

Future-ready remarketing

*Sebastian Fuchs, Managing Director Manheim
and RMS Automotive Continental Europe, part of
Cox Automotive, explains how to prepare for
changing consumer behaviour around alternative
powertrains and beyond*

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Group**....

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Introduction

*How to prepare for changing consumer preferences, especially around alternative powertrains, should be central to any remarketing strategy. **Sebastian Fuchs, Managing Director Manheim and RMS Automotive Continental Europe, part of Cox Automotive** explains that this requires both considered industry monitoring and a leap of imagination.*

When talking about alternative powertrains, many things come to mind.

Let's start with an overview of what's out there. The closest powertrain to our current internal combustion engine (ICE) is the hybrid, which comes in two forms: the full hybrid with an electric range of several kilometres, and the plug-in hybrid, which – depending on model and battery – can do around 50km purely powered by electricity.

Further from today's ICE, hydrogen is what many believe to be the long-term solution. Due to its sustainable method of production – as a

by-product of many industrial processes – sources of hydrogen are plentiful (Critical here is the storing and the transportation of this delicate and highly explosive product.) Ranges for hydrogen powered vehicles are – depending on model – not far from that of traditional ICE models.

Finally, there is the battery electric car, the powertrain that has a substantial chance of long-term success, given the leaps that are happening in battery technology and the investment going into it.

Sebastian Fuchs 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.

External influences: mega trends



Now, to turn to the mega trends that were front of mind, at least up until the coronavirus pandemic hit, and that we expect will be our focus once again in six to 12 months from now.

1. **Urbanisation:** Depending on which study you read, by 2040-50 around half the world's population will live in an urban hot spot.
2. **Digitisation:** Generations growing up with the possibility of ordering everything at their fingertips and in their own time will change consumer behaviour.
3. **Environmental consciousness:** CO₂ reduction objectives will drive development and consumption.
4. **Sharing economy:** How products are owned and consumed will change.
5. **Artificial Intelligence:** AI will become mainstream; an accepted part of daily life.

Close your eyes and imagine you live in this urban mega city. You have a spacious apartment with a gym, spa and other amenities in your building. You work from your home office and your business travel is rare as video calls reduce the need for people to travel. The mayor of your town has created many parks and driven down noise pollution by allowing only autonomous electric cars within the city limits. Your fresh food is ordered on your mobile phone and is delivered to the grocery store on the first floor of your apartment building, so you rarely drive to the shops.

A lot of you may now come to the same conclusion that I often do. Electric cars will be the ultimate winner of this future. The variables of this powertrain are the ones we need to understand.

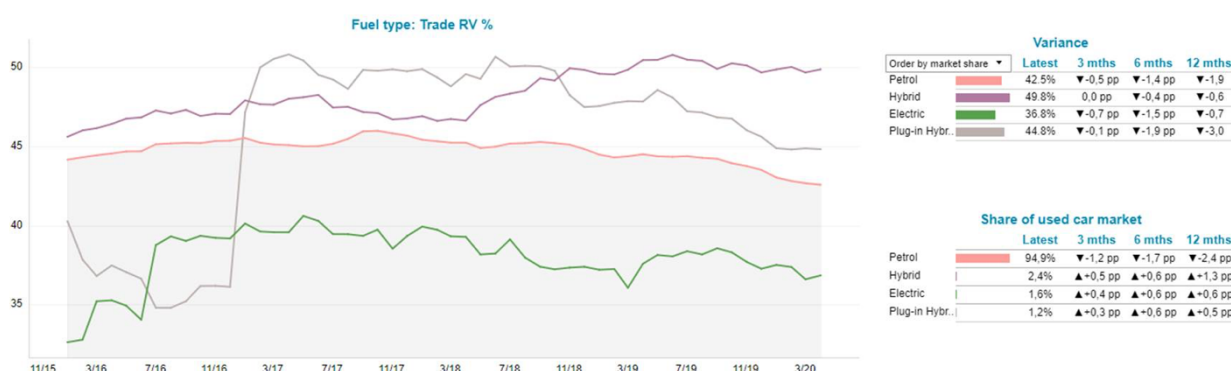
Electric cars: the impact on RVs

If we keep these mega trends in mind and turn to the current reality, we should explore whether inflection points in the growth of electric cars can already be seen.

We begin by looking at residual value (RV) data for a typical usage scenario of 36 months and 60.000km for the major markets. See Figures 1-4.

