

Demand-side Factors of the Georgian Cars' Leasing Market **Avtandil Gagnidze, East European University**

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Abstract: The purpose of this article is to continue our papers and investigate the possibilities of leasing development in Georgia and to develop measures to increase its effectiveness. Because of the decision “lease or buy?” always is based on Financial and Behavioral aspects, we’ll investigate both, but particularly focus on aspects that determine the Decision Making. In order to achieve the goal set in the article the following main task is stated: **What are the most important factors for Georgian consumers and that influence their decision on leasing?**

Main findings: Survey results show that Awareness is really the problem. Only 139 out of 318 (about 44%) participants responded that they are well aware on Leasing and the difference between leasing and loan. The survey shows that most of potential consumers prefer their own funds: 150 out of 318 (about 47%) and only 56 (less than 18%) consider leasing as source of financing. Most of potential consumers 245 out of 318 (about 77%) prefer to have Hybrid or Electric cars. With respect to New Average Brand or Secondary Luxury Brand consumers preferences are almost the same: 141 and 147 out of 318 for New and Secondary consequently. Ownership is likely to be very important, because of with Leasing, person is not real “owner”: 72% of respondents indicated that ownership is important or very important.

I. Introduction

Developed leasing services are one of the key factors in sustainable development in a developing economy. Every year, 30-40 percent of the billions spent by companies around the world to buy manufacturing assets come from leasing. Despite the worldwide recognition and rapid development of leasing as a financial instrument, leasing in Georgia can be said to have not yet been properly distributed.

The development of the leasing sector is directly related to the successful operation of small and medium-sized businesses and the advancement of the economy. In developing countries, 3-15% of fixed capital renewal investments are financed by leasing, while in developed countries this figure reaches 30%. In Georgia, about 2% of all assets are financed by leasing, the remaining 98% use bank or microfinance loans or own funds when purchasing fixed assets.

The first company in Georgia to offer leasing services to the market was Georgian Leasing Company, a subsidiary of the Bank of Georgia, established in 2001. It offers customers a diverse range of leasing services, namely: financial leasing, auto leasing, residual value restaurant equipment leasing, returnable leasing, and operating leasing. Currently, there are more than a hundred leasing companies registered in Georgia, but the market is divided into three main companies: TBC Leasing (TBCL), Alliance Group Georgia (AGL) and Georgian Leasing Company (GLC). Mogo Leasing in 2015 and three more companies BHL Leasing, Cristal Leasing and BB Leasing in 2019 joined these companies. These companies are relatively new and have a narrow profile, however, they have become quite active in the specific fields of leasing (especially in transport).

According to the Statistics Agency of the Ministry of Economic Development of Georgia, there are currently more than 150 leasing companies registered in Georgia, of which about 40 are considered to be operating, and only some of them are really active on leasing services market (such as: TBC Leasing, Georgian Leasing Company, Standard Bank Leasing Company and Alliance Group Leasing). According to the same statistics department, in 2004 the turnover of Georgian leasing firms amounted to 9390.6 thousand GEL. At the same time, the International Finance Corporation of the World Bank (IFC) and USAID International Consulting Groups have investigated whether Georgian companies are willing to lease \$ 20 million worth of machinery. The demand for leasing in Georgia is relatively weak, mainly due to the fact that potential customers do not realize the taxation of leasing and capital gains.

Most recent data shows that in 2020 the total Business Loan Portfolio in Georgia was 23 224 Millions of GEL (nbg, 2021) and the Total Leasing Market Portfolio was 417 Millions of GEL (tbcleasing, 2021). Therefore the percentage of Business Loans Portfolio is equivalent to 47.01% of Georgia’s GDP and percentage of Leasing Market Portfolio is equivalent to 0.84% of Georgia’s GDP. Calculations indicate that percentage of Leasing Market Portfolio increases and now is more close to Central and Eastern European Countries values. At the same time it

turns out that the Georgian leasing market is ready to use much more leasing services than it is today. The purpose of this article is to investigate the possibilities of leasing development in Georgia and to develop measures to increase its effectiveness. Because of the decision “**lease or buy?**” always is based on Financial and Behavioral aspects, we'll investigate both, but particularly focus on aspects that determine the Decision Making. In order to achieve the goal set in the article the following main task is stated: **What are the most important factors for Georgian consumers and that influence their decision on leasing?**

