Insight Report

2020

Contents

Introducing the Cox Automotive Insight Report 2020

In collaboration with Grant Thornton

Welcome to the third annual Cox Automotive Insight Report.

This brings together expert opinion from across the automotive industry alongside our own data and analysis to provide a robust picture of the sector and factors we believe will have the biggest impact over the next 12 months and beyond.

Once again, we are delighted to partner with Grant Thornton to deliver a holistic overview of the market, wider economy and external trends. We look at forecasts and key trends for the new and used car and van markets; explore the impact of technology and alternative fuels; consider the role of the vehicle in daily life; and look at the financial pressures hitting the sector.

Thanks to everyone who has contributed to produce this report, including partners such as the National Franchised Dealers Association (NFDA), LexisNexis, Marshall Motor Group, Pivotal (JLR), Cazoo, and everyone who has taken part in our primary research throughout the past year.

We know there is plenty of discussion and debate out in the market, with some fantastic reports and insights from very credible organisations. Our intention is to add to these conversations, and we look forward to hearing from you with your own views and contributions.

We hope you find these insights valuable, and we wish you the best of luck for your business endeavours in 2021.

As we stand here on the cusp of 2021, we look back on a year of exceptional challenge for the industry. The impact of this year's pandemic on new and used car sales may have grabbed the 2020 headlines, but COVID-19 has also accelerated several existing trends. With electric new vehicle sales now overtaking diesel sales, the UK Government has brought forward the end of the internal combustion engine. All these challenges, plus - at the time of writing - continued uncertainty about the impact of Brexit, makes this a year like no other we have faced as an industry.

However, out of challenge comes opportunity for positive transformation with plenty of signs of long term hope and business success. Digitisation projects have been accelerated; vehicle ownership and driving patterns have been questioned, presenting opportunities for alternative fuels; manufacturers and dealers have re-evaluated their relationships with each other and the journey they present to the consumer, offering up innovative partnerships which provide value to everyone involved.

We now look forward to a period which is likely to see further significant change in both the wholesale and retail used car markets against a background of lower new and used vehicle sales. It is clear businesses throughout the automotive supply chain have decisions to make about how they structure their organisations to embrace the developments yet to come.

At Cox Automotive, we have the benefit of being able to take a well-rounded view, comprising outlooks from the UK, Europe and further afield. With products and solutions throughout every stage of the automotive life cycle, our customers include independent dealers, franchise dealers, leasing companies, fleets, and manufacturers.

As the world's leading automotive services company, we can draw upon insight and expertise from across the globe. We know things are changing quickly - the move towards digital is accelerating and technological advances will play an increasingly important role.

At Cox Automotive, we continue our ambitious growth plans, investing to build our capability, scale and scope across physical and digital services to meet the changing needs of the automotive marketplace. Our businesses are organised around our customers' core needs across vehicle solutions, remarketing, funding, and retail. We continue to evolve and develop our offer in partnership and collaboration with customers

The shift towards a more digitised retail model, accelerated but not prompted by COVID-19, provides opportunities for organisations across the automotive supply chain. We work to complement and not compete with our customers, helping them to adapt and grow in the changing retail environment. Specifically, we continue to build scale in the wholesale market, act as market matchmaker, and enable our customers' retail sales through the development of the best products and services to remove friction from the buying and selling process.

As we look to the future, it is clear the automotive sector will need to undergo further change to respond to evolving consumer behaviours. Mainstream adoption of full electric models will require a different way of thinking when it comes to aftersales, repair and remarketing. The ongoing developments in the subscription economy will require manufacturers and dealers to be a little more creative in their customer relationship management. And everyone will need to be agile to respond to the political, economic and cultural shifts which continue to impact markets worldwide.

Like all businesses this year we have had to adapt our working practices, but we always strive to do the right thing for our team members and customers. While acknowledging this hasn't been the easiest of years for anyone in automotive, we look forward to entering 2021 with a renewed focus, refreshed approach and even stronger commitment to supporting our customers and partners at all stages of the supply chain.

As we head into a new year, I'd like to extend my thanks and appreciation to everyone in the extended Cox Automotive family. I am humbled every day by the passion, commitment and innovation shown by our team members, suppliers, customers, and sister businesses. Together, we will embrace the opportunities that the automotive industry of 2021 and beyond has to offer.

Thank you.

Martin Forbes
President, Cox Automotive International

We are proud to partner with Cox Automotive for a third consecutive year in delivering our comprehensive analysis and outlook for the sector via the Insight Report 2020. When we launched last year's report, we had no idea how much the world would change in the subsequent 12 months. Indeed, few people predicted the level of agility and adaptation required by organisations across all sectors in response to COVID-19.

As evolutions in the automotive market around technology, digitisation and electrification have all accelerated in recent months to meet the required changes sparked by COVID-19, the picture we paint in this year's Insight Report looks somewhat different to the one we explored last year. Nevertheless, among the uncertainty, there remain some consistent threads: the advancement of electric vehicles and autonomous vehicles; and the passion and drive of those working in the automotive sector. Change may be taking place more quickly than expected by many individuals and brands, but retail chain companies are reacting with positivity, optimism, and a clear eye to the future.

In a year of change, we anticipate further consolidation in both the automotive upstream and the downstream subsegments. Increasingly, we are seeing the OEMs undergo acquisition or enter joint ventures to reduce costs and, in turn, generate profits. The need for the OEMs to consolidate in order to reduce cost and gain the economies of scale achieved by shared electric vehicle platforms will continue as a trend throughout 2021 and 2022. Furthermore, while sustainability remains firmly on the agenda, the OEMs must continue to invest in electric vehicles as the fines from increased EU emissions legislation impact on profit.

In the downstream, the automotive retail market is coming under pressure from a change in business model. In 2020, there has been increased commentary and global brand adoption of the agency model. Prior to COVID-19, the consolidation of the dealer network in the downstream market was widespread, though has slowed over the lockdown period in the UK. However, we are optimistic that this will increase in 2021 and 2022, with several dealer groups publicly indicating that they are open to a strategically positioned acquisition.

As we come to the final quarter of 2020, we look forward to 2021 and the changes it may bring as Brexit and COVID-19 continue to disrupt the automotive markets. The persistent uncertainties surrounding Brexit are unlikely to dissipate quickly as the automotive sector in the UK and Europe navigates the changes that lie ahead. At Grant Thornton, we believe planning and preparation are central to success, helping us to adapt, act quickly, and continue to support customers in all trading environments. Although we face disruption, it provides a positive catalyst for the industry to refresh its relationship with the customer; for dealers and manufacturers to realign their expectations; and for suppliers throughout the vehicle life cycle to assess opportunities for integration and collaboration.

As resilience continues to be tested, I hope you find this third edition of the Cox Automotive and Grant Thornton Insight Report a valuable foundation on which to develop your plans for 2021 and beyond.

THE MARKET: FORECASTS AND PROJECTIONS

Delivering in a competitive marketplace

What should you get from this section?
Within this section, we provide a forecast and projections to support your business planning scenarios.

> *"Building on data and insight, we offer up projections and scenarios on which to make decisions."*
>
> Philip Nothard - Insight & Strategy Director, Cox Automotive

Pivoting through crisis

There is no doubt 2020 has presented a tough challenge for automotive manufacturers, retailers, and the wider supply chain. Indeed, even before COVID-19 threw plans off course, Brexit, global politics, environmental legislation, commission disclosure, and competition reviews had all prompted organisations to take an agile approach to business planning.

Such a proactive focus has turned out to be worthwhile despite the unpredictability, with many businesses able to call on their various scenario preparations to put in place structures and processes from which to rebuild and grow. The automotive sector has been hit hard and, until the latest second wave of COVID-19 hit, consumer confidence was showing signs of returning as we head through the next 12 months.

> *"COVID-19 has rapidly accelerated the shift towards digital channels that were already taking place. In 2018, we predicted that 80% of wholesale transactions would be digital by 2022. COVID-19 has accelerated that timeline. Since the lockdown, 100% of our transactions have been online. We will see buyers return to physical auctions but not in the volumes experienced prior to March 2020. The blend has now shifted permanently in favour of online buying."*
>
> Liam Quegan, Managing Director at Manheim Auction Services and NextGear Capital

Forecasts in context

Within this section, we explore forecasts through to the end of 2020 and a 12-month view for 2021. We also consider some of the key trends brought about by the global response to COVID-19, plus the ongoing considerations around Brexit, border tariffs, environmental legislation, and competition law.
Specifically, we compare the current recessionary behaviours with the trends and outcomes from the last big crash back in 2007. That financial meltdown took seven years for the automotive sector to recover to pre-crash volume levels and, even then, only with the help of a scrappage scheme stimulus. While only a frame of reference, it provides some interesting parallels and points of difference.

The shape of our forecasts

In line with previous Insight Reports, we have developed three potential forecast scenarios – high, medium, and low. Against each scenario we have indicated some of the influencing factors.

- **Best-case scenario (unlikely):**
  Economic bounce-back to 'normal'; unemployment falls after Q1; no significant tariffs; government support for the industry; no significant 2021 wave of COVID-19.
- **Mid-case scenario (likely):**
  Steady economic growth but fragile consumer confidence; rising unemployment in H1; cash weakness; medium new vehicle tariffs; some COVID restrictions; weak OEM appetite for the UK.
- **Worst-case scenario (unlikely):**
  Stuttering economic recovery; heavy tariffs; weak sterling; continuation of COVID-19 impact; low consumer confidence; high unemployment;.

An unsustainable trend?

As we entered 2020, some commentators were already arguing that new car registration figures were reaching unsustainable levels, artificially inflated and in need of a rebalancing to a more ‘normal’ result for the market. Imbalance in supply and demand was already putting pressure on used vehicle values, with readjustment expected in the coming year.

The Cox Automotive dealer sentiment survey in January 2020 found that almost half of dealers (48%) expected new car transactions to decline, despite also expecting consumer confidence to increase (52%).

There was also an optimistic approach to the used car sector, with three fifths (57%) expecting used transactions to increase (Cox Automotive, 2020).

While there are some similarities to the post-financial crash of 2007/8, we must recognise that the impact of COVID-19 may be much more extensive than the fallout of an economic recession. Pressures have been (and continue to be) felt throughout production and supply chains at all levels, upstream and downstream. The new and used car markets recovered differently post-2007, and we expect to see the same this time round.

Diverting attention to focus on the pandemic response has also left manufacturers and retailers with an uphill battle to prepare for Brexit; the potential for World Trade Organization (WTO) tariffs and rules; and Block Exemption regulations. Will the UK continue to form part of the Corporate Average Fuel Economy (CAFE) legislation for CO2 reduction? Will manufacturers still want to launch new models in the UK? How will global OEMs view the UK new car market in isolation?

THE MARKET: FORECASTS AND PROJECTIONS

New car forecast

Adjusting to the 'new normal': welcoming a 1.57m registration new car market

Headlines through 2020

There have been some interesting headlines in 2020, with exceptional results announced by the Society of Motor Manufacturers and Traders (SMMT) each month. No one would have predicted at the start of the year that zero-emission capable vehicles would make up almost 36% market share year to date in October 2020, as compared with just 6% in 2019 (SMMT, 2020). We even saw Tesla top the new car best sellers list in April and May 2020, albeit largely due to a direct-to-consumer model which was less severely.

It is no exaggeration to say that COVID-19 impacted new car registrations hard. Factories closed around the world, halting production, and impacting supply chains; swiftly followed by the closure of retailers. While an initial full nationwide lockdown saw much of the UK shut down for three months, the longer-term implications of restricted movement are still being felt across the country.

As this report is published, England is in the midst of new National Restrictions, referred to by many as 'Lockdown 2.0', while Wales has just completed a 17-day 'firebreak lockdown' and a five-level system of restrictions has been introduced in Scotland. All of this is likely to place further restrictions on the smooth operating of the automotive sector.

In a Cox Automotive Sentiment Survey in May 2020, three quarters (76%) of dealers agreed that consumers would be likely to respond to COVID-19 by purchasing a car as an alternative to public transport in the short term. Two fifths (38%) expected consumers to downgrade their vehicle, while a similar number (42%) suggested a more cautious attitude to finance. In the medium to long-term, two fifths (39%) of dealers felt consumers would shift to a different fuel type as a direct result of COVID-19. However, with working from home now becoming a norm for many people, has the need for permanent access to a vehicle changed forever?

Trends following the spring lockdown

As the country came out of the initial spring lockdown, several interesting trends came to light. AA Populus/Yonder data suggested 40% of drivers would look to drive less to maintain air quality improvements (AA Driver Poll, 2020) while the most popular car journeys initially included trips to a garden centre or DIY store (34%); visiting friends or relatives (30%); and travelling for exercise (22%) (AA Driver Poll, 2020).

However, by the end of July, Department for Transport (DfT) figures suggested traffic had returned to near normal levels. In contrast, public transport remained at less than a third of usual levels (DfT, 2020). With children heading back to school and some workplaces recalling staff to their offices, figures for the first few days in September reached 100% of average traffic levels. In early October, traffic hovered around 90% of usual average levels, staying around 85-90% throughout the month. Conversely, rail levels have remained below 40% of average during this period, and bus journeys below 60% (DfT, 2020).

Within this context, continued demand for private transport offers significant opportunities for the automotive sector but must be balanced with ongoing environmental commitments. And, while the final quarter of the year initially looked to provide slightly more positivity for dealers looking to recoup their losses; there is no hiding from the fact more than 600,000 vehicles that were expected to be registered this year, have not made it to market. Likewise, with a second national COVID-19 lockdown as we enter the usually quieter winter months, it is clear that dealers are not yet out of the woods.

> *"We expect the movement away from public transport towards privately owned vehicles to continue to benefit the sales of new and used cars. Additionally, the increase in disposable income for many consumers who have not been on holiday and were able to save during the lockdown can fuel demand."*
>
> Sue Robinson, Chief Executive of the NFDA

Diving deeper into 2020

At the start of 2020, the market was relatively flat. This came off the back of a disrupted 2019, which was impacted by political uncertainty, restricted fleet supply and the looming impact of Brexit. The real impact of COVID-19 was not felt in Europe until February, with dealerships closing in the UK amid a full nationwide lockdown from 23 March until at least 1 June 2020.

Once the country slowly started to open up again, the pent-up demand in the market led to a relatively strong summer period with strong wholesale and retail demand and prices. As noted above, the switch from public to private transport and the surplus disposable income for some people due to not commuting or going on holiday provided opportunity for dealers.

While not available to everyone, government subsidy and support in the form of the furlough scheme, business loans and tax holidays all created a comparatively positive trading environment for many dealers and their customers. Indeed, the new car market bounced back in quite a strong V-shape up until August 2020.

New car registration figures for August and September should be viewed with care. Although clearly down on previous years, it should be noted that the figures during the same period in 2018 and 2019 were influenced by the changing European emissions regulations, WLTP and RDE – prompting excess registrations before the deadlines.

As noted, the 'firebreak lockdown' in Wales from 23 October 2020 has contributed to the nation recording –25.5% fewer new registrations during the month. Overall, the industry recorded the weakened October since 2011, -10.1% lower than the average recorded over the past decade (SMMT, 2020). National Restrictions in England throughout November will clearly have a significant impact on figures for the final quarter of 2020.

Explaining the 2020 forecast scenarios

In light of National Restrictions in England until at least 2nd December 2020, and the potential for national or regional restrictions through until the end of the year, the SMMT has revised projections of 1.66m new cars in 2020 down to 1.56m. This equates to a total year-on-year decline of around 750,000 registrations and a £22.5bn loss in turnover. Indeed, 2020 is expected to be the weakest year since 1982 (SMMT, 2020).

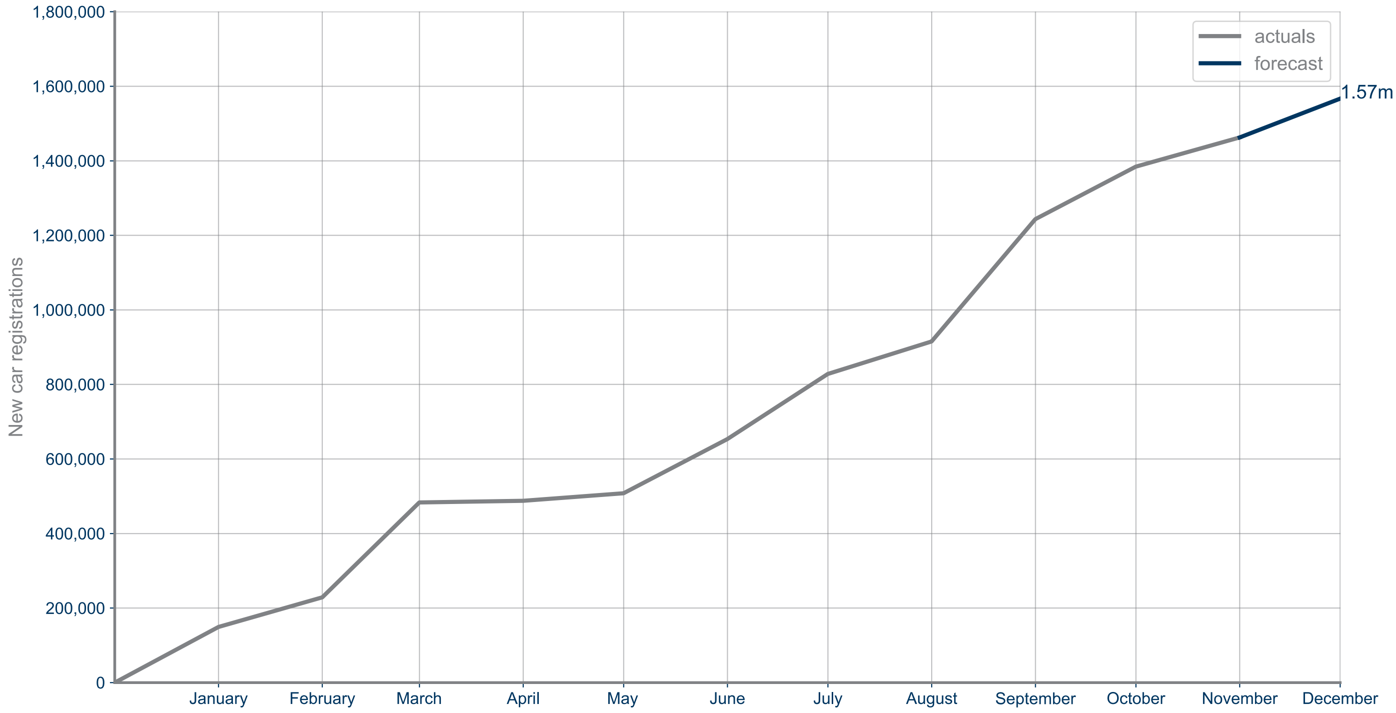
The revised Cox Automotive and Grant Thornton forecast for 2020 also takes into account the impact of national and regional lockdowns in the run-up to Christmas. Unemployment is expected to rise in this scenario, with associated weakened consumer confidence. There are still uncertainties around the fall-out from Brexit, but a deal of some sorts is expected, and transition into 2021 comes with agreements on low or no tariffs and smooth customs movements.

An assumption has been made about trading activity continuing through click and collect, mitigating some of the worst impacts of the first lockdown. However, November and December are both expected to be significantly tempered when it comes to new vehicle activity.

Therefore, the revised Cox Automotive and Grant Thornton forecast model predicts 1.57m new car registrations by the end of 2020, down –32.2% on last year's figures.

It is important everyone in the automotive sector is preparing their risk schedules and contingency plans to respond to best- and worst-case scenarios around the end of the year. As has already been seen in 2020, the unexpected and unprecedented can and will happen.

Forecast of cumulative new car registrations - 2020



Explaining the 2021 forecast scenarios

Building on the assumptions for the end of 2020, several scenarios have also been outlined for the New Year. There is a high, medium and low scenario with the middle ground representing perhaps the most likely outcome. As ever, there are significant, multiple and complex variables at play, so dealers and automotive retailers are advised to prepare for all possible contingencies. Additional information can be found in section six of this report.

Worst-case scenario (unlikely)
While unlikely, this scenario is based on heavy tariffs, WTO impact, weakened Sterling and the continuation of significant disruption from COVID-19 long into 2021. As a result, fragile consumer confidence, increased debt, high unemployment, and increased interest rates are all on the cards. Supply restrictions create significant issues, and the vehicle mix is affected, with EV and BEV vehicles diverted into Europe.

Mid-case scenario (likely)
The most likely scenario, given everything that is known when this report is published, the mid-case outcome assumes relatively low consumer confidence, ongoing increases in indebtedness, rising unemployment, and cash weakness. The expectation in this scenario is for medium tariffs, a weak appetite from the OEM to invest in the UK market and ongoing impact from COVID-19 lockdowns.

Best-case scenario (unlikely)
The automotive sector will have its eye on the potential for a bounce-back recovery, even while preparing for the worst. Within this scenario, there are no significant tariffs, a soft Brexit, ongoing support from the UK government, and no ongoing fall-out from COVID-19. Unemployment returns quickly to previous levels, consumer confidence is returning, Sterling remains strong, inflation is low, and vehicle supply improvements are matched by a strengthening in demand. Clearly, this is the outcome many would like to see but perhaps a little optimistic given where the sector stands today.

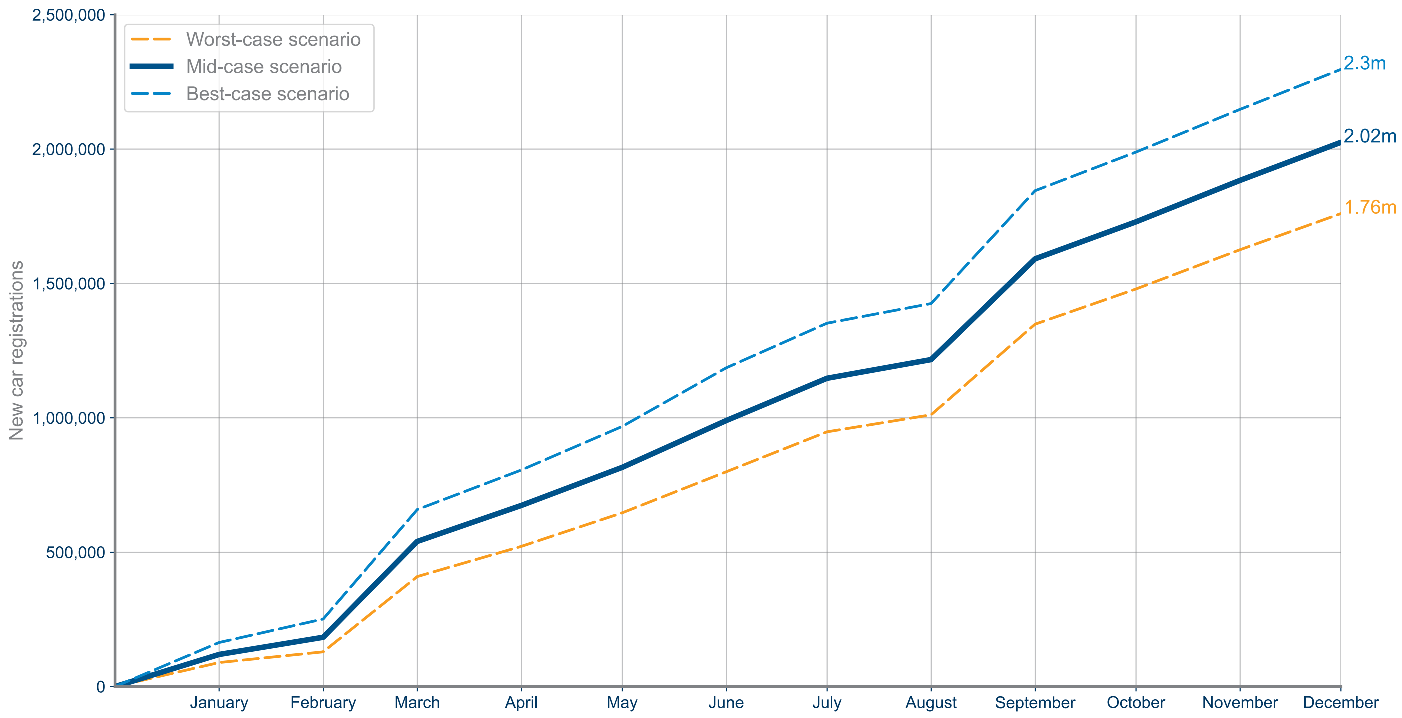
The new car forecast for 2021

Based on new car registration data from the past decade, a comparative analysis of the recovery post-2007/8 and integrating the trends in demand for private over public transport, the Cox Automotive and Grant Thornton Insight team has gone on to extrapolate the data for 2021, projecting 2.02m new car registrations as the most likely scenario, a fall of -12.8% against the 2001-2019 average. This is based on the mid-level recovery scenario. The team has also developed projections for best-case and worst-case recoveries for contrast (2.29m and 1.76m, respectively).

