Edenred | Fleet & Mobility

DRIVING FORCES

Challenges and Opportunities in the European Road Transport Sector

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Foreword

As the everyday companion for road transporters, we at Edenred are committed to help manage fleets more efficiently and overcome the challenges fleet managers are facing in the freight sector.

Whether they operate in France, Poland or Spain, whether they run one truck or manage a fleet of 300, road transporters all face similar challenges, most notably, the constant battle to maintain a healthy margin. Our customers are voicing concerns of growing levels of competition and the introduction of regulatory hurdles which continue to affect their businesses. These pressing concerns are further amplified by the mention of new technologies, driven by ecological mandates that promise to transform the road transportation sector.

Beyond the hype of electrification and game-changing innovations, the industry continues to move along at a steady pace with the day-to-day challenges. The shortage of skilled driver personnel and the ability to manage driver behaviour has become the number one concern for fleet managers, while the operational expense management challenges continue to grow in complexity. Technological advancements in payment solutions for fuel, tolling and maintenance expenses, along with further developments in telematics and support services capabilities are making the lives of fleet managers easier. **Finding the right solution that keeps it simple for each vehicle and fleet whether they traverse the continent or deliver a parcel to the corner store, is what we strive to achieve.**

Edenred is the everyday companion for people at work and a major player in fleet and mobility solutions. We have extensive market knowledge and experience in the road transportation business in Europe through our company, **UTA**, which is the number two pan-European fleet & mobility solutions provider along with other local brands such as **La Compagnie des Cartes Carburant** in France and **The Right Fuel Card Company** in the United Kingdom. Through cards, mobile applications and on-board devices, **Edenred provides payment solutions for fuel, tolls and maintenance to assist fleet managers with their operational requirements.** Over and above this, we have experience and knowledge in employee benefits and incentives to help companies attract and engage their employees, most notably truck drivers. **Our customer centric approach combined with advanced technological capabilities is one which aims to reduce complexity by simplifying fleet management and cost optimization through seamless integration.**

To better understand our customers and the wider freight market in Europe, we conducted numerous interviews with transporters of all sizes across key European countries. **This whitepaper's objective is to share with you our most recent learnings and understandings on the European road transport market.**

I hope that you will enjoy reading this paper and Edenred's teams remain at your disposal should you wish for further information on this matter.

Antoine Dumurgier
COO Edenred Fleet & Mobility Solutions

Executive Summary

- This whitepaper offers us a way to share our latest learnings and insights on the European road transport sector. **We interviewed fleet managers throughout Europe, representing transporters of all sizes, to better understand their challenges and the opportunities confronting the industry.**

- Despite the limitations imposed by the weakened economic climate in Europe, **the road transport sector has achieved sustained growth and continues to enable economic activity at all levels.** Heightened investment and cost competiveness has led to the rise of **Central and Eastern Europe as major players** in the road transport sector. Poland has overtaken Germany as the leading European transporter nation while the **growth of ecommerce** and **technological advancements in fleet management** are driving growth and efficiencies which both improve vehicle capacity utilisation and reduce the burdens on fleet managers.

- **The primary challenge identified relates to the Europe-wide shortage of drivers and need to manage driver behaviour.** With estimates suggesting that 100,000 drivers are required to fill the skills shortage, the sector is facing rising wage costs, a reliance on mediocre skills and the adoption of telematics capabilities to raise efficiency. Fleet managers note the importance of competitive pay packages which include financial and employee benefits to hold onto top drivers.

- **EU-wide rules on posting of drivers have been proposed and discussed to clarify remuneration conditions of drivers according to the type of operations they are assigned to.** The inclusion of a 96 hour cooling off period to combat systematic cabotage and the need for trucks to return to their country of origin every eight weeks. Furthermore, light commercial vehicles will fall under the same rules on access to the market as heavy commercial vehicles. Transporters will be required to pay for driver accommodation for rest periods of 45 hours, preventing the need to remain in the cab. Lastly, the use of second version smart tachographs will be phased-in, starting in 2023.

- With the **cost of purchasing new vehicles continuing to rise**, fleet managers are looking for ways to reduce this financial burden without incurring heightened maintenance costs. The rise of leasing and rental models along with the rise of alternative fuels is growing in importance. Although the adoption of alternative fuels in heavy-duty vehicles remains limited by technology and infrastructure, advances in the near future are expected to see their adoption increase.

- **For all transporters, costs remain an unrelenting challenge. The adoption of products utilising advanced purchase and telematics capabilities offer increased savings and efficiencies for transporters.** Digital freight solutions are one such solution that offers significant benefits to fleet managers which is expected to become ubiquitous in the coming years.

- **Finally, we note the importance of secure parking and how the lack of certified secure parking remains a challenge for fleet managers throughout Europe.**

By taking an innovative stance, many of the changes impacting the road freight sector may be turned into opportunities to grow. Finding the right partners to assist with these is vital to managing the day-to-day operations while maximizing business objectives.

Freight Market & Business Evolution

Although Europe has been plagued by weakened economic conditions since 2009, increased levels of investment have enabled the road freight market to reach €350 billion in 2019. Poland and Romania have achieved robust growth over the past 5 years, on average growing at twice the rate of France and Germany. Since 2015, the Spanish economy has been far more resilient, exhibiting consistent growth and heightened investor confidence compared with the period following the financial crisis.

