



Stop or go

UK auto disruption
speedometer 2018/19



OC&C
Strategy consultants

uncommon sense

UK auto disruption speedometer 2018/19

The world of automotive is changing, and fast.

The advent of subscription models, mobility, car sharing, electrification and autonomous are all potential disruptions viewed as an opportunity by some and a worry or threat by others. To test the reality, we have conducted an "Automotive disruption speedometer" based on primary research with consumers to understand how attitudes and behaviour is changing on the ground. The results bust some myths (Generation Rent are still interested in having cars) but also show some clear, and in some cases surprising, shifts in driver behaviour that will have implications for all businesses in the market. **Now is the time to reassess strategy to seize the opportunities.**

Autonomous

c.70% of consumers do not trust autonomous vehicles.

c.60% of drivers want them to be their own private vehicles rather than a pool of vehicles or "robotaxi".



The future of the personal car

The personal car is far from dead - 72% of consumers see having their own car as essential; even in major cities 58% still believe this to be true.

Young people still want cars, but "Generation Rent" just can't afford them.

60% of 18-29 year olds see a car as an important part of growing up and 43% see a car as a status symbol.

74% state cost reasons for not having a car.

60% of 18-29 year olds see a car as an important part of growing up and 43% see a car as a status symbol.

The future of car usage is leasing and bundled subscriptions - 52% of consumers are open to leasing, 29% would be open to a full monthly subscription with the option to swap cars.

The car remains a lifestyle element, not just a "tool" and **63% of drivers** report enjoying or being passionate about motoring.

Diesel is sputtering to a halt - only 23% of consumers will consider it for their next vehicle.

Consumers are still averse to sharing. Only 17% of consumers are open to replacing their vehicle with a "mobility" alternative... But not yet shared vehicle "mobility" options. Only 17% are open to replacing their vehicle with a "mobility" alternative like rental.

Vehicle sharing is geared to a niche - 48% of young urban drivers without children would consider it instead of, or in addition to, their own car.

Electric

Electric/hybrid is gaining traction - 46% will consider a fully electric vehicle, 11% likely to/or will definitely buy a fully electric car.

Electric and hybrid could be **20% of new sales in 5 years time, versus 6% today.**

Fast charging locations (5000 today) will overtake the number of petrol stations (8,400 today) by 2021.



Who is today's driver? Do they still care about owning and using a car?

Today's driver matches the stereotype - the majority of trips (54%) are for commuting or school runs and mainly amongst drivers based in dormitory suburbs/semi-rural locations (61% of drivers).

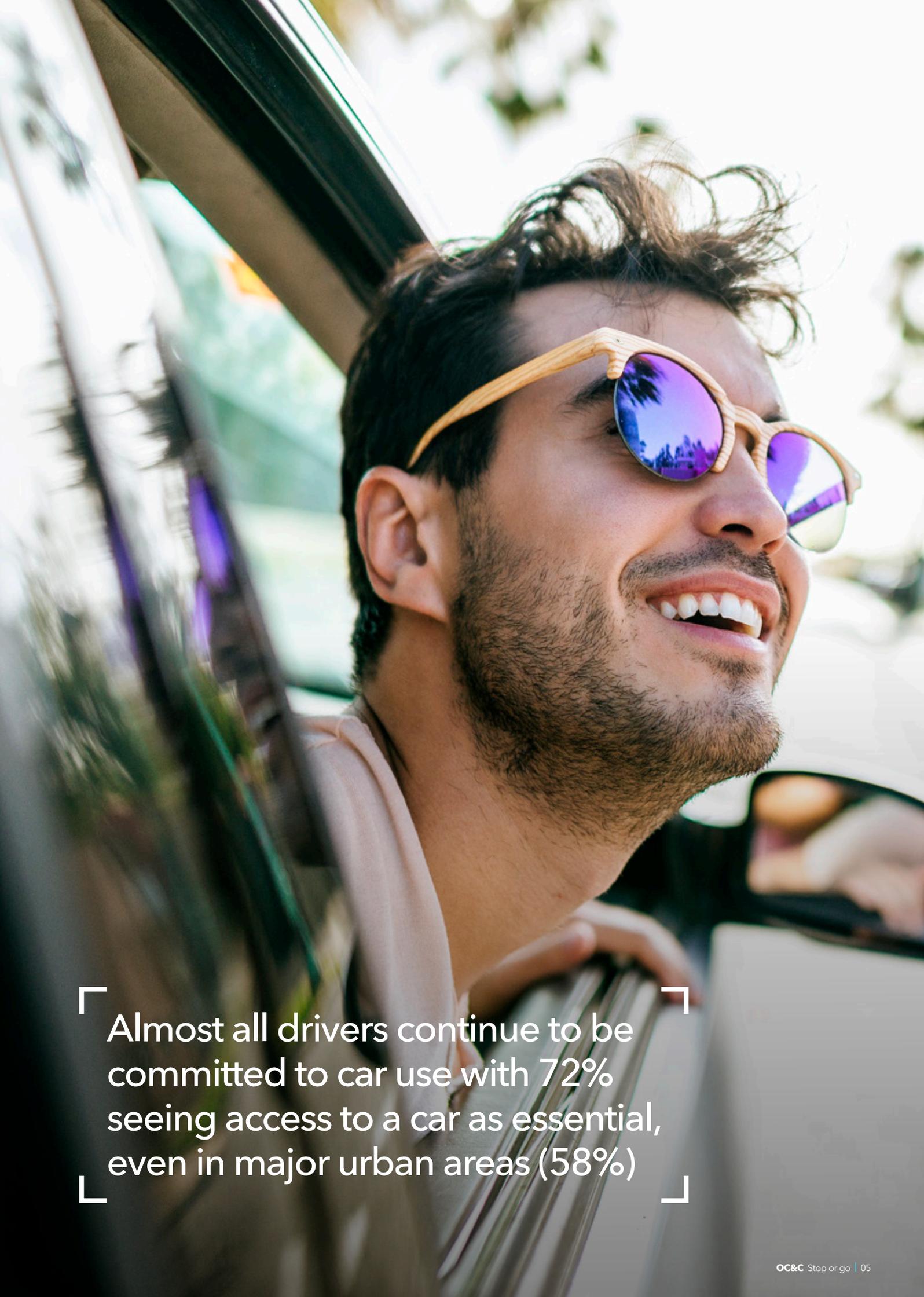
Almost all drivers continue to be committed to car use with 72% seeing access to a car as essential, even in major urban areas (58%). Family necessity remains a key driver of having a car, with rates of ownership higher amongst those with children under 18 than other age groups.

The car is a vital part of their life for practicality but is also a lifestyle choice. The majority (63%) of drivers enjoy driving and/or see themselves as passionate about cars, particularly the young and wealthy.

Perhaps the most surprising finding has been the continued commitment to car use amongst the young. The traditional picture of the car as the passport to buy freedom remains as true as ever, even amongst millennials where 43% of 18-29 year olds see the car as a status symbol and 60% see a car as an important part of growing up.

