Industry review - Quarter Two 2015

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.

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, Emeritus Professor of Automotive Management at the University of Buckingham.

Introduction

The last Review ended with a comment regarding the start of the political 'Silly Season' in the United Kingdom. That could get more exciting over the next few months. Certainly there have been significant changes both political and economic internationally and domestically that may have strategic implications for the fleet industry.

The international economic scene has been through a number of jolts recently and more may be on the way.

The Chinese economy appears to be in some trouble. Economic growth has slipped to a 'mere 5% or thereabouts' although few outside the world's second largest economy have a real grip on what the true figures might be. Certainly demand for raw materials including oil and metals have slipped and this is reflected in global commodity prices and stock markets. The currency has been devalued – some claim as a matter of panic, others suggest as the start of a move to bring it into line with its real value against other currencies. The domestic stock market has slipped by a third in barely a year; central government is propping it up to a degree. Soaring property prices in the major cities fuelled part of the boom and have created phantom wealth. The boom sounds all too familiar but economic reality may be sweeping the country. New car sales are one sector that is suffering badly.

The Chinese communist party have to rethink their business model to head off internal unrest and that could cause unforeseen implications elsewhere.

Russia too is having serious economic problems largely self-induced resulting from the west's reaction to President Putin's ego-trip in seeking to recover the Ukraine. The Russian GDP is likely to decline by 4% or more this year due to economic sanctions and the collapse in energy prices. Equally Putin has sought to have destroyed food products imported from the west and has embargoed further imports. The knock on effect is surpluses in the west and shortages within Russia. A clampdown on exports to Russia is hurting many businesses in Europe.

The United States economy is also giving cause for concern, if not alarm. An increasing number of negative forecasts are emerging and interest rates are likely to move up sooner rather than later. Domestic demand appears to be slipping. Impact on the domestic economy may well be reflected in investment with implications for overseas subsidiaries. How many car fleets in the UK are reliant on business decisions made in the United States?

The immigration crisis currently hitting Europe may have negative implications too. To the middle of 2015 close to a million illegal migrants have sought refuge in Europe – some political, many others economic migrants. The biggest concern is the EU has been unable to come to a consensus as to how the problem might be handled while all the time it gets worse. Logic says 'sort it out at source' but again there is no consensus or strong leadership to tackle the issue. At least part of the problem is linked to Isis where again there are local political issues which are holding back any concerted resolution.

Given a range of 'strategic negatives' among the traditional drivers of the economy, one has to look to emerging economies to drive future growth. Are emerging markets and a slow recovery in the Eurozone sufficient to substitute for the loss of traditional economic drivers - and what might be the implications for the UK?

Such issues may seem far away from the issues of fleet management in the United Kingdom but for many companies one or other of the conflicts may well have a traceable impact on business and business developments.

An Economic & Political Background

Since the last review the UK has had a general election with an unexpected Conservative victory – the first in eighteen years. The Labour Party is currently involved in a self-inflicted chaotic election of a new leader. Jeremy Corbyn, the left wing candidate is likely to win. Whether he would be a credible prime minister is open to speculation. He is better known for the issues he stands against than what he stands for; what might be his political direction should he prove electable as leader of the largest party in 2020. Is that scenario yet being considered in boardrooms?

The excitement of the Scottish devolution referendum has been largely forgotten, the success of the SNP in the general election has thrown up the antecedents to a well-nigh single party left wing devolved administration within the UK. Assuming the result of the general election is replicated in the Scottish Assembly elections that may not bode well for Scottish investment. What radical schemes might be pushed by a radical left wing assembly with enhanced powers and little or no opposition? Such outcomes must be reflected in the strategic planning of many organisations – with eventual fleet implications.

On a brighter note, what might be the implications of the Tory's small majority in the House of Commons? It gives the government a five year mandate to implement changes they wished to introduce when in Coalition but where stopped by the now marginalised Liberals, but that is only part of the scenario.

George Osborn is looking to balance the budget and indeed start to build a surplus over the life of the present parliament, although the zero return point keeps slipping. Given such an aggressive objective, austerity is still the watchword with major cuts in government spending to be announced and realised. Much of the cuts will come from the welfare budget but apart from the three ring-fenced budgets – education, NHS and overseas aid – no department is safe. Once again, such austerity on the other non-protected government departments may have significant implications for suppliers and fleet operators. Austerity and cost cutting are, to some extent offset by government investment in the infrastructure – roads and railways – and hopefully a decision on the additional runway in the south-east.

