

Fleet 2020

A future vision for fleet

A LeasePlan customer report



At LeasePlan we're firmly in the business of managing fleets, rather than gazing into crystal balls



ConsultancyServices

Preface

At the beginning of every decade, there is inevitably a period of reflection where experts and commentators look back at developments over the last ten years and make predictions about what will happen in the coming 10 years.

With each passing decade, the pace of change seems to accelerate exponentially. Thinking back to not much more than ten years ago, the world was gripped with fears about the Millennium Bug and the possibility of global meltdown as the clock ticked past midnight into the year 2000. It really does seem like a millennium ago now...

Looking from the other direction, if you'd suggested blogging or tweeting to someone ten years ago, at best you might have expected to be politely asked to keep your inappropriate suggestions to yourself!

The fact is, predicting the future is not only difficult; it can make you a hostage to fortune. So, as we try to envision what the world will look like in 2020, what the global economy might look like in 2020 and what corporate fleets and company cars might look like in 2020, it's no surprise that to some extent, all bets are off.

At LeasePlan we're firmly in the business of managing fleets, rather than gazing into crystal balls. So what is our Fleet 2020 initiative - and why did we conceive it - if it's not about predicting the future?

Fleet 2020 is LeasePlan's way of helping fleets to think about how they develop a more robust framework that can inform and guide fleet decisions now and in the future. It's about developing a rationale for the fleet that means important decisions can be taken with a clear agenda and context, no matter what changes or challenges occur in the coming years.

Fleet 2020 originally kicked off with a joint research initiative involving Professor Peter Cooke of the University of Buckingham. This resulted in an objective academic report that provided both the fleet industry and ourselves with some thought provoking ideas.

We also engaged some of our influential corporate clients through a number of customer workshops in late 2009. At these workshops we invited important fleet decision makers to talk to us about where they felt the key challenges for the future lay and where they needed advice and guidance. The aim here was to begin a debate and dialogue that will ultimately enable us to deliver solutions to likely client challenges in the years ahead.

Whilst the Fleet 2020 project is limited with its ability to predict with certainty what will happen in the next decade, it does draw on a range of fleet management perspectives. As well as the work of Professor Peter Cooke and outputs from our customer workshops, we have also considered our day to day discussions with clients, gained input from other industry stakeholders and used our own internal expertise to produce this report.

We hope you find it useful in providing a flavour of LeasePlan's current thinking and how we are positioning ourselves to provide best advice and guidance to our clients through to 2020 and beyond.

Adam Wiggington

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A new reality ‘fleet strategy or business strategy’?

Some industry commentators can be rather inwardly focused when thinking about or expressing what fleets will look like in the future. LeasePlan believes that it is not so much a question of what fleets will look like in 2020 but rather what businesses will look like in 2020.

For many companies, the global financial crisis changed all the rules. Fleet was no exception. Suddenly, what might have been recognised as a multi-faceted fleet strategy was sacrificed at the altar of rapid cost control and commercial survival. Commitment to programmes promoting themes such as Corporate Social Responsibility (CSR) and sustainability was quickly abandoned or put on ice.

As the dust settles and the global economy stabilises, some companies have raised the question of whether it really is possible to have a long term vision for fleet. Or is fleet management simply a case of navigating the various issues and challenges that are presented by external forces, such as fiscal measures or the economic climate.

In reality, LeasePlan is seeing a growing realisation that immediate commercial imperatives can converge with broader goals. As our clients seek ways to reduce operating costs, they are finding a surprising compatibility with longer term objectives associated with themes such as the green agenda. In turn, many clients are now resurrecting initiatives and resetting their objectives.

Indeed, short term priorities are now being used by some fleets as a catalyst to accelerate long desired change. Greener car policies have been implemented in the name of cost control. Scarcity of credit has forced many fleets to look at contract extensions and therefore properly assess optimum replacement cycles. Remuneration and employee benefits have been reappraised as the retention of talent takes on a new perspective – that of reducing the cost of keeping good people employed, rather than being forced to make them redundant.

