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Tesco has set tough targets for its large delivery fleet
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www.ft.com/fleet-management-2011

Bright spot for nervous automotive industry

Fleet sales are rising as a proportion of overall sales, as economic uncertainty keeps retail customers away, writes **John Reed**

When the 2008 financial meltdown pushed the automobile industry into its worst crisis in recent memory, fleet and commercial vehicles were among the first casualties.

The collapse of credit markets wreaked havoc on leasing, the sector's lifeblood. Businesses looking to conserve cash were in no mood to invest in their fleets anyway, so kept more of their company cars and trucks on the road for longer.

The effect was perhaps starkest in heavy trucks, where manufacturers saw orders from frightened customers dry up virtually overnight, meaning they had vehicles ready to go, painted with customers' logos, sitting unclaimed on their lots.

Three years later, the eurozone crisis and market turmoil on both sides of the Atlantic are prompting an unsettling sense of déjà vu among car and truck-makers and leasing companies.

But this time round, the fleet business remains a relative bright spot for a nervous world motor industry – and in many countries, including the UK, the

main segment that is supporting the car market. Companies that deferred renewing their fleets during the crisis are now doing so en masse.

Of all the world's regions, the turnaround is most marked in Europe. The fleet sector has recovered robustly, especially relative to the tepid retail market.

While passenger car sales in the European Union fell by 2 per cent in the first half of this year, sales of light commercial vehicles surged by more than 9 per cent, according to the regional industry group Aeca.

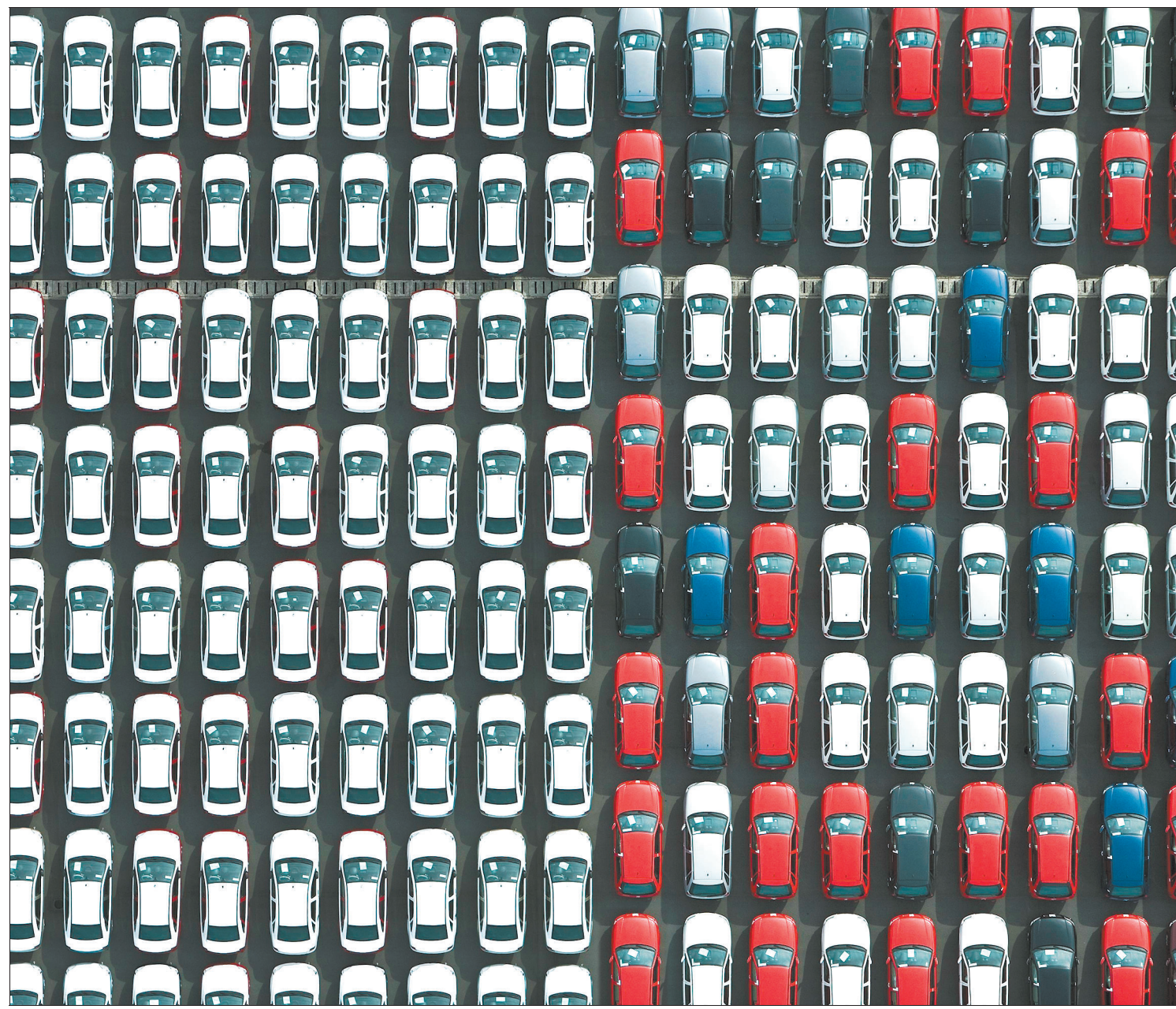
In Germany, fleet sales have risen from about 37 per cent of the car market in 2009 to about 58 per cent in the year to date, according to Jato Dynamics, the automotive research group.

In recession-hit Spain, the share has risen from 34 per cent two years ago to 54 per cent in the year to date, Jato says.

"In Europe, the importance of fleet is continuing to grow and grow," says Gareth Hession, the group's vice-president for research.

In the UK, where many economists expect a return to recession, fleet sales rose by 7 per cent in September, even as sales to retail customers fell by 8 per cent.

Fleet and business cars now account for 52 per cent of the UK passenger car market, according to the Society of Motor Manufacturers and Traders, which also reported a 9 per



Cars on the line: fleet and business sales now account for 52 per cent of the UK car market, a rising trend echoed around the world Getty Images

cent rise in truck and van sales last month.

