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Trends Affecting Truck Finance Providers: A Case Study

Masterarbeit

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vorgelegt von:

Mateo Sierra de los Ríos

In Kooperation mit der:

Schmitz Cargobull AG

Geb. am: [REDACTED]

in: [REDACTED]

Bahnhofstraße 22, 48612

Horstmar

Prüfer: Prof. Dr. M. H. Breitner

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1. Introduction

After a three months internship in the company Schmitz Cargobull AG (SCB AG), I developed a particular interest for the truck industry and, especially for the truck lease industry, since I was working, and treating topics related with it every day. Not long after the start of this internship, the company began a restructuration process of the finance department in order to become more competitive in the future. In this situation, I decided to study the reasons that make that a traditional trailer manufacturer company, such as SCB AG, would like to enter the lease market. With this study, I expect to contribute to the analyse of the road transport sector and the truck lease market, how they are correlated, and how the upcoming situation will affect the company.

This case study aims to analyse the trends that are affecting the truck finance providers in Europe, forecast the situation of the lease market, and analyse the position of Schmitz Cargobull AG in this future. However, the truck lease market cannot be isolated and study as a one. It should be considered together with the study of the road transport sector since both of them are correlated.

In the upcoming chapters, the lector is going to be able to learn about the most critical trends affecting the road transport sector, trends that are also affecting the truck lease market indirectly. These disrupting forces are changing since the composition of the European truck fleet, towards a younger, more efficient and less pollutant fleet that it is looking into electric, hybrid and hydrogen vehicles, to a more digitalised sector through changes in the infrastructure of the companies, business models and collection of data that may increase the efficiency in the performance of the trucks and therefore, the lease contracts.

In the third chapter of this case study, the lector might find that some trends have conflicting effects on the indicators. Nevertheless, it is possible to observe a clear change towards a more sustainable road freight transport in the future. Sustainability and efficiency will be two milestones that will address the direction of the sector, highlighting the reduction of GHG emissions and a transition to the more sustainable development of the European economy. The efforts and measurements to reduce the emission levels of the sector are going to increase its efficiency and incentivise the growth in services, the transition to alternative fuels, such as electric vehicles or hydrogen fuel cells, and an increase in the degree of processing in manufacturing sectors (Liimatainen, H. et al. 2015). The lector will find that some of these trends are not specific of the transport sector in general, but about the economy in general, such

as the reduction in the level of emissions, digitalisation of the processes and improvement of the efficiency through more automatic processes.

All these trends also affect directly and indirectly the lease market. In the fifth chapter, it is going to be explained the current state of the lease market, the trends affecting it and, the state of SCB AG in the lease market. Forces, such as the sharing economy, the digitalisation of the sector, the increasing importance of data mining, the growing relevance of the electric vehicle and the challenges that they have associated are some of the trends that are treated in this chapter. All these trends, together with the trends affecting the road transport industry, are going to change the structure of the truck lease market. The lector will be able to understand why truck finance providers have to develop new strategies to offer vehicles that may fulfil the increasing requirements and regulations of the road transport sector, such as limitations in mobility, GHG emissions or the electrification of the fleet.

In the sixth chapter of this case study, it will be presented four different scenarios that will summarise the possible outcomes for the truck lease market. The lector will be able to understand each scenario, what will be the most expected result for each of them and which will be the situation of SCB AG in each scenario.

1.1. Methodology

Since this case study aims to analyse the trends affecting the truck finance providers, forecast its future situation and situate the company Schmitz Cargobull AG in this future. It was obvious to start the research looking for information related to the finance and transport field. After a methodological search in databases such as EBSCO, AIS Electronic Library and Elsevier, the amount of located information related explicitly with the truck finance providers or captives was not sufficient, and therefore, it was decided to collect information from the transport industry in general and adapt it to the truck industry with the knowledge and experience of SCB AG. In this procedure, the information that was collected during the research process was mainly founded in the public information of the European Union, among with related information of the topic from the World Bank and, highly recognised and relevant publications from companies such as Deloitte or Klynveld Peat Marwick Goerdeler (KPMG). With this information, I was able to state the current state of the road transport sector and the lease market and the trends that are affecting them.

Following this line of research, different keywords such as “electrification”, “decoupling”, “Electric-vehicles”, “car-sharing” or “telematics” among others started to repeat in the different papers from the European Union and publications of big companies in the industry. Researching about these facts, it was possible to highlight the most critical trends affecting not only the European Road Transport but also the European Lease Market and how the experts forecast the impact of these trends in the industry. Researching in the pages of the most popular truck and vehicle providers, such as BMW Group, Daimler or Scania, it was possible to confirm some of these trends and to observe how the leaders of the sector are preparing their companies to face the trends and disrupting forces that are going to change the structure of the market.

