BVRLA

Industry Outlook 2018

BVRLA

Established in 1967, the British Vehicle Rental & Leasing Association (BVRLA) is the UK trade body for companies engaged in vehicle rental and leasing.

BVRLA membership provides a quality assurance benchmark, reassuring customers that the company they are dealing with adheres to the highest standards of professionalism and fairness.

The association achieves this by maintaining industry standards and regulatory compliance via its mandatory codes of conduct, inspection programme and conciliation service. To support this work, the BVRLA shares information and promotes best practice through its extensive range of training and events.

On behalf of its 900+ members, the BVRLA works with governments, public sector agencies, industry associations and key business influencers across a wide range of road transport, environmental, taxation, technology and finance-related issues.

BVRLA members are responsible for a combined fleet of almost five million cars, vans and trucks, supporting around 317,000 jobs and contributing nearly £25bn to the economy each year.

The BVRLA would like to thank the following members and industry experts who contributed to this report:

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The big picture

If we were to paint a backdrop to this BVRLA 2018 Industry Outlook, it would be easy to go for a stormy grey. It is difficult to think of a time when the vehicle rental and leasing industry has faced so many headwinds.

Beset by Brexit-related economic concerns, a hostile tax environment, emissions-related uncertainty and a new wave of vehicle terrorism, BVRLA members remain remarkably positive about 2018.

Much of this confidence stems from the fact that they understand their customers, they understand their products and they know how to combine the two in the safest, most sustainable and cost-effective way. BVRLA members have perfected this skill to such an extent that just over 800 of them are responsible for nearly five million cars, vans and trucks - that's 1 in 8 cars, 1 in 5 vans and 1 in 5 trucks licensed on UK roads.

How much will interest rates increase by next year? Will we see an increase in vehicle costs and parts prices? Should we expect residual values to fall along with consumer and business confidence? All of these things are likely, as are a host of other challenges, many of which are outlined in more detail in this report.

The vehicle rental and leasing industry can take these in its stride, because it also sees opportunity everywhere. The opportunity to place itself at the centre of an increasingly fast-moving world of new automotive technology and mobility models.

Next year will be an important part of that journey, and we hope that the insights in this report will help you along the way.

Digitisation

No one can accuse the vehicle rental and leasing industry of missing the digital revolution. Having built its reputation on removing the hassle for customers, it was an early adopter when it came to digitising many elements of the supply chain and back-office functions. Now many industry leaders are pointing to a shift in emphasis, with more investments being made in the customer-facing elements of their business.

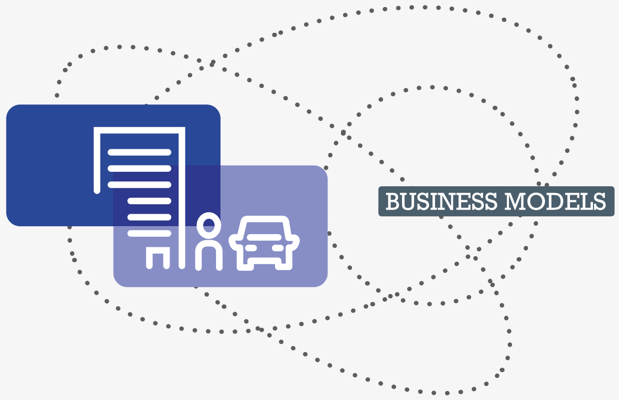
The traditional interaction with the sales consultant is reducing as more people make up their mind by viewing videos, blogs, review sites and social media. The most effective automotive digital channels provide a 24-hour dynamic response and help customers avoid any 'analysis-paralysis' by reassuring them about their choices.

BVRLA members say building these kind of systems is an expensive and ongoing challenge. Instead of building a new website and 'sweating the asset' for four or five years, new digital cross-departmental teams are adopting a continuous 'test and learn' approach.

In the rush to digitise all parts of the rental or leasing process, members are still focussed on creating opportunities for those direct conversations. Whether it's identifying a vulnerable personal leasing prospect or a dissatisfied rental customer, these interactions are too important to be left to a piece of software.

"The fleet leasing sector is too focussed on a B2B sales model. We need to deliver a retail experience in a B2B market."

