INDUSTRY OUTLOOK 2024

www.bvrla.co.uk

INDUSTRY OUTLOOK

BVRLA

Welcome

We are an industry of optimistic problem solvers...

A new year brings new challenges, but BVRLA members are on top of them and feel positive about the business opportunities ahead.

As we approach 2024, the vehicle rental, leasing and fleet management sector is feeling more relaxed about some things, while 'risk radars' are buzzing more loudly on others. Compliance burdens, bad debts and the state of the used car and van markets are front of mind for many executives as the year draws to a close. Despite these headwinds, members are predicting stronger demand in EVERY sector.

Now in its second year, our Industry Outlook Report provides high-level insights into the market forces and operational conditions that BVRLA members are weaving into their business plans. Where is the market headed? Which segments will grow and which will stagnate? What is the outlook for electric vehicles? What are the main business challenges and investment priorities? We use a mixture of dashboards, graphics and interview commentary to create an engaging narrative that brings these perspectives to life.

We are grateful for the contributions of more than 100 members, representing the full spectrum of BVRLA membership, which means we can present these findings with confidence. This year's report also includes extended end-user fleet insights from our partners at 360 Media.

If you would like to get involved in 2024 and join our Industry Outlook Panel, please get in touch with our Research and Insight Manager Phil Garthside via Phil@bvrla.co.uk.

Gerry Keaney
Chief Executive
British Vehicle Rental and Leasing Association (BVRLA)

Contents

3 Report background
4 Business outlook for 2024
5 Product demand for 2024
6 Executive summary
8 New car supply
9 New van supply
10 Interest rates and borrowing costs
11 SMR capacity and costs
12 Residual value outlook for cars
13 Residual value outlook for vans
14 Electric car TCO
15 Electric van TCO
16 Business challenges for 2024
17 ESG commitments
18 GHG reporting
20 Cost saving investments
21 HR challenges for 2024
22 ZEV mandate
23 OEM agency model
24 Compliance
25 End-user fleet priorities for 2024
26 End-user car fleet plans
27 End-user van fleet plans

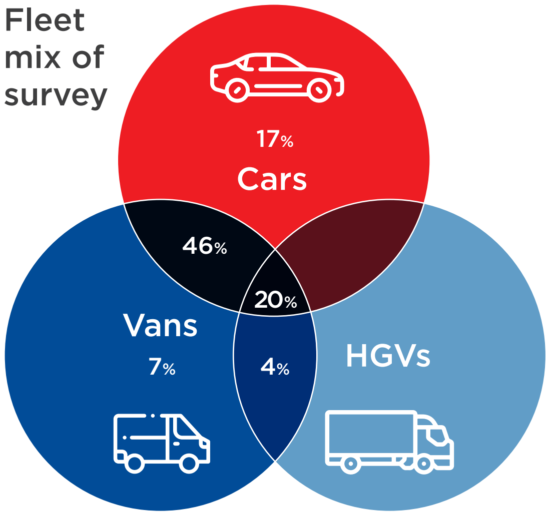
Industry Outlook Report data

This study is based on qualitative and quantitative research among BVRLA members

The data in this survey is based on responses from 112 leasing, rental and broker companies.

Special thanks to:
Pat Skelly, Chief Executive Officer, **Prohire Group**; Natalia Peralta Silverstone, Head of Propositions, **Octopus EV**; Per Voegerl, Managing Director, **United Rental Group**; Alfonso Martinez, Managing Director, **ALD/LeasePlan**; Lee Hamlett, Commercial Director, **Kinto**; Spencer Halil, Chief Commercial Officer, **Alphabet**; David Cooper, Managing Director, **Arnold Clark Finance**; Gareth Jones, Managing Director, **Radius Vehicle Solutions**; Alan Olivier-Smith, General Manager, **Avis Budget UK**; Tim Bailey, UK Fleet Director, **Redde Northgate**; Paul Parkinson, Chair, **Synergy Car Leasing**; Keith Hawes, Director, **Nationwide Vehicle Contracts**; Biswajit Kundu Roy, CEO and founder, **Coastr.**

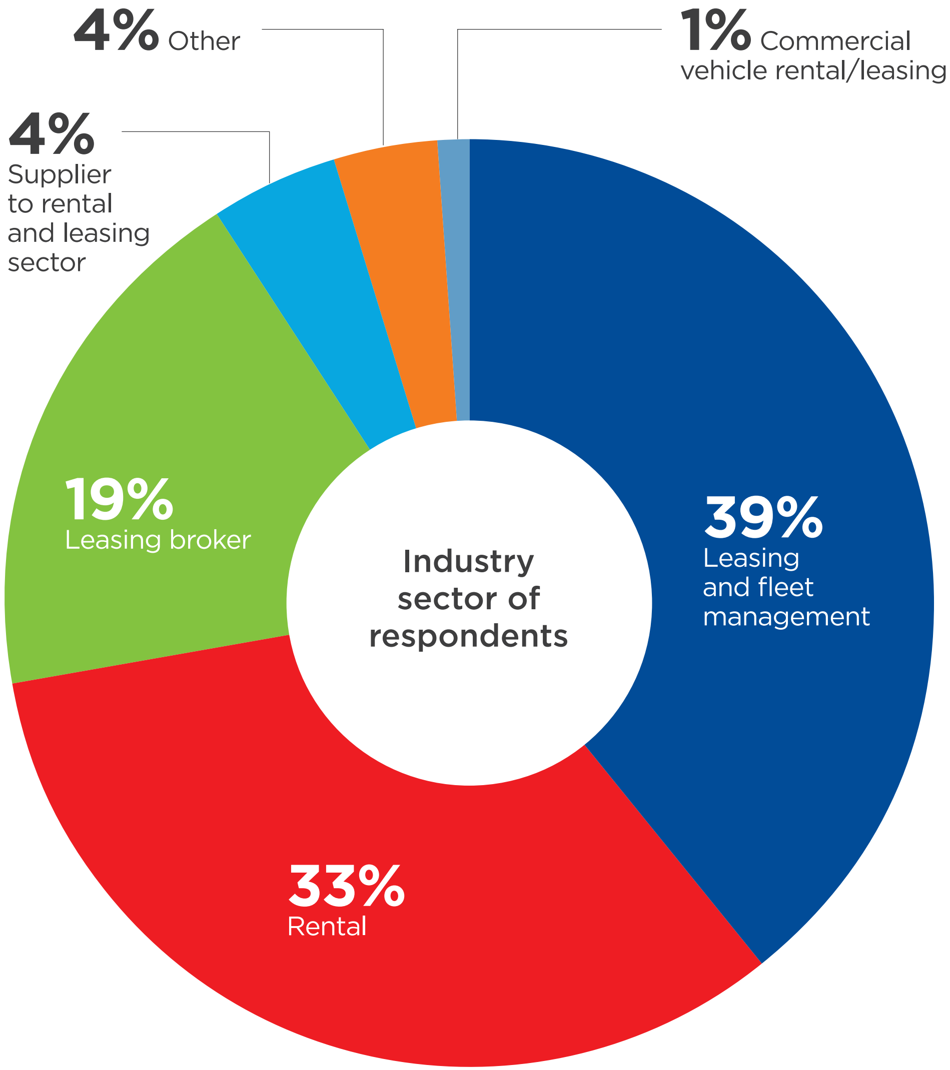
Fleet mix of survey



26 % of respondents work in firms with 250+ employees

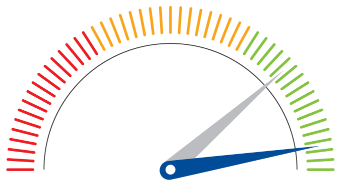
46 % work in businesses with 20-249 employees

28 % of respondents work in companies with fewer than 20 employees.



