

STATE OF THE GLOBAL FLEET MARKET:

EUROPE, ASIA, SOUTH AMERICA, AUSTRALIA & AFRICA

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High fuel prices, credit availability, and sustainability are some of the issues facing fleets located in Europe, Asia, Australia, South America, and Africa. This state of the industry report examines fleet trends in each of these regions.

BY MIKE ANTICH

Vehicle asset management in the European Union is very sophisticated and, in many cases, on the cutting edge of best practices in fleet management. There are many similar trends impacting fleets on a worldwide basis, such as cost-containment pressures, utilization management, vehicle downsizing, maximiz-

AT A GLANCE

- **China:** An emerging trend in China is using company vehicles as an employee recruitment and sales incentive tool.
- **Australia:** An ongoing fleet trend in Australia is engine downsizing from V-8 to six- or four-cylinder engines.
- **Brazil:** The government now requires mandatory GPS on all new vehicles of national or foreign production sold in the country.
- **Europe:** Many European-based lessors foresee electric vehicles playing a major role in European fleets before 2015.
- **Africa:** The continent continues to be the "dumping ground" for used vehicles exported from Asia and Europe. Some African countries are enacting laws restricting used-vehicle imports.

ing fuel efficiency, and complying with sustainability mandates.

Although fleets outside North America share similarities, there are also dramatic differences. For instance, in Asia, about half of the fleet vehicles operated by major multinational corporations are two-wheelers, particularly in India, Indonesia, Philippines, and Taiwan. Operating a two-wheeler fleet versus four-wheeled vehicles requires different asset management and utilization practices. Another difference is global fleets are more heavily taxed, and in many instances, operate under stricter emissions requirements than mandated in the U.S.

What follows is a summary of current global fleet management trends broken out by regional market.

Asian Fleet Market

A variety of market challenges affect fleets in Asia, such as a conservative lending environment, increased concerns about CO₂ emissions, and the possibili-

ty of governmental mandates to control these emissions.



China: China surpassed the U.S. as the world's largest vehicle market in 2009 and 2010. Nationwide sales are more than 17 million units per year, which include medium- and heavy-duty commercial vehicles. Currently, there are 85 million vehicles on the road. By the end of this decade, China is forecast to have 200 million passenger vehicles in operation. A key reason for the growth in the Chinese automotive market has been the rapid rise in wealth accumulation, resulting from the country's fast-paced economic growth and industrialization.

Despite growth in the Chinese economy, all fleet leasing companies operating in China still have very small leased-vehicle portfolios relative to the size of the economy. The top four fleet management companies operating in China are Dazhong, Shouqi, Avis, and ALD. Other fleet management companies, such as ORIX, are





viewing China as a “green-field” opportunity. The country’s largest fleet lessor is Dazhong, which has a modest portfolio of 4,000 units. One reason, among a variety of reasons, for the small fleet market is that many salespeople in China rely on public transportation. In addition, as one fleet manager recounted: “You can go from ‘first-world Shanghai’ to ‘third-world China’ very quickly. Outside of the major cities, road infrastructure remains subpar.”

An emerging fleet trend in China is the use of company vehicles as an employee recruitment and sales incentive tool. Many multinationals operating in China report annual employee turnover rates as high as 25 percent, primarily due to the expanding economy and employment opportunities for properly qualified candidates with experience working with multinationals.

Another factor contributing to increased automotive sales is the expansion of the dealer network. Also, the Chinese government cut taxes on new-vehicle purchases and implemented subsidies on fuel-efficient vehicles.

The Chinese government has increased spending for the development of alternative-energy vehicles. China is the world’s largest emitter of CO₂. In addition, China’s reliance on importing fuel increased by 55 percent in the first half of 2010, and fuel prices continue to climb. China consumes about 8 million barrels of oil per day, nearly 10 percent of the 88 million barrels consumed globally on a daily basis.



Japan: The size of a typical Japanese fleet averages 200 units. However, there is also a grouping of commercial fleets operating thousands of vehicles. Fleet lessors serving the Japanese fleet management market include ORIX, GE Capital, and Sumitomo Mitsui Auto Service.

Delivery fleets represent the largest segment of the commercial fleet market. Japanese cultural norms emphasize the sale of fresh food, which requires a steady replenishment of stores throughout the day by fleets of delivery vehicles operating in major urban areas.

