Industry review

Industry review - Quarter Four 2010

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 fourth quarter 2010 will go down in many memories for the unseasonal snow which brought parts of the country to a freezing halt and severely disrupted Christmas retail sales. At the same time the economy was not in good shape and subsequent figures have reported provisional decline of 0.5% in GDP – far worse than the sentiment but an indication of the feeling in some parts of the economy. The bright light in the UK economy was the recovery in manufacturing and manufactured goods exports; the downside is that the UK has a shrunken manufacturing base. During fourth quarter the first real cuts of the Age of Austerity – a taboo phrase in itself – started to manifest themselves.

Recovery and longer term economic growth are the promised result of the Age of Austerity and, despite the poor showing of the Coalition in various polls and surveys, there is an underlying acceptance that 'something has to be done to balance the economy' and 'it's better if it does not effect me'. However, for the first time in many years the economy is witnessing private sector wage cuts – those are real wage cuts rather than bonus reductions.

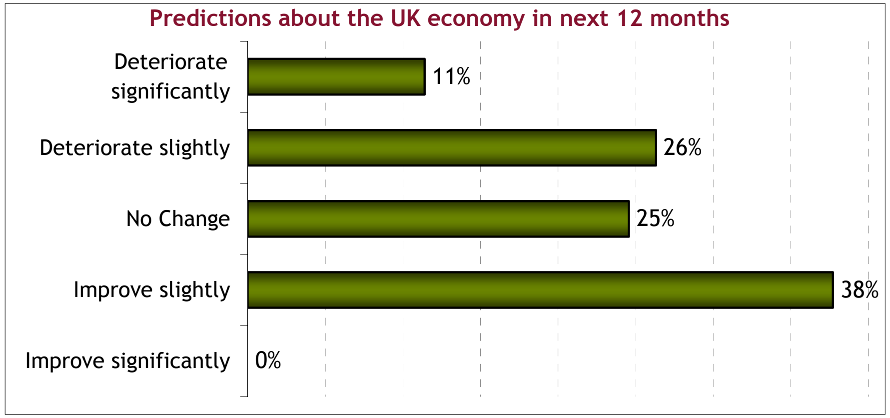
The economic situation is further undermined by rising consumer prices – aka inflation has returned – and a weakening pound. Elsewhere in Europe the economic message is very patchy; Germany would appear to be powering ahead, France is experiencing job losses while the Irish economy is creating endless concern for the Euro – as are the Greek and the two Iberian economies.

Globally a range of almost tectonic messages are emerging; China is driving ahead and the wider business community are starting to wake up to the increasingly clear strategy of Chinese players buying into strategic industries and companies to gain access to the technology more than the immediate manufacturing and refining capacity. Equally, the Indian economy too is growing at a rate that Europe can do little but envy.

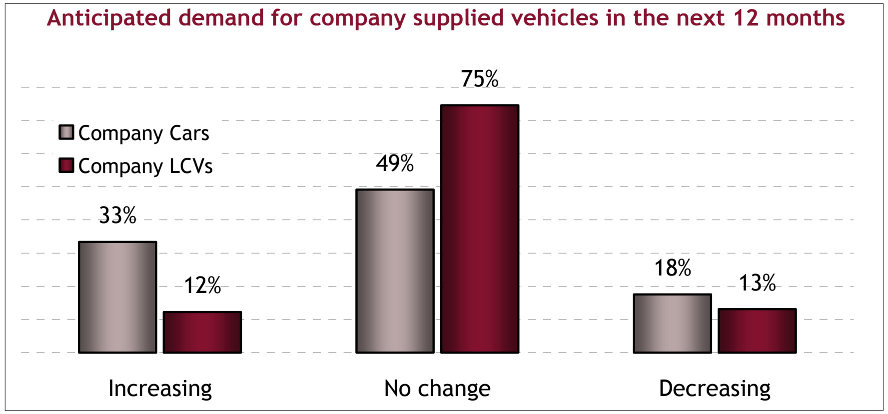
The United States now has the interesting situation of a President and Senate as Democrats but with a Republican House of Representatives. Whether this will manifest itself in an inward facing economic and political scenario to the next Presidential election in two years is still a moot point.

It is against that somewhat gloomy and increasingly complex backdrop that the current analysis and interpretation is offered.

The latest survey suggests that 38% respondents to the survey anticipate a 'slight recovery' in the economy in the next 12 months while 26% anticipate a slight deterioration, although 11% anticipate significant deterioration.