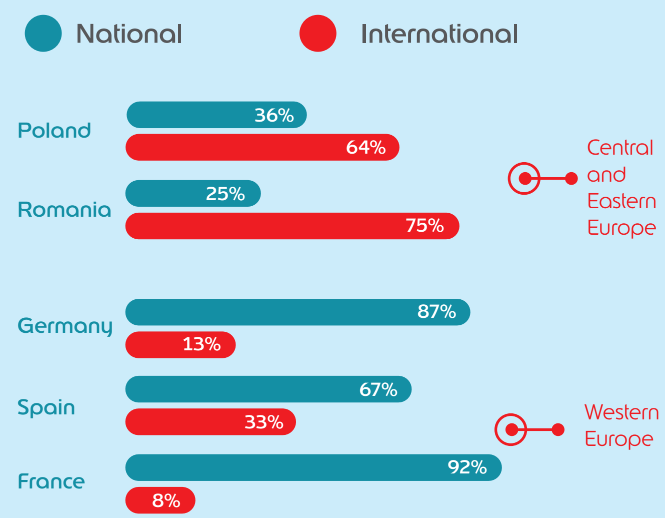
Central and Eastern Europe

Poland has grown into the largest road transporter of goods on the continent with Germany following in second place. In terms of volumes transported, France and Spain compete strongly in EU road transport. **Poland takes on a greater share of international transport, whereas France and Germany remain focused on their national markets.** Although 67% of the Spanish road freight market is conducted within its borders, the country has a large international transport sector which continues to grow strongly. Polish cost competitiveness and heightened investment over the past decade has seen growth explode with over 34,000 fleet companies vying for a share of the market. As a consequence of the break-neck pace of growth over the past decade, the Polish market has become saturated. The high levels of competition are driving down costs with average margins ranging from 1.4% to 2% at the upper end.

Medium and large transporters are consolidating and investing in enhanced capabilities to improve service offerings and attain greater seller-side power.
As a result, there are fewer and fewer differences between East and Western European companies as more and more are interacting and building bridges. There are many organizations in Eastern Europe which have invested in human capital; salary differences are reducing between for example, France and Romania. Furthermore, new regulations relating to rest hours combined with traffic restrictions have raised per kilometer costs from 0.93 Euro/km to 0.95 Euro/km in Eastern Europe. Smaller transporters with limited access to funding within the low growth and revenue market environment are struggling to expand and enhance capabilities.

The Romanian market has achieved strong growth in volumes in recent years with much of that growth coming from international clients. International road freight services dominate with approximately 75% of all volumes being undertaken across borders. The relatively low cost of Romanian transport, facilitated through low labour costs has been a critical factor behind the expansion of Romanian road transport.

National and International Road Transport by Country (Percentage Share of Total Volume), 2017



EUROSTAT: Road Freight Transport by Type of Transport, 2017

Top Ranked Road Transporters (Million Ton per Km, EU), 2017

Rank	Country	2017 Volume	2016-2017 Growth
1	Poland	335,220	15.3%
2	Germany	313,149	-0.8%
3	Spain	231,109	6.5%
4	France	167,691	7.6%
5	UK	153,939	-0.7%
6	Italy	119,687	6.3%
7	The Netherlands	67,513	-0.4%
8	Romania	54,704	13.6%
9	Czech Republic	44,275	-12.0%
10	Sweden	41,851	-1.9%

EUROSTAT: Road Freight Transport by Type of Transport, 2017

According to **Sales and Marketing Director of UTA, Mr. Gabriel Moulènes, "the European road transportation market is mostly made up of small and medium fleets. Although we see large organizations throughout Europe, Poland and the Baltic states have a higher share of large fleets."**

Western Europe

Prior to the rise of the Polish sector, Germany had been the dominant transport market within Europe, driven predominantly by the growing manufacturing and export sectors. The country recorded a decline in total road freight transported in 2017 of 0.8% for the first time in years.

Approximately 87% of all road freight is conducted within German borders with only 13% done with neighbouring countries. A similar trend is seen in France with over 90% of transport being performed for local customers. A major factor limiting much of the volumes to national borders is the relatively high operational costs which ultimately, raises the total costs of transporters. The French market, boosted by growing demand, derived from elevated trade and trends such as ecommerce, has experienced consistent growth in cargo volumes.

The Spanish market which records the third highest cargo volumes in Europe, earns significant revenues from international trade. The economic recovery in recent years is filtering through into improved cargo volumes as seen by the 6.5% rise noted in 2017. The growth in the Spanish market has been enabled by their improved international capabilities. Many large Spanish fleet managers have invested heavily in advanced capabilities which have enabled them to offer top-tier services at competitive rates.

"Optimization of the truck load with big data and load analytics will help fleet managers to do more with fewer drivers and less emissions."

Gabriel Moulènes
Sales & Marketing Director, UTA

"The market is offering new solutions built especially around the driver: with the increasing penetration of digital tachometers and vehicle telematics, human factor-related data is growing in demand. New attitude-related possibilities are opening up how to drive better to save fuel and choose the best route etc."

An interesting trend in European road freight is the growing level of cabotage in Western European countries by Central and Eastern European transporters. Germany and France receive the highest cabotage volumes within Europe, the majority of which is performed by Polish transporters. The levels of cabotage in Europe remain marginal compared with total domestic volumes, mostly as a consequence of the unstructured or ad-hoc nature of cabotage and relationships between local shippers and transporters. The table on cabotage ranks countries by volume performed within its borders while also providing a break-down of which countries are performing the transport.

