Industry review - Quarter Two 2011

In association with The University of Buckingham

THE UNIVERSITY OF BUCKINGHAM

fleeteye is a forum for fleet operators. It provides a quick and easy way to provide feedback on the products and services used by fleet operators to run their fleet. Many of the UK's leading leasing companies are partners of **fleeteye** and by being part of this initiative they are showing their commitment to understanding the needs of fleet operators and implementing improvement strategies on the services they provide. (visit www.fleeteye.net)

The **fleeteye industry review** is based on a quarterly survey of fleet operators which measures their practices and references attitudes and opinions on a wide range of issues:-

- fleet profiles and policies
- the current economic and fleet environment
- factors influencing supplier and vehicle choice and
- Predictions about vehicle requirements and influences.

This document contains a summary of the survey and analysis of the results provided by **Professor Peter N C Cooke**, Professor of Automotive Management at the University of Buckingham.

Introduction

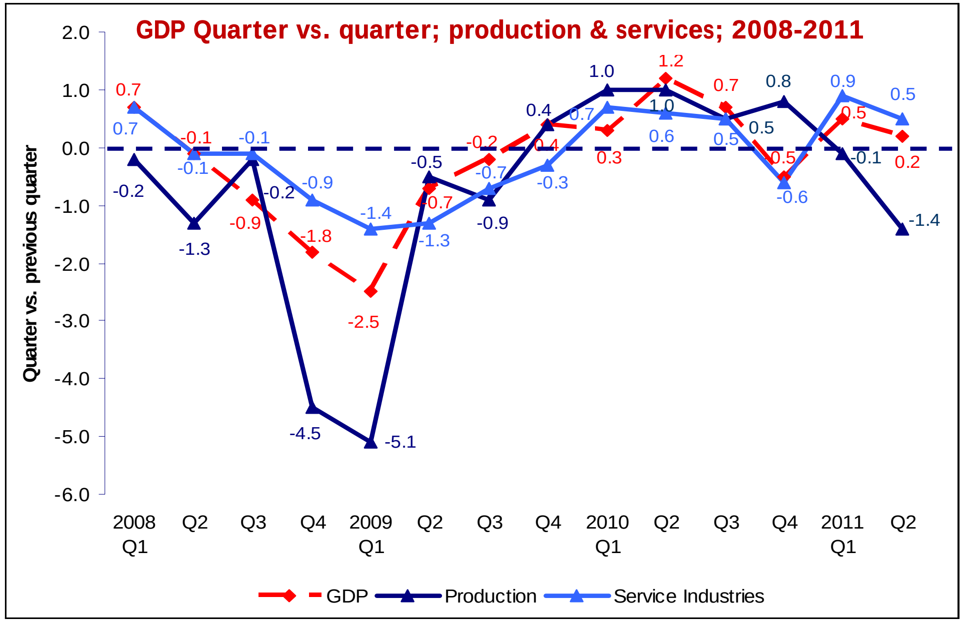
The last quarter of 2010 went down as 'atypical because of the weather', and the first quarter of 2011 suggested the UK economy might be recovering. However, the second quarter was much less promising with much talk of so-called flatlining and, increasingly, open discussion of double dip inflation, even among some very sober minded economists.

Realistically, there is no putting the genie of globalisation back in the bottle. The United Kingdom will increasingly be subjected to the same forces that are hitting the dollar, the euro zone and the slow to strengthen Chinese currency. Many a commentator claims the world 'is leaderless' at present. President Obama is presiding over a nation divided with itself and a Republican Party whose would-be presidential candidates are proclaiming their lack of understanding of economics to the world. Similarly, the euro zone is peering over the brink with its two paymasters, one unwilling to commit to carting the risk for the community and the second starting to unravel. The Chinese have waited a long time to be taken seriously, maybe they should be invited to join the euro zone to give the currency some stability, or at least let their currency float and revalue.

