FLEET 2020

BUSINESS CAR OR BUSINESS MOBILITY?

An independent review for LeasePlan UK Ltd

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Foreword

In our day to day role as fleet consultants, we work with many clients who are confronted with a number of significant, but often conflicting, issues as they make decisions about their business fleet. One particular client we are working with, that has no dedicated fleet manager, is trying to balance the immediate pressures to reduce costs with the need to provide an attractive company car scheme to retain their highly skilled work force. What worries them is not only how to design a scheme that resolves these issues for the short term, but what path to follow that ensures they don't have to keep making changes as the future unfolds.

It is against this background that we asked Professor Peter Cooke to embark on the research presented here to help us and our clients make sense of the future of the company car. Peter, who is KPMG Professor of Automotive Management at the University of Buckingham, is uniquely placed to carry out this research and to bring his years of experience to bear on guiding us through this complex and changing world.

The report correctly points to a myriad of uncertainties that are likely to impact the industry between now and the year 2020. These make it difficult to define a single clear picture of what the company car fleet will look like in ten years time, and, of course, companies will undoubtedly have to make decisions based on their own individual circumstances. However, by identifying the questions that need to be discussed now, Professor Cooke's work provides the critical intellectual framework upon which we can build as we work with individual organisations to answer their questions and define a long term strategy for fleet.

We hope this report stimulates wider discussions which will evolve over time as the key drivers of change become clearer and current uncertainties begin to be resolved. At LeasePlan we will use it to shape long-term vision as we work with customers to resolve the issues of today in ways that prepare and build in flexibility for the future of the company car and indeed business mobility by 2020.

I would like to thank Professor Peter Cooke for his excellent work in producing this thought provoking paper about the future of fleet.

Adam Wigginton

Head of LeasePlan Consultancy Services

Executive Summary

This independent report was commissioned by LeasePlan UK Ltd and undertaken by the Centre for Automotive Management at The University of Buckingham. It explores the development and issues that are likely to be associated with the provision of business cars in the short,-medium and longer term.

The principal issues arising from the report might be summarised as follows;

- Economic forecasts for the period through to 2020 suggest that capital will be in short supply for both new investment and replacement of capital assets. Company cars can absorb large quantities of capital – but is that good use of scarce resources? Businesses are expected to be more risk averse than in recent years and many will move away from a transaction to a collaborative business model – with the implications this could have for the provision of business cars.

- Given expected changes in business models it would be unrealistic to seek a numerical evaluation of the fleet industry in the medium-longer term. However, it is still important that organisations think strategically about the way their fleets might develop. The report focuses on qualitative issues raised by organisations contemplating the future and also seeks to outline a possible framework for planning.

- Pragmatic research undertaken as part of the report indicates the most important drivers for change with regard to fleets are the changes in tax, (both for the company and the individual driver) and the strategic implications of climate change and carbon footprints. Off the back of these factors, critical issues will be cost management and reduction, often driven by new technologies.

- At time of writing, fleet operators are beginning to come to terms with potential issues associated with less capital availability, the changing nature of business and globalisation and the need for more forward planning.

The report provides a series of checklists as a core element to assist users in planning fleets in the future. While exact guidelines would not fit all circumstances, these checklists are designed to act as a base for strategic discussion and debate within an organisation and with its personal business mobility providers.

A growing number of practitioners and commentators are suggesting changes in business practices are making longer-term personnel and business car planning more important than they ever have been.

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Chapter 1 - Business Car or Business Mobility?

The United Kingdom economy is on the brink of major change. The longest recession on record; globalisation; excess manufacturing and service capacity; lack of credit; migrating business ownership and the means of production; climate change are but some of the headline issues. The challenge is not so much 'whether to expect change' but 'what sort of change – and how that change will influence my business?' And, for the purposes of this report, 'how might the impact on a company's vehicle fleet – or personal business mobility – best be managed?'

How might that impact on a company's car fleet?

This report does not set out to present a definitive answer regarding the shape, magnitude and management of the company car fleet or personal business mobility as we move towards 2020. Rather, it seeks to raise some of the salient strategic issues and drivers for change to help start a debate as to 'what questions need to be considered by organisations on providing personal business mobility medium-longer term?'

Report objectives

LeasePlan UK Ltd laid down two clear objectives for this independent report which has been prepared by the Centre for Automotive Management at The University of Buckingham Business School.

Those objectives might be summarised as follows;

- To present a medium and longer-term view of issues to be reviewed regarding the provision of vehicles and alternative forms of personal business mobility.
- To provide a foundation for an informed debate regarding the form and structure of business vehicle provision over the medium to longer term.

Perhaps the key objective is to start a debate, an informed discussion. At this stage of the exercise, it would be arrogant and unrealistic to attempt to present clear cut answers. From a management viewpoint it is more important to highlight questions that will require discussion, review, and ultimately demand decisions – but not until these questions have been evaluated objectively on a business by business basis.

It would be arrogant to attempt to present clear cut answers

While the title of the review focuses on 'Fleet 2020', one has to consider the intervening period as well. 2020 provides a convenient milestone around which many organisations are already thinking and planning.

Evolving fleet background

The present report is essentially about Fleet 2020 – the longer term. It is, nevertheless, interesting to make a few points on the changes the fleet industry might encounter over the next few years – particularly the fleet environment in which businesses will need to make strategic decisions.

Consider the following factors that will influence the developing fleet scenario, some shorter term, others somewhat longer;

Phrases such as 'green fleet' will perhaps disappear

- **Environmental concerns;** there are already emerging pressures on businesses to cut the average CO_2 emissions created by cars and LCVs. This will continue and, as one benchmark is achieved, so another tougher standard will probably be introduced. While vehicle manufacturers will technologically be able to handle part of this, fleet operators may downsize vehicles on their fleet, consider alternative fuels and seek to manage mileage more tightly. Phrases such as 'green fleet' will perhaps disappear as 'every fleet will be green'.

- **Products offered;** the products available to fleet operators over the past three decades have remained relatively static. Business and employment practices are changing; as is the business mobility to support these changes. The advent of ever more powerful IT systems, operational and residual value predictions suggest that competitive players in the marketplace will seek to provide more highly-tailored and more flexible fleet services to meet changing and exacting demands.

