

 AutoTrader

MARKET REPORT

The future of car ownership



September 2018

01

INTRODUCTION



Nathan Coe Chief Financial Officer and Chief Operating Officer, Auto Trader

Welcome to the sixth Auto Trader Market Report, a biannual review of the UK's new and used car markets and how consumer buying and selling behaviours are changing, all based on data from Auto Trader, the UK's largest digital automotive marketplace.

As we enter the closing months of 2018 and reflect on what's been a challenging year for the industry, driven by a decline in new car sales as a result of exchange rates, uncertainties surrounding Brexit and the ongoing fuel debate, we've focused on what's widely expected to be the next layer of disruption: the evolution of car ownership and the widening spectrum of alternative ways to access vehicles.

This Report will explore how the ubiquity of car finance options in the form of Personal Contract Plans (PCP), Hire Purchase (HP) and Personal Contract Hire (PCH) has been a key catalyst in shifting car buyers away from traditional car ownership to more of an 'access' or 'ownership' model; how a growing number of these models will shape the future relationship between

consumer and car; and the implications for both retailers and manufacturers.

We'll reveal that whilst the traditional concept of 'ownership', i.e. buying a car outright in cash, is indeed coming to an end, we believe people will still want to have exclusive access to a car for many years to come. New business models that allow consumers to access a car in a variety of ways and for varying time periods, have the potential to grow demand for cars in the short term. They'll also open up car accessibility to those consumers that have not previously been able to either afford a car or who don't want the commitment of owning one in the traditional sense. That's why we believe the evolution in ownership towards access models will complement, rather than cannibalise, the market.

Understanding the type of access consumers want from their cars is perhaps the key to predicting how this evolutionary step will shape our industry. With almost weekly announcements from the likes of Uber, there's speculation that the future of mobility will be led by ride sharing and taxi or driver services.

The evolution in ownership towards access models will complement, rather than cannibalise, the market

However, the research for this Report suggests that whilst these models are very attractive for many journeys, they don't meet the needs met by private ownership (independence, flexibility and the pure joy of driving) that consumers are unwilling to give up.

In fact, 80% of the 4,000 consumers we spoke to for this Report claimed they'll always want to 'own' their car, either in the traditional sense, or the modern interpretation of it, i.e. accessing a car for a defined period of time on a PCP, PCH or an HP finance deal. Importantly, and contrary to perceived wisdom, the desire for exclusive access is even higher (86%) amongst consumers aged under 21, commonly referred to as Generation Z or, as we've coined them, Brexennials. This age group in particular places great value on 'experience' over 'products' and a car is one of the best examples of a product that creates experiences.

Contrary to commentators who believe that car purchasing decisions are purely functional, our study found that the key drivers to ownership were far more emotional; independence was the among most important factors for 80% of motorists. Reassuringly, the next generation of motorists were just as passionate, with 53% of under 21s claiming the pure joy of driving as one of the most important reasons for wanting to 'own' their car.

Whilst Uber's fast response time in central London arguably offers consumers a level of independence, generally these are qualities that ride sharing and driver service models (taxis) struggle to deliver, at least on such a wide scale. However, almost every day new players are emerging that can. Interestingly, many of these models will offer the same level of direct access as finance contracts, but in a more flexible, convenient and cost-effective way.

The health of the finance market is a clear reflection of how open consumers can be to new ways of accessing cars,

as well how drastically the concept of ownership can change. According to the Finance and Leasing Association (FLA), 88% of all new car purchases last year were made on finance, and of those bought on a PCP contract, just 20%¹ went on to pay the balloon payment to own the car outright. Our research revealed that 98% of those who bought on finance believed they 'own' the car, whereas in reality all they're doing is paying to exclusively access it for two to three years.

We believe that today's rapidly expanding market of subscription, sharing and leasing models is just the beginning of what will become a very busy landscape. We can already see clear signals of this. Today, not only is there a plethora of start-ups looking to disrupt the market, but nearly every manufacturer, both volume and premium, has entered the 'usership' market in one shape or another. Care by Volvo, the Swedish brand's monthly subscription model, Ford's Smart Mobility business unit, and manufacturer led venture capital companies such as BMW i Ventures and Daimler Ventures which invest in new mobility technologies, are a good indication of where the future of automotive is heading. And in recent months we've also seen manufacturers such as Skoda, Porsche and Volkswagen begin to launch pilot mobility or access model schemes via their retail networks. Leasing companies too are making similar moves to disrupt the status quo, launching direct to consumer services such as Leaseplan's CarNext and Zenith's ZenAutos, both of which will compete directly with manufacturers.

To help map the trajectory of this shift we can look to how this has played out in other industries. Ten years ago, if you wanted to listen to music or watch movies you'd buy a CD or a DVD. Today of course, physical media is more likely to be gathering dust in your attic

while you tune in to Spotify or Netflix. However, this democratised access to entertainment has not reduced the amount of music people listen to or the movies they watch. In the same way, the more routes to access will not reduce the amount of cars in the market or the interest for exclusive use of them.

Car subscription models, which are predicted to account for nearly 10% of all new vehicle sales in the US and Europe by 2025², are designed to appeal to a consumer that's used to customised, on-demand services. Whether it's for our entertainment or our mobile phone, this is rapidly becoming the norm, particularly amongst younger people. That's why in this Report we've focused closely on understanding the attitudes and preferences of the next driving generation - those aged between 16-21, termed 'Generation Z' or the 'Brexennial' generation, who in 2040 will make up a core segment of the car-buying public.

This transition will of course have significant implications for retailers and manufacturers, but perhaps not in the way many commentators have predicted. Far from signalling the death knell for the traditional retail model, the huge volume of cars on the road combined with an increasing array of ownership models could help stimulate sales by making car ownership more affordable and the process of changing your car much easier. The biggest driver in adoption of an alternative access model may well be external factors

that force consumers to change their car, such as the forthcoming Ultra Low Emission Zone (ULEZ) launching in London in April 2019. Nervousness about alternatively fuelled vehicles may encourage consumers to opt for a more flexible, short-term model, such as subscription or rental.

Admittedly, this may require big changes in the nature and operations of a car retailer, as well as the global car brands, but we believe this will be a gradual evolution, rather than a sudden wholesale change.

For one access model to win, it doesn't mean another has to fail; that is, for subscription models to thrive, PCP or PCH won't be required to collapse. However, as consumers increasingly source their cars in the same way they do their music, the route from business to motorist will need to evolve alongside it; rather than relying on just traditional sales, retailers can also facilitate the supply of both new and used cars to service providers, as well as providing new types of flexible aftersales, logistics, and infrastructure services that will be required to operate these new models.

