

DRIVING OUT OF THE DOWNTURN



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Cash-strapped companies that are hanging onto older vehicles could benefit by adopting the latest fuel-efficient vehicles to improve control costs.

Over the past few years of economic uncertainty, transformational programmes at many firms have slowed to a crawl. For the automotive industry, however, immobility has not been an option. The downturn has done nothing to ease looming EU-enforced emissions targets, backed up by the prospect of stinging fines, while cash-strapped consumers have done everything to focus minds on fuel efficiency and cost effectiveness.

As a result, the years following the credit crunch have witnessed a remarkable surge in the efficiency of cars sold in the UK. Fuel economy has improved by about a fifth, while at the same time figures from the Society of Motor Manufacturers and Traders (SMMT) show average CO2 emissions for new vehicles fell from 158g/km to 133g/km between 2008 and 2012.

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This progress is not the result of austerity – buyers are not simply running more meagre cars as budgets shrink. Improvements are largely due to better vehicles employing sophisticated technology. For example, automated stop-start systems that shut off a car's engine when stationary were rare in 2008 but are commonplace in new cars today. Alone, stop-start can cut fuel use by about eight per cent for city driving, and the technology is just one of a range of measures taken to curtail emissions.

Big improvements have also come through downsizing, applying new technology to shrink the physical size and heft of vehicle bodies and engines. The Peugeot 208, for example, is on average 110kg lighter than the model it replaced last summer. The newer car is noticeably shorter than before, but superior packaging and new high-strength materials have allowed more room inside alongside improvements in safety.

In some models, 95kg – about a tenth of the car's weight – has been shed by downsizing the engine. A new 1.2-litre, three-cylinder engine, for example, matches the performance of the heavier 1.4-litre, four-cylinder equivalent, but yields 62.7mpg rather than 50.4mpg in official tests. Across the 208 range, CO2 emissions are better by 34g/km on average, while the lighter, nimbler car has earned positive reviews from the motoring press.

Many other manufacturers have made similar progress. This year's seventh-generation VW Golf, for example, is the first to reverse a 30-year trend of increasing weight and size.

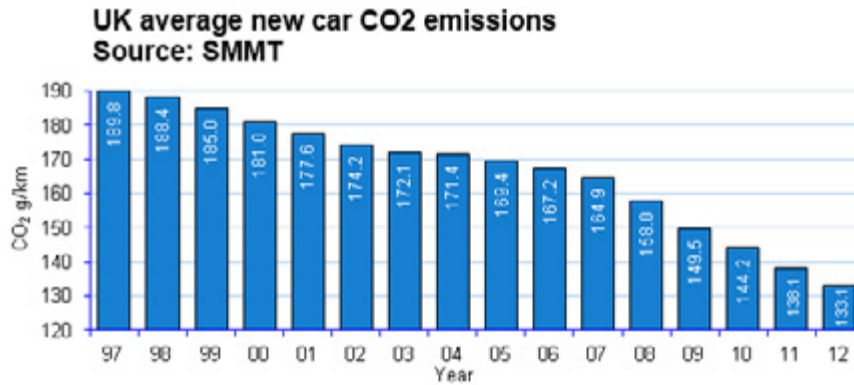
But while new and better vehicles have appeared on the market, many businesses have ignored them. Cash-strapped companies are holding onto cars and vans for longer, attempting to squeeze more value from prior fleet investments while delaying spending.

Chris Chandler, principal consultant at the UK's biggest vehicle leasing specialist, Lex Autolease, says lease extensions have become more common during the downturn. But he argues that delaying replacement often provides only false economies for both the company's finances and the environment.

"The advances in engineering and technology over the past five years have been quite dramatic, and it can be significantly cheaper overall to replace older cars," Chandler asserts. Higher lease or purchase costs can be relatively quickly recouped through lower fuel bills and reduced taxes, he says, because the costs faced by companies are so strongly

connected to CO2 ratings [see Tax and spend boxout]. "The tax regime in particular means you are often better off replacing older cars with higher-tech vehicles," he explains.

needs, and either hiring vehicles or maintaining just a few larger vans to cope with unusual demands. "Reducing the average size of vans saves on capital as well as running costs," Robson explains.



