



Industry review - September 2010

In association with 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

Is the economic recovery really with us, or is it just a cruel trick? Some industry sectors are reporting business as usual while those with significant public sector business are reporting much tighter conditions and not necessarily looking forward to a prosperous 2011 and beyond. How are those issues being reflected in the fleet industry? Has the change in government made any difference yet or is the fleet industry like a great oil tanker and takes a long time to change direction?

The quarterly fleeteye survey offers some broad pointers.

The General Election has come and gone and we have a Coalition government with a steely determination to cut back on public sector expenditure. According to its critics, the policy creates a serious risk of stopping economic recovery in its tracks at best, or at worst causing a W shape recession with the economy stalling and slipping back.

From an economic viewpoint, it may well be argued by future historians that a Coalition government is, in hindsight, the best option given the parlous economic state of the country. A Coalition may well be able to take steps which would have been difficult under a more tribal two party system.

While there is nothing business dislikes more than uncertainty, opinion polls are showing, at least at the time of writing, that the strong medicine proposed by the Coalition is accepted as being necessary - and generally supported. The real challenge is whether certain politicians, more interested in their own egos and careers, can accept that medicine and allow the Coalition to run its course and deliver its strong medicine.

We are indeed in a period of uncertainty and expected change. How has that been reflected in the fleeteye second quarter 2010 survey? What is the consensus among 248 fleet respondents participating in this survey?

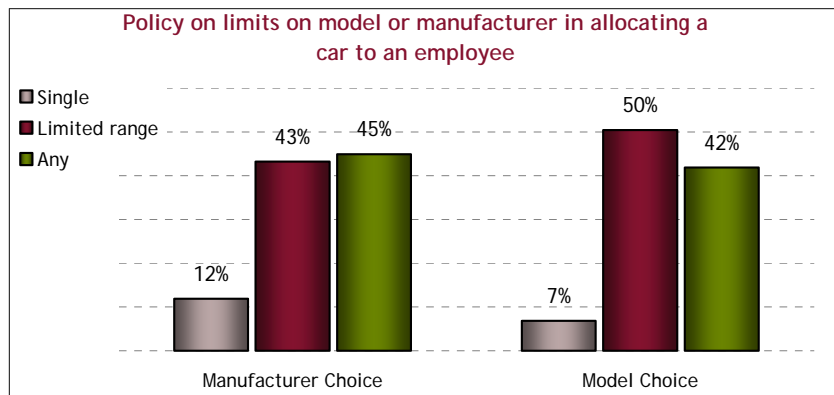
Car Allocation and Manufacturer Choice

Change takes time to work into and through a system particularly when vehicles are on 3-4 year replacement cycles. Changes in 'Policy on Limits of Choice' is quite difficult to interpret as the movements are relatively small and any change of less than about 2% points may well be due to sample size - but the survey does indicate there is a slightly greater freedom of model choice. However, mid-year is not a normal time for businesses to make radical policy changes with regards to the type of vehicles being offered either to essential car users or those who receive the car as part of their job.

Any such changes might be more likely in the third and particularly the fourth quarter as businesses come to prepare their budgets and business plans for the coming year.

Certainly looking at new car registrations across the United Kingdom there has been a significant degree of downsizing emerging although the picture may have been confused by the now long finished used car scrappage scheme, although that scheme applied to old vehicles and, in reality, practically none would have been company cars.

Any impact caused by personal tax changes and hydrocarbon tax changes may take time to work through the system and at least the personal tax issues may be left to the employee to make a decision.



Criteria for Employee Vehicle Choice

fleeteye has noted three issues which stand out as being the most relevant.

First, one has the CO2 emission level; this measure is becoming ever more widely understood and, like seat belts of three decades ago, pushing the message relentlessly and gradually encouraging more drivers to 'think green'. The CO2 emissions level is considered to be a critical factor with some 57% of respondents, down from 59% at the last survey, but significantly higher than in previous surveys. Good news for the Planet? Well, it's a start as this is a criteria - not a mandatory action at this stage.

The second criteria set for the employee choice of car is 'fitness for purpose' - this has been nudged up by some 4 %age points since the last survey - a meaningful amount. However, the bystander might well claim it still leaves a significant proportion of fleet drivers where this important criterion is not highly rated, although all cars are by definition, safe. However, it is interesting to note that 'safety features' are rated by 26% of respondents.