As we'll explore in this Report, whilst retailers and manufacturers may struggle to 'own the consumer', this next evolutionary step in ownership towards 'usership' will provide huge opportunities for those prepared to adapt and diversify - for those willing to be Netflix, rather than Blockbuster.

Our Report found that the key drivers to ownership were far more emotional, identifying independence (80%) as the most important

02

KEY FINDINGS



80% of car owners always want to own or have exclusive access to their own car

This represents an unwavering appetite for ownership. This belief is highest among Brexennials³ (86%).



10 In 10 years, all new cars will be paid for monthly

Pay monthly models like PCP, PCH and subscription are ushering in a new era of 'usership'.

55% Current car owners would want an average 55% saving to their monthly automotive expenditure to switch from direct access to a sharing model concept



68% Consumer economic anxiety has led to 68% of consumers believing Brexit will lead to a general increase in prices

48% think they face more financial challenges than the previous generation, and 35% feel they're less well-off. 29% think they have a worse quality of life.



52% of consumers would not consider sharing services

The primary reasons why are: an unwillingness to share (51%); it's not convenient (48%); and because it doesn't fit lifestyles (43%).



81% of Brexennials³ think they will buy a brand-new car in the future

Clearly, ownership or the modern interpretation, 'usership', is important to Brexennials. The myriad of models available to access a brand-new car is creating an expectation among young people.



25 Brexennials³ believe they will be able to buy a brand-new car on average by the time they're 25

This demonstrates increasing levels of access to new vehicles, facilitated through finance.



3. Individuals aged 16-21 years of age



03

MARKET OVERVIEW

An industry in transition

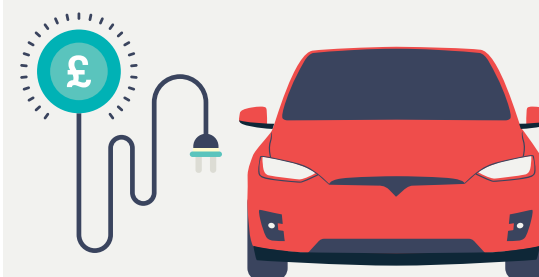
The increasing popularity of alternative access models, in terms of both consumer adoption and the degree in which large brands are investing in them, should perhaps come as no surprise. Their emergence simply marks the next evolutionary step for an industry that has been in transition for years, driven primarily by changes in the political arena, consumer behaviour and leaps in technological development.

has been dramatic, not only causing a significant dent to consumer confidence, but also driving wider industry anxieties over the future implications of a 'no deal' scenario. In fact, our research shows that 62% of consumers are concerned that Brexit will lead to general price increases, and nearly half (48%) believe they face more financial challenges than the previous generation. 35% feel less well-off and 29% think they think they have a worse quality of life.

Brexit continues to unsettle consumers

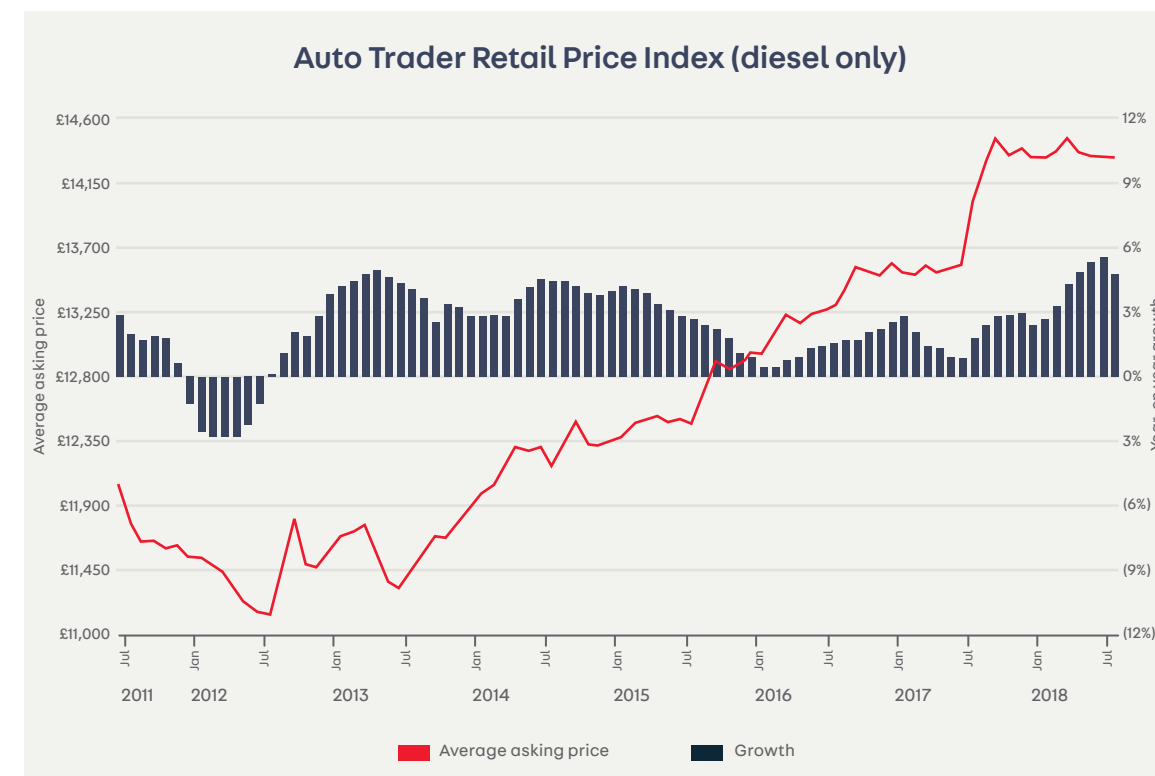
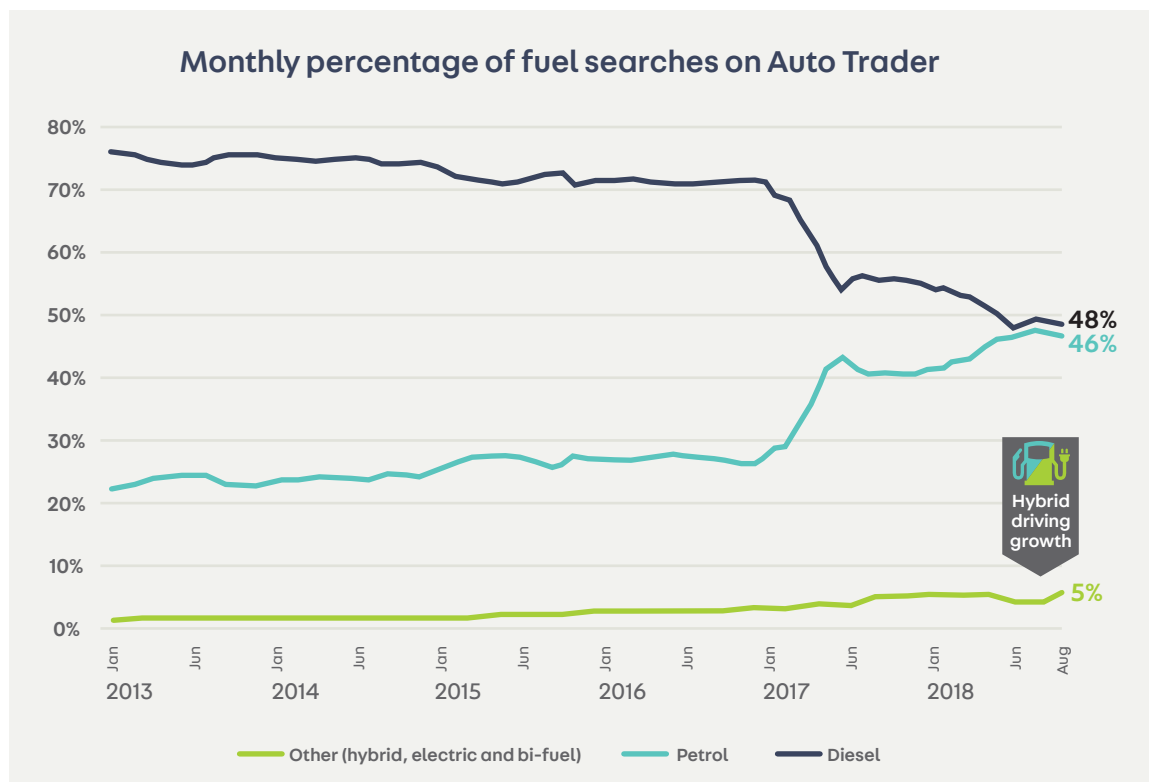
Two of the most influential factors of course, at least in terms of market disruption, have been driven largely by Westminster. The 'Brexit effect'

