Market Report

The future of car retailing

AutoTrader

September 2019
Contactless car vending machine
Introduction

Welcome to the Auto Trader Market Report, a biannual review of the UK’s new and used car markets. We explore how the industry is evolving and how consumer buying behaviours are changing, based on data from Auto Trader, the UK’s largest automotive marketplace.

The report considers what is in store for car retailing and how we must adapt as an industry to capitalise on future opportunities and make the industry work better for all involved.

It’s an interesting time for the automotive industry right now, and some are feeling the pressure. Both new and used car transactions remain depressed according to the Society of Motor Manufacturers and Traders (SMMT), with used car registrations falling by -1.7% during the period January to August 2019, and new car registrations falling by -1.7% during the period January to August 2019

Brexit-related uncertainty is hampering consumer confidence, as well as requiring investment to plan for different scenarios. Emissions legislation is growing rapidly too, with searches on our site up 36% year-on-year. We continue to believe these demand stimuli will drive long-term growth as the macroeconomic backdrop recovers.

What’s more, the more forward-thinking approach that some retailers are taking has seen them bucking the trend – c.85% of which is offline. What’s needed is a digital ‘rewiring’ at (almost) every step of the retailer process, to address this mismatch and take a much more digitally led, data-driven approach.

Given all of this, we see a real opportunity for the industry as a whole to improve the process and make it work better for consumers and retailers alike. The fundamental challenge here is a mismatch between where consumers are spending their time – c.70% of which is online, vs. where retailers are spending their money – c.85% of which is offline. What’s needed is a digital ‘rewiring’ at (almost) every step of the retailer process, to address this mismatch and take a much more digitally led, data-driven approach. If done well, this should be a win-win for all – yielding tangible economic benefits to retailers, as well as providing a substantially better experience for consumers.

We must adapt as an industry to capitalise on future opportunities and make the industry work better for all involved.

That said, consumers want more from the automotive industry. Our Car Buyers Report revealed 15% of consumers are ‘dreading’ buying a car – and that goes up to 40% when you narrow it down to women aged 45 and over. With more than half (60%) of car buyers completing a purchase in a state of exhaustion and frustration, with a feeling of just having to ‘get it done’, it’s hardly surprising that 85% don’t even think the car they purchased was their ‘perfect car’.

There are a whole host of different pain points that contribute to these findings, but at the centre of them lies a feeling of ‘cognitive overload’ – many consumers feel they are faced with complex choices, find it too difficult to compare, have too much jargon to contend with, and have a lack of clarity (or understanding) about the information that’s being presented to them. Added to this, they feel there is a lack of transparency when it comes to price – leading to a worry that they’re being ‘ripped off’.

There’s no getting away from the important offline elements of the journey. There needs to be a seamless, omni-channel experience for consumers so they can choose the journey that’s right for them – be it online or offline, or any combination of the two. A one-size-fits-all approach won’t work, so we need to create an experience that’s flexible enough and ‘blended’ enough between digital and physical to cater to everybody’s needs.

It’s a big ask, but given the scale of the purchase, it’s one that we as an industry need to work towards delivering. This report examines further why now is the time for change, how we can make those changes and explores what we believe the future of car retailing needs to look like.

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02

Key findings

45% would buy a new car online without seeing it in person if done so on finance.

19.5 Consumers think it will be 19.5 years before cars are bought without human interaction.

This figure increases to 64% for 18-34 year olds.

74% wouldn’t buy a car without speaking to a retailer.

75% think it’s difficult to work out the actual price you’ll pay for a car.

88% of consumers think car prices should be more transparent.

GREAT PRICE

Below average

Above average
03

Market overview: under pressure

It's safe to say the automotive industry is currently in a state of flux, not least driven by the political uncertainty that Brexit continues to cause. Sterling has fallen 15% against the euro since the Referendum in 2016 and while prices have increased it has not been at the same rate as the pound falling. This has dented manufacturers’ profits and they can’t absorb this impact long term. Countries across the EU and rest of the world will have higher relative levels of profitability and are considered more attractive options with greater return on investment, so UK retailers have seen less new car stock as a result.

Baffled consumers

Consumer confusion is high, and confidence is low. The uncertainty caused by Brexit creates reluctance to commit to spend. The inconsistent messages consumers have received in recent years around fuel type: “buy diesel!”,”buy hybrids!”,”don’t buy diesel!”,”buy electric!” has also had an impact. It’s confusing and intimidating, and they aren’t sure which is the best option for them.

