PROCEEDINGS —

Nineteenth Annual Meeting

Theme:

"Theory, Reality, and Promise:
Transportation Faces Tomorrow"

October 24-25-26, 1978
Biltmore Hotel
New York, New York

Volume XIX • Number 1 1978

T
R
F

TRANSPORTATION RESEARCH FORUM

The Full Service Truck Leasing Industry: The Views of Investment Analysts and Lessor Management

*by Roger W. Kolins**

ACCORDING TO ONE large full service truck leasing company, just under 8% of the commercial trucks in the U.S. are currently on full service lease contracts. [1] Yet a search of the transportation literature reveals that little has been published to document the activities of this hybrid for-hire/private form of motor carriage[1] and its relationship to the more visible regulated and private forms of trucking. Developed on an exploratory format to provide a foundation for formulating dissertation research on the role of full service truck leasing in the U.S., this paper reports the findings of a survey, conducted among ninety-one full service truck leasing company executives and fifty-seven investment analysts involved in monitoring the full service truck leasing industry.

The lessor executives and investment analysts were mailed identical questionnaires consisting of eight open-ended questions soliciting their assessment of the growth and performance prospects for full service truck leasing over the next decade and the indirect impact that currently debated I.C.C. policy changes might have on the industry. The mailing list for the executives was developed from listings in The Dunn and Bradstreet Middle Market Directory, the Dunn and Bradstreet Million Dollar Review, Moody's Transportation and Industrial Manuals, Standard and Poor's Register of Corporations, Directors, and Executives, and leasing firms' annual and 10-K reports. Leaseway Transportation Corporation provided the confidential list of investment analysts. In general, the questionnaires were filled out conscientiously, and the rates of response were 33.3% for the investment analysts, 26.4% for the lessor executives, and 29% overall.

QUESTIONS ONE AND TWO

> **What was the average rate of growth in revenue for the full service truck leasing industry over the last ten years?**

> **What rate of growth in revenue do you expect for this industry over the next decade?**

Exhibit 1 summarizes the responses of the analysts and executives. The analysts were more conservative in their appraisal of the industry's performance reporting a 1967-1977 mean growth rate 1.9 percentage points lower than the rate reported by the executives, and a 1978-1988 expected mean growth rate 3.4 percentage points lower than that projected by the executives. It is interesting to note that the growth rate of full service truck leasing reported for 1967-1977 (14.7% to 16.6%) is approximately the same as can be estimated from survey data collected by the Private Carrier Conference of the American Trucking Associations. Surveying 5012 private fleet operators (response rate of 27%, 1361 responses), the Private Carrier conference gathered data on the extent all forms of leasing are used as a means of private fleet financing. [3] Interpretation of their data in-

HISTORIC RATE OF GROWTH 1967-1977

	Investment Analysts	Lessor Executives
Range	9 to 21%	10 to 30%
Mean	14.7%	16.6%
Mode	15.0%	15 & 20%
Median	15.0%	15.0%

PROJECTED RATE OF GROWTH 1978-1988

	Investment Analysts	Lessor Executives
Range	5 to 19%	10 to 25%
Mean	12.9%	16.3%
Mode	13.0%	15.0%
Median	13.0%	15.0%

EXHIBIT 1

**Associate Instructor, Indiana University, School of Business.*

dicates that in 1967, 24.16% of private truck fleets were under some form of lease contract. In 1977, this figure grew to 35.50%, a growth rate of approximately 4%. Assuming that private fleets over the same 1967-1977 period grew at a rate of 6-7% (an estimate supported by the P.C.C. data) with an inflation rate ranging between 5 and 6 percent, the growth rate in revenue derived from all forms of lease contracts emerges as 15% to 17%, a range almost identical to that reported by analysts and executives in this survey.

QUESTION THREE

In your opinion, how will the Statement of Financial Accounting Standards, No. 13, "Accounting for Leases," issued by the Financial Accounting Standards Board, effect the performance of the full service truck leasing industry?

The F.A.S.B. statement No. 13,[2] which became effective November 1976, requires that any lease (a) whose term is equal or greater than 75% of the economic life of the property; (b) whose minimum lease payments' present value equals or exceeds 90% of the fair value of the property; or (c) whose clauses contain an option for the lessee to purchase the leased property, be classified as a capital lease. [4] Before the F.A.S.B. statement No. 13 was issued, it was feared in many quarters that this change in accounting procedures, eliminating the option to use full service truck leases for off balance sheet fleet financing, would strongly effect the performance of the full service truck leasing industry. However, the opinion (typified in the following quotes) of the great majority of respondents to this questionnaire was that the altered accounting procedures should have very little impact, influencing only slightly the terms of the lease contracts and the risks born by the lessor.