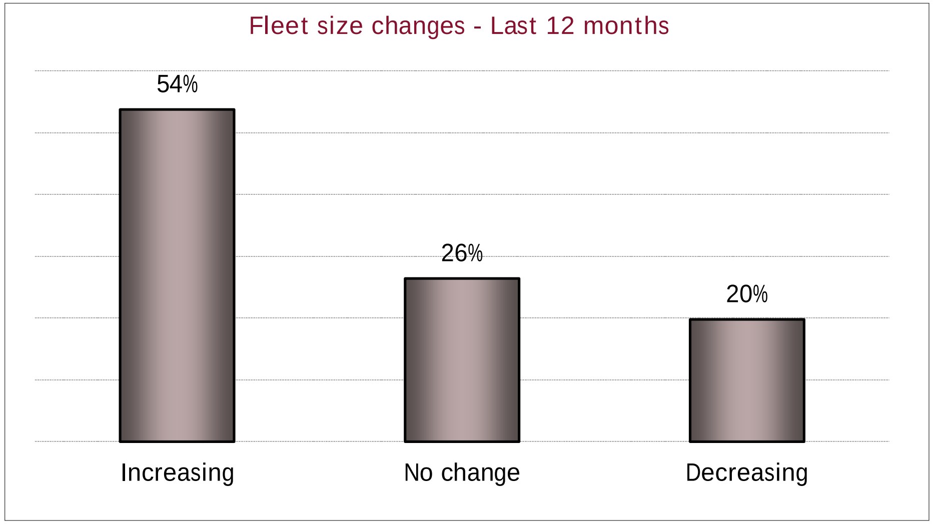
Inflation would appear to be well and truly under control. Indeed there are further months projected to show deflation before the end of 2015. The deflation and minimal inflation are primarily caused by oil being at less than $50 a barrel and by low food prices. The strength of sterling means imports are less expensive, thus contributing to low inflation, but making exports more expensive. Economic recovery will contribute to forcing up interest rates sooner rather than later and so make borrowing relatively more expensive, but still below the historic long term pattern. This will all contribute to business forward thinking – and ultimately the company car and LCV fleet.

Where next?

The UK economy is in better shape than it has been for a long time with improving rates of employment but a chronic shortage of certain skills necessary to drive it forward. There is growing pressure on housing and youth unemployment and benefits policy and a switch in policy to promoting apprenticeships. Equally, certain largely public sector trades unions are seeking to retain their power to show their relevance to the economy – at the risk of losing sympathy from the wider population; that in turn could lead to a call for full automation in some sectors of the economy.

Regulations, often led from the EU, are changing traditional values and ways of working. It will be interesting to see whether David Cameron manages to renegotiate Britain's relationship with the EU. Equally challenging will be the outcome of the resulting referendum. Given the results of recent elections, it will be interesting to see just how the wider electorate responds.

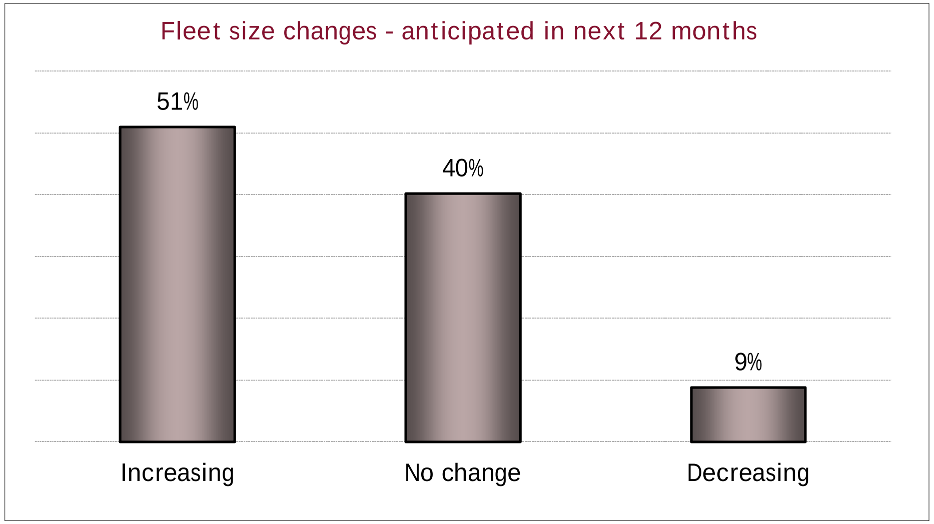
At least on the surface, the UK economic outlook would appear to be 'good' or at the least 'satisfactory' – but further down the line there are clouds on the horizon. No longer is a trading nation in control of its own destiny, globalisation has put a stop to that. 'Risk awareness' and 'risk management' play an increasing role in business strategy –and that is being reflected in professional fleet management.



Fleet Outlook

Fleet size changes in the last twelve months have been pretty positive with some 54% of respondents reporting an increase in their fleets, while only 20% reported a decrease. This compares favourably with the last Experteye report six months ago in which 48% reported growth and 16% showed a reduction. The new report shows 26% of fleets showing 'no change' compared with 36% last time. The relative changes in the ratios are perhaps more interesting than the numbers themselves in that the reduction in 'no change' would suggest more businesses are responding to a change in business circumstances.

The second chart on the page shows expectations for fleet size over the next twelve months. At 51% reporting an anticipated growth in fleet and 9% decreasing the figures must be seen as positive. Growth is 3% points ahead of the last review while decreasing is 1% point more – a figure well within the bounds of experimental error. The drop in no change from 44% to 40% again bodes well.