What has all this to do with the UK fleet industry and its outlook? The answer is 'a lot', As already noted, globalisation is here and the United Kingdom is one of the most open of states and has to work within that environment. At the same time, the UK has its own political and economic agenda which is currently faced with managing and reducing an unsustainable debt, creating productive jobs, rebalancing employment and managing inflation induced by changes in global demand. No pressure then . . . .

One might ask if the UK economy is at the start of a second 'hollowing out' given the relative weakness of Stirling and the drop in the stock market. Could the sale of Manchester United's shares on the Singapore stock market rather than London and the planned acquisition of the UK's most significant software company by HP be the harbingers of another hollowing out of choice companies as we have seen in the past?

The chart below shows the changes in GDP, production and service industries since 2008. It summarises the rate of growth, or otherwise, in the UK economy and, ultimately it's the level of economic activity – or inactivity – which ultimately impacts on business expectations and the demand, or otherwise for replacement and incremental fleet cars.

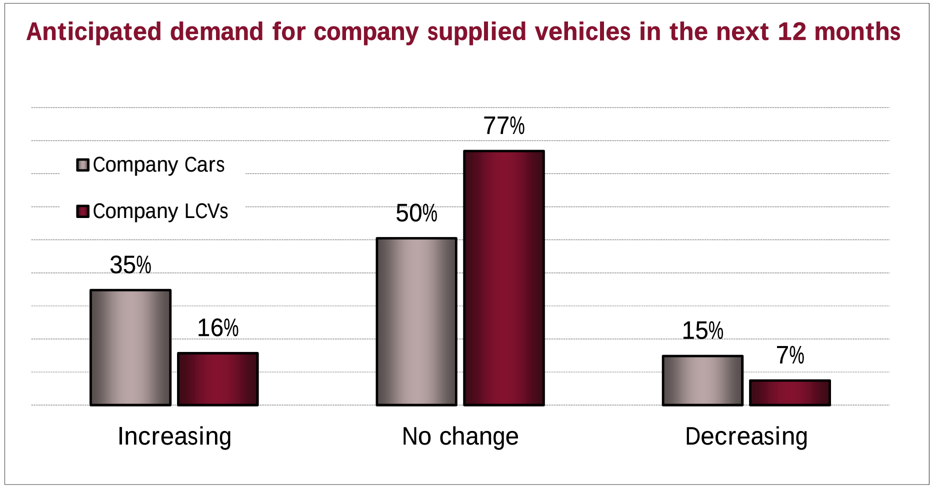


Source; ONS

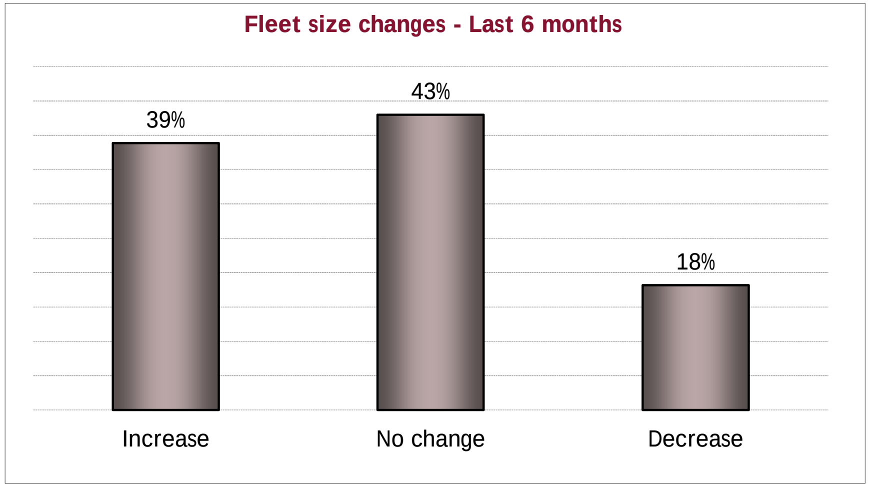
Given the global nature of the economy and the talk, in late August, of huge drops in global stock markets and the increased risk of double dip recession, businesses still have to make decisions regarding business cars. At is said in the theatre 'the show must go on'.

