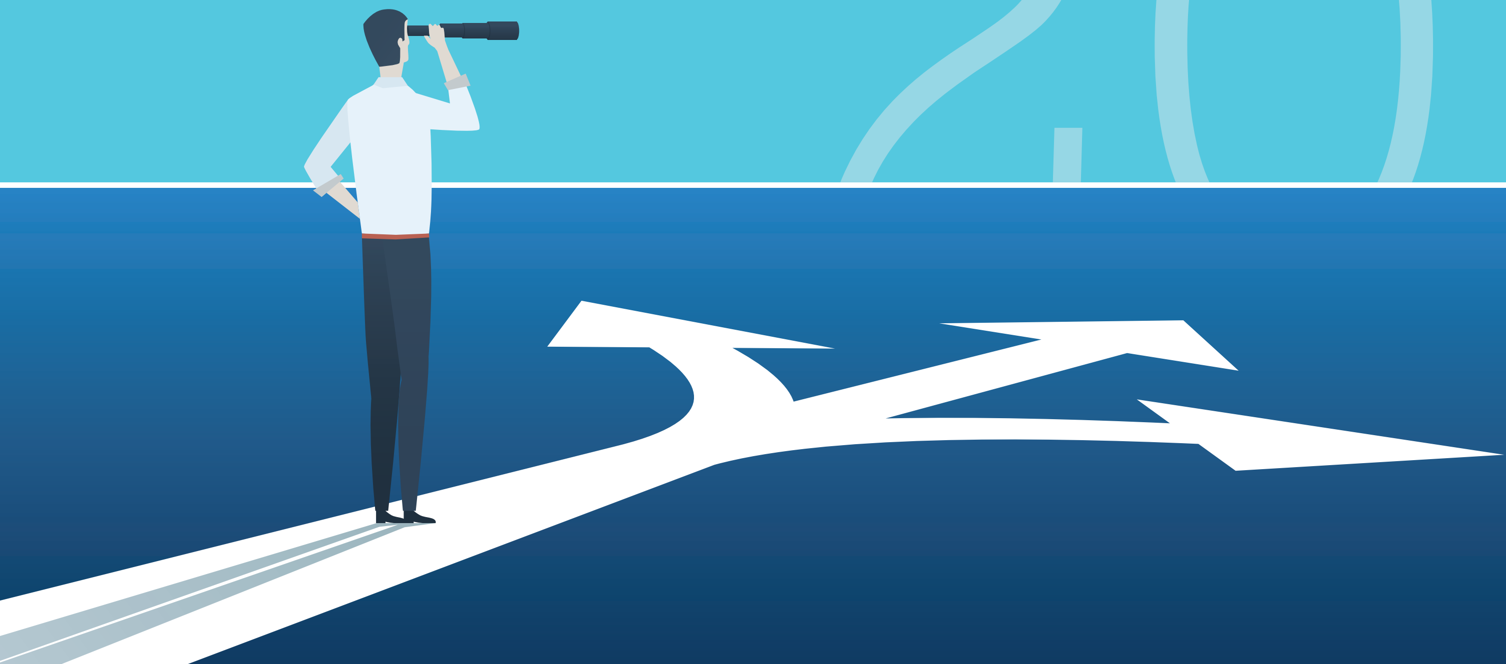
BVRLA

Industry Outlook

2019



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

On behalf of its 900+ member organisations, the BVRLA works with governments, public sector agencies, industry associations, consumer groups and other stakeholders 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 on UK roads, that’s 1-in-8 cars, 1-in-5 vans and 1-in-5 trucks. The vehicle rental and leasing industry supports over 465,000 jobs, adds £7.6bn in tax revenues and contributes £49bn to the UK economy each year.

BVRLA membership provides customers with the reassurance 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 government-approved alternative dispute resolution service. To support this work, the BVRLA promotes best practice through its extensive range of training, events and information-sharing activities.

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The big picture

Last year's Outlook report gave a positive perspective on an industry beset by Brexit-based economic concerns, emissions-related uncertainty and a hostile tax environment. What a difference a year makes!

And yet, although we will be battling the same headwinds as we move into 2019, there has been significant change. The next twelve months will be a very challenging period, but there is clear evidence that the vehicle rental, car club and leasing sector is laying the groundwork for a productive and secure long-term future.

Across the industry there are many signs of businesses seizing the initiative, not waiting for an upturn in the economy or for Government to lend its support.

Members are increasingly going direct, whether it is engaging with local transport policymakers, remarketing their own vehicles or talking directly with a new generation of personal and SME customers.