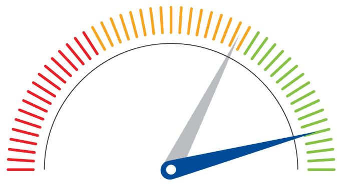
Business outlook for 2024

Blue pointer 2024
Grey pointer 2023



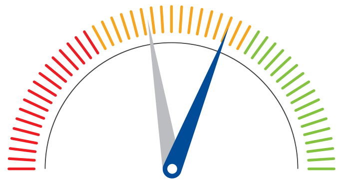
Car supply

Worse Same Better



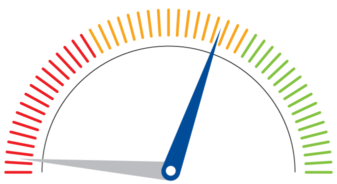
Van supply

Worse Same Better



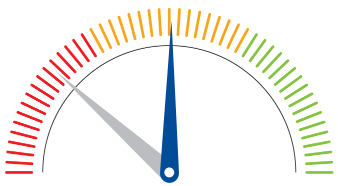
Business demand

Worse Same Better



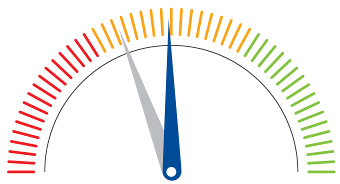
Cost of Finance

Worse Same Better



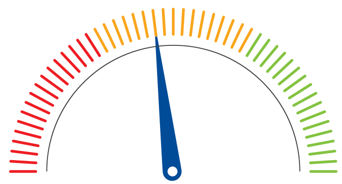
Consumer demand

Worse Same Better



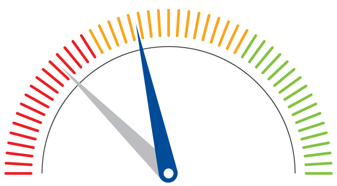
BEV total cost of ownership

Worse Same Better



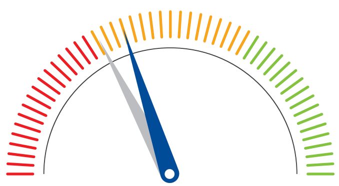
e-LCV TCO

Worse Same Better



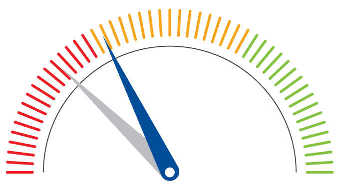
Cash flow / debtors

Worse Same Better



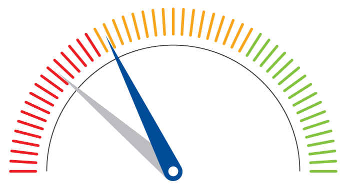
Used van market

Worse Same Better



Regulatory / Compliance burden

Worse Same Better

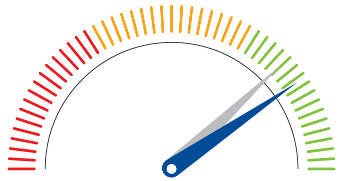


Used car market

Worse Same Better

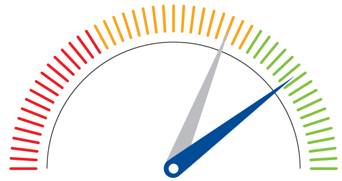
Market perspectives for 2024

Blue pointer 2024
Grey pointer 2023



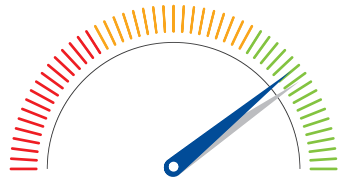
Salary sacrifice

Worse Same Better



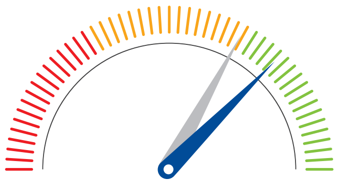
Business contract hire - vans

Worse Same Better



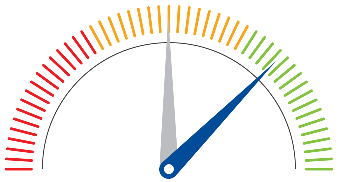
Van flexi-rental

Worse Same Better



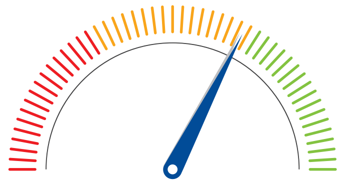
Van rental

Worse Same Better



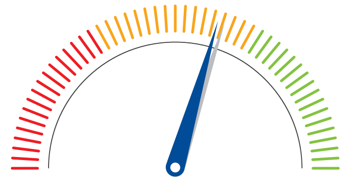
Business contract hire - cars

Worse Same Better



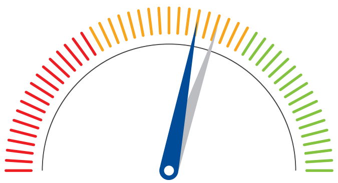
Car rental

Worse Same Better



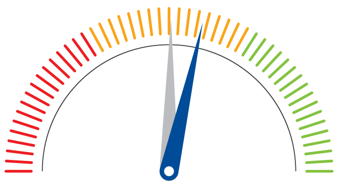
Car subscriptions

Worse Same Better



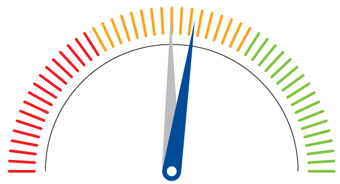
HGV rental

Worse Same Better



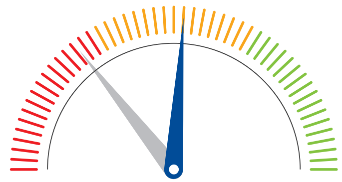
HGV leasing

Worse Same Better



Car clubs

Worse Same Better



Personal contract hire

Worse Same Better

Executive summary

There's a surprising degree of optimism for 2024 among leasing and rental companies in the face of extremely challenging trading conditions

Despite decade-high interest rates, tumbling used car prices and a national economy stuck in the doldrums, leasing and rental companies have moved the needle in a positive direction on almost all key business metrics for 2024, compared to industry sentiment this time last year.

New car and van supply have improved dramatically, finance costs are high by historic standards but appear to have stabilised, and even the outlook for the used car and van markets is more optimistic than 12 months ago.

Growth is back on the agenda for the industry after two years when curtailed vehicle supply has restricted expansion plans. BVRLA members are in no doubt that trading is going to be challenging next year given macroeconomic conditions, but industry leaders are confident that they offer products and services that thrive when the going gets tough for UK Ltd and private households.

For rental companies, uncertainty in the wider economy is fuelling demand for flexible products, with business customers eager to avoid tying themselves into long-term lease commitments, while the return of tourism to pre-Covid levels is raising inbound business. This broad-brush approach naturally masks winners and losers – the cancellation of HS2, for example, has led to a significant downturn in demand from the construction and civil engineering sectors, said Per Voegerl, Managing Director, United Rental Group.

> "Electric cars are still price sensitive – make them more affordable and more people will buy them."
>
> **Natalia Peralta Silverstone, Head of Propositions, Octopus EV**

For leasing companies, there are hot and not-so-hot product lines. The majority forecast that demand for business contract hire cars and vans will be stronger in 2024, with the sharp increase in vehicle prices underlining leasing's ability to make new vehicles affordable.

Even in the retail sector, where customers have found that like-for-like car replacements cost several hundred pounds per month more, brokers and leasing companies are more optimistic than this time last year, although they see little prospect for growth. On the other hand, salary sacrifice continues to mushroom from an already strong base, with volumes rising as employees opt in to schemes once their current car finance contracts come to an end. Staff with cash allowances are also reported to be opting back into company car schemes, lured by the supportive benefit in kind tax rates for battery electric vehicles.

Not everything in the garden is rosy, however, with leasing and rental companies almost universally reporting their alarm at the levels of residual value risk they are carrying, especially with regards to BEVs. Prices of secondhand BEVS have been in freefall for a year, tumbling by more than 30%, and there are growing fears that the fleet and retail markets are following very different trajectories in their adoption of zero emission vehicles.

This has led to mounting calls among industry players for Government intervention to stimulate demand for new and used BEVs among private motorists to avoid a glut of unwanted plug-in vehicles developing. The Government's recent decision to extend the deadline for the sale of petrol and diesel models until 2035 has diluted any sense of urgency about the transition to zero emission vehicles.

"Consumers are being confused by mixed messages on BEVs, and the delay on banning the sales of new petrol and diesel cars may result in consumers delaying their transition decisions," said Lee Hamlett, Commercial Director, Kinto.

Current data indicates that only when used BEV prices fall to the same level as used internal combustion engine equivalents do they find buyers. If this trend continues, lease rentals of BEVs will rise sharply to cover higher depreciation costs, given their higher acquisition prices.

The situation in the electric van market is even more acute, with neither leasing nor rental customers showing much desire for battery-powered light commercial vehicles, and even less appetite apparent among used van buyers. The cost and delays of installing charging infrastructure at depots, and the lost productivity of van drivers plugging in their vehicles during the working day are seeing customers dragging their heels along the road to decarbonisation.

The problem, identified by many rental and leasing companies, is the Zero Emission Vehicle mandate, which will force manufacturers to ensure an ever-rising share of their sales are electric from next year. This artificial stimulus is already seeing rental and leasing companies facing pressure to include electric vehicles within their orders, whether they want them or not. Better news is that the requirement to secure BEV sales is seeing OEMs reintroduce discounts, while new Chinese brands are bringing even more pressure to bear on prices.

“We are a strategic partner for BYD and have seen strong interest for their products. They bring good products in at competitive price points and EV buyers are slightly less brand loyal,” said Natalia Peralta Silverstone, Head of Propositions, Octopus EV.

Chinese brands’ lack of a comprehensive nationwide service and maintenance network is giving pause for thought to some leasing companies, although the capacity and cost of maintenance and repair has become a serious problem for the industry as a whole. Rental firms are training up their own staff to take on more of this work, while leasing companies are broadening their SMR networks to minimise vehicle downtime and improve customer service.

Leasing and rental companies are also examining their own operations for cost saving opportunities, with IT investment high on corporate agendas. ESG commitments are also rising as BVRLA members start to report their emissions of greenhouse gases, although a third of companies are yet to start this process.

As for 2024, “to standstill is the new up,” joked one managing director. Digitising processes, developing new products, and recruiting/retaining staff while running businesses that face inflationary pressures in every area of operation is no mean feat, but the outlook for 2024 is brighter than the projections for 2023 at the tail end of last year.

New Chinese OEMs

“The Chinese EV producers have seized the opportunity to grow market share in the UK and wider Europe. With little/no ICE legacy, they have been able to focus on and attack the EV market, already reaching 3% total car market share (from 0.1% in 2019) and over 8% of EV sales are Chinese,” said Ben Boot, Head of Development, Kwik-Fit.

“The UK is their largest market accounting for nearly 1/3 of their European sales. Using well-known brands names like MG has enabled them gain instant recognition and success (MG4 is the second biggest selling EV after the Model Y). We are expecting more brands to arrive in 2024, with the large players like BYD expected to launch several models and smaller start-ups like Nio and Xpeng making in-roads, too. We are seeing a lot of these brands are still reliant on the Premium tyre manufacturers products to give their vehicles the optimum range and performance.”

Major improvement in car supply

The drought of new vehicles has ended, but BVRLA members cannot always source the cars they want

New car supply issues have eased considerably for both rental and leasing companies over the past 12 months… but there's a caveat. They cannot always source the cars they want.

Lead times have shortened for many manufacturers (with some exceptions) allowing leasing companies to start delivering their order banks and relieving rental companies from 2022's pressure to source used cars. Overall, 78% of survey respondents anticipate that car supply will improve next year, and only 3% forecast a deterioration in availability.

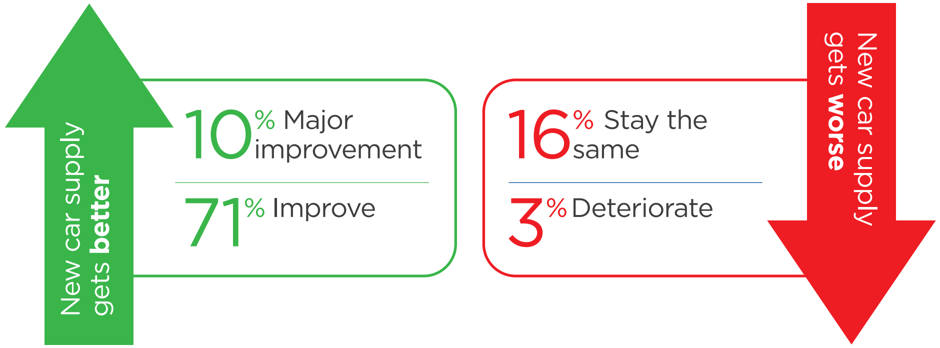
But the impending Zero Emission Vehicle mandate (see page 18) is distorting the availability of certain powertrains, with leasing companies facing official and unofficial pressure from manufacturers for a percentage of orders to be battery powered to help the OEMs comply with the mandate.

This is potentially even more difficult for rental companies, with EVs presenting operational challenges and low customer demand.

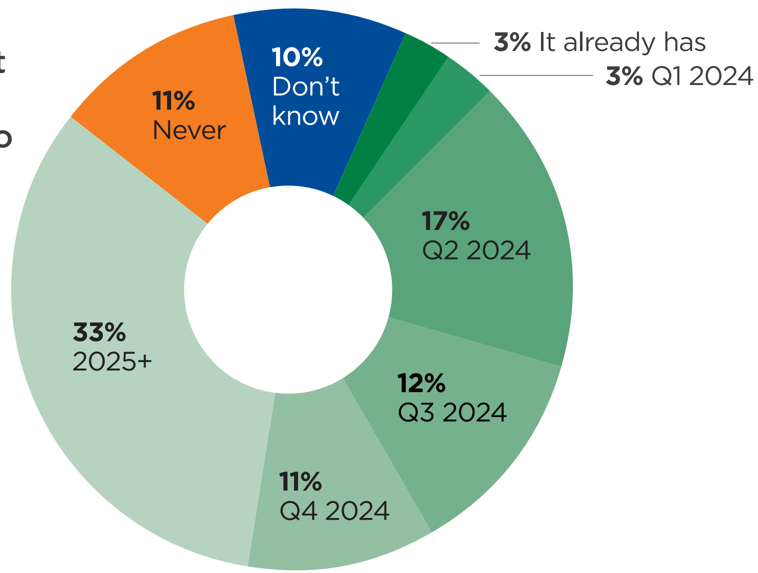
Brokers are also reporting a dramatic decline in supply from manufacturers that have introduced an agency model of distribution (see page 19), although anecdotal evidence indicates that the OEMs which have closed this sales channel may have increased their supply to rental firms.

> "As vehicle supply increases, the cost of leasing should reduce and enable more customers to renew and replace vehicles they have currently chosen to extend,"
>
> **Director, leasing broker**

How car supply will change over next 12 months



When do you expect car supply to return to pre-Covid levels?



Commercial vehicle drought ends

But fleets are having to be flexible about vehicle choice

A 20.5% increase in new light commercial vehicle registrations over the first 10 months of 2023, compared to the same period of last year, has helped to ease the driest of droughts in new vehicle availability. Rental companies and end-user lease fleets have been able to start replacing older vehicles, although the new 'normal' of 2023 does not resemble pre-Covid times and never will, according to industry experts.