An increasing number of Japanese companies are acquiring hybrid vehicles to reduce emissions and fuel consumption. Ac-

ording to John Carter, managing director for ORIX Australia & New Zealand and ARI/GFS partner, the Japanese government will ultimately “go electric” and legislate the use of one battery type for electric vehicles. “It is clear the Japanese are going electric,” added Carter.



Philippines: For many multinational companies, the Philippines is the second largest fleet market in Asia after Japan.

One reason is the nation is an archipelago of more than 7,000 islands, requiring vehicle concentrations confined to individual islands.

The fleet leasing market is dominated by local lessors. With the exception of ORIX, most of the major global fleet management companies do not have a presence in the Philippines. This is due to the ownership requirements placed on international businesses by the government to partner with a local business. The average size of fleets in the Philippines is under 50 units.



India: Both retail and fleet sales have been increasing dramatically in India due to the country’s economic growth, increased availability of credit, and the growing number of OEMs launching new products in the local market.

In calendar-year 2010, the Indian light-vehicle market had a record sales year of 2.69 million units, compared to 2 million units sold in 2009. Annual sales of light commercial vehicles in 2010 grew even faster to 522,000 units, up 38 percent compared to the prior year. The 2011-CY forecast is for annual light commercial vehicle sales to be 630,000 units, up 19 percent compared to 2010.

The average fleet size in India is about 100 units. The top five fleet management companies operating in India are LeasePlan, ALD, ORIX, Hertz, and Arval. In addition, the recent global financial crisis prompted an uptick in the number of companies outsourcing fleet services to third-party providers. All vehicles in India are



regulated by Euro 3 emissions standards.

Indonesia: Some fleets in Indonesia are very large, with 3,000-



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4,000 vehicles, operated by international tobacco companies with huge growing operations in the country.

“ORIX identified Indonesia as a growing market many years ago, due to the growth in international investment,” said Carter. “ORIX

has seen continued growth and development in the auto lease product in Indonesia due to the demands from multinational companies.”

Fleet Markets in Australia and New Zealand

One key component of the Australian fleet market is tool-of-the-trade vehicles, known elsewhere in the world as utility vehicles.

“The key focus of fleet managers in Australia and New Zealand is total cost of ownership, CO₂ reduction, and compliance with government-mandated occupational, health, and safety regulations,” said George Georgiou, general manager, fleet for ORIX Australia and ARI/GFS partner.

An ongoing fleet trend in Australia is engine downsizing from V-8 to six-cylinder or four-cylinder engines.

“Six-cylinder cars are rapidly disappearing in Australia,” said Georgiou. “The reason is because of the fleet focus on cost reduction and CO₂ emissions. Six-cylinder tool-of-the-trade vehicles are now limited to fleet buyers who have a ‘towing’ requirement.”

Sole-sourcing from a single OEM supplier is another ongoing trend among Australian fleets.

“With the incentives offered by all manufacturers to fleet buyers, in particular, the huge incentives for conquest business, it makes commercial sense to standardize to one manufacturer,” said Georgiou.

Auto manufacturers operating in Australia are seeking to stimulate fleet sales by offering incentives to large fleet customers. Korean OEMs, in particular, are very aggressive in trying to expand fleet market share through the use of robust fleet incentives.

“The Korean auto manufacturers are very aggressive with fleet incentives and are making inroads in the fleet market,”





STATE OF THE GLOBAL FLEET MARKET

said Georgiou. “The Korean impact on the Australian fleet market in the past few years with higher quality controls, extended warranty, as well as robust fleet incentives, has changed the whole look of the Australian and New Zealand fleet market.”

Korean OEMs, along with Subaru and Volkswagen, have been experiencing dramatic increases in fleet market share in Australia over the past two years. “Traditional players, such as Ford, Holden, Toyota, and Mitsubishi have lost huge market share to the Koreans, Subaru, and VW. Honda and Mazda are also planning to enter the Australian fleet market in the near future,” said Georgiou.

The entry of these new OEMs into the fleet market, along with dramatic market share shifts, has complicated the Australian fleet marketplace.

“The whole landscape is changing, with traditional large car manufacturers, such as Ford and Holden, now investing their efforts in the medium-car market to meet the demands of fleet buyers who focus on total cost of ownership, green initiatives, and compliance with occupational, health, and safety regulations,” said Georgiou. “The acceptance of the Korean product and now non-traditional fleet OEMs, such as Mazda, Honda, Subaru, and VW, has made decision-making by fleet managers even more difficult.”