What's more, despite its Road to Zero commitments, the government has been slow to offer a compelling narrative to encourage greater alternatively fuelled vehicle (AFV) adoption. Coupled with its anti-diesel rhetoric, the UK's new car market has faced a unique set of challenges.



56%

of consumers say they care more about fuel types than they did a year ago



Whilst retailers are undoubtedly struggling to sell new diesels, they aren't having the same problem with their second-hand equivalents

just -2.6%⁵ year-to-date (YTD). What's more, whilst retailers are undoubtedly struggling to sell new diesels (-28.7% YTD), they aren't having the same problem with their second-hand equivalents, with the sale of used diesels increasing 3.2% during Q2 2018. That same level of resilience was reflected in the Auto Trader Retail Price Index, which tracks the prices of used cars, recording a 6% year-on-year price increase for diesels in July 2018, marking its highest rate of growth to date.

Despite these disruptions however, both the new and used car markets remain healthy. Off the back of a strong 2017 (the industry's third best performance in a decade⁴), new car registrations have recorded a moderate annual decline of -4.2% year-to-date (January - August 2018). And during the second quarter of this year, used car transactions dipped

Electric adoption is set to surge

What's more, although the uptake in AFV's has been slow, they're clearly increasing in popularity and represent a fundamental evolution within the industry. Three years ago, AFVs accounted for just 2.7%⁶ of all new car sales, and approximately 2% of all

fuel related searches that took place on Auto Trader. In August 2018, they represent 5.8% of the new car market, and 5% of fuel related searches.

Our research also indicates that consumer consciousness for AFVs is expanding, with 56% of consumers claiming to care more about fuel types than they did a year ago, which is an 8% increase in just 12 months. As with many new technologies, one of the main barriers to ownership is unfamiliarity or a fear of the unknown. One solution retailers and manufacturers could introduce to encourage adoption of an electric vehicle is a 'try before you buy' scheme. In a recent Facebook poll of over 9,500⁷ consumers, an overwhelming 70% said they would be more likely to consider owning an electric car if they could trial one over a weekend before committing to buying it.

It's clear that as the barriers to entry reduce and consumers are introduced

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to a greater array of alternatively fuelled cars, the market share of AFVs will not only increase to the point it can offset the decline in new diesel registrations, but go on to grow the market too.



We're confident that AFV market share will not only increase to the point it can offset the decline in new diesel registrations but go on to grow the market too

The shift to 'usership' is a dramatic leap in consumer mindset

Of all these examples of an industry in transition, none is more representative than the shift from outright purchase to usership – it's not just a step for automotive retail, it's a dramatic leap in consumer mindset. Whilst consumers may not be conscious of it (98% of those who bought on finance believed they 'own' their car), switching from owning their car in a traditional sense to effectively leasing or paying for exclusive access for two to three years has laid the foundations that have led to the expanding spectrum of access models and will be a key influence in their adoption. PCH, which offers consumers a cheaper long-term hire option and often includes maintenance and insurance as part of the package,

is considered as the natural bridge into subscription. Whilst PCH only accounts for approximately 10% of all new car sales bought on finance, it's growing at an impressive rate.

The benefits afforded by PCH and PCP contracts, i.e. the convenience of being able to switch to a new car every few years, has opened consumers up to the greater flexibility and cost efficiency that these new access models can offer. And once we stop using complex terminology that few consumers understand and focus on the consumer benefits of the products and the relative cost comparisons, we'll see the change in consumer behaviour accelerated even further.

