Fleet leasing: cracking the Brazilian market

Colin Tourick on auto finance post-Brexit
Introduction

Welcome to the latest edition of our Asset Finance Pricing Review, published in association with Asset Finance International

I was talking with a colleague the other day about recent political events, namely Brexit and Trump’s shock election. It reminded me of an expression used by an orthopedic surgeon: “Sometimes you have to break a thing before you can fix it”.

He was referring to badly healing bones that are re-broken and reset so they can heal correctly. A similar expression is used in technology and it refers to a system (particularly software) that has become so impaired over time it cannot be fixed without first being destroyed.

It seems something akin to this is happening within political systems throughout the world. While many people reel in shock at what’s happened, others anticipate change and see the result of these events as the answer to a desperate cry from hard working citizens whose incomes have risen little in recent times but who feel pinched financially at every turn.

Nowhere is this truer than in emerging markets like China and Brazil. These countries directly benefit from US consumer and corporate investment. A 1% increase in US GDP in 2017 translates into an additional 0.6% growth rate for emerging markets. A better US economy is, therefore, better for Brazil. The World Bank is predicting growth of this nature because of an expected fiscal stimulus in the US sometime soon.

So, in this issue, we shine the spotlight on the Brazilian fleet leasing market, which surprisingly shows great potential if key parties shift their focus in the same direction. And this includes the government, manufacturers, leasing and technology providers. This is where potential now lies and Nigel Carn’s article, which you can find on page 7, makes for an interesting read. Business confidence is growing, Brazil’s economic recession is over and interest rates are coming down, which provides fertile ground in which to nurture new ventures (with the support of political will and openness to cultural change, of course).

On the same theme (starting on page 3), Professor Colin Tourick shares his views about what happens next, post-Brexit, to the asset finance industry and the future of international trade in Europe. The UK hasn’t left the European Union yet but is already experiencing the development of winners and losers to the deal.

Setting up a Brazilian fleet management operation is no easy task but it’s a challenge many European and multinational organizations (such as Fleet Logistics) are taking on. Starting on page 13, marketing specialist Mike Gunnell outlines the challenges faced by fleet operators entering the Brazilian market.

Then on page 16, we have a roundup of key auto finance industry news stories around the world. We take a look at cyber security, US’s adoption of connected vehicle technology, the EV market, concerns over new emissions tests, VW’s new mobility services company and Volvo and Autoliv’s new joint venture.

As ever, we end with Experteye’s report on residual forecasts and market summaries - interestingly this time looking at the effects of the downward cycle in residual values (RVs).

Do enjoy, and your comments and opinions are always welcome.

Gary Jefferies
Sales and Marketing Director, Bynx
The asset finance industry and Brexit: what next?

The UK’s negotiations to leave the European Union are set to dominate the opening months of 2017 and well beyond. Professor Colin Tourick, Professor of Automotive Management at the University of Buckingham and a 35-year leasing industry veteran, takes a look at what a post-Brexit future holds for the auto finance industry.

I believe that before commenting on the possible economic and business impacts of Brexit it should be incumbent on every writer to point out their personal views on the topic. Therefore, in the cause of full transparency, I am happy to declare that I voted Remain, was shocked when the results were announced and am secretly hoping I’ll wake up soon and will discover that this has been a bad dream. It wasn’t that I thought that the EU is a great organisation – it manifestly has many faults. It was just that I felt that we would do better remaining within the club and trying to reform the rules to the benefit of all, rather than being on the outside and still have to play by their rules in order to continue to enjoy the benefit of trading freely with them.

The current position is that we have had to get used to a new reality – “Brexit means Brexit” – though at present nobody has any real idea what the outcome will be for the UK, the EU or indeed the UK’s trading relationships with the rest of the world. The UK government has been quiet about its negotiating position, though they have told us that they want to have control of borders, money and law and to be able to do free trade deals.

The Referendum result suggests that the average British voter probably wants the right to move freely within the EU and to be able to live wherever they wish without too much formality. They don’t want UK businesses to lose access to European markets or be treated unfavourably, or UK law to be set in Brussels. They want to limit the number of EU citizens who can come to work in the UK, but would also like us to remain on friendly terms with our continental neighbours, co-operating fully on matters such as defence and security. They certainly want us to be able to sign trade deals with whomsoever we wish, on whichever terms wish, and to be free to introduce enticing corporation tax arrangements to encourage inward investment, whilst setting our own rules to make it easier and cheaper for UK businesses to operate.

International trade

Sadly, we aren’t going to get this. The EU won’t give it to us because from the date we leave the EU we will no longer be a member of their club. Instead, we will be competing with them.

International trade isn’t a zero-sum game. It isn’t the case that if they make it easier for us to flourish they will lose £1 or €1 for every pound or euro we gain. International trade doesn’t work like that: free trade generally benefits everyone. But every time a non-EU company builds a factory in the UK rather than inside the EU, it is likely that EU politicians will be criticised about the loss of inward investment and be prompted to act by offering attractive subsidies. And, of course, if they give us an easy ride they worry that other countries might decide that they want to leave the EU too.

The UK government seems to recognise this and the foreign secretary has started talking up the possibility of paying for access to the single market. This could be the face-saving compromise that breaks the logjam but it remains to be seen whether this idea will gain traction.
Brexit reaction

Since the 23 June vote we have seen a sharp reduction in the value of Sterling, a sharp rise in the FTSE 100, a substantial injection of cash into the economy by the Bank of England, a small reduction in interest rates and a reduction in the country’s credit rating. The growth in the value of the FTSE 100 has largely been driven by overseas investors ploughing into UK shares at bargain prices as a response to the fall in Sterling, and UK investors ploughing in because most FSTE 100 company profits are generated outside the UK and will now be worth more when they are remitted back to the UK or reported in group accounts.

So, against this background, the question for us to ponder is how all of this will this affect the asset finance industry.

The main driver of the success of the UK asset finance industry is GDP. This had been riding high before the referendum and is still holding up, though the independent Office for Budget Responsibility has reduced its GDP forecast.

Low oil prices have helped keep the UK economy buoyant but this is about to change, because of the fall in the value of Sterling but also because of OPEC’s decision to cut production to boost prices.

Low interest rates help keep the economy on track, but the UK’s debt mountain is still growing and there is a limit to the amount that any government can borrow at low rates, making one wonder whether at some point rates will have to rise.

Bumpy road

It is not in the interests of the EU to impose terms of trade that are so onerous that they drive the UK into a recession but there is no question about it, the outlook is going to be bumpy.

It's also going to be patchy, with winners and losers.

Exporters are discovering renewed demand for their products following the decline in Sterling. It is likely that these businesses will continue to invest and will be looking to the leasing industry for funding.

