Considerations for an uncertain future

Strategies for fleet managers & leasing firms in a post-pandemic world

Autovista Group

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May 2020

Contents

Introduction

The coronavirus pandemic has disrupted traditional leasing business models. But change is not all bad. Dr Sarah Walkley, Chief Research Officer at Autovista Group spoke to independent experts ***Alain Duez, International Senior Business Advisor & Partner of Fleetcompetence Group*** *and* ***Jose Luis Criado-Pérez, Founder of Jose Luis Criado, Mobility Consultants*** *about the considerations for fleet managers and leasing firms alike in the post-pandemic world.*

For companies with a fleet of vehicles, the costs involved often make up a large part of the overall cost base. They typically represent the third largest expenditure, after employment costs and real estate, accounting for anything up to one-fifth of a company's indirect costs.

Yet the coronavirus pandemic means that since the start of March, a large number of a company's fleet cars have not been going anywhere. Given the scale of fleet costs for the typical organisation, there has been pressure on those responsible for overseeing the company fleet – be that a traditional fleet manager, HR or the procurement department – to look for any form of fleet-related cost savings.

But before acting, companies should take some of the time that they have been afforded by the unexpected interruption in business to review the current shape of their fleet and their fleet policy and determine whether it still fits their operations – both now and for the next five years.

Alain Duez and Jose Luis Criado-Pérez were scheduled to be part of the judging panel for the TCO Awards 2020. While we are unable to bring you the face-to-face event, Autovista is still committed to bringing you the same great insight from our judges, as well as the speakers scheduled to speak at the co-located Auto Mobility LIVE 2020 conference. To stay up-to-date with all of Autovista's judge and speaker insights and plans for future events, register at: www.automobilitylive.com.

Coronavirus: cost-saving pressure

Recent weeks have seen a flurry of activity as fleet managers look to extend the length of current leasing contracts and delay new orders. But before acting, companies should take some of the time that they may have been afforded by the unexpected interruption in business to review the current shape of their fleet, and their fleet policy, and determine whether they still work for them – both now and for the next five years.

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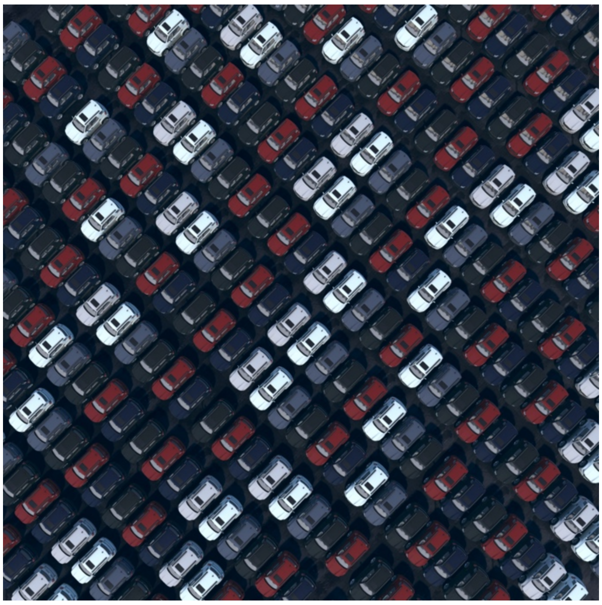
It is tempting to consider returning vehicles to the leasing company. Even given that many leasing companies are waiving the penalty for early termination, this may be a very expensive option. It may also turn out to be somewhat short-sighted.

Manufacturers are confident that they can get the wheels of production turning relatively quickly once any coronavirus-related restrictions begin to lift. However, it is not as easy as turning on the tap and vehicles beginning to flow off the end of the production line once more.



Restrictions were applied in different countries at different times and will be relaxed is a staggered fashion, playing havoc with the supply chain. The factory may be closed for one month, but the delay to deliveries may be much longer, leaving anyone wanting to lease new vehicles later in the year with lengthy waits – a challenge if they have previously returned a large part of their fleet.

Extending leasing contracts or recalculating the contract mileage to allow for the fact that vehicles will be used far less than expected over the coming months are also options available to fleet managers. These will both help to control fleet costs but, according to fleet experts Jose Luis Criado-Pérez and Alain Duez, there are other, more creative options available.

Creative strategies for fleet management

It is worth fleet managers remembering that they are in the same boat as the leasing companies themselves. Everyone is trying to mitigate a reduction in revenue by saving costs and this means their suppliers are working hard to come up with creative ways of retaining their customers' business.

Criado-Pérez has seen leasing companies reduce the lease costs to customers by removing the service and maintenance elements of their contracts or excluding the insurance costs. After all, if a vehicle is not moving anywhere for three months, then there is less wear and tear on parts and a much lower likelihood of accidents.

From a leasing company point of view, Criado-Pérez points out, this is 'a much more elegant solution than simply giving customers a discount'.

Demand for fuel has plummeted because fewer vehicles are circulating; we have even seen negative oil prices on the commodity markets. That means that – in the short term – any staff that do need to travel for essential business reasons are able to do so more cheaply. Planning for the medium term, now is the time to talk to fuel card suppliers; they may be prepared to offer customers very favourable rates for fuel after restrictions have been eased if they commit to a slightly longer contract than usual.