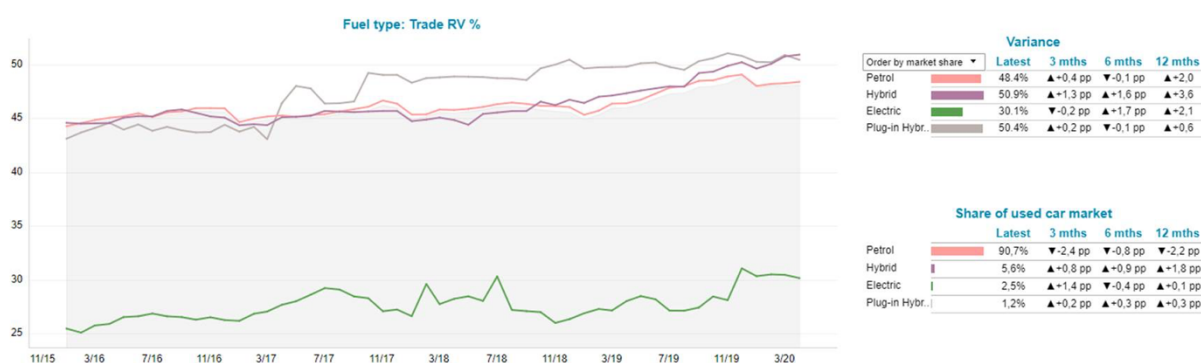
Clearly, you can see the future I described is not yet here. The RVs of electric cars are still way behind some those for traditional vehicles, although the picture is not the same for every country – and change is already visible in the data – as Dr Christof Engelskirchen, Chief Economist at Autovista Group explains (see page 7).

Figure 1: Germany – residual values by fuel type, Q2 2019 – Q2 2020



Source: RVI, Autovista Group

Figure 2: France – residual values by fuel type - Q2 2019 - Q2 2020



Source: RVI, Autovista Group

Figure 3: Spain – residual values by fuel type, Q2 2019 – Q2 2020

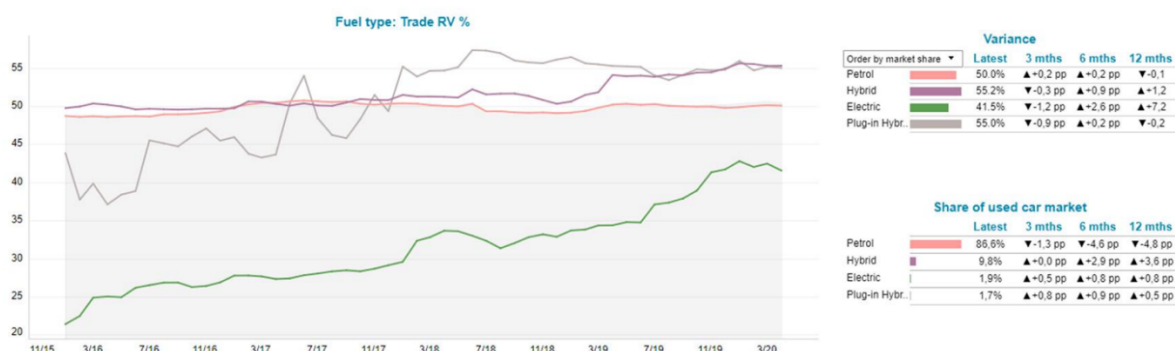
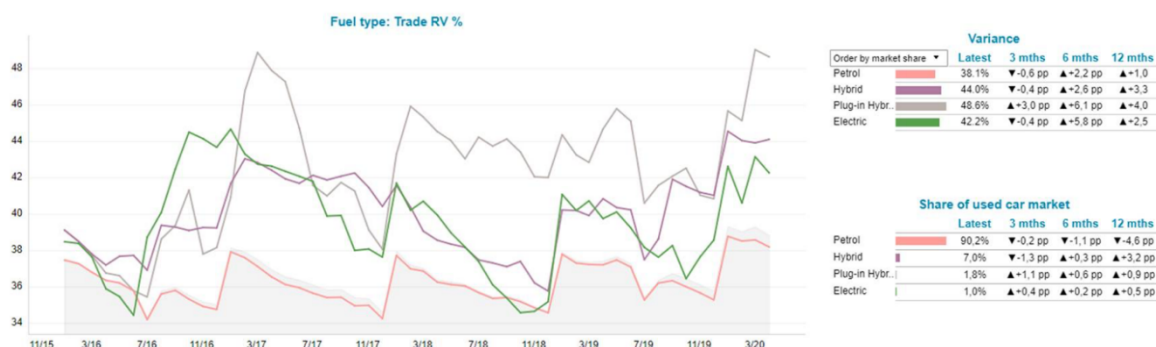