What all of this demonstrates is that there is real value in clearly defining long term aims for the company fleet in the context of wider business needs. Undoubtedly, plotting a course to achieving those aims may not be as simple as drawing a straight line. There will always be short term issues that require a flexible approach and even temporary diversion. But, if action can be taken within a longer term context, it is often possible to kill two (or even more) birds with that one proverbial stone.

Ultimately, in whatever capacity, the *raison d’être* of any fleet is as a tool of the business. Whether for the transport of goods, the sale of products and services, customer relationship management or the attraction and retention of talented people, the fleet only exists to service the business. As such, both now and in the future, it is imperative that fleet strategy is always driven by and aligned with business strategy.

LeasePlan advises...

- » Work closely with the senior management team of your business to understand the medium and long term business plan and the areas of focus required to achieve it
- » Look at how your fleet policy and fleet management processes do or don't currently contribute to this business plan
- » Set clear fleet objectives that are directly linked to wider business objectives

The dominant themes

The two big themes for fleets - both now and probably for much of the time leading up to 2020 - are those of cost control and emissions reduction. Whether by virtue or convenience, the two have become good friends, especially through the combined impact of fiscal and economic pressures.

When it comes to cost control, the impact of the credit crunch and the resulting global economic crisis needs little explanation. There has been, and in most cases there remains, a universal requirement by businesses to take a hard look at operating costs across all business categories.

LeasePlan customer feedback clearly indicates that fleet is often one of the priority business categories targeted for cost reduction. In many cases, it is very much a board agenda item. Procurement teams, HR departments and fleet managers alike are being issued with the challenge to reduce fleet running costs without compromising business capability, driver satisfaction or customer service.

In the wake of the credit crunch, the immediate reaction for many companies was to temporarily suspend vehicle renewals, extend contracts or even move wholesale to longer contract terms. This is discussed in greater detail in later sections, but suffice it to say that in assessing the right policy going forward, organisations must now take a more detailed look at every aspect of expenditure of the fleet lifecycle, rather than just headline costs. It is only by doing this that non-detrimental and sustainable savings will be found.

Meanwhile, despite the failure to reach binding agreements at the United Nations climate summit in Copenhagen, it is inevitable that international pressure in coming years will ensure that the reduction of carbon emissions remains a strong feature of fiscal policy and vehicle taxation for most western governments.

Indeed, the UK government's independent climate change watchdog has already advocated the need for a reduction of over 80% in the country's carbon emissions by 2050. In response, the government has set an interim target of 34% cuts in CO₂ by 2020.

Most of the changes to company car taxation in the last decade have been driven by the principle that providing incentives to the fleet sector to improve its environmental credentials will create a wider 'knock-on' benefit. With fleet vehicles making up at least half of all new car sales and feeding a large part of the used car market, governments will continue to see this as the best way to change the overall make up of the UK car parc.

Concurrent with fiscal trends, LeasePlan has also seen the impact of consumer expectations and demand filtering through directly to clients' fleet needs. Consumer facing organisations are coming under increasing scrutiny from customers who not only demand products with the right environmental credentials, but also demand that the wider business is run along environmentally friendly principles.

In turn, suppliers to these organisations are expected to show their green credentials when tendering to win or retain business, creating a broader agenda across the business that encompasses the area of fleet management among many others. As a result, for a lot of organisations, green policies are not only converging with cost control but also moving to the heart of customer retention and revenue generation.

Overall, there seems little doubt that for fleet operators, cost control and emissions reduction will continue to be inextricably linked and remain central to the running of most fleets in the years to come.



LeasePlan advises...

- » Consider reducing fuel and taxation costs to both the business and to employees by analysing your fleet policy and usage requirements and short-listing vehicles that are both fit for business purpose and 'best in class' with regard to carbon emissions
- » Provide drivers with clear financial illustrations that demonstrate how the right vehicle choice can benefit both the environment and their pockets

Fleet funding and financial considerations

Whilst the difficulties in capital markets will no doubt ease over the course of the next decade, there is still likely to be much greater emphasis on financial risk management, whether via increasing prudence in the management of financial institutions and companies at large, or through the requirements of tighter regulation.

Despite low base interest rates, the cost and availability of long term credit is unlikely to return quickly to pre credit crunch levels. Moreover, as the recovery gathers pace and inflationary pressures increase, interest rates are very likely to rise, increasing the cost of borrowing further.