The third significant criterion in terms of fleet car choice is the monthly cost of the unit. Here the change of 1%age point between the two review periods must be regarded as 'staying the same'. One might ask if fleet operators are forcing that monthly figure down as vehicles come to be replaced. Again, there is an interesting disconnect between maximum monthly cost per mile - shown further down the list with barely a quarter of organisations using it as a criterion.

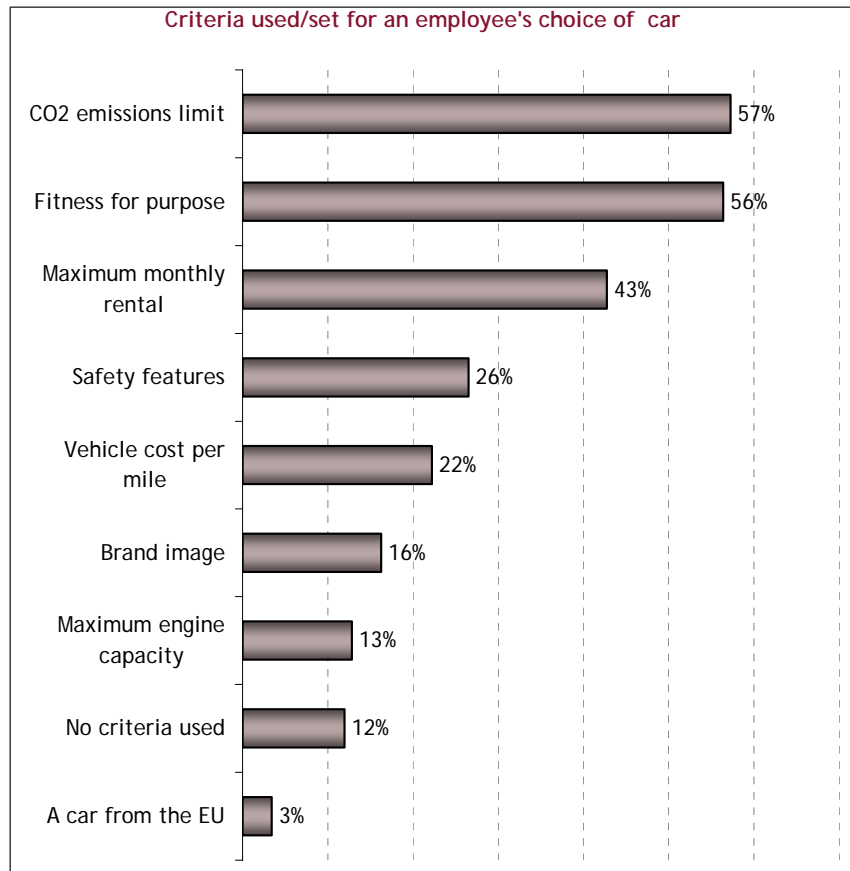
Whilst comment on monthly cost and cost per mile may not be pursued in much detail, the significantly different take as a criterion might be interpreted as organisations apparent unwillingness to link total cost and cost per mile - quite simply a lot of cars may be provided regardless of business use.

The other criteria used for vehicle choice show some individual changes but there is no clear pattern or direction emerging at this stage. The question might well be asked - 'is the fleet planning to downsize its vehicles?' - but reading between the lines there could be seen to be some changes in the case of brand image and maximum engine capacity - but they do not in themselves constitute any serious pointers.



Given the very minimal changes indicated by the survey, one starts to wonder if organisations, where they are changing units and updating their fleets are, in reality, 'planning to replace' for the past rather than 'replacing for future needs'. What is your allocation and replacement policy?

Should now be the time that fleets introduce a draconian set of policies in line with government 'to get it all over now rather than later?'