LeasePlan, one of the industry's largest leasing companies, says that even its business in Greece – at the heart of the eurozone crisis – is profitable and growing.

"Our market saw growth during the crisis," says Vahid Daemi, the company's chief executive. "Despite all the difficulties we hear, the signs are still positive – but you don't know whether it's going to turn."

Sales of commercial vehicles are also holding up in the US,

despite a spate of recent bad news about the economy.

Apart from business fleets' natural replacement cycles, tougher regulations on carbon dioxide emissions are also stimulating the market in these gloomy times.

Central and local governments are offering tax rebates or other sweeteners for early adopters of low-emission cars, whether "clean" diesel vehicles or a new wave of electric and plug-in hybrid cars.

Alongside the carrot of these incentives, businesses that do not begin creating greener fleets

now face the stick of higher taxes, or opprobrium from shareholders or clients who care about their sustainability credentials.

According to Bart Vanham, a fleet specialist with the consultancy PwC, 19 countries in Europe have some kind of car taxes linked to CO₂ emissions, and 12 EU countries have incentives for electric vehicles.

"Going green pays off because of taxes," he comments.

According to GE Capital, new

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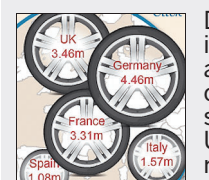
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Interactive graphic



Detailed information and data on fleet sales in the UK and the rest of the world.

A timeline of trends in the main markets, details of the most popular fleet cars, and the effects of carbon tax legislation are also featured.

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Fleet Management

Legislation and advisers re-open the driver's door

Company cars

Salary sacrifice schemes are rising in popularity, says **John Reed**

Company cars are staging a comeback – albeit in a form unrecognisable from the employer-financed, large-engined executive saloons and wagons of yesterday.

Companies, after cutting back car benefits or offering cash in lieu of a car in recent years, are bringing employees back into fleet cars. Government regulators are playing a role in the shift by incentivising the move by fleets into low-emission cars.

In the UK, a growing number of companies are opting to offer employees cars under salary sacrifice schemes. These allow employees to buy cars out of their pre-tax earnings, at a big discount to the normal retail price.

Because Britain treats low-CO₂ cars bought under salary sacrifice favourably under tax rules for benefits in kind, the corporate fleet as a whole is becoming cleaner than ever.

"Everyone is moving back into company cars – and it's good for green cars," says Harvey Perkins, a partner with KPMG.

As recently as five years ago, the company car was a dying breed in Britain, as more companies offered employees cash instead.

However, cars were still being given as a perk to top staff and to sales representatives who needed to travel to carry out their job.

But changing legislation and the UK's adoption of progressive CO₂-based taxation of cars means that companies are now moving away from offering cash in lieu of a car.

A new law on corporate manslaughter passed in 2007 now holds companies liable if employees driving on business have accidents in their own cars.

So employers are making it easier for a broader range

of staff to buy vehicles, including through salary sacrifice schemes.

Cars bought under such schemes are up to 40 per cent cheaper than if an employee paid to lease, maintain and insure the same vehicle privately.

The cars are new and such schemes include maintenance, giving employers more peace of mind when their employees drive them on business.

David Raistrick, UK and Switzerland manufacturing leader for Deloitte, the consultancy, estimates that company cars delivered under salary sacrifice could represent up to 10 per cent of UK fleet sales, or about 100,000 of the 2m cars or so registered in the UK every year.

"Employers are asking 'What can we do for our workforce?'" Mr Raistrick says. "The value of a car in emotional terms far exceeds what it costs."

The schemes should not cost an employer anything beyond set-up costs

According to Deloitte, salary sacrifice schemes should not cost an employer anything beyond set-up costs, if they are put in place correctly.

For employees, however, who pay tax on the benefit, there is a powerful incentive to choose a more fuel-efficient car.

According to KPMG, a rival consultancy, a 40 per cent taxpayer who opts to take a Volkswagen Golf with a list price of £18,000 as a company car will pay an after-tax cost of less than £3,900 per year including maintenance under a salary sacrifice scheme.

This is as much as £1,300 less than the employee would have paid to lease the car privately. Meanwhile the employer, according to KPMG, could save almost £700 by providing the employee with the car instead of paying the sacrificed salary.

According to GE Capital's Company Car Trends survey published in June, which polled 300 fleet decision-makers, the percentage of companies offering a cash payment instead of a company car has fallen from 36 per cent to 25 per cent in the last two years.

According to GE, the new duty-of-care legislation on company cars made fleet managers realise the cash option was often more expensive than normal company car provision.

Employees, it said, were returning to company cars this year for a number of reasons, including the service and insurance cover available on them.

The recession has played a role too, as fluctuations in the residual value of cars made running a vehicle potentially more of a personal financial risk to the driver, GE found.

Companies are still making premium cars available for their top executives, although they too are being offered a choice of more fuel-efficient cars.

Fleet managers are also adopting creative ideas in an effort to cut their carbon emissions, whether for sustainability or cost reasons.

Balfour Beatty, the construction and engineering firm, keeps a fleet of eight small Mercedes-Benz Smart cars as pool vehicles at its head office in Derby, which employs 300 people, according to Steve Farmer, who manages the fleet.

Other companies are increasing their use of daily rentals, including car sharing schemes, to improve their fleets' operating flexibility and to cut costs.

