Leasing in the USA versus Europe

What's next in transatlantic fleet management

What's next?

Introduction

Many international companies have large fleets that are spread across multiple countries and continents. Especially when there is a transatlantic divide within the fleet, these companies will come across major differences between the US and European markets in terms of things like the types of leasing products, the way fleet management is organised and topics such as eligibility and sustainability. At LeasePlan, we have written this white paper to give you a clearer understanding of leasing and fleet management on both sides of the ocean and to show what's next in transatlantic fleet management.

From a historical perspective, the concept of leasing actually originated many decades ago, when it was initially mainly used for heavy equipment before gradually evolving into the leasing of vehicles, among other things. The underlying reasons for leasing are similar for everyone, irrespective of the product; when the lessor (the party owning the vehicle and leasing to another) finances the item whilst the lessee (the party who leases the vehicle from the lessor) pays for it in instalments, this frees up financial resources for the lessee. Additionally, the lessor can take care of aspects such as maintenance and insurance, if desired. But despite this similarity, there can still be major differences in the approach to lease agreements, as illustrated by the vehicle leasing market in the USA versus Europe.

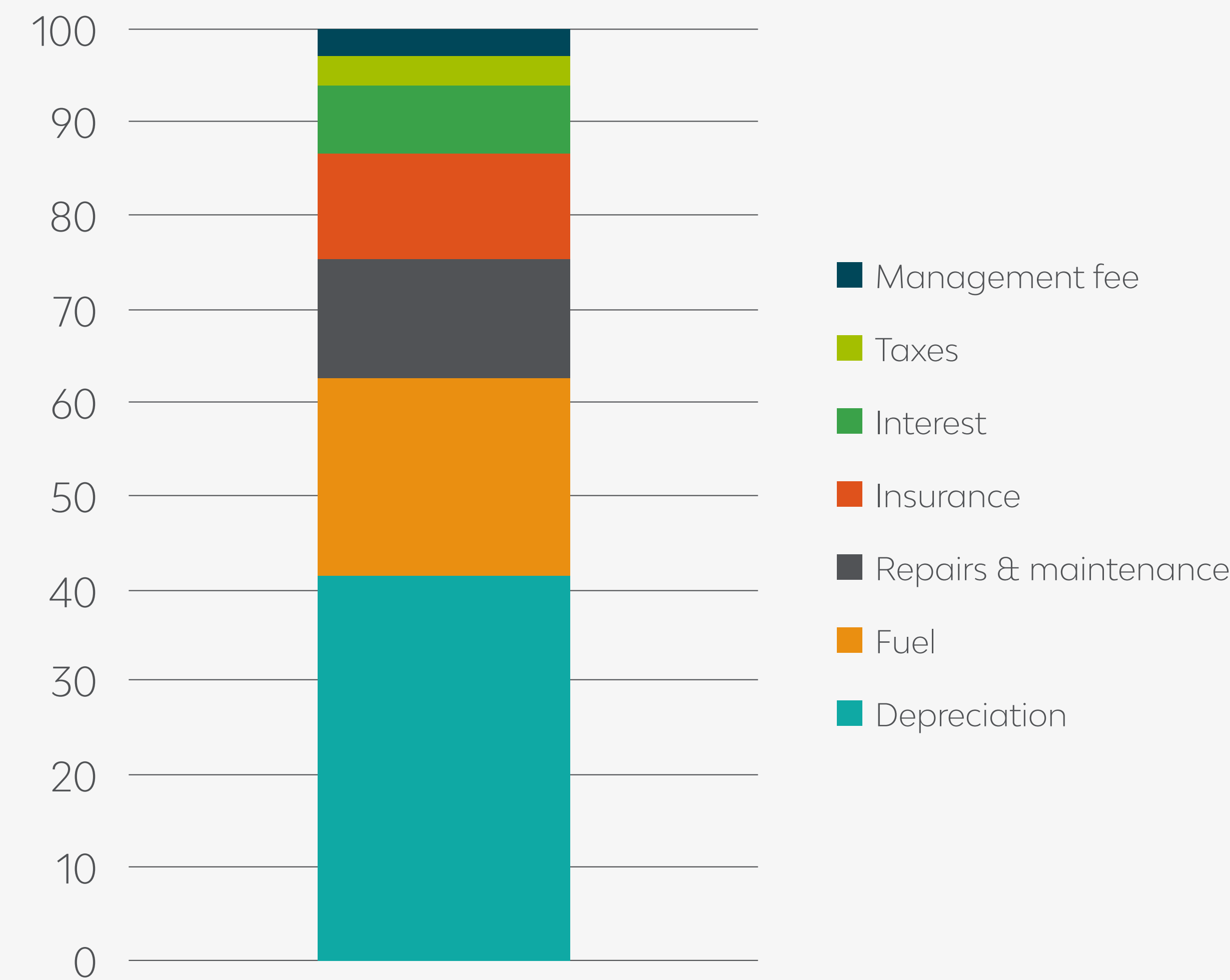
1. Leasing Products

One key difference between leasing in the USA and leasing in Europe is the most common type of leasing product. In the USA the best-known leasing product is the open-end lease, whilst in Europe the operational lease (or closed-end lease) is more widespread.

At 90%, open-end lease is the preferred model in the USA versus 10% closed-end . In an open-end lease, the monthly instalment is calculated based on the vehicle's depreciation plus interest. The lessee bears the residual risk. An open-end lease can best be compared to financial lease. The lessee has the freedom to sell the vehicle at any point in time (although usually after 12 months), whilst retaining the financial responsibility at all times. Any other costs such as insurance, maintenance and fuel are paid for outside of the lease by the lessee. This means that the lessee will have to work with the lessor to agree guidelines on maintenance intervals and, in the case of vehicle repairs, whether it makes financial and/or operational sense to have the vehicle repaired or whether it should be sold instead. Even though an open-end lease fleet is managed mainly in-house, the lessee can still benefit from the lessor's preferred maintenance and remarketing network, invoicing procedures and knowledge relating to vehicle selection.

