



# Industry Review

Quarter 3 2011

Produced in association with:



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](http://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 was atypical because of the weather, the first quarter of 2011 suggested a level of recovery might be on the horizon. The second quarter was atypical because of hot weather and a Royal Wedding. The third quarter looked pretty miserable and anybody with a sense of hyperbole might well claim 'the sky is dark with chickens coming home to roost'.

Globalisation has escaped from the bottle and the economic impact on the United Kingdom of changes in Shanghai could be just as important as changes in Scunthorpe. Food prices are being influenced by changes in the dietary habits of the Chinese and changes in Indian sub-continent. The extent of such change can be judged by Welsh lamb producers admitting 'prices are good'. However, higher prices for food mean consumers will have less to spend elsewhere.

Raw material prices and fuel prices have both escalated. Hopefully the nation is not entering a period of stagflation when prices escalate despite falling production and growing unemployment. The government's austerity programmes and strategy of debt reduction are undoubtedly starting to bite,

as can be read between the lines and charts on the following pages with the steady signs of 'tightening up'.

The euro-crisis for want of a better phrase demands positive political leadership to resolve it. That leadership from within the Eurozone seems to be woefully slow in coming forward. Angela Merkel has to bring a coalition and an increasingly sceptical and hardworking electorate with her while President Sarkozy in France has a new baby to keep him awake at night while he reflects on next year's presidential election.

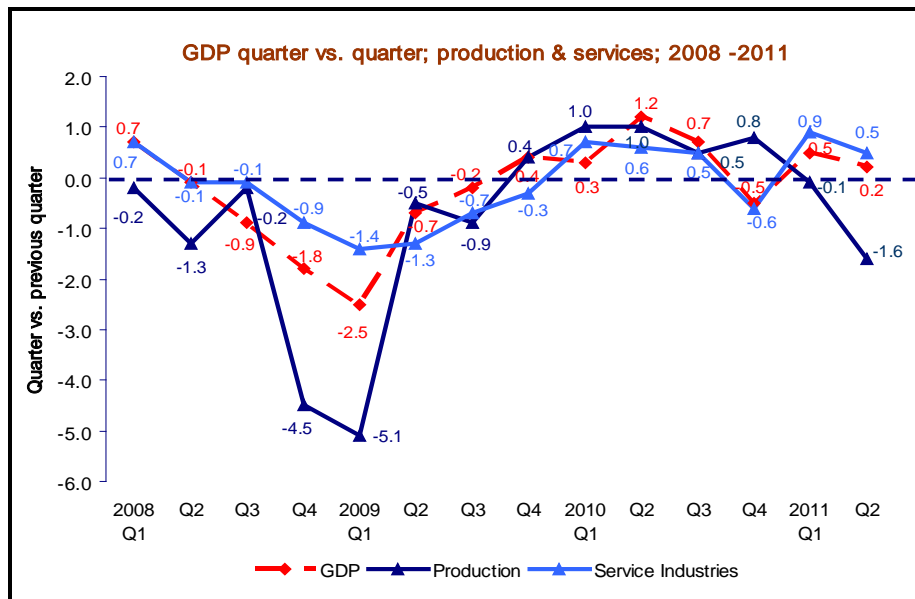
The euro-crisis is not helped by schoolboy politics in Congress in North America. I remember that one impasse a few years ago was resolved by the President granting a tax concession on wooden arrows made in a small factory deep in the mid-west. Internal politics and re-election are the most important political issues in North America for the next eighteen months and the rest of the world 'is largely irrelevant'

So that leaves the Chinese - the rapidly emerging super power economically wants to drive the world forward - but their policy would appear to be one of 'import raw materials and export finished goods'. There have been persistent rumours for some time of a Chinese offer of a bailout but, in best table turning politics, with some draconian conditions attached.

In summary, economics lives up to its name of 'the dismal science' and short term at least, one should not be surprised to see the United Kingdom economy relatively well disciplined, but nevertheless at best holding a flat line but quite possibly slipping into negative growth. It is against that unprepossessing scenario that the third quarter fleet industry review is offered.

Two economic charts are offered below to give an indication of the state of frustration within the UK economy at the end of the third quarter, although good data always lags a few months behind and is subject always to later correction as more accurate data is gathered.

