Industry Outlook 2020

About the BVRLA

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 1000+ 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 over 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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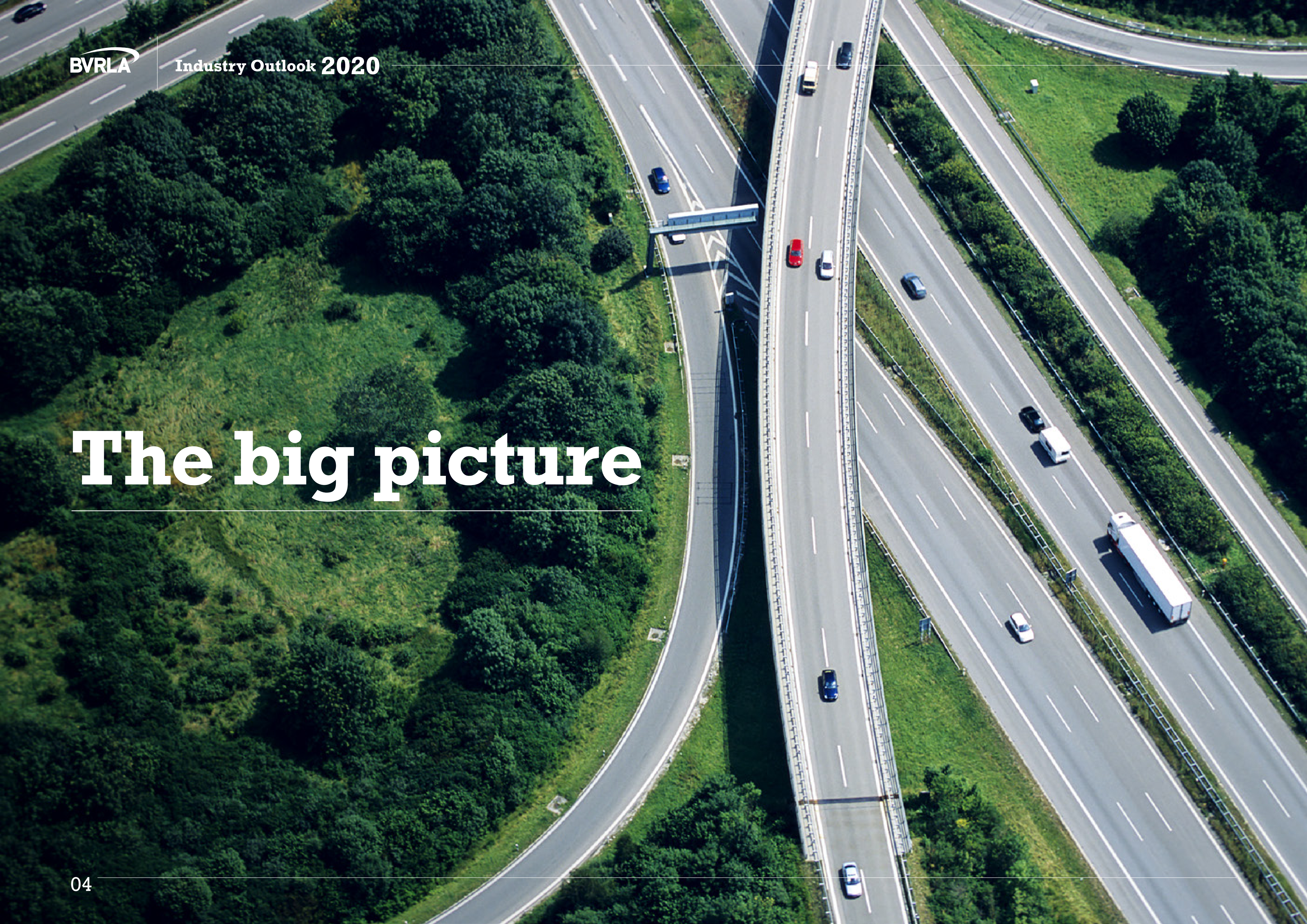
The big picture



The new technologies which are revolutionising the fleet industry are also having a major impact on the services BVRLA members offer, the way they manage their assets and how they interact with customers.