Cabotage and Growth Drivers

An important factor which has provided a growth stimulus for the road freight market is the explosion of ecommerce, which, in Europe was valued at $347 billion in 2017. **Supported by the proliferation of highly populated cities and regions, coordinated via efficient transport corridors, forecasts suggest that ecommerce will grow to over $800 billion by 2025.** Regulatory changes in the pipeline are expected to raise cross-border ecommerce in Europe by eliminating geo-blocking (the inability to sell to foreign customers). **Increased online sales across borders has the potential to drive-up demand for transport within Europe and further abroad, opening-up opportunities for growth in international trucking.**

In discussions with Mr. Gabriel Moulènes from UTA regarding the future direction of fleet solutions and market opportunities, he notes that the growth and efficiencies will be generated through focusing on the driver and the adoption of data capabilities.

Ecommerce will grow to over $800 billion by 2025

Rank	Country in which cabotage takes place	Million Tonne-kilometers	Top 3 countries which perform cabotage	Share (%)
1	Germany	20,393	Poland	64.3%
			Romania	6.2%
			The Netherlands	4.8%
2	France	11,242	Spain	22.2%
			Poland	19.1%
			Lithuania	10.7%
3	Italy	2,248	Romania	18.4%
			Poland	17.7%
			Germany	13.5%
4	Belgium	1,871	Luxembourg	29.8%
			The Netherlands	28.5%
			Poland	13.8%
5	Spain	1,674	Portugal	43.9%
			Romania	23.1%
			Bulgaria	17.0%

EUROSTAT: Road Freight Transport by Type of Transport, 2017

Fleet Manager Challenges and Opportunities

The European road transport sector is constantly evolving as market conditions create new challenges and opportunities for fleet managers. In the following pages, we will elaborate on each of these, drawing insights from our interviews with small, medium and large transporters in Europe[1].

Skilled Driver Shortage

The lack of drivers available in the European markets has become the leading concern for fleet managers. In this section, we will delve into how fleet managers find and hold onto top drivers, manage and improve the performance of poor drivers and ways in which new regulation will impact the sector.

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Vehicle Management Challenges

Managing and maintaining one's truck or fleet in tip-top condition is key to any fleet manager. We will look at the major factors related to vehicle management including vehicle acquisition, maintenance and some of the concerns surrounding new and alternative fuels.

Page 14

Complex Operational Cost Management

The most universally understood challenge to fleet managers is the myriad of costs. In this section, we are going to provide a break-down of the various costs impacting the European fleet industry.

Page 17

Secure Parking

A major factor impacting transporters in Europe is the ability to access secure parking. This section will discuss the need for parking and its availability within the European road network.

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[1] Small Fleets (1-10 vehicles) | Medium Fleets (11-50 vehicles) | Large Fleets (>51 vehicles)

Skilled Driver Shortage

With vehicle management along with safety and security having taken precedence previously, the lack of drivers available in the European markets has become the leading concern for fleet managers. The shortage of drivers causes driver wages to increase, raises competition for top drivers and creates an environment where companies are working harder to find and retain well trained drivers. The importance of driver behaviour is top-of-mind for fleet managers as their performance has a significant impact on fuel costs and overall performance.

Despite differences between Eastern and Western European transport markets, one phenomenon that continues to ignore borders is the lack of drivers. The prospect of driving, especially over weekends, has created a growing shift of labour toward competing sectors which offer superior benefits and opportunities.

Finding high quality drivers

Hiring well-trained drivers has become a leading challenge in the European road transport sector. The shortage of drivers in Europe is estimated at 100,000 and continues to expand. Apart from relying on word-of-mouth which has been successful for smaller transporters, companies are exhausting all avenues during the hiring process. **Many fleet managers have found that recruiting through driver schools and training programs to be a useful source of new drivers.** Head hunting has also been adopted to source top drivers, although this is more prevalent among the larger transporters.

> The shortage of drivers in Europe is estimated at 100,000 and continues to expand

Over and above the use of traditional job boards and online platforms which have a national and international presence, **companies, most notably within France, Germany and Spain are beginning to establish partnerships with organizations to source drivers and labour that is available and willing to be trained.** The model goes further whereby companies offer training and will sponsor the driver's licence.

Many fleet managers are working harder to source foreign labour as there is a large pool of labour coming from developing and less developed economies in Eastern Europe and further afield in Africa. We find that many Western European fleet managers are

hiring drivers of African origin who have been trained throughout the continent. On the other hand, Polish operators are hiring large numbers of drivers from Ukraine as there are not enough Polish drivers to fill the demand gap.

> "We work with the Red Cross to select new immigrant drivers which have recently come over from sub-Saharan African countries as part of the recent influx"

Spanish Fleet Manager,
3,000 vehicles for national and international automotive and retail clients

Keeping good and motivated drivers

The necessity to create good working conditions for drivers and flexibility within the market complicates the fleet manager's job. **Finding a balance between incentive packages and the need to track driver behaviour, a hot topic at the moment, is critical to retaining top drivers.** The objective is to monitor driver performance to achieve optimal results without pressuring him/her.

Many fleet managers of small and medium sized transporters have the point of view, that if they offer a competitive salary, a modern vehicle and a healthy and respectful environment, it will result in low driver turn-over. One should keep in mind that drivers are frequently away from their families, and consequently, welcome financial support provided by their employers.

By failing to support drivers in this way, they will leave. Highly mobile workers like international drivers also appreciate rewards in kind such as long breaks with their families. **Keeping top drivers requires fleets managers to offer competitive packages and incentives while also providing them with access to road-side facilities.** A healthy company culture combined with extensive employee benefits has a profound impact on word-of-mouth recommendations between drivers and on the ability of a transport company to find new drivers.