New technologies have shaped consumer expectations

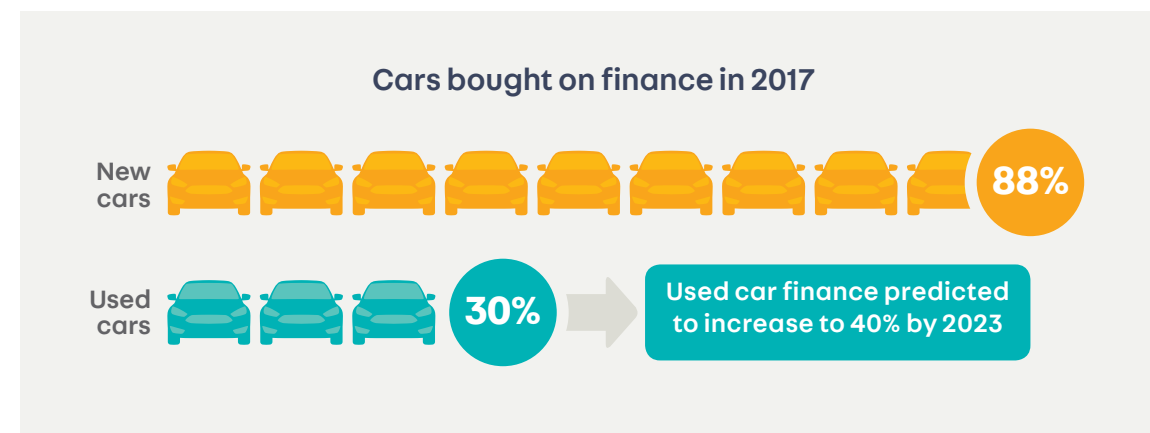
Technology too has been a major catalyst in this evolution, in more ways than one. For one it's changed the way consumers engage with brands. Whether it's buying new clothes, searching for a house, a holiday, or researching their next car, technology has made us prefer instant, flexible and convenient services accessed via our increasingly sophisticated smartphones rather than the traditional physical retail experience.

Consumer demand for simplicity wasn't created by the likes of Amazon, Uber or Airbnb; like all great inventions, they saw a need and answered it. However, the ubiquity of this technology has fuelled consumer expectations of how they should be able to buy and use anything. Netflix and Spotify, which as of Q2 2018 enjoy over 130 million⁹ and 180 million¹⁰ global monthly subscribers respectively, are the perfect examples of how technology has not just adapted how we engage with brands, but also the way we think about using them, as we're happy to pay a monthly subscription rather than own something outright. And of course, we have seen subscription access across a whole range of services and products, from mobile phone packages to Nespresso machines.

In fact, in developed markets like the UK and US, subscription-based ownership models already account for 10% of monthly household incomes¹¹.

As an entire generation deal with the reality of ownership becoming increasingly aspirational, living a better life through different access models has become increasingly normal (and more widely publicised to our peers on social media) than ever before.

98%
of those who bought on finance believed they 'own' their car



9. www.statista.com/statistics/250934/quarterly-number-of-netflix-streaming-subscribers-worldwide/
 10. www.statista.com/chart/13098/spotify-subscribers-and-active-users/
 11. Frost & Sullivan, July 2018 www2.frost.com/frost-perspectives/your-next-car-could-be-flexible-subscription-model/



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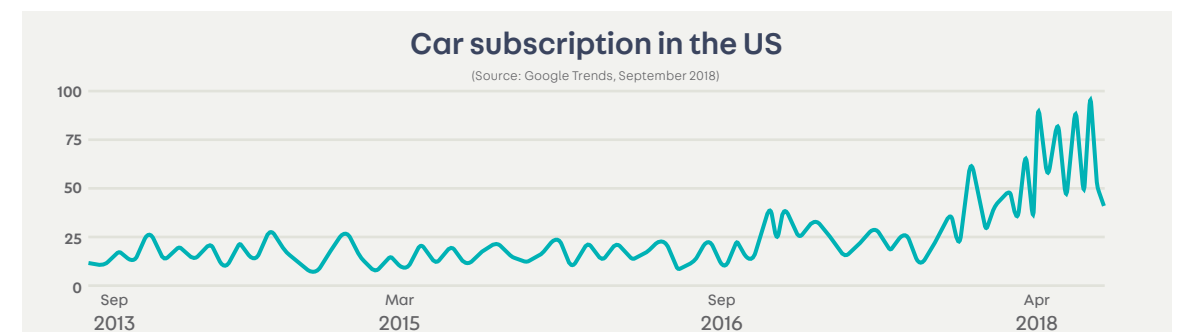
A GROWING SPECTRUM OF USERSHIP MODELS

As you'll see on the following pages there is a very broad spectrum of access or usership models, ranging from outright purchase to traditional taxi services, each offering varying degrees of 'accesship' or 'usership'. Some of these models are more established than others, but even in their relative infancy subscription models are gaining traction with consumers. In fact, according to Frost and Sullivan, in 2017-2018 the vehicle subscription market in North America and Europe had eight platform/software providers; 12 technology start up-led programmes; eight luxury car manufacturer programmes; seven dealer-led programmes; seven mobility provider-led programmes, two mainstream car manufacturer-led

programmes, and one super luxury car manufacturer-led programme¹².

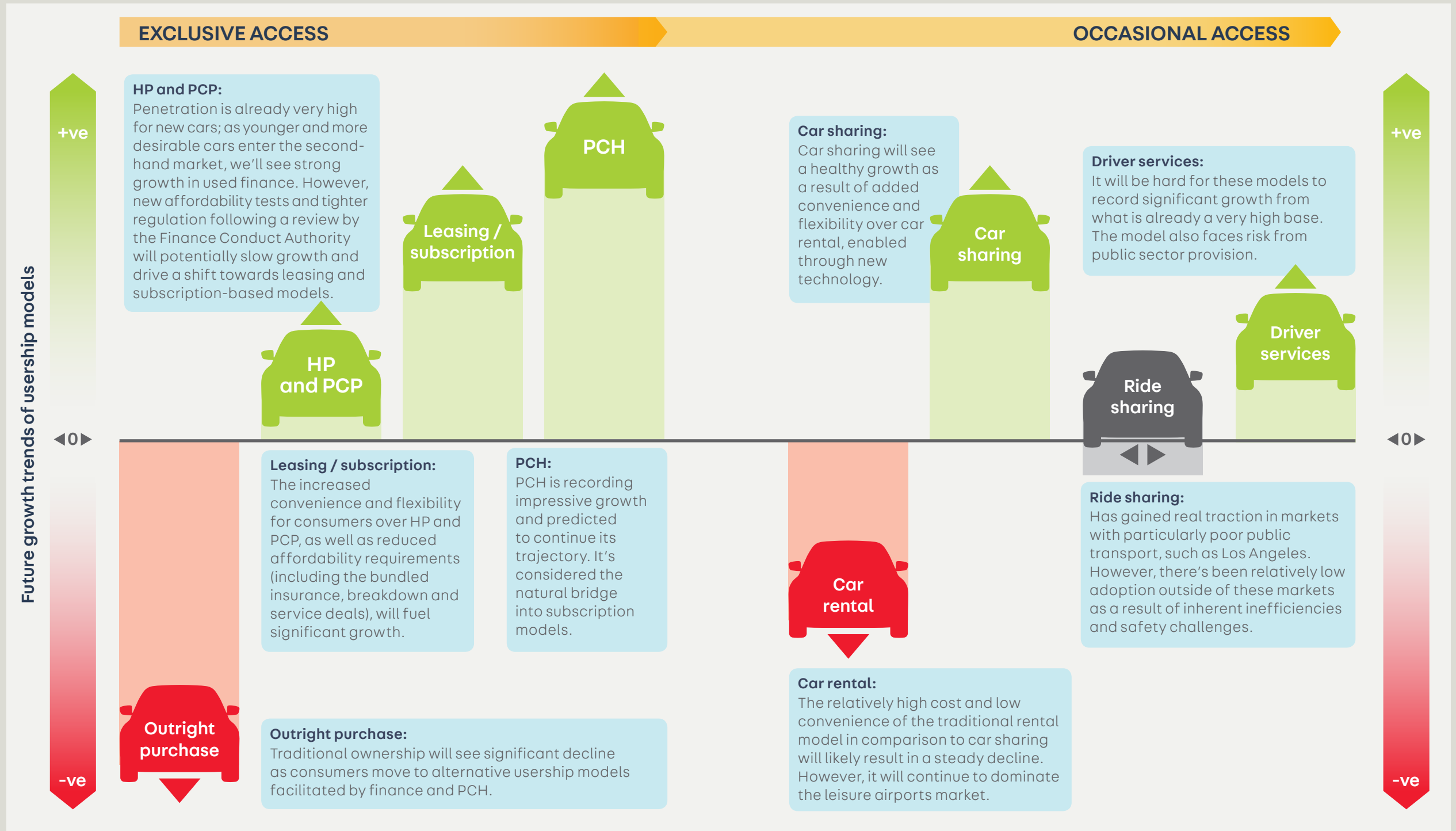
For those thinking that disruption is on the horizon, it's knocking on our front door. In the US, which is traditionally seen as a precursor for the UK market, searches of car subscription schemes have rocketed in recent months.