However, there are pockets of growth in some areas of the market, particularly EVs and SUVs. Data from the c. 50 million cross platform visits a month on Auto Trader shows that searches for alternatively fuelled vehicles are up 36% year-on-year. SUVs have grown in popularity too, with sales increasing by 279% (2018 vs. 2009) and today they account for a third of new car sales in the UK.

Supply and demand

Although sales of EVs were encouraging in August 2019, with registrations up 377.5% compared with the same time last year, there are other issues. The impact of emissions legislation, like WLTP (Worldwide Harmonised Light Vehicle Test Procedure) and now RDE (Real Driving Emissions), is creating supply constraints and in some cases, manufacturers are struggling to meet demand.

The cost of building these cars is high and lithium sources are expensive, leading manufacturers to pump more investment into R&D, seek alternative sources of battery supply, develop specific EV

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4. Based on fuel type searches on the Auto Trader marketplace, August 2018 vs. August 2019
5. SMMT : New car registrations August 2019
6. SMMT : New car registrations August 2019
model platforms and make production processes more affordable. Currently the expense is being passed onto consumers. So, while the total cost of ownership for EVs is usually comparable with or even slightly favourable to internal combustion engines (ICEs), the initial outlay is considerably higher. Used EVs are expensive too. In July 2019 they reached their highest average price of £26,802 according to the Auto Trader Retail Price Index. That’s because demand is great but supply for used models is low, pushing prices higher. For example, the Renault Zoe was the third fastest selling used car in August 2019, taking just 24 days to turn compared to a market average of 57 in August 2018.

Even at these price points, leasing and finance options make it more affordable for consumers. Finance has the added benefit of taking the risk of residual values away from car buyers and this is particularly relevant for EVs, as there’s a lack of knowledge around battery life. The SMMT reported in August 2019 that the new car market declined for the sixth consecutive month in Q2 2019, and the used car market dipped in Q2 by 2.8%. However it seems to have recovered more recently and we’re optimistic for a better outlook in H2 compared with H1.

The prices of used cars are being impacted partly as a result of these trends, as well as CAP HPI’s market adjustments which are still heavily used in the wholesale market. Since January this year, the average price growth has been flattening and we reached a tipping point in July; used car prices are now in decline according to the Auto Trader Retail Price Index, driven by strong levels of supply and the softer demand environment.

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Tough market environment

It’s not just buying habits that are putting retailers and manufacturers under pressure. Rising property costs driven by local business rates and wage growth, as well as the challenges of complying with the apprentice levy, are raising the bottom line. Finding ways to reduce costs and increase margins on stock will go a long way in taking the pressure off.

Retailers today are also suffering the pressures of the UK’s challenging economy through a domino effect. The economy impacts manufacturers (currency rates and taxes) which, in turn, set franchise retailers ambitious targets and squeeze margins on new cars.

The retailers that have been outperforming the current market trends are those which have adapted. Franchise retailers, for example, are increasingly focused on used cars because they have more control over the prices and the margins are better than those on new cars. The more successful independent retailers have proactively responded by concentrating operations too, with digital-led approaches to stock sourcing, promotion and pricing including a focus on ancillary penetration.
People still find buying a car difficult, as we discovered in the Auto Trader Car Buyers Report in July 2019. There are approximately 28 jobs to complete before they receive their new car keys, although buyers can only identify four or five which makes the process daunting and tough.

For example, price is a testing part of the car buying process; 88% agree car prices should be clearer and 75% think it’s difficult to work out the actual price you’ll pay for the car.

In spite of this, one in six people in the UK transact each year. We – both Auto Trader and the wider industry – should make transactions simpler and faster so that more people finalise a deal rather than being put off: 42% are unlikely to carry on the process of buying a car because of the pain points they’ve experienced and a third (33%) would have bought their car sooner if they’d had a smooth experience.