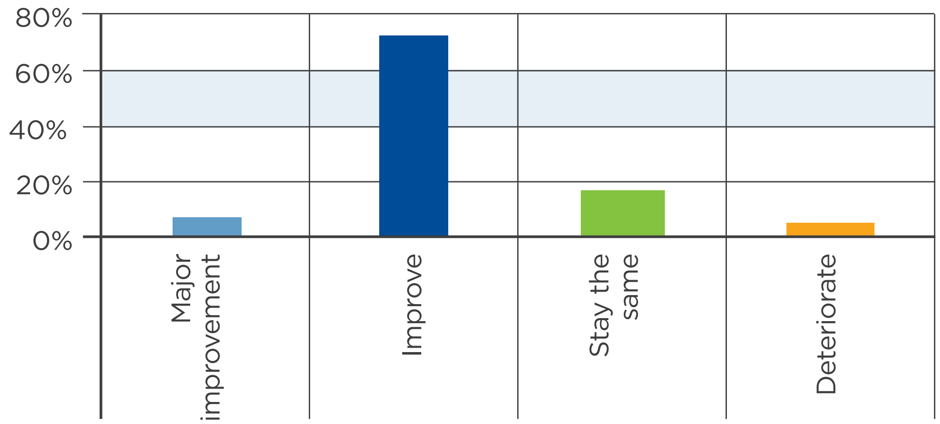
Full year sales this year are unlikely to reach close to 2019's 365,778 registrations, and there are still long lead times in the supply chain for converting chassis into specialist light and heavy commercial vehicles, especially refrigerated units.

Moreover, leasing companies report that key LCV manufacturers have either closed their order books or cited delivery times of up to a year, and have almost doubled their prices. Rental and leasing customers are having to be agile with brand choice, accepting what is available rather than their historic first choice.

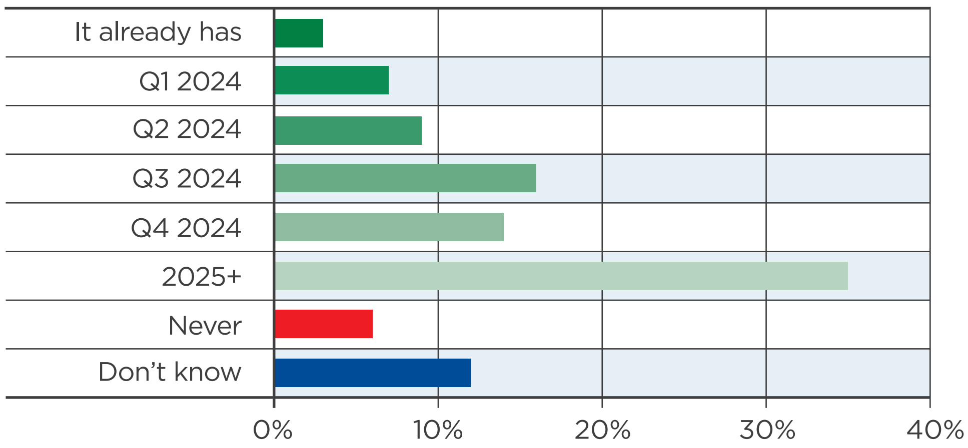
"While vehicles are starting to arrive in greater quantities, these are not yet across the product range or at sufficient volumes to satisfy continued demand," said Redde Northgate in its last trading statement.

> "The commercial vehicle supply chain is not going to change, and that has nothing to do with microchips, tyres or engines. It's just the way the world is now driven by CO2 reduction, which is seeing a reduction in build."
>
> **Pat Skelly, CEO, Prohire**

How new van supply change in 2024



When will van supply return to pre-Covid levels?



The burden of borrowing costs

Higher interest rates are impacting rental and leasing companies and weakening residual values

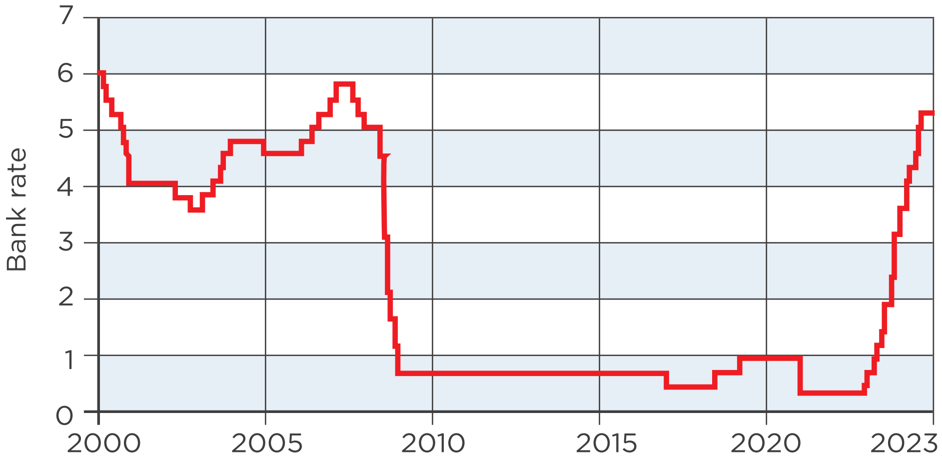
The highest interest rates for over a decade have more than doubled the borrowing costs of rental and leasing companies.

BVRLA members report no issues in accessing finance, but face direct and indirect impacts from the Bank of England's strategy to tackle inflation by raising interest rates.

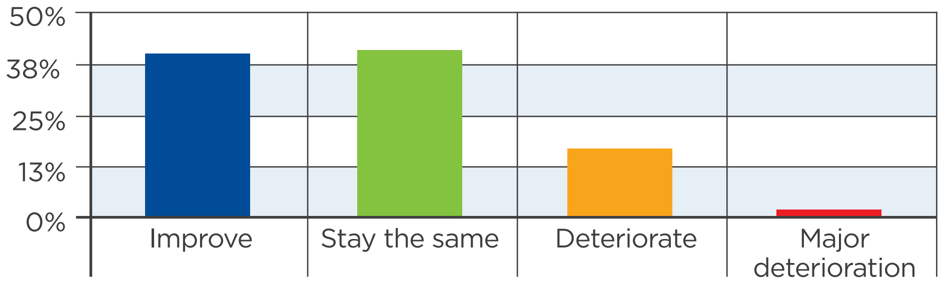
The direct challenge lies in passing on the additional costs to customers, while the indirect challenge stems from the reduced household budgets of buyers of secondhand vehicles, weakening residual values.

On a more positive note, the combination of stable interest rates since July and inflation falling to a two-year low in October has led to a sense that borrowing will not get any more expensive in 2024. Only 23% of respondents to the BVRLA survey think the cost of finance will increase next year.

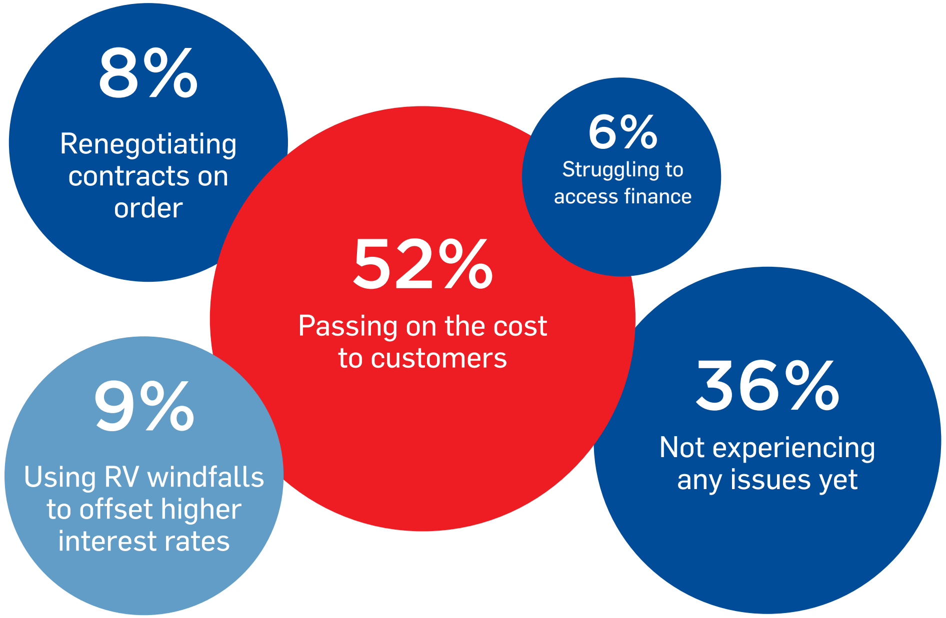
Bank of England interest rates, 2020-23



How the cost of finance will change in 2024



Solutions to the higher cost of finance



*Respondents could select more than one response

Vehicle running costs soar

Leasing and rental operators face longer waits and higher costs for service and maintenance work

A severe shortage of workshop capacity allied to parts delays and price rises have dramatically increased the in-life costs of operating vehicles for BVRLA members.

With vehicle uptime a key performance indicator for many end-user fleets, leasing and rental companies are expanding their networks of dealers and garages, as well as intensifying training programmes for their own technicians.

Longer holding periods have meant rental companies are having to put vehicles through scheduled services for the first time, and in some cases even through MOTs, leading to unproductive downtime.

Delays in servicing work have become so extensive that some leasing companies are finding it cheaper to pay for repairs rather than wait for warranty work at dealers and incur replacement vehicle expenses.

This is not a scenario that many see improving, with fears that manufacturers' introduction of agency models will squeeze dealer revenues and lead to cut backs in servicing departments.

> "Maximising vehicle uptime and managing the cost of SMR for customers and ourselves is one of the biggest issues we face."
>
> **Gareth Jones, Managing Director, Radius Vehicle Solutions**

57% The rise in fleet SMR lead times since the start of the pandemic.

6,350 fewer miles covered on average by EV tyres.

62% of fleets use independent garages for four-year old vehicles.

Source: epyx

Car RVs fall, while future EV risks rise

The gap in EV adoption by company and private drivers is creating a residual value risk timebomb

First the good news. Despite the softening of the used market in the second half of 2023, secondhand vehicle prices are still well ahead of pre-Covid levels. Furthermore, about 2.5 million new car sales were 'lost' during the pandemic and its aftermath, which should support vendors over the next couple of years in the delicate supply-demand balance that dictates used car values.

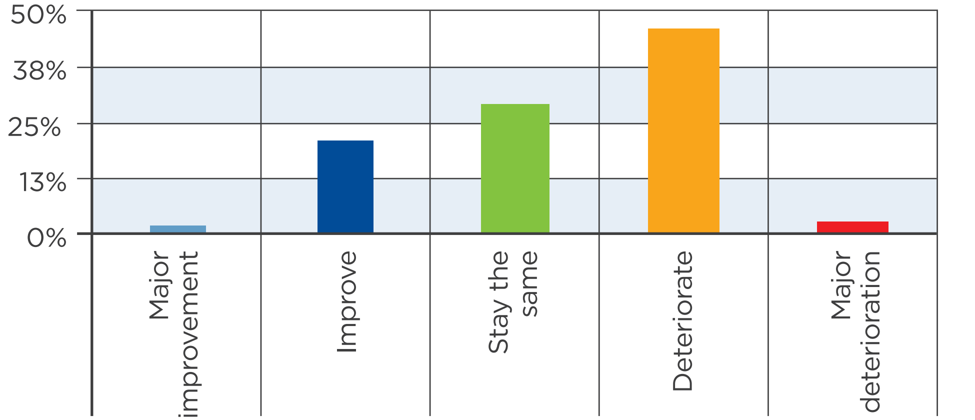
But now the bad news. Interest rates are high and used car buyers are caught in a cost-of-living crisis, creating affordability issues for used car prices. Moreover, there is a widening chasm between strong fleet appetite for new electric cars and reticent retail demand. Fewer than 25% of new EVs are bought by private buyers, according to the SMMT.