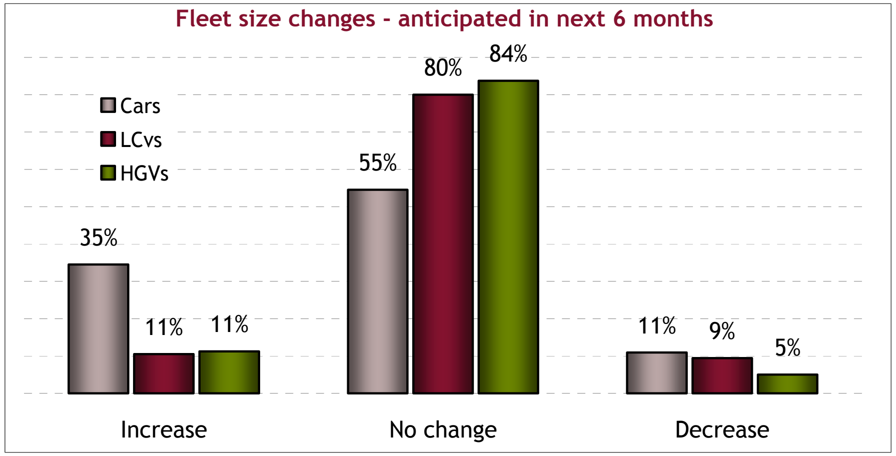


However, that somewhat ambivalent sentiment is not born out by 'anticipated demand for company supplied vehicles in the next 12 months' shown below, where almost twice as many respondents 33% are reporting an expected increase in demand versus 18% predicting a drop.



The gloom is further dispersed by the expectation that fleet sizes will change significantly over the next six months, as illustrated by the question 'fleet size changes – anticipated in the next six months' which shows a clear 35% expected growth versus 11% decreases, although the order of magnitude is not indicated.

LCV changed however are much closer with 9% reporting a decrease versus 11% an increase – well within experimental error – one might claim a 'no change'



There is some slight concern, again within the bounds of survey accuracy, that future fleet size changes are reporting a decline in growth of 2%points versus the previous six months, although the 'decrease' in fleet size is currently more positive.

The fleet outlook chart suggests that some 28% of respondents anticipate a growth in demand for company cars over the next twelve months compared with 23% expecting a decrease and 49% anticipate fleet size holding.

Car Allocation & Manufacturer Choice

As the economy emerges from recession into the Age of Austerity vehicle choice will become ever more important in an attempt to manage or cut costs, particularly with the apparently ever escalating cost of fuel.

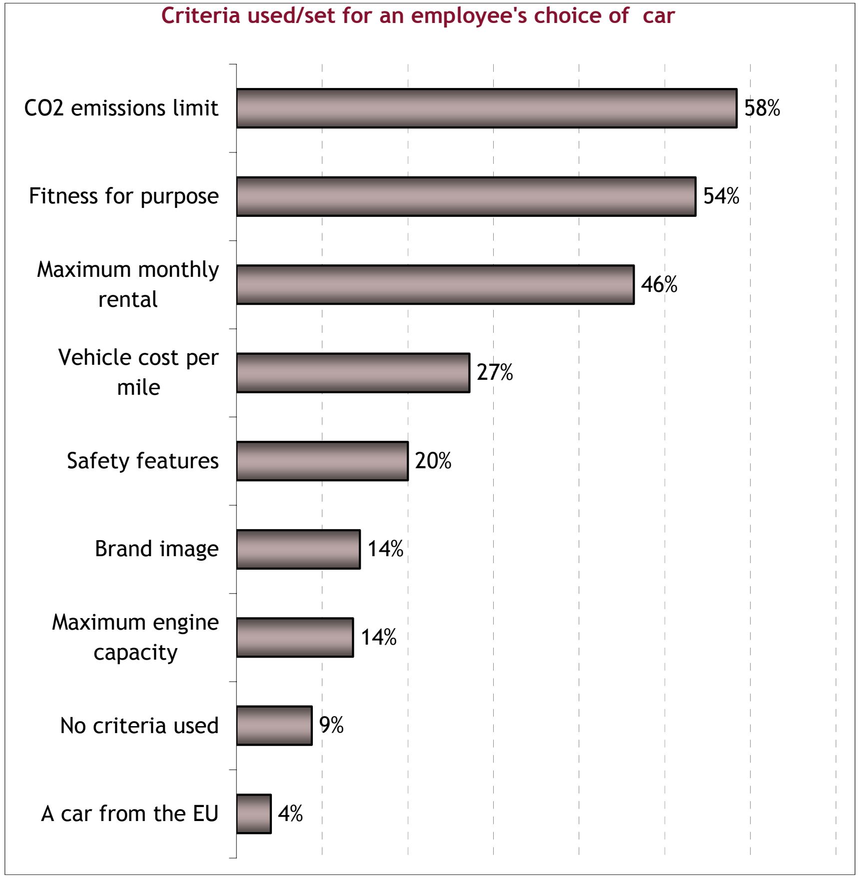
The Fleeteye survey suggest that the number of respondents operating a single manufacturer policy remains small at 6% the same as in the last survey and even small with regard to model choice 2% - while there is much greater ‘any manufacturer’ choice at 38% and 38% also for free model choice within appropriate bounds. The message must surely be that the employee has a tax liability so deserves an input into vehicle choice; equally, ‘there is no such thing as a bad car on the market’ – even if some are better than others.

