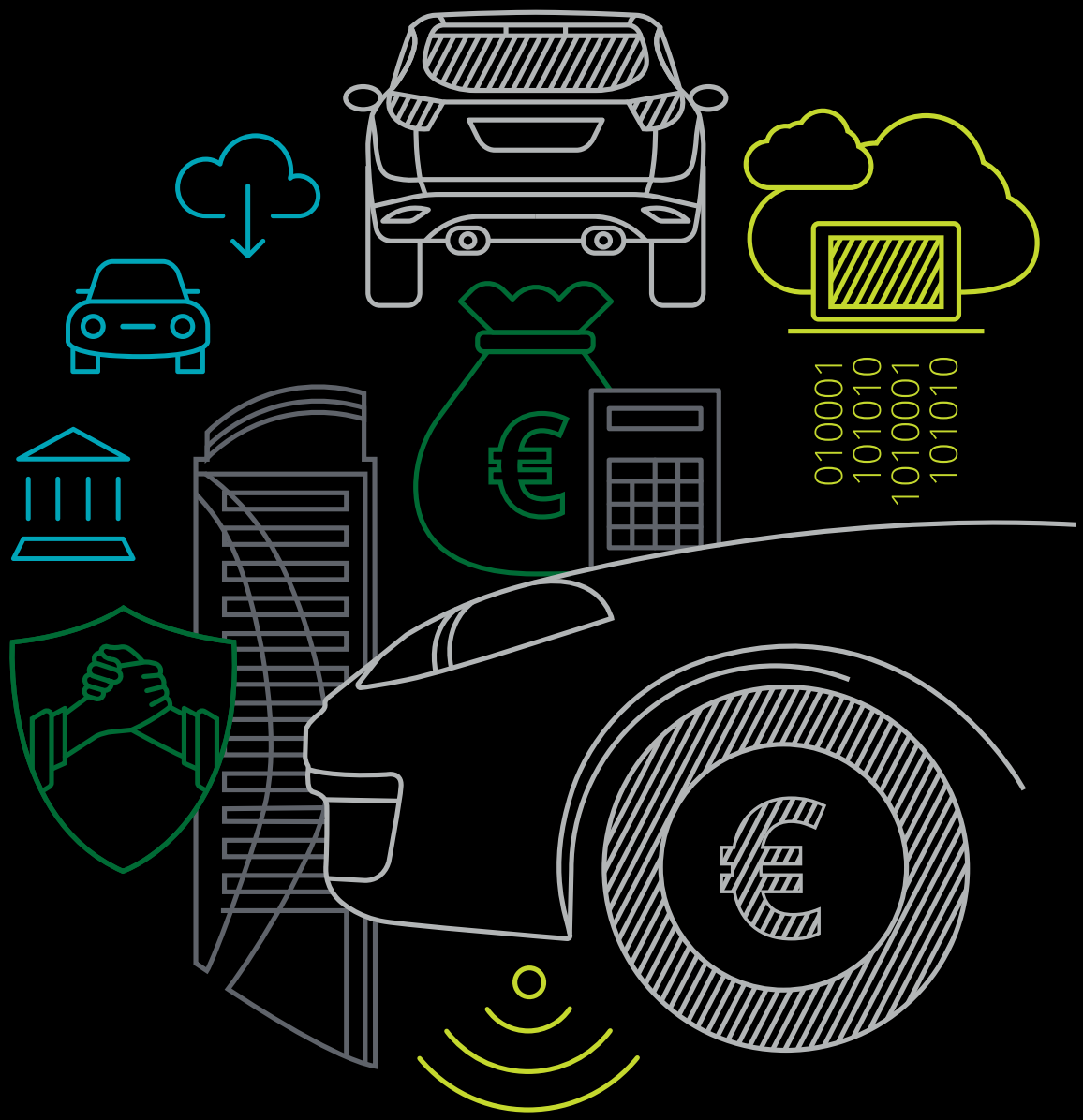
Deloitte.



Fleet management in Europe

Growing importance in a world of changing mobility

Future *of* Mobility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Preface

Fleet management has developed into a multi-billion-euro industry in Europe in recent years. More importantly, the fleet management business continues to grow and is gaining significant strategic importance in a world of changing mobility. Particularly when we think about two of the main trends which are most likely to substantially influence the future of the automotive industry: firstly the trend towards sharing instead of owning and secondly the trend towards self-driving vehicles. It comes as no surprise that more and more OEMs are actively pursuing opportunities in the multi-brand fleet management market.

Historically, the business was largely dominated by fleet management companies fully or partially owned by large banks. And today, several of the largest players still are. In recent years however, several OEMs have (re-)entered the multi-brand fleet management market, or substantially expanded their operations.

In this study we will explain in greater depth why the strategic relevance of fleet management will continue to grow, what the key characteristics of the business model are, and what will be the future drivers of the corporate car market. Furthermore, the study names the key players in the industry, which main M&A activities have recently characterized consolidation in the industry, and what implications the main trends in the automotive industry with regard to the Future of Mobility will have for fleet management. Our study concludes with a summary of major strategic implications and respective fields of relevant actions required of the various players in the fleet management business.

Although fleet management is turning more and more into a global business and several of the largest players in the segment are now able to offer fleet management services globally (mostly through cooperation), we have chosen to focus this study exclusively on the European market. Europe is by far the largest market for fleet management globally and also in many regards the most advanced. Despite the fact that other fleet management markets such as North America, for example are characterized by distinct differences as compared to the European market, we believe that the major findings of our study will ultimately also have relevance on a global scale.

We hope you enjoy reading our insights and thoughts on this increasingly important segment of mobility.

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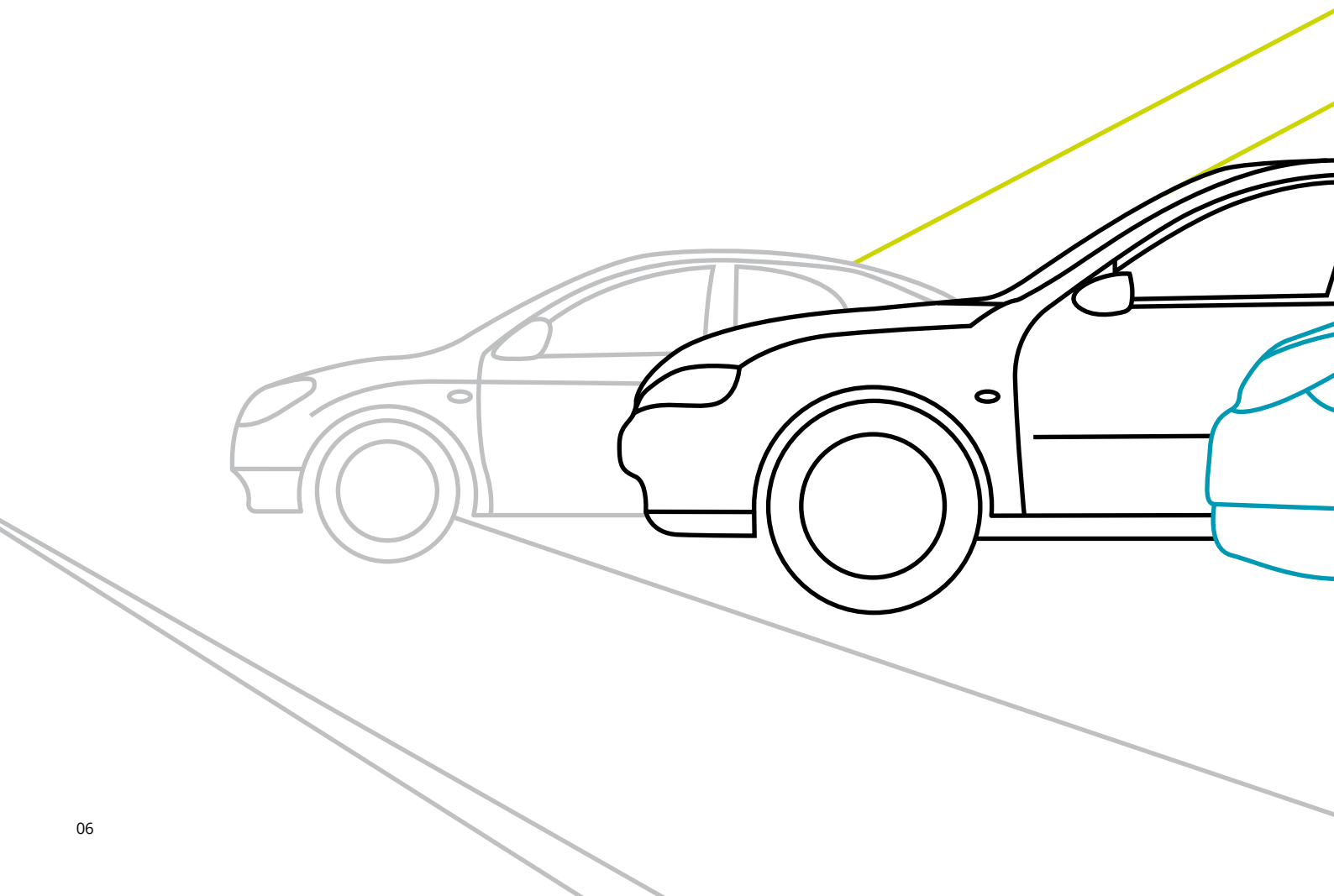
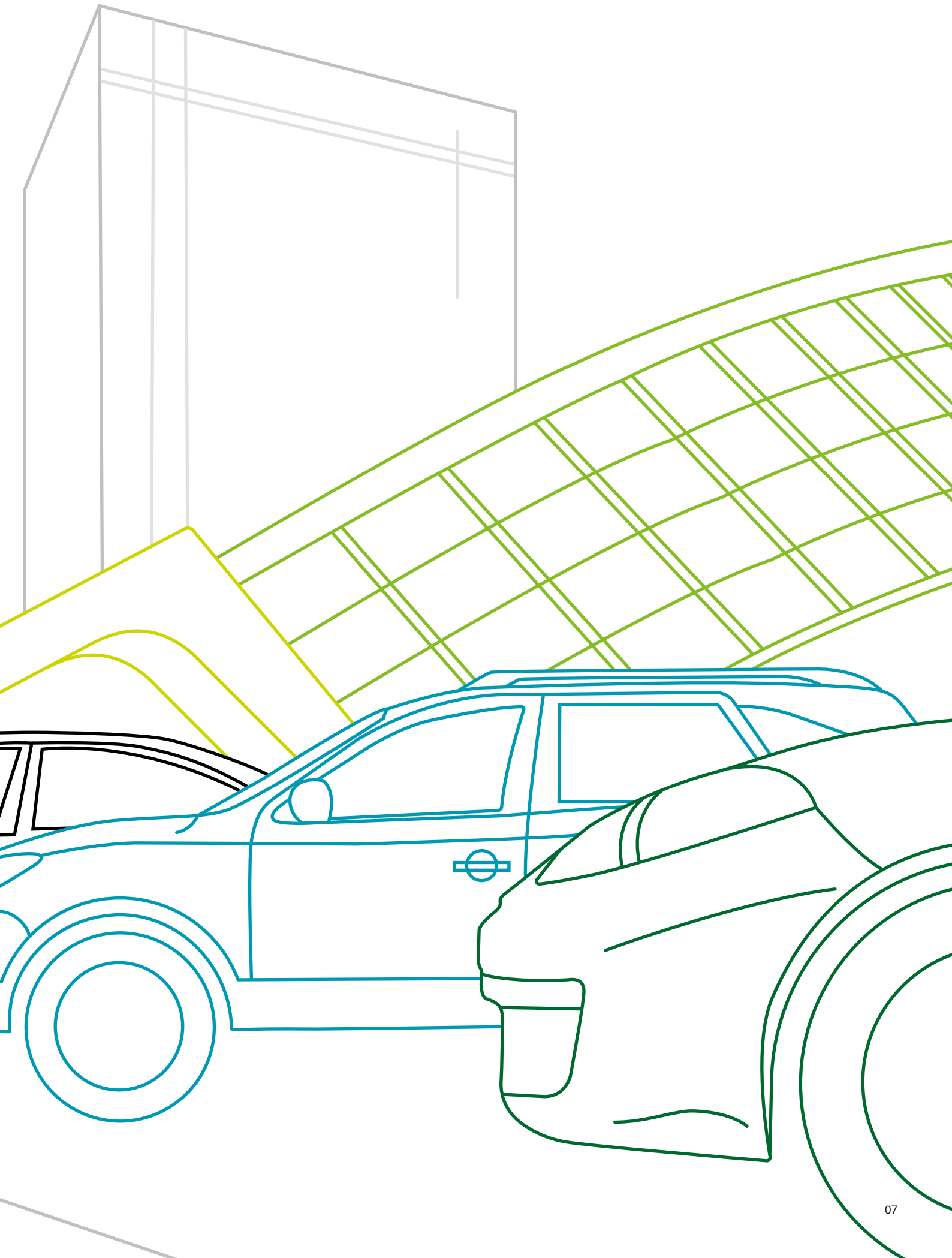
Relevance of fleet management

Today, the ability to manage and operate fleets of multi-brand vehicles is a highly profitable business. Tomorrow, it will be a key capability to be successful in the Future of Mobility.





The automotive market in Europe is characterized by two major customer segments. Almost all new vehicles sales are either registered to private or to corporate customers (leaving a small number of registrations for e.g., governments). Both segments and their respective requirements have experienced continuous change in recent years.

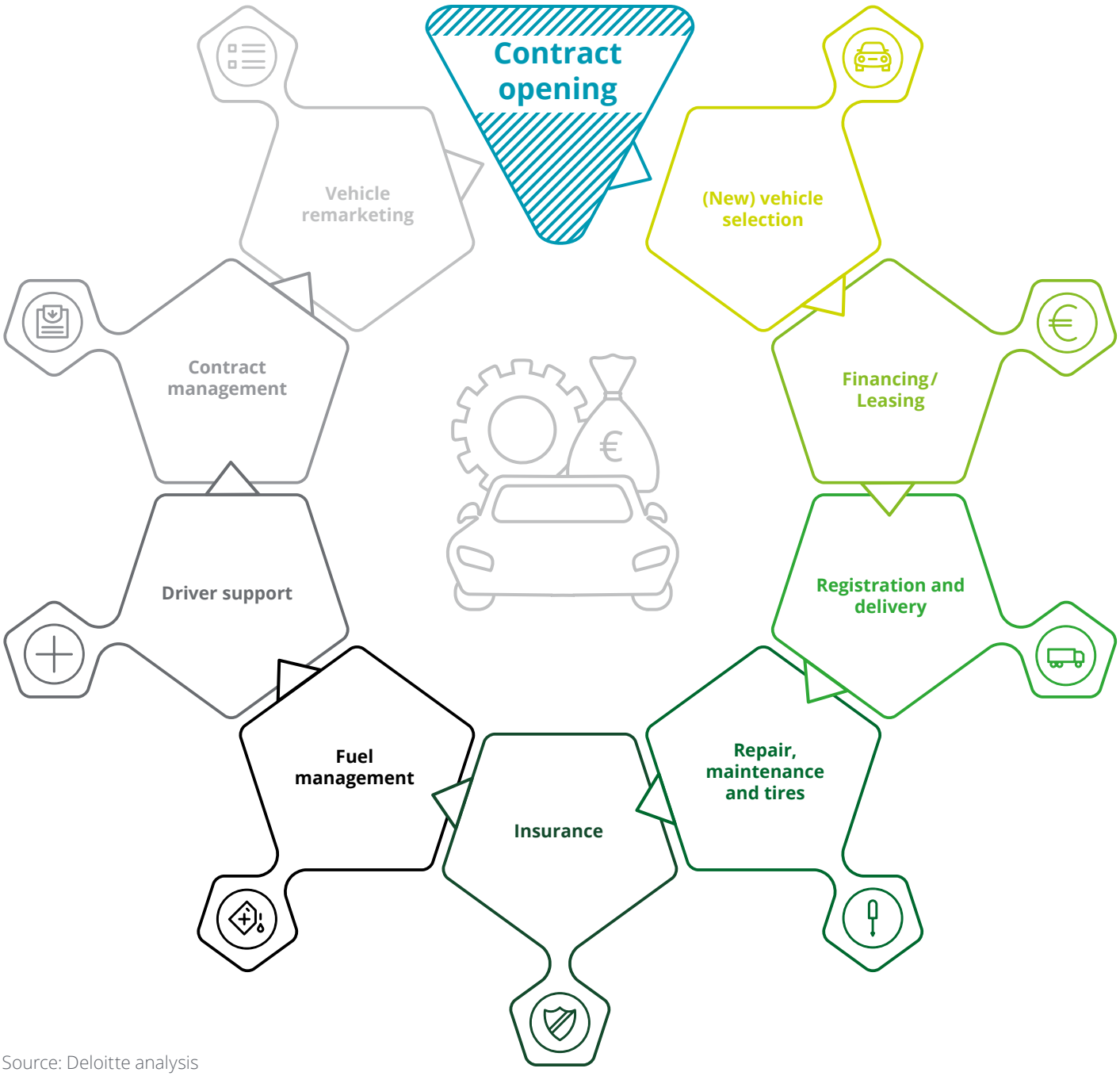
Today, nearly two out of three new cars are sold to the corporate channel. The majority of these vehicles are registered as company cars, i.e., as corporate car pools or corporate fleets and this segment is therefore called “true fleet”. Companies have vehicle fleets for various reasons, of which the most obvious is because they are needed for the business objective (e.g. service cars or sales cars). Another important factor in Europe is the high relevance of employee cars that are offered as a form of compensation (benefit in kind). This model is rather unique in a global perspective. The main motives may be found in the favorable treatment for tax purposes and also in behavioral motives (e.g., status thinking).