The leasing industry is clear that the negative narrative surrounding EVs needs to change, ideally backed by financial support from the Government in the form, perhaps, of interest free loans, VAT exemption for used EVs or a scrappage scheme. Otherwise, used EV values will remain at the same level as used petrol and diesel car prices, spelling much greater depreciation for battery powered models, and therefore higher lease rates.

Leasing companies are also exploring opportunities for secondlife leases, in salary sacrifice, personal leasing and SME markets.

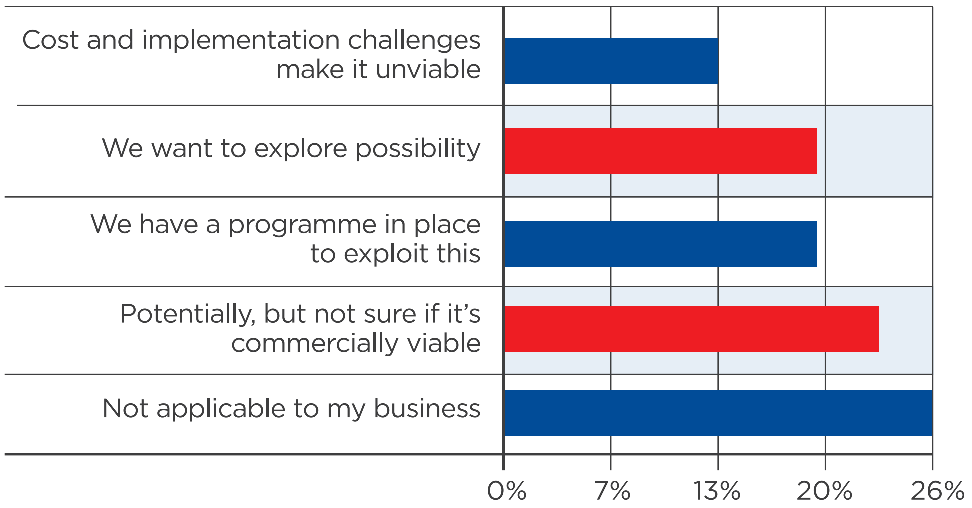
> "Do I think in three years' time EVs will be in a much better place? Absolutely. We will have the infrastructure to make them work."
>
> **David Cooper, Managing Director, Arnold Clark Finance**

12-month forecast for used car market



50% **of BVRLA members think the Government will have to intervene to support the used EV market.**

Prospects for secondlife BEV leases



LCV values weaken but still positive

The increased supply of used vans has softened prices, but they remain high by historic standards

Ageing van fleets have left 40% of leasing companies feeling pessimistic about the residual values they will achieve when their commercial vehicles are finally remarketed.

The combination of a shortage of supply and eye-watering increases in new light commercial vehicle prices has seen business customers extend their van contracts at least once and, in some instances, twice, rather than confront the much higher rental costs of a new vehicle.

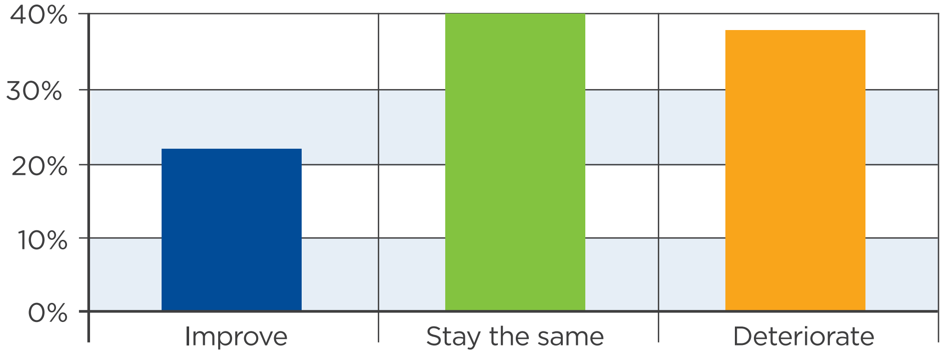
However, the rising maintenance costs and increased downtime of older vehicles is forcing a renewal programme, and leaving the industry with older vehicles in poorer condition to sell. This manifests itself in the survey data, with leasing companies twice as likely as rental firms to forecast a deterioration in LCV values over the next 12 months.

Before cuing violins, however, it's worth noting Cox Automotive's analysis that LCV prices have established a 'new normal', 10.8% lower than the peaks of 2021, but still 42% ahead of the pre-Covid average.

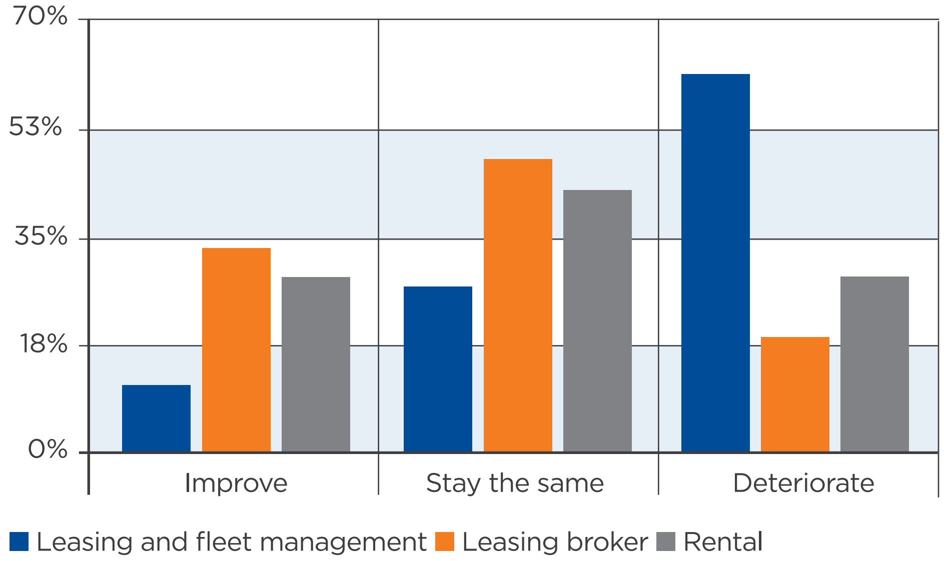
Further positive news is that the steady introduction of clean air and ultra-low emission zones is pushing drivers of secondhand vans to upgrade at least to Euro 6 models, although leasing companies report extremely limited demand for used electric LCVs, prompting innovation to create second-life e-LCV leasing products.

> "Our second generation EV offering is a superlease where we will do the maintenance and look after the batteries. We are starting to see three-year old vehicles go back into fleet at a reduced rate because we are confident in the vehicles."
>
> **Pat Skelly, CEO, Prohire**

12-month forecast for used van market



12-month forecast for used van market by industry sector



Charging infrastructure costs are undermining electric car TCO savings

Pricing pressure will lower EV acquisition costs, but rental companies are concerned at total cost of electrification

Two-thirds of rental and leasing companies expect the total cost of ownership of electric cars to stay the same or improve over the next 12 months. The finding is a surprise given the widespread pessimism about a steady decline in used EV values.

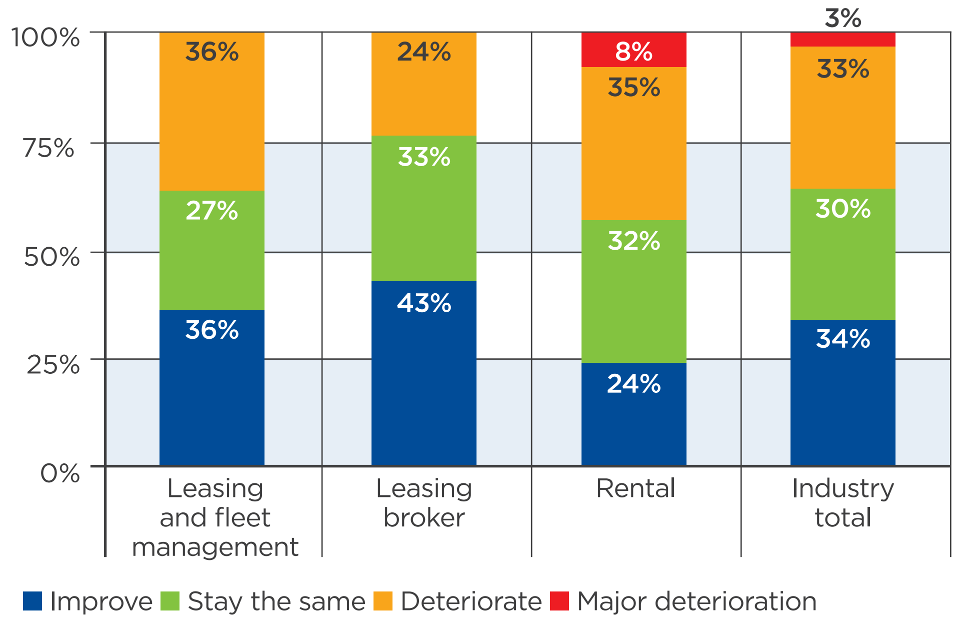
However, net depreciation might improve due to cheaper EV prices, with BVRLA members expecting manufacturers to re-introduce discounts to stimulate EV sales in order to meet the their Zero Emission Vehicle mandate targets. Competition from new (Chinese) OEMs is also bringing downward pressure to bear on new car prices, with leasing companies reporting that electrification has weakened brand loyalty among drivers.

In the rental sector, the cost of power upgrades and charging infrastructure means EVs remain problematic, especially as every hour plugged in delays the swift turnaround of hire vehicles. “Unless there is a major improvement with public charging infrastructure, it will be a nightmare trying to charge 30-50 vehicles on a site in time before they go out on hire,” said one rental director.

> “The main issue is the pricing of EVs. Factoring in the depreciation costs does not create a competitive rental offering. We are seeing very little demand for electric vans from SME customers.”
>
> **Per Voegerl, Managing Director, United Rental Group**

> “The strict ZEV mandate targets, the continued cost of finance challenges and an increasingly fragmented market will add to the nuance and complexity we’re already seeing today. Accurate and immediate data will be more critical than ever.”
>
> **Rachael Jones, Director of Automotive Finance, Auto Trader**

12-month forecast for BEV TCO by sector



Making a case for e-LCVs

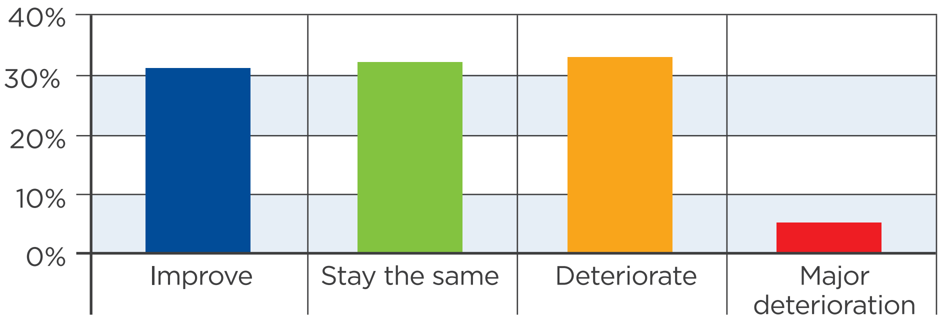
The trajectory to zero emission motoring is clear, creating pressure to find successful use cases

For many BVRLA members, the electrification of light commercial vehicles currently falls into the same category as taxes and death – unwanted but inevitable. The extended 2035 deadline for zero emission motoring might suggest that LCV operators have an extra replacement cycle before having to make the transition to electric, but the Zero Emission Vehicle mandate means the balance between diesel and battery-powered vehicles is already starting to tilt.