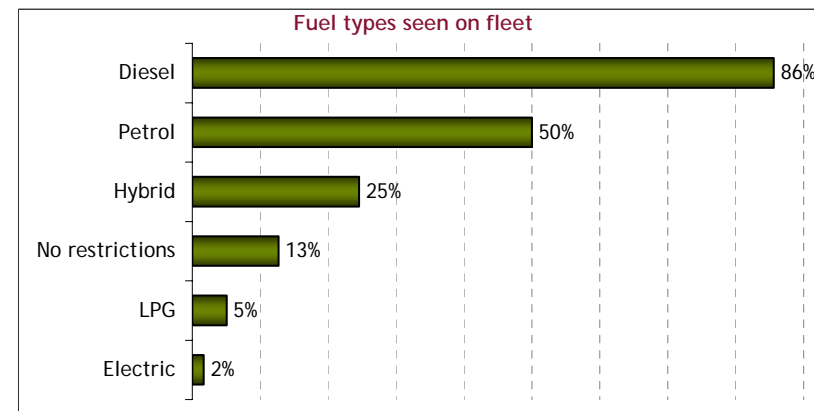
Fuel Types

The survey of fuel types used suggests that the preferred fuel for fleet cars is definitely diesel with it represented on some 86% of respondents' fleets - exactly the same as in the previous survey. However, the provision of petrol has dropped from 53% of respondents to 50%. While the drop may be small, one assumes this is but the tip of the iceberg.

Hybrid take-up has slipped to some 25% of respondents, down from 31% at the previous survey while the other fuel types appear to be in line with previous responses. Is this a sign of dissatisfaction or merely a blip in the survey? Hybrid may well be the short term alternative to the straight hydrocarbon option, but it may well be a transitional option.

Given the fuss and promotion and apparent subsidies as well as the specific excise treatment, it is interesting to note that electric cars have stayed the same. One might well ask just how effective might be the subsidy once it becomes available - or will this be a place where 'the thought leaders work from behind' and the real innovators are holding back until they are completely satisfied with the vehicles, their economics and their reliability. Is this a case where a subsidy might be considered 'too good to be true'?

Organisations are unlikely to change their policies overnight with regard to fuel type and any changes will take time to work through the system - 3-4 years is the norm.





Vehicle Acquisition Methods

Contract hire as a means of providing essential user cars peaked for essential users in the previous quarter and has slipped back this time round. The reduction has only been 3%age points, but nevertheless it has slipped and that is generally the larger spending element of the fleet. On the other side of the equation, non essential users however, the provision of contract hire has moved upwards by 4%age points. The only way one might consider that change rate is to suggest that more fleet operators are seeking to enhance their risk management forces by using contract hire which might offer accurately known costs for a significant element of the fleet.

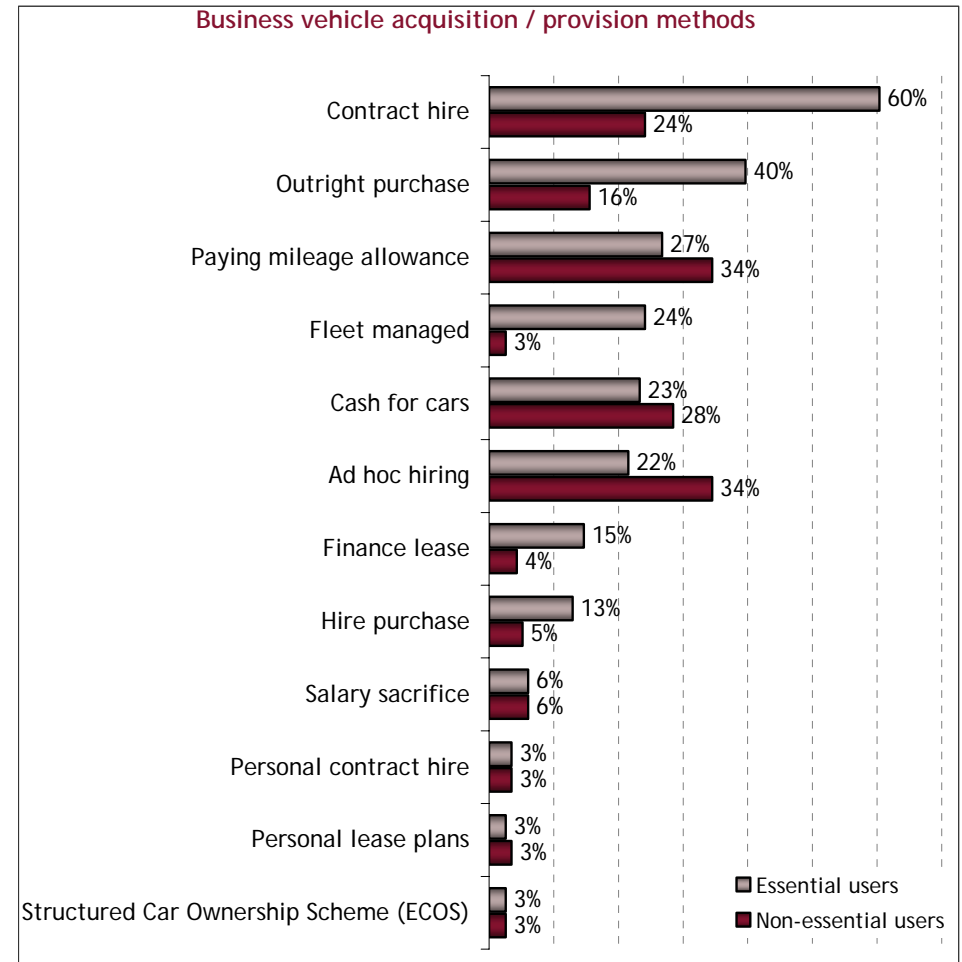
In terms of outright purchase as a method of vehicle provision it has held the same for both essential and non essential fleet car recipients. The relationship between outright purchase and carrying the entire risk versus the largely known cost of contract hire is a nice decision for operators to judge.