Historically, companies used to own their company cars and manage their fleets in-house. In recent years this has drastically changed, with more and more companies buying full-service leasing contracts instead of vehicles to reduce fixed assets and accordingly their total assets, while transferring the residual value risk of the vehicles to external parties. In addition, more and more companies outsource the management of their fleets to specialized companies with the aim of realizing further cost reductions.

A fleet management company (FMC) typically offers services over the entire life cycle of a vehicle, including purchasing, financing/leasing, and services, as well as reselling the vehicle on termination of the contract (see Figure 1).

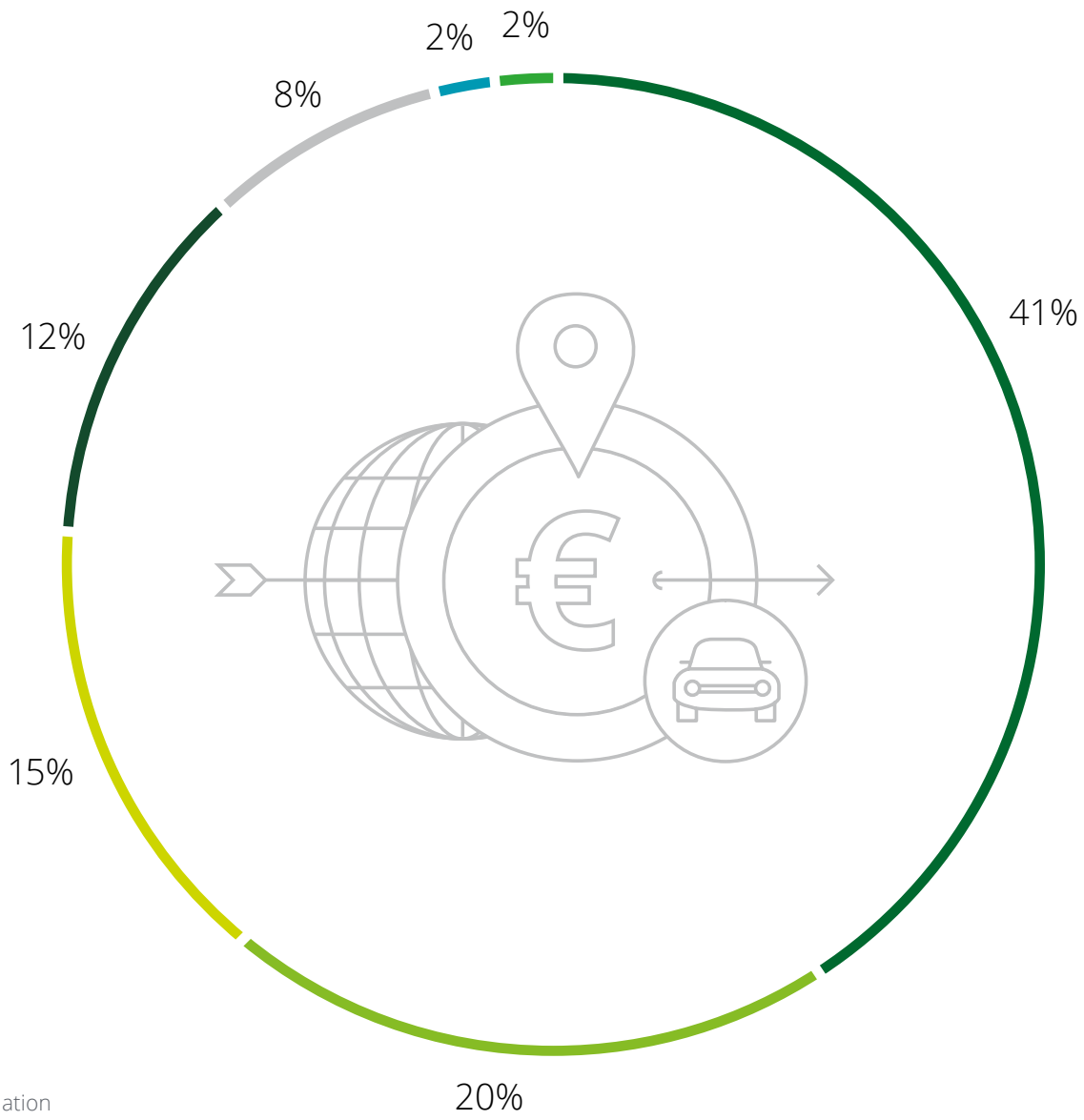
Typical fleet management service offerings cover the entire vehicle lifetime.

Fig. 1 – Typical fleet management service offering



Source: Deloitte analysis

Fig. 2 – Average total cost of ownership for company car in Europe



Source: Global Fleet (2015)

From a customer perspective the total cost of ownership (TCO) is the key to identifying cost saving potential and reducing operating expenses. Figure 2 shows a typical TCO split for a European fleet vehicle. Depreciation takes the largest slice over the lifetime of a company car. Fuel costs make up about 20% of the TCO while maintenance, tires, and repair management add up to an additional 15%. Interest expenses comprise 12% of total costs. The remaining costs can be attributed to additional services and management fees.

In total, only 40% of the TCO is related to the actual vehicle, 60% of the costs are incurred during the use of the vehicle itself.

Fleet management companies pursue a strategy of reducing these costs for their customers. To tackle the key cost drivers, FMCs follow different approaches. Their large purchasing volumes grant them a strong market power to negotiate high discounts with OEMs. Price reductions of 15–25% are quite standard. Profound knowledge about residual values and remarketing enables FMCs to achieve higher remarketing prices for their used cars. Part of these gains is passed on to customers, helping to reduce monthly charges and leading to a highly competitive price environment. Furthermore, providing fuel cards can lower fuel expenses by a few percentage points. FMCs also leverage their service and maintenance network to offer better prices than authorized or OEM-affiliated repair shops, in order to reduce the TCO costs for FMC customers.

Today, more and more companies tend to analyze and optimize the total cost of mobility (TCM) rather than the TCO. While the TCO gives a cost calculation per vehicle, the TCM is calculated per mobility user (employee) and takes holistic multi-modality mobility models into account. The TCM calculation considers all costs ranging from the vehicle itself and its related costs to other mobility options such as taxis, flights, car sharing, or rental cars.

Most recent innovative products from fleet management companies focus on the TCM and offer comprehensive solutions for their customers to reduce their total cost of travel expenses and fleet-related costs rather than just TCO.

While doing so, fleet management companies are expanding their core competencies from vehicle management to total mobility management.

Europe is dominated by the corporate channel – new car sales are shifting from private to corporate.

In Europe, the corporate channel has overtaken the private channel as the most important one. While the overall number of new vehicle sales has steadily grown with only one small decline in 2013, the split between private and corporate sales has shifted in favor of the corporate channel.

Overall, the private market segment share is declining. In 2010 the private and corporate market segments were almost equally large in Western Europe (7.3 million private vs. 7.2 million corporate car registrations). Since then there has been an increasing market shift towards more corporate car registrations. In 2016 there was already a split of 6.3 million private (42% of total registrations) vs. 8.7 million corporate (58% of total registrations) registrations. This increase can be mainly explained with the economic recovery and growth of Western Europe. In addition current low interest rates permit attractive financial incentives (e.g., leasing) for companies to expand their fleets.

By 2021, Deloitte forecasts a share of new car registrations of 37% for the private and 63% for the corporate channel. With total registrations expected to exceed the 16 million mark, Deloitte expects more than 10 million new corporate car registrations in Western Europe in one year for the first time. This equals a compound annual growth rate (CAGR) of 3.5% between 2016 and 2020 or almost double the growth rate of the overall European car sales market. This further increase in corporate registrations implies an increasing number of corporate fleets and company cars which need to be managed and therefore provide a major business opportunity for fleet management companies.

Although the general market shift towards corporate is clear throughout Europe, there are strong regional differences between countries, resulting in different corporate penetration rates. The differences between the five largest European markets, Germany, France, UK, Italy and Spain are shown in Figure 4.

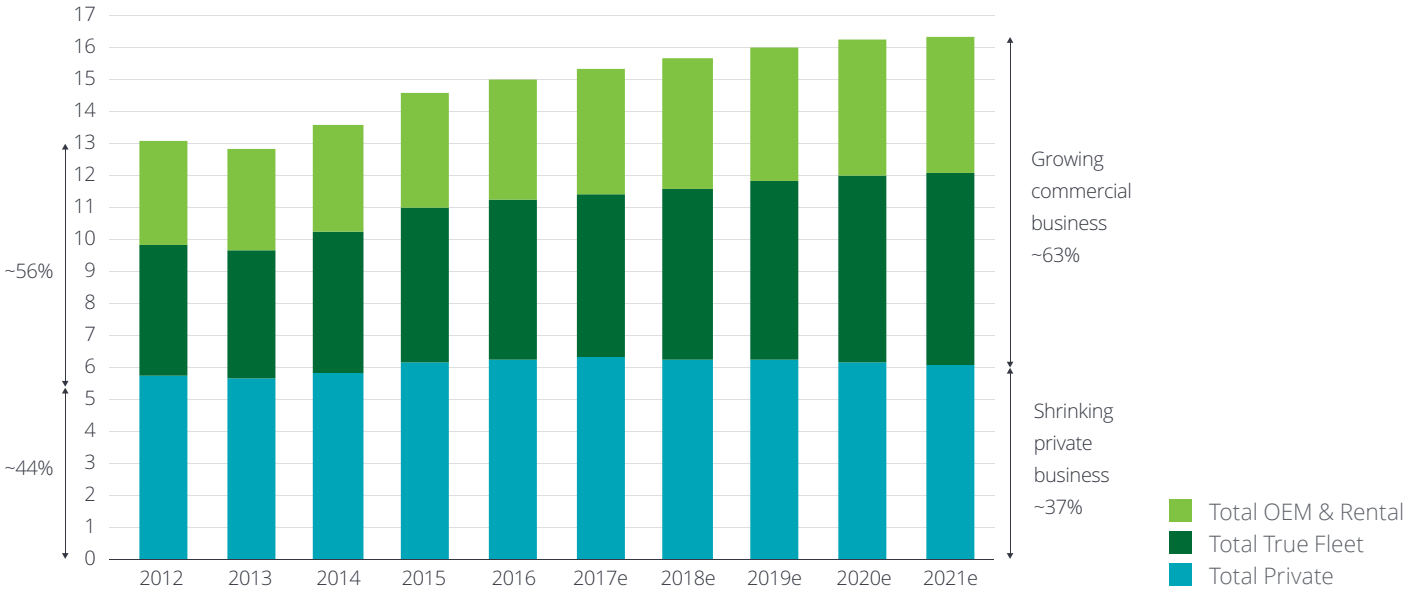
Sales to corporate channel:

OEM:
OEM self registrations (to employees)

Rental:
Rental cars (short, medium, and long-term rental)

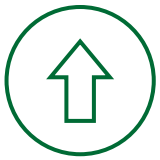
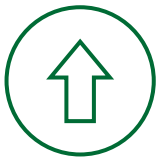
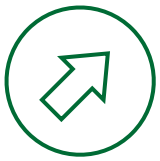
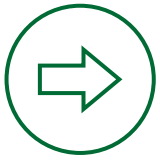
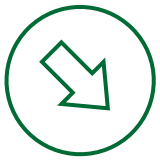
True fleet:
Corporate fleets with or without full service leasing

Fig. 3 – New car registrations in Europe (EU16) in millions



Source: Deloitte analysis, Dataforce (2016), LMC (2016)

Fig. 4 – Overview of fleet management specifics in EU countries

Country		True fleet registrations	Share of true fleet to total registrations	Trend of true fleet relevance
	2020e	1,179,055	41%	
	2016	1,132,727	38%	
	2012	862,900	37%	
	2020e	991,752	29%	
	2016	924,305	27%	
	2012	831,115	25%	
	2020e	814,303	32%	
	2016	751,561	32%	
	2012	682,605	30%	
	2020e	529,159	23%	
	2016	430,489	23%	
	2012	335,028	22%	
	2020e	319,406	21%	
	2016	277,081	21%	
	2012	183,574	24%	

Source: Deloitte analysis, Dataforce (2016), LMC (2016)

Description	Drivers
• Total number of new vehicle registrations is expected to increase to 2.9M by 2020 • Total corporate market segment (OEM & Rental + Fleet) is expected to increase from 59% (1.3M cars) in 2012 to 63% (1.8M cars) in 2020 • Historically leasing segment in Britain is very strong; relatively low share of OEM & rental segment	• **Growth in salary sacrifice models[2]** • **Recent changes in "benefit in kinds" taxation might soften further corporate growth[2,3,4]** • **Uncertainty of BREXIT negotiations might harm future growth in new car registrations** • **Employment growth**
• Total number of new vehicle registrations in Germany expected to increase to 3.5M by 2020 • Corporate market segment expected to increase from 63% (2.1M cars) in 2012 to 69% (2.4M cars) in 2020 • Germany has a high number of short term OEM self registrations to sidestep recommended sales prices of OEMs and to give discounts to end customers	• **Economy and employment growth boosts further corporate demand** • **High share (10–30%) of OEM self registrations[5]** • **Company car as strong status symbol commonly used as extra incentive** • **Company cars are tax beneficial under the one-percent-regulation**
• Total number of new vehicle registrations is expected to increase to 2.5M by 2020 • Corporate market segment is expected to increase from 51% (1.1M cars) in 2012 to 56% (1.4M cars) in 2020 • French market has a strong tradition of long-term rental (Location Longue Durée (LLD)) and short-term rental offerings and therefore a strong rental segment	• **Domestic market of large French full service leasing providers (Arval, ALD Automotive, PSA's "Free2Move")** • **Real disposable income expanding** • **Employment growth**
• Total number of new vehicle registrations is expected to increase to 2.3M by 2020 • Only market within the Top 5 in which private market segment outweighs corporate segment • Corporate market segment is expected to decrease from 41% (600k cars) in 2012 to 38% (900k cars) in 2020 • Italian market has a strong tradition in rental services (e.g. due to tourism)	• **Economic situation still worse than before the crisis** • **Only gradual economic recovery** • **Although Italy has the most companies (~4.3M) of the Top 5 markets, the majority of them (~4.1M) are below 10 FTEs and have therefore no significant company car fleets[6]**
• Spanish market is the smallest within EU Top 5 • Total number of new vehicle registrations is expected to increase to 1.5M by 2020 • Penetration of external fleet management services within fleet registrations is high with many small and medium-sized companies active in this segment • Spanish market has a strong tradition in rental services (e.g. due to tourism in particular on the Spanish islands)	• **Political program ("PIVE") to support the continued modernization of the nation's motor vehicle stock ongoing[7,8]** • **Households are less wealthy than before recession** • **Purchasing power of households is still recovering**

Future drivers of the corporate car market

Apart from the economic, demographic, and political drivers outlined, which are mainly country-specific, Deloitte foresees two main drivers affecting the future development of the European corporate car market across Europe.