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Phil Robson, fleet director for Peugeot in the UK, similarly argues that fleets offer a perfect opportunity for businesses to both reduce costs and enhance their environmental performance. "When times are tough, firms start to look for cost savings throughout the business," he says. "Cars and fuel represent a big expense but the savings can be really significant."

Lex Autolease provides 280,000 vehicles and works with a diverse mix of companies, but Chandler says every firm, large or small, should manage its fleet in the same way.

"Make sure you take a whole-life view of costs," he says. "You must look at your vehicles, your journeys, and your drivers. The vehicles you choose must be fit for purpose and suited to the type of driving cycle you have." Picking the right vehicle may not prove simple. A decade ago most company cars were saloons or estates, but options have multiplied in recent years. Today, Crossovers or off-road style vehicles are popular, fourdoor coupes have emerged, people-carriers come in a variety sizes, and premium brands have stretched down to the smallest cars.

A similar broadening of choice has also emerged in commercial vehicles. "Over the last four or five years we've seen more variation in the size of vans," says Peugeot's Robson. In the past, firms often chose a big van by default, "but increasingly, they're realising that 'just in case' isn't a rational business case". Instead, fleet managers are cutting costs by meeting typical

While vehicle styles have multiplied, the past few years has also seen an equal diversification in propulsion systems. "For a while, company cars were diesels all the way," Chandler observes. "Today we are seeing very efficient petrol engines, hybrids, plug-in hybrids, and extended-range electric cars. Identifying which is the most appropriate is not simple. A plug-in hybrid, for example, might have a high list price but the whole-life costs might be lower, depending on how it's used."



Assessing the cost implications of new vehicles takes time and effort – see our case study – but the payoff can be considerable, both in terms of reduced cost savings and lower carbon emissions. With fuel costs likely to continue to rise in the long term and more and more businesses required to report on their carbon emissions with the upcoming introduction of mandatory carbon reporting rules simply muddling along with an aging fleet is unlikely to be the best road ahead.

TRAIN UP FOR LOWER COSTS

A modest upfront investment in driver training can pay for itself in months – and go on to yield cost savings for the long term

Training is often the first casualty of budget cuts, but in the case of driver training, a lack of investment can be especially shortsighted. Driving without thought for fuel consumption can be as bad for the pocket as it is for the planet.

“As a manufacturer, we work hard to improve efficiency,” notes Peugeot’s Phil Robson. “But out on the road, any car is only as efficient as the driver wants it to be.”

Instructor John Chambers says most companies will see a 10 per cent long-term improvement in fuel economy after training their drivers – a figure that makes it very simple to assess the potential savings. But an even bigger impact is possible. “On the day of the training, we generally see between 20 and 30 per cent improvements,” Chambers says.

Long-term savings depend largely on whether drivers receive a share of the benefits. “Drivers who pay for their own fuel and claim a mileage allowance tend to be quite focused on improving,” Chambers notes. “One of the reps I trained said he’d save £3,000 a year.”

Sounding a note of caution, Chris Chandler of Lex Autolease notes that high fuel consumption can often be a symptom of drivers under stress and that it might be unwise to add further pressure, but it can also encourage safer driving. “Make sure there are incentives to drive efficiently, but that they aren’t over the top,” he advises. “It’s important to be fair and transparent.”

Chambers adds that training sessions should be hands-on and practical, and must take account of the driver’s typical journeys, noting that while motorists typically claim to get good economy on the motorway but poor economy in town training can usually reverse this pattern. “I can usually improve town driving a lot more,” he adds.

Training sessions are practical, beginning with the instructor assessing existing driving habits over a typical route. The instructor will then provide personalised coaching as the route is repeated. The whole process lasts about an hour and, with most modern vehicles offering dashboard readouts, improvements can be gauged immediately.

Chambers offers training through EcoDrivers.net or through DriveSense, an organisation affiliated with the Energy Saving Trust. Tuition subsidised by the Trust starts from as little as £25+VAT per driver.

“Training is more cost-effective than people think,” says Robson. “The attitude is often that companies don’t want to spend right now, or don’t want to take people off the road for a day, but the savings are real.”