'Payment of mileage allowance' has increased significantly - by 6%age points across the quarters in the case of essential car recipients. The message must be that such an act is seen as a cost saving in that employees will provide their own cars an only be paid for the business use of such vehicles. There has also been a 2%age point rise in non essential car user payment of mileage allowance.

There has been a 4%age point rise in essential user fleet management products; that again would suggest tighter management of the fleet. Once again, such a service may have a significant cost and it is important that the organisation actually benefits in terms of total cost terms from the methodology expected.

The change in finance ease for non essential users is also an interesting change in that it signifies a capital protection programme coupled with a lower mileage/potential for a good residual value strategy.

The overall message coming out of the survey is perhaps a marginal tightening of fleet funding - at least paying some lip service to the changing business conditions and continuing to seek to match real requirements with the funding options on offer.

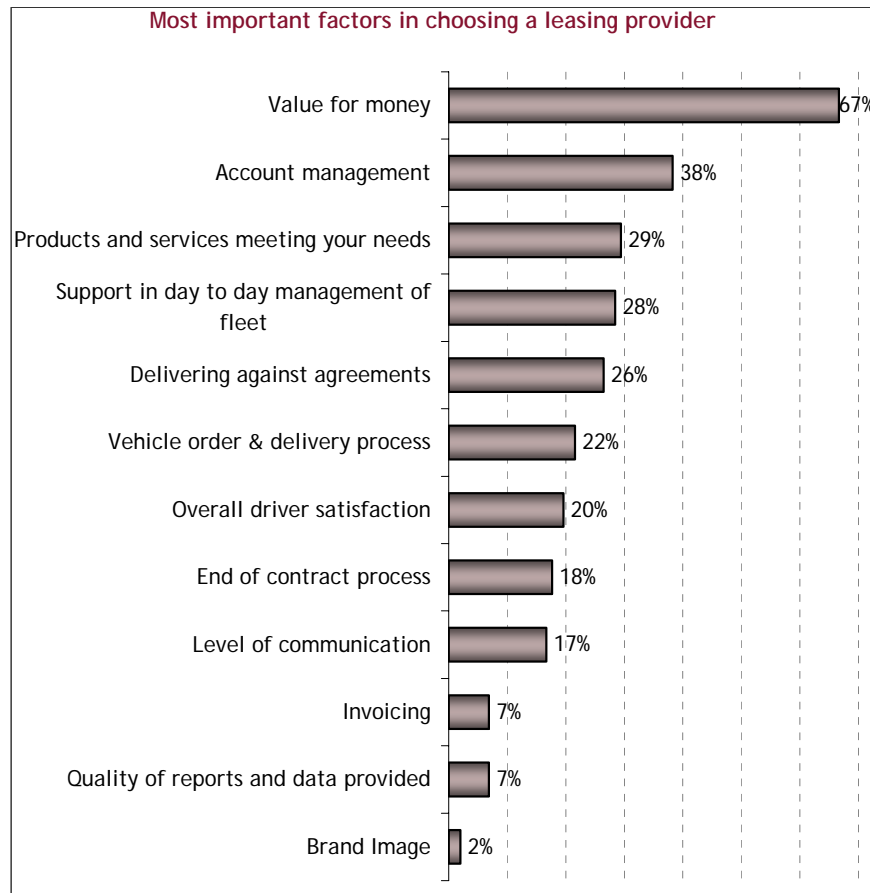




Criteria for Choice of Leasing Company

As might be expected, 'value for money' is the highest rates requirement in selecting a leasing partner. The rate of response has jumped by a cool 8%age points as business conditions continue to be tight.

