



# Spreading the cost

As countries continue to battle with recession, is now the ideal time to take a look at options other than buying GSE outright?

**A**s we have remarked elsewhere in this particular issue of *Ramp Equipment News*, fleet buyers don't necessarily have to go out and buy gleaming new GSE each time they need to augment their vehicle count. If reconditioned or rebuilt is not to your taste, then what about renting GSE – or even leasing it?

Renting has often been perceived as an ideal solution for the handler who might be unexpectedly faced with fulfilling a contract; or again, a handler who has contracted with an airline for services which might be of a temporary or infrequent nature. Equally, there are some big independent handlers (like Swissport and Menzies, for example), who have embraced the idea of renting at certain of their stations and who have even engineered long term deals, in some cases spanning up to ten years. Either way, a big investment is not necessarily on the cards and so the renting facility comes into its own. As a very broad rule of thumb, the shorter the rental period, the higher pro rata the cost per month will be. A longer rental contract will reduce those payments accordingly. Outside of the US, GSE renting is not uncommon and today, the key markets for renting are considered to be the UK, Holland and France, although the practice has been adopted elsewhere in the world.

Leasing is another ball game entirely: quite often the lease can result in the lessee ultimately taking delivery of the GSE in question. Leasing can come with built-in

service packages and a host of other options. Here, the operator has to decide whether he wants the luxury of a turnkey-style operation that leaves all the paperwork and maintenance schedules to another party; or whether he wants to take on board these elements. Also, does he wish to retain the equipment at the end of the contract term? Or is it preferable to hand it back and perhaps start a fresh deal? Leasing offers all sorts of possibilities and again, the sums have to be done by the operator before a choice is made.

## What's available?

For Aeroservicios' Gabriel Serrano, who offers both renting and leasing solutions for those looking to acquire GSE other than by the traditional means of purchase, the total amount of business accruing from these services is perhaps more modest than at first might be imagined. Gabriel reckons that based on figures for 2010, rentals took up around 12% of his company's total turnover; in contrast, leased GSE accounted for around 4.5% of his revenues for that same year.

"Our prices are net for outright purchase," he declares. "Some of our rental contracts include some percentage of the rental payments to be applied to the final purchase price, in case the customer chooses to buy the equipment during, or at the end of, the rental contract. All our lease contracts are based on purchase contracts with monthly payments." Was he able to comment on any discernible trends in this sector over the last 12 months?

And to what extent had the recession affected people's buying or renting decisions?

"I'd say that since 2008, our rental business has been affected. There have been fewer passengers and fewer flights, so less GSE has been needed. However, since mid-2010, business has been growing again, although it is still far from the situation we saw in mid-2008. Personally, I feel that the rental option is a very good alternative for short term needs, for peak seasons or where start-up operations are involved."

Had he noted that there was a typical period when it comes to leasing GSE?

"Leasing has no seasons," avers Gabriel. "Rental is high at Christmas, and through special events like the Super Bowl, the Indy 500 and cargo seasons, like Mother's Day and Valentines Day."

He adds that insofar as popular GSE for renting or leasing is concerned, for his operation at least, this tends to be baggage tractors and ground power units. The big discussion, though, revolves around the benefits of leasing or renting when compared to the more traditional avenue of GSE purchase.

"Rental will give the flexibility to return the equipment at any moment and to stay away from heavy maintenance or major damage. You are also able to replace or upgrade your equipment at no extra cost," he explains. "Furthermore, you can keep your cash in your bank, and not worry about having it sitting outdoors."

Interesting to note, Gabriel says that he's receiving more and more interest in green GSE, in line with the ever louder environmental lobbies.

"A common request is that of the battery-powered tractor, but we do not actually offer this product yet. Really, an electric tractor is not simply an item of ramp equipment, it is more an approach to the concept of alternative GSE. Therefore, the customer needs more than just a simple electric tractor, he needs a recharging infrastructure, as well as special training for his operators."

Looking ahead, Gabriel remains optimistic: "I am sure that we will get back on track during the coming year," he concludes.

### Lease and rental popular

At Fortbrand Services, Rich Boily reckons that some 50% of his GSE operation is given over to the supply of vehicles to customers on lease or rental packages.

"Fortbrand Services offers a variety of options: we have short term and seasonal rentals; long term leases; finance leases; and leases with the right to return the equipment. We can structure the transaction to meet the particular unique requirement that any of our customers might have. Any time that airlines come under capital expenditure constraints, such has been the case recently, it tends to lead to an increase in their rental or leasing activity. This is particularly true for seasonal equipment requirements: de-icers and air conditioners are typical of these categories.

"Over the last 12 months, the various airline mergers have also driven some rental activity, as the airlines are typically hesitant about the purchase of new GSE as they work their way through the integration process."

Fortbrand Services has covered it all when it comes to the length of contracts. "We've rented or leased equipment for periods from as short as one day to as long as ten years," reveals Rich. "However, a typical lease transaction is usually between 36-60 months. We also lease all types of GSE and really, there's no one sort of vehicle that is more popular than any other."

Rich is quite convincing when he's talking about the advantages of renting and leasing as solutions to GSE acquisition: briefly put, he sees it as a great bonus for the handler.

"It's all about flexibility," he explains. "Seasonal peak schedules can be accommodated without making large capital outlays. The same is true for seasonal equipment requirements, such as de-icers and air conditioners, for example.

"For ground handlers, it's a big advantage for them to be able to match the term of their



### Flexibility is the key, says Fortbrand

handling contract with an equipment lease of the same term. The payments will typically be less than the amortization on the equipment; and the ability to return the equipment at the end of the lease, if the handler should happen to lose the contract, provides the handler with tremendous operational and financial flexibility."

