

Asset Finance Pricing Review

Colin Tourick analyses
the current boom in
UK fleet sizes

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Professor Colin Tourick

BVRLA member fleets drive UK market to new highs

Fleet sizes are increasing at an impressive rate, with leasing numbers hitting all time records, suggesting that careful pricing and a sound understanding of the market are reaping rewards in both the corporate and personal sectors

By the time you read this it is quite likely that BVRLA (British Vehicle Rental and Leasing Association) member fleets will exceed 4.25 million vehicles for the first time ever. If this rate of growth continues, the total fleet could reach five million in the next 18 months or so which is double the number in 2008.

This remarkable success story no doubt owes a lot to the recovery in the UK economy since the financial crisis, and to the ability of BVRLA members to both stimulate demand and to meet that demand. This article will explore the figures in more detail and try to provide some lessons for other fleet markets.

The BVRLA carries out its most detailed survey of member fleets once a year and asks members for trends in the interim. At the end of last year BVRLA members funded and managed 3,856,747 vehicles, from cars to heavy commercial vehicles and for consumers, SMEs and large fleets across the UK.

The breakdown is as follows:

Vehicle type	Type	Fleet size 2014	Membership trends 2015
Car	Corporate leasing	1,820,828	Growing same rate
Car	Personal leasing	1,078,208	Rapid growth slowing
Car	Short term rental	245,730	Growing faster
Commercial vehicle	Corporate leasing	70,217	Growing same rate
Commercial vehicle	Personal leasing	742	
Commercial vehicle	Short term rental	44,826	Growing faster
Light commercial vehicle	Corporate leasing	456,034	Growth slowing
Light commercial vehicle	Personal leasing	18,921	Rapid growth slowing
Light commercial vehicle	Short term rental	121,241	Growing faster
TOTAL		3,856,747	

Source: BVRLA

Space does not allow discussion of each section of the market so we will just look at a few of these categories.

The biggest category of course is cars leased to businesses. Of the 1,820,828 total at the end of 2014, volumes for both cars funded on contract purchase and cars purchased on finance leases remained largely unchanged over the previous year, confirming their relative unpopularity amongst corporate clients.

Outsourcing wins fans

In contrast, contract hire growth hit record levels, which shows the enduring strength of this product, and probably says something about clients realising that with contract hire they get all of the benefits of outsourcing in a relatively straightforward product that allows them to get on and run their core business without the need to become experts on the automotive industry.

The BVRLA statistics also show that its members managed increasing numbers of cars under fleet management contracts, which have been rising steadily. No doubt the reason for the success of this product was the same as for contract hire: the continued growth in businesses recognising the power of outsourcing.

In the most recent survey carried out this year, BVRLA members reported that contract hire had continued to grow at the same speed as in 2014, which suggests that by the end of this year there will be more than 1.6 million contract hire vehicles in the UK. These figures offers great ammunition to fire back at those who say “the company car is dead”.

Contract hire is popular because it appeals to so many different parts of the market – from public sector and the biggest corporate right down to the SME – and also because it delivers real cost benefits to most clients compared with outright purchase.

A client that wants to do a quick evaluation of the benefits – comparing the rental costs over three years against the depreciation if they buy outright and maintain the car themselves – will usually find that contract hire is cheapest. And if they decide to do a more detailed evaluation – taking into account every cash flow likely to arise over the course of three or four years should they opt to lease or buy, including the VAT and tax cash flows – they will generally find that contract hire emerges as the winner here too.