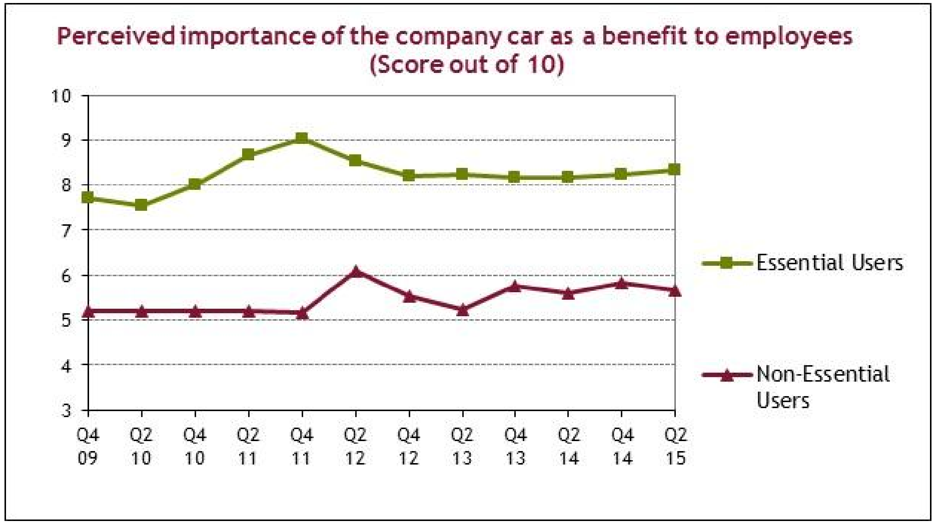
Economic recovery and better business confidence can be assumed to be the principal drivers for change but all the time we must bear in mind changing business practices – new ways of working, introduction of new technologies, particularly in terms of communications, and also businesses changing both their target markets and their modus operandi. Further implications regarding salary sacrifice and CO2 implications also can complicate expectations.

Perceived Importance of Fleet Car Provision

The rules regarding company cars are rarely out of the limelight and with changes in fuel costs, the rapidly evolving role of the company car, personal tax and the near explosive growth in PCP and PCH, one might well expect the company car to continue as a dynamic and often controversial part of the company ethos.

Despite these external pressure on the company car, its perceived importance continues to hold well as shown in the chart below. As might be expected its importance is highest among essential users and has, in the most recent survey, taken a slight upwards hike.

In the case of the non-essential user sector, the most recent survey shows a slight decline in perceived importance. This may well be caused by changing rules regarding personal tax, emissions and the price of fuel. It will be interesting to follow this perception at the next round of reporting by which time interest rates and a higher level of inflation may have kicked in, even if personal incomes continue to run ahead of inflation.

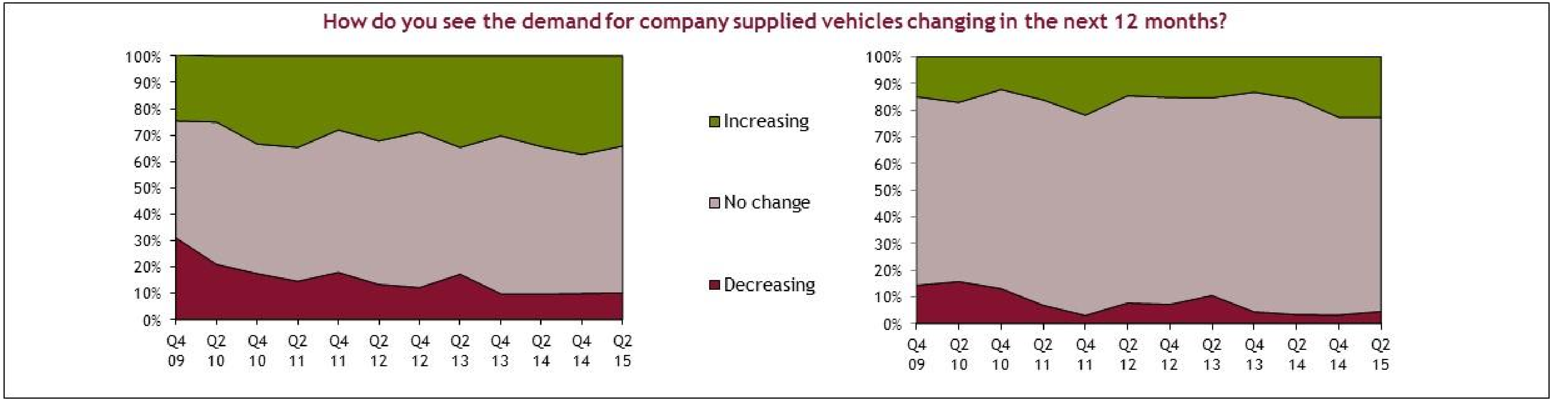


The next pair of charts report expected changes in demand for company supplied vehicles over the next twelve months but divided by cars and LCVs.

In the case of cars, demand is seen as holding, or perhaps slipping marginally while the 'decreasing' element continues at a very low level. 'No change' is perhaps the biggest response. Remember this is a report of demand rather than actual fleet size and part of that demand could be met by rental units.

The LCV chart shows a continuing growth in demand for LCV capacity while the reduction category almost falls off the bottom of the chart.

One might ask how much of this expected increase in demand will be achieved by fleets being permanently increased in size an expensive operation – and how much might be met by a growth in daily rental and only provided when there is a real demand as distinct from 'it would be nice to have a car/LCV'. Margins and cost cutting are continually pushing towards cost effective solutions and the elimination of assets which are not earning their keep the whole time.