The chart opposite below showing ‘criteria used/set for employees’ choice of car’ and is pretty telling in its conclusions. ‘Fitness for purpose’ a key issue within duty of care has dropped significantly this quarter in terms of importance to be passed by CO2 emission limits – presumably as businesses examine their carbon footprints.

The other big mover is ‘vehicle cost per mile’ which has moved back by close to 10% points in one quarter.

An interesting decline in importance is ‘maximum engine capacity’ which has halved across six quarters; might that be due to the steady increase in fuel efficiency over the last year or two – or mundanely that ‘its one of those issues which drivers will consider themselves without being told’.

The lowest value of the criteria ‘a car from the EU’ is bumbling along at 4% points – ‘non Chinese’ used to be a measurable criteria a couple of decades ago....might we find ‘non Chinese’ coming into the equation in the next few years?

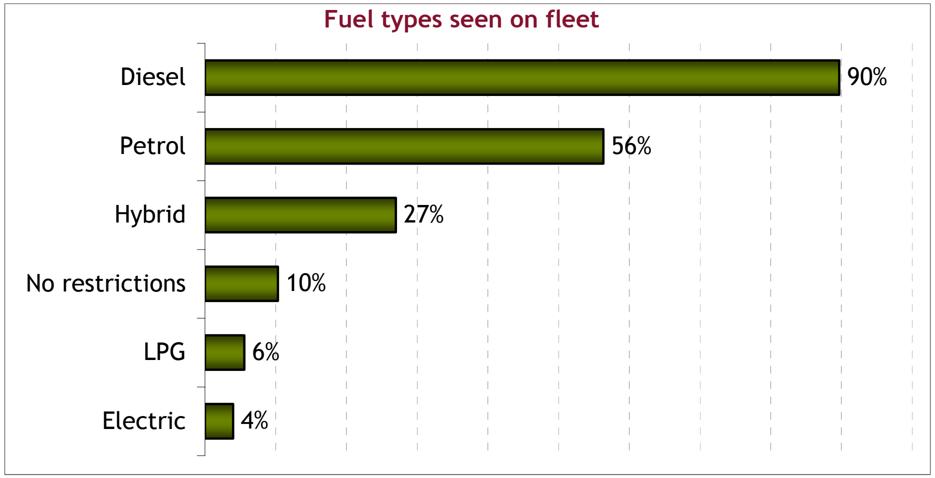


Fuel Type

The type of fuel seen on the fleet has remained remarkably stable across the last eighteen months despite the change in the price of fuel over that period.

Diesel is by far the most popular fuel choice, despite it being more expensive at the pumps, although there is generally a significantly better economy achieved.

Maybe now is the time for fleet executives to pay particular attention not only to fuel cost but also to the mileage of individual cars – are there greater economies to be made for vehicles which are driven low mileages across the business life of the car? There may be some savings opportunities but it is a calculation worth reviewing.



Given the efforts being made in the promotion of hybrids, the penetration of fleets has not moved significantly over the last six quarters; a steady 'just below 30%' would appear to be a relatively stable position – but any such changes would take time to move the figures simply because of the sheer volumes of cars involved and the relative paucity of hybrid models.

LPG as a fuel has never really held sway in the United Kingdom. Maybe there is an interesting message awaiting for the development of the electric car. A LPG vehicle requires specific fuelling points which have not been that common so route planning and fuel scheduling have become quite important. The current take-up of electric vehicle – some 4% - may be held back by the scarcity – and time requirements – of electric charging points.

