Insight Report 2021

Cox Automotive Grant Thornton

DRIVING OPPORTUNITY: DEPLOYING GROWTH MINDSET ON THE JOURNEY TO 2030

A leaner, stronger wholesale ecosystem

> The Cox Automotive perspective

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A LEANER, STRONGER WHOLESALE ECOSYSTEM

Putting the pieces together to show the whole picture

"Costs need to be taken out of supply, distribution, and retail if the sector is to effectively support the transition to electric and autonomous vehicles."

Owen Edwards, Head of Downstream Automotive, Grant Thornton UK LLP

More is expected – and needed – from the automotive supply chain. From digitalisation that drives efficiencies and enables new opportunities, to sustainable practices and partners who can facilitate vertical integration from factory gate to end of life. Increasingly, large fleet owners are seeking efficiencies, and operational and brand consistencies across borders too. The line between wholesale and retail is blurring, the vehicle parc is compressing, and vehicle utilisation is changing.

The wholeale ecosystem encompasses all the services, solutions and technologies that enable the vehicle market to function effectively as it moves from one owner to another and ultimately retail. But, with so much change, it needs to be both leaner and stronger. Digital technologies support dealers, fleets, and manufacturers, while consumers benefit from systems that deliver enhanced mobility solutions. Vehicles cascade through channels in a way that opens up opportunities for manufacturers, fleets, and dealers.

Creating a streamlined and joined-up experience between wholesale and retail is no longer optional. With increasingly digital processes, and increasing consumer expectations, businesses at every stage of the automotive lifecycle need to consider how they will contribute to realising efficiencies and maximising new opportunities. The future of automotive lies in cooperation, collaboration, and partnership. To meet changing consumer needs, the wholesale ecosystem has to adapt and remove as much friction from the process

Philip Nothard, Insight and Strategy Director at Cox Automotive: “Increasingly, automotive organisations are taking a digital-first approach to meet developing consumer expectations. But it is important to recognise, however much technology is introduced to the process, we are still talking about a physical asset. Vehicles still need to be stored, moved, and driven. The way the industry manages that process may be evolving, but the principles stay the same.”

Stellantis: a case study in vertical integration

Stellantis acquired AramisAuto in France back in 2016, adding Clicars in Spain in 2017, and Cardoen in Belgium in 2018. More recently, the manufacturer integrated CarSupermarket.com and the MotorDepot Group in the UK. The outcome is a multi-brand, digital-first, used vehicle sales channel. It is a highly vertical business with centralised sourcing, pricing, reconditioning, online sales and home delivery. In one year, the business sold 87,000 vehicles; three quarters to consumers.

Introduction

Moving forwards, not backwards

Liam Quegan, Managing Director, Manheim Auction Services: “I don’t think things will go back to the way they were, and I don’t think they should. We’ve learned a lot as a business, and as an industry. There will be a place for physical auctions but also much more in the way of multichannel selling. Our various online channels, like Dealer Auction, may be used to sell vehicles upstream. We’re trialling timed auctions to provide more convenience. We’ll see lots of innovation. Some of it will stick and some of it will fail. But the direction of travel is an exciting one.”

Focusing on sustainability

One of the key trends impacting the wholesale ecosystem is an increasing drive towards sustainable operations and business practices. Significant investment will be required throughout the supply chain if total vehicle lifecycle emissions are going to be reduced – not just at the tailpipe. Organisations need to consider how they can use technology to provide a more streamlined and convenient service, boost customer satisfaction, and manage the social and environmental impact of their activities.

It isn’t a new phrase but ESG – environmental, social, and corporate governance – has come to the fore over the past 18 months. Investors are increasingly viewing prospects through an ESG lens, seeking to identify risks and growth opportunities based on their impact on people and planet. With a significant cash injection required to ready the automotive sector for the next stage of its development, businesses need to ensure they have the right answers when investors start asking questions.

Spotlight on Manheim Vehicle Services UK

Manheim Vehicle Services UK provides storage for more than 60,000 vehicles across six locations; processing in excess of 250,000 vehicles every year. While the sector is becoming increasingly digital, the physical infrastructure required to manage and move so many vehicles has also seen an upgrade.

The organisation has invested in gas catalytic systems which cut paint drying time from 35 to 9 minutes, use 75% less energy, and achieve a quality control failure rate less than 1%. Automatic car washers process 800 cars per day, reducing water waste. And, as noted in the Insight Report 2020, Cox Automotive is also investing in rolling out electric vehicle charging infrastructure across its real estate.