- **Cost of provision;** the challenge will be to minimise the rate and absolute increase in costs. The costs that will rise may be disguised as 'green taxes', although this term is largely being discredited with government's desperate search for new sources of revenue. Thus, fuel prices will continue to rise as will insurance costs, road pricing, while business or domestic parking charges in some form might be expected. There is also a worrying trend in terms of 'disguised taxation' – speeding fines, remote parking tickets, average speed cameras – and other issues not dreamt of by George Orwell in '1984'.

There has been a steady contraction in the number of provider companies over the past 20 years

- **Fleet provision;** there has been a steady contraction in the number of provider companies over the past 20 years; this is likely to continue with a growing level of outsourcing, perhaps fewer but larger companies seeking to provide an ever wider range of services.

In summary, the 'brave new world' of business mobility provision appears to be getting ever more tightly controlled. It is against this background this report should be read. The challenge is to put a timescale on such changes.

Background to the review

It is all too easy to focus immediately on a specific business segment and ignore the wider economic environment. The writers have sought to avoid such a bear trap, and the review has been conducted to take due note of some of the external changes and business dynamics that might impact on business car provision. The principal external macroeconomic and business issues might be summarised as follows;

Cars can absorb a lot of capital, which is likely to be in short supply

- **Capital and investment**; cars can absorb a lot of capital, which is likely to be in short supply for the foreseeable future. Businesses are expected to reduce their gearing and their debt in future and CEOs will become more cautious in their use of capital.

- **Organisation and location;** new organisational structures are already emerging and more will be created as organisations emerge from recession and continue to rationalise and prepare themselves for future market requirements. Risk and risk management will become more important in decision making.

- **Governance and sustainability;** transparency will become more important as businesses seek to re-establish their credibility with investors, suppliers, clients and regulators. Such changes will be a steady process rather than a single step-change.

- **Workforce;** businesses are already concerned regarding a lack of skills and training among their workforces. Greater flexibility and mobility will become more important, which might impact indirectly on the company car.

- **Energy and the carbon footprint;** while governance and sustainability also cover this issue, alternatives to hydrocarbons are emerging with their strategic implications and balance point policies.

- **Globalisation;** a difficult concept to qualify or quantify, but over the next decade businesses will increasingly have to come to terms with it. Technologically, it is becoming ever less difficult for emerging manufacturing nations to emulate economically mature nations. Competition and costs, particularly HR costs, will become more important and new forms of competitiveness will be required.

While these may appear broad issues, and seemingly remote from the immediate company car and personal business mobility, they will all have an influence on the shape, provision and operation of the future fleet as examined later in this review.

Stakeholders in the fleet

There may well be questions asked as to why any review of the future of the fleet car spreads so wide. This can be answered quickly by considering the implications of the stakeholders in the company car shown in Figure 1.

Figure 1; Stakeholders in the company car

Source; Cooke; for illustrative purposes only

Without going into detail on each of the stakeholders identified, it is easy to see just how diverse their potential interests are in the business car scene. Given the rapidly changing business environment, it is likely that, by 2020, these issues, indeed these stakeholders, may have changed again.

Each of the stakeholders forms part of a wider network of business and governance that may be influenced, and may influence, the company car.

The report structure

The Fleet 2020 report has been structured along conventional lines. The challenge has been to keep it to a manageable length rather than explore the immense collection of highways, byways and blind alleys that, while interesting, are irrelevant to the main thrust of the report.

The principal elements of the report might be summarised to be as follows;

- **Research methodology;** given this first round of Fleet 2020 is essentially a qualitative report, the work has focused on a broad range of contacts and discussions.
- **Developing economic scenarios;** seeks to explore further some of the issues already raised and relate them to the medium/longer-term development of personal business mobility.
- **Executive and practitioner research;** presents a range of qualitative responses and issues raised by participants during the research phase of the project.
- **Framework for analysing future fleet requirements;** uses a strategic business model to highlight key issues emerging from the pragmatic research and wider sources to create a framework of questions senior executives need to review for future fleet provision.
- **Implications and conclusions**; seeks to highlight the principal findings of the study and ask what the implications are for the forward-thinking executive – whether they have direct responsibility for fleet cars, merely defend the company's budgets against excessive allocation to personal business mobility, or drive the reshaping of the business and provision of business mobility for executives.

As noted previously, this is essentially work in progress and the first of a series of regular LeasePlan reports designed to promote the debate regarding the provision of personal business mobility.

Principal results and implications

The most important conclusion of the report is that the 'company car is changing'

The most important single conclusion of the report, which has come from all levels of research, is that 'the company car is changing – and will probably never be the same again'.

The company car will have to earn its keep economically more in the future than it has had to in the past. There will be an ongoing shortage of capital according to the various levels of economists consulted, which is likely to last for a decade or more. Externally, business is on probation; it has to regain the confidence of investors and of the wider public. The company car is an integral part of the business. To many it is the only material asset they will ever see. Thus, it will become ever more important that the car reflects the exact image the organisation seeks to portray.

Sustainability is an issue that is coming to the fore; it has further to develop to ensure the 'responsible company will have a responsible and sustainable fleet'. However, there are issues which suggest that, as part of the sustainability agenda, the number of units on the company car fleet may be reduced – partly because of the anticipated capital famine and partly because of alternative forms of providing personal business mobility.

Downsizing is an integral part of the expectation at all levels

Downsizing of vehicles is an integral part of the expectation of the fleet at all levels. Recipients should not be too disheartened, however, as indications from manufacturers are that cars in future will pack more and more features and benefits into ever smaller packages.

Fleet administration may well be separated further, becoming increasingly outsourced to specialist organisations; that outsourcing may also include capital provision, while in-house activities will focus on more proactive management of the fleet.

Some initial conclusions

The first chapter has sought to set out the objectives of the research and manage expectations. It does not seek to present a series of cut and dried conclusions as to the way ahead for the fleet in the medium term of say five years, or the longer period of 10 years. Rather, it aims to highlight a range of questions that senior management and fleet professionals need to consider as they ponder the future development of the business car operation.