Electricity as a power source for business cars is still at the base of the slippery slope; while the responses suggest some 4% of organisations may employ such vehicles, there are very few, if any, significant fleets with large numbers of such products on their fleet. Maybe organisations are going through the first stage of accepting electric cars in that 'we'll have one for PR purposes – we'll think about significant volumes later'. Cost and battery capacity still have a long way to go before electricity becomes a major player. True electric cars, like old age and death, will be here later – but probably not sooner.

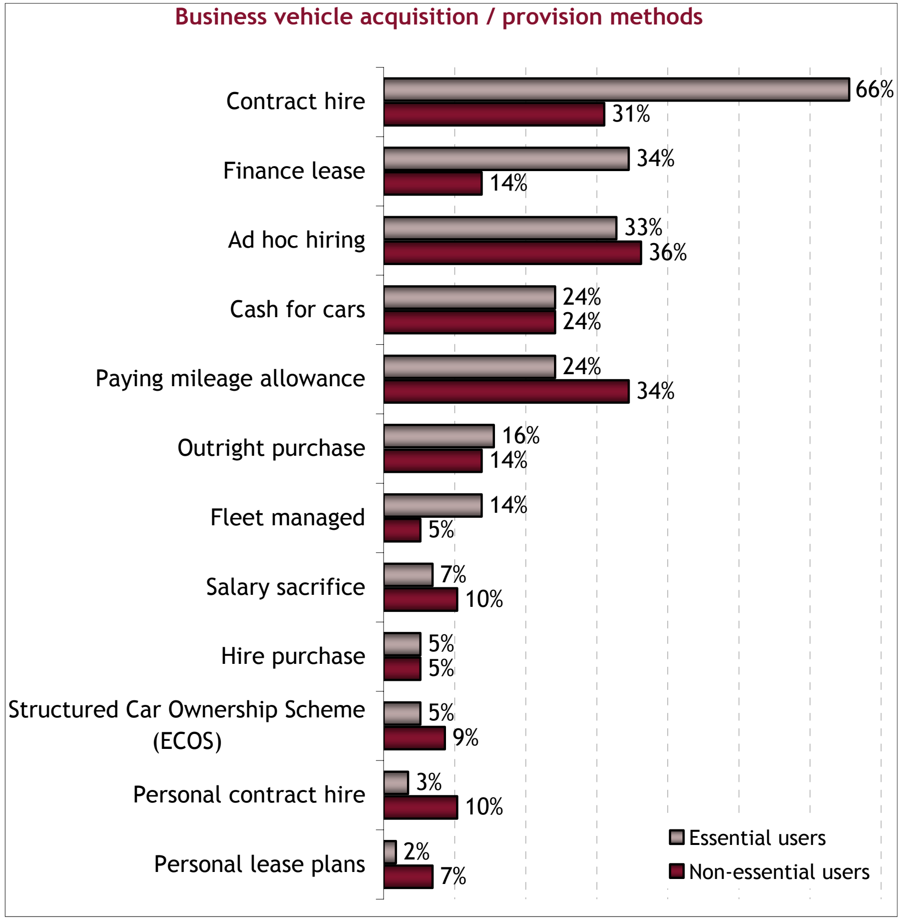
Vehicle Acquisition Methods

There are few things a commentator likes than a big swing in charts and graphs – and even better when there is a logical explanation. Maybe that's why the current favourite is 'vehicle acquisition methods'.

The provision methods chart shows a continuing growth in contract hire as the preferred method of business car provision. It has escalated from a mere 42% eighteen months ago to a dominant 65%, despite a drop in mid 2010. The reasoning may be the classic one put forward by every leasing sales person - 'release your capital for the main business'. Car provision is perhaps the most acceptable of all business services to outsource.

The shortage of capital within businesses is also reflected in what can be seen as the most aggressive advance in provision methods – finance lease.- whereby the user organisation leases the vehicle, hires it, but pays all of the associated costs separately, either to a management company, or has the work undertaken on its behalf. A sort of naked contract hire deal.

Hire purchase has also shown a pretty aggressive comeback over the last eighteen months. The great advantage here is that it smoothes the capital payment on a new vehicle and, if there are any strong benefits on disposal, they belong to the organisation, not the lessor.



As hoc hire has had a positive response across the eighteen month review period; it has risen from some 25% points to well over 35% points in terms of organisations using it. I would issue one huge caveat however 'look for an ongoing rental hire agreement for the organisation. Rates can be significantly better if a single player is used. Daily rental has a significant, but currently highly under rated role to play in the provision of business mobility.