In this environment, LeasePlan expects to see contract hire continuing to be the favoured method of long term vehicle funding. Cash-flow and the management of cash will remain important business drivers, meaning that outright purchase and the risks of owning depreciating assets will not be an option for most.

Moreover, companies will want to retain existing cash credit facilities with the banks for important core business activities and the contract hire of vehicles will enable them to keep these increasingly scarce credit lines free for investment in other areas.

A clear trend that has directly emanated from companies' response to the financial crisis and recession is the length of contract terms for leased vehicles. Rather than commit to new contracts, many companies have taken the decision to extend existing contracts or move to longer replacement cycles.

The key question here is whether we are seeing a resetting of the benchmark for contract lengths? Is a four year contract the new orthodoxy and will three year contracts become a thing of the past? Immediate LeasePlan client feedback suggests that as employees' expectations are adjusted out of necessity, many companies will see an opportunity

to move to four year contracts as a permanent rather than a temporary measure.

Certainly service intervals, vehicle reliability and the depreciation curves for many modern cars do make longer replacement cycles a feasible alternative. However, as the economy improves and so do job prospects, will we see a return to the competition for talented people that has driven many companies to offer a more regular change of company car in the past?

Experience of previous recessions and recoveries suggests that this may well be the case. In reality, much will depend on the pace of economic recovery and growth. Many expect this to be on a 'slow burn' trajectory over the next few years. If this is the case, it could serve to inhibit employee expectations and entrench longer contract terms.

Another important consideration here is that vehicle technology continues to develop at an ever faster rate. Emissions from petrol and diesel powered vehicles continue to improve with each year's new model range. Within a few years, hybrid vehicles are likely to become more prevalent and plug-in electric vehicles will even begin to enter the mainstream. At the same time, the emissions thresholds for taxation rates will be progressively lowered.

In this context, commitment to longer contracts might save money at the front end, but could over time end up costing comparatively more, with higher tax and fuel bills. Ultimately, it remains essential that fleets conduct a proper and thorough evaluation of whole life vehicle costs to establish the best policy.

The concept of 'Whole Life Costs' has been discussed within the fleet sector for many years now. A definition that was once considered to include just depreciation and finance costs, maintenance costs and possibly insurance costs should now be reconsidered on as holistic a basis as possible. Every conceivable cost

incurred by a vehicle over the period of usage should be examined and analysed in order to assess the true cost to the business and ensure optimal vehicle choices and contract terms: i.e. funding, maintenance and servicing, fuel, insurance, accident management, tyres and glass, general administration.

Another topic that has repeatedly surfaced over the past ten years is likely to form an additional financial challenge for fleet operators and leasing companies alike, in the years leading up to 2020. International accounting standard setters have for some time advocated the treatment of operating leases under an 'asset and liability' approach. In essence, this would mean the lessee reflecting their rights and obligations under the terms of a lease - in other words their use of the asset - on their company's balance sheet.

The accounting authorities' desire to move operating leases on to the balance sheet has largely focused on 'big ticket' business assets - for instance aircraft or plant based machinery - that are leased over long periods. Smaller and more numerous items such as fleet vehicles or office equipment are quite different in nature. Contracts for these 'small ticket' items often incorporate a service element in addition to finance and there is also a greater tendency for contracts to change mid term, early terminate or even extend. Indeed, this flexibility is an important part of the contract as it mitigates the lessee's level of financial commitment.

A potential change in accounting standards could prove difficult and time consuming for businesses in terms of financial administration. The finance element of every single vehicle, along with other small ticket items, would have to be separated, accounted for and adjusted on the balance sheet. At the same time, other contract elements would require separate booking in the profit and loss account.

For these reasons, the fleet industry continues to lobby the accounting standard setters, counselling them to ensure that common sense is applied to any new rules with respect to 'small ticket' items. Whatever the outcome, changes are expected by 2013 and it is important that fleet operators consider how their finance departments will get to grips with the potential administration involved.