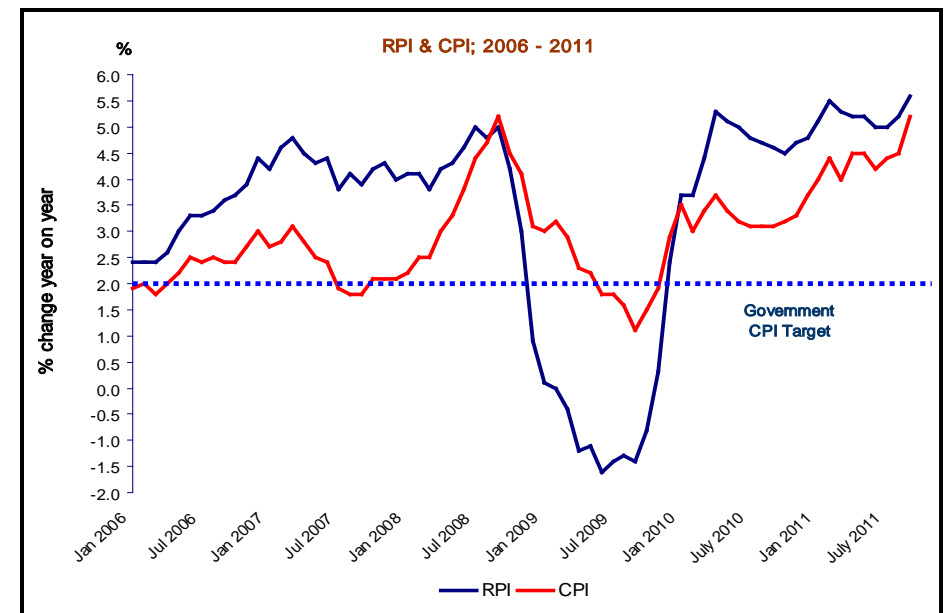
The first chart presents the changing GDP figures for the United Kingdom post 2008 and through to the most recent 2011 numbers. While there were signs of improvement across the period, those have slipped and there is increasing talk of either flat-lining or even double dip recession.



Source; ONS

The current economic outlook presented suggest to the present writer that the economy could well slip into mild recession - but that is recession within the technical definition of a decline for two consecutive quarters rather than the tabloid press definition of 'we're all doomed to poverty'

The second economic chart highlights the growth in RPI and CPI on a quarter by quarter basis. Given the wage freezes in the private sector and announcements by various independent and respected think tanks that the average family will be some £2kpa wore off in spending terms, these charts would suggest a bleak economic future short term at least.



Source; ONS

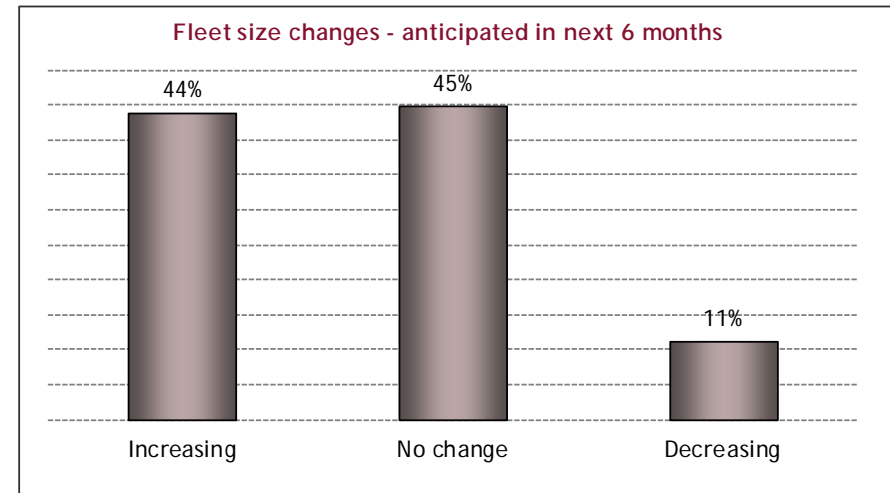
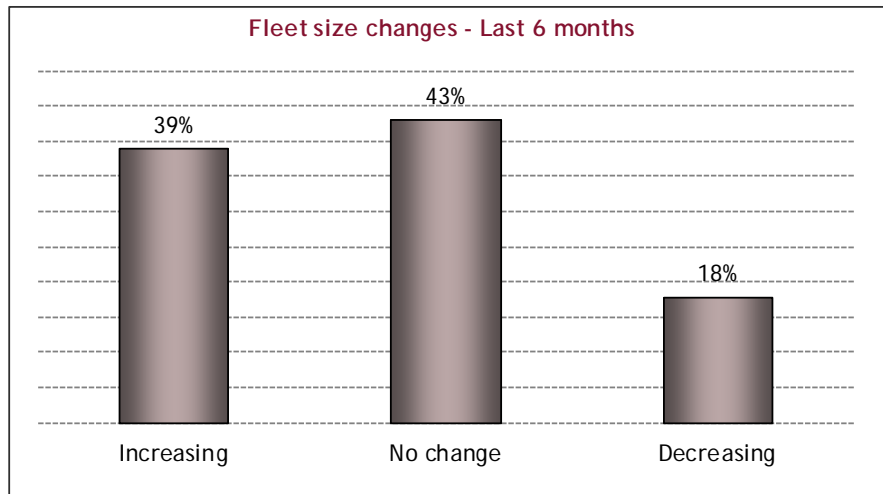
The significance of RPI and CPI is that RPI is used to present the general level of rising costs while CPI is the preferred measure for pension and other benefit changes. While these two indices are essentially consumer indices, it is consumers and consumer spending that ultimately drives the level of spending and the base of business.