The SMMT projection for new car registrations in 2021 is marginally lower, at 2.001m, revised down in the October 2020 Outlook. This is up 20.2% on the October 2020 Outlook level, with increases expected across BEV, PHEV and HEV registrations. The next forecast publication is expected in January 2021.

The European new car market continues to see underlying strengthening, but with ongoing consolidation activity and mergers between OEMs, the forecast is that not all brands will be represented in all markets. Likewise, the introduction of tariffs of 10% and more is likely to cause issues. Increased processes will be required to import cars to the UK market, which may damage volumes in the early part of the year. This is combined with a reduction in models being offered as a result of adopting strict EU CO2 emissions regulations (Batchelor, 2020). While providing segmentation benefits for the retail sector, this will ultimately reduce model availability. The city car sector is already under pressure, with 11 ranges available in 2020 compared with 24 models in 2017.

Forecast of cumulative new car registrations - 3 Scenarios for 2021



"Dealers have demonstrated over the past year how agile they can be. Indeed, has COVID-19 enabled them to find new, lower cost operating routines which deliver an integrated online and in-store experience? As we head into 2021, issues of supply and demand will continue to make an impact. Will there be sufficient consumer demand to drive the recovery? And how many of the right vehicles will be supplied to the UK market to meet that demand?"

Philip Nothard, Insight and Strategy Director, Cox Automotive

Dealer predictions for 2021

In a Q3 Cox Automotive Dealer Sentiment Survey, half of dealers (52%) surveyed expect new car registrations to decline in 2021, with two fifths (42%) anticipating a further fall in consumer confidence.

It should be remembered that we are asking dealers to predict 2021 when there is still a great deal of uncertainty as to how we will end 2020. However, on the assumption that we will not see another nationwide lockdown period in 2021, unlike the whole trading periods missed this year, then you can understand why two fifths (42%) of those surveyed are optimistic that new car registrations will increase. Interestingly, a third (36%) also feel consumer confidence will increase. It may be that they feel we have already reached the bottom of the market or hope that to be the case anyway!

Although a third (33%) believe new car supply will increase in 2021, with one respondent suggesting a 35% increase in volumes, perhaps due to manufacturers pushing product to market which could not be shifted this year, just over a quarter (27%) think supply will decline. This could be a reflection on the enforced plant shutdowns this year or readjustment of manufacturer expectations. Likewise, we know consolidation activity was already underway, with not all manufacturers expecting to import their whole model range into the UK. Despite UK-specific nuances such as Brexit, these same concerns are being discussed in showrooms across Europe.

"We are still very much in a delicate balance globally. Everyone is acutely aware of just how difficult 2021 is going to be. With manufacturers still unsure just what numbers are going to be needed, the supply numbers are anything but sorted. The whole world is very much in 'creeping' mode."

David Bilsborough of Cheshire Cars

Comparisons with the 2007/8 financial crash

Looking back to the financial crash of 2007/8, it is clear there are some similarities in terms of uncertainty, business nervousness and government intervention. However, while support in 2007/8 featured a scrappage scheme specifically designed to reinvigorate the automotive sector, there has not yet been any stimulus targeted for automotive in 2020.

Indeed, while government intervention has been broader and more wide-reaching this time around, there has as yet been little in the way of targeted incentivisation of consumer activity in the automotive space. This is not a financial crash in the typical sense. Lending is still taking place, with banks supporting business and individual customers. Sub-prime lending isn't currently an issue, and loan rates remain realistic.

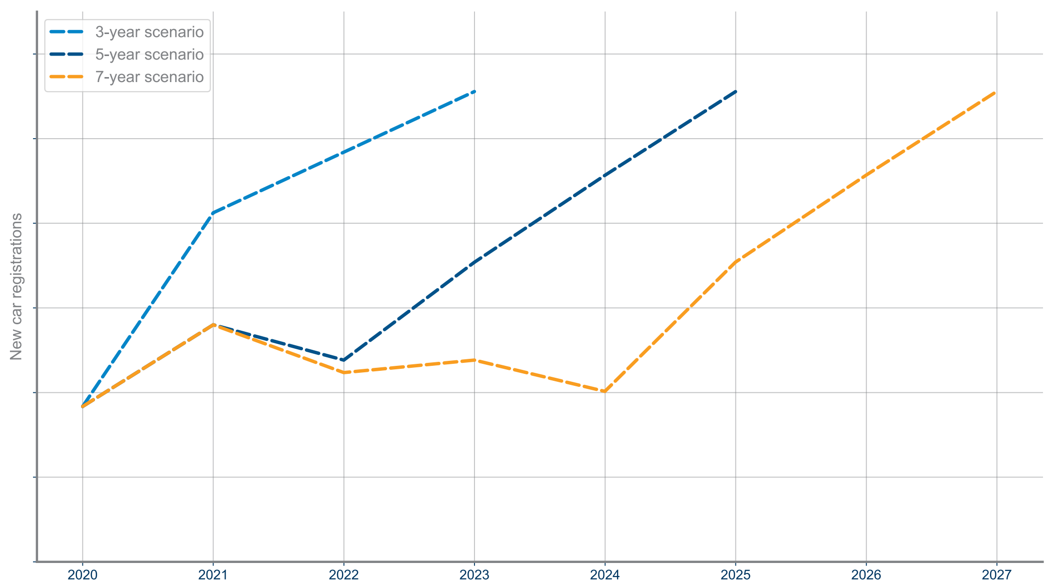
However, with the potential for a global recession heightened by a second wave of COVID-19 having even more significant impact over the winter months, and the chance of a Brexit deal (or no-deal) which doesn't favour anyone, it is possible that some of the hallmarks of the 2007/8 crash could make their way into the market.

As such, Cox Automotive and Grant Thornton have combined insights from how the market reacted more than a decade ago with considerations around Brexit, COVID-19 and vehicle supply when constructing the scenarios.

In the short-term, issues around Brexit, the availability of a COVID-19 vaccine and vehicle supply will all play a role. Slightly further out, there is every possibility of a recession and impact on trading conditions which lasts three or four years, perhaps not the seven-year impact of the last crash but still a clear catalyst for a paradigm shift in the market.

Building on this analysis, the three, five and seven-year forecast recovery graphs show how the market may look dependent on how long it takes for the new car sector to return to more 'normal' levels. The financial crash of 2007/8 had a seven-year recovery cycle, with seasonal curves and fluctuating rates. As noted above, as this current situation is a healthcare crisis and not a financial one, there is every chance the recovery could be quicker. The chart suggests what recovery trends could look like from 2021, if the market returns to pre-pandemic levels in three years, five years or seven years.

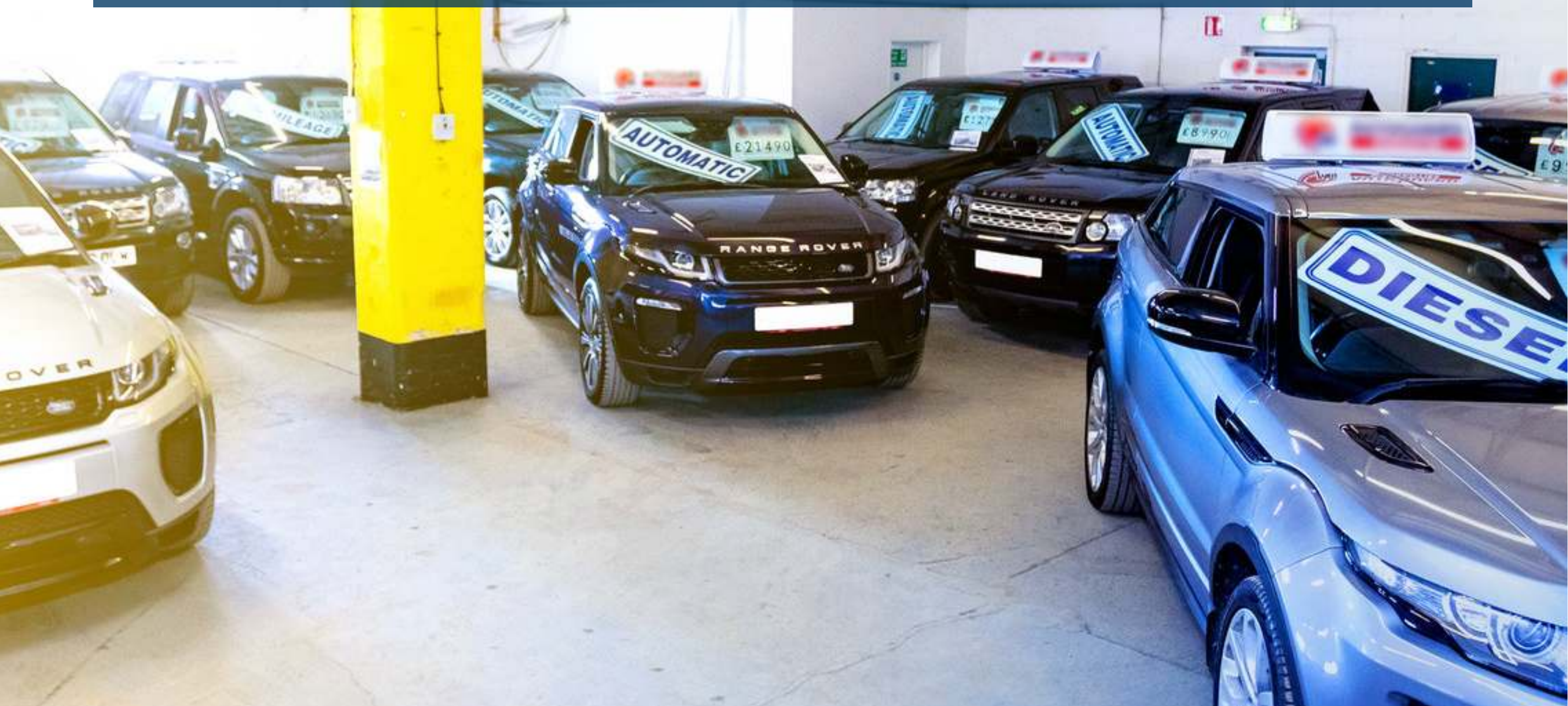
New car registrations - 3 scenarios beyond 2021



THE MARKET: FORECASTS AND PROJECTIONS

Used car forecast

A tale of cautious optimism or it could be worse!



The importance of the used market

Prior to the first nationwide lockdown in early 2020, the used market was in continued decline from its 2017 peak of 8.1m units. During the spring lockdown period, used car sales fell away almost entirely, with dealerships and car supermarkets closed for business from late March to at least June. By the end of September, used car transactions were down –17.5% year-on-year according to the SMMT (2020).

However, after reopening, pent-up demand was released, and used sales were robust, with values exceeding expectations in many cases. It is clear, however, that values need to realign from their current highs, particularly in response to the second lockdown period across the nations of the UK – from firebreak lockdown in Wales, five-level restrictions in Scotland and new National Restrictions, most commonly referred to as a second lockdown, in England.

NFDA summarises the dealer return to work experience

- In the used sector, 83.2% of dealers saw a larger volume of online enquiries and 55.45% saw an increase in online used car sales. By August, 84.9% of dealers had seen a further increase on online enquiries for used vehicles, with 74% seeing an increase in conversions from enquiries.

- In July, nearly three in four dealers said more customers were booking appointments prior to visiting. By early August, a third (37.8%) of respondents had seen an increase in footfall for used cars, up to 25% higher than pre-lockdown.

Review the full results of the NFDA Post-Lockdown Automotive Retail Survey [opens as PDF] and NFDA Post-Lockdown Automotive Retail Survey – August [opens as web page].

In an era of increased demand for commuting vehicles, with public transport falling out of favour due to the pandemic, the used car market is more important than ever. Although clearly not universal, for some, the past few months have increased disposable income, with holidays cancelled and a reduction in commuting costs. Alongside concerns over virus transmission on public transport, this led to an increase in demand for good quality used vehicle stock.

In a Cox Automotive Sentiment Survey in Spring 2020, more than a third (35%) of dealers said they intended to increase their used stock profile as a consequence of COVID-19, while almost two fifths (37%) intended to increase the mix of lower-priced cars. Judging by the state of the market as 2020 comes to an end, this projection has been realised – albeit within the context of supply constraints.

Used car valuations

Wholesale used car supply had seen constraints prior to 2020, with the impact of challenges to the new car market making themselves felt in the reduced numbers of good quality used vehicles coming to the market. The spring 2020 lockdown and the subsequent production and logistics constraints hastened the trend towards greater digitisation of the sales process (see section 4: Leaping into digital retail).

As already noted in earlier sections of this report, the COVID-19 pandemic is not the same as the financial crash of 2007/8, where the UK automotive industry experienced severe disruption to trade values across the wholesale sector. This time round, valuation guides and the broader industry are to be commended for taking a pragmatic view towards reflecting supply and demand in a period of little or no activity.

Supply of quality, retail-ready, used cars was already limited before the challenges of pandemic restrictions, due to pressures on the new car market. As such, values were holding strong compared with the same period in the prior year. Since reopening after the spring 2020 lockdown, this has resulted in continual strength and demand. However, the uncertainties and risks around unemployment, business and consumer debt, and the longer-term recovery of the UK economy mean there may yet be heavy pressures on demand. The second lockdown period is also having an impact.

Current levels of used car values are, arguably, not sustainable. In the medium to long-term, realignment of those values is likely, and used cars will return to a representative percentage of the new price. Continued investment in the retail and wholesale used car sectors, combined with the growth of large groups and supermarkets, will drive continued demand for stock, even as the values realign.

A view from Philip Nothard, Insight and Strategy Director, Cox Automotive

"The current strength in the used market prior to the latest lockdowns was always likely to flatten out, as pent-up demand was satisfied. Indeed, supply and demand will always define the used vehicle market, particularly when it comes to values. Following several years of external influences on the sector impacting the standard depreciation of used cars, we could be in a period of unseasonal value movements as the market adjusts.

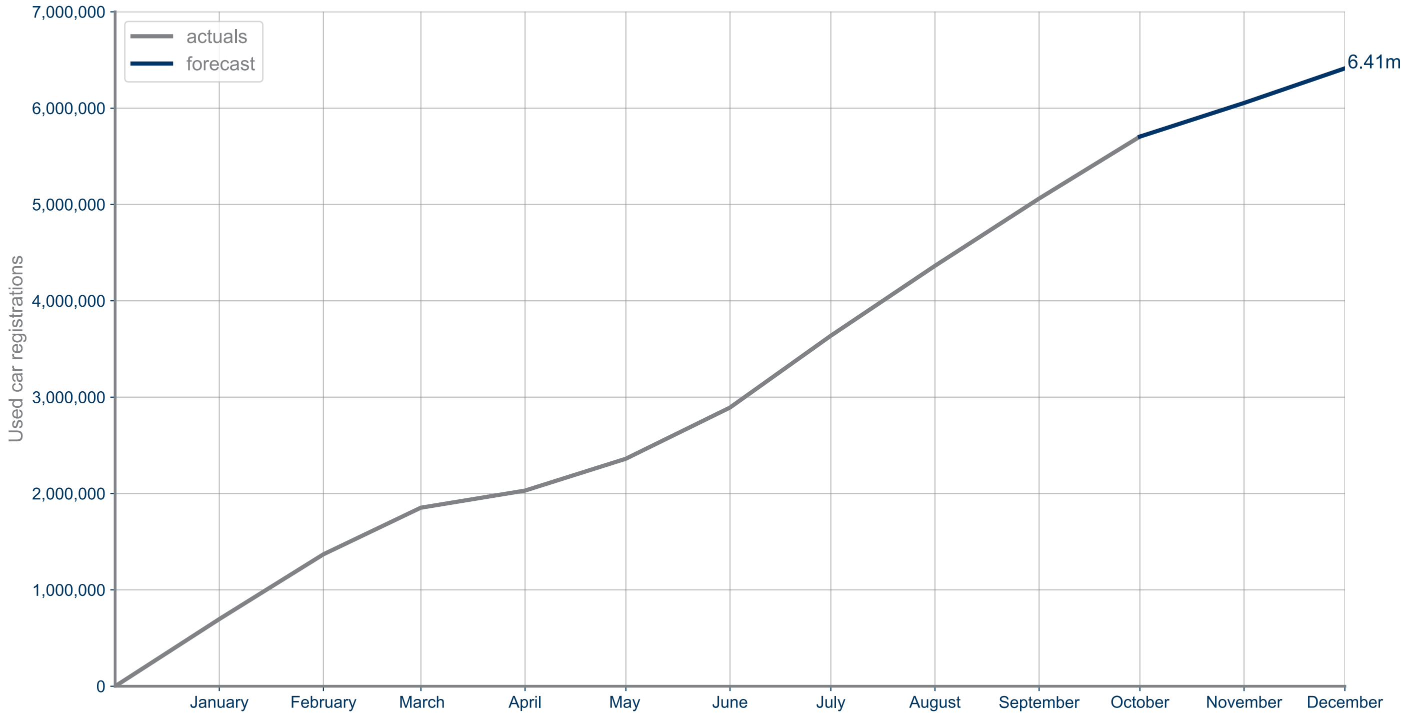
"The increase in online efficiencies and transactions at every stage of the used vehicle journey continues to expand the reach and access for buyers and vendors alike. The potential market for used vehicles is both bigger and more targeted. However, a realignment is coming around the impact from COVID-19, WLTP and RDE, as well as Brexit and the CAFE Regulations.

"It is possible that supply will increase into 2021, with extended fleet vehicles being returned and some consumer finance deals terminating early due to unemployment or other financial conditions. As consumer confidence remains fragile, it may well be that demand doesn't quite match the levels of supply, impacting on potential values to be realised. However, we do not foresee a collapse in values."

The used car forecast

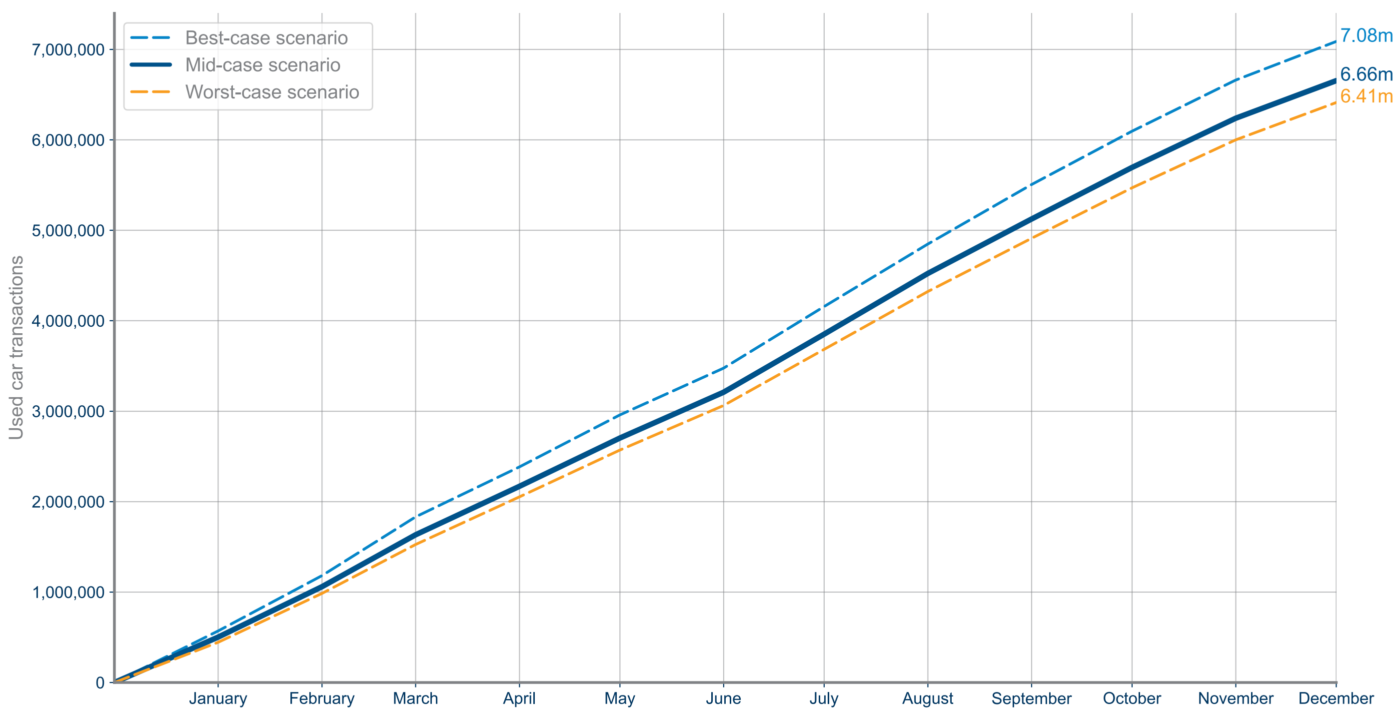
The Cox Automotive and Grant Thornton used car forecast model predicts 6.41m transactions by the end of 2020, down –19.2% on last year, and -13.0% from the 7.4m average across 2001-2019. Consumer activity eased in late October, and some retail groups were already limiting used vehicle purchases prior to the second lockdown in England. With a shortfall of more than one million transactions, it is clear 2020 presents a fundamental shift to the market. Three months of low to no trading could not be recovered before we entered this latest wave of local and national restrictions and lockdown.

Forecast of cumulative used car registrations - 2020



Looking ahead to 2021, the teams at Cox Automotive and Grant Thornton have forecast a mid-level figure of 6.64m transactions. Like the new car market, scenarios have also been outlined for a best and worst-case outcome, ranging from 6.41m to 7.08m. In the best-case scenario, the economic bounce back is immediate, unemployment is relatively low, consumer confidence is improving, inflation remains low, and vehicle supply is strong. In contrast, the worst-case scenario starts from the assumption that the impact of COVID-19 extends long into 2021, with low consumer confidence, a stuttering economic recovery, and an increase in unemployment.

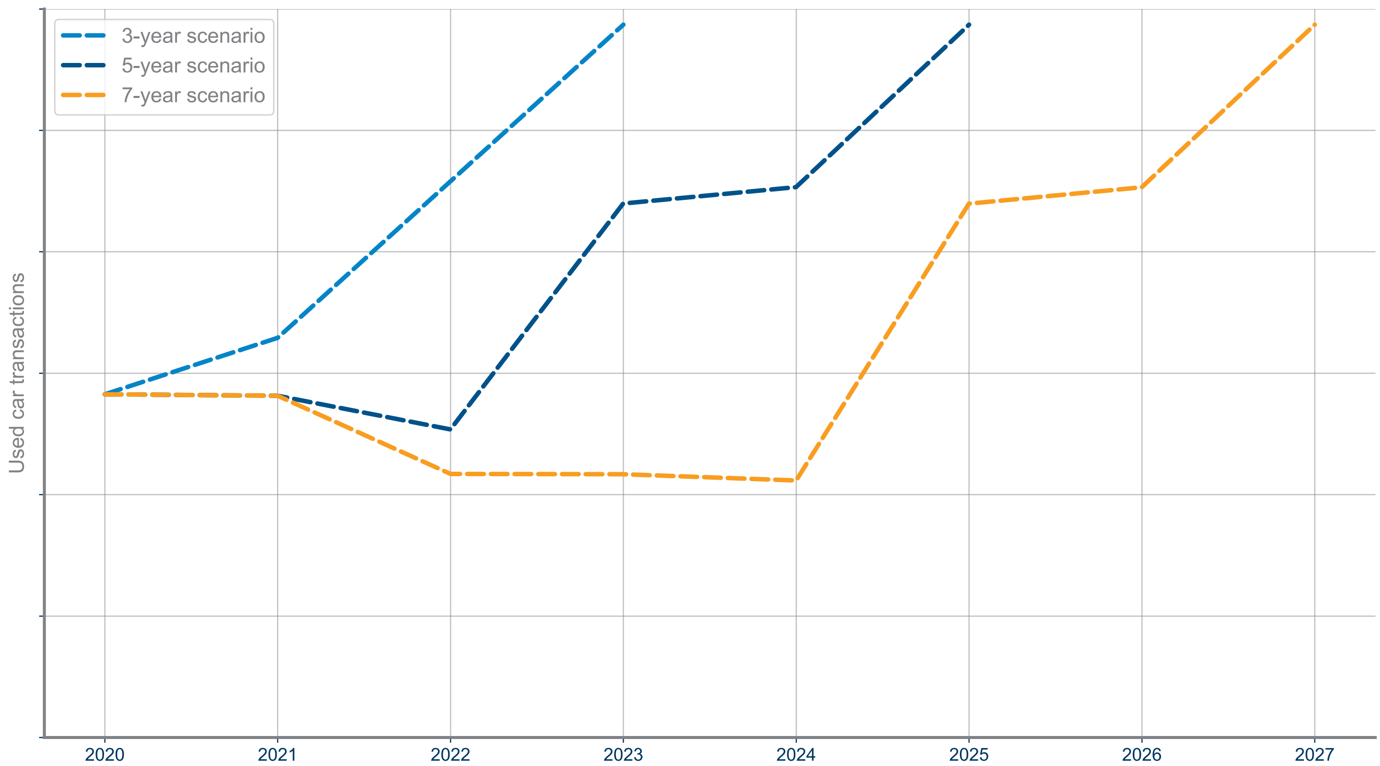
Forecast of cumulative used car registrations - 2021



Albeit challenging to see much further beyond 2020 at this stage, work has also been done to extrapolate movements in the used car market should the anticipated recovery take three years, five years or seven years. We know that, after the financial crash of 2007/8, it took seven years for new and used markets to recover to pre-crash levels. There were seasonal fluctuations and the new and used markets experienced varying degrees of recovery.