The biggest looser in terms of provision method is 'outright purchase' it soaks up capital, vehicles need to be maintained - and the company carries the residual value risk It frequency as a method of acquisition has dropped from just under 40% fleets down to about 15% across six quarters. Only politicians can fall from grace with similar alacrity.

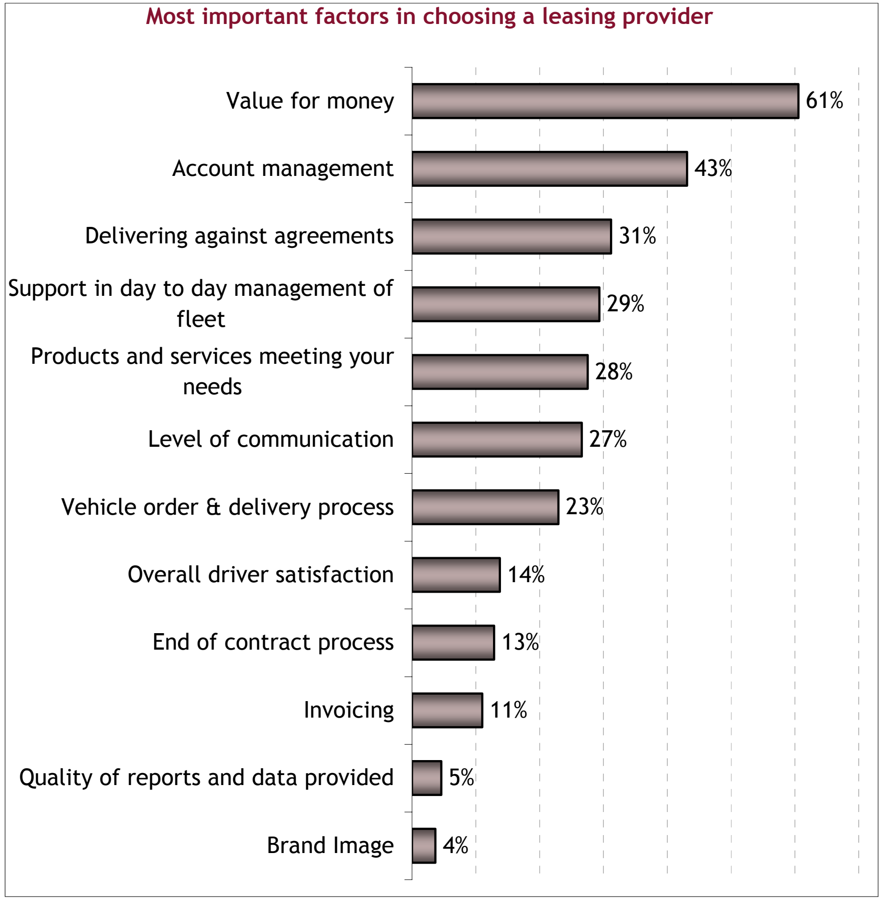
Quite simply, and rightly, in a period of economic recovery and a period of shortage of capital, businesses are moving away from the intensive use of capital for outright purchase to using other businesses' capital and hiring the vehicle required.

Most Important Factors in Choosing a Leasing Supplier

To a sceptic like me 'most important factors in choosing a leasing supplier' is akin to 'what type of value added money do you want to borrow?' Essentially one is looking for the most hassle free method of business car provision and support for that whole fleet management and communication supply chain.

We all want extreme value for money - ideally zero payment - but that is unlikely. However, it's interesting to note how, on the chart it peaked last quarter and has since slipped back by perhaps 7%age points. Given that the economy is emerging from recession this might seem an unusual situation - I think not.

Account management, the second criterion, has increased steadily across the past eighteen months by perhaps 7%age points. One might ask if this is, in reality, what is so important with a leasing company - the management of you as a client and effectively managing the fleet and your requirements. It will be interesting to watch if it continues to climb in the next quarter.