On the way through the analysis shown on the following pages there are a number of small apparent inconsistencies regarding positive and negative expectations regarding fleets and the economy.

### Fleet Outlook

The charts below show a changing picture. The first shows 'fleet size changes over the last six months' and for the 'next six months'. There has been a positive increase in fleet size changes, outweighing decreases by almost 20 percentage points and for the next six months the picture is even more positive.

The suggestion might be that businesses have been through much of the readjustment to fleet structures and downsizing over the last few quarters and are now settling again.



While the outlook at this stage is positive, given the economic predictions made earlier, the view in three months' time will be interesting to compare.

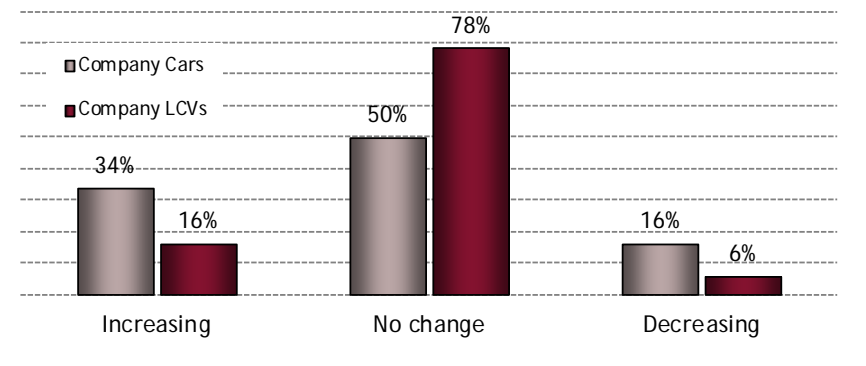
Overall demand for company provided vehicles shown below indicates that both for cars and LCVs there are further indications of growing demand in the next twelve months. However, one must raise two notes of caution with such a prediction;

- What proportion of those vehicles might be supplied on short term or even daily rental?
- Will the fleet comprise like for like cars and LCVs or will there be a degree of unit downsizing?

Qualitative and quantitative issues will be interesting to watch as the economy develops over the next 2-3 years.



Anticipated demand for company supplied vehicles in the next 12 months



The current writer anticipates that over the next 2-3 years there may well be the start of a steady change in the way in which company cars are provided with a greater reliance on daily rental or even shorter term rental to replace part of the grey fleet and low business mileage company cars. This is certainly an issue fleet operators may need to keep under regular review.

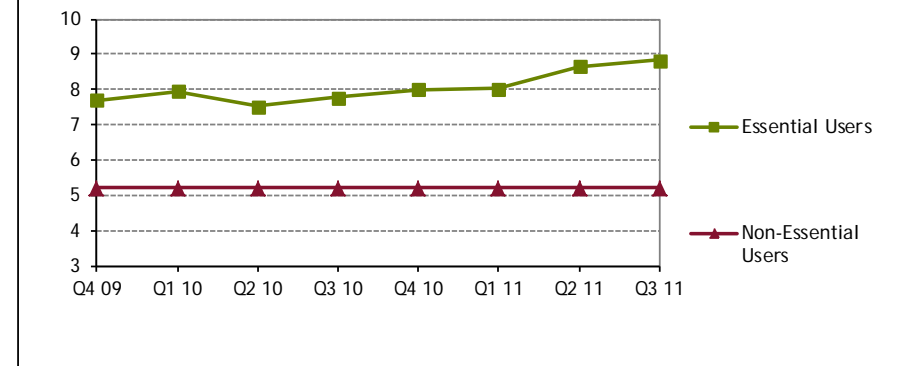
### Company Car as an Employee Benefit

The perceived value of a company car to employees continues to move forward, at least for essential car users. Such benefits outweigh the personal tax implications although such implications need to be carefully managed and, again, greater fuel efficiency and a degree of downsizing may be involved. However, the escalating cost of fuel and insurance if the individuals provide their own cars has to be a serious implication.

In the case of non-essential car users, the perceived value has flat-lined, even slipped slightly as suggested by the chart although it is still higher than it has been historically.

It may be interesting to watch the non-essential user perceived benefit analysis as the economy slips and costs rise. Might this be the sector where the fleet begins to introduce daily rental as a serious alternative?