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Manheim UK: celebrating a century in 2021

The Manheim brand officially entered the UK in 1998, rebranding sites acquired over the previous years. Manheim US celebrated 75 years in 2020. However, the business known as Manheim UK today is celebrating a heritage which dates back over 100 years of innovation in the vehicle remarketing space. From its early days as a general auctioneer trading in everything from bric-a-brac to horses, through to the technology-driven global automotive services business that exists today, Manheim has consistently embraced change and sought opportunity to deliver more efficient and joined-up experiences for its partners.

In 1961, the business opened Europe's first purpose-built car auction in Rothwell, Leeds, in a site which still houses the businesses' UK headquarters today. As well as expanding to multiple sites over the following decade, the business also pioneered multi-deck vehicle transporters. This led to a new operation in the vehicle transport sector, working with manufacturers to move units nationwide.

The late 1970s saw vehicle refurbishment activity being added to the mix, while off-site customer auctions were also established, with auctioneers and customers travelling outside the auction halls to customer sites for specialist plant, machinery, and commercial vehicle sales. Fast forward to 1990, and the business created the first multi-storey vehicle auction site in Europe, located in Wimbledon, London.

Interestingly, while virtual and remote auctions have become standard in the post-pandemic landscape, Manheim's predecessor actually pioneered AuctionVision back in 1991. Auctions were streamed via satellite television, saving time for buyers who could now purchase vehicles at home or from the office. Further innovations followed, with an end-to-end de-fleet offering in 1993, and the launch of Manheim Certified, now SureCheck, in 1997.

A strategy of acquisition brought further business operations into the fold, including a variety of vehicle remarketing solutions, refurbishment products, and inspection services. The online auction began in earnest, with the launch of Simulcast in 2004. Over the past 20 years, further businesses have been brought into the Cox Automotive family, as well as seeing expansion across Europe through digital as well as physical auctions.

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In March 2020, Cox Automotive UK acquired vehicle services provider, C Walton Ltd, one of the UK's key providers of vehicle services for manufacturers, fleet operators, and dealers. The acquisition meant that, through the Manheim brand, Cox Automotive could now provide vital fleet management and vehicle services on a mass scale to the new and used vehicle markets.

Where to next?

Pete Bell, Chief Operating Officer, Cox Automotive Europe: "Cox Automotive is still a family-owned, private business, but it provides the financial stability to ensure we can take a long-term view and continue to meet our customers' changing needs. The shift towards digital remarketing, for example, has been gathering pace ever since we launched remote satellite auctions in the early 1990s. As we look to the future, it is about providing buyers and sellers with a remarketing partner that can connect all the dots to drive greater efficiencies, underpinned by robust data and insight."

Case study: eVA Valuations and Appraisals

More than 20 dealer groups, representing over 740 showrooms, are now using the Cox Automotive eVA Valuations and Appraisals tool in the UK. Just two years after its launch, the tool is receiving record demand from dealers and manufacturers looking to accelerate their omnichannel retail approach. Using Cox Automotive wholesale data and Auto Trader retail data, the eVA tool provides real-time vehicle valuations that are up to 99% accurate, offering an integrated way to join-up the wholesale and retail vehicle lifecycle.

Stuart Miles, Managing Director Retail Services, Cox Automotive Europe: "Most consumers begin their car-buying journey online, so it makes sense for them to get a part-exchange valuation in the comfort of their own home, against a vehicle they are interested in upgrading to. For dealers, eVA supports lead generation, part-exchange profitability, and helps them sell more vehicles."

A vision for Cox Automotive in 2021 and beyond

Sam Panayides (nee Watkins), Sales Director of Cox Automotive Europe: "As our customers have evolved to meet UK, European and global demand, we are also restructuring our business to effectively support our various customer segments. With more than 25 brands within the Cox Automotive family, we know we can deliver efficiencies for customers across fleet, manufacturer and retail sectors. However, we need to make it easy for those customers to access our enterprise solutions, and benefit from the value that can be driven from more integrated services at scale and across markets.

"We're here to enable our customers, to support them as they grapple with the big changes which are impacting the sector, and to provide them with solutions that touch every step of the vehicle lifecycle. For manufacturers, for example, that could include direct to consumer, digital retail, or full ecommerce. But, in whatever way the ecosystem is structured, one thing is true: the physical asset can't be processed in the cloud! So, as well as digital wholesale and retail solutions, in the UK we also provide the logistics, storage, refurbishment and so on which happens behind the scenes.