The charts illustrate, building on the insight gained from the financial crash recovery trends, how used volumes could look if the recovery were to take the same seven years, or take place earlier. Based on the earliest of those, the expectation is used car transactions will not exceed the 2001-2019 average until 2023. Logically, this milestone would not be met until 2025 or 2027 in five and seven-year recovery scenarios.

Used car transactions - three scenarios beyond 2021



Dealer predictions for 2021

In a Q3 Cox Automotive Dealer Sentiment Survey, two-thirds of dealers (64%) expected used car transactions to increase in 2021. Based on the demand in the latter half of 2020, particularly at the expense of public transport, this could be a logical assumption. There will also be some pent-up demand into 2021 from the latest lockdown.

However, interestingly two thirds (36%) also expected supply to decrease. With reduced supply and increased transactions, it could be anticipated that values would rise and, indeed, almost a third (30%) of dealers expected trade values to increase in 2021.

Respondents also identified the impact of fleet companies running their fleets for longer and de-fleeting less frequently, a trend which was already biting in some sectors.

"The problem is all the anti-car regulations and taxes. Used cars are not crippled as much and much more chance of finding a manual transmission, but there are ominous threats of retrospective regulations plus increased and invented taxes, even for cars that have already been manufactured."

Cox Automotive Dealer Sentiment Survey 2020

The US perspective

Coming to the end of October 2020, data from the US shows that used vehicle supply is close to normal levels, albeit lower than retail, and stable. After a strong recovery mid-year, used prices are now falling, although still around +10% higher than they were this time in 2019. In the final weeks of October, leads on Autotrader.com were up year-on-year while Dealer.com also saw an increase in both new and used vehicle form submissions. However, Dealertrack's unique credit applications continue to decline, suggestive of softening in the market.

The long-drawn-out Presidential election process has clearly been an additional complicating factor in the US market in the autumn.

In recent Cox Automotive US research, three in four dealers said they were now conducting some of their business beyond their dealerships, for example digital retail and service pick-up and delivery activities. The combination of anecdotal feedback and data suggests the auto market rebound that dealers were experiencing over the summer has stalled, with concern remaining high around COVID-19, political outcomes and the wider economy.

For more US market insights, visit Cox Auto Inc. Market Insights (opens in new window)

"Many of our vendors were already on a digital-first journey. The events of the past 12 months have accelerated the transition, providing an opportunity to test and imperative to trust the technology. Likewise, the 'forced adoption' of digital wholesale channels has flattened the adoption curve for buyers. The move to digital is creating efficiency gains on both sides. In all cases, people remain integral to success. Whatever the selling channel, customer experience is created and delivered through human interactions."

Pete Bell, Chief Operations Officer, Cox Automotive Europe

THE MARKET: FORECASTS AND PROJECTIONS

Commercial vehicle forecast

A new landscape for the new and used LCV markets

The CV market in 2020

Just four years ago, in 2016, new UK LCV registrations hit a record high of 376,000 units. Last year the sector was not far off that figure, registering 366,000 new LCVs. Interestingly, SMMT data shows the average annual registration figure for 2007-2016 was around 288,000 new vans. As such, while 2020 is certainly a sharp realignment from the previous three years, it falls in line with the average of the prior decade.

Looking to the end of what has been a uniquely turbulent and unpredictable year in 2020, the industry expects to finish almost 80,000 vehicles lower than 2019, in the region of 288,000 new LCV registrations. That represents a -21.3% decline on the 2019 market; noting a positive improvement versus the July SMMT forecast position of -36.4%. (SMMT, 2020)

The primary reason for such a dramatic stagnation of new registrations this year is obvious, with manufacturers and fleets acting to protect their businesses and cash reserves in a time of global economic uncertainty. In the case of OEMs, staggered lockdowns halted and then interrupted supply chains and production globally for several weeks.

Although new van supply constraints are currently an issue, the reality is that constricted wholesale supply volumes are not driving this demand explosion. De-fleet volumes are tracking close to 2019 with only single digit declines year-on-year. First time conversion rates are also at record levels, at around 85 to 90%, while demand continues for both Euro 5 and Euro 6 models at auction.

A societal shift to home delivery

Current used market performances have been fuelled in the main by the societal swing towards online home delivery, home working and shopping from local independent retailers. It will be interesting to see whether this movement is temporary or lays foundations for a more permanent paradigm shift in consumer behaviour.

As positive demand continues for used stock, values are likely to remain high. Indeed, the market has seen some exceptional results in recent months, with sale prices up between +30% to 40% year-on-year. In some cases, the wholesale sector has even seen sale prices tracking £3,000 to £4,000 ahead of the guides, around a third higher than expected.

With an ongoing investment in the UK's service economy, albeit dictated by trends related to COVID-19 and Brexit, LCVs remain the backbone of business. With the likely Government infrastructure investment 'bounce-back' programmes this will further fuel demand for new commercial vehicles of all types. No doubt we will also see a surge in start-up small businesses; many of whom will need LCVs.

"There remains uncertainty in a number of sectors where businesses are holding back... Going forward, dealers are optimistic that the LCV market will recover, and business confidence as well as supply issues will improve."

Sue Robinson - Chief Executive of the NFDA

Van ownership and usage: insight from the Department for Transport

In the first research of its type since 2008/9, the Department for Transport recently shared a Statistical Release: Provisional Van Statistics 2019-2020 report. Reviewing van ownership, usage, mileage and environmental factors, the data provides an interesting foundation on which to plan business models, albeit the information was collected pre-COVID so societal changes will also need to be considered.

Two fifths (41%) of Great Britain's 4.1 million licensed vans were primarily used for carrying equipment, tools, and materials, while just over one in six (16%) were primarily used for delivery or collection of goods. Those percentages were slightly higher for ultra-low emission vans, at 50% and 26% respectively.

At the time of the study, more than half (55%) of business owned vans were new; a third (34%) owned outright; and a fifth (21%) through hire purchase.

Most privately owned vans were second-hand (81%). Over half of vans driven by private owners (54%) were more than 10 years old.

Half of vans (50%) in Great Britain stayed local, within 15 miles of their base, on a typical day, suggesting significant opportunity for electric and other alternatively fuelled powertrains.

Overall, Great Britain's vans covered 55.5 billion miles in 2019, representing 16% of all motor vehicle miles.

Read the full report here (opens as web page).

The commercial vehicle forecast

The SMMT's latest forecast for year-end 2020 sits at 288,000 new LCV registrations. For 2021, it sits at 328,000. In 2022, the SMMT forecast is for 338,000 LCV registrations. With COVID-19 compliant working practices through the supply chain currently impacting lead times and build slots, we believe this annual total is entirely dependent on the global control of the virus, including the development and cascade of a vaccine. Until we reach a point of managing the virus and returning to a more normal state of living, the status quo of demand and supply constraints will continue.

At the 2020 medium Cox Automotive forecast position, we would finish the year -26.2% vs 2019 actual registrations of 366,000 and -25% from 2019's medium Cox Automotive forecast position of 360,000.

Accordingly, we see 2021 new registrations tracking similarly to 2020:

High 285,000
Medium 270,000
Low 255,000

Used supply of sub-24-month-old vans from the rental sector will diminish significantly due to the pipeline restriction from the 2020/2021 registration declines. With continued constraints on new vehicle supply due to COVID-19 compliant ways of working, franchised networks are likely to continue to focus on the used sector.

The commercial EV opportunity

Given confidence from a global immunisation programme and consumer spending recovery, we see new van registrations for the period 2022 to 2025 averaging around 320,000 per annum. Over this time there will be a steady growth in battery electric vans, but from a low base and confined largely to the car derived and small panel van segments and off the shelf usages.

The biggest issue for electric van operators at all weight ranges is mapping charging infrastructure to van usage patterns. Once this, coupled to battery range, price parity and availability of models, is resolved, this sector should accelerate faster than passenger car with corporate funding and clean air ambitions driving volume fleet registrations.

That said there are still many unposed as well as unanswered questions surrounding a 100% OEM production shift from diesel to electric powertrains in the next decade. Taking Manheim's long-standing average age of vans sold at 60 months, this is only two replacement cycles from now.

Future EV registration share scenarios depend on whole life costing models. Whether the market favours a three, four or more-year lifecycle, this will likely be further impacted by availability of product and overall business confidence. For electric vans registered prior to price parity with diesel, we suspect the whole life costing model will see first life corporate fleets extend them beyond traditional diesel life cycles, further starving the used van market of volume.

In any case, new van registrations for 2025-2027 are expected to remain relatively strong, exceptional world and demand-led economic events notwithstanding. We do not see the LCV market recovering to previous record levels until the end of the decade when the EV legislative hard stop demands it.

"Emerging from lockdown, Manheim has witnessed six successive months of record-breaking conversion rates and average selling prices. Due to underlying demand factors, we believe the used van market has realigned upward to a new price ceiling. I believe that the next 12 months will continue to be a robust record-breaking period for LCV market activity in the used sector."

Matthew Davock, Director of CV, Manheim

"Commercial vehicles are the lifeblood of business. Government support packages appear to have stimulated investment in used CVs, for example through business rate relief, deferred HMRC VAT payments and furlough. These cashflow reserves have given companies the confidence to upgrade and invest in brand new or newer used van fleets."

James Davis, Customer Insight Director, Cox Automotive

The commercial vehicle big picture

There is no argument that commercial vehicles are business critical tools. However, there are winners and losers in the current environment. The growth of home delivery and the gig economy have led to increased demand, with traditional bricks and mortar stores investing in the infrastructure to get their goods to customers during the spring 2020 lockdown and beyond.

However, several sectors have been hit hard by redundancy and consolidation, leading to early termination on vehicle contracts. Demand is inevitably underpinned by economic stimulus and investment, meaning LCV transactions are linked to the continuation of high-profile projects such as High Speed 2 rail, roadbuilding, house building, infrastructure construction and more.

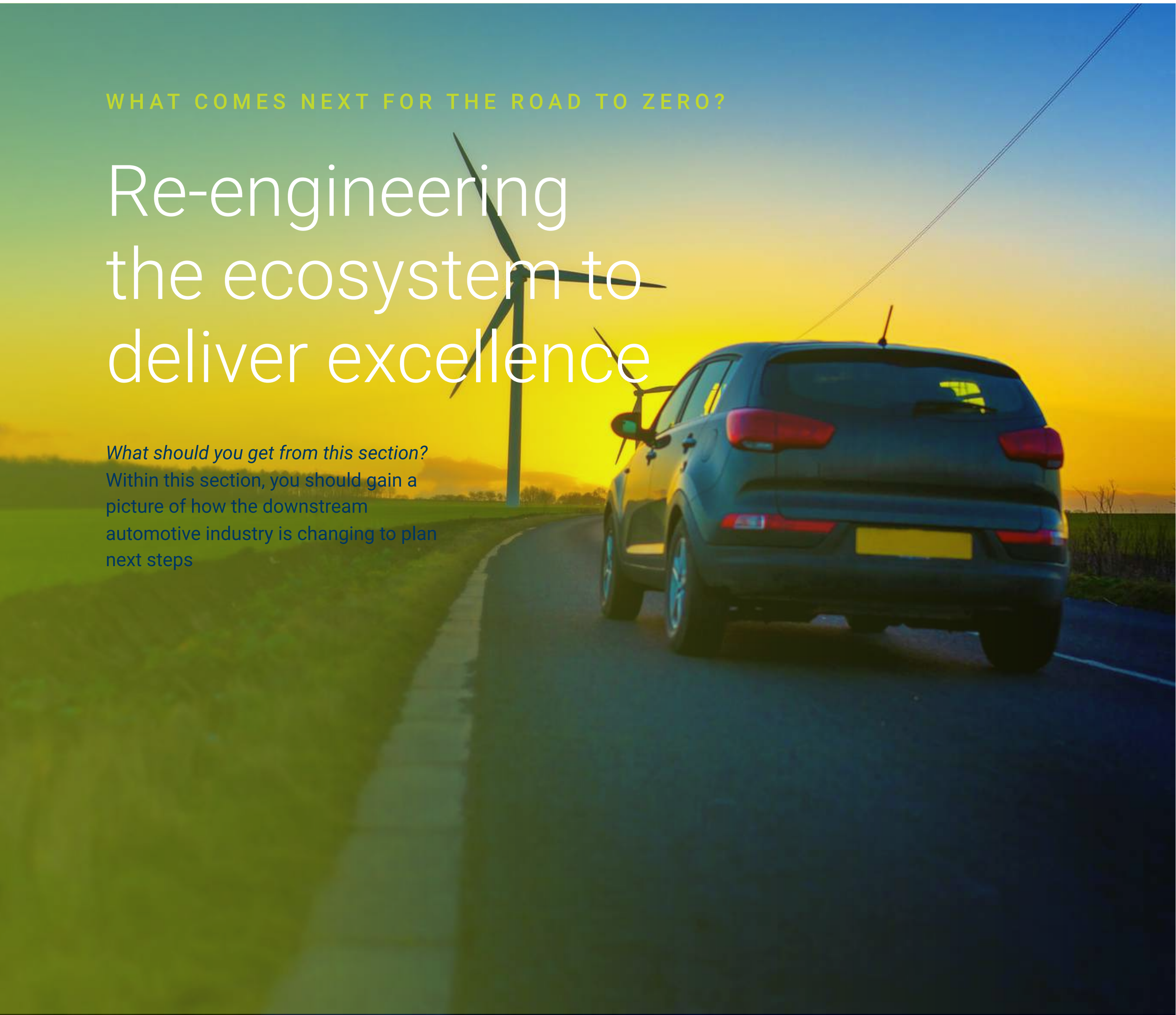
While responding to COVID-19 offers a unique set of challenges, the market already had several legislative and economic pressures to contend with. Brexit looms large, with businesses still waiting on clarity to support future investment and decision-making as well as the impact of tariffs on list prices and transaction values. In addition, the environmental road map is pushing for organisations to switch to cleaner vehicles within the next two or three change cycles; although the temporary deferral of Clean Air Zones in many locations has provided limited space to review options and futureproof fleet decisions.

Specific issues such as the need for social distancing in cabs or reducing to single-crewed delivery is likely to have an impact on the make and model derivations which are in demand, at least in the short term. Supply remains a challenge, with some manufacturers unable or unwilling to commit to bulk orders and significant lead times pushing businesses with an immediate need into the used sector.

The markets are in the throes of a supply-led rather than demand-led recession, and the key issues surround societal change in response to public health rather than necessarily liquidity or financial drivers. However, an overall air of uncertainty continues to impact on decision-making, while Brexit is likely to compound supply issues. For example, new tariff structures and pre-existing scrappage and support incentives across the major EU markets favour Left Hand Drive production. The UK may not have access to as many new vehicles as required, despite it being one of the top three LCV markets by volume in the European zone.

"In the absence of wholesale supply, demand dynamics have created an environment in which used demand and values have grown exceptionally. That said, in my career, I have never experienced such sector wide used van inflation. While new LCV supply constraints continue, I believe it is highly likely the premiums paid for used Euro 6 will continue upwards while Euro 5 (and pre-Euro 5) LCVs will stabilise and plateau in value terms; today at a level still over a third higher than before the first national lockdown. It is only a marked increase in new supply - or a significant prolonged demand-led recession - that can soften or reverse this price trend in the used market."

James Davis, Customer Insight Director, Cox Automotive



WHAT COMES NEXT FOR THE ROAD TO ZERO?

Re-engineering the ecosystem to deliver excellence

What should you get from this section?
Within this section, you should gain a picture of how the downstream automotive industry is changing to plan next steps

"With just ten years to complete a paradigm shift in UK automotive, organisations need to act now to stand a chance of emerging successful."

Louise Wallis - Head of Business Management, NFDA (National Franchised Dealer Association)

Understanding the Road to Zero.

It is now two years since the launch of the UK Government's flagship Road to Zero Strategy. The proposal set out plans for an expansion of green infrastructure across the country; a reduction in emissions; and promoting the uptake of zero emission cars, vans, and trucks. The strategy outlined a plan for 50% of all new car sales to be ultra-low emission by 2030, alongside up to 40% of new vans. More recently, the UK Government has consulted on bringing forward plans to ban the sale of all conventional petrol and diesel engines by 2030; an advance on the 2040 date set in the Air Quality Plan of 2017.

Decarbonisation trends and opportunities

As identified in later sections, COVID-19 has clearly had an impact on immediate environmental concerns; however, the medium and long-term opportunity for the decarbonisation of transport is more important than ever. In a sign of the importance of electrification in consumer and business minds, the first World EV Day took place in September 2020, with more than 50 organisations partnering with the inaugural digital initiative and in excess of 1,600 people signing the EV pledge worldwide.

Alongside the social media activity, government and business took the opportunity to share tangible actions. The UK Government announced £12m in funding for EV research and £9.3m via Highways England to support local authorities encouraging businesses to go electric (Gov.UK, 2020). This is in addition to several existing infrastructure investment schemes and vehicle subsidy programmes, such as the Workplace Charging Scheme (WCS); Electric Vehicle Home Charging Scheme (EVHS); and Plug-in Vehicle Grant.

By July 2020, the Plug-in Car Grant had helped more than 200,000 purchases (Auto Express, 2020). However, the reduction of the grant from £4,500 to £3,000 for pure EV and the removal of plug-in hybrids from the scheme earlier this year is likely to slow adoption. While support for EV adoption remains strong, and several key tax benefits and allowances are in place for both the vehicles and charging infrastructure, the financial incentives and subsidy landscape continue to evolve.

With electric and alternatively fuelled vehicles increasing in market share, the automotive industry will need to respond. Clear opportunities exist for dealers, fleets, leasing companies, finance houses, insurers and industry suppliers who are ready to embrace the change. As electric vehicles go mainstream, there are many uncertainties to deal with in terms of residual values, battery lifecycle and replacement costs as well as charging infrastructure.

"In the medium to long-term, with continued disruption from connected and electric vehicles, the whole supply, distribution and retail chain will need to evolve."

Owen Edwards, Associate Director, Grant Thornton

WHAT COMES NEXT FOR THE ROAD TO ZERO?

Legislation and Infrastructure

A world of competing priorities

The year of the environment

It was almost certain 2020 would be the year of the environment. In January, climate change activism was headline news, climate and ecological crises took the top spot on the agenda at the Davos World Economic Forum Summit, and the United Nations Climate Change Conference (COP26) was due to take place in Glasgow.

"Businesses and consumers must receive adequate support from the Government during this crucial transition to a zero-emission market...The Government must continue to support businesses and consumers through well-targeted measures such as tax incentives."

Sue Robinson, Chief Executive of the NFDA

The European Environment – state and outlook (SOER 2020) report highlighted significant progress made in addressing climate change, air quality, pollution and sustainability. However, it also came with a stark warning that the environment was at a "tipping point", with transformative action required to deliver against 2030 and 2050 environmental goals (European Environment Agency, 2019).

Fast forward almost a year, and the environment has lost ground to health concerns, with the global COVID-19 pandemic taking centre stage. Environmental conferences, including COP26, have been postponed; activity designed to address air quality has been delayed; and headlines are firmly focused on addressing the health and economic impact of the crisis.

The initial environmental benefits experienced during lockdown, such as reduced pollution and re-emerging wildlife, have given way to new concerns. Changing transport patterns because of fear of infection on public transport have increased private transport traffic on the roads; e-commerce has led to increased delivery vehicles; while holidays and associated international travel are back on the horizon.

Impact of electrification and alternative powertrains

With everything else which has taken place in the past 12 months, it would be easy to lose sight of the potential impact which electrification and alternative powertrains are likely to have on the automotive sector. Although many of the urban low emission and clean air zone proposals have been pushed back, the UK Government with its latest announcement has brought forward the transition to zero-emission vehicles to 2030. Low emission vehicles have also taken record market share in the past few months, albeit in abnormal conditions. The Government has likely seen the present situation as its best opportunity to nudge mindsets towards electric vehicles.

While no one is questioning the environmental ambition or commitment to improved air quality, there are plenty of opportunities which still need to be addressed when it comes to the practicalities of zero emission implementation. Those operating fleet or business vehicles are, after all, only two or three change cycles away from that date. Organisations need confidence in availability of the right vehicles, which are fit for purpose, come with appropriate incentives, and are supported by effective infrastructure.

The ongoing roll-out of electric vehicles is likely to play a key role in the changing automotive market. With EV acceleration comes changes for all parts of the automotive supply, distribution, and retail chain. There is no doubt that EV (and the wider alternative fuels market) will be a core disruptor. While adapting and responding to COVID-19 has clearly and rightly been the priority for automotive organisations this year, it is important not to lose sight of the opportunities mainstream electric adoption can provide.

"Electric and hybrid vehicle registrations continue to perform well. Concerns remain, however, whether the incentive packages and infrastructure investment are sufficient to support accelerated EV ambitions from the UK government."

Philip Nothard, Insight and Strategy Director, Cox Automotive

Breaking the confidence threshold

One of the biggest challenges when it comes to EV infrastructure is the mismatch between consumer perceptions, industry projections and the reality of getting charging points in the ground. For example, countless research into consumer and business attitudes to electric vehicles has been done by government and industry, with the vast majority of surveys continuing to highlight concern around where and how to charge, the availability of charging points, the time taken to recharge and range anxiety.

However, while this underscores a need for continued education around EV charging, the reality is between 2017 and 2019, the number of connectors almost doubled (Zap-Map, 2020). Data from Zap-Map in September 2020 highlighted more than 12,000 charging locations with 19,500 devices and 34,000 connectors (Zap-Map, 2020). There is arguably enough infrastructure for the current demand, but the question is how much is reliable, maintained, suitable for the latest EVs, and located in the right place.

Investing in infrastructure

To address the problem, Government and private sector investment is rife. Indeed, with a goal to reach £400m (£200m public money match funded by private investment), the UK Treasury's Charging Infrastructure Investment Fund (CIIF) now has a total of more than £150m deployable capital to accelerate the rollout of public EV charging infrastructure. It has already invested in InstaVolt rapid EV charging stations (Whitlock, 2020), with further announcements on the horizon. This follows on from various other funds within the £1.5bn Road to Zero Strategy, such as the On-Street Residential Chargepoint Scheme (ORCS) and more.

Of course, it is difficult to know how and where to invest when the potential scale of the opportunity has received wildly different estimates. Recent analysis from SMMT and Frost and Sullivan suggests 1.7m public charge points will be needed by the end of the decade and 2.8m by 2035 (SMMT, 2020), a figure which has been challenged by others in the market. In any case, it is clear infrastructure investment will need to run ahead of EV sales to support positive response to mainstream EV adoption.

