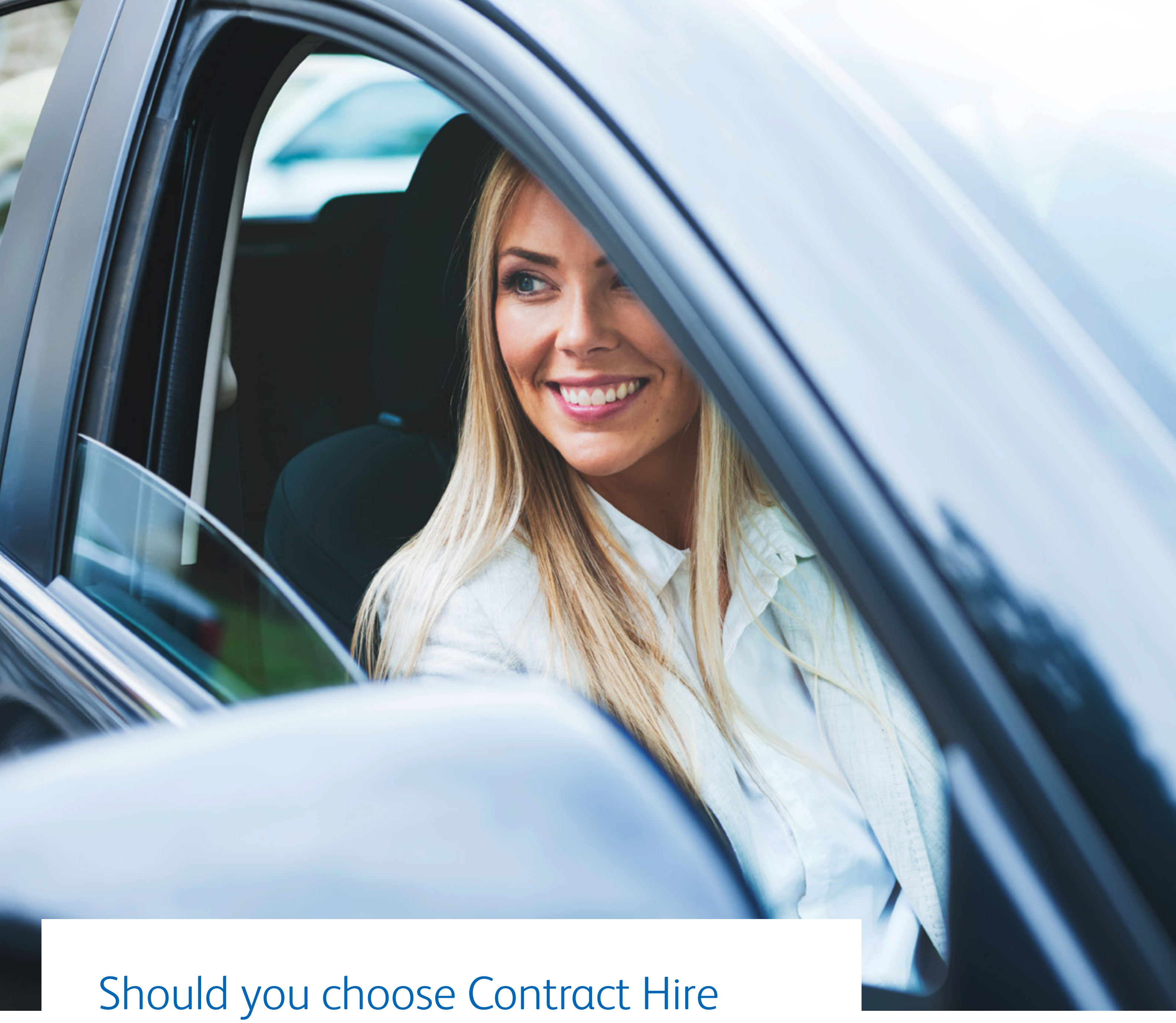

Should you choose Contract Hire over Outright Purchase?