The main reason they don't drive is expense (74% of young non-drivers cited a cost related reason for not having a car) rather than preferring alternatives or concern for the environment. 69% of this age group expect to get a car at some stage, when they can afford it or work commitments require it. Furthermore, 85% of 18-29 year olds without a licence expect to learn at some stage when they can afford it, or work commitments make it a necessity.

Diesel is sputtering to a halt: only c.23% of consumers will actively consider it for their next vehicle.



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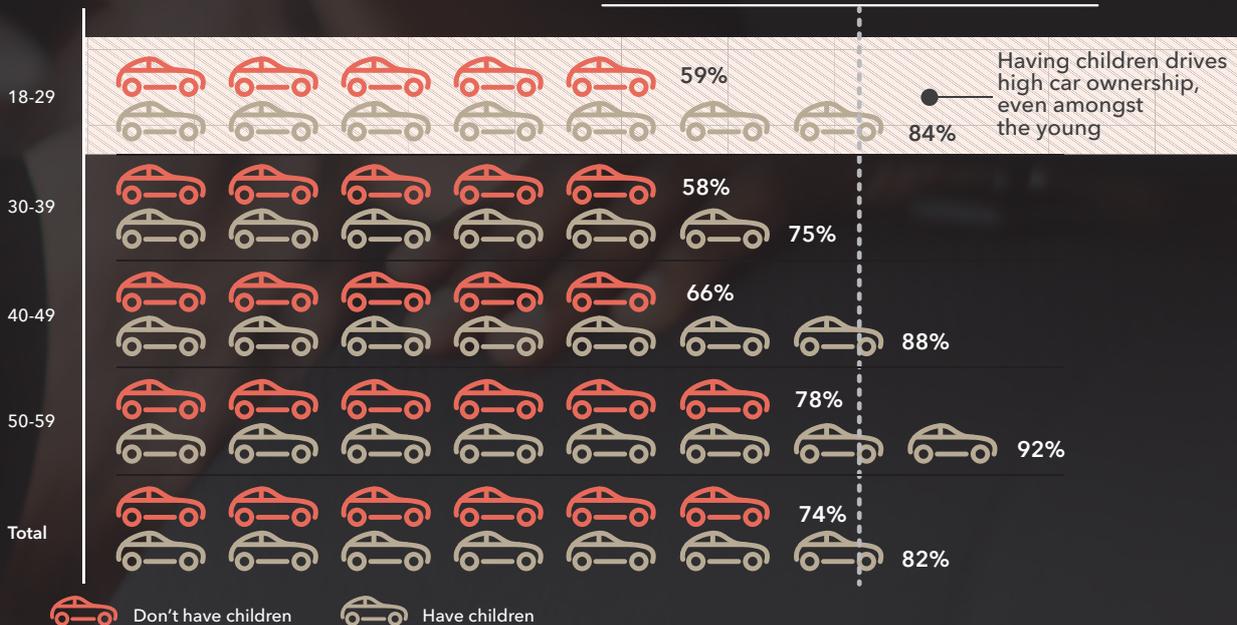


'Generation Rent' still want their own car, they just can't afford one

A CAR IS STILL SEEN AS AN IMPORTANT PART OF GROWING UP AND A STATUS SYMBOL AMONGST SIGNIFICANT PROPORTIONS OF YOUNGER ADULTS

% of respondents having a car

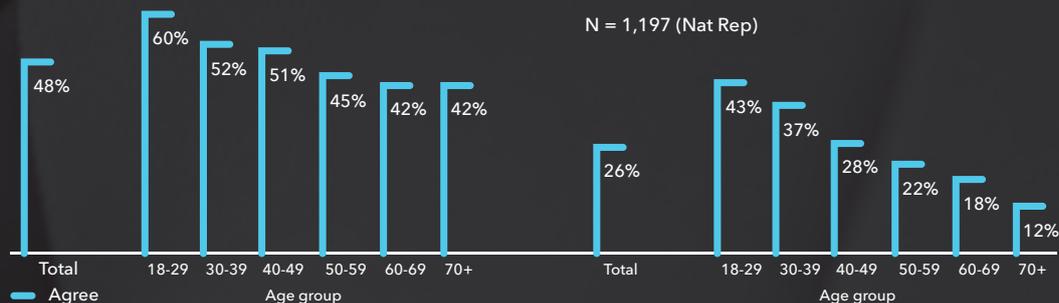
Average for individuals within children under 18



"Owning your own car is an important part of growing up"
(% Respondents agreeing, split by age group)

"A car is an important status symbol"
(% Respondents agreeing, split by age group)

N = 1,197 (Nat Rep)



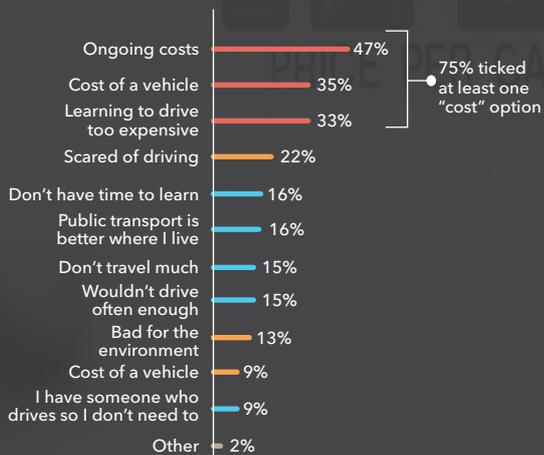


YOUNG PEOPLE PREDOMINANTLY DON'T OWN CARS FOR COST RELATED REASONS, WITH C.70% EXPECTING TO GET A CAR IN THE FUTURE

18-29 year old drivers for car ownership

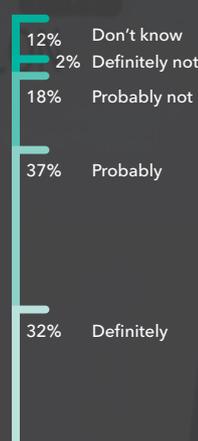
75% of 18-29 year olds who don't drive, do not for cost related reasons

You said you don't drive or don't have a driving licence, what are the reasons for that?
N=60



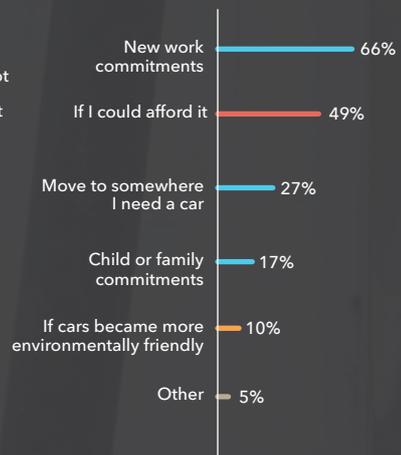
...with c.70% expecting to one day own their own car...