Lessor Executive: "Most leasing companies will go to an operating lease format [reduce the lease term to one year] involving term contracts and doing away with 'double buyback' clauses. Greater risks [incurring] to the leasing companies will require better screening of new lease prospects."

Investment Analyst: "Should not have any major negative impact with [the] only caveat being a major recession, i.e., the shorter term instruments could mean higher cancellations and with [the] probability of a poor used truck market, [this] would cause [the] lessor to 'put' [the] truck to the lessee at book value, thus forgoing gain-on-sale profits."

QUESTION FOUR

What forms of trucking (i.e., common carriers, contract carriers, independent owner operators, etc.) compete most vigorously with the full service truck leasing sector?

Exhibit 2 tabulates the responses to this question. The suppliers of full service truck leasing services are not uniform in size or market coverage, several firms span the nation, while a greater number operate regionally with only a few in any one area of the country and a still greater number of small lessors

FULL SERVICE TRUCK LEASINGS COMPETITORS, LISTED IN RANK ORDER

Investment Analysts (19 Respondents)		Lessors Large Firms (16 Respondents)		Lessors Small Firms (8 Respondents)	
1) Contract Carriers	(1.44)	1) Private Ownership	(1.31)	1) Common Carriers	(1.38)
2) Owner Operators	(1.89)	2) Contract Carriers	(1.56)	2) Contract Carriers	(1.63)
3) Private Ownership	(2.10)	3) Common Carriers	(1.81)	3) Private Ownership	(1.75)
4) Common Carriers	(2.15)	4) Owner Operators	(20.6)	4) Owner Operators	(2.00)

EXHIBIT 2

operate their businesses within restricted geographic boundaries. To uncover differences in how small and large lessors assess full service truck leasing's competition, the responses were segregated according to size of firm as revealed in gross revenue figures for 1976 (small firms being defined as earning less than $25 million).

To derive rank orders the truck modes were weighted by the frequency with which they were mentioned—one indicating most competitive and four indicating least competitive. When more than one truck mode was mentioned it was assumed that the respondent had listed the form of trucking most competitive with full service truck leasing first.[3] On average just less than two modes were mentioned by the respondents.

On this question there was a significant divergence of opinion between the investment analysts and the lessor executives with regard to the competition faced by full service truck leasing (rank orders differed radically). To rationalize the divergence, it can be suggested that the two respondent groups differed in their appreciation of the industry. Investment analysts as outsiders, interested in the return on lessor securities, would naturally think of those forms of trucking which might reduce the size or potential growth of the market for full service truck leasing as competitors. While, on the other hand, lessor executives as participants would tend to view those forms of trucking whose services could be directly substituted for full service leased vehicles as competitors. This rationalization would support the high competitive rating awarded contract carriage by the analysts and the low rank of private carriage, which to an investment analysts would be considered the market for full service truck leasing rather than its competition. It also would explain why for the large lessors private trucking was named as the number one competitor, because lessor sales men are confronted with the problem of convincing shippers to lease rather than own their truck fleets. Contract carriage would be rated second presumably because contract carriers provide trucking services of great similarity to full service truck leasing. From the first place ranking of common carriers by the smaller lessor, it would appear that the smaller lessor firms are marketing their services among shippers who have not yet considered the option of private fleet operations. But with only eight responses falling into the small lessor category this interpretation must be considered as very tentative.

The analysts' inclusion of the owner operator at such a highly competitive level (second) appears to indicate their misunderstanding of the role of the owner operator in U.S. trucking. Wyckoff and Maiston, in their contribution to the 1977 **Transportation Research Forum Proceedings**, [5] indicated that the services of the owner operator were used in a marginal capacity by shippers to absorb the peak demand needs of their firms. This relationship between shipper and owner operator only superficially resembles that between shipper and full service truck lessor, where peak load traffic demands may be handled in lessor vehicles rented on a short term basis. The shippers' option to rent short term vehicles from lessors is not an independent service provided by full service lessors (though some lessors may also be on the truck rental business). The option is contingent on the more substantial long term lessor/lessee relationship, where the lessor provides continuing support services for the lessee's fleet during non-peak periods, constituting a significant inter-dependence between the lessor and lessee firms.

QUESTION FIVE

> What might the following changes in I.C.C. policy have on the performance of the full service truck leasing industry?
>
> A) Removal of the ban on intercorporate hauling?
>
> B) Liberalization of the I.C.C.'s contract carrier policy; permitting contract carriers to serve more than just 7 shippers?
>
> C) De facto deregulation of entry control of the common carrier sector by the unrestrained granting of operating authorities to new carrier applicants?

