Battery late than never

Global Automotive Disruption Speedometer 2021

The world of automotive, like many others, has been profoundly affected by COVID-19. But the sector was already undergoing a period of unprecedented change in how, where, and what consumers want to buy. This 2021 Speedometer is a follow-up to our 2019 report, and tracks how trends in consumer attitudes and behaviors toward vehicles and their mobility needs have changed. Overall, we find that several trends have accelerated over the last two years, while others have continued along the same, steady trajectory.

The last two years have witnessed a clear inflection point in attitudes towards digital retailing and electric vehicles, both of which we expect to see accelerate

The pace of trends varies by country, and this year we include Italy in our ranking. China continues to lead the pack in terms of attitudes towards electric vehicles (EVs), autonomous cars sharply in the next three to five years. We also see continued latent demand for bundled packages of services, delivering convenience and certainty for consumers in an increasingly uncertain world. These changes have the potential to shift the ownership of customer relationships, which will affect every player in the ecosystem and enable innovators to seek new areas to build disruptive offerings.

and digital retailing. In contrast, France has fallen from its number two spot in 2019 as changes in attitudes stagnate. The UK see strong consideration of EV and burgeoning digital sales. The US continues to have most traditional attitudes of countries in our sample, but it is catching up. Italy, as the new entrant this year, has high consideration of new tech, in particular EVs, but high barriers to actual behaviour change – they are not moving as fast as Germany, France or the UK.

This report reviews these changes, lays out what the resulting opportunities and risks are, and asks what industry participants need to do in order to develop a sustainable competitive advantage in a quickly evolving world.

Executive summary

Our report is focused around **six core** questions for the consumer, and what that means for industry players:

1. Do consumers still need a car?

The car remains essential: over 80% of drivers in every country still see the car as essential to getting around, and for the majority driving is an activity they enjoy, whereas just 5% of drivers only drive because they "have" to.

COVID has helped cement the importance of the car, though mileage has fallen:

- 40% of drivers in the US, UK and Italy said COVID has increased their certainty that having their own car is vital.
- 53% of non-drivers will "definitely" buy a car in the future, versus 38% in 2019 – a 15% rise, with jumps seen in every country.

Strong demand for vehicles will help shore up car retail and drive the post COVID bounceback.

READ MORE...

2. Do consumers still want exclusive use of a car?

Exclusive access still remains vital to 82% of drivers, with most expressing concerns around accessibility, storage and privacy as key to their reluctance to consider co-ownership or access models.

However, the importance of exclusivity is starting to wane for a forward-thinking minority; 14% of European and US drivers reported that they will consider mobility solutions as an alternative to having their own car, be it car-sharing solutions, taxis or even short term rental. This is an increase of ~30% versus 2019. This reflects lower car usage in 2020, environmental concerns and cost concerns – plus further development of models such as Zip Car and Drover are driving a change in attitudes. This is most apparent in the urban young. These consumers represent ~10% of the current vehicle parc in value terms, and it is not clear their attitudes will persist as they enter different life stages.

READ MORE...

3. How do consumers want to find and purchase their next car?

For years consumers have already done most of their research for a car online, using the dealer to confirm their specific choice, purchase and transact. **COVID has helped accelerate the infiltration of online into more of the purchase journey**, with more consumers looking to complete their transaction online. **One in four car buyers now say they would be happy to purchase online and have a car delivered without seeing it first**, while 1 in 3 with a car on finance do not want to organize finance in-person. This is true in both new and nearly new, with appetite for online purchase only dropping significantly for cars over six years old – where the economics of online supply, and delivery may not work anyway. The UK and US lead this trend in the West with 27% happy to click and collect, while China continues to move further ahead of the pack: 55% of Chinese drivers would be happy to do so.

This change poses an opportunity for those without physical premises to take volume from traditional dealers – and take ownership of the consumer. We have identified six fundamentals a company needs to have to win in this market, and today no-one has all of them. OEMs, leasing companies, finance companies, online classified players and wannabe disruptors are likely to pile into this market before we see a shake down.

This will put significant pressure on those without the scale to invest in new capabilities and a seamless online experience – smaller independent dealers focused on cars which are 2-5 years old may struggle more. The introduction of new players could also disrupt after-sales specialists such as warranty, gap insurance, and others who currently sell through dealers.

READ MORE...

4. What do they want to buy?

The proportion of drivers considering the purchase of an EV is unprecedented, and is likely to translate into a fast acceleration in EV adoption. Over 50% of drivers considered a hybrid when they last changed their car, and over 40% report they will consider a fully electric vehicle next time. The UK leads the West in EVs in our survey, with 57% of UK drivers considering fully electric for their next vehicle versus 45% in Germany and the US. This has huge implications for the aftersales market – from breakdown recovery to Service, Maintenance and Repair (SMR).

There are still significant barriers to move consumers from EV consideration to purchase, but these are reducing. Today, the key barrier to purchase is cost, not infrastructure. We anticipate Total Cost of Ownership (TCO) will be equal for some use cases between EVs and ICEs in 2021 for countries with subsidies of more than $3,000, with more use cases by 2022 as battery prices continue to fall. However, only once metal prices equalize will EV really take off. In the meantime, governments will need to subsidize if they wish to achieve the green aims many promise.

The barriers to (level 4/5) autonomous driving, on the other hand, remain formidable; these include consumer concerns around safety, tech developments and a large value/cost gap. In Europe and the US 70% of drivers require autonomous vehicles to be at least 5x safer than an average human. We are not likely to see true level 4/5 autonomous propositions taking off for private consumers in the next 5 or even 10 years.

READ MORE...

5. How do they want to pay?

Consumers continue to move from outright purchase towards leasing and finance. While sole access to a car is still critical, ownership is not and the proportion open to leasing continues to grow, including for older vehicles. There are significant differences in geography for this change: only 18% of US and Chinese used car buyers are open to the idea of leasing, versus 30% in France and Germany.

READ MORE...

6. What about after they have bought it?

READ MORE...

Consumers are willing to pay a premium for bundled services that take the risk out of unforeseen maintenance and service costs. In all countries more than10% of drivers are willing to pay a significant premium for a bundle versus what they spend on these services today. There is opportunity for the right company to put together a bundle of insurance, roadside recovery and maintenance – and a risk of service providers being disintermediated if they don't move early.

Who will this impact most?

The automotive industry is undergoing a period of significant change, particularly with the rapidly accelerating popularity of of EV and digital sales. These changes generate both significant opportunities and significant risks. Players that can anticipate shifting consumer preferences and match their own microeconomics to create a winning formula will be able to capture a significant share of the market, while those that are slow to respond are likely to witness a quick erosion of their customer base.

Given how strong existing dealers' market position is, they are now the industry group most under threat from changing consumer needs. There are several trends which can chip away at their current position and margins, in particular the shift of used sales volumes to online channels, and the need to invest in EV aftersale capabilities. They need to respond by changing their propositions, consolidating, and considering new partnerships. But with threat comes opportunity – for all, understanding the capabilities required and economic trade-offs will be key to taking the right next steps as the market evolves at pace, and looks to leave some incumbents behind.

READ MORE...

Mobile attitudes…

Do consumers still need a car?

Consumers want convenience, economy, safety, and to feel good about the environment, and these trends drive consumers' choices on mobility. Today, this means cars are still seen as essential:

- Consumers continue to see a car as essential to travel; the percentage of drivers who see a car as essential has remained stable in all countries (between 80-90%) since 2019
- This is true even among the young – Gen Y and Gen Z drivers still care about having cars and driving, and in fact have become more dependent on cars than they were. The percentage of 18-29 year olds disagreeing that a car is essential has fallen from 11% to 5%
- Getting your first car remains a key point in life – in all countries significantly more consumers see it as a major part of growing up versus historical norms (up 5-8%pts versus 2019 to 53-81% agreeing), with the US leading the Western world in its devotion: 75% see it as an important part of growing up

> "The number of non-drivers who definitely expect to own in the future has risen by 21% in the UK and 14% in the US"

COVID has helped cement how essential a car is, despite driving less. The impact of COVID is particularly strong in the UK, Italy and US where 42% of drivers cited COVID as having increased their belief that a car is essential:

- It is not just drivers who see the car as essential – the number of non-drivers who definitely expect to own in the future has risen by 21% in the UK and 14% in the US (keeping broadly stable elsewhere) – securing future demand as consumers perceive risks on public transport

EXECUTIVE SUMMARY…

Do consumers still want **exclusive use** of a car?

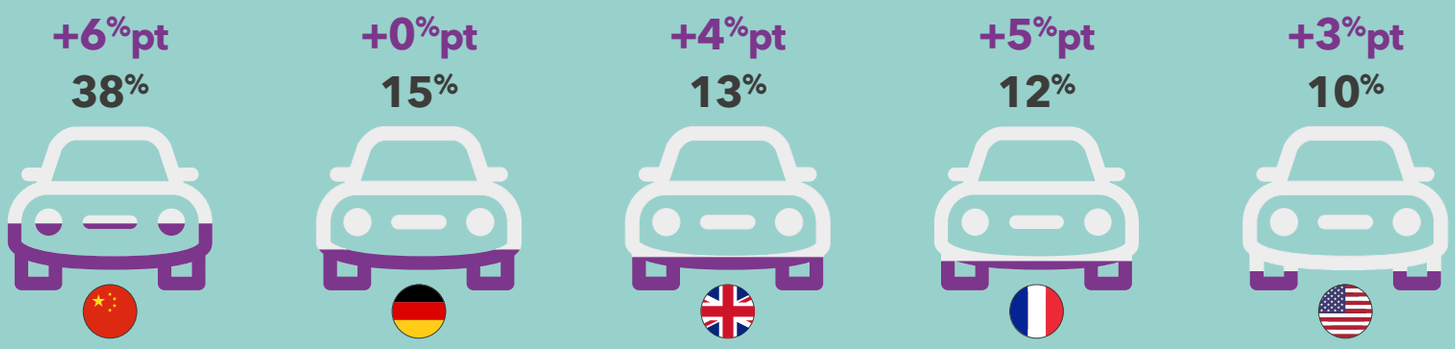
Consumer demands for convenience also means most consumers want exclusive access to a car, whether they own the vehicle or just pay to use it: 82% of drivers surveyed in Europe and the US will not consider using a car sharing club as an alternative to having their own car.

However, looking much further forward, the future of exclusive use is not as set as it once was; the small minority who will consider alternatives is multiplying, despite many not yet having this as a realistic option. 14% now report they would consider a car club as an alternative to having a car – a huge leap from 2019 where in the West the norm was 8%.

CONSIDERATION AS AN ALTERNATIVE INSTEAD OF A CAR (%)

Car-sharing clubs

%pt Delta vs 2019



These are urban and younger drivers, who generally spend less on their cars already: it puts up to 10% of spend on the headline price of a car (metal) at risk today despite impacting 15% of drivers. This could put pressure on the traditional business models of OEMs and dealers, particularly for those targeting low price points.

EXECUTIVE SUMMARY...

The consumer ownership cycle

How do consumers want to find and purchase their next car?

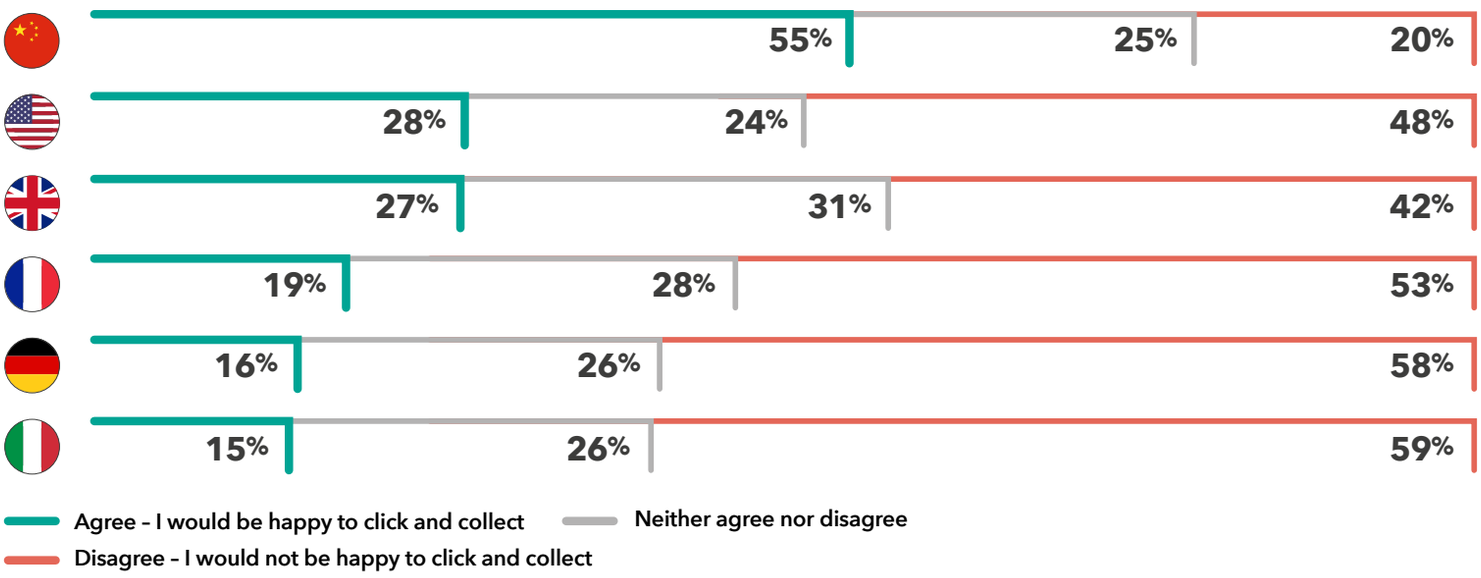
The majority of car users start their search for a new vehicle with a budget rather than a specific vehicle in mind; 88% do not start with a specific vehicle.