The mandate dictates that 10% of new van sales next year will need to be fully electric, rising to 16% in 2025 and 24% in 2026. This year, registrations are tracking at 5.5%.

Industry chiefs say the narrative surrounding e-LCVs has to flip 180 degrees and focus on what they can do, rather than their shortcomings. So, while there is still a widespread belief that e-LCVs are too expensive, offer insufficient range and payload, damage productivity due to charging times, and suffer savage depreciation because the used LCV market does not want them, the counter argument sees an opportunity to work with customers to identify LCVs that can switch to battery power without compromising operational efficiency or cost.

12-month forecast for change in TCO of e-LCVS



> "e-LCVs can prove cheaper for some applications, but we don't yet have the same richness of data as we have for cars to build a 100% clear case that they're more cost effective. Maintenance costs and time off the road should be a clear advantage for e-LCVs."
>
> **Alfonso Martinez, Managing Director, ALD Automotive | LeasePlan**

Tougher trading conditions in 2024

BVRLA members face higher borrowing costs, an uncertain economy, RV risk and ESG pressures

There is unanimity among BVRLA leasing companies that business has never been more challenging. Seasoned executives say a cocktail of high interest rates, an economy teetering on the brink of recession, uncertain residual values, the race to decarbonise, and a shortage of vehicles have made trading extremely difficult. Having rarely 'had it so good' as the last two years, thanks to bumper residual values, companies are bracing themselves for tougher times ahead. While the factors are common between leasing and rental, it is rental companies that appear significantly more concerned about four of the top five challenges for 2024.

"The increased costs to operate on airports, coupled with the increased costs of utilities, wages and fleet, mean the cost of sale keeps increasing, while market rates are decreasing," said the director of one rental company.

A leaseco director added, "EVs are the biggest concern with drastic depreciation in the last 12 months. That, coupled with persistent high interest rates, means the holding cost pressure and uncertain disposal values is a massive challenge to realising profits."

> "I feel positive for rental. We always do well when things are uncertain for consumers and companies, because they don't want to commit to purchasing or long-term leases. Short-term, flexible rental is a good solution for many."
>
> **Director, rental company**

Top 10 business challenges in 2024

1st	Cost of finance	62%	Leasing 59%	Rental 68%
2nd	Low business and consumer confidence	45%	Leasing 48%	Rental 41%
3rd	Vehicle supply	45%	Leasing 40%	Rental 54%
4th	Staff retention and support	37%	Leasing 32%	Rental 46%
5th	Rising costs and energy prices	33%	Leasing 31%	Rental 38%
6th	Regulatory burden	31%	Leasing 34%	Rental 27%
7th	Maintaining cash flow	23%	Leasing 15%	Rental 35%
8th	Access to affordable insurance	13%	Leasing 6%	Rental 24%
9th	Other	9%	Leasing 9%	Rental 8%
10th	Supporting vulnerable customers	8%	Leasing 12%	Rental 0%

* Respondents could choose three challenges

Rising to the compliance challenge

Vehicle funders are still feeling the impact of new Consumer Duty rules

The FCA's new Consumer Duty regulations may be nearly five months old, but the ramifications continue to echo through impacted sectors of vehicle finance.

At a global level there appears to be universal consensus that treating customers fairly is not only the right thing to do, but also essential for business longevity, so any measures that give customers more confidence are welcomed.

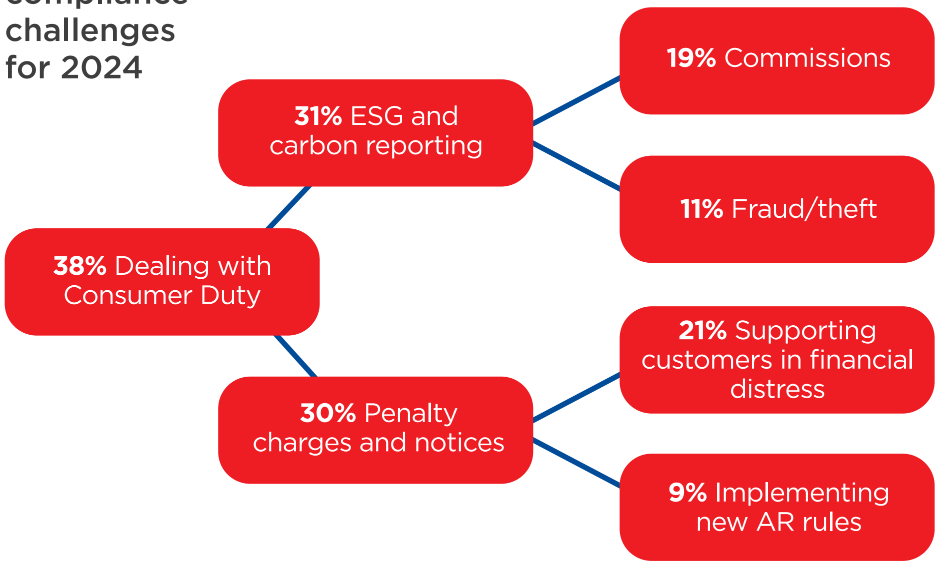
Nonetheless, the change in contracts, processes and mindset is taxing, especially for smaller leasing brokers. "The regulatory burden for small business is ludicrous," said one director, while another called for leasing companies to work together to establish standard terms in a uniform format, so brokers only have to fill in one set of forms.

Even larger companies would prefer one set of internal processes, prompting discussions that some might walk away from their smaller retail operations to avoid the inefficiency of one process for unregulated fleet clients and another for regulated retail customers.

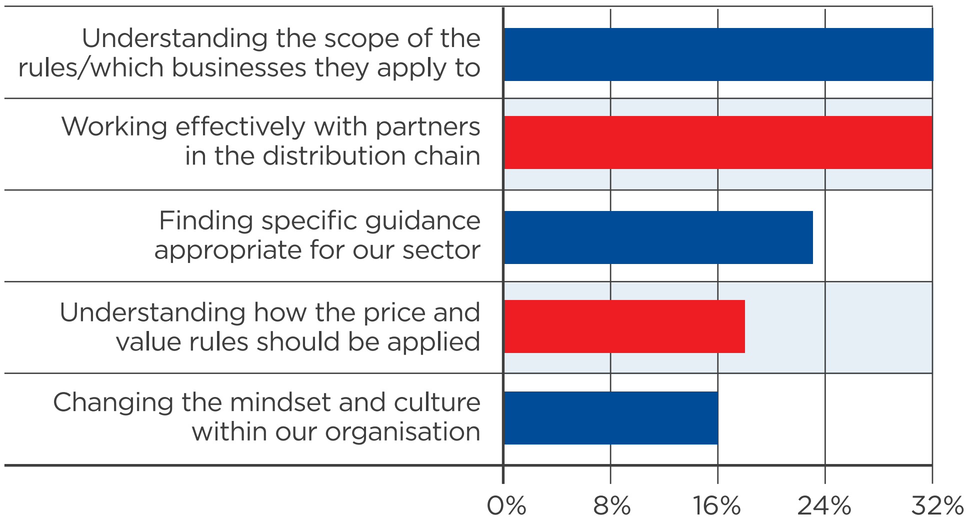
Interestingly, while vehicle funders are exploring opportunities for artificial intelligence in powering vehicle searches and chatbots, as soon as finance enters the picture they are reverting to human intelligence, concerned that an AI error could leave them on the wrong side of Consumer Duty rules.

56% More than half of BVRLA members say the compliance burden on the industry is too great.

Biggest compliance challenges for 2024



Principal challenges of being Consumer Duty compliant



ZEV mandate – opportunity or threat?

Will lower acquisition prices for EVs be outstripped by greater depreciation

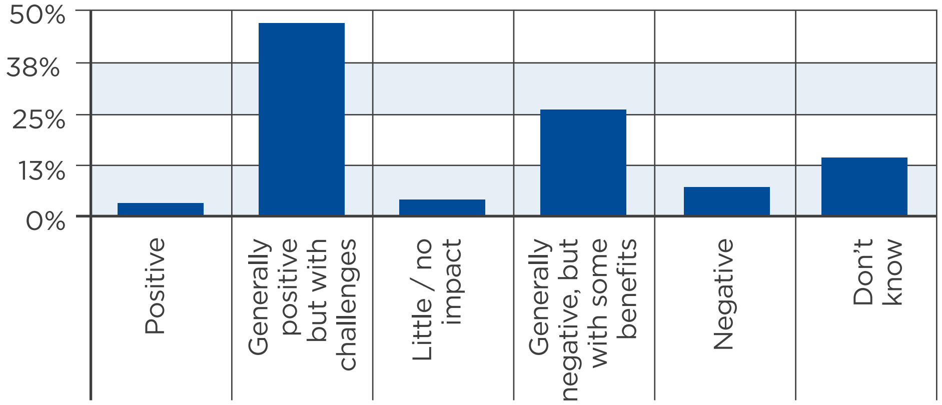
Government policy is distorting the UK's company car and van market and risks creating a huge imbalance between the types of vehicles wanted by the used market and the vehicles sold by BVRLA members. Doubling down on its supportive benefit in kind tax for zero emission cars, the Government has now confirmed its Zero Emission Vehicle mandate. This will heavily penalise OEMs that fail to ensure 22% of new cars and 10% of new vans sold are electric in 2024.

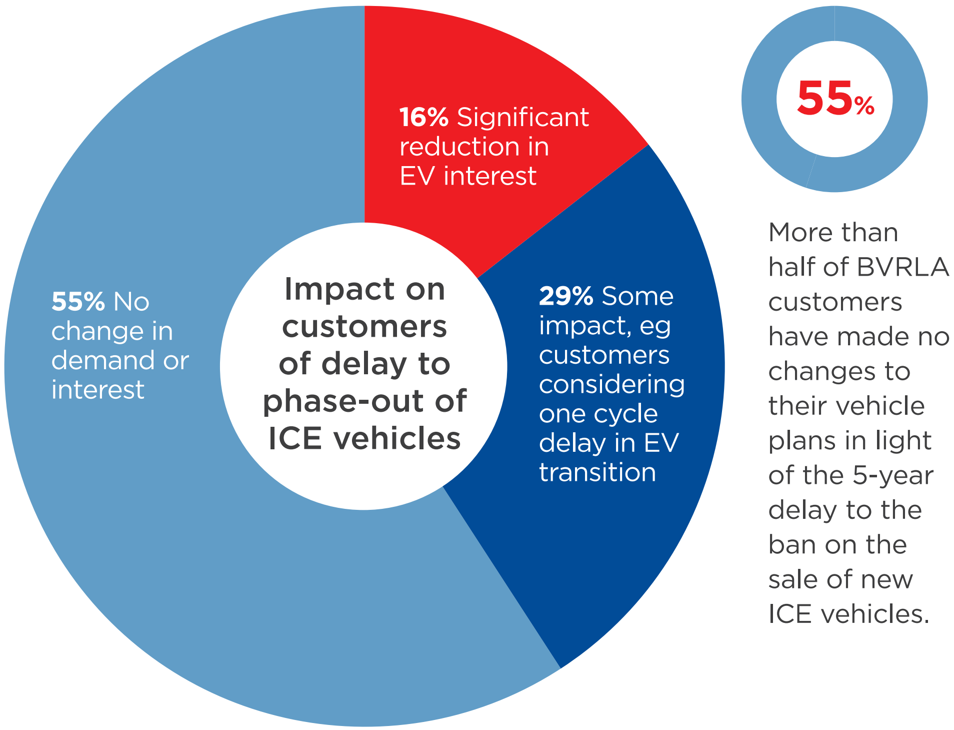
The accelerated pace supports national efforts to combat climate change, but is well ahead of demand for battery-electric models in both the LCV and retail car markets. The positive outlook is that this will lead to extra discounts for sectors that do want EVs, such as leasing company clients. The danger is a glut of unwanted EVs when vehicles end their lease or rental lives, dragging down residual values.