John Lawes, Hitachi Capital



KEY 2018 TRENDS

› **Digital services represent a huge opportunity, but involve a major, ongoing investment**

› **With digital 'self-service' increasing, companies must identify and seize opportunities to provide a personal service that delivers brand loyalty**

› **Many firms are prioritising their digital investments on personalised, customer-centric services**

> *"Digitisation represents the biggest potential business opportunity but also the biggest potential drain on our resources"*
>
> Tim Porter, Lex Autolease

Air quality and emissions

Looking ahead to 2018, a mixed picture emerges when assessing the outlook for diesel powertrains.

From a company car perspective, a steady move to petrol and hybrid vehicles, particularly by non-essential users, means that diesel is almost guaranteed to lose its position as the most popular fuel for new fleet registrations in 2018. As a result, average CO_2 emissions for all new car registrations are likely to rise, although average NOx emissions should fall.

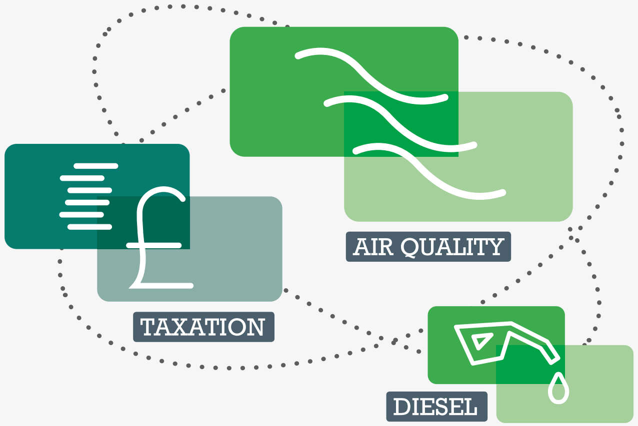
In the commercial vehicle environment, CO_2 and NOx emissions will both fall, but this will be due to an increasing uptake of Euro VI emissions standard diesel vans and trucks rather than a shift in fuel-types.

Whether your fleet mix changes or not next year, 2018 is set to be the ‘Year of the Fleet Review’. Driven by the need to meet local Clean Air Zone requirements, respond to a change in motoring tax or just present the ‘right image’ for their own business or their customers’, BVRLA members will be conducting some deep and wide-ranging analysis of vehicle types, fleet cycles and contract mileages and terms.

Like a goalkeeper relishing the prospect of a penalty shoot-out, many of them see the uncertainty and nervousness surrounding the diesel and air quality debate as a great opportunity to stand out. Rental or leasing, cars or commercial vehicles, BVRLA members can’t wait to demonstrate their knowledge, experience and ability in providing a flexible, affordable road transport solution for every eventuality.

BVRLA Prediction:

Petrol will overtake diesel in market share of new fleet car registrations



KEY 2018 TRENDS

- **The uncertainty over air quality measures and the outlook for diesel will drive more people and businesses to rent or lease vehicles**
- **Fleet consultants will be in high demand as customers seek in-depth advice and reassurance**
- **Diesel’s dominance of the commercial vehicle market will not change**

> *"CAZ developments will have a positive impact on rental and leasing. More and more people are taking an interest in it."*

Jane Pocock, Vans Direct

Personal leasing

A new generation of drivers that has grown up with Netflix and mobile phone contracts see a car as just another device to be paid for monthly and upgraded on a regular basis.

BVRLA members may be enjoying this trend and the growth being delivered through personal contract hire. Few of them are feeling entirely comfortable about it.