Connected, electrified and digitised, the industry will undergo a major rewiring over the next year. Once again, the overwhelming feedback from respondents to this year's BVRLA Industry Outlook is of a sector that is ready to seize a range of exciting opportunities.

As our report shows, there are still a range of challenges to deal with, including electric vehicle supply, data availability, vehicle repairability, garage capacity and knee-jerk local transport policymaking.

Tackling these issues requires creativity, experience and attention to detail, something that BVRLA members have in abundance. Our industry is also fortunate that it is ideally positioned to take advantage of some of today's key megatrends. Finance remains cheap and society is becoming more used to the idea of buying a service rather than owning an asset. At the same time, road transport has risen up the political and business agenda and expertise is in short supply.

BVRLA members are well placed to take advantage of these trends and help their customers embrace them. They are providing more consultancy and advice, and building stronger customer relationships and loyalty.

Our sector is in for a bumpy ride in 2020, but it has both hands on the wheel. We hope that the insight in this report will help you along the way.

"BVRLA members are providing more consultancy and advice, and building stronger customer relationships and loyalty."

"There is likely to be further decline in the B2B car sector, while LCVs continue to grow. Leasing providers will need to realign their current models to the new areas if they want to grow."

Neal Francis
Pendragon

"In the leasing sector this year, we believe the growth in personal contracts and the broker channel will continue."

Sebastiano Fedrigo
Leasys UK

Company car consolidation

Reports of the company car's death have been greatly exaggerated. But is the sector struggling on with a chronic condition, or on a rapid road to recovery?

The leasing sector is set to grow over the next year or two, but the jury is out on whether any of this growth will come from the company car market.

Some believe that cash allowance opt-outs will continue to shrink demand for company-managed vehicles as over-taxed workers are lured by the freedom and value for money offered by personal contract hire or the dreaded grey fleet. The uncertainty created by WLTP and the Treasury's gradual ratcheting up of company car tax has sent the sector into a terminal tailspin.

Others point to a growing number of cash takers that are being lured back by the no-hassle security of a company car. They believe that the impending arrival of a 0% company car tax rate for electric vehicles will be a game-changer. Many of the employees opting out of company cars were low mileage perk drivers. As they begin to look at their next car choice, a low-tax, cheap-to-run electric company car - with all the risk for this new technology borne by their employer - will seem very attractive.

Regardless of what happens, the continued health of the company car market is no longer the fundamental issue that it once was. No-one is relying on the company car market for their future business growth.

The inexorable rise of personal contract hire, digital sales channels and electric products represent the big opportunities for the leasing market. Personal contract hire continues to thrive as consumers become more comfortable with the concept of vehicle usage rather than ownership. New car registrations might be falling, but the leasing share of that pie is growing.

Many of the initial concerns about the administrative burden or profitability of personal contract hire are being addressed. New digital platforms are enabling leasing companies to provide a more automated offering, freeing up employees to spend more time providing the consultancy that their customers are increasingly demanding.

"I see leasing growing. Vehicle registrations: the cake is getting smaller, but the leasing slice is getting bigger."

Vince Pemberton Rivervale

KEY 2020 TRENDS

The transition to electric vehicles will lure grey fleet drivers into low mileage perk company cars

Increased certainty on Benefit-in-Kind tax will halt the decline in company car numbers

The company car will continue to lose its supremacy within business travel strategies

Taxation

Motor finance

"Customers need guidance through the maze and through the in-depth consultative approach that we are taking we are adding even greater value. Fleet is becoming less of a commodity which is good news for our industry."