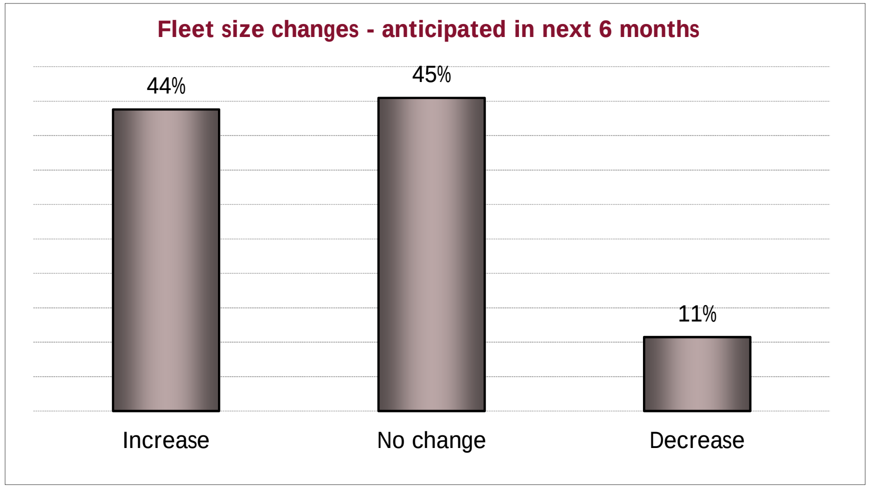
Fleet Outlook

The chart below shows survey results regarding demand for company supplied vehicles over the next three months. The positive message is that the respondents anticipating a growth in demand for company cars at 35% is more than twice the number of organisation expecting a decline in demand – 15%. The same ratios apply to LCV demand.



Perhaps more important than the anticipated change in demand are the two sets of data shown below – 'fleet size changes in past six months' and 'anticipated fleet size changes over next six months'.





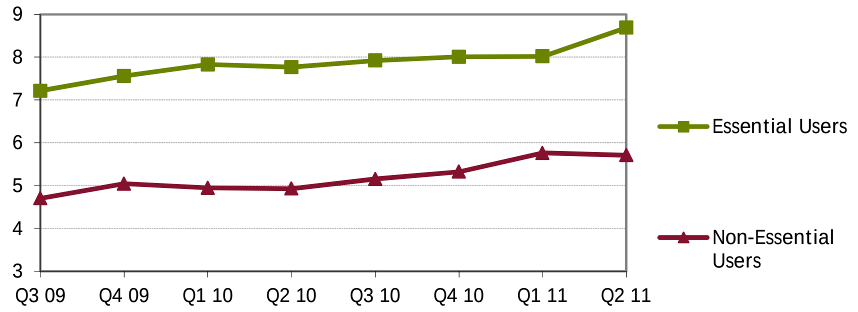
In both cases there is an indicated net growth in fleet size. Interestingly, the expected changes outrun the historic growth figures by a significant factor; the critical issue is, however, just how many units will be involved in future fleet growth. The pattern, at least as shown in responses, is currently stronger than it has been since mid 2009 for both cars and LCVs. Similarly, there are more positive expectations among respondents with regard to fleet growth than at any time in the last couple of years.

One must always treat even the most professional and objective surveys with a small degree of scepticism in that even the most objective respondents may be a little touch bullishness and report what they hope will happen rather than what they truly expect will happen....I hope I'm proved wrong.

Company Car as an Employee Benefit

Over the last few years there has been much talk of the true benefit of the company car to employees steadily being eroded. An ongoing question as part of the survey would suggest that is not seen as the case among survey respondents. The chart below shows how the perceived value of the company car has increased over the last couple of years.