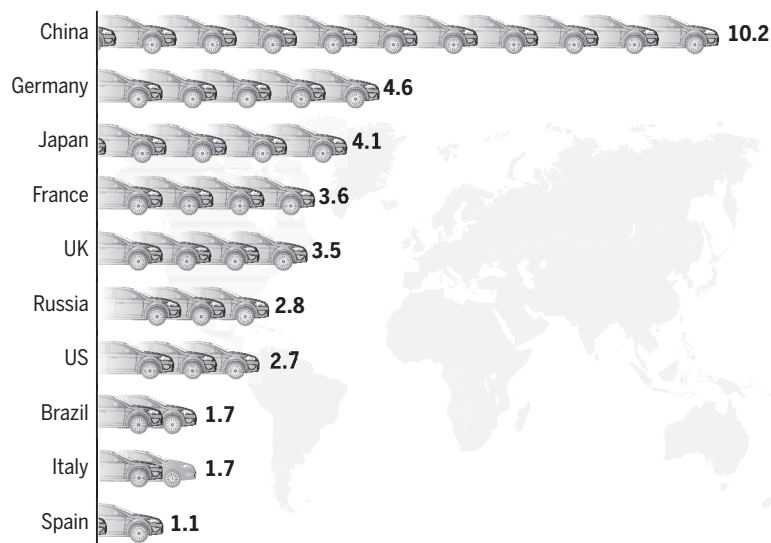
To bolster its sustainability credentials and cut costs, Balfour Beatty has this year introduced a 140g/km emissions cap on its company car list (although it allows 170g/km on seven-seat MPVs in order to avoid discriminating against its employees with large families).

"It's about picking the right vehicles," Mr Farmer says. The group's company car list now includes the new Nissan electric Leaf for employees who want it.

Fleet markets

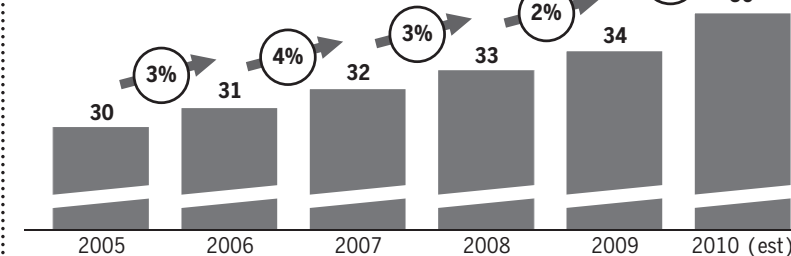
Ranking of top 10 company car markets

Cars on the road, 2010 (millions)



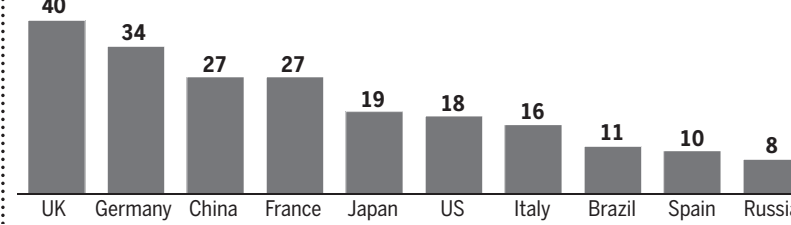
Total fleet size

Across top 10 markets (millions)



Fleet proportions, 2010

Fleet sales as % of total car registrations, 2010



Top-selling company cars by country

US Ford Fusion



France Citroen C4 Picasso



UK BMW 3 Series



Germany VW Passat



Italy Fiat Bravo



Spain VW Passat



Sources: GE Capital; Datamonitor; Society of Motor Manufacturers and Traders; Acea; Havas Digital

World fleet rankings

China moves to fore

China, which in 2009 surpassed the US as the world's largest vehicle market, is now the world's largest market for company cars as well – by a substantial margin.

Data tallying company cars on the road from the world's top 10 fleet markets show more than 10m such cars in China, with Germany a distant second place, with just under 5m company cars. The numbers account for only a modest part of the overall car numbers in their respective markets, because most fleet vehicles stay on the road for just two or three years.

The number of company cars in the US in 2010 – just under 2.7m – looks especially modest, given the prodigious size of the overall US car market.

That may be because company cars are offered less frequently as an employee benefit than in Europe – and because the passenger car data presented here do not include the sport utility vehicles and small trucks many American business drivers use.

Total fleet size

Tax incentives spur sales

The world company car market fell after the crash of Lehman Brothers in 2008, which hit credit markets, business confidence and cars' residual values, putting many fleet deals on ice.

Fleet managers decided to keep cars on the road longer than they otherwise would, affecting the industry into 2009, when sales grew a mere 2 per cent. But now the market is reviving, thanks to pent-up demand from fleets that postponed renewing during the crisis.

Tougher tax regimes aimed at cutting cars' carbon dioxide emissions are acting as a further spur for fleet renewals. In Europe, where the regulatory push to cut CO₂ is strongest, company cars reduced their CO₂ emissions by more than 1.28m metric tonnes in 2010 compared with 2008, according to GE Capital's analysis of data from 11 countries.

In France, Italy, Germany and the UK alone, company cars cut their carbon emissions by more than 1m tonnes, GE says.

Fleet proportions

Local regulation is key

The proportion of the car market claimed by fleets across leading countries shows big discrepancies – a function of both market maturity and local regulation.

Fleet cars accounted for nearly half the overall market in the UK last year, but a scant 8 per cent in Russia. The UK market, the largest in Europe, was also the first to move heavily into leasing, according to GE Capital.

Companies can recover 50 per cent of the value added tax they pay on company cars, and 100 per cent of the VAT on vans; little wonder, then, that cars are a widely offered employee perk.

In France, companies can recover 100 per cent of the tax they pay on vans and commercial vehicles, but nothing on cars, making for a smaller fleet market.

The fleet market is also a function of the penetration of big corporations in a given economy – a measure on which the UK scores high, but Russia, Spain and Italy lower.

Top cars

Locally built cars lead the league

Think global, buy local? One might reach that conclusion, based on a list of the top-selling company cars in some of the biggest fleet markets, compiled for the FT by GE Capital.

American cars account for the top five company cars in the US, and French cars top the tables in France. Italy's best-selling company car is a Fiat Bravo, its fourth best-seller the Panda.

Not so in the UK or Spain, which lack locally owned national champion carmakers, and where German-built cars account for each country's five top-selling models.

Some competing carmakers might say the league tables point to protectionism; without doubt, there is a tendency among many fleet managers, notably in France, to order locally built cars.

