



# Funding conversions for Commercial Vehicles

The van conversion market is rapidly evolving. High-specification, reusable systems can boost your employee's productivity and save you money. However, they also call for a different approach to funding: their up-front cost is higher and the equipment chosen may be installed into successive vehicles.

This guide defines the key factors you should consider when financing your conversions today.

Today, more than 80% of new vans require some form of conversion beyond that of the standard plywood lining. Conversions produce a safe, clean and organised environment for your employees whilst creating that all important impression of professionalism with your customers.

Traditionally, a two stage approach to conversions has been followed, you would firstly take delivery of the van and then send it to a specialist to be converted. As fit-outs have become more sophisticated, bespoke and expensive they demand more detailed preplanning and coordination between all parties involved to ensure

your vehicles are on the road and are ready for their intended business use from day one, the day of delivery.

It is increasingly common to see manufacturers, leasing companies and conversion suppliers working together from the outset to ensure you have the right vehicle at the right price at the right time for the right job. This close integration makes even more sense when you consider that any addition or alteration potentially affects the vehicle's resale value and therefore the overall cost of the lease. Because of the intrinsic link between their residual values, today's trend is to finance vehicles and equipment together as a whole package.



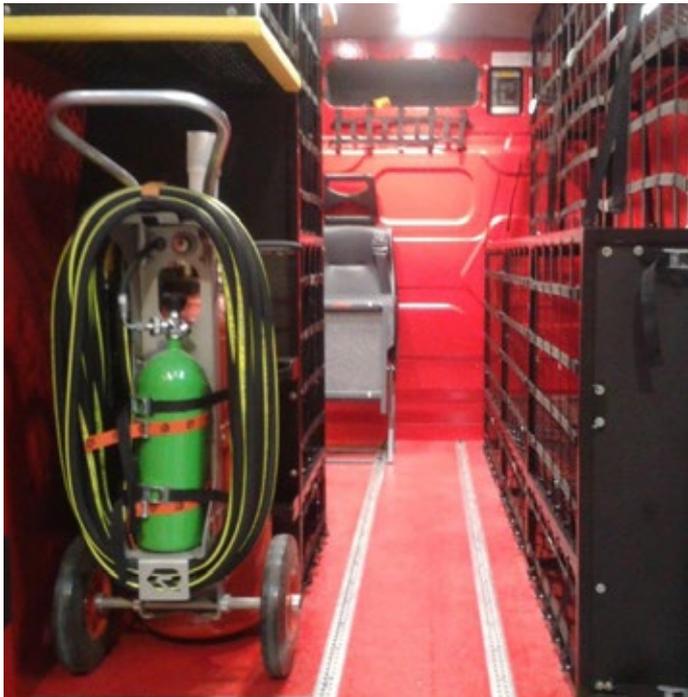
## Key considerations

### 1. Funding

Leasing companies should be able to offer funding for a range of conversion types and these are usually combined with the funding your vehicle. The factors they take into consideration are, as you would expect, rather more complex than those for funding standard vehicles without conversions.

**Highly specialised equipment.** For example misfuelling pumps and tanks, often entirely lack a second-hand market and as such it may not be possible to obtain finance through the leasing company which is secured against the asset's value (e.g. Contract Hire). In this case, the most appropriate option may be to pay for the equipment/conversion outright yourself, writing its value down to zero over a period of time.

**Residual values.** For example internal racking or mobile workshop equipment may retain some residual value when the vehicle comes to the end of its lease contract and this may add to the vehicle's second-hand appeal or detract from it. It will be worthwhile working with an experienced CV funding provider at the point where you select your vehicles and outline the specifications you require for your vehicle's conversion. Their knowledge of remarketing will guide the discussion and help to deliver you the most cost-effective financing option.



### 2. Choice of supplier

If you are considering financing conversions through your vehicle leasing company, it's very likely that they will have a network of preferred conversion suppliers. Alphabet, for instance, works with a national network of suppliers chosen on the basis of quality of work, location, volume capability, aftersales support etc. However, if you already have a relationship with a converter (or manufacturer) that you wish to maintain you can bring them into the mix from the beginning.

