 279	0.769	2 465	0.229	20	0.002	10 764

Source: (own elaboration based on GUS data)

The value of financial leasing on road transport vehicles was 26 684 mln PLN in 2016, which is 70% of the value of all the leasing contracts. The operational leasing is the second largest type of leasing used to finance means of transport. Its value in 2016 was 11 248 mln PLN, which is nearly a 30% share of all the new leasing contracts. The share of mixed leasing is not significant and equal to 0.001%.

A detailed analysis of the ways of financing of the vehicle groups shows that the passenger cars are financed in 68% with financial leasing and in 32% with operational leasing. A similar situation occurs in the case of cargo vehicles and buses, for which most of the customers (appropriately 60% and 91%) choose financial leasing, while the operational leasing is chosen by 40% of the customers purchasing the cargo vehicles and only 9% of the customers purchasing the buses.

Table 3. The value and the share of the new leasing contracts based on the type of transport means and the contract period in 2016 (in mln PLN)

	Up to 2 years		2 to 5 years		Over 5 years		Total
	value	share	value	share	value	share	
Road transport means	2 844	0.075	33 191	0.874	1 924	0.051	37 959
Passenger cars	2 063	0.099	18 115	0.870	637	0.031	20 815
Cargo vehicles	289	0.054	4 802	0.891	299	0.055	5 390
Buses	38	0.038	529	0.535	422	0.427	989
Other vehicles	454	0.042	9 744	0.905	566	0.053	10 764

Source: (own elaboration based on GUS data)

In 2016, the new leasing contracts were dominated by contracts for a period of between 2 and 5 years (87%). The share of the shortest contracts (up to 2 years) was less than 8% and the share of the longest was over 5%. Passenger cars, cargo vehicles and other vehicles were mostly leased for a period of between 2 and 5 years. Only in the case of the bus leasing, the long-term leasing played a significant role and amounted to 43% of the value of the new contracts.

Table 4. The number and share of road means of transport leased and the value and share of leasing contract in 2016

	Leased vehicles				Value of the leasing contracts			
	New vehicles		Used vehicles		New vehicles		Used vehicles	
	value	share	value	share	value	share	value	share
Road transport means	257 546	0.772	76 269	0.228	30 588	0.806	7 271	0.194
Passenger cars	185 738	0.807	44 456	0.193	17 088	0.821	3 727	0.179
Cargo vehicles	34 755	0.723	13 304	0.277	4 351	0.807	1 040	0.193
Buses	1 132	0.583	810	0.417	792	0.801	197	0.199
Other vehicles	35 921	0.670	17 699	0.330	8 358	0.776	2 406	0.224

Source: (own elaboration based on GUS data)

In 2016, leasing was used mostly to finance new road transport vehicles, which were 77% of all the vehicles leased (257 546 vehicles). There were 76 269 leased used vehicles, i.e. 23% of the total.

Table 5. Structure of the road transport vehicles leased in 2016

	Structure of the road transport vehicles leased	
	new	used
Road transport means	100	100
Passenger cars	0.7212	0.5829
Cargo vehicles	0.1349	0.1744
Buses	0.0044	0.0106
Other vehicles	0.1395	0.2321

Source: (own elaboration based on GUS data)

New passenger cars were the 72% of the total number of leased motor vehicles, cargo vehicles had a share of 13.5%, buses 0.4% and other vehicles almost 14%. Used passenger cars had a 58% share of the total volume of used motor vehicles leased, other vehicles had a share of 23% and used cargo vehicles had a share of 17%. The overall value of the leasing contracts on used vehicles was 7.3 bn PLN.

A similar statement applies to the analysis of the value of leasing contracts. The value of newly leased vehicles was 30.6 bn PLN which is an 80% share of the total value of leasing contracts.

24 435 enterprises classified as transport and logistics companies made new contracts, which had a total value of 9035 mln PLN in 2016, which is 9.6% of all the customers of leasing services.

Conclusions

A purchase of a motor vehicle affects the capital structure of the company. It should therefore include all the criteria, which make a given source of financing attractive for a road transport company. A purchase using own funding results in a full control of the car and lack of financial costs, but also limits the depreciation and results in the cost of lost profits. The credit can be an alternative in the case of a lack of funding. It is often connected with a lower interest than leasing. However, the operational leasing allows not to apply the depreciation limits for the vehicle, while the financing entity retains the ownership. The research shows that the leasing is the most common way of financing the purchase of road transport vehicles.

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