The mandate is also leading OEMs to pressure leasing and rental companies to include zero emission vehicles in their orders; a particularly acute problem for rental companies, which are not yet ready for EVs, as well as sectors such as credit hire and bodyshop fleets.

> "The ZEV mandate will support the argument for OEM investment in fit-for-purpose vans sooner rather than later, but may suppress the volume of ICE vans available."
>
> **Leasing director**

Impact of the ZEV mandate





More than half of BVRLA customers have made no changes to their vehicle plans in light of the 5-year delay to the ban on the sale of new ICE vehicles.

OEM agency model causes concern

Companies fear the end of franchised dealers will impact pricing and service

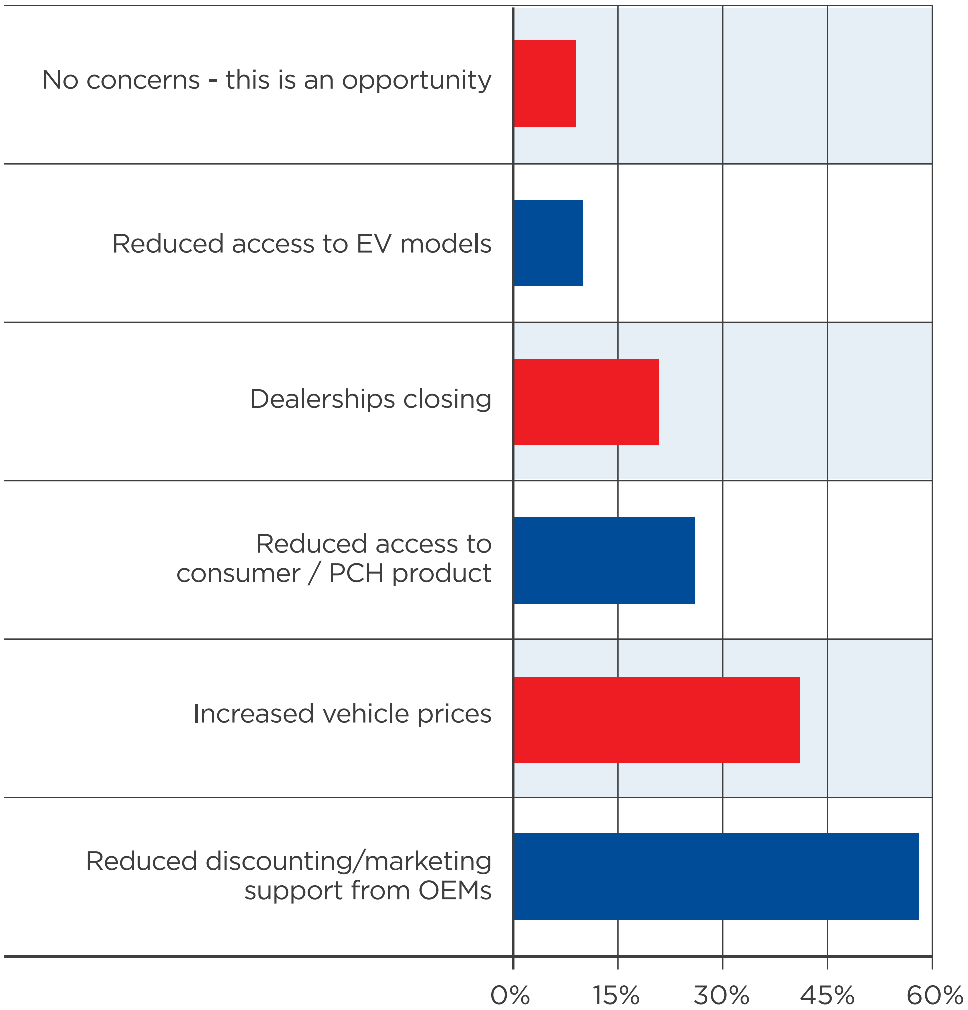
Leasing and rental companies are viewing with caution the development of agency models of distribution by vehicle manufacturers. While many companies have operated agency-style relationships directly with OEMs for years, the impact of the new arrangements on dealers is causing anxiety among BVRLA members that discounts will fall. Well over half of survey respondents think the agency model will put discounts under pressure.

They also fear maintenance and repair capacity and standards will decline, with a negative impact on customer care.

There is a feeling that the agency model is evidence of OEMs flexing their muscles as they seek to retain more control and greater profit opportunities from vehicles throughout their life, and not just at the initial sales transaction. Moreover, leasing brokers are finding their access blocked to certain marques, although most insist their customers are more likely to change brand than purchase directly from the OEM. As vehicle supply returns, brokers expect OEMs adopting agency distribution to include them as a sales channel.

> "The introduction of the agency model has resulted in a significant decline in orders for those brands (operating such a model). Our customers are buying based on their budget so their focus is a well-spec'd car. We fully expect other brands to introduce the agency model, but [still] use the broker network as a route to market."
>
> **Keith Hawes, Director, Nationwide Vehicle Contracts**

Principal impacts of OEM agency models



Companies invest in IT to cut costs

Technology-driven efficiency gains are top of the agenda for 2024

Digitising processes, from customer orders and vehicle configuration through to in-life management, are the primary focus for BVRLA members looking to reduce costs in 2024.

At the front end, leasing companies are creating portals where drivers can select and specify their vehicles 24/7, with chatbot support, while rental companies are developing 'frictionless' processes for the collection and return of vehicles, building on the light touch interactions of Covid-19.

In life, the factory-fitted connected technologies in electric cars are opening predictive and preventative maintenance possibilities that until now were largely reserved for light and heavy commercial vehicles fitted with telematics devices. There is, however, a question over who owns this connected data, with some OEMs standing accused of being reluctant to share it.

Interestingly, only 6% of BVRLA members see opportunities to reduce costs by cutting staff numbers. The recruitment and retention of trained and skilled employees is high on most companies' agendas.

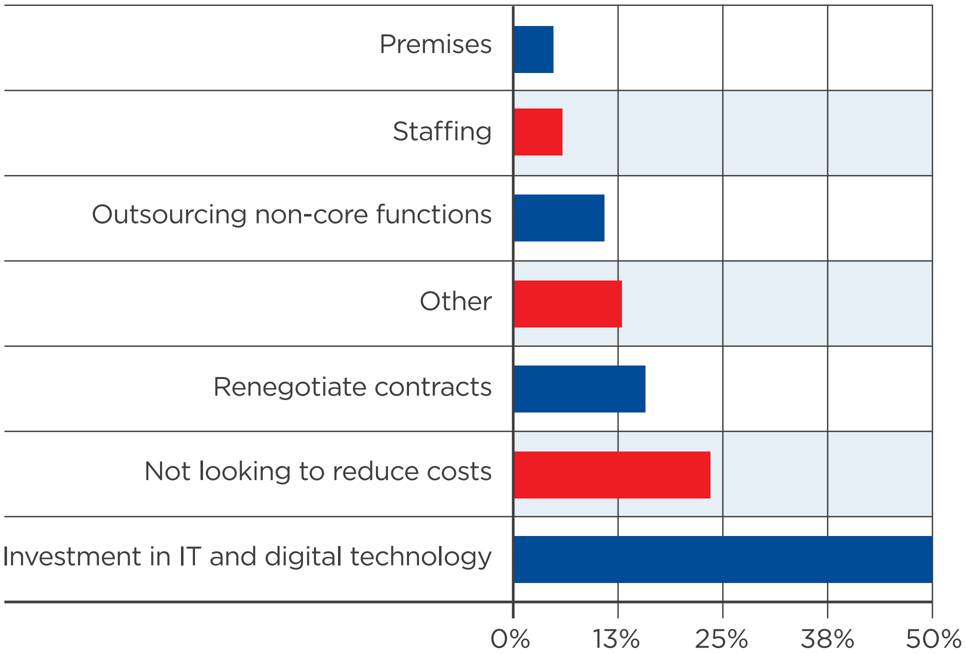
"We are investing heavily in technology and moving the group to the same integrated platform, creating a connected supply chain and developing an OMNI channel approach. AI and robotics feature in this plan – we have robots doing manual chores on standardised processes and we are assessing other opportunities to deploy them that involve the same steps each time."

Tim Bailey, UK Fleet Director, Redde Northgate

"There's a notable trend with leasing companies prioritising the customer experience and digital journey. We see our customers increasingly investing in this area."

Roger Smith, Unit Coach, Sofico

Principal opportunities to reduce costs in 2024



Recruitment and retention pressures

Companies are looking beyond pay rises to keep staff happy and motivated

A shortage of skilled and trained staff is leading to a battle for talent in the rental and leasing sectors, with companies fully focused on their HR responsibilities.

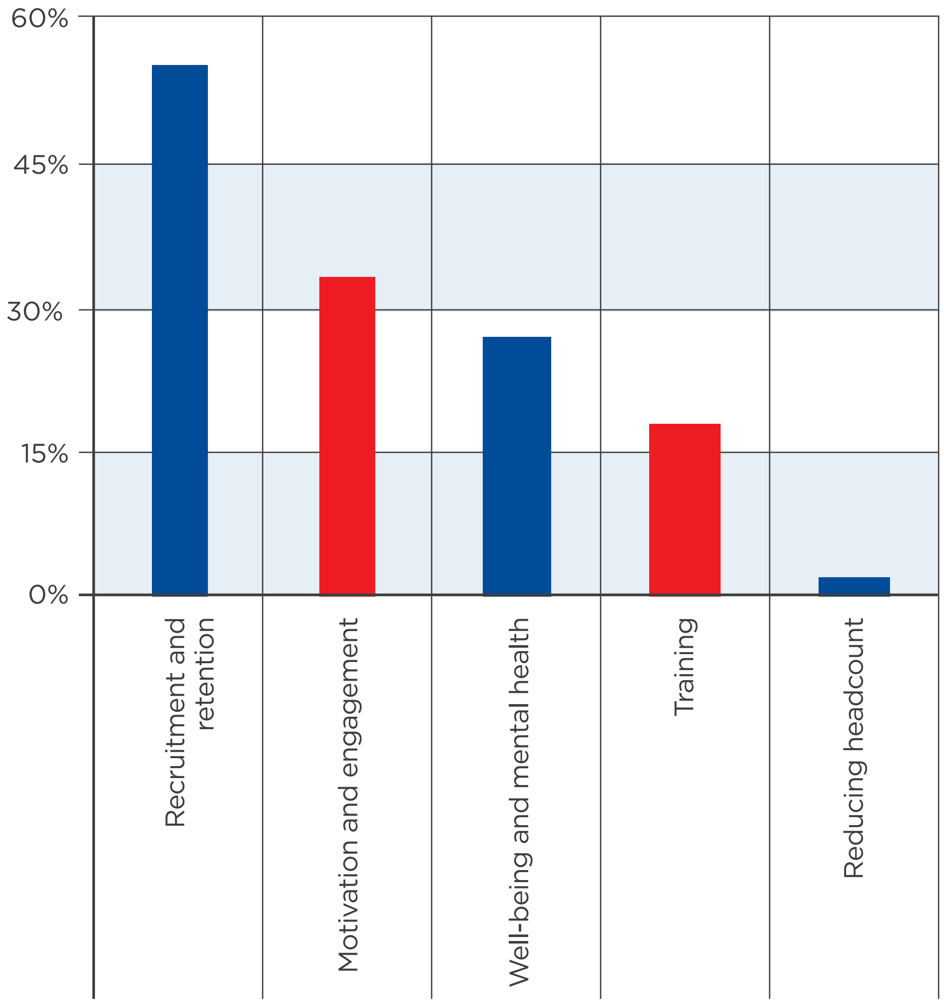
Flexible working hours, inclusive workplaces, cost-of-living salary boosts (both one off payments and wage rises), and clear career development paths are all being instigated as businesses seek to keep key employees.

