Grant Thornton

B2B vehicle rental and the role of intermediaries

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Introduction

The B2B vehicle rental market is fragmented. Whilst market leaders, such as Avis, Enterprise and Europcar, have significant fleet sizes and coverage, there is an abundance of smaller regional and niche players that collectively account for a significant portion of the market; for example, providing specialist commercial vehicles or premium cars. In addition, the market is served by several vehicle rental brokers which can access a virtual fleet totalling thousands of vehicles nationally through their numerous partnerships with large and small rental providers.

This paper investigates the drivers of broker intermediaries, the differences between sector and client complexity, and the sustainability of the business model going forward.

Our findings are based on 100 interviews with daily rental providers, leasing companies and senior decision makers at corporates with minimum £150,000 annual rental spend and with five locations or more in the UK.

If you would like more information or to discuss B2B vehicle rental and the role of intermediaries, please contact Andrew Hawkins and Richard Parkin.

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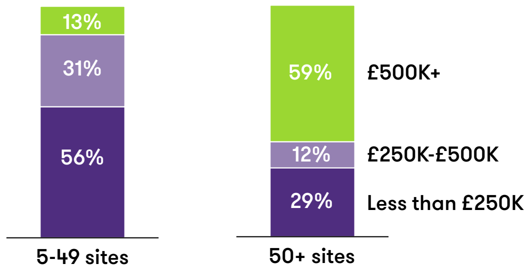
Vehicle rental manages irregular corporate demands

Rental vehicle demand is typically derived from, or channelled through:

- **Corporate users** requiring short-term additional capacity for new employees and/or contracts, or to meet seasonal demand peaks.
- **Contract hire and leasing companies** either acting as brokers for their own corporate customers' rental needs, or to provide temporary vehicles until the new permanent lease vehicle is delivered.
- **Credit hire businesses** for the purpose of meeting demand for temporary replacement vehicles on behalf of "not at fault" drivers involved in accidents.
- **Insurance firm**s providing replacement vehicles to "at fault" drivers involved in accidents.
- **Daily rental providers** unable to meet local demand spikes, or demand from established customers for vehicle types and/or in locations not served by them.

Rental vehicles have become an indispensable tool in business' armoury for managing demand spikes, which may be driven by new contracts or seasonal effects, and not just for temporary replacement of vehicles off-the-road. Whilst the rates are higher, the greater flexibility afforded – for example, load capacity, location and duration – more than offsets the incremental cost per day. Rental also ensures that the operators' owned and/or leased fleet is operating at maximum capacity.

Annual spend on rental vehicles (% respondents)



As shown above, rental spend is highest with multi-site operators where it is more likely to be efficient to rent locally on the basis of need, rather than to hold surplus vehicles centrally.

Many respondents noted an increase in the number of vehicles being rented as operators have sought to optimise their vehicle asset base in number, type and capacity against an increasingly volatile customer demand profile as well as retain flexibility for changing needs – for example van size and workforce fluctuations – which would be more difficult and/or expensive to achieve with a fully owned or leased fleet. Whilst growth due to these factors may slow down, it's not likely to reverse.

"Over the last 2 or 3 years, we've experienced more seasonal activity: one of our clients sells alcohol, so events like the World Cup or sunny weather create short-term demand spikes."

Commercial director, Logistics company

"Short-term rentals tend not to be planned, rather more reactive for us to meet peaks and troughs. Our peaks are very erratic and dependent on customer contracts: the only one we can safely predict is around Christmas. The rest are judgment calls."