According to Chambers, payback usually takes just a couple of months. “It’s so fast, it’s a no-brainer,” he says. And the training is usually warmly received, he adds: “The typical reaction from company drivers is, ‘I don’t know why we’ve never done this before.’”

Early adopters of driver training were public bodies like local councils, Chambers says. “Secondary adopters were the big technology companies like Microsoft and Oracle,” he adds. “There’s a financial incentive to save fuel, but it’s a moral thing as well – they want to show they’re doing the right thing.”

Some of the public-sector drivers Chambers trained are now taking refresher courses. “I recommend leaving it about a year,” he says. “For two reasons: technology changes, so new cars may need slightly different techniques to get the best results. And in a year people will reach whatever level they’re going to get to, and we can perhaps raise them to the next level. Or if they’ve forgotten everything, it’s a reminder.”

As Chambers notes, there is no single route to better fuel economy. Petrol, diesel and hybrid cars each respond differently.

"One customer had hybrid cars," Chambers recalls. "They'd complained to the manufacturer that they weren't getting the fuel consumption they'd expected – their reps were only getting mid-40s miles per gallon. That's because hybrids respond to a slightly different driving style. You need to make sure you use the electric motor more, especially around town. Cruising speed is also particularly critical in a hybrid, so we got them to drive about 5mph slower on the motorway. Those two tactics took the reps from about 46 to 80mpg."

"THE ATTITUDE IS OFTEN THAT COMPANIES DON'T WANT TO SPEND BUT THE SAVINGS ARE REAL."

According to Chambers, the most common mistake made by drivers is a failure to look ahead and anticipate, leading to excessive braking and acceleration: "The moment you start reacting to what you can see up ahead, you start saving fuel."

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CASE STUDY: FORREST

Forrest is a Lancashire-based building services provider, with a particular focus on the refurbishment of social housing. It currently has about 150 vehicles, mostly vans plus a few company cars, acquired through a mix of outright purchasing and five-year leases.

Vicky Lee, Forrest's quality & environment manager, explains how the company has reassessed its fleet over the past year. Spiralling fuel and maintenance costs were the most pressing motivation for change, although the company also wanted to improve its image by retiring the least presentable vehicles and cutting its carbon footprint.

"SPIRALLING FUEL AND MAINTENANCE COSTS WERE THE MOST PRESSING MOTIVATION FOR CHANGE"

"Many of our vans work hard and in the worst cases we were seeing figures like 11 or 12 miles per gallon," Lee says. This brought an obvious pressure to improve fuel economy, although making sure the fleet remained fit for purpose was the number one priority.

Forrest began work early in 2012 with a full review of its options. "We evaluated 120 vehicles, after working with our buying department to pin down the exact size of the things we need to carry, like sheets of plywood and lengths of pipe," Lee explains.

This research phase whittled the list down to just seven prime candidates. "We then borrowed some demo vehicles and put together a roadshow," Lee recounts. "We logoed them up and invited our employees to tell us what they thought." This proved a wise precaution, uncovering issues that would have led to problems in the field, such as difficulties loading one of the vans by forklift.

Lee's advice for other fleet managers is to ensure that vehicle users are fully involved in the decision making. "Make sure you really understand what you are shortlisting, and rely on your employees to make sure they are fit for purpose," she says.

Having chosen four core vehicles, the company's aim is to move to a 100% leased fleet over the next two years, opting for three-year leases with full maintenance. This strategy will cut costs in year one, despite a big jump in the leasing bill. Lower maintenance outlay and substantial savings in fuel will bring the numbers quickly back into the black, Lee says.

Forrest has been careful not to rely on published fuel consumption ratings, instead putting demo vehicles to work for long enough to establish its own figures. "In some cases we've sacrificed mpg to get higher horsepower, which is better for carrying heavy loads," Lee notes.

Fuel savings will come not only from moving to newer and more efficient vehicles, but also through picking the right vehicles. Many of the new vans are smaller than their predecessors, but with the workforce on board from the outset even those downsizing are happy. "Our CO2 figures now go as low as 87g/km, which means much lower Benefit-in-Kind tax for any private miles," Lee explains. "Some employees who used to leave their van over the weekend are now in a position to drive home, because of the improved tax situation."