This highlights the huge opportunity to drive more transactions for the industry; if c.10 million cars are currently not relevant to used cars

Drivers for buying new/used cars online

<table>
<thead>
<tr>
<th></th>
<th>New cars</th>
<th>Used cars</th>
</tr>
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<tbody>
<tr>
<td>No haggling</td>
<td>85%</td>
<td>75%</td>
</tr>
<tr>
<td>Safer payment process</td>
<td>75%</td>
<td>65%</td>
</tr>
<tr>
<td>No stock restrictions</td>
<td>90%</td>
<td>80%</td>
</tr>
<tr>
<td>More options to customise</td>
<td>85%</td>
<td>80%</td>
</tr>
<tr>
<td>Don’t have to deal with retailers</td>
<td>90%</td>
<td>80%</td>
</tr>
<tr>
<td>Can get car quicker</td>
<td>85%</td>
<td>80%</td>
</tr>
<tr>
<td>Easier to compare deals</td>
<td>90%</td>
<td>80%</td>
</tr>
<tr>
<td>Ease and convenience</td>
<td>90%</td>
<td>80%</td>
</tr>
</tbody>
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Only 1 in 5 consumers want to avoid retailers when buying used – there’s more to go wrong, so people value reassurance.

88% of consumers agree that car prices should be clearer
transacted at a speed of turn of 3.4 on a car parc of 34 million, increasing the ease of buying a car should increase speed and thereby the number of transactions and size of the market. For instance, if we can reduce speed of turn to 3 from 3.4, that would equate to an additional 1 million transactions.

The industry needs a digital rewiring to enable the end-to-end process to be online. But, one size does not fit all and we know consumers do the 28 jobs of car buying in a non-linear fashion. We need to give them the tools to dip in and out of the process and let them do the parts they want to online or offline. The key is their journey must be a seamless omni-channel experience – whether it’s online, offline or, more likely, a blended mixture of both.

It needs to change for retailers too

As the whole industry evolves and takes a more digitally led role, there’s a huge opportunity to streamline costs. Today, a lot is spent on the physical forecourt, and the offline retail experience is expensive. This creates a mismatch between where car buyers are spending their time (online) and where retailers are spending their money (offline).

The physical aspects of car buying remain very important to most car buyers, which has limited retailers’ ability to respond to this to date. To meet the varied needs of consumers, retailers won’t all look the same. Some will become brand experience

Creating a mismatch between where car buyers spend their time and retailers spend their money has caused failures in other retail categories

Today, a lot is spent on the physical forecourt, and the offline retail experience is expensive. This creates a mismatch between where car buyers are spending their time (online) and where retailers are spending their money (offline)
destinations which give customers an interactive adventure. Others will be specialist logistics and service centres, or easy-to-access, in town-located ‘stores’ where customers can ask questions or touch and feel the car they’re interested in. The point is, not all dealerships will be the same traditional retail forecourt, each will have something different to offer.

Improving the car buying process for consumers will mean greater financial opportunities for retailers because they’ll be more likely to complete the car buying process quicker; if we can address the consumer pain points, reduce cognitive load and help them move through the process, it’s a win-win for everyone.

This new approach to retailing will mean greater revenue and an improved bottom line. In fact, retailers will be able to run much bigger sites, will have the propensity to turn cars faster and run these centres with fewer staff working with more efficient processes allowing them to see more customers as the time consuming parts of the buying process move online.

Improving the car buying process for consumers will mean greater financial opportunities for retailers because they’ll be more likely to complete the car buying process quicker.

Less activity in physical stores should have resulted in lower costs, but instead we have seen costs increase

What are other industries doing?

The late 90s and early 00s saw changes in travel retailing with the emergence of companies such as Booking.com and Skyscanner following a difficult trading period for more traditional tour operators, which were forced to consolidate and evolve. A decade later in 2010, a similar story unfolded in furniture – particularly mattresses – with the arrival of Made.com, Eve, Emma and Simba etc., while traditional retailers struggled.

Skyscanner and Booking.com have adapted significantly to benefit from the changing retail market, moving from content and advertising-driven marketplaces to transactional platforms. Both companies now enable booking journeys on their platforms on behalf of airlines and hotels; the airline and hotel remain the principal transaction however many of these platforms drive better conversion of ancillary sales which is where the bulk of the margin is. At Auto Trader, we have started to put the building blocks in place to support retailers in digitising their business operations. Consumers do their research online, and we put the tools in place to help retailers be found online. We’ve also enabled retailers to source stock more efficiently through our Dealer Auction joint venture with Cox Automotive. This joint venture provides vendors with a huge buyer base, whilst empowering buyers with data-driven prioritisation of the stock that best suits them. All for significantly less than the fees they pay at physical auctions.

