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Original Research Article

The world of B2B leasing

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ABSTRACT: The world of business-to-business (B2B) has undergone significant evolution, transforming from a conventional financial practice into a strategic tool for modern enterprises. This research paper delves into the multifaceted realm of B2B leasing, aiming to provide a comprehensive understanding of its intricacies, benefits, challenges, and future prospects. In an era marked by economic uncertainty, environmental awareness, and an increased focus on sustainability, B2B leasing stands as a versatile and strategic financial instrument deserving of thorough examination. This research endeavors to equip businesses, policymakers, and industry stakeholders with insights to navigate the dynamic world of B2B leasing effectively.

KEYWORDS: B2B leasing; sustainability; financial instrument

1. Introduction

In the ever-evolving landscape of modern commerce, businesses face a multitude of decisions that shape their operational strategies and financial well-being. Among these, the choice between leasing and ownership of assets has emerged as a pivotal consideration. Business-to-business (B2B) leasing, a practice once relegated to the periphery of corporate finance, now occupies a central role in the strategic maneuvers of modern enterprises across industries. It is within this context that we embark on our exploration of B2B leasing, unearthing the layers of complexity and opportunity[1].

B2B leasing is the act of renting essential assets and other resources from one business to another. It has evolved into a dynamic instrument that not only optimizes cost structures but also unlocks opportunities for agility, innovation, and sustainability. From leasing industrial equipment and office spaces to vehicle fleets and IT infrastructure, B2B leasing has become a focal point of contemporary business operations[2].

2. Types of B2B leasing

B2B leasing can be categorized into two separate groups: one based on the type of asset being leased and the other based on the type of lease chosen. We will examine both of these categories in detail.

2.1. Leasing classification based on asset type

Leasing is a versatile financial arrangement, and can involve wide range of asset types which may include one or more from below categories sheds light on various lease types that empower enterprises to strategically acquire and utilize assets tailored to specific needs.

2.1.1. Equipment leasing

Equipment leasing involves businesses renting machinery, technology, vehicles or any other equipment.

Advantages:

- Provides access to the latest technology and equipment without a large upfront capital investment.
- Preserves capital for other business needs.
- Tax benefits may be available through deducting lease payments.

Challenges:

- Ongoing lease payments can be higher than the equipment's purchase price over time.
- Long-term commitments may limit flexibility.

2.1.2. Real estate leasing

Real estate leasing includes leasing commercial properties such as office spaces, warehouses or retail spaces.

Advantages:

- Flexibility to adapt to changing spaces without property ownership.
- Lease expenses may be tax-deductible.
- There are fewer upfront costs compared to buying commercial property.

Challenges:

- Rent payments may escalate over time, making long-term budgeting difficult.
- Limited control over property modifications.
- No property equity or potential for appreciation.

2.1.3. Fleet leasing

Fleet leasing involves leasing a group or fleet of vehicles, such as cars, trucks, and delivery vans or other types of vehicles for corporate use.

Advantages:

- Simplifies vehicle management, maintenance, and replacement.
- Potential cost savings through fleet management services.
- Access to newer, fuel-efficient vehicles.

Challenges:

- Limited flexibility for customization.
- May have mileage restrictions or wear and tear charges.

2.2. Financial or operating lease

The leasing arrangement or type of lease service different needs and comes with its own set of merits and demerits based on the company requirements which is explained in below sections[3].

2.2.1. Financial lease

A finance lease refers to a lease where the finance company legally owns the asset during the lease's tenure. All the risk and reward associated with the asset are transferred to the lessee by the lessor and at the end of the lease term the lessee also gets the ownership of the asset[4,5]. A financial lease is also referred to as a capital lease influencing assets, liabilities, interests and depreciation.

2.2.2. Operating lease

An operating lease is a lease contract that allows for an asset's use but does not convey ownership rights of the asset to the lessee[6,7].

Figure 1 shows us the main conditions considered while classifying the leases into operating and financial.

