Spotlight Small**Business**

by Cynthia Scanlon
photography by Ray Litman

fleeting thoughts

Shifting into auto leasing

Joey Staples, leasing manager for Earnhardt's

If you've gone automobile shopping recently, you can't help but have noticed the stickers on some windshields are approaching what many of your parents paid for their first house. And the numbers won't be going down anytime soon. For the company needing a fleet of cars, whether it be two or 200, the rising price of automobiles has required a hard look at allocating resources with the bottom line in mind.

"The majority of businesses are beginning to focus on the vehicle as a business tool and not as that American passion, the automobile," says Carl Hanson, group sales manager for Enterprise Fleet Sales. "It's getting to be more of a business transaction and less a need to go kick the tires and smell the new interior. They are looking at the business function." And for many businesses, the most cost-efficient way to utilize that business function is through leasing. Leasing is popular and growing more so every day.

"Typically today, we're seeing that once a person leases, they don't buy anymore," says Barry Lehane, general sales manager for Chapman Chevrolet Isuzu.

As might be expected, leases come in all shapes and sizes. They can be written from one to five years, and the financing can be structured in myriad ways. And a lessee can acquire a full maintenance lease or choose to take care of their own vehicle.

According to Hanson, one of the biggest advantages of leasing is only purchasing the portion of the car your company will be using. He explains that someone purchasing an $18,000 car may find it is only worth $8,000 three or four years down the road. "So you are structuring your lease to go to the $8,000 value, and that's what makes it affordable," he says. "The need to pay it all off is not really necessary."

A quick "cycle time" also appeals to many business owners, who want their fleets to be modern and state-of-the art, says Joey Staples, leasing manager for Earnhardt's. "Manufacturers are changing the technology and product line of their cars every three years," he says.

Leasing has become so popular that many leasing companies are now catering to business. "Some of the major corporations are leasing and some of the major lenders are creating special programs and special lease companies just to cater to the bigger companies," says Lehane. "They create bulk leases where they put four or five cars on one lease." Smaller companies are being courted as well.

Most companies who decide to drive down this path will be confronted with the option of choosing an open-ended or closed-ended lease. The open-ended lease is less structured and less limited. "Most businesses do this because they don't know what their mileage will be, and they don't want to be restricted," Hanson says. "The open-ended lease gives them the benefit of a lease structure from a cost standpoint, but it gives them the flexibility of ownership." The caveat with this option is to read the fine print and know what your responsibilities will be throughout the lease life and what you might owe at the end.

A closed-end lease will allow a lessee to fix terms, payments and mileage. If you have a strong idea of how the car will be used and how much, a closed-end lease may be the way to go. As long as you adhere to the terms and mileage agreed upon, you should have no surprises in the end. But again, check the details to understand your responsibilities. For the past 12 years, Commercial Blueprint has been leasing its automobiles, experiencing very good results. With a fleet of more than 30 vehicles at a time, the company has

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leased more than 500 automobiles. "Since we turn over our delivery fleet every two years," says Rab Paquette, president of Commercial Blueprint, "we evaluated our fleet usage, tax benefits and our expenses and decided that leasing was a much better way for us to go."

In those 12 years, Commercial Blueprint's leasing program has helped the company take advantage of many benefits that purchasing their cars would not have. "Leasing seems to work well from every angle we have explored it from," says Paquette.

In deciding to lease, capital conservation is the first benefit most businesses will realize. "Cars and trucks are so expensive and people are trying to conserve their credit lines, so leasing is a way they can do that," says Lehane. "[Companies] can pay for the actual use of the vehicle instead of capitalizing the whole thing and tying up their borrowing power." Lehane illustrates his point: "If you're going to use $20,000 worth of a $30,000 car, why do you want to pay all $30,000 when you're not going to use $30,000 worth of value?" Then, he adds, a buyer puts himself in the position of participating in what the market's going to be three years from now when trading. "You trade it in and it's only worth 7,000," he says. "A lease builds the contract so this doesn't happen as long as you don't abuse it, over mile it or wreck it."

Lehane points out another benefit of leasing in what he calls a contingent liability as opposed to a direct balance sheet liability. For example, if you buy something, you create a liability for the full amount you owe on it, and you'll have an asset. "For the first 10 seconds they equal each other," says Lehane. "Then the vehicle depreciates at a much more rapid pace than the loan is paid down. So every time you buy a vehicle and finance it, you put yourself in a situation where you owe more than its worth and that becomes a negative impact on your balance sheet." And that affects the liquidity and viability of your company. But if you lease something, whether it be car, plane or boat, it becomes a footnote on your balance sheet, which reads as a contingent liability and not a direct impact on the equity of your business.

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Those wishing to avoid this asset/liability discrepancy will sometimes put down a large down payment to offset depreciation for the first two years so they don't have that disparity, but that can severely impact a company's cash in the bank, leaving it less liquid. Most lease agreements call for between $1,500 and $2,500 down.