Managing Driver Performance

The shortage of drivers means that for many companies, employing less than ideal candidates is the only way to keep their business on the road. Smart driving solutions exist to ensure better delivery accuracy and customer satisfaction along with fuel consumption and maintenance costs.

The first priority of fleet managers is to confirm that their drivers are maintaining the correct route and arriving at their destination on-time. The use of digital tracking through geo-localisation capabilities is critical to providing this oversight and has been widely adopted throughout Europe.

> "Attracting staff is a key issue in our industry. Whilst wages are usually within certain bandwidths here in Germany, we aim to offer alternative incentives like: Christmas money, free buns after 6pm, free warm beverages, a company-provided doctor and such things."

German Fleet Manager,
45 vehicles for national and international clients

Employee Benefits

- Accommodation
- Meal vouchers
- Gift and rewards programmes
- Savings platform
- Christmas bonus
- Facilities on the road - road club and social media communities

Financial Benefits

- Health insurance
- Retirement planning
- Preferred loan rates

Fleet managers note that the fuel savings differential between top performing drivers and poor drivers varies between 10% and 20%. **With fuel costs rising to over 30% of total operating expenses, driver behaviour has a critical impact on the bottom line.** By improving driver behaviour in this way, fleet managers are also finding that their maintenance costs are reducing as a consequence. A common way to incentivize good driver behaviour is through the provision of quarterly bonuses and competition boards.

> Top drivers can save between 10% and 20% on fuel costs

Transporters are making large use of telematics capabilities that track and record how many times the driver applies the brake, when the transmission is shifted, odometer readings and for how long the vehicle idles. These are just a few of the factors that are accounted for, but have enabled companies to achieve useful savings in fuel-spend. **Many of the companies that we have relationships with offer further training for drivers as a means to improve driver qualifications and company performance.**

Regulating driver work and rest hours

The enforcement of driver work and rest hours has further modified driver management. The intricacy of these rules means that drivers and their managers must keep close oversight of driver activities, be well versed in protocol and take the time to record this activity. Rest periods, which had been regulated quite loosely in many countries is vital to maintaining safety on the road. We are seeing increased efforts to enforce these regulations in recent years. **Drivers that fail to comply with the regulations are liable to fines and/or the loss of their licence. In some countries, criminal charges may be enforced against company directors.**

Apart from developing a strong knowledge of the regulations, companies with the necessary resources invest in telematics capabilities that inform the driver and fleet manager of hours driven, when to take rest a period, how to maximise productivity and finally, record the activity for submission under the regulation. These solutions are reducing the guess work for drivers and enabling them to focus on what they do best, driving.

> Driver costs are an estimated 10% to 30% less in Eastern Europe when compared to Western Europe

Towards a new European Road Transport Framework

The tough economic climate in Europe continues to squeeze the competitive landscape and the ability to maintain margins. EU Institutions have provisionally agreed on a number of pieces of legislation in December 2019 in relation to driving and rest times, cabotage and posting. These agreements are expected to turn into law by mid-2021. It will imply the adoption of new national legislation as well. The ultimate objectives are to create fairer competition among countries, enhanced trucking efficiency and the improvement of driver work and pay conditions. Ensuring a harmonious co-existence of these objectives can be a challenge.

Driver Posting and Cabotage

EU-wide rules on posting of drivers have been proposed and discussed to clarify remuneration conditions of drivers according to the type of operations they are assigned to. **A number of derogations to the posting rules should be introduced to ensure fair competition among European drivers while avoiding red tape.**

Cabotage defines situations where a foreign truck makes domestic deliveries on the territory of an EU Member State right after an international trip from another Member State or from a country outside the EU. Current legislation relating to cabotage limits drivers to a maximum of three cabotage trips within a seven day period. **As per the agreements achieved in December 2019, rulings will be amended to prevent systematic cabotage by introducing a "cooling off" period of four days. This implies that the same vehicle may not conduct any cabotage operations within the same country before the 96 hour period has lapsed. Trucks conducting international transport operations will have to return to their country of origin every eight weeks.** The latest agreement is based on combating "letterbox companies" through strengthening the link between an operator's country of origin and activities.

Light Commercial Vehicles

To eliminate competitive differences, operators using light commercial vehicles (LCVs) will fall under the same rules on access to the European road transport market as well as driving and rest-times as operators of medium and heavy commercial vehicles. The agreed changes are extended to include vans over 2.5 tonnes used for international transport.

Improved Driver Conditions

To ensure better sleeping conditions for drivers, their rest period of 45 hours or more will be taken outside the vehicle and in "suitable" accommodation. Any related costs shall be covered by the employer.

Digital Tachograph

To enhance regulatory oversight and enforcement of international border crossings and rest times, **the use of second version (V2) smart tachographs** to automatically record driving activities will be introduced progressively. New trucks are to be provided with the V2 tachograph in 2023 while all analogue tachographs are to be retrofitted by 2024. Finally, all V1 smart tachographs are to be replaced by the V2 tachograph by 2025.

Vehicle management challenges

Running a fleet of vehicles is an onerous undertaking requiring both resources and budgeting. Striking a balance between the need for modern vehicles and the ability to run an older vehicle for longer define many of the decisions that fleet managers must consider. This section will look at some of the ways that fleet managers can optimize their vehicle management and also provide some trends seen in the market.

Acquiring New Vehicles

The outright purchase of new vehicles has always required large capital outlays by transporters. The continual need to revamp fleets with up-to-date vehicles which are reliable and offer cutting-edge technology is a factor that modern operators are unable to escape. A further factor driving vehicle renewal is the heightened tolling fees for vehicles based on the EURO emissions class. **The principle of "polluter pays" will see vehicles emitting greater volumes of CO2 pay higher tolling fees by mid-2020. Fortunately, financing companies along with OEMs have introduced a wealth of options for European transporters.** Leasing and rental models were adopted extremely quickly as these contracts enabled far more flexibility for customers and catered for many of the operational needs such as maintenance.

