What's the real difference between vehicle rental and leasing?

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Consumers may be confused as to the **difference between renting vehicles and leasing** them. Real estate or property renting, which are familiar to them, are not so different from each other.

When it comes to cars, however, the differences are significant – particularly in the way each business operates. For this reason, such businesses need the support of an **enterprise platform designed specifically for their operation,** whether leasing or rental.

The issue is particularly prevalent in the United Arab Emirates, which has experienced dramatic changes in the temporary vehicle market in recent years. Ex-pats are now demanding vehicles for longer periods, three to five years for example, rather than the usual 12 months. This has created opportunities for car leasing rather than short-term rental but vehicle management systems employed by vehicle businesses are geared towards short-term rental and not the longer term leasing.

We've noticed a worrying trend, which is that some **automotive management software** vendors are offering applications designed for the vehicle daily rental sector and marketing them to **vehicle leasing operators.**

Any vehicle leasing business that invests in such a platform will not be getting the functionality they need to operate their business properly and will be faced with an uncertain and costly future of bespoke software tweaks and configuration – or having to perform certain processes manually. And it goes the other way too – any vehicle rental business that is sold a platform more akin to leasing management will be sadly lacking too.

The rest of this article highlights the primary differences.

Vehicle rental or lease customer management is different

Firstly, **short-term rental companies** exists to fulfil the needs of people, such as business people, tourists or those who want a particular type of vehicle, such as a luxury sports car, for a short amount of time. So, for rental operators, the car (or vehicle) is the asset.

For vehicle leasing companies, things are very different. The vehicle is an asset, yes, but then so too is the customer who feels that they 'own' the vehicle. Leasing operators have a long-term contract and relationship with their customers, for the duration of the lease period - and beyond if things go well. During this time, it's in both parties' interests for the leasing company to supply additional value-added services and they need a business platform that enables them to do so.

With leasing, the customer (or business) can come to them through any one of many vehicle distribution channels. With rental, the customer chooses a vehicle from a category of the rental company's existing stock. In terms of leasing, the customer specifies and orders the vehicle they actually want.

And since leasing is a form of financing (or loan), the leasing company needs to be able to undertake credit checks (and other procedures), which are not important to vehicle rental operators who are paid upfront.

Rental or lease vehicle management is different too

Rental vehicles are owned by the rental company and are maintained, serviced and insured by them. Rental companies make money from renting the same vehicle over and over again. Leasing finances a single vehicle for the duration of the contract with a single customer (or company).

Leasing companies also own the vehicle. The customer initiates the vehicle request by specifying and ordering the actual vehicle they require and are able to select their colour choice and other preferential options. The vehicle is ordered and the leasing company buys it from a vehicle supplier/dealer and then leases it to the customer alongside the value-added services.

Financial management, very different between rental and lease

The way the two companies charge for their services, the way charges are calculated, invoiced and billed between rental and lease operations cannot be compared and demand totally **different functionality from a management platform** and different accounting practices.

Rental rates are determined by the rental company and based on a daily or weekly fee. They may include unlimited mileage or a set mileage rate and the method by which rates are determined is company confidential. They can vary widely (even within the same rental company) as they are based on a variety of discount schemes.

Rental is not a form of **vehicle financing** (or operating lease) whereas leasing is. Lease financial payments are easy to calculate using a well-defined formula (employed throughout the leasing industry). The calculation of the other services offered by the leasing company will provide them with the competitive edge. At lease end, vehicles are returned to the leasing company as the final payment of the lease or 'loan'. This residual value has been carefully calculated at the outset of the lease to take account of loan interest, depreciation and final asset remarketing value.

Rental companies have a vehicle exit plan too but they are not tied to a customer contract as to when this happens and instead can choose the optimum time to remarketing the vehicle depending upon its age, condition, mileage, market conditions and asset value.

It's easy to see then that these two businesses operate differently and require a very different **vehicle asset and business management platform.** At **Bynx** we treat them as distinct. **bynxFLEET** supports both operations through its core financial engine. The differences are catered for through the core **suite of applications,** which can be incorporated or left out of the overall solution. This means, in each case, the customer gets a system specifically designed to meet the operational, financial and management needs of their particular business.