In contrast, the operational lease (closed-end lease) product is much more common in Europe. The main feature of an operational lease is that the lessor bears the residual risk. The monthly costs are based on upfront agreement of the duration of the lease period and the expected vehicle mileage, so this lease model offers the most certainty in terms of cost. When additional services are added to the lease, we refer to the lease as a full operational lease. In this case not only the residual value risk but also items such as maintenance, repair, tyres, insurance and a budget for fuel will be included in the monthly lease instalment.

Average distribution of costs for a closed-end lease in Europe.



A closed-end lease comprises all of the expected costs over the agreed term. Other than fuel, which is a monthly provision based on the agreed mileage, all other costs are fixed. Based on the monthly lease instalment, the lessor pays for all maintenance, repairs and damage. The lessor also assumes the risk if the vehicle sells for less than expected at the end of the lease period.

It is virtually impossible to hand a vehicle in at exactly the upfront agreed mileage. To address this, the lease agreement contains a provision for over-mileage and under-mileage, so it is clear what needs to be paid or what will be reimbursed when the vehicle is returned. This covers the positive or negative impact on maintenance costs and residual value, and is similar to the impact on residual value of higher or lower mileage and age in an open-end lease. Vehicle mileage is checked annually by the lessor and, if the extrapolated mileage for the full contract term deviates from what was initially agreed, the contract is reassessed taking the new parameters into account.

Some fleet managers that operate a primarily commercial vehicle fleet (vans and trucks) prefer the open-end lease over an operational lease. Due to the unpredictability in terms of mileage and wear and tear on the vehicle, there is the risk of having to pay for over mileage and wear and tear when the lease ends. In case the vehicle is fully depreciated under an open-end lease, the lessee will not have any financial surprises at the end of the lease, since the vehicle may then be sold and the sales proceeds flow back to the lessee.

In Europe, variations on operational lease are available, called ‘open calculation’ (not to be confused with ‘open-end’). An open-calculation lease is closed-end, but with full or partial profit sharing on the risk elements of residual value and maintenance & repair in the case of positive results. Negative results are fully borne by the lessor. This means that both lessor and lessee have an incentive to take good care of the vehicle and to keep the maintenance costs down.