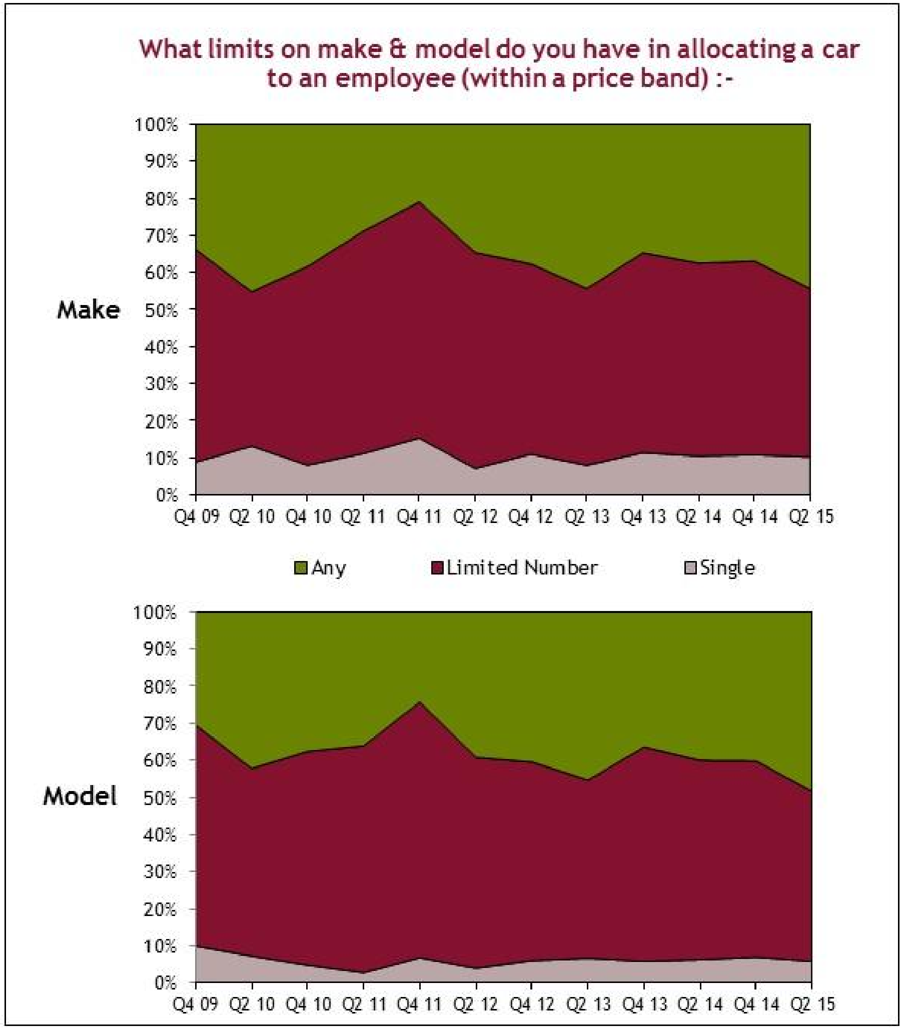
Car Allocation and Manufacturer Choice

There is always a risk as an economy recovers after a relatively long period in the doldrums that financial constraints may be lifted in some areas of the business and greater costs incurred than in the past. The two charts shown opposite suggest this has not been the case with company cars and the ongoing rigid rules have been retained.

In terms of make, respondents would appear to be following a programme strategy of 'continue as before'. In the case of models, the responses would suggest the historic lime is being held.

The argument that 'it's only a single change' does not hold. Let that change through once and then try to rein it in again at the next car changeover – there would be a huge fuss and the previous generosity would be forgotten immediately.

If a fleet does need to rein in expenditure and retain current replacement cycles, maybe the most effective way is to change manufacturer and model ranges so recipients cannot easily make direct comparisons.



Fuel Choice

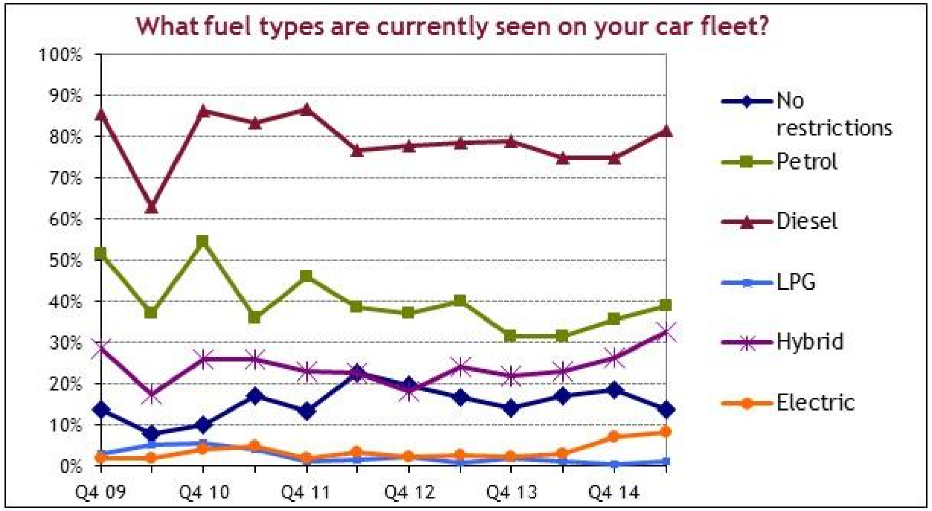
At the time of writing it had just been announced that certain supermarkets were planning to cut fuel prices to a pound a litre and diesel prices have for the first time in many a long year slipped below petrol price. Whether there is further scope for price cutting and how long the present happy situation will continue are open to speculation.