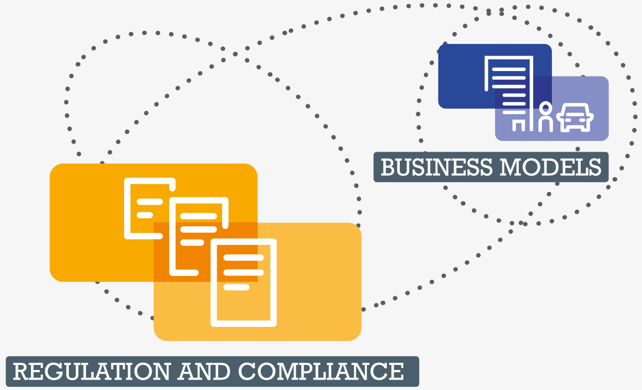
Funders and leasing brokers are united in embracing the challenge of working in a more tightly regulated market, but many of them believe that the industry must do more in 2018 to demonstrate that it is compliant and keeping its own house in order. Confidence in their own internal safeguards and procedures is undermined by nagging doubts about things they can't control. Many fear that poorly advised PCP deals, a tightening of the consumer credit environment or a Brexit-induced increase in the cost of new vehicles could damage the industry's hard-won reputation.

Elsewhere, there is a concern that personal leasing is nibbling away at the company car market that has been the industry's bread and butter for so long. Demand for essential use and high-mileage company cars may be entrenched, but no-one is expecting any growth from perk users. As usual, however, the leasing sector has some ideas up its sleeve. 2018 could see this trend countered with a growth in salary sacrifice and affinity schemes.

Employers may be more willing to abandon the traditional company car, but many are very aware of their duty of care for staff that drive for work. Members are reporting an increasing demand for grey fleet management services and advice and are looking to invest further in this area in the months ahead.

"Embracing regulatory compliance has helped our industry to improve the overall customer experience. We have a collective responsibility, supported by the BVRLA, to ensure we continually learn how we can improve further."

John Lawes, Hitachi Capital Vehicle Solutions



KEY 2018 TRENDS

- **PCP will remain under the spotlight amid concerns about the way the product is sold and the impact of any sharp downturn in the economy or residual values**
- **Personal leasing will continue to nibble away at the 'perk' company car market**
- **Demand for grey fleet management is set to grow**

"Leasing companies and brokers need to be very cautious about affordability. Leasing is becoming more expensive as we feel the impact of Brexit, price inflation and falling residual values. An extra £30 or £50 per month can make a big difference to some customers."

Martin Brown, Fleet Alliance

Connected vehicles and data

Connected vehicles and data will provide a massive opportunity for the vehicle rental and leasing industry to drive new revenues and cost efficiencies. On the flip side, they also present a major risk of falling foul of new data protection rules.

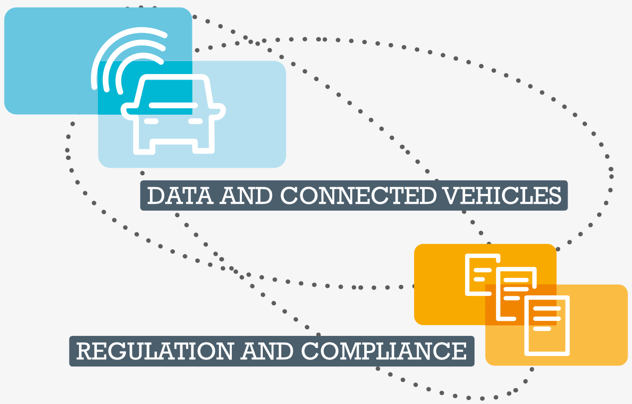
Unsurprisingly, BVRLA members will be prioritising compliance in 2018, which will mean reassessing the way they interact with every customer and their drivers.

There will be similar discussions with vehicle manufacturers, and lawyers will be very busy debating and drafting new contracts with terms covering the cleansing of personal data, driver contact and access to vehicle repair and maintenance information. These deals will take time and BVRLA members have mixed views about how constructive these conversations will be. Some are increasingly confident that OEMS are willing to collaborate with their rental and leasing counterparts. Others are frustrated that the focus is still on who controls the data rather than what can be done with it.

Managing vehicle data is one challenge, but so is managing the connected asset itself. An ever-growing range of built-in and brought-in connected devices and services will create additional headaches for rental and leasing companies in 2018. Specifying, managing and troubleshooting this diverse mix of technology could lead to a recruitment drive for Apple store-style automotive ‘product geniuses’.

“We had a recent customer who said the main criteria for selecting his new car was that it had the ability to read his emails to him.”