Perceived importance of the company car as a benefit to employees (Score out of 10)



As might be expected, the perceived value to the non-essential user is lower than to for the essential user, but there is still a steady benefit perceived to be there. This may have implications to any move to replace company cars with access to other forms of mobility provision.

Car Allocation & Manufacturer Choice

The two sets of criteria examined in this section are important in terms of vehicle specification and, indeed, with the range of manufacturers that will supply fleet operators with vehicles.

From a policy viewpoint, some 60% of respondents limit OEM lists of providers of fleet cars with 11% limiting to a single manufacturer and less than 30% offering free choice. At a tighter level, more than 60% of respondents allow employees to choose from a restricted range and 3% offer no choice. A review of historic results suggests fleet operators are offering less choice than in the past. Given the personal tax implications there may be some complex HR issues raised at times.

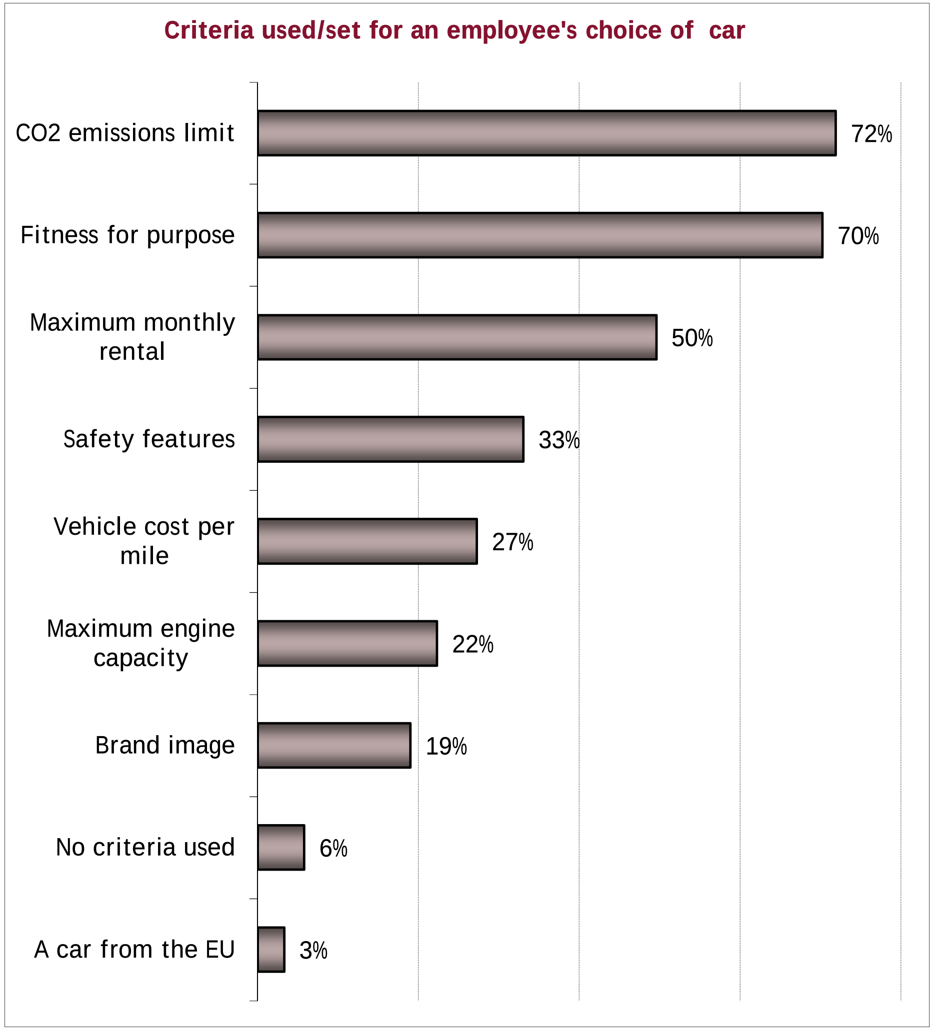
In terms of criteria used or set for employee choice of a car the chart opposite shows latest survey results.