An example of how this has worked for an Alphabet customer, is WDH. WDH required those tendering for their CV fleet to accommodate their existing terms with Volkswagen and to honour their commitment to use locally-based vehicle service suppliers for their fleet. Since winning the contract, Alphabet has worked closely with Volkswagen to manage changes in prices, residuals, SMRs and specifications so that pricing remains consistent over the term of the contract. Alphabet also work closely in partnership with WDH's long-established relationship with their main vehicle converter and local maintenance workshops.

### 3. Lifecycle

This is an important consideration, especially where the vehicle and the equipment installed have markedly different lifecycles. A good quality modular racking system, for example, might remain serviceable over the vehicle's lifetime and could be used within two or even three successive vehicles. Therefore you could expect to get perhaps nine or 10 years of use from the equipment by refitting it into new vehicles. The difference in lifecycle could have implications for the vehicles' residual value as some buyers want plain, stripped-out used vans rather than fully decked out vehicles. There is also the question of the equipment's own second-hand value, which your leasing company should take into account when calculating the overall rental.

By planning ahead and working in partnership with your leasing company and chosen converter, to anticipate the reuse of racking and other equipment, the finance for your vans and the equipment can be scheduled together to optimise the lifetime funding costs.

### 4. Investing for lower operating costs

Payload, productivity and the impact on vehicle performance are key influencers when determining your equipment specifications. There is a lot to be said for investing in systems that increase payload, save fuel and enhance your employee's efficiency. Another benefit of choosing higher-end, modular fit-outs is that they can be reconfigured within your vehicles if your requirements change during the lease contract.

Today's aerospace-quality composites and modular construction make lightweight and versatile conversions. However, the price of such systems can be significant, with fitting-out costs running well into the thousands of pounds per vehicle. That's why it makes sense to roll these costs into the vehicle lease, which spreads the conversion outlay over the term of the contract instead of taking a large portion of capital out of your organisation up front. And the savings from reusing the equipment over a potential 9-10-year lifespan, will significantly offset the extra initial cost.

### 5. The end of the lease contract

When you fund a conversion, as with a vehicle, the leased assets remain the property of the finance/leasing company during the payment period. Depending on the type of funding used, the equipment must either be returned to the lessor at the end of the contract or purchased with a final instalment or a 'balloon' payment.

It is important to discuss your options thoroughly with your leasing company at the outset, especially if you are financing the vehicle and



conversion as a single Contract Hire package. If you intend to transfer leased equipment to new vehicles at the end of contracts, you need to be sure that the costs of transfers, repairs and refurbishment are properly taken into account and costed into the monthly rentals.

## Summary

With increasing awareness of the impact that different conversion specifications have on both productivity and lifetime operating costs, more fleets are choosing options such as modular, lightweight, reusable racking systems. As such, conversions tend to come with a higher upfront cost, and because the values of the vehicle and equipment are intrinsically linked, fleets increasingly choose to finance their conversion as a single package through their leasing company.

A key concern is that the vehicle and equipment assets have very different lifecycles, so you need to choose a leasing company with experience in this area. That is why Alphabet places great emphasis on building close working relationships between our customers, our conversion network partners and ourselves. By pooling everyone's experience, we deliver the best combination of equipment, funding and lifetime operating cost.

## Alphabet's Commercial Vehicle Service

Commercial vehicle experience counts. Whatever your requirements, our flexible, comprehensive approach will deliver a solution to suit your CV needs. Working closely with our partner conversion companies, we will deliver even the most complex fleet mix on time and to the right specifications, from coachwork and internal and external fit-out to complete bodybuilding projects.

If you require funding\*, Alphabet will tailor the optimum finance solution for you for the whole vehicle, matching the funding to the vehicles' operating patterns and the nature of your business.

**If you have any questions please contact us on 0370 50 50 100**

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