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“With ever-increasing mobility solutions, subscription offers and flexi-rental, it is likely that we will touch the same vehicles more frequently in between drivers. There will be a much wider range of age and time cycles, rather than the more traditional sub-12 month or three-year replacement phases. It is vital that asset owners, whether manufacturer, rental company or dealer, consider how best to maximise utilisation and monetisation, particularly as we see stock shortages in the new vehicle sector at the moment. Digital systems and physical solutions all play a part in this sector, and our Global Mobility division has been created to bring a cohesive approach to all the component parts.

“It is also interesting to look at trends on a pan-European scale. We’ve been facilitating cross-border transactions and vehicle movements for many years now. This is only set to grow as manufacturers, fleets and large dealer groups take a more integrated global view. For many organisations, it makes sense to have one single global partner who can facilitate vehicle inventory control and remarketing on an international stage. Global intelligence is key to our ability to support customers.

“We are operating in a really exciting time for the automotive sector. The evolving and future vehicle ecosystem offers significant opportunity to pair digital and physical infrastructure in new and innovative ways. We are here to develop sustainable solutions for our customers that address the key challenges ahead, allowing individuals and organisations to deal with whatever trends come their way.”

A data-driven approach to used vehicle transactions

Sebastian Fuchs, Managing Director Manheim and RMS Automotive Continental Europe: “The real gamechanger is around digitalising the valuation, part exchange and trade-in process. Investment is already being made in AI-driven self-serve apps, such as our RMS product, which allows drivers to inspect their own vehicle, upload the information, and for that vehicle to be listed for sale before the driver has even handed over the keys. We can certainly reduce days to sell, and also manage the logistics and unnecessary road miles when getting vehicles from driver to buyer.

“In the future, we could even see something like an OBD2 dongle being posted to the driver so they can plug in and upload real-time, highly accurate data to the vehicle management platform. This would allow for smart remarketing decisions to be made about where and when to list the vehicle to realise the maximum returns. Clearly that raises ethical questions around data ownership and consent which would need to be addressed.”

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Opening up cross-border remarketing channels

Mike Mosier, Sales and Operations Director, Cox Automotive Continental Europe: “Cross-border remarketing continues to grow, making up around 15% of all transactions. However, this is very dependent on the product, vendor and geographic nuances. The EU has mandated all countries ratify the electronic CMR consignment notes for vehicles being moved across Europe by road by 2026. Once all countries have done so – Germany and Italy are yet to do so – then we can get real-time data on the status of a vehicle, rather than waiting on paper documents to be mailed around the continent.

“We have APIs with many of the data houses and big remarketing consolidators in Europe, like the rental companies and digital sales channels, which means we can create an online inventory hub that brings together stock from different sources. Of course, the same vehicle can be listed on multiple digital channels, which means keeping a close eye on the data is essential. While some groups benefit from market fragmentation, there is a general consensus that data sharing is a positive thing.”

Collaboration to counter stock shortages

As the used car sector faces a shortage of quality stock, Dealer Auction is now providing dealers with a new way to access tens of thousands of used cars sourced directly from consumers. Part of a joint venture between Auto Trader and Manheim, the new stock sources, which include private vehicle stock as well as Guaranteed Part-Exchange (GPX) vehicles, are available through digital auctions.

Le Etta Pearce, Chief Executive of Dealer Auction: “One of the biggest challenges for our industry right now is sourcing stock. Like consumers, retailers have turned to digital solutions in the past 12 months to buy stock, and we see this trend continuing – not only giving greater choice but driving big efficiencies.”

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Never has there been such disruption in the automotive industry since the advent of the car itself. Disruption is taking place in both the upstream (manufacturing and supply chain) as well as downstream (distribution and retail to the consumer). Technological transformation is at the forefront of this upheaval, but change has also been hastened due to environmental factors, such as climate change and global pandemics (COVID-19).

In the supply chain, manufacturers are facing the move from ICE to EV. We also believe emissions legislation will start to take in the whole life emissions of a vehicle, not just those at the tailpipe. This will have big ramifications, particularly on raw materials – the birth of the vehicle, manufacturing, distribution, and the disposal or death of the vehicle. But, even in the short term, regulation is pushing the manufacturers to introduce more EVs, with over 120 different vehicle models and derivatives coming to market over the next year.

With tough regulations set by the UK Government for new vehicles sold to have zero tailpipe emissions by 2035, EV market penetration will only increase. There are similar requirements across mainland Europe. Some manufacturers have even chosen to purchase emissions credits to offset potential emissions fines. Further down the line is the longer-term trend of autonomous vehicles, which will be the biggest catalyst for the change from ownership to usership and mobility as a service (MaaS).