As might be expected, the two most important criteria are CO2 emission limits and fitness for purpose. Both of these criteria have jumped significantly since the previous quarterly survey. In the case of CO2 emissions the jump has been by nearly 30%. while the ‘fitness for purpose’ criterion has escalated by three percentage points less. These changes might be an indicator that fleets are replacing older units and being much stricter in vehicle provision and becoming increasingly aware of the penalties for high CO2 emissions and less suitable vehicles. The fitness for purpose criterion is also reflected in the jump in the safety features – again up by close to 15% from a smaller base.

‘Maximum monthly rental’ shows an interesting change in perception – does it mean drivers are becoming more economy minded or simply looking to exploit every benefit opportunity?

The ‘vehicle cost per mile’ has slipped slightly; one might ask whether this is regarded as less important in that leasing and management companies will seek to manage the level down as part of their task and therefore it is less of a direct issue to the fleet operator – the respondent to the survey.

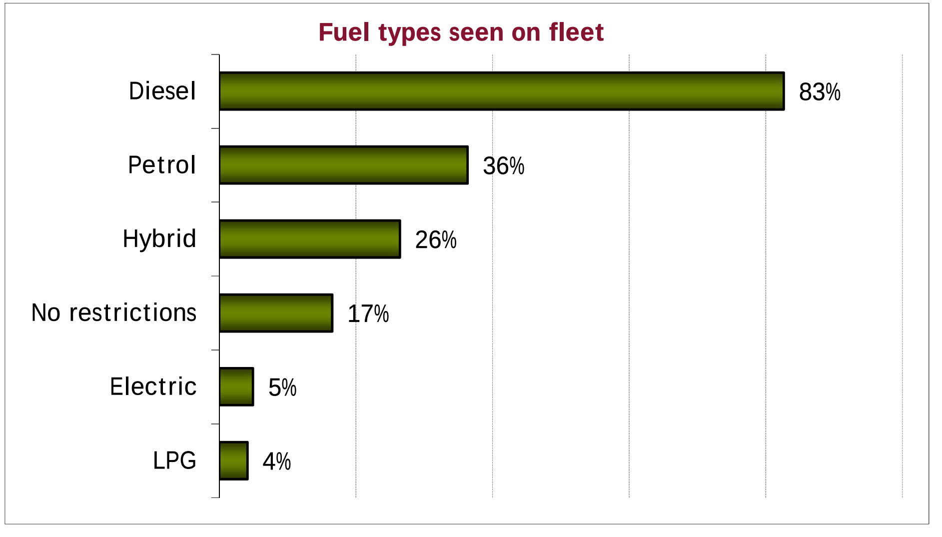
The overall message from the perceived employees’ criteria is that all but two of them – car from EU and vehicle cost per mile – have show an increase in importance in the last quarter. The message is therefore one of ‘tighter specification and tighter control’. One might add a third criterion – greater awareness of issues’.



Fuel Choice

Fuel choice is always an interesting issue and never more so than at present as global oil prices fluctuate violently and governments seek to talk up electric vehicles as having a significant future.

The chart below shows 'fuel types shown of fleet' and, as one might expect, diesel is present on some 83% of respondents' fleets – but that has dropped from some 90% at the end of 2010. Equally impressive, the proportion of fleets with a 'petrol presence' has dropped from over 56% to 36% in a single quarter.



Hybrids have held relatively steady, on some 26% of fleets but this may well be due to the growing hybrid product range on offer.

Electric vehicles are present on some 5% of respondents' fleets; given the minimal sales reported elsewhere, this figure might be taken with a pinch of salt or respondents given the benefit of the doubt and assume it includes vans and vehicle used within facilities. The other, perhaps more charitable interpretation may be that organisations are taking one or two units to evaluate them – or for PR purposes so bragging rights can be claimed that 'we have electric cars on the fleet'. This number may well be expected to increase rapidly in future even of the absolute volumes are not yet there.

