

# The Future of the Car Dealer

Adaption to Disruptive Trends



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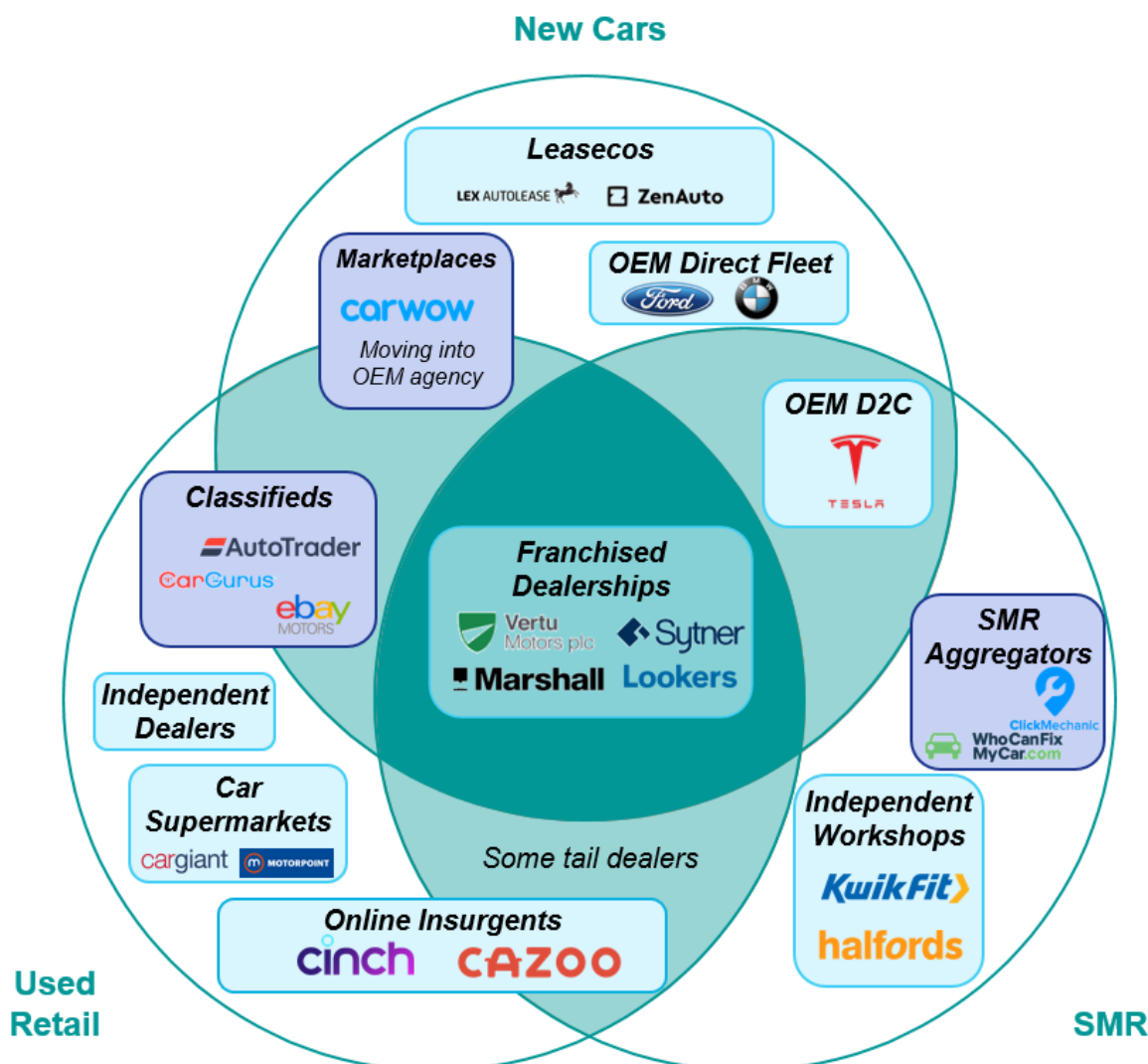
# Three in a BEV – how OEMs, consumers & the government are reshaping car distribution

The actions and priorities of consumers, OEMs and the government are changing the future of vehicle distribution in all markets. Traditional dealers have compelling advantages in this new world but will need to adapt to thrive.