Do you expect to have your own vehicle in the future?
N=55



...triggered by new work commitments and when they can afford it

Which of the following might make you consider getting your own vehicle in the future?
N=41



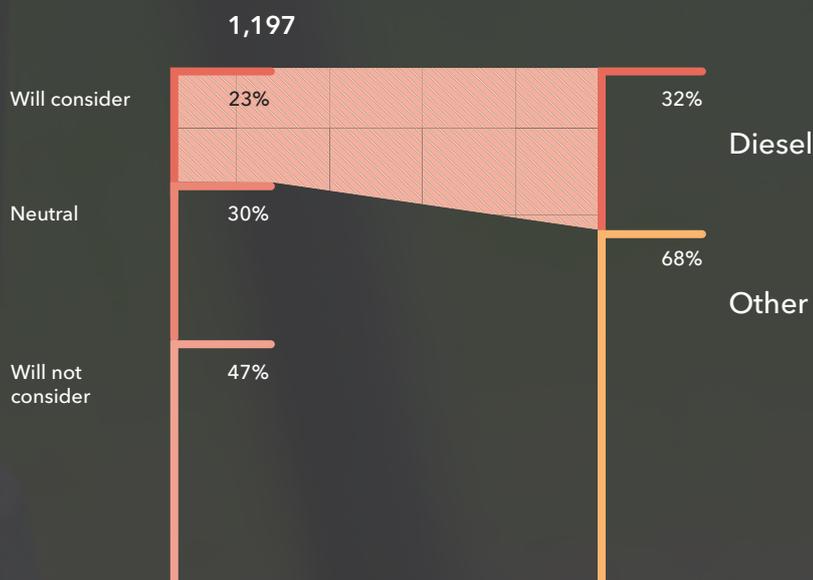
— Cost / resource — Preference — Need — Other

Diesel is sputtering to a halt: only c.23% of consumers will actively consider it for their next vehicle

ENVIRONMENTAL CONCERN HAS DRIVEN LOW ENTHUSIASM FOR DIESEL - ONLY AROUND 20% OF CONSUMERS WILL CONSIDER ONE THE NEXT TIME THEY BUY A CAR

Consideration of diesel for next car¹ (%)
N = 1,197

Proportion of new car registrations, 2018 YTD (%)





Will consumers own, lease or subscribe to vehicles?

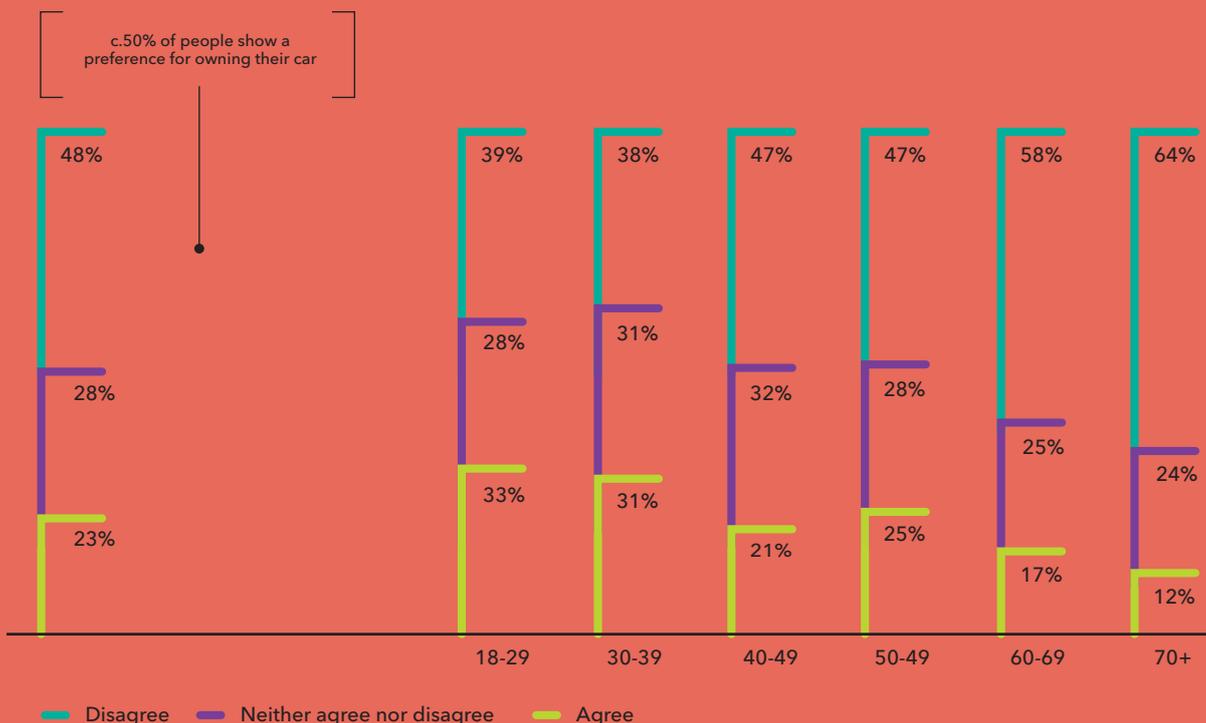
The radical change is in the way that consumers will access/fund their private vehicle. Leasing and, eventually, subscribing to your vehicle will become the new norm, with younger drivers leading the way (>60% of under 40's very open to leasing).

THE UNDER 40'S SHOW GREATER PROPENSITY TO CONSIDER LEASING THAN OLDER GENERATIONS

Attitudes to leasing by age group

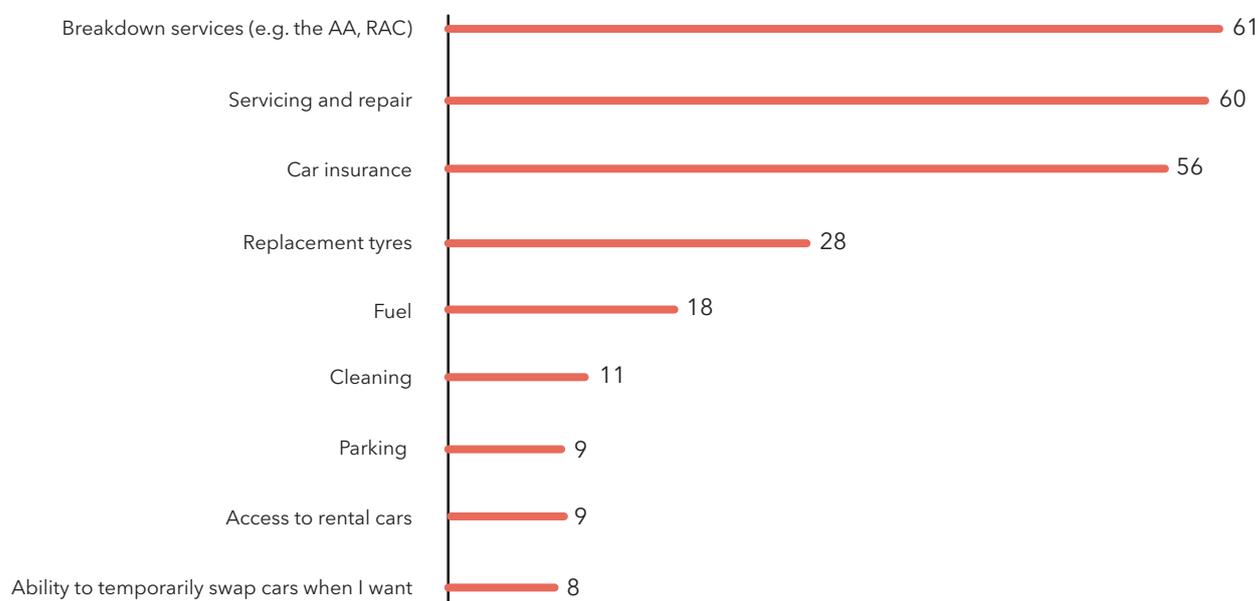
Those who bought a car in last 3 years only