Chapter 2 -Research Methodology

The challenge of undertaking an essentially qualitative research project looking five or ten years ahead is 'what sources of information should one use that are likely to add value to current understanding and, equally, what sources might best be ignored though lack of objectivity?' The current exercise was no exception.

Given the rapidly changing economic, political and climatic situation and the very specific focus of the research, any such project needs to be tightly managed to generate real value added.

Sources of information

The principal sources of data and input for the project are summarised in the following bullet points;

- **Background to the industry and industry expectations;** the current writer has been researching the background and development of the business vehicle industry for more than 40 years and holds a large archive of historic and current data.

  The challenge in garnering relevant work from this stage of the exercise was that there are many disciplined, quality reports, surveys and reviews predicting the shape and form of the industry two to three years ahead – essentially a replacement cycle – beyond that there is relatively little.

  Hence, the writer has, as well as consulting the available work, also talked to a broad cross section of practitioners and commentators. Rather than report specifically on the findings, these have been used as the background for the report – the industry could well be in a situation where' the past may not necessarily be the best guide to the future'.

'The past may not be the best guide to the future'

- **Economic framework;** certainly there are many forward-looking economic reviews generated by the Bank of England, the Treasury, political parties, other banks and consultancies that focus on individual concerns. For the purposes of the current exercise, CBI economic reviews have been used to gauge the framework company cars will operate under.
- **Practitioner discussions;** three separate events were held at which forward-thinking executives, practitioners and providers of services to the fleet industry were consulted and their opinions gathered, which are reflected in the findings.

The groups consulted, rather than focus groups, can be summarised as noted below;

- Regional LeasePlan meetings; to which groups of executives from a variety of industries were invited for discussions regarding future expectations and the fleet. Essentially, this included executives with responsibility for larger fleets, in many cases, either procurement executives or finance directors, to ensure a mix of responses have been gathered. Syndicates within the meetings were asked to evaluate and report back on a range of different questions. The sessions were led by the current writer – Professor Peter Cooke – with no LeasePlan executive influencing the discussions.
- A presentation on the research findings from the first phase was made at a Buckingham Automotive Forum. These are regular gatherings of some 40 to 50 senior executives from leasing companies and fleet support activities – at which topics of current interest are debated. The initial presentation was followed by a very objective debate and the findings recorded and incorporated with the other sets of responses.
- A common question regarding projected prices for a litre of diesel and a litre of unleaded petrol on 2nd January 2020 was also posed and members asked to write down their findings.

In total, including individuals consulted as part of the ongoing exercise, close to 100 people with professional interest in the issues were consulted in addition to the desk research noted previously.

Results presentation

The results of the individual elements of the economic and industry research and the summary of the discussion sessions are presented in the following two parts of the report. An interpretation of the findings of the various inputs is then presented as a series of checklists based on the structure of a strategic business model.

Not every issue will apply to every business, but the checklists are offered as a starting point for strategic discussion.

Some initial conclusions

The methodology has been developed and implemented to achieve a list of focused questions and issues that current fleet operators and service providers consider important for the fleet industry for 2020. The responses are essentially qualitative rather than quantitative.

Chapter 3 – Developing Economic Scenarios

The political and economic climate in the United Kingdom is probably more volatile and fragile than it has been for many a decade. A General Election is necessary by June 2010 with the possible scenario of regime change or, at worst, a hung Parliament. Equally, the UK economy is emerging from the longest economic recession since serious records began. At the same time, there is a sea-change in capital availability – or non availability – from two to three years earlier. On a wider front, there is real concern regarding global warming, exemplified by the short-term chaos at the Copenhagen Climate Change in mid December 2009.

A new difficult to manage phenomenon is gaining momentum – globalisation

A new, long-heralded, difficult to manage phenomenon is gaining momentum – globalisation. In the long term, this phenomenon should lead to a levelling upwards in terms of developing economies. In the short term however, it will lead to challenges to mature, higher cost, more advanced economies by those with lower wages, newly acquired capital assets and often state of the art means of production.

The challenge is the determination of the background issues that businesses and planners should consider when examining the future role and provision of the company car.

Sources of alternative economic expectations

The sheer range of issues that might be built into an economic scenario and the ensuing expectations makes it hard to find a consensus as to exactly where the economy is, or will go, over the next few years, let alone over the next decade.

A wide range of forecasts are published regularly, each with a slightly different bias and starting from a different set of assumptions. If one were to try to put them in a hierarchy, at the top would be the OECD, the World Bank, with its global forecasts looking at countries rather than industries. Next would be forecasts from national governments– in the case of the UK, the Treasury forecast – some would claim subject to political pressure. Equally, there is the Bank of England forecast – perhaps a little more conservative and longer term than the Treasury's.

Individual banks, other financial institutions and trade associations also produce and publicise their own forecasts – again with a focus on certain sectors of the economic firmament.

The forecast outlined below might be better described as an expectation. It is essentially qualitative – anything quantitative would be out of date before it was published. The expectations outlined here are based on CBI economic forecasts. While there is no reason to claim the indicators are better or worse than any other, the CBI focuses on manufacturing, capital requirements and the general market – all issues highly relevant to the business car industry.

Economic parameters

The principal economic parameters that might impact directly on the provision of company cars or alternative forms of business mobility over the medium/longer term might be summarised as noted below;

- **Major changes in finance and capital conditions**; the country, indeed the global economy, has transformed markets from the pre-2007 situation of relatively easy credit to a situation of significantly more expensive and less readily available credit. Availability will be limited through regulation and by the funds available. Banks will be much less willing to lend than they have been in the past decade and funds that are lent will be more tightly controlled.

  Businesses may be forced to rethink their corporate finance models and credit sources

  As such, businesses may be forced to rethink their corporate finance models, investment strategies and credit sources. Business will need to adjust to a less benign economic backdrop, with the next decade being more volatile economically, and potentially politically, with increased risk, yet at the same time with perhaps a greater risk adversity than in recent history. The impact could be the need for significantly greater long-term financial planning in a potentially more uncertain climate. Company cars are big users of capital, but do they generate real investment opportunities in this increasingly austere economic environment?