Accounting standards
Beginning in January 2019 the International Accounting Standard Board (IASB) will require companies to disclose leased assets in their balance sheets and also to recognize liabilities for future rental payments. For company cars financed with operating leases, this is a major change. Up to now, these assets and liabilities could be kept off the balance sheet so as to disclose a low debt-to-equity ratio to enable easier access to funding. The change in accounting standards described considerable effects on corporate car markets.[9]

Green
Apart from changes to accounting standards, there is a second major factor affecting the fleet market, driven by regulation. No matter which country is selected, green initiatives are ongoing everywhere, which will have a considerable impact on future corporate fleets.

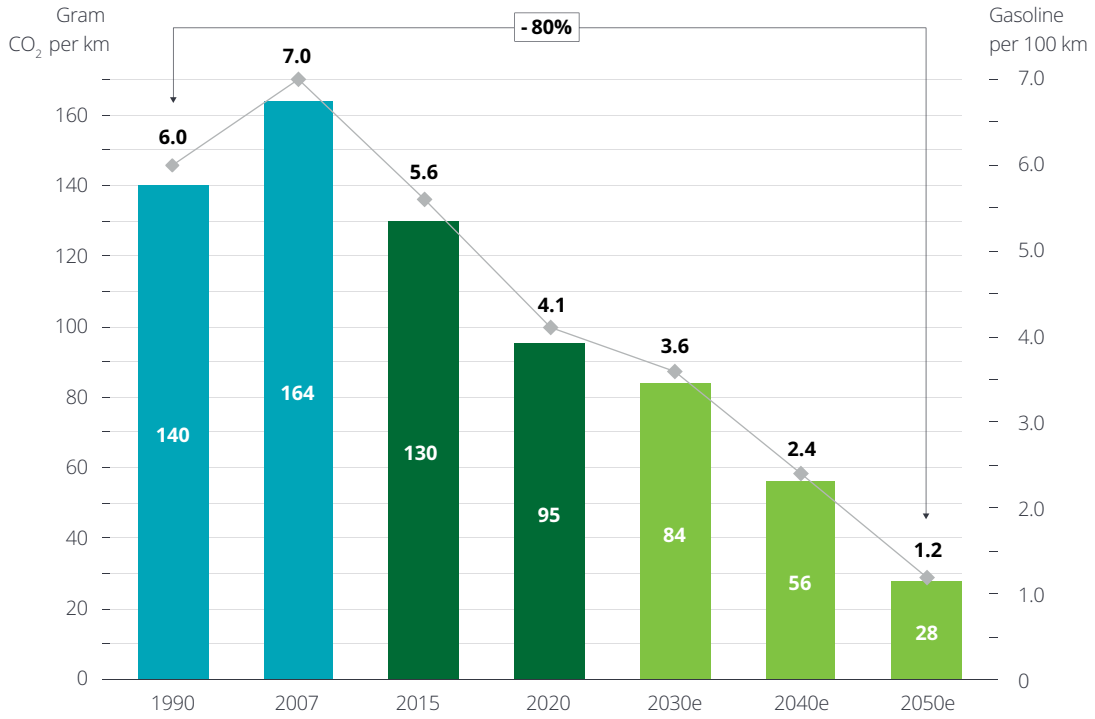
The European Union came to an agreement to reduce the overall CO_2 emissions by 80% up to 2050, compared to the base year of 1990. To achieve this ambitious goal, the EU Commission defines, besides many other rules, also binding limit values for the CO_2 emissions of new cars. Currently they are set at 95 grams/ CO_2 per kilometer by 2020. A limit which Deloitte expects to decrease to ~84 grams/ CO_2 per kilometer by 2030 and ~56 grams/ CO_2 per kilometer by 2040.[10]

Furthermore, in September 2017 the new Worldwide Harmonized Light Duty Vehicles Test Procedure (WLTP) will be introduced.[11,12] This new testing regime was jointly developed by experts of the EU, Japan, and India to provide a more realistic picture of real vehicle emission and fuel consumption.

Vehicles which do not comply with the defined limits will be affected by driving bans and higher taxes. As a result Deloitte expects the share of low emission vehicles in corporate fleets to increase sharply within the next years.

The trend towards green is a ticking time bomb for FMCs and captives. For these companies it will be more and more complicated to find enough customers for used diesel-engined cars when their lease contracts expire – sending their residual values on a downward slide.

Fig. 5 – Expected future development of CO_2 emission limits in Europe



Source: Deloitte analysis[10,13]

Deep dive – Regional Regulatory Impacts

United Kingdom:
Salary sacrifice is a strong driver for company cars/ fleet sales due to relatively high tax incentives. The UK is discussing the adjustment of Benefit in Kind (BIK) taxation, based on the new WLTP, threatening company car drivers with an increase of up to 30% in BIK. Deloitte expects that around 50% of the 970k British employees paying BIK on their car will be affected by these planned changes. The significance of this change for the whole corporate car sector in UK becomes obvious if this number is put into perspective with the total corporate registrations of 1.7M in 2016.

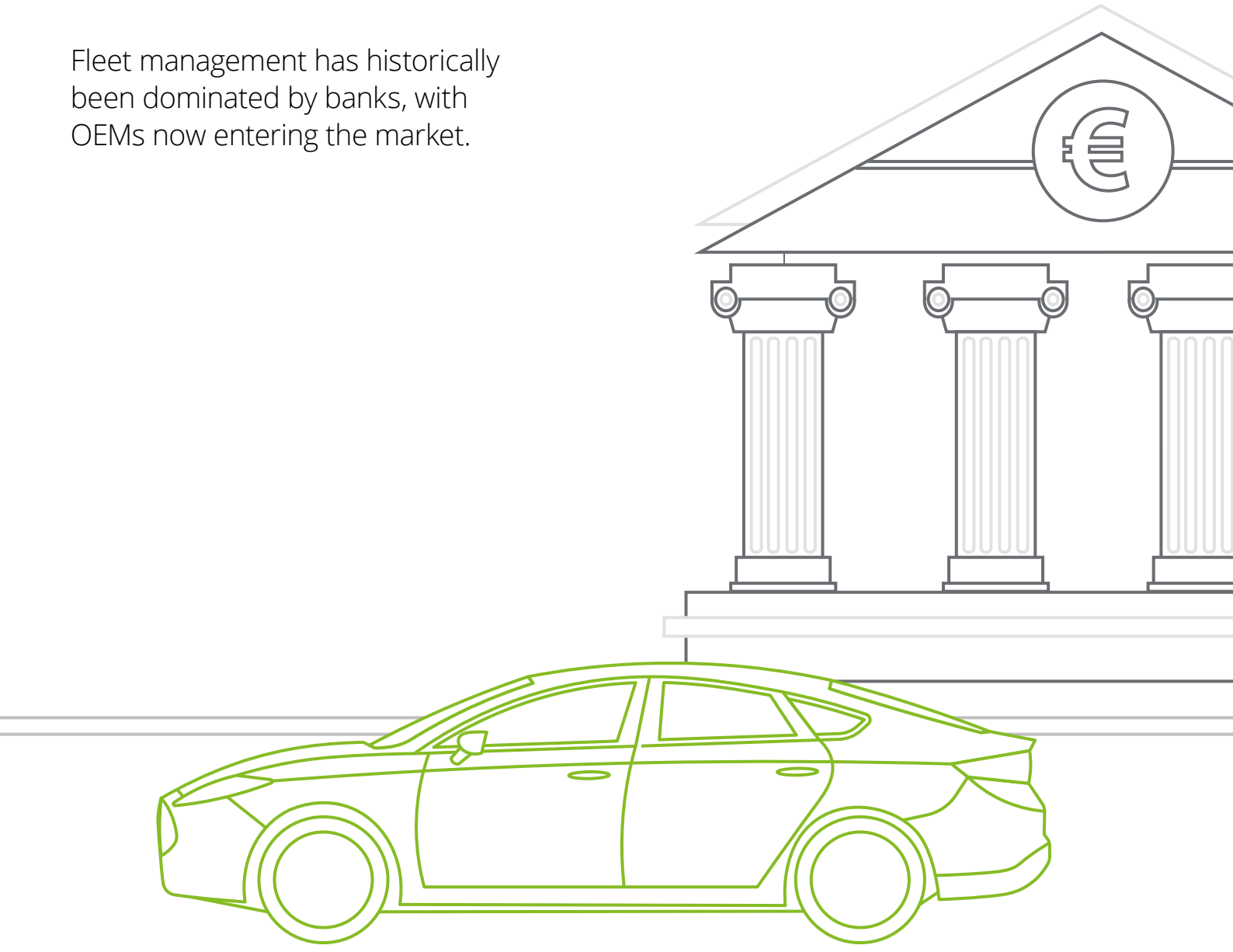
Only ultra-low emission vehicles with emissions <75grams CO_2 per km will be excluded from these changes and will continue to enjoy the benefit of reduced taxation. Deloitte therefore expects a sharp increase in hybrid and battery-electric vehicles in UK's corporate fleets.[14,15]

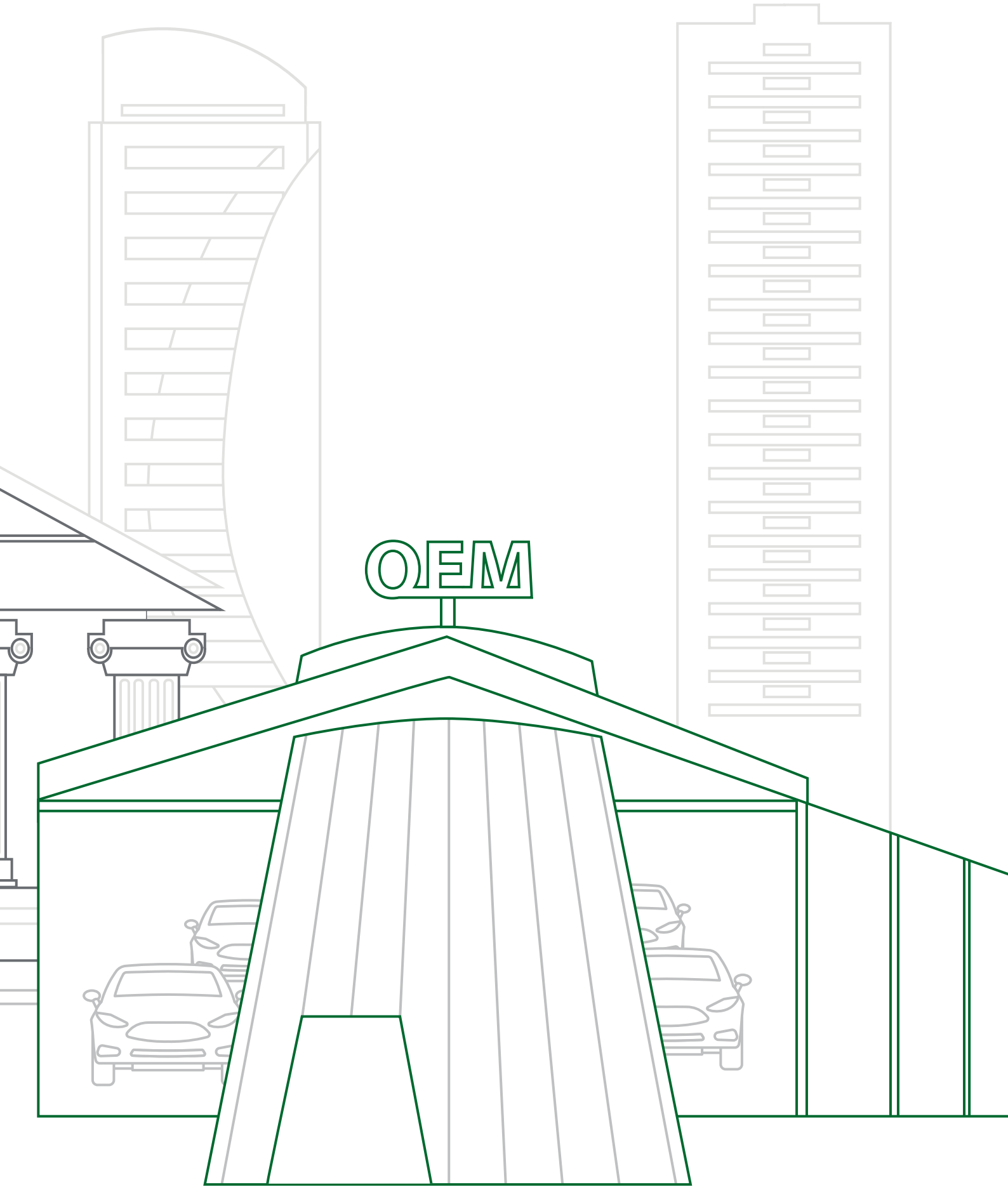
Germany:
Many German cities are currently discussing driving bans for certain inner-city areas for vehicles not meeting the latest Euro 6 emission standards, so as to achieve CO_2 and NOX emission standards defined by the EU. The city of Stuttgart recently went ahead and decided to put such a ban in place starting in January 2018. Only diesel vehicles meeting Euro 6 standards (with the exception of delivery vehicles and certain craftsmen) will be allowed to enter the city center. This ban affects ~68% (or 73k) of all registered diesel vehicles in Stuttgart.[16] At the beginning of May the city of Hamburg also introduced bans for two main roads in the center.[17]

If other cities follow the role models of Stuttgart and Hamburg, this will have enormous consequences the German corporate vehicle park – currently ~80% of it is running on diesel. Shares of PHEVs and hybrids as well as BEVs are expected to rise significantly in Germany too.[18]

Key players in the fleet management market

Fleet management has historically been dominated by banks, with OEMs now entering the market.




OEM

Historically, fleet management companies in Europe grew out of the banking industry. Banks identified vehicle leasing as an asset-based business model with profitable interest margins, the potential for additional recurring service revenue, and manageable risk. In addition to banks, some OEMs grew naturally into fleet management, evolving from retail leasing contracts to managing and financing large corporate fleets leveraging the financial power of their captives.

Leading European bank-backed fleet management companies are Arval (owned by BNP Paribas Group) and ALD Automotive (owned by Société Générale). Leading captive related multi-brand FMCs are Alphabet (BMW FS) and Athlon (Daimler FS) and most recently PSA's "Free2Move". Volkswagen Leasing (VWFS) is a major player in that field but is, despite having recently acquired CarMobility!, currently rather focused on its own group brands and is therefore not analyzed in further detail in this study.

The structure of many fleet management companies has changed in recent years. The European market leader LeasePlan, for example, was founded as a subsidiary of ABN Amro banking group but later became owned in an equal joint venture between the German Metzler Bank and the Volkswagen Group. In 2016, the previous owners sold LeasePlan to a consortium of institutional investors led by a Dutch pension fund.[19]

In a highly consolidating market today, the Top 5 players in Europe own more than 50% of the market. Figure 6 compares the key players in Europe.