The supply chain and manufacturing

At present, the supply of EVs is still limited. This will increase substantially in the next five years. However, manufacturers will also have to drive the demand for EVs. This has been done partly with national government support through consumer subsidies, but more will need to be done to reduce the sale price of electric vehicles and the batteries within them. This will be done in several ways.

We already see the introduction of new battery chemistry, which is set to reduce cost. Some industry commentators have suggested the cost of the battery could be below US$100 per kWh by 2025, making it a much more attractive proposition (source MIT). In addition, some manufacturers are also looking at the production cost of the vehicle, simplifying the build and providing fewer options to reduce complexity and expense in the manufacturing process. Increased vertical integration in the supply chain will also reduce costs.

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We have only to look at the example of Tesla to see how this could play out in practice. The organisation controls as many production processes as possible, and is attempting to co-locate its raw materials, production sites, and gigafactories to ensure end-to-end production with minimal transportation. Some expectations are that economies of scale and co-location will enable Tesla to produce a next generation car with a retail price of $25,000 by 2025 (source Tesla Investor Relations).

There is also a trend towards design houses which are outsourcing production. Examples include the likes of Fisker, which has outsourced the Fisker Ocean SUV assembly to automotive contract manufacturer Magna Steyr in Europe. Magna Steyr is also responsible for the build of EV models for Jaguar, and other brands. Fisker's second electric vehicle, currently referred to as Project PEAR, is being developed in partnership with Foxconn, a Taiwanese company that assembles iPhones, but is rapidly expanding into the car market with partnerships with Stellantis.

Further efficiency is expected as production lines shift to electric vehicles, with some estimates in the region of 30-40% less labour required to produce these new cars. The combination of more profitable SUV derivatives, which are in high demand, with more electric models, where the market is evolving, may see manufacturers consolidate their ranges and focus on the vehicles where they can secure the most substantial return.

The Just-In-Time (JIT) approach has come under pressure over the past 18 months, with current shortages of semiconductors. This has been further compounded by the dual effects of COVID-19 and Brexit. With so many temporary plant shutdowns in recent months caused by the shortage of semiconductors, there has been increased discussion on whether localised supply chains would be better. However, there is increasing evidence that this localisation approach is taking place with significant investment in battery technology in the UK and Europe as batteries are costly and difficult to ship in any great numbers.

Distribution and retail

With changes in the upstream, this will inevitably have an impact on the downstream. Technological change will not only impact the products which are sold, for example electric, fuel cell, autonomous, and more; but also, the way in which these products are retailed and used. The distribution process is changing. COVID-19 has rapidly accelerated online sales and dealers who haven't invested in this approach will have to adapt or not survive in the medium to long-term. Manufacturers are reviewing the direct sales approach, including the agency model, which would leave dealers focused on customer service/experience and satisfying new post-sale, used car, and aftersales demand.

There are multiple examples now of manufacturers vertically integrating their model into the distribution and retail operations: virtual integrated retail (VIR). It has been done before, with success, in small markets and with those brands which do not have a legacy retail network e.g. brands such as Tesla, where it takes just 13 clicks online to buy a £35,000 vehicle. Mobile technicians undertake much of the servicing, providing convenience to the customer and reducing the need for an expensive physical footprint.

However, there are still plenty of activities outside of the vehicle manufacture and handover process. The wholesaling of vehicles will be just as important, but as with retail, there has been an increased digitalisation of the process. Auctions are likely to be offered online, as well as physical sites in the short to medium-term, and organisations in the remarketing space will need to adapt to the requirements of EV technology.

We expect to see further simplification in model ranges with fewer model derivatives, as customers demand cheaper EVs. Such a reduction will simplify distribution and retail processes. In contrast, some of the high-end luxury brands may go in the opposite direction, introducing even more customisation but at lower volume in order to enhance profits margins, such as Porsche providing the opportunity to customise interiors on its more high-end vehicles.

Summary

In summary, costs need to be taken out of the supply, distribution, and retail chains to support the ongoing development of automotive technology, EVs, and CAVs. This cost reduction is likely to be done in a number of ways: new technologies, vertical integration, increased online purchasing options, vehicle servicing done over-the-air (OTA), and more. All these changes will need to be carefully planned, with business strategies put in place for 2022 and beyond. Read more about this in the Business strategy 2022 and beyond chapter.

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