But it is unclear whether this has to do with patriotism or practicality: fleet managers can count on a dense retail network in their local carmaker's backyard when the cars need repair or maintenance.

Spy in the cab is proving an ally instead of an enemy

Telematics

It is taking time but drivers are warming to real-time monitoring, writes **Rose Jacobs**

One recent Wednesday, an engineer working for the refrigerator repair company Serviceline made a swooping right turn in Surrey, south-east England, at 47mph. The radius of the curve meant he should have been going closer to 35mph. He did something similar a few minutes later, this time at a slower 37mph – but again too fast for the road.

These were but two of the dozens of driving "events" the engineer racked up that day, as measured by a device in his van and logged at Serviceline's headquarters in Stevenage, Hertfordshire.

"Tim" – not the engineer's real name – "has not had the greatest of days," admitted Kevin Sheehan, group IT and communications development manager, reviewing the report that evening.

Serviceline has long had a keen interest in what its 100-plus engineers get up to as they

criss-cross Britain, responding to distress calls from restaurants and other businesses whose refrigeration systems have failed.

The walk-in units can carry thousands of pounds' worth of food, meaning clients are often anxious, if not panicked, when checking in with the company's dispatchers to see if help is on the way.

But the GPS and mapping systems Serviceline employs to answer those questions do much more, too. The technology, by satellite navigation specialist TomTom, allows job tracking, messaging between head office and vehicle, and the separate logging of private and work modes for the vehicles – an important distinction in the eyes of the taxman.

Moreover, they are part of a push by both carmakers and after-market product developers to record more effectively how a car is being driven, including whether speed limits are being observed and how aggressively a driver corners or brakes.

While the system that Service-

line uses does not account for a vehicle's make, newer models do, allowing easier like-for-like comparisons and standard-setting.

The appeal for fleet managers is mainly the savings on petrol or diesel: "Driver behaviour is the key element in reducing fuel use," says Geoffrey Finlay, executive chairman of Lysanda, the company that provides TomTom

with software to give a "green" score to the way a vehicle is being operated. He estimates these sorts of in-car telematics have the potential to reduce fuel use by 20 per cent.

The devices offer other cost-savings, too, most particularly through lower insurance premiums. That is partly due to

underwriters counting on using the reams of data on offer to fend off dangerous driving charges or health claims such as whiplash; but the data-crunching feeds more than defensive actions.

Robin Harbage, a director at Towers Watson, an insurance consultancy, and a 30-year insurance veteran, says the telematics revolution trumps

other developments in the way auto insurance is sold. "Everything up to now loosely correlated with driving behaviour. This is driving behaviour," he says.

Analysts at BCC Research say that while the net market value of the industry – including both consumer and fleet systems – fell slightly in 2009 amid the global recession, it has since

recovered and is forecast to grow 20 per cent a year for the next five years, surpassing \$40bn by 2016. That surge will be led by companies that provide services rather than hardware, predicts BCC.

The market is highly fragmented, says BCC, but the global leader in services for fleet

systems is Qualcomm, with estimated revenues from such products of \$435m. It is followed by GE Capital and Volvo.

In terms of demand, South Africa is a world leader because early adoption was spurred by security concerns, and Brazil is growing quickly.

Carmakers have taken note, with Mercedes-Benz developing a product called FleetBoard and Ford's hybrid Fusion being one example of cars that tell drivers with coloured lights or graphics when their driving is deemed eco-friendly.

"The UK is leading the way on this, whereas GPS was picked up fastest in [continent a l] Europe," says Bart Vanham, who works

with PwC in Belgium. He has watched telematics catch on first among trucking firms (20-25 per cent penetration, TomTom estimates) and now, more slowly, move to light commercial vehicles such as Serviceline's fleet (15 per cent penetration).

The next wave will be companies' "perk cars," he predicts (just 1 per cent penetration), where managing the feedback to drivers themselves rather than their managers is key.

While a bad driver can push up the cost of care for a car by 15 per cent, he says, managers of those cars will nevertheless hesitate to tell off peo-

ple who are likely to be their bosses for bad driving. They will prefer to leave it up to chirpy icons and automated messages sent to the executive's iPhone.

There is real hope that at least some will respond. Among Serviceline's drivers, while many were wary of the system when it was first introduced, particularly to the extent it infringed on their privacy, others have been keen to learn from the record-keeping.

It helps, says Mr Sheehan, that one of the first times the data were used, it got an engineer out of a jam: someone had called to complain about his driving, but when the team in Stevenage looked at his log to check speed limits and braking, they found he hadn't been anywhere near the location cited.

Giles Margerison, head of UK sales for TomTom, says fleet managers need to emphasise that sort of positive usage in order to get drivers to "buy in".

All the more frustrating, then, that the one measurement his company has yet to perfect is a positive one showing when people are driving safely, smartly and efficiently.

"The rising importance of fleet is not short-term," says Jato's Mr Hession. "Manufacturers have high levels of production, and they need to find a place for output. So they need fleet to keep factories open."

"That could affect the fleet market – and it's a concern," he says.

Even if the sector is hit in a new downturn, analysts say that it is likely to con-

The bright spot for a nervous global automotive industry

Continued from Page 1

company cars across Europe's main markets reduced their CO₂ emissions by 7 per cent between 2008 and 2010.

Company fleets, especially those with short and predictable routes, are logical first adopters of a new crop of plug-in hybrid and electric cars.

Companies involved in building infrastructure for electric cars, including General Electric in the US and EDF in France, are among those lodging some of the biggest early orders for them.

But some fleet managers are not convinced, and say the cost-benefit calculations for plug-in cars do not add up yet.

Tesco, the UK's largest supermarket chain, has committed itself to an ambitious halving of its vehicles' CO₂ by 2012 to meet corporate social responsibility goals and cut costs. However, as its fleet chief told the FT, most of that reduction will come from managing its fleet more effectively, driver training, and measures to cut fuel use.

The company has tested electric and gas-powered vehicles, but found them wanting in range and payload.