Of course, what remains is that vehicle leasing will continue to be the primary choice for most companies. The off balance sheet benefits of operating leases under the existing accounting standards can be overplayed. The benefits of fixed and budgeted costs, the removal of depreciation and residual value risk, along with the outsourcing of administration and maintenance are also paramount in the decision to lease. It is almost unquestionable that full service operating leases now constitute a form of business outsourcing of which the financing element and associated accounting treatment are only small pieces of the jigsaw.

LeasePlan advises...

- » Consider and examine all the associated costs over the lifetime of each fleet vehicle in order to optimise vehicle financing, vehicle choice and contract terms
- » Stay close to possible changes in accounting standards and ensure that your finance department has a plan in place to deal with these, should they come into force

Employee benefits, vehicle choice and the future of car policy

As this report has already implied on numerous counts, the convergence of green taxation and business cost reduction as key priorities has an overriding impact on every aspect of fleet management. This is no different when it comes to human resources policy as companies reappraise employee remuneration and company car choice lists.

Indeed, LeasePlan customer feedback suggests that tight economic circumstances have presented an 'open door' for those wishing to restrict choice, reduce fuel and other fleet running costs, and increase purchasing leverage through single or dual badge deals. In the economic climate of the past two years, many employees are simply glad to keep their jobs and have therefore been less likely to object to a perceived restriction in their benefits package.

As discussed earlier in this report with regard to contract lengths, perhaps we will see a similar resetting of the benchmark when it comes to 'user chooser' company car schemes, with choice far more restricted in terms of make, model and emissions? Or perhaps in time, economic recovery will again promote greater competition for staff and a return to broader company car choice? As with contract lengths, it is likely that the

speed and nature of economic recovery will probably dictate here.

Economic downturns do often lead to more creative thinking and this is already evident with the growing uptake of salary sacrifice car schemes, which enable companies to actually broaden the perceived benefit offering to a wider constituency within their organisation. Under these schemes, employees who wouldn't normally qualify for a company car can benefit from a new car at a cost they would be hard pressed to find in the private market. There is also a clear financial benefit to companies. When an employee sacrifices a portion of salary to pay for a vehicle there is a direct saving in employer national insurance contributions.

On a wider basis, if consumer behaviour is emblematic of employee attitudes, company car drivers will almost certainly stimulate a demand for cleaner and greener vehicles. This is consistent with both the motivation to reduce personal carbon footprints and - perhaps more pragmatically - the wish to reduce benefit in kind taxes, private fuel costs, and even emissions based residential parking or congestion charges for those based in major towns and cities.

Interestingly, feedback from LeasePlan customers suggests that whilst this demand is already evident amongst employees at large, senior management remain a more difficult nut to crack. It is reported that they are much less willing to compromise and much more able and prepared to pay higher emissions based taxes in return for the bigger engined, prestige and luxury models.

As a new generation of managers comes to the fore over the next decade, it is perhaps likely that this attitude will wane and that individuals within organisations will be more uniformly motivated by the green agenda, especially as social conventions, trends and notions of status change. For an early pointer towards this, it is only necessary to look at the rise of celebrities striving for green status, with Hollywood actors queuing up to be photographed behind the wheel of a Toyota Prius!

This gives rise to conjecture over the timeline for more mainstream introduction and use of alternatively powered vehicles. Customer interest in electric vehicles is already evident, mainly in the form of questions over when and whether the cost benefits of introducing new vehicle technology will become attractive to fleets?

There are three main areas on which the future success of electric vehicles rests. The first is the need for governmental support and financial backing, along with close collaboration between governments, power companies and motor manufacturers.

It is expected that governments in many major western European countries - including France, Germany, the United Kingdom and the Netherlands - will offer significant incentives in the form of subsidies to purchasers of eVehicles . Given the success of recent subsidies (in the guise of scrappage schemes) to new car sales in Europe, this could provide a timely and effective boost to the introduction of electric vehicles into the mainstream.

Secondly, batteries also present one of the key challenges that must be addressed. These are currently expensive to produce and must be replaced as many as three times over the life of the vehicle. Moreover, ways must be found to recycle them effectively in order to minimise the environmental impact associated with their disposal. It is suggested that these batteries could be reused for static power storage in public places such as hospitals, but an effective infrastructure for this must be established if electric vehicles are to be a success.