Tim Laver
ALD

Fleets within fleets

The word ‘fleet’ suggests an amorphous, singular mass. Taking a ‘one-size-fits-all’ approach creates efficiencies, but today’s complex business environment demands a more sophisticated approach.

The structure of many leasing and rental companies is changing as customers demand a more complex array of services.

Once upon a time you could reliably offer diesel for higher mileage and petrol for less business-critical vehicles. Now companies have to think about numerous external factors, and apply them to each and every car, van and employee. Are they going to drive in clean air zones? What is the tax burden for perk drivers? Where does electric fit into an operation? What parts of the fleet should be on short, medium or long-term contracts? Is there a salary sacrifice opportunity? This list is getting longer every week…

The truth is that one size seldom fits all. BVRLA members are increasingly taking the approach that every business has fleets within its fleet, with each needing to be supplied and serviced differently. The end result is that leasing and rental companies are spending much more time in consultation with their prospects and customers.

As a consequence of this, traditional departments are being restructured along new lines, with each company having its own approach. The driver behind this change is technology. Increasingly sophisticated fleet management and mobility systems, telematics and data analytics are enabling firms to develop more complex digital offerings that, when combined with more flexible funding and supply arrangements, can deliver for any fleet. Much of this technology is now available off-the-shelf, at a reasonable cost, so there are opportunities for all rental and leasing companies.

This increase in options means that there is more time and cost per tender or transaction at the front end, but there are major benefits. While getting a signature on the dotted line is costlier, customer loyalty is commensurately higher, as relationships become far more symbiotic rather than transactional.

Another bonus is the increasing maturity in the people leasing and rental companies are employing. They are better trained and more experienced, with higher levels of customer service and business knowledge. Just when its customers need it to, the sector is evolving into a heavily consultative, service-led industry, ever more integral to its clients’ future success.

“We are moving from blended fleet costs to granular detail for every vehicle and driver, treating each more like a retail customer.”

Caroline Sandall ACFO

KEY 2020 TRENDS

Technology and data are levelling the playing field between small and large fleet providers

Fleet consultants are an increasingly precious commodity

Multiple touchpoints mean loyal customers

Research and insight

Future mobility

"We use automation where appropriate, in our service centres, back office and customer facing part of the journey. However, our people are incredibly important to the overall customer experience and it's these people that are helping us to deliver record-breaking NPS."

Louisa Bell
Avis Budget

Delivering digital

Rental and leasing companies are embracing digitisation in all its forms. The main limit to their ambitions will be an adequate supply of vehicle data.

A digital revolution is happening with leasing and rental companies, and the rate of change is accelerating.

Much of this activity is taking place behind the scenes, as companies get to grips with their back-office processes. In many cases, technology is starting to bring great value as Robotic Process Automation is used more widely for administrative processes. One quick advantage is in automating the entry of vast quantities of vehicle data that would otherwise have to be keyed in by humans. From initial details of vehicles to the exchange of information in customer and supplier reporting systems, machines are taking over the writing of files, significantly cutting turnaround times and improving accuracy.

This will not lead to a reduction in head count. Increased digitisation is enabling firms to restructure departments and put more staff on the front line where they can be used to support the growing demand for consultancy services.

Waiting in the wings as an untapped resource is a huge volume of real-time vehicle data. BVRLA members have yet to realise the potentially huge benefits this information could deliver in terms of predictive maintenance, safety and asset management.

This looks unlikely to happen this year. The issue of who controls this data – OEM, leasing/rental company or end user – and how it should be packaged and paid for remains unanswered, with no conclusion on the immediate horizon. A catch-22 is emerging with most OEMs unwilling to hand over vehicle data for nothing, while leasing and rental companies are reluctant to pay for it until they can demonstrate how it can be used to deliver fleet management value.

For customers, digital platforms are becoming ever more intuitive and flexible. Particularly in the PCH channel, digital interaction and customer service-based artificial intelligence systems are being rolled out across the industry. They are delivering huge levels of personalisation and detail which are increasingly replacing the car showroom experience. At the same time, they are providing a more reliable and efficient stream of individual transactions for lease companies and brokers.