They may not be able to fulfil every mobility services need right now, but they are keeping a very open mind about what is possible and spotting new ways of adding value. Whether it is electric vehicles, prognostics data, last mile logistics or car subscriptions, members are increasingly willing to explore new business models, technology platforms and partnerships.

The vehicle rental and leasing sector continues to see opportunities everywhere. It is perfectly placed to deliver the revolution in autonomous, connected and electric mobility and is already benefitting from growing demand for vehicle usership rather than ownership.

So, get set for another rollercoaster year in one of the world's most exciting industries. We hope that the insights in this report will help you along the way.

"We are one of the best-placed sectors to adapt to changes."

Alan Carreras, Bridle Group.

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The long road to zero

The argument has been won. Fleet industry opinion is united in seeing a future dominated by electric powertrains. The big questions now are not 'if' we get there, but 'how' and 'when'.

The product is at the heart of the EV proposition, and 2019 will see more than 25 pure electric or PHEVs on sale. Buyers will be spoilt for choice but must continue to be patient. The EV supply shortages and long lead times that fleets faced during 2018 show no sign of abating any time soon.

Next year's EV market will also be held back by significant fiscal and infrastructure shortcomings. The industry has grave reservations about the cost and standardisation of charging infrastructure and how soon these can be scaled up to meet large-scale fleet demands. Meanwhile, Government policy towards plug-in hybrid incentives and company car tax seems determined to pull the handbrake on a fleet EV market that was approaching second gear.

In the short term, daily rental companies will continue to struggle to make pure EVs stack-up as a viable business model. It's a different story in the car club sector, where urban air quality imperatives and shorter journey profiles provide zero-emission car sharing with a much clearer opportunity. Hundreds of vehicles have already hit London's streets, but a lack of appropriate and affordable charging infrastructure threatens to hold back this EV sweet-spot's growth potential in 2019.

As far as roadmaps go, the Government's 'Road to Zero' strategy currently resembles more of a pot-holed country lane than a smart motorway.

> *"As things stand now, I think it is more than 10 years before EVs become dominant in fleet. Government policy is reactive and poorly thought-through – the end goal is electrification, but they have missed the bit in the middle."*
>
> Martin Brown, Fleet Alliance

AIR QUALITY & EMISSIONS

KEY 2019 TRENDS

- **PHEV producers will come under pressure to cover the lost subsidy from the Plug-in Car Grant. Which OEM will blink first?**
- **EV lease 'packages' that combine rentals, servicing, charge points and occasional access to alternative cars will grow in popularity**
- **There will be no significant uptake of plug-in EVs on the daily rental fleet**

"The infrastructure necessary for a significant pay-as-you go shared electric car fleet just doesn't exist at the moment. Fleet is the low hanging fruit in terms of EV uptake – Government needs to target its support here to drive the product and infrastructure demand."

Jonathan Hampson, Zipcar

The last mile

Last mile logistics is evolving at pace and challenging traditional business models for LCV and HGV operators. The traditional 'hub and spoke method' of delivery is coming under increasing pressure from cities that are looking to reduce the congestion, emissions, noise and safety risk associated with large, diesel-powered vehicles. Can urban consolidation centres, inner-city micro distribution depots and e-cargo bikes and vans come to the rescue?

The imminent arrival of Clean Air Zones (CAZ's) in London, Birmingham, Sheffield, Leeds and other cities across the UK is accelerating this revolution in the way goods and materials are delivered to urban recipients. In the short term, tens of thousands of pre-Euro V vans and HGV's will need to be upgraded or de-fleeted sooner than their predecessors.

In an industry that deals with fleet cycles of five years and longer, it is understandable that many urban freight operators and city planners are already betting on new delivery models based on consolidation centres, micro-depots and EVs.

All of these last mile trends will create headaches and opportunities for logistics companies and BVRLA members in 2019 and beyond. Many in the industry are concerned about the additional costs involved in setting up multiple smaller urban delivery hubs and the charging infrastructure that goes with them.

There is huge pent up demand for electric freight vehicles, particularly at the 3.5t sweet-spot, and many operators are exploring the potential for e-cargo bikes and micro vehicles to make multiple local deliveries within city centres.