Another recent OEM entry in the Australian fleet market is Great Wall, a Chinese OEM; however, fleet market reaction has been lukewarm.

“The Chinese-produced Great Wall cars will take a few more years to gain acceptance,” said Georgiou.

The primary fleet lease in Australia is an operating lease with services, known in the U.S. as a closed-end lease.

Another type of lease in Australia is the novated lease, in which the employee chooses a vehicle and lease option, either an operating or finance lease. The employer assumes all lease obligations and pays the lease rentals (and maintenance if included) to the lessor. Monthly lease rentals are deducted from the employee’s gross salary, which may lead to lower income tax and



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higher net salary. If the employee leaves the company, responsibility to make lease rental payments reverts to the employee.

“Novated leases now have a wider base of customers,” said Georgiou. “Employers traditionally only offered this product to their middle

to senior managers. Now, the trend is to include all staff. Some employers are using novated leases as an employee recruitment tool.”

The used-vehicle market in Australia has been very strong during the past 18 months; however, it has started to see some softening in recent months. Key remarketing channels in Australia are auctions, wholesale tender, retail yards, and novated lease remarketing.

New Zealand is a small fleet market due to its terrain and small population. “New Zealand is about 10 years behind Australia in terms of fleet management,” said Georgiou.

The Growing Number of Global Fleet Managers

For many years, U.S. fleet managers have managed vehicle fleets beyond the U.S. border, primarily in Canada and Mexico. Initial forays outside of North America included management responsibilities of European business unit fleets, which was facilitated by the creation of the European Union. But since then, the concept of the global fleet manager has expanded its reach into all global regions. In recent years, the number of global fleet managers has been proliferating. Some examples include Ecolab, Merck, Bristol-Myers Squibb, Johnson Controls, Tyco International, Pfizer, and Honeywell.

“There has been an increase in the number of companies that are sourcing and managing their fleets globally. Many companies are adding ‘global’ to the titles of those responsible for fleet and giving them the requisite authority to negotiate with manufacturers and fleet management providers,” said Bill Robinson, VP of International at Wheels.



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Pan-European Fleet Market

The European fleet market is very complex, comprised of 26 countries with differing regulations, tax schemes, and OEM preferences. In 2009, there were 24.3 million fleet vehicles in operation, according to Pascal Serres, deputy CEO of ALD Automotive.

In terms of annual sales, in 2009, there were 4 million corporate registrations, which represented 28 percent of the total 14.5 million units sold that year, added Serres. Most European company vehicle contracts are tied to employment contracts. Germany is the largest European fleet market.

The European fleet market, which was severely buffeted by the economic upheaval in 2009, began recovering in 2010-2011. According to Leaseurope, a trade association representing the European leasing and automotive rental industry, new leasing business in Europe

increased by 4.9 percent in 2010. Leasing growth rates were strong across much of Western Europe; however, there continues to be a softness in new-vehicle fleet orders in Central and Eastern Europe, with the exception of the Polish fleet market, which experienced substantial growth. One reason for the lingering impact of the financial crisis in Central and Eastern Europe is because the economic downturn occurred later in these regions.

Currently, there are three main trends in European fleet management: sustainability, downsizing, and outsourcing.

“In the past two years, CO₂ reduction has become a key driver in fleet acquisitions,” said Serres. Based on ALD Automotive data, in 2010, the average fleet vehicle emitted 131 grams/kilometer of CO₂. This compares to 160 grams in 2005.

Despite the slow economic recovery, fleet sustainability initiatives continue strong throughout Europe, with many countries adopting the UK model of taxing CO₂ emissions as a means to modify driver behavior. OEMs are supporting these fleet efforts by publicizing the CO₂ emissions of their models in product literature.

“Downsizing is another general fleet trend occurring across Europe,” said Serres.



“This involved not only fleet size, but also vehicle size and engine displacement.”

Most leases in Europe are an operating lease (known in the U.S. as a closed-end lease), with the lessor assuming the residual risk. During the recent financial crisis, used-vehicle values experienced a historic collapse in 2008. Residual values declined, on average, 20 percent or more in Europe, varying by country. The prospect of potential resale losses prompted European lessors to provide extensions to existing lease contracts to postpone remarketing until the used-vehicle market improved.

The pan-European used-vehicle market is beginning a slow recovery in residual values, which varies by country. Compounding this slow recovery is earlier, separate measures taken by European governments to counter the economic downturn by subsidizing the sale of new vehicles, which had the unintended consequence of putting downward pressure on used-vehicle resale values.

