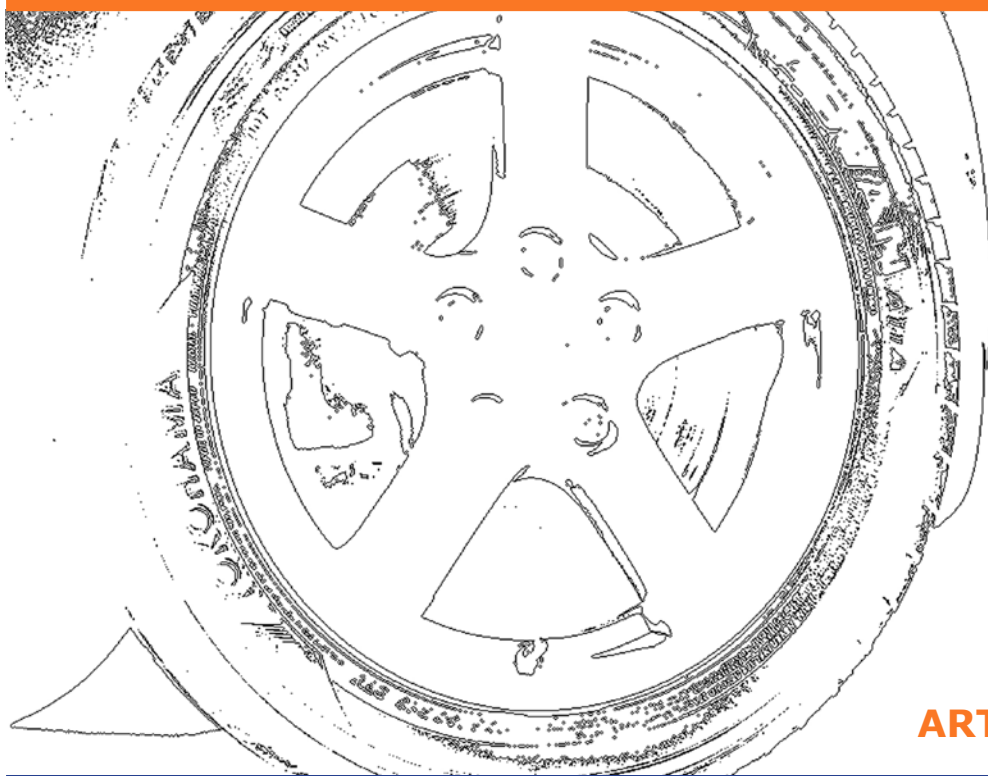


**business car**  
**manager**  
The business motoring magazine

**Knowledge**

**BANK**



**ARTICLE 6**

A background to fleet management

# A background to fleet management

## An explanation of the structure

The vehicle finance and management industry is made up of contract hire, leasing and fleet management companies and the brokers who introduce clients to them.

There are several hundred suppliers offering contract hire so it is as well to know what type of business you are dealing with.

### Contract hire companies

The expression 'contract hire company' is often used as a shorthand generic term covering all vehicle financing and management companies. The fact that this has become a generic term is due to the success of contract hire as a product in the UK market over the past three decades. However, many of these companies offer much more than just contract hire. Indeed some offer all of the vehicle finance, insurance and management products.

Many contract hire companies are now owned by banks. These companies are all 'prime funders' in this market; that is, they use their own money to fund the vehicles they buy to lease to you. Unless you have gone to them via a broker there is no middleman, so you are getting direct access to those players in the market who have the cheapest money cost possible. Money cost is such an important part of the calculation of a contract hire rental, so dealing direct can often be the cheapest way to obtain a car on contract hire.

Some small contract hire companies (and also a few bigger ones) finance their contract hire businesses by entering into 'back to back' finance agreements. They obtain the vehicle on finance (hire purchase or finance lease) from a finance company or bank and they then enter into a contract hire agreement with you. You pay the contract hire company and need never know that someone else owns the vehicle. There is nothing inherently unsatisfactory about this arrangement except that usually the funder will have some type of security interest in the lease you have entered into with the contract hire company. Therefore, if your contract hire company fails to meet its obligations to the funder, the funder will enforce its security by writing to advise you that you have to pay them in future.

### A background to fleet management

#### Fleet management companies

Fleet management companies buy, maintain, sell, administer and carry out various other management functions for their clients' vehicle fleets. Many fleet management companies sell contract hire and other vehicle finance products, too. In some cases, a management's decision to call their business a fleet management company, as opposed to a contract hire company, has more to do with the way they wish to position themselves in the market rather than the fact that they specialise in fleet management.

#### Leasing companies

Contract hire is a lease, so it stands to reason that many people call contract hire companies 'leasing companies'. However, some leasing companies do not offer to supply the car or provide any fleet services. If you find the car, they will fund it. They do not take residual value risk and their finance packages reflect this. They offer finance lease, loans, hire purchase and lease purchase, rather than contract hire, contract purchase or operating leases.