For the vast majority of drivers the process to find a car is purely online until one, or perhaps two, specific cars have been selected as target purchases. It then shifts to the physical realm for confirmation of choice and transaction, with 90% of consumer purchases accounted for at dealerships or "on street" private sales. As a result, today the battle to sell is principally about who can convert online interest to a visit and ensure that visit ends in a purchase of the car and some add-ons. The physical experience still plays a key role in conversion and choice of specific car; 63% of car buyers still credit visiting the dealership as a key source of research for their specific car, rising to 75% of new car buyers.

However, the key role of the traditional dealer is not set in stone. COVID has accelerated the percentage of consumers who want to do more of their journey online. 1 in 4 people who bought a car in the last 3 years now indicate they would be happy to click and collect or deliver to home **without ever seeing the car before.**

> "In the UK and US 1 in 4 are willing to purchase a car without seeing it first"

HAPPINESS USING CLICK AND COLLECT OR HOME DELIVERY[1]
(% of car buyers)



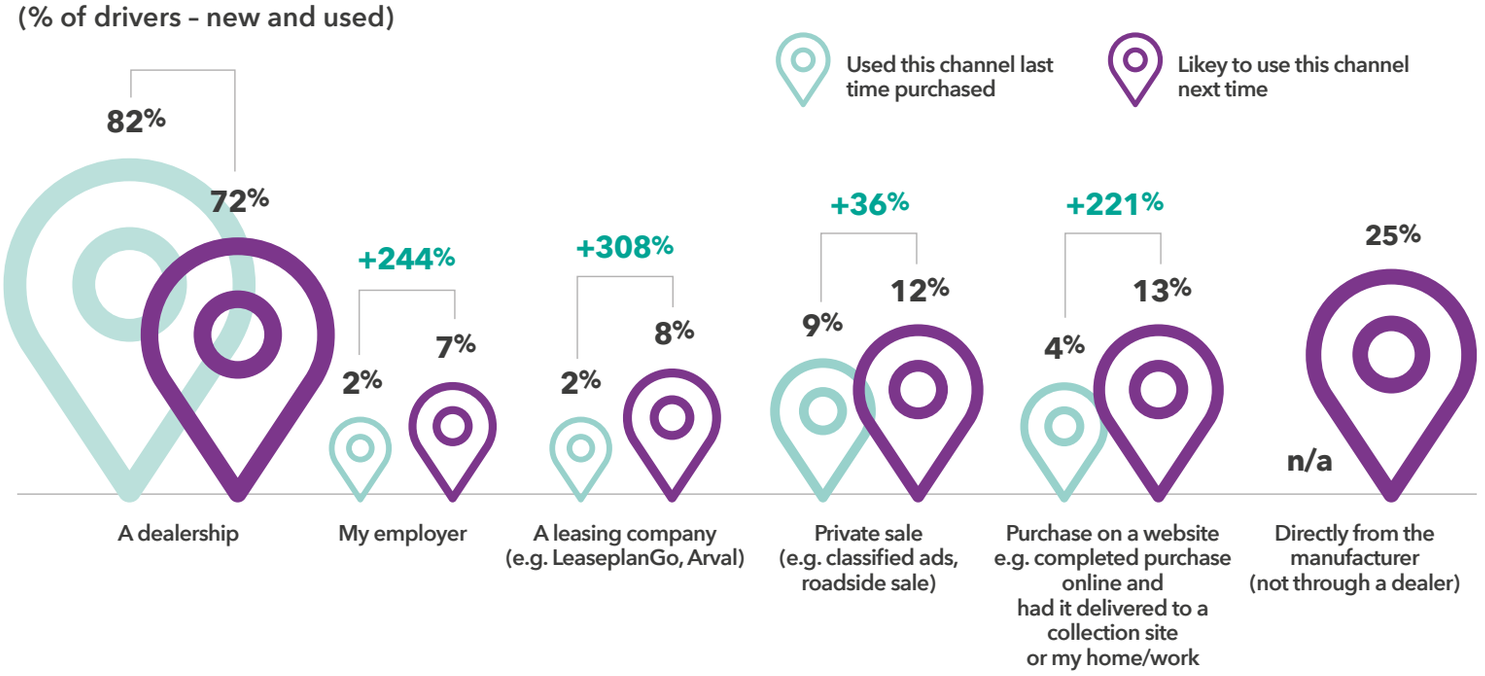
1. To what extent would you agree with the following: I would be happy to purchase my next car on "click and collect" or home delivery – without seeing it first. N = 6,755

The appetite for online transaction is for both new and used cars: It only drops once a car is 6 years old or more. It is also strong with a wide range of driver ages: 39% of 18-39 year olds would be happy to click and collect.

This change in appetite for purchase unseen heralds the start of a massive acceleration in online car sales. Companies are moving to meet this demand. In the UK we identified 67 companies looking to sell or support selling online, and companies like Cazoo (UK) and Carvana (US) are investing millions in marketing to drive penetration up. Today 11% of used car buyers and 15% of new car buyers expect to purchase their next car on a website without seeing it in person. Only 72% think a traditional dealership is a "likely" channel for their next purchase, versus 82% who reported buying their last car in that way. We expect this change to accelerate once the online model is proven, with the change focused on new and 0-5 year old cars, due to both demand and supply: online transaction is less tenable for cheaper used cars due to the costs of online sale and delivery, as well as greater consumer concerns for older vehicles.

CURRENT REPORTED PURCHASE LOCATION VERSUS FUTURE REPORTED PURCHASE LOCATION

(% of drivers – new and used)

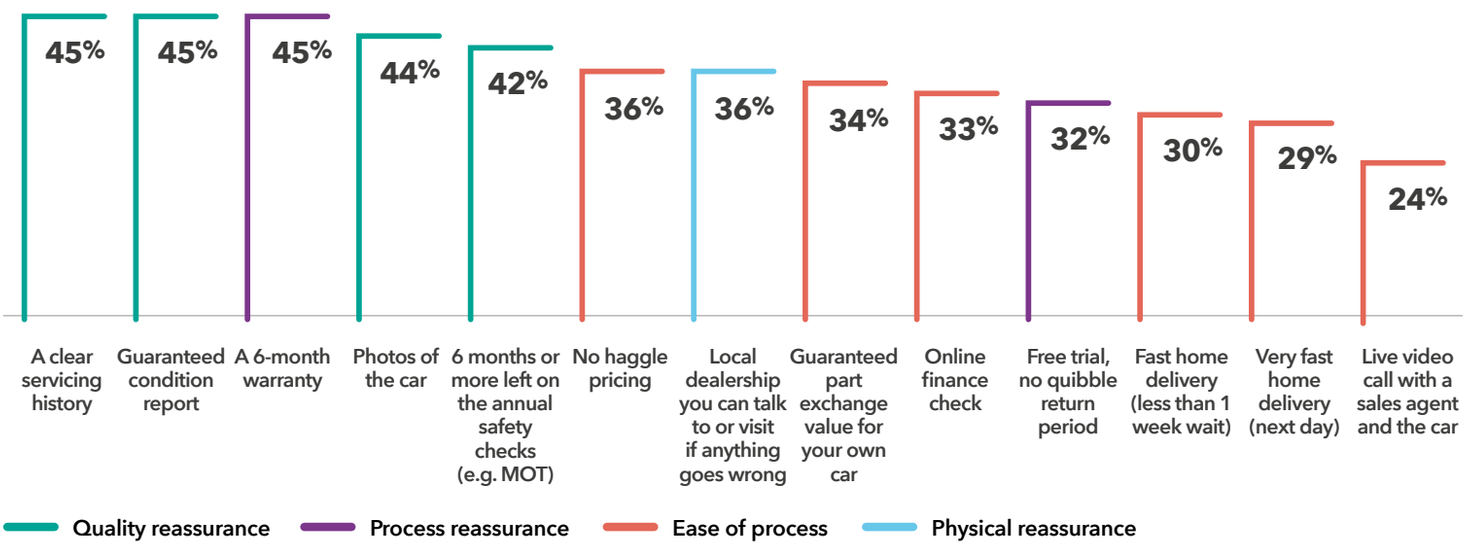


What does this mean for retailers (or potential retailers?)

This is a new, and somewhat unproven model. As a result consumers are nervous. They have a broad set of demands any participant will need to meet. In particular, consumers want reassurance they are buying a high quality vehicle. This will drive appetite for stronger, well established, brands. In addition, some customers want physical locations linked to their sale "in case something goes wrong".

FACTORS SEEN AS VITAL FOR CONSUMERS TO BUY ONLINE

% who would see this factor as vital (of drivers who would be happy to click and collect)

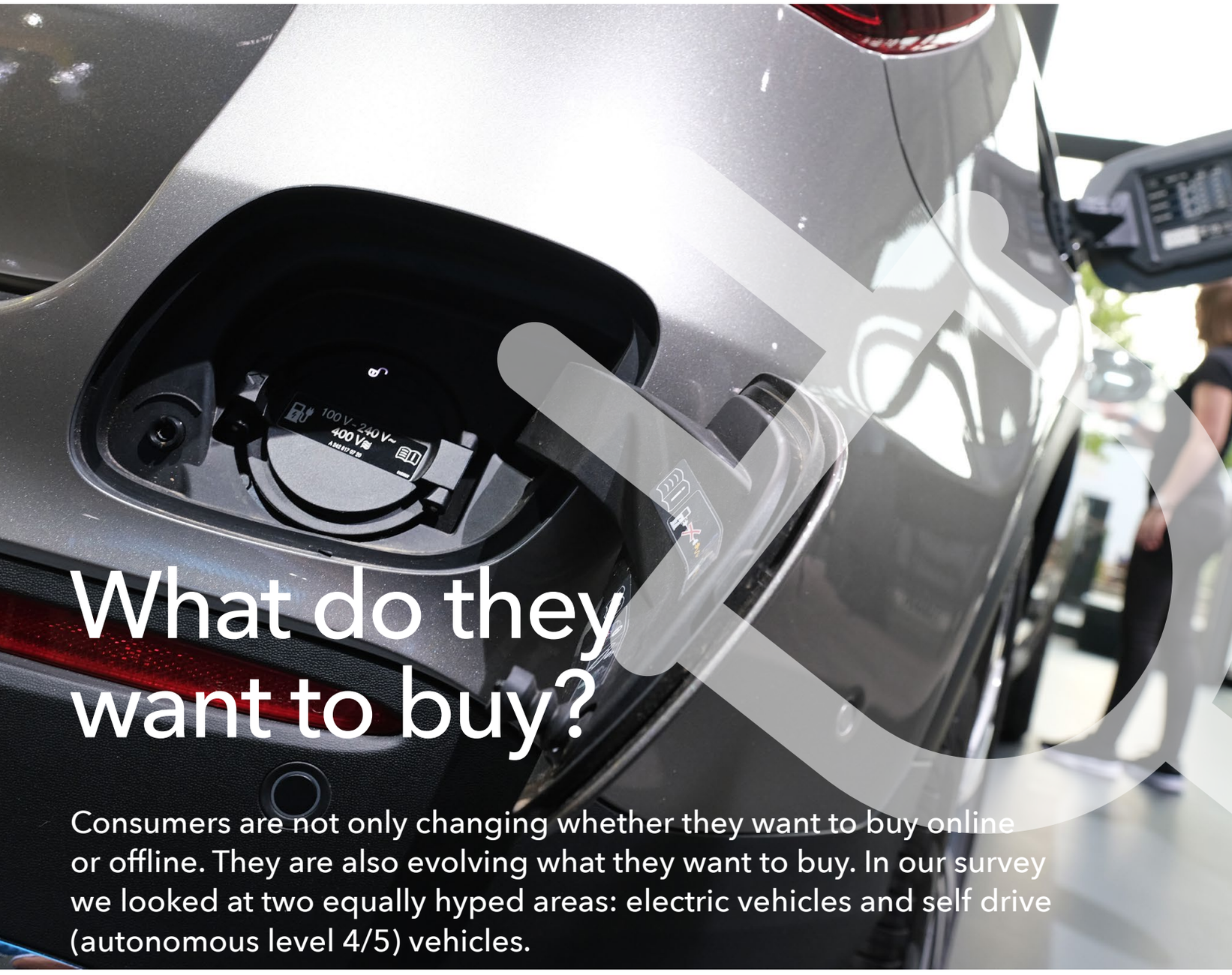


When we consider both consumer concerns and the operational complexity of online retail, it is clear there are capability gaps for many of the incumbents and disruptors. In particular it is critical to have a trusted brand, good quality inventory, a consumer focused and cost effective customer journey, transportation abilities and strong remote customer service. Furthermore, initially there is a need for some physical presence to satisfy consumer misgivings about this nascent offer. New players are working to build up the brand and journey, but may be lacking access to inventory. Incumbent dealers, leasing companies and OEMs have better access to inventory but few have strong digital capabilities or remote upsell skills.

The lack of a clear "winner" gives a significant opportunity to OEMs and traditional retailers to adapt and expand their position. However to do this they will have to invest heavily, while managing the risk of seeing their volumes eroded by new disruptive players. This is also likely to hasten a move to an agency model for dealers - giving the OEMs significantly more responsibility than they have held in the past.

OC&C has worked extensively with disruptors and incumbents on this topic – relevant contact details are at the end of this report.

EXECUTIVE SUMMARY...