The rental sector is also embracing digitisation and exploring some interesting new use cases. Next year will see the arrival of a range of new apps that can do everything from opening car doors to providing a pre-departure checklist or local driving advice. The success of the car club model has demonstrated where direct human contact is required and where it can be replaced by a well-designed app.

KEY 2020 TRENDS

The tussle over access to vehicle data will hold-back innovation in the fleet sector

Sophisticated apps will automate more of the rental process, reducing the gap between car rental and car clubs

Key administrative processes are being robotised, freeing up resource for more customer-facing roles

Future mobility

Regulation and compliance

"We see a big push from OEMs this year, who will be looking to monetise their connected car functionality. There is big potential for the rental and leasing sector to take advantage of this."

Shwetha Surender Frost & Sullivan

"Infrastructure is causing us concern. We are talking to Government because EVs have a massive role to play within rental. The Government needs EV fleet in the UK car parc."

Gary Smith
Europcar

Elusive electric dreams

Electrification is the future, but we are not there yet. 2020 could see a wide gap between what is expected and what is deliverable.

The fleet industry is about to undergo the most transformational period in its history, as electric vehicles change the way business travel is undertaken. Unfortunately, there is a growing gap between the vision and the reality.

There was a lot of interest in EVs before the announcement of a 0% BIK rate for 2020/21, but much of it was curiosity rather than conviction. Now, the strikingly simple message that drivers will pay no tax has resulted in a flood of demand for information and product across the industry. Fleet suppliers have been putting consultants and programmes in place to help this transition, but a lack of available vehicles is hampering this zero-emission transition.

Almost every respondent predicts that getting hold of sufficient pure electric vehicles will be a major concern in 2020. While some EVs are available in volume, the latest, highest-range models are in scant supply. Brexit is cited as the main cause, with OEMs accused of diverting their prized new products to more profitable markets on the continent where they can contribute to tough new EU emissions targets coming into effect next year. The inconvenient truth is that we are in a zero-emission arms race. The best EVs are going to be a scarce commodity for some time to come.

Charging infrastructure is another frustration, particularly for fleet depots or rental branches that are looking to 'go electric'. Installing a few rapid or fast chargers frequently involves some complicated and expensive discussions with landlords, electrical consultants, energy providers and even local network operators. Even with the most sophisticated 'smart charging' solution, the worst case scenarios can see fleets facing a six-figure bill to upgrade their local substation or electricity cables.

Fleet management and electricity providers are already collaborating and looking at ways of taking a more strategic and proactive approach to the UK's rapidly expanding EV infrastructure needs.

"Our original plan was to be 100% electrified by 2025, but in October we pulled that ambition forward by three years as we can see where the market is heading and what the customer demand is going to be."

Phil Webb Honda

KEY 2020 TRENDS

The next Government will be under pressure to accelerate the decarbonisation of road transport by confirming long-term EV incentives

2020 will see the launch of 'turnkey' products that combine the cost of the vehicle, charging infrastructure and fuel

By the end of 2020, pure EVs will be responsible for 20% of new company car registrations

Future mobility

Air quality and emissions

"While there is a growing appetite for EVs, there is need for a necessary workhorse. It's taking a while for Dieselgate to fade, but diesel will re-establish itself."

John Rabin,
Sinclair Finance & Leasing

The diesel debate

There is a future for diesel, if politics doesn't get in the way. Newer, cleaner diesel powertrains provide a low-emission solution for logistics and long distances, but there is a lot of re-education to do, and confusion to be cleared up.

What a difference five years makes. It is barely half a decade since the diesel emissions scandal broke, but in that time, diesel-powered vehicles – cars in particular – have endured a torrid time. Diesel registrations continue to plummet and local authorities continue to declare war on anyone driving one. So is diesel down and out, or can it bounce back off the ropes and deliver a few punches?