Companies that supply goods or services to UK buyers in direct competition with US or EU companies are finding that the decline in Sterling has boosted their competitiveness. Sterling has risen in recent weeks against both the euro and the US dollar but is still 15% down against both currencies compared with 12 months ago. This could encourage UK manufacturers to grow.

Take car manufacturers, for example. UK car manufacturing has been a real area of export success and – depending on the deal we get from the EU – we could well find that car exports boom if Sterling remains relatively weak, whilst sales to the domestic market will also grow as these cars come to look cheaper than imported models.

However inflation is likely to rise because we import so much, and this is likely to trigger wage pressure, which will hit labour-intensive businesses disproportionately hard.

UK vehicle leasing and motor finance companies have enjoyed very good trade in recent years, driven by growing demand for operating leasing (contract hire), PCP and salary sacrifice for cars. The prospects for growth in salary sacrifice were dented by the Chancellor in the Autumn Statement. The profitability of leasing and motor finance companies has held up well because used car prices have been strong, but prices have been weakening and if this continues it will hit profits. It will also increase the prices payable by clients entering new contracts, which may
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Generally speaking, if you pull one of these levers it will have a modest effect on your bottom line. You can often generate a much bigger impact, with much less disruption to the business, by changing your pricing policy. If you can implement a successful pricing change you will improve your volumes and margins simultaneously, with little disruption and at little or no cost. Do it successfully and you will enjoy the benefits immediately, without generating a negative response from staff or clients. Pricing is the most powerful lever of profit.

In previous Pricing Reviews we have looked at the steps that asset finance companies have taken to develop their businesses and in particular how they have improved (or might improve) their pricing. In this article we will move beyond that and set out an action plan for asset finance companies that want to improve their pricing. The steps to follow are: diagnosis; decision; preparation; get buy-in; trial; implement and monitor.

1. Diagnosis

First, have a look at the way business is priced at the moment. How are prices calculated? Is it done centrally or by individual salespeople? What insights are gained from the market to help guide pricing? Have a look at the range of prices quoted for the same type of business to the same type of customer; are they similar? If there is a wide variation you have prima facie evidence that something is going wrong. Which customers get the lowest prices and why? What costs are incurred as a result of discounting or other giveaways, e.g. giving away costly contractual points during the negotiation? Do the most valuable clients get the biggest discounts? When pressed by a

Planning ahead

Whilst we don’t know the likely outcome of the negotiations, and what opportunities the UK will find outside the EU, it is very clear even now that whilst some parts of the economy will benefit from Brexit, others will be disadvantaged.

At the very least, asset finance companies should now be identifying the likely winners and losers post-Brexit. Which sectors and companies are going to grow and which are going to struggle? Where should you be focussing sales activity and where should you be tightening credit criteria?

The referendum rendered many companies’ business plans redundant. Now more than ever, lessors need to get close to their clients, review those clients’ business plans, make sure they have really been thought through and check they make sense given the new reality.

Professor Colin Tourick
University of Buckingham
The fleet market in Brazil – a rollercoaster ride

Nigel Carn, author of Asset Finance International's country reports, takes a look at the finance and pricing challenges facing the vehicle leasing and fleet markets in Brazil.

There are around 40 million vehicles registered in Brazil, and the latest figures for new registrations make it currently the seventh largest automotive market in the world. At first glance this ranking looks good for what is the world's ninth largest economy, but just three years ago Brazil's automotive market was the global number four, behind only China, the US and Japan, and larger than any in Europe.

The recent decline in Brazil's auto market has been sharp and relentless, sharper even than in the overall asset finance sector where values have been plunging since the onset of the global financial crisis, and much like the slump in the national economy. However, in the vehicle sector at least there are finally signs of better times ahead.

At first glance, the signs are not encouraging. Figures from the national automakers' association, Anfavea, give a total of 3.8 million new vehicle registrations in 2013. In 2014 and 2015 the number declined by 7% and 27% respectively, and the January-October 2016 total was down a further 22% on the same period a year earlier – so if this rate of decline continues the grand total of new vehicle registrations in 2016 will be not much more than half the 2013 figure.

And according to the Brazilian Association of Leasing Companies (ABEL) year-on-year changes in the value of vehicle finance for personal customers came in at -4.4% in 2014, -12.8% in 2015, and -13.8% in H1 2016.

This slowdown has meant there is now 40-45% idle production capacity in Brazil's automotive industry.

However, one glimmer of light is that passenger car registrations picked up by 1.3% in October 2016 compared with the preceding month. This is welcome news following a bleak first half, which was down 25% on H1 2015.

Forecasts for further growth, albeit modest, are being made by the industry. At the November 2016 São Paulo Auto Show, automotive insiders cautiously predicted single-digit increases for cars in 2017 – the first upturn in sales for five years – enabled by the anticipated end of Brazil's economic recession. Business confidence is starting to grow, helped in October by the first reduction in interest rates in four years, a signal of intent from the Central Bank of Brazil even though the benchmark rate is still an eye-watering 14%.
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ANEF is the national association of auto finance companies for cars, commercial vehicles and motorcycles, and provides a good overview of financial values for the sector, including leasing. ANEF’s members are: BMW Leasing do Brasil, CNH Industrial (Banco CNH, Iveco Capital), FCA Group (Banco Fidis), Banco Fiat, Banco Ford, Banco GMAC, Banco Honda (Honda Leasing), Banco Mercedes-Benz do Brasil (Mercedes-Benz Leasing Brasil), Banco PSA Finance Brasil, RCI Banque (Banco RCI Brasil), Scania Banco, Banco Toyota do Brasil, Banco Volkswagen, Banco Volvo Brasil, and Banco Yamaha Motors.

According to ANEF’s report covering Q1-Q3 2016, the total balance of the portfolio of loans and leasing finance on private and company vehicles at the end of September 2016 totalled R$165 billion (US$51 billion), down 13% on the same period a year earlier.

Of that R$165 billion, loans comprised 97%, with leasing accounting for just R$4.7 billion (US$1.4 billion). From end-September 2015 to end-September 2016 loan values declined by 13% and leasing fell 28%.

Balance of vehicle finance portfolio (R$ billion)

<table>
<thead>
<tr>
<th></th>
<th>End-Sep 2015</th>
<th>End-Sep 2016</th>
<th>Change y-o-y</th>
</tr>
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<tbody>
<tr>
<td>Leasing</td>
<td>6.5</td>
<td>4.7</td>
<td>-27.7%</td>
</tr>
<tr>
<td>Loans</td>
<td>183.8</td>
<td>160.6</td>
<td>-12.6%</td>
</tr>
<tr>
<td>Total</td>
<td>190.3</td>
<td>165.3</td>
<td>-13.1%</td>
</tr>
</tbody>
</table>

Source: ANEF

In terms of customer split, at end-September 2016 91% of loans by value were to individuals and 9% to companies, whereas 70% of the leasing total went to companies and 30% to individuals.
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Mixed views

Asset Finance International approached leasing experts across the vehicle sector in Brazil for their insight on the state of the market, and they provide different perspectives on the importance of the company car market – and differing interpretations of the statistics.