What do they want to buy?

Consumers are not only changing whether they want to buy online or offline. They are also evolving what they want to buy. In our survey we looked at two equally hyped areas: electric vehicles and self drive (autonomous level 4/5) vehicles.

Electric vehicles: A lightbulb moment?

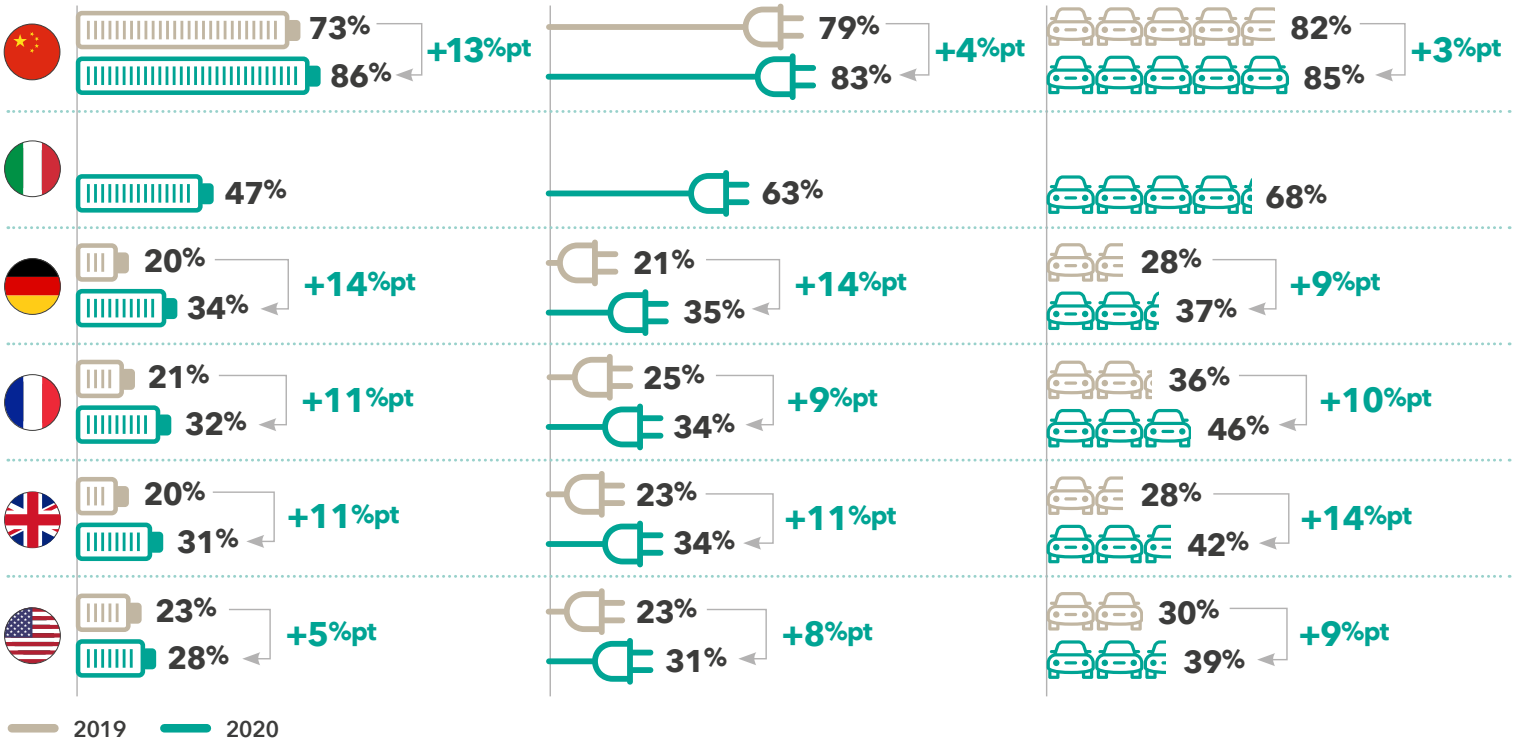
BEVs (Battery electric vehicles), PHEVs (Plug-in hybrid vehicles) and HEVs (Hybrid vehicles) have received a lot of press, and their sales have increased by 140% in the UK[2] and 137%[2] in Europe in the last year. In Beijing EV sales are now 46% of total sales.

~30% of car buyers in the UK, Germany, France and the US report that they considered buying a fully electric vehicle (BEV) at their last purchase, up from 20-23% in 2019.

2. Fitch

CONSIDERATION OF ELECTRIC VEHICLES BEFORE PURCHASING CURRENT VEHICLE
(% considered or purchased)

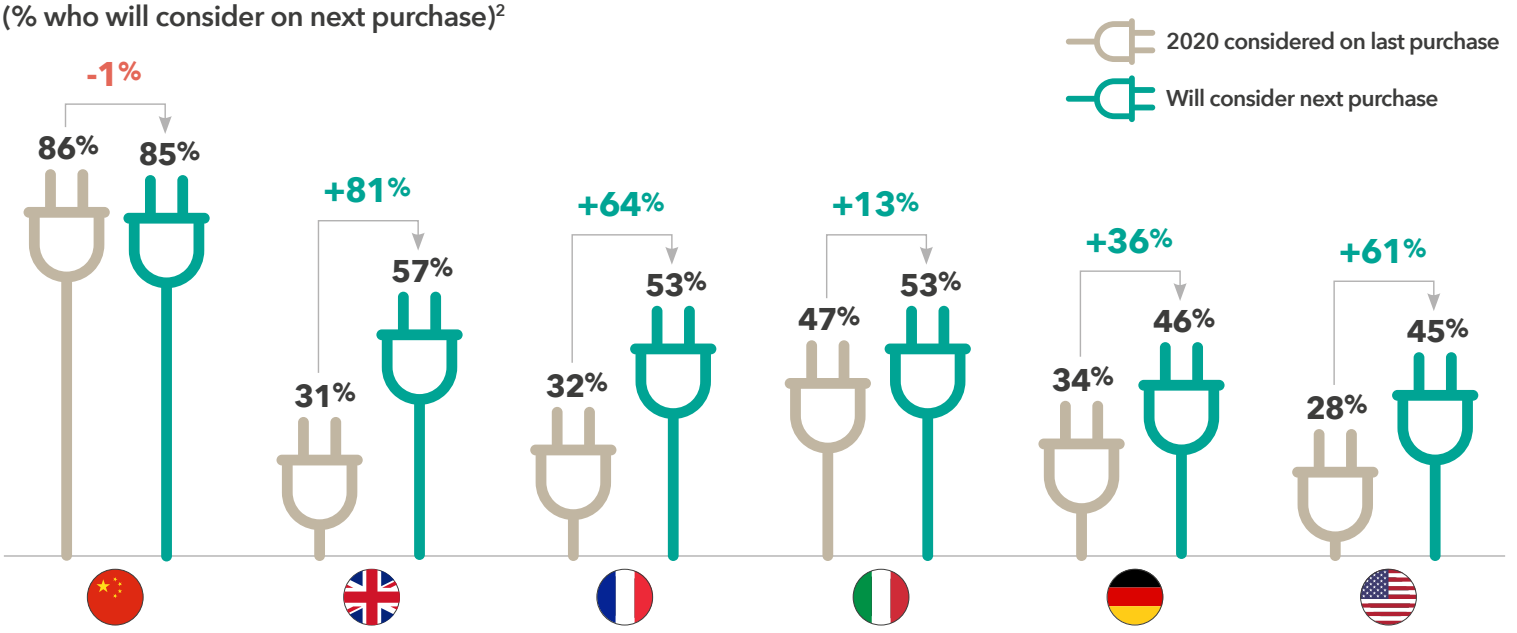
Fully electric vehicle **Plug-in hybrid** **Hybrid**



Looking to their next car even more drivers are considering EVs. Over 40% in every country will consider a BEV for their next car. The proportion of consumers reporting they will "definitely" or "be likely to" buy a BEV has gone up in every country with particularly dramatic increases in the UK (from 12% to 18%), US (from 10% to 16%), and Germany (from 11% to 19%). The increase is less significant in Italy where consideration was high for the last year given recent strong incentives on electric vehicles, and in China which is already at a very high consideration level.

CONSIDERATION OF FULLY ELECTRIC VEHICLES BEFORE PURCHASING, CURRENT VERSUS FUTURE

(% considered or purchased fully electric in last purchase in last 3 years)[1]
(% who will consider on next purchase)[2]



1. Did you consider an Electric or Hybrid vehicle? Respondents answering "I bought one" or "I considered buying one". N = 3,181
2. When considering your next car, how likely are you to consider Electric or Hybrid vehicle? N = 6,065

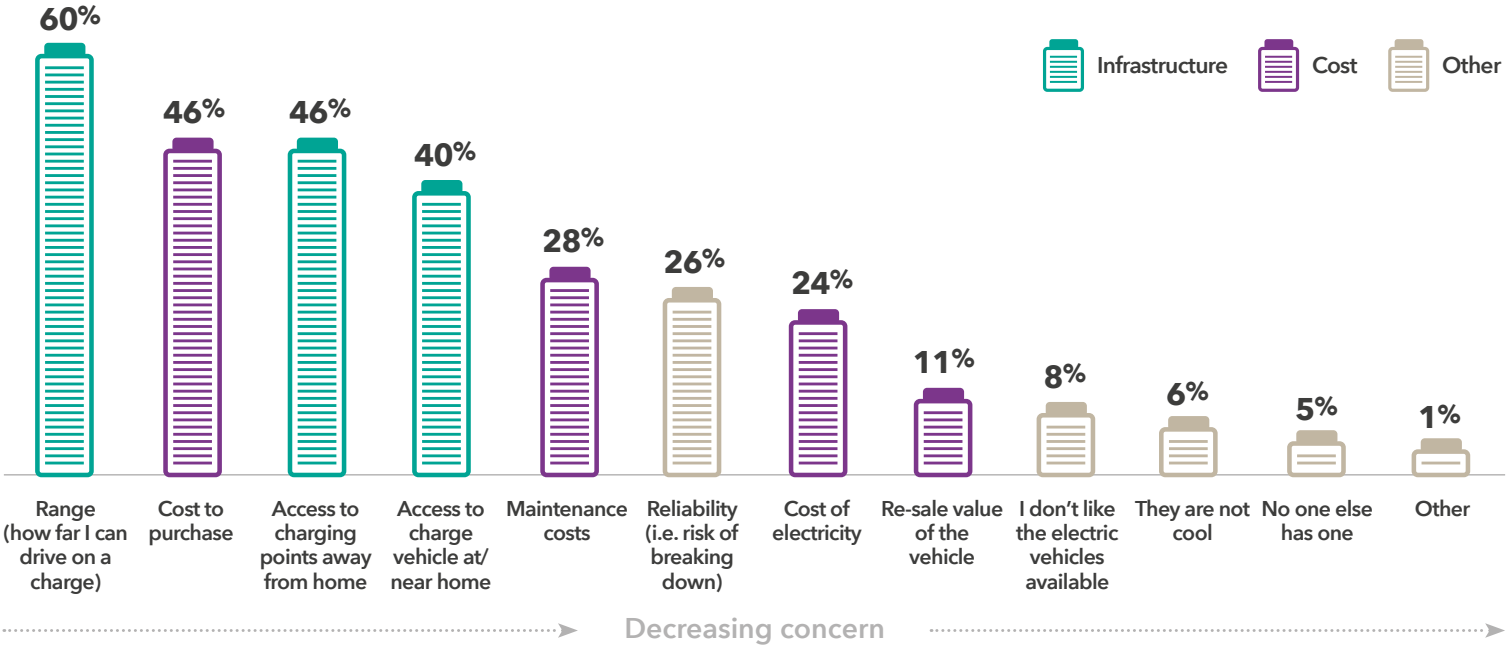
This change in consumer demand is sustainable: it is driven principally by improved perception of range and infrastructure. 29% also cited concerns about the environment as a reason they consider EVs. Furthermore it will be accelerated in Europe by strict regulatory regimes: the EU emissions targets placed on OEMs will force them to push electric vehicles or face high fines.

The question is when the high percentage of drivers considering EVs will start buying them. Consumer concerns have fallen and prices are coming closer to ICE prices, but range anxiety remains a rational concern – 60% of drivers have made a >200 mile journey without stops in the last year, albeit occasionally.