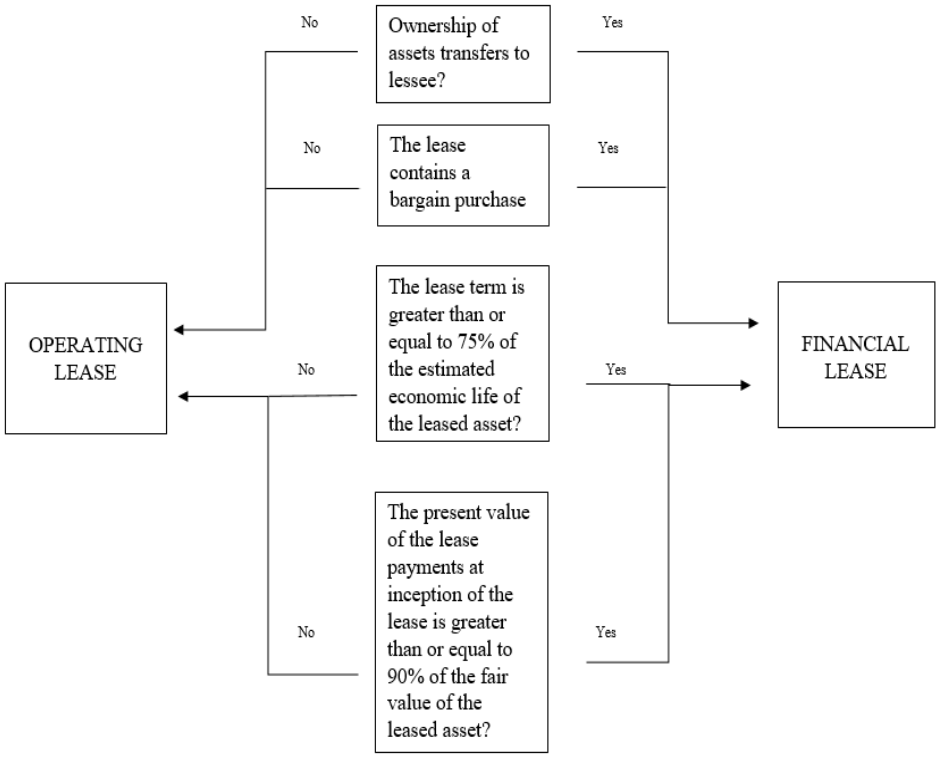

Figure 1. Classification of operating and financial lease.

The key difference between operating and finance lease is tabulated in below **Table 1** which gives overview of comparisons.

Table 1. Differences between operating and financial lease.

	Operating lease	**Financial lease**
Ownership	With the lessor	Transfer option at the end of the lease period is there with the lessee
Risks and rewards related to asset	With the lessor	With the lessee
Purchase option	Does not have any option	The lessee has a purchase option
Expense borne	By lessor	By lessee
Running cost to lessee	No running or administration costs	Running costs and administration expenses are higher
Tax benefit to lessee	No depreciation can be claimed	Both interest and depreciation can be claimed
Term affair	Shorter term	Long term

3. Lease vs. buy

The illustration of the summary below **Table 2** looks into how leasing is better when compared to

purchase[8,9].

Table 2. Lease vs. purchase.

	Lease	**Purchase**
Equipment value	All risks associated with the equipment depreciation lies with the leasing company.	The owner must accept any decrease in the value of the equipment.
Disposal of equipment	The leasing company is responsible for the disposal of equipment at the end of the term.	The owner is responsible for the disposal of the equipment which has associated costs.
Ownership	All risks associated with ownership lie with the leasing company.	All aspects of, and risks associated with ownership lie with the organization.
Payments	Payments are fixed and spread over the useful life of the equipment.	Payment in advance.
Taxation	Lease payments are fully tax deductible over the rental term.	The owner may claim a tax deduction.
Effect on the balance sheet	Is seen as an operational expense.	Appears as an asset on the balance sheet.

Net present value (NPV) can also be used to make a case for leasing. NPV (Equation (1)) is the difference between the present value of cash inflows and the present value of cash outflows over a period of time[10]. NPV is mainly used in capital budgeting and investment planning to analyze the profitability of a project or investment[11].

$$NPV = \left[\frac{C_{i1}}{(1+r)^1} + \frac{C_{i2}}{(1+r)^2} + \frac{C_{i3}}{(1+r)^3} + \cdots\right] - X_0 \quad (1)$$

where "r" is the specified rate of return, "C_{i1}" is the consolidated cash flow during the first period, "C_{i2}" is the consolidated cash flow during the second period, "C_{i3}" is the consolidated cash flow during the third period, "X_0" is the net initial investment expenditure.