From the dealers’ viewpoint Alarico Assumpçao Júnior, president of Fenabrave, states: “The car and light commercial vehicles market in Brazil had a high leasing element in its sales in the past, but due to tax and operational reasons leasing has become operationally unfeasible and its current sales financing participation is very low.”

Manuel Messias, head of Fleet Management at Volkswagen Financial Services Brazil, says company cars represent around 10% of the market, with anticipated compound annual growth of 4% over the next five years, according to analysis by consultants Frost & Sullivan. “The company car market as well as the retail market (private car leasing), are important sales channels,” he says.

Eduardo Varella, CEO of BMW Financial Services Brasil, describes the policy among large companies of offering a car benefit to top executives, “usually given as a cash allowance that the executive can use with the sole purpose to buy, finance or lease a car.” He stresses, as does Manuel Messias, that the focus in Brazil is on finance leasing and not operating leasing.

And a different view to that of Fenabrave is given by Alexandre Valadão, head of New Business at ALD Automotive’s Brazil subsidiary, who comments: “The company car market is becoming more representative as a share of new car sales in Brazil. In recent years, it represented less than 10% of annual sales; however, due to the slowdown of the economy, this share represents almost 20% of the total sales in 2016.”

Challenges facing the market

There was a post-crisis trend amongst Brazil's banks in consolidating their services, which led to a tendency to reduce financial offerings through leasing subsidiaries in favour of straight loans, thereby encouraging outright purchase over leasing. This certainly affected the private car market, and was supported by the government in its attempt to stimulate consumption.

Additionally, in recent years passenger car sales were boosted by generous tax breaks designed to stimulate consumption, which had an adverse effect on the fleet and leasing sectors. However, certain incentives expired in 2014 and this has contributed to the subsequent fall in auto sales, although lessors hope it will spur a revival in leasing as a finance option.
However, the primary cause of problems for the auto leasing and long-term rental market is the economy. As Manuel Messias observes, “the economic crisis has resulted in a negative growth rate, an unemployment rate of around 10%, and the reduction of credit availability with a negative impact on vehicle volumes purchased by companies.”

Two main issues are raised by Eduardo Varella: “Legislation, accounting and tax rules surrounding leasing for vehicles in Brazil is quite complex,” he says. “On top of this, the volatility in the economy makes prediction of residual values very difficult, thereby bringing a high risk component to the pricing of the product.”

Legislation has been a definite challenge for lessors, with some states making the legal owner of the vehicle, the lessor, responsible for payment of back taxes and fines rather than the lessee. This meant that charges incurred by motorists were passed on to the banks, leading to the banks preferring not to offer leasing as an option. This in turn led to serious lobbying from organizations to make drivers responsible for such extra charges or levies, rather than the lessors.

These points are included in a list of challenges suggested by Alarico Assumpção Júnior. “The main obstacles are: High interest rates; difficulties generated by the incidence of fines and collections to leasing companies; asset repossession in case of default; and issues regarding the incidence of city and federal taxes,” he says.

However, for Alexandre Valadão the challenges are coming from the changing nature of car use. “The traditional offer is being challenged by mobility solutions (car sharing, short-term solutions, mobility solutions). The big challenge for service providers is to adapt the business model to the demand, by creating new products and offerings.”

**Fuel options – the importance of ethanol**

While the discussion in most countries regarding fuel tends to focus on emissions and inducements to adopt low carbon-emission vehicles, the situation in Brazil is different due to the prevalence of flexible-fuel vehicles that use an ethanol-petrol mix. The CO₂ produced by such vehicles is more than offset by the CO₂ captured when crops used to produce the ethanol are grown.

Although the number of registrations of new cars and LCVs using flex fuel fell 22% in the first 10 months of 2016 compared to the same period the year before, this decline mirrored the decline in registrations generally, so this fuel type in fact maintained its dominance in the market with an 88% share.

Looking at market share of other fuel types, over the period petrol-powered vehicles slid from 5.5% to 4%, while diesel grew from 6% to 8%. The share of hybrid electric vehicles, although increasing, remains minuscule.
New registrations of passenger cars and LCVs by fuel type

<table>
<thead>
<tr>
<th>Fuel Type</th>
<th>Jan-Oct 2015</th>
<th>Jan-Oct 2016</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petrol</td>
<td>115,892</td>
<td>67,021</td>
<td>-42.0%</td>
</tr>
<tr>
<td>Diesel</td>
<td>125,256</td>
<td>125,537</td>
<td>0.2%</td>
</tr>
<tr>
<td>Flex fuel</td>
<td>1,828,267</td>
<td>1,422,348</td>
<td>-22.0%</td>
</tr>
<tr>
<td>Hybrid/Electric</td>
<td>719</td>
<td>730</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Source: Anfavea, Asset Finance International

There are no specific federal government tax incentives regarding low-emission vehicles in place at present. However, ALD Automotive’s Alexandre Valadão notes “there are some signals that this could happen in the future. The government recently reduced some taxes for electric vehicles as an incentive for this type of vehicle.”

Some states are giving discounts on registration taxes for purchasers of ‘green’ cars, Manuel Messias of VWFS points out, and, he adds, “For manufacturer there is a programme in place created by the Brazilian government called Inovar-Auto. This gives incentives on product taxes for vehicles manufactured in Brazil according to the level of, among other things, energy efficiency.”

Fleet and mobility prospects

Is company car provision used for staff recruitment and retention? It is certainly considered to be standard practice to offer a car to senior executives and middle management, but Eduardo Varella of BMW FS doesn’t see this as an opportunity to offer something beyond the norm. “I don’t see companies playing with different company car policies as a differential against their competitors,” he says.

“Vehicle sharing has been a new alternative recently adapted to fulfil the same objective,” adds Fenabrave’s Alarico Assumpção Júnior, introducing the topic of the development and adoption of new mobility options.

He continues: “Mobility will be the priority and focus in the future; therefore, mobility solutions will come from different and diversified sources, and financial providers and technology developers will play a role in the process.”

This collaboration between finance providers and tech companies will produce new business models, as elaborated on by Eduardo Varella: “The expectation is that we will start to see more integration among the different types of mobility alternatives (private vehicles, taxis, Uber, subway, buses, etc), mainly in the large cities.”

