

# Choosing a Truck

*Investing in the right truck will add value to your business.*

## What features are important?

### *Reduce the life-cycle cost*

The life-cycle cost of your truck is the total cost incurred during the life of the truck. When you choose your truck, look for features that reduce the life-cycle cost and increase vehicle uptime.

When you are looking at the features of different vehicles, think about how your choice will affect these costs:

- fuel usage
- services
- insurance
- financing costs
- the cost of acquiring and reselling the truck
- driver re-training
- accommodation away from home (sleeper cab)

### *Improve driving satisfaction*

Obviously different features will suit different drivers, but there are some things that will improve the driving experience for nearly everybody:

- You'll need engine horsepower that meets the task.
- An automated transmission that still gives the driver control in specific situations may be more comfortable and certainly reduces the number of gear shifts that have to be made every day.
- The driver's seat and driving position are vital for comfort and reducing driver fatigue.

- The layout of the instrument panel and controls is important so that everything is visible and within easy reach. You should be able to check everything at a glance and reach controls as much as possible without taking your hands off the wheel.
- Noise is another important factor to consider, especially as too much noise for long periods of time contributes to fatigue. The position of things like air brakes and the sound system and the amount of insulation provided are important.

### *Improve fuel economy*

There are a number of ways to improve fuel economy:

- Choose an aerodynamic model and, where appropriate, a sleeper package appropriate for the trailers being hauled, roof fairing, chassis fairings, cab extenders and aerodynamic mirrors. Remove accessory components from the air stream where possible and narrow the gap between the vehicle and the trailer as much as you can.
- The impact of aerodynamics depends on speed as well as design – eg the amount of energy needed to move the air around a truck at 100 kph is 40% greater than at 80 kph.
- Choose the same tyres for all of the wheels on each vehicle.
- Choose the right engine and gearing for what you want your truck to do. Fuel economy may fall by 10-15% if a gear set is selected that has the truck cruise at the wrong rpm. Choose a transmission and rear axle to match the engine and load requirements for your specific application. Take into account the terrain over which the vehicle will operate.
- Choose effective tare weight components that will still do the job. Lighter weight reduces the amount of horsepower needed to overcome the mechanical resistance of the drivetrain and tyres. You may also be able to increase your payload capacity.

#### **Overcoming drag**

At 90 kph, about two-thirds of the energy consumed by a truck is to overcome the aerodynamic drag. Roof fairing and cab extenders reduce aerodynamic drag and can decrease operating expenses significantly.

### *Don't buy more than you need*

When you're looking at options, think about what you'll actually need to do the job. Will a \$200,000 truck do the job as well as a \$300,000 truck? If you spend more than you need to, you might find it hard to compete with someone who has spent less.

## New or used?

You'll find that some contractors offering long-term and specialised contracts require you to have a new truck. If you choose to go with such a contractor, you won't have a choice between buying new or second hand. But if you do have a choice, there are a number of things to consider.

### *Capital outlay vs operating cost*

While the price of a second-hand truck will be lower than the price of a new one, that doesn't mean it will actually cost you less. Here are some things to consider:

- Stamp duty in Western Australia is higher for second hand.
- Interest rates are also higher for second hand.
- Insurance costs may also be higher, depending on the driver's history.
- You're likely to have to pay a larger deposit on a used truck and buying second hand will limit the residual value at the end of your repayment period.
- Your service and repair costs will accelerate sooner. You won't get as much use out of a second-hand truck before you are faced with the same decision again.

### *Resale value*

While the number of kilometres on the clock and the condition of the truck and tyres will have a big impact on the resale value of your vehicle, there are a number of things you should think about when buying new:

- Truck make is one decision you can make to increase resale value. Premium brands can bring premium resale dollars, although different brands sell better in different areas.
- Power is another one. The rule of thumb is the higher the horsepower, the higher the resale value.
- There are other components that may cost you more in the first place but will hold their value better as well – higher speed transmission and automatic over manual, aluminium wheels, high quality exhaust and air cleaners, a larger sleeper and options like engine brakes.

Another thing to remember when considering the resale value of your new truck is how you will dispose of it. If you are in a position to resell it yourself, you can command more than on a trade-in or through reselling to an agent, because the reseller has additional costs. However, it can take longer to sell a truck yourself.

Also, extended transferable warranties and complete service records will help you sell.

Speak to your accountant about the taxation implications and issues on resale value before you sell, as timing can have an impact.

## What about finance?

Here's some basic information about the different types of finance to help you get started.

You will need more information and advice before you make any decisions. The best person to advise you about finance is your accountant. Your accountant will not only tell you what effect the type of finance you choose will have on your set up and operating costs, but will also be able to help with a financial plan that will convince a finance company to go with you.

### *Loans*

(also called asset loans or chattel mortgages)

Individuals, sole traders or partners can take out loans.

Regular payments are structured to meet your requirements. They'll vary according to how much deposit you can afford and the amount of the final lump sum payment that's due at the end of the finance term.

Although there are transfer fees to pay, the ownership of the vehicle is transferred to you as soon as the first payment is made. This is in exchange for the security over the vehicle, which is discharged as soon as you pay the final instalment.

Taking out a loan may give you a tax advantage, depending on the GST structure of your business. You should consult your accountant about this. Loans don't usually incur ongoing fees, but you are likely to have to pay a set up fee when the loan is approved, as well as government charges such as stamp duty.

Loans are available for both used and new vehicles.

### *Finance leases*

A finance lease basically works by the finance company purchasing the equipment or vehicle you require and then leasing it to you. You then use the vehicle or equipment for an agreed time in return for a series of rental payments.

A finance lease requires little or no down payment. You have the immediate use of the vehicle without having to pay a large deposit. If you do make a higher first lease payment, it can act like a deposit and reduce your rental payments. Rental payments are then fixed for the entire term of the agreement. You may also have to pay compulsory government charges such as stamp duty or GST as part of the monthly repayment.

As long as the leased vehicle is used to produce assessable income, the lease payments will be tax deductible. It is advisable to consult with your accountant about this.

At the end of a lease you have a number of choices. You may continue to lease the vehicle at an adjusted monthly rental. You could offer to buy the vehicle at the residual value agreed at the beginning of the lease contract. Or you could return the vehicle, subject to contractual requirements. This would allow you to upgrade, if that's best for you.

### ***Operating lease***

An operating lease is similar to a finance lease except that you have no trade-in or reselling hassles. The risk of reselling is taken by the finance company. When the term of the lease expires, you have the choice of extending the lease or returning the vehicle, subject to the requirements of the contract.

Some operating leases allow you to include maintenance in the lease payment. These are called fully maintained leases.

### ***Hire purchase***

Hire purchase is an option for light vehicles as well as plant and equipment. It's designed for businesses that want to own the asset at the end of the agreement term.

Hire purchase works by the finance company owning the vehicle or equipment and giving you the use of it in return for regular payments. When the final payment is made, you own the asset.

The term of the agreement is decided at the beginning and has an impact on the monthly payment you'll have to make. Monthly payments are set for the term of the agreement, giving you a constant figure to include in your business planning and budgeting. To reduce the monthly commitment, you can either extend the term of the agreement or incorporate a payout at the end of the contract. You may also have to pay compulsory government charges such as stamp duty or GST as part of the monthly repayment.

### ***Doing your sums***

Most finance companies have websites where you can work out how much finance will cost you. How much you have to pay will depend on:

- whether the vehicle is new or used;
- which state or territory you're in;
- the purchase price;
- the type of finance;
- what the term of the agreement will be;
- what the residual value is (between 18.75% and 40%); and
- what fees and charges apply.