SUMMARY OF CONSUMER CONCERNS ABOUT ELECTRIC VEHICLES

% drivers expressing concern

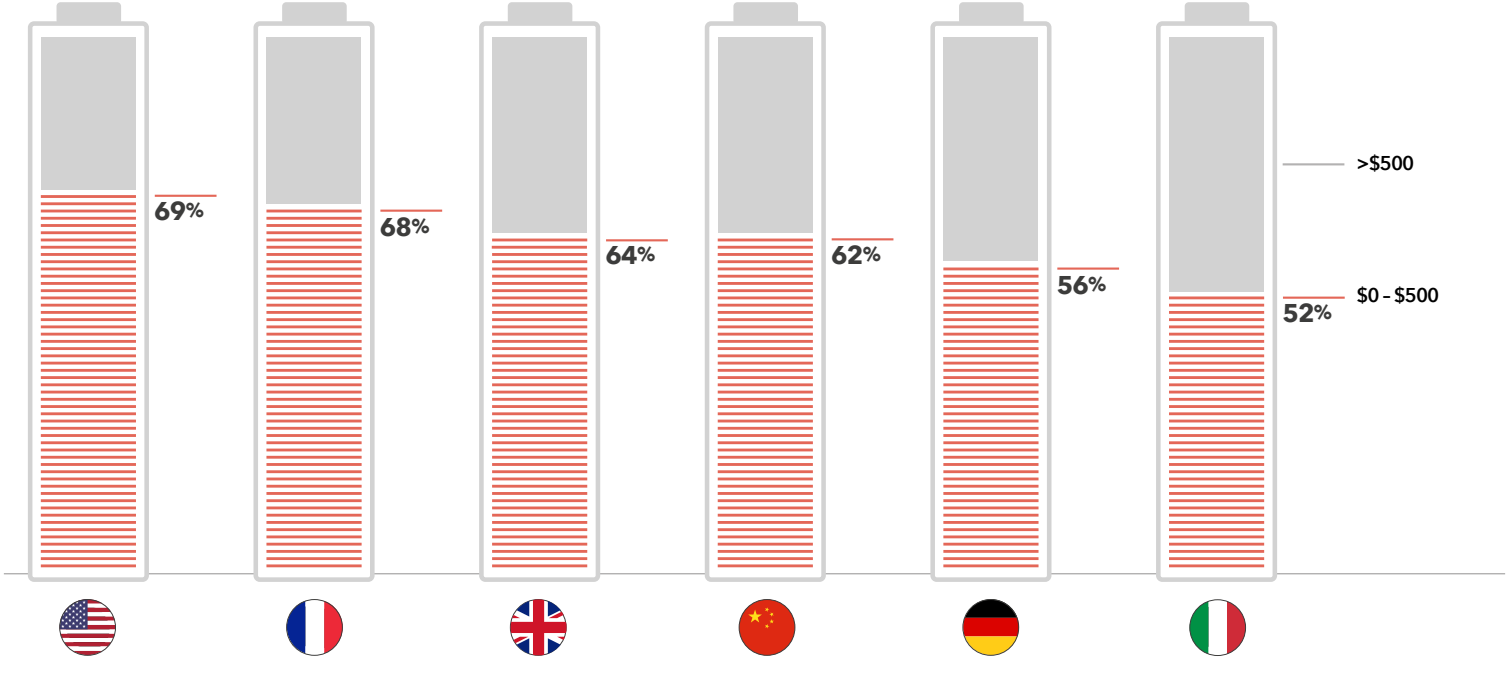
Drivers only



The largest barrier to a massive acceleration in BEV take up is not infrastructure or tech – sufficient consumers are now satisifed with the support systems. Instead the biggest issue stopping take up is price. Price, and in particular headline price, will persist as a barrier. In all countries the majority of those "likely to buy" are not prepared to pay $500 extra upfront to buy an electric car – despite lower running costs. TCO will likely be equalized in 2021 for some use cases with subsidies of c.$4k (as per UK today), and by 2025 for those same use cases without subsidies. However, to maximize acceleration headline costs need to be similar to other vehicles, and concerns about battery replacement costs need to be assuaged. There are initiatives OEMs and others can push – such as Care by Volvo, or battery warranties, but ultimately this will be best achieved with government intervention.

PREMIUM DRIVERS ARE PREPARED TO PAY FOR A BEV

% of drivers who want to buy a BEV

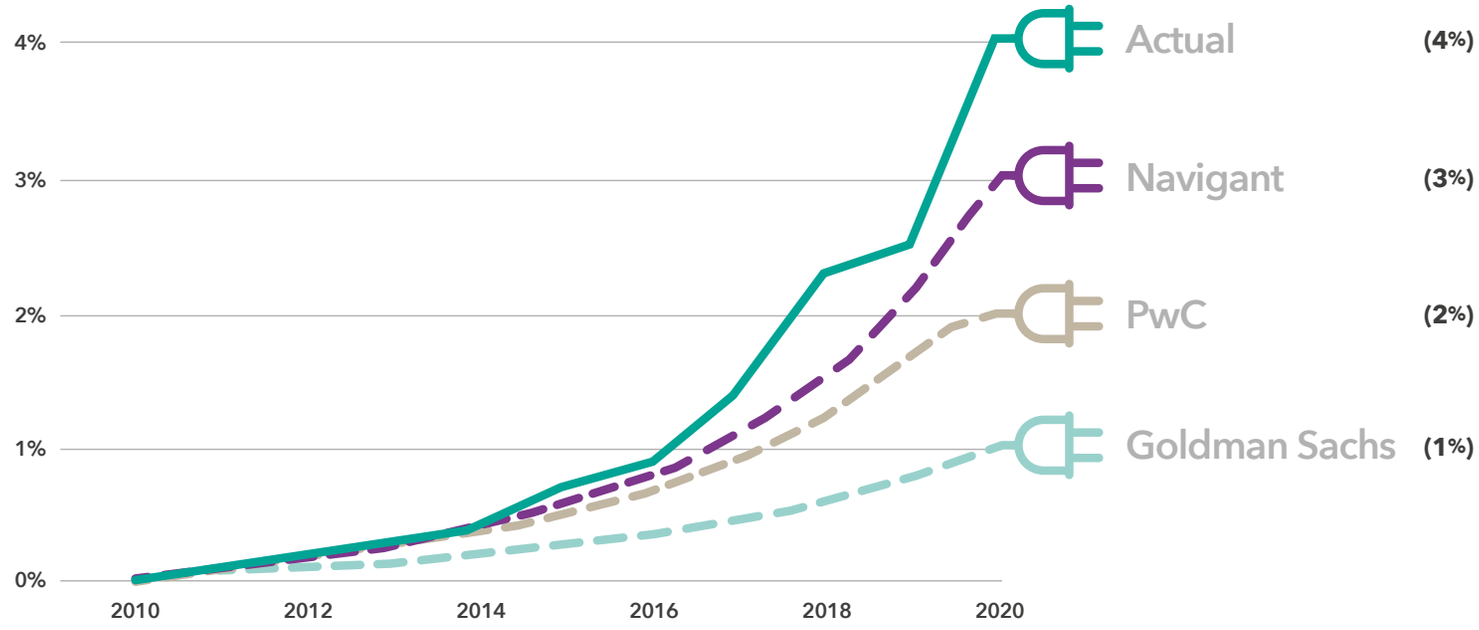


If prices can come down we expect to see current forecasts left way behind, and even without further changes we see real evidence that the upper end of the range in forecasts is more likely to be realized in a 5 year time horizon: the existing trend of forecasts being too negative is likely to be repeated.

ELECTRIC VEHICLES HAVE EASILY BEATEN SALES FORECASTS

Dashed lines represent forecasts from different firms from 2010

Share of parc



Source: Duro Data; IEA; PwC, Goldman Sachs, Navigant

What are the implications of an inflection point in EVs in the next 5 years?

- EV take-up is set to accelerate once TCO is equalized for some use cases in 2021, and more use cases in 2022/23, with further acceleration possible dependent on government subsidies and supply
- Higher costs of initial purchase, and consumer nervousness around Residual Values will drive acceleration in leasing and finance penetration, with an opportunity for these companies to capture drivers before they reach dealerships
- While supply is constrained and EVs are a novelty, OEMs will take more control over the ecosystem than has been the case in the past, for example Hummer taking control of the customer relationship with its latest EVs
- Forecourts should start to redesign their model: Consumers estimate only 10-20% of their charges would be done at forecourts and even this is likely optimistic
- Service, Maintenance and Repair (SMR) Providers need to invest in different capabilities and be ready to compete in serving a shrinking market: EVs are estimated to require ~40% less in servicing and maintenance. The initial move to hybrids should not create a false sense of security for SMR or breakdown providers
- Given the amount of change there will be a range of innovative offerings – some already seen (for example Neo – offering a battery rental subscription service) which will present significant opportunities for investors as well as threats to incumbents

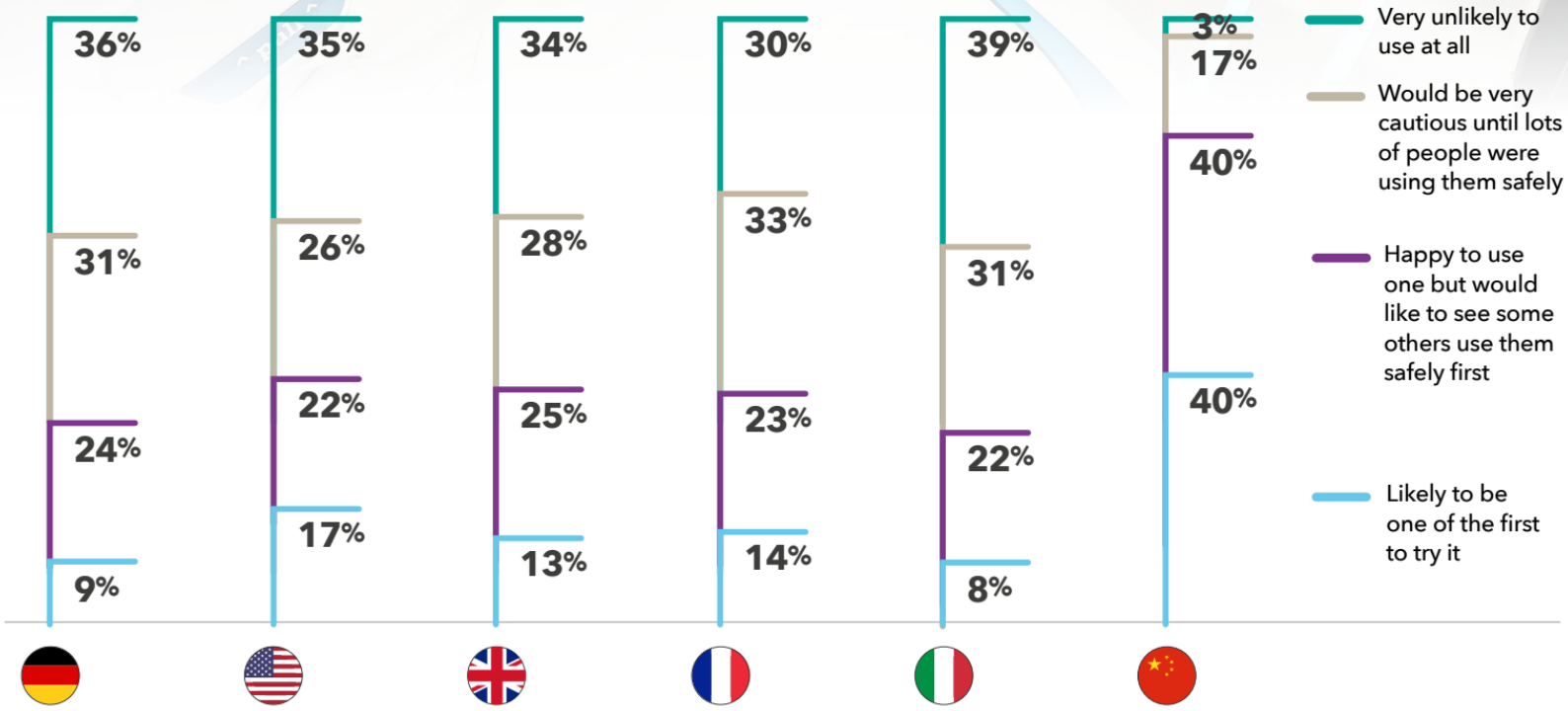
Self drive: Going round in circles

Consumers continue to warm to the idea of level 4/5 autonomous cars or "self drive" vehicles with 60-70% indicating they are likely to use a fully autonomous car once they are established. The percentage who are likely to be early adopters has also jumped up in the UK and US: 14% now report themselves as likely to be early adopters. This still leaves China miles ahead on attitude to self drive cars with 40% likely to be an early adopter, but other countries are catching up. In all countries young drivers and urban drivers are significantly more likely to want to adopt.

Unfortunately for manufacturers these are also the set least likely to be driving the long, simple journeys which best suit autonomous technology as it stands today.