Much of the technological development is driven by hundreds of start-ups that are now playing in this field. “Parallel to this,” Varella says, “the concern with sustainability is also increasing and is in the background of almost all alternative solutions. It is nearly impossible for any company to replicate all the good ideas and platforms that are being developed so the model of working in the new scenario involves collaboration with different partners in a network.”

For Manuel Messias it is important to get the transport basics right. “In terms of mobility solutions, Brazil is still working to solve issues with public transportation such as creating bike lanes and the like, in order to work against the mobility challenges in major Brazilian cities.”
In the fleet leasing and auto lending sector, Messias cites telematics as an example of new technology that is having a major effect in Brazil, observing: "An increasing number of companies are using telematics in their operational fleet sector in order to get better control of the fleet efficiency when for instance tracking the driving behaviour of their employees."

As already mentioned, the market has traditionally focused on finance leasing, but there are signs that lessors are looking more at the potential benefits of operating leasing, as noted by Alarico Assumpçao Júnior. “The only initiative in which the Brazilian market is currently interested is the feasibility of operating leasing, making it possible to build client loyalty for longer periods of time,” he says, although he adds: “The difficulty has been the residual value determination in the function of high interest rates.”

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Setting up a Brazilian fleet management operation

Marketing specialist Mike Gunnell outlines the challenges facing fleet operators entering the Brazilian market

South America’s largest country, Brazil, presents special problems in establishing fleet management operations there. Whereas the national fleet market is surprisingly well developed with many of the recognised fleet services and both local and international suppliers, there is still significant potential for further development of fleet management.

That’s the view of Marcus Hennecke, Business Development Director at Fleet Logistics, Europe’s largest independent fleet management provider, which has just gone live in Latin and Central America with a global agri-business, managing a fleet of around 1,600 vehicles in eight countries across the region, including Brazil.

Fleet Logistics is responsible for a fleet of 800 cars in Brazil, plus another 800 cars in other Latin American countries, managed from the office that the company has created in São Paulo.

The São Paulo office was set up in June 2016 using the footprint of parent company, international certification provider, TÜV SÜD Group, to take advantage of local infrastructure, facilities and staffing. This allowed the required fleet management operations to be set up much more efficiently, effectively and speedily than if new operations had to be developed from the ground up.

Largest market

With a population of more than 200 million people, Brazil is the largest fleet market in South America. Of the approximately four million corporate vehicles in Brazil, more than half are located in the southeast region of the country, which contains the major population centers, including Rio de Janeiro and São Paulo.

Most of the corporate cars are outright purchased as leasing is still an uncommon way to finance cars, although it is on the increase.

Hennecke said that fleet management in the region was split 70:30 between recognized fleet management techniques as seen in mainland Europe, and regional content which needed to take into account local factors, such as the sheer size of the country, the different regional conditions and specific national rules and regulations, especially those that were tax-related.

As the largest market in Latin America, Brazil provides special challenges, mainly because of its size and the different geographical conditions – it is as big as the whole of Europe.
Hennecke continued: “The first question ‘Are there suppliers who are able to cover the whole country, especially in the remote areas in the north of Brazil’ can be answered with a definite ‘yes’.

“Suppliers with an almost nationwide coverage for fuel, maintenance, accident services and telematics do exist. So, with the exception of a few cases in very remote areas where we have to find pragmatic solutions, networks of suppliers can be used.

“But further challenges arise from the size of the country. For example, as a result of the different topography, different cars are needed to serve the purpose of the driver; so a fit-for-purpose analysis, differentiated by region, is necessary,” says Hennecke.

In addition, Brazil’s roads infrastructure is not constant throughout the country, and in the north of the country many of the roads are just mud or dust tracks.

“This requires special vehicles to tackle the terrain and 4x4s are definitely required in some of the more remote provinces in the north, “says Hennecke. “Also the delivery time of new vehicles or spare parts in this region is different – in the rainy season it may take weeks to deliver urgently needed items.”

**Taxing times**

Brazil imposes 35% import duties to “incentivize” commercial companies to buy vehicles that are produced locally. Not only does the import duty apply to vehicles, but it is also applicable to imported replacement parts that will be needed during the course of a vehicle’s service life.

At the same time, there are a number of different taxes on vehicles, based not only on the type of vehicle and its powertrain, but also on the province where the car is registered, for example.

“All of these local factors have to be taken into account when calculating the total cost of ownership (TCO) of the vehicles involved, as taxation is clearly a key component of the TCO calculation,” says Hennecke.

**Fuelling costs**

Another issue is the rising cost of fuel. Brazil has a national initiative to reduce dependence on imported petroleum. Historically, imported oil accounted for more than 70% of the country’s oil needs, but Brazil has succeeded in becoming self-sufficient in oil.

Despite this, current fuel prices in Brazil are increasing linked to rising taxes on gasoline and diesel which were increased last year. Companies tend to buy gasoline or flex-fuel vehicles, which can run on either ethanol or gasoline, while pick-up trucks with diesel engines are also a popular choice.

**Leasing options**

There is still only a low percentage of cars financed via a leasing company, as a result of taxation issues from the past, but also because of ‘cultural’ or ‘market maturity’ reasons.
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Well, you might decide to introduce a new IT system that would allow you to do more things, introduce more products and be more effective than before - at a cost, of course. Or you might introduce a new quality-management system or increase your salesforce or cut overheads or other costs. These are the ‘levers of profit’, the aspects of your business that you can change to generate more profit.

Generally speaking, if you pull one of these levers it will have a modest effect on your bottom line. You can often generate a much bigger impact, with much less disruption to the business, by changing your pricing policy.

If you can implement a successful pricing change you will improve your volumes and margins simultaneously, with little disruption and at little or no cost. Do it successfully and you will enjoy the benefits immediately, without generating a negative response from staff or clients. Pricing is the most powerful lever of profit.

In previous Pricing Reviews we have looked at the steps that asset finance companies have taken to develop their businesses and in particular how they have improved (or might improve) their pricing. In this article we will move beyond that and set out an action plan for asset finance companies that want to improve their pricing. The steps to follow are: diagnosis; decision; preparation; get buy-in; trial; implement and monitor.

1. Diagnosis

First, have a look at the way business is priced at the moment. How are prices calculated? Is it done centrally or by individual salespeople? What insights are gained from the market to help guide pricing? Have a look at the range of prices quoted for the same type of business to the same type of customer; are they similar? If there is a wide variation you have prima facie evidence that something is going wrong.

Which customers get the lowest prices and why? What costs are incurred as a result of discounting or other giveaways, e.g. giving away costly contractual points during the negotiation? Do the most valuable clients get the biggest discounts? When pressed by a

Nevertheless, good suppliers for operational leasing do exist in Brazil, including the major international providers as well as some “local heroes”.