Personal leasing popular

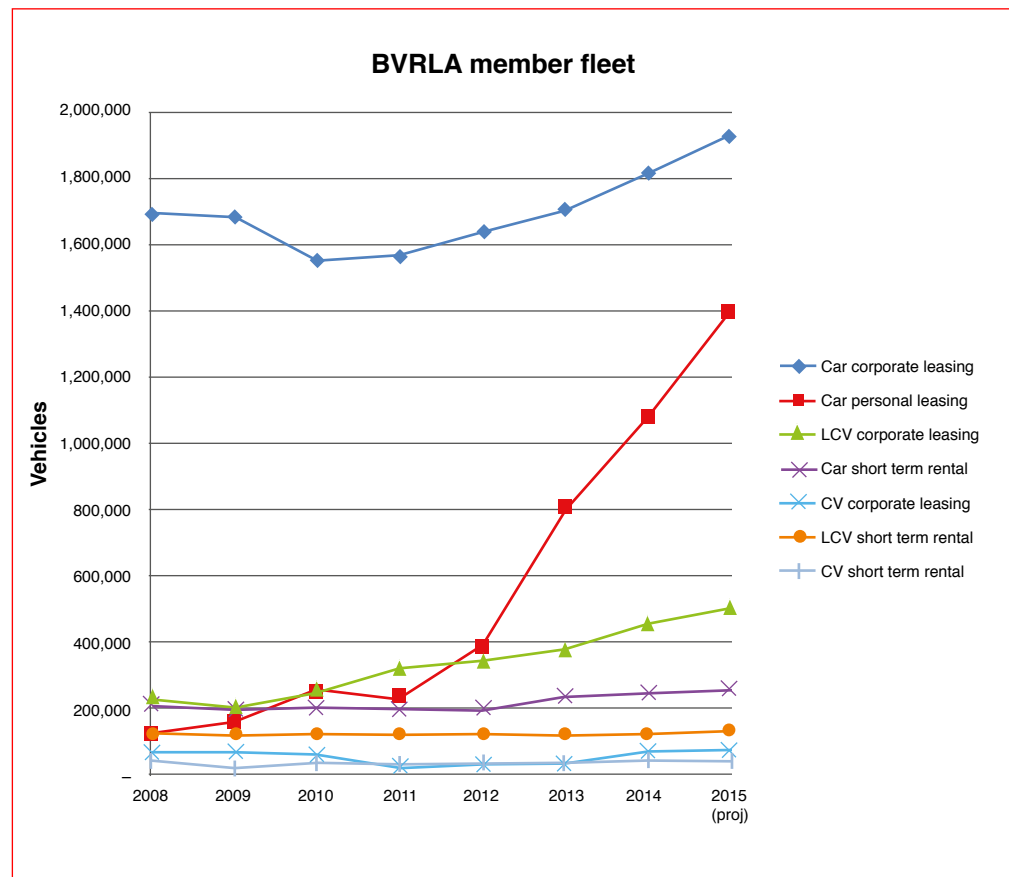
The second most popular form of car finance is personal leasing. The growth in demand for this product in the UK in recent years has been astonishing and this growth has continued during 2015, albeit at a slower pace. It is interesting to look for reasons why this product should have become so sought after.

Paradoxically, the major reason probably owes a lot to UK house prices. These have become so unaffordable – out of step with average earnings – that people in their late teens and early twenties have come to realise that a house purchase is something they will need to put off for some years because they cannot afford either the deposit or the repayments. They have become the “stay with parents” generation, leaving home perhaps a decade later than would have been the case in the 1960s, and even then deciding first to rent rather than buy because of the problem of raising a deposit. Whilst low mortgage interest rates have encouraged some young people to step onto the housing ladder, others have remained concerned that interest rate rises will leave them financially stretched.

In much the same way as this generation don't value house ownership, it seems they don't value car ownership either, and they are happy to rent a car or belong to a car club if they have the occasional need for a car, rather than buying one. The trend for young people to move to cities has encouraged this phenomenon: a car can be a liability in a city centre. And when they do decide to have their own car,

leasing provides the ideal solution: renting rather than owning, but just for a longer period.

Brokers have also played a part in the growth of personal leasing. Many broker websites offer lease cars at remarkably affordable prices, which they are able to do either because of special deals direct with manufacturers or because they are particularly adept at identifying and promoting the best deals on offer from the leasing companies. Personal contracts currently account for 33% of the fleet of cars placed by brokers with contract hire companies in the UK, probably because brokers tend to do a high percentage of business with SMEs where the business is operated as a sole trader or partnership rather than a company.



Source: Data to 2014 BVLRA; 2015 projection University of Buckingham

Vans move into the fast lane

The final category of note is the leasing of light commercial vehicles (LCVs) to corporate businesses. This has been a real success story for leasing companies, and there are currently twice as many leased vans than in 2009. Unlike with cars, where the VAT rules normally help make a strong financial case for leasing rather than outright purchase, with LCVs there is often little difference when a financial analysis is carried out on whether to lease or buy a van.

Success in this segment of the UK market has therefore come from a combination of factors. These include the trend for leasing companies to build specialist teams

of LCV experts who better understand the needs of customers in this sector. In addition, customers are becoming more enamoured with the idea that they can offload the residual value risk if they lease rather than buy. Also, it is quite likely that the strength of the UK economy has made companies more relaxed about entering into a fixed term commitment and handing back the vehicle at the end, rather than buying outright and retaining the flexibility about how long to hold on to it.

Taken overall, the figures reported by the BVRLA show how very strongly the industry has bounced back since the recession, suggesting that it is now powering ahead and with few obstacles in sight. This revved up performance is no accident, however. Rather, it is the result of careful analysis of what customers want, shrewd pricing strategies, and a willingness to invest time and money in delivering innovative new solutions.

The UK fleet market thus provides lessons from which some European leasing companies can learn a lot.

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