2. Fleet Management

Another difference is the way fleets are managed in the USA compared with in Europe. The fact that open-end lease is the preferred product type in the USA affects the approach to fleet management there. Since the lessee bears the residual risk and the responsibility for maintenance and insurance, this means that fleet managers play a more active role in managing the fleet. For example, whenever a car needs a service or is damaged, the fleet manager, supported by the fleet management provider, will assess numerous factors – including operational needs, cost and replacement time – to evaluate whether the vehicle should be repaired.

Fleet management is broader than just the day-to-day operation of the vehicles, and could also include driver contact, pool car management, checking invoices and reporting. The bigger the fleet is, the more likely it is that fleet management will be outsourced. Ultimately, the lessee decides which services are included.

In both types of fleet management, however, the lessee can benefit from the lessor's expertise and advantages related to economies of scale, such as an optimised remarketing process and a preferred network for maintenance. Leveraging a fleet provider's managed maintenance programme can generate significant advantages in terms of monitoring transactions, negotiating repair costs, auditing invoices and recovering post-warranty reimbursements.

3. Vehicle type

There are several different reasons why organisations provide employees with company cars, but they can be divided into two main categories: 'benefit vehicles' and 'tool of trade' vehicles. Benefit vehicles often make up part of a compensation and benefit package, whereas tool of trade vehicles serve a business purpose and are necessary to ensure that the job gets done, e.g. to enable a salesperson to visiting customers and prospects, or to enable a courier to deliver parcels.

Benefit cars are less common in the USA than in Europe. According to Willis Towers Watson, a leading global HR advisory, broking and solutions company, over 80% of companies in Europe offer their employees some sort of vehicle-related benefit, in the shape of either a company car or an allowance, with over 75% of those organisations offering the choice of a car . In the USA, corporate fleets consist of over 90% tool-of-trade vehicles and only 10% benefit vehicles.

Partly because of the different reasons for providing company cars on both sides of the Atlantic, US fleets contain a greater percentage of Light Commercial Vehicles (LCVs) than European fleets. Based on LeasePlan international clients with fleets in the USA, six out of the top ten vehicles fall within the truck or van category, compared to only one model in Europe.

	Europe		**USA**	
1	Volkswagen Passat	Passenger car	Ford E-Series	Van
2	Skoda Octavia	Passenger car	Ford Fusion	Passenger car
3	Volkswagen Golf	Passenger car	Chevrolet Equinox	Passenger car
4	Audi A4	Passenger car	Ford Flex	Passenger car
5	Renault Clio	Passenger car	Ford Transit	Van
6	BMW 3 Series	Passenger car	Ford F-Series	Truck
7	Ford Focus	Passenger car	Ford Fiesta	Passenger car
8	Mercedes C-class	Passenger car	Nissan Frontier	Truck
9	Opel Astra	Passenger car	Chevrolet Express	Van
10	Renault Kangoo	Van	Chevrolet Silverado	Truck

Examples of globally offered fleet models

Ford Transit

Nissan NV200

Toyota Prius

Opel Ampera /
Chevrolet Bolt

There are also historical factors that have contributed to differing vehicle preferences. After the Second World War, European buyers were looking for affordable and fuel-efficient cars. As early as the 1950s, many European countries imposed taxes on vehicles and fuel to limit imports, resulting in smaller and more economical cars than their American counterparts. For example, in 1957 Fiat launched the 500 with a two-cylinder 479cc (or 29 cubic inch) engine while in the same year the smallest engine in the Ford Fairlane was a 5.4 litre (or 330 cubic inch) V8. Today, the top-selling vehicle in the USA is the Ford F-150, compared with the Volkswagen Golf in Europe .

Source: PWC Autofacts April 2018

	USA	**Europe**
Top-selling vehicle	Ford F150	Volkswagen Golf
Preferred fuel type	Petrol >80%	Diesel ≈ 50%
Average engine size	≈ 3,000 cc / 180 cu in	≈ 1,700 cc / 100 cu in
Preferred transmission	Automatic (>65%)	Manual (>60%)

OEMs increasingly have a global approach, offering the same models worldwide. So even though the model line-up may differ per region, there is an opportunity to harmonise the makes and even the models in your fleet between Europe and the USA, whilst respecting local preferences in terms of characteristics such as fuel type and gearbox.