“As a result, it is worth carrying out a lease versus buy analysis, to determine what – in the specific circumstances of our clients – is the best way to finance their fleet operations,” says Hennecke.

For fleet management to become optimized in the Brazilian market, Hennecke sees the need for an independent global fleet management company to become established as the most important factor.

Challenges ahead

There are three major challenges in setting up successful fleet management in the region, he says.

“The first is to challenge the internal processes that are driven by the Brazilian administration culture, which are often complex.

“The second is to select cars on TCO-basis. This means finance, maintenance, fuel, and taxation as well as deciding between the operation of a purchased fleet versus an operating lease set-up.

“And third, the setting up of a powerful system of multi-bidding for all new vehicles, which means setting up clear and standardized rules amongst a range of multiple suppliers and then selecting the best individual offer available.”
What’s driving fleet car pricing?

A round up of some of the key auto finance industry stories in recent weeks

Transport sector facing cyber-security threats

Developments such as autonomous vehicles and mobility as a service will mean the transport sector needs to increase its focus on cyber-security, to prevent unauthorized access and protect personal data, according to the UK’s Transport Systems Catapult (TSC).

The innovation incubator, which specializes in intelligent mobility, says its research shows numerous trends in the realms of technology, cyber security, mobility, and society are all converging to make it a much more complex environment in which to deliver safe, secure, and reliable mobility services and infrastructure.

Its report, supported by IBM, The Institute of Engineering Technology (IET), the Intelligent Mobility Partnership (IMPART) and the Digital Catapult, highlights the emergence of a global “intelligent mobility” market, featuring automated vehicles, the Internet of Things and increasing use of personal data to create services tailored to the individual. It warns this will rapidly add another layer of complexity into an already vulnerable transport network as well as open new cyber-threats.

The TSC argues that current detection and action times on cyber incidents is measured in days, weeks and even months. However, autonomous vehicle systems will require detection, identification and resolution within seconds to prevent serious safety consequences.

Andrew Everett, chief strategy officer at the TSC commented: “The cyber security issues faced by transport in the future will not simply be an acceleration of the current constant, with more cyber-attacks. The way we move people and goods around the globe is undergoing a radical change. It is being driven by technological advances such as wireless communications, smart devices, open data, the Internet of Things and more recently artificial intelligence. The surface area of potential attacks is set to increase significantly and the transport industry needs to get to grips with this immediately.”

The report argues that with 250 million connected vehicles forecast to be on the roads globally by 2020, consumers and companies are moving from connectivity as desirable to expecting connectivity as standard.

The TSC says that the rapidly changing security and mobility landscape is likely to mean more cyber-attacks, more often, and potentially with more severe consequences. Fuelled by 20.8 billion things being connected to the internet by 2020 and an increasing number of these systems exercising a physical function, such as controlling traffic, the implications of a successful cyber-attack are very serious.

As the cost and number of cyber-attacks increase, this raises the prospect of significant financial and reputational damage for manufacturers, operators and mobility service suppliers. The report says the average annualised cost of cyber crime to transport companies in the UK currently stands at £2.4 million.
Whilst the threats will increase, the TSC is also keen to point out that the UK is well placed to take a lead in resolution and prevention. Everett continued:

“The UK is a world leader in cyber security. These skills can be transferred into the realm of transport and supportive government policies provide an excellent basis with which to proceed. Already there has been research in the automotive, aviation, and marine sectors. However, greater focus and a shared vision amongst transport industry business, academia and technology companies is needed if we are to provide an effective response to emerging threats.”

Anna Bonne, head of sector – transport at the IET said: “Operation of an autonomous vehicle will be heavily dependent on a lot of software embedded in the vehicle and their ability to communicate to other vehicles and the road infrastructure, so it is crucial that all aspects of cyber security are considered carefully. This report aims to raise awareness of the cyber security challenge in intelligent mobility and ensure that cyber security is considered at the design phase and not as an afterthought.”

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**US to adopt connected vehicle technologies**

The US Department of Transportation (DOT) is planning to make connected vehicle technologies compulsory for all new light-duty vehicles by 2021 in a bid to prevent hundreds of thousands of crashes every year by helping vehicles “talk” to each other.

The move to adopt vehicle-to-vehicle (V2V) communication technology forms part of the department’s push to accelerate the development and deployment of automated vehicles, which is being overseen by the National Highway Traffic Safety Administration (NHTSA).

“We are carrying the ball as far as we can to realize the potential of transportation technology to save lives,” said US transportation secretary Anthony Foxx. “This long promised V2V rule is the next step in that progression. Once deployed, V2V will provide 360-degree situational awareness on the road and will help us enhance vehicle safety.”

The proposal would require automakers to include V2V technologies in all new light-duty vehicles, with V2V devices required to “speak the same language” through standardized messaging developed with industry.

Separately, the department plans to issue guidance for Vehicle-to-Infrastructure (V2I) communications, which will help transportation planners integrate the technologies to allow vehicles to “talk” to roadway infrastructure such as traffic lights, stop signs and work zones to improve mobility, reduce congestion and improve safety.

“Advanced vehicle technologies may well prove to be the silver bullet in saving lives on our roadways,” said NHTSA administrator Mark Rosekind. “V2V and automated vehicle technologies each hold great potential to make our roads safer, and when combined, their potential is untold.”
Crash reductions

NHTSA estimates that safety applications enabled by V2V and V2I could eliminate or mitigate the severity of up to 80% of non-impaired crashes, that is incidents where the driver is not under the influence of alcohol, drugs or a medical condition. This includes accidents at intersections or while changing lanes.

V2V devices would use the dedicated short range communications to transmit data, such as location, direction and speed, to nearby vehicles. That data would be updated and broadcast up to 10 times per second to nearby vehicles, and using that information, V2V-equipped vehicles can identify risks and provide warnings to drivers to avoid imminent crashes. Vehicles that contain automated driving functions—such as automatic emergency braking and adaptive cruise control—could also benefit from the use of V2V data to better avoid or reduce the consequences of crashes.

V2V communications can provide the vehicle and driver with enhanced abilities to address additional crash situations, including those, for example, in which a driver needs to decide if it is safe to pass on a two-lane road (potential head-on collision), make a turn across the path of oncoming traffic, or determine if a vehicle approaching an intersection appears to be on a collision course. In those situations, V2V communications can detect developing threat situations hundreds of yards away, and often in situations in which the driver and on-board sensors alone cannot detect the threat.

Privacy is also protected in V2V safety transmissions. V2V technology does not involve the exchange of information linked to or, as a practical matter, linkable to an individual, and the rules would require extensive privacy and security controls in any V2V devices.