However, the remainder of the factors in choosing a leasing partner have moved very little across the survey compared with the previous quarter.



Given such a steady response rate, it is perhaps interesting to note which issues are highly related in the analysis. As might be expected, Account Management is top of the list in that such an issue offers the opportunity for flexibility management within the contract and the opportunity to discuss changes in requirements.

Overall, as can be seen from the chart, by implication, the economic issues are the most important and lesser concerns which might be regarded as more important in good times - for instance brand management - have been relatively lowly rated.

What are your criteria?

Transport & Fleet Issues Considered Important & Planned Actions

Transport issues considered important by respondents and the actions being taken to manage those issues are presented in the chart below.

While risk management is top of the list, as it was in the previous survey, some two thirds of players reckon they have relevant solutions in place, a quarter of respondents reckon the relevant solutions are 'being considered' while 4% are aware with no plans. Given the awareness and importance of risk management within most business situations - one may well be disappointed regarding the results.

Use of mobile phone might be claimed to be 'an issue that's been cracked' - but when one drives the motorway networks of the country, one asks just how robust are these figures! Certainly there is an allowance for hands free and Bluetooth opportunities - but any break in concentration by a driver could give significant problems.

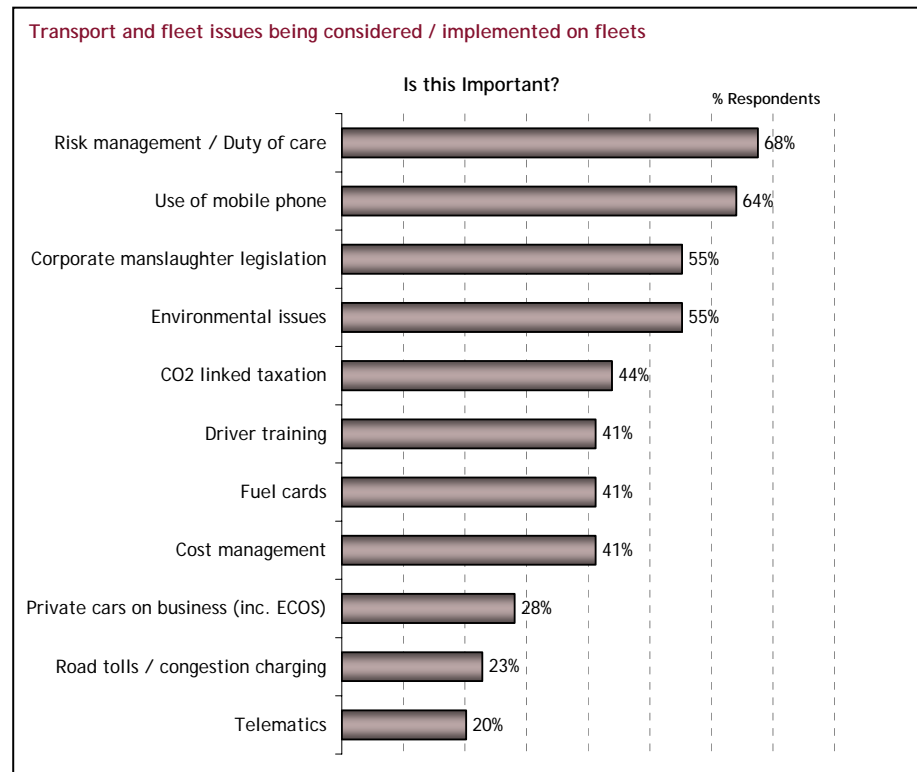
Corporate manslaughter as an issue of importance has slipped by some 7%age points - whether this is caused by management starting to come to terms with the topic and feel it's becoming properly managed is a moot point - but how does one monitor in reality? Who checks your systems?

To jump down the list of issues of importance - 'private cars on business' indicate some 20%age points of players still have no plans for resolving the

issue. Many would claim this is a topic which requires kid gloves and time to handle time consuming problems.

Road tolls too are an issue which respondents claim still needs resolution. One has to ask if that would include, further down the line, road pricing, surely a strategic money spinner the Coalition must be consideration, even if only as a means of covering the loss in revenue which might come with the decline in hydrocarbon taxes as electricity grows in importance.

