

## Marketplace

The markets where we operate are undergoing significant structural changes, not least the continuing shift from vehicle ownership to rental. We are well placed to capitalise on this and other changes, ensuring we tailor our comprehensive product offering to each particular market's needs.



### Flexible rental

Customers in this market have no contractual or capital commitment, and so enjoy the most operational flexibility. Vehicles are usually supplied inclusive of maintenance and other services. There is generally strong demand from customers who want the ability to return a vehicle at short notice due to changes in demand through their business cycle. When businesses have more certainty in their outlook, there is a natural shift of customers moving from flexible rental into longer-term commitments in minimum-term rental. Northgate is a market leader competing typically against regional operators.

#### Our response

- Our competitive advantage comes from our scale and unique understanding of our customers' requirements.
- We aim to defend and grow our share of this market, through emphasising our superior service levels and product offer, as well as defending on price where necessary. For more information on flexible rental, please refer to page 16.



### Minimum term

Minimum-term rentals require customers to commit to a rental period for a minimum of 12 months. This offers them similar benefits to vehicle ownership while limiting their exposure to residual-value risk and initial cash outflow. It is the natural landing point for customers who shift out of the ownership model, and the market is seeing a clear trend out of ownership and into rental. Minimum-term hire is a substantially larger market than flexible rental, approximately twice the size, and continues to grow.

#### Our response

We are well placed to capture the significant market opportunity through:

- a range of minimum-term offers with levels of service and flexibility typically associated with flexible rental, and additional service enhancements distinguishing our products from our competitors;
- cross-selling minimum-term rental to a core base of flexible rental accounts, as most medium to large fleet operators have a requirement for both; and
- targeting an increasing proportion of our marketing spend toward taking advantage of the structural shift from vehicle ownership to rental.

Read more on our strategic priorities

See pages 16 and 17

Read more on how we manage risk

See pages 28 to 31

Read more on our resources and relationships

See pages 40 to 43

**We undertake our key activities in two distinct geographic markets:**

The UK & Ireland and Spain. Macro-economic conditions in both have been stable throughout the year.

We can outline the characteristics of our markets under the areas outlined below.

**2.4%**

2018 GDP growth in Spain

**1.4%**

2018 GDP growth in the UK



**Vehicle sales**

Sales of used LCVs in the secondary market generate transactions of c.£5 billion a year. End users are typically individual business owners. Being a highly fragmented market, opportunities exist to consolidate to make the market more efficient and transparent.

**Our response**

- We continually explore opportunities to make markets in used LCVs in each territory more accessible to our customers.
- We use our Group-wide expertise to optimise the disposal route for our vehicles, thereby minimising holding costs.
- Through our national networks of retail sale locations we can offer customers the widest range of vehicles and service in the market.

**Sustainability and the low carbon economy**

There is a slow but sure growth in demand for electric and lower emissions vehicles in response to increasing regulation in emissions in both Spain and the UK. In Spain, central Madrid has a ban on driving and parking for vehicles without an eco sticker (LPG, hybrid, natural gas) or blue sticker (fully electric vehicles). Given that metropolitan Madrid represents 20%+ of Spanish GDP, moves such as this will have consequences for company fleets. In the UK & Ireland, more than 99% of new LCV vehicle registrations are still diesel, as it is cost-effective, offering the best combination of fuel economy and payload. In addition, the availability of suitable electric LCVs is minimal. Nonetheless, we are aware that market demands will change with any legislation.

**Our response**

- We are progressively aligning our fleet policy fully with market demands, to be at the forefront of electric and zero emission penetration into the market.
- We are working with OEMs to ensure we have as full an allocation as possible of these vehicle types for customers.
- In Spain, we have continued to invest in electric vehicles, which now comprise 1.5% of the fleet. We are also exploring LPG as an alternative fuel with near zero emissions, which is becoming an increasingly attractive proposition in Spain. In passenger car purchases, we are now 100% petrol rather than diesel.
- In the UK, the challenges of infrastructure, and reductions in payload coupled with the higher cost of investment are currently restricting the demand for commercial vehicles running on alternative fuels. However, changes in regulations and widening of low emission zones will influence demand.