ATTITUDE TOWARDS USING AUTONOMOUS CARS (% DRIVERS)

Drivers only



Early adopter Delta versus 2019 (%pt)

-2%pt	+4%pt	+4%pt	-1%pt	n/a	+8%pt

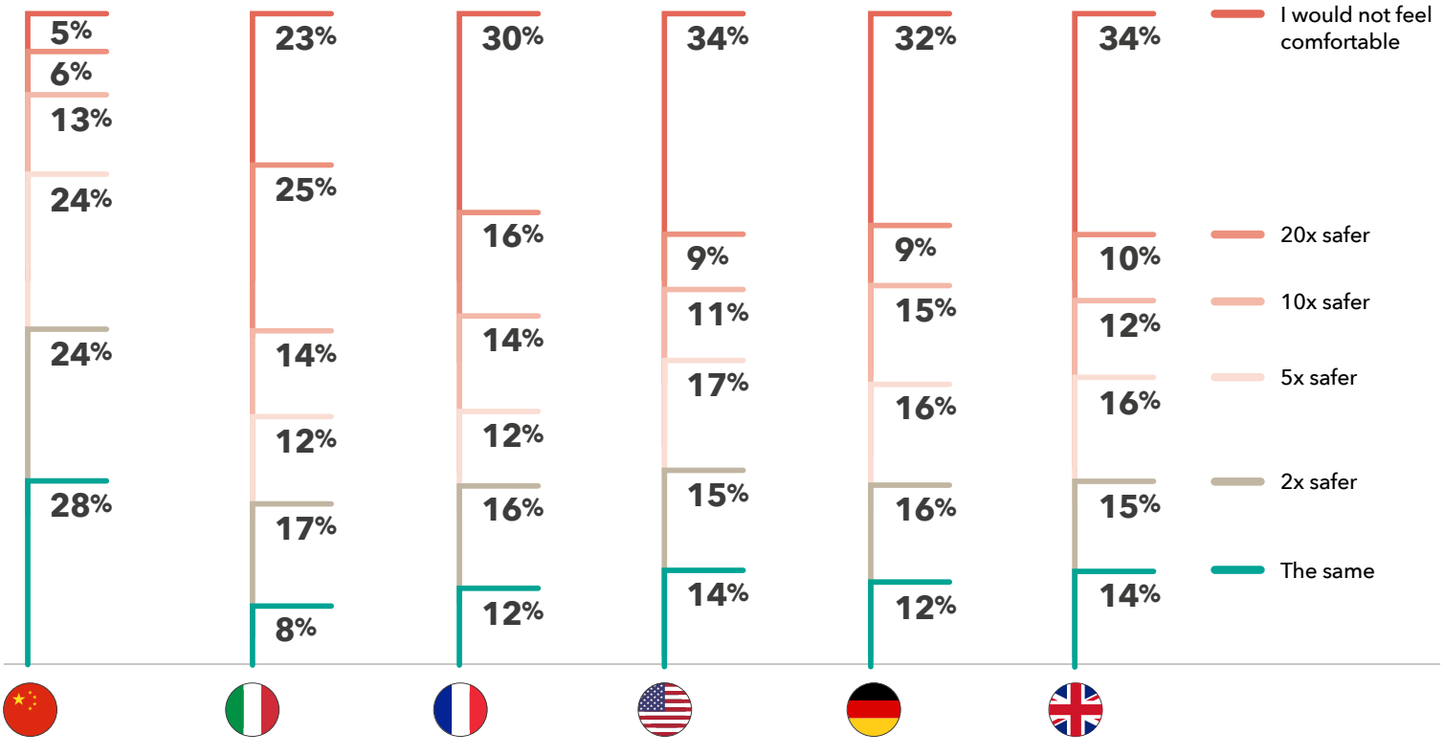
1. Cars may be able to drive themselves in the future. How would you feel about this kind of vehicle? N = 6,755

When level 4/5 is adopted the whole auto market will see a significant hit. 30–40% of drivers report that they "would not mind" using a pool of autonomous cars rather than having their own: the number of cars on the road is likely to drop between 10–15% given vehicles are often needed at the same time of day. Aftersales will likely be far more controlled by OEMs, leasing and taxi companies: self driving cars can drive themselves for maintenance overnight and breakdowns can be sent a replacement car quickly.

However, mainstream adoption is much further off than the media often leads us to expect. 1 in 3 report they would not feel comfortable no matter how safe the car was and another 50-60% of drivers expect the car to be at least 5x safer than an average human before they would be comfortable.

REQUIRED SAFETY FOR COMFORT REQUIRED FROM AUTONOMOUS VEHICLES (%)

Drivers only

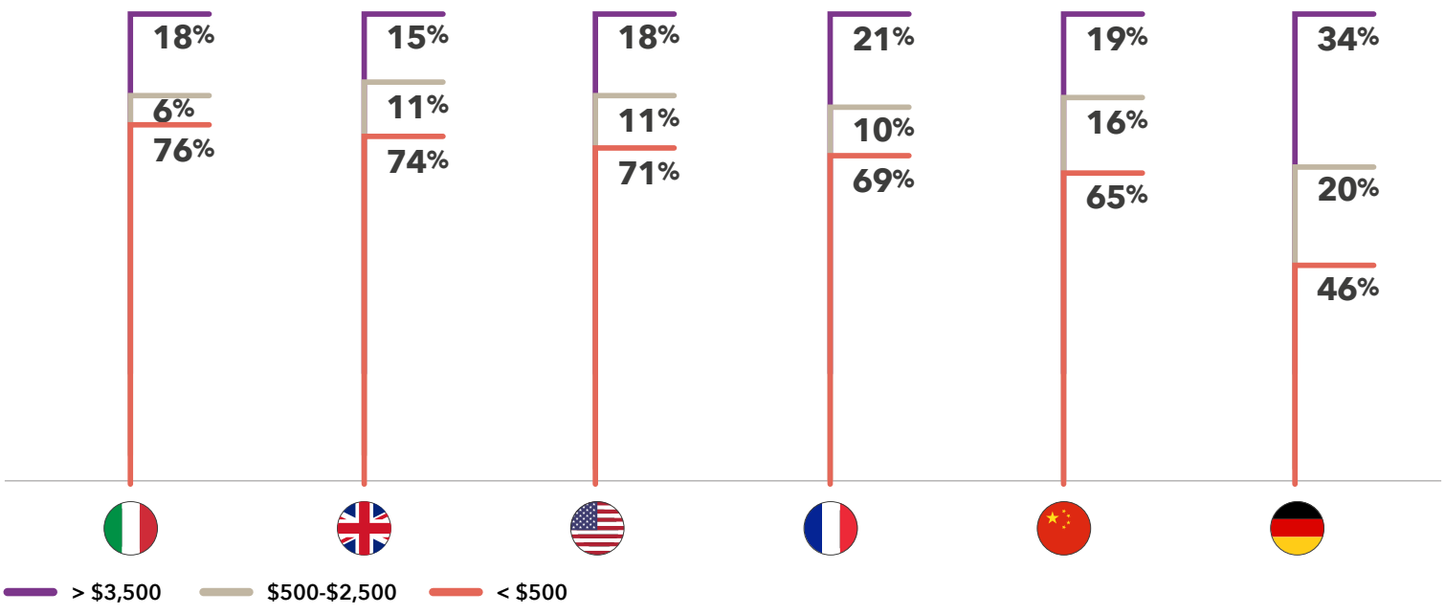


1. Q44: Cars may be able to drive themselves in the future. How would you feel about this kind of vehicle? N = 6,755

Today the technology is expensive and consumers are not willing to pay. Radar systems are often priced between $10,000 to $75,000 or more, and even innovations such as Luminar's LiDAR costs $1,000 for the radar – and this then needs further tech alongside it. Less than 15% of those "early adopters" are willing to pay $2,500 extra for a fully autonomous vehicle and only 23% are willing to pay $1000 for Luminar's LiDAR, which is only one component of the system.

AMOUNT WILLING TO PAY EXTRA FOR AUTONOMOUS VEHICLES (%)

Early adopters only



1. How much EXTRA would you be prepared to pay for a new car with these features? | For full self-driving, in any situation (on top of the regular price for a car). N = 6,035
2. Cars may be able to drive themselves in the future. How would you feel about this kind of vehicle? Respondents answering "I would like to be one of the first to try it"

Fully autonomous vehicles will not significantly impact the consumer market before 2030. Instead the move will be towards increased tech that helps make the driver's life more convenient and safer, and provides a welcome tailwind for Service, Maintenance and Repair Providers given the complexity of the technology.

EXECUTIVE SUMMARY...

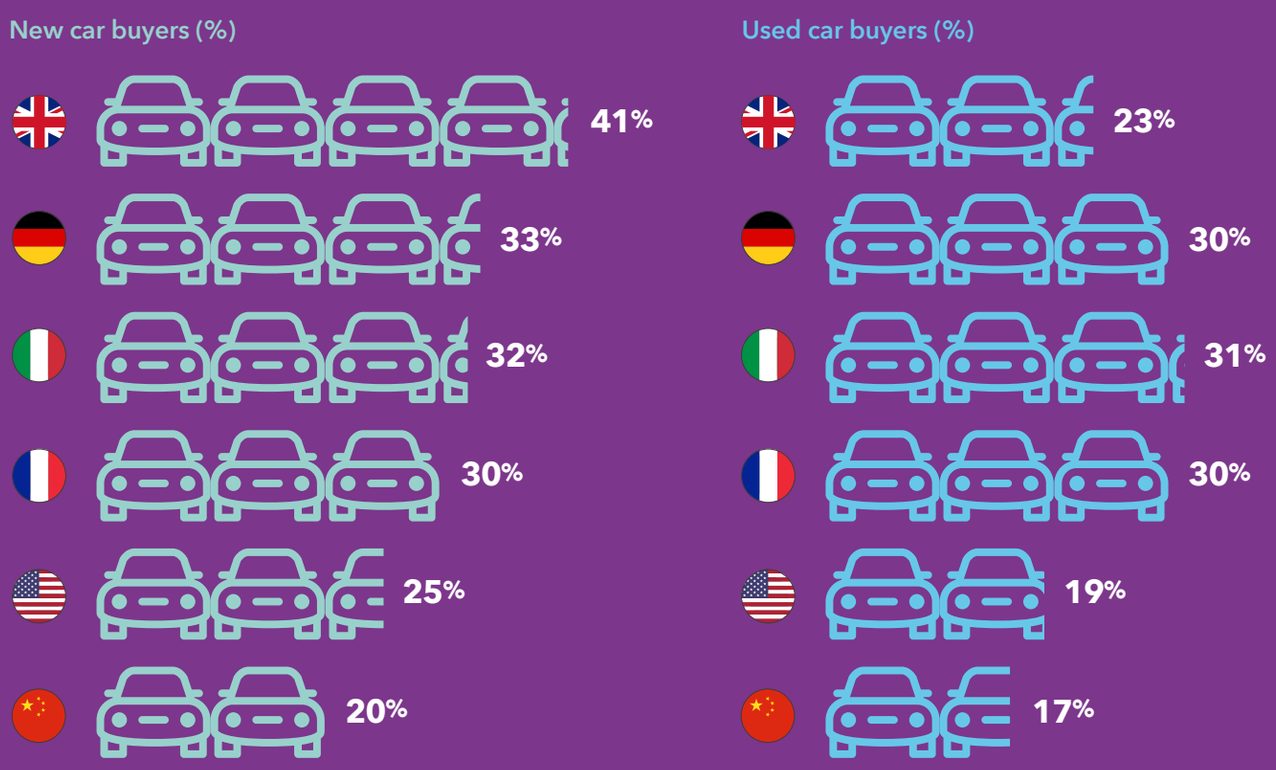
How do they want to pay for their car?

The nature of the consumer search for a car has moved from being car focused to finance focused, and is increasingly now moving towards maximizing convenience and reducing risk. In the last 3 years only 12% of drivers started their search by searching for a specific car. More are now looking for options which give them certainty that they will stay within their initial budget for initial outlay and known monthly costs, while also reducing the risk of losing money on the residual values. This is helping drive growth in leasing in both new and younger used cars. Finance in one form or the other is the norm for new cars and on the path to becoming the norm for the newer end of used.

The vast majority of consumers do not care whether they have the option to own the vehicle or not at the end; options to buy a car at the end of a PCP agreement are taken by a small minority of customers – the choice between leasing and finance is principally about affordability and accessibility to better vehicles over time.

28% of all drivers we surveyed believe leasing is as good as owning your car, this belief is present in both new and used car buyers. Europe leads this trend and the UK is furthest ahead: 41% of UK new car buyers do not believe that owning is better than leasing. The demand for leased offers within used cars requires innovation in supply: today there are limited options to fulfil the demands of more than 20% of European used car buyers who would be interested in such an offer.

DRIVERS WHO DO NOT THINK THAT OWNING A CAR IS BETTER THAN LEASING



1. To what extent would you agree with the following; It's much better to fully own your car than to have it on a lease. New Car N = 1,886; Used Car N = 1,294
2. How old was your car when you got it? Answered by car owners responsible for purchasing their vehicle and all associated decisions (e.g. make, colour) in last three years

The move further towards finance and leasing raises a number of questions and implications:

- Leasing and finance companies have a growing opportunity to capture and convert customers "early in the funnel" - there are a range of options on how to do this which should be evaluated

- Leasing companies and/or finance companies have an opportunity to push their product to used car buyers who would not have been their traditional target – converting this greenfield space may require a new approach to marketing
- A fully online finance or lease agreement is critical to many consumers looking to complete their purchases online – dealers should be clear on who can best support them in offering this
- Leasing and finance companies could push their own fully online offering: 50% of drivers would consider completing a fully online transaction with them, if they wish to follow through with this they need to consider the capability gaps and potential for joint ventures in this space
- The growth of leasing and finance is one edge of the move towards different ownership models. There is both opportunity and risk for leasing and finance companies here as they consider the threats from evolving offers such as SIXT+ or Care By Volvo

EXECUTIVE SUMMARY...

