OPERATORS TAP BRAKES ON LEASING AMID INFLATION, SUPPLY-CHAIN WOES

With costs rising, operators with 'blended' fleets of leased and owned vehicles lean toward the latter

By Jack Morgan

Recent events, notably inflation and the limited ability of leasing companies to ensure access to new trucks, have undermined the appeal of leasing fleet vehicles, as fleet execs like Ernest Addington balk at the imposition of "forever" costs.

"When you're leasing, it's ongoing 'forever' dollars," says Addington, COO of Halifax Linen Service, Roanoke Rapids, NC. "It's just a revolving door of revolving spend that you don't have when you buy your trucks…You have the initial capital investment to buy the fleet. But if you manage it correctly, then you know whatever parameters you put in place for your fleet, whether it's mileage caps or 'years caps' of ownership, you can make ownership better than leasing to avoid the ongoing costs."

SHIFTING CONDITIONS

Other fleet executives we contacted expressed similar views. It wasn't always this way. Prior to COVID-19 and the recent round of inflation and supply-chain bottlenecks, leasing companies could make a convincing case that theirs was the way to go. The pitch goes something like this: "We'll take care of the truck maintenance and replace the trucks when they're near the end of their useful lives. Your main business is laundry—not fleet management. Why not delegate that to the professionals?" That advice sounds good even today. But inflation has undermined the economic case for leasing.

When we asked Alsco Uniforms' Vice President, Operations and Engineering Tim Stuewer whether or not leasing can save companies money by allowing them to forgo maintaining garages, hiring mechanics, stocking parts, etc. he replies that, "This is an age-old question, and the answer is grey at best. The shoe needs to fit the operating goals and preferences of the organization. Leasing with inclusion of a service program has the benefit of putting all control of the vehicle with the lessor. This approach also has the disadvantage of putting all control with the lessor. If the lessor isn't providing quality and timely service, the disruption to the business can outweigh any benefits, plus the premium that is usually paid for a full-service lease program."

A third operator, Spencer Fisher, fleet and facilities manager for Miller's Textile Services, Wapakoneta, OH, sees some advantages to leasing. But his company also is wary of these programs because companies like Miller's can manage the process just as well themselves. "I certainly believe that in some instances companies can save money by leasing," Fisher says, adding that, "If ownership costs are not managed properly, things such as repair and maintenance expenses can balloon quickly." To succeed without the services of a leasing company, he says it's important to have ties with qualified, trustworthy repair facilities that can minimize costs and vehicle downtime. In essence, this is what Miller's has done, and they're pleased with the results, Fisher says. "This model has worked well for Miller's for many years. We find value in working closely with outside vendors for repairs and maintenance. It can be more affordable when adequate time is dedicated to manage the program."

EMPHASIZE PM'S, WARRANTIES

For Addington, paying attention to fleet-management details, such as maintenance, make all the difference as Halifax steers away from leasing in favor of company ownership characterized by proactive management to control costs and maximize uptime. An emphasis on preventive maintenance (PM) measures and taking advantage

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of truck warranties helps. "If you have proper, PMs and you have proper post-trip inspections and pre-trip inspections, you can avoid a lot of this," he says of issues, such as costly engine repairs. "One of the things that we do too is we lean heavily on the warranty. Depending on what you buy, a lot of major drive-train warranties will cover up to 300,000 miles.

Another risk a company takes on with fleet ownership is if the companies you partner with for maintenance and repair aren't reliable. In that scenario, issues can snowball quickly into high costs and downtime, he says. Halifax has a large territory that extends from Roanoke Rapids, NC, north to Richmond, VA, and south to Savannah, GA. "We partner with several different vendors in our territory," Addington says. "Just to make sure we have coverage. They were fortunate that the partnership that we have, they have locations that touch every market that we serve."

Stuewer recommends proactive oversight to keep maintenance on track. This approach really depends on the quality of the service provider or internal employee(s). Companies need to manage service providers and hold them accountable with clear expectations for excellence. Otherwise, service and quality are likely to suffer. For example, mobile repair and maintenance services can be very convenient and non-intrusive to an operation to maintain fleet vehicles. But they need to be managed for performance and cost.

Addington likes the simplicity of leaving these details to a leasing company. But in today's market, such a move is cost-prohibitive, he says. As premium costs rise, "It's going to force the small-business owners into fleet ownership," he says. "But you're really going to have to have solid asset-management and preventive-maintenance programs in place."

PIPELINE ISSUES

One would think if anyone could overcome supply-chain bottlenecks for trucks, the major leasing companies with their insider intel and buying clout could get you a truck when others couldn't. Nonetheless, in today's market, lessors can't guarantee the expedited deliveries of new trucks. "I've got four trucks that's been on order now for a little over a year," Addington says. "They were ordered as 2023 models, originally in late '22. When we get these trucks, they'll be '24s." He adds that in the interim period, prices have risen by roughly one-third.