As worries grow over the eurozone crisis, it is an open question whether the fleet industry's good times will keep rolling.

LeasePlan's Mr Daemi predicts more consolidation, as banks that own fleet management companies consider whether to downsize their portfolios. Recession, he adds, could affect second-hand car prices and lead to a rise in bad debt among customers.

"That could affect the fleet market – and it's a concern," he says.

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Skittish US operators begin to buy again

Trucks

In spite of good reasons to place orders, operators are spooked by the economy, writes **Bernard Simon**

The economy is heading south. New trucks are in short supply, and so are drivers to operate them. Costs have risen steeply. Could this possibly be a good time for US fleet owners to replace their vehicles?

Until recently, the answer for many has been no. The average age of the US heavy truck fleet has lengthened from six years before the last recession to 6.7 years now, according to Indiana-based ACT Research, an industry consultancy.

"It's as old as it's ever been," says Kenny Vieth, ACT's president, noting that the average masks the reality that the oldest vehicles on the road are now about 18 months longer in the tooth than they were four years ago.

Noel Perry, principal of Transport Fundamentals, a Pennsylvania-based consultancy, explains that "even though the marketplace is pretty good right now, [fleet owners] are still being bombarded by news of how poorly the economy is doing. They're shy about expanding."

Nonetheless, some have begun to reconsider. "Everything together just makes it a better time to purchase right now," says Joe Fiorelli, safety manager at Gulfeagle Supply, a distributor of roofing and building products based in Tampa, Florida, which operates a 300-unit fleet. Gulfeagle recently bought 23 new trucks.

One reason for the change of heart is that an ageing fleet creates a series of problems for truck operators.

Older vehicles invariably mean higher maintenance costs. According to Rob Stowers, senior vice-president in the truck division of PHH Arval, a fleet-management consultancy, "controlling expenses is the biggest cause of loss of sleep" among PHH customers.

Bottlenecks at some critical parts makers have disrupted truckmakers' production, causing long delivery delays. Paccar, the Seattle-based maker of Kenworth and Peterbilt trucks, has singled out tyres and chassis components among those in short supply. Used-truck prices have risen sharply.

Speaking in early October, Mr Fiorelli said he doubted that he could order a new truck and take delivery before the end of the year.

According to Mr Stowers, "if you wait for [a truck] to break and then try to replace it, you're hard-pressed to find a replacement vehicle".

On another front, the US Federal Motor Carrier Safety Administration (FMCSA) implemented strict new rules last December that require heightened awareness of drivers' performance and the condition of vehicles.

Under the new rules, drivers and carriers accumulate points – and ultimately penalties – for infractions, big and small. Missing marker lights have been one of the main violations. National-security laws have put trucks carrying hazardous materials under especially heavy scrutiny.



Stacking the odds: gas-powered and electric vehicles still have to prove themselves, but for now the key to ambitious carbon-cutting targets is reducing diesel use

Tesco The supermarket chain puts its vehicles and drivers on drastic 'F Plan' diet

Tesco, Britain's largest retailer and one of the world's largest supermarket chains, has a fleet of vehicles commensurate with its size, writes **John Reed**.

In the UK, it operates 1,600 tractor units and 2,800 home delivery vans. Tesco says its British secondary distribution alone covers the same mileage every year as 377 round trips to the moon. On a daily basis, the fleet's mileage would circle the earth 20 times, the company boasts.

But Tesco – like most other big companies in all sectors – is aiming for superlatives of another kind, as it seeks to cut costs and to reduce the environmental footprint of its fleet.

The company says that its carbon reduction initiatives have saved 83m miles worth of trips. As part of its corporate social responsibility goals, Tesco aims to be carbon-neutral by 2050, and to cut its carbon emissions on its deliveries 50 per cent by

the 2012-13 financial year, compared with 2006-7.

Alex Laffey, Tesco's network development director, says the company's focus on stringent environmental goals is no gimmick – although he is also clear in stating that cutting CO₂ also helps the bottom line. "Reducing carbon reduces cost," he says.

Like other big fleet operators committed to cutting CO₂, Tesco has tested alternative vehicles. For its home-shopping fleet, it has done road trials on electric and gas-powered vehicles. In commercial vehicles, it has tested dual-fuel vehicles that switch between diesel and compressed natural gas (CNG).

However, in the case of gas-powered vehicles the company has struggled with the lack of supply infrastructure. It considered putting in gas stations at its distribution centres, but concluded that the cost of installation was too high.

For electric vehicles, it has grappled with range, infrastructure, and performance issues.

"The challenge we've got is that you're always trading off payload for the privilege of using these technologies," says Mr Laffey.

"We've got a lot of work to do to make these [vehicles] sustainable and cost-effective." Tesco's progress in moving toward its CO₂-reduction target, he says, comes down to reducing the amount of diesel it uses.

Tesco refers to its carbon commitment internally as the "F Plan", shorthand for its push for fuller pallets, fuller trucks, fewer miles, and greater fuel economy.

For example, the company has boosted its use of double-deck trailers, carrying 80 per cent more than a conventional single-deck trailer at just a 20 per cent higher cost. Tesco now runs more than 600 of them, the largest fleet in the UK, it says.

The company has shifted more of its goods to trains, running three a day, six days a week. It aims to increase the number to 10 by the end of the financial year.

Tesco is also investing heavily in technology that provides the exact weight and size of every product, so vehicles can be filled more accurately.

In a further attempt to cut fuel consumption, it is relocating depots to the optimum location for the stores in their region.

Overseas, where Tesco operates in 14 countries, its international businesses are also leveraging the group's scale and skills to cut costs.

In Thailand, for example, the chain is rolling out a transport management system that it expects will save 8,600 tonnes of CO₂ in 2011-12.

The fleet, like many of its competitors, is also focusing on human factors by looking at driver behaviour.

The company uses

Mercedes-Benz's FleetBoard system to score drivers on how well they are performing in terms of fuel consumption, and to highlight fuel-wasting practices such as revving the engine at lights.

Additional driver training has also increased efficiency by 8 per cent in miles per gallon terms, the company says.