Some BVRLA members believe there is an opportunity here, to help finance and manage these assets, or even integrate last mile logistics with other elements of the urban transport environment. The same technology platforms involved in delivering mobility as a service (MaaS) for people could be applied to goods. How long until we see parcel shops being set up in downtown rental outlets or company car drivers delivering parcels on their way back from work…

> *"There is a huge pent up demand for electric CVs, but the vehicles are just not there for complex commercial fleets."*

Henry Brace, BT Fleet

KEY 2019 TRENDS

- New micro distribution hubs are coming to a railway arch or disused retail outlet near you
- E-cargo bikes and micro vehicles will become an increasing opportunity for rental and leasing companies
- The industry will still be waiting for an affordable, available-at-scale 3.5t zero-emission van

"Electric vans are leading the way for last mile delivery. With new product coming on stream from 2019, the future looks bright for EVs."

Jon Lawes, Hitachi Capital

Used market urgency

The fleet industry continues to juggle the impacts of vehicle electrification, Brexit, diesel demonisation and WLTP, all of which will continue to create significant uncertainty around residual values through early 2019. Reassuringly, current market sentiment is that any changes in prices – either positive or negative - will be small, rather than seismic.

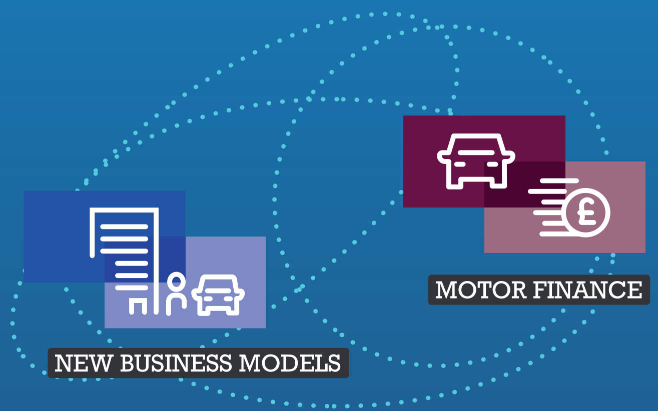
Brexit and WLTP have both caused a huge number of contract extensions, with some respondents saying they are at the highest levels since the 2008 crash. This shortage of used ex-fleet stock looks likely to continue into the early months of 2019. When the Brexit and WLTP uncertainty subsides and fleet renewals pick-up, there is some trepidation about the potential impact of a short-term spike in used volumes.

Management of that stock through the middle part of 2019 will then prove crucial, and for most businesses, the increasing use of digital channels and even Apps for remarketing is allowing them to be more targeted in where and how they sell vehicles.

Underlying all these trends is the ready availability of cheap finance for the used customer. Almost all leasing companies are now modelling used vehicle leasing - and coming to a wide range of conclusions. For some, it is a great opportunity to wring every last benefit from an asset. Using digital, they can remarket the car to customers before they are defleeted first time round, provide funding and another three or four years of use, as well as being able to potentially gain more SMR work too.

For others, the positives don't outweigh the negatives. For a start, leasing systems and working practices are not set up to manage the many vagaries and specific individual issues that come with a five- or six-year-old car. There are no well-established standards for longer-term fair wear and tear. Quite simply, there is too much time needed in the management of those assets to make it financially viable.

> *"Some lease companies have previously tried to market their used cars directly via retail section of their website, but it has not always been successful. The problem is being able to guarantee the quality of the stock and dealing with cash flow impact of longer holding times. We will continue to test and learn from multiple channels."*
>
> Paul Gilshan, Tuskerdirect



KEY 2019 TRENDS

- **The end of Brexit and WLTP-inspired contract extensions will see more volume hit the used market in the first half of the year**
- **Diesel's popularity in the used market will contrast its continuing fall from grace amongst new car buyers**
- **More used leasing products will emerge, but the industry is split on whether this is a genuine opportunity or niche**

"We are predicting a desire for PCH in used cars. There is an opportunity to extend existing car leases for a further three to four years. Currently leasing companies are concerned that they might miss out on new car lease opportunities, but that is not the case."

Ian Tilbrook, VWFS

Diving into data

Data has been on the rental and leasing sector's agenda for many years, but 2019 feels like the year when BVRLA members start using it in earnest, exploring its potential to do what they do best – add value.

Most organisations are looking back on their recent GDPR compliance work as a positive exercise that saw them re-examine their business process. Now, having confirmed their data relationships with customers and suppliers, they are increasingly focusing on the commercial value of data and what they need to do to keep it secure.

The next twelve months will see leasing and rental companies making a concerted effort to access and exploit some of the vehicle data generated by their fleets. Many of them are already getting some information from certain manufacturers but are eagerly awaiting the emergence of a vehicle data aggregation platform that can provide key fields in a standardised format.