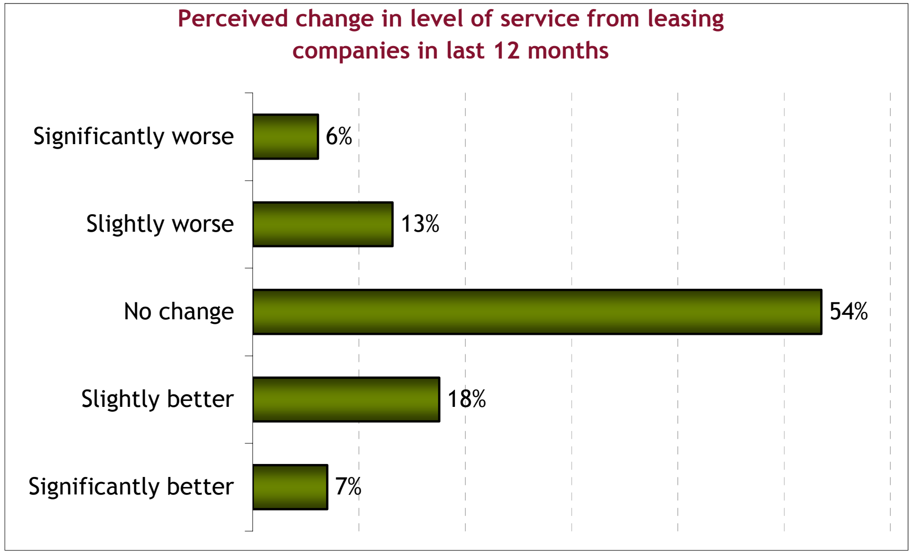


Among the plethora of other measures regarding the choice of a leasing company, there are relatively few clear trends emerging over the review period. Perhaps one which justifies special mention is the level of communication – executives like to know where their organisations stand and, with something so complex as a business car, what are the latest rules and regulations.

One slight surprise in terms of declining importance is the steady slide from grace across the review period of 'quality of reports'. This could mean one of two things - either the quality is so good that its no longer of concern – the most likely explanation – or the user no longer considers them to be important.

A final comment for the lessor – for that is who can benefit most from analysing such a chart – 'answering the phone by the third ring' is not actually a sign of sophistication or customer satisfaction. Indeed, to some client the aggressive immediate answering of the phone with a snarled company mantra can easily come over as a negative.

The evolving quality of service from leasing companies, highlighted in the chart below, provides an interesting benchmark in that 'slightly worse' service is 5%age points lower than 'significantly better' – 13% versus 18% - but at the two extremes – 'significantly worse' is only 1&age point better than 'significantly better' – where does your organisation fit as a leasing provider in thus continuum?