And, many leases also take care of much of the maintenance. "I don't have to worry about serious maintenance because every time I lease I have a new bumper-to-bumper warranty for three years, 36,000 miles," says Staples.

As with all contracts, understanding what you have agreed to is key to having a positive leasing experience. According to Hanson, the people that have had satisfying leasing experiences entered into the transaction with full knowledge and understanding of the ramifications of the structure. "People who don't like it listened to the monthly payment sales pitch, went down that path and got burned," he says.

Lehane cautions that one of the most important considerations in taking on an auto lease is to watch that the terms of the lease match the usability of the vehicle. "Don't write a 60-month lease if you'll use up all the viability of the vehicle in the first three years," he says. "You'll put yourself in a deficit situation."

Lehane has seen lessees drive off all the miles that are contracted for in the lease in the first 3 years of a five-year lease and end up owing money for excessive miles.

"I've seen people that contract a 15,000-mile per year lease put 25,000 miles on it," he says. "At the end of a three years, they've got 75,000 miles on a lease that they contracted for 45,000 and are then angry at the dealer because they owe money."

And last, but certainly not least, in addition to some of the financial benefits, both Hanson and Paquette point out some of the intangible results of taking on a lease.

"Most people make their decisions based on the cost of the vehicle, their interest rate and monthly payment, but that's only about 40 percent of the cost of operating a vehicle," says Hanson. "When you focus on the business function, you get that other 60 percent and you can drive costs down there." He adds, "You also have reduced down time and improved driver efficiency. Those things become far more important."

Paquette agrees. "Our drivers are around a lot longer because they are happier driving a new vehicle, and we have less down time," he says. "It's a huge morale issue for our drivers to be driving new vehicles. It's hard to quantify it, but it's definitely there."

So the next time your company is in the market to replace or upgrade its automobiles, give leasing a thought. It just may be one of the most cost effective ways for you to operate your company.

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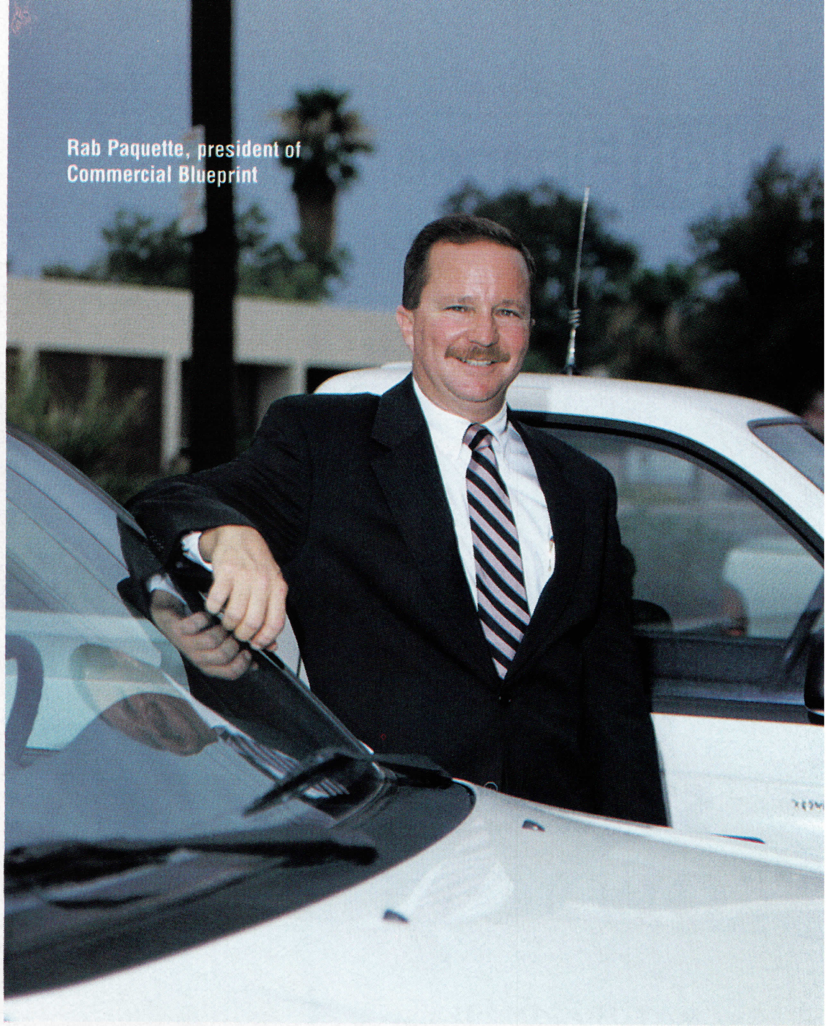
Rab Paquette, president of Commercial Blueprint