Figure 4: Italy – residual values by fuel type, Q2 2019 – Q2 2020

Source: RVI, Autovista Group



Source: RVI, Autovista Group

Germany

“Earlier generation BEVs used to age more quickly over the model years than ICE variants, due to aging technology and improved ranges. This is changing. For example, we see fewer jumps in range. This helps to stabilise RVs. We expect further stabilisation of the BEV RV curve and even a rising slope due to the fact that list prices are coming down and infrastructure is building up, which increases the attractiveness of BEVs on used car markets. (The gap between BEV RVs and the rest is clearly driven by higher list prices at present.) The biggest risk could be an oversupply of new BEVs, which are now heavily subsidised.”

France

“The heavy push of BEVs into the market some years ago and the strong incentives that accompanied this, created a hard landing for

BEVs. Gladly, RVs are rising thanks to recent launches and product updates.”

Spain

“BEVs used to trade far below other powertrains, as consumers were not fully engaged with the technology. PHEV was the electric technology of choice. More recently, BEVs are gaining more traction and RVs are rising. Note that in Spain, RVs are typically a bit higher than in other markets.”

Italy

“BEVs perform steadily here as well but note that – as we see across Europe – the market share of BEVs amongst all used car transactions is smallest. There appears to be very little availability in the market.”

Envisioning the future

Essential though it is, knowing when and how to adjust your portfolio – in response to electric vehicles or other factors – requires you to do more than just monitor RV data. It requires you to pay attention to:

1. **Supply and demand:** It sounds simple, but while you monitor the market, there are a couple of pitfalls to avoid. First, be aware that there is not only one dimension you need to monitor. For example, the used car market is influenced by policy makers, hence you need to watch this area closely as policy changes can cause demand to drop overnight. Second, pay attention to supply changes in the new car market, to sales and sales mix. For example, if you bought a mid-sized sedan fleet and then six months later see the OEM pushing the same cars into rental fleets, you need to watch the RVs and the impact of these short-term volume spikes on valuations.
2. **Technology and minimum standards:** Providing the technology that consumers require is becoming easier with mirror technologies of mobile devices, but you should not rely on this solution and make sure you have a fleet of vehicles that have the convenience features expected even in the second-hand market.
3. **Mix, mix, mix:** I cannot overemphasise how important it is and that you need to keep it top of mind all the times. Avoid single powertrains, avoid single brands,

single models, etc. Spread the risk, as every good investor would advise you to do, is a key rule for your fleet policy.

4. **Data and insights:** Whether it be new car sales data, technology developments, changing policies, RVs, economic factors, stay on your toes and analyse the data, read the news, don't miss the trends.

Spread the risk, as every good investor would advise you to do, is a key rule for your fleet policy

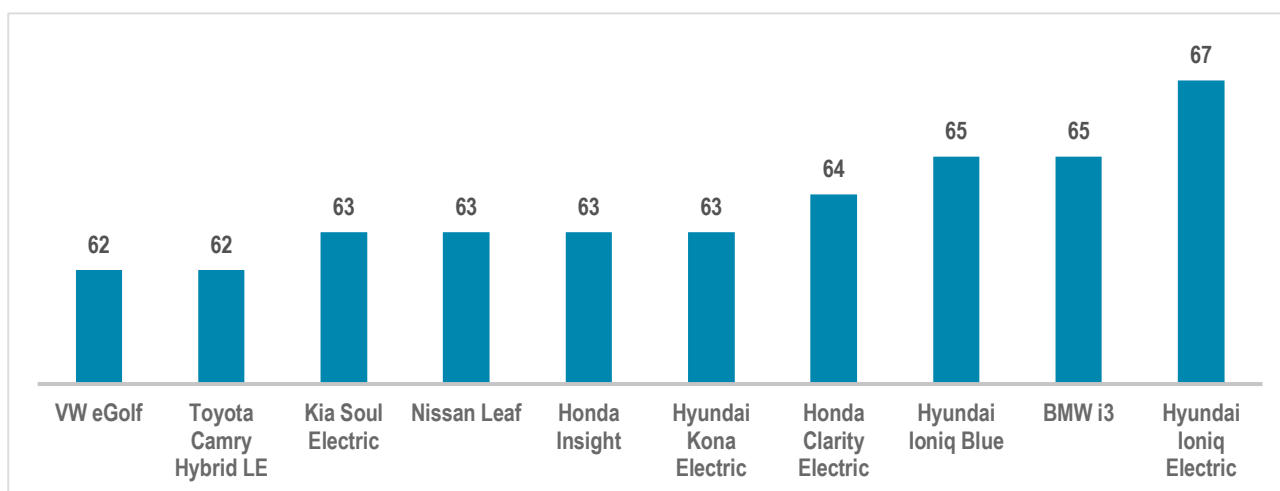
By way of an example as to how data and insights can inform your remarketing strategy, let's look at some recent industry insights. First, in Figure 5, we see the most environmentally friendly cars in the world in model year 2019. Looking at this list, you may want to see if you have some of these cars in your portfolio and if not, ask yourself, why not?