Protagonists for further price reductions cite a global glut in oil while the oil companies complain about the prices of under $50 a barrel as leaving them with little or no margin and therefore nothing with which to invest for future production.

For the fleet operator diesel has been the fuel of choice for several years and the most recent figures show this trend to be continuing. Petrol is, as might be expected, the second choice followed by hybrid.

The interesting mover on the chart is the rise of electric propulsion. Given the range of electric cars currently available and predicted growth in model ranges as well as mileage between charges, this spread must be anticipated to continue. The spread of charging points on motorway service areas, often to the detriment of easily accessible disabled parking bays, will further encourage this early adoption.

One always has to offer a note of caution – in this case several notes. Rules look as if they could change regarding emissions which would be to the detriment of diesel engines. Equally the growth of emission free/green cities may cause problems even within the life of new cars currently being put on the fleet; reputedly more than twenty cities are actively considering the issue. A final caveat is 'think holistic' – there is a continuing excess of diesel powered ex fleet cars compared with private used car buyers. What does that do to used car prices – and are you getting the best possible value for money with your fuel policy?



Other Criteria for Car Provision

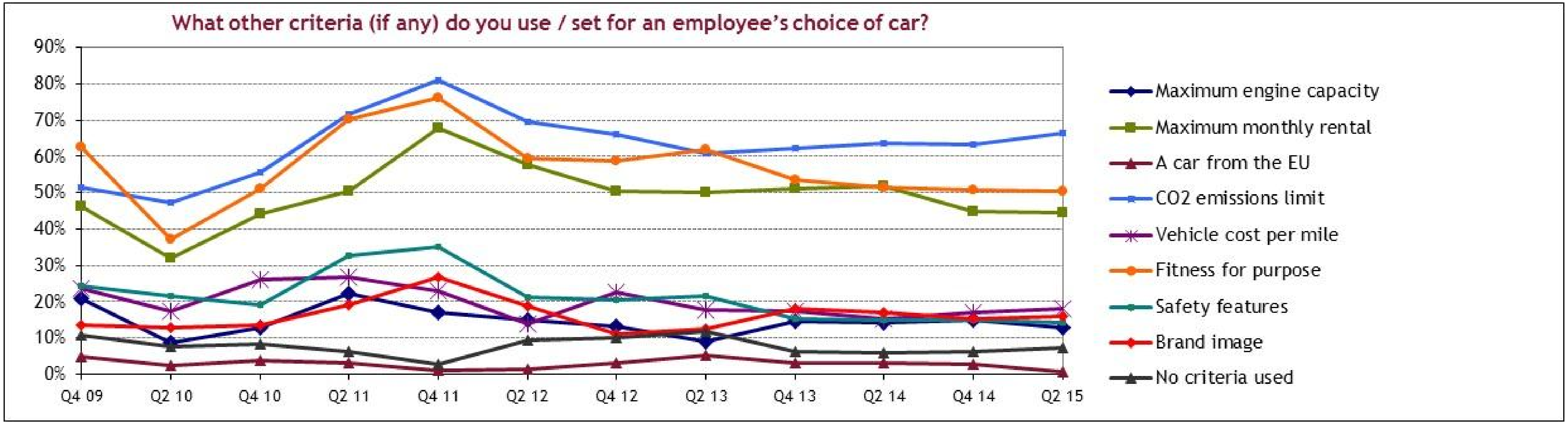
The chart below indicates a broad range of 'other criteria' which companies either impost themselves or impose on company car drivers in the choice of vehicles. The criteria continue to fall into two categories.

At the top of the list, and continuing to grow, is the CO2 limit. This has, over the life of this survey fluctuated widely but is now the most highly rated and, given ever tighter regulations, likely to continue to grow. The second criteria 'fitness for purpose' has held a steady position – there is no such thing sold as 'a bad car – merely some are less good than others' – but the professional fleet driver expects the best within budget and this may be an intangible in recruitment. Safety features continue to rank as the third priority.

In the lower bunch of criteria – the 'nice to have' issues it is interesting how they continue to cluster ever more closely into a bundle. This is where the professionalism of the fleet executive comes into play in terms of determining from those eight issues which are the most important – are they mutually exclusive – or can they all or mostly be achieved with individual models.

The picture is getting ever more complicated with the range of products and variants offered on the market and by the introductions by new players. The situation can only get more complicated.

Cost has to be seen as the ultimate driver – but qualitative issues are equally important as this chart shows.