Especially at the moment with technological trends, higher turnaround, industry consolidation and the lack of drivers are pushing truck users towards shorter operational planning and lighter capital commitment, which in turn further stimulates development of flexible ownership solutions on the market. **The rental model offers great benefits for transporters operating in volatile markets, enabling them to limit risk exposure.**

The aggregated share of leasing and renting in key European markets is already at over 70%. Leasing represents the most common method of vehicle acquisition among transporters, while its use has peaked at over 80% in Spain and Poland where fleet managers have become ever more risk averse.

"We used to purchase, but our last four trucks are on lease so we can also have newer trucks"

Polish Fleet Manager,
7 vehicles for international food and automotive parts clients

"Eventually, all of our trucks will be rented. We tried all of the available financing options and we found rental to be the most convenient for us. It provides us with the most value-add. "

Spanish Fleet Manager,
50 vehicles with refrigerated capacity for national retail clients

Leasing and rentals constitute 70% of new vehicle registrations in key European markets

These financing options are growing at a stable rate and the outlook towards 2025 is positive among all key European countries. We are finding that larger transporters on average work more closely with original manufacturers for their leasing and rental vehicles whereas the smaller transporters tend to work more with national and regional leasing partners.

In terms of vehicle replacement rates, France and Germany renew approximately 10% of the national fleet annually. The Spanish, Polish and Romanian markets renew their fleets at slower rates, 3% to 4% per year on average, leading to older, more maintenance intense fleets. **The faster replacement rates result in an average vehicle age of 7.6 years for France and 8.7 years for Germany.**

This is in contrast to the average age of Romanian fleets which sits at 15 years and Spanish and Polish fleets at between 12 and 13 years of age respectively.

The greater international focus of larger operators means that younger fleets are critical to maintaining trouble-free long-haul capabilities throughout the continent. Apart from fewer delays, international clients with high-value cargos tend to demand the latest in just-in-time delivery and state-of-the-art vehicles. As vehicles age, they are shifted onto shorter national routes and finally, decommissioned as they become uneconomical to operate. Smaller transporters with less access to capital often operate longer vehicle life-cycles, reducing reliability.

Managing Vehicle Maintenance

Maintenance costs are a dilemma; either spend more on newer vehicles or pay the price on rising maintenance costs. **Whereas many companies will run maintenance programs in-house, most of the leasing contracts in the market include maintenance.** For purchased vehicles, fleet managers will generally take new vehicles to the original manufacturer for service under warranty or to specialist workshops once the warranty expires. Other widespread practices are the use of loyalty programs with workshops and extended warranties.

Maintenance traditionally has been reactive in nature. This is the case where a vehicle breaks-down and is then taken for repairs. A newer practice which is gaining ground is predictive maintenance. **Predictive maintenance utilizes vehicle telematics and real-time data to pre-empt potential failures and will notify the fleet manager that the vehicle requires attention prior to the vehicle being stuck on the road-side.** This saves transporters the costs of downtime and towing, while in many cases prevents vehicles from sustaining further damage that would be fixed at greater cost. These diagnostics capabilities are a gold mine for OEMs as it enables firstly, manufacturers to reduce warranty costs and secondly, sell-on data-driven solutions to fleet managers and the supporting ecosystem of garages and workshops.

Alternative Fuels and Electrification

Alternative fuelled medium and heavy commercial vehicles are gaining momentum as numerous manufacturers develop and bring emissions beating vehicles to market. For fleet managers weighing the options of adding alternative fuels or powertrains to their fleets, there are numerous elements to consider.

Liquefied Natural Gas (LNG) which has been used in medium & heavy commercial vehicles for some time dramatically reduces particulate matter and nitrous oxide (NOx) emissions compared to Euro VI limits. **LNG represents a viable option for vehicle purchase, however, the cost of purchasing and running LNG vehicles along with the lack of fuelling infrastructure whether on major routes or on-site poses a limitation on its adoption.**

Although electric vehicles have garnered growing attention in the media with manufactures such as Tesla, Mercedes Benz and numerous others teasing the release of medium and heavy vehicles, it is believed that the arrival of electric vehicles in heavy commercial road transport will only occur when the business case to invest in the technology is competitive and offers benefits to total cost of ownership. **A major factor impacting the total cost of ownership is the weight of the batteries which, under maximum weight regulations, forces the payload to be reduced.** We are seeing the successful application of electric medium sized commercial vehicles in specific use-cases where loads are light and the distances are short.