Schmitz Cargobull AG provides the information about their financial state regarding the financed vehicles, their presence across Europe and their portfolio in each country, allowing the analyse of the situation of the company and give a statement of the future that may face due to the trends affecting the road transport and lease sector.

8. Conclusion

This case study aims to analyse the trends that are affecting the truck finance providers in Europe, forecast the situation of the lease market and analyse the position of Schmitz Cargobull AG in this future. However, the truck lease market cannot be isolated and study as a one; it should be considered together with the study of the road transport sector since both of them are correlated. The most relevant trends affecting the road transport sector are also affecting the truck lease market, since these trends are changing the composition of the European truck fleet towards a younger, more efficient and less pollutant fleet that it is looking into electric, hybrid and hydrogen vehicles, together with digital solutions to achieve these objectives. Although these trends may have conflicting effects on the indicators, the experts expect a clear change towards a more sustainable road freight transport in the future that will address the direction of the sector. The trends guiding the sector have in common the reduction of GHG emissions and to support the sustainable development of the European economy. These efforts and measurements to reduce the emissions level of the sector and increase its efficiency are going to incentivise the growth in services, the transition to alternative fuels, such as electric vehicles or hydrogen fuel cells, and an increase in the degree of processing in manufacturing sectors (Liimatainen, H. et al. 2014). Consequently, the Road freight is destined to become more competitive, efficient and technologically advance to fulfil the upcoming requirements of the policymakers and to reduce the cost for the fleet managers, reducing the price of the road transport if compared to other transport modalities (Leaseurope, 2018) (Liimatainen, H. et al. 2015). This will make the Road transport more attractive, and it will increase the tonnes moved by this part of the transport sector.

All these trends are also reflected in the lease market, creating movements such as the disrupting forces of the sharing economy, the digitalisation of the sector and the increasing importance of data mining, how to use the information and how to protect it, as long as the increasing importance of the electric vehicle and the challenges that they have associated, such as the second-hand market and the utility live of their batteries. The future of truck leasing providers is forecasted to change, not only due to the already mentioned trends that are emerging in the industry and the disrupting forces that are coming up. They also have to develop a strategy to offer vehicles that may fulfil the requirements and regulations that are emerging in the road transport sector, such as limitations in mobility, GHG emissions or the electrification of the fleet. The traditional business model of a vehicle finance provider is changing, they cannot just support the main activity of producer companies, and they must start to develop their own

strategy. As a result, the structure of the market is changing, and its final result will be dictated by the regulation that will come up in the next years and the decisions that the companies will take today to affront these new challenges.

Companies have been taking measurements and preparing themselves for what can come in the upcoming years. Since at this moment the big economies are talking about a possible recession and the effects are already visible in some sectors of the economy. Truck finance providers and their main producers do not have to prepare themselves only for the upcoming situation in the industry, but also for the possible consequences that this recession may produce in the lease and transportation market. Although the European Union has implemented a decoupling strategy to reduce the importance of the road transport in the economy, this sector remains as one of the most important between many of the state members (see Figure 7). The lease market has been increasing in importance in Europe, it has been growing at a constant rate between 9 and 10% in the last years, and it is forecasted to keep increasing at this ratio. If both sectors are correlated, the state of these two sectors may help to address the future of the European economy and its state and therefore, both have to be studied together.

Since both industries have to be analysed at the same time, all the trends and disrupting forces are summarised in the four scenarios that have been adapted for the truck and trailer industry. They explain the future situation of the companies in the truck sector that are willing to enter the lease market and the companies that are already present in it. The future situation of the market is subject to high uncertainty about the regulation and structure of the market, together with the strong trends that are affecting, not only the leasing sector but also the road transportation industry as a whole makes possible a clear difference between the scenarios. In these scenarios, the presence and power of the finance truck providers may vary due to regulation and fragmentation of the market.

SCB AG has set up its strategy against the future. The company wants to be one of the leaders in the sector and for it, although when there is uncertainty about the evolution of the regulation of the market, the company has started the restructuration of its finance department. All with the objective to become more experience with its clients and increasing the quality of its services, especially the asset-based services. Since the company would like to focus its efforts to improve the quality, flexibility and efficiency of its financial solutions, if the regulation of the sector evolves in the most favourable direction, the company is already prepared to affront and obtain the most revenues from the results in the scenarios 1 and 4.

The hypothetical situation of SCB AG in the four scenarios and the analyse of the main trends affecting the road industry, and the lease market can be used for future studies in order to become aware of the guiding forces of the truck finance provider industry and how this will be challenged in the upcoming years. It can also be used to compare the different challenges and situation that light transport and heavy commercial vehicle face in the market.