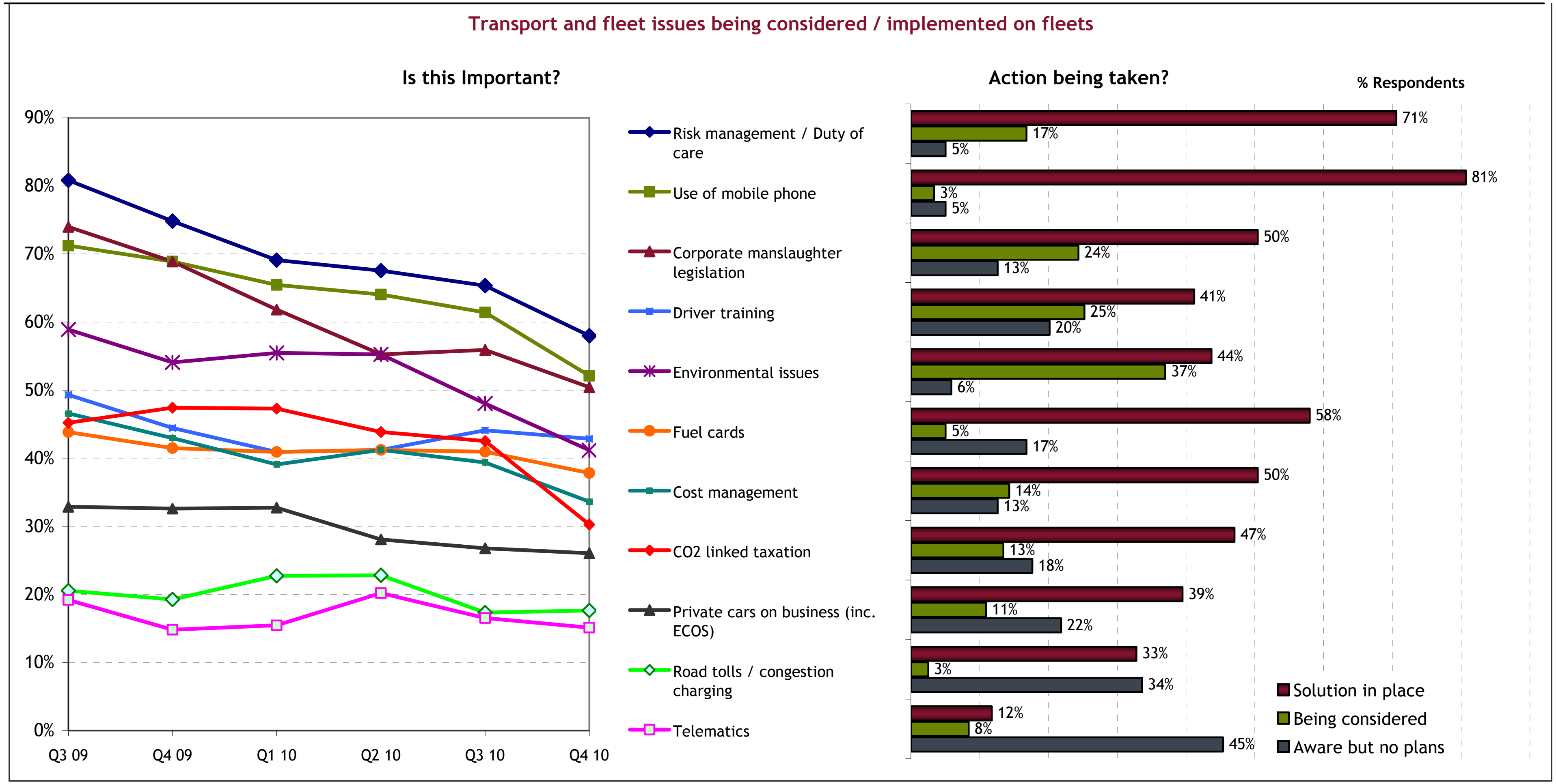


Transport & Fleet Issues being considered/implemented

Fleet issues always offers a fertile area for analysis, nowhere more so than in the current analysis.

The most interesting yet obvious issue is that eleven items identified in the chart with regard to importance and actions being taken - all have decreased over the eighteen months of the study. Certainly they have different rakings with regard to importance, but the chart suggests that solutions to the various issues have been put in place, or are at least being considered for implementation.

The upshot is that over the review period the number of 'aware but no plans' issues has steadily reduced so there are relatively few issues which



might be considered to have ‘real potential for improvement’.

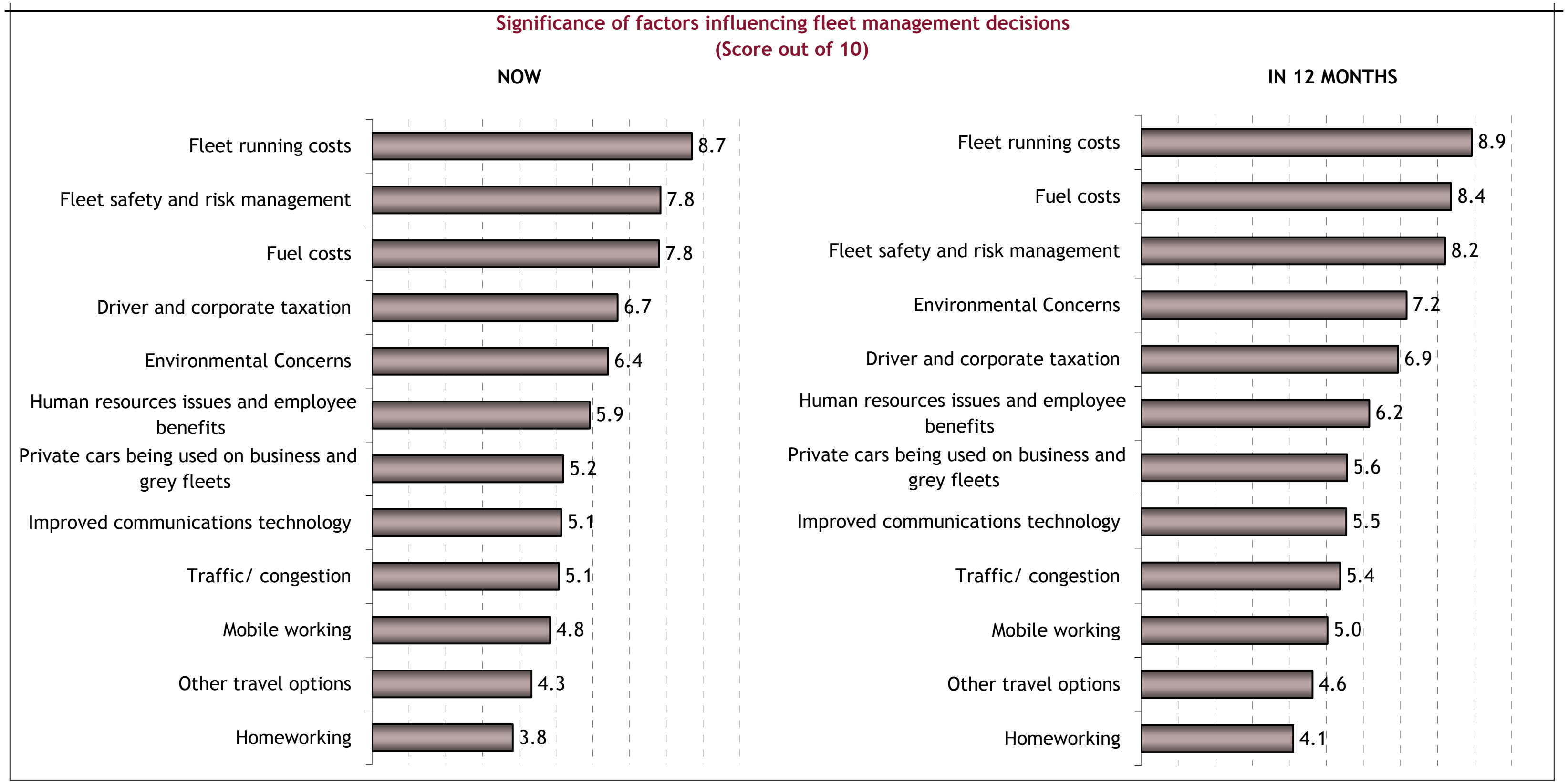
The one issue which the chart does throw up is ‘telematics’ – few organisations appear to have cracked its proper use within the fleet and, as a result, there might just be serious competitive advantage for leasing companies to become much more aware of the strategic implications, opportunities and practical applications of effective use of telematics within the fleet.