At the same time, they are looking to legislators in Brussels and elsewhere to set a specific framework around automotive data that takes account of the many current and potential competition concerns that exist. Vehicle repairability and cost is rising up the agenda and the future viability of the independent aftermarket could be at stake if action is not taken.

2019's key vehicle data theme is set to be prognostics. There is huge excitement about the prospect of getting direct access to vehicle fault codes. Just as driver performance telematics can be used to reduce duty of care and insurance risks, members believe that real-time and historic diagnostic data could enable them to make proactive interventions to improve vehicle safety, emissions and total cost of ownership.

"We are making major investments into cyber security. Every tender has clauses and questions around data security, so for us, this is a non-negotiable investment."

Tim Buchan, Zenith

KEY 2019 TRENDS

- **BVRLA members will spend more time ensuring that their customer communications maintain the boundary between customer service advice and marketing**
- **Policymakers in Brussels will come under increased pressure to legislate for greater access to vehicle data**
- **Prognostics to become an increasingly popular fleet management service**

"Rental and leasing have the ability to get value out of data. We want to provide data to legitimate businesses on commercially appropriate terms, so they can provide the right services."

Owen Gregory, Ford of Britain

Brexit

Brexit related uncertainty continues to cast a shadow over the vehicle rental and leasing industry, its customer base and supply chain. Rather than speculate over the potential for one of many 'Deal' or 'No Deal' scenarios, BVRLA members are focusing on what they can do to prepare for the unexpected.

Brexit and WLTP-related doubts have led to the highest volume of fleet extensions since the Credit Crunch ten years ago. Many companies have slammed on the investment brakes and are holding back until they have a better view of what the future holds.

BVRLA members believe that there is a lot of pent-up demand to be released when the path becomes clearer. However, many are concerned that a 'No Deal' result could interrupt automotive imports and make them more expensive – making foreign OEMs even less inclined to put significant volumes of new vehicles into the UK.

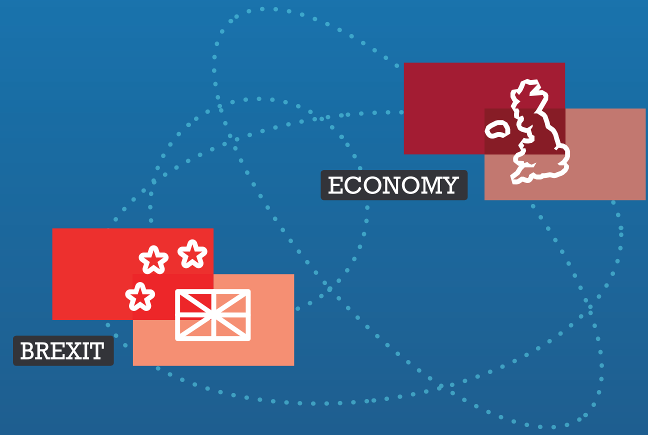
The prospect of significant trade disruption next Spring is causing headaches for some rental companies, who are already grappling with the decision of whether to front-load their vehicle purchasing in order to prevent any fleet shortages during the busy Easter period.

Meanwhile, falling exchanges rates and wage differentials mean they are also having to work harder to recruit and retain foreign staff working in the UK.

On the flip side, rental companies are cautiously optimistic about the potential for this uncertainty to drive a surge in demand for corporate rental and flexible rental business.

BVRLA members that do have a view on the outcome of a 'No Deal' range from the phlegmatic to the pessimistic. Some feel that a total rethink of leasing supply chain economics would be required, while others suggest that personal leasing would bear the brunt of the ensuing drop in consumer and business confidence.

Only time will tell...



KEY 2019 TRENDS

- **2019 will be the year of the 'Brexit Clause' in supply agreements**
- **Vehicle and parts supplies will be erratic in the months surrounding the Brexit deadline**
- **All eyes on Brexit will mean less government focus on other policy areas**

"There's a lack of confidence around Brexit, but there is always something to hit confidence. A lot of businesses are in a recessionary mode and they want flexibility. They want the luxury of being able to re-engineer their business if they need to."

Jason King, Bayfield Vehicle Hire

Up close and personal

Boldly exploring new growth markets, BVRLA members are embracing digital technology and the opportunity to go one-on-one with a new breed of personal and SME clients. Driven by a poorly designed company car tax regime and continued OEM willingness to support personal leasing, some companies predict that as much as 50% of new business written will come from these sectors within the next two years.