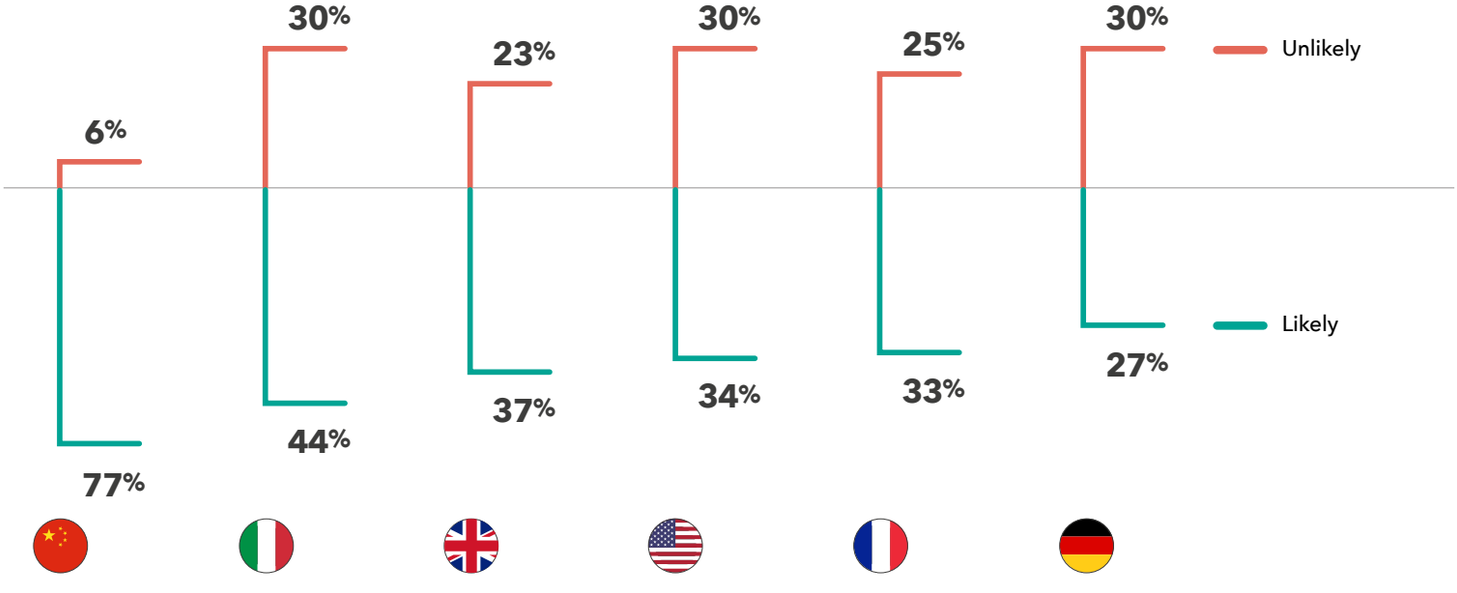
What about after they have bought the car?

The metal only accounts for 36% of the yearly cost in the UK, and less in the US and many European countries: the rest is made up in fuel, insurance, repairs, tax, breakdown, parking, car washing and more. When we consider the car we need to consider all of the services around it.

BUNDLING EXISTING SERVICES USED

Convenience and risk mitigation are big trends in all consumer industries, and this is also true for auto. Today more than 1 in 3 drivers report they would like to have a monthly subscription for the vehicle of their choice along with the services needed to run it. The proportion "likely" to use has risen in every country except France.

LIKELIHOOD OF BUNDLING IF WITHIN BUDGET[1] (% DRIVERS)



Likely Delta vs 2019 (%pt)

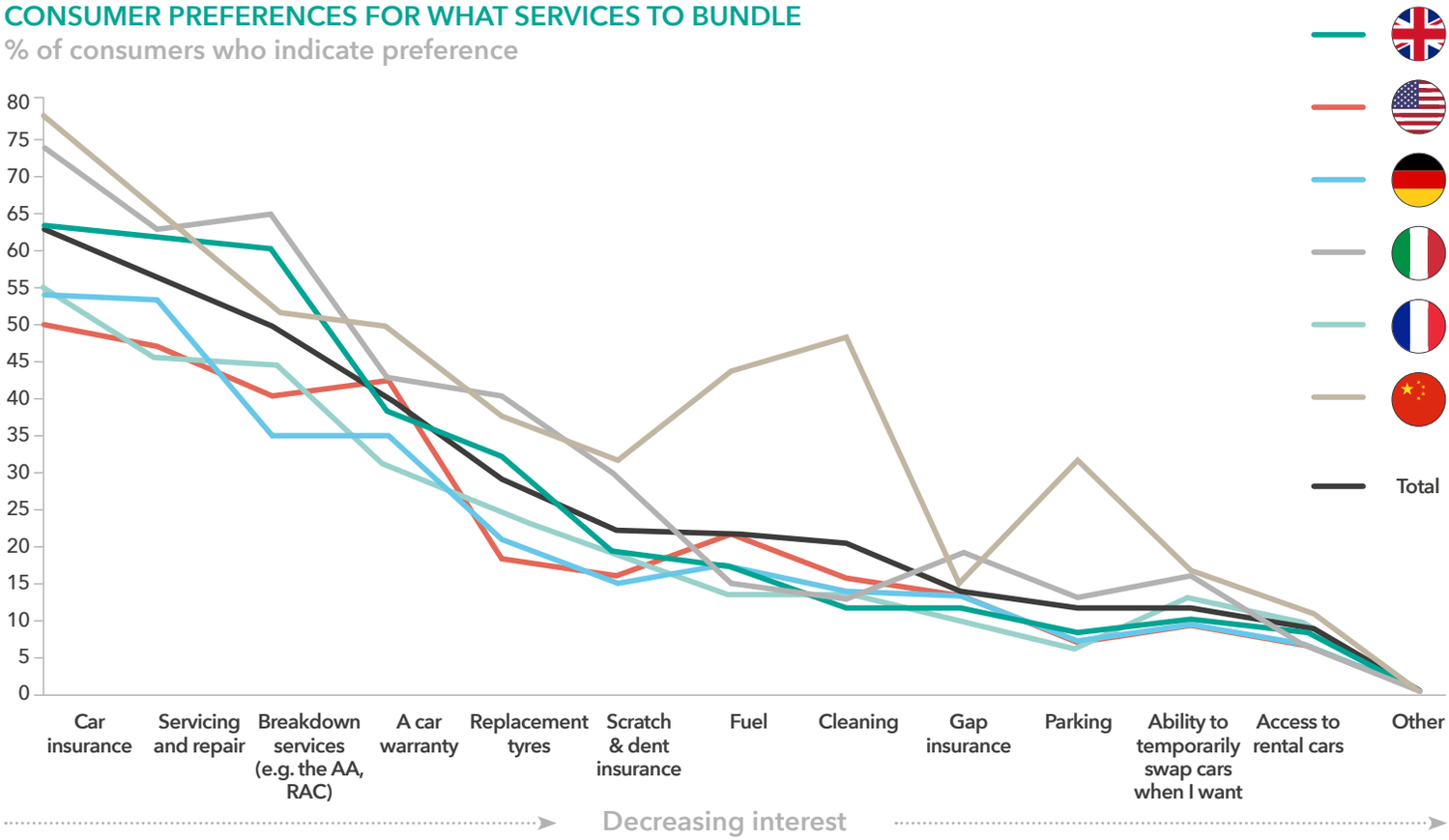
+14%pt	n/a	+8%pt	+6%pt	+0%pt	+3%pt

1. If you were able to pay a monthly subscription for the vehicle of your choice (including insurance, maintenance and the ability to swap the vehicle if you wish) – and it was within your monthly budget, how likely would you be to buy this offer? N = 6,065

The vast majority of consumers are looking for groups of products they already buy. They are not looking for a "swapping" product. The most popular items to "bundle" into a subscription are car insurance, servicing & repair and breakdown, with car warranties and replacement tires also sought after by more than 30% of drivers in most countries. The attraction of a bundle is principally driven by the offer of a "set price" with no risks of unexpected maintenance bills. The ability to "swap" cars – a tool employed by companies like Drover or BMW to push a subscription package is the second *least* popular aspect surveyed, with under 10% valuing it: it is only valuable for those using niche cars (e.g. a 2 seater) which will not address the different needs they have. Removing swapping will make a subscription model more viable for providers: the economics of swapping are hard to justify except for a premium package.

CONSUMER PREFERENCES FOR WHAT SERVICES TO BUNDLE

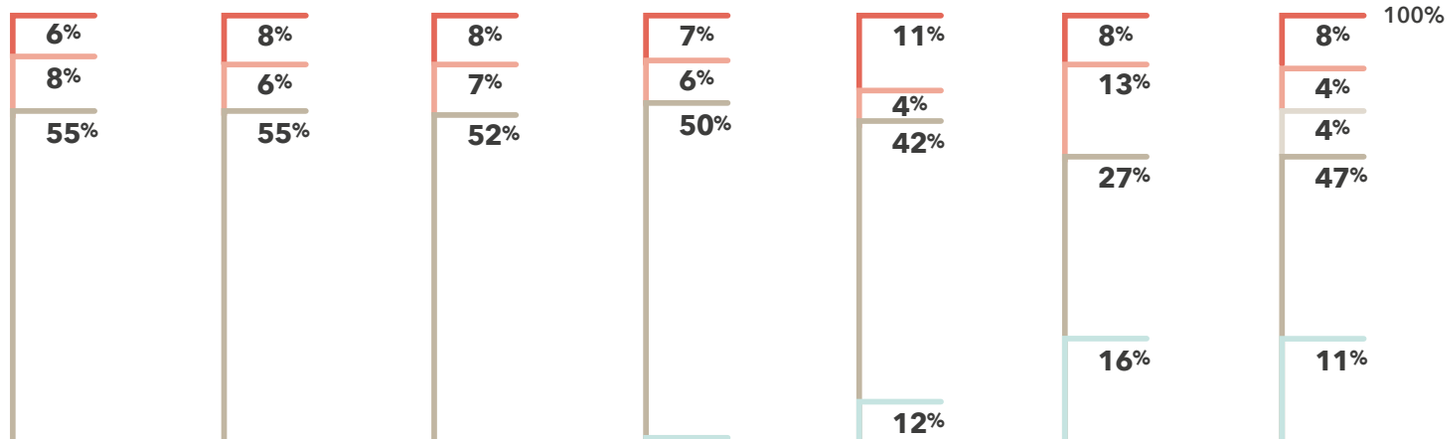
% of consumers who indicate preference

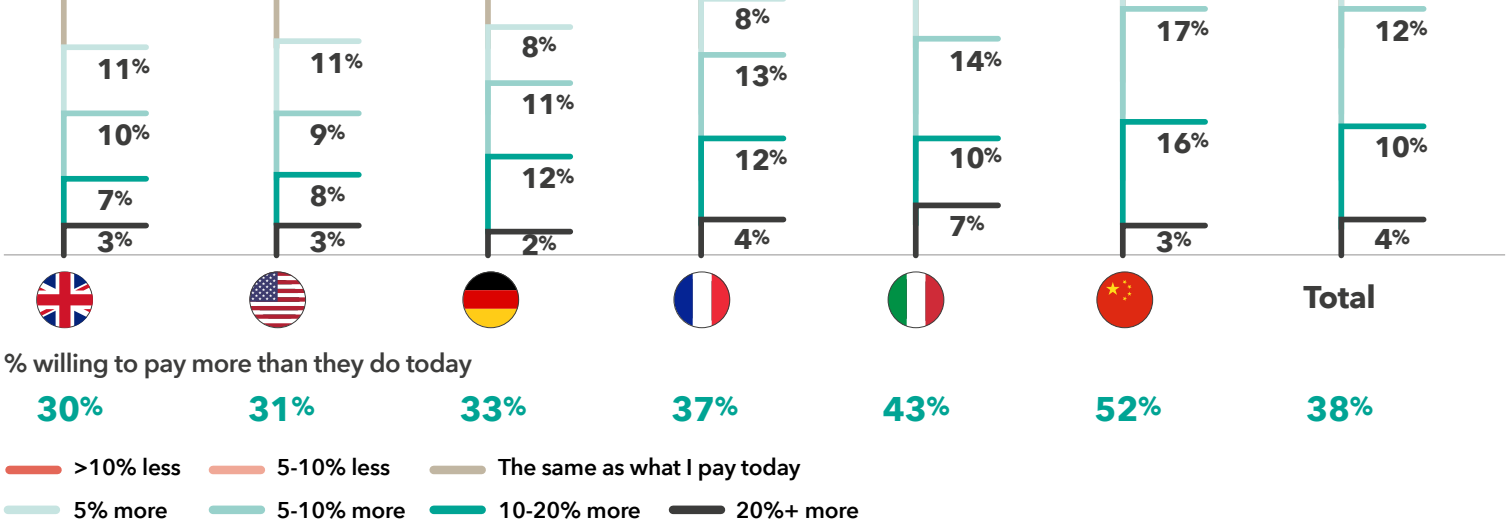


1. If you paid for a car with a monthly payment, which of the following vehicle services would you ideally like to be able to include?

There is a potential win:win scenario for customers and the right player in offering a new, convenient fixed price package for SMR, insurance and breakdown, as more than 30% of drivers in every country report that they would pay more than they currently believe they spend in order to have a fixed price. 10-20% of drivers are prepared to spend 10% more.