Now is the time to talk to fuel card suppliers; they may be prepared to offer customers favourable rates

It is worth bearing in mind, Duez says, that fuel duty has always been a significant revenue-generator for governments. The drop in fuel demand has been accompanied by a drop in fuel duty revenue, at the time when governments are facing the biggest call to provide state support in living memory. They will need to address this shortfall sooner or later – by raising the rate of fuel duty or other forms of taxes. Again, fixing fuel costs now may be helpful.

Planning for the medium term

Now is the ideal time for businesses to take a step back and review whether the policies they have put in place are still relevant, Duez comments. Fleet managers have tended to adopt standard age-mileage scenarios – for example, three years and 60,000km – but do these reflect actual usage?

Annual distances of 80,000km are not unusual for many salespeople. The additional cost of the extra 20,000km payable at the end of the year may be far greater than the uplift in contract value if the correct age-mileage scenario were selected in advance. This is intelligence that you can use when negotiating future contracts.

It is also a good time to look at the fuel mix of your fleet, claims Duez. The tide of opinion has been against diesel in recent years; fleet managers have steadily been adding battery electric vehicles (BEVs) into their fleet – as much as anything because they have to be seen to be green and to be furthering the aims that companies have set out in their corporate responsibility and sustainability strategies.

But if salespeople are (or at least until recently were) on the road every day and clocking up large distances, then a diesel car may still be the best option in the short to medium term.

Fleet managers have long been aware of the benefits that telematics could bring to fleet management – for example, to identify those vehicles that are experiencing the highest levels of use and should therefore be prioritised for maintenance. But employee committees and works councils have always been nervous about the adoption of telematics to monitor travel patterns and driver behaviour.

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The restrictions on movement that we have had to accept in recent weeks, and will have to face for the foreseeable future, may stimulate a change in attitude, especially as in many countries the use of a smartphone app for tracing contact with any confirmed coronavirus sufferers looks set to be a prerequisite to achieving some freedom of movement. This might be the time to revisit the issue of telematics, Criado-Pérez commented, as part of any general revision to fleet policies.

Looking further ahead

What about leasing firms themselves? How different does their future look? Both Duez and Criado-Pérez agree the move towards shared mobility and electrification of the fleet will continue despite the current crisis. How that change plays out will not be as we had previously expected, but that could bring opportunities for leasing companies. It is worth spending time to think through the ideas, determine the viability and develop the business model, but no company would be advised to go ahead and launch until after the current restrictions have been eased.

The concept of shared mobility is not currently as appealing as it has been

The concept of shared mobility is not currently as appealing as it has been – and it is likely to stay that way until an effective coronavirus vaccine has been developed. However, the past few weeks have taught businesses how to manage remote and flexible working – for many they have had to learn that lesson the hard way. Not all business can or will want to maintain a flexible working environment long term, but if around 5% of businesses had adopted flexible working previously, maybe as much as 20% of organisations will make it standard practice once the pandemic subsides. That will give a shot in the arm to shared mobility, as providing employees who often work from home with their own vehicle feels like an unnecessary expense. Indeed, Duez quoted recent research that revealed that one-quarter of fleet managers were already looking more seriously at shared mobility and providing mobility budgets for their staff.

However, demand for shared mobility will only increase once a vaccine has been found. Until that point, staff a likely to be very nervous of any form of shared transport – be that public transport, planes or car sharing. Given the volume of early terminations of leasing contracts that we have already seen, there is likely to be increased corporate demand for rental cars or vehicles on short, flexible leases. Companies will need to secure a number of vehicles for a short period until they can take delivery of any new vehicles. Consumers may also look to short-term leases to allow them to commute to work by car until the point that they feel confident taking public transport again.

A used car lease is the ideal solution for all parties. With dealerships shut, the volume of used cars has been rising steadily. Where possible, leasing companies want to avoid flooding the market with even more used cars, depressing prices. But the cost of storing these vehicles is too high to justify stockpiling them until demand picks up. A short-term lease allows the vehicle to pay its way until conditions are right for the vehicle to be remarketed. Meanwhile, many consumers are facing the prospect of reduced wages or even redundancy. When restrictions are lifted and they are able to resume work, money is likely to be tight. A lease for a used car is likely to be much more affordable than for a new one.

A rise in used car leases is one shift that we might see in the medium term. Another is likely to be a change in the balance of the leased portfolio. According to Criado-Pérez, leasing companies would be wise to look at the types of vehicles that have continued to be seen on Europe's roads during the past few weeks…

The size of fleets is likely to drop in coming years. Company cars might be replaced by mobility budgets allowing individuals to spend money on those forms of transport that suit their needs best. Salespeople may travel less as they get used to doing less of their work face-to-face. Or, they may still need a car, but they will not use it as heavily. There is plenty of change ahead for leasing firms. But what has changed very little in this period of lockdown is the volume of LCVs on Europe's roads.

As consumers – even ones that have previously been reluctant to shop online – have turned to online retailers as the only way to source the goods they want and need, the volume of parcel deliveries has increased and, with it, the number of LCVs needed to make those deliveries.

Even before the outbreak of the coronavirus pandemic, it was clear that demand for LCVs would be maintained even with a shift to shared mobility. Recent weeks have proved that to be true.

Of course, it is still very early days for firms responding to the pandemic. No leasing company would be advised to go ahead and launch a new proposition until after the current restrictions have been eased, and no fleet manager should make rash decisions that may backfire in the longer term. But it is not too early to be considering the future, especially given how different it may be to the one we expected.

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