- **Public trust in business and markets,** which was already in decline, is now at very low ebb. The result? The profit motive is mistrusted and business must now embark on rebuilding credibility and proving its ethical credentials. While a reputation can be destroyed in the flicker of an eye, it can take a long time to rebuild that trust. Business may well have just started on that long climb back. There is considerable scepticism regarding the traditional Anglo Saxon model of capitalism and its ability to deliver desirable and equitable advantage. The almost inevitable result will be greater regulation, government intervention and supervision and calls for more transparency. Again, there could be strategic implications for company car provision and support. Where does the company car fit into this new transparency?

- **Social and demographic changes generate longer-term implications**, particularly linked to retirement and recession. The boom in retirement can further accentuate skills shortages in key areas. The ability to plug those skills gaps will increasingly fall on private industry as government no longer has the luxury of funds to invest in education and training. This will be another call on company funds and staff will have greater training expectations.

The urgency associated with the double whammy of funding recovery and environmental protection

- **Prolonged recession;** has depleted capital reserves and availability. There is also a move towards the low-carbon economy. The urgency, the controversy associated with the double whammy of funding recovery and environmental protection will all add to industry woes.

  What is the ability of government and business to be able to fund such expectations – and just how much of a superfluous bauble might the company car become if funding becomes really tight? The role of business may well be challenged.

- **Advance of technology;** against these, at best neutral issues, one has the positive advance of technology – in terms of the ever more efficient and less polluting, recyclable car. Also, the alternatives and substitutes to the company car that may be created in terms of alternative forms of business communication, greater quality and lower support and service requirements – and the impact this may have on future business models.

- **Post recession**; businesses will, in the more volatile environment, be characterised by a greater degree of cooperation and flexibility and a move towards more cooperative and flexible relationships. This, in turn, will be represented by changes in four key areas. Consider them;

  - **Capital and investment;** gearing is likely to be reduced as will reliance on debt. Wider use of supply chain finance, perhaps leasing and manufacturer finance houses, may become more important. It is anticipated CEOs may become more reluctant and risk averse to borrow funds for investment and innovation.

Businesses will be forced to refocus skills to the most productive areas

  - **Workforce changes;** businesses will be forced to refocus skills to the most productive areas and maximise effectiveness through collaboration and cooperation. In turn, this may lead to more 'poaching' and revised remuneration packages. Greater flexibility and collaboration between companies and among workforces could create interesting business car issues.

  - **Governance and sustainability;** are already growing in importance and will be further integrated into the business model rather than treated as an add-on. Demonstrable accountability will become more important – how does one account for company cars?

– **Organisation and location;** new structures will be created in many businesses as they continue to rationalise and focus. New organisational structures will lead to a move from transactional to collaborative forms, with a growing range of partners, including suppliers, universities and even competitors. This may follow the concept of the 'asymmetrical war' in that one will compete in some areas and collaborate elsewhere. Similarly, supply chain dynamics will become more complicated and risk awareness and management will become a key issue. There could be many issues for company car provision as a result of this.

Overall, the economy may move more slowly but sustainably

Overall, perhaps for the medium term, the economy may move more slowly but sustainably. The UK will seek to rebuild its competitive advantage as a place for flexible business development. Longer term, this flexibility and collaborative ethos may lead to a stronger economy to counter global competition – but how will the traditional company car fit into the new dynamic?

Some initial conclusions

It is against this essentially generalist background to the UK economy, as it emerges from recession, political uncertainty and global competition, that the role of the company car needs to be assessed, both in the medium term and through to 2020.

Chapter 4 -Research Responses

However objectively one seeks to integrate qualitative results from a multiplicity of sources, there is always a risk of being called biased. Balancing the results of a number of discussion groups needs to carry the same 'health warning'.

The following notes seek to highlight the key points that arose from the two executive discussion groups and the results from the Buckingham Automotive Forum discussions.

While the objective of the discussions was to examine the medium and longer-term position of fleet, it is inevitable that shorter-term issues would have some influence on the discussions. These meetings were held in October and November 2009, before the Chancellor's Pre-Budget statement and the Copenhagen Conference on Climate Change.

For clarity and good order the responses from the three groups have been consolidated and presented under five principal headings. These, in turn, are reflected in the strategic checklists in the next part of the report.

External drivers for change

Issues beyond the control of individual organisations and fleet operators, but critical when considering medium and longer term requirements and modus operandi.

The principal external issues and expectations regarding 2015 through to 2020 raised during the group discussions and the Forum might be summarised as follows;

Use 'tax nudging' as a way of rewarding acceptance of the green agenda

- **Taxation policy;** will be a critical issue in any business. The challenge is whether the government intends to retain certain taxes as revenue generating tax as was originally mooted, or use 'tax nudging' as a way of rewarding acceptance of the green agenda.

  Such clarification has a short, medium and long-term impact as a driver for change. The sooner government clarifies the issue, the more effective and efficient investment decisions may be.

- **Taxation issues,** associated with 'personal or company carbon footprint' and opportunities for carbon trading were also considered to be a possible future driver for change. Some benefit was also seen, from a CO_2 viewpoint, of having a single consolidated tax fuel, road use and any associated tax, to create a single, vehicle use linked tax policy.

It is assumed tax policy will become more aggressive, at least for the foreseeable future, because of the parlous state of government finances which, in turn, may impact on investment decisions for vehicles.

- **Congestion charges;** are expected to be rolled out nationally, and could be collected automatically. It could also be linked to other forms of payment and tax to discourage driving.

CO_2 issues will continue to rise through the agenda

- **CO_2 issues;** will continue to rise through the agenda and respondents felt technology – telematics, alternative fuels, monitoring – will help manage the total emissions.

While external issues are considered paramount for the pragmatic executive, being able to highlight broad parameters and operate within them is considered important.