The focus on delivering this digital and personalised service is an expensive, but safe investment. Even if the Government manages to deliver a more sympathetic benefit-in-kind tax regime, company car drivers and their employers are embracing and increasingly coming to expect a B2C-style service.

The genie is out of the bottle and many leasing companies will never look the same again. Significant investments in digital technology have also been made at the back-end, leading to a much closer and more collaborative relationship with brokers and authorised representatives. Driven by a sharp focus on compliance needs, broker channel offers and marketing are being managed in a more structured and streamlined way.

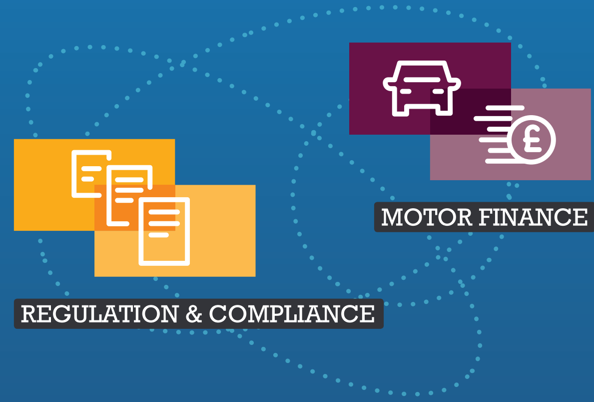
As the PCH market grows, many leasing companies are also marketing directly to the SME and personal sectors, embracing the broker style of tactical, transactional vehicle offers.

Leasing companies are also coming to terms with the implications of this changing focus. Personal contract hire requires a fundamental shift in the mindset, customer service approach and operational structure of a traditional corporate leasing business. It’s a lot of work for a customer that has no inherent loyalty, takes fewer value-added services and requires a lot more time and effort per unit to manage throughout the contract lifecycle.

Could personal contracts be undermining some of the efficiencies and economies of scale that leasing companies have perfected? Are vehicle manufacturers prepared to keep providing fleet terms to retail customers over the long term?

“Customers are talking to us like they do a mobile phone company. They want to upgrade when the new model comes out or their circumstances change.”

Andrew Alderson,
Vanarama & Motorama



KEY 2019 TRENDS

- **WLTP-based uncertainty and supply shortages will continue to hold back PCH volumes well into next year**
- **An increased focus on end-of-contract management and communications**
- **Greater market share for brokers and representatives with their tactical and transactional offers**

"I think the PCP market will decrease and represents a big opportunity for growing our PCH business. PCP can be complicated to understand and people are looking for a simpler, more subscription-like product."

Miguel Cabaca, Arval

Car subscriptions

The dictionary definition of a subscription is "an amount of money that you pay regularly to receive a product or service". That sounds a lot like rental or leasing, and it is this lack of clarity which is at the heart of whether you see car subscription as a new product for a new market or just glossy millennial marketing spin on a traditional offering.

The basic concept is that a customer should pay a monthly amount and then has their pick (within reason) of a range of different vehicles to suit different purposes.

It seems many leasing companies just cannot make the maths work, even with digital platforms to create time and cost efficiencies in the ordering process. It usually comes down to utilisation and logistics. How can they offer the right product, at the right time, and manage the fleet so it is working hard and earning money.

Customers will pay more for greater choice and flexibility, but only to a certain extent. The sweet spot between a profitable utilisation of the assets and a reasonable increased monthly cost has not been reached, by some distance. Many in the industry feel it is just rental by another name, but with less choice and a higher price tag.

Captive leasing companies and dealer groups are one group that is much more receptive to the subscription model, having both the access to a range of cars and the logistical structures in terms of vehicle movements and real estate to store them, through the dealer networks. Many are already actively considering or already trialling subscription products that tie the OEM, network, rental and leasing company together.

The jury is still out on whether subscription motoring will become a viable proposition, but the range of vehicle provision models continues to grow. Across the BVRLA membership, companies are reporting increased interest in mini leases and medium-term rental, driven by a customer base that is struggling for ways of navigating an increasingly uncertain economic environment.

"Subscription can be both things - it can be just repackaged rental, but it can be different, giving access to new product. There's an appetite for change."

Lesley Slater,
Leaseplan

KEY 2019 TRENDS

- **At least one dealer group will look to pilot a used car subscription scheme**
- **OEMs and dealer groups will continue to roll out (and close) car subscription services across the UK**
- **The boundaries between rental and leasing will continue to blur, and regulators will struggle to keep track**

"To my mind, it's repackaged rental – in some senses the emperor's new clothes. The issue is getting the economics to work. I can't see any business models that have appropriately high utilisation of the assets. Customers will pay a bit more for improved access to a range of vehicles, but not much more."