The below Equation (2) refers to determining periodic payment (P_{mt}) using an equivalent rate of interest per payment period when PV is known,

$$P_{mt} = \mathrm{PV} * \frac{\mathrm{i}}{\left(1 - \frac{1}{1+\mathrm{i}}\right)}\mathrm{n} \quad (2)$$

where "P_{mt}" is the periodic payments, "PV" is the present value, "i" is the discount rate, "n" is the number of periods.

Let us now consider an example:

There is an asset priced at $20,000 on the market. If a lessee were to lease this asset for a total of 3 years or 36 months, the rent per quarter would come up to $405.60 and the rent per day would come up to $13.52.

The above formulas can be used to calculate the rent per quarter in **Table 3** below, also leading to effective rent per day.

Table 3. Calculation of rental per quarter and effective rent/day.

Term	Price per unit	Total cost	Rent per quarter	Effective rent/day
36 months	$20,000	$20,000	$405.60	$13.52

Assuming that the residual value of the asset is $8000 and the interest rate is 6% we can calculate the NPV of purchase and the NPV of the lease as illustrated in **Table 4** below.

Table 4. Calculation of NPV of purchase vs. NPV of lease.

Net present value of purchase	Net present value of lease
$18,867.92	$3400.49

As seen in the example above, while considering the NPV, a customer can save up to $15,467 if he chooses to lease the asset than buy.

4. Challenges of B2B leasing

The B2B leasing tailored based on specific context and industry providing insights in to overcoming these challenges where possible as illustrated in below sections[12,13].

4.1. Complex contracts

B2B leasing often involves intricate contracts with numerous terms and conditions, making it difficult for both parties to fully under their obligations.

4.2. Market volatility

The value of leased assets can fluctuate over time, impacting the lessor's return on investment and potentially causing disputes[14,15].

4.3. Regulatory compliance

Staying compliant with the ever-changing leasing and accounting standards, such as ASC 842 or IFRS 16, can be challenging for businesses[16,17].

4.4. Maintenance and repairs

Lessors may be responsible for maintaining and repairing leased assets, which can be costly and time-consuming.

4.5. Asset depreciation

The value of the asset can decrease significantly over time, affecting the lessor's ability to recover investment when the lease ends.

5. Risks of B2B leasing

Addressing the risk listed below, but not limited requires a proactive and strategic approach for the business as it directly impacts financial stability, operational efficiency, and strategic decision-making of business.

5.1. Credit risk

Lessees may face financial difficulties, leading to payment delays or defaults, which can negatively impact the lessor's cash flow.

5.2. Market risk

Changes in market conditions can affect the residual value of leased assets, potentially leading to losses for the lessor.

5.3. Legal and regulatory risk

Non-compliance with leasing regulations and contractual disputes can result in legal actions and financial penalties.

5.4. Operational risk

Unexpected downtime or maintenance issues with leased equipment can disrupt lessees' operations and productivity.

5.5. End-of-lease residual value

Estimating the residual value of leased assets accurately can be challenging and can lead to financial discrepancies at the end of the lease term.

5.6. Technology obsolescence

In industries with rapidly evolving technology, leased assets may become outdated before the end of the lease, affecting their value and usability.

6. Aspect of sustainability

Sustainability in B2B leasing goes beyond profit-driven transactions and aims to create a positive impact on the environment, society, and the economy. It involves responsible decision-making, collaboration, and a long-term perspective on business relationships. Here are some key aspects of sustainability in B2B leasing.

6.1. Resource efficiency

Sustainable B2B leasing involves optimizing resource use, such as materials and energy, to reduce waste and promote responsible consumption.

6.2. Renewable energy and green technologies

B2B leasing can prioritize leasing assets that incorporate renewable sources of energy or green technologies, contributing to a greener and more sustainable economy.

6.3. Circular economy practices

Embracing a circular economy approach by reusing, refurbishing, or recycling leased assets at the end of their lifecycle can enhance the sustainability of B2B leasing.

6.4. Carbon and emissions reduction

Implementing strategies to reduce carbon emissions, such as optimizing transportation and energy usage.

6.5. Collaboration and innovation

Encouraging collaboration and innovation in the development of sustainable leasing solutions can lead to more eco-friendly and efficient practices.