One caveat that might be raised here is the imbalance between used car buyers' demand for petrol versus diesels as used cars. There is a significant preference for petrol used cars – what might this do for used car prices?

Vehicle Acquisition Methods

Vehicle acquisition methods in the current state of the UK economy might be considered to be more complex than normal with more issues and uncertainties than normal to be factored into an already complex and multi choice situation. In addition to the 'usual issues' the fleet operator may well decide to factor in issues associated with the risk of double dip recession, inflation, stagflation, recent shortage of new vehicle sales and a strategic shortage of used vehicles – and that is before the organisation considers the usual issues.

The chart opposite shows the reported mix of vehicle acquisition and previous methods used for vehicle acquisition

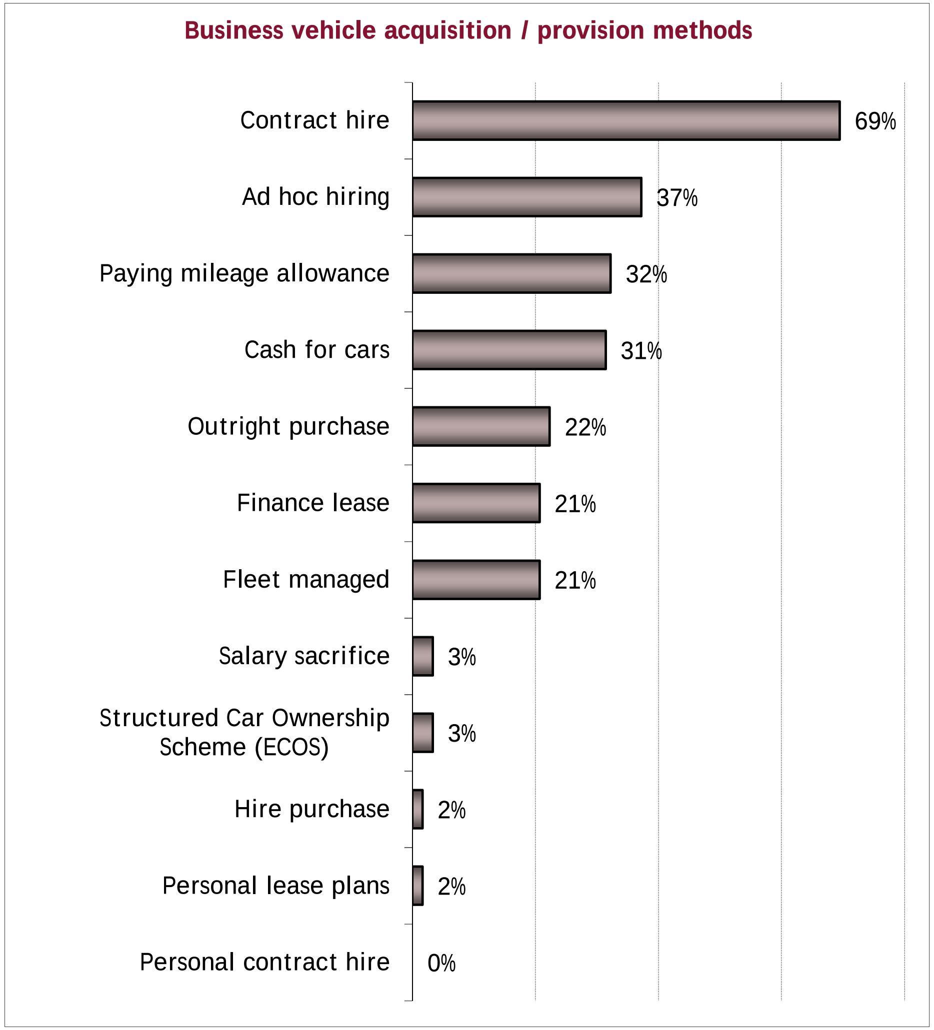
The chart shows contract hire, and there are multiplicities of variations, on the basic format, indicate some 69% of organisations use the methods. The nearest challenger is 'ad hoc hiring', 37% of respondents using it as a means of vehicle provision. Paying a mileage allowance is the third most popular method of provision used by some 32% of respondents – one must always raise the caveat 'duty of care' with mileage allowances – how are these units monitored and what records are kept? 'Cash for cars' at 31% is next on the list a close relation of mileage allowance as this would be paid in lieu of the car.