"Our drivers are very professional and proud of what they do," Mr Laffey says.

But the company also expects its effect on the environment to be influenced by other factors, – such as its rivals. It is also braced for an economic slowdown. "Conditions are tough and our customers are telling us they're finding it tough too," the company says.

So saving every drop of diesel is vital.

And on that count, Tesco looks to be motoring along: Mr Laffey says the company is "on track" to meet its carbon commitment by the end of the financial year.

like the shortages will be sustained for two to three years", Mr Perry says.

In particular, he cites the impact on productivity of another set of FMCSA proposals, known as hours-of-service rules, that would tighten limits on drivers' working hours.

The most contentious provision would require drivers to complete all work-related duties within 13 hours instead of the current 14, curtailing the time they can spend behind the wheel. The final rules are expected soon.

For the time being, fleet owners not only have a string of incentives to buy new vehicles, but also the wherewithal. According to Mr Vieth, freight rates are still climbing and corporate profits are buoyant.

Mr Stowers adds: "We advise our customers to understand what the optimum replacement time is for each class of vehicle, and we encourage them to stick to it regardless of the economic situation." The only exception would be unusually low usage.

Truck owners have access to a growing array of electronic and wireless monitoring devices to improve efficiency and hold down costs.

Telematics technology has traditionally been used mostly to streamline delivery schedules and track driver performance, but is now increasingly used to prevent breakdowns and parts failures. Consolidation among hardware and software suppliers is helping

"We advise our customers to understand the optimum replacement time for each vehicle, and to stick to it regardless of the economic situation"

accelerate the introduction of more sophisticated but also more streamlined systems.

Mr Stowers predicts that truckmakers will increasingly incorporate telematics devices into vehicles.

It is by no means certain, however, that fleet owners will heed advice to keep buying vehicles in the face of a softening economy.

Mr Stowers estimates that the average cost of a rig has climbed from \$75,000 to \$110,000 in the past seven years, mainly because of tougher diesel emissions standards that took effect in 2007 and this year.

According to Mr Fiorelli at Gulfeagle, "it costs money to go green. Most companies are still most concerned about red and black."

ACT has twice in recent months cut its estimate of North American production of big Class 8 rigs in 2012. In early October, it projected output of about 290,000 units, up from 251,000 this year and still well above the 2009 trough of 118,400 units.

But the latest estimate is 12 per cent lower than its forecast earlier this year. If the economy continues to sputter, fleet owners' fear of slowing freight volumes – and consequently lower rates and shrinking profits – is likely to trump advice from outsiders to keep buying new trucks.

Positives start to outstrip negatives

Electric vehicles

Utility is replacing image as the main reason to buy, says **John Reed**

After years of small pilot programmes – accompanied by a large amount of hype – electric and plug-in hybrid vehicles are finally entering company fleets.

Vehicle manufacturers see fleet operators, which tend to lodge larger orders and take a longer view on running costs than retail buyers, as core customers for their new-generation battery-powered vehicles.

Many fleet managers, in turn, want plug-in cars and vans in their line-up – whether to test the new technology, cut costs and carbon dioxide, or just feature pictures of them in their corporate sustainability reports.

Regulators around the world are easing the path of electronic vehicles (EVs) to market by offering a range of subsidies to early adopters, such as the UK's £5,000 plug-in car grant or France's top €5,000 bonus.

Companies are anticipating a further boost to vehicle electrification from city governments implementing low-emission zones.

But fleet managers are tough customers, not least during an economic downturn. So automakers are fine-tuning their pitches, increasingly touting EVs as value propositions, not just showpieces for corporate window-dressing.

"Until now, lots of people bought electric vehicles for presentational reasons, and made a big song and dance

about them," says Andy Heiron, head of Renault's EV programme in the UK. "Now, we are getting very business-oriented questions about payloads or fitting them out with racking, motivated by a genuine desire to get them into fleets."

Renault has moved aggressively into EVs, along with its partner Nissan. In mid-October, Renault began taking orders in the UK for a battery-powered version of its Kangoo small delivery van.

The French manufacturer plans to sell the van in three versions, ranging from about £17,000 to just under £19,000, excluding VAT, a price in line with comparable diesel vehicles, it says. To cut the van's cost, Renault will lease its battery to customers, beginning at a starting price based on a four-year contract of £60 a month.

Renault says it has signed letters of intent with potential customers including Transport for London, the leisure group Center Parcs, and Morrison Construction, a civil engineering group.

Steve Farmer, manager of

the fleet division at Balfour Beatty, the construction and engineering group, describes the vehicle as a "great van" which, in addition to zero tailpipe emissions, has a 600kg payload.

"Our customer base is very sophisticated and very sensitive around what its contractors and supply chain are doing to protect the environment," says Mr Farmer. "The ultimate ambition is to get as close to zero [emissions] across the fleet by 2020 as we can."

Ford Motor is marketing an electric version of its similar-sized Transit Connect van. Azure Dynamics, Ford's partner, which fits the vans with motors, batteries and electronics, is selling it for just under £40,000, batteries included.

While the price is steep for a vehicle of its size, Azure Dynamics is touting its low running costs. "This vehicle will cost £2 a night to charge", says Gary Whitam, the company's sales and marketing director for Europe.

Mr Whitam divides buyers of the van into three groups: "The first customers are those who have a

'green' ethos from the managing director down, with a commitment to reduce their carbon impact," he says.

A second group, he says, is concerned about rising fuel prices. "A third group of people don't have a green bone in their body," he says, but if they want to operate the vehicle in the centre of Rome or Oslo a green vehicle will be better.

About 300 electric Transit Connects have been sold around Europe, he says. General Motors, which will launch the Opel/Vauxhall electric Ampera car next year – a Europeanised version of its US Chevrolet Volt – is counting on fleet customers, including the public sector, to outnumber retail buyers three to one.

"It's almost like a new segment," says Ian Allen, launch manager for the car. He expects about 3,000 to 3,500 units of the US-built car to hit the UK in 2012, rising to 5,000 in subsequent years.