Car recipients

Respondents to the research discussions were quite phlegmatic regarding managing future expectations of company car drivers. Certainly, there are expectations of a reduction in the number of people receiving such benefits, but a range of other issues were identified as well. Timing on such aspects was considered to be towards the medium rather than the longer term. Consider some of the more widely discussed issues;

- Zero, or potentially negative financial benefits from the provision of a company car and the benefits tightly monitored through telematics. The concept of benefit-in-kind is expected to change.

- Employees may move more towards a 'menu remuneration' basis including the company car. At the same time, cars are expected to become more utilitarian – and to be downsized.

- Producing a lower carbon footprint may become important and there will be more driver training to assist such provision.

- The idea of a personal carbon allowance would be possible, given the development of telematics.

Essentially, the perk of a company car is expected to be severely restricted

Essentially, the perk of a company car is expected to be severely restricted and vehicles become working tools. Some respondents felt cars may no longer be allocated to individuals but provided through internal or external daily rental services.

Fleet car management

Discussions on this area of development were more consensual and a wider range of issues highlighted than other topics. Timing expectations were more difficult to predict as some of the issues are already happening, or the technology already exists and motivation to launch and implement would appear to be important. Issues discussed included the following;

- A significant splitting of the administration and management roles effecting company cars, with administration being more widely outsourced and internal staff focusing on management.
- Further analysis of costs and revenue generation for individual vehicles to enable fleets to be more tightly managed and units allocated.
- Enhanced technology will have an impact - GPS; service warning and booking; enhanced route planning with training; real-time communication with vehicles and drivers. All of this will help minimise use and maximise effectiveness.
- Alternative fuels – particularly electric vehicles – will start to be introduced sooner rather than later, although the government/car manufacturer subsidy and tax breaks will influence the rate of change.
- Replacement cycles are likely to move out and may become more flexible with tighter cost/unit monitoring.
- Risk management will become a high-profile, integral part of the fleet management operation.

Return on investment for car provision has started to penetrate fleets

Return on investment for car provision, whether directly funded or provided through some form of leasing deal has started to penetrate fleets and will be de rigueur sooner rather than later. The whole area will become more professional.

There was some consensus during the programme investigations regarding alternative forms of personal business mobility. There was also a feeling that businesses will need to 'sell' changes before they start to be implemented, but the balance between cars and technology is due for a significant change.

Alternative forms of business mobility provision

An area over the next decade that is likely to be a major contributor;

- Downsizing of company vehicles has started and will continue; there may be problems with some senior executives who would rather 'pay and be damned' to keep their more prestigious cars.
- Short/medium-term, there will be a move towards 'City Cars' in some urban situations to minimise/avoid congestion charges.
- Company, or departmental pool cars, locally hired against a contract car may be used to replace grey fleet use and, over time, other company cars.
- Funding will be an ongoing problem; car manufacturers, dealers and leasing companies may seek to provide finance across the whole review period.
- Total business mileage is already under scrutiny and will be cut further by reduced face-to-face contact replaced by electronic communications.

More radical issues were also raised in terms of greater shared outsourcing – sales and service in particular. Conventional applications of company cars are anticipated to come under ever growing scrutiny.

Governance

Business cars and fleet management will come under increased scrutiny and transparency

Business cars and fleet management will come, indeed are already coming under increased scrutiny, and that change is expected to continue. Among the issues highlighted during the research were the following;

- The role of the company car will move to 'working tool', although some may still be used to recruit exceptional and scarce talent.
- 'Green issues' are rising rapidly up the agenda and may peak sooner rather than later, but senior management needs support in making key decisions/understanding the issues.
- More management involvement in core fleet decisions – costs, CO_2 issues, safety and duty of care will become more important.
- Risk management has already started to rise as an important issue – this will continue and be linked to strategies to cut overall business mileage.

The company-provided car will be 'reined in' as an ongoing cost and will become more integrated into the total company operation. There were some expectations that the role of the fleet manager, and certainly the person responsible for fleet funding, will become more central to the business.

Some initial conclusions

Many issues highlighted during the research are relatively minor when taken individually and some are already being implemented. Equally, it is difficult to put timeframes on many of them – short-medium or longer term. The critical issue is that a wide range of changes are to be expected in the provision and management of company-provided cars over the medium to longer term.

The forward thinking organisation needs to ensure its company car fleet is compliant

The forward-thinking organisation needs to have a programme in place to review such issues on a regular basis, to ensure its company car fleet is compliant with the changes in external issues and is supporting the cost-effective evolution of the fleet.

Chapter 5 - Emerging Drivers for Change on Business Cars

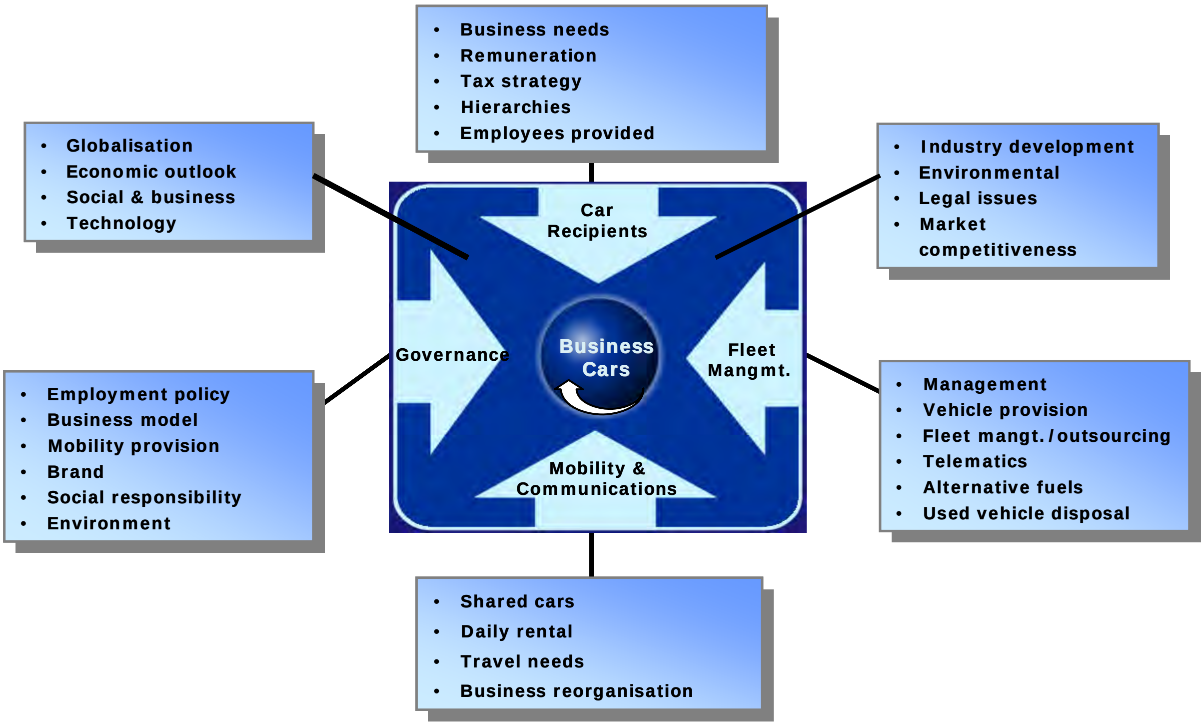
The findings from the desk research, discussions and the fieldwork are presented in the following pages. To bring some order to the findings the results have been presented in the format of a 'Porter's Five Forces Drivers for Change Model'.