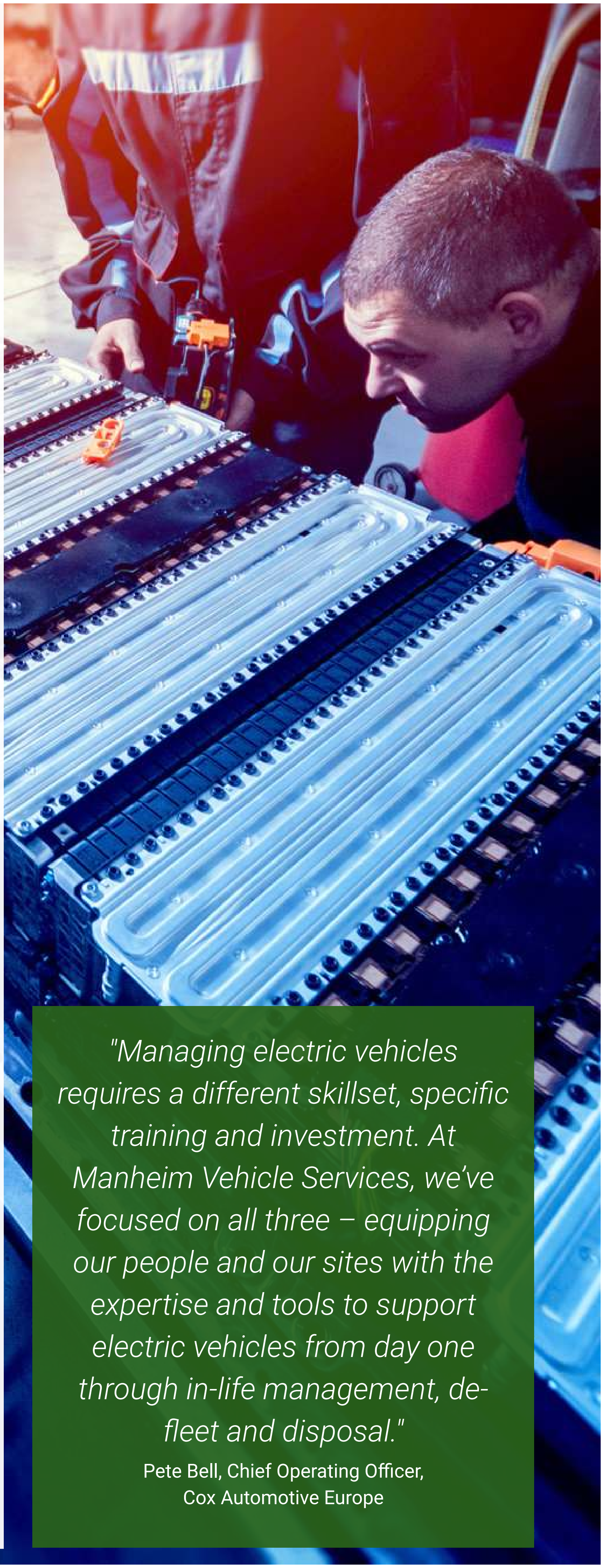
IHS Markit expects COVID-19 to have a medium-term impact on demand for new charging infrastructure installations until 2023, with the industry remaining in recovery mode until 2025. This comes on the back of data which suggested some charging service providers saw falls of around 80% in the utilisation of operational chargers during the early stages of the pandemic (IHS Markit, 2020).

MMeanwhile, in the UK, the 'Charge Challenge' took place over the summer, asking individuals to use the open data from UK Power Networks and any other open source channels to predict when and where the next generation of electric vehicle charge points should be located. UKPN has projected a 10-fold increase in EV uptake over the next 10 years, expecting 3.6m EVs on the roads of London, the South and South East by 2030 (UKPN, 2020).

WHAT COMES NEXT FOR THE ROAD TO ZERO?

Vehicle servicing in an electric era

Developing skillsets, implementing logistics



Vehicle preparation and servicing considerations

While historically the servicing, maintenance, repair and preparation of electric and hybrid vehicles may have been left to specialist workshops or the manufacturer themselves, the growth in uptake means this is a trend which those operating throughout the supply chain can no longer ignore. Organisations such as HEVRA highlight garages which are specialists in EV and hybrid work, but more often than not, franchise dealers are now being asked to pick up the workload.

When the outcome of mishandling a battery or high voltage system could be electric burns, a heart attack, or worse, it is important to ensure those working on and transporting alternatively fuelled vehicles know what they are dealing with. Several training programmes exist across the industry, such as the IMI Levels 1 to 5 Awards, to equip technicians with the skillset to work on these vehicles; however, access to talent remains an issue.

Although electric cars require little in the way of maintenance and consumables, checks of the tyres, brakes, suspension, lights and so on are still necessary. Additional work is also needed around the charging port and the gearbox, while all vehicles should be checked over for damage to the chassis and general wear and tear. There may also be specific heating and cooling systems which need to be maintained according to manufacturer requirements. Hybrids obviously have requirements of both ICE and electric engines, with added complexity around discharging the high voltage system before undertaking any work.

"Managing electric vehicles requires a different skillset, specific training and investment. At Manheim Vehicle Services, we've focused on all three – equipping our people and our sites with the expertise and tools to support electric vehicles from day one through in-life management, de-fleet and disposal."

Pete Bell, Chief Operating Officer, Cox Automotive Europe

Developing an ecosystem for vehicle batteries

Unfortunately, battery degradation remains part of the ownership experience when it comes to electric and hybrid vehicles, albeit usually not until around 100,000 miles or 12 years. This does, however, provide opportunities for manufacturers and retailers to engage with the customer and provide support and added value throughout the vehicle lifecycle.

In addition, when it comes to disposal of the vehicle, or a second or even third life via the wholesale markets, expertise is required to assess the battery condition, apply that information to the vehicle valuation and determine the next steps.

Organisations such as Manheim Vehicle Services have the capability to maintain, replace and dispose of vehicle batteries safely, securely and in line with relevant legislation and guidance. There is also work being done to develop individual cell replacement capability to extend the life of the individual battery.

Auction, logistics and remarketing impact

When it comes to pushing electric, hybrid or hydrogen vehicles through the wholesale market, many of the same opportunities exist. Organisations such as Manheim Vehicle Services offer complete packages for inspection services, valeting, reconditioning, transport, and channel management to ensure vehicles achieve the expected wholesale or retail values.

Manheim's Inspection Services team has extensive experience with alternatively fuelled vehicles and has developed a robust system to highlight areas for work and added value. Professional cleaning and valeting provide a demonstrable uplift in prices achieved, while it is important to understand what cosmetic work should be completed on the vehicle and where you might be investing unnecessary expense without getting a financial return. Whether minor or major body shop repairs, there are subtle differences in the way in which an electric, hybrid or hydrogen vehicle should be handled.

Supporting the growth of electric vehicles, Cox Automotive has recently invested in excess of £100,000 in partnership with Pod Point to install array charging equipment on site at MVS Bruntingthorpe. This is just one element of developing the technical support and expertise for the physical asset, irrespective of the fuel type or ownership model.

WHAT COMES NEXT FOR THE ROAD TO ZERO?

EV acceleration in automotive retail

Are manufacturers and dealers ready to go electric?

The EV opportunity

According to Euractiv, EV registrations were up by +57.4% across Europe in the first quarter of 2020. However, this is still just 4.3% of total registrations and takes place across a backdrop of showroom closures due to COVID-19 (Euractiv with Reuters, 2020). With countless unsold petrol and diesel vehicles yet to make their way through the distribution channels, and a pre-existing supply constraint on electric models, the likelihood is dealers still have time before they will see major change on the forecourts.

However, with manufacturers required to meet tough emissions reduction targets by 2021, there is a strong imperative to get new electric vehicles off the production line and into customers' hands. There are now more than 80 plug-in hybrid and full electric models on the market in the UK, with more on the horizon. However, while accounting for one in six car models on sale, SMMT VRIS data suggests they make up just one in 13 vehicles currently purchased (SMMT, 2020).

Several dealers, when asked in a recent sentiment survey for Cox Automotive, expressed their view that the market wasn't ready, citing the high cost of EV, perceived lack of charging infrastructure, perceived issues with range, and time taken to charge. This contrasted with peers, who were more optimistic and positive about vehicles on the market.

> *"Almost three quarters (74%) of dealers don't feel OEMs are sufficiently supporting their dealer networks in terms of EV investment and infrastructure implementation."*
>
> Cox Automotive Dealer Sentiment Survey

Dealer training and forecourt infrastructure

In a recent Cox Automotive dealer sentiment survey, just a quarter (26%) of respondents felt the OEMs were sufficiently supporting the dealer network in EV investment and infrastructure implementation. Almost nine in 10 dealers (88%) did not feel dealers were sufficiently supported by central bodies, such as government or council.

Almost a third (30%) of respondents felt OEMs were unprepared for accelerated growth of electric vehicles in the UK, while two fifths (39%) said the same about dealers. While this means that more than half are positive about preparedness, there is still a long way to go to meet ambitious EV targets.

In the NFDA Electric Vehicle Dealer Attitude Survey (NFDA, 2020), many retailers were optimistic about their manufacturers proposed EV product range, which will help meet growing consumer demand in the short and medium term. However, the report also highlights it is important retailers and manufacturers work together on perceived and actual supply constraints as the sector continues to respond to COVID-induced shutdowns.

"Electric vehicles are quickly becoming less of a novelty, and more of a valid option for the mainstream. It is important, therefore, that OEMs and retailers manage to get the processes right to support consumer uptake."

Owen Edwards, Associate Director, Grant Thornton

What is EVA?

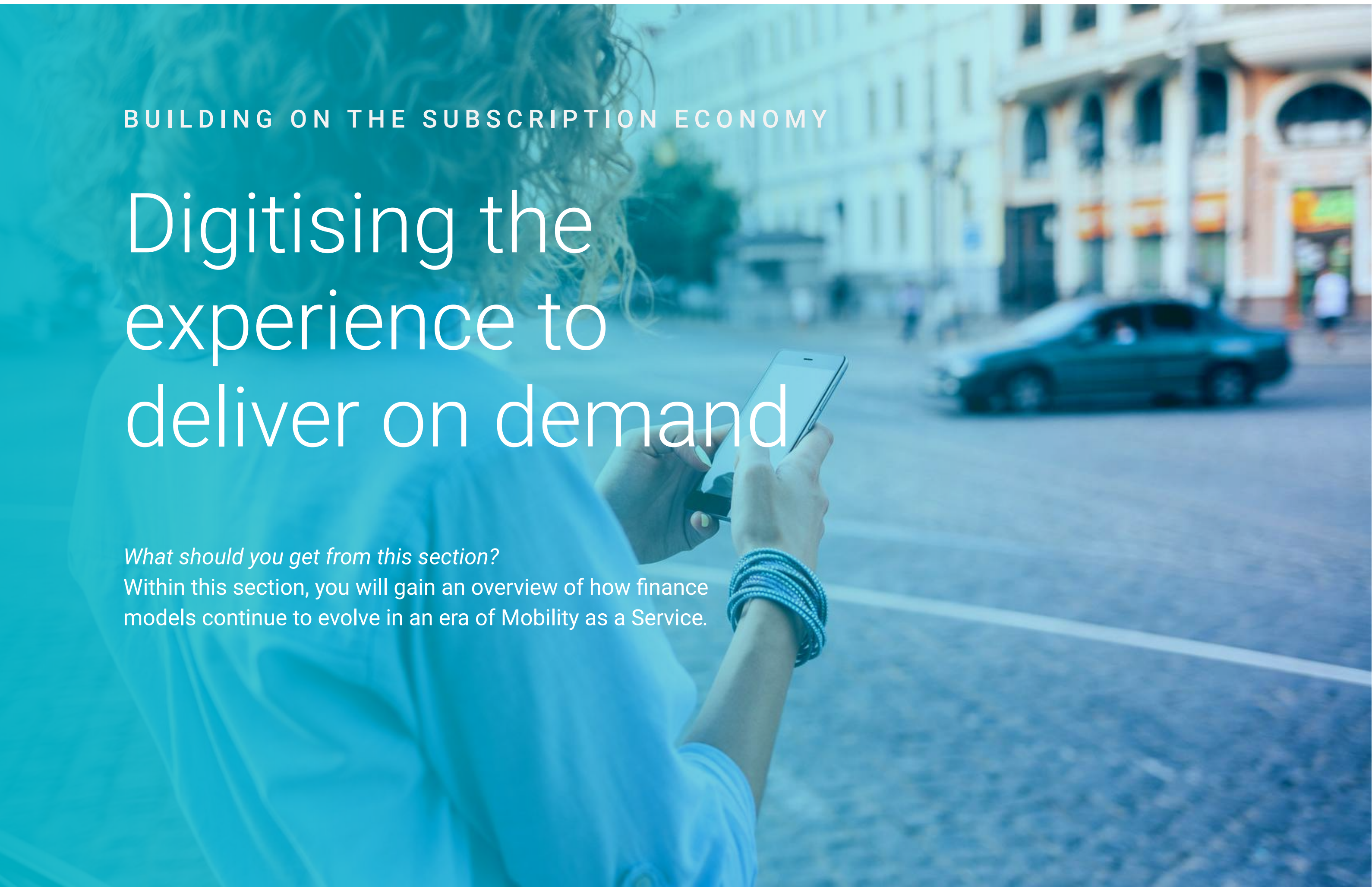
The Electric Vehicle Approved (EVA) accreditation scheme has been developed by the National Franchised Dealers Association (NFDA) to promote industry standards for the benefit of the consumer.

EVA is a set of standards covering all areas of automotive retail (retail, wholesale, aftersales and bodyshops) designed to recognise businesses' excellence in the electric vehicle sector. In this way, the EVA badge of approval enables consumers to immediately identify the businesses at the forefront of electric vehicle retail.

EVA is endorsed and co-sponsored by the Government's Office for Low Emission Vehicles (OLEV) and backed by the Energy Saving Trust (EST).

It is the only scheme which certifies the efforts retailers are making in the EV sector to meet the ever-changing consumer demand. The EVA badge is awarded to individual sites which are rigorously and independently audited by EST and found to meet EVA's standards. With the transition to EVs being confusing and daunting, businesses who meet the EVA standards are able to give motorists confidence in their purchases.

If a business has the EVA badge of approval displayed, you can trust they will be able to assist you with EVs and give you the highest levels of service and knowledge (EVA, 2020).



BUILDING ON THE SUBSCRIPTION ECONOMY

Digitising the experience to deliver on demand

What should you get from this section?
Within this section, you will gain an overview of how finance models continue to evolve in an era of Mobility as a Service.

> *"The rise of PCH, a major trend for 2019, provided dealers with opportunities and challenges."*
>
> Philip Nothard - Insight and Strategy Director, Cox Automotive

Asset ownership to utilisation

The number of miles driven continues to rise, even while the number of vehicles sold declines. Although individuals and organisations still need to keep on the move, the appeal of owning a depreciating asset is waning, particularly to a generation which is also struggling to get on the housing ladder. However, shifting trends do not spell the end of the automotive sector as we know it, perhaps just a rebalancing of priorities.

Whereas manufacturers used to speak of being car companies, now the word of choice is mobility. Albeit the concept of Mobility as a Service (MaaS) or Car as a Service (CaaS) is not a new one, its importance has risen sharply in recent years. The desire to access vehicles and wider mobility services at the touch of a button, or app, without the hassle of having to insure, store or maintain the asset provides comfort to those whose work and personal lives are complex.

Throw COVID-19 into the mix, as we have seen in 2020, and the waters are further muddied. After the initial 2020 global lockdown, Google Trends data showed people worldwide had been looking for affordable private transport options to avoid having to catch a bus or train; ride sharing services were hit by social distancing measures; and dealer data suggested there is a ripe market for good quality used vehicles to meet that consumer demand.

There has also been a sharp increase in the number of manufacturers offering subscription services, allowing consumers to pay a monthly fee to access one or more vehicles on quick change cycles and with all add-ons such as insurance, breakdown cover, fuel, and so on included. Indeed, the subscription model is arguably ideal for those reeling from the pandemic and looking for flexibility and minimal commitment.

"Concepts such as ownership and usership are becoming more relevant in the automotive sector, with the growth of the subscription economy. We're seeing more in the way of innovation around finance models; however, we need to be careful not to get too carried away. While it is exciting to see what's possible in the market, the majority are still using traditional finance at the moment, and we expect it will take time for this to change."

Philip Nothard - Insight and Strategy Director, Cox Automotive

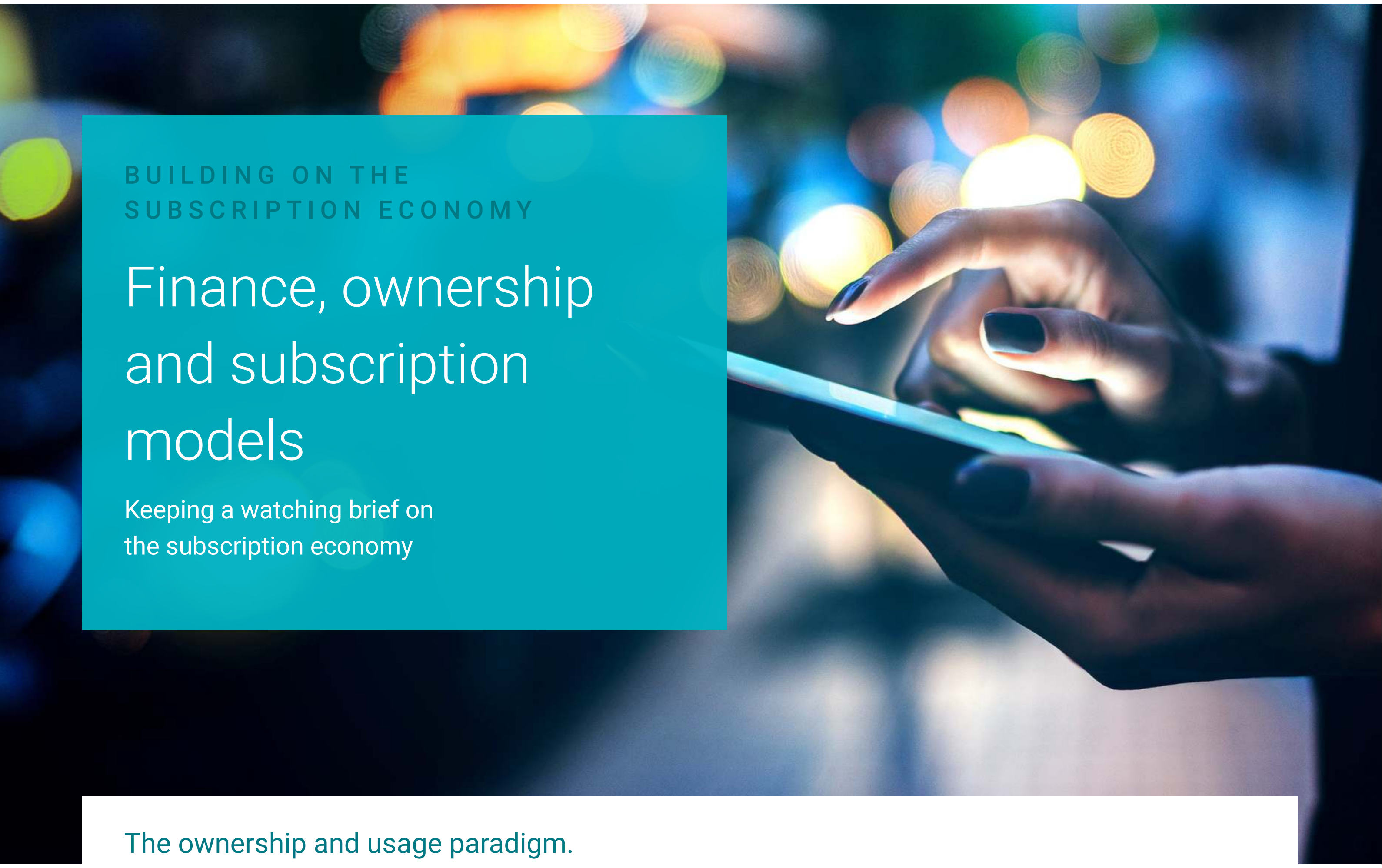
What is the subscription economy?

Often employed by Software as a Service (SaaS) companies, subscription services charge customers a monthly or annual fee to access the service or product. Newspaper and magazine subscriptions are an early example, while gym memberships, computer games and satellite TV have also made use of the approach. More organisations are now exploring the model, with everything from toothbrushes, shaving kits, food boxes, furniture and now vehicles available on subscription.

Opportunities for the subscription economy

According to a report from enterprise software company Zuora, subscription-based businesses continue to outperform traditional business models even throughout the pandemic. Four in five subscription companies were still growing, when the report was compiled in May, with half of companies growing just as fast as before the pandemic. One in five (18%) were seeing subscriber rates accelerate. However, revenue per subscription was not accelerating so quickly.

In the automotive sector, several OEMs have launched subscription-based models to market, while the various ride-hailing apps also offer access via subscription. Increasingly, subscription is the model of choice in the micro and e-mobility space. Electric bikes and scooters can be unlocked via an app using both one-off and subscription payment plans.



BUILDING ON THE SUBSCRIPTION ECONOMY

Finance, ownership and subscription models

Keeping a watching brief on the subscription economy

The ownership and usage paradigm.

As it stands, more than half (56%) of dealers in the Cox Automotive sentiment survey felt there had been no significant shift from ownership to usership in the automotive sector. While some felt the move would be delayed due to COVID-19, others talked of the difference between the new and used markets, with the former more likely to see further subscription options. For one respondent, the key question was whether consumers want or can afford to be 'in debt' or making monthly payments forever.

Within that context, it is perhaps no surprise that two thirds (66%) of respondents have made no attempt yet to build a business strategy around the shift from ownership to usership. Perhaps more interesting is that one in five dealers (22%) say they have. There is clearly a manufacturer bias at play, with some OEMs much further down the line in creating product than others.

Around two fifths (39%) of respondents felt the shift towards usership would have an impact on profitability while a third (35%) believe the opposite. However, while some OEMs and dealers play catch up, the subscription economy has already grown to consider Everything as a Service (XaaS). Those manufacturers which are already operating in the space are onto their second or third iteration of a monthly vehicle subscription package as they learn what makes the consumer tick.

"The usership model is in some way already with us, in the form of PCP/lease agreements. Total usership, though, I cannot see being big enough to greatly affect the market. Especially while the outcome of COVID-19 is to encourage people to stay in their own vehicle."

David Bilsborough of Cheshire Cars

Data and insight.

One of the key levers of the subscription economy is data. This is what allows organisations to create personalised and customisable subscriptions for consumers who are looking for immediate and tailored gratification. While this report will explore data in more depth in another section, it is important to acknowledge that the technology space is likely to continue to be a point of opportunity and challenge for those in the automotive sector over coming months and years.

"Business resilience has understandably been a hot topic in recent months. One way in which to build resilience into a business model is to convert ad hoc revenue to a more regular subscription approach. While clearly not relevant across the whole of the automotive sector, it will be interesting to see which innovations come to the forefront in the next 12 months."

Owen Edwards, Associate Director, Grant Thornton

BUILDING ON
THE SUBSCRIPTION ECONOMY

Logistics and asset management

Managing planned and unplanned downtime when ownership is flexible

In-life management for the subscription economy.

Although the vehicle sourcing and selling journey is becoming increasingly digitised, there will always remain a need to process the physical asset. Indeed, organisations like Manheim Vehicle Services continue to invest in increasingly sophisticated and environmentally responsible 'one stop solutions' – geographic locations where all elements for whole life vehicle management can be completed. This includes body repair, mechanical and diagnostic recalls, MOT, retail quality imagery and integrated logistics.

The growth of flexi-rent or subscription models provides further opportunity for in-life vehicle management. With wrap-around IT systems which support the physical infrastructure, there is already a seamless data transfer process to enable agility, cost control and intelligent decision-making. Retail-ready solutions, both indirect and direct, are enabling both 'click and collect' and transported handovers to take place with fully trained brand ambassadors across new, in-life and used vehicles.

The cost base and best practice for processes are now firmly established within Manheim Vehicle Services to support the 'switch' from one driver to another in the subscription or flexi-rent model. With the infrastructure and physical vehicle management systems in place, this is allowing manufacturers, lease companies, and new tech entrants to evolve their business models to support the growing demand for access to a vehicle without the long-term financial commitment.

Indeed, when organisations such as Manheim Vehicle Services can in-fleet, prepare, deliver, handover, collect and dispose of vehicles, this takes the strain away from manufacturers and facilitates the exploration of new growth areas. They can focus on the marketing and customer relationship, knowing the back-end processes are in place, at scale, to manage the vehicle.

"At Manheim Vehicle Services, we recognise there will always remain a need to process the physical asset, whatever happens in terms of ownership models and digitisation. Our aim is to provide geographically placed whole life vehicle management solutions through large scale sites that use the most technologically advanced equipment and integrated systems. The investment we are making is enabling everyone with an interest in the future of mobility, from vehicle manufacturers to leasing companies, tech brands and beyond, to take the next steps in supporting a subscription-based automotive economy."

Pete Bell, Chief Operating Officer, Cox Automotive Europe

Specialist vehicle support.