But of course, we don't just need to look across the pond to recognise the traction these models are gaining. Our research for this Report shows that consumer awareness of access models is increasing sharply: recording an 11% increase on average in just 18 months. Today, nearly three quarters (72%) of UK consumers are aware of alternative access models, including: vehicle subscription services; carpooling/ride sharing; and peer-to-peer car sharing.



¹². Frost & Sullivan, July 2018 www2.frost.com/frost-perspectives/your-next-car-could-be-flexible-subscription-model/

THE CAR USERSHIP LANDSCAPE TODAY



05

USERSHIP VERSUS OWNERSHIP

Our research shows that we're also seeing an increase in consideration for using these alternative subscription models, growing a small, but significant 6% on average in just 18 months. On average, one in four consumers (21%) would be open to using a less traditional ownership model, and revealingly more than a third (35%) of Brexennials (under 21 years of age) would be willing to make the transition.

It's easy to understand why. For one, rather than being committed to a two to three-year contract, they offer huge flexibility with the length of usership. They're also designed to be more stress-free, alleviating the consumer

72%

on average of UK consumers are aware of alternative access models

pain points experienced from the traditional process of buying a car like having to choose between: new or used; the fuel type; the transmission; the car type; and of course, the make, model and variant. Providing a subscription service that allows consumers to bundle all ancillary components on top of the car purchase itself, like tax and insurance, makes the process much easier, and often cheaper too.

Critically, with these more flexible and instant models, consumers don't need to live with the decision long term, which will be a big influence on consumers trying what is essentially a 'risk-free' trial of these types of services.

Flexibility and simplicity is a compelling selling point, and our data supports this. For those open to these alternative options, improving the everyday hassles associated with the current ownership model are the main drivers: less responsibility for maintenance/damage (66%); cheaper than owning outright (63%); no unexpected or hidden costs (61%); and access to unobtainable cars/variety of cars (56%). For those consumers who said they didn't want to own a car in

The next phase of retailing solutions

Mark Forton, Director of Mobility Services, Volkswagen Financial Services



Market trends show us that our customers are moving towards usership rather than ownership. There are many factors to this, in recent years it has been the increase in finance products being used to purchase or hire vehicles rather than buying them outright. The next step of this is customers wanting use of a vehicle for a shorter period of time, or use of multiple vehicles, much like a subscription service. We want to be in a position to offer customers across the UK access to Volkswagen Group vehicles, with the excellent service levels that they would expect from our showrooms for usership as well as ownership. We are starting with daily rental and our Rent-a-Car offering from Volkswagen Financial Services and will follow with other mobility services.

The traditional way of retailing within automotive has been changing over the years, the ability to research and purchase online is giving the customer less reasons to enter the showroom, so having these new rental services allows the retailers to have contact again with the customer to initiate a relationship for future products and services.

There are many opportunities that will be arising in the future, our rental model is just the first of these. The need for the retailers to be a part of this is essential as this gives the access to the customers in the locations that are easy for them. With the introduction of electric vehicles these access models will become more common.

Lee Clarke, Rent-a-Car Manager, D.M. Keith Skoda



Over the years we've seen our customers gradually moving from ownership to usership, so we wanted to introduce a flexible service that looks after old and new customers who wish to use vehicles on a short-term basis and not have the commitment of ownership. We believe we are very well placed to do that with the Rent-a-Car programme.

We've had a great response from our customers who already own a Škoda but may need a larger vehicle for the weekend or want an automatic for a longer than usual journey. I think the reason it's been so popular is because

it's unique; an opportunity to rent a specific model of a brand they love from a retailer they trust. It's not a level of service or choice you would experience with a traditional rental model.

The programme really complements other services we offer within our dealership. Importantly, it also allows us to speak to new customers that have never visited our showroom before, or those who have previously never considered owning a Škoda and interested in a 'try before you buy'. It's a great opportunity for us to build trust in the brand, and our dealership too.

Key drivers for alternative access models



the future (11%), 28% said the hassle of owning one was one of the primary barriers, and for 16-34-year olds, over a third (34%) said it was the cost of actually running a car that put them off.

Drover, the first online subscription service to launch in the UK, enables customers to pay a monthly online subscription for a vehicle that includes: a car, insurance, breakdown cover, servicing and maintenance, road tax and discounted fuel costs at selected fuel partners. Like its US counterparts, its customers can swap, upgrade or downgrade their car monthly or just cancel altogether, without any long-term commitment or steep upfront payments. Although it launched in 2016 for Uber drivers, it entered the consumer retail market in February 2018 through a phased launch in London, and, as of August 2018, has since introduced its service UK-wide. When asked why they chose the service, a third (33%) of Drover’s customers said it was because of the price, and 28% because of the flexibility it offers.