Automatic braking

US automakers have also agreed to make automatic braking standard on new light vehicles sold in the US by 2022. One of the compelling reasons is an Insurance Institute for Highway Safety (IIHS) study of police-reported crashes, which shows that automatic braking and forward collision alert systems reduce the incidence of rear-end crashes by 39%.

Research by consultancy J.D. Power for its annual Tech Choice Study found that US consumers are most interested in technologies that will protect them in a collision and driving assistance technologies that will help avoid a collision in the first place.

Its analysis suggests such technology is working well, after finding that among the 348 brake-related complaints for select 2016 model-year vehicles that offer autonomous emergency braking (AEB) as standard equipment, only seven related to emergency braking technology. In addition none of the 1,361 brake recalls to date are related to AEB.

The consultancy’s Early Warning System, which identifies the highest-risk issues based on the likelihood that a complaint will result in a future recall, shows only three automatic braking complaints out of 4,089 high-risk issues in 2015 and 2016.

“Full adoption of automatic emergency braking will provide a considerable benefit to the public, and our analysis shows that the introduction of this life-saving technology has led to very few quality issues or customer concerns so far,” said Dave Sargent, vice president, global automotive at J.D. Power.
Electric vehicle market sparks into life

Electric vehicles are set to make up 15% to 35% of total new vehicle sales globally in 2040, according to analytics information specialist IHS Markit.

The findings are part of a new research project, Reinventing the Wheel, that will be conducted over the first half of 2017.

“The key question is whether we are approaching a transformative shift akin to the first decade of the 20th century, when the internal combustion engine, cheap gasoline, bicycle technology and mass production combined to usher in the automotive age,” said Dr. Daniel Yergin, vice chairman of IHS Markit and chairman of the study.

While electric vehicles constitute a small percentage of the world’s vehicle sales and are just 1% of the on-road fleet today, sales in 2016 are up more than 1,000% since 2010—a trend that IHS Markit expects to continue with the potential to make electric vehicles more than one third of the new vehicle sales in 2040.

“Significant advances in battery technology, financial support from governments, regulations and values of millennials will be key factors leading to increases in electric vehicle adoption,” said Jim Burkhard, study co-director.

Electric vehicle share in individual markets will vary based on these factors, IHS Markit says. For instance, in China and Europe—regions where policies are favorable to electric vehicles—IHS Markit estimates that electric vehicles could comprise over half of new passenger vehicle sales in 2040.

The growth of electric vehicles is one of several forces reshaping the future of transportation according to the research. Other critical factors to be examined by the study, which will be published in full later in 2017, include the potential impacts of car sharing, ride hailing and autonomous vehicles on the transportation ecosystem.

“How and when this transformation takes shape will have significant impacts on the global economy and raises fundamental questions for the oil and gas, automotive, chemical and the electric power industries, as well as individual consumers,” said Tiffany Groode, study co-director and head of IHS Markit automotive scenarios.
Concerns rising over new emissions tests

Europe’s leading auto manufacturers want “more reasonable” lead-times to meet the requirements of new emission rules reforms, arguing that the industry has been given only a few months to comply with legislation which has major implications for production schedules.

The European Automobile Manufacturers’ Association (ACEA) has raised the sector’s concerns in a letter to European Commission Vice-President Timmermans on the next package of the Real Driving Emissions (RDE) test.

It says the automobile industry welcomes the introduction of stricter testing methods for the measurement of pollutant and CO₂ emissions from passenger cars and vans. The updated laboratory test, the Worldwide harmonized Light vehicles Test Procedures (WLTP), will make the testing of pollutants and CO2 more robust, and the new RDE test will be used to measure pollutant emissions under real driving conditions.

The RDE legislation will be implemented in EU law in two steps. The first step, starting from September 2017, has been confirmed since the legislation was published in April 2016. The second step of RDE, requiring major hardware changes, will apply from January 2020.

ACEA argues the European Commission chose to introduce this complex legislation in multiple packages, meaning that proper planning by vehicle manufacturers has become an almost impossible task. It is already the subject of two separate regulations, published in March and April 2016. Since then, manufacturers have had to accelerate their planning and make substantial investments to ensure vehicles are developed, designed and produced in time for the first RDE step. Two more RDE regulations are due over the next six months.

The third part of this legislation is currently on the table. RDE package 3 introduces significant new measures that would apply from September 2017. ACEA says that until this is ratified, which may be as late as May 2017, manufacturers will not know what they must do to comply.

“The problem we face is very practical: this regulatory uncertainty simply leaves too little time for manufacturers to make the necessary changes to the design of vehicles, engines, exhaust systems and assembly lines,” explained ACEA secretary general Erik Jonnaert.

“That is why manufacturers are calling for a reasonable approach with sufficient lead-time, fully in line with the principles of better regulation advocated by the Commission.”

UK concerns

In the UK the British Vehicle Rental and Leasing Association (BVRLA) reports its members have expressed concern over the WLTP, because it is likely to identify higher CO₂ emissions for vehicles than the New European Driving Cycle (NEDC) which has been in use since 1992.

The WLTP will be introduced for any vehicle with a new type approval number from September 2017, and for all vehicles from September 2018. During a transitional period between September 2017 and 2020, new vehicles will have correlated NEDC and WLTP type approval values to allow a comparison.
The new test will measure a new vehicle’s individual CO₂ value, taking into account the vehicle mass, including optional equipment, tyre rolling resistance class and aerodynamic options. It is expected to make the process of quoting prices to customers for vehicles more complicated, because of the requirement to calculate the effect of accessories on emissions.

The BVRLA is advising members to consider how their procedures will need to change and how they will need to communicate this to their customers. HMRC has said there will be no changes to bandings for company car tax or Vehicle Excise Duty when the new test procedure is introduced.

**New ultra-fast European-wide electric charging**

Four major car manufacturing groups are joining forces in a collaboration to create an ultra-fast high-power electric charging infrastructure across Europe’s main highways, in a bid to encourage long distance travel by battery electric vehicle (BEV) drivers and so facilitate mass-market adoption of the technology.

BMW Group, Daimler AG, Ford Motor Company and Volkswagen Group with Audi and Porsche have signed a memorandum of understanding to create the highest-powered charging network in Europe. With power levels up to 350 kW, the joint venture network will be significantly faster than the most powerful charging system deployed today.

The build-up is planned to start in 2017, with an initial target of about 400 sites in Europe. By 2020, BEV drivers should have access to thousands of high-powered charging points. The goal is to enable long-distance travel through open-network charging stations along highways and major thoroughfares, which has not been feasible for most BEV drivers to date. The charging experience is expected to evolve to become as convenient as refueling at conventional gas stations.