Fig. 6 – Top 5 fleet management companies in Europe

	Units in operation (as of 2016)	HQ	Shareholder	Recent transactions
LeasePlan	>1,600,000 (~70% in EU)	Amsterdam, Netherlands	LP Group B.V., consortium of institutional investors	LP Group BV's acquisition of LeasePlan Corp NV for €3.7 billion
ALD Automotive	>1,400,000 (~90% in EU)	Clichy, France	100% subsidiary of Société Générale Group	May 2016, ALD Automotive acquired Parcours SAS for € 300 million
Arval	>1,000,000 (>3 million with global partner Element)	Rueil-Malmaison, France	100% subsidiary of BNP Paribas Group	June 2015, Arval acquired General Electric's European fleet business

	Units in operation (as of 2016)	HQ	Shareholder	Recent Transactions
Alphabet	>650,000 (~90% in EU)	Unterschleißheim, Germany	100% subsidiary of BMW Group	September 2011, Alphabet acquired ING Car Lease, a subsidiary of ING Group for €637 million
Athlon	>340,000 (all EU)	Machelen, Belgium	100% subsidiary of Daimler Financial Services AG	July 2016, Daimler FS acquired Athlon for €1.1 billion

Source: Deloitte Analysis, mergermarket.com, Annual Reports, Company Websites

Strong consolidation in last years led to 5 major players having >50% market share

Market is consolidating
In the past 15 years a strong consolidation has started within the European fleet market which is still ongoing. More than 50 acquisitions formed a concentrated market where the Top 5 companies own more than 50% of the total European market.
Three main reasons in particular are driving this trend:

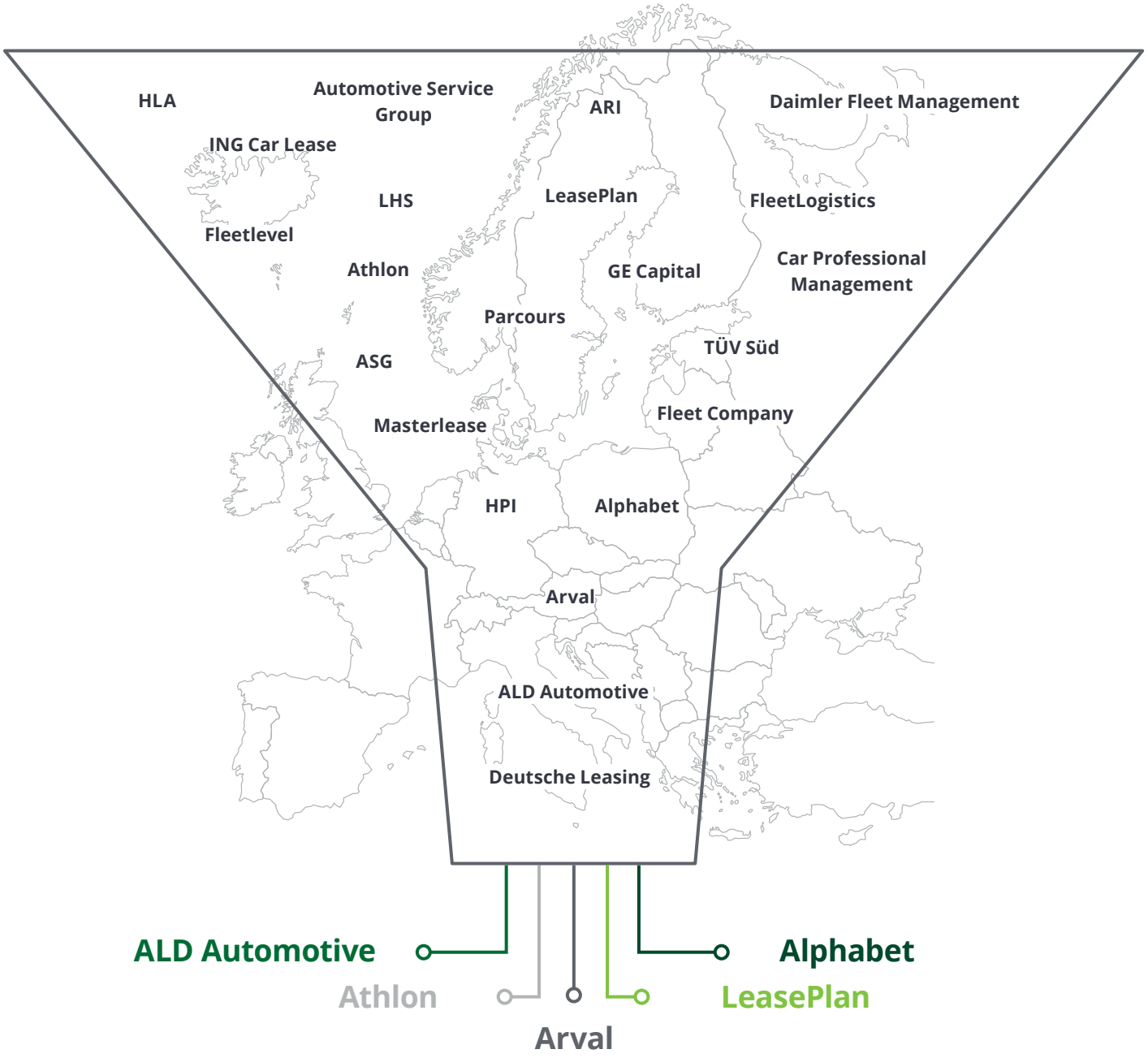
Cross-border service offering matters
The main reason for the consolidation process can be seen in the companies' growth strategies. Multinational customers demand a pan-European service coverage to serve their European subsidiaries and employees with a seamless service level even across boarders. Strong competition to become the European leader in fleet management started a race which can hardly be won by pure organic growth. The acquisition of existing companies and their fleets became a lever to quickly increase portfolio size, product offering and geographic coverage.

Economies of scale
Secondly, scaling effects can be seen. FMCs identified size as a prerequisite to benefiting from economies of scale and to reducing their operating costs per contract. In addition, high volumes lead to strong purchasing power over suppliers (such as OEMs and fuel providers).

Investment case
Banks and private equity funds appreciated the high profit margins and relatively low risks of fleet management business and started to acquire FMCs as strategic investment cases in times of low interest rates.

Ongoing consolidation
As a result the independent medium-sized pan-European players like Athlon or Parcours have all been acquired and this sub-segment has effectively vanished.
The European FMC market today can be separated into a group of five large pan-European providers and a large number of fragmented domestic companies rarely having more than 30,000 cars under management.

Fig. 7 – Strong consolidation in European fleet management market



>50% of total European fleet market managed by Top 5 players

Source: Deloitte analysis

Selected M&A activities of market leaders

Driven by the three factors outlined all large fleet management providers have conducted significant M&A deals in Europe during the last decade.

Whereas the motivation of the captive-backed FMCs was mainly to leapfrog a long period of organic growth by instantly acquiring a large portfolio, the independent providers selectively bought companies across Europe to increase their size and geographic coverage in the respective markets.

These ongoing M&A activities and the decreasing availability of suitable targets resulted in an sharp increase in respective transaction prices. The average price paid per contract has doubled during the last decade.

This price increase becomes very obvious when comparing the recent acquisitions made by OEM-affiliated FMCs. Although Daimler Financial Services acquired a similar portfolio size as Alphabet did five years earlier, the price per contract was approximately 50% higher. Alphabet paid roughly € 2,917 per contract whereas Daimler had to pay approximately € 4,400 per contract.*

Another example is the case of LeasePlan. Volkswagen acquired LeasePlan jointly with other investors in 2004. VW paid approximately € 1 billion for its 50% share. In 2015 VW and Bankhaus Metzler sold off LeasePlan to LP Group B.V. for a total of € 3.7 billion. VW is expected to have received up to € 2.2 billion or nearly double the amount that the group paid for its stake roughly ten years earlier.[19]

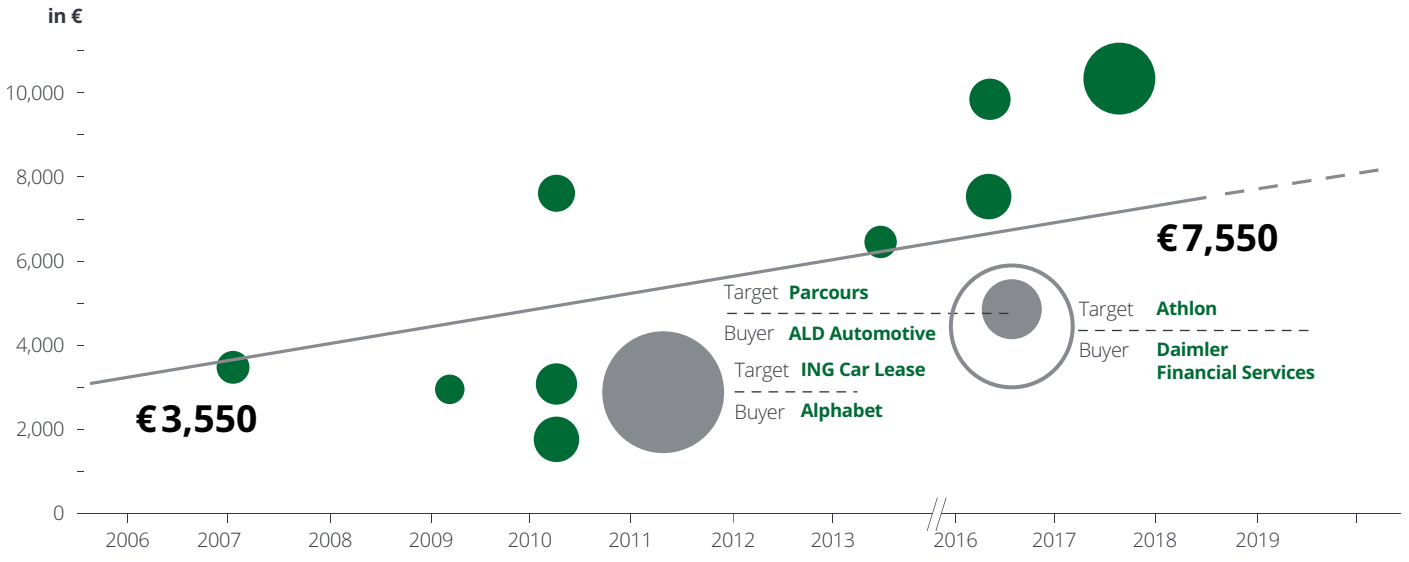
Most recent examples show that this trend is continuing. In early 2017, Zenith was bought by Bridgepoint Advisers Ltd. for roughly € 10,300 per contract.[19]

* High level price simulation based on publicly available information

Fig. 8 – Selected transactions of Top 5 players in recent years

	2011	2015	2016	2016
Target	**ING Car Lease**	**GE Capital Fleet Service**	**Athlon**	**Parcours**
Buyer	**Alphabet**	**Arval BNP Paribas Group**	**Daimler Financial Services**	**ALD Automotive**
Vehicles	240,000	164,000	250,000	61,500
Price	~ € 700M	n/a	~ € 1.1B	~ € 300M
Ø per vehicle	€ 2,917	n/a	€ 4,400	€ 4,878

Fig. 9 – Average amount paid per vehicle based on historical transactions



Size of bubble represents the volume of vehicles (UiO) involved in the transaction

Source: Deloitte analysis, mergermarket.com

Case Study: The acquisition of ING Car Lease to increase Alphabet pays off for BMW

In particular the acquisition of ING Car Lease's 240,000 cars has raised Alphabet to a significant sales channel for BMW in Europe with a fleet size of approximately 630,000 of the global fleet of 690,000 cars being under management in Europe.[20] The following case study is based on Deloitte estimations derived from publicly available information and shows the relevance of Alphabet for the BMW Group as a sales channel:

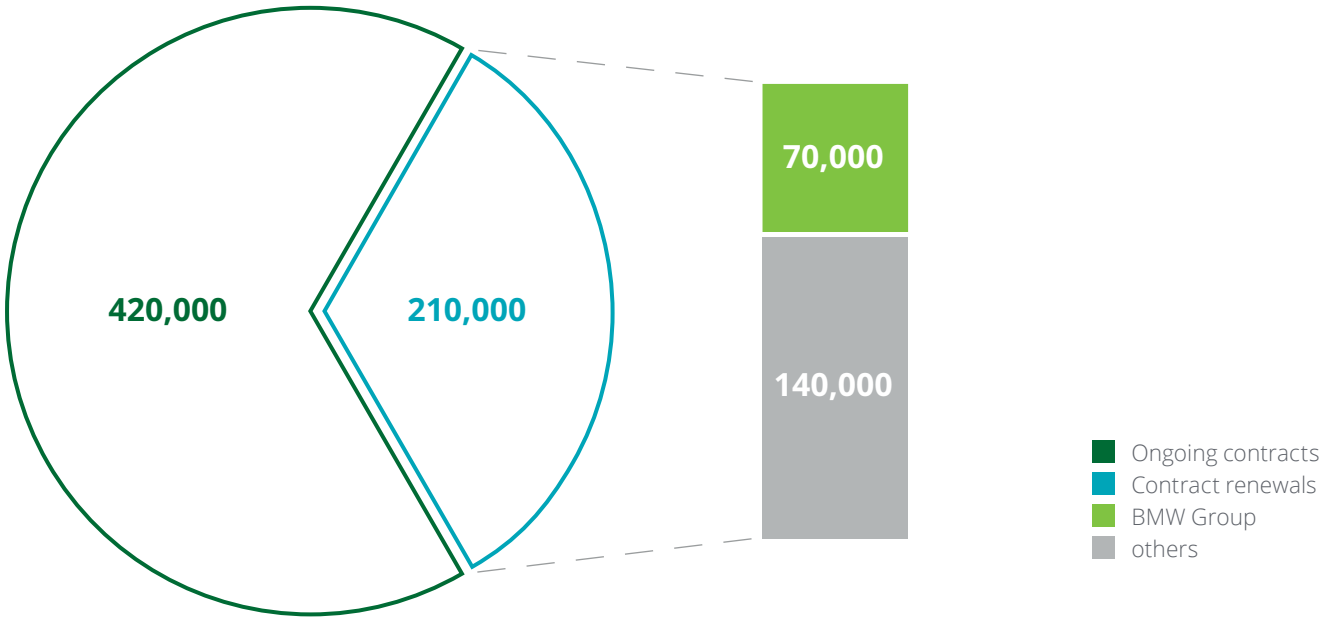
Based on an average expected leasing contract duration of three years and a share of BMW Group cars of around one-third in Alphabet's fleet results in annual renewals of roughly 70,000 BMW and Mini vehicles by Alphabet customers. This implies that Alphabet contributed to approximately 6.4% total of 1,092,000 BMW Group sales in Europe in 2016.[20]

Apart from pure per unit sales, Alphabet has two additional positive effects on BMW:

- Possibility of converting existing non-BMW contracts into future BMW sales after current contract expires
- Challenge other OEMs by firstly demanding significant discounts (skimming their sales margin) for multi-brand cars and secondly routing these vehicles around the after sales network of other competitors (skimming their after sales margin)

Strong benefits for the core business of the acquirer

Fig. 10 – Alphabet's relevance as a sales channel for BMW[20]



Source: Deloitte analysis, BMW (2017): Annual report 2016[20]

Case Study: Zenith Group Holdings Ltd – object of speculation similar to the real estate market

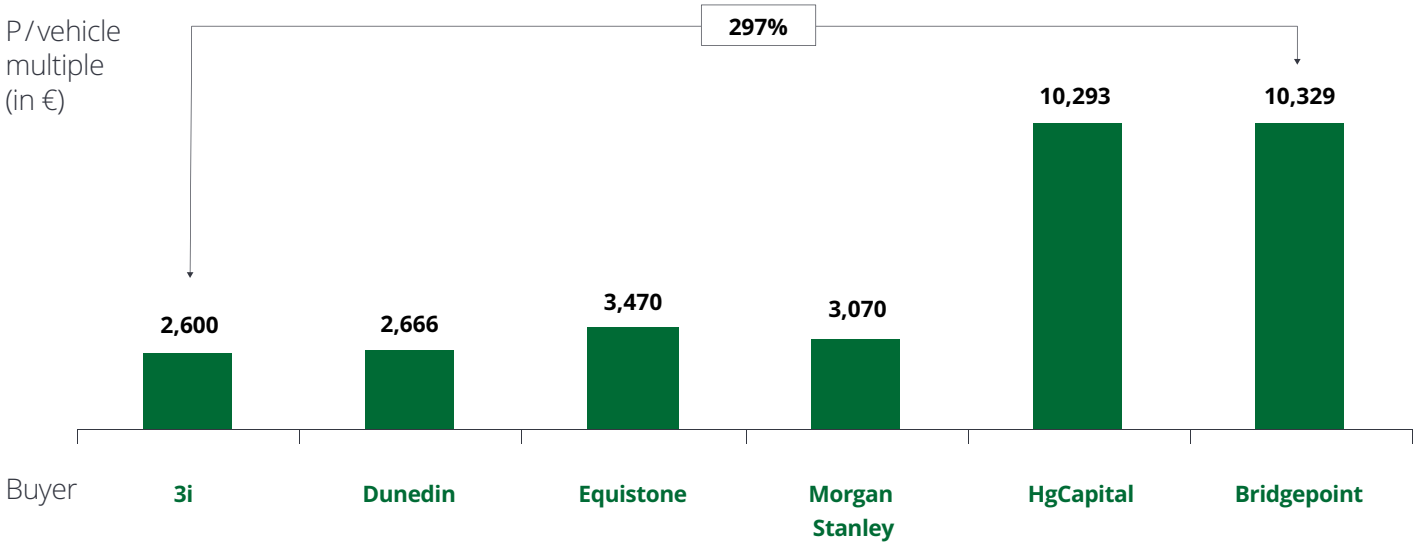
Established in 1989, Zenith is one of the UK's largest independent leasing and fleet management companies. During the last 14 years it was sold seven times between various well-known private equity funds. During this time Zenith's portfolio increased from 10,000 to 85,000 units in operation. Meanwhile, its valuation increased from € 26M in 2003 to € 878 million in 2017.