As well as bringing in new vehicles, Forrest has also introduced new technology, to get the most from its investment. Following recommendations from another customer, Forrest trialled GreenRoad – a vehicle tracking product that gives drivers instant feedback. The gadget uses a simple trio of red, amber and green lights give visible warnings about wasteful or unsafe driving.

"We trialled GreenRoad on nine vehicles in one of our highest mileage groups," Lee says. The process began with six weeks of blind benchmarking, with the feedback lights switched off. Drivers were simply told that their previous vehicle-tracking system had been replaced.

The drivers were then briefed on the new system, and told how they had fared during the initial six weeks through GreenRoad's scoring system. Each driver was coached on how to improve their performance and a £100 bonus was offered to the individual who could get the best score over the next six weeks.

Back out on the road, with feedback lights active, all but one of the nine drivers improved their safety scores and fuel consumption. Initial worries – including that the lights might be distracting – proved unfounded, Lee says. One of the drivers improved from 15mpg to 33mpg – a 120 per cent gain – while the group as a whole improved by more than 60 per cent. In the end, all nine drivers were given the bonus.

IN SOME CASES WE'VE SACRIFICED MPG TO GET HIGHER HORSEPOWER, WHICH IS BETTER FOR CARRYING HEAVY LOADS

Lee cautions that these results aren't necessarily indicative. "We deliberately picked a worst case scenario," she says. "But a 10 per cent improvement is enough for the system to pay for itself." Forrest is fitting GreenRoad to all its newer vehicles and will roll out a wider incentive plan for drivers.

The safety-coaching aspect of the system brings an additional bonus. The company expects to reduce insurance costs through a reduction in claims – its insurance company even contributed to the cost of the trial. And again, there is a strong incentive for the workforce to take note as well, given that drivers are personally liable for the insurance excess in any accidents they cause.

TAX AND SPEND

Company vehicles are heavily taxed, with most levies related to CO2 – and the penalties for polluting are set to get tougher

In its 2012 Budget the government brought in a set of changes designed to accelerate the adoption of lower-carbon cars in corporate fleets. Vehicles are taxed in a variety of ways – through Benefit in Kind tax paid by employees, Class 1A National Insurance Contributions paid by employers, levies on fuel, and capital allowance rules limiting which costs can be set against profits when calculating corporation tax.

For leased cars rated above 160g/km, only 85 per cent of costs now can be set against profits, offering a new and strong incentive to lease cars below that level. For cars bought outright, the thresholds are currently 110g/km and 160g/km. Below the lower mark, the full price of the car can be set against tax in year one – a special incentive set to expire in 2015. Between 110g/km and 160g/km, only 18 per cent of outlay can be applied annually for five years, down from 20 per cent. And above 160g/km, just eight per cent of cost can be deducted, making more polluting cars much more expensive to buy.

“If you are buying outright, look at the cashflow implications of buying low-CO2 vehicles,” advises Peugeot’s Phil Robson. “There are lots of factors at play, but the most significant for cashflow are the capital allowance incentives available in the lowest CO2 brackets. Setting costs against tax in a single year rather than five can have huge implications on cashflow.”

If this situation isn’t already persuasive enough, it will become more so shortly. From April, the main threshold for leased and purchased cars alike will fall to just 130g/km, while the low-CO2 mark will drop to 95g/km. The result will be big increases in effective running costs even for fairly modest cars.

Manufacturers will no doubt respond with an increased roster of cars below 130g/km. And as a result, cars with advanced fuel-saving technologies such as petrol- or diesel-electric hybrids will become all the more attractive for fleet managers.

PEUGEOT

Peugeot was founded at the height of one revolution. Now we're in the midst of another. But this time new technology is about cutting costs, reducing emissions and living in a better world. And we're really proud to be leading the way with our unique diesel hybrid technology, available in the award-winning Diesel HYbrid4 (3008 and 508). We're also thrilled that our enviable hatchback history continues with the brand new 208 with its stylish exterior and wide range of high-performance engines (from just 87g/km CO₂). Iconic little hatchbacks aside, we've also been recognised in recent years for pushing the boundaries with vehicles that are both daring and responsible including practical vans like the Bipper, the stunning RCZ Sports Coupé and the sophisticated 508.

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