Spencer Blake, Wessex Fleet Solutions



KEY 2018 TRENDS

- 2018 will be a year of ‘connected consolidation’ as companies get to grips with GDPR compliance and agree the terms for working with vehicle and driver data
- Fleet operators are increasingly relying on ‘brought-in’ rather than ‘built-in’ connectivity – using smartphone apps or third-party kit such as dash-cams
- Vehicle rental and leasing companies face an increasingly complex challenge in specifying and managing vehicles with a huge variety of connected attributes and services

> *"As an industry, we need to be more specific about the data we hold and use. This is another area of compliance where we need to develop good disciplines that build confidence and provide a more responsive customer relationship."*

Matt Dyer, LeasePlan

Mobility services

Car sharing, corporate car clubs, ride hailing, Peer2Peer rental (P2P) and dynamic shuttle buses – new mobility services will continue to grow in all their guises in 2018. Boundaries continue to blur, and rental and leasing companies are already dipping their toes in all of these new transport models, as well as Mobility as a Service (MaaS), the technology platform that integrates these services in one handy smartphone app.

All these services are at different stages of their ‘growth’ or ‘hype cycle’ but are focusing on urban areas where car ownership is on the wane and new air quality measures are set to drive motorists towards newer, cleaner, pay-as-you-go road transport solutions.

BVRLA members are not expecting any big MaaS take-up in 2018 and many have reservations about joining such a platform. Nonetheless, there will be some high-profile launches involving rental companies and car clubs. This will generate a lot of discussion amongst policymakers, operators and platform providers around the future roadmap for this exciting technology. The jury is still out on whether MaaS should be run as a market free-for-all involving competing app providers, or a tightly-controlled platform run or regulated by a local transport authority.

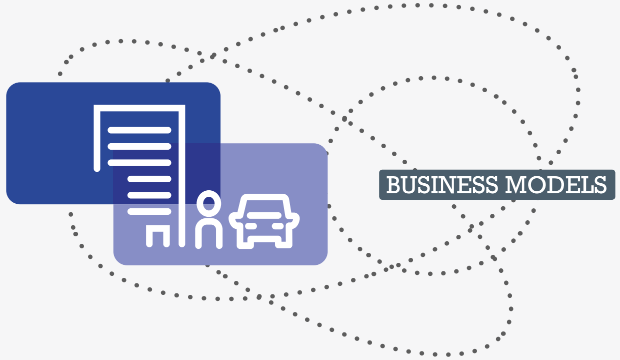
Big things are expected from the car club sector in 2018, particularly in London. The Mayor’s new Transport Strategy may have treated car clubs as a footnote, but boroughs across the Capital are increasingly embracing them, particularly in their newer electrified and flexible/floating model.

The growth scenario is harder to pinpoint for P2P rental, but there is plenty of investment into the sector and new business models emerging in areas including airports and car leasing. Earlier stories about ride-hailing eating into the business rental market appear wide of the mark. In fact, Uber and its counterparts are actually creating a demand for short-term rental vehicles.

Rental operators are likely to face more competition from vehicle manufacturers themselves, with a number of OEMs looking to roll-out smartphone app-based rental services using their dealer networks as local hubs.

BVRLA Prediction:

The UK car club fleet will grow by at least 20% in 2018, driven by growth in flexible and corporate car sharing.



KEY 2018 TRENDS

- The car club market is nearing a ‘tipping point’ as new technology, electrification and corporate demand drive uptake
- App-based car rental is coming to a dealership near you
- Mobility as a Service won’t take off in 2018, but the range of different mobility services on offer will

"As a private company we go to great lengths to build a relationship with our customers, and don't want to just be another provider on an app."

James Taylor, DriveNow

Electric vehicles (EVs)

Public sentiment around electric vehicles has come a long way in a short space of time. EV awareness has soared and there is plenty of excitement about their potential to revolutionise road transport. BVRLA members are operating at the frontline, where electric vehicle expectations meet reality.

They all agree that, for the average rational customer, selling EVs still represents a major challenge, particularly when it comes to real-world range and acquisition cost.

Short term car rental operators have had the biggest struggle in building a significant market for electric rental vehicles. They see some grounds for optimism now that the government has provided more financial and regulatory support for charging infrastructure and common standards, but don't expect to see much growth in 2018.