Business performance director, Business Services company

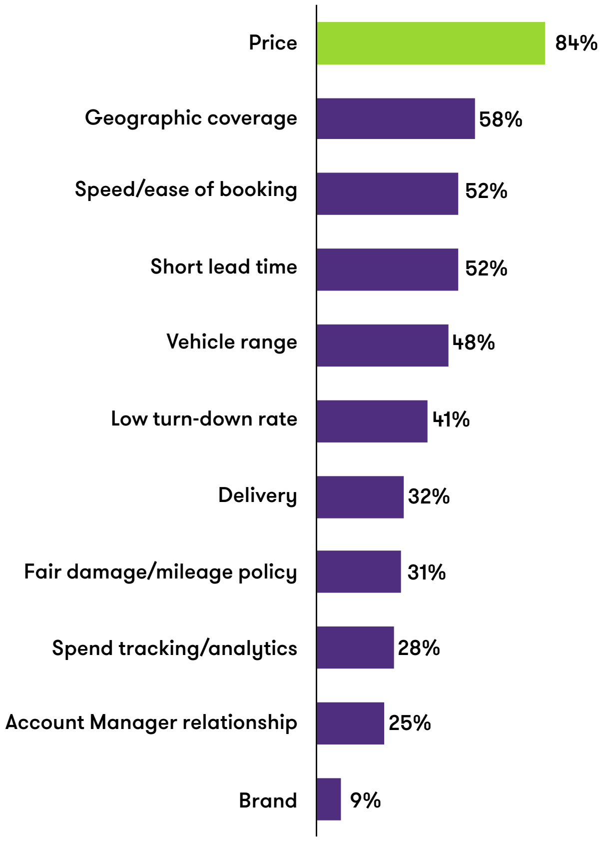
"The amount we rent is increasing, driven by customer requirements and the nature of business/ home deliveries."

Finance director, Logistics company

Price and convenience are key criteria when selecting a rental provider

After price, key selection criteria for corporate users were based around convenience – with other considerations such as ability to deliver, fair damage/mileage policy and spend tracking/ analytics being assumed as good enough.

Respondents citing consideration (%)



“Price and service are key; management information is a given and has got to be good… Differentiation comes down to the human element.”

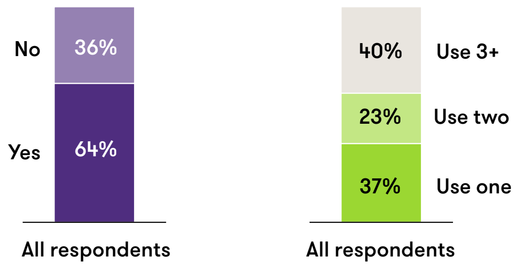
Building supplies company

Whilst large rental users, such as insurance firms, use multiple large daily rental providers (DRPs), most corporate users work with just one or two key providers.

Unsurprisingly, over 70% of respondents gave a DRP as their primary supplier, with Enterprise and Europcar being the key players.

Whilst few respondents (<5%) employ brokers as their primary “go-to” for rental, almost two-thirds use one or more brokers to fulfil some of their rental requirement when their primary providers are unable to. Due to their relationships with multiple suppliers, the largest brokers can access a virtual fleet well in excess of 100,000 vehicles therefore are able to source a suitable vehicle on occasions where even the largest DRPs fail to do so.

Respondents using brokers (%)



“We rent from a mixture of rental providers and a broker. We only use the broker as a back-up: whilst many rental providers claim they can guarantee availability, they sometimes don’t have the vehicles we need. By contrast, the broker has never broken this promise, although this comes at a premium.”

Transport manager
Traffic management company

Large multi-site fleets are most likely to use a broker as their primary rental supplier

Rental supplier choice is influenced by the number of sites operated by the corporate user. With only a small number of sites, the corporate may have sufficient scale at each site and/or be able to manage the complexity of its rental requirement directly with a handful of local DRPs with sites local to its own, negotiating preferential rates and availability.

By contrast, corporate users with more complex requirements spanning large (typically 50+) locations, are more likely to use brokers as their primary supplier given the difficulty for any single DRP to meet all user needs all of the time across all sites. Using multiple DRPs in such circumstances is not viable given the loss of scale benefits and complexity of running a panel of suppliers.