Many of the key finance houses believe that PCH, PCP and HP have made the car market more accessible to lower income groups who couldn’t have ever afforded an outright purchase model. We believe that subscription models will open up access even further to lower income groups, or people with no or poor credit history. That’s because, like PCH and

HP, these models make it much easier, and more realistic, to gain access to more than one car for a household. Indeed, according to Drover, 39% of its users already own a car in the more traditional sense.

However, to predict the way in which these individual models will shape the future of the market, we first need to understand them, and specifically assess how they align to the modern concept of ‘ownership’; i.e. do they offer the level of access today’s consumers demand?

80% of consumers will always want to ‘own’ their car

As we touched on in our introduction, we can be confident that the type of private ownership consumers want today is one of direct access. Out of the 4,000 consumers we spoke to for this Report, 80% said that they will always want to ‘own’ their car, either within the traditional sense, or the modern interpretation of it. Looking at the long-term significance of this research on our industry, an even higher proportion of the Brexennial car owners (86%) will always want to own their own car; just 6% of under 21s disagreed.

The reasons consumers give for this are a blend of emotional and practical, but overwhelmingly it’s the independence that car ‘ownership’

All in one flexibility

Felix Leuschner, Chief Executive Officer, Drover



Drover provides flexible, all-inclusive subscriptions on new and used cars as an alternative to car ownership. Users go online, choose their car and sign up to a subscription with Drover by making their first monthly payment. From there, their car is delivered and comes with comprehensive insurance, breakdown cover, tax, MOT and full maintenance including tyres. Subscriptions are pay-as-you-go so subscribers can cancel anytime or swap vehicles with no exit fees.

There are several reasons why subscription type models are gaining traction, but there are probably three key drivers:

- 1. Flexibility, freedom and experiences are increasingly valued. This is especially true for millennials. In the same way they expect to change jobs much more frequently than previous generations, the idea of buying or locking-in monthly payments for years to come on a specific car doesn’t appeal. They want to be able to change their mind with no unwanted fees or paperwork.**
- 2. Innovation within the mobility space has been drastic over the last few years but has primarily focused on how to get from A to B. There has been no step change with car ownership. Car subscriptions address this by freeing consumers of the long-term commitment, responsibility and admin of car ownership while maintaining all of its benefits.**
- 3. Consumers now expect to be able to complete transactions online in the comfort of their own home, however,**

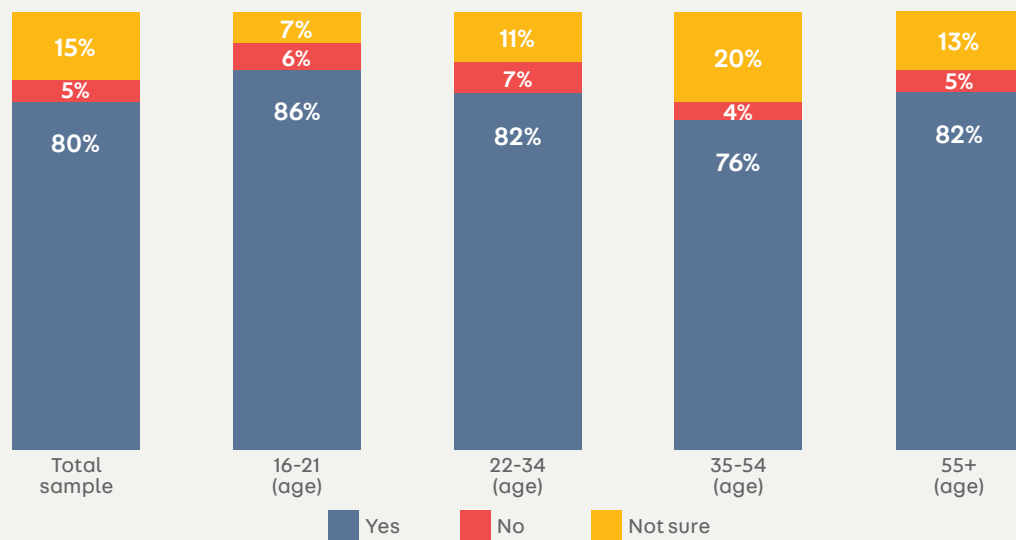
when it comes to getting a car it’s still usually necessary to visit a showroom. By making the initial transaction and commitment much smaller, car subscriptions can and do happen seamlessly online.

Subscription models are the response to these changing consumer expectations, and whilst it’s a relatively small market in the UK at the moment, as the demand for greater flexibility, cost efficiency and choice increases, their popularity is set to skyrocket. This doesn’t pose a threat to the traditional model however. As we’ve already seen through our successful partnerships with retailers, these new access models offer an exciting new channel for dealers to reach their consumers.

The biggest evolution we foresee to increase appeal of subscription models will be widespread adoption across the dealer network to provide more availability and choice for the end customer. Just like today every car is available to purchase outright, or on a finance agreement, every car will soon be available on a subscription package too.

The biggest evolution we foresee with subscription models will be widespread adoption across the dealer network

Do you think you will always own your own car?



or exclusive access offers them. This is particularly true amongst older car buyers, with 75% of consumers aged 35-54 and 80% of over 55s identifying it as one of their primary reasons. And at a time when the majority of commentary around mobility focuses on the analytical, the passionless functionality of a need to travel from A-B, it's heartening to hear that the pure enjoyment of the car experience is one of the most important reasons for car ownership; this is even true of younger drivers, aged under 21 (53%).

Such an emotive response from younger people may come as quite a surprise. Almost every day we read stories about how Generation Z or 'Brexennials' are becoming less interested in a broad range of activities or interests that previous generations were, such as: nightclubbing, drinking, relationships, cinemas, and driving. But our data suggests this simply isn't the case when it comes to getting behind the wheel of a car. 81% of under 21s think they will buy a brand-new car at some point in the future; on average they

think this will be by the time they're aged 25. This might be attributed to youthful optimism, but it highlights an ongoing demand for a level of exclusive access which can only be facilitated by select models, e.g. HP, PCP or subscription models. This is helpful in trying to determine which of these concepts will play the biggest role in the future of automotive mobility.

Cars are still considered a personal possession

There is of course another crucial factor to consider: whilst we might be prepared to not own our cars in a traditional sense, we still consider them as a personal possession. We love the personal experience our cars provide us; our favourite radio channels tuned in, our children's car seats already strapped in, our seats in the right position etc. Accordingly, we're not comfortable sharing them, especially with people we don't know. Whilst 72% of consumers would be happy to share

their car with a family member and 41% with a close friend, just 8% would be comfortable handing their keys over to an acquaintance and 2% a stranger. In fact, even when it comes to sharing a taxi ride, less than one in five (15%) consumers would be happy to travel with a stranger.