Do you agree with the following: "I don't care if I lease or own my vehicle?"
N=340



THERE IS RELATIVELY STRONG APPETITE FOR BUNDLING WITH >50% OF DRIVERS KEEN TO INCLUDE BREAKDOWN, SERVICING AND CAR INSURANCE IN A MONTHLY PAYMENT

If you paid for a car with a monthly payment, which of the following vehicle services would you ideally like to be able to include? (% of Respondents, N=1,601)



However there are still some perception gaps with preferences for outright ownership, with 54% of new car buyers and 71% of used car buyers agreeing that “it is much better to fully own your car than to have it on a lease”. Leasing providers will have to continue to explain the benefits to drive adoption of contract hire or change the proposition to a more PCP-type structure with an option for ownership. This creates significant opportunities for new models in price and product comparison.

There is strong appetite for monthly payment to evolve into bundled models with >50% of drivers keen to include breakdown, servicing and repair and insurance in their monthly payment. There is strong appetite for price certainty and risk transfer, which creates margin opportunities for suppliers.

There is less enthusiasm for the ability to swap cars, with only 8% of consumers stating this as something they would like from their bundle. Nevertheless an overall bundle with fully inclusive costs and ability to switch cars appears to have some latent demand at the right price, with 30% of drivers saying they are likely to buy such a model if it was within their monthly budget.

The challenge (alongside offering insurance without adverse selection) is price point, where the average price consumers are willing to pay for a monthly subscription is £277 for a new car and £170 for used. This is somewhat illogical as the current average monthly car payment in the UK is c.£266, on top of which consumers bear the costs of insurance, servicing and other items. Creating compelling packages with and convincing consumers that a highly visible monthly price is good value versus these other more opaque costs will be a challenge.



How fast is the market moving to mobility

In other areas that have moved to subscription, the lever has been a significant improvement in proposition (e.g. huge increase in range by streaming music and movies). Smart pricing structures and cognitive pricing (anchoring, decoys) will also need to be part of the arsenal.

WILL CARS BECOME A SHARED SERVICE?

Across all segments, the traction of shared versions of car use (ride hailing, car sharing, peer to peer) is limited. 90% of drivers have never used any form of car sharing or clubs. More top-up with daily rental (22%) and taxis (c.53%). Only 1% of regular car drivers rely exclusively on flexible driving alternatives rather than their own car.

These propositions serve the needs of pre-family, urban consumers well. For the rest of the market, only 17% will consider car sharing alternatives instead of their own car next time they come to swap vehicles, out of those who do not drive today but expect to do so in future there is more scope for penetration as 68% will consider car sharing instead of acquiring a vehicle.

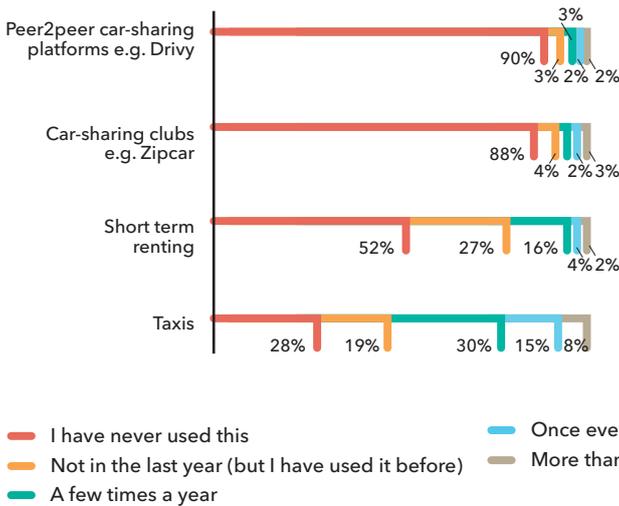
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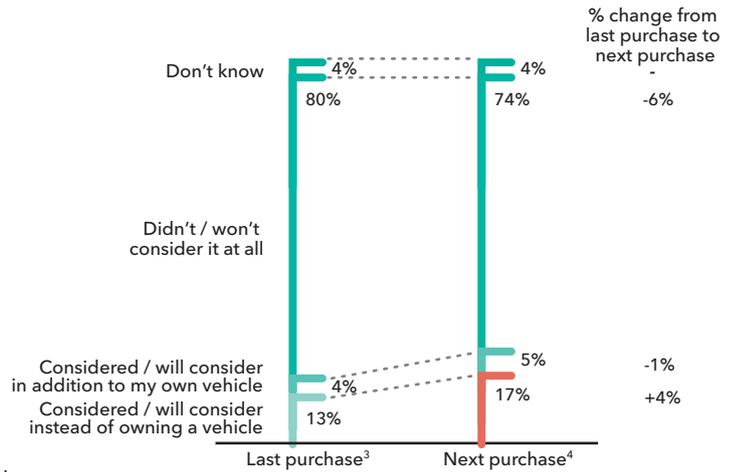
Will shared vehicles become the norm?