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

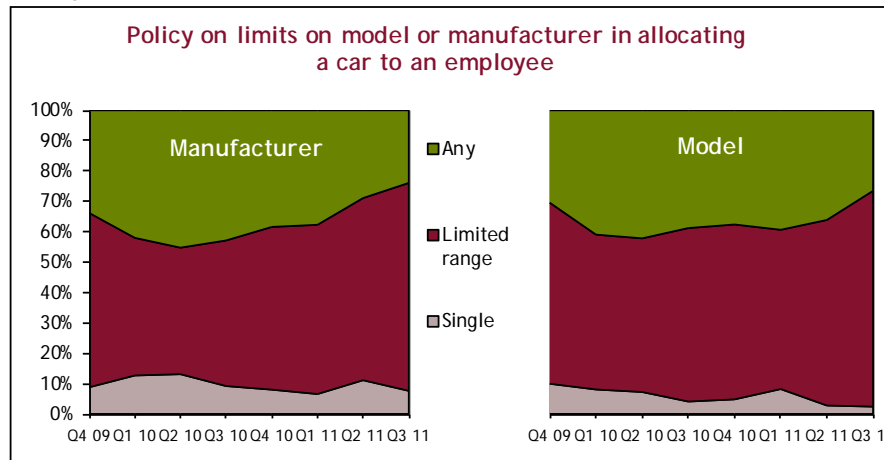


Even with senior executives, the normal recipients of non-essential cars, the next year may see a serious review of personal expenditure and whether the 'non-essential company car' is just that - or could it be replaced more cost and tax effectively by a different personal strategy?

### Car Allocation & Manufacturer Choice

Fleet operators would appear to be tightening up on vehicle manufacturer choice within their fleets. The charts suggest there has been a reduction in 'free choice of manufacturer and a growth in 'selected manufacturers' over the last couple of years. Interestingly, the choice of a single manufacturer has, within the survey stayed quite small despite the potential discount benefits.

At the same time, as indicated by the second chart, the choice of models available has been steadily reduced across the review period; one might assume this move is focused on vehicle economics. Once again such a relatively small move may be seen as a further step in tightening cost management.

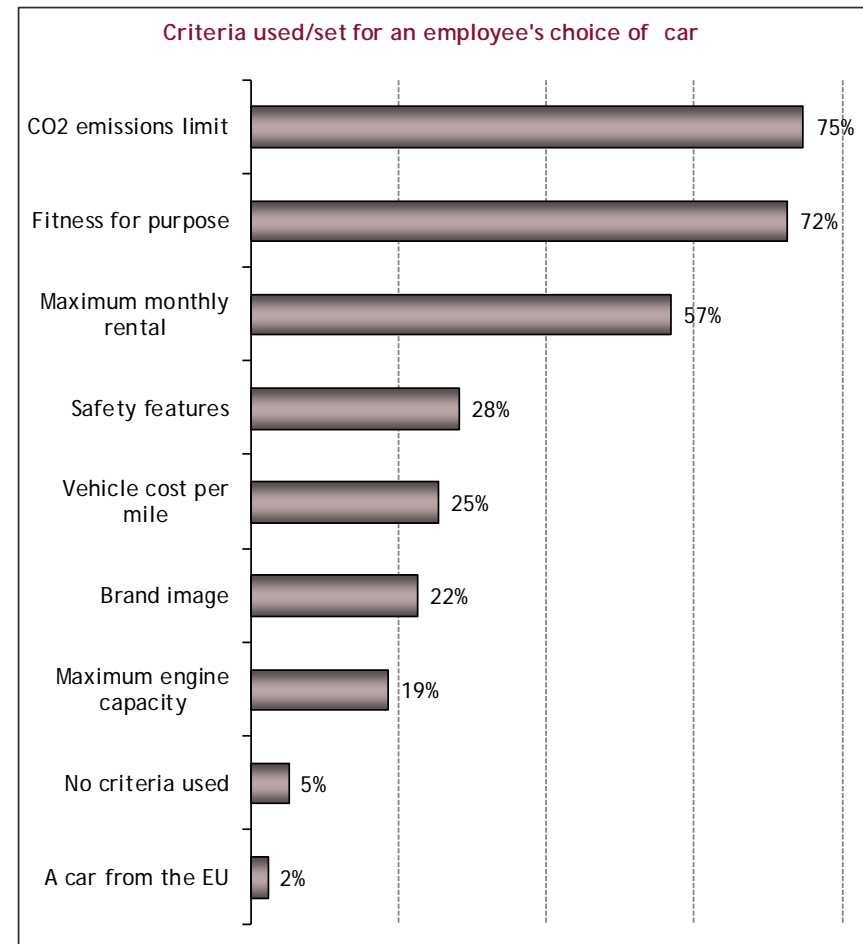


The next chart indicates the changing criteria for employees' choice of car. This is a measure which fluctuates over time.