We can see synergies here with other industries that offer a shared access model. According to Airbnb, 60% of its reservations are for an entire home or property¹⁴. While we can easily see the appeal of flexibility and of sharing, in reality we prefer exclusive use.

Whilst arguably all of the models on the access spectrum offer a degree of independence, we can immediately remove any notion that the likes of Uber and any other ride sharing or taxi services will be the key to future mobility, as they simply fail to offer the exclusivity or pleasure of driving that's so vital to consumers – whether that's the thrill of being behind the wheel, or simply the personal experience only our own cars can provide. And we can narrow this field down even further. Over half (52%) of consumers claimed they would not consider sharing services.

It's not surprising either, as most private car use doesn't lend itself particularly well to shared models; we usually require our cars during peak times (commuting and the school run), for the convenience of being able to drive as soon as we need to, the

flexibility of multi-point journeys, and transporting people and (often heavy) things around.

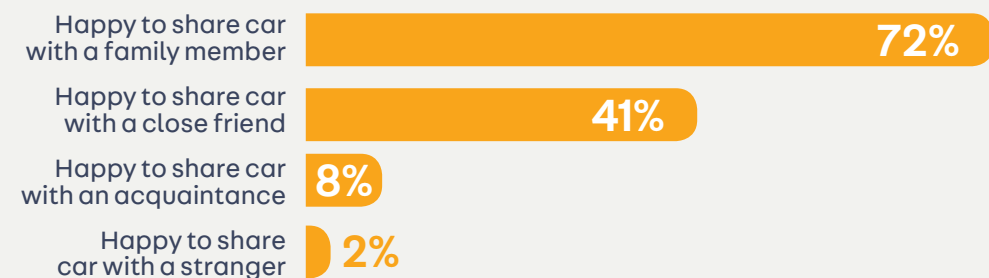
Consumers would want a significant monthly saving to give up direct access

Interestingly, to switch from owning their car (i.e. exclusive access) to a sharing model, nearly two thirds (65%) of current car owners said they would require monthly expenditures to be at least 50% cheaper. That's based on a perceived current average monthly



81%
of under 21s think they will buy a brand-new car in the future

Who would you be happy to share your car with?



cost of £173, which is drastically less than the actual cost of running a car (including insurance, tax, fuel, congestion charge, maintenance, etc.), even with the lowest finance deal. According to a recent study, the average cost of running a car is circa £400 per month¹⁵.

It perhaps suggests that not only do the majority of consumers fail to understand the true cost of car ownership, but they also underestimate the cost of non-exclusive modes of transport to support their real-world mobility needs.

Whilst these models might not meet all the demands of consumers, it doesn't mean they won't continue to play an important role, but it's very unlikely their growth will be significant enough to threaten the current retail model in any noticeable way in the short term.

Of all the models on the spectrum, finance, leasing and subscription services are the most closely aligned with the needs of consumers. Not only do they offer direct access, but they enable consumers to afford a car that would otherwise be out of their

reach. However, subscription and some leasing models go one step further, offering added flexibility, convenience and cost savings on bundled insurance, breakdown and service deals. As such, as the market matures and consumer awareness grows we can expect to see subscription models overtake finance as the primary access model.

Whilst the exact point of crossover is hard to predict, we can say with confidence that all new cars will be bought on a monthly contract within the next decade.

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06

IMPLICATIONS FOR OUR INDUSTRY

Change to the status quo is always a threat to some, and an opportunity to others. But as we've seen, the automotive industry has been in a state of transition for years; whether it's the rise of the digital forecourt, the growth of finance, the use of data management, or the death of haggling, the retail sector is constantly evolving - the emergence of new access models is simply the next step. Whilst there will be change, it won't be over night and it certainly won't be the end of the retail model that some sensationalist commentators have enjoyed predicting.

However, as the landscape shifts from primarily PCP and HP to leasing, subscription and the array of access models (largely subscription-based), there will unquestionably be new challenges that both retailers and manufacturers will need to adapt to.

Retaining brand-loyalty will be one such obstacle. Today, only 39% of consumers claim to stick to the same three brands when changing their car. This level of loyalty is highest amongst those aged 22-34, but still less than half (47%). With the shift from a two to three-year ownership cycle, to monthly

or even weekly, the opportunity to regularly switch brands will make it even more challenging for brands to 'own the consumer'. Building brand loyalty means understanding and addressing what individual consumers need, and responding to it.

Some manufacturers have been better at responding to this challenge than their counterparts. We're seeing a manufacturer race to become less of a traditional car builder and more

For one model to win, another isn't required to fail; change represents a huge opportunity for the industry, and adapting your business in the right way has the potential to grow your bottom line in the future



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of a mobility solutions leader, but the degree to which they can meet genuine consumer needs vary wildly.

An example of a brand that's focusing on the customer is LYNK & CO, the Chinese-Swedish new kid on the block that's got disruption firmly in its sights. The hi-tech sub-brand of Volvo and Geely launched in 2016, and after huge success in China is planning on a European roll out in 2019. It will use technological innovation to set the bar in automotive mobility; access to its new 02 model will be available through a subscription model, as well as outright purchase and a PCP and HP contracts. However, what sets it apart is its innovative solution to the age-old challenge of how to make a car that spends 90% of its life sat on a driveway more economically efficient: 'accessors' can share the monthly rental with others. By pressing a button on the infotainment system, owners can notify LYNK & CO members that it's available for rent. With the help of a digital key on their smartphone, members can locate and access the car as required.

According to Frost & Sullivan, by 2025-26 subscription models will account

for nearly 10% of all new vehicle sales in the US and Europe. What's more, circa 16 million vehicles are predicted to be a part of subscription services by 2025, one in five of which will be brand new cars¹⁶. For manufacturers they represent an opportunity to create a new revenue stream for their cars by making them available through their own subscription programmes, such as Care by Volvo and Peugeot's Just Add Fuel. Ultimately, it's another potentially lucrative channel to utilise their product in a more profitable way – more than a one-time sale.

It's an equally exciting opportunity for retailers too. For one it will be a chance to repeatedly monetise new or used vehicles. We've already seen examples of franchise dealerships working with manufacturers to offer flexible leasing services. One such example, Volkswagen Financial Services UK Rent-a-Car lets customers select, book and pay for their car online ahead of collection at their chosen showroom; it's an innovative way of making pre-registered stock work harder, whilst capitalising on a consumer need.

True subscription

David Green, Chief Digital Officer, LYNK & CO



As what is effectively a start-up business, we were in a unique position where before entering the market like a normal manufacturer, we could stop and think. We realised there were some very exciting capabilities out there; a new paradigm in terms of the customer, the buying behaviour, the consumer journey, omni-channel, digital, and subscription. All represented great opportunities if we didn't go down the same route as everybody else.