LESS THAN 3% OF DRIVERS USE CAR SHARING PLATFORMS OR SHORT TERM RENTAL MORE THAN ONCE A MONTH, HOWEVER CAR OWNERS ARE INCREASINGLY CONSIDERING IT

Usage of car sharing alternatives¹
N=1,806, car owners



Consideration of car sharing alternatives²
N=808, car owners buying in last three years

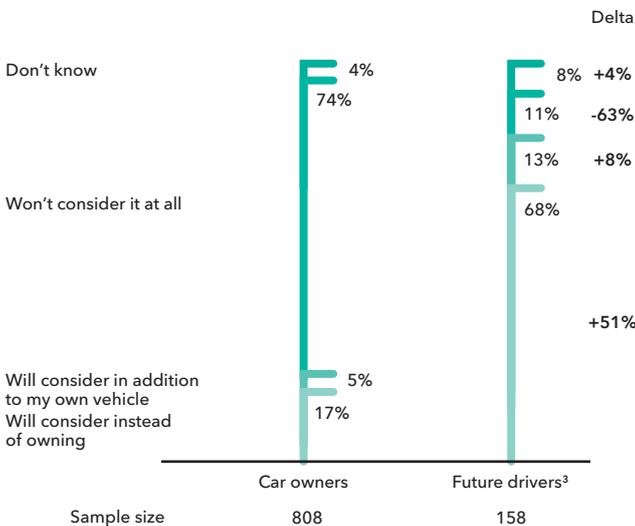


How often do you use any of the following services?
 1. Car sharing clubs, short term renting, peer2peer lending, or taxis
 2. Did you consider any of the following alternatives to having your own vehicle?
 3. Next time you swap your vehicle, would you consider any of the following alternatives to having your own vehicle?

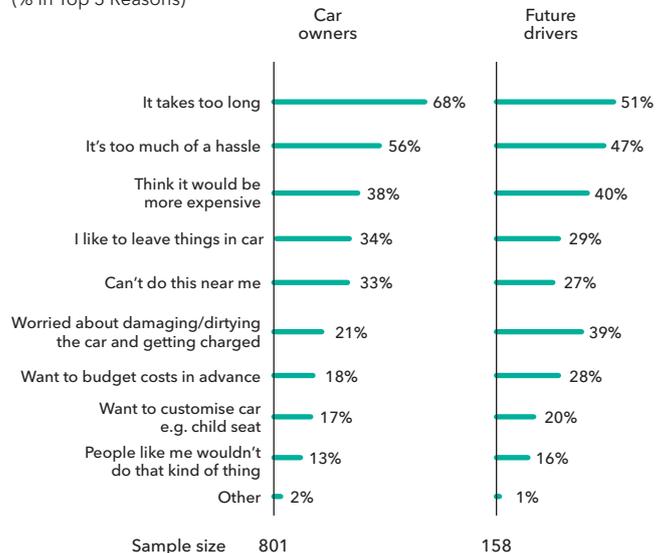
68% OF FUTURE DRIVERS WOULD CONSIDER CAR SHARING ALTERNATIVES INSTEAD OF CAR OWNERSHIP, CARING MORE ABOUT COSTS AND LESS ABOUT CONVENIENCE COMPARED TO CURRENT OWNERS

Future driver attitudes to car sharing

Consideration of car sharing alternatives¹ ex. taxis
N=966



What would make it difficult for you to pursue car-sharing, short term renting, or taxis instead of using your own car? (% in Top 3 Reasons)



1. Would you consider any of the following alternatives to having your own vehicle: car-sharing clubs, short term renting, or peer2peer lending?
 2. When thinking about the next time they replace their vehicle
 3. Those who answered "Definitely" or "probably" to "Do you expect to have your own vehicle in the future?"

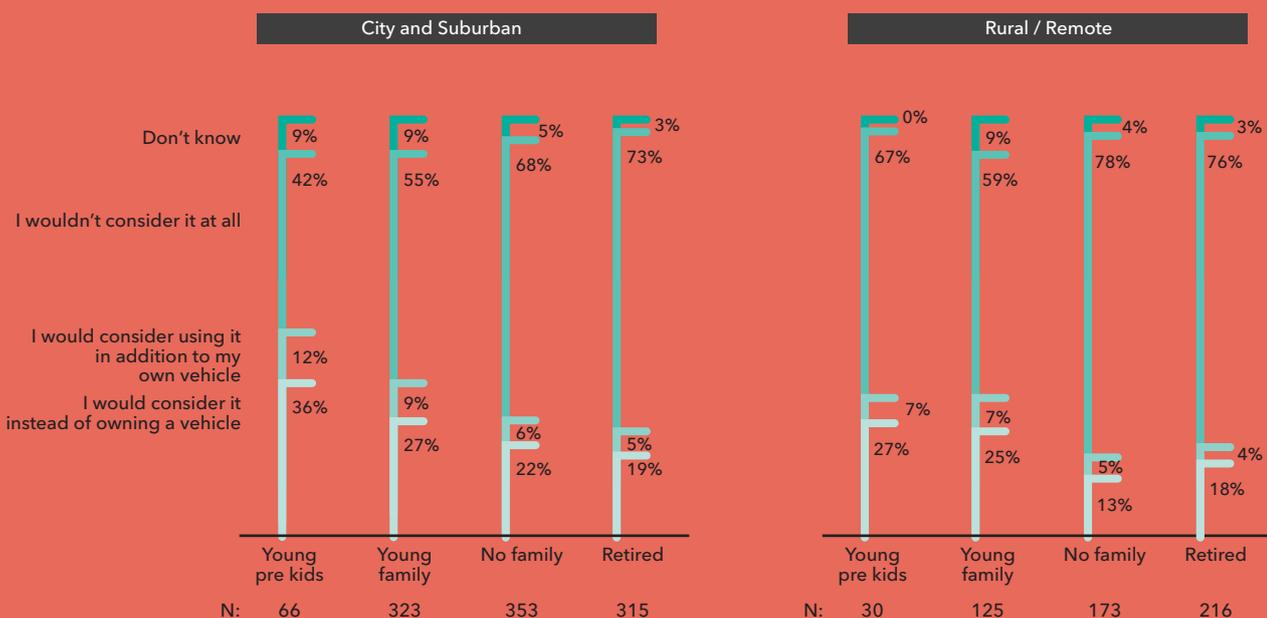
The barriers to adoption of innovative flexible options are the reliability, speed and hassle of getting hold of a vehicle when and where needed

A boon to the rental industry is that daily rental is still one of the key options consumers use as a replacement, or top-up, to car ownership. There is some mileage in the traditional business model if it can be made easier to access perhaps through delivery/collect and streamlining the process of obtaining the vehicle.

The barriers to adoption of innovative flexible options are the reliability, speed and hassle of getting hold of a vehicle when and where needed. This will likely erode over time as propositions and vehicle availability increases but there are also structural barriers as 50% of drivers regularly do at least one of the "peak" missions (commute or school run) and significant proportions want to keep belongings or equipment in the vehicle.