6.6. Social responsibility

B2B leasing companies should engage in social responsibility initiatives, such as supporting local communities, promoting diversity and inclusion, and investing in employee well-being.

6.7. Compliance with regulations

Adhering to relevant environmental, labor, and safety regulations is crucial in sustainable B2B leasing.

6.8. Lifecycle management

Businesses should consider the entire lifecycle of lead assets, from procurement to disposal, with a focus on responsible and sustainable practices at every stage.

7. Technology and B2B leasing

Technology plays a significant role in B2B leasing.

7.1. Streamlined processes

Technology automates and streamlines various leasing processes, from application submission to contract management. This reduces manual paperwork and accelerates transactions.

7.2. Online platforms

B2B leasing companies often use online platforms or marketplaces where businesses can search for available equipment or assets, compare options, and initiate leasing agreements.

7.3. Data analytics

Technology enables the collection and analysis of data related to the lessee's creditworthiness and leasing trends, helping lessors make informed decisions and tailor offerings to specific industries or clients.

7.4. Blockchain for smart contracts

Block chain technology can be implemented for smart contracts in B2B leasing, ensuring transparency, security, and automatic execution of lease terms.

7.5. IoT sensors

The Internet of Things (IoT) can provide real-time monitoring of leased equipment, allowing lessors to track usage, and maintenance needs and potentially offer predictive maintenance services.

7.6. AI and machine learning

These technologies can assess credit risk, detect anomalies in leasing agreements, and optimize pricing models based on historical data, enhancing profitability and risk management.

7.7. Document management

Digital document management systems facilitate the storage and retrieval of lease contracts, reducing paperwork and making it easier to handle large volumes of agreements.

8. Current market conditions and future trends

The global leasing markets grew from $1519.9 billion in 2022 to $1674.39 billion in 2023 at a compound annual growth rate (CAGR) of 10.2%[18,19]. The growth primarily stems from companies

reorganizing their operations and rebounding from challenges posed by the COVID-19 pandemic. This period saw the implementation of restrictive measures such as social distancing, remote work, and the closure of commercial activities, which presented operational difficulties. Furthermore, the rise in startup businesses has contributed to increased demand for leasing services. According to the Department for Promotion of Industry and Internal Trade report, there are 16,000 new start-ups in India during 2020–2021, highlighting new opportunities for the leasing market in client expansion and revenue generation[20].

Asia Pacific was the largest region in the leasing market in 2021, and North America was second[21]. Even though the pandemic acted as a massive restraint to the leasing industry, many companies have now found new opportunities for growth and expansion. For example, a prominent French B2B car leasing company, ALD, decided to quit the leasing business. This occurred because the pandemic changed the conditions and demands for corporate transportation services significantly. Many meetings and communications shifted to online platforms, reducing the need for commuting to offices. While this trend was expected to continue over the years, there was a shift in the Dutch markets in 2021. With growing pressures on social and environmental goals, there was an increase in demand for electrical, eco-friendly cars. This provided ALD with a ray of hope.

The trend is expected to continue and the leasing market is expected to grow to $2424.62 billion in 2027 at a CAGR of 9.7%[22]. According to research conducted by ReportsnReports, the IT leasing market is expected to grow the most. This is due to companies focusing a lot more on the sustainability aspect and promoting circular economy practices.

9. Conclusion

In conclusion, while the B2B leasing industry experienced a temporary slowdown in the wake of the COVID-19 pandemic, its significance within modern enterprises remains undeniably crucial. Moreover, as we stand on the cusp of a technology-driven future, the industry is poised for exciting transformations. Technology is revolutionizing every facet of B2B leasing, from streamlined processes to data analytics, making it more efficient and accessible than ever before. Additionally, the increasing emphasis on sustainability in business practices opens up new horizons for eco-friendly leasing solutions, aligning with global environmental goals.

As it continues to evolve and innovate, the B2B leasing industry holds the promise of a prosperous future, supporting businesses in their pursuit of growth, sustainability, and success.

Author contributions

KM has prepared the conceptualization, methodology, data collection, and writing original draft with a conceptual framework.

SS has prepared data analysis with interpretation of leasing data, literature reviews, review, and editing of the manuscript, focusing on refining the analysis and data visualization.

PG domain expertise in the fintech domain, including relevant case studies or real-world examples, forecasting the leasing opportunities.

Conflict of interest

The authors declare that they have no conflict of interest.

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