2018 Mustang GT automatic	**Netherlands**	**USA**
CO_2 / Gas guzzler tax based on:	CO_2 in g/km	MPG – combined*
Actual levels:	270 g/km	22.5 MPG
Net catalogue price:	€ 40,647	≈ $ 39,000
VAT (21%) / Sales tax (avg. 6%):	€ 8,536	$ 2,340
CO_2 / Gas guzzler tax:	€ 62,057	$ -
Total sales price:	≈ € 111,240 (≈ $ 128,425)	≈ $ 41,340 (≈ € 35,800)

* Based on Environmental Protection Agency (EPA) calculation procedures

4. Sustainability

In terms of sustainability we see a clear distinction between the two continents, with a stronger focus on emission levels in Europe, although international companies with locations in the US traditionally tend to pay more attention to sustainability than companies without an international presence.

The oil crisis in the 1970s focused more attention on fuel efficiency, including in the USA, and sustainability concerns mean that reducing engine size is an ongoing trend for all OEMs nowadays. Still, the US market displays a larger share of 'gas-guzzling' SUVs and pick-ups than Europe. This can partly be explained by the cost factor: it is not unusual to pay over €1.40 per litre ($6 per gallon) of petrol in Europe, with diesel being approximately 10% cheaper, compared to approximately $2.90 per gallon or €0.65 per litre in the USA.

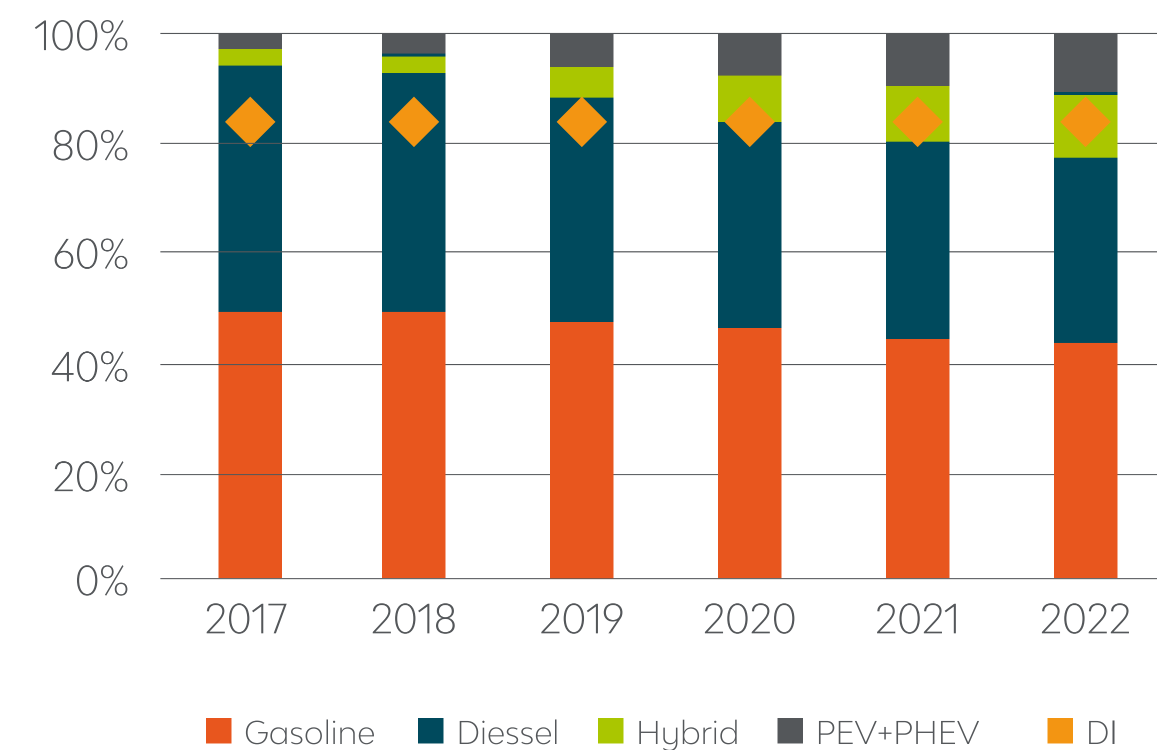
European governments place significant pressure on car manufacturers to decrease greenhouse gas emissions, and many European countries have tax regimes in place that link vehicle tax and benefit-in-kind tax to CO_2 emission levels. The closest comparison in the USA, albeit to a much lesser extent, is the so-called 'gas guzzler tax' which imposes a fixed fee on cars (SUVs, pick-up trucks and minivans are excluded) with a combined fuel economy number of less than 22.5 miles per gallon (or ≈ 1 litre per 9.5 kilometres), ranging from $1,000 to a maximum of $7,700. This tax has a relatively low impact, especially on more expensive vehicles, whereas in Europe many CO_2-based taxes gradually increase as emission levels rise.