There were many other important forces identified, but the groups shown in Figure 2 are considered at this stage to be the most relevant concerns.

Drivers for change

The strategic forces impacting on Fleet 2020 have been divided according to the model shown in Figure 2 below.

Figure 2; Fleet 2020; Drivers for Change



Source; Buckingham; for illustrative purposes only – not comprehensive

One must remember, however, that such an exercise looking ahead needs to be placed in a historical context of 'research pre-Copenhagen Climate Change Conference' and 'prior to a UK General Election mid 2010'. The results of these portentous happenings could well alter the direction of decision making – even if just in terms of short-term sentiment.

Each of the groups are summarised in the following columns, and a short checklist of specific questions identified for executives to consider how these topics might impact on their business car fleet.

External drivers for change

'No man is an island' applies equally to the idea of the business and, within that complex structure, the company car. It is difficult to plan with any high degree of certainty what issues will influence the provision and management of business cars over the next decade.

'Flexibility against a vision' may well be a phrase that comes to the fore in the future. The checklists in Figure 3 on the facing page highlight some of the critical issues an organisation may wish to consider with regard to external pressures on the company car, its provision and operation.

- The company car, as a species, fits into the broad field of 'Drivers for Change' as identified in the foregoing checklist. While not all of these issues will influence every fleet and every organisation, they reflect the wider business and social structure within which the company car is operated.
- Certainly, each organisation, however large, cannot influence all of these aspects; the issues have the power to be able to influence the company car to a greater or lesser extent in both the medium and longer term.

Company car policy deserves to be taken seriously

- Company car policy deserves to be taken seriously; equally, hasty decisions and the subsequent unintended consequences can have a long-term and potentially costly influence, if the business makes a seriously wrong decision.
- The following pages move into the areas for more detailed drivers for change.

Figure 3; External drivers for change on the company car

Political issues

- *Globalisation*
- *Regime change and strategy to balance government expenditure*
- *Government's agenda towards business/car provision*
- *Tax raising requirements – green or revenue*
- *Pathological need to meddle/micromanage*
- *Personal freedom and monitoring*
- *Electoral promises/manifesto*
- *Brussels involvement*
- *Managing/or otherwise – economic levers*

Economic concerns;

- *Relative tax and price levels*
- *Tax raising requirements*
- *Tax treatment/allowances*
- *Environmental versus revenue raising interface*
- *Inflation management*
- *Planned rate of growth*
- *Residual value implications*
- *Tax and alternative fuels*

Social Issues and Business Mobility;

- *Social acceptability of company cars*
- *Issues of downsizing & alternative fuels*
- *Household structure and dynamics*
- *Personal tax related to car & use*

Technological Concerns;

- *Alternative/preferred fuel/tax direction*
- *Expectations of downsizing*
- *Role of telematics & control*
- *Service and fleet management*

Environmental concerns;

- *CO_2 footprint/legal requirements/restraints*
- *Road use/tax incentives/penalties*
- *CO_2 business allocations*

Legal concerns

- *Issues of road safety*
- *Employment and drivers hours*
- *Environmental enforcement*
- *Data collection and management – terrorism and money laundering*
- *International operation*

For illustrative purposes only – not comprehensive

Company car recipients

As a proportion of new cars sold, the United Kingdom provides more company cars than any other country in Europe. The question, however, is 'will that continue – will the number increase or decrease by 2020?' – and if so, why?

Realistically, there is probably no definitive answer to the question, but there are a number of issues to be taken into consideration by the organisation looking to the future.

- The first group of pragmatic considerations from the business viewpoint is associated with taxation. That taxation may take a number of different forms – tax on the organisation, levelled indirectly through capital allowances or no allowances; tax allowances on the cost of operation and those associated with the environment.

- From individuals' viewpoint, too, there may be issues linked with personal tax associated with the receipt of a company car.

- Figure 4 facing highlights some of the critical issues the organisation may need to consider with regard to provision of company cars in 2015 and 2020. Assuredly an organisation would not look to 'hockey stick' straight to 2020, but needs to build into its evolving strategy the provision of business cars.

'We can't downsize or reduce the number of cars because our staff will move to competition'

- In researching the list of issues likely to influence the provision of cars, the biggest challenge was to ensure executives are looking at the holistic situation and not seeking to treat their own business in isolation. The argument 'we can't downsize or reduce the number of cars because our staff will move to competition' was raised constantly. Looking 5-10 years ahead, it is fair to assume that one will be moving within an industry and an economy – the exercise is about planning and making realistic assumptions.

- The issues highlighted in the checklist facing are, individually, relatively small, but when taken together may become significant. The outcomes of extended discussions on climate change – and government formulated policies and strategies emerging from such an exercise – will certainly be of some importance and have a longer-term impact on company car recipients.

- Company car recipients are under continuing scrutiny with the doom mongers saying 'the end is nigh' – but the proportion of cars run on the company evolves very slowly over time. However, the challenge is has to be seen against a complex mix of issues.