Figure 6 (page 9) encourages us to look further ahead, listing the characteristics of cars of the future that will influence consumer behaviour and should therefore be considered in any remarketing strategy. Important here is to try to imagine what each trend will mean for your business, in terms of car usage, user experience and other practicalities.

For example, if we look at 'self-driving': ride hailing business will now be able to transport up to five people on a journey instead of four plus a driver. It will remove the 'weak link' in the ride hailing model – the human being – and increase uptime per vehicle. One vehicle can now drive 24/7 only interrupted by pre-planned servicing so vehicles will age quicker but at the

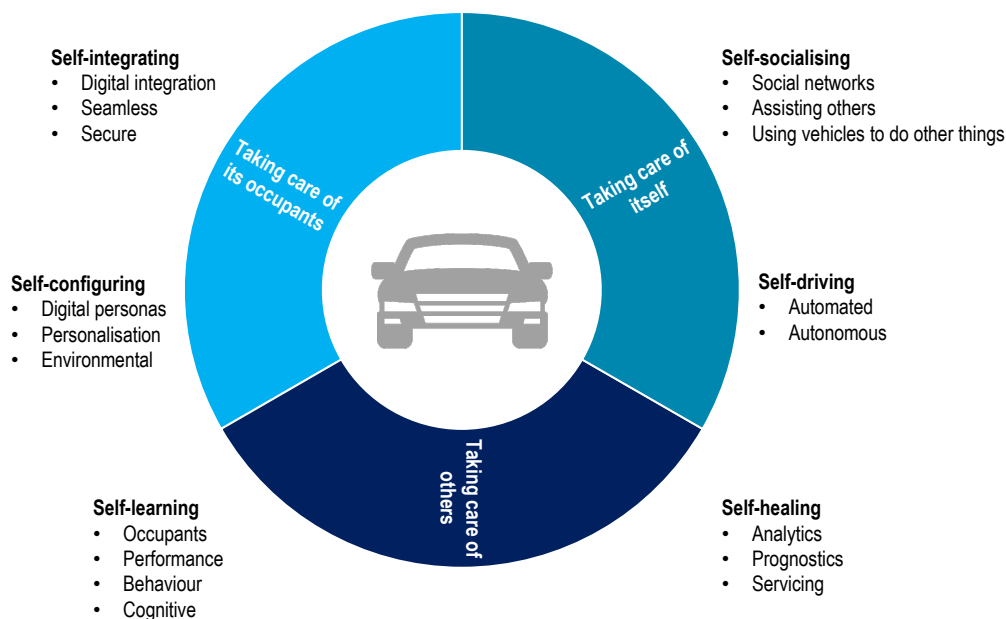
same time will be better serviced. Cosmetic damage might even become a thing of the past. This will mean reduced complexity in the remarketing of vehicles used for ride hailing, or even, in the most radical scenario, that at the end of its planned lifecycle the vehicle will simply go to recycling.

Figure 5: Most environmentally friendly cars worldwide in model year 2019, based on index score



Source: Statista, <https://www.statista.com/statistics/506988/most-environmentally-friendly-car-models-worldwide/>

Figure 6: Intelligent, intuitive, self-enabling vehicles will provide personalised experiences



Source: IBM Institute for Business Value analysis, Automotive 2025 report, <https://www.ibm.com/thought-leadership/institute-business-value/report/auto2025>

Stretch your imagination

While insights like this may seem too abstract, too removed from the day-to-day practicalities affecting your business, let me leave you with a final thought that will inspire you to stretch your imagination:

Never settle, and trust that you will be surprised about what is possible in the future.

Maybe I left you with more questions than answers. But if that is the case, then I think this piece achieves what a good risk manager does any given day: explores, rethinks and reimagines what can be. If you do the same, you will be well set to manage the risks and opportunities posed by alternative powertrains.

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