The example below shows a comparison for a Ford Mustang GT in The Netherlands and in the USA, illustrating the substantial impact of the CO_2 tax.

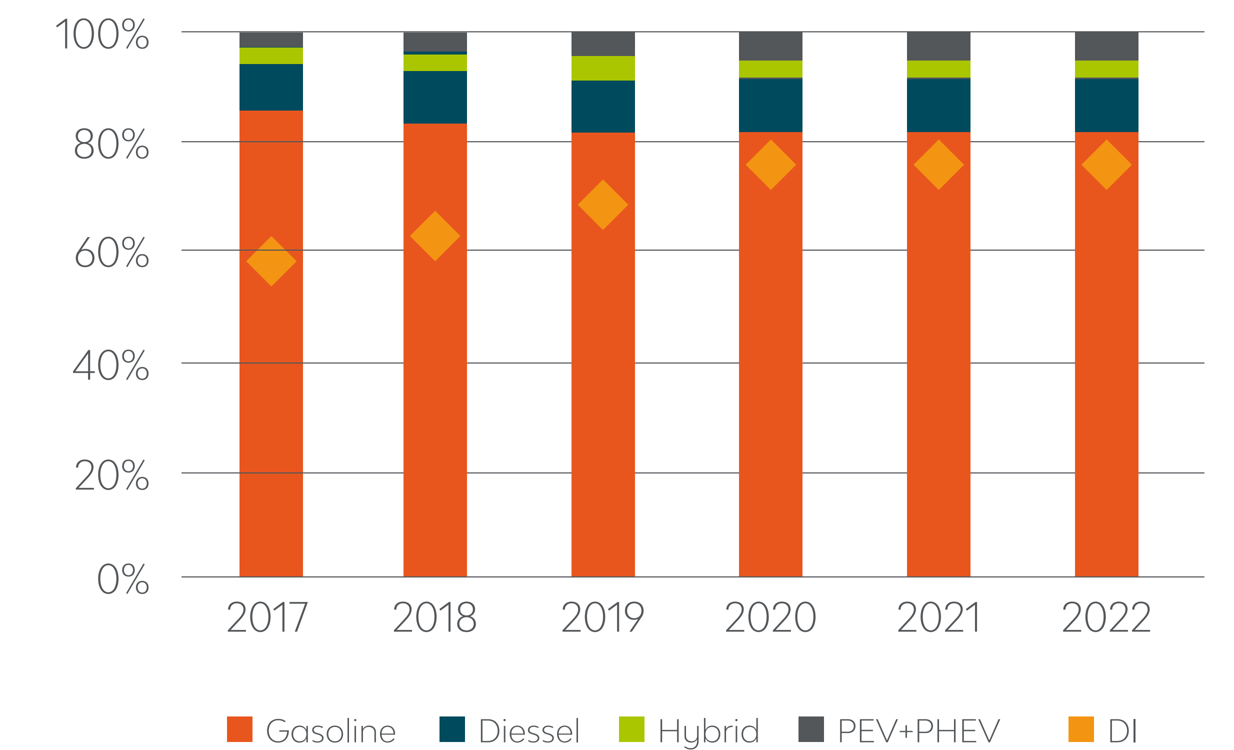
Historically, petrol was the standard fuel type on both continents, but Europe gradually developed a preference for diesel because of more favourable fuel prices. This trend towards developing petrol alternatives has continued, as customers increasingly consider sustainability factors as part of their decision making.

By 2022 the share of non-diesel and non-petrol vehicles is expected to be around 10% in the USA versus over 20% in Europe .