Vehicle Finance

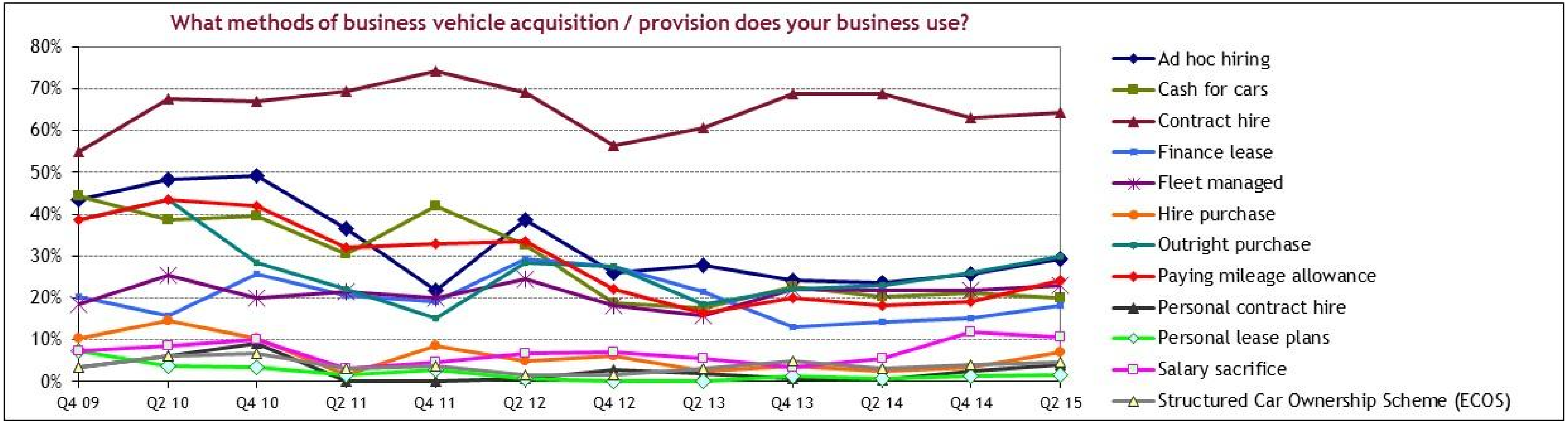
The chart below indicates the range of alternative methods of fleet vehicle provision which are now available in the United Kingdom. A dozen methods are shown but within many of these there can be a wide range of offering and providers and it is increasingly common for players in the market to use more than one source of vehicles against individual methods of finance.

Contract hire continues to be the most widely used method of vehicle finance and there is evidence that fleets will often use two or three different companies to provide their capacity. Equally, the fleet may well look to have different packages depending upon the requirements of particular fleet segments.

Ad hoc hiring shows as the second most widely used means of car provision. One might expect this method to continue to grow as specialist providers seek to offer mobility packages which enable users to 'collect it here and drop it there' using short term hire units. Fractional use with reserved spaces can offer one possible solution to the urban parking problem but such a method is more suited to car friendly cities like Milton Keynes and many on the continent.

Salary sacrifice has been threatening to take off for some time but is still relatively rare despite a number of major providers pushing the concept. One wonders if employees are driven to distraction by their current self-administered tax returns and whether one further item is simply a bridge too far. One misdemeanour in completing the tax return could quickly negate any potential benefit.

Within the tight bundle of alternatives PCP and PCH would appear to be doing well and it would appear that providers of such services are now well entrenched in the marketplace. The relative economics could easily change with higher interest rates and a significant growth in demand for cars elsewhere.



Used Vehicle Disposal

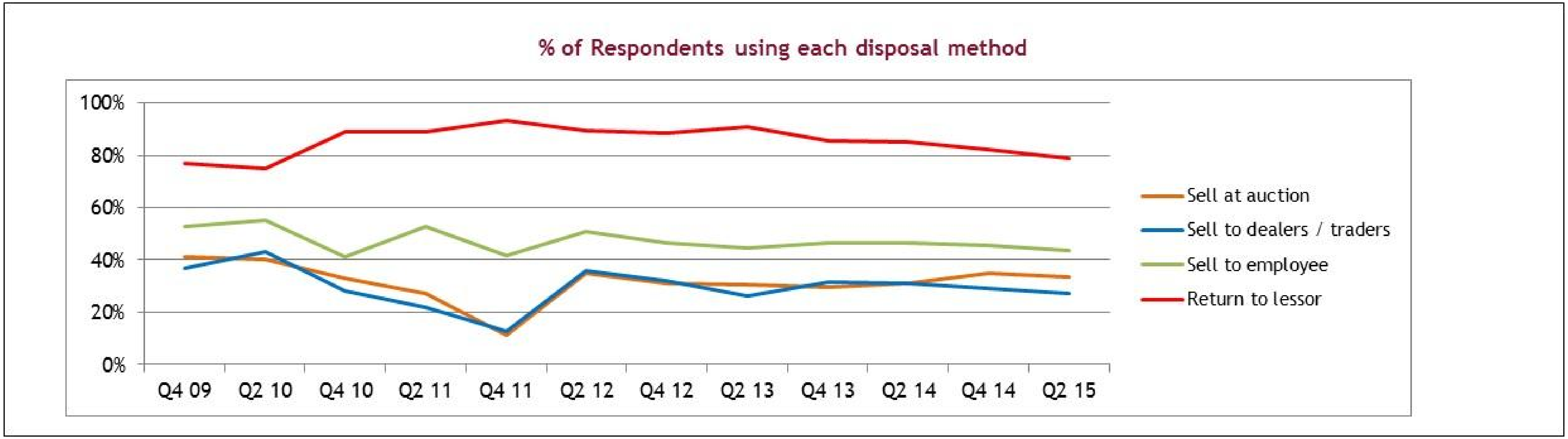
Used vehicle disposal is probably the most consistent of all the charts produced by the Experteye survey.

The chart suggest that the majority of fleet operators use at least one method of disposal although the chart suggests that the proportion using each method has varied very little over the last few years.

The question might be asked 'why so few methods of disposal used?' Certainly if one is using a contract hire strategy or a total fleet management strategy then the method of disposal may be predetermined. However, the majority of acquisition methods give the option for disposal methods.