The other operators we contacted are facing similar delays, whether they're ordering direct or through a leasing company. Stuewer notes that part of the

issue is peak demand from large companies with massive fleets. "In this supply-chain-constrained environment, the larger-vehicle consumers tend to have more leverage in the access to new trucks," he says. "Lead times for tractors, box trucks and step vans can still range from six months to over a year, depending on the vehicle. Leasing companies may have priority access to vehicles, as they typically operate larger fleets. Everyone is standing behind the line of Penske, Ryder, UPS, FedEx and Amazon these days."

Fisher, who notes that Miller's Textiles has had both lease and company-owned fleet programs, says leasing companies can help determine the right specifications for trucks, but they don't make a great deal of difference in terms of delivery lead times. "Both owning and leasing our vehicles over the years has allowed us to see each side of this," Fisher says. "We have found that working with leasing companies to get new trucks ordered is slightly less time-consuming, and their expertise has proven helpful when choosing the proper specs for our application. At the end of the day, the timeline from order to delivery is no different than if you purchase outright through a dealer." With that said, having a good handle on a company's fleet requirements can simplify the buying process. "Once you have your ideal specs, the next order goes much quicker, regardless of how you choose to acquire," Fisher says.

ALT-FUEL VEHICLE ACCESS

As companies weigh the option—or possible near-term mandates—of adopting alternative-fuel vehicles, we wondered: Can leasing companies help pave the way to greener fleets? Our sources say that's possible but it's too soon to tell. Addington says they are looking into electric vehicles (EV) but concluded they're impractical for Halifax's sparsely populated market area. We actually inquired about it," he says. "Definitely, electric would never work for us because we're so rural." The problem lies with the limited mileage range of today's EV trucks, plus the limited number of charging stations in the U.S. Vehicles fueled by compressed natural gas (CNG) would make more sense. But again, access to fueling stations is limited. "For natural gas trucks, CNG, there's a lot more of those popping up. But again, the infrastructure in our market is spotty at best," Addington says. "You get into some of your metropolitan areas, you have opportunities to fuel with CNG. Cost poses another barrier to retiring diesel or gasoline-fueled trucks. "The cost of those trucks alone, an alternative-fuel vehicle, is much higher than buying traditional," he says, adding that, "So far we've not seen the value and the cost of that truck over dealing with diesel."

Stuewer says leasing an EV truck could make sense, but companies can access ample government-funded financial incentives for private purchases as well. "From the perspective of unknown technology and performance, leasing an alternative-fuel vehicle could place the warranty and service/breakdown burden on the lessor," he says. "However, the advantages of alternative-vehicle ownership with certain state-driven incentives can make a vehicle purchase advantageous." In a lease deal, lessors may not pass on those savings to lessees, he says.

Fisher notes that an advantage of leasing alt-fuel vehicles is that the company that leases the vehicles doesn't assume all the risks. "Leasing these types of vehicles allows for the success or failure of the new technology to be shared between the lessor and lessee, which can reduce financial risk. Miller's Textiles is just beginning to explore greener-fleet alternatives. "As a company, Miller's does not have experience on the medium or heavy-duty side of things with alternative-fuel trucks," he says. "We have experimented with hybrid passenger vehicles. These were purchased and have proven to reduce fuel costs."

BUY OR LEASE?

Based on the views expressed above, the current economic environment favors company-owned fleets. But company-owned fleets entail certain risks.

With that in mind, Addington says that if circumstances were different, Halifax might opt for fleet leasing. "I prefer leasing," he says. "The problem is the cost of leasing now vs. ownership. Moving more toward fleet ownership is the way to go. But you can't keep the fleet forever. If you don't have a strong replacement program, you can send yourself upside down in costs."

Fisher adds that while owning trucks gives operators greater control, there also are added responsibilities. "One of the main advantages to owning your own fleet is the ability to have better control over purchasing, maintaining and selling each vehicle," he says. The downside is staff have to manage the program effectively. Those that keep abreast of the program get the benefit of greater flexibility to expand or consolidate routes for improved efficiency.

Harking back to the COVID-19 pandemic, Stuewer says the value of having a company-owned fleet is that it enhances a company's ability to serve customers. "Alsco has consistently owned and operated its North American fleet," he says. "I do not see Alsco moving from that position soon, as it has worked well for the organization for decades. More recently when the pandemic struck, extended and sometimes more-intensive maintenance service had to be performed on the fleet because replacement vehicles were not accessible. However, it was also beneficial to have control of the fleet and not face the forced turnover of vehicle assets, while facing the risk of no receipt of a replacement vehicle. This ensured that Alsco could maintain full-delivery service to its customers." TS

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