Companies are also paying much greater attention to newish areas of staff support, particularly surrounding mental health and well-being, a reflection of the pressures that their staff are feeling and the difficulties that some people have faced when working from home.

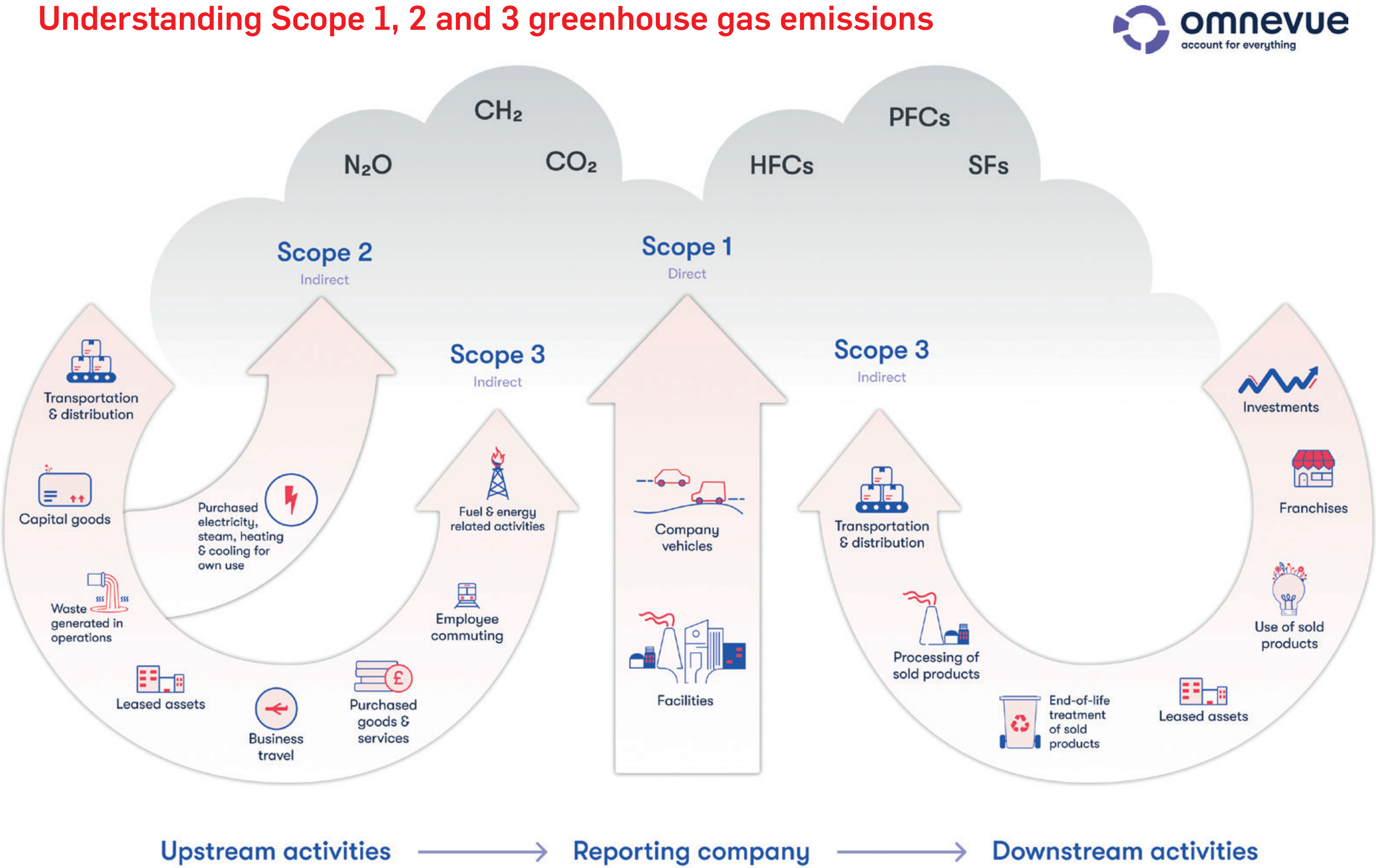
Chancellor Jeremy Hunt's Budget announcement of an almost 10% increase in the National Living Wage, from £10.42 to £11.44 an hour, and a reduction in the qualifying age threshold to 21, will deliver a welcome pay rise to branch staff at some rental companies, but will also add significant cost to bottom lines.

> "We've created a blended working environment for our employees, we issue everyone with a laptop, mobile phone (if required) and do not allocate fixed desks in the office. We have reviewed our benefits structure and introduced wellbeing and diversity groups. We regularly deploy surveys and share these with the line manager to deliver actions."
>
> **Spencer Halil, Chief Commercial Officer, Alphabet**

Top HR challenges for 2024



Understanding Scope 1, 2 and 3 greenhouse gas emissions



The BVRLA's ESG pilot

The association is trialling a programme that will help SME members report their ESG performance

The BVRLA is working with Omnevue, the expert in non-financial data reporting, to pilot a new ESG service for its SME members. During 2023, Omnevue has worked with a select group of BVRLA members to help them produce an audited view of their ESG credentials, in line with international accounting standards. Over the long term, the association hopes to aggregate the information in these reports to provide robust, industry-wide sustainability benchmarking. Here are some early insights and trends based on a small sample of pilot group respondents, including vehicle rental, leasing and fleet management companies, and brokers. These findings should be treated as an indication of the sort of data that the BVRLA is looking to provide in future (the sample is currently too small to be considered an accurate summary of the industry's current ESG credentials).

Environmental

When it comes to Scope 1, 2 and 3 carbon emissions, more than 99.4% of the emissions of BVRLA members in the pilot study are in the Scope 3 band. Of these Scope 3 emissions, around 25% come from the upstream CO_2 embedded in their purchased vehicles. Approximately 55% come from the lifetime emissions associated with vehicles that they have sold, and the remaining 20% come from the customer mileage emissions associated with the vehicles that members own and have on rent or lease. Elsewhere, Omnevue data suggests that 53% of the energy consumption of BVRLA members is renewable, and that they are recycling around 40% of their waste.

Social

For the vehicle rental and leasing sector, the executive salary gap or ratio between the average senior management wage and the average operational worker wage was 2.5x, which is way below the standard benchmark of 7x used by larger companies. In terms of a workforce profile, 76% of employees were at an operational level, 12% were management and a further 12% were senior management.

The average amount spent on industry training per employee was £182, well below the wider Omnevue benchmark of £611.

In terms of gender diversity, female employees make up 40% of the sample's workforce, a ratio that decreases as you move up into management.

Governance

Gender diversity in the boardroom was below the standard 50% ESG benchmark, with 22% female representation. Overall, 44% of respondents said they were now making business decisions based on ESG considerations. Meanwhile, 67% of firms have an Anti-Slavery Policy and 78% have a Whistleblower Policy.

● **Find out more about the BVRLA's collaboration with Omnevue on our website at bvrla.co.uk**

ESG commitments rise up agenda

Leasing and rental companies are under pressure from customers and shareholders to report ESG data

Almost 40% of BVRLA members now have a designated employee or team to develop their ESG reporting, as clients, suppliers and funders take a closer interest in the carbon emissions of their supply chains.

About one third of companies are already collecting and reporting this data, while 15% are looking for external support to help them with their ESG responsibilities. Despite the high profile of climate change, however, a further third of companies have yet to start their ESG work.

For major corporates, ESG extends well beyond greenhouse gas emissions. Avis, for example, has set a global ESG target to reduce water consumption by 30% before 2030 by implementing car washes capable of recycling over 60% of the water used in a typical car wash.

Companies also highlight the rising importance of the S in ESG, developing Social commitments via workplace inclusivity programmes.

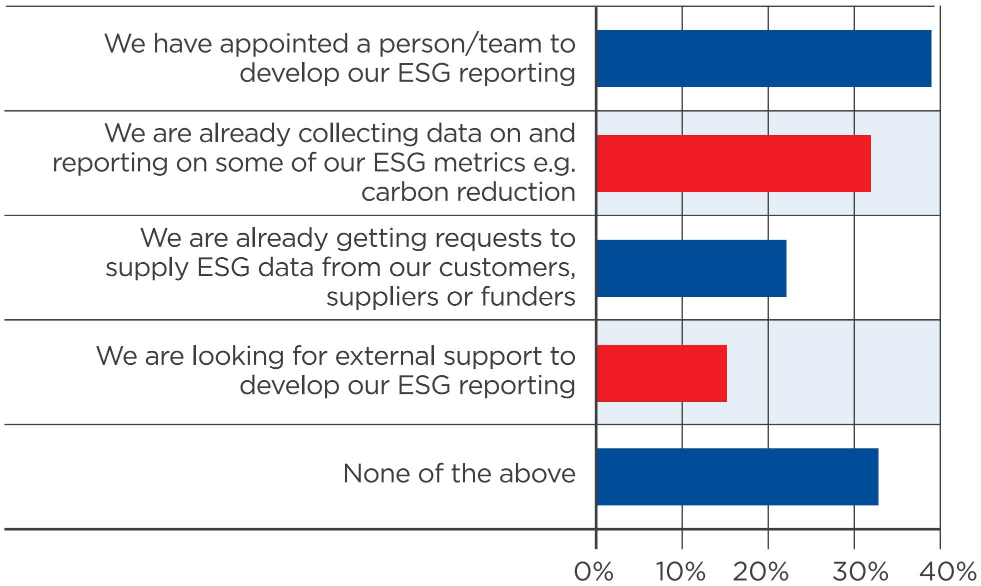
"Carbon footprint reduction and reporting is gradually on the rise as an important board topic and is being pushed into the mobility and fleet industry by large financial institutions and regulators, which the industry needs to also take account of in its strategy and operations. While some companies are still focused on reporting and compliance, others are being proactive in adopting ESG into their business strategy and propositions. There is also a rise in shared mobility use cases which will ultimately help in an overall reduction in carbon footprint by enabling more sharing of fleet and resources."

Biswajit Kundu Roy, CEO and founder, Coastr

"Our industry has a responsibility to act in all the areas it can influence, not just reducing greenhouse gas emissions, but ensuring we achieve zero landfill for tyres, chemicals and batteries, while adopting the latest technologies to reduce our high usage of water."

Alan Olivier-Smith, Avis Budget Group

How BVRLA members are managing ESG commitments



New study reveals end-user fleet priorities

Risk management, fleet software and salary sacrifice top fleet procurement plans

As part of the process to produce this Industry Outlook report, 360 Media Group has shared exclusive end-user fleet research, based on interviews with 200 fleet managers. The survey focused on the products and services that are top of fleet agendas for 2024, and found that as supply chain issues ease, fleets are prioritising investments in risk management, software, and salary sacrifice.

Conducted in November 2023, the research echoes the importance of talent retention and technology investment, reported by BVRLA members. However, it also found that outright purchase continues to play a significant role in fleet funding decisions, especially among light commercial vehicle fleets. They forecast that more than 50% of their new van orders will be acquired via outright purchase.