THE CONSIDERATION OF NEW FORMS OF CAR USERSHIP ARE HIGHEST AMONGST YOUNG URBAN DWELLERS, AND YOUNG PEOPLE WITHOUT CHILDREN

Consideration of car sharing alternatives^{1,2}, by location and lifestage³



1. Car-sharing clubs, short term renting, peer2peer lending, or taxis

2. Next time you swap your vehicle, would you consider any of the following alternatives to having your own vehicle?

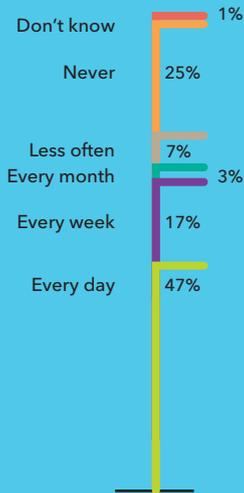
3. Young pre kids are aged 18-29 with no kids. Young family are aged 18-59 with kids under 18. No family are aged 30-59 with no kids. Retired are aged 60+

Source: UK auto disruption speedometer 2018/19

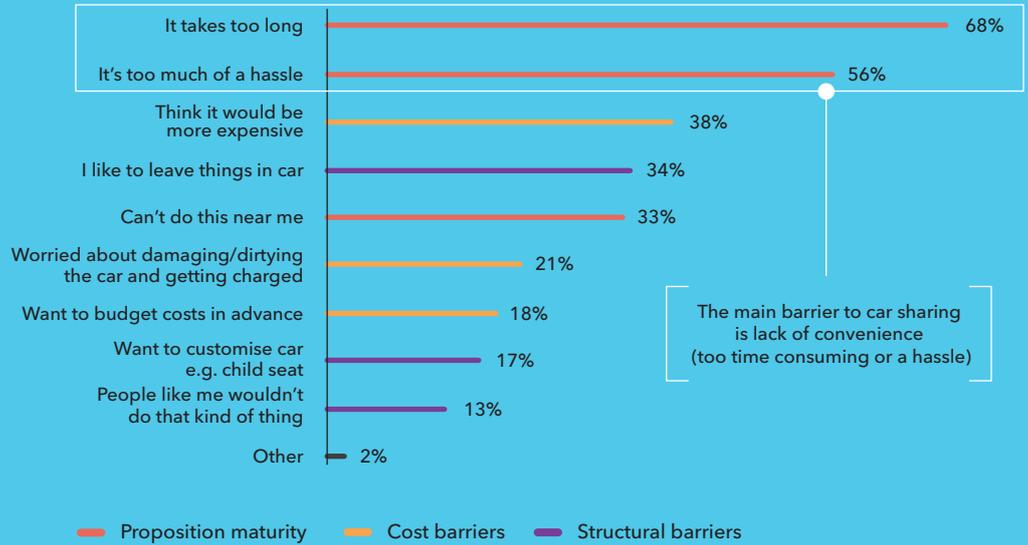
VEHICLE SHARING IS IMPRACTICAL FOR CUSTOMER NEEDS GIVEN C.50% TEND TO DRIVE AT RUSH HOUR DAILY AND VEHICLE SHARING IS CURRENTLY TOO TIME CONSUMING

Barriers to car sharing

How frequently do you drive a car for each of the following purposes: commuting or school run?
N=1,639



What would make it difficult for you to pursue car-sharing, short term renting, or taxis instead of using your own car? (% in Top 3 Reasons)
N=782 (Owners only)



Providers have started to innovate around this, with Zipcar offering a weekday commuting option with a dedicated car and parking space in their area.

Nevertheless, growth in the segment has slowed considerably with North America car sharing members only growing 6% p.a. Vehicle utilisation and returns are also a challenge, with utilisation of car club vehicles rarely better than 10-15% versus 60-70%+ for a traditional daily rental vehicle.

One area to consider in this picture is the potential for flexible models as a "top-up" part of the mix to tap into this group without the commitment of fully moving away from their own car. Clever propositions that blend exclusive car use with flexible add-ons could be very interesting for the 23% of consumers who would consider these models. Would you be more likely to buy that new workhorse people carrier if you got bundled rental access to a sports car in the summer?



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How are consumers seeing new vehicle technology (electrification, autonomous)?

Electric/hybrid vehicles are gaining some traction but the response in terms of sales is lukewarm. The good news is that 69% of drivers are expecting to consider one next time compared to c.32% last time, albeit only 6% actually bought one (1% fully electric). Given that traction, and a much better range of models to choose from, we would expect alternative fuelled vehicles could achieve 20% of all new sales in the next 3-5 years i.e. a tipping point for mainstream adoption as these cascade through the car parc.

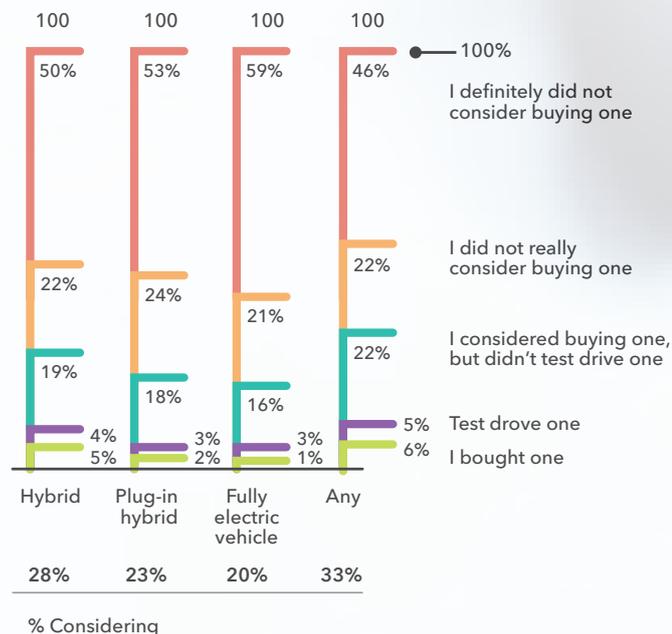
There are still long-term challenges with 30% of respondents indicating they don't ever expect to drive an electric car, and 33% of respondents unsure

There are still long-term challenges with 30% of respondents indicating they don't ever expect to drive an electric car, and 33% of respondents unsure. The main concerns, predictably, are range and access to charging infrastructure. This should be substantially eased in the next few years as the number of charging locations is already at c.5000 vs c.8400 petrol stations. At current growth rates UK electric charging locations will overtake petrol stations by 2020.

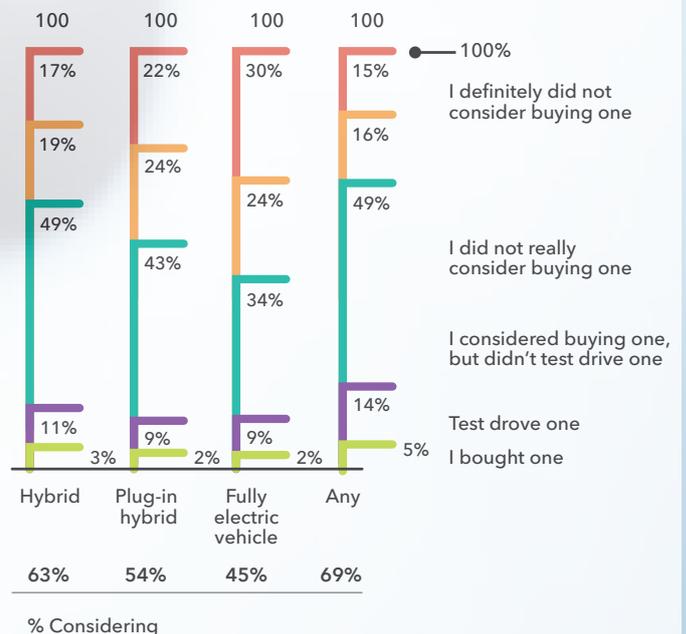
Range perception remains a problem. Although daily mileage is usually well under typical ranges, consumers are likely to want similar range to a tank of fuel i.e. >200 miles at least, which today is only available on relatively expensive vehicles such as Tesla model S. At least in the UK this is not being offset by incentives, where the UK has one of the lowest financial incentives for EV purchase globally. The UK so far has opted more for "stick" than "carrot" by implementing increasingly tight emissions regulation via city centre pollution zones and tax policy.