According to Serres, there will be three key drivers that will influence the European fleet market in the future.

The first trend is the concept of mobility. “This involves all aspects of mobility ranging from fleet vehicles, travel management, conference calls, and short-distance mobility,” said Serres. “I predict the new KPI (key performance indicator) will be TCM (total cost of mobility).”

Another trend that will impact European fleets will be environmental and regulatory constraints. “There will be a migration from CO₂ reductions to reductions in aggregated emissions, which will include not only CO₂, but also NOx and particulates,” said Serres.

The third fleet trend cited by Serres will be the impact of new technologies on fleet management. “Telematics will allow closer driver management and help lower the cost of mobility management,” said

Serres. He also foresees electric vehicles playing a major role in European fleets before 2015. A similar observation is made by Philippe Brendel, president of Observatoire du Vehicule d’Entreprise, a unit of Arval, a global fleet management company. Brendel likewise foresees rapid adoption and utilization of electric vehicles by European fleets.

“I believe European fleets will adopt EVs, particularly commercial electric vehicles, but it will take time because of the high price,” said Brendel. “The EV market will probably take off in the 2012/2013 timeframe. We see the price of batteries decreasing quite rapidly. In addition, the competition between car makers will help to reduce EV prices.”

Another trend in European market is increased taxation of fleets. “This occurs in the form of a value-added tax, vehicle excise duty tax, CO₂ tax, company car tax (benefit-in-kind), and other country-specific taxes,” said Rob Hill, manager, global sales and consultation for Automotive Resources International (ARI).

South American Fleet Market

There are 77 million registered vehicles in South America, of which 22 million are commercial vehicles. However, the number of fleet-managed vehicles represents a small percentage of the commercial fleet market.

With a population of almost 200 million people, Brazil is the largest fleet market in South America, according to Leandro Aliseda, sales director for Total Fleet/Localiza and ARI/GFS partner.

There are six major fleet management companies in Brazil, whose combined portfolios represent 90,588 commercial vehicles under fleet management. These fleet management companies have well-developed processes to manage fleet operations in Brazil.

According to Alexandre Valadao, sales director for ALD Automotive Brazil, there are approximately 4 million corporate vehicles in Brazil.

More than half of these vehicles are located in the Southeast region of the country, which contains the major popula-

tion centers, such as Rio de Janeiro and Sao Paulo.

“In 2010, the total renting (short-term and long-term leasing) market in Brazil was estimated at 400,000 vehicles, and it is growing on an average of 10 percent a year,” said Valadao. “The car renting/leasing market is largely diversified, but in the midst of consolidation.”

The average renting terms are 24 or 36 months, depending on mileage utilization. “Longer tenors (renting terms) are usually not applied due to lower liquidity for long-term funding and bad road conditions in Brazil, which accelerates vehicle depreciation and increases maintenance costs,” said Valadao.

Brazilian fleets have little leverage with car manufacturers and limited bargaining power. Three auto companies control 75 percent of the Brazilian market share — VW, General Motors, and Fiat. “Fleets don’t have huge bargaining power,” said Aliseda. “We buy cars together with Localiza Rent a Car, which increases our bargaining power with the automakers.” As in the U.S., volume buyers receive a better discount. However, most Brazilian companies are not volume fleet buyers.

The Brazilian economy differs significantly from north to south, with the southern part of the country the most prosperous. As a result, there are wide disparities in the country’s infrastructure. “The roads in northern Brazil are terrible,” said Aliseda.

In addition, the vehicle maintenance/service-provider network in some parts of the country is not reliable, and there are widespread shortages in parts availability. Total Fleet/Localiza has two employees dedicated to locating parts to minimize fleet downtime.

The fuel management business is still embryonic in Brazil, mainly due to widespread ethanol use, which powers approximately 88 percent of all light-duty vehicles. “Flex-fuel vehicles have grown from 54 percent of all new-vehicles sold to 88 percent,” said Valadao.

Resale values in the used-vehicle market are erratic and unpredictable, presenting



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the potential for significant depreciation risks. Previously, tax incentives are used to stimulate new-vehicle sales, causing a decline in used-vehicle values.

One potential fleet-related development may be the introduction of CONTRAN 245 regulations in Brazil, which may require factory installation of either a theft-protection GPS tracking system or RFID system (or perhaps some other technology) in all new vehicles of national and foreign production sold in Brazil. As of press time, the technology to be used is still undecided. Most Latin American countries have high rates of vehicle theft. Brazil's vehicle theft rate is four times the rate in the U.S.