CO2 emissions have been at the top of the agenda for some time although the percentage has increased from 72% at the last survey. Fitness for purpose has also risen 3 percentage points compared with the last survey. Neither of these are significant changes. In the case of maximum monthly rental the 5 percentage points increase is a further sign of tightening rules

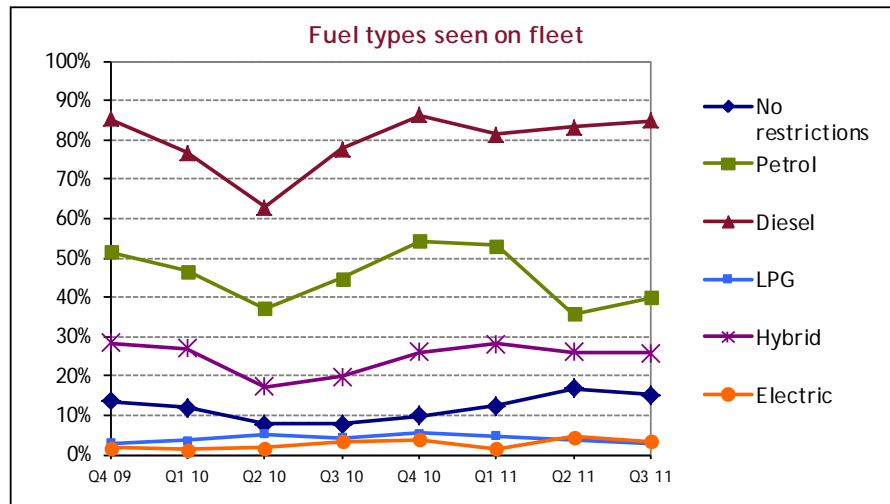
and costs within fleet operators yet safety features have slipped - one might assume because the level of safety is continually improving.

While the changes indicated are relatively minor in most cases, overall there is a feeling of a gradual tightening up on rules to manage costs both direct and indirect costs.



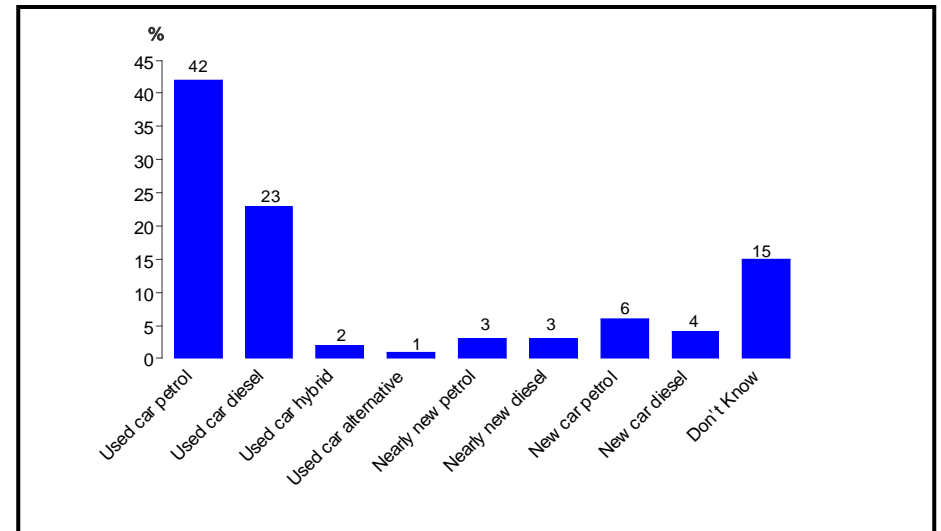
### Fuel Choice

The chart below indicated how fuel types on fleet have been moving steadily towards diesel. While the chart does not indicate the proportion of diesel powered units on the fleet, there has been a steady switch over the last few years. Petrol has slipped as a result and there have been some gentle movements in terms of the other forms of propulsion although electric has stayed fairly steady at 5%.



It is interesting to compare the growth in diesel take-up on fleet as new cars with the preferred acquisition of used car as shown by the chart below from the recent BCA Used Car market Report 2011.

### Car Buyers' Preferred Fuel Type



Source; BCA/UCMR

There is an interesting imbalance between the requirements of the used car market and the provision of fleet operators. Will this over time lead to any changes in the relationship between used diesel and used petrol cars as the latter become scarcer at auction?

### Vehicle Acquisition Methods

Contract hire clearly leads vehicle acquisition methods as shown in the chart below. The proportion of fleets using the method has risen from 69% to 72% - not in itself a huge jump, but representing a steady growth in the method. With any changes in acquisition method it is important to remember that vehicles are typically acquired over 3-4 years so any small changes might well represent a bigger change in policy.