The UK is one of the Top 5 European markets and has set the disruptive trends most due to high e-commerce adoption and the competitive landscape. We explore the changes in this market and what it means for dealers and others in the value chain. These trends are either already happening or will do so in other geographies.

## 1. The starting point: £13bn dealer profit pool, but fragmented and slow to modernise

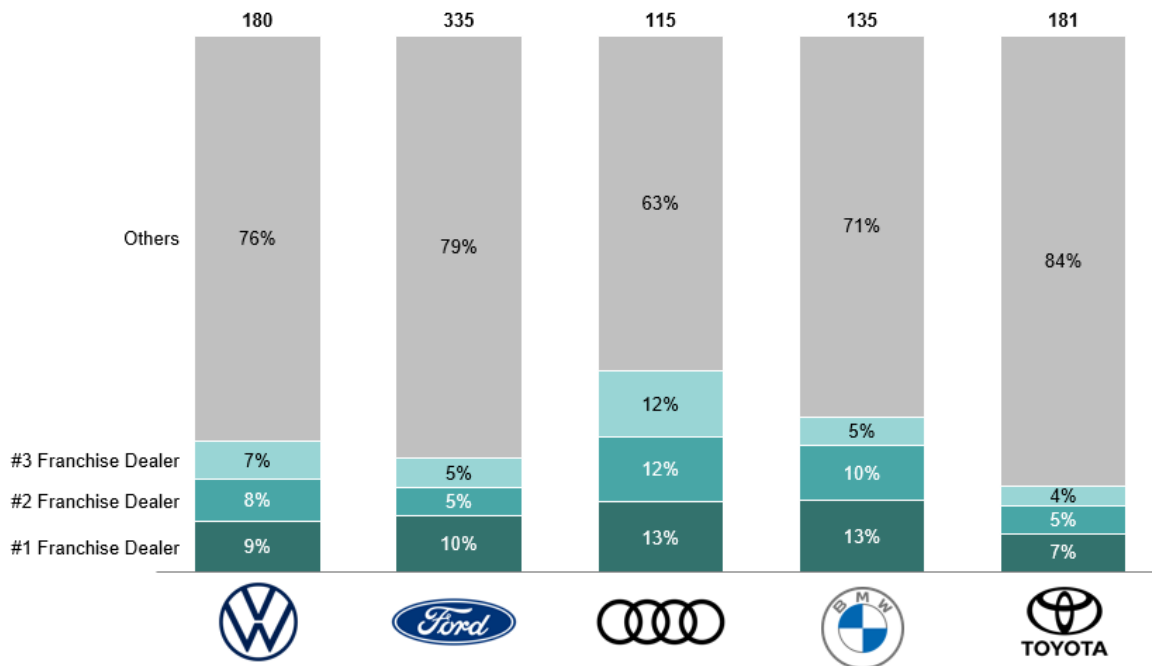
The UK dealer gross profit pool is £13bn, split across new sales (£2bn), used sales (£3.5bn), and aftercare (£4bn), with another £3.5bn of finance and ancillary commission. Franchise dealers are unique in having a presence in each segment competing with a wide range of other operating models focusing on one or two segments, but without the OEM relationships that dealer groups enjoy.



New sales to consumers are dominated by franchise dealerships today but they are relatively fragmented - the largest dealer share of any top 10 UK marque is c.15% - and the industry has limited (financial) scale economies: PAT margins sat in a tight 0-2% range pre COVID regardless of scale, as OEM rebate and incentive structures make it hard to long-run perform above this range. That said, there are clear operational scale advantages, especially access to stock and flexibility in used car sales.