Zenith is working in a cooperation with Santander to optimize its refinancing and access Santander's customer base.

The Zenith case proves fleet management companies to be a solid investment case for banks and private equity funds searching for opportunities with high profitability and moderate risk in an environment of low interest rates.

Fig. 11 – Development of the valuation of Zenith Group Holdings Ltd

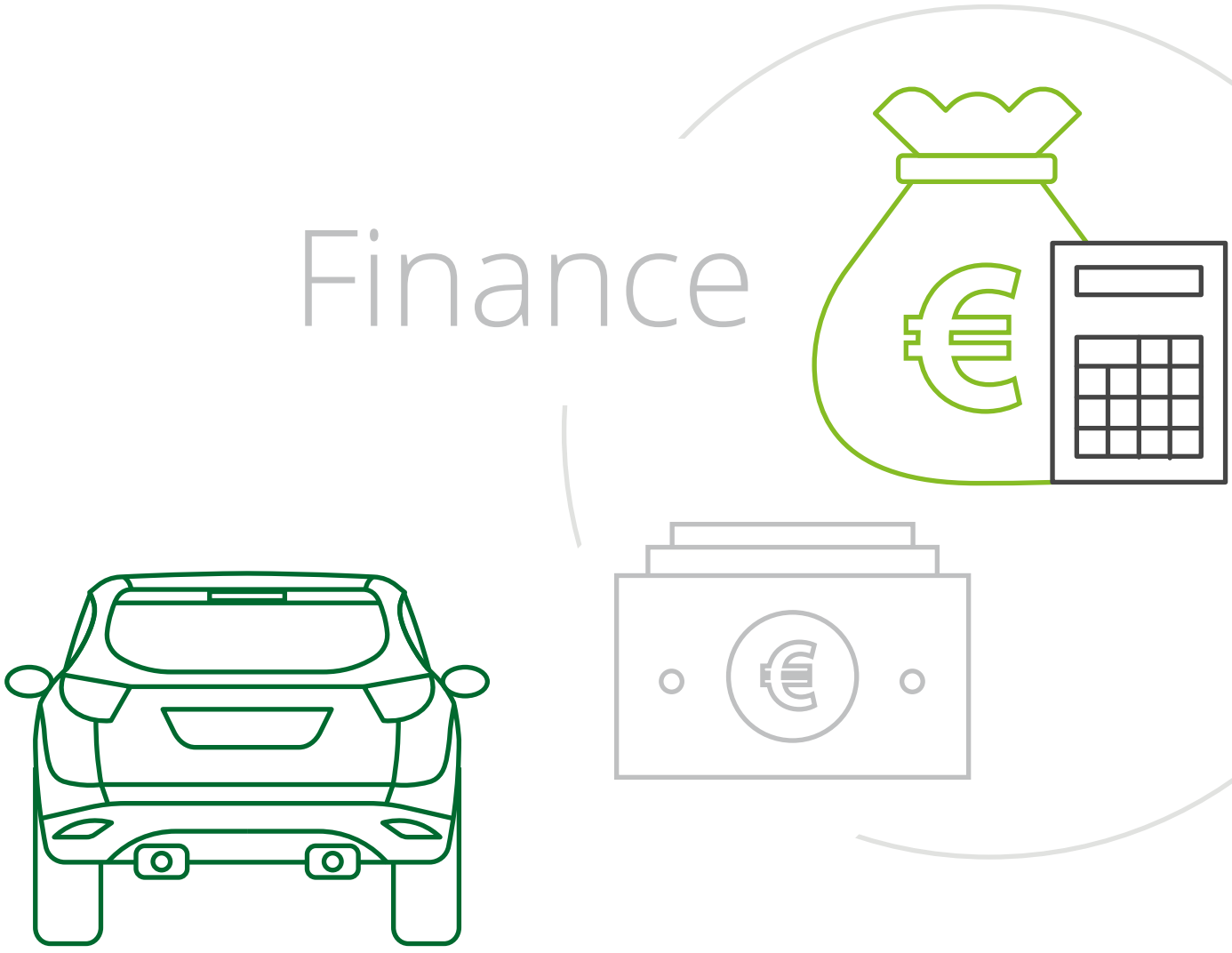
P/E multiple	**13.8x**	**8.7x**	**11.8x**	**25.7x**	**n/a**	**n/a**
P/EBIT multiple	**10.0x**	**8.4x**	**8.4x**	**28.9x**	**20.6x**	**24.8x**

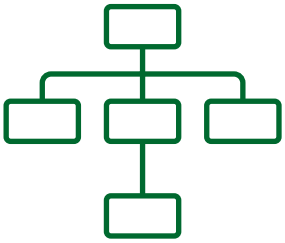


Source: Deloitte analysis, Zenith Group Holdings Ltd press releases

Business model analysis

Fleet management has become a service business – funding and efficiency are key factors.

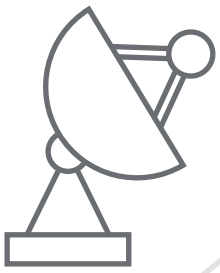




Insurance

Remarketing

Service



Purchase

Figure 12 (below) illustrates the typical main components of the value chain of a fleet management company and the corresponding profit allocation.

Today, the core profit driver of an FMC remains financing the assets. Funding and leasing alone contribute about 30–35% to the total profit.

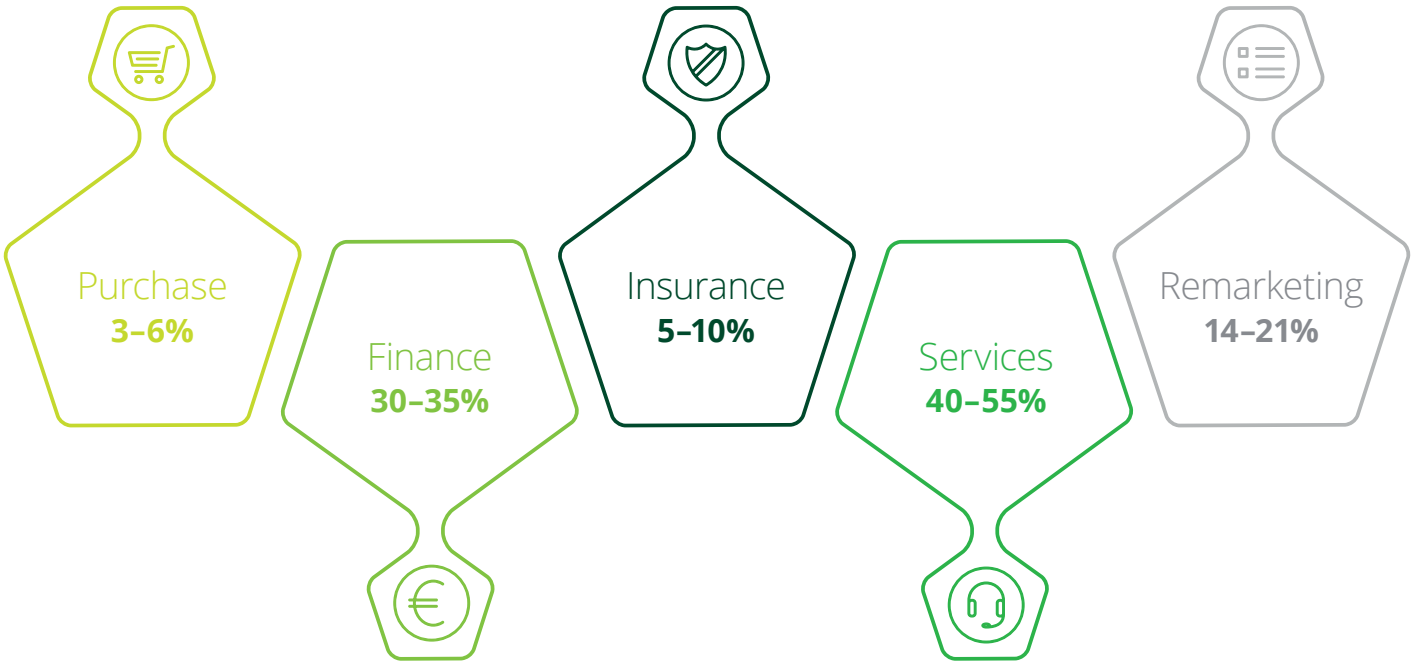
Forecasting the right residual value of the vehicle at the end of its contract is the most crucial capability for determining monthly payments but also to enable profit creation when remarketing the vehicle at the end of the contract.

Apart from financing, vehicle remarketing is the second largest profit contributor. About 20% of total profits are connected to the used car remarketing process. On the one hand, remarketing profits are realized if the used car is sold for a higher price than the original forecast residual value. On the other, FMCs tend to charge their customers a variety of penalty fees, e.g., for small damages or for exceeding the original contracted mileage of the fleet car.

Purchasing plays a significant role in an FMC's business. FMCs' high order quantities usually correspond with a strong purchasing power which allows them to demand major discounts from OEMs which are often between 15–25%. While the majority of these discounts are passed on the clients to offer competitive monthly rates, the remaining discounts are counted as revenue for the FMCs.

Services account for roughly 50% of the total profit of an FMC. This profit is usually split across multiple services. Often FMCs outsource at least some of their offered services to specialized third parties (Figure 13 provides an overview of the typical service portfolio of an FMC). In this case FMCs charge a handling fee on these services while managing the customer contact.

Fig. 12 – Fleet management profit allocation along the value chain



Source: Deloitte analysis[21]

Fig. 13 – At least 10 core services are typically offered by top fleet management companies

Licensing, Title & Registration
Management of the increasingly complex registration process

Tolls & Violation Management
Reducing administrative tasks while ensuring compliance

Risk & Safety
Driver training programs, motor vehicle record checks, driver risk profiles

Fuel Management
Fuel cards with discounts and systematic detection of abuse

Tire Management
Winter & summer tire change, storage of the second set during other season

Telematics
Manage fleet efficiency, increase driver productivity, lower operating costs

Maintenance Management
Network of shops, certified technical advisors, 24/7 service

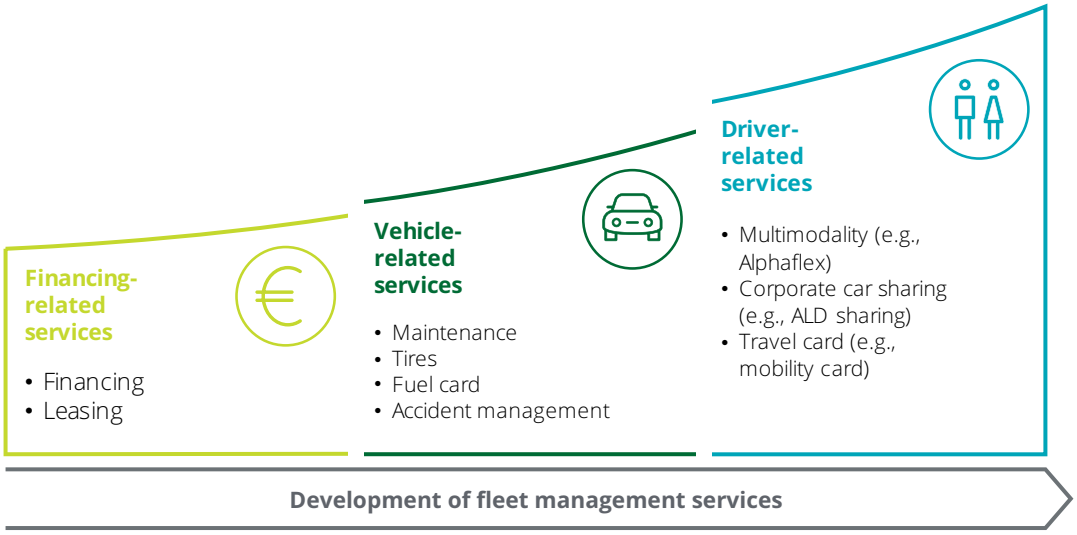
Interim Car Management
Providing a replacement car in case of accident or maintenance

Personal Usage Management
Track personal mileage online, real-time reporting, compliance with IRS

Accident Management
Repair shop assignments, provide subrogation services, documentation

Source: Deloitte analysis

Fig. 14 – Development of fleet management services towards driver-related services



Source: Deloitte analysis

FMCs will evolve into providers of multimodal mobility for their customers. Their heritage, the fleet vehicle, will just be one part of the future customer's daily mobility journey.

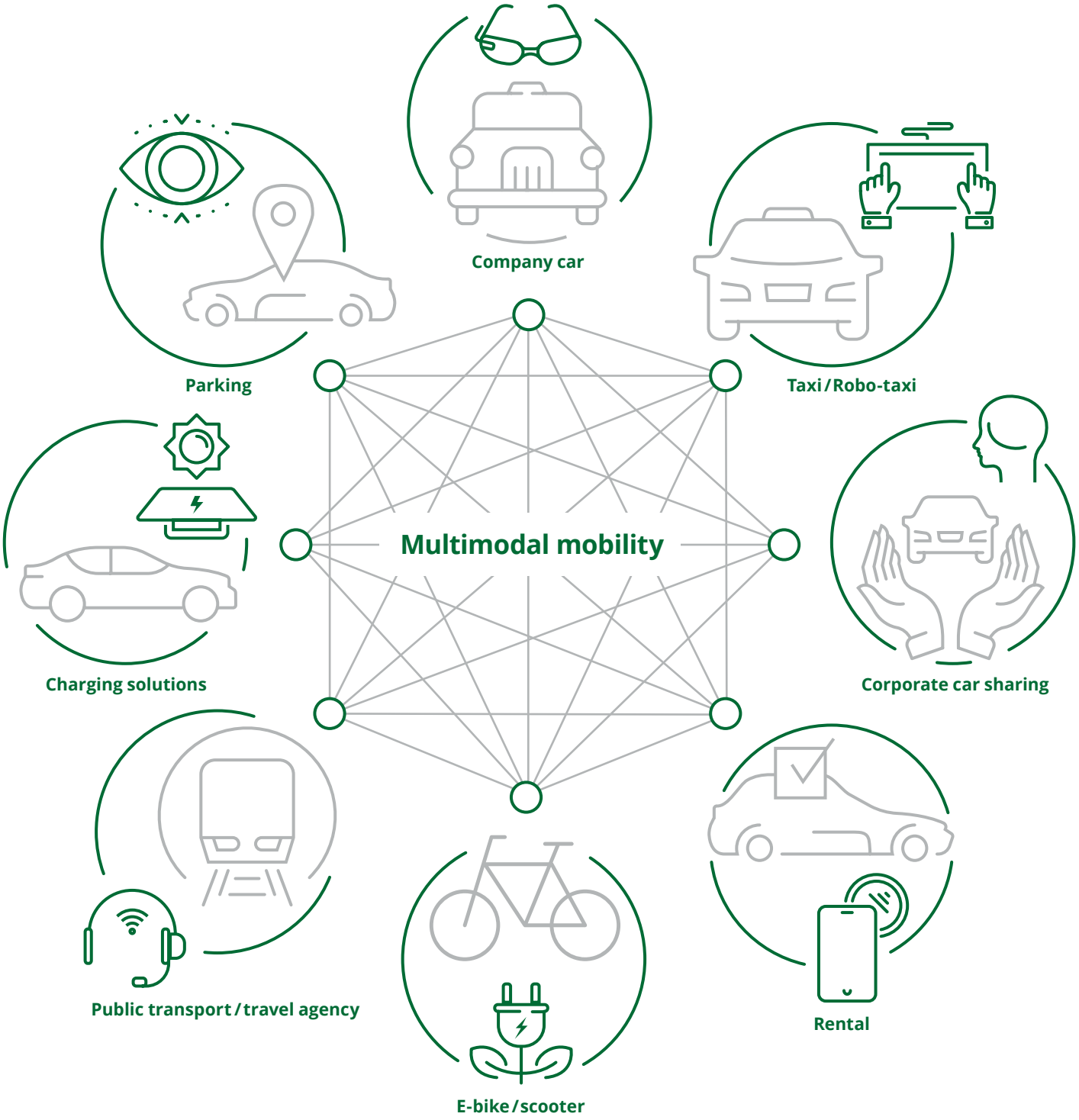
Development of services

Historically, FMCs' service and product offering focused on financing and vehicle-related offerings such as leasing, repair & maintenance, or tire management.