Rich concludes by saying that the overwhelming majority of his renting and leasing activity is still focussed on gas and diesel equipment; however, he does receive the occasional request for battery-powered equipment from customers.

### Europe comes to the US

Taking a concept that has worked in Europe and elsewhere, TCR decided to bring its rental expertise to the US a couple of years ago. The enterprise's Rick Janisse was able to report on the company's progress to date.

"TCR International provides GSE through leasing and maintenance agreements. This can be offered via three channels. First, the customer can rent equipment from TCR's existing fleet. Second, TCR can rent new equipment or secondhand equipment specifically requested by the customer. Last, TCR can offer a full fleet conversion operational lease. In this case, TCR can purchase a customer's entire fleet, and take over the related technical means associated with the fleet, like staff and workshops.

"In all cases, TCR will take care of the maintenance of the equipment as well as any related duties like certification, replacement, disposal of old kit and so on. This relieves the handler from the duty of financing a fleet and



### European expertise now available in the US

operating a GSE maintenance shop and employing mechanics to keep the GSE in good running condition. When a piece of GSE exhausts its useful life, TCR and the customer can mutually agree to replace the GSE with new or used GSE, and adjust the rental fee accordingly. The customer remains in control of the GSE that he operates through an extensive set of management reports provided from TCR's proprietary GSE software system, while TCR manages the physical ownership and maintenance of the GSE.

"The trend now in the airport ground equipment industry is toward operational leasing, as demonstrated by TCR's growth in Europe and acceptance of its core fleet conversion product. Operational leasing has proven to be very effective in other industries for construction equipment, IT equipment and aircraft, for example. European companies have learned the benefits of operating GSE through an operational lease that gives its customers the flexibility to secure additional GSE when new aircraft servicing contracts are won or to delete GSE from the fleet if a customer loses an aircraft servicing contract; all the while, TCR will provide all of the GSE maintenance.

"Throughout this latest recession, TCR's business has actually grown. As capital resources have been very tight, securing GSE through a TCR operational lease has proven to be an effective way for customers to grow without making large capital investments in handling equipment. Also, TCR has the financial ability to purchase a customer's entire GSE fleet, which injects a substantial amount of capital into a company while providing the capital for a customer to continue to expand."

Most of TCR's operational leasing agreements with its customers are for a five to seven year period. However, tailor-made agreements are executed and flexibility is included in the contract to allow the customer to have at all times the optimum quantity and quality of GSE, in line with his operation.

Rick continues: "After a customer chooses to secure its GSE through an operational lease, it becomes a way of doing business. It allows the customer to focus on his core tasks and leaves the GSE maintenance, upkeep and replacement of GSE to TCR - which is our core competency."

### A spread of knowledge

With TCR's fleet conversion facility, TCR handles most types of GSE, but the motorized components of the fleet are the most expensive and difficult to maintain. However, when it ▶

## Renting and leasing

► comes to refurbishment of loaders and pushback tractors, TCR has the expertise to completely rebuild a loader or a tractor and return it to good operating condition. Companies have recognized this and have found comfort in leasing GSE from TCR when it is backed up by this type of expertise.

It's an old question, but how does leasing and renting compare with outright purchase?

"First of all, leasing saves its customer from making a large capital investment in additional or replacement GSE, and secondly it provides the customer with the security of knowing that the GSE maintenance is completed in a cost-effective fashion. All GSE maintenance and repairs are well documented so that the customer knows exactly how much time was spent repairing a piece of GSE, what parts were used and which mechanic performed the maintenance. TCR's software system also produces management information reports that show the number of hours each piece of GSE has been used, its up-time performance as well as the time between failures, which guides TCR and its customer towards which pieces of GSE are candidates for replacement.

"When a GSE operator is leasing through TCR, TCR takes care of acquiring new or replacement GSE for the operator and disposing of, or selling off, the pieces that the customer does not need anymore or wishes to replace in order to better answer his specific handling requirements. The TCR secondhand GSE sales division is very effective in placing used GSE throughout the world. Without TCR managing the GSE fleet, the operator has to take time away from his main business to deal with acquisitions and the selling of older GSE. This becomes TCR's responsibility, so it's easier all round."

### Coming trends

Rick has not been unaware of the coming wave of legislation in the US that has seen the emergence of State and airport regulatory requirements for reduced GSE emissions.

"This is part of the sustainability policies that have been adopted; California, for instance, has established rigid standards for large spark ignition and diesel operating equipment that are forcing GSE operators to comply with overall GSE fleet requirements. As a consequence, many GSE operators have

now to replace certain pieces of GSE and acquire new environmentally-friendly GSE, such as electric tractors, to achieve these standards. TCR's fleet conversion and operational lease facilities allow GSE operators to very easily replace environmentally unfriendly pieces of GSE with new, electric-powered GSE. TCR acquires the new GSE and disposes of the pre-owned GSE. Also, TCR has the expertise to analyze an operator's fleet and determine the changes required to meet the new standards - and provides this service as part of its operational lease.

"In the final analysis, operational leasing is a relatively new concept for GSE operators in the US. TCR is a pioneer in the US market in this sense and is spreading the benefits of operational leasing as part of its US expansion strategy. Many GSE operators naturally have a fear of the unknown when it comes to GSE leasing because it is relatively new. However, the concept has been widely accepted as an effective way to do business in Europe, and the US market needs to understand the inherent benefits and the flexibility that operational leasing can bring to it."

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