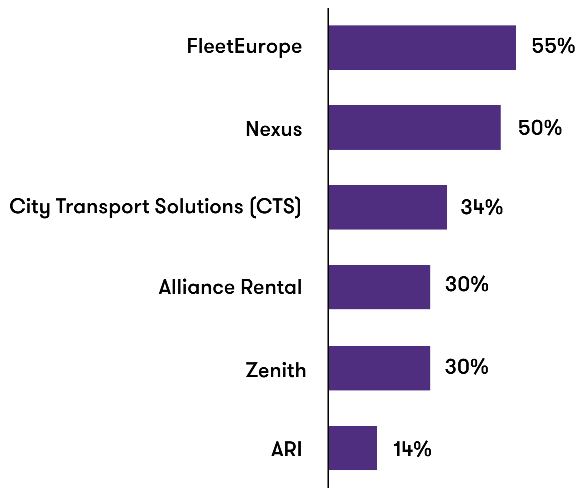
> "Our fleet is split across more than 2,000 locations. We use a broker as there's no single DRP that has the scale to cope with the size and complexity of our business. Only a broker has the ability to coordinate and source for all our needs, as well as consolidate costs into a single invoice."

Group fleet director at construction company

In such cases, brokers are generally able to offer competitive rates delivered across multiple DRPs given their aggregated negotiating position.

As most corporate rental users have a relationship with at least one broker, awareness is relatively high, with the two largest platforms (FleetEurope and Nexus) being used by more than half of respondents with a broker relationship. The key reason cited for not using brokers at all was that it was cheaper to source direct (>70%) – underpinning the commonly held viewpoint that brokers are an unnecessary cost for more straightforward requirements.

Popular broker platforms (%)



Other notable players are CTS, specialising in commercial vehicles, and Zenith, acting as a rental broker chiefly to its leasing customers.

Conclusion

Vehicle rental intermediaries play an integral role in the B2B rental industry. They provide corporates, especially large multi-site operators, with a single point of contact that can source specific vehicle types on short notice across the UK. From a rental provider perspective, intermediaries capture some of their margin whilst improving capacity utilisation for their fleet.

Intermediaries have gained share in the rental market by winning large corporate contracts that could significantly impact margins of the rental players. However, rental providers can face a "prisoners dilemma" when trying to withdraw supply from intermediaries.

Overall, given the convenience and enhanced management information across multiple sites that leading intermediaries provide, we expect continued potential for growth in the short-term. However, at some stage growth will slow as rental providers respond to the challenge to margins that vehicle rental intermediaries represent.

Grant Thornton's Strategy Group

Our Strategy Group has a depth of experience in researching and analysing market dynamics, customer requirements and competition. Our research is often an 'outside-in' approach, based on not just desktop research, but also primary research which involves market/financial analysis and interviews with market experts and competitors. Much of our experience has been gained from helping private equity houses to make investment decisions, and helping management teams to develop growth strategies.

At the heart of any business decision will be a financial forecast. This forecast is likely to come from a financial model that is based on robust assumptions on key commercial parameters. Working with you, we will provide evidence-based views to populate or test these assumptions, based on insights from our primary and secondary research.

Clients choose us because of our collaborative approach, but also our frankness in constructively challenging investment thesis, and providing our own robust, evidence-backed opinions on risks and opportunities.

Our services:

- **Commercial due diligence (CDD):**
  CDD is increasingly becoming a pre-requisite for transactions as confidence in a deal's potential and the sustainability of profits for investors is required. We deliver thoughtful, robust advice focusing on the key issues that impact value so that we deliver conclusive insight at the demanding pace of mergers and acquisitions. Our senior team has experience conducting CDD on deals between £50m and £1bn across a wide range of sectors. Each project is customised to address your key questions/hypotheses, which typically cover:
  - identifying and qualifying drivers of business value,
  - building or validating robust growth forecasts,
  - defining and evaluating addressable market size,
  - understanding the impact of disruptors and other risks.
- **Strategy development**:
  we work with leadership teams to provide insightful and pragmatic solutions that address a range of challenges your business faces. As an objective scalable resource, our collaborative style will ensure that you:
  - gain an evidence base for your strategic decisions,
  - are provided with clear direction,
  - increase your revenues/expand your business (new customers, geographies, products, channels),
  - create sustainable competitive advantage.

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