The lessors and analysts responded similarly to part A. When only a brief reply was offered, the respondents were in agreement that if the I.C.C. permitted intercorporate hauling the policy change would enlarge the market for full service truck leasing. When more comprehensive answers were supplied, the consensus was that benefits derived from the policy change would be short lived, with negligible long term effects on the lessor market. This second, more conservative, position was supported commonly by three arguments. First, while the liberalized I.C.C. policy would stimulate shippers to set up intercorporate hauling operations and enlarge the market for leasing, existing fleets would become more efficient enabling some shippers to provide, 'in-house,' the services now provided by full service truck lessors. Second, the elimination of empty backhauls under the policy change would increase the productivity of trucks currently under full service lease and reduce the number required. This factor would absorb much of the growth potential created by the relaxed ban. Third, the change in policy would create a boon for lessors in the beginning, but this would be a one shot improvement in the market after which normal growth rates would resume as the corporations intending to alter their trucking operations did so.

The responses of both lessor executives and investment analysts to parts B and C were consistent with their replies to the question, discussed above, concerning the truck modes in competition with full service truck leasing. The answers are summarized in Exhibit 3 and categorized as either predicting a positive, negative, no impact or an unknown influence on the performance of full service truck lessors. The consensus among lessor executives concerning the impact of a liberalized contract carrier policy was split. An equal number of respondents suggested either that the I.C.C. policy change would reduce the growth of private carriage and the market for full service truck leasing, or that no impact would be experienced because the policy change would not materially alter the contract carrier's ability to attract new customers. This latter perspective was supported by two arguments predominantly: (1) that shippers are not restrained from acquiring the services of contract carriers, if they need them, under the present regulatory circumstances; or (2) that contract carriers are not sufficiently capitalized to support expansion.

The lessor executives were similarly divided in their response to part C, the impact of de facto deregulation of the common carrier sector on the performance of full service truck lessors. But in this case the division was simply a matter of the time horizon of the respondent. The lessors, as a group, supported the proposition that entry deregulation would hurt leasing firms by destabilizing the market for three to five years, after which little long term effect would be felt by lessors because they serve a different trucking market than the common carriers.

In general the investment analysts appeared to stress the short run destabilizing impact either I.C.C. policy

SUMMARY OF RESPONSES TO I.C.C. POLICY QUESTION, SECTIONS B & C

B) Relaxation of the number of shippers a contract carrier may serve.

Lessor Executives		Investment Analysts	
Impact Estimated	**Responses**	**Impact Estimated**	**Responses**
Positive	3	Positive	3
Negative	8	Negative	12
No Impact	8	No Impact	3
No Idea	1	No Idea	2

C) Deregulation of entry into the common carrier sector.

Lessor Executives		Investment Analysts	
Impact Estimated	**Responses**	**Impact Estimated**	**Responses**
Positive	2	Positive	3
Negative	8	Negative	10
No Impact	10	No Impact	6
No Idea	4	No Idea	0

EXHIBIT 3

change (B or C) would have on the motor carrier market place. Hence, 60% of the analysts predicted a harmful impact on the performance of full service truck lessors developing from the policy changes suggested.

QUESTION SIX

> What impact has the energy crisis had in the growth of full service truck leasing?

Summarizing the lessor executives' responses, our current energy problems have had only a slight positive impact on the growth of full service truck leasing. In the heat of the OPEC oil embargo, fleet operators, assuming that full service truck leasing companies, due to their size, had fuel buying leverage, sought out lessors as a hedge against fuel shortages. Ironically, the responses of lessor executives suggest that this seeming advantage of full service truck leasing may not be completely supportable in fact. The long lasting benefit of the embargo that the lessors do claim, is that the severe fuel shortage prodded many private fleet operators to experiment with full service truck leasing as a means for tapping lessor fuel conservation, technical and operational know-how. In general, many lessor executives were of the opinion that the aftermath of the oil crisis has left many shippers with an awareness of the benefits that full service truck leasing can bring to their distribution operations.

On this question the answers of the investment analysts were diffuse, revealing little of interpretable significance except that some of the analysts thought that large lessors had an advantage in securing fuel during shortages.

QUESTION SEVEN

> How would you describe the relative degree of competition in the full service truck leasing industry, and what changes do you expect to take place over the next decade? (1= little competition; 7 = intensive competition)

The responses are summarized in Exhibit 4. As might be expected, the lessor executives, engaged in the operations of their firms, assess the competitive level of the industry to be more intensive than the investment analysts whose judgments were, perhaps, tempered by their involvement with more than just one industry. The mode and median responses of the eight small lessor firm executives also reflected the higher level of competition that might be expected among smaller firms in this industry.