Today, FMCs have already expanded their offering to driver-related services, e.g., fee management or personal usage management. Innovative products such as corporate car sharing are on the rise, focusing on the needs of the driver (employee).

As the next step, Deloitte foresees the expansion of FMCs also into the area of in-vehicle-related services (for instance in vehicle multimedia offerings such as Netflix or Spotify flat rates) as well as non-vehicle-related mobility services (e.g., travel agency). FMCs will evolve into providers of multimodal mobility for their customers. Their heritage, the fleet vehicle, will just be one part of the future customer's daily mobility journey.

Fig. 15 – Multimodal mobility offers the future customer seamless mobility



Source: Deloitte analysis

Fig. 16 – Financial comparison of leading European fleet management companies based on publicly available information

KPI	Non-Captive			Captive	
Top 5 player	**Arval BNP Paribas Group**	**LeasePlan**	**ALD Automotive**	**Alphabet**	**Athlon**
Revenue	n/a	€ 9.2B (2016)	€ 7.5B (2016)	n/a	€ 1.6B (2015)
Profit	€ 361M (2015)	€ 455M (2016)	€ 512M (2016)	n/a	€ 135M (2015)
RoE	25% (2015)	14.9% (2016)	17.2% (2016)	n/a	n/a
RoA	2.7% (2015)	1.9% (2016)	3.8% (2016)	n/a	n/a

Source: Deloitte analysis, annual reports, company websites

Fleet management – most profitable business unit for Société Générale

An analysis of profitability measured by return on equity (ROE) of the individual business units of Société Générale – France's second largest bank – underlines the profitability of fleet management.

With its fleet management business unit ALD, the bank generates approximately double the ROE than with its investment banking division.

With only one percent of the group's total assets, ALD accounted for nearly nine percent of the bank's profits in the first half of 2016.[22]

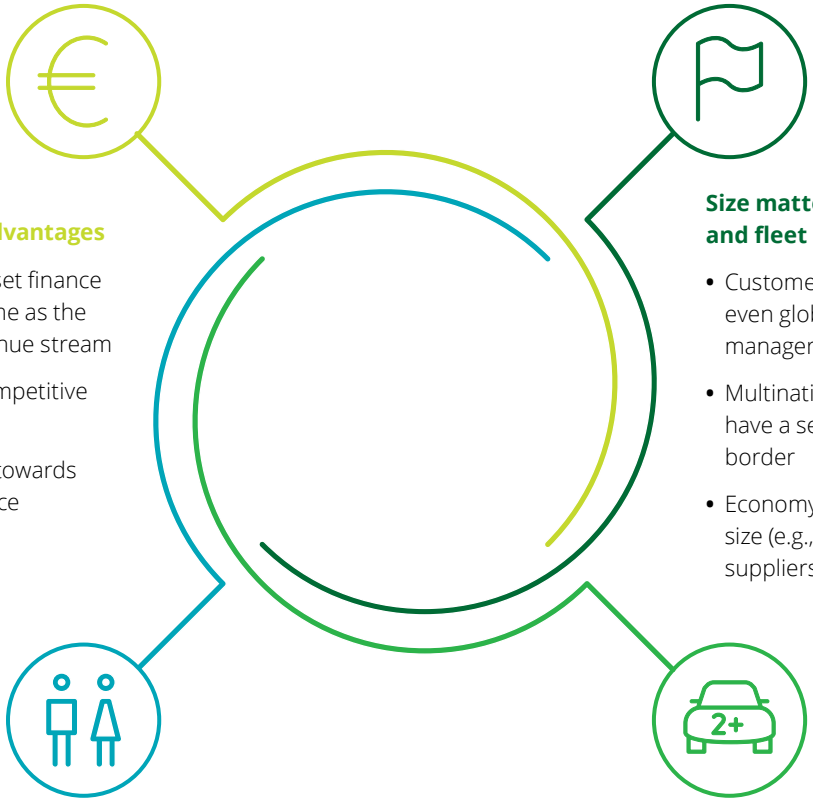
Early in 2017 Société Générale publicly announced plans to sell a minority stake in ALD on the stock exchange via an initial public offering (IPO). The bank stated that it will remain the controlling shareholder and main funding provider of ALD.

The money that will be raised by an IPO is intended to fuel further growth, most likely with acquisitions of competitors as described in the previous section of this study.[22]

Fleet management is a highly profitable business

Source: Deloitte analysis[22]

Fig. 17 – Key success factors for fleet management



Strong funding and service mind-set as competitive advantages

- Fleet management is an asset finance business with finance income as the single most important revenue stream
- Cheap funding base is a competitive advantage
- Business is heavily shifting towards services demanding a service mind-set

Size matters – regarding footprint and fleet size

- Customers demand European or even global footprints from their fleet managers
- Multinational companies want to have a seamless services cross-border
- Economy of scale with larger fleet size (e.g., purchasing power over suppliers)

Able to shift from vehicle-related services to driver related-services

- Fleet management services are evolving from basic financing services through vehicle-related services to services which have the driver (e.g., employee) in focus
- Multimodality offers and holistic travel management as enablement to cover the corporate Future of Mobility are growth areas

Multi-brand is the key to fulfilling customer requirements

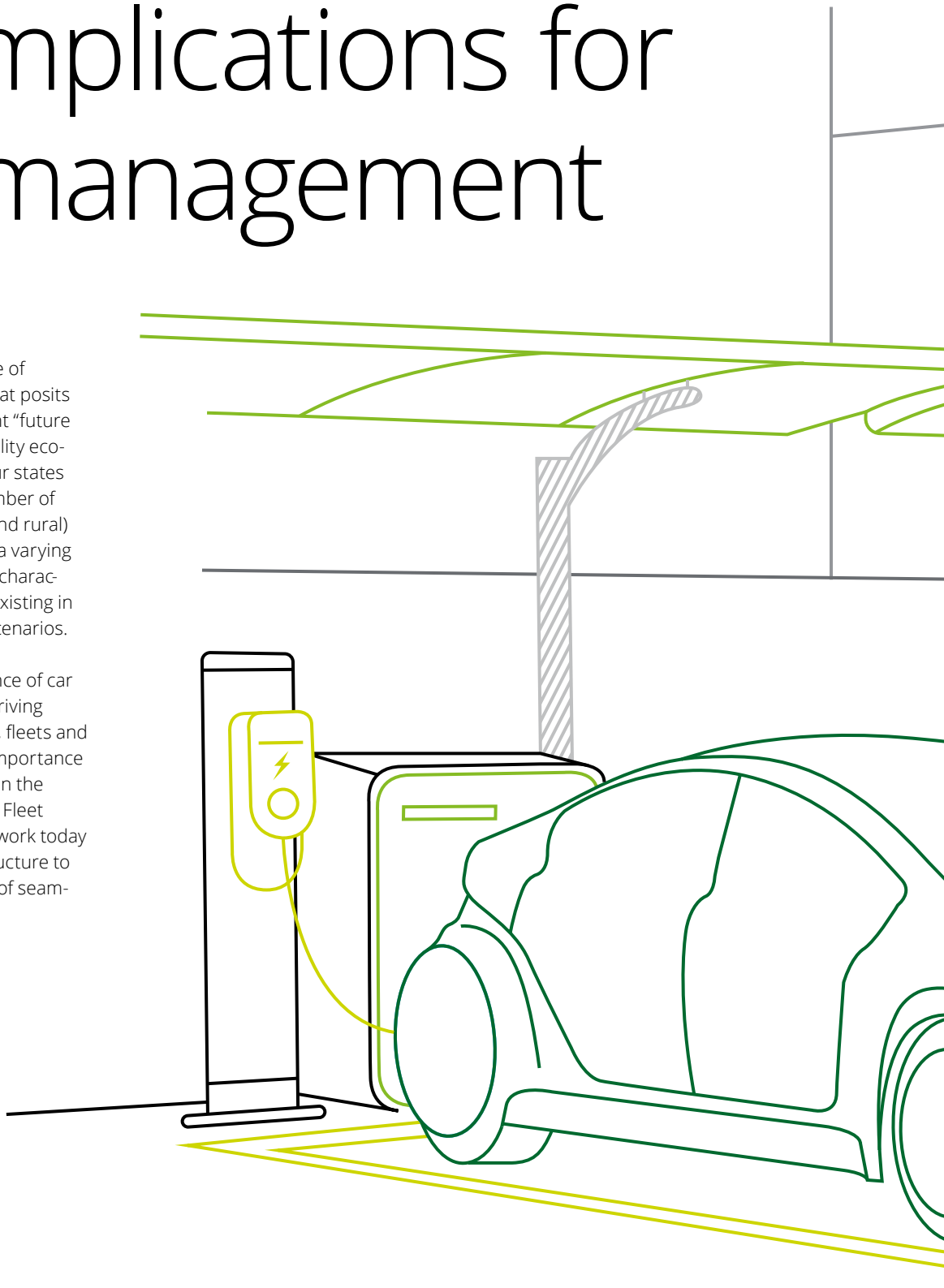
- Europe is a historically evolved user-chooser market – companies demand a multi-brand (and multi-segment) portfolio to fulfil employee aspirations
- Product portfolio has to range from functional vehicles to premium cars – large variations in customer demand

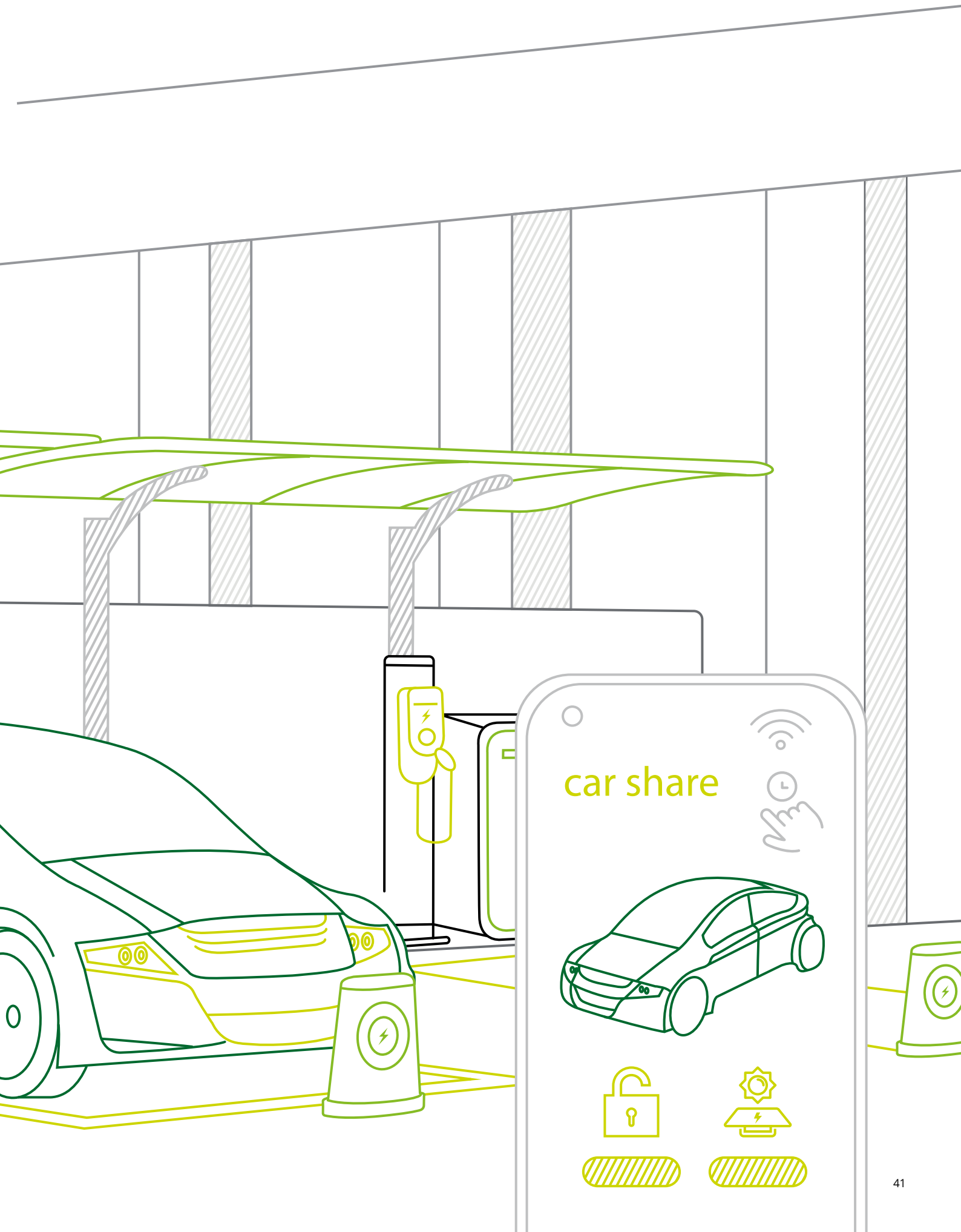
The Future of Mobility will be enabled by fleet management

Future of Mobility and implications for fleet management

Deloitte's publication "The Future of Mobility" lays out a framework that posits the emergence of four concurrent "future states" emerging within the mobility eco-system. A key factor is that all four states are likely to co-exist across a number of geographies (urban, suburban, and rural) and consumer demographics to a varying extent and, therefore, represent characterizations of market segments existing in parallel rather than alternative scenarios.