There are three main areas on which the future success of electric vehicles rests

Employee benefits, vehicle choice and the future of car policy

Finally - and crucially - the recharging infrastructure is deemed essential if electric vehicles are to become more than a solution for short journeys, as batteries are unlikely to sustain more than a 100 mile range with each full charge. There are already stated commitments from local governments in some major cities. The Mayor of London, for instance, has committed to a network of 25,000 charging points by 2015 – contrast this with approximately 600 petrol stations that currently exist in Greater London.

For a significant number of motor manufacturers, electric vehicles are now at the advanced stages of development with a number of mass produced electric vehicles expected to come to over the next two years. Expert forecasts vary, but it seems that by 2020 electric vehicles – or ‘eVehicles’ - could represent as much as 10% of new car sales.

As such, it is expected that the growth of eVehicles will follow a similar pattern to that of mobile phones during the late 1980s and early 1990s, with major cities and other highly populated areas the first to see wide scale adoption, in this case through the introduction of publicly available ‘pay per charge’ points.

In leasing terms, LeasePlan expects electric vehicle leasing to differ somewhat from conventional vehicle leasing, largely due to the investment required in batteries and the way in which these costs are spread through the life of the vehicle. There are still question marks over the setting of service and maintenance budgets, especially with respect to the cost of replacement batteries. It may even be that in time, if batteries are considered to have a ‘second life’ and therefore a residual value, they will be leased separately to the vehicles themselves.

Right now, the main issue for leasing companies is uncertainty around how quickly eVehicles will be adopted by the mainstream consumer sector, specifically via the used car market in three or four years time. How this plays out will have a significant bearing on resale values and at this time makes residual value setting more challenging than for conventional vehicles. There is also the real possibility that the pace of technological development could undermine residual values as eVehicle technology improves over a short period.

Having said all of this, it is still inevitable that eVehicles will begin to break into the mainstream within the next five years, with both fleets and consumers alike. Governments and motor manufacturers remain heavily committed to their development, with fiscal incentives and subsidies likely to ease concerns around high up front costs and uncertain resale values over the medium term.

To summarise the wider picture, recent trends with respect to car choice and the provision of employee benefits seem to have been governed largely by the cost cutting pressures induced by economic recession. Whilst it would be tempting to think that we have seen a fundamental shift in emphasis away from the needs of employees, choice will inevitably remain an important part of remuneration strategy.

However, as personal and corporate vehicle taxation continues to be governed by increasingly stringent environmental considerations, it is probable that we will see another convergence of objectives, this time with employee demand for greener vehicles becoming more consistent with the already converging themes of cost management and corporate emissions reduction.

LeasePlan advises...

- » Review vehicle policy & choice as economic recovery gathers pace and value of company car provision, as part of wider remuneration package, to both retain and attract talent is restored
- » Recognise emergence of salary sacrifice schemes for cars and investigate their relevance & suitability to the organisation
- » Embrace demand trend from drivers for cleaner, greener vehicles. Keep pace with emergence of new vehicle technology and alternative fuels; consider role for electric vehicles applicable to certain profiles for driver/driving patterns

Business logistics and mobility

When it comes to fleet efficiency, the greenest and most cost effective mile is the one that isn't travelled. Any serious examination of fleet efficiency must start with a sober judgment of what journeys an organisation really needs to undertake and what form of transport is most appropriate.

As such, company vehicle usage is likely to be examined in increasing detail in the future, with as much focus on the operational need for vehicles as the individual requirements of drivers. Historically, the ethos may have been to 'get in the car and go talk'. Whilst face-to-face meetings will certainly continue to be an important means of doing business, the total costs of travel – executive time, vehicle, fuel and carbon footprint, not to mention taxes, congestion charges, mileage charges, road tolls and parking fees – may all lead to prohibitively large costs for the traditional meeting to be always considered the best option.

In this sense, over time we are again likely to see the trend for converging themes recur. In this setting, it is probable that by 2020, the management of the fleet will converge with the management of business travel and perhaps more widely with the management of business communication.

