Automakers Relived As Auto Fleets Balloon

Dee-Ann Durbin, AP Auto Writer

DEARBORN, Mich. (AP) — U.S. auto sales to fleets surged 47 percent in the first quarter compared to last year, an early sign of economic improvement as governments, construction businesses and rental-car companies began buying again.

Automakers are expecting fleet sales to continue to climb. Ford Motor Co.'s Americas President Mark Fields said Thursday the company is expecting further increases to daily-rental and commercial fleets for the rest of this year as the economy improves, although it believes government sales will level off.

Fields discussed the industry's first-quarter fleet sales jump at an event at Ford's Dearborn headquarters touting the automaker's fleet vehicles, including a new police car due out next year. Ford's fleet sales soared 80 percent in the first quarter over the same quarter a year ago.

The fleet market is an important one for Ford, which is the largest player in commercial fleets — or businesses with five or more vehicles — and government fleets, where it controls 44 percent of the market. Ford's F-series truck is the top-selling fleet vehicle in the country.

Fleet sales virtually disappeared in 2009, as governments, corporations and rental-car companies were hit by the recession. For the full year, fleet sales made up 17.1 percent of the U.S. market, down from a peak of 22 percent in 2005, according to Jeff Schuster, J.D. Power's executive director of automotive forecasting.

But things have been improving. In January, fleet sales increased to 25 percent of the market as companies began to replenish their supply. Schuster said J.D. Power expects the fleet percentage to eventually settle at around 19 percent of industry sales.

The auto industry has a complicated relationship with fleets. If fleet sales get too high, they can damage profits and flood the market with used cars, which hurts residual values. Fleet sales also are generally less profitable than sales to individual customers.

But Jesse Toprak, an economist for auto pricing Web site TrueCar.com, said fleet sales can be profitable if they're managed right. They can also be a good way to get customers to try vehicles that they might not otherwise have been introduced to.

"There's so much volatility now, with this economy, it requires constant monitoring," Toprak said.

Toprak and Schuster said they're not concerned about high fleet sales in the first quarter because companies needed to make up for last year.

Historically, Detroit automakers had heavy sales to daily-rental companies, but General Motors Co. and Ford have cut back in recent years to help repair brand image and residual values. Ford says 43 percent of its fleet sales now go to daily-rental firms, compared to an average of 66 percent for other fleet sellers.

As a result, Fields said, Ford's average residual value rose $1,300 per vehicle between the 2009 and 2010 model years, the highest gain in the industry.

"Fleet is not a bad word at Ford," Fields said. "Done in moderation, it can be very, very healthy for you."

Fleet sales made up 36 percent of Ford's business in the first quarter. Kraft Foods just bought 2,500 new Ford Fusions for its sales staff, in part because it wanted to save fuel by switching to cars with smaller engines. Ford's chief U.S. sales analyst George Pipas says Ford expects to end the year with about 30 percent of its sales going to fleets.

Some companies are depending even more heavily on fleets. Chrysler Group LLC doesn't release a percentage of fleet sales, but Toprak said Chrysler boosted sluggish sales in the first quarter by making half its sales to fleets.

Hyundai Motor Co., Kia Motor Co. and Nissan Motor Co. also have recently boosted fleet sales, Schuster said. Toyota Motor Co. and Honda Motor Co. have traditionally sent less than 10 percent of their U.S. sales to fleets, but have made slight increases in recent months, he said.

"We're seeing a little more balanced fleet mix across the manufacturers than we did historically," Schuster said.