Outright purchase is only recorded by 22% of respondents.

However, when one considers the changes reported to acquisition methods over the last couple of years, the chart shows some huge changes. Contract hire has escalated, from just over 40% respondents in 2009, to 69% in the current report. On the other hand, paying mileage allowances and cash for car have all dropped by 10% or more since their peaks over the last few quarters.

The reasons? Changing business confidence, contract hire products on offer, the need to release capital and be able to predict costs accurately as well as a stricter use of vehicles and visits, whether to clients or suppliers.

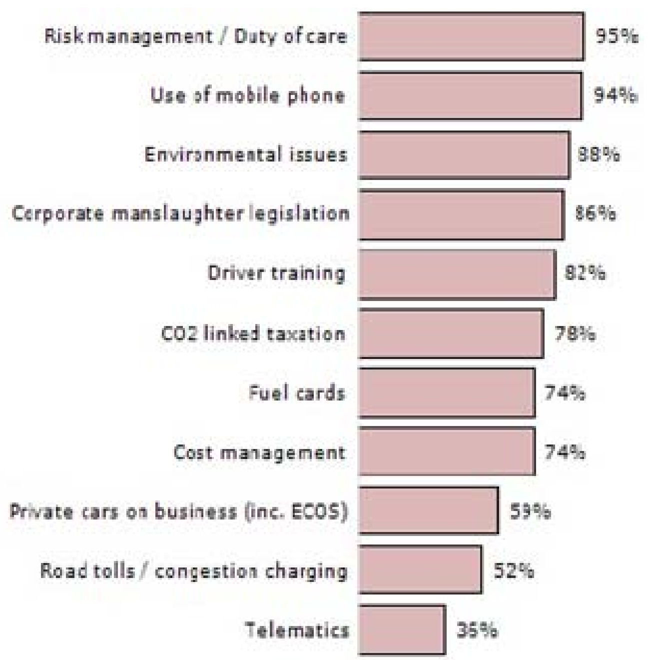
Over the past couple of years the whole approach to vehicle financing has come under scrutiny and the Fleeteye survey is picking up the changes.



Transport & fleet issues being considered/implemented on fleets

‘The road to hell is paved with good intentions’ might be a cliché, but it also applies to fleet management. The adjoining chart highlights some if the issues of fleet management best practice and the number of organisations which have solutions in place – and those which are still being considered as well as those where no action has yet taken place.

Important Transport and Fleet issues



The message is pretty simple – issues such as duty of care and the use of mobile phones in company cars have been examined but even in these cases, there are a lot of organisations which have not yet put programmes/best practice in place. While that might be ‘fine for now’ – it’s when something goes wrong and records are checked that problems begin.

Recession and changing market circumstances are no longer a justification for doing nothing – if anything such circumstances are exactly the opposite ‘get those procedures and updates into place now’. It is a little concerning that the trend in tacking these issues has steadily slipped across the last couple of years.

Used Vehicle Disposal

The quarterly review has a significant focus on used vehicle disposal. While this is an area that has too often been ignored by fleet operators, it is now attracting the attention it deserves. Fleet operators and company car drivers may take every precaution to manage and minimise costs across the life of a vehicle but, if disposal is not properly planned, all of those savings can be thrown away in an instant.

Used fleet vehicle disposal needs to be a top line issue.