Tim Porter, Lex Autolease

Urban mobility

The increasing devolution of transport in the UK has massive implications for the rental and leasing industry. Air quality, congestion and road safety are priorities for the Mayor of London, the seven new Metro Mayors and dozens of other cities across the UK. Dealing with these urban mobility issues represents both the biggest challenge and the biggest opportunity facing the vehicle rental and leasing sector.

BVRLA members are learning that there is very little middle ground in the fast-evolving world of local politics, where road transport is so often cast as either the hero or the villain. With so much hype and misinformation surrounding the demonization of diesel, the real-world capabilities of EVs and the potential for Mobility as a Service (Maas), they are spending huge amounts of time trying to educate and inform local policymakers and customers.

2019 will be the year of the Clean Air Zone (CAZ). Where London's Ultra Low Emission Zone leads, others are set to follow. Many different approaches will be taken by many different cities, but commercial vehicles will bear the brunt. Policymakers are asking the impossible in expecting so many businesses to spend so much money to upgrade so many vehicles in such a short space of time. The penny will begin to drop next year.

2019 will not be a big year for MaaS, but it will be a year when multiple mobility models compete for a bigger share of city trips. The car rental and car club sectors will have to work harder than ever to demonstrate that they have an important place in the hierarchy of different urban transport solutions.

Whatever form road transport takes in the future urban environment, it will increasingly need to be electric. Access to affordable charging infrastructure will soon challenge parking as one of the most precious bits of urban real estate. There are early signs that 2019 could see local authorities get the support and guidance they need to roll-out charging infrastructure that works for local businesses and citizens.

"The transport environment will be increasingly varied across the UK and this is a nightmare for fleet operators. We will need localised support for fleet customers depending on where the vehicles are being used."

Tim Bailey, Northgate

KEY 2019 TRENDS

- **The scale of CAZ non-compliance will cause local authorities to delay or adjust their plans**
- **Bikes, scooters and on-demand buses – more competition in the urban mobility marketplace**
- **A major improvement in the provision of public EV charging infrastructure**

"We are facing the introduction of clean air zones across the country and a different approach in each zone. As the industry manages its fleets on a 5 - 7 year cycle however the central government is making decisions on the hoof without recognising the impact it has on the sector."

Ed Cowell, Fraikin

Repairability

Autonomous, connected and electrical technology is making road transport safer, cleaner and more efficient. The number of repairs required may be falling, but the costs associated with them are going in the other direction. New materials, sensors and electric powertrains are all having a massive impact on repairability.

Motor manufacturers are involved in a massive technology race, and the automotive industry is now working on an innovation timescale that would have been unheard of a decade ago. With so much focus on new product development and an increasing cost and complexity to the hardware involved, repairability is suffering.

Today's vehicles are stronger, lighter, stiffer and packed full of computer software and hardware. Built with a mix of ultra-high strength steels, aluminium, composites and joining materials, they require a much different array of skills and equipment to repair. 2019 is likely to see an increased polarisation in the aftermarket between more specialist repair centres and independent bodyshops that will struggle to undertake some kinds of work.

The increased rigidity of vehicle bodies and greater use of larger sub-assemblies, sensors and electrical components mean that repairing even minor damage can involve hugely intrusive and complicated procedures. BVRLA members are reporting more cases of vehicles being written-off because of seemingly minor yet uneconomic repairs.

Battery vehicles and those packed with Advanced Driver Assistance Systems (ADAS) will deliver lower fuel and accident costs, but repairability can suffer. ADAS systems often require complex recalibration and performance can be impacted by something as basic as the wrong paint being used in a smart repair. Not all batteries are designed to be repaired, which means that even a simple parking accident can result in a replacement being needed.

"We have one of the best independent and aftermarket repair industries in the world, but it is going to have to change rapidly to keep up with new vehicle tech."

Richard Billyeald,
Thatcham Research

KEY 2019 TRENDS

- **OEMs will come under pressure to support the EV aftermarket by providing repairable batteries**
- **Independent repair outlets will lose market share as they struggle to acquire the latest skills and equipment**
- **The average repair bill will rise towards £2,500**

"You can't repair vehicles like you used to so while there might be a reduction in accident volumes, the costs and timescales involved in repairing cars is growing. We assume that the expense associated with parts and calibration will reduce over time, but we don't know when."

Khaled Shahbo, Enterprise

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