European Union: fuel type and delivery by % share
2017-2022



North America: fuel type and delivery by % share
2017-2022



Source: PWC Autofacts April 2018

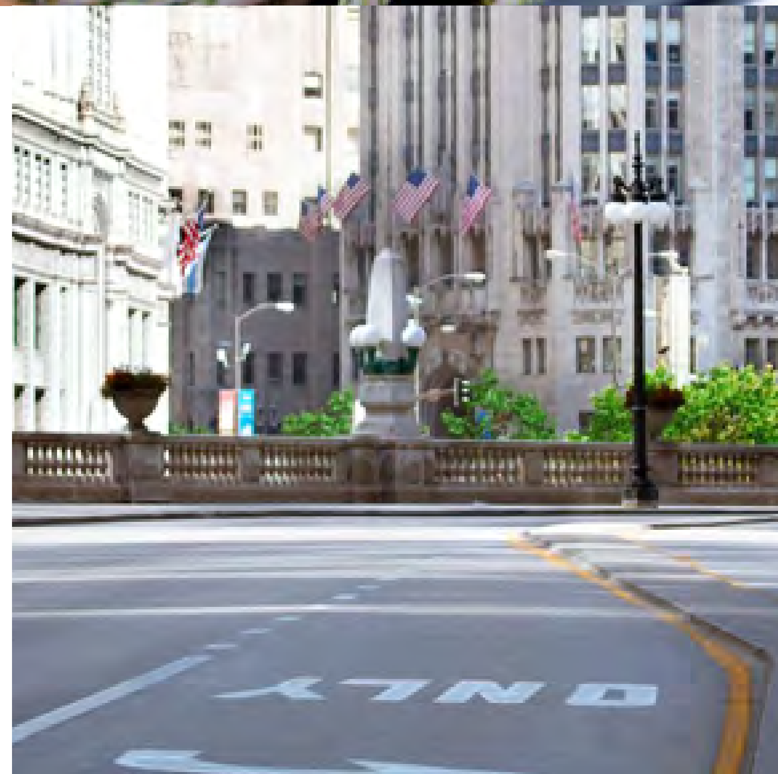
Although the share of electric vehicles (EVs) is still relatively low, there is a strong focus on increasing the number of EVs on the road in Europe. Governments are incentivising electric vehicles by levying road tax and decreasing benefit in kind. Furthermore, the infrastructure in Europe better supports the adoption of electric vehicles than in the USA since it facilitates better regional charging station coverage.

5. Accounting Standards

Aimed at improving transparency and comparability between companies that lease and buy their assets, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) have issued new accounting standards concerning the leasing of tangible fixed assets including vehicles. All companies reporting under IFRS or US GAAP will be required to recognise a right to use a vehicle and a liability to make lease payments on their balance sheet. Besides this change on the balance sheet, companies will also see a classification change on their income statement, recognising depreciation and interest for operating leases rather than a lease expense. Under US GAAP lease accounting, the income statement will remain the same as it is today with a straight-line lease expense.

The table below provides an overview of the most important changes.

Topic	**Current standards (IAS-17 and US GAAP - ASC840)**	**New standard IFRS 16**	**New standard US GAAP - ASC842**
Lease Accounting – Balance sheet	Finance leases on-balance Operating leases off-balance	All leases on-balance	All leases on-balance
Lease Accounting – Income statement	Finance leases: depreciation and interest expense Operating leases: lease expense	All leases: depreciation and interest expense	Finance leases: depreciation and interest expense Operating leases: lease expense
Practical expedients/ exemptions		Portfolio approach Recognise total lease term (including services) Short-term leases Low-value leases (< $5,000)	Portfolio approach Recognise total lease term (including services) Short-term leases
Effective date		1 January 2019 Full or modified retrospective transition	15 December 2018 Modified retrospective transition



Closed end leasing will continue to remain attractive. After all, the amounts capitalised for lease contracts (depreciation and interest) will still be significantly lower than under outright ownership of the vehicles.