WILLINGNESS TO PAY FOR A BUNDLED PROPOSITION (VS CURRENT SPEND)



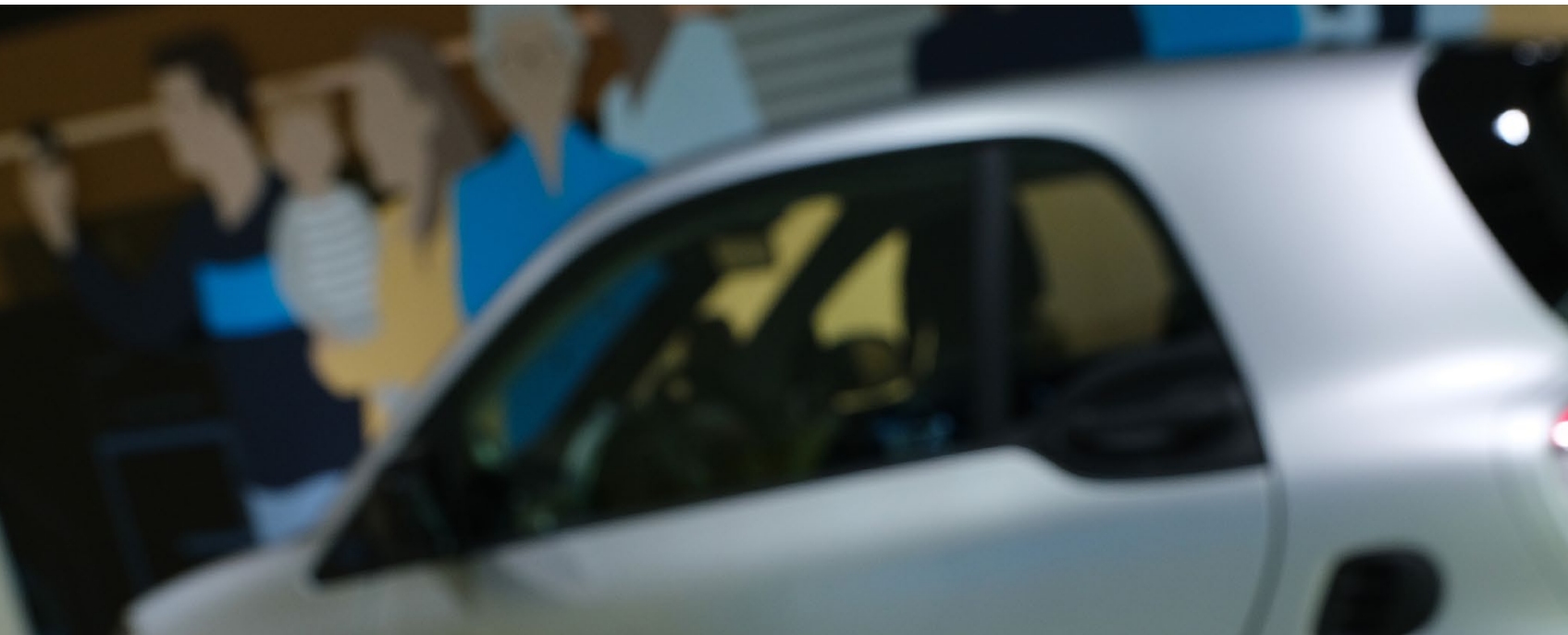


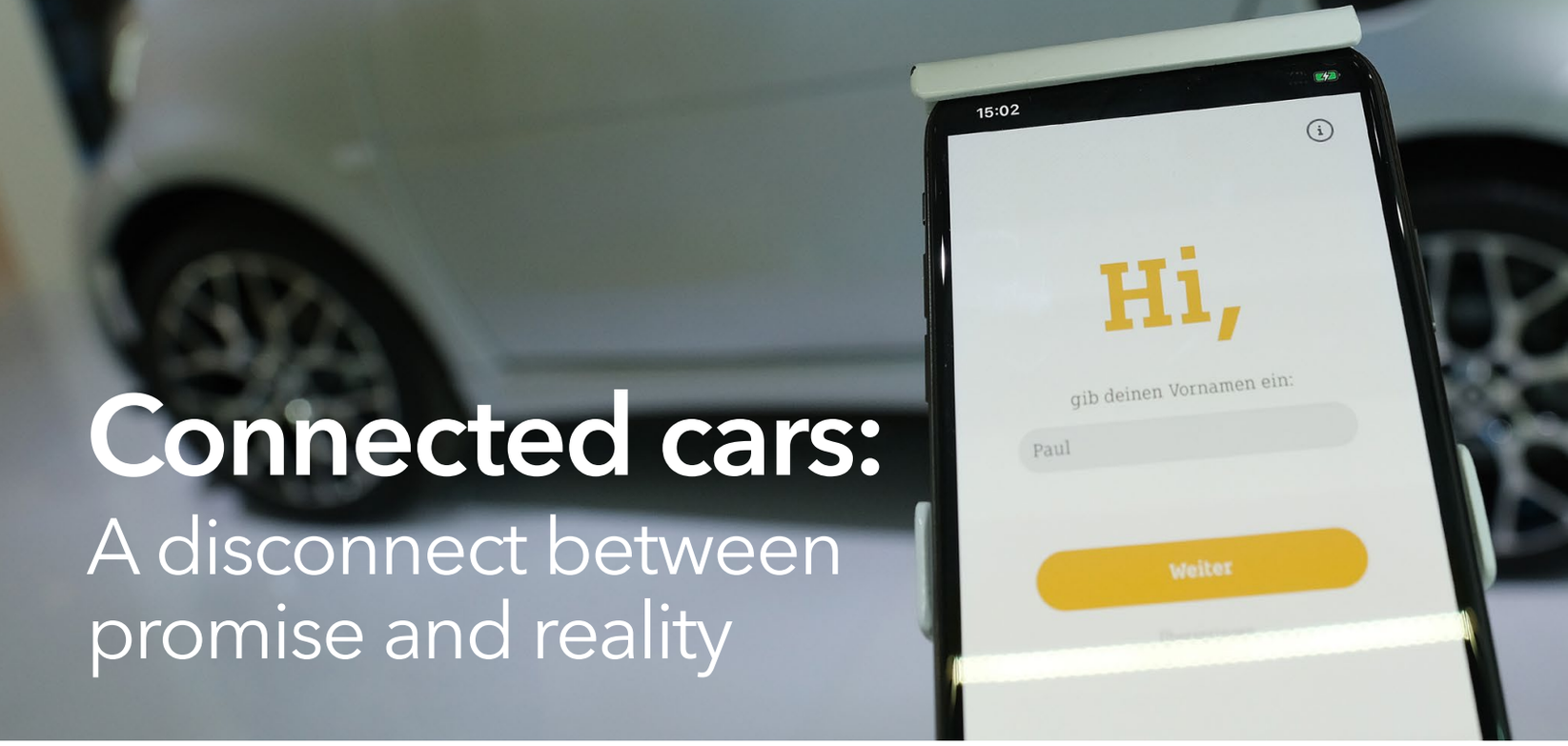
1. Thinking about the cost of running your car today (i.e. cost of lease or depreciation, maintenance, insurance, roadside recovery etc). Would you be willing to pay more, less or the same for a bundled set of services giving you one guaranteed price?

This clearly provides an opportunity for those in a position to sell and control a bundle. There is significant potential for value to be created here. Not only is there a significant group of customers who are willing to pay a premium, the premium they are willing to pay is significantly higher than 5% when they are asked to quantify it. The acceptable sticker price for a group of services is more than 110% of current spend for most of these consumers, in part helped by splitting the payment into monthly expenditure vs yearly.

The opportunity to pursue this bundled proposition is principally as an add-on to a car today, not as a full bundle including the cost of the car. When asked how much they would spend including the cost of the car versus a pure service bundle the average increase in price is less than $200 a month. This is insufficient to cover the price of a car – most consumers don't quantify depreciation and finance when they consider the costs of their vehicle. Only 6% of drivers say they are prepared to pay over $450 a month for a full package of services including the car, for the remainder a bundle of services is more attractive to apply to a separately bought, leased or financed car.

This move to bundled services poses an opportunity and a risk for SMR, roadside recovery and insurance businesses, as well as leasers, finance companies and dealers. Ultimately a bundle puts power into the hands of those who own the customer relationship; others will see their margins, and ability to upsell or cross sell, squeezed.





Connected cars:
A disconnect between promise and reality

In-car connectivity is now the norm for new cars and will soon be the norm for most of the parc. This includes both telematics in the car and connected apps.

98% of Chinese drivers reporting using apps related to their driving, with 81% in France, 67% in Italy, 72% in US, 64% in DE and 61% in the UK. Some OEMs have started to use this as an opportunity to engage their consumers further down the customer journey, rather than hand off the entire customer relationship to the dealer. Volvo "OnCall" is one example of this offering "a luxury experience at your command" combining a mobile app, in-car wifi and time-saving connected services.

In theory this type of connected car proposition is popular: In Europe and the US 64-74% of new car buyers and 56-78% of used car buyers report they are open to using an app offered by the OEM. The most popular reasons would be to alert for potential car issues, and if there are opportunities to decrease costs, while a minority also want remote connection, booking services or tracking services. In exchange for these benefits, over 60% drivers report they would be happy to share their data.

OPENNESS TO USING AN OEM APP, AND WHY (%)

New car drivers only

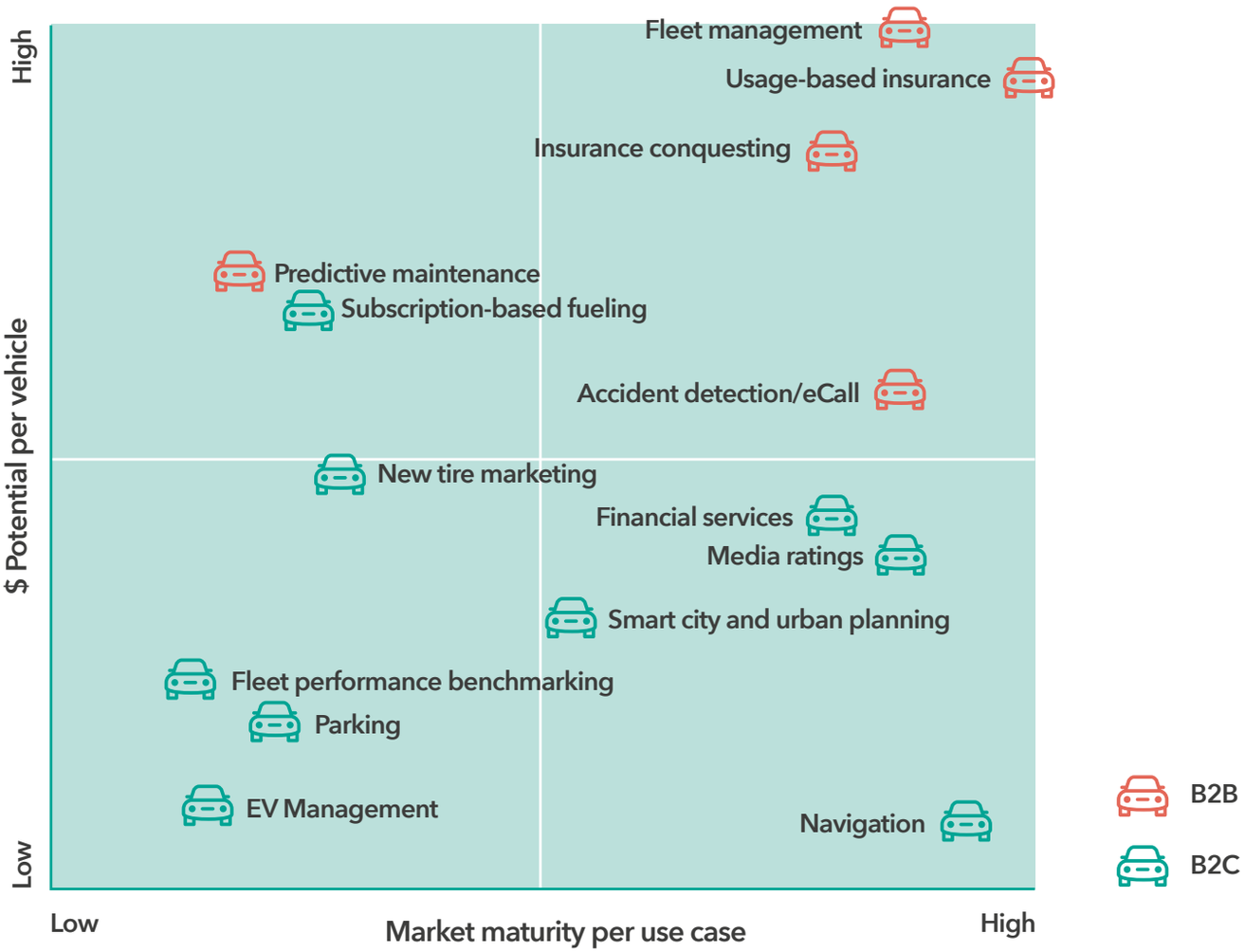
	China	US	Italy	France	UK	Germany
Openness to use an OEM app[2]	97%	74%	71%	68%	67%	64%
Alerts for potential car issues	61%	46%	41%	36%	40%	34%
Connect to the car remotely	51%	35%	30%	24%	33%	21%
Book servicing, MOT etc	47%	15%	23%	10%	19%	14%
Track of car use, fuel consumption etc	47%	20%	21%	16%	22%	19%
Cost decrease by sharing data with 3rd parties	40%	35%	32%	36%	39%	25%

Highlight of charge points /petrol stations	26%	11%	13%	16%	19%	13%

1. What would make you want to use an app provided by a car manufacturer with your car? N = 1,392 (including "I would never use such an app")
2. % who didn't answer "I would never use such an app"

Despite this stated high interest today there is a disconnect; the download volumes for these apps are low, and the usage stats lower. The problem is the lack of consumer engagement or excitement for the use cases. This is clear when assessing the use cases, those which are in mature markets and profitable are principally B2B today: consumer needs have not been formulated to drive high $ per vehicle yet.

CONNECTED VEHICLE USES, BY VALUE AND MARKET MATURITY



Source: NADA Future of the Dealer Report

Addressing this disconnect requires a step change in the benefit the connected car brings. This could be done through greater discounts (e.g. for the young on insurance), or greater convenience factors. 60% of drivers said they do not use telematics because they "hadn't considered it".

If OEMs can bridge the gap between interest and usage of such an app there may be opportunities to increase the $ potential per vehicle and their own position in the customer journey. In theory this could provide an avenue through which they could disintermediate franchise dealers, insurance companies and others either influencing who the consumer uses, or directly pushing products such as warranties or finance. This move could help OEMs thrive in an agency model. In addition, 1 in 4 drivers said they would be willing to let an OEM book their servicing and ad hoc maintenance, or that they would be influenced by the OEM's suggestion – potentially posing a threat to existing SMR workshops not linked to OEMs (if consumers do move to adopt these apps).

What are the implications for the market?