Deloitte sees a growing importance of car and ride-sharing as well as self-driving vehicles. For both developments, fleets and fleet management gain greater importance and will be a key to participating in the prospective mobility value chain. Fleet managers should lay the groundwork today by enabling vehicles and infrastructure to be prepared for the future state of seamless door-to-door mobility.




car share

Four states of the Future of Mobility

Fig. 18 – Future of Mobility: Changing Usage and Sales

3

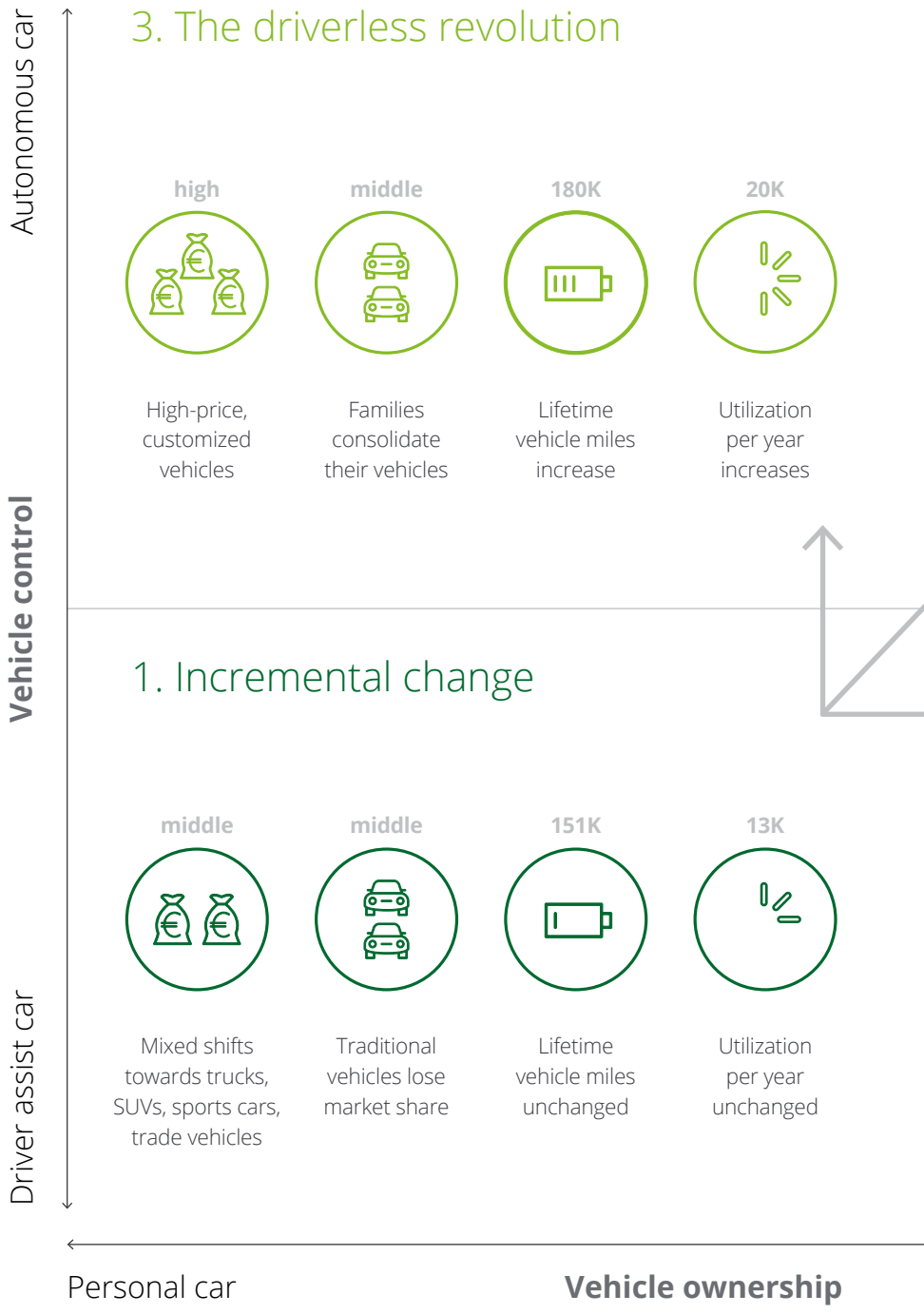
Future state 3 –
The driverless revolution

Future state 3 sees the wide-spread adoption of autonomous vehicles, but private ownership remains dominant. Drivers still prefer owning their own vehicles but seek driverless functionality for its safety and convenience.

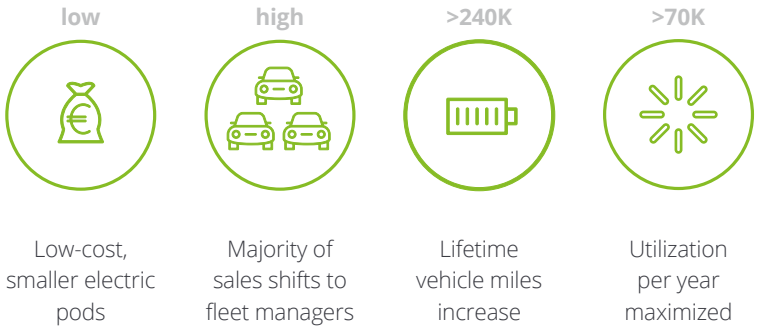
1

Future state 1 –
Incremental change

A world where private ownership remains the norm as consumers opt for the forms of privacy, flexibility, security, and convenience that come with owning a human-driven vehicle. While incorporating driver-assist technologies, this future state assumes thatfully autonomous vehicles do not completely displace driver-controlled vehicles at any time in the near future.



4. A new age of accessible autonomy



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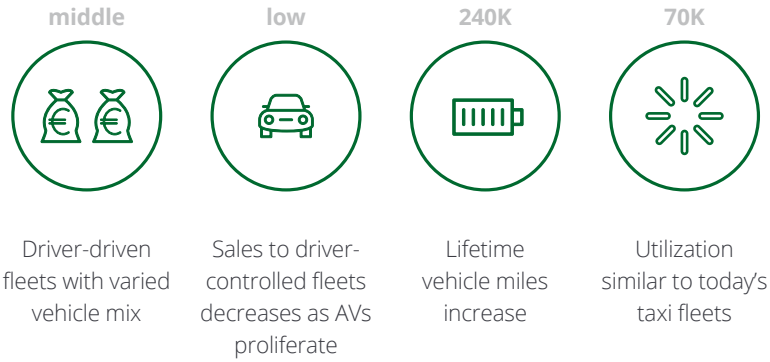
Future state 4 –
A new age of accessible autonomy

Future state 4 anticipates a convergence of both the autonomous and vehicle-sharing trends. Mobility management companies and fleet operators offer a range of passenger experiences to meet widely varied needs at differentiated price points, initially in urban areas but spreading rapidly into suburban communities.

2. A world of car sharing



2

Future state 2 –
A world of car sharing

Future state 2 imagines how continued growth of ride-sharing and car sharing may impact both companies and people. Economic scale and increased competition could drive the expansion of shared vehicle services into new geographic territories and more specialized customer segments. As shared mobility serves a greater proportion of local transportation needs, it might reduce the need for personal vehicles, particularly in homes that have several.

Vehicle ownership → Shared car

Source: Deloitte analysis

Generation Y

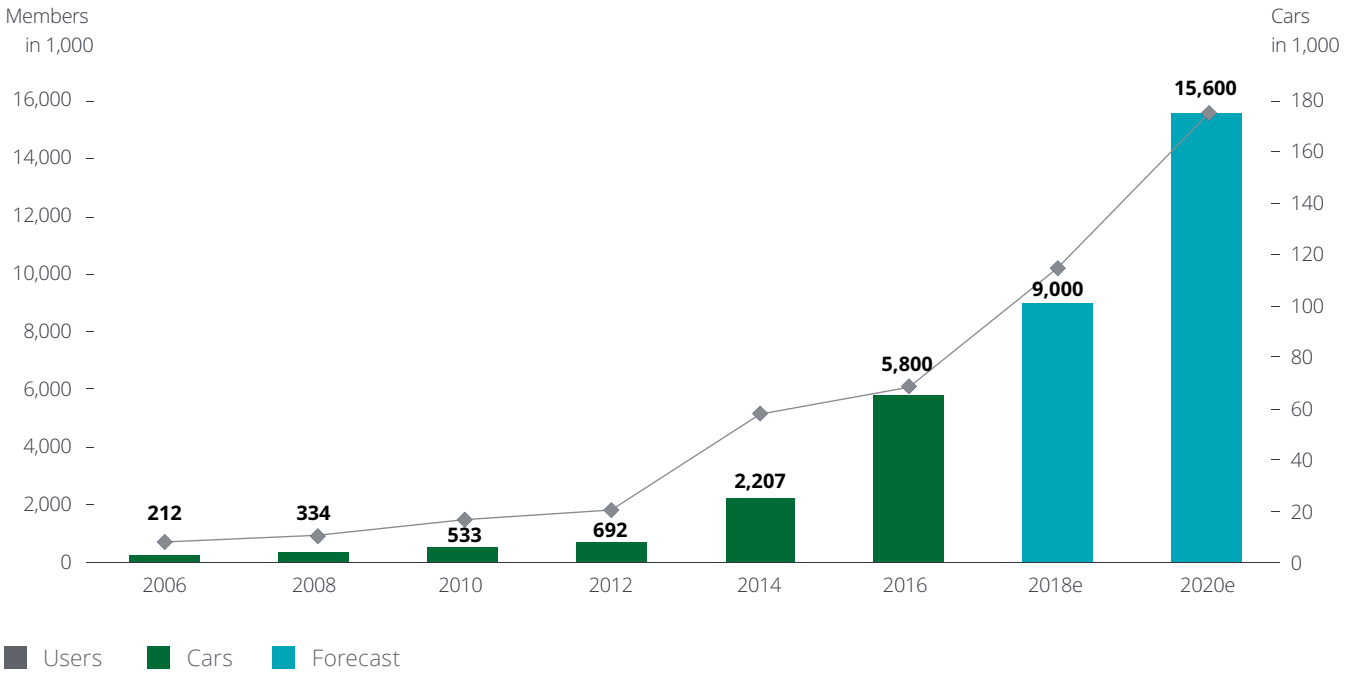
Shift from ownership to sharing will further increase relevance of fleet management

Deloitte's recent Global Automotive Consumer study highlighted the fact that Gen Y (those born between 1977 and 1994) desire connectivity and convenience and can choose from an ever-increasing range of transportation types, apart from vehicle ownership, for getting from A to B. While Baby Boomers tend to gravitate towards traditional vehicle ownership models and younger generations are highly interested in models that provide access to mobility, allow them to remain connected (and productive) at a reduced cost. The emerging mobility patterns of (young) adults are shaping an industry in which on-demand service providers such as Uber, DriveNow and car2go have experienced and are still experiencing significant growth and are unquestionably among the defining phenomena of our future mobility as well as the digital era. These providers are changing the way individuals move, by seamlessly connecting either drivers to passengers (taxi, car pooling) or passengers to cars (car sharing). Younger generations are leading the way towards pay-per-use mobility in place of owning a car, nearly 50% of Gen Y consumers like using a smartphone app for transport and already plan travel so they can multitask.[25]

In 2006, the world reached a critical midpoint with over half of the world's population living in cities and urban areas. The trend is expected to accelerate, with approximately 70% of the world's population expected to live in cities by 2050.

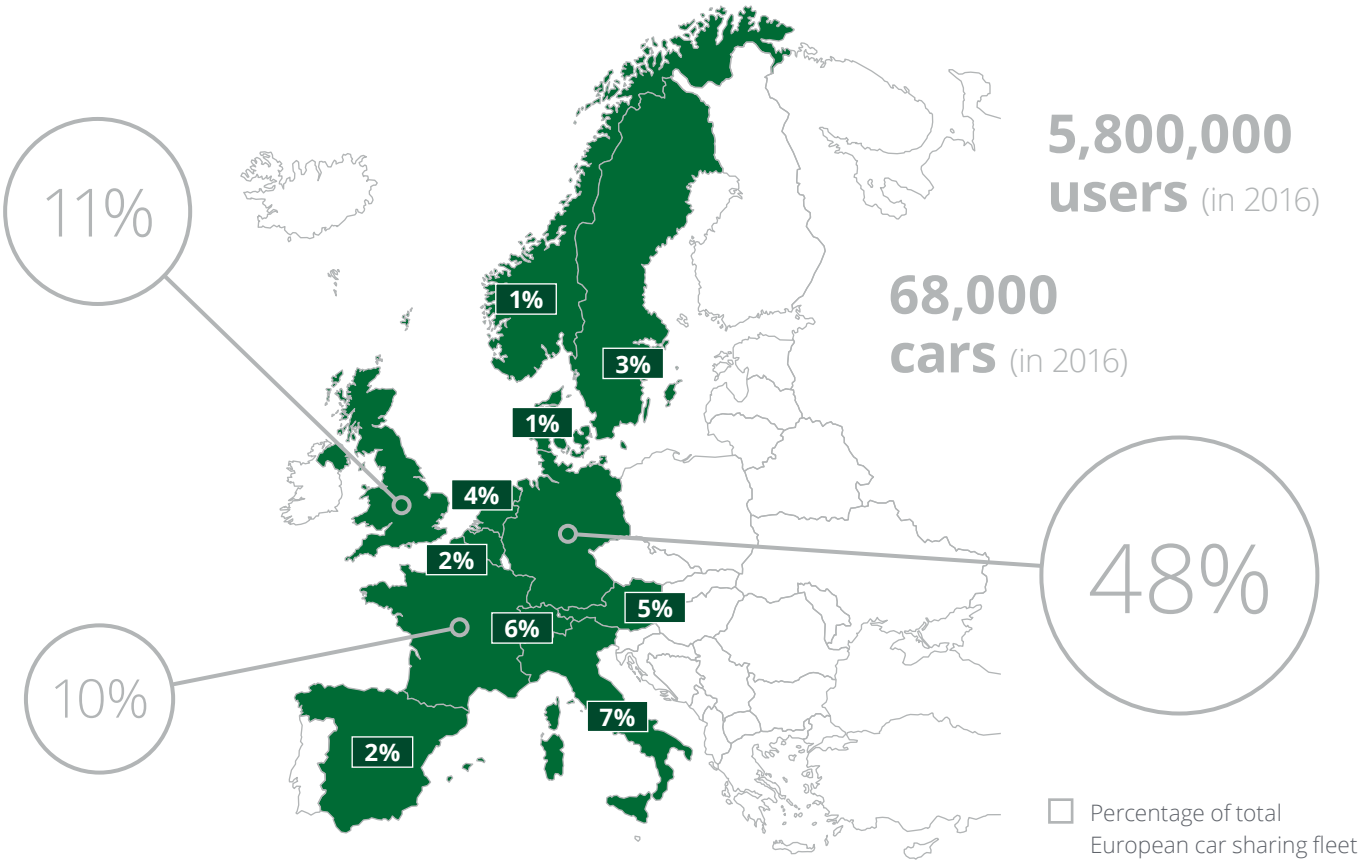
Car sharing extends the benefits of automobility to individuals without them having to bear the cost and effort of car ownership. Europe accounts for about 50% of the global car sharing market and is expected to grow further to almost 16m users by 2020 (figure 19).

Fig. 19 – market development in Europe (2006–2020, in '000)



Source: Deloitte analysis[26]

Fig. 20 – Distribution of car sharing vehicles in Europe



The car sharing approach does not have to stop at a company door. In recent years a growing number of FMCs started to offer corporate car sharing programs. New in-car technologies and advanced telematics enable companies to use their corporate cars as a sharing asset for their employees. Key advantages are an optimized pool car usage, a reduction of the carbon footprint as well as large cost saving potential in terms of TCM.

With a high acceptance by young employees and a growing awareness of the total cost of employee mobility, the corporate car sharing market is expected to grow rapidly. With a prospective fleet size of 84,000 cars by 2020, this market will reach almost half the size of the conventional car sharing market.[27]

In a future mobility ecosystem Deloitte sees a growing importance of car and ride-sharing as well as self-driving vehicles. For both developments, fleets and fleet management gain greater importance and will be a key to participating in the prospective mobility value chain. Fleet managers should lay the groundwork today by enabling vehicles and infrastructure to be prepared for the future state of seamless door-to-door mobility.

Fleet management will be the key to enabling sharing-based mobility services

Source: Deloitte analysis

From ride-hailing to robo-taxi – autonomous revolution powered by Blockchain

Ride-hailing

With the exception of a few cities such as London and Paris, Uber, as the world's largest ride-hailing provider, did not manage to establish a significant footprint on European soil. In many European jurisdictions Uber has run into regulatory roadblocks.

In Europe, Uber challenges homegrown ride-hailing competitors who have leveraged their better knowledge of local market dynamics to build successful businesses. Businesses such as myTaxi, founded in 2009, may share some similarities with the Uber model, but they differentiate themselves by working in accordance with local regulations. Daimler's myTaxi has become Europe's largest taxi-hailing provider with over 6 million customers in 2016.[28] This is an astonishing growth from 2 million customers in 2015. Other European ride-hailing services have specialized in exclusive limousine transport or van/bus services. First attempts to integrate autonomous driving technology with the outlook of providing independent "robo-taxis" have been made.

Robo-taxi

Especially in the ride-hailing business where a high percentage of the costs are associated with the driver, self-driving cars could drastically decrease these costs. A recent Deloitte study ("DUP: Future of Mobility") shows that about 50% of the cost of taxis are connected with the cost of the driver.[24] Self-driving robo-taxis would not only be cheaper than taxis today, the utilization of the vehicle would increase distinctly.

This development implies a growing number of vehicles going to fleet instead of to private persons. Deloitte's study "The Future of Mobility: What's next?" predicts a share of 70% autonomous driving fleet vehicles in an urban environment in new registrations by 2035.[29] In a connected urban environment the attractiveness of owning a car declines rapidly if one has access to a pool of cars whenever needed.[31]

To guarantee a seamless operation of these fully autonomous taxis a few technical issues have to be solved. Payment is a crucial part of that. Today, ride-hailing companies offer cashless payments directly via their smartphone apps, but the next revolution is just around the corner. Blockchain technology could enable the cars to send and receive money, schedule, and pay for their own maintenance meetings in times of low utilization, etc. Blockchain could support making the car also autonomous on the financial side.