The next stage is to help retailers enable transactions to be completed online. One of the ways we’re doing that is through part-exchange for consumers; making the process more convenient, and eliminating the need to haggle with retailers, which we know is a key pain point. Removing those pain points and making the part-exchange process easier, and more transparent is key. Bringing this process online in a way that enables online transactions will see a big shift in the market.

Consumers do their research online, and we put the tools in place to help retailers be found online.
Making headway

UK online retail already accounts for almost 20% of total retail sales and it’s growing at a rate of three times the rate of offline. Within just five years, online retail is likely to be over 50% of all UK retail sales. PwC’s recent review of the High Street revealed that retailers in a variety of sectors, including fashion and property, are closing the doors of their physical stores to financially gain from the continuing move online. Around 2,870 stores shut in the six months to June 2019 as retailers restructured their businesses.

While automotive is vastly different to retail sectors like fashion, we can learn from their omni-channel solutions and apply them in a way which suits our industry and the demands of our consumers. Online car sales are growing, with sales expected to pass one million next year, compared with 618,000 in 2018, which was nearly double the number sold online in 2017. According to Frost & Sullivan, this growth is expected to continue, and in 2025 it’s predicted online sales will surpass six million.

Automotive retail has been immune to digital transformation until now for a myriad of reasons. In recent years, manufacturers haven’t driven change in new cars; they created new styles and versions of what has worked previously but the retailing journey or experience has not been a focus for change. In addition, compliance with environmental standards is more challenging than ever, and manufacturers have had to find budgets to invest huge amounts into R&D for electric vehicles.

We’ve also had the fortune of a stable economic backdrop for the last 10 years which has supported current retailing models. But now the market is tougher and cost pressures are building.

UK online retail is growing at a rate of three times the rate of offline and, within just five years, online retail is likely to be over 50% of all UK retail sales.
Retailers should aim to use their on- and offline assets to curate powerful, seamless experiences. Integration of data will be crucial to make sure retailers: have the right price stock at the right price; have competitive finance options; and understand what the consumer has done before and when and why they want to interact.

To do this effectively, retailers should invest probably more in their digital offering as they do their physical one, as this is where their customers are spending their time. Currently, it’s only the marketing function that is invested in digitally by most retailers. There needs to be more digital investment at every step of the retailer process, including logistics and prep; buying

Large groups are building independent car supermarkets which are focussed on lower prices and fast stock turn, creating more competitive price points for consumers

05
Futureproofing the dealership

The elements to deliver an end-to-end online transaction

- Guaranteed part-exchange
- Vehicle finance
- Car history check
- Deposits & online finance application
- Online payment
- Price indicator
- Vehicle delivery
- Dealer reviews
There needs to be more digital investment at every step of the retailer process, including logistics and prep; buying and pricing; and, in particular, sales, as well as finance and add-ons.

Therefore, we’ll continue to see franchise dealers consolidate with fewer larger groups in the franchise space. Independents will continue to use this opportunity to use their agility and size to adapt to local market conditions, making use of their flexibility when it comes to product choice and operating approach.

Online spend versus offline spend

<table>
<thead>
<tr>
<th>Areas of retailer process</th>
<th>From</th>
<th>To</th>
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<tbody>
<tr>
<td>Buying and pricing of vehicles</td>
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<tr>
<td>Logistics and preparation</td>
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<td>Marketing</td>
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<td>Sales</td>
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<td>Finance and add-ons</td>
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and pricing; and, in particular, sales, as well as finance and add-ons.

We are already seeing the emergence of this future today, with large groups building independent car supermarkets which are focused on lower prices and fast stock turn, creating more competitive price points for consumers.

While there’s significant local pressure between retailers, there’s been little national competitive pressure because of the massive fragmentation in automotive retailing. This makes it very different to other retail categories that are more concentrated, such as what Tesco and Walmart did to grocery retailing in the UK and US respectively. But new entrants including supermarkets, pure on-line players, manufacturers, captive finance houses, leasing companies and progressive retailers are scaling up and looking to distribute more widely, meaning that the competitive pressure is now rife.

Research showed us that 10% of UK car buyers would buy a car online and we felt this was only set to grow. There was scepticism about whether we could provide the level of service customers expect when purchasing such a high value item, but the response has been so good we’ll be growing our stock from 50 vehicles to 200 by the year’s end.