While finance models and asset usage patterns are changing, the technical support for the physical asset remains significant irrespective of the ownership profile. Indeed, as vehicles themselves become more complex – electric technology, roll-out of ADAS, high-tech LCVs, micro mobility, and so on – the need to provide centres of excellence is growing.

For example, with the current expansion of the home delivery market, dedicated workshops are required to cater for LCVs covering everything from technical maintenance through to vehicle imaging. As LCV fleets become increasingly electrified, and flexi-rent agreements become more commonplace, this will further increase complexity, with a need for rapid and agile response, mechanical expertise, and customer service innovation.

Investment is required in both the people and the infrastructure, with continual skills training and technology to support new vehicle platforms and ownership models. Manheim Vehicle Services has introduced gas catalytic drying systems which use 75% less energy than traditional methods, while also partnering with Pod Point to introduce array charging technology to its Bruntingthorpe site.

"The continued evolution of finance and ownership models, including innovation around subscription and flexi-rent, provides challenges and opportunities for values forecasting. Mileage rates and usage patterns for such vehicles are likely to be different to those which are owned outright. We will also see a wider range of ages coming to auction, when cycles are more flexible. This should provide greater variety of wholesale stock, once the market gets used to a new way of working."

Philip Nothard, Insight and Strategy Director, Cox Automotive

From centre of excellence to driveway.

Alongside investing in centres of excellence to support new handover, in-life management, and vehicle disposal, organisations also need to consider the growing demand for automotive services to be delivered at home or at work.

The existing relationship with the manufacturer or retailer is evolving, with many customers expecting greater flexibility in their interactions. Add the subscription model into the mix and it is likely that drivers will expect the services to come to them, on the driveway, in the car park or wherever is most convenient.

BUILDING ON
THE SUBSCRIPTION ECONOMY

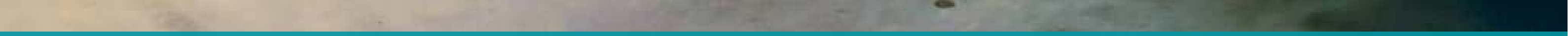
MaaS in action

The reality of taking a car on subscription

Pivotal from Jaguar Land Rover.

Jaguar Land Rover has responded to its projections that subscriptions will account for around 10% of the new car market in the US and Europe by 2025, by launching a monthly subscription service. Inclusive of rental costs, insurance, road tax, servicing, and repairs, Pivotal will allow customers to switch between cars every six months as well as featuring a pause and break option. Drivers simply pay for the fuel.

Pivotal replaces previous offers from Jaguar Land Rover, including the Carpe 12-month unlimited mileage single-payment subscription, and is backed by venture capital and mobility services arm InMotion. The team at Pivotal has identified the 20% of young professionals who would not normally own a car as its primary target audience. In early trials, Pivotal attracted a membership who had not previously tried the brand, with eight in ten members being new customers for either Jaguar or Land Rover.



"The world is changing, and Jaguar Land Rover is changing with it, adapting to the needs of our customers as well as supplying those who would not normally consider our cars and SUVs.

"Traditional car ownership may not provide the flexibility required by some in the modern world, and with Pivotal we are able to offer an alternative, premium option."

Isobel Dando, managing director of Pivotal

In conversation with Isobel Dando, managing director, Pivotal

Q: COVID-19 has accelerated many trends in the automotive sector. What impact do you think it will have on current and future mobility?

A: The COVID-19 pandemic has accelerated consumer trends, but underlying drivers such as the transition to electric vehicles and the shifting consumer psychographic from ownership to usership will continue to gain traction.

Q: In a Cox Automotive survey, more than half of dealers said they did not see the shift from ownership usership being particularly relevant. What advice would you give them?

A: Without an online sales channel (and associated consumer brand) as well as the required underlying data infrastructure to power it and required scale, 'usership' is a difficult sales channel to monetise, so I can see why many retailers have not been able to put plans in place. Although consumers of today ideally yearn for price transparency and consistency, there are some alternatives for retailers to partner with mobility technology businesses which enable them to mobilise their assets through a partnership approach. At the same time, I would encourage retailers to be open minded and proactive in progressing the subject of subscription with the OEMs

Q: What impact do you think global recessionary trends might have on the subscription economy?

A: I see economic uncertainty as another factor accelerating the growth of flexible mobility models, not the reverse. If faced with economic uncertainty where ownership is the only option, many consumers will choose to either delay their purchase, or simply not purchase a new vehicle at all. The flexibility of subscription enables consumers to not have to face this situation and make a smart choice for the here and now.

“The future of mobility has never been more in the spotlight and our customers are increasingly looking for more flexibility in the way they interact with us. We’re excited to see how this new initiative fits in a post-pandemic world where personal transport will undoubtedly be in more demand.”

Rawdon Glover, Managing Director
of Jaguar Land Rover UK

Q: What are the biggest opportunities and trends you see for the mobility sector in the next ten years?

I think the transition to electric powertrains is possibly the biggest opportunity to accelerate the growth of the mobility sector. Like the mobile phone world, customers do not want to be stuck with the 'old model'. With ever increasing advancements in EV hardware and software technology, consumers will not want to be tied to the same vehicle for up to four years and so mobility models suit this situation perfectly.

Q: What needs to happen in the back end for services like Pivotal to succeed?

A: Previously invisible services to front end retail, like servicing, maintenance, and repair, are now becoming increasingly revealed as retail support services versus wholesale support services. Like the OEMs, these services and underlying businesses will need to undergo a process of cultural change to ensure retail customer expectations are met versus the legacy wholesale customer expectations. The gain is a more efficient value chain but will require some serious attention in the short-term.

Q: Services like Pivotal will generate huge amounts of data. Who should own It and how can it be effectively deployed to improve infrastructure?

A: As a subscriber myself, I (the subscriber) should always own and be in control of my data, whether that be personal data or driving patterns, etc. Should there be a benefit and improvement to the service, whether that be to improve my travel times, recommending a product that better suits my needs, or more importantly developing even better future vehicles that support our 'Destination Zero' strategy, then I'm all in. However, this must be the individual and transparent choice for every consumer.

The growth of vehicle subscription worldwide

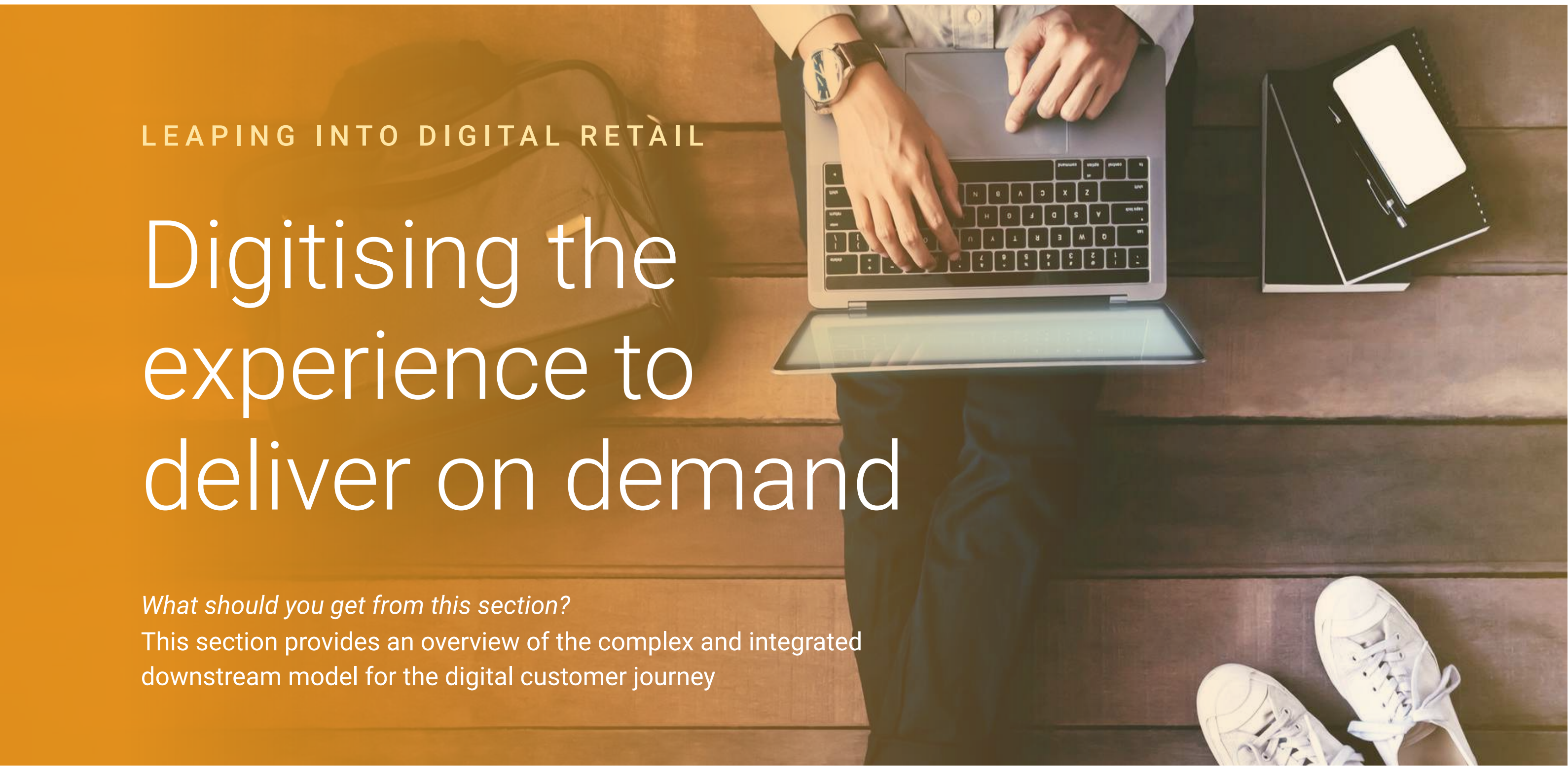
Jaguar Land Rover is not the only manufacturer operating in the subscription space. Care by Volvo offers a 30-day trial with insurance followed by rolling subscription with three-month notice period. While targeted at the consumer and company car allowance market currently, the brand expects to launch a business package in 2021.

In Japan, Nissan has recently rolled out ClickMobi, while Maruti Suzuki Subscribe has been launched in several Indian cities and is expanding its network. Earlier this year, Toyota rebranded Inchcape Fleet Solutions as KiNTO and is now offering several mobility solutions, including car sharing, pooling and flexible subscription models.

Beyond the manufacturers, several options exist to access vehicles on subscription. Examples include Drover – which has been referred to as the ‘Netflix for cars’. In the broader flexi-rental market, other options like EVOGO, Cocoon, Flexed, Wagonex, PSA’s Free2Move, FCA’s Leasys and Sixt+ also provide alternatives to leasing, with the latter expected to launch in the UK having proven the concept in Germany.

Key areas of development include discussion with tax bodies, such as HMRC in the UK, around fair and effective distribution of Benefit in Kind (BiK). For example, if a driver only has a vehicle for a third of the month, there is an argument they should only have to pay a third of the BiK for that month.

While many ‘just add fuel’ deals are based on Personal Contract Purchase (PCP), there is clearly a growing demand for, and supply of, vehicle subscription services. However, while several manufacturers are making their way into the market, Ford sold off its vehicle subscription business Canvas to Fair.com at the end of 2019, citing surprisingly lacklustre demand.



LEAPING INTO DIGITAL RETAIL

Digitising the experience to deliver on demand

What should you get from this section?
This section provides an overview of the complex and integrated downstream model for the digital customer journey

> *"COVID-19 has accelerated a digital trend which was already firmly in progress."*
>
> Philip Nothard - Insight and Strategy Director, Cox Automotive

Digitisation, e-commerce and the end-to-end customer journey

Much has been written in recent years about the shift from a service economy to the experience economy; a move which has seen organisations focus on the way in which the customer accesses their services, rather than the service itself. Indeed, the original advocates of the experience economy model, Pine and Gilmore, talk of four key focal points on the experiential journey: Education, Escapism, Entertainment and Esthetics.

When organisations create the digital customer experience, they should be thinking about how to meet all four elements – providing information, aspiration and diversion or distraction, humour or fantasy, and something which draws on all the senses. Appealing to the 4Es, many automotive organisations create immersive advertising experiences and use storytelling to capture the imaginations of prospective buyers. The showroom is an extension of the storytelling environment.

With the experience beginning the very first moment a consumer considers purchasing or financing a vehicle and running all the way through to disposing of that vehicle after its useful life, there are hundreds if not thousands of potential touchpoints along the way. Manufacturers, dealers, and the aftermarket have significant opportunity to create resonance with the consumer, offering an experience which is seamless, integrated, personalised and multi-channel.

As digital becomes ever more important within that customer experience journey, the automotive sector is looking to best practice within hospitality, retail, leisure and more, to create opportunities to engage with consumers on their terms. The merging of the experience and subscription economies creates a demand for increasingly personalised and bespoke customer journeys, which allow the individual to move seamlessly between platforms, devices, and the physical retail environment. Effective data sharing and integration is more important in this world of e-commerce than ever before.

"As a global provider of end-to-end digital retail and marketing services to automotive manufacturers, it comes as no surprise to us that digital transformation has been accelerated in recent months. Indeed, even without the sharp shock of the global COVID-19 pandemic, we were already working closely with OEMs to evolve their customer engagement strategy.
The future of automotive retailing depends on delivering short-term business success on the base of real-time consumer insight and data trends while also strengthening long-term strategic positions through demand forecasting and investing in the customer journey."

Didier Van Bouwel, Chief Operating Officer, Modix

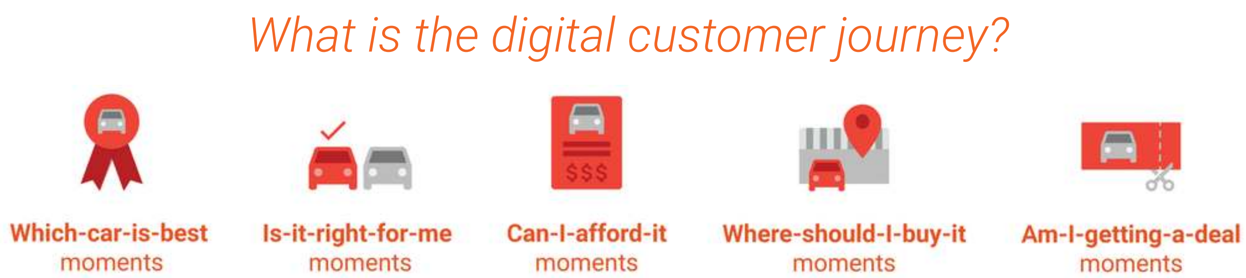
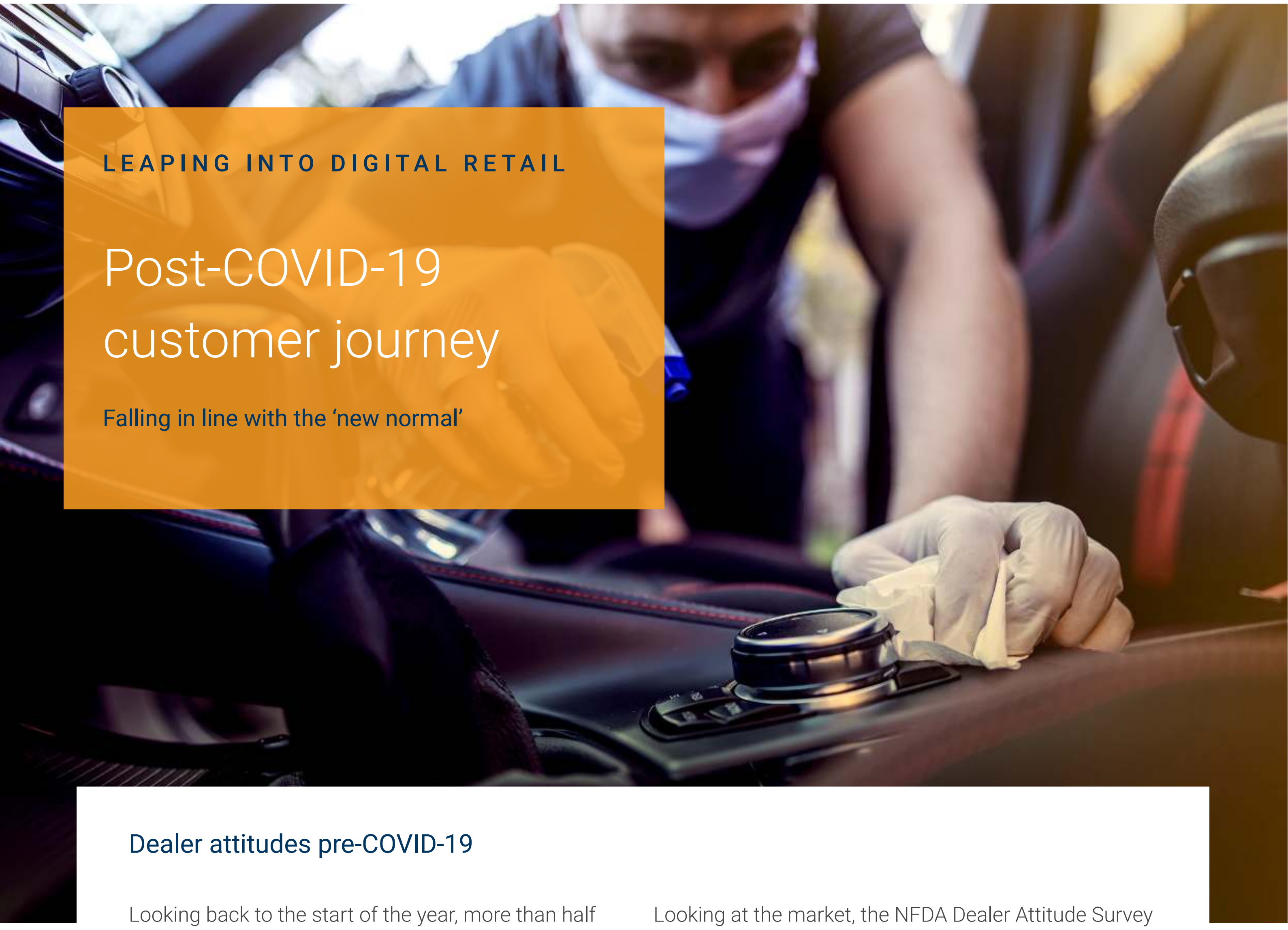


Image: Think with Google

The digital customer journey outlines the steps a consumer takes from initial consideration through to purchase or lease. Thinking about Google's concept of micro-moments, those points in which consumers make decisions, research from 2016 suggested the journey could feature at least 900 such separate interactions. These micro-moments, or interactions, can include searches, website visits, video views, social clicks and more. Four years on, and the landscape is even more complex.



LEAPING INTO DIGITAL RETAIL

Post-COVID-19 customer journey

Falling in line with the 'new normal'

Dealer attitudes pre-COVID-19

Looking back to the start of the year, more than half (54%) of dealers in the February Cox Automotive sentiment survey said they expected conditions to toughen in 2020. Fewer than one in five (18%) expressed confidence that margins would improve. While almost two thirds (60%) had been confident in economic improvement in January, just under a quarter (24%) felt the same way in the second month of 2020.

The Modix sentiment survey saw three fifths (59%) of dealers highlight an increase in online activity in January compared with the previous year, with nearly two fifths (36%) suggesting the channel had increased in February as Covid-19 started to make itself felt in the UK market. In addition, the NextGear Capital sentiment survey in March 2020 highlighted more than half of dealers planned to invest in additional stock, marketing, and social media tools to support their business plans.

Looking at the market, the NFDA Dealer Attitude Survey for Winter 2019/20 highlighted several key themes including concerns around profit return and return on capital. Broadly speaking, relationships with manufacturers were seen in positive terms, with an increase in score over the same survey in mid-2019.

Overall, results suggested an optimistic relationship between dealers and manufacturers, with a perception that the views and experience of the networks was being considered when manufacturers were planning for the coming year.

Review the NFDA Dealer Attitude Survey Winter 2019/2020 (opens in PDF).

In March 2020, the UK market was turned upside down, with lockdown measures closing dealerships fully for the following two months, and with staggered openings and regional measures after that point. A further English lockdown in November 2020, bookended by regional restrictions, has impacted further on physical dealership environments.

"A healthy relationship between dealers and manufacturers is vital to the

success of our industry. It is imperative that manufacturers and dealers maintain an open channel of communication to discuss the main issues affecting businesses and continue to cooperate to allow the automotive sector to thrive through a period of changes and challenges."

Sue Robinson, Chief Executive of the NFDA - March 2020

The impact of COVID-19, so far

In late May 2020, as dealers prepared to open following an easing of the first set of national lockdown measures, they were invited to provide their thoughts through the Cox Automotive sentiment survey. The results paint a picture of changing consumer behaviour and a shift in both the retail and wholesale markets to embrace more digital options. Three quarters of those polled (74%) felt there would be a fundamental change in how consumers use and choose their cars in the short-term.

During the same period, data from Auto Trader UK and other online listings sites, showed a rapid acceleration in consumer web traffic. In the short term, at least, and with the introduction of click and collect as well as delivery, consumers were willing to purchase their vehicle online. Indeed, the roll-out of sophisticated e-commerce platforms, video walkarounds and more integrated customer communication tools, prompted increased confidence in buying cars from the comfort and safety of home.

According to data from the NFDA, during the first two weeks following the initial lockdown, most dealers saw an increase in online sales enquiries (80.2%), as well as online sales (66.7%). By August, 58.1% of dealers saw an increase in new car online enquiries, with 60% stating a marginal or relevant increase in new car sales conversions.

Review the full results of the NFDA Post-Lockdown Automotive Retail Survey - June and July (opens as PDF) and NFDA Post-Lockdown Automotive Retail Survey – August (opens as web page).

"It's clear that the offline to online purchasing journey for consumers has accelerated during 2020 and at Cazoo we have seen the benefit of this directly. This has allowed us to strengthen our relationships with our purchasing partners and this will continue as we look to grow throughout 2021."

Rishi Patel, Head of Purchasing at Cazoo

Behaviour change: a perspective from the US

Although digital retailing is a more established feature of the market in the US compared to the UK the team at Cox Automotive in the US has highlighted three areas of change.

First, the pandemic has accelerated the adoption of online retailing. Almost half (47%) of car buyers surveyed during the pandemic completed more of the process online than the last time they bought a vehicle. Three fifths (60%) want to do more purchase steps online and 80% of franchise dealers in the US expect to see more consumers buy vehicles online in the future.

Second, the shift to digital retailing requires different staffing. Between May and September 2020, there was a 10-percentage point increase in the number of dealers placing emphasis on hiring digital or tech-savvy members of staff, reaching almost three fifths of the total (57%). A third of dealers (33%) made changes to staffing to better align to the new online model.

Third, and linked to the previous two, the pandemic created new ways of doing business. Three fifths (60%) of dealers offered Service Pick-up and Delivery (SPUD), with around half (48%) of consumers who took up the option having more work completed than they would have done otherwise. Nine in ten vehicle owners were satisfied with their SPUD experience, suggesting opportunity for dealers to innovate in the future.

"Change had been coming down the track anyway, but recent events have made the whole industry look and say, 'are we behaving in the right way to support our customers?' Many dealers continued to sell cars through lockdown through successful use of e-commerce tools and remote selling. That has been a real catalyst for change."

Paul Humphreys, Managing Director of Car Buying and Mobility at Cox Automotive

A view from Darren Sinclair, Managing Director of Modix

"The impact of the COVID-19 pandemic has been to propel manufacturer focus towards an accelerated digital transformation – what that looks like today and how it might evolve beyond the pandemic.

"We already operate in an era of growing consumer demand for a better and more transparent car buying journey. Today's automotive consumer demands a superior experience, online and offline, and they are more open to new ways of buying a vehicle than ever before.

"Innovative digital strategies will transform and challenge today's business models. Success will come from partnerships and collaborative working between the automotive sector and the digital retail providers and future technology businesses that can scale globally.

"The direction of travel is towards a convenient, frictionless customer experience built on collaborative and innovative business models that can be scaled and monetised. Data is key; with organisations throughout the supply chain needing to access and respond to dynamic consumer insight to make the most of the opportunities which arise."

LEAPING INTO DIGITAL RETAIL

Consumer behaviour and trends

Maintaining the personal touch in the digital journey

Dealer openness to digital

Last year's Insight Report highlighted consumer behaviours were changing more rapidly than ever before. Technology was singled out as a key driver in retail transformation, with the role of the physical dealer put into sharp perspective alongside consumer requirements for a seamless, consistent, and channel-agnostic customer journey.