Car club operators are more optimistic and point to the clear direction given in cities like London where EV infrastructure is being invested in. They are planning to make significant hybrid and pure electric upgrades to their fleets next year, but they also see the big progress being made from 2019 onwards.

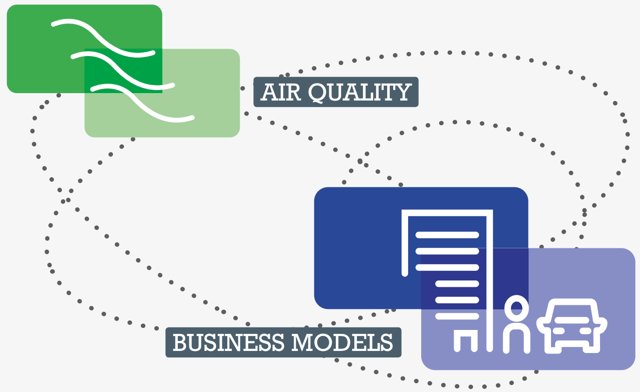
With most BVRLA members forecasting 2019 as the breakthrough year for pure electric vehicles, it is not surprising that many leasing companies believe next year will be the year of the hybrid when it comes to growth in new electric car registrations.

Rapid improvements in real world MPG and CO_2 mean that the new generation of petrol hybrids could give many of today's diesel fleet stalwarts some serious competition.

One area where electric vehicles won't be providing competition is the commercial vehicle space, where payload, range and running costs cannot be compromised. Elon Musk's electric Tesla Semi is still a few years away and van and truck operators are not expecting any breakthrough products for 2018.

"We need to get to a stage where you get a similar range at a normal price. At the moment we have a big expectation gap. This is narrowing and 2019-20 will be a breakthrough year."

Jonathan Hampson, Zipcar



KEY 2018 TRENDS

- **2018 will not be the 'breakthrough' year for plug-in vehicle sales – there are still significant concerns about range, product, charging issues and lack of incentives**
- **Hybrids will dominate EV registrations and improvements in real-world MPG and CO_2 will make them serious competition for many diesel cars**
- **There will be no significant growth in EV registrations for the CV market**

"We don't expect any EV van market movement in the next twelve months. We need longer ranges, larger payloads and bigger subsidies and tax incentives to make electric vans cost effective."

Kevin Bradshaw, Northgate

Advanced Driver Assistance Systems (ADAS)

While academics, engineers and politicians exchange predictions about when autonomous vehicles will finally take over our road networks, BVRLA members are already embracing the incremental ADAS technology that will get us there.

More than 90% of 2017 model cars have Autonomous Emergency Braking (AEB) as either a standard or optional fit and the proportion of fleets specifying high-levels of ADAS will continue to rise in 2018.

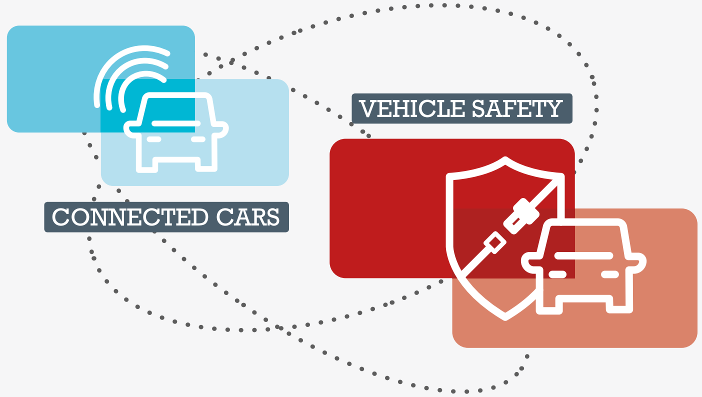
Recent research from Thatcham suggests that 26% of the vehicles in for repair had some form of ADAS present. The price of parts and labour can vary enormously, and the need to calibrate certain features can add another whole level of expense and complexity. There are also very legitimate concerns around how technical data will be provided and at what cost. Meanwhile, the whole automotive industry is struggling to recruit new technicians and train them up on the latest electrical and autonomous parts and specifications.