The utility companies – which are also moving into EV recharging – will be among the biggest early customers for the cars. EDF, the France-headquartered power group, has tested plug-in cars made by Renault, Toyota, PSA Peugeot Citroën and BMW, and plans to buy 2,500 cars for its fleet by 2014-5 under a mass 50,000-vehicle tender led by the French post office.

"We have a role to play in the electric mobility business," says Igor Czerny, head of EDF's electric mobility division. "We think the trend is irreversible – that's why it's a corporate project."

insisting they be assigned to newer vehicles.

On the plus side, Mr Stowers says that the new regulations have helped improve driver behaviour, offsetting the extra administrative burden.

Keeping drivers happy has become a high priority for fleet owners. Truck drivers are in short supply because of factors including new FMCSA regulations and youngsters' reluctance to make truck-driving a career. "It looks

Car campus Bringing electric power to the people

General Electric's fleet management arm is converting part of its campus in Eden Prairie, a suburb of Minneapolis, into a tangible demonstration of the industrial and financial conglomerate's faith in electric vehicles, writes **Bernard Simon**.

If all goes to plan, the site will be transformed by next spring into a half-mile driving course and a two-storey building, including 12 garages. One car port will be equipped with solar panels to show that electric cars can be entirely powered by clean and renewable energy.

GE plans to invite up to five corporate customers to the centre each week to discover for themselves the joys – and perhaps also sorrows – of plug-in vehicles such as the Chevrolet Volt, with its petrol-engined range extender, and all-electric models as the Nissan Leaf, Coda and the battery version of Ford Motor's Transit Connect light delivery van.

"We're really focusing on electric vehicles. We're very excited", says Deb Frodl, chief strategy officer at GE Capital Fleet Services. "It's so important that people touch the technology and really experience it."

GE is something of an exception, as individual and fleet buyers have so far been slow to embrace the new technology. A recent Deloitte survey concluded that the current crop of electric vehicles would meet the expectations of no more than 2-4 per cent of consumers worldwide in terms of range, cost and recharging time.

Even so, GE's opinion is not to be taken lightly. It operates a 30,000-vehicle fleet of its own, and provides fleet-management services for 1.5m cars and trucks owned by other companies. It has sufficient clout for some carmakers to have agreed to donate vehicles to the new "customer experience and learning centre" in return for exposure to GE customers.

The conglomerate pledged last November to buy 25,000 electric vehicles by 2015 for its own fleet and for its customers. That figure is more than double the Chevy Volt's total sales target for this year.

GE, whose fuel costs ballooned by 20 per cent in 2010, expects that electric vehicles will make up half its own fleet by 2015. Ms Frodl estimates that the average fleet driver, travelling more than 20,000 miles a year, can save about \$1,300 in a plug-in hybrid using a 50-50 combination of gasoline and electricity. The savings could rise to \$2,000 a year in an all-electric vehicle.

By early October, GE had taken delivery of 110 Volts, and expects to have several



Clean machines: GE shows the way

hundred more on the road by the end of the year. Employees who have driven them "absolutely love the vehicle", says Ms Frodl. "They love the technology."

While both the Volt and the Leaf are plug-in electric cars, the Leaf is powered entirely by a battery with a range of about 100 miles before it needs recharging. The Volt runs on battery power alone for 40 or so miles. After that, a small petrol engine runs simply as an generator to charge the battery, giving a total range before refuelling of about 340 miles.

For fleet and individual customers alike, "range anxiety" is one of the biggest obstacles to widespread acceptance of electric cars, especially given the initial scarcity of battery recharging stations.

GE has so far ordered only Volts for its US sales force, who each typically drive about 85 miles a day. Ms Frodl says: "We decided that the Volt was presently the best fit for GE and our drivers."

GE offers fleet customers a turnkey electric-vehicle service that includes buying the cars, installing the necessary recharging infrastructure and collecting data on driver and vehicle performance.

Other GE divisions supply much of this equipment. For example, GE sells a battery-charging unit, known as the Wattstation; it has so far installed 600 in the US and 150 in Europe. Other GE products include circuit protection equipment and transformers. Not surprisingly, these items will also be on display at the Minneapolis centre to help drum up new business.

Much of the data supplied to fleet customers comes from OnStar, a General Motors vehicle information service that is standard equipment in the Volt.

Employees are encouraged to drive fleet vehicles as carefully as their family car by allowing them to buy the company car after a set period. GE sells 10-20 per cent of its used fleet cars to its own employees.



Kangoo: leased batteries mean a low van price

MORE ON FT.COM

Read FT car columnist Rohit Jaggi's reviews of the Chevrolet Volt and Nissan Leaf in his column on September 28 www.ft.com/wealth

Fleet Management

BMW has to show it can go the distance

London Olympics

A dream deal could still turn into a nightmare, writes **John Reed**

BMW is gearing up for the sponsorship deal of a car-maker's dreams: providing the transport fleet for the London 2012 Olympic Games.

The German carmaker will provide a diverse range of vehicles to ferry athletes, International Olympic Committee members, media, and medical staff around venues next summer at the world's largest sporting event.

Over the past decade, BMW has embraced environmental responsibility as a core value, cutting its cars' carbon dioxide emissions more aggressively than any other big manufacturer.

Last year, it launched a sub-brand devoted to "sustainability" that is due to launch two cars: one all-electric, and one plug-in hybrid.

That helped BMW eclipse Nissan's bid to meet the IOC's demanding brief to supply transport for what are being billed as the greenest-ever Olympic Games.

While BMW is best known for its high-torque executive saloons, the 2012 event will allow it to showcase its lower-emission cars and two-wheelers.

The fleet will include electric, diesel and hybrid cars, motorcycles, bicycles, and a brand-new product: the Pedelec, an electric-assisted bicycle that can fold to fit in the boot of a car – or be taken on public transport.

"What the Olympics gives us on the world stage is a great chance to showcase what the group is doing on sustainability," says Tim Abbott, managing director of BMW in the UK.