Part of the reason is down to our adoption of a truly consumer centric model. We believe that the traditional retail model has left car buyers feeling they’ve a one-sided relationship with a dealership, often feeling like the salesman just wants the sale rather than provide the right car. With our model we’ve strived to create an equal partnership. There’s no commission structure and our only incentive is based on customer satisfaction, leading to 66% review penetration on Trustpilot (average of 16%) and 99% five stars.

Crucial to our customer centric philosophy is our 14-day test drive. We implemented this from the get-go as we recognised that whilst online retail eliminates many pain points, they still want the physical interaction with the car. The extended test drive allows them to do this and experience ownership, allowing them to feel fully informed and ultimately in charge of the buying process. The figures speak for themselves: 99% of consumers who take a 14-day test drive end up buying the car. Out of the 1% that return the vehicle, 66% take another vehicle from us instead. The reason for return is usually down to the vehicle not meeting their day to day requirements e.g pram doesn’t fit in boot.

And that is what our service is all about, giving our customers the time and freedom to make an informed decision on their purchase.

With the emergence of online retail and the increasing digital marketing and marketplace capabilities, there’s never been a better time to implement a truly blended online and offline experience that offers the best of both to car buyers.
Futureproofing the dealership

John Evison, Associate Partner, OC&C Strategy Consultants

Most of this change understanding what bundles propositions. Opportunities to become the default for consumers motoring, and digital entrants (e.g. contract hire, rental and lease packages) sniff opportunities in building their own bespoke capabilities to close the gap, and many have attractive consumer journeys, including Hendy, Vertu, Chorley Group, Peter Vardy and eCars247.

Indi...
led particularly by strong growth of the prestige brands, which are made more affordable when bought on a finance deal thanks to their healthy residual values relative to volume brands. With fewer consumers registering cars because ownership models are changing, the way we monitor the industry will have to change; it will become more valuable to track the number of times cars are utilised by a consumer rather than the number of transactions and registrations.

Retaining trust

Even though retailing models are changing, it’s essential to maintain and continue to build trust with consumers to ensure they come back for aftersales support, locally, and when it’s time for them to buy their next car. Our research shows three in four (74%) wouldn’t buy a car without speaking to a retailer. And around half of the consumers surveyed are trying to establish if they can trust a retailer when they visit a car. For used cars, trusting a retailer is as important for consumers as the look and feel of the car itself.

The people we surveyed think it’ll be nearly 20 years (19.5 years) before new cars are bought without any human interaction at all. This is nearly the
Consumers think it will be 19.5 years before new cars are bought without any human interaction at all.

same amount of time as they think it will be until you can get treatment for minor medical issues without human interaction (21 years). Crucially, the nature and length of those appointments will change thanks to the seamless online experience. So, each customer service advisor will be able to sell more cars and recognise greater revenue.

The automotive model will change to the benefit of car buyers, retailers and manufacturers alike, but people still value human interaction. As an industry, we must ensure each touchpoint in the car buying process gives consumers the trust and reassurance they need to finalise their purchase.

The future of car retail is an omni-channel approach, one built on trust, and one with a seamless link between the online and physical touchpoints to make the car buying experience easier, quicker and, ultimately, more valuable for buyers as well as sellers. Change is inevitable, and the industry needs to evolve alongside it to ensure its long-term success. In the short-term, to win in this increasingly competitive and challenging landscape, buy the right stock and price it correctly from day one.

Research methodology

Consumer research

Auto Trader partnered with Join the Dots, an award-winning consumer insight agency, to explore attitudes towards buying cars now and in the future, among a nationally representative sample of 2,000 UK driving licence holders. Research conducted in August 2019.

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 (manufacturer, fleet and leasing disposal prices, in addition to pricing data from over 3,000 car dealership websites), ensuring the Index is the most accurate reflection of the live retail market.
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 100 Index.

The marketplace brings together the largest and most engaged consumer audience. Auto Trader has over 90% prompted brand awareness and attracts circa 50 million monthly cross platform visits each month, with over 70% of visits coming through mobile devices.

The marketplace also has the largest pool of vehicle sellers (listing around 450,000 cars each day). Around 80% of UK automotive retailers advertise on autotrader.co.uk.

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

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For the latest news, views and insight for the automotive retail community, follow @ATInsight on Twitter and LinkedIn.