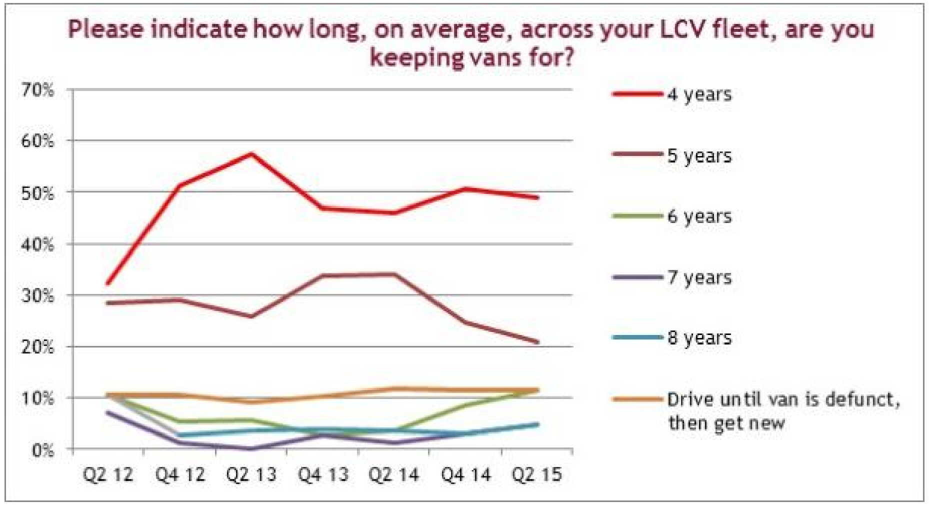
Given the paucity of new car sales 3-4 years back, there is still a degree of shortage of younger used cars coming to market and the fleet operator may be able to take advantage of market differences.

Perhaps the fleet operator who has not tested auctions in the past, or who has not used them for some time might review the situation and experiment with some of the range of auction methods now available. Auctions now offer the opportunity for electronic bidding so units can be offered across the whole country. Equally, physical movement of vehicles can be minimised so cutting disposal costs. There are regional variations in disposal prices and in used vehicle retail prices. Even with a relatively small fleet it can be well worthwhile to investigate regional disposal and the use of auctions. The fewer the number of participants in the supply chain between fleet disposal and the used retail buyer, the fewer hands want a share of the margin.



Special Case of LCVs

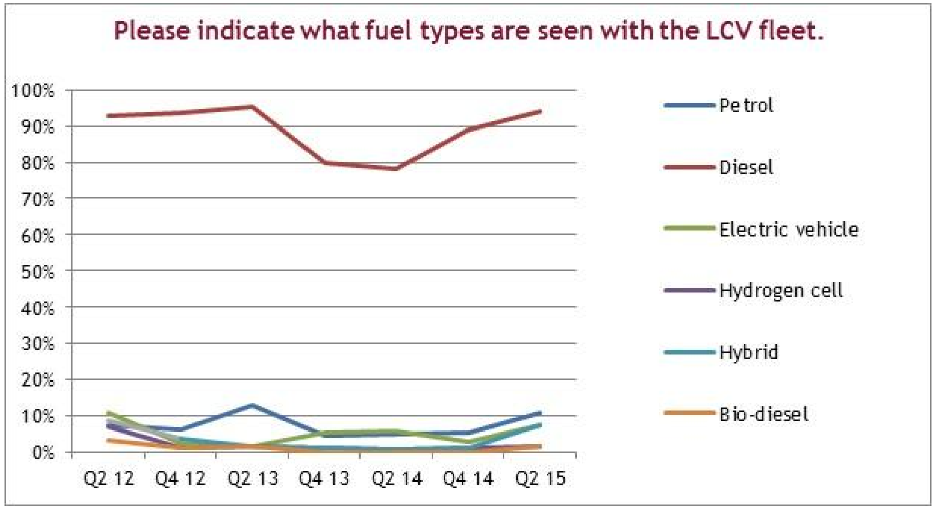
The chart below shows have LCV life cycles have moved over the life of the experteye survey. The commonest replacement cycle continues to be four years as it has been since the survey started. It continues to run at 50% of all units. The second most common replacement cycle is five years.



Perhaps the most interesting means of determining replacement cycles is the ad hoc ‘run it till it collapses’. While this is a pretty pragmatic approach it might be claimed that one gets the best value and life out of the vehicle – ‘squeeze the last drop of life out of it’. However, from a corporate viewpoint, other than fleet operations, it may not be so god. What does the image of a collapsed LCV in company livery say to those who may be held up by it – or potential customers? What about delivery schedules? He run into the ground philosophy may be fine for a minimum cost local company but not for a major fleet operator – yet, as the chart shows, it still takes place.

Shortest replacement cycles are the baliwick of the largest fleets which can use their purchasing power with the OEMs to get the best possible deals and to replace those units while still in warranty and before they require significant maintenance.

