

From Russia with dent

By [Jugoslav Stojanov](#) and [SAVRALA](#)

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Russian car lease market has ingredients for large expansion, but problems persist. And the South African experience?

Despite phenomenal growth of around 40% in the Russian fleet car lease market, some significant 'teething' problems still exist. An unfortunate combination of a high rate of accidents and a slow rate of accident repair has led to international leasing companies awarding crash repair garages in the Russian market the inauspicious rating of '1', on a scale of one to five in terms of customer satisfaction. This is according to a new report* by independent market analyst Datamonitor that explored the potential for outsourcing in one of Europe's fastest growing company car markets. Respondents singled out crash repair as the most problematic area, with garages reported to be taking several weeks to repair leased cars involved in accidents. "The woes of the full-service lessors operating in Russia reflect some of the deficiencies in the country's overall auto infrastructure," says Datamonitor automotive lead analyst Jugoslav Stojanov.

Strong growth in face of teething problems

Major international leasing and fleet management companies in Russia have rated insufficient quality and reliability of suppliers as the single most serious obstacle to business growth in Russia. Aside from the issues with car repairs, fuel management and fuel cards, which in Russia have considerably lower penetration compared to corporate car markets in western Europe, have also been identified as another weak area, attracting an average rating of 1.2, whereas satisfaction of leasing companies with tyre specialists averaged 1.5.

The least criticism was heard about dealership garages for routine technical management of leased company cars, but this failed to earn them an average satisfaction rating higher than '2', Stojanov says. "In the period between 2000 and 2006, the number of fleet cars in circulation grew by an unprecedented 32%, but the number of garages available to service those cars has not kept pace. It will take some years before this discrepancy is ironed out."

The lengthy average lead time across crash repair centres is also a consequence of the high road accident rate in Russia, Stojanov says. "Datamonitor has estimated that just fewer than 10% of all cars in Russia are involved in an accident each year, which compares to eight percent in Germany, for instance.

"Such a high average is caused by the relatively poor quality of local roads and weak law enforcement," he says.

Players confident of growing demand by corporate fleets

Despite the teething problems highlighted by operational leasing and fleet management companies in Russia, none of them

doubt the substantial growth potential of the market in the coming years. According to Datamonitor, the operational leasing market in Russia is forecast to grow at an average rate of 40% a year until 2012, but Stojanov says the race is on to beat even these lofty predictions. "With full-service operational leasing first offered only five years ago, the local market has already attracted the presence of Europe's major brands, such as ALD Automotive and Arval, but more companies are on the way in."

When certain companies are going to enter the market depends on a few factors, he says. "These include the size of the market, their forecast of the growth pace, potential demand from their existing international clients for services in Russia, as well as past experiences with market entries.

"The fact that some companies have set up operations in Russia and others have chosen to wait implies different perceptions of the market and the actual demand from their own clients, but it may also mean they are trying to correct mistakes made in the past, when they feel they may have acted too slowly or have entered certain markets too early."

A number of factors are thought to be fuelling the growing demand by corporate fleets for operational leasing, but the market is currently mainly expanding thanks to local subsidiaries of international companies; those that are already familiar with this funding method. Hence, the pace of growth of foreign direct investments in Russia is one fundamental factor influencing the growth of the operational leasing market in Russia in the short- to medium term, together with the growth of the gross domestic product in the country, Stojanov says. "Another important factor is the shortage of skilled labour, which is likely to become more acute in the coming years.

"As companies are struggling to recruit skilled workers and managers, as well as contain attrition, the result is upward pressure on wages and employers expanding their compensation packages with non-monetary benefits, such as company cars employees can use pretty much as if they were their own," he says.

According to Datamonitor, currently less than one percent of all cars used by companies in Russia are funded by operational leasing - a ratio which is expected to increase to at least 1.5%, bearing in mind the growth of the corporate car fleet itself. By comparison, Stojanov says, "in Europe's most mature operational leasing markets, such as the Netherlands or the UK, around half of all corporate cars are funded by operational leasing, which also further highlights the potential the Russian market possesses."