A management guide from Alphabet

The popularity of Contract Hire has soared in recent years, with many businesses reaping its rewards. But there are still a large number of fleets today that choose to purchase outright instead.

When considering a new lease vehicle, it can be tough deciding whether to lease it under Contract Hire or simply buy it outright. You may have purchased your vehicles outright in the past – but how do you know if that is the right choice?

This guide will take you through the advantages of Contract Hire (CH) over Outright Purchase, to help you make an informed decision when it comes to your business.

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Outright Purchase: what are the drawbacks?

Better spent elsewhere – Owning your vehicles outright has obvious financial drawbacks. Namely, the large sums of money you have tied up in those vehicles could be put to more profitable use elsewhere in your business.

Time is money – Buying, managing and selling vehicles is also time consuming in itself. With many companies' revenues, margins and resources under more pressure than ever before, this extra responsibility can have a big impact.

Losing value – Even if a business is relatively 'cash rich', are company vehicles a good place to invest that money? New vehicles lose value the moment they're driven off the dealer's forecourt. Then as they get older, they steadily depreciate and incur increasingly unpredictable costs for servicing, repairs and replacement parts.

What about Hire Purchase? – To help smooth out cash flow, you could spread the cost of buying your vehicles with Hire Purchase (HP). However, unlike Contract Hire, with HP you're financing (and so paying interest on) the whole cost of the vehicle. Contract Hire is more cost effective as you're only funding the depreciation cost.

New vehicles lose value the moment they're purchased

Contract Hire: the benefits

Less money upfront	In most instances, at the start of the contract you have the option to pay for just one month's rental.
Lower monthly payments	This is because the payments only cover the vehicle's depreciation over a set period of time, not its full purchase price.
Fully predictable cost	HP and CH both offer fixed payment schedules. But with HP (and Outright Purchase), you only know the vehicle's full cost to the business when you sell it. With CH, you can confidently budget ahead.
Less burden	CH saves you and your drivers plenty of admin time, as you can simply go online to make and review your orders, reports, and service bookings. It's also easy to add new products and services to your package, meaning you can save more time by outsourcing certain functions to us.
Tax advantages	Employers rarely recover the VAT on vehicles they've bought, as there has to be zero private use by any employee. That rules out VAT recovery on most Outright Purchases. Alphabet can reclaim VAT on new vehicles, reducing the initial amount to be financed by 20% – which is reflected in the rental charge.
Flexibility	CH is more flexible than many people think. If your circumstances change, we'll offer you the most cost-effective solution, for example - reallocating the vehicle to another driver, or returning a different vehicle with a lower termination charge. If you have no alternative but to terminate your contract early, we'll recalculate your contract to the new end date and rework the monthly rentals accordingly, meaning you're only paying for the depreciation, which in essence is what you're liable for with Outright Purchase once you've sold the vehicle.
Depreciation management	Depreciation is the costliest part of owning any vehicle, however it's funded. Managing it can be a complex matter, too. CH offers a potential credit lifeline – and unlike bank loans and overdrafts, lease financing for vehicles is still readily available to businesses.

In summary: why Contract Hire may be right for your business

Why do some businesses still prefer to Outright Purchase, while the majority choose to use some form of leasing?

Arguably, the reason is ownership itself. In some cases, companies want to show company vehicles as assets on their balance sheets – although this can still be done under certain types of lease.

But vehicle ownership comes at a price, especially when often-unseen costs like administration are taken into account. Plus, if companies decide to keep vehicles longer than the typical three or four year-span covered by a CH agreement, then their vehicles tend to become increasingly expensive to maintain.

Today, the lower-cost, lower-risk option of Contract Hire financing is the sensible way to fund business vehicles.

Want to find out more?

Call us on **0370 50 50 100**

or visit **www.alphabet.co.uk**

Alphabet (GB) Limited, Alphabet House, Summit Avenue, Farnborough, Hampshire GU14 0FB Tel: 0370 50 50 100.

Registered office address: **Alphabet (GB) Limited**, Alphabet House, Summit Avenue, Farnborough, Hampshire GU14 0FB.
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