Analysis showed that those dealers who were using technology to improve rather than merely replicate the physical dealership experience, were likely achieve the best results, opening new channels to market and putting the customer at the heart of their business plan.

The adoption of e-commerce among dealer groups was identified as a major trend, with high-quality imagery and video being used to drive online buyer confidence. Investment on both the OEM and retail side, in online vehicle valuations, advanced imaging, walkaround videos, online part-exchange, and click-to-buy, was having a tangible impact on the shape of the customer journey.

While a full online capability was still out of reach for many, with just one in five dealers (19%) having a completely online capability at the time of the survey, three fifths (61%) expected to have full online sales transactions within the coming two years.

Repeating the same research after the first national lockdown in 2020, more than half of dealers (53%) had online sales functionality in place, with a further third (34%) expecting to implement within the next two years. Such rapid momentum demonstrates both the already accelerating demand from consumers, as well as the impact of COVID-19 on the automotive retail journey.

Some sceptics remain, with one dealer arguing "who would buy a car without at least sitting in it?" However, most of those surveyed expect online to make up a larger part of their business model going forward.

> *"We already offer a full end-to-end buy online proposition for used cars, including automatic acceptance of finance (subject to status). New cars will come later this year."*
>
> Cox Automotive Dealer Sentiment Survey 2020

"Automotive retailers have faced huge uncertainty over 2020 but, fortunately, consumer demand has remained comparatively high. Sourcing stock remains a challenge and, in the current climate, it is more important than ever that dealers can continue to trade virtually to ensure they are prepared for consumer demand in the new year."

Le Etta Pearce, Chief Executive Office at Dealer Auction

Global consumer digital trends

Speaking to NADA in May 2020, Lissette Gole, Head of Automotive Retail at Google, outlined four key consumer behaviour trends promoted by the global pandemic.

First, people were finding comfort in car ownership and were more reliant on personal vehicles due to social distancing. Second, people looking to purchase a vehicle were expecting to find a deal. Third, they wanted the dealer experience closer to home, with a 39% year-on-year increase in automotive watch time on YouTube and increase in popularity of walkaround and test drive content. Fourth, around seven in ten (68%) auto shoppers at the time saw digital experiences and interactions as good alternatives to visiting the dealership. One in five said they would purchase immediately if given an online option.

The Google Team has also produced a series of seven Global Auto Pulse Insights reports. In the sixth edition, out in September 2020, data suggested that decline in search interest for automotive-related keywords at the start of the pandemic had quickly recovered and even overtaken previous years. Search interest in electric, plug-in and hybrid vehicles also overtook 2019 figures; however, petrol and diesel still accounted for 99% of search traffic.

Other global insights included the fact that the number of auto intenders delaying their planned vehicle purchase increased for the first time since March. Reasons included economic uncertainty and the impact of COVID-19. Search queries relating to buying a car online continued to increase, up +82% in the UK. At-home test drives were the most popular alternative to visiting a dealership, while vehicle review videos are the most popular digital alternative. Financial incentives, or deals, remain the main driver of speeding up purchase, although concerns over affordability are growing month-on-month.

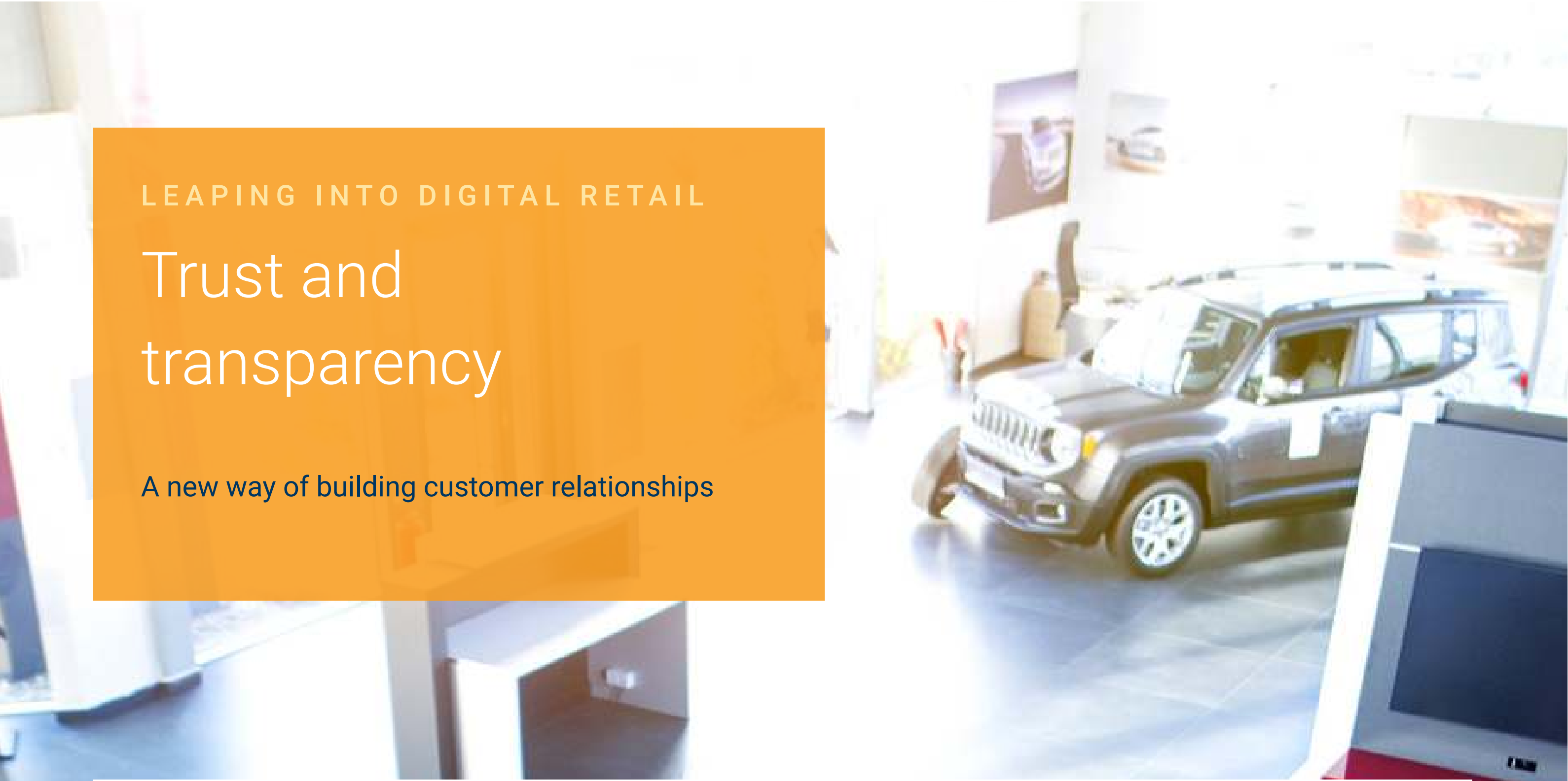
Accelerating the shift to digital retail in the US

Nearly two-thirds of vehicle transactions in June were at least partially digital, according to franchised dealers in the US, surveyed for Cox Automotive' s third-quarter Dealer Sentiment Index. One in ten transactions (11%) were completely digital, barring perhaps the final signature, while just over half (51%) included an online element to the purchase process.

"To do it completely digital requires quite a bit of automation, especially in the back office and the [finance and insurance] process. But we have seen successful dealers automating key pieces of the process, especially enhancing the communication with customers. Our surveys clearly show customers responding favourably to their efforts."

Jonathan Smoke, Chief Economist, Cox Automotive US

Cox Automotive Inc. Market Insights & Outlook



LEAPING INTO DIGITAL RETAIL

Trust and transparency

A new way of building customer relationships

Building opportunities for 2020 and beyond

As highlighted so far in this section, the digital shift that was slowly taking place in the industry prior to 2020 received an adrenalin shot this year. As a result of COVID-19, and other global trends, OEMs and dealer groups have been galvanised into action, promoting a much more rapid adoption of the digital customer journey.

Retailers found innovative ways to keep their businesses operating throughout various social distancing and lockdown restrictions, working with their customers and community to deliver real value. Digital retail is firmly on the agenda.

Consumers have become empowered through the wealth of online transactions completed over recent months and are beginning to gain confidence to test out the automotive digital experience. As an industry, it is important to put in place the tools and processes to support customers and consumers in the right way.

There will always be those who value the comfort and social interaction of engaging with humans, particularly when dealing with a transaction that is complex or emotionally sensitive. But, equally, there are significant benefits to be had when it comes to providing consumers with options. It is important to present a seamless experience that takes consumers between channels without asking for information on repeat.

Two key principles to think about in the era of digital retail are trust and transparency. Consumers want to know that if they make the wrong decision, they can put it right with minimal hassle and little to no cost. They need to trust that the information they are getting is correct and see a transparent process to manage any issues which may arise.

"Part-exchanges have the potential to cause friction. Our mission is to improve online and in-store vehicle transactions for everyone. By removing the barriers, implementing a transparent process, and enabling a frictionless experience, we create an environment in which trust is at the heart of the relationship."

Paul Humphreys, Managing Director of Car Buying and Mobility at Cox Automotive

The part-exchange process

More than 50% of vehicle transactions have a part-exchange attached to them. As the industry drives towards e-commerce, and digital retailing becomes core, being able to handle part-exchange vehicles remotely is critical to the success of the journey. Cynicism and a lack of trust may historically have led dealers to require physical appraisals while consumers often sought out a second opinion.

This created unnecessary friction in what should be the exciting experience of buying a new car. However, when transparency is added to the process, that friction evaporates. Cox Automotive, with its large-scale auction and vehicle services businesses is well placed to support the change.

The Cox Automotive eVA suite of products is an API-based tool that ingests market data, provides tools for retailers to assess the condition of the vehicle, and delivers trade and underwritten values. Cox Automotive can then use its operational capability to uplift the trade-in and dispose of it with no risk to the retailer. Alternatively, the retailer can retain the trade in vehicle as retail stock. As eVA is surfaced via APIs, it can be easily utilised by retailers' systems and seamlessly integrated into the consumer journey.

Empower the consumer to appraise their own vehicle, using smart technology and data-driven insights, and everyone starts to trust the valuations. What used to be a painful experience is now quick and objective. The dealer is free to focus on the consumer's new car journey, while the consumer avoids a stress point. With greater than 99% average accuracy rating, everyone can be confident in the process.

Clearly, there is a balance to be struck. Enough questions need to be asked during the appraisal that the information is gained to make a robust valuation but not so many that the consumer switches off and goes elsewhere. Interestingly, consumers tend to under rather than over-represent their vehicle. As such, more important questions tend to focus on the quirks which can impact prices achieved at auction, such as a panoramic sunroof.

To be both transparent and accurate in valuations, you need to see the entire value chain – what the wholesaler pays for the vehicle, what the dealer pays, what they advertise it for and how much they actually make at the end of the process. On top of the data, you also need to have market knowledge and understand the quirks and seasonal inputs which can make a big difference to the price achieved.

ADAPTING TO BIG DATA, CONNECTIVITY AND TECHNOLOGY

Leveraging data to connect people and vehicles

What should you get from this section?
Within this section, you will gain an understanding of the opportunities presented by the rapidly shifting technology landscape

"As more decisions are made by machine than human driver, where does the liability fall in case of an accident?"

Sherezad Rehmann, Senior Director Product Management, LexisNexis

Technology opportunities for automotive

For several years now, the automotive sector has been focused on how the increasing digitisation of vehicles will provide opportunities when it comes to prognostics, diagnostics, connectivity, and infrastructure improvements, as well as improving the driver experience. However, challenges remain.

The more technology which is being put into the vehicle, the more complex cabling and integration is involved. Add to that issues of bandwidth and the 5G network roll-out – you would not want a safety critical system to fail; as well as ensuring the technology is resilient to weather extremes and competing electromagnetic signals, and it becomes clear that, despite the progress which has been made, there are still discussions which need to be had.

As the market explores opportunities around less complex driver support systems through to full vehicle autonomy, the demand for real-time information sharing and data transfer is significant. Hundreds of sensors are now being deployed on every vehicle, generating previously unheard-of volumes of data which needs to be processed and analysed faster than human reflexes.

Help is at hand, as many of these challenges and opportunities have already been addressed in sectors such as telecoms, data centre management, consumer electronics and artificial intelligence. The opportunity is to lift those learnings and apply them specifically to the automotive sector.

"As carmakers and insurers get a better understanding of the vehicle, how it's driven, its performance and how semi-autonomous features work in the real world, consumers will also learn how data from and about the car can work for them. This will support market adoption, drive innovation and help create more benefits in terms of safety and total cost of ownership."

Sherezad Rehmann, Senior Director Product Management, LexisNexis

Evolving the connected car

Since 2018, all new vehicles in the European Union have been required to have an emergency call (eCall) function as standard. The platforms which underpin electric cars, shared or pool cars and autonomous vehicles also require a high degree of connected technology. Infotainment and navigation systems have also become more complex. All of which mean the automotive sector is now a high-tech space in which to operate.

However, while technology advancements have been significant, in-vehicle connectivity is not yet equivalent to that of a smartphone when it comes to convenience and user experience. Most vehicles are still making use of several software versions and platforms which require the driver or user to perform manual tasks to search for fuel or charging, somewhere to park or find a destination.

When it comes to prognostics and diagnostics, useful advances have been made in terms of shared access to data via the OBD2 port. But questions remain when it comes to servicing, maintenance, and repair of vehicles, as well as predicting and preventing breakdowns. Without open access to the data across both the manufacturer and the third-party suppliers, there is a lack of parity, convenience and opportunity for breakdown services and the aftermarket. This will be explored further in the section on 'Who owns the data?'.

What do we mean by Big Data in automotive?

As vehicles become more software and application-driven, the volumes of data being produced are significant. Data sharing agreements are going to be important when it comes to working out who owns and can utilise that data.

Big Data, put simply, is the analysis and extraction of information from the large volumes of structured and unstructured data which are being produced every day. In the context of automotive, this means creating partnerships and collaborations between OEMs, customers, partners and more to create commercial opportunities which benefit everyone.

"Increasingly, the automotive sector is finding itself managing and processing ever-growing volumes of data. As vehicles become more connected and support services are necessarily more integrated, the relationships within the supply chain will be just as important as the wealth of information and insights being generated."

Philip Nothard, Insight and Strategy Director, Cox Automotive

ADAPTING TO BIG DATA, CONNECTIVITY AND TECHNOLOGY

Insuring future mobility

Should the individual or vehicle risk have the most influence?

The relationship between ADAS and insurance

Most cars rolling off the production line today have some sort of Advanced Driver Assistance System (ADAS) fitted. Indeed, analysis from LexisNexis Risk Solutions highlighted at least 75% of new cars on sale come equipped with driver assistance systems and close to 52% have overtaking sensors and/or adaptive cruise control. While proven in the test environment, how these safety features are performing in the real world will create both challenges and opportunities for dealers and manufacturers.

To explore the topic further, LexisNexis Risk Solutions analysed 11 million randomly selected vehicles within model years 2014-2019. Using proprietary information, the team compared vehicles equipped with a set of core ADAS features against vehicles without those features. The research was controlled for driving factors such as age, driving history and years the licence has been held.

Key findings

- Vehicles equipped with certain ADAS features show a 27% reduction in bodily injury claims frequency and a 19% reduction in property damage frequency
- Vehicles equipped with a cluster of certain ADAS features, such as lane departure mitigation, forward collision warning and blind spot mitigation, reduce the chances of a claim by well over 25%

By combining the benefits of ADAS, car connectivity and data sharing at point of sale, the expectation is that dealers and manufacturers should be able to encourage consumers to part with their information. Allowing the consumer to share detailed information about their vehicle and driving behaviour with insurers should mean that those data points can be priced into the consumer's policy.

What do we mean by ADAS features?

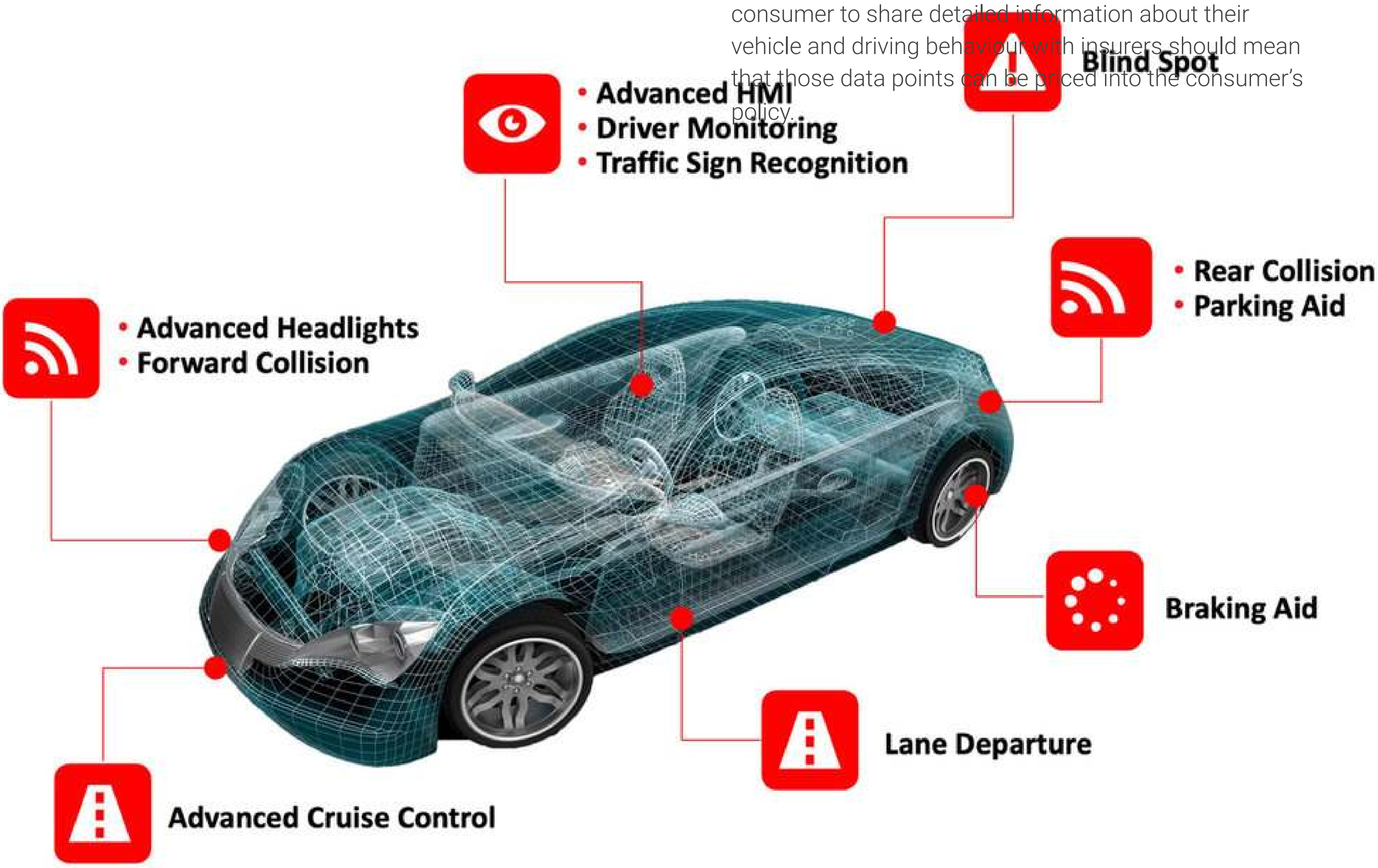


Image: Lexus Nexus

Connectivity and road safety

EU road fatalities reduced by more than half between 2001 and 2017; but human error is cited as a major contributing factor in 90% of the accidents which still occur. As such, active safety systems have been a primary focus for car manufacturers and legislators in recent years, with the potential to reduce both the overall number of accidents and the severity of those which do still occur. According to an SMMT-commissioned report in 2015, the impact of connected and autonomous vehicles is expected to include the prevention of 25,000 serious accidents and 2,500 lives saved in the UK up to 2030.

Ongoing investment in Cooperative Intelligent Transport Systems (C-ITS) is facilitating networking between connected vehicles and their environment, allowing for variable speed limited and the opening or closing of traffic lanes to be communicated direct to the vehicle. V2X (vehicle-to-everything) communication technology is also expected to increase road safety, integrating with smart infrastructure and other connected vehicles to manage traffic flow and accident response.

Bandwidth, latency and reliability remain a key challenge, while there remains global disagreement about the preferred V2X standards, with China, the US and Europe all proposing slightly different routes. As it stands, vehicle manufacturers are currently deploying slightly different technology in each of the major global markets. Whether this will remain sustainable in an era of tightened purse strings and global recession remains to be seen.

"The role of the dealer and manufacturer should be to make the benefits of ADAS clear and simple for the consumer. That supports cleaner and safer vehicles on the road, contributes to dealer profit margins and supports OEM zero harm strategies."

Sherezad Rehmann, Senior Director Product Management, LexisNexis

The role of the dealer with ADAS

While technology marches on at pace, there are two key concerns in the roll-out of ADAS. The first revolves around consumer scepticism – do they want to be connected? Won't they just switch the technologies off? The second, linked, factor is education. Do consumers understand how the technology in their new car works? Dealers and manufacturers have all heard of drivers who returned their 'faulty' vehicle because they did not understand how start-stop worked.

The first may be dealt with through legislation, with technologies mandated and overrides made more difficult. The second provides an opportunity for the retail journey. By promoting ADAS option packs and providing education to drivers on how the features work, dealers can benefit from higher margin unit sales, while manufacturers contribute to their zero-harm strategies.

Greater understanding of potential resale costs may also support initial purchase choices, while whole life costs become easier to compare when everyone is upfront about what technology is in their vehicle. If the industry can effectively communicate the safety and emissions benefits of ADAS, there is every chance the pace of vehicle replacement can be accelerated (economic impacts notwithstanding).

What else is the car telling the insurer?

With increased connectivity, smartphone integration, infotainment systems and navigation solutions, the sheer volume of data being collected by vehicles is phenomenal. Connecting a phone to a vehicle can provide information about entertainment and eating habits, contact databases, regular journeys, where consumers shop and more.

Many insurance policies offer a discount for fitting a telematics device, aiming to lower the risk profile of the driver and provide additional information when it comes to at-fault claims. The question is whether insurers will also factor in information about driving locations, type of music being listened to in the vehicle or fast-food consumption habits.

Wiping the car's memory

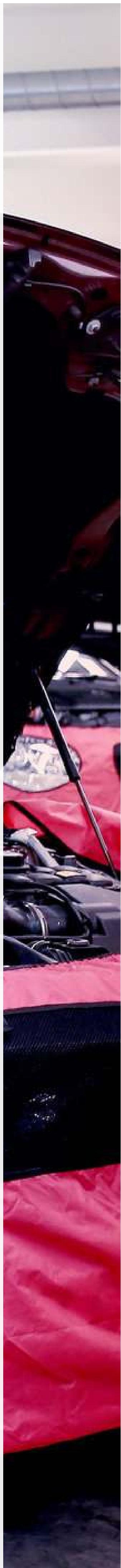
As data sharing becomes a more integral part of vehicle design, questions continue to be raised around cyber security risks. Two new UN Regulations on Cybersecurity and Software Updates, adopted summer 2020, will enter into force in January 2021. Applicable to passenger cars, vans, trucks and buses, they will focus on managing vehicle cyber risks; securing vehicles by design; detecting and responding to security incidents across vehicle fleets; and providing safe and secure updates that ensure vehicle safety is not compromised by 'Over the Air' (OTA) updates.

Increasingly, rental firms, lease companies and manufacturers are investing time and resource in ensuring the vehicles are wiped clean of all personally identifiable data before being passed on to the next owner or driver. Consumers are often happy to trade a degree of privacy for convenience, but they don't want that information passed on to just anyone. Manheim is working closely with clients to offer services that 'clear down' the previous users' data, providing peace of mind for all in the vehicle life cycle.

ADAPTING TO BIG DATA, CONNECTIVITY AND TECHNOLOGY

Parts, aftermarket and repairs

Crash repair and customisation: who is liable for the outcome?



Who is liable?

Onboard sensors required for ADAS and autonomous features tend to be found in vulnerable positions on the vehicle: bumper, door mirrors, windscreen and so on. As such, any incident with the vehicle is likely to affect one if not all of them. A repair does not have to be complicated for ADAS to be featured. Indeed, wheel alignments can affect park assist features; windscreen replacements can affect the sensors in the rear-view mirror; adjusting the suspension can affect pretty much everything.

