

1.1 INTRODUCTION

Fleet sales are fundamental to the success of the automotive channel, and cover a broad spectrum of customers with a wide range of diverse requirements⁵. In 2001 45.2% of all new passenger motor vehicles were acquired by business and government organisations.

Fleet buyer needs and expectations are different to that of private buyers in a variety of areas – product attributes, information needs, pricing, financing, servicing. They essentially constitute two different segments of the market, yet the industry uses the same dealership channel through which to sell and deliver to both segments.

The Fleet Channel research focused on the distribution of new vehicles to fleet and business customers including fleet sales to government customers and explored a number of areas including:

- The size and segmentation of the Australian fleet market
- The factors relevant to the customer in assessing the product and service delivery systems.
- A review of the current finance options for fleet buyers.

The research studied the methods and processes used by customers, dealerships, intermediaries and manufacturers to source and supply new passenger motor vehicles. Used vehicle supply and supply to private retail consumers were excluded.

The role of the Internet and E-commerce channels was not specifically investigated in this research beyond understanding the preferred methods of transmitting information.

1.2 SIZE OF THE FLEET MARKET

The fleet market for passenger motor vehicles, has remained reasonably static, varying by only 30,000 units over 6 years. The economic cycle is at a high and the retail market, in particular imported product, has fuelled the significant boom in new vehicle sales. The fleet market is far less directly impacted by the economic cycle than the retail market. For many fleets, new vehicles, whether tool-of-trade or as part of a salary package for senior staff, are seen as a necessary asset rather than a luxury.

The small number of large fleets (over 1000 vehicles) gives prominence to these fleets but the majority of fleets, and fleet sales, are to companies and government departments with 25 or fewer vehicles. The industry discount structure is based on fleet size and volume sales. The high number of fleets in the small fleet sector and difficulties in tracking and retaining these customers indicate that this section of the market is less competitive than expected.

The fleet channel is in fact not a single route to market but a web of multiple relationships, financial products, and customer types. The fleet market covers all types of buying activity, from novated leasing and small business purchasing which have strong similarity to a retail private purchase, to the rental market where the end-user has minimal impact on the product choice, and vehicles are essentially commodities.

1.3 DISCOUNTS INCREASING

Current discount and pricing policies are continuing to put pressure on volume and residuals, creating price deterioration. The market is being further disrupted by the growth in novated leasing, which is contributing to the spread of discounts to a wider market. In the long term this is not sustainable as the margin on the new vehicle price is significantly eroded.

1.4 ACQUISITION METHODS

Tax policies, accounting practice changes, and government action on tariffs have a critical influence on fleet acquisition method. The need remains for employees to have vehicles, but the means of acquisition are clearly determined by the financial environment and subsequently the most cost-effective means of minimising tax liabilities. There is a significant difference in the preferred acquisition methods of business and government fleet operators. Of government buyers, 75% preferred outright purchase compared to 28% of business buyers, while 18% opted for operating lease compared to 37% in the business sector. Illustrated in *Figure 1*.

1.5 ORDER TO DELIVERY PROCESSING

Delays in order processing in some channels are frustrating the buyers' ability to manage replacement in an optimised manner. Delays in the order fulfilment process can be minimised by the pre-authorisation of finance, novated lease agreements, and operating lease terms. Agreements during the negotiation process on vehicle specification, acquisition method, delivery requirements, and speciality products such as fuel cards can influence the efficiency of the purchase of individual vehicles. Customers preferred delivery times are from 2 to 4 weeks although many dealers are meeting required delivery times by sourcing material from stock and the dealer network. However, the order-to-delivery process, largely controlled by the manufacturer, remains the most significant time delay in the overall process.