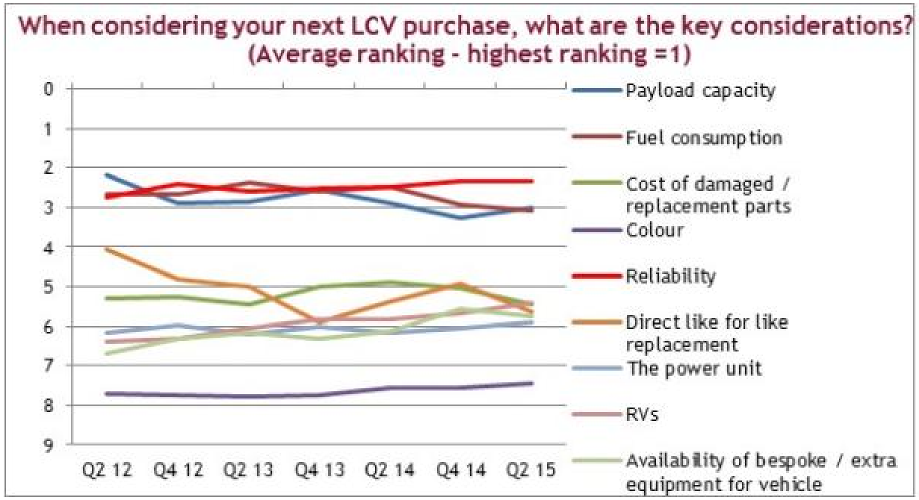
The second chart illustrates the fuel choice for LCVs. Diesel continues to grow on the fleet after a slight wobble in popularity. Petrol comes a poor second in the chart.



Electric vehicles and very low emission units are, in the chart. Right at the bottom but, with new regulations regarding pollution we may well expect these units to take a much higher profile over the next 12-18 months.

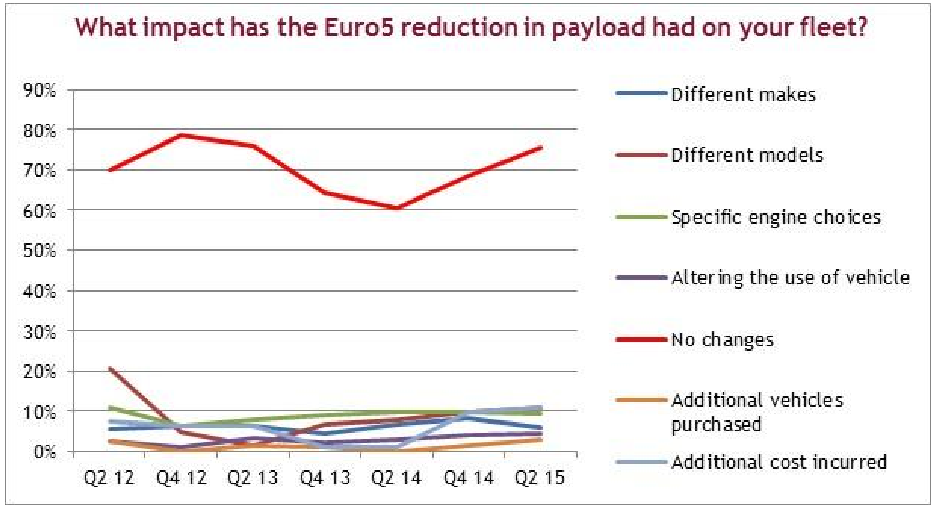
From a management, usage and specification viewpoint, LCVs are getting ever more like cars and one may well expect this to continue. LCVs are often the breadwinners of the organisation while company cars are a drain on resources. LCV drivers and service operative may be more difficult to find than sales reps – should their vehicles not have the same criteria as those used by management?

Key considerations in LCV acquisition are becoming more in line with those for cars as noted above. Our chart below shows the range of issues reported by the survey and these are fairly stable across the life of the study. Once again, these issues cluster into two groups. Suffice to say. The LCV is a more complex product than the company car in that it may be used in more specialist and niche situations. The challenge is, does one specify for a specific sector of the LCV operation and run it throughout its life or does one look to have a more generic specification so the LCV can be moved around the fleet?



Our final chart seeks to show the impact of the Euro 5 requirements on LCV provision and operation. These regulations are only now coming into effect but the implications are already biting in terms of changing the range of vehicle used by respondents.

The strongest message from the chart is that while respondents are 'changing models' they are not deserting their existing manufacturers. The manufacturers have introduced models in line with the requirements. The level of costs involved have not been reported as increasing by a wider range of players the message is that if one has time to adjust hose changes can be made at little or no cost. A clear message of 'plan ahead to save cost' especially when given sufficient warning.



Some Conclusions

The mid-year experteye survey suggests a message of 'steady as you go'. At the time of writing interest rates are still at a historic low but there is increasing talk that they may rise sooner rather than later – the challenge is to judge when 'sooner' happens. Fuel costs are down – but the reason is in part a slowing down of economic activity elsewhere. There is no such thing as a free lunch!

The charts show a variety of subtle changes in responses to the experteye survey. How do these impact on the individual fleet operator and how might their implications be judged?

The simplest action – and the simplest ones are often the hardest to answer might be summarised as – why does your fleet or elements of your fleet vary from the averages shown in our charts? Does it mean you have the ideal operation and other players, respondents to the survey are getting it wrong? Alternatively – are they right and you could learn from their experience?

Fleet management and changes in operating practices may be subtle and creep up on the operation. It is all too easy to continue as in the past – 'it's worked for me before' or look to see what might be learned from their experience.

'Business as before' is no longer an option – planned evolution may be the way ahead.

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