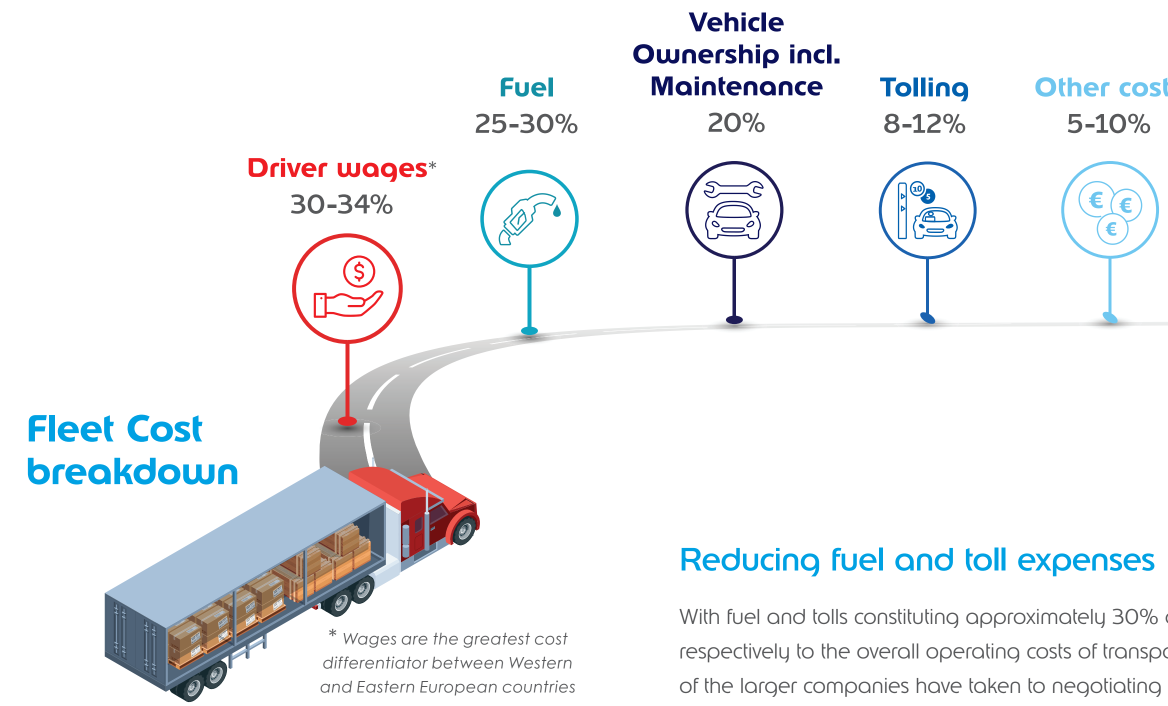
Technological advancements in electric and fuel-cell powertrains could eventually bring about a shift to alternative fuel fleets. For this to occur, **the cost of ownership and burden on financing of clean energy alternative vehicles should be in-line with, or offer benefits over the diesel oriented vehicles of today.** The use of alternative fuels and electrification will require some time to become mainstream in heavy vehicles. Following the introduction of electric vehicles, we expect the emergence of autonomous trucks toward 2030 to provide significant cost benefits to transporters. Their application in hub-to-hub models is envisioned to transform the industry greatly by reducing wage costs and heightening vehicle utilization levels.

"Electric LCVs can be an interesting option for our business due to the nature of our regional transport, as we move in and around urban areas. However, the higher acquisition cost of the vehicle and the limited battery range at the moment does not make them a viable option yet."

German Fleet Manager,
45 vehicles for national
and international clients

Complex Operational Cost Management

The most universally understood challenge to fleet managers is administering the myriad of costs. On average, the highest cost to any operator is driver wages, followed by fuel and tolling expenses. Costs are impacted by factors such as the break-down between country differences in terms of wages, fuel and taxes and the focus on short vs long-haul. Depending on the fleet size and market conditions, various other costs relating to fleet and telematics solutions complicate the manager's job of keeping the company afloat.



Coping with rising driver wages

Driver wages are the leading expense for transporters, especially those operating in Western Europe. German and French drivers are the highest paid in Europe; the lack of drivers in the market combined with regulations has been pushing-up driver wages over the past decade.

In discussions with fleet managers, it is noted that driver costs make-up roughly 30% or more of total costs in Western Europe, whereas Polish and Romanian operators by contrast pay their drivers between 10% and 30% less. Reducing driver costs opens up a number of challenges for fleet managers as the downside to losing top drivers is far more detrimental to the bottom-line. Many companies throughout Europe have been able to keep driver costs down by employing immigrants with the right to reside, who demand lower wages. In such cases, working conditions and the quality of work needs to be maintained. The new regulations under proposal, as discussed earlier, are expected to have a wide-ranging effect on driver wages throughout the EU.

Reducing fuel and toll expenses

With fuel and tolls constituting approximately 30% and 11% respectively to the overall operating costs of transporters, some of the larger companies have taken to negotiating rates with suppliers and authorities. In other cases, companies have formed associations to negotiate reduced prices with similar effect. **Unfortunately, small and medium standalone operators lack the ability to achieve meaningful savings.**

Fuel and tolls account for 40% of costs

"Toll payment solutions and fuel cards are a way for us to keep track of fuel and toll costs and make sure that our drivers are not abusing their spending."

French Fleet Manager,
6 vehicles for national clients

One solution for fleet managers is to indirectly benefit from the negotiating strength of intermediaries such as fuel and tolling payments solution providers. Intermediaries, with their extensive volume requirements, have the ability to negotiate fuel and tolling discounts which, in certain cases, are passed onto their customers along with other value-added services. An alternative solution which is applied throughout the industry is to only fill up at designated stations which offer competitive rates on fuel.

The other effective approach is to improve driver performance through training or tracking driver purchases and behaviour. Fuel cards and toll boxes provide a level of control over expenses. Furthermore, they provide fleet managers with reports and tools to efficiently manage the fleet and costs. As discussed above, **many transporters are adopting advanced telematics capabilities that track driver behaviour during working hours by recording driver actions on a real-time basis while also offering in-cab video footage.**

One important element which has proved useful for reducing costs and which has grown in market value to over €4 billion in Europe is the use of tax refund capabilities. **Solutions offerings on the market streamline VAT and excise duty refunds on certain expenses such as fuel and tolls.** This simplifies management and improves profitability, most notably, for those transporters operating across borders.