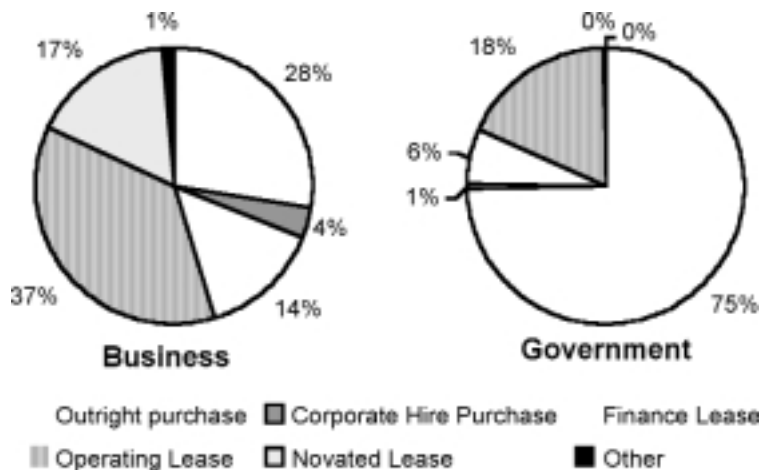


Figure 1 Fleet buyers acquisition method

1.6 CUSTOMER DELIVERY NEEDS

A responsive one-stop point-of-sale, clearly a need of a segment of fleet customers, is challenging the traditional channels. This challenge is being met by leasing companies and other intermediaries who are arranging all aspects of the sale, leaving the dealership as an administrative sourcing and fulfilment channel only. Business is moving away from the traditional dealer source to direct contact with manufacturers for discounts or finance companies for vehicle acquisition and leasing.

1.7 ENVIRONMENTAL AND SAFETY CONSIDERATIONS

Consideration of external factors such as the environmental impact of the fleet is becoming an increasingly important factor for government departments. Governments are directly accountable for meeting obligations to the wider community and want to curb some of the consequences of vehicle use. They are particularly concerned about safety, traffic congestion, air quality, and share an interest in the global concern over greenhouse gas emissions. Government fleet policies will explicitly state that they aim to provide the "safest car possible". This applies particularly to tool-of-trade vehicles where employee liability insurance may be a relevant concern. Safety of employees impacts therefore on model choice, selection of options, and therefore the manufacturer-offered price of safety options.

Although it might be considered that government fleet buyers must take the wider social preferences far more seriously than private businesses, the survey demonstrated the importance of safety feature availability for both business and government fleet buyers, and also how public liability has risen on the agenda of the employer in relation to the employer vehicle as a place of work. See *Figure 2* as an example.

The environmental performance of vehicles is of significant importance to government fleet buyers as government environmental policies are implemented, and alternative power vehicles such as the Toyota Prius are appraised for wider use. Over 50% of business buyers also consider environmental factors when acquiring vehicles due to perceived customer pressure.

1.8 CHANGING ROLE OF FLEET BUYERS

Availability of safety features on vehicles (for example passenger airbags).

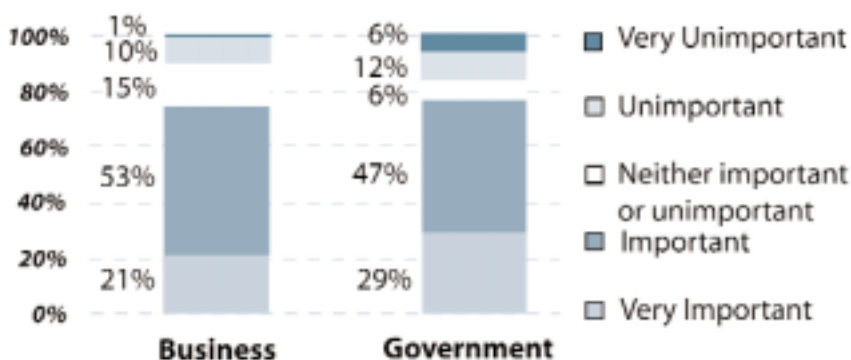


Figure 2 Importance of safety features (passenger airbags as an example)

The role of in-house fleet buyers is changing as a result of outsourcing the acquisition and fleet management functions, and the rise of novated leasing. The increasingly complicated analysis required to choose a lowest cost fleet option is driving many businesses to also consider the outsourcing of formulation of the fleet policy itself. Finance and human resources departments have always been influential in the formulation of fleet policy. They are now coming to the fore and dealing directly with the fleet management and leasing companies rather than through the fleet buyer function. Finance departments have an interest in ensuring that the fleet option that the organisation chooses is the most cost-effective for the organisation. Human Resources departments are more involved than ever because a vehicle as part of a salary-package has grown to be an important component of remuneration. The traditional single-brand company vehicle is being replaced by the freedom for employees to acquire the vehicle of their choice as a result of the competitive labour market.

1.9 IMPORTED VEHICLES

Imported vehicles pose a threat to local manufacturers, and although this is true of the Australian new vehicle market generally, it is particularly true of the fleet market. A combination of novated leasing and tariff reduction is making the imported product increasingly competitive compared to the domestic product. Novated leasing has increased significantly over the last 8 years. Where choice of vehicle is provided, there is a significant swing to imported all wheel drive vehicles such as the Honda CRV and Subaru Forester. All wheel drive vehicles account for over 9% of the total fleet market, and nearly 16% of total vehicle sales.

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THE FLEET CHANNEL

Executive Summary

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