The network will be based on Combined Charging System (CCS) standard technology. The planned charging infrastructure expands the existing technical standard for AC- and DC charging of electric vehicles to the next level of capacity for DC fast charging with up to 350 kW. BEVs that are engineered to accept this full power of the charge stations can recharge brand-independently in a fraction of the time of today’s BEVs. The network is intended to serve all CCS equipped vehicles to facilitate the BEV adoption in Europe.

“This high-power charging network provides motorists with another strong argument to move towards electric mobility”, says Harald Krüger, chairman of BMW’s board of management. “The BMW Group has initiated numerous public charging infrastructure projects over the last years. The joint project is another major milestone clearly demonstrating that competitors are combining forces to ramp-up e-mobility.”

**Future plans**

“The breakthrough of e-mobility requires two things: convincing vehicles and a comprehensive charging infrastructure. With our new brand EQ, we are launching our electric product offensive, and: by 2025, our portfolio will include more than ten fully electric passenger cars. Together with our partners, we are now installing the highest-powered charging infrastructure in Europe”, says Dr. Dieter Zetsche, chairman of the board of management of Daimler AG and head of Mercedes-Benz Cars.
The automobile manufacturers intend to make substantial investments to create the network, underscoring each company’s belief in the future of electric mobility. While the founding partners – BMW Group, Daimler AG, Ford Motor Company and Volkswagen Group – will be equal partners in the joint venture, other automobile manufacturers will be encouraged to participate in the network to help establish convenient charging solutions for BEV customers. The joint venture is also open for cooperations with regional partners.

“We intend to create a network that allows our customers on long-distance trips to use a coffee break for recharging”, says Rupert Stadler, chairman of the board of management of Audi. “Reliable fast charging services are a key factor for drivers to choose an electric vehicle. With this cooperation we want to boost a broader market adoption of e-mobility and speed up the shift towards emission-free driving.”

**VW sets up new mobility services company**

Volkswagen Group has launched MOIA, its new mobility services company, and says it aims to take a leading position as mobility services provider by 2025, offering tailor-made transport solutions worldwide.

“MOIA is a stand-alone company under the Volkswagen Group umbrella, and will develop and market its own mobility services either independently or in partnership with cities and existing transport systems. In parallel, the Group brands will continue to move forward with their own services. Our sights are set on becoming one of the global top players for mobility services in the medium term. To achieve that we will be seeking to attract the best minds and technology start-ups”, Ole Harms, CEO of MOIA, said.

The Volkswagen Group’s new company, which will be headquartered in Berlin, will begin operating with a team of around 50, with this number growing fast up to the end of 2017. “The metropolis of Berlin is the perfect location for a future-oriented and innovative company like MOIA because this is where we will find the creative minds and start-ups we need to establish our new business activities. With MOIA, we want to demonstrate that innovative mobility solutions are possible outside of Silicon Valley”, Harms explained.

A further important location in Germany for MOIA will be the city of Hamburg. At the end of 2016, the Volkswagen Group and the Hanseatic city agreed a three-year strategic mobility partnership to make urban mobility more environmentally-friendly, safer, more reliable and more efficient. The findings from this partnership will also be incorporated in future MOIA projects in Europe, which will focus on providing convenient, at the touch of a button, affordable individual mobility without the need to own a car.

MOIA’s first area of activity will centre on ride hailing via apps. The Volkswagen Group already has a stake in Gett, one of the world’s leading ride hailing providers. Gett app users can instantly book on-demand transportation, delivery and logistics in more than 100 cities worldwide.
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Have a look at the range of prices quoted for the same type of business to the same type of customer; are they similar? If there is a wide variation you have prima facie evidence of customer discounting or other giveaways, e.g. giving away costly contractual points during the negotiation? Do the most valuable clients get the biggest discounts? When pressed by a customer of our company in some way or another, Matthias Müller, CEO of the Volkswagen Group, said.

Leaseurope warning on access to in-vehicle data

Leaseurope, the European Federation of Leasing Company Associations, has put its weight behind a campaign to ensure there is open access to the in-vehicle data generated by a car’s sensors and telematic systems.

European parts suppliers and vehicle manufacturers have recently presented a common technical architecture which would channel all future communication and data access through the vehicle manufacturer’s proprietary server. Only part of the data generated would then be sent to a “neutral server” and be accessible for independent operators.

Leaseurope and others, including Insurance Europe, maintain that this solution would not allow direct communication with the vehicle and gives vehicle manufacturers full control to decide how, when and to whom (mainly aggregated) data access will be granted.

It is leading a broad industry coalition which argues that this solution undermines vehicle owners’ right to decide who they share their data with and for what purposes, and also represents a serious threat to competition, innovation and consumer choice in the digital era.

Coalition members say ensuring safety and security is crucial for the deployment of connected vehicles and claim an “in-vehicle interoperable, standardised, secure and open-access platform” is the right way forward. This solution would ensure the same high level of safety, security, liability and data protection as the vehicle manufacturers’ solution, whilst safeguarding competition, innovation and consumer choice. It could be based on the existing vehicle manufacturers' telematics systems and use the highest possible security standards.

Many manufacturers allow chosen partners to operate their own systems and applications in their vehicles today, thus showing that safe and secure direct access is possible without interfering with the vehicle’s functions.

The coalition is calling on European institutions to create a robust regulatory framework for an interoperable, standardised, secure and safe digital in-vehicle telematics platform to maintain true consumer choice, independent entrepreneurship, competition and innovation for all services “around the car”.

“Together with Gett we are pursuing a clearly defined expansion strategy in Europe – only recently, three of the Group’s brands launched the first joint initiative with attractive vehicle packages for Gett drivers in the growth market of Moscow. Further markets will follow soon”, Harms said.

At the same time, MOIA is also focusing on the second major area, namely the pooling business. The company’s goal is to set up its own on-demand pooling services via app – also known as connected commuting. The objective is holistic transport solutions that make individual transport and public transport more effective, thus avoiding unnecessary journeys and optimizing use of the existing road infrastructure. This approach concentrates on cross-boundary transport. The first pilot projects in this field are scheduled to begin in 2017.

“MOIA will help us gain a deeper understanding of new forms of mobility and how to make them even more attractive in future, to offer a much broader scope than at present and to tailor these services to suit very wide-ranging needs. Even though not everyone will still own a car in future, MOIA can help make everyone a customer of our company in some way or another”, Matthias Müller, CEO of the Volkswagen Group, said.
**Volvo and Autoliv in autonomous joint venture**

Volvo Cars and Autoliv Inc, the worldwide leader in automotive safety systems, have announced they are to set up a new jointly-owned company to develop next generation autonomous driving software.