But if sponsoring the London 2012 Olympics sounds like a dream, the logistics of organising a city that suffers severe transport congestion even on normal days could prove a nightmare.

On one day alone – August 2, the middle Saturday of the Games – about 240,000 people are expected to be travelling through London. That is about two and a half times the number who travel on match days to Wembley Stadium, when some Londoners avoid driving or public transport.

Transport planners say they are counting on as many as a third of Londoners changing their travel patterns in order for the Games to go smoothly.

But if the congestion turns to chaos, could there be a negative effect on for BMW's brand image?

There has already been considerable criticism of the prospect of traffic lanes reserved for official BMW vehicles, with other vehicles forced to wait in longer hold-ups than usual.

BMW refers questions



Two-way bet: however well local sports stars perform in the games, BMW will get exposure

about the logistics of the fleet to the organising committee of the London games, which says it is working through details of the use of the fleet during the games.

"Our priority at the moment is recruiting enthusiastic and knowledgeable volunteer drivers and developing appropriate plans for training them," it says.

"We are also working on detailed plans for facilities to look after our drivers and supervisors during the Games, as well as maintenance facilities for the vehicles."

BMW's Olympic line-up will have as its workhorse the new 3 Series diesel – nearly 2,000 of them. With CO₂ emissions of just under 109g/km, the car sits well within the IOC's criteria of a fleet average of 120g/km.

To get to sites outside London – Weymouth for sailing, Manchester for foot-

ball – Olympians will need vehicles suited for longer hauls on the motorway, a job ideally suited for diesel-engined vehicles.

However, bigger cars with ample boot space, to move around dignitaries or media with lots of equipment, will also be needed. So the fleet

'This is a chance to showcase what the group is doing on sustainability'

will include 750 larger F Series cars too.

For shorter hauls, BMW will also deploy 200 electric vehicles: 160 plug-in versions of its 1 Series and 40 electric Minis. With a range of about 100 miles, the cars, it says, will mostly be used within London.

The Games' organising committee has also taken

delivery of the first 100 of about 400 bicycles, which BMW says will be used in places such as Dorney Lake outside Windsor, where rowing events will be held.

In addition, motorcycles will be used at marathon running races and cycle road events around London, and some may also be adapted for use by medical teams.

"No glove fits all solutions," Ian Robertson, BMW's head of sales and marketing, said in July.

If the carmaker has concerns about a brand backlash from testy Londoners, it is not sharing them.

It says it will make sure all the drivers the Games' organising committee recruits are well trained in how the vehicles work.

"Most Londoners say this is great for the city," Mr Abbott says. "It's about delivering a seamless Games to the world."

The case for car clubs and short-term hire

Guest Column

PETER COOKE

Do you need to take the car to the office on the off-chance you may need it during the day – or might a car club save you the chore?

The end of taking the car to work – whether a private or company-provided vehicle – could have several benefits.

They include less congestion and less pressure on parking. The company would benefit by avoiding expensive assets occupying expensive parking space and burning company fuel.

Given an ideal scenario, the absolute number of cars provided and supported by companies may decline over time.

The catalyst for such change could be the growth of the car club and short-term hire car. Where such schemes are available, companies are enthusiastically subscribing to them and savings are being reported.

In the UK, Surrey County Council has linked with Streetcar and reported a 26 per cent reduction in cost per mile driven by the local authority. Elsewhere, Arup, the construction consultants, joined a car club and slashed the cost of pool cars from £17,000 to £5,000 in the first year.

Car club schemes do have a downside. There is a high start-up cost: vehicles need to be parked, maintained and fuelled.

Users have to be recruited and a critical mass of regular customers is needed for schemes to be viable. Equally important, there need to be acceptable alternative means for employees to get to and from work.

Not every urban locality is suitable for car club type operations. Daily

rental companies and taxi operators may not be enamoured with such new competition.

The factor critical to the success of car clubs may well be the associated technology systems and use of smartphone technology to give access to the vehicles in the scheme – not only in terms of identifying location and availability of cars, but also giving the scheme member access to the vehicle and securing it after use.

The technology is becoming increasingly sophisticated and more user-friendly.

Car-club-style schemes principally offer small, low-emission or electric cars suitable for urban use. Thus operators may use



'Technology is critical to the success of car clubs' - Peter Cooke

Smart cars, Minis or small BMWs.

Short-term rental schemes are being tested in a number of cities in Europe, North America and East Asia.

A car-sharing model in Munich, Germany, has been developed between BMW and Sixt, the vehicle rental company. DriveNow, was launched in April and is expected to be launched soon in Berlin.

If successful, it may be rolled out internationally. The scheme offers exclusively BMW products and users have great flexibility in hire and drop off. BMW i Ventures, a BMW sub-brand, allows users to find vehicles via the internet, a smartphone app or at the roadside – no advance booking is needed.

Another scheme was recently launched in Paris based on specially built

electric cars. The Autolib scheme is a programme financed by local authorities, but with the vehicles provided by French conglomerate Bolloré, which has spent \$1.5bn over the past 15 years developing the batteries for the cars.

Paris and some of the surrounding communes have provided more than \$267m to create the infrastructure, such as parking spaces and, recharging points. The designated parking spaces will occupy the equivalent of 12.5km in an already parking-poor city.

The operator pays the local authority €750 per parking space but takes all the revenue. About 80,000 regular subscribers a year will be needed to cover costs. The Paris scheme is planned to rise to 3,000 rental units by 2013.

Subscriptions generally work with a base monthly or annual fee and then a fee per half hour, hour or day.

Are such schemes good value for money? For the providers they are high-risk and potentially high-reward. The can generate a new source of revenue from vehicle operation rather than provision.

Such innovative schemes may offer different facilities and modus operandi to start with, but over time a preferred model may emerge.

The next challenge will be whether such services are better implemented with a single scheme per city, rather than a number of rivals.

Corporate and individual consumers will decide their fate, but such schemes could just be the future of at least part of the business car fleet.

Peter Cooke is Professor of Automotive Management at the University of Buckingham



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