It is no surprise that some in the industry think 2018 will be a challenging year, as fleet operators, OEMs and the aftermarket get to grips with new equipment, new business models and new regulations.

Fleets aren't only looking to vehicle manufacturers for technology upgrades. More of them are buying in third-party kit, particularly in the form of dashcams and smartphone telematics. The increasing affordability of this technology means that smaller fleets and even individual customers are willing to pay a little bit extra to improve their driving performance or lower their insurance risk.

"Forward facing dashcams could become a must-have piece of technology for smaller rental companies, helping to provide evidence of whether a driver is culpable or not in the event of an accident."

Paul Winter,
Turner Hire Drive



KEY 2018 TRENDS

- ADAS calibration will become a significant headache for fleet operators
- Dashcams will become as ubiquitous as selfie sticks
- The independent repair and maintenance market will struggle to meet the demands of an increasingly complex range of vehicle technologies

ADAS is pioneering, life-saving technology. But it has added cost and complexity to the repair process, with an increasingly urgent need to clarify repair and calibration requirements for repairs."

Thomas Hudd,
Thatcham Repair Technology Centre

Commercial vehicles

BVRLA members are united in predicting another year of steady growth for the van leasing and rental sector, although most also warned that any sudden shift in the economy could cause them to rip-up their forecasts.

The boundaries between product offerings will continue to blur with members offering short-term, long-term and flexible rental or contract hire, finance lease and hybrid products that combine bits of both. The variety of vehicles and bodies on offer will reach a new high as members market the benefits of rental and leasing to a wider range of specialist trades.

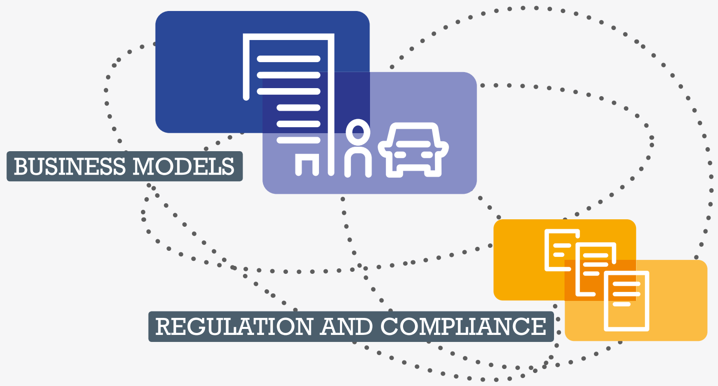
As with 2017, demand will come from a number of channels. A new generation of smaller business customers are being lured by the cash-flow and risk-management benefits of contract hire or finance leases. Many of these are sole traders undertaking home deliveries, a trend that many BVRLA members are concerned about from a credit and operational risk perspective. Another source of growth will be the steady stream of operators that decide to replace their non-core HGV fleet with vans in order to reduce their driver costs and regulatory burden.

BVRLA members are divided on the issue of whether and how the van market could be regulated, but most agree that this is unlikely to happen in 2018. They point to the growing membership of self-regulatory industry best-practice bodies, including the Freight Operator Recognition Scheme and Van Excellence, and to the increasing uptake of third-party safety technology, in the form of dashcams and smartphone telematics.

The outlook for HGV rental and leasing is less clear. The sector is undoubtedly well placed to provide an affordable and flexible low-emission Euro VI solution to hauliers concerned about urban Clean Air Zones, but Brexit-related economic and trade uncertainty could dampen demand.

> *“More and more operators are moving away from 7.5t trucks into larger panel or Luton vans, because there is much less regulation.”*

Kevin Bradshaw, Northgate



KEY 2018 TRENDS

- **The CV market will continue to polarize between firms working with HGVs and those specialising in vans**
- **Growing concerns around the risk profile of a new generation of self-employed, ‘gig economy’ van drivers**
- **Rising use of safety technology and participation in industry-led best practice schemes will avert any need for regulation of the LCV market**

"There is a definite growth in demand for smaller delivery vans. Most of them are sole traders, which means a higher risk profile."

Paul Winter, Turner Hire Drive

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