- How far will OEMs want to push their ownership of the customer versus their traditional ownership by the dealer?
- How can OEMs drive uptake of apps given the current disconnect between interest and downloads?
- Is there a breakthrough use case out there for consumers just waiting to be discovered, or will connected remain the domain of fleet?

So what does this mean? Who will win and how?

It is clear that the world of auto is changing rapidly, and each player needs to carefully assess the challenges and opportunities. But who is best positioned to win, and who is at the greatest risk of losing?

Automotive service businesses

Auto services businesses are seeing several headwinds affect their medium-to-long-term outlook. Changes in how consumers buy cars may mean these businesses need to evolve their existing routes to market, while also considering how (or if) they create bundles or participate in the bundles of others. In the long term, the rise of EVs will also diminish market size but this is likely to be in part balanced by increasingly complex vehicles.

THESE PLAYERS SHOULD ASK THEMSELVES THE FOLLOWING QUESTIONS:

- How fast is the market likely to decline in view of growing EV sales? To what extent is this offset by rising technological complexity? What does this mean for investments, divestments and partnerships?
- Who should service businesses who traditionally sell via dealers be looking to build partnerships with in addition to traditional retail?
- What is the potential uplift from offering a bundle of services, with other providers? What is the risk of disintermediation if they do not move early for this offer?
- How can they leverage the connected car and (slowly) increasing take up of telematics solutions to help them gain scale?

Data/software /technology providers

Data players are critical to the automotive world with opportunities to aid understanding on Total Cost of Ownership, and emissions, as well as a tailwind via the increase in telematics devices. They need to consider potential opportunities both to work with new players in the sector, perhaps through providing data and advice, and to enter the sector directly through offering D2C consumer facing solutions. Data players should also be considering how can they help drive dollar potential per vehicle through telematics solutions, and how can they take OEMs with them on this journey.

DATA, SOFTWARE, AND TECH PROVIDERS SHOULD ASK THEMSELVES THE FOLLOWING QUESTIONS:

- How can they help dealers and OEMs provide more clarity on TCO?
- Does the entry of new players provide a fertile source of new customers? How can they access these?
- How can technology or software providers help drive dollar potential per vehicle through telematics solutions?

Disruptive online retailers

Disruptive online retailers look like the current winners; they are well positioned in a growing market, with the potential to disrupt traditional retailers, especially in used. The opportunity is significant, but seizing it will be an uphill battle; incumbents have the power to leverage existing brand power and trust, and the profitability of a pure-play online retailer is dependent on their ability to cut out cost in processing and remarketing the car, while developing a new brand and seamless customer friendly service. Today, they have significant disadvantages in sourcing and cost per acquisition. Creating a resilient, profitable model will take time and scale to cover fixed costs. Furthermore, the market will become increasingly competitive as digital laggards develop their online propositions.

DISRUPTIVE ONLINE RETAILERS SHOULD ASK THEMSELVES THE FOLLOWING KEY QUESTIONS:

- Which capabilities are required to scale the proposition beyond early adopters and tech lovers to the average car buyer?
- How can the economics of online retail be optimized? How do the cost savings from a pure online experience compare to the potential conversion improvements from having a journey that includes offline elements (e.g. a phone call)?
- What should they do in-house, and what should be outsourced to market experts?
- How can they ensure access to good quality inventory, and avoid quality used vehicle wholesale prices being bid up?
- How far do they need to backward-integrate into physical presence?

Insurers

Insurers are facing rising uncertainty as the cost of repairing increasingly complex technology continues to rise. However, there are also opportunities to push telematics solutions and potentially take the lead on bundling in-life services with insurance more than is done today.

INSURERS LOOKING TO SEIZE THE OPPORTUNITY WHILE MANAGING RISK SHOULD ASK THEMSELVES THE FOLLOWING QUESTIONS:

- As repair complexity increases, how can insurers balance the need to manage repair cost with the risk of faulty repairs to mission-critical Advanced Driver Assistance Systems (ADAS)?
- How can they lead in the world of bundled products, both to avoid being disintermediated and to bolster margin? What do they need to develop to do this, and will the return justify the investment?
- Do new levels of vehicle connectivity allow innovation in usage based insurance? i.e. pay by the mile and/or time of day

Rental, leasing, and other finance houses

Leasing and rental companies have both a ready made supply of used cars, and expertise in running vehicles on monthly packages; they are therefore uniquely well positioned to capture increasing demand for D2C car sales, and for bundled "single price" propositions of services with a car. However, their ability to win in online retail and subscription could be limited by the lack of retail experience and go to market capabilities.

RENTAL, LEASING, AND FINANCE PROVIDERS SHOULD ASK THEMSELVES THE FOLLOWING QUESTIONS:

- How can leasing companies capture the significant quantity of latent demand for convenient packages and leasing? Who should they target, and how?
- How can they optimize customer capture early in the funnel? Does this justify building their own retail presence?
- What services should they sell, and should they be add-ons or included as standard (aka Drover or SIXT+)?
- Is the optimal proposition of bundled services best achieved through M&A or partnerships?
- Should companies look to be the provider of mobility solutions for the approximately 10% who say they would consider this? If so, what marketing or product changes are needed?

OEMs

OEMs are currently seeing squeezed margins and waning brand loyalty, as well as operational and investment challenges as they adapt to producing EVs. There is a huge scale of capital investment required, harsh regulatory regimes regarding EVs in Europe, and a sub-set of competitors who are moving fast. However, they have a significant opportunity to drive margin growth with options to insert themselves further down the value chain. This could be through D2C sales, pushing an agency model, leveraging their power over the supply of EVs and using the appetite for connected cars to take over customer relationships. This could enable them to take control of distribution, control headline price and grow the range of products on which they make a margin. However it also drives responsibility for volume of sales, and associated balance sheet. We remain skeptical that they will be able to fully own the end customer relationships, but they can use their brand strength to build a more profitable position, while still using partners for distribution and SMR.

OEMS NEED TO CONSIDER THE FOLLOWING QUESTIONS:

- Can they sustainably operate a model with some D2C elements? What capabilities do they need to deliver this ? Are they ready for the responsibilities an agency model brings?
- How can they maximize value capture from an agency model with dealers?
- How far do they want to insert themselves down the customer value chain, and what investment is justified?
- How can they manage the blurring of B2B and B2C sales channels driven by online retail - with leasing companies now selling direct to consumers?
- Do they need to consider M&A partnerships (of other brands, or other services) to maintain or grow their position in an increasingly digital, decreasingly brand loyal world?

Traditional online classifieds

Traditional online classifieds have already been riding high off consumers' desire to do more online. In Europe, online classifieds are the most cost-effective lead generation mechanism, and it is vital that they maintain this advantage. In particular, they need to guard against a move towards the US model, where retailers spend more on direct marketing, and classifieds take a second seat. There are several opportunities to extend their ownership of the digital and fulfilment journey, including in finance, leasing and online sales.

However, many of the classifieds are limited in what they can do by their existing customer base (i.e. traditional retailers) which can constrain the ability of online classifieds to make big strategic changes. While the online classifieds look at this issue it seems likely other companies will look to take leading positions in the digital and fulfilment journey.

LIKELY NEW, OR GROWING, COMPANIES LOOKING TO MAINTAIN OR BUILD MARKET SHARE SHOULD ASK THEMSELVES THE FOLLOWING QUESTIONS:

- How can classifieds help dealers thrive in an increasingly online world? Which propositions should they develop to help dealers?
- How can they ensure access to good quality inventory, and avoid quality used vehicle wholesale prices being bid up?
- How big an advantage does their brand power and customer reach give them in adjacent opportunities or D2C sales?
- Do they need to make changes to remain the most cost-effective lead generation mechanism in an increasingly online retail process?
- How can they help their own (retailer) customers meet the challenges of tomorrow – and particularly those traditional dealers that lack the scale to invest in winning online propositions?
- What are the risks of diversifying to compete alongside their own customers (e.g. with a D2C proposition)? What would justify a move to D2C sales?

Traditional (physical) vehicle retail

The headlines could sound bad for traditional physical dealers, as there are trends which could see margins squeezed, and their power in the industry diminished. In particular, the move towards online retail could pose a problem for those who fail to adapt. However, forward-thinking firms will not suffer in the medium term and can instead see this as an opportunity to grow their geographical reach. Physical interaction with cars remains key for the majority of would-be buyers, and the access to inventory – both from OEMs and part exchange, gives them a further advantage. Traditional retailers can still win with the right consumer-facing strategy, and matching investment. There is also the potential for margin gain and higher return on capital for franchise dealers who can successfully navigate to the end state of the agency model, which will likely be imposed on them over the coming years.

TRADITIONAL VEHICLE RETAILERS WILL NEED TO CONSIDER THE FOLLOWING:

- How should they change their value proposition – both online and offline – in response to the increasing online challenge?
- Which capabilities are required to win in an online world? How can they develop or access these?
- Where/when is it sensible to offer an online offering, and where might it make sense to specialize in pushing a more physical purchase journey?
- Is there a role for set prices in a world that operates both digitally and in physical format?
- What would the implications of an agency model be for franchise dealers?
- What will it take to navigate to a high margin end state within an agency model? Should they be working with OEM partners to develop the framework for this model, or even pushing OEMs towards it?

EXECUTIVE SUMMARY...

Which country comes **first** in embracing change?

The world of automotive is in a period of unprecedented change in every country we surveyed, but countries vary in their attitudes to mobility solutions, electric vehicles, digital retailing, autonomous vehicles, and subscription packages. Here we consider which countries are leading the charge towards change, and which are sticking with a more traditional view of the world.

#1 Automotive with Chinese characteristics

Chinese drivers continue to lead the world in their willingness to adopt new solutions – be it EV, autonomous, subscription packages for their own car, or mobility solutions. Around 38% of Chinese drivers report they would consider car sharing as an alternative to owning their own car.

#2 UK's digital revolution

The UK springs up this year's leaderboard, driven by rapid shift in attitudes to online retailing and appetite for subscriptions, and the largest growth in consumer consideration of EVs of any country in our sample.

The majority of UK car buyers are open to a "click and collect" purchase, and 26% are happy to purchase their next car unseen. This is true across new and used vehicles, and is reflected in the 67+ companies we have identified that are looking to capitalize on this development, most of which were founded in the last year. UK drivers are also the most likely to be open to leasing, with 41% of new car drivers seeing leasing as equivalent to – or as desirable as – owning.

#3 France electrifying Europe

France has lost its #2 position due to a lack of progress on attitudes to EVs, subscription and low willingness to consider digital retailing versus the UK, US or China.

French drivers continue to lead Europe on likelihood of actually buying an EV – 30% are "likely" to or "will definitely" buy an EV as their next car – but the gap to other Western countries is closing. A number of other countries now equal France in the percentage that would consider buying an EV.

Furthermore, French drivers are less likely to consider digital retailing than those in the US or UK, and are the least likely of all the countries surveyed to want a bundled package. They also sit in fourth place on willingness to adopt autonomous tech.

#4 Germany holding steady

The European home of motoring has slipped down our rankings, driven by two factors. First, there is a low appetite for online retailing and subscription packages. Only 15% of German buyers would be willing to use a "click and collect" service to buy a car, versus 18% of French drivers and 26% in the US and UK.

Second, only 46% of German motorists would consider the purchase of a BEV; this is the lowest in Europe, and only slightly above the US. There is a stronger appetite for PHEVs, however, with 35% "likely to buy".

#5 Italian resistance

Italy has, on average, a conservative view towards the coming changes within automotive, and enters this year's survey at #5. It is broadly in line with Germany on EV consideration, but comparatively few Italians are willing to convert that consideration into action.

This is a tale of two halves, however; the young and urban, particularly in Rome and Milan, are among some of the most forward-thinking motorists in our survey. They exhibit strong uptake of mobility solutions, autonomous cars and EVs. This is in stark contrast to those who self-identify as living in "semi-rural" areas, and in smaller municipalities.

#6 US traditionalism

The US continues to be the car lover's haven; 90% of US drivers see the car as essential, which is higher than anywhere else. Drivers are also the least likely to consider moving to a mobility solution, with 90% stating that they would not consider car sharing.

However, the US is still willing to consider any technological improvements that help improve the car experience;17% say they were likely to be early adopters of autonomous technology, unless it would affect enjoyment.

More drivers are open to EVs than before, though the US still lags the pack: 16% think they might buy an EV next time, compared to 63% in China or 30% in France. Around 1 in 3 still do not believe they will ever have an EV.

EXECUTIVE SUMMARY...

Methodology

The Global Automotive Disruption Speedometer 2021, an update to our 2019 Global Automotive Disruption Speedometer report, surveyed 7,537 consumers, of whom 6,755, were drivers to understand how consumer attitudes and behaviours towards the auto industry are changing, and the impact this will have on the industry. Drivers were selected from a nationally representative sample and were held between December 2020 and January 2021. The study covered six countries: UK, USA, China, Italy, Germany and France.

7,537 **6,755**

If you would like to discuss any of the themes covered in the report we'd be delighted to talk.

Felicity Latcham, Associate Partner
felicity.latcham@occstrategy.com

Mark Jannaway, Partner
mark.jannaway@occstrategy.com

Nicholas Farhi, Partner
nicholas.farhi@occstrategy.com

Alberto Regazzo, Partner
alberto.regazzo@occstrategy.com

Jean-Baptiste Bertrand, Manager
jean-baptiste.bertrand@occstrategy.com

Moritz Rudolph, Consultant
moritz.rudolph@occstrategy.com

OC&C Strategy consultants

uncommon sense

© OC&C Strategy Consultants 2021. Trademarks and logos are registered trademarks of OC&C Strategy Consultants and its licensors.