Our core brand objective is to remove the things that consumers hate about owning a car and add the things they love. And a big part of that is how our customers access our vehicles. That's why when we roll out across Europe next year, we'll focus on what we consider to be a true subscription model, and not what is often a dressed-up leasing contract. Subscription to us means providing genuine mobility; you sign up, and if you want to change the car or return it after a month, you can do so. Or you can end your subscription. What's more, everything around the car is included, such as insurance and maintenance.

We'll use the Volvo infrastructure for servicing, but true to our ethos of removing the embedded pain points of car ownership, we don't plan on making customers drive to the dealership and wait for their car to be serviced; we'll pick the car up, replace it, or have it serviced and brought it back through our logistics network.

The reason why this access model is available now is down to multiple factors. Of course, technology is important, and so too is the prevalence of monthly payments. We're all used to

buying our phones, music or movies on a monthly subscription. But it's something bigger than that. Consumers are ready for a change that is more customer focused. If you think about the way the traditional retail model has evolved, it doesn't really put the customer first: the classic dealer is out of town, you have to go and visit them, and they're trying to sell you a car they have in stock rather than what you've seen online. And when you buy it, the next thing is having to worry about servicing.

There is a consumer need to lower the bar. There's a change in Generation Y to be more subscription minded and it's not that they wouldn't want to continue to subscribe, after all who cancels their Netflix subscription, but you need to be able to make that a less handcuffed choice. Ultimately, we felt the subscription model was the best approach, because the current biggest potential customer group is very sceptical of the old model and committing themselves to three years of the same car.

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And of course, there is no reason why retailers cannot evolve beyond just the traditional B2C route, to also include more of a B2B2C model: not only is there an opportunity to supply the one new or the four used vehicles (as predicted by Frost & Sullivan) required to support these new subscription operations, but they can also add value by offering allied services, as well as the more practical, hands-on and physical infrastructure that all these access models require. This includes acting as servicing/maintenance support and hubs for car sharing operations. Retailers could support by prepping, cleaning, repairing, and even upgrading cars on behalf of the manufacturer or service provider. What's more, showroom parking spaces and overflow car parks could also double as distribution centres – car sharers need well-located pick-up and drop-off points. And in between bookings, offering car-washing and valeting is another area where dealerships already have considerable expertise in, i.e. staff adept at getting cars in pristine condition and running maintenance checks.

With more and more of the industry migrating online, evolving their business to complement the growth of subscription models offers retailers an opportunity to add value to the traditional, and arguably outdated, physical business model focused on sales.

RRG Group is an example of a retailer that's recognised subscription services as an exciting new channel to meet the changing needs of their customers. Along with its sister company, Norton Way, they've recently partnered with Drove to market a selected number of their pre-registered and buy back vehicles, which are often harder to dispose of in the 'nearly-new' marketplace.

RRG Group's sales development manager, Katie Newton, explained why a subscription model represented

an opportunity to complement their operation: "We believe utilising them [pre-registered and buy back vehicles] via a subscription model platform could not only generate an additional income stream for us, but also help the cars return as more desirable used car stock; being slightly older in age when they come back. In addition to these 'nearly-new' vehicles, Norton Way have most recently included overage used car stock to the site, offering a slightly different model mix to the customer who may be looking for a cheaper monthly rental.

In every edition of the Auto Trader Market Report we've highlighted that whether we want it to or not, the automotive industry is fast evolving, and unless retailers and manufacturers are prepared to evolve alongside those changes, they'll be left behind. To borrow an often-shared comment from former U.S. President, Bill Clinton: "The price of doing the same old thing is far higher than the price of change."

For one model to win, another isn't required to lose; change represents a huge opportunity for the industry and adapting your business in the right way has the potential to grow your bottom line in the future. As we've explored over the preceding pages, the evolving concept of ownership and the growing spectrum of access models represent one of, if not the most, dramatic shifts in the retail landscape. But it also marks one of the biggest opportunities for retailers and manufacturers. It will build on the foundations of finance to open up the market to new drivers; it will offer manufacturers a new way to get consumers behind the wheel of their cars; and crucially it will complement, not cannibalise, retailers' existing models.

RESEARCH METHODOLOGY

Consumer research

Auto Trader partnered with Join the Dots, an award-winning consumer insight research agency, to analyse and reveal the car buying behaviours, feelings and expectations of a nationally representative sample of 3,000 adults aged 18+. In addition, we surveyed a boost sample of 200 16-17 year olds* to allow us to focus in on the 'Brexennial' generation and understand whether they expect their lives to follow a different path to older generations.

*(*this sample was down-weighted to achieve a nationally representative sample profile at a total level)*

Additionally, Auto Trader also partnered with strategic research consultancy Acacia Avenue, surveying a nationally representative sample of 1,000 UK motorists on their opinions and attitudes towards electric and hybrid vehicles.

Auto Trader also conducted a Facebook poll of 9,500 consumers in September 2018, asking whether a 'try before you buy' scheme would make electric adoption more likely.

Auto Trader marketplace search data

Auto Trader extracted data from its marketplace to analyse the movements of used car prices and report on the search behaviours of UK car buyers. The data used in this Report includes specified search behaviour for fuel types and extracts from the Auto Trader Retail Price Index.

Auto Trader Retail Price Index

The Auto Trader Retail Price Index combines and analyses data from c.500,000 trade used car listings every day, as well as additional dealer forecourt and website data (OEM, fleet and leasing disposal prices, as well as pricing data from over 3,000 car dealership websites and data from major auction houses across the UK), ensuring the Index is an accurate reflection of the live retail market.

ABOUT AUTO TRADER

Auto Trader Group plc is the UK and Ireland's largest digital automotive marketplace. Auto Trader sits at the heart of the UK's vehicle buying process and its primary activity is to help vehicle retailers compete effectively on the marketplace in order to sell more vehicles, faster. Auto Trader listed on the London Stock Exchange in March 2015 and is now a member of the FTSE 250 Index.

The marketplace brings together the largest and most engaged consumer audience. Auto Trader has over 88% prompted brand awareness and attracts an average of 55 million cross

platform visits a month, with circa 70% of visits coming through mobile devices.

The marketplace also has the largest pool of vehicle sellers (listing more than 450,000 cars each day). Over 80% of UK automotive retailers advertise on [autotrader.co.uk](https://www.autotrader.co.uk)

For more information, please visit
<https://plc.autotrader.co.uk/press-centre>

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