THERE IS SOME MOMENTUM BUILDING FOR ELECTRIC/HYBRID CARS WITH 69% EXPECTING TO CONSIDER AN ELECTRIC/HYBRID NEXT TIME, AND 46% FOR FULLY ELECTRIC

Did you consider an Electric or Hybrid vehicle? Did you buy one?
(% of respondents)
N = 808



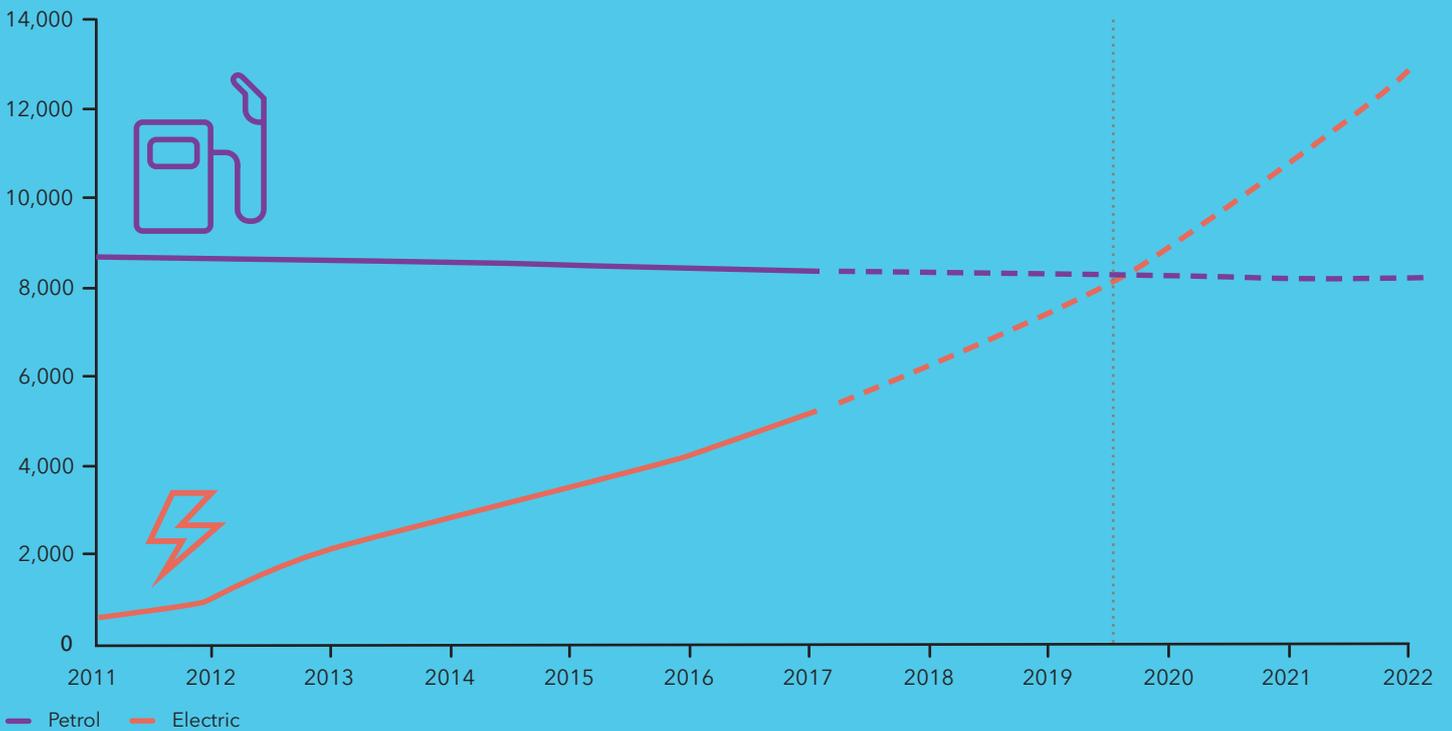
When considering your next car, how likely are you to consider an Electric/Hybrid vehicle? (% of respondents)
N = 1601



ADOPTION IS LIKELY TO BE BOOSTED AS THE NUMBER OF ELECTRIC CHARGING LOCATIONS BEGINS TO OUTNUMBER THE NUMBER OF PETROL STATIONS BY 2020

UK electric vehicle charging infrastructure

Charging locations (not connectors)



1. The forecast assumes the yearly growth rate for charging stations to be the same as between 2016 and 2017
 2. The analysis is made on the number of charging locations (instead of the number of petrol pumps/electricconnectors)
 Source: gov.uk, Zap-Map, Statista

It remains our view that true autonomous technology (i.e. level 4 and above) at scale is some way off, although the future is partly already here in that majority of new cars now have some kind of Advanced Driving System (ADAS) with partly autonomous features e.g. emergency braking, self-parking. This will only increase over time. The average age of the car parc (8 years) and replacement rate mean that it will take time for any new technology to phase in even when it does become widely available.

Consumers today remain relatively sceptical, and 68% would be unlikely to try one. When the technology does come it would appear consumers remain attached to their own dedicated vehicle (actively preferred by 60% of respondents) rather than a shared pool which only 10% of consumers actively prefer.