The future is fleet

Several automotive companies have already reacted and are increasing their activities in the fleet management environment to avoid being reduced to the role of hardware providers. In the end, the winners in this race for customer contact will be those companies who are able to provide a seamless customer experience at a limited cost. Blockchain can become the enabling technology for automotive companies to reach this goal and to maintain a key role as the direct provider of mobility services to end customers. Deloitte has given further insights into this topic in a recent publication "Blockchain @ Auto Finance – How Blockchain can enable the future of mobility".[30]

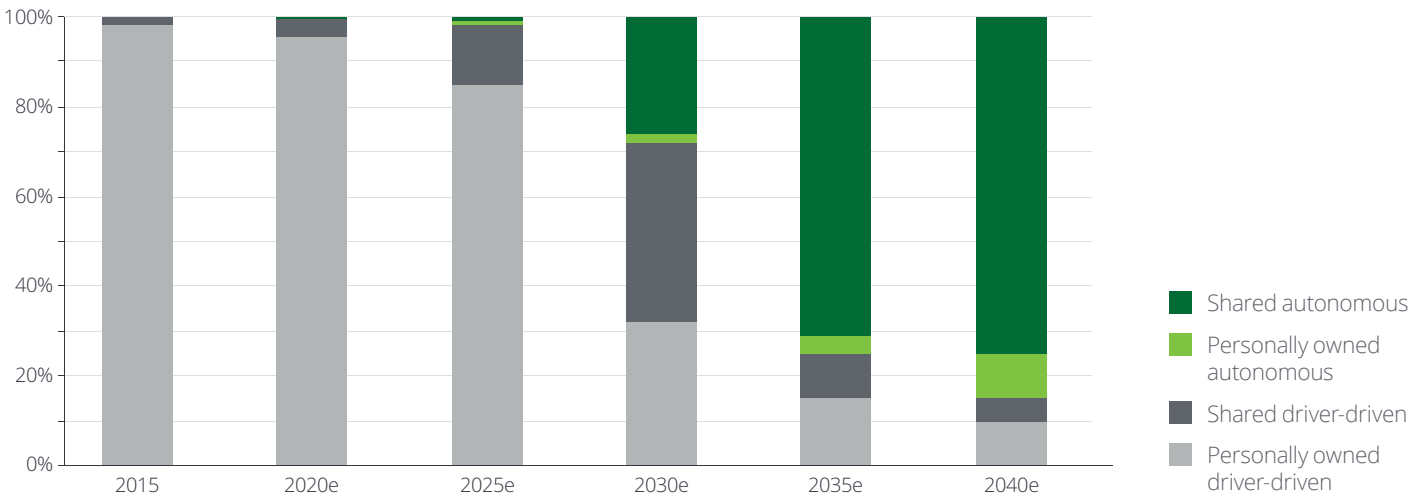
Up to
68%
would be willing to pay extra for autonomous driving

85%
of customers believe in the breakthrough of autonomous driving

Up to
35%
of GenY–Z customers question their need to own a car due to use of ride-hailing

50%
of cost for ride-hailing is connected to the driver

Fig. 21 – Forecast of new vehicle sales distribution (for urban areas in USA)

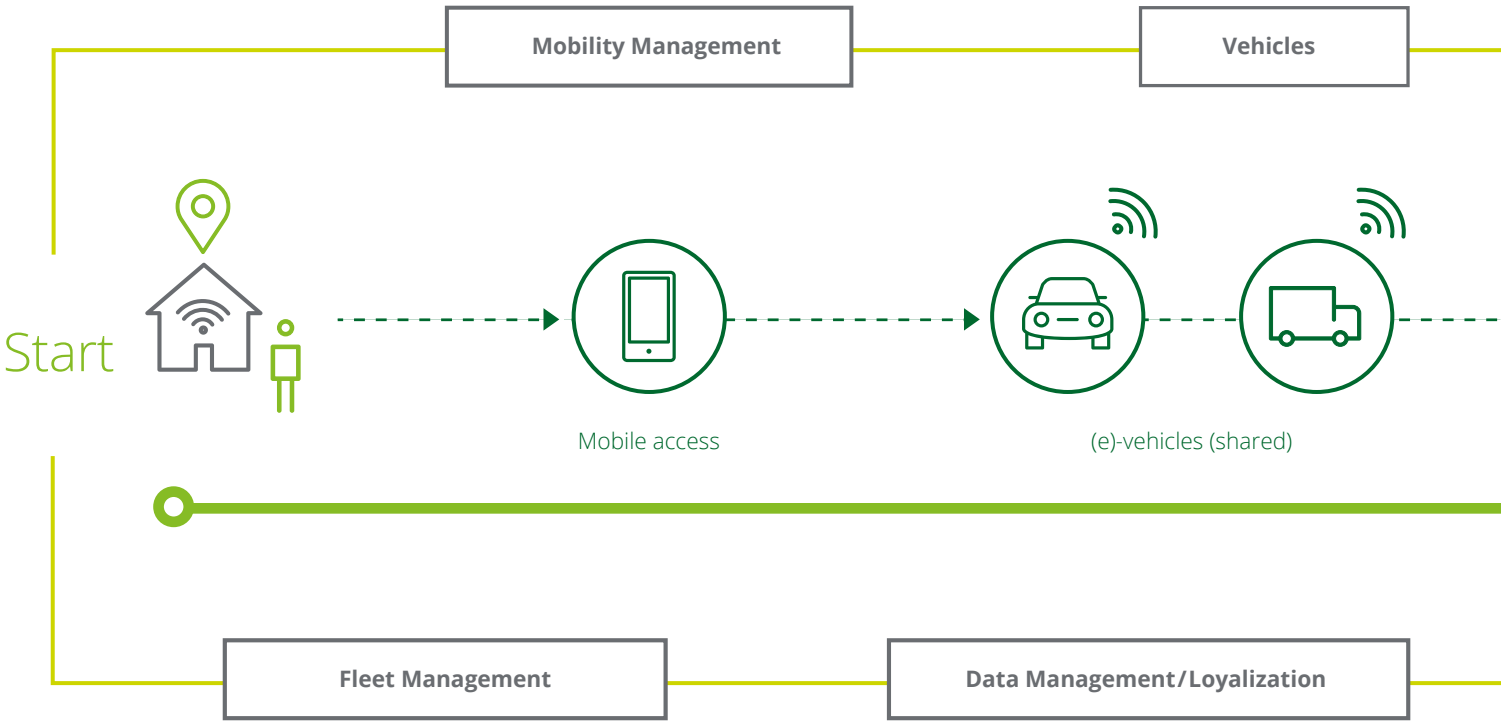


Source: Deloitte analysis[29]

Fig. 22 – The Future of Mobility ecosystem: integrated and multi-modal inncer-city customer journey

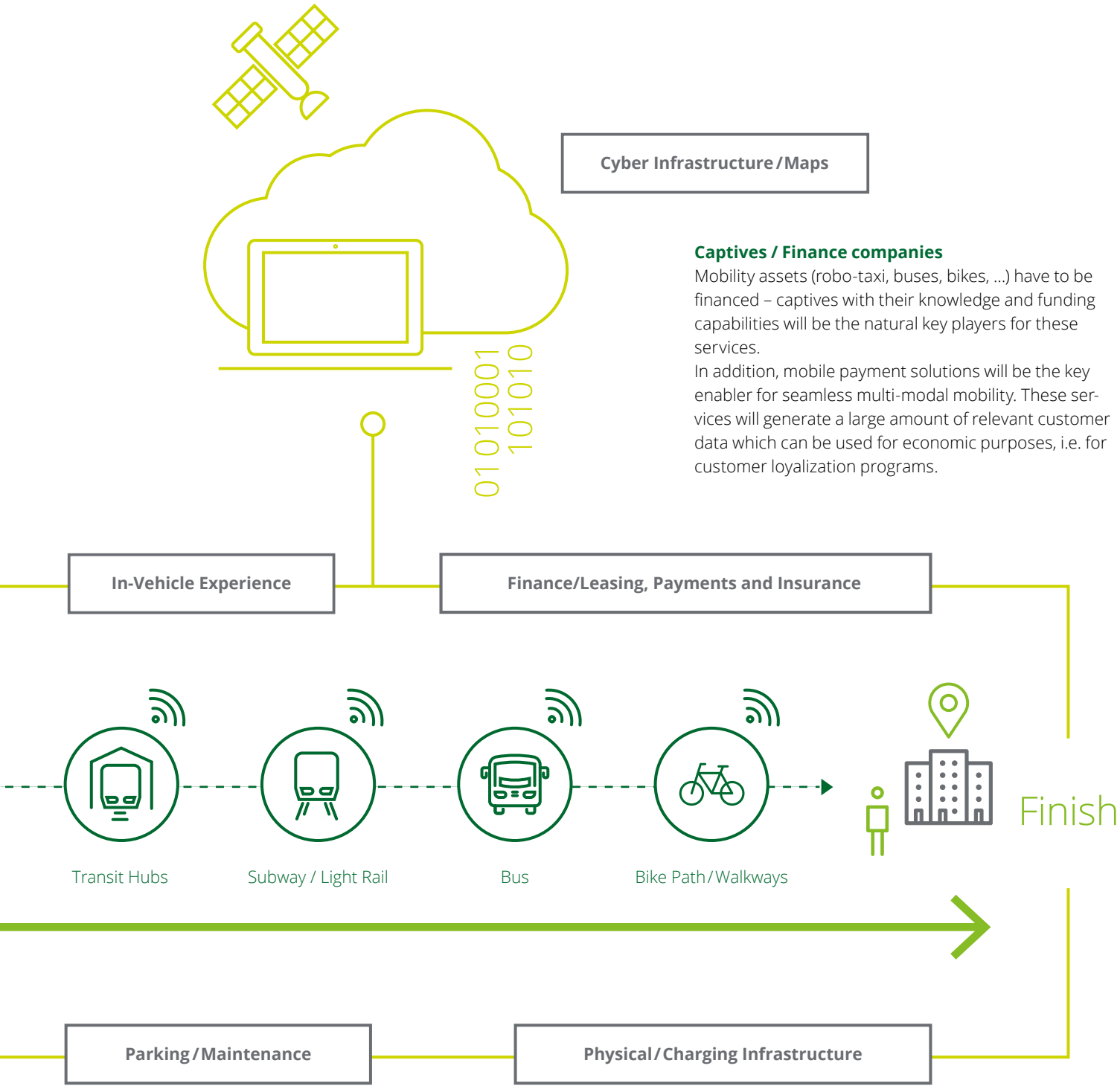
Mobility management providers

Mobility management services combine an individual's specific history and current circumstances with data from millions of others and information from different modes of travel across the city. Using advanced analytics, they offer users tailored, seamless travel options.



OEMs / Fleet Management companies

Fleet operators store, maintain, and deploy shared autonomous vehicles throughout the city. Vehicle manufacturers build an array of shared self-driving options to meet the varying needs of millions of travelers.



Captives / Finance companies

Mobility assets (robo-taxi, buses, bikes, ...) have to be financed – captives with their knowledge and funding capabilities will be the natural key players for these services.

In addition, mobile payment solutions will be the key enabler for seamless multi-modal mobility. These services will generate a large amount of relevant customer data which can be used for economic purposes, i.e. for customer loyalization programs.

Additional providers

The in-vehicle experience is enhanced by content providers offering a variety of options, from entertainment to business applications, and supported by advertisers and subscription fees.

City planners work closely with the private sector to operate and maintain critical infrastructure, from bike racks to train platforms or electric charging stations. Those physical assets are increasingly smart and connected, allowing constant, real-time monitoring.

Source: Deloitte analysis

Strategic fields of action regarding fleet management

Fig. 23 – Market entry rationales from the perspective of various industries

	OEMs	Banks	Platforms / Tech Companies
Strategic consideations	• React to sales channel shift from private to corporate and prepare for self-driving fleets • Protect the core business with regard to sales discounts and after sales revenue • Expand the value chain with focus on services and residual value • Secure customer access • Leverage full-service leasing and fleet management as capability for mobility services	• Enter in a reasonably stable, non-cyclical industry with recurring revenues • Diversified revenue stream in times of low interest rates based on fee-generating services • Locked-in customers based on sticky customer relationships with potential to up- and cross-sell within core business	• Enter into mobility market to expand value chain • Leverage mobility behavior information generated by fleet management data for core business (location-based services) • Build mobility management capability to transfer to private user market • Prepare foundation for a future world of autonomous shared fleets to own ecosystem regarding in-car entertainment and apps
Competitive advantage	• Established dealer network throughout Europe and global footprint • Asset know-how regarding vehicles and usage behavior • Holistic view of the value chain and vehicle lifetime	• Bank branch network as sales channel • Access to and detailed knowledge of small and medium entities • Strong understanding of funding business	• Strong knowledge in partner management and integration • Truly customer-centric mentality • Expertise in data management and analytics (telematics) • Platform integration capability towards multi-modal mobility

Strategic recommendations for fleet management companies

The increasing demand for full service leasing and associated fleet management has significantly fueled the growth and profitability of fleet management companies in recent years. This growth sparked the interest of several other players such as automotive companies and banks that are (re)entering this market based on their own core products, be it vehicles or leasing business.

On the other hand, platform and technology companies see this industry as the entry point for their data-driven and customer-centric business models towards the Future of Mobility.

Today, the fleet management companies are still ahead in this rather complex business, with the competition catching up. To keep that lead over the competition fleet management companies should not rest on their merits and strong financial results but strategically position themselves towards the future.

The key success factors in fleet management of the future are diverse. It is essential to build a global footprint and have the capability to provide seamless service offerings across borders. Fleet customers will increasingly demand consulting services to reduce the cost of their fleets. This can on the one hand be addressed by sophisticated data and driver behavior analysis based on telematics to increase efficiency. On the other hand, innovative mobility solutions such as corporate car sharing and similar can also bear the possibility of earning revenues based on the corporate fleet. In addition, driver-centric and non-car related services will be increasingly important in the future.

Based on these capabilities, it is a logical step for fleet management companies to further expand their client base towards the private channel and to be prepared for the Future of Mobility where, due to sharing behavior and self-driving cars the differences between the private and corporate channels will become more and more blurred.

Conclusion

Fleet management in Europe is a multi-billion-euro industry based on a profitable business model and the increasing shift of new car sales towards the corporate channel. The top five players combined make up for more than 50% of the managed cars. Current key players are predominantly bank-backed coming from the roots of this asset-based business. Nevertheless, more and more OEMs are putting focus on this market as they see an increasing relevance for their core business in a world of changing mobility.

The relevance of this market will further increase in the future due to multiple influencing factors. The younger generation will buy fewer cars in the future. Firstly, the relevance of owning a car for social status is strongly declining (also blurring the importance of brand perception of cars). Secondly, the increasing urbanization drastically reduces the attractiveness of owning a car, amongst other things due to the high cost and hassle associated with finding a parking space alone. The increasing shift from ownership towards usage fueled by the increasing mobility offerings and business models especially in urban areas will further shift new car sales towards the corporate channel. Corporates will start to see their company fleets not only as a cost but also as a potential revenue model leveraging services such as corporate car sharing. In the further future with autonomous cars such as robo-taxis being a reality the trend described will further accelerate.

The increasing customer demand for multi-modal integrated mobility will require only a limited amount of truly integrated mobility platform providers. These players will be in a unique position to take ownership of customer access and data (mobility, payment, etc.) which will be the key to monetizing the mobility ecosystem.

To answer these trends requires bold strategic choices under uncertainty. The fields of action for current or potential future actors in this environment differ depending on their background and strategic aspiration. OEMs face the threat of losing ownership of the customer contact and large parts of their value chain and being reduced to sole providers of hardware. Fleet managers need to rethink their position as asset-managers towards integrated mobility providers also offering services that are not necessarily related to the vehicles. Platform providers and tech companies might think about entering the market top-down, leveraging their existing customer access.

Fleet management will be one of the key capabilities to be successful in this Future of Mobility. Deloitte is ready to support you in deriving the necessary strategies and actions.

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