Conclusion

This white paper has identified a number of differences between leasing and fleet management in the USA and in Europe. Based on these differences, you may now be wondering whether you should make any changes to your transatlantic fleet. When looking for the ideal way to manage a transatlantic fleet, some factors to bear in mind include the type of vehicle, the level of control you would like to exercise, how much flexibility you require, and how much risk you are willing to take. Regardless of the differences, some aspects can definitely be harmonised.

Closed-end leases provide better predictability in terms of costs than open-end leases. The monthly lease instalment covers all aspects associated with operating the vehicle, leaving only the fuel to be paid for based on actual consumption. The open-end lease, on the other hand, allows for more flexibility in terms of the duration of the contract. Due to the nature of the lease, it is possible to sell the car at any given point in time (although usually after 12 months) with the residual risk borne by the lessee. Following on from this, the level of risk is higher in an open-end lease than in a closed-end lease since the lessee bears not only the risk of the residual value, but also the costs of maintenance, repairs and damages. For example, in an open-end lease the lessee is required to pay for unexpected costly repairs, such as a broken-down transmission, whereas in a closed-end lease this would be included in the monthly lease instalment. And while the level of control is higher in an open-end lease, this goes hand in hand with a heavier administrative burden.

There is a clear difference between the USA and Europe when it comes to eligibility. In Europe, over 75% of organisations providing a vehicle-related benefit offer the choice of a car.

Disclaimer
This material has been approved solely by, and is the responsibility of LeasePlan Corporation N.V. ("LPC") on the basis of the sources as listed herein and information provided by LPC. LPC makes no representation or warranty (express or implied) of any nature, nor does it accept any responsibility or liability of any kind, with respect to the accuracy or completeness of any of the information or opinions in this material.

The information contained in this document is derived from sources that have not been independently verified. LPC gives no undertaking and is under no obligation to provide the recipient with access to any additional information or to update this document or to correct any inaccuracies in it which may become apparent, and it reserves the right, without giving reasons, at any time and in any respect to amend or terminate the information described herein.

Except in the case of fraudulent misrepresentation, neither LPC nor any of its affiliates, advisers or representatives shall have any liability for any direct, indirect, consequential or other losses or damages including loss of profits incurred by you or any third party that may arise from any reliance on (1) this document or for the reliability, accuracy, completeness or timeliness thereof or (2) for any other written or oral information made available by LPC in connection herewith or (3) any data which any such information generates.

On the contrary, in the USA, corporate fleets consist of over 90% tool-of-trade vehicles and only 10% benefit vehicles. Partly because of the different reasons for providing company cars on both continents, US fleets contain a greater percentage of Light Commercial Vehicles (LCVs) than European fleets.

In terms of sustainability we see a stronger focus on emission levels in Europe. European governments place significant pressure on car manufacturers to decrease greenhouse gas emissions, and many European countries have tax regimes in place that link vehicle tax and benefit-in-kind tax to CO_2 emission levels. This explains the sometimes significant differences in vehicle pricing.

When it comes to purchasing vehicles, limiting the number of brands in your fleet and leveraging the volume of your entire fleet will enable you to centrally agree better conditions with OEMs and create added value. Major OEMs offer the same or similar models on all continents and are organised in such a way to facilitate a global agreement. It is important to keep in mind that although it is possible to harmonise brands, harmonisation can be slightly more difficult at model level. Furthermore, it always makes sense to keep in mind the differences between regions in terms of fuel type, taxation and local preferences. Regardless of whether you choose an open-end or an operational leasing solution, it makes sense to harmonise your transatlantic fleet by working with a single fleet management provider to benefit from its expertise, both on operational aspects such as maintenance management and remarketing and on more strategic topics such as changes in legislation, environmental ambitions and eligibility. Besides providing expertise, consolidating your fleet with a single leasing company also helps to improve your reporting as all vehicles are captured in one and the same system, thus allowing for better (cost) control.

I Deloitte: Fleet leasing & management in North America | Key enabler for the future of mobility
II Willis Towers Watson 2018 Company Car Benefits Survey Report
III Deloitte: Fleet leasing & management in North America | Key enabler for the future of mobility
IV PWC Autofacts April 2018
V PWC Autofacts April 2018

LeasePlan

LeasePlan Corporation N.V.
Gustav Mahlerlaan 360
1082 ME Amsterdam
The Netherlands
info@leaseplancorp.com

leaseplan.com