II. Literature review

In the scientific literature, all economic-legal relations related to leasing are attributed to a new or recent period of history, but this view needs to be clarified. Historical documents testify that leasing has been known to man since time immemorial. The idea of leasing is old, but the term "LEASE" was coined late. The essence of the public transaction dates back to the time of Aristotle (384 \ 383-322 BC). The following phrase is often quoted by Aristotle: "Wealth is in use and not in property rights".

First of all, it should be noted that some authors give different conclusions by referring to different sources as the date of origin of the lease. The inaccuracy of this opinion is related to the misunderstanding of the subject of leasing and its assimilation with the lease agreement. Economists trace it back to the ancient Sumerian state in the third millennium BC and to the laws of Hammurabi (1792-1750 BC). It is also believed that Justinian's institutions (483-465) codified the norms governing leasing relations. Part of the researchers support the idea that owning an item without owners full rights it is the primary embryo of a leasing agreement. In this sense, leasing relationships are not a new but a very old legal institution. Classic leasing as an independent form of contract arose in the second half of the 19th century as a result of the development of railway transport. It was probably first used in business turnover in 1877, when the American telephone company Bell began lending telephones for temporary use for a fee. Its formation as a private legal institution was driven by economic needs, which, as a result of the natural merging of the various elements of the treaty, facilitated the formation of an entirely new treaty. Nowadays, it is quite difficult to say with certainty whether there is a country where leasing is not a form of contract.

The 80s of the last century should be considered as the period of the rise of leasing. Its volume increases by 15-20% every year. As a rule, short-term leasing is very convenient. Leasing contract standardization reduces administrative and operational costs.

The idea of car leasing was born in the early twentieth century. Originally called Drive-Your-Self, this type of service was also referred to as the company that pioneered the idea in 1918, under Walter Jacobs in Chicago. One of the earliest examples of automobile leasing is the legal father of the automobile leasing business in 1918, Zoli Frank, a sales agent from Chicago who was the first to introduce long-term rental cars. In the 1930s, Henry Ford effectively used leasing relationships to expand his car keys.

The active spread of leasing in developed economies dates back to the 1950s. Financial leasing has been a great competitor to bank lending from the beginning. Not surprisingly, the founders of leasing companies were mainly banks and other financial institutions, who decided that it was better to offer the loan to the client, not in cash, but the property he intends to buy with this money. In fact, leasing is also a loan (commodity loan), which is for cars, equipment, vehicles, buildings, and structures, etc.

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The “leasing puzzle”, as characterized by Ang and Peterson (J. Ang, 1984), recommends the absence of of common views about the real nature of the relationship among obligation and leasing: are they substitutes or complements? Myers et al (S. Myers, 1976) fostered a hypothetical model that clarifies the replacement among obligation and leases and later papers added to that thought (e.g. Marston and Harris, Beattie et al.) (F. Marston, 1988) (V.A. Beattie, 2000). The general conclusion of all these papers is that the capitalization of operating leases significantly affects financial indicators, although there are industry differences. Indeed this could help to understand the lobbying of preparers against the proposed accounting changes.

In order to go through the reasons for demand increase one needs to understand the reason behind car lease. People prefer reliability and comfort over unreliability and uncomfortable, this reason alone makes new cars more attractive compared to older ones, due to their reliability and comfortable driving. Compared to owning an old car with little value and need for consistent maintenance, having a new car at disposal sounds quite tempting. It's also considerably affordable compared to actually buying the car. Lease car offers lot of flexibility for the person, if one wants to drive the latest model cars lease is the ideal way to do so and still afford it.