Turning to the second part of the competition question, the responses indicate that the full service truck leasing industry is facing a period of consolidation. The lessor executives and investment analysts are as one in this analysis of the industry's prospects for the coming decade. Both groups expect the level of competition and rates of mergers and bankruptcies to increase, with the small lessors who compete with national lessors forced out of the market. A two tier oligopolistic market is expected to develop with three or four of the current national leasing firms surviving the intensification of competition and gaining secure market shares based on their ability to attract inexpensive financing for their vehicles and to offer reliable fleet support services over extremely large areas (both advantages being contingent on size). The small lessors should be able to compete successfully only within narrow geographical areas, experiencing a high turnover rate.

QUESTION EIGHT

> What do you see as the full service truck leasing industry's potential problems over the next ten years?

As Exhibit 5 illustrates, both respondent groups are disturbed by the impact a continuing high rate of inflation will have on the ability of full service truck leasing firms to offer their services at competitive price levels. The concern over increasing government interference is similar in nature, since accommodation to new government mandates almost inevitably translate into increased operating costs. Both groups appear to be greatly concerned over the lack of a cogent national energy policy

---

DEGREE OF COMPETITION

	Lessor Executives		Investment Analysts
	Small	Large	
Range	3 - 7	4 - 7	2 - 7
Mean	5.9	6.0	4.5
Mode	7.0	6.0	4.0
Median	6.5	6.0	4.5

EXHIBIT 4

INDUSTRY PROBLEMS

Lessor Executives (24 Respondents)

I) Inflation & Rising Costs (16 Respondents)

II) Increasing Government Controls & Intervention (13 Respondents)

III) Availability of Trained Mechanics (10 Respondents)

IV) The Prospect of Another Fuel Shortage (8 Respondents)

Investment Analysts (19 Respondents)

I) Inflation & Rising Costs (12 Respondents)

II The Prospect of Another Fuel Shortage (7 Respondents)

III) Increasing Government Controls & Intervention (3 Respondents)

IV) Deregulation and Its Aftermath (3 Respondents)

EXHIBIT 5

---

and the unanswered question of how petroleum products will be supplied to full service truck lessors in the event of another shortage. Fuel availability rather than cost was their major concern.

The scarcity of an adequate supply of trained mechanics is a problem for full service truck lessors as it is for the trucking industries in general. But for full service truck lessors the problem is especially acute, translating into a constraint on their ability to expand.

As previously discussed, the investment analysts are concerned with the possible destabilizing impact deregulation of trucking would have on the leasing market place. The analysts, as revealed in their responses to this last question, are also concerned with the possibility that the large regulated carriers, such as Roadway or Consolidated Freight, could invade the full service truck leasing market if released from regulatory restraints.

CONCLUSION

In the 1980s the full service truck leasing industry promises to be an area of high risks and high returns. Approximately 12% of the commercially operated trucks in the U.S. should come under full service contracts within the next ten years. However, facing the dual prospects of leasing industry consolidation and deregulation of motor carriage, there is no telling who may be the beneficiary of such a healthy rate of growth.

FOOTNOTES

1 Full service truck leasing defined: Full service truck leasing is "a non-carrier substitute for ownership. The user, or lessee, leases trucks under long-term (usually one year) agreements from the owners, or lessor, who is engaged primarily in the business of leasing truck equipment. The lessor supplies full service for the maintenance of the truck—fuel, repairs, tires, lubricants, garaging, insurance, management consultation—everything except the driver, who is furnished by the lessee, leaving the control of the vehicle wholly with the customer." [2]

2 For the exact wording of these requirements see paragraph 7 of the statement text.

3 Relaxing this assumption would not alter the rank orders.

REFERENCES

1 Ryder Systems, Inc., *Form 10-K Annual Report*, for the fiscal year ended December 31, 1976, page 3.

2 Preston, Taylor, 'Leasing,' *Distribution Worldwide*, September 1972, pages 59-62.

3 *Truck Route: A Marketing Study Report from The Private Carrier Conference of the American Trucking Associations, Inc.* (Pamphlet, published 1977).

4 Financial Accounting Standards Board, "*Statement of Financial Accounting Standards No. 13, 'Accounting for Leases,' November 1976*," Publications Division F.A.S.B., High Ridge Park, Stamford, Connecticut, 06905.

5 D. Daryl Wyckoff and David H. Maiston, 'The U.S. Owner-Operator Trucker: A Transportation Policy Based on Personal Bankruptcy,' Published in the *Proceedings of the Transportation Research Forum*, Volume XVIII, No. 1, 1977, pages 291-297.