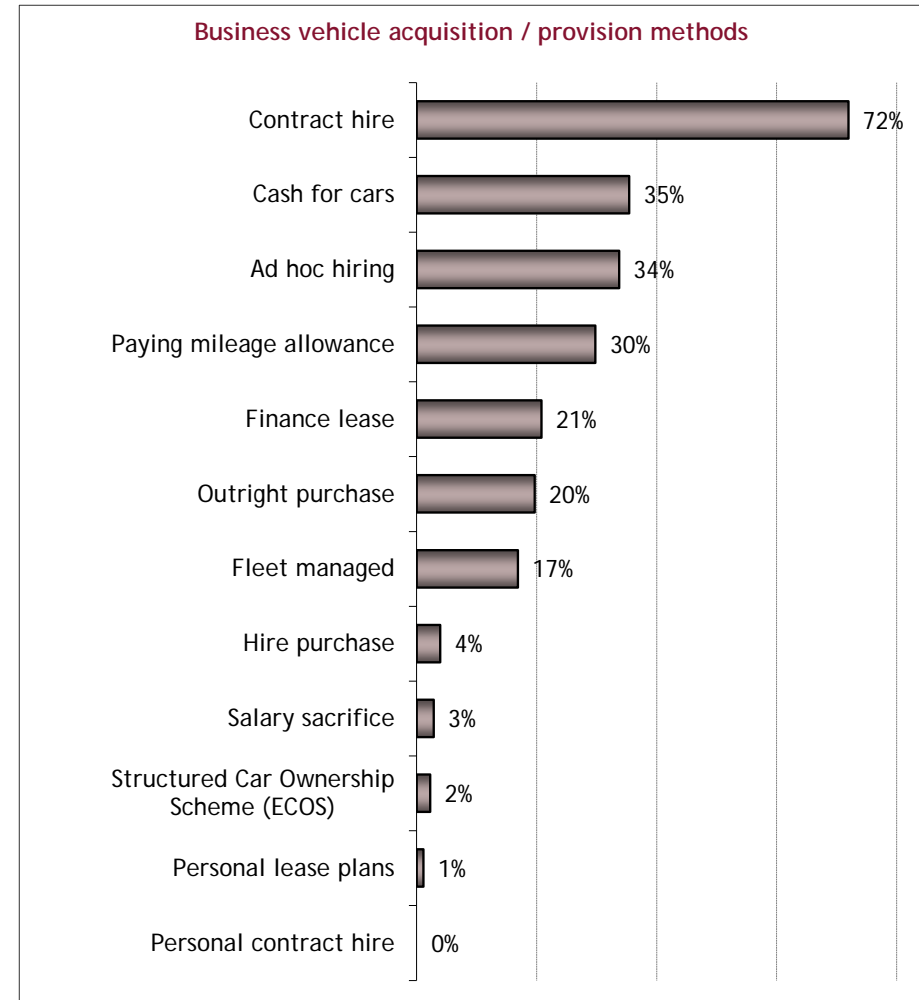
Ad hoc hiring is shown in second place - a slot where it is pretty firmly established, although it has dropped from a peak of more than 45%. The historic peak may well have been in a period of uncertainty when organisations were reshuffling their fleets and hired short term rather than commit to acquisition until the organisation had sorted out its ongoing acquisition strategy.

The survey indicates a jump in 'cash for cars' - not what one might normally expect unless it is regarded as a means of reducing overall commitment to company car provision.

Outright purchase recorded by 20% of respondents indicates a small slip while finance lease has shown a significant jump of 6 percentage points over the previous survey; one might ask if this is seen as a means of managing cash flow and perhaps linked with various forms of outsourced management programme.

The 'fashionable and current' salary sacrifice scheme beloved of every conference organiser and journalist continues at a paltry 3 percent. One might ask if this is too complicated to explain or just not attractive to company car drivers despite the paper benefits offered.

Overall the methods of acquisition remain fairly steady. The pure statistician would argue that any change of less than 1% point would be due to sampling error unless it occurs steadily over time.