While the impact may be as small as windscreen wipers not reacting to the weather or headlights failing to dip; there are also significant safety concerns for some of those systems. Although not clear cut, the likelihood is that if the vehicle found itself in an accident, and the cause could be traced back to an incorrectly calibrated sensor, it would probably be the repairer who was found liable. It is important, therefore, that those looking to work on ADAS-equipped vehicles have the requisite training to do so.

Insurance Industry Requirements for ADAS-equipped vehicles

Onboard sensors required for ADAS and autonomous features tend to be found in vulnerable positions on the vehicle: bumper, door mirrors, windscreen and so on. As such, any incident with the vehicle is likely to affect one if not all of them. A repair does not have to be complicated for ADAS to be featured. Indeed, wheel alignments can affect park assist features; windscreen replacements can affect the sensors in the rear-view mirror; adjusting the suspension can affect pretty much everything.

While the impact may be as small as windscreen wipers not reacting to the

Earlier this year, as the number of ADAS-enabled vehicles on UK roads reached 4.5million, Thatcham Research released a set of Insurance Industry Requirements (IIRs) to ensure the safe repair of such vehicles. Thatcham worked with vehicle manufacturers, insurers, windscreen repair and replacement companies, equipment providers and repairers to develop the IIRs, which it expects to be implemented by March 2021.

The document highlights that inspection, realignment and calibration requirements must be considered in all situations where the ADAS technology, including sensors, is likely to be impacted by the repair work. Procedures include documenting the presence of ADAS on the vehicle, completing activities as detailed by the manufacturers technical specification and ensuring that a competent person completed the calibration work.

weather or headlights failing to dip; there are also significant safety concerns for some of those systems. Although not clear cut, the likelihood is that if the vehicle found itself in an accident, and the cause could be traced back to an incorrectly calibrated sensor, it would probably be the repairer who was found liable. It is important, therefore, that those looking to work on ADAS-equipped vehicles have the requisite training to do so.

Opportunities for the aftermarket

The future impact of ADAS and connectivity on aftermarket revenue and dealer profitability is likely to be considerable. The modern dealership's aftermarket (parts, maintenance, and repair) average contribution to revenue is around 10%, but SMMT data suggests aftermarket contributes 45% to 50% of dealership profitability.

In a recent Cox Automotive dealer sentiment survey for this report, almost half (47%) of dealers suggested that the increased level of connected technology was impacting on vehicle profitability, with a further fifth (22%) unsure. A quarter of respondents (26%) had seen an increase in service or bodyshop work that included ADAS calibration, while two fifths (39%) were unsure.

ADAS-equipped vehicles can be more complex to calibrate which provides opportunities and threats. The time and cost to repair an ADAS-equipped vehicle as compared with a standard vehicle is mitigating some of the financial impact.

However, the potential reduction in volume and severity of accidents because of ADAS means the number of vehicles coming in for repair is likely to reduce. Long-term, this reduction in vehicle damage (both minor and severe) could be as significant as the development of extended maintenance cycles in the early 2000s on dealer repair and consumer footfall.

Although this may accelerate the trends of fewer service networks and dealers, one opportunity could be the creation of fewer, more specialist sites with a higher throughput that ultimately improves dealer profitability.

ADAS and remarketing

There is a trend on the horizon, with the new world of safety requiring those who are selling the vehicle to confirm all repairs and calibrations were done to manufacturer technical specifications. .

The potential impact on sale price is still up for discussion. Is it the buyer or seller who covers the cost of an organisation like Manheim completing the calibration inspection? While the tipping point for ADAS in the new vehicle market has certainly been reached, the industry is still in the early stages of managing connectivity and safety technology at wholesale. If, for example, the suspension or ride height of a vehicle have been altered, at what point should the sensor calibrations be checked, and by whom?

The rapid growth in personal leasing in both new and used vehicles, as well as increases in subscription and flexi-rent models, have meant end-of-life inspections are more important than ever. While the Thatcham IIRs have been welcomed across the industry, there is still uncertainty and a lack of clarity around consistent standards and technology application. Costs, liability and responsibility remain key concerns when it comes to adapting the remarketing process for ADAS-equipped vehicles.

"As increasingly complex technologies make their way into the wholesale market, it is vital buyers and vendors can work with partners they trust. The risk factors around incorrectly calibrated ADAS systems are significant. Continuing to invest in our vehicle processing and remarketing support services remains a strategic priority."

Pete Bell, Chief Operating Officer, Cox Automotive Europe

ADAPTING TO BIG DATA, CONNECTIVITY AND TECHNOLOGY

Who owns the data?

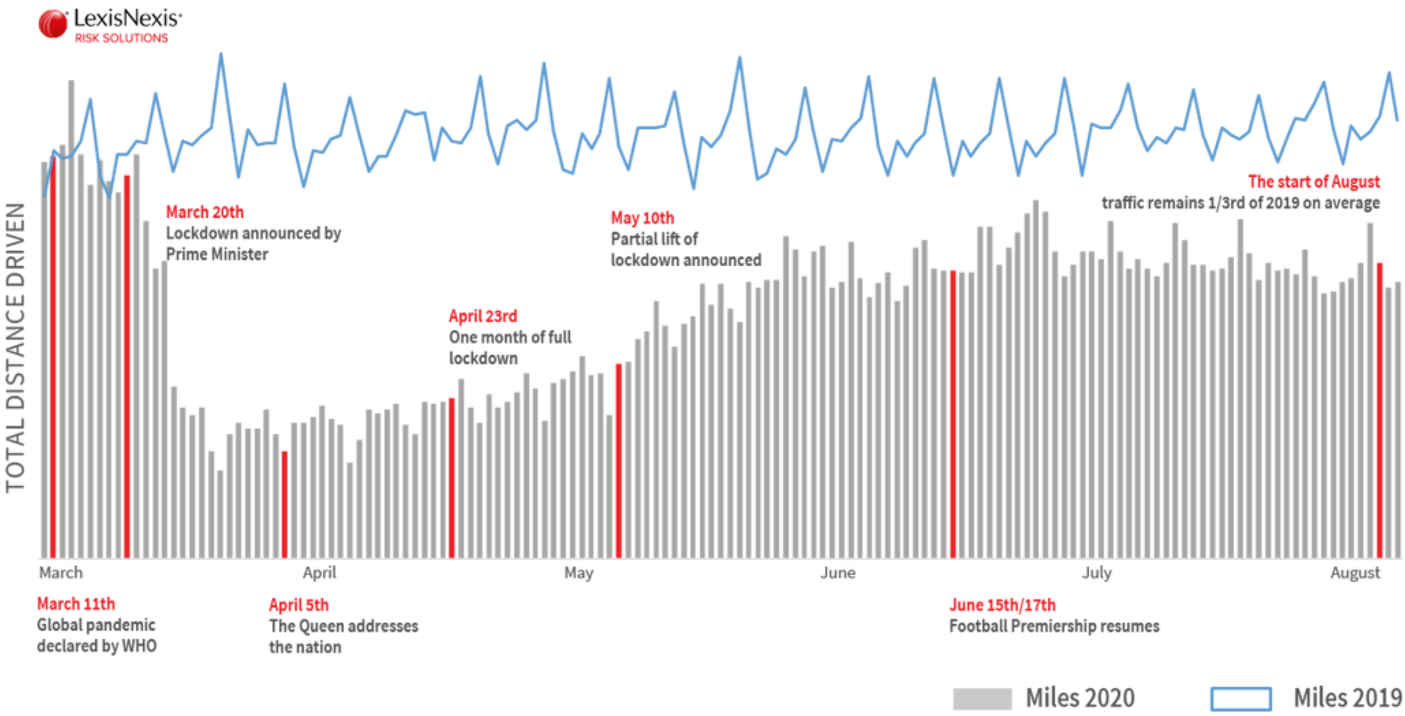
How vehicle data will drive motor insurance and consumer engagement

Data ownership and the insurance opportunity

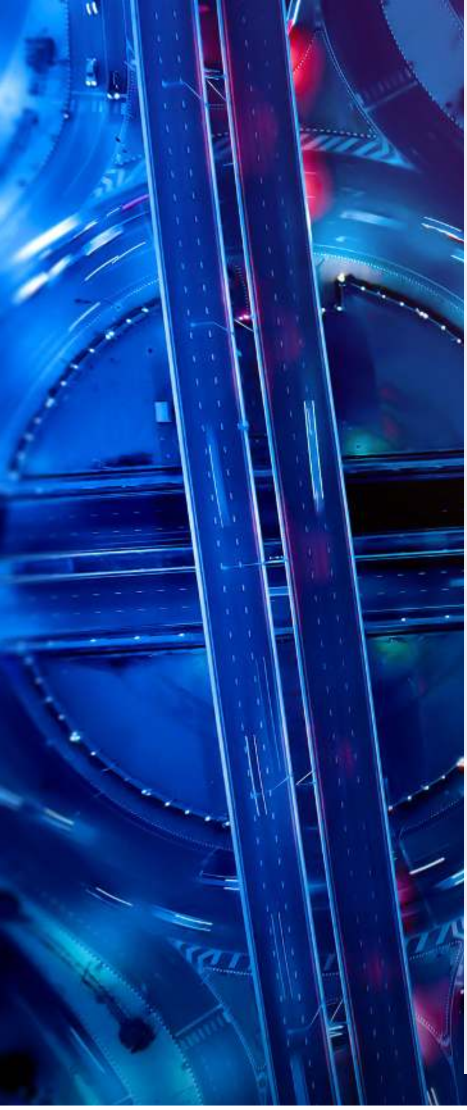
As nations globally instigated lockdown measures in Spring 2020 to control the spread of COVID-19, private cars largely went unused for weeks on end. The annual motor insurance premium calculated on a range of factors such as where the policyholder lives, their age, occupation and engine size could not factor for this sudden and prolonged change in risk. Insurance providers offering telematics or usage-based insurance products had insight the rest of the market could only guess at with reports of traffic volumes falling between 70%-85%, as cited in analysis from LexisNexis Risk Solutions and leading Telematics UK broker Autosaint of March to June 2020.

The pandemic has highlighted the value of static and dynamic vehicle data in understanding risk, delivering a fair and accurate premium and giving motorists more flexibility and control over their insurance costs. Rather than rely on estimations and proxies for risk, it could tell an insurer the car's mileage reading, valuable insight during and post-pandemic, the car's precise location, how it is driven, and the Advanced Driver Assistance Systems (ADAS) features on-board and activated to enable the development of more personalised, more engaging insurance cover. This is not visionary: the insurance and car manufacturing markets were coming together to make this concept a reality, well before the emergence of COVID-19.

The impact of Covid-19 national lock-down restrictions on traffic volumes



Graph: Lexus Nexus



Connectivity

LexisNexis Risk Solutions research of the automotive market highlighted that, by 2025, almost all new vehicles are expected to have connectivity feeding a wide range of data to car manufacturers. Carmakers have invested significantly in connectivity as part of their drive to provide a greater choice of mobility solutions to help improve the customer experience. Data from the car can help them understand exactly how their vehicles are used and how they can cut the cost of ownership as they invest in developing increasingly autonomous vehicles as part of their zero emissions and zero fatalities objectives. C.A.S.E., or Connectivity, Autonomous, Sharing/Subscription and Electrification, is being used as the guiding principle for the future of the auto industry.

In parallel with the development and increasing market penetration of the connected car, there is a recognition among insurance providers that they will need access to vehicle-centric data to support the provision of usage-based insurance. It is as much in insurers' interests to understand more about the car as it is manufacturers. Consumer expectations were already changing prior to the pandemic, but the demand for more personalised products looks set to increase. Vehicle-centric data has the potential to help price insurance more fairly, cut claims costs and deliver new services such as Pay As You Drive products.

More than half (55%) of respondents in a Cox Automotive dealer sentiment survey completed for this report said they had concerns relating to the ownership of data as connectivity increases.

Vehicle-centric data

The big question has been how to bring these two major industries together so that insurance providers can access connected car data in a way that adheres to data privacy and security regulations as well as making sure that the data is useable and meaningful for insurance.

How do you ensure a consumer driving a car is given the option to share their driving data for insurance and this will be understood in the same way as their neighbour driving a completely different car? When you think about the volume of car makes and models, the number of motor insurance providers, and the quantity of motorists buying insurance, it becomes a big 'many to many' problem.

The solution lies in a data platform strategy that takes all the strands of vehicle-centric data, telematics data from any device or app, data from the connected car and vehicle build data then puts it into an environment where it can be standardised, contextualised, normalised and scored in a fully compliant manner for use across a variety of vehicle makes or models.

This is one Big Data project that could have a profound impact on the future of mobility.

"The increasing number of ADAS features affects not only the insurance market, but also valuations when it comes to these vehicles making their way through wholesale channels. The more information we can get about different vehicle features and systems, the more detailed the information in the remarketing process can be."

Philip Nothard, Insight and Strategy Director,
Cox Automotive

ADAS classification and risk

The starting point goes back to the investment car makers are putting in vehicle autonomy with Advanced Driver Assistance Systems (ADAS) increasingly available in vehicles and constantly being enhanced. SMMT research shows 8 in 10 new cars in the UK have driver assistance systems and over half have adaptive cruise control. In the US, internal analysis by LexisNexis Risk Solutions shows 76% of 2019 models had at least one core ADAS feature, which is up significantly compared to 18% in 2014.

To date, it has been a challenge for insurers to identify exactly what ADAS features a specific vehicle is equipped with when writing a motor insurance policy. This is because each car manufacturer has created its own unique terminology, definitions, and naming structures – sometimes releasing multiple features within the same model year. In addition, many items are chosen as optional extras when a vehicle is purchased new.

To address this challenge, data scientists at LexisNexis Risk Solutions have developed an ADAS classification system using machine learning to scan millions of lines of car manufacturer vehicle data to logically sequence and classify vehicle safety features and component's intended operation or purpose. This classification system provides the foundation for LexisNexis® Vehicle Build.

Access to vehicle safety data will help insurance providers factor for their presence throughout the customer journey – in pricing, mid-term adjustments and renewals – and establish the differences in risk profile associated with the vehicles that have these safety features. It will also enable them to understand how specific safety features behave. For example, if a feature will provide an alert or warning to the vehicle's driver when a potential danger or hazard is detected or if it can take active control of breaks and steering. It will allow insurers to understand the purpose of features.

At the same time, car manufacturers will be able to see what ADAS features have the most impact on their customer's safety to help drive further enhancements.

As carmakers and insurers get a better understanding of the vehicle, how it's driven, its performance and how semi-autonomous features work in the real world, consumers will also learn how data from and about the car can work for them. This will support market adoption, drive innovation, and help create more benefits in terms of safety and total cost of ownership.

Who owns the data?

The European Union has ruled that data generated by cars belongs to those who own, operate and drive the vehicle whilst data is being generated. It is subject to privacy rules under the EU's General Data Protection Regulations, or GDPR. It is slightly more complicated in the US, with state data privacy laws offering up contradictions.

Debate continues around whether providing car owners with the data from their vehicles could in fact endanger other drivers of the vehicle. Conversely, car manufacturers have argued that allowing consumers to opt out may cause issues with information sharing with emergency and third-party roadside assistance organisations.

There are also challenges from the independent aftermarket, with representatives suggesting that manufacturers withholding data could prevent fair competition and even remove competition and choice for consumers. While physical access via the OBD2 port is still an option for now, the development of wireless transmission services direct to the manufacturer means this could be removed from new models in the future.

Solving the consumer compliance and consent problem: LexisNexis® Risk Solutions

LexisNexis® Risk Solutions is playing a key role together with consortium partner Volkswagen AG in project smashHit– one of several funded projects initiated by the EU Commission designed to increase consumer confidence in the use of personal data generated by connected cars.

SmashHit is a project aimed at two specific use cases: automotive insurance and smart cities where the mass internet connected device is the connected car. The consortium has been tasked with creating a secure platform that will increase consumer trust and confidence in personal connected car data sharing for specific use cases.

Project smashHit is a three-year EU Commission funded initiative to support the emergence of data markets and the data economy. It has been tasked to create the platforms to ensure consumers remain in control of their data and its subsequent use. It will also enable secure sharing and trading of data with robust, automated controls on compliance.

The smashHit project is formed by a consortium of nine organisations drawn from analytics, data security, car manufacturing, smart city infrastructure and academia working collaboratively to deliver the benefits of shared car connectivity to millions of consumers.

Image: smashHIT Project

BUSINESS STRATEGY 2021 AND BEYOND

Planning ahead - key dynamics impacting business strategies in 2021 and beyond

What should you get from this section?
This section summarises some of the previous market themes, and how they should be considered when developing a business strategy.

"The market is shifting rapidly."

Owen Edwards, Associate Director, Grant Thornton

In recent months, attention has rightly been focused on responding to COVID-19. Fundamental changes in the automotive sector have taken place both upstream and downstream. Tier 1-4 suppliers, manufacturers, retailers, finance houses, leasing companies and more have seen a shift in the way in which they operate and serve their customers.

For some, those changes will be temporary, with a return to the status quo in 2021/22. However, COVID-19 has quickened the paradigm shifts which were already taking place in the industry. The likelihood is that most will see costs, business models, supply chains, routes to market, and consumer demand affected permanently.

Priorities for upstream and downstream

Over the course of this year's Insight Report, several topics have been brought to the forefront: alternative fuels; the subscription economy; digital retail; and connectivity; as well as market forecasts and trends and what potential impact that these may have on the automotive retail market.

While the emphasis in this section of the report will be on the automotive retail market, we have also analysed other areas of the automotive supply and distribution value chain as changes in these markets will affect how vehicles are supplied and sold in the future.

"The automotive industry is undergoing significant evolution. Many businesses which were viable before the pandemic may not be today. In order to maintain viability, it is critical to create a business strategy that embraces evolution. In the short term it may be a case of survival as we head through the winter months in the UK. For 2021 and beyond, a longer strategy is required, to evolve and to retain support from key business stakeholders."

Owen Edwards, Associate Director, Grant Thornton

Overcoming market uncertainty

Market uncertainty remains across the complete automotive value chain, with an expected increase of COVID-19 cases in the winter months and potential further national and localised lockdowns. It is difficult for businesses to plan for the unexpected, therefore companies should conserve cash where possible and have a strong focus on their short-term business model; ideally working to a three-month rolling plan. Management and stakeholders should pay attention to the key areas over which they have a level of control, as the potential unknowns which cannot be planned for will distract focus when it is most needed.

Longer term, looking to 2021 and beyond, it is key that management has a strong strategy which can be easily be implemented and enables the business to evolve with its market. This will ensure the business remains viable and will also help to maintain confidence with, and the support of, the key stakeholders, such as suppliers, finance partners, and so on.

Automotive companies should consider the key changes in the market in both their short term and longer-term strategies.

BUSINESS STRATEGY 2021 AND BEYOND

Identifying the key trends driving business transformation

The impact of COVID-19, Block Exemption, and vehicle funding on the automotive supply chain

Responding to COVID-19

In the UK during the early summer lockdown, Cox Automotive asked dealers about their greatest concerns for their business. The top ranked response was the health of employees and customers, followed by cash flow, reduced sales volumes, fear of a recession, and risk of further lockdown measures. Many of those responding had taken advantage of the furlough scheme; all were physically closed; but some had investigated click and collect or online retail options where permitted. These responses indicated dealers were focused on both the health of their staff and the survival of their business. Indeed, a shift into survival mode was the anticipated immediate reaction across businesses in all markets.

A few months later, in September 2020, the same question was asked. This time round the top five responses were a slowing economy, reduced sales volumes, risk of further regional lockdown measures, the health of employees and customers, and cash flow. By September, cash flow in dealerships was strongly aided by continued government support, plus rental and mortgage holidays. This benefited both their own businesses, as well as generating pent-up demand and the desire to purchase both new and used vehicles. Dealers' business strategies understandably changed from survival mode to bringing back as many staff as possible to meet the sales and aftersales demand.

As this report is launched to market, the industry is facing further challenges as the Government introduces new COVID-19 rules. In both previous surveys, issues around reduced sales volumes and cash flow loomed large and it is likely they would feature in the top five if the survey were repeated, as would uncertainty around what is to come next for both COVID-19 and Brexit.

Recent automotive roundtables hosted by Grant Thornton suggested many companies have benefited from government support e.g., furlough schemes and VAT payment postponements which meant that cash flow was looking healthy for the automotive retail sector. However, if the R rate for COVID-19 continues to increase, or the shortage of in-demand vehicles in the market continues, then the long-term viability of some dealers may be questionable.

Indeed, the risk is that, as the general economy slows due to COVID-19 and Brexit, consumer confidence and retail demand could wane. The sales of vehicles and aftersales hours and parts could slow. Costs may start to increase with the ending of rent and mortgage holidays, and with VAT payments starting up again, businesses may be left with weaker cashflow. Cash reserves built up over the third quarter of 2020 will decline. At this point the key strategy for businesses is to react swiftly, contacting their advisors and key stakeholders if there is the requirement to seek further financial support.

Understanding the possible outcomes

Within this report's market forecasts, several possible outcomes have been outlined: high, medium and worst-case scenarios. Therefore, the team at Grant Thornton recommends that several short-term business plans are generated to account for each possible scenario. Such consideration enables businesses to review the robustness of their financials and the certainty of their cashflow position. Additional information regarding the possible scenarios can be found in the Market Forecasts and Projections section of this year's report. Alongside planning for the end of 2020, automotive businesses should be reviewing their strategies for 2021.

NFDA summarises the dealer return to work experience

- In the used sector, 83.2% of dealers saw a larger volume of online enquiries and 55.45% saw an increase in online used car sales. By August, 84.9% of dealers had seen a further increase on online enquiries for used vehicles, with 74% seeing an increase in conversions from enquiries.

- In July, nearly three in four dealers said more customers were booking appointments prior to visiting. By early August, a third (37.8%) of respondents had seen an increase in footfall for used cars, up to 25% higher than pre-lockdown.

Review the full results of the NFDA Post-Lockdown Automotive Retail Survey [opens as PDF] and NFDA Post-Lockdown Automotive Retail Survey – August [opens as web page].

Business strategy additional considerations: Block Exemption

While COVID-19 has topped the agenda for many, other factors such as Brexit, CAFE Regulations and Block Exemption are starting to raise questions. How will they impact automotive markets and how will this change companies' strategies in the coming month and years?

What might the case between Peugeot Austria (PSA) and one of its dealers, Buechl, in the Cartel Court mean for competition in the EU – and the UK? While action is ongoing and the final decision is awaiting an appeal hearing, most commentators are clear that relationships between manufacturers and their dealer networks will likely come under the spotlight in coming months (NFDA, 2020).

Key areas for manufacturers and dealers to consider in regards to future competition:

- Obliging dealers to participate in manufacturer-determined price campaigns
- Linking payment of dealer bonuses to manufacturer-managed customer satisfaction surveys
- Passing on the cost of 'mystery shop' exercises to the dealer
- Applying excessively aggressive and complex sales targets at artificially high levels
- Setting workshop rates for guarantee and warranty work at unprofitable rates for the dealer

Review the NFDA and TLT LLP analysis of the PSA vs. Buechl case from June 2020 (opens in new web page).

Business Strategy additional considerations: Vehicle funding

While many dealers have taken advantage of financial support from government over recent months, there has also been assistance from financial providers and the captive finance companies. Several captive finance companies have extended vehicle stocking terms; for example, NextGear Capital has allowed dealers to retain units on its stocking plans longer than it ordinarily would. If the car or van couldn't be sold, funders shared the burden by extending the stocking terms. Similar initiatives took place across the NextGear Capital network in the UK, US, and Canada.

Demand for cars has remained strong. Some consumers have found themselves with higher available disposable income, as they have not been on holiday or paid to commute. With the return to work, people have also looked to avoid public transport due to the risk of catching COVID-19 and have preferred to go to work in their own car. The demand for LCVs has remained relatively strong and this can be attributed to increased online sales as consumers under lockdown have switched their purchasing from 'bricks to clicks' to remote retail. However, with continuing uncertainty in the market and further restrictions, it is possible the winter months will see ongoing impact on dealers.

The Bank of England has reduced the interest rate to 0.1% and there have been comments from some quarters that interest rates could become negative. Low interest rates or negative interest rates would encourage even more borrowing in order to stimulate the UK economy. However, this could also make borrowing for a new vehicle cheaper for both consumers and dealers investing in the vehicle stocking process.