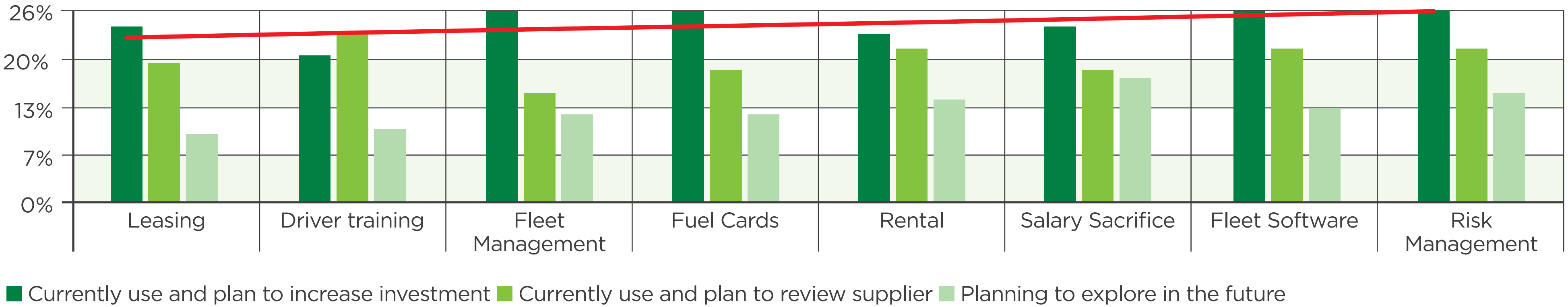
The following pages present a snapshot of the report's findings, providing BVRLA members with the inside track on how fleet clients are planning to meet economic and trading challenges in 2024. This includes customer pain points, cost reduction priorities, and investment plans.

> "Fleet pain points become even more acute during an economic downturn, increasing the pressure on fleet suppliers to meet the changing needs of their business customers. With 40% of fleets willing to change suppliers to aid their transition to EVs, 2024 offers opportunities for agile suppliers to win conquest business."
>
> **Ian Richardson, Managing Director, 360 Media Group**

Fleet. Trends.

To access the 360 Media Group research, please visit 360mediagroupltd.com, or email ian.richardson@360mediagroupltd.com

Fleet growth predictions - fleet services



Car fleets set for growth

Fleet decision makers are prepared to change suppliers to facilitate EV adoption

The reintegration of cash allowance drivers into company car fleets is helping to drive fleet growth, according to new research by 360 Media Group.

Interviews with 200 fleet decision makers have revealed that the certainty of attractively low benefit in kind tax through to 2028 for low emission vehicles is encouraging employees back into the fleet fold.

Overall, 40% of fleets expect to increase their fleet size in the next 12 months, while battery electric cars, plug-in hybrids and hybrids are forecast to account for 40% of new orders.

The complexities of this rapid transition to battery-power is now fleets' number one pain point, with 39% of fleets willing to change suppliers to facilitate their switch to electric cars, while 28% plan to renegotiate supply contracts to cut costs.

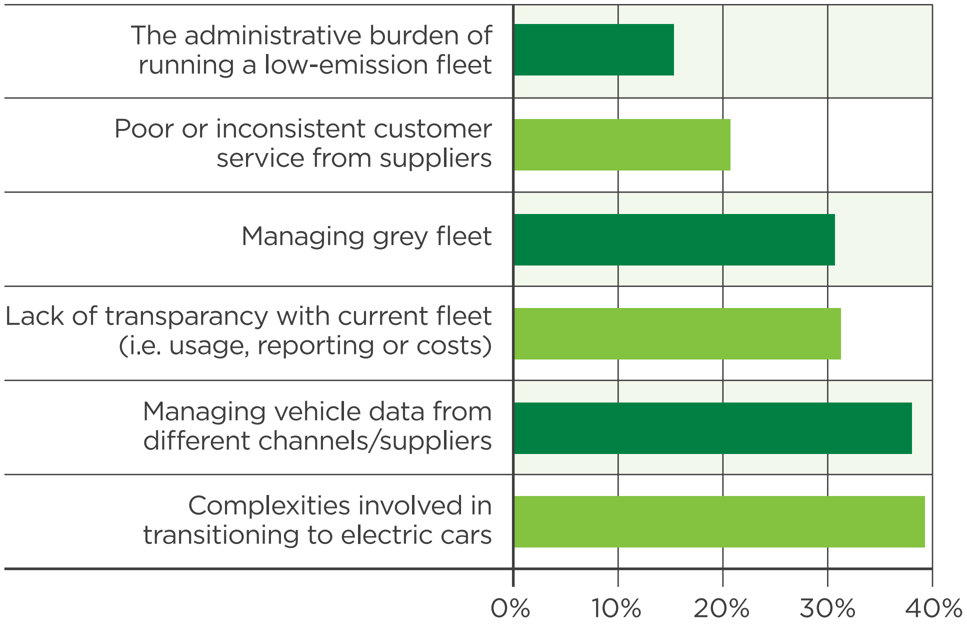
Fleet decision makers are also looking for support to manage the tsunami of data flowing their way from multiple suppliers, aware of the efficiency insights it offers.

In the face of steep cost inflation, 38% of fleets are looking to reduce their vehicle numbers, while 35% are seeking opportunities to reduce fuel costs.

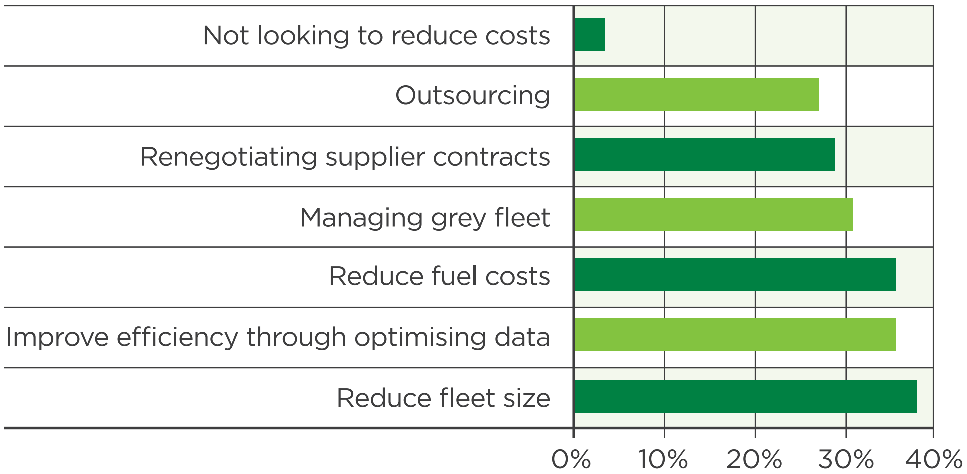
39% The share of fleets willing to change suppliers to facilitate electrification.

40% The percentage of new vehicle orders forecast to be ultra-low emission.

Car fleet operational pain points



Opportunities to reduce car fleet costs



Van fleets on efficiency drive

The LCV sector is primed for growth, but costs are under the microscope

The improving availability of vans, with 45% of fleets reporting positive developments in supply, is set to drive fleet growth in the next 12 months. Research among 200 fleet decision makers by 360 Media Group has found that 41% of van fleets expect to increase their vehicle numbers in 2024, although delays in LCV conversions remain a brake on progress.

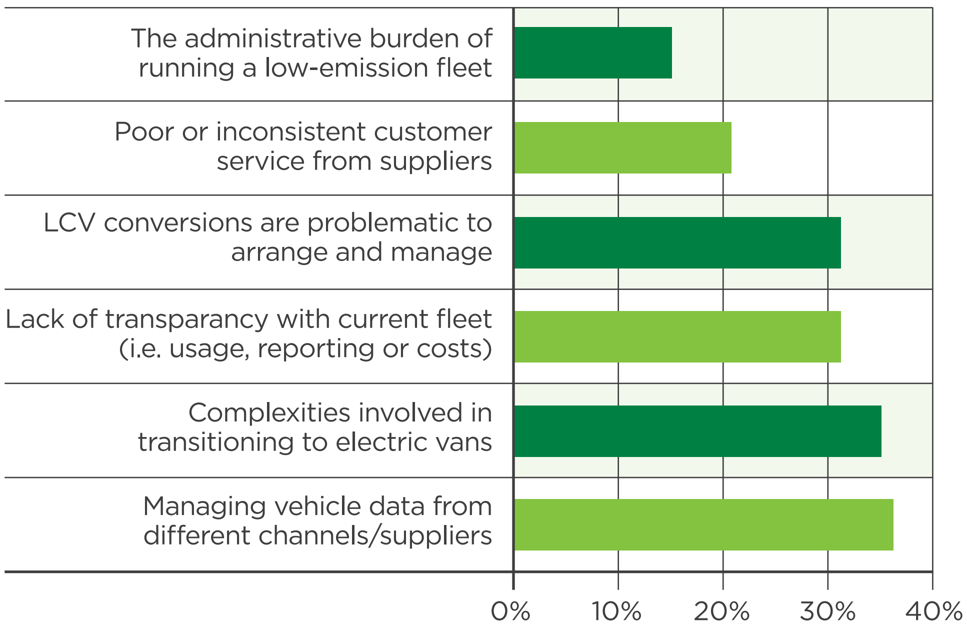
The study reveals that van fleets expect 17.6% of their new orders will be battery electric models. However, more than one-third of fleets identify the complexity of transitioning to zero emission models as a key pain point. 59% are either increasing their investment in workplace charge points, reviewing charging infrastructure suppliers or exploring options to install depot chargers, all of which represent a valuable opportunity for suppliers. Supporting clients in these initiatives is vital, with 40% of fleets ready to change suppliers to aid their switch to e-LCVs.

Cost control remains key, with 42% looking to improve their efficiency through optimising data, although 36% also cite the processing of this data into meaningful insights as a pain point. A reduction in fuel spend is a priority for a third of fleets, and a similar proportion are investigating ways to reduce their vehicle numbers in a bid to cut costs.

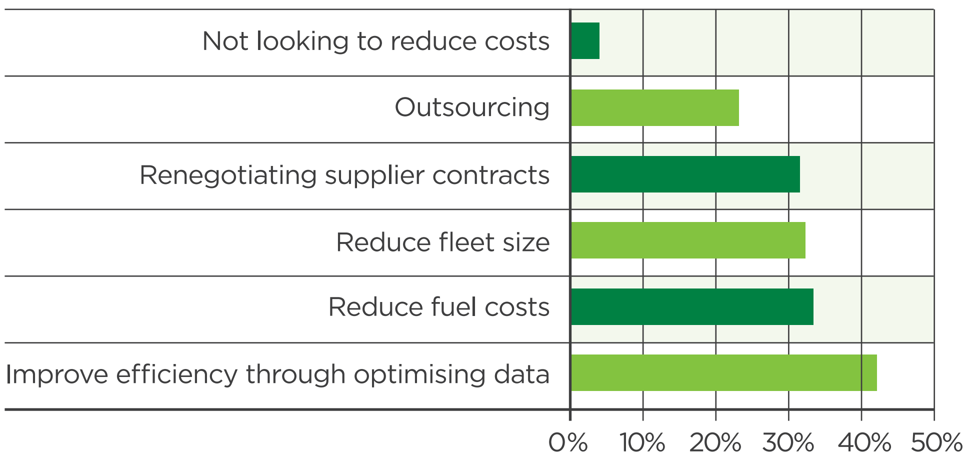
42% The proportion of van fleets looking to improve efficiency through better use of IT.

35% The share of van fleets who see electrification as a major pain point.

Operational pain points for van operators



Opportunities to reduce car fleet costs



Contact us

British Vehicle Rental & Leasing Association
Badminton Court
Church Street
Amersham
Buckinghamshire
HP7 0DD
01494 434747
bvrla.co.uk

Would you like to be involved in the BVRLA Industry Outlook 2025?
If you would like to be interviewed for next year's report or hear more about partnership opportunities, please contact, Toby Poston: toby@bvrla.co.uk

@bvrla bvrla bvrla @bvrla bvrla.co.uk/videos

BVRLA

Words: Jonathan Manning **Design:** hilliarddesignltd