**Transport & fleet issues**

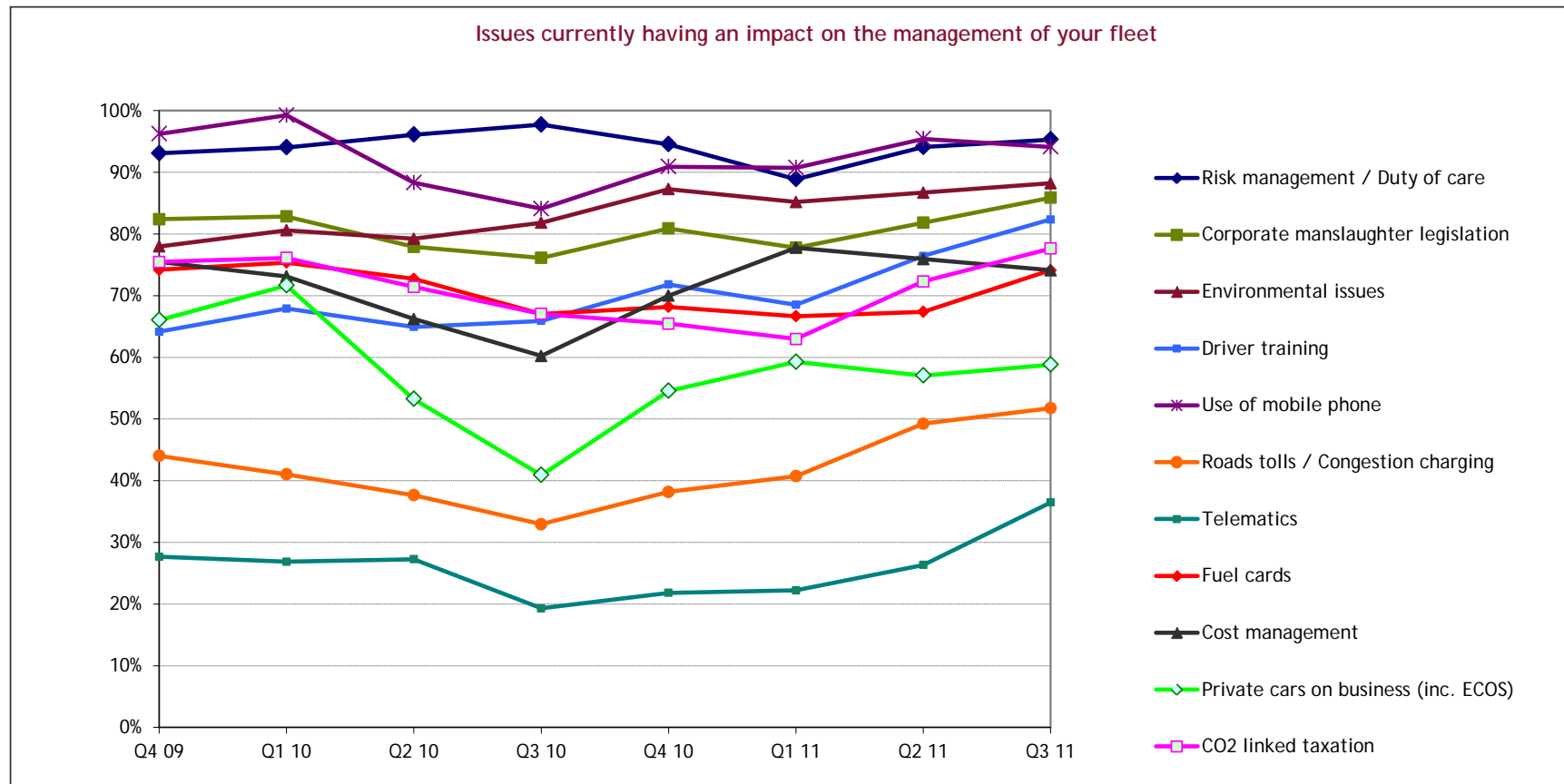
The chart below shows the critical issues of concern to fleet operators across the last eight quarters, The issues of concern have been virtually static for the last two quarters, perhaps a sign that respondents feel the economic situation is starting to settle, at least short term.

If one considers the changes which have occurred over the last two years the growth of telematics has shown the biggest change. However, elsewhere in

the exercise there have been signs that telematics are one of those issues which attract a lot of interest but which have not yet had much impact.

The role of congestion charges too has risen in importance - again a serious discussion and opportunity to manage costs.

It would be fair to claim the biggest changes occur when the economy is at its most unstable and changes are necessary or even imperative.