Quite simply – just how good are your telematics applications – and is there still real opportunity to move forward fleet efficiency and effectiveness through better use of telematics?

Significance of Factors Influencing Fleet Management Decisions

The survey seeks to highlight current issues of management concern and anticipated issues of concern in twelve months time. As with many of the foregoing analyses, there are a small number of issues which stand out, while the bulk of them run fairly closely together and, one might expect, individual issues of a ‘non critical nature’ may emerge occasionally depending on the organisation – and managements’ current interest.

Rated at the top of the list, both now at 8.7 out of 10 and rising to 8.9 is ‘fleet running costs’. Nothing unexpected there and it has held its predominant place across the review period.



Fuel costs have ranked as either second or third across the review period but have firmly moved into second slot in twelve months time. We know of the various increases in fuel price in place and forecast and, at the time of writing oil has passed $100 a barrel. Clearly this will be an area for fleet operators to look for business efficiencies and all of the associated fuel effectiveness issues which might be associated with it.

Fleet safety and risk management have been pushed from second to third rank in terms of importance between now and twelve months time. In terms of risk management, what might it take to force it back into second place – a really serious accident perhaps?

Within the bundle of 'important but maybe not critical' issues any one could be picked out for analysis, however one which would appear to be springing back into prominence is 'environmental concern'. This has escalated from 6.4 to 7.2 across the review period. The cynic might well suggest that 'environmental concern' is a 'fair weather issue' and the organisation tends to ignore it when fighting for survival but it comes back to the fore in terms of good economic development. Maybe its a good sign for the next year?

The one issue whose position in the priorities list which one might find surprising is 'homeworking' which languishes at the bottom of the list both today and in twelve months time. This surely has to become more important as fuel prices escalate and road congestion increases. One might well ask the question – 'is home working the bailiwick of the fleet executive, even the leasing company, does it best reside elsewhere in the organisation – or will it be lost through lack of management attention and debate?

Some Initial Conclusions

The forgoing columns have sought to highlight a few of the issues from the current Fleeteye survey and to compare them with historic position and account for some of the changes.

While such analysis is certainly not rocket science, it highlights an industry which would appear to be emerging from recession and into a new period of growth. While that growth may be relatively restricted in step with the rest of the economy, it is important, as one keeps stressing, to plan the fleet for future requirements and not for past business situations.

The multiplicity of charts and graphs and trends over time can offer the fleet executive real food for thought as to what's happening elsewhere in the industry. However, that is only part, the prescriptive part of the exercise. The real benefit of such an analysis comes when one asks 'why does my business differ from the trend?' 'who has the best solution?' and 'what can I learn from these differences to run my fleet better – or offer the lessee a better service?

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