Figure 4; Checklist for company car recipients;

Employee requirements to have a company provided/supported car;

- *Client visit patterns*
- *Role in distribution/CRM*

Company car role in recruitment and total remuneration;

- *Salary sacrifice*
- *Competitive total remuneration packages*
- *Employee input into total remuneration*
- *Provision of cars for overseas employees*

Government tax strategy towards employees & business

- *Personal tax policy – allowances and total remuneration*
- *Corporate tax policy and employees*
- *Environmental tax policies – directional and minimisation*
- *Tax influence on fuel policies*

Government increased micromanagement

- *Treatment of company car as revenue source – what is real break even position?*
- *Need for flexibility & opportunity for short term change*
- *Ability to manage unintended consequences*

Encouragement of employees to provide own cars & mobility;

- *Duty of care*
- *Cost management*
- *Governance and image*

Changing corporate hierarchies and car provision;

- *Flattening hierarchies*
- *Employment and staff outsourcing*

National ethos towards company provided/expensed car – no longer a 'business right'

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Company car management

The second focused issue arising from the 'Drivers for Change' model are those associated with company car management and provision. While these are closely linked to the overall provision of cars, or rather mobility for employees, they still represent an important aspect for businesses to recognise in their forward planning through 2015 towards Fleet 2020.

'Think the unthinkable' and start to restrict the provision of cars severely

- Given the status of environmental issues and of road capacity, will it be realistic for organisations to continue to provide the same proportion of company cars as today, or may we be entering a period where company cars become more frugally offered? Capital availability as well as the burden of financing the operating costs and managing units on the fleet may force the organisation to 'think the unthinkable' and start to restrict the provision of cars severely.

- The future hire or buy decision will be critical in terms of determining fleet provision and structure in future. Where will that capital come from – and are there better alternative uses for finance within the business? If the fleet is funded externally, what might be the implications from a borrowing capacity for other activities? Indications are the implications of the credit crunch could run for several years yet.

- While the application of telematics is growing rapidly, the real potential has yet to be realised and its effective use will enable fleets to micro manage vehicle and employee operations. That may raise issues of Human Rights and other concerns that are rapidly rising in importance.

- The expanded use of telematics and associated ability to create applications trails may also be tempered by government agency access to such information. How might the organisation deal with requests – and what processes and procedures need to be considered – even in the run-up to 2015? It is not an idle threat; big government could realistically be accused of developing an 'ethos of fines' – congestion; parking; speeding; loading. Might those issues have implication for the future shape or the fleet – or for real-time data gathering to be able to counter any, or certainly, some claims?

The period to 2020 may well cover the transition from hydrocarbon-based power to alternative forms of propulsion – whether organic fuels based on crops or electric powered vehicles. While such a change is likely to take time, it is important the organisation gives due thought to the transition. Should the whole fleet move at once? Should selected vehicles/models/applications be moved and at what pace? Perhaps the most critical short-term issue will be the 'tipping point' when the balance of first-time used cars moves from hydrocarbon to electric power.

Figure 5; Checklist; company car management

Future role of the company car;

- *Continue as before*
- *Benefit in kind or working tool?*
- *Upsize/downsize models to be provided*
- *Transitional period of change*

Marque of vehicles to be provided;

- *Current ranges*
- *New ranges – e.g. Chinese/Indian*
- *Upsize/downsize/specification*

Vehicle provision – hire or buy?

- *Total funding/borrowing issues*
- *Role of total cost of operation*
- *Residual value risk issues*
- *Replacement cycle planning – time/mileage*

Fleet management/outsourcing;

- *Total or partial services outsourcing?*
- *Internal management of fleet*
- *Choice of outsourcing partner/service management*
- *Quality assurance concerns*

Role of telematics in fleet and management

- *Management tool or spy?*
- *Transitional issues and driver training*
- *Personal freedom*
- *Employee/employer access and interpretation*

Relationship of data gathered/held and access to data trails;

- *Who will have access?*
- *Data protection*

Alternative fuels

- *Petrol/diesel/bio fuels/electric power?*
- *Policy for transition/timing*
- *Strategy for new fleet management*

Used vehicle disposal;

- *Planned methods of disposal*
- *Management and monitoring of disposal*

For illustrative purposes only – not comprehensive

Alternative forms of business mobility and communication

A critical part of any fleet strategy for 2015 and 2020 will be the alternatives to company car provision. In reality, the alternative provision of personal business communications with suppliers, clients, professional colleagues, end users and support services.

- While, historically, the ethos may have been 'get in the car and go and talk' – just how sustainable will that policy be in the future? While face-to-face meetings will certainly continue to be the preferred means of communication, the real total cost of travel – executive time, vehicle, fuel and carbon footprint, not to mention taxes, congestions charge, mileage charges and parking – may all, in reality, lead to prohibitively large costs for the potential benefit of the communication.

What might be the real cost of failing to communicate?

- On the other hand, what might be the real cost of failing to communicate to the prospect, client or supplier? It is more than an issue of risk management and, and as the business moves forward, so an increasing number and sophisticated decisions will need to be taken with regard to business mobility and business communications.
- Figure 6 highlights some of the issues a business needs to consider with regard to personal business communication. While we are looking principally to 2015 and 2020, many of these decisions should be made earlier, in that they may take time to develop, train staff and implement. The cost of getting it wrong could be a serious lack of competitiveness and a significant cost penalty.
- The opportunities to reduce business mileage – at this stage one is not considering tax disincentives which are a separate issue - are enormous, but they will call for a reorganisation of the conventional business model in many cases. That reorganisation will take some time both for development, education and migration.

Figure 6; Alternative forms of business mobility and communication

Continue as at present with company-provided fully expensed cars

Shared company cars – allocated to departments

- *Post pool car allocation – available as needed*

Use daily rental cars booked through company from local provider

- *Growth in local daily rental facilities*
- *Leasing companies to provide rental facilities/changed role*

Enhanced car sharing between facilities etc.