It will be called Zenuity, and marks the first time a leading premium car maker has joined forces with a tier one supplier to develop new advanced driver assistance systems (ADAS) and autonomous drive (AD) technologies. The new company will be owned 50:50, with Autoliv investing around 1.1 billion SEK and Volvo contributing certain assets.

Zenuity will have its headquarters in Gothenburg, Sweden, and an initial workforce taken from both companies of around 200, increasing to over 600 in the medium term. It is expected to start operations early in 2017, and its systems will be developed for use in Volvo cars and for sale exclusively by Autoliv to all car makers globally, with revenues shared by both companies.

Håkan Samuelsson, president and chief executive of Volvo Cars, said: “By combining our know how and resources we will create a world leader in AD software development. This means we can introduce this exciting technology to our customers faster.”

Jan Carlson, chairman, chief executive and president of Autoliv, said: “There are no two companies that can claim to have done more for automotive safety worldwide than Autoliv and Volvo. This new company is a recognition of the fact that autonomous driving is the next step to transform road safety.”

Both Autoliv and Volvo Cars will licence and transfer the intellectual property for their ADAS systems to the joint venture. The first ADAS products are expected to be available for sale by 2019 with AD technologies available by 2021.

Autoliv will be the exclusive supplier and distribution channel for all the new company’s products towards third parties, except Volvo Cars which will source directly from Zenuity. Its management will comprise of representatives from Autoliv and Volvo Cars.

Dennis Nobelius, managing director of Volvo Switzerland and formerly vice president vehicle line 90 at Volvo Cars, has been named the chief executive of the new joint venture.
European residual values: the beginning of the end?

Since 2010 the underlying trend for residual values (RVs) in the UK and across Europe has remained upward with an overall rise of around 9% between 2010 and 2016. Part of the problem with this is that once RVs start to head downward in a typical cyclical pattern the industry starts to suffer with leasing companies failing to achieve contract end RVs in the used car market and disillusioned retail buyers who find they have no equity in their PCP to act as a deposit on their next vehicle.

We are already seeing this problem in the UK market and the next 12 months or so could see the pattern repeating across Europe where RVs have now pretty much recovered to pre-crisis levels everywhere and the downward cycle is now looming.

Assuming Europe does not fall into yet another crisis period we still believe RVs have hit a plateau across most of Europe and will continue to fall in the UK. But the next twelve months are the most politically uncertain in a generation and there is clearly a risk of a 10-12% fall in values sometime over the next two to three years. This means anybody investing in vehicle assets needs to ensure they are building adequate protection during the relatively good times we are currently in order to weather the looming storm.

European Passenger Car Residual Value Trends

% RV Index – 36 months / 90,000 kms

Residual values across Europe are still rising as the forecasters see a reduced car parc and continuing strong new car demand lifting the automotive industry.
There remains a lot of risks going forward, as already discussed, but the sales rate per population shows there remains pent up demand which should ensure that new cars going out now should come back into the used car market in 2019 with a reasonable degree of profit.

RVs in mainland Europe are expected to continue to rise during 2017 in most countries recovering much of what was lost during the economic crisis. However there will be some regional and segmental differences. The Spanish market has fully recovered from a residual value perspective and as such values are stabilising in general although SUVs continue to increase. Italy has also seen strong increases in RVs which in part is due to the rising economic sentiment as national pride seems to have overtaken the austerity frustration.

RVs in France and Germany have recovered at a much slower pace than Spain or the UK and therefore the growth through 2017 is merely about the markets righting themselves. However with both countries holding general elections in 2017 and the recent Trump/Brexit shock results we could potentially see both countries, as well as Italy, seeing some surprise results which in turn could have a short term negative effect on RVs. RVs in Portugal may look depressed from the index but this is distorted by the 2010 index point by when Portugal had already seen RVs rallying plus its automotive taxation system keeps the market sheltered from some of the more extreme conditions suffered elsewhere. For the UK RVs are set to continue to fall as the unfavourable exchange rate pushes up prices for household essentials which will put downward pressure on larger items like used cars.

**Passenger Car RV Trends**

**A1 Mini Petrol - %RV 36m /90k km**
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Whist the downward trend in small cars in the UK and Germany have taken a small upward swing for September this is little more than normal seasonality and overall the trend remains downwards.

Medium cars are starting to show similar trends to what we saw a few years ago with the traditional D segment saloons. As the demand for SUVs, and the increasing availability of them in the used car market increases, this has enabled buyers to move away from traditional C segment hatchbacks and saloons into the more popular segments resulting in the falling values we are seeing.

RVs for executive models remain strong as buyers seem less afraid to be seen owning an executive saloon which has been helped by the general shortage in the used car parc.

Source: ExpertEye AG
MPV and SUV RV Trends

M1 Small MPV Diesel - %RV 36m /90k km

J2 Compact SUV Diesel - %RV 36m /90k km km

J3 Premium SUV Diesel - %RV 36m /90k

Source: ExpertEye AG
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Light Commercial Vehicle RV Trends

V3 Small Compact Vans - %RV 48m /150k km

V5 Small Panel Vans - %RV 48m /150k km

Source: ExpertEye AG
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Changing your pricing policy may well be your most powerful lever for profit. Make your action plan now!

So you want to improve your pre-tax profits?

Well, you might decide to introduce a new IT system that would allow you to do more things, introduce more products and be more effective than before - at a cost, of course. Or you might introduce a new quality-management system or increase your salesforce or cut overheads or other costs.

These are the 'levers of profit', the aspects of your business that you can change to generate more profit.

Generally speaking, if you pull one of these levers it will have a modest effect on your bottom line. You can often generate a much bigger impact, with much less disruption to the business, by changing your pricing policy.

If you can implement a successful pricing change you will improve your volumes and margins simultaneously, with little disruption and at little or no cost. Do it successfully and you will enjoy the benefits immediately, without generating a negative response from staff or clients. Pricing is the most powerful lever of profit.

In previous Pricing Reviews we have looked at the steps that asset finance companies have taken to develop their businesses and in particular how they have improved (or might improve) their pricing. In this article we will move beyond that and set out an action plan for asset finance companies that want to improve their pricing. The steps to follow are: diagnosis; decision; preparation; get buy-in; trial; implement and monitor.

1. Diagnosis

First, have a look at the way business is priced at the moment. How are prices calculated? Is it done centrally or by individual salespeople? What insights are gained from the market to help guide pricing?

Have a look at the range of prices quoted for the same type of business to the same type of customer; are they similar? If there is a wide variation you have prima facie evidence that something is going wrong.

Which customers get the lowest prices and why? What costs are incurred as a result of discounting or other giveaways, e.g. giving away costly contractual points during the negotiation? Do the most valuable clients get the biggest discounts? When pressed by a...