As WLTP-related confusion fades, the tax situation becomes clearer and a new generation of ultra-clean diesel cars hits the road, there are some who believe that the pieces are falling into place.

Some are financial and easy to quantify, others cultural and not as simple to classify. The announcement of new tax rates for the next three years creates a modicum of stability, which is the first step to diesel recovery. Some of the drivers and fleets that moved away from diesel over the past few years have had to face the reality of using a lot more fuel, and the prospect of using vehicles that offer 500-mile ranges, 55mpg and reduced carbon emissions is proving a draw again. Residuals are also looking very solid for 2020 thanks to the lower volume of the past few years.

The new Euro 6-temp D WLTP and RDE2 tested cars, with their massive NOx and particulates reductions and lower tax bills, could drive more customers into diesel. The main drawback is the complexity of the new standard. It is difficult for some customers to distinguish what sort of diesel they are buying and whether it qualifies. The market is crying out for clearer, simpler messaging.

Unfortunately, that messaging will become much more complex if the Government and local authorities choose to use diesel as a vote winner by implementing diesel bans and punitive taxes. The fleet industry has a vital role in stepping up to show that diesel is still integral to the efficient and sustainable transport needs of British business.

"There is significantly more confidence in diesel now, and it is getting stronger. People are coming back to the view again that these are great cars for everyday driving."

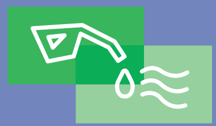
Denis Keenan KeeResources

KEY 2020 TRENDS

RDE2 cars qualify for removal of the 4% BIK diesel surcharge

Diesel's share of the BVRLA lease car fleet will fall below 50% in 2020

Average new car CO_2 emissions will rise for the fourth year running in 2020



Air quality and emissions

Taxation

"People don't always like the hassle of swapping all the time - subscription is about digitalising the overall experience."

Matthew Caudle
Drover

"Short-term flexible leasing is the biggest area for growth in our sector. The issue is finding an insurance partner."

Scott Jenkins
Autohorn

The mobility mix

While many in the automotive sector continue to dabble with a range of different mobility services and partnerships, others believe that servitising existing parts of their business will provide a faster route to profit.

2020 is set to be a big year for corporate car sharing and mobility as a service (MaaS). A growing range of off-the-shelf technology providers are now offering affordable end-to-end platforms that are reducing the barriers to entry for fleets of all sizes, from 20 to 20,000 vehicles. Some major leasing companies are either trialling their own MaaS platforms or white-labelling others. They have the advantage of being able to build on existing customer relationships, but they need to move fast before their competitors do.

When it comes to a more consumer-focussed offering, rental companies have the upper hand. Geographically and structurally the concept of giving the option of public transport, vehicles and other travel options such as bicycles, all from a hub at railway station, rental location or airport is a natural fit for them.

No-one has completely cracked the car subscription model yet, but we have a better idea of what a successful business model will look like. There is increasing evidence that customers are after a flexible rental that includes vehicle, maintenance and insurance bundled together in one single payment. They like the idea of having a choice of vehicles at their disposal, but it seems most people are not that bothered, or willing to pay for, the opportunity to swap their EV for an SUV at weekends.

Elsewhere, companies across the automotive sector are embracing the pay-as-you-go approach - ‘servitisation’ is the new buzzword - in other areas of their business. This year will see a big push from OEMs looking to monetise their connected car functionality. They will be selling ‘on-demand features’ including power boosts, seat or steering wheel warmers, in-car payment services, insurance and WIFI hotspots. After an initial trial, they will be hoping that customers will cough-up a regular monthly fee.

Rental and leasing companies will be making a similar push via their own fleet apps, and they will be looking to develop an in-car offering by working with Apple’s CarPlay or Google’s Android Auto platform. All this activity does not equal profit. As one wag recently put it: “Companies spend 80% of their meeting time talking about new mobility services but make 95% of their profits from traditional rental and leasing.”