The final item on the list is 'telematics' - which, proportionally, shows the biggest single problem in terms of resolution. Exactly what telematics does one require and, more important, have ones' drivers able to use to cut costs and generate incremental revenue.



Fleet Outlook

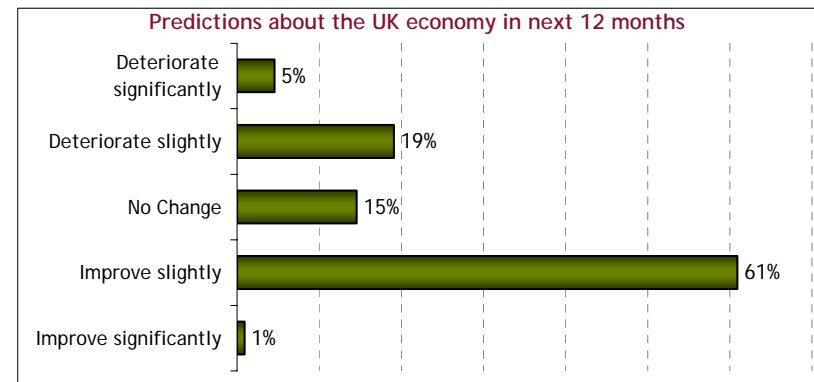
The overall prediction with regard to economic development and recovery is very marginally less positive than it was in the last quarter, the recovery might be called 'weak' even through rose tinted spectacles.

The 'improve slightly' category has slipped by 3%age points to 61% from 64% a quarter ago - the previous quarter was already pretty disastrous. No change has slipped by a couple of percentage points while 'deteriorate slightly' has moved up by 5%age points.

Overall, not a good picture - particularly when one considers the status of the previous quarter.

Overall there are expectations of relative stagnation in terms of fleet vehicle provision for both cars and LCVs over the next twelve months with 25% fleet predicting an increase in car fleets and the same expecting a decline. One has to ask if this is a real sign of reorganisation of a relative stagnation. LCVs are a special case - but look at the Buckingham Used Car Market Report for a more detailed explanation of the issue.

In the last six months there has been a relative stagnation in fleet size changes however, over the next six months it is anticipated there will be some increases in fleet size. Although there are no numbers are predicted, twice as many fleets are expected to grow as to declined. The same applies to LCVs but further reduction in still anticipated with HGVs.