Notes

* *Challenges and Growth Prospects for the Operational Leasing Market in Russia*

Datamonitor's report *Challenges and Growth Prospects for the Operational Leasing Market in Russia* examines the current state of the operational leasing market in Russia, the outstanding growth potential of the market and the problems that exist within it.

And in south Africa?

According to South African Vehicle Rental and Leasing Association (SAVRALA), some people seem to view renting a vehicle as a licence to neglect or abuse it. Damage caused by this mindset, coupled with unavoidable road accidents, costs the car rental industry about R50-million a month.

The organisation's statistics indicate that there are about 12 000 accidents per month in the industry, which result in the average repair cost of R4 000 per vehicle and an average downtime of four days per vehicle.

Avis MD Wayne Duvenage says in 2007 the industry recorded a 51% increase in the number of accidents and a resultant hike in accident repair costs. "Research indicates that increased collisions are the result of three fundamental problems: engineering, enforcement and education," he says.

Engineering challenges relate to deteriorating roads and no funds to repair them, as well as malfunctioning traffic lights, faded road markings and, in some cases, the illogical design of certain roads. “Enforcement is also an issue in that our traffic police force is hopelessly understaffed and many officers do not have advanced driver training themselves,” says Duvenage.

Enforcement is essential

“Sadly, driving behaviour will only improve if the legislation is enforceable and in South Africa, we are dismal when it comes to addressing lawless driving due to poor enforcement. Take a look at how many people drive without number plates today or the brazen attitude of taxi and now public driving in the emergency lanes,” he added.

In addition, the AA estimates that one in every five drivers has an illegal, forged or bought license. “This is a dangerous scenario, especially when combined with the fact that South African drivers are notoriously arrogant and aggressive and tend to regard themselves as good drivers regardless of their skill level,” says Duvenage.

All these factors, combined with the careless behaviour of some drivers when renting a vehicle, impact negatively on the car rental industry. “The more accidents, the more time vehicles spend in repair and panel shops and the less effective fleet utilisation,” says Duvenage.

Aware of these trends and challenges, Avis has put several checks and balances into place to ensure the ongoing safety and quality of its vehicles. In addition to gleaning drivers' feedback about the vehicles, each vehicle undergoes a 25-point quality control check after every rental transaction. “People renting cars can rest assured that every time they get into one of our rental vehicles, safety and quality have been top of mind in ensuring them a smooth and hassle free journey. Avis is looking at introducing its own in-house panel shops to handle 50% of their minor repairs which will speed up the repair process and reduce costs,” says Duvenage.

On the fleet management side, Avis Fleet Services Managing Director, Laurence Savage, says the company boasts an ISO 9002 accredited fleet accident management product to ensure fleet productivity, reduced repair costs and advanced process management. “We have service level agreements (SLAs) with carefully selected panel beaters, salvage dealers and assessors, amongst others,” he says.

In addition, Avis Fleet Services offers its corporate customers an advanced driver training programme. “Today our customers routinely experience accident reductions of 50% or more after training,” says Savage.

The driver training programme offers defensive driving tactics for light motor vehicles, giving the everyday person the skills to stay safe on South African roads. The programme also helps corporate organisations reduce downtime due to collisions.

Duvenage says safety is extremely important to Avis. “Not only do we want the people who hire our vehicles to drive in safety, but we want to contribute to a safer driving environment on the roads in general. This is in line with our customer promise that at Avis people are more important than cars,” he concluded.

ABOUT THE AUTHOR

Jugoslav Stojanov, the author of the report on the Russian leasing industry is automotive lead analyst at Datamonitor, a leading research company in the UK. The portion of the report on the South African industry is courtesy of the South African Vehicle Rental and Leasing Association (SAVRALA)

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