Many companies are already looking to increase the use of teleconferencing, video conferencing and web conferencing technology. In coming years, especially with government commitment to the continued proliferation of low cost, high speed and wide bandwidth internet access, use of these means of communication will only accelerate and grow. Proximity and location will no longer necessarily be the main determinants of successful communication.

In practical fleet terms, this is bound to have an impact on mileage terms for vehicle leasing contracts. Indeed, by 2020, to optimise fleet costs it will become

necessary for organisations to make a far more holistic assessment of their transport needs in the broader context of business communication strategy.

Where business car journeys continue to be necessary, companies will almost certainly look to optimise them through the use of technology. Satellite navigation systems are already commonplace in fleet vehicles and drivers may soon be compelled to show evidence that they have made proper use of these tools to optimal business benefit.

Indeed, it is already possible with sophisticated telematics to monitor every aspect of a vehicle's usage, including the assessment of a driver's fuel efficiency, driving style, journey time and exact route or location. Whilst in the past, employee objections have been cited as a reason for fleets failing to adopt telematics on a wide scale, given the increasing penetration of surveillance culture - and what seems only a cursory shrug of the shoulders in protest from the average citizen - will this really remain an issue?

In practice, it is likely that as the cost of technology comes down, uptake of 'black box' telematics will increase, especially as they are likely to be fitted as standard in many vehicles in the future as an evolution of what we currently know as engine management systems.

Also, when it comes to car usage, businesses will undoubtedly demand ever more flexible solutions to business mobility. LeasePlan has already seen a growth in demand for short term 'flexi' leases and daily rental from clients. This could easily go a step further with demand for 'hourly rental' and perhaps the establishment of commercial car clubs along similar lines to the 'pay per use' consumer car clubs that are already growing in popularity across major cities.

In a similar vein, we might see commercial car pools established, with companies collaborating in the running of a shared pool fleet and costs being allocated according to usage. Given the growth of large commercial premises on big business parks and industrial estates, this could be the answer to car clubs outside town and city centres.

It could also solve the problems typically associated with risk management of the 'grey' fleet, with a ready made alternative in place for non company car drivers conducting business journeys. Perhaps in some cases, cars could even move from being a cost centre to become a profit centre for companies, if vehicles are made available for hourly use to all comers?

Finally, when it comes to business mobility and travel, companies will increasingly need to factor in the use of public transport, especially with the likely introduction of a high speed rail network towards the end of the decade. Again, in conjunction with the use of car pools or car clubs, judicious use of rail might finally help to achieve a cost effective, practical and genuinely integrated use of transport for end to end business journeys.

LeasePlan advises...

- » Challenge convention and perceived need for travel as opposed to video conferencing/other new communication technology
- » Anticipate emergence of increased driving pattern data (via on board telematics) and consider how this will be treated within the organisation to manage fleet with greater efficiency
- » Assess potential use of daily rental, flexi leases and car clubs as ways to introduce greater flexibility and cost control into provision of employee mobility

Fleet risk management

If there has been a hot topic for fleets over the last decade, it has been Duty of Care. Even since the passing of the Corporate Manslaughter Bill into statute, complete clarity in this area is not yet fully evident. Questions still persist and fears remain about the threat of draconian legal powers, scary scenarios of ‘crime scenes’ at the site of road accidents, and the image of company directors ‘in the dock’.

The reality is that the next ten years will see continued efforts, through both legislation and lobbying, to reduce deaths on the road and enhance driver safety. Companies will be required to play their part through sensible, practical precautions and it will no longer be defensible to be anything other than proactive in managing the safety of employees and the wider public.

Regular driver training and appropriate driver reviews, tailored to particular communities or groups, such as regular or occasional users, will sit alongside routine vehicle checks, driving licence checks and even eyesight tests as part of the required norm. Most importantly, companies will be compelled to show that suitable controls and regular audits are in place to ensure compliance.

When discussing this area with clients, LeasePlan has witnessed a demand for assurance in the form of a quality ‘kitemark’ for Duty of Care compliance. Unfortunately, it is questionable at present whether any lawyer would be prepared to put their name to this and sign off a fleet as fully compliant and thus immune to prosecution.