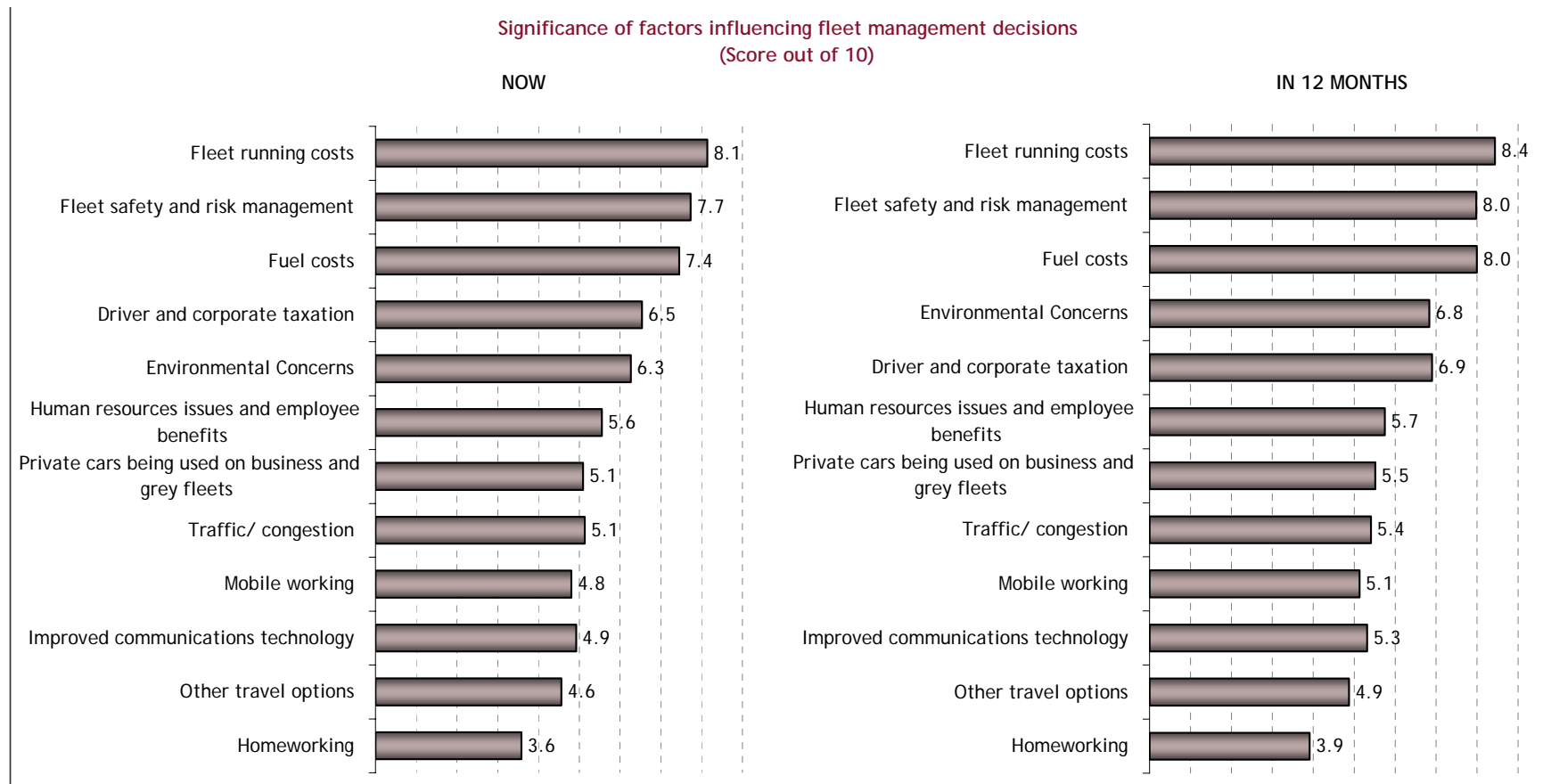
Significance of Factors Influencing Fleet Management Decisions

Significant factors influencing fleet management decisions now and in twelve months time provide an interesting snapshot of anticipated changes in a dynamic industry.

Comparing the two sets of responses. Among the major items scoring highly on the two lists are fleet running costs and risk management, while there are some more significant changes in relative importance as we will examine in a moment.

The most important issue in both the immediate and twelve month list is, as one might expect, 'fleet running costs'. The weighting is higher in a year's time than today, perhaps representing respondents' expectations that costs are bound to rise - whether in the form of taxes or overall operating costs. The message must surely be - 'more work needed to manage costs'.

In second place in both lists, but again higher in twelve months time, is 'fleet safety and risk management'. While the twelve month figure has slipped a little the immediate concern was the same at the last survey.





Fuel costs, the third item is climbing steadily - in the previous survey the immediate response was 7.2 - now risen to 7.4 but further down the line it has risen to 8.0 - up from 7.8 the last time of asking.

Driver and corporate taxation is currently showing 6.5 on our scale, a small drop - but is seen as lifting to 6.9 - a significant increase perhaps reflecting respondent taxation expectations over the next year with the new Coalition in power. This is a highly emotional issue.

Environmental concern slipped. In the immediate list from 6.4 to 6.3 - hardly a major drop but at the twelve month it has risen to 6.8 - admittedly a slip from 7.0 last time out. The message however is that it appears to be climbing steadily in terms of concern which may mean changes in modus operandi in future.

Some Initial Conclusions

Once again, the detailed tables shown in the fleeteye report suggest there are a wide range of changes in terms of relative importance and changing expectations within the sample of fleets represented in the quarterly study. Certainly reading between the lines there are some elements of optimism in the responses, but elsewhere there are underlying hints of pessimism suggesting the economy 'is not yet out of the woods'. The real challenge and changing responses might well be expected over the next two rounds of the survey with one set of responses collected just before the government's Comprehensive Spending Review - and the second a couple of months after it as the implications of the changes begin to emerge.

A survey such as fleeteye may well take on added significance as the economy continues its slow recovery, but the size of government is seriously and quickly reduced.

There are no right and wrong interpretations with such a survey, but recipients of the full report are recommended to spend quality, quiet time looking at the results and relating them to their own fleets. You may have the right answer if you deviate from the norm - but why have you deviated? Answer that and the survey is justifying its keep.

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