### The top 5 marques by sales in the UK are already reasonably consolidated, with the top 3 franchise dealers comprising c. 20-37% share of outlets

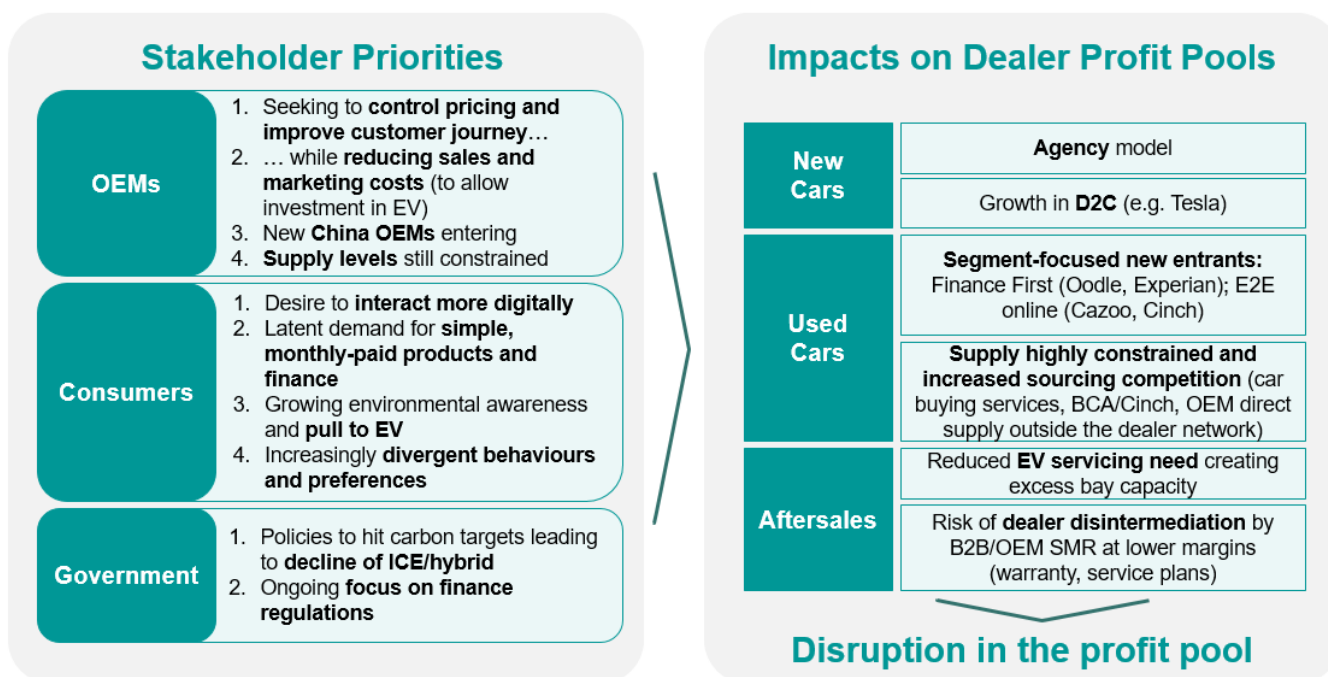
Franchise Dealers' Share of Top 5 UK Marques, 2022  
(Share of Sites, Top 3 Dealers for each Marque)



Competition is more diverse in used retail: franchise dealers have approximately 40% share (focussed on younger cars), with the rest split between independents and private sellers. Online insurgents like Cazoo and Cinch in the UK or Carvana and Vroom in the US are still small today (c.2% share in the UK). Servicing is similarly fragmented: outside the franchise dealers (35% share), the next biggest aftercare provider is only ~2% of market (Halfords Autocentres with 550 sites).

Across new and used retail, and aftersales, the customer journey is well behind other retail categories. While bricks and mortar dealers are slowly embracing digitisation, with many introducing transactional click-and-collect capability on websites during COVID, progress to a truly slick customer journey has been impeded by the complex integrations required into OEM and finance provider systems. For the vast majority of customers who still transact in person, the sales process is barely quicker than when it was done on paper twenty years ago. On the dealer side there has historically been low focus on customer life-time value and joining the dots across new, used and servicing departments.

2. OEMs, Consumers and Governments are driving change across New, Used and Aftersales like never before



- **OEMs are taking radical steps to reshape distribution and retail, and reduce costs**

OEMs are gradually rolling out agency models in new, to better control prices, reduce costs and improve the customer experience. While this will reduce profits per car for dealers, this is offset by not having to fund the cars on