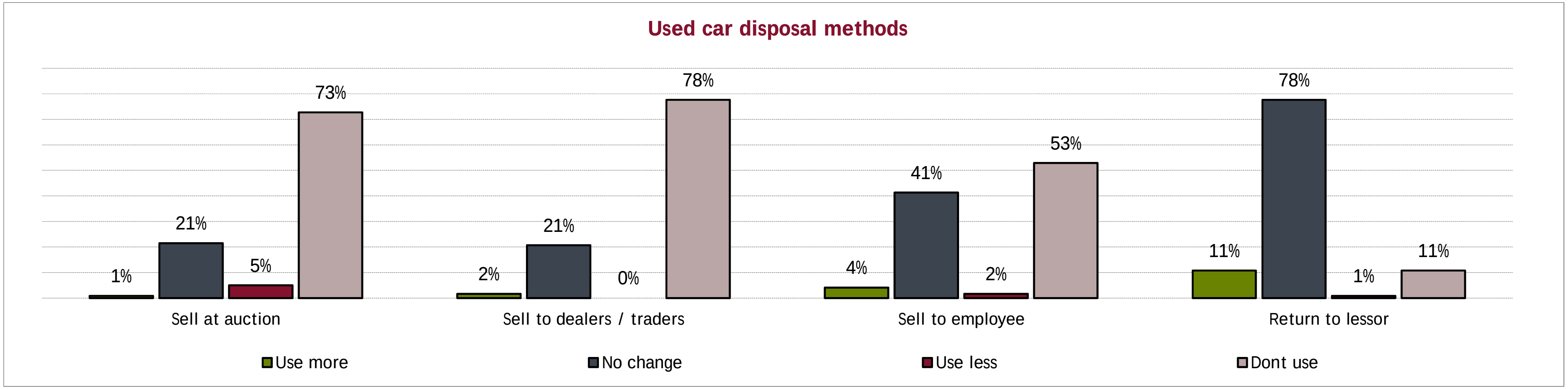
The chart below presents four sets of feedback from the study which deserves a short comment.

Fleet operators selling at auction represent a declining proportion of the sample, with some 73% not using auctions at all, while 5% plan to use them less and 1% will use them more. The great advantage of the auction route to market is that units can be sold quickly and the price achieved should be the best available on the day. Because they are sold competitively the whole exercise is transparent.

Some 78% of respondents do not sell to dealers and traders while 21% claim to use this method to market and a further 2% have indicated they will use more. The method is widely used for simple trade-ins against replacement units. There is expected to be little change.

A little over half of respondents do not sell used cars to employees. While many reckon this form of disposal achieves the best prices, it does require some effort and planning and the paperwork and understanding needs to be very clear. A minimal growth in this form of disposal is predicted.

In terms of return to lessor, some 78% of respondents see no change in the method of disposal while 11% see an increase – a sign of growing leasing.



Some Conclusions

The foregoing columns have highlighted a number of issues to come out of the Fleeteye second quarter industry review. Many of the findings show a gentle trend ahead of the previous surveys, others represent a much more radical shift brought on perhaps by organisations being involved in takeovers and amalgamations at one extreme and, at the other, responding to changes in the ever evolving marketplace.

One does not expect every organisation to be exactly in line with the changes and responses indicated by the charts and tables. The critical issue is 'how might the information – the comparison with one's own organisation' be utilised?'

Here we are talking comparisons with benchmarks – the challenge is not 'how different' but 'why?' –are there any logical explanations – are there steps the organisation should have taken, or has taken and is running ahead. While deviation from the average can signify the organisation may be running ahead of the market – what if it's not? There are an ever increasing range of penalties and sanctions that may be taken against an organisation that fails to comply.

A mere lack of compliance is annoying, the real challenge however, is the reasons for failing to comply with best practice – are there genuine thought-through reasons – or has the topic simply never been considered? Enforcement is getting ever tighter – what is your organisation doing to ensure it follows best practice?

Professor Peter N C Cooke

Professor of Automotive Management

University of Buckingham August 2011

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