“We are beginning to see the theoretical turn into the practical. Mobility as a service will become mainstream rather than niche over the next few years.”

Ben Lawson Enterprise

KEY 2020 TRENDS

By the end of 2020, most OEMs will have a car subscription service

The number of unmanned mobility-as-a-service hubs in busy public spaces will grow this year

The concept of mobility credits will take-off as local authorities and employers look to encourage people out of their privately owned cars

Future mobility

"Nobody is paying enough attention to this. We need uniformity, a simple national policy. Clean air zones are well intended, but many decisions are being made that are not joined up or clear enough."

Martin Brown
Fleet Alliance

Clean air chaos

The fleet industry continues to highlight the need for a consistent approach when introducing measures to tackle air quality in UK towns and cities. But is anybody listening?

As 2019 drew to a close, there were worrying signs that fleets could soon be facing an increasingly patchwork and chaotic range of clean air zone restrictions, charges and timelines. London has pushed ahead with its Euro-6 based Ultra Low Emission Zone, while Bristol has announced plans to ban all diesel vehicles. Meanwhile, uncertainty surrounds the delayed introduction of new clean air zones in Birmingham and Leeds...

The respondents in our research all agreed that the Government must do more to harmonise clean air zone operations, but they saw little evidence of this happening. Transport should be devolved at a local level, but central Government has a key role to play in co-ordinating activity. There is a worrying lack of progress or information from the Joint Air Quality Unit whose proposed digital portal is supposed to help deliver and enforce the new zones. There is a general feeling that someone in Westminster has dropped the ball.

It could get even worse. If Bristol's plans to ban diesel vehicles altogether get approved by the Government's Joint Air Quality Unit, this could open the floodgates for other cities to follow suit.

As a result, 2020 will see urban parts of the UK become far more complex operational landscapes for fleets, particularly national commercial fleets. They still face a huge number of unanswered questions when it comes to details of how clean air zones will register vehicles, administer charges, obtain exemptions and 101 other issues.

Clean air zones will accelerate the transition to newer, cleaner vehicles. Transport policymakers are keen to drive behaviour change, encouraging more citizens to drive less and to walk, cycle or take the bus instead.

Both these scenarios will provide huge opportunities for BVRLA members, who can deliver the latest, cleanest cars, vans and trucks or provide flexible access to vehicles when public transport is not a viable option.

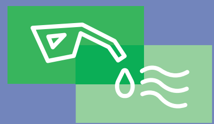
Local authorities want to smooth this transition by providing targeted grants and financial support to SMEs and those on low incomes. Harnessing these funds so that they can be delivered to lease, rental and car club customers will be a key challenge for 2020.

"The government could take more of a stake in the clean air zones and ensure consistency and understanding. Failure to do so would be an abdication of responsibility from central government."

Nick Brownrigg Alphabet

KEY 2020 TRENDS

- Birmingham and Leeds will announce further delays to their Clean Air Zones
- Other cities will follow Bristol in looking to introduce diesel bans
- A number of cities will announce plans to introduce workplace parking levies



Air Quality and emissions

Future mobility

"Working within an increasingly compliant world, it's just the way of life. We're fully supportive of this, but it takes time to re-orientate and train the whole of an organisation."

Gary Smith
Europcar

The cost of compliance

Compliance teams are expanding in the face of a growing regulatory burden. Far from seeing it as a red tape nightmare, most firms are embracing the focus on developing more robust standards and processes.

It is hard now to find a voice within the rental and motor finance sector that doesn't welcome the growing focus on compliance. This year's contributors cite the impact it has had in pushing unscrupulous businesses out of the market and driving customer service standards to even higher levels.

Demonstrable compliance comes with a cost, but putting the right structures and processes in place at the back office soon starts to deliver upstream. Typical benefits include far less reworking of agreements, and a much more streamlined approach to complaints management. For many, greater operating costs are increasingly balanced out by the growth in productivity - a very positive, unintended consequence.

