



Demand and supply: preparing for the future

*Q&A with Joachim Deinlein, Partner, Oliver
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Introduction

*Covid-19 will leave no area of our industry untouched. Autovista Group's Chief Economist Dr Christof Engelskirchen talks to **Dr Joachim Deinlein, Partner at global management consulting firm Oliver Wyman**, about its impact, consumer buying behaviours and the business models of the future: car sharing and subscriptions.*



***Christof Engelskirchen,**
Autovista Group*



***Joachim Deinlein,**
Oliver Wyman*

Christof: Joachim, your job is to advise car manufacturers, suppliers and service providers to the automotive industry on areas spanning the entire value chain, from R&D, procurement, operations, and production, to sales, marketing and aftersales. With Covid-19 so fundamentally affecting the way we work, how has the way you support your clients changed?

Joachim: The nature of the topics is changing, obviously. There is a shift from growth strategy work, and we are more involved in projects addressing needs coming out of the Covid-19 situation. Many OEMs are concerned about immediate supply chain resilience.

Joachim Deinlein was scheduled to speak at Auto Mobility LIVE 2020. While we are unable to bring you the face-to-face event, Autovista is still committed to bringing you the same great insight from our speakers. To stay up-to-date with all of Autovista's speaker insights and plans for future events, register at: www.automobilitylive.com.

Christof: Can you give an example of a project around supply chain resilience?

Joachim: The automotive industry is globally organised. Sources of the various components, parts, tooling are located everywhere in the world. You have regions that are still almost completely shut down. There are other regions that are now revitalising production. It is quite an effort for OEMs and suppliers to get transparency over the entire situation, across all factories and vehicle lines. There is a lot of communication required to understand the status of the supply chain. This intense effort is a prerequisite for production to re-start smoothly and workers to go back to work.

Christof: Clearly, Covid-19 has disrupted automotive supply chains. It is challenging to re-synchronise them as they are global. Or is interconnectivity an advantage as this aligns interests across regions? As a result, governments and players will swiftly coordinate for a quicker ramp-up of production, globally?

Joachim: Yes, absolutely. The initial reaction, when the coronavirus impact became visible in China, was that people immediately challenged the industry about being so reliant on one region. Now, with China's operations starting before others, people realise that globally diversified supply chains can increase resilience. I think there is going to be some reorganisation of the supply chain, for example, adding further backup, but also reducing the overall number of suppliers. I don't think it is going to be a completely renewed setup, however.

Christof: In one of Oliver Wyman's recent publications you write that there will be a decline of 17% to 29% in car sales in 2020. Will we end up more towards the 17% or 29% mark?

Joachim: I think we move towards the more negative scenario. The major drivers are the lengths of the shut-down and the ramp-down phases. We know that it always takes longer to come back than it takes to go down.

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If you look at the European vehicle industry, it took until 2017/18 to achieve the levels of sales that we had before the financial crisis of 2008/2009.

Economic stimulus programmes will play a decisive role in shortening the recovery period. We also expect that southern European countries might take a bit longer for full recovery than countries in central Europe.

Christof: Is there anything positive coming out of this pandemic for our industry?

Joachim: In some areas, transformation will accelerate. For several weeks and months, people were able to search for or to configure vehicles online, to buy them online. But our industry was not really prepared for this. There are still too many OEMs that don't have the full range of vehicles available to be purchased online.

What we can observe in China is that the use of online channels across all sectors has been increasing dramatically. This will further boost the transformation of the automotive sales value chain towards a more online-enabled channel setup. It will feel like a more seamless user journey from online to offline and offline to online. Covid-19 is pushing us hard into this direction in Europe, too.



Christof: Can you narrow this down a bit? Realistically, will this happen within the next six months?

Joachim: Improving online capabilities is still a long transformation and the automotive industry has been talking about and working on it for many years already.

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Covid-19 has further boosted the understanding that, across industries, the customer should be free to choose the media

or the channel via which he or she wants to perform each of the steps of the purchase process.

It is not that one channel that will beat the other, when we talk about digitisation of the sales and marketing value chain and how OEMs sell cars. An omni-channel approach will do the trick. There are still going to be a lot of customers who want a physical experience of the product before purchasing it.

Christof: I like this thought. OEMs may not need to decide which channel rules over another one. There should be several powerful channels in place and customers can transition between them and show us how their preferences have evolved. Still, building up this digital muscle is something that OEMS will have to focus on.

Christof: Car sharing had been struggling before Covid-19 and is struggling even more now, due to social distancing guidelines. On the other hand, we have car subscription models, which seem to be winners during the crisis as they offer substantial flexibility for customers: a plus during periods of uncertainty. What is your view on the business models of the future? Will the pandemic have a lasting impact on car sharing and car subscriptions?

Joachim: Car sharing, in my view, is a great concept for addressing the underutilisation of a vehicle. A passenger car is only utilised between 5 and 10% a day. However, the way it has been executed in metropolitan areas is not solving a crucial customer need: easily parking the car at the destination. As long as this is still the same pain it often is today, the concept of car sharing will not live up to its full potential.

I agree that the demand for car sharing services will stay low as long as we are living through the Covid-19 period, but still, it is a mode of individual transportation that may be attractive. In a post Covid-19 world, this may change again.

Christof: What about car subscriptions. Will we see a rise in demand?

Joachim: In January, we conducted a survey to explore the interest of end customers in various countries towards car subscription models. If you take Germany as an example, there is an increased interest in car subscription models; still the general interest is only between 25% and 35%. It is an offer that is appealing to certain customer groups. It definitely has its space in the market.

For those that are interested, there is a willingness to pay more [than you would to lease a vehicle]. That said, an important benchmark for the subscription fee is the monthly lease rate. We will have to come out

at something similar to that in subscription models, even though additional flexibility represents an extra benefit. I do see the appeal of having flexible cancellation policies in place.

Christof: There are car subscription start-ups, which are agile and daring. And then we have rental companies, which have economies of scale and are skilled at buying and operating short-term rental fleets. Are there other players? And who is best positioned to address new mobility needs?

Joachim: Every competing player brings its strengths to the market. Start-ups are highly dynamic and ambitious and typically build up excellent customer analytics and communities from the first minute on. Rental companies are very experienced in running the operations and logistics. They know what it takes to be profitable in a business model focusing on maximising capacity utilisation, so they are in a very good position. Ultimately, it is the OEMs that are controlling the supply of the vehicles. The best companies in the race will build up a strong customer community. They will combine their business model with a highly attractive vehicle park, for their segment.

Christof: That does not sound like a winner-takes-it-all scenario. What is your advice to the contenders?

Joachim: Test your business proposition in pilots and make an effort to fully explore and understand customer demands. This is more important now than ever.

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