Certainly, it will take more experience of the recent legislation in force to really understand the legal precedents for what total compliance looks like. Unfortunately, until this time, fleets must take a common sense approach to risk management and carefully weigh up all the costs and risks in this area. As the decade progresses, the definitive picture should become clearer and the minimum legal requirements for compliance more readily defined.

Until then, the biggest area of immediate exposure for most companies seems to be the management of the ‘grey’ fleet, that being employees conducting business in non-company vehicles, potentially without adequate insurance cover. It is rarely either practical or cost effective to check every employee’s driving licence and personal insurance cover regularly, never mind keep tabs on what business journeys they are making, especially when the distinction between business and private purpose is blurred for many journeys.

For instance, what might the position be in the case of one employee picking up another employee (who has just visited a client via the train) from the local station? Would this be construed as a personal favour or the continuation of a business journey back to the office?

In practice, LeasePlan expects that as the alternatives to using a private car become more abundant (as detailed in the business mobility section of this report) many companies may combat the risk of the grey fleet by simply banning the use of private vehicles for business purposes

LeasePlan advises...

- » Measure and target cost to organisation of current level of road accidents and injury
- » Ensure organisational attitude to reducing incidence of road accidents is 'pro-active', to include: Driver training programmes, driver profiling to identify 'high risk' drivers, policies that audit and manage extent of risk
- » Appraise likely extent of 'grey fleet' issue within organisation and explore measures to address

The impact of government policy

The impact of government policy is implicit throughout this report, especially with regard to taxation and transport, but it is worth specific reiteration of a few points in this area.

As the main supplier of used cars to the consumer sector, the fleet sector plays a crucial role in helping the government achieve its carbon emissions reduction targets to 2020 and beyond. By applying fiscal pressures and incentives to the fleet sector, the government has already been successful in altering the complexion of the UK car parc and improving its environmental credentials.

There does however remain a long way to go. Some political commentators even suggest that by 2030, the UK car parc will need to have reached a position of zero carbon dioxide emissions in order for the country to achieve wider emissions targets.

With over 50% of new car sales attributable to business cars, emissions based taxation continues to increase demand for greener vehicles and in turn pushes manufacturers towards constant innovation in this area. As such, government commitment to emissions based taxation of company vehicles will certainly remain critical to fiscal, transport and environmental policy for years to come.

As central government continues to incentivise greener motoring through measures such as Benefit in Kind taxation, Vehicle Excise Duty, Capital Allowances and rising fuel duties, so too does local government. Local authorities are using green taxation as a way to change behaviour and, some might more cynically suggest, raise revenue.

The London congestion charge has been in place for some time now and many other cities are close

to implementing similar schemes. Likewise, London Boroughs are also leading the way with emissions based residents parking permits. In other parts of the UK, there are even pilot schemes in the offing to tax workplace parking.

Returning to the national government agenda, road pricing remains a distinct possibility in future years. Whilst continental style toll schemes have been used on the M6 motorway, the preferred method seems to be via the use of telematics to monitor journeys and introduce variable pence per mile charging for the use of certain roads. Again, pilot schemes are expected within the next year or two and we could see full implementation before 2020 on some major roads.

What seems strange to many is that with the close correlation between high fuel efficiency and low emissions, the government clearly has the means to simplify green taxation measures by dropping the multitude of vehicle related taxes and embracing a single motoring tax in the form of a higher fuel duty.

A single 'pay as you pollute' fuel levy would no doubt encourage greater transparency and persuade motorists to buy greener vehicles, improve fuel consumption and restrict vehicle usage only to the most necessary journeys. It would also continue to stimulate the production of affordable, fuel efficient and low emissions vehicle models by motor manufacturers.

Governments of any political persuasion are, however, rarely motivated to simplify taxation, especially when the result would inevitably lead to public outcry and unpopularity in the face of a seemingly big increase in the 'headline' cost of fuel. So instead, by 2020, expect environmentally based taxation and incentives to proliferate further and stretch ever wider across every element of vehicle operation and management.



LeasePlan advises...