Reducing complexity in interoperability

Although the market has seen the proliferation of solutions to assist companies with their fleet management and operational needs, fleet managers spend a great deal of time to find the right balance of capabilities. No one transporter's operational needs are the same as another, which requires customization to achieve a balance between functionality and cost, without paying for services that go un-used. **Although a number of solutions providers offer a diverse array of capabilities, transporters often utilize two or more solutions providers which raises complexity in both interoperability and management.**

Whereas the larger organizations tend to invest in advanced fleet and telematics solutions, we find that the smaller players place a greater emphasis on cost and necessity. As a consequence, smaller transporters scour the market for solutions that meet their exact need at the lowest possible cost.

> "In terms of fleet solutions, convenience and cost are the key criteria for us"

French Fleet Manager,
180 vehicles for national and
international clients

Fuel and tolling solutions are widely used by operators of all sizes throughout Europe due to their simplicity and value-add. We are seeing interoperability issues relating to the use of tolling boxes on a pan-European level. More of a problem for transporters running on international routes, many of the tolling products on the market do not have full compatibility with all of the countries' tolling systems. **The New European Framework should overcome this problem and enable a single tolling solution to be used in all European tolling networks.**

Beyond these, track and trace capabilities are important for both cost and security purposes. Telematics capabilities are used in an estimated 37% of fleet vehicles within Europe. Penetration is greater within larger operators, whereas smaller transporters if they are utilizing telematics capabilities in many cases do so as a prerequisite of insurance and client requirements. Larger transporters tend to manage many of their operations in-house as resources permit the employment of specialists. **Owner operators and small companies tend to manage many of the operations personally or outsource fleet solutions to external partners.**

> Telematics capabilities are used in an estimated 37% of fleet vehicles within Europe

Minimising load optimization losses

One of the biggest operational challenges as a fleet manager is how to optimize load. Approximately 25% of the kilometers driven are totally empty. **When they are not empty, capacity utilization is estimated at 53% to 55% which gives a rolling fleet capacity utilization of 40% to 45%, only.** Deciding between Less than Truck Load (LTL) shipping and Full Truck Load (FTL) shipping is often a hard choice when one is not sure of the options: making the right choice has a direct impact on freight costs, profitability, the environment and importantly, on customer satisfaction.

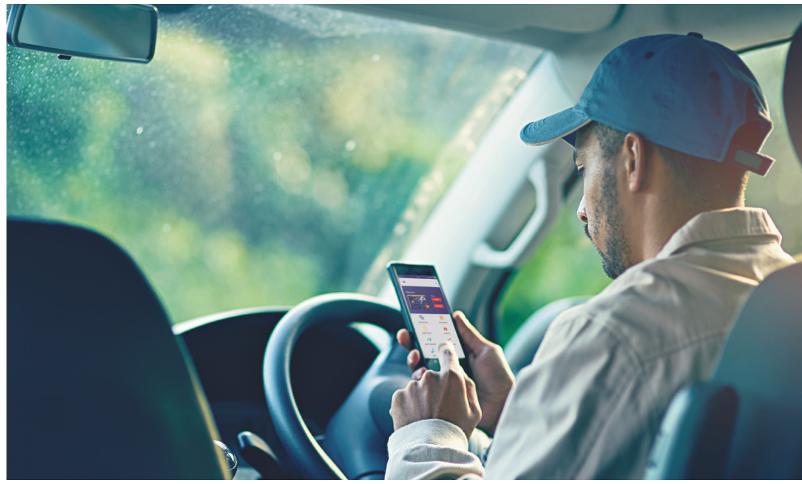
> 25% of kilometers driven are totally empty

Traditional brokers have been the only way for fleet managers to fill their trucks on return trips. The use of traditional brokers is however, inefficient and often slow to make payment. In response to these inefficiencies, new digital brokerage players have entered and disrupted the market. Digital freight brokerage solutions offer price transparency, a faster brokerage process and instant upload of proof of delivery and payment terms.

The transparency of demand and supply of freight and carrier capacity offer a way for transporters to expand their reach to new customers which increases asset utilization per kilometer and therefore, profitability. The digital marketplace matches shippers with truckers that in most cases would not have had the opportunity to work together. Although digital brokerage is aimed at reducing costs and administration through the disintermediation of labour, small operators are concerned about the lack of human interaction.

> "Digital freight brokerage is a very big trend. Freight forwarding is a very costly service with inefficiencies especially for family companies that don't have economies of scale; it requires a lot of paperwork as well. In this respect, freight-tech solutions can help to address these challenges and it is interesting to check their potential in the market. "

Romanian Fleet Manager,
40 vehicles for national and
international food and retail clients



Secure Parking

With millions of vehicles traversing Europe's highways, one challenge that has persisted for decades is the lack of secure parking at truck stops. The influx of transporters from Eastern Europe has raised the number of vehicles on the continent's roads with a large proportion of these remaining in Germany, France and Spain for weeks and months at a time which has placed increased strain on parking supply.

Variations in pricing of fuel and supporting truck stop services have a large impact on demand for parking services. Tax benefits in certain countries such as Luxembourg, mean that drivers can fill-up for less which causes a dramatic demand for truck stop services in the country.

The map provided details the European network of certified and non-certified secure parking (non-secure parking excluded). **As of 2019, there were 57 certified parking areas and 500 non-certified parking areas.** Certified secure parking is clustered within specific countries which creates large gaps throughout the network. Investing in certification has the potential to raise the number of certified areas considerably, which is expected to reduce the problem faced by many fleet managers. Over and above secure parking, there are approximately 5,000 non-secure parking areas which cater to the majority of long-haul trucks.