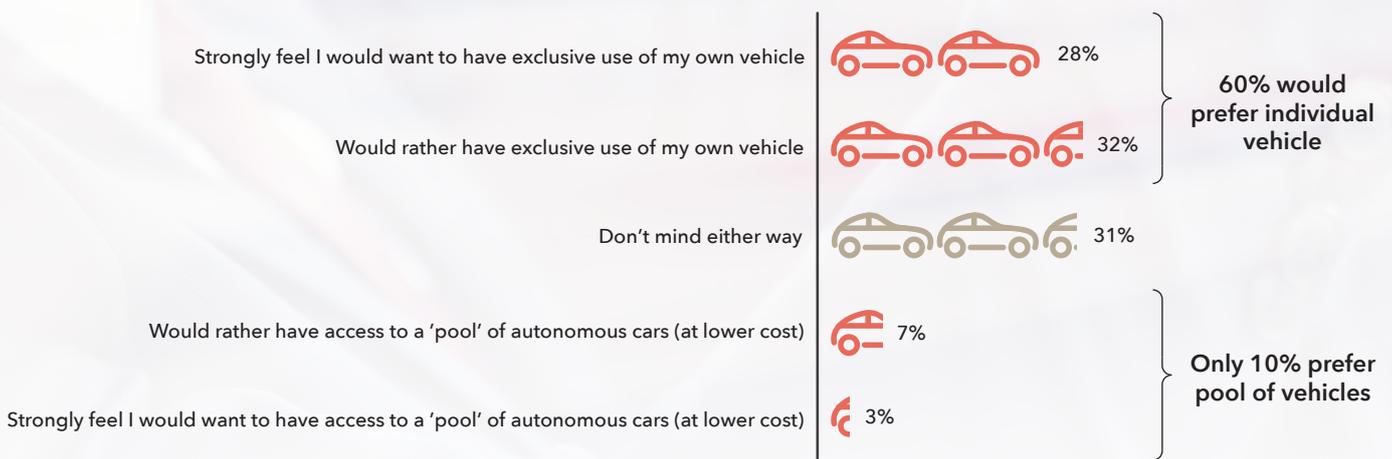
CONSUMERS REMAIN CAUTIOUS ABOUT AUTONOMOUS VEHICLES, C.70% WOULD BE UNLIKELY TO TRY ONE



True autonomous technology at scale is a decade away or more, but the future is partly already here as majority of new cars now have some kind of **Advanced Driving System**

WHERE CONSUMERS DO TRY AUTONOMOUS, 60% WOULD PREFER AN INDIVIDUAL CAR RATHER THAN A POOL OF SHARED VEHICLES/TAXIS

If you were to use these 'autonomous' vehicles as your primary form of transport, would you want to have exclusive use of your own vehicle, or would you be happy to pay for use from a pool of autonomous cars? (N=2,007)





These trends should be reassuring with some points of continuity or at least gradual change amongst all of the disruption.

This gives a bit of time to act, but there is a clear call to action to continue innovating.



The winning models are changing and now is the time to future-proof your position and lay bets to win in the future.

OEM

- The challenge for OEM will be developing and broadening service offer at a time when they are also facing unprecedented levels of technological change
- The move towards leasing/subscription will be the most near-term hurdle - the lease/finance proposition will become a core part of what the business does
- OEM have tended to operate in silos (finance captives, consumer marketing, franchise networks and B2B sales). Joining the dots to have a joined up monthly offer and attractive bundles to consumers and businesses whilst managing price realisation across channels will be a new challenge
- Captive finance houses will become an important part of the offer and need to be brought closer to marketing and product development, and choosing to have this as in-house or outsourced white label capability will be a significant decision

Automotive retailers

- Don't write off the young - the spirit of independence is still important, but needs to be affordable. The right (probably used) vehicle, with attractive in-car technology and access to affordable insurance (likely via telematics) and servicing will unlock this segment
- For the mainstream, crafting new driving "bundles" will be the future, with the service components and extras as important as the vehicle - think of a mobile phone shop rather than a car dealership
- There is growing interest in new models of usership but reticence to switch away entirely. Zipcar, Daily Rental or Uber could be interesting deal sweeteners on new cars
- Bundles and more tailored finance packages should mean margin opportunities with the application of traditional retail techniques (clever bundling, cognitive pricing, etc.)
- However, comparison business models will surely emerge. The winners will learn from differentiated strategies deployed in highly compared markets (like car insurance) to harness these channels
- B2C and B2B distribution channels will merge as leasing becomes a norm increasing competition

Finance/Leasing /Rental

- The future remains bright for providers of capital, as leasing is the new norm amongst those who have the credit to access it
- Leases are increasingly coming down in duration and rental businesses offering longer term propositions
- The blurring of the lines between traditional B2B leasing and B2C sales will open up new opportunities for some, and create new competition for others
- The opportunity in used vehicles is still relatively untapped and used car buyers would appear to be as open to leasing as new - this could be a way to bridge the affordability gap. There are already entrants here e.g. Arval Re-lease, Carnext from Leaseplan
- Investing in the overall service wrap is key - and an area where traditional leasing companies should be able to excel. Service levels to B2B customers and employees is part of their DNA
- Service levels, quality of "bundle" and self-service technology to access it are worthwhile investments
- Access to distribution is still a challenge, there will be an ongoing fight to access consumers where branded OEM finance houses will continue to have advantages of the franchised network
- For independent providers, a key question will be whether to compete on consumer acquisition, use indirect sales routes e.g. comparison, or aim to offer white label services via other brands in motoring and outside of it - perhaps we will see the likes of John Lewis offer car leasing alongside their existing range of consumer services?
- Operating in a B2C or B2B2C environment at scale will require an ability to cost-effectively process pricing, stock checking, finance and orders straight through and automate self-service in-life
- This is non-trivial with legacy systems and with complicating factors such as WLTP and visibility of stock. Pricing and stock management in a lot of leasing providers still relies on human intervention

Service businesses – servicing, repair, breakdown

- No need to panic - a future with dramatically fewer cars or lower mileage is not on the horizon. The demand pools will remain stable for now...
- ...But they will increasingly be part of bundled propositions. This will likely put pressure on pricing and margins
- The winning factors in this environment will be unmatched physical scale, density and efficiency to serve large contracts profitably
- Consumer branding and service quality will still be a strategic option - branded businesses have been successful as "ingredients" of B2B2C propositions e.g. AA in added value bank accounts, Spotify in mobile phone subscriptions



「 The boundaries of ownership, leasing, rental and sharing will continue to blur, creating new winners and losers 」

For the mainstream, crafting new driving “bundles” will be the future, with the service components and extras as important as the vehicle



Insurance/insurance distribution

- The outlook is quite stable for now with likely high rates of individual car ownership and limited immediate threat from autonomous vehicle disruptions
- Insurance will remain the key issue for affordability for younger drivers i.e. increasing penetration of telematics in that segment (but less so elsewhere)
- A desire to bundle insurance into monthly costs or variabilise to pay on use will allow in new entrants and represent challenges for accurate risk pricing – leveraging the data out of the vehicle will be crucial in doing so
- The biggest impact could be on the broker and comparison/aggregator segment who may find themselves less critical if insurance transitions to an ingredient, rather than a standalone purchase

Data/software/technology providers

- This environment of change is likely to provide significant opportunities for data providers, software developers, telematics, connectivity, data analysis and other services that enable new propositions
- There tend to be sticky incumbent platforms (dealer management and asset management systems particularly) where existing users will be reticent to switch so will remain the backbone of the industry for now
- These platforms have been perceived as slow to provide innovative new functionality – hence we would see lots of growth opportunities for providers who can “bolt-on” new functionality to and join the dots in a slick way

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OC&Cs' Automotive practice

We support clients across the entire automotive value chain from distribution/financing through in-life servicing and remarketing. We work with global clients to support strategic decisions and growth. We also support private equity with due diligence in the space.

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