- » Recognise that regardless of change of government trend of using taxation to reduce carbon footprint of organisations in relation to transportation will prevail
- » Consider impact to organisation of potential new indirect taxation in the form of car parking, toll roads, congestion charging schemes. Furthermore, consider the potential impact of a shift towards 'pay as you pollute' fuel levy's or telematics enabled 'pence per mile' charging
- » Acknowledge the business case for a green fleet policy that exists today and that it can only become stronger over coming years

The future of fleet services

What this report clearly demonstrates is that the fleet management landscape will shift dramatically by the year 2020. Not only does this present challenges for fleet operators internally, it also has implications for the way in which external suppliers provide relevant services and solutions.

Overall, the economic outlook suggests that there will be further consolidation amongst leasing and fleet management suppliers as financial stability and economies of scale become even greater prerequisites for the provision of competitive fleet funding and management services.

This does however present a potential procurement problem for customers, as the big players may appear commoditised and undifferentiated whilst the remaining smaller niche players might appear to offer something different on the surface, but fail to offer a sustainable and competitive pricing advantage or the financial security required to service large corporate fleets.

Over the longer term, we would expect to see a differentiation among the service providers to meet the needs of the different market segments as they evolve. The most likely split will be those providing transactional based services to meet the needs of customers looking for low priced, commodity services and those full service providers to whom customers will fully outsource the management and operation of their fleets.

Within this latter category, it is likely that these providers will specialise their services further. We could see the emergence of a business logistics industry (where cars and vans are core to the core function of the business) and a business communications industry (where the emphasis is on helping companies to facilitate communication with customers and suppliers through the greenest and most cost effective means)?

What is of little doubt is that many fleet operators do want more than cheap fleet funding and the day to day management of vehicles from their leasing company. Indeed, LeasePlan's recent customer workshops clearly demonstrated a strong demand for more strategic advice and guidance on their future direction and help to identify and address new challenges. It is in this context that the fleet industry must evolve and develop over the next decade.

Conclusions and further guidance

We hope that this report proves a useful tool in highlighting some of the important considerations for fleets across the next ten years. Its purpose is not to provide definitive answers, particularly as these are not yet certain in many cases. Rather, the chief aim of this report is to report back on recent LeasePlan research - such as the work with Professor Peter Cooke and our recent programme of customer workshops - and focus minds on the big issues facing fleets, thus provoking further dialogue and debate with our customers and the wider fleet marketplace.

We also hope that this report plays a useful role in initiating a discussion of the big issues within our customers' organisations. We make no secret of our belief that fleet strategy must be driven by business strategy. As such, we urge those charged with responsibility for fleet - whether from the fleet department, the procurement department, the finance department or the HR department - to use the content of this report as a catalyst for conversation with senior management and the board about the role of the fleet in delivering future business goals.

LeasePlan is genuinely committed to helping customers with the process of aligning fleet strategy with business strategy and it was with this in mind that we established our Consultancy Services division. This team of objective and independently minded consultants provides analytical and advisory services to companies that sit outside of our day to day account management structure.

Aimed at improving the development and application of fleet strategy, our consultants take an approach that clearly focuses on the needs of the client's business and delivers practical guidance on the implications for the management of the company fleet. This usually begins with a high level preliminary analysis that ensures any subsequent and more detailed work will be productive and generate real value or savings.

Our methodology seeks to simplify the evaluation of your fleet policy, management practices and processes by using a straightforward framework as a point of reference:

- » **Fleet Strategy** sets out the business purpose of the fleet and its different components and guides the management of the fleet in the short, medium and long term.
- » **Fleet Operations** determines how the fleet is governed and managed. Decisions taken in this area dictate the total cost of running the fleet.
- » **Employee Benefits** defines what role the company car (or the cash alternative) plays as part of the overall remuneration package and assessed whether it achieves the set objectives.
- » **Regulation and Risk Management** plays a significant role in managing the fleet, especially with duty of care now a major consideration for the company fleet and the 'grey' fleet.
- » **Environmental Policy** now needs to be considered by all companies not only because of the focus on carbon emissions but also because of the cost savings associated with reducing the carbon footprint.

If you would like to find out more about our Consultancy Services, we would welcome the opportunity to meet with you and would suggest that in the first instance you discuss this with your LeasePlan Account Manager, who will facilitate initial contact with one of our consultants.



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