A View from Liam Quegan, Managing Director at Manheim Auction Services and NextGear Capital

"Throughout the pandemic, we have prided ourselves on supporting our dealer base by providing financial relief and enabling vehicles to stay on plans for longer. After the initial lockdown restrictions lifted, dealers were able to take advantage of a buoyant market with pent-up demand, ultimately trading out of over-aged stock.

"Utilising funding options available to maintain cash flow has never held so much importance. In times of uncertainty, building cash reserves is key, and funding providers can help take the burden of cash tied up in stock. Market uncertainty is inevitable right now, and peace of mind is a valuable commodity.

"My main advice to people is prudency. Make sure you are careful about your business model. We are here to help and will continue to do so. We hope the market can remain positive, however, we know it ebbs and flows and that government support will not always be there. Dealers need to make sensible choices and invest to grow – but carefully."

"In the short term, a company's strategy should include a rolling three-month business plan to highlight any immediate issues in funding and cashflow. Companies also need to have a strategy on keeping key stakeholders fully informed. Any issues with cashflow should be addressed with an advisor and the key stakeholders as early as possible. Key stakeholders could include banks, vehicle asset financing companies, national sales companies, and captive finance companies."

Owen Edwards, Associate Director, Grant Thornton

BUSINESS STRATEGY
2021 AND BEYOND

Consolidation & restructuring

Putting in place a long-term sustainable business strategy

The changing face of automotive retail

Within the changing automotive market, there is an imperative for automotive companies to evolve. This needs to be planned carefully, with a long-term strategy put in place to proactively support future growth.

As has been highlighted in the sections of this report relating to alternatively fuelled vehicles, digital customer journeys, the subscription economy, and connectivity, significant change is already taking place within the automotive sector. It would be naïve to think that traditional automotive business models were not already coming under pressure to evolve.

Since the last financial recession in 2008, market consolidation and restructuring of dealer networks has already made an impact, with several large acquisitions. Examples included Marshall Motors Holdings plc acquiring Ridgeway and Lookers plc acquiring Benfield Motors. National Sales Companies have been reducing the physical footprint of their dealer networks while others have pulled out of markets or model segments. Examples include Ford reducing to 180 of its sales franchise dealerships, Mitsubishi exiting the UK and European markets, and the consumer trend to move from purchasing city cars to SUVs.

It comes as no surprise that 2020 has accelerated some of these trends. The impact of a global pandemic, an economy in recession, and the impending exit from the EU, with or without a trade deal, has pushed companies across many sectors, including automotive retailers, into survival mode.

"We believe there will be further consolidation and potential changes to business models, such as agency and online retailing. If that was not enough, regulatory pressures from the FCA will continue to impact upon vehicle finance brokers and dealers. Rental companies and fleet companies will question the use of their fleets as the uptake of communication and collaboration software, such as Zoom and Microsoft Teams negates the need of many to commute, as well as the shrinking of airport vehicle rental income for daily rental companies."

Owen Edwards, Associate Director, Grant Thornton

Feedback from dealers

In a Cox Automotive dealer sentiment survey completed for this report, a third of respondents (33%) indicated they expected the number of UK franchise dealer outlets to decline by 11% or more by 2025. This is in line with or above current rates of around a 2% decline, year-on-year.

Around a quarter (24%) of respondents expected to see the same level of decline in the independent sector. In contrast, a third (33%) expected the independent sector to remain flat or increase over the same time.

For used car supermarkets, the news was even stronger, with around a quarter (24%) expecting to see the number of outlets increase and 58% expecting the number of used car supermarkets to remain flat over the next five years.

Interestingly, with the growth of digital sales channels and direct to consumer retail, the increase in used car business, and ongoing consolidation in the market, it could be argued that the distinction between the three segments is no longer as clear as it once was.

In some cases, large dealer groups are already focusing, or considering a focus on, digital used car operations, which are being classified as used car supermarkets. Examples include Arnold Clark Motorstore. It is arguably a natural move for dealers to expand into a market where costs are lower and the volume of vehicles sold is high, if done correctly.

Used car supermarkets have been quick to evolve digital and e-commerce strategies and there have been several new entrants in this market. Examples include Cazoo.

Consolidation patterns

Consolidation in the automotive sector slowed in the last global recession and, at present, the number of acquisitions for 2020 has been limited. These have been small dealer groups or individual dealerships, of which most were already in the pipeline before lockdown. However, the Grant Thornton team anticipates acquisitions will increase in the following three ways.

1. Regional companies looking to increase their presence and make their businesses into viable operators. These are likely to be small dealer groups acquiring smaller dealer groups or individual dealerships.

2. International buyers. While limited to date, and constrained by uncertainty around Brexit, there is a watching brief to see if operators can acquire UK assets at a cheaper price.

3. Public limited companies and large dealer group space, where the impetus is on continued earnings growth through the economies of scale generated by acquisitions.

In downstream markets, the team believes there will be other opportunities for consolidation and restructuring among fleet and leasing companies and automotive manufacturers. In the first instance, current fragmentation in the fleet and leasing sector may be overcome through consolidation. Secondly many such organisations are diversifying into the broader Mobility as a Service (MaaS) environment, meaning there may be fewer but larger companies in the medium to long-term.

Within the automotive manufacturing space, PSA has already acquired Vauxhall/Opel and is now looking at FCA. There are several complementary trends at work in this space.

1. There will be further consolidation of the manufacturers because investment required to meet changing EU and China vehicle emission targets will continue to increase. In order for the OEMs to generate profits from expensive-to-produce electric vehicles and to pay less in the way of emissions fines, there is a need to gain economies of scale through manufacturing large numbers of electric vehicles.

2. There will be additional brands or new brands in the market. New brands such as Nikola are coming to market, while long-established manufacturers are spinning out their electric vehicle brands, such as Hyundai's IONIQ. When this spin-off was announced, Hyundai's share price increased by 10%. Creating such new brands, based on this evidence, can add shareholder value. Geely has a similar strategy with its brand Polestar.
3. The investment in EVs and CAVs has meant that joint ventures are becoming more common, as seen by Fisker partnering with Magna to manufacture its Ocean electric SUV.GM is working with Nikola on its pick-up truck model, the Badger.

Increasingly there have been a number of IPO or reverse takeovers in order to source investment from equity shareholders. Nio listed on the US Nasdaq in 2018 and more recently this was followed by Li Auto, a Chinese EV/Hybrid automotive company, taking advantage of the meteoric rise of the Tesla share price.

One step ahead

It is critical that businesses have a strategy which is viable for both the short and long term. With a robust and proactive business strategy, which evolves as the situation changes, companies should be able to stay one step ahead. If carefully planned, this should provide opportunities for survival in the short term and organic or acquisition-founded growth in the medium to long term.

Running an organisation which survives or even thrives in these conditions requires having a strong grip and a short-term three-month rolling business plan to ensure management is focused on performance and cash flow. As previously noted, Grant Thornton recommends organisations review planning in line with at least three scenarios – best, middle, and worst case.

Communication is critical when disseminating the business strategy in order to ensure effective implementation. Many business plans fail due to poor communication. It is proposed that targets are set for all the senior leadership team and then filtered down. If the business is in survival mode, it will be important to conserve the cash, so this should be reviewed regularly in order to act quickly if needed. A short-term focus should be placed on day-to-day changes, such as how to increase sales volumes/vehicles, hours sold, and parts sold. Areas such as margin, costs and so on, will take longer, perhaps weeks or months.

Looking longer term there will be changes in the automotive industry across the supply, distribution, and retail market. As new patterns and ways of working come to the fore, management also has the difficult task of considering the medium and long-term strategy of the organisation. This may well mean adapting the vision and aspirations, with a realignment in expectations of what can be achieved.

"With an evolving market, businesses need to be ahead of the curve with their strategy, but at all times maintain a healthy cash position. The automotive industry is currently going through a difficult time and tougher times are expected with the uncertainty of Brexit and risk of a global recession. Planning for the future is critical for automotive companies to evolve."

Owen Edwards, Associate Director, Grant Thornton

BUSINESS STRATEGY
2021 AND BEYOND

Changing sales processes: agency & online

Laying the foundations for a direct-to-consumer approach

Changes to the sales process.

With the onset of COVID-19, dealer groups had to advance their plans to sell vehicles online. Many dealers successfully adapted their strategy to this new environment.

Indeed, as noted in the section on digital retail, many dealers took the opportunity to invest in or accelerate their online sales journeys. Data from Google, also shared in the digital retail section, highlights that consumer preference shifted to online retail, while also emphasising the additional time prospective buyers had to research their next purchase.

As outlined in the forecasts section, the UK new and used car markets remain weak relative to 2019. However, there was an initial strong V-shaped recovery in the short term, which was echoed across global markets, such as China, US and Europe. While potentially a result of pent-up demand and, with the risk that this demand is not sustainable particularly considering further regional and national lockdowns, consumers are looking for alternative sales processes. Consumers and NSCs are looking for change; both Mercedes-Benz and PSA have announced that 25% of global sales will be online by 2025.

The agency model

The introduction of the agency model would see dealers focus on the customer interaction – handovers, servicing and used vehicle sales; while the manufacturer would take more control of the new car sales process, the customer data and the overarching customer relationship. There is precedent, with several manufacturers already trialling the approach in global markets. One such example is the Toyota Drive Happy scheme in New Zealand.

In a recent dealer sentiment survey carried out by Cox Automotive for this report, almost half of respondents (45%) expected an increase in franchise agency within the UK dealer market in 2021.

A view from the top: Daksh Gupta, CEO, Marshall Motor Holdings PLC

"COVID-19 has certainly accelerated trends in automotive retail; it will however be an evolution rather than revolution.

"The agency approach transforms the model in a number of areas. Notably, it frees up cash, increases returns, de-risks balance sheets and removes new car stock risk.

"In addition, it provides the opportunity for dealers to be more flexible, creates a greater sense of partnership between the manufacturer and the retailer, and will likely offer the consumer a much more integrated and seamless retail experience.

"We've been predicting a significant fall in UK dealer numbers over the past three years and, while clearly horrendous for those affected, what should emerge is a leaner, more profitable and more customer-centric retail environment.

"We expect to see further consolidation and restructuring in the market, some prompted by COVID-19 but much of it because of network rationalisations by the OEMs.

"Ultimately, for all of us, the goal has to be delivering an integrated and effective customer journey which provides the opportunity for profit and value for everyone involved."

Pros and cons of the agency model

There are potentially several possible pros and cons relating to the agency model.

On the positive side, removing the issues of working capital and trapped cash caused by holding vehicle stock is likely to create a more flexible and less risky business approach for the dealer. Customers may benefit from not having to haggle with the dealer and online sales are likely to go up. The manufacturer has greater opportunity to create a direct-to-customer relationship, while the dealer remains part of the customer journey.

There are, however, some potential negatives. In the early stages of the implementation, the NSC and dealer could be in direct competition, as seen in New Zealand with the Toyota Drive Happy agency model. Some dealers suggested a profit decline of around 30% due to competing with the NSC.

The Australian Automotive Dealer Association has highlighted some issues. CEO James Voortman said: "How does the trade-in work? Will there still be sales targets? Will compensation be offered for facilities which may no longer be fit for purpose? OEMs are yet to provide details with information on how agency models will address these concerns. Given they are as accustomed to the traditional dealership model as dealers are, perhaps they don't yet have the answers, and these 'toe-in-the-water' beginnings will be as much a learning exercise for them as for dealers."

The agency model is still in its infancy and there will be solutions for most of these issues; however, more clarity is required from the OEMs on how this model will work. In Europe, VW is looking to undertake the agency model initially with just its electric vehicles. As already indicated in an early section of this document, dealers should be preparing a strategy for further sales to move online and the potential requirements to respond to the agency model.

"More clarity is needed to see whether the agency model approach works for the UK or Europe. There are some positive sounds from Toyota Drive Happy in New Zealand, but this example also has some underlying advantages. Toyota has 20% market share, and all of its 26 dealers are on the same dealer management system, enabling better communication between the dealer and the NSC."

Owen Edwards, Associate Director, Grant Thornton

IN CONVERSATION: OUTLOOK

An optimistic vision for a reinvigorated automotive sector?

Join Philip and Owen as they go on a journey through the Cox Automotive and Grant Thornton Insight Report 2020, highlighting key areas of outlook

Cox Automotive Outlook

with Philip Nothard

Grant Thornton Outlook

with Owen Edwards

IN CONVERSATION: OUTLOOK

Cox Automotive Outlook

Philip Nothard, Insight and Strategy Director

It would be easy to look back at 2020 and chalk market performance up to 'unprecedented' events, to talk about a return to 'normal' and to suggest that 2021 will inevitably be better. However, if we unpick those statements, things are a little more complicated than they first appear.

While the COVID-19 pandemic has been – and continues to be – a significant challenge for the automotive sector, the idea that we have experienced anything 'normal' for the past 15 or even 20 years is a falsehood. The reality is when reviewing the new and used car and van markets since 2000; there has very rarely been a long period of stability before external forces made their presence known.

Look back to 2019, and we've seen RDE (Real Driving Emissions) play a role in impacting on supply. In 2018, it was WLTP (World harmonised Light vehicle Testing Protocol). Uncertainties around Brexit have been bubbling away for several years. From 2007 to 2014, the fall-out from the financial crash was evident in market results. Block Exemption is on the horizon and, of course, COVID-19 has been the villain of the piece in 2020.

Whether emissions legislations and manufacturer scandals, political transitions and economic challenges or regulator intervention and market competition, the automotive sector has always had something to respond to, some external force influencing trends and patterns of behaviour.

With that in mind, forecasting becomes both more challenging and more significant. Organisations throughout the automotive supply chain need to understand the conditions that underpin industry transformation; prepare for the large-scale changes which are affecting the industry today and have a contingency in place to deal with the unknown challenges which are just over the horizon.

The immediate impact of COVID-19 has been to accelerate digital transformation in both the wholesale and retail markets.

If we are suggesting there is no such thing as normal, the other key factor that remains true is that consumer behaviour is underpinning industry paradigm shifts. Whether we talk about digital transformation, electrification, connectivity or, indeed, responding to the short-term market shocks, it is the will of the consumer which plays a significant part in how successful such transitions will be. The driving force for industry change is the consumer behavioural response.

As an example, the immediate impact of COVID-19 has been to accelerate digital transformation in both the wholesale and retail markets. However, it will be down to consumer demand and behaviour as to whether these trends stick, or there is a return to more physical and face-to-face ways of doing business. If the consumer wants to transact online and accepts that transacting online will play a larger role in the automotive journey, then the shift to online will accelerate. If consumers are resistant, however, unlikely this may seem, it will take longer.

Likewise, when it comes to electrification, government subsidy and intervention will play a key role in making mainstream EV adoption a possibility. Incentives will nudge businesses and consumers into a faster adoption curve. However, the success and speed of transformation will still, at its core, be dependent on consumer take-up and interest in going electric. At a time of such economic uncertainty, the price premium which electric represents still presents a significant barrier to mainstream adoption.

If vehicle prices go up through Brexit, then the market will be impacted by consumer choice and demand. The shape of the market in the years to come will be affected by consumer demand for new vehicles, whether they choose to downgrade and select more affordable brands, and how easy it is for them to choose the right vehicle for their needs.

Indeed, what we're suggesting here is that organisations in the automotive sector clearly need to pay close attention to the immediate influences on the market – Brexit, COVID-19, emissions legislation and so on. However, underlying the turbulent new and used car and van markets, sits a platform of consumer behaviour, trends, data and market insights.

We are there to help the B2B sector navigate and respond to changes; complementing and consulting with customers, not competing with them.

Our role at Cox Automotive is to support customers through both the good and turbulent times. We operate globally, providing insight and intelligence that helps everyone to make better-informed decisions. If the consumer is the driving force, we are there to help the B2B sector navigate and respond to changes, complementing and consulting with customers, not competing with them.

If people want to buy and/or drive cars and vans, and we believe they do, then there will still be a need to fund, transport, prepare, retail, and remarket those vehicles. From vehicle services and logistics to digital services and strategic partnerships, automotive organisations must know they have partners they can trust, particularly as the sands are shifting beneath us daily.

Looking ahead to 2021, there are still 36m used vehicles on the road in the UK. Used wholesale car prices dropped 2.1% in October after a strong performance since dealerships started to reopen in June. The used market, car and van, is likely to remain strong into next year, as social trends such as online delivery growth and the avoidance of public transport drive up demand. However, values are set to realign from current highs, particularly for cars.

For new vehicles, the immediate picture is less certain. Supply constraints continue to have a significant impact, and this is likely to get worse before it gets better. Rising unemployment, the economic downturn, increased taxes, growth in indebtedness, and ongoing market consolidation are all likely to drive market changes. Brexit and COVID-19 are also both still firmly on the radar, with the associated tariffs, plant shutdowns and global vehicle allocation decisions.

Whatever happens in the short term, there is no getting away from the need for the entire supply, distribution and retail chain to evolve. With continued disruption from online retailing, electrification, connectivity, micro-mobility, and, eventually, autonomous vehicles, standing still is not an option.

IN CONVERSATION: OUTLOOK

Grant Thornton Outlook

Owen Edwards, Associate Director

The global automotive industry is under pressure from numerous areas: COVID-19; political and economic transition; developments in emissions legislation; pressure from shareholders to generate more value; and increased consumer demand. For the first time, however, these changes are spanning both the upstream and the downstream and have been exacerbated in many cases by the COVID-19 pandemic.

The global automotive industry is rapidly adjusting to changes triggered by numerous sources: COVID-19; political and economic shifts; changes in emissions legislation; pressure from shareholders to generate more value; and increased consumer demand. For the first time, however, these changes are spanning both the upstream and the downstream and, in many cases, have been exacerbated by the COVID-19 pandemic.

In the short term, attention is likely to remain focused on the progression of the pandemic and governments' lockdown strategies. Regardless of whether lockdowns are imposed nationwide, or more localised action is taken, many automotive companies are set to return to survival mode, throwing a fresh spotlight on the key issues that continue to affect them: lower sales and the cash burn seen during the first lockdown in Q2 2020. We believe that, where they can, governments will provide support for companies to maintain those businesses that would be viable under normal circumstances, in order to sustain an economy that can survive and eventually thrive after the pandemic has passed.

The automotive market has always experienced and continuously adapted to change, and faced with longer-term challenges from EVs, CAV and MaaS, will be required to continue to do so. More investment will be required in these areas of the market, from the manufacturing, servicing and repair of such vehicles, to their end-of-life and recycling, for which the use of rare earth metals is set to become a growth industry.

Reducing cost will be a priority for many business leaders – in the short and the long term – and this will create an ongoing conflict between costs and the need to make profits. Continued consolidation is expected across the whole automotive industry to achieve economies of scale by building increasingly large companies, or operational efficiency to become more vertically integrated. In the downstream sector, this will mean more consolidation among the dealers, leasing, and smaller rental companies, echoing what we are already seeing in the upstream with parts suppliers and the OEMs.

About Cox Automotive & Grant Thornton

About Cox Automotive UK

Cox Automotive is the world's largest automotive service organisation. We provide dependable solutions that improve performance and profitability throughout the vehicle lifecycle to manufacturers, fleets, and dealers.

Our businesses are organised around our customers' core needs across vehicle solutions, remarketing, funding, and retail. Cox Automotive brands in the UK include Manheim, Dealer Auction, NextGear Capital, Modix, Movex, wewantanycar.com and money4yourmotors.com.

The group employs more than 2,500 team members in the UK and works with thousands of businesses throughout the automotive industry. For more information, visit coxauto.co.uk

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Grant Thornton UK LLP is part of the Grant Thornton network of independent advisory, tax and audit firms. In the UK we're led by 190 partners and over 4,500 people. We can also call on a global network of some 50,000 people in over 135 countries.

We work with clients at every stage of the automotive value stream to offer an extensive range of services to automotive sector stakeholders, from supply chain through to distribution, retail and usership. Our dedicated team of automotive industry specialists are located across the UK and around the globe, harnessing downstream, upstream and commercial expertise. Our insight and experience in the sector helps us to effectively navigate you through macro and local issues and provide relevant and practical recommendations tailored to your business.

Whether you're looking to finance growth, manage risk and regulation, engage leadership and talent, optimise your operations or realise stakeholder value, we understand what you need today and what you'll need tomorrow. And we tailor our service to get you there.

To find out more about Grant Thornton, and how our dedicated automotive team can support your businesses strategic needs, visit the automotive section of our website.

www.grantthornton.co.uk/en/industries/automotive/

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Including Methodology and Disclaimers

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As part of Cox Automotive's International Strategy, Philip is responsible for developing insights that support the strategic decisions of both Cox Automotive and its customers.

A widely experienced and high-profile Automotive Specialist with a wealth of knowledge gained at the most senior levels whilst working for and with blue-chip businesses within the sector, Philip has over 30 years' experience in the automotive industry. A highly analytical thinker, Philip is skilled in taking high-level industry intelligence and combining it with data analysis to identify trends and develop strategic insight, a respected industry commentator he has developed. reputation as someone able to provide compelling and easy to understand "executive summaries" for a variety of written reports through extracting contextual reading from raw data. A consummate Automotive Specialist who is at ease with people of all levels and someone who delivers a clear, concise and positive corporate message through his established networks and via his strong media relationships.

Philip's experience includes:

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Owen Edwards

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Owen is a member of the Grant Thornton Automotive Advisory practice, working in the Business Consulting division
He worked for seven years at Inchcape Plc, the world's largest independent motor retailer and distributor. For four years, he was the Director of Business Development, undertaking acquisitions and focusing on the strategic positioning of the business across the globe. Prior to this, as Group Strategy Manager, his projects included introducing new brands into emerging markets, restructuring a number of the groups overseas underperforming operations, and compiling the group's five-year strategy plan.
Prior to joining Grant Thornton, he recently advised Marshall Motor Holdings Plc on their floatation on the London Stock Exchange

Owen has a large range of experience in:

- Automotive distribution and retail
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Louise Wallis

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After graduating, Louise Wallis worked in a number of positions in the retail motor industry including roles as Assistant Accountant for Quicks and Dealership Accountant for Fairway Nissan. She joined the RMI as Business Development Consultant in 1996 and became Head of Business Development in 2005, adding Head of National Association of Motor Auctions (NAMA) in 2008. Louise Wallis became the National Franchised Dealers Association (NFDA) Head of Business Management in 2011.

Louise's main responsibilities and areas of expertise include used cars and auction issues, dealers' KPIs and performance, finance and insurance, as well as general advice to members on business issues.

The **National Franchised Dealers Association (NFDA)** is the trade association representing franchised car and commercial vehicle retailers in the UK. The automotive retail sector is one of the pillars of the UK economy, it has a turnover of around £200 billion and employs 590,000 people. There are about 4,500 automotive franchised retailer outlets in the UK. NFDA is the voice of automotive retailers.

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Sherezad is a multilingual Automotive Data and Analytics leader with 10+ years of experience in Sales, Business Development, Product and International Expansion. He currently leads a team dedicated to helping European Automakers innovate and create value through their data. His focus is to develop and execute vehicle data platform strategies in European countries.

Sherezad joined LexisNexis in 2015 as part of the corporate Leadership Development Program. Prior to joining LexisNexis, he worked for a consulting firm in the U.S. and Brazil to develop market entry and M&A strategies for U.S. corporations looking to expand their sales and operations to key markets throughout Latin America. Sherezad has a bachelor of science from Georgia Tech and a MBA from Emory's Goizueta School of Business.

LexisNexis is the conduit between motor insurer and OEM. Focused on getting vehicle build data into the marketplace Being funded by EU as part of consortia to push consumer confidence in ADAS.

LexisNexis Risk Solutions helps leading insurance companies and automakers innovate, challenge the status quo and improve outcomes. By harnessing our deep industry knowledge, breakthrough technologies, rich data and powerful analytics, we enable our customers to make more accurate decisions and strengthen their consumer relationships. LexisNexis Risk Solutions is among the largest providers of data to the insurance industry with more than 30 years of experience and our global solutions serve customers in North and South America, U.K., EU and APAC. We are committed to the highest data management, information security, data privacy and regulatory standards.

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Methodology

To build the forecasts for the new and used car and van markets, data was sourced from the Society of Motor Manufacturers and Traders, of which Cox Automotive UK is a member. Comparisons were made between 2007/8 and 2017-2020.

Ratios were applied between the historic new and used market data to forecast 2021 and beyond.

Primary research was conducted throughout 2020 via several Cox Automotive surveys, including the lockdown survey and regular dealer sentiment analysis. Permission has been granted by participants where comments have been attributed.

Secondary insight has been sourced from several industry bodies, organisations, government departments and media outlets. All secondary data has been referenced appropriately in the body of the report.

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