For obvious financial point of view for both enterprises and individual consumers by leasing a car they can invest the same money they would need for buying a car to something more profitable, such as improving the efficiency of

the company or to stock market. It is also possible to obtain the car without paying beforehand via cash for instance, as long as the customer's credit report is suitable for it(Joutse, 2020). From 2014 to 2019 car leasing has become increasingly popular all over Europe and customers in Europe are getting more and more accustomed on not owning a car themselves. On the other side low interest rates allow for interesting lease prices, which makes lease an attractive alternative. Another reason considers the customers capital, which they do not want to risk when leasing is a less risky alternative in comparison to ownership(Uittebroek, 2020).

The uncertainty of gasoline cars creates an interesting situation for retailers overall, since buying a new car, which is not an electric car is a great risk for any consumer. The value drop is to be expected for such cars and buying a new one in a time such as this definitely is not the most ideal. This creates opportunities for leasing which does not involve ownership for the buyer and eliminating the risk involved with value decrease. The same expectation can be said for electric cars, since hydrogen cars, which Toyota has invented holds promise for the future. The greatest problem with electric cars and how to make them eco-friendly is how to produce the electricity cleanly.

There has been substantial growth in rates of new-car leasing over the last few decades. Building on recent theoretical research, in paper (J.P. Johnson, 2014)authors constructed a model of the leasing decision in which leasing mitigates adverse selection and reduces transaction costs, but moral hazard limits its use. In this model, the prevalence of leasing is related to new-car reliability, which suggests that the recent growth in leasing is at least partly due to improvements in new-car reliability. The article (Sultan, 2010) extends existing model of the used car market with asymmetric information to examine the possible impacts of leasing and Certified Pre-Owned (CPO) programs on the average quality of traded used cars in the market. The author assumed that a consumer can buy or lease a new car, or he/she can buy a used or a CPO car. The author assumed that the quality of a car depends on the maintenance level, the maintenance level in this model is chosen when a car is still a 'new' car, i.e. after the warranty ends. The model implied that the average quality of traded used cars can be either higher or lower than the average quality of nontraded used cars. The study also found that leasing and CPO have substantially improved the information mechanism between buyers and sellers of used cars, which, in turn, has helped reduce adverse selection and improved the average quality of traded used cars in the market.

III. Data Collection and Analysis

Development of a **reliable and valid** questionnaire usually is difficult. Questionnaires may be used to measure: Knowledge levels, Opinions, Attitudes, Beliefs, Ideas, Feelings, Perceptions, Factual/objective information about respondents. There are different types of Questions. Many literature resources available for use in construction and various **samples are available**. Because of questionnaires are very effective in collecting data about consumer's behavior and preferences we use questionnaires for identifying of consumers' feelings, attitudes, beliefs. We analyzed many different samples and created **our questionnaire** that is relevant for data we needed. In total we collected 318 responses(none, 2021).

Importance of Price

According to data collected the percentage distribution of Responses on Question "How important is the price of the car when buying?" is as follows:

Very important	61.9				
Important	37.1				
Not important	0.9				
	≤ 30 years	31 to 50 years	51 years and over		
Very important	57.8	63.6	42.9		
Important	37.5	36.4	57.1		
Not important	4.7	0.0	0.0		
	≤1,500 GEL	1,501 to 3,000 GEL	3,001 to 5,000 GEL	5,001 to 10,000 GEL	Above 10,000 GEL
Very important	74.2	69.3	65.2	48.7	56.8
Important	22.6	28.0	34.8	51.3	43.2
Not important	3.2	0.0	2.2	0.0	0.0

As we see the Price is important factor. In order to investigate deeply this importance we consider the following hypothesis:

H0: Consumers' Age and Attitude toward the Car Price are not related

H1: Consumers' Age and Attitude toward the Car Price are related

According to our data, the distribution matrix is as follows:

Price ↓ Age →	≤ 30 years	31 to 50 years	51 years and over
Very important	37	157	3
Important	24	90	4
Not important	3	0	0

The following results are obtained using PhStat program ANOVA tool:

Results	
p-Value	0.009525
Reject the null hypothesis	

H0: Consumers' Income and Attitude toward the Car Price are not related

H1: Consumers' Income and Attitude toward the Car Price are related

According to our data, the distribution matrix is as follows:

Price ↓ Income →	≤ 1,500 GEL	1,501 to 3,000 GEL	3,001 to 5,000 GEL	5,001 to 10,000 GEL	Above 10,000 GEL
Very important	23	52	60	37	25
Important	7	21	32	39	19
Not important	1	0	2	0	0

The following calculation are conducted using PhStat program ANOVA tool:

Results	
p-Value	0.029728
Reject the null hypothesis	

Conclusions: Consumers' Income and Attitude toward the Car Price are related

Consumers' Age and Attitude toward the Car Price are related

Importance of Manufacturer

According to data collected the percentage distribution of Responses on Question “How important is the car manufacturer when purchasing?” is as follows:

Very important	44.3
Important	50.9
Not important	3.1
Don't have particular answer	1.6

As we see the Manufacturer is important factor. And it could be shown that this opinion is not related to Age and Income.

Importance of Comfort

According to data collected the percentage distribution of Responses on Question “How important is driving comfort when buying a car?” is as follows:

Very important	56.0
Important	43.4
Not important	0.6

As we see the Comfort is important factor. And it could be shown that this opinion is not related to Age and Income.

Importance of Fuel consumption

According to data collected the percentage distribution of Responses on Question “How important is fuel consumption when purchasing a car?” is as follows:

Very important	42.5
Important	49.4
Not important	6.9

Don't have particular answer	1.3
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As we see the Comfort is important factor. And it could be shown that this opinion is related to Age and Income.

Importance of Maintenance cost

According to data collected the percentage distribution of Responses on Question “How important is maintenance cost when purchasing a car?” is as follows:

Very important	41.8
Important	55.0
Not important	2.2
Don't have particular answer	0.9

As we see the Maintenance Cost is important factor. And it could be shown that this opinion is related to Age and Income.

Importance of Carbon emission

According to data collected the percentage distribution of Responses on Question “When buying a car how important is carbon emissions produced by particular model?” is as follows:

Very important	22.6
Important	53.8
Not important	15.1
Don't have particular answer	8.2

As we see the Carbon Emission is important factor. And it could be shown that this opinion is related to Age and Income.

Importance of Age of Car

According to data collected the percentage distribution of Responses on Question “When buying a car, which of the two options would you prefer at the same price?” is as follows:

New car of “average” brand	44.3
Secondary car of luxurious brand	46.2
Don't have particular answer	9.4

As we see the Age of Car is important factor. And it could be shown that this opinion is not related to Age and Income.

IV. Conclusions

From the analysis we can conclude that:

- **New Average Brand or Secondary Luxury.** In this case the consumers preferences are almost the same: 141 and 147 out of 318 for New and Secondary consequently. So, it seems that Firms’ idea to focus on New cars is probably discussable.
- **Importance of Price.** It is not surprise that almost all respondents indicated that Price of car is important or very important (about 99%).
- **Importance of Manufacturer.** Again it is not surprise that almost all respondents indicated that Price of car is important or very important (about 95%).
- **Importance of Driving Comfort.** Again it is not surprise that almost all respondents indicated that Driving Comfort of car is important or very important (more than 99%).
- **Importance of Fuel Consumption.** Again it is not surprise that almost all respondents indicated that the Fuel Consumption of car is important or very important (more than 92%).
- **Importance of Maintenance cost.** Again it is not surprise that almost all respondents indicated that the Maintenance Costs of car is important or very important (about 93%).
- **Important of Carbon Emission.** Most of respondents indicated the Carbon Emission level as important or very important (about 76%) and about 15% do not care on this.

Finally we can see the summary table about dependence of Preferences and Consumer groups:

	Consumers' Age	Consumers' Income
Car Price	P value=0.009525. Related	P value=0.029728. Related
Car Manufacturer	P value=0.094791. Not related	P value=0.354116. Not related
Driving Comfort	P value=0.870074. Not related	P value=0.492148. Not related
Fuel Consumption	P value=0.000308. Related	P value=0.175467. Not related
Maintenance Cost	P value=0.012035. Related	P value=0.000264. Related
Carbon Emission	P value=0.006268. Related	P value=2.26E-52. Related
New Average Brand or Secondary Luxury Brand	P value=0.34018. Not related	P value=0.455077. Not related

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