SUBJECT MATTER
INTERVIEW WITH THE NEW HEAD OF ARVAL'S INTERNATIONAL FLEET SALES DIVISION

RELEVANT TO
PURCHASING DIRECTORS, FLEET DIRECTORS, HR DIRECTORS

A business with huge potential

Ashley Martin talks to Tony Elliott - director of the Paris-based International Business Office of Arval - about the organisation's role in the rapidly growing market for pan-European fleet business.

PAN-EUROPEAN AND international fleet deals remain in their infancy with massive opportunities for suppliers to secure business with an array of companies, particularly those operating 600-1,500 vehicles. That's the view of Tony Elliott, director of the Paris-based International Business Office of Arval, which has 56 customers operating 122,000 vehicles on its books.

Simultaneously, Mr Elliott, who has witnessed the evolution of pan-European fleet deals since joining DaimlerChrysler's Stuttgart-based European fleet operation in 2000, says new opportunities will also arise in newly developing markets.

Additionally, two-thirds of Arval's international business is focused on the supply of utility vehicles to a number of major fleets, some running in excess of 20,000 vehicles. In this sector of the market, price is dominant as it is in the 'white fleet/commodity' segment generally, which in total accounts for 87% of Arval's operation.

That is a ratio that Mr Elliott is looking to address and he sees many opportunities to increase the focus on user-chooser business where service as well as price is important in the 19 European markets in which Arval currently operates. But, he warned, pan-European leasing providers must invest in improving management reporting to enable customers to obtain service level benefits.

TONY ELLIOTT
Director, International Business Office, Arval

Arval is investing substantially over the next two years in improving its fleet management reporting and service delivery to pan-European and international customers. And, while Arval's International Business Office operation is profitable, that investment comes against a background of customers demanding lowest possible prices.

Mr Elliott, a near 30-year veteran of the UK and European leasing industry having started his career as sales director of LeasePlan in the UK in 1979, said: 'Margins are so low that there is a difficulty funding investment. Leasing companies have to provide vehicles at such low rates that it is difficult to develop what customers are demanding in terms of reporting.

'Customers rightly want to be provided with a very good fleet reporting capability as well as financial benefits from an international deal. The financial benefits we are managing but as an industry we must address the reporting or else I think there will be a kick-back. That is why we are investing heavily. Customers, when they renegotiate their existing contract, will change their purchasing attitude and focus if they don't see improved reporting and a reduction in costs during the lease. If we don't meet that challenge we could have a shrinking market.

'But with investment the market opportunities are huge and with the vehicle manufacturers becoming more aware of international fleet possibilities everyone is moving in the right direction.'

That has not always been the case and, says Mr Elliott, it was perhaps only in 2002 that some companies truly 'got their act together' and championed international fleet business at board level. Despite much hype around the late 1990s and the turn of the century, Mr Elliott said: 'Customers did not have the empowerment to negotiate European deals. They went through the motions. Even if a leasing company did want the business it was virtually impossible to push through a customer's centralised decision. Customers, therefore, stayed with their existing suppliers at a national level, and a lot of money was spent on something that was not going to happen.

'Leasing companies were equally totally chaotic. In many cases promises were not carried out that were made during the sale process and little effort was made to reduce cost. Customers consequently became annoyed.'

But, 2002 is viewed by Mr Elliott as a watershed year and the turning point in international fleet business that now sees about one third of companies put the muscle and might of their main board behind the successful driving through of pan-European and global vehicle solutions.

However, a third of companies while negotiating an international deal give their subsidiaries an 'opt out' with supplier success only being achieved if they are the incumbent provider at a national level or the cheapest. Finally, a further third of companies, while making international fleet deal overtures have no main board director championing the cause so the opportunity ultimately flounders.

Arval has reaped its international fleet success largely on providing vehicles to companies operating fleets where staff have limited if any choice and the car or van is a tool of the trade. 'There are tens of thousands of businesses like that in Europe where a deal can be struck because it is quite easy for companies to identify a direct saving,' said Mr Elliott.

'In user-chooser fleets there is a greater involvement by the HR department which is more interested in the service that can be delivered to the company and its drivers than the cost. But, user-chooser fleets are moving to a 'white fleet' attitude as they themselves come under pressure to reduce costs.'

American-owned companies with European operations are particularly driving that mentality. In the United States the concept of fleet management is based on the provision of a basic car to an employee who requires a vehicle to perform their job, but a high quality service is demanded as well as competitive pricing.

Referring again to the paradox of low pricing and high service demands Mr Elliott said: 'The risks are high for suppliers because "white fleet" cars are typically returned at the end of the lease in a worse condition than user-chooser vehicles.'

> *"Many fleets are run badly. To identify savings and service requirements we put in a consultancy team to find ways of reducing cost."*

That means leasing companies such as Arval may take a residual value hit or have to spend money on vehicle refurbishment prior to sale. Nevertheless, there are marketing companies and computer software organisations, for example, where the user-chooser mentality is engrained and quality of service to high-achieving company car drivers is essential.

With two such totally different markets Mr Elliott intends to spend much of his time focusing on training International Business Office staff to successfully target user-chooser companies, a market sector in which Arval is significantly under represented.

'Many fleets are run badly. To identify savings and service requirements we put in a consultancy team to find ways of reducing cost and improving the running of the fleet operation,' explained Mr Elliott.

Arval has representation in 19 European countries with offices most recently opening in Russia and Turkey, the latter due to start trading on January 1, 2007. Additionally, through partnerships, Arval is represented in the United States, Canada, Denmark, Sweden, Norway and South Africa.

New country opportunities are driven by a combination of the ambitions of parent company BNP Paribas, which operates one of the world's most extensive global banking networks, and the demands of customers. In many emerging countries a huge employer and employee education process will be required as the concept of vehicle leasing and fleet management is unknown. Indeed, two issues will face Mr Elliott and his current 22-strong sales team - the debate around outright purchase or lease and then whether Arval is the best leasing/fleet management provider.

'We are back to the 1970s in the UK in terms of attitude to the company car,' reminisced Mr Elliott, who explained that companies in countries such as Croatia, the Czech Republic, Hungary, Poland and Slovakia almost always stayed loyal to ownership.

Finally, across Europe Mr Elliott has identified vast numbers of major companies operating 600-1,500 vehicles that he believes are ripe for adopting many of the hallmarks of pan-European leasing which have benefited larger international customers. The International Business Office focuses on large international accounts with a vehicle fleet of at least 1,500 vehicles, but he said: 'The middle market remains largely ignored. There are huge opportunities across Europe with companies operating 600-1,500 vehicles. They are stepping up their requirements and they realise the great opportunities that are available. We must start to focus on that sector'

Add in the fact that to-date this year Arval has been contacted by 28 companies interested in implementing a pan-European fleet deal against just 12 last year with half from United States-owned organisations and new business opportunities remain vast.

Mr Elliott: 'We have only just touched the surface of international fleet opportunities. As more companies give main board support to them and suppliers increase investment to meet customer demands the benefits to multi-national companies operating medium-sized and large fleets are enormous.'