- *IT enabled car sharing*
- *Routine shuttle vehicles*

Reduce the amount of corporate travel;

- *Greater use of phones/video conferencing*
- *Reduced client meetings*

Business reorganisation

- *Generalist client contact/specialist as required*
- *Restructured territorial responsibilities*
- *Staff move to territory*
- *Greater online ordering*

Use of outsourced local service support activities

- *Greater use of postal/courier services*
- *Agreement with clients on 'what is urgent'*

Enhanced used of telematics in route planning and mileage reduction

- *Adequate staff training in use*
- *Electronic monitoring by exception*

Employee mileage allocation / budgets / monitoring

Employee provided cars

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Governance and the business car

With the growing concerns of global warming and the carbon footprint, the business car has started to enter what might be called the 'why provide it?' zone. Equally, there is increasing focus on the role of management involvement in the company-provided car and tighter legalistic issues.

Given these changes, as well as likely further government micromanagement – with governments of whatever hue, as well as growing involvement from Brussels, both in the medium term and the longer 2020 situation – issues of governance and the company car may well become significant concerns.

Issues of governance and the company car may well become significant concerns

Figure 7 facing highlights some of the issues that management may need to address in the medium and longer term.

Corporate governance is a critical issue for both the five and the ten year evaluation of the fleet. The car and personal business mobility fit into the wider corporate policy and modus operandi, as well as the relationship of the business to the state, its employees and the external parties it interacts with.

Figure 7; Governance and the business car

Continue as at present with issues being referred to senior management as they occur

- *Continue the ad hoc approach*
- *Regular reporting to the board*

Headcount/employee policy;

- *Staff employed full/part time*
- *Outsourced e.g. service/sales workforce & mobility provision*
- *Seasonal/project employment model*
- *Staff/employee hierarchy*

Evolving business model and role of personal business mobility;

- *Carbon friendly model*
- *Reduced provision and mileage reduction model*
- *Policy towards supplier/facility/client contact*

Policy towards total cost of business car provision;

- *Implications of alternative fuels & taxation*
- *Corporate tax regime and employee tax concerns*
- *Vehicle downsizing & fitness for purpose*

Seek to outsource all routine issues of fleet car administration and retain issues of management and policy

- *Adapt policy of arms length fleet operation*
- *Retain key management decisions – who will by key director?*

Importance of corporate brand and image;

- *Employee recruitment and retention*
- *Competitor fleet profile*
- *Company image and representation*
- *Vehicle selection and presentation*

Corporate social responsibility and policy concerns;

- *Shareholder value and cost minimisation*
- *Driver management and training*
- *Corporate social responsibility*
- *Road safety and corporate manslaughter issues*

Issues of micromanagement and information overload

For illustrative purposes only – not comprehensive

Chapter 6 – Implications and Conclusions

The forgoing pages set out the initial results of an independent research programme undertaken on behalf of LeasePlan UK Ltd to examine the issues and expectations of fleet users by 2020.

The short and medium-term business changes and expectations set out in this report offer a new departure for a published report. LeasePlan is seeking to present a pioneering approach to the market that offers an independent framework for analysing medium-term fleet requirements.

While the report identifies some of the key changes that might be anticipated in the fleet industry, these are also the concern of the provider sector. Far more important, however, is the highlighting of business car related issues that finance directors and senior executives considering the future of their businesses need to think about in their planning process.

The provision of company cars over the next two/three three rounds of replacement will be more radical

The conclusions of the discussion groups suggest the provision of company cars over the next two/three rounds of replacement will be more radical since the growth of company car provision in the 1970s.

The external environment is seen to be changing rapidly; and the British economy has started to emerge from recession – albeit the last of the major industrial states. However, government is desperate for revenues to help bring down debt and protect the nation's triple credit rating – and climate change, globalisation, an ageing population and enhanced security are all issues that will simply not 'go away'.

Short-term challenges

Certainly, there are a range of short-term issues that will tax the time and efforts of many executives in the industry. 2010 as a business car year will see issues such as the changing rate of VAT and the end of the scrappage scheme due in February, although it has little immediate impact on fleet. Fuel duty change in April will create budgeting and further cost management issues; while duty of care in the form of new insurance rules and claims settlement are scheduled for April.

A post-election budget will lead to higher company car costs as a new government seeks to fill a large black hole

April also sees changes in benefit-in-kind rules linked to tighter CO_2 requirements. Vehicle excise duty on new cars changes in April. A General Election is due by June as well – with all of the implications that a post-election budget will inevitably lead to higher company car costs as the new government, of whatever persuasion, seeks to fill the large black hole in its public accounts...

And strategic change?

It is much more demanding to take a longer-term view of the development of the demand for business cars and their provision. As noted previously, the fleet and leasing industry will need to develop the products and services demanded by users. The challenge is for the user to determine the changes in the business environment against which those cars will be required. Consider the principal groups that are reasonably predictable and executives need to take on board;

- The 'less difficult to predict' issues include developments in technology and the vehicles that will be available for business use in 2020. Manufacturers are announcing new product programmes some years ahead, but how will the technologies develop and what will be their implications for business users? It is certain that taxes with regards to cars will rise, pushing up costs –necessitating smarter thinking on how to get the best value for money. These taxes may be associated with the carbon footprint and vehicle use. Equally, work patterns are changing dramatically which, in turn, will change business mobility demands.

- At a somewhat less certain level, will be technological aspects of vehicle provision – the work/private use mix; car clubs for short-term provision and the role of telematics. Perhaps the most important rule to deal with these aspects will be to develop a framework for strategic debate and discussion – as set out in the report.

The most important rule will be to develop a framework for strategic debate and discussion

By implication, one strong message running through this report is the importance of making time to analyse and discuss the development of the fleet. Strategic thinking and quality planning will become ever more important.

A final conclusion

The report suggests the business car will come under increased pressure internally, in terms of total business cost management and the cost of personal business mobility. There will also be extreme pressures such as managing the carbon footprint, the competitive position of the business and the role of personal business mobility in a developing economy.

Businesses will need to fully aware of the real, as distinct from desirable, needs regarding the company car and, equally, be fully aware of the total cost implications of such a high-cost working tool.

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