A recent C.J. Driscoll study reported there are 1 million fleet vehicles in Latin America equipped with GPS fleet management systems, with 60 percent operating in Brazil and Mexico.

Argentina: Argentina is the second largest fleet market in South America. The top three OEMs are PSA Peugeot-Citroen, General Motors, and Ford. Fleet leasing is not prominent in Argentina; it is more common for corporations to purchase fleet vehicles.

The country's fleet is primarily diesel-powered, representing 56 percent of units. All new light-duty vehicles are required to comply with Euro 4 emissions standards.

Argentine fleets are heavily taxed. The country imposes a value-added tax (VAT) with a standard rate of 21 percent. The vehicle tax is 2.3 percent based on the fiscal value of the vehicle.

Fleet Market in Africa

The South African fleet market is highly competitive and a price-sensitive market environment. As of February 2011, the National Association of Automobile Manufacturers of South Africa (NAAMSA) reported that the country's new-car and light commercial vehicle market grew significantly. Aggregate new-vehicle sales of 38,934 units were up 18.6 percent in January 2011 compared to the same time last year. Of these sales, approximately 3.4 percent were corporate fleet sales, 5.8



VALADAO

percent were sales to the government, and 9.8 percent were sold to the car-rental industry. In addition, there was a substantial increase in registered medium and heavy commercial vehicle sales.

According to NAAMSA, the boost in sales is related to the South African Reserve Bank cutting its interest rate to a 30-year low of 5.5 percent, which improved new-vehicle affordability during a time of pent-up demand.

For 2011, NAAMSA forecasts new commercial vehicle sales could improve by up to 15 percent, based on higher anticipated economic activity in the South African economy.

The total South African vehicle population is approximately 7.7 million vehicles (including all categories of vehicles), of which 8 percent are leased. The total number of vehicles sold in South Africa is typically equal to the total sold in sub-Saharan Africa. Every brand of vehicle, including Chinese-brand models, is sold in Africa.

Vehicle maintenance presents a key fleet challenge in South Africa because the service infrastructure is insufficient and fraud is rampant in the vehicle maintenance industry.

"One reason for the high level of fraud is employees are underpaid and fraud is used to supplement incomes. Another contributing factor to high maintenance costs is the wear-and-tear caused by poor road conditions," said Walter Hill, CEO of Eqstra Holdings Limited, an integrated capital equipment and leasing provider with operations in South Africa and the UK and ARI/GFS partner.

Driver management is another challenge facing African fleets — in particular, the lack of care of corporate assets.

"Employees use the company vehicle as family transportation. They will load sheep into the car. They do not have the same culture in looking out for the asset as found in more developed countries," said Hill. "We have seen it all."



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Outsourcing is a growing trend in South African fleet management. However, outsourcing of fleet ser-



vices is still in its infancy compared with global leasing markets.

The fleet market in sub-Saharan Africa faces many similar challenges, such as insufficient availability of capital, but also a limited skills employment base and risks due to political instability.

"The biggest challenge in sub-Saharan Africa is funding. Local governments insist fleet management companies use local banks, but these banks often don't have the capacity to provide sufficient funding," said Hill.

Vehicle Remarketing in Africa

Africa is the "dumping ground" for used vehicles exported from Asia and Europe. These areas export their undesirable used vehicles to Africa, which is depressing residual values in Africa. In addition, there are concerns that used-vehicle exports contribute to a decrease in road safety. For instance, effective March 1, Zimbabwe's Ministry of Transport banned the importation of vehicles older than five years as part of an effort to reduce the country's high rate of motor vehicle accidents.

"CO₂ control is an illusion because the dirty vehicles being removed from Europe and Asia are being sent to Africa. You've simply shifted these vehicles from one continent to another. On average, vehicles in Africa are in service for 20-30 years," said Hill of Eqstra Holdings.

In 2010, used-car sales declined in South Africa, along with average resale values, according to TransUnion Auto Information Solutions. "While new-car sales (in South Africa) continued to increase, sales of used vehicles slowed. As a result, the annual 2010 ratio of 1.79 used vehicles for each new vehicle sold is significantly lower than the 2009 figure of 2.16 used for each new vehicle," reported TransUnion. "This may have a lot to do with car dealerships offering better deals on new vehicles in an effort to attract business." 