This level of investment means that leasing brokers need to increasingly employ the same level of systems and staff as larger leasing and rental companies. As a result, entry requirements for the sector, particularly those looking to offer personal car leases, will be higher than ever.

HR departments are having to work harder as the FCA's Senior Managers and Compliance Regime (SMCR) takes effect, requiring more employees to become 'approved persons' in order to carry out regulated activities unsupervised. Again, the view across the industry is the initial cost and hassle of meeting these requirements is soon outweighed by the customer service impact of a more highly trained and well-supervised workforce.

One danger is that regulators put motor finance providers in the same basket as other financial advisers. Leasing companies provide a vehicle, finance and a range of other value-added services. The level of customer interaction and on-going support they provide is a world away from the typical mortgage broker, who only provides finance, not a house.

Nonetheless, there are some areas where the sector needs to catch-up with the wider financial services industry. Commission structures and disclosure are under scrutiny and next year will see the BVRLA and its members working closely with the FCA to develop a workable solution that provides greater transparency for customers

"I don't see it as a burden, it's long overdue that we needed more regulation. It's no more than you should be expected to report."

Stephen Greenstreet Greenfleets

KEY 2020 TRENDS

- Complaint levels will continue to rise as professional claims management companies target the rental and leasing sector
- The Government will push ahead with its plans to modernise consumer protection regulations
- The FCA will be keeping a close eye on the personal contract hire sector

Professional development

Regulation and compliance

"We are seeing car makers implementing new, beneficial technologies on vehicles, but not designing them, or providing the support, for these benefits to be sustained through the life of the vehicle."

Richard Billyeald
Thatcham

Pairing and repairing

Showrooms and websites are competing hard to sell you the latest connected, autonomous, shared and electric vehicles. But is the aftermarket ready?

There will be two main issues in the SMR sector next year. One is the immediate issue of repair capacity and the other is managing increasingly complex vehicles.

The aftermarket is already struggling to keep pace with new automotive technology. New lightweight materials, complex joining techniques and software driven parts and sensors mean that repair centres are having to spend more investment on equipment and training. Manufacturers are not helping the situation because many of the latest vehicle repair methods are developed digitally rather physically. What works on CAD doesn't always translate to the repair bay...

As well as tooling up, the aftermarket is fighting over the limited number of technicians that are qualified to work with the latest Advanced Driver Assistance Systems (ADAS) or electric and hybrid powertrains. Most of our respondents said that their repair and maintenance networks were keeping on top of the situation for the moment, but that the strain could grow as this new technology becomes the norm.

This transition could not be happening at a worse time. Dealerships are closing and repair shop capacity continues to shrink as contract extensions remain high. As vehicles get to three or four years of age they require MoTs, more replacement parts and warranties run out. Basically, they spend more time in the garage.

Maintaining fleet downtime at acceptable levels, particularly during seasonal peaks for accidents and breakdowns, will be a major challenge in 2020.

Another emerging conundrum is the apparent lack of any 'Apple store' style offering for drivers and fleets dealing with in-car infotainment and electronics. Manufacturers are constantly updating connected car offerings but few have IT help-desks for customers to contact when things go wrong. Leasing and rental companies are reporting a growing issue with frustrated customers who can't locate their playlist, find their average mpg, or sync with their phone. 'Just switch it on and off again' is not viable advice.

"There's definitely a problem with capacity, and we're going to see it more because there are less dealerships, so repair times are going to become a real issue."

Peter Davenport SG Fleet

KEY 2020 TRENDS

Electrical and software faults will drive a surge in vehicle safety recalls

The choice of aftermarket repair outlet will increasingly be driven by service level and not cost

Managing vehicle downtime will drive demand for predictive maintenance solutions

Vehicle and road safety

Professional development

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