A number of online and mobile application based platforms have been introduced to streamline the booking and payment of available parking spaces. These solutions provide large efficiency gains to transporters and reduce the headaches associated with searching for parking, many of which are not secure. As the truck stops model has evolved from only selling fuel, these stops have become one-stop facilities where drivers have access to all requirements under one roof. Services provided include: accommodation, bathrooms with showers, laundrette, restaurants, bars, lounges, cinemas, leisure activities, shops, gyms, secure or non-secure parking and trailer change-over areas, truck wash and maintenance related services.

Truck Parking Supply

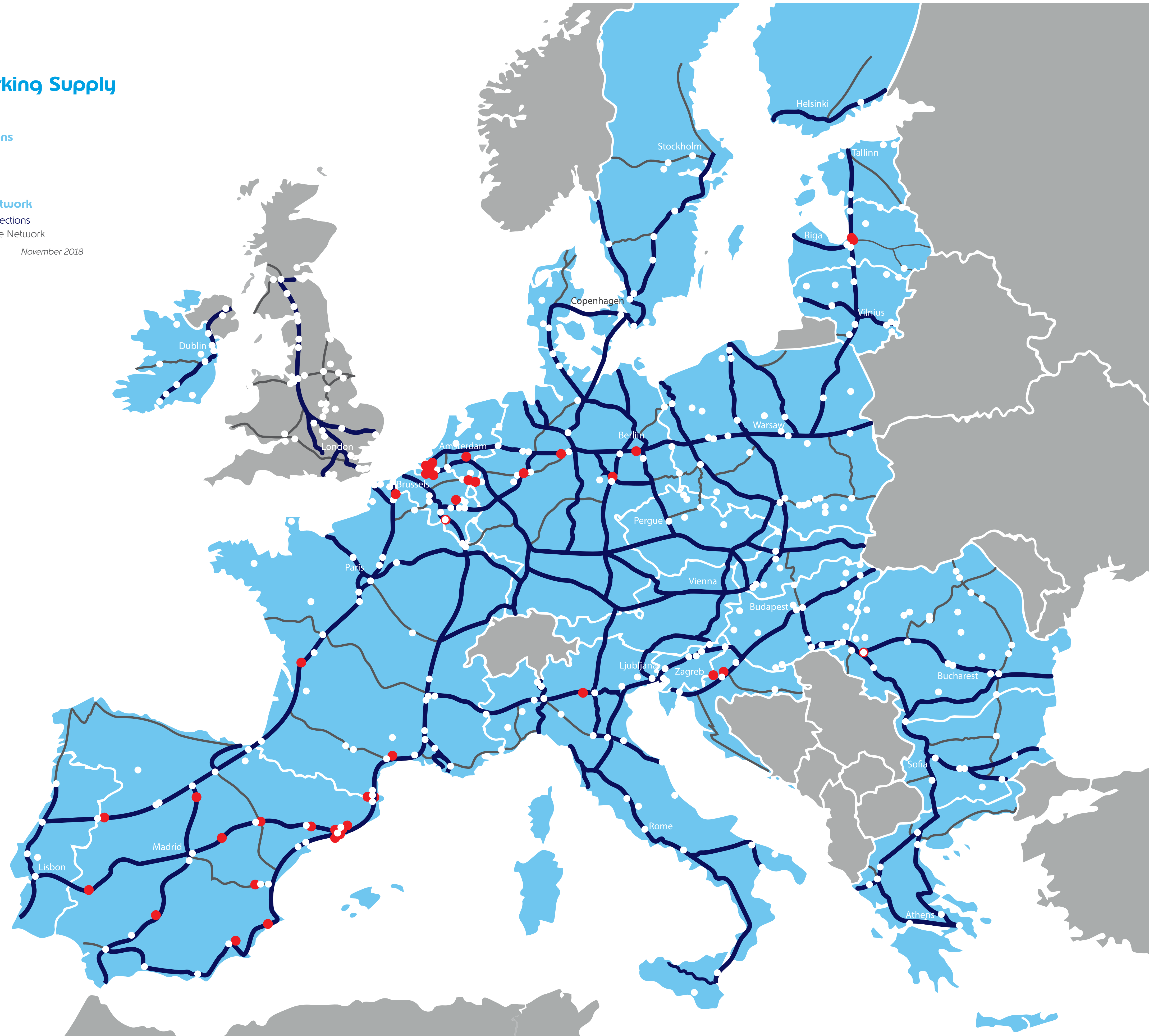
Parking Locations

- Non-Certified
- Certified Secure

TEN-T Road Network

- Corridor Sections
- Other Core Network

November 2018



Conclusion

The European road transport sector is facing a number of challenges from the shortage of drivers, managing fleets and costs through to finding secure parking for vehicles while on the road. Alternatively, technological advancements are offering opportunities for efficiency gains, while regulatory changes are continuously increasing administrative complexity.

For the first time, EU regulation might really significantly decrease competitive disparities across Europe, while also striving to achieve a "European Green Deal" with a cut in carbon emissions, both challenging how the international transport industry will look like in 3 to 5 years from now. By taking an innovative stance, many of the changes impacting the road freight sector may be turned into opportunities to grow.

Finding the right partners to assist with these is vital to managing the day-to-day operations while maximizing business objectives. Edenred is a major player in fleet and mobility solutions, well placed to provide the support that is needed.

Edenred is the everyday companion for road transporters, committed to help manage fleets more efficiently.

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You win