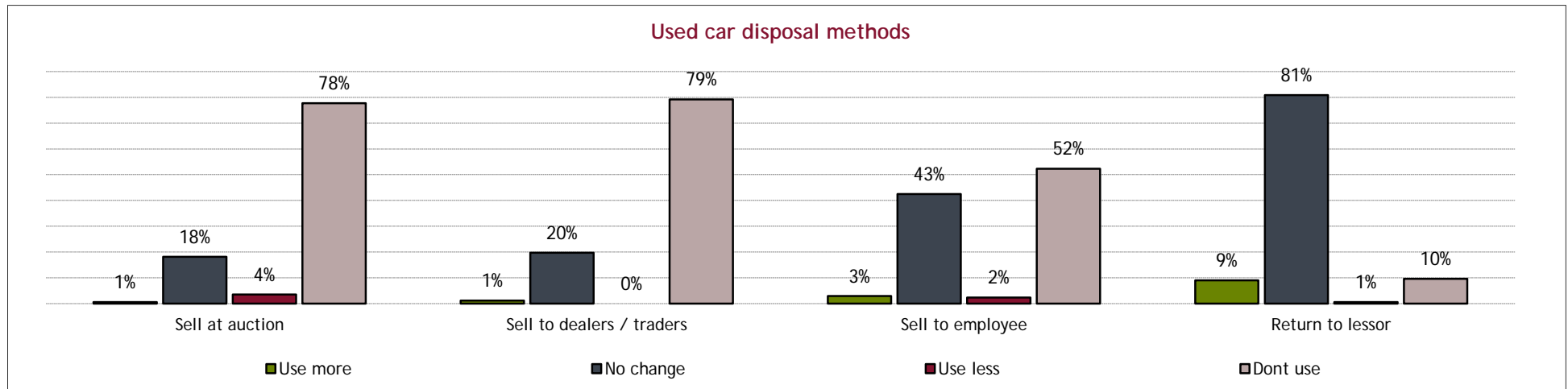
### Used Vehicle Disposal

Used car disposal is starting to attract the attention it deserves. It is all too easy to manage the fleet carefully across its life and then surrender any savings generated through poor disposal practice, whether using a sub optimal disposal method or through poor preparation.

The chart suggests that respondents are comfortable with their current disposal methods and, it would appear, that the bulk of respondents utilise but one preferred method of disposal for their fleets.

The next 3-4 years may well see significant changes in disposal methods of ex company cars as it would appear that the industry is moving into a period of shortage of first time used cars coming to market caused by the reduction in new car sales over the last three years.

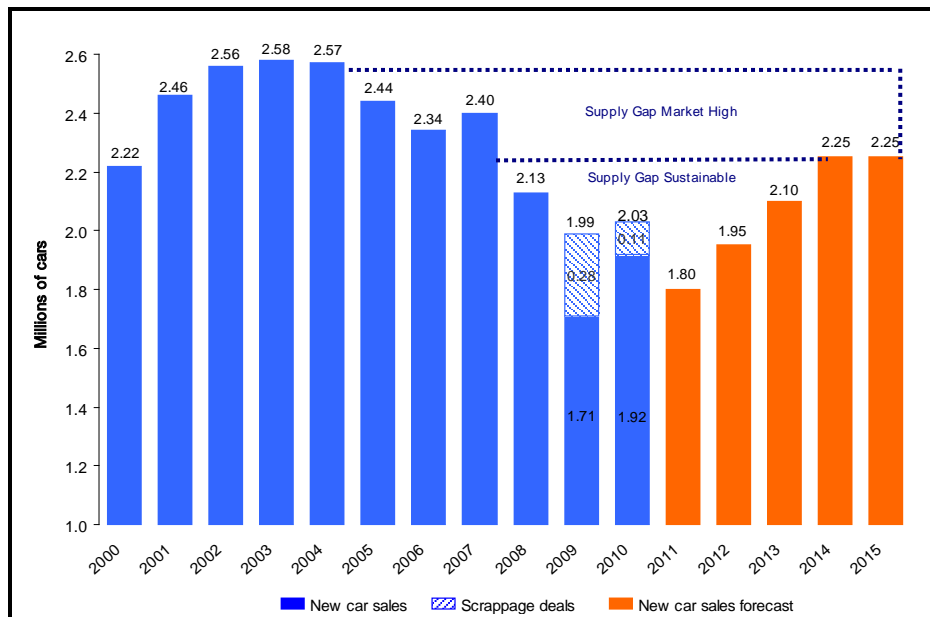
The charts show the pattern of used car disposal as reported by the survey and indicates a high degree of stability.



The next chart shows new car sales over the last several years and the post 2008 drop in new car sales. The immediate impact of that drop was a shortage of first time used cars. In a mature market like the United Kingdom there is a steady equilibrium between new car sales and the demand for used cars, but the whole equation was pushed out of line by the collapse in new car sales.

The fleet operator and leasing company may well look in future to be able to achieve more acceptable used car prices but that, in turn, will put more pressure on the organisation to understand what are the specifications sought by private used car buyers and the various channels to market.

New Car Sales; 2000 - 2015



Source; BCA/UCMR

The strategic impact of the imbalance between used car demand and used car supply could well have pricing implications over the next few years. Dealers and used car specialists will need to smarten up the professionalism of their activities and we may well see the growth of 'used car procurement executives' whose task will be to ensure the dealership or group will have an adequate supply of used cars of the required profile, cost and age to be able to satisfy market demand.

### Some Conclusions

The foregoing columns have focused on but a small cross section of the results from the Fleeteye Third Quarter Industry Review.

There are few fleets that will concur with all of the results shown in the report; the most important issue is not to seek to match slavishly the results shown in the report but to examine the results critically and establish where your organisation varies significantly from the figures presented. Quite simply ask yourself 'why are my figures significantly different?' Is there a logical explanation - is it in your favour or could there be an issue which you need to review and perhaps take some form of remedial action to come back broadly in line with the results. Of course you may have found the Holy Grail of fleet operation and be able to show significant savings compared with the norm!

I suggested at the beginning of the analysis that the UK economy is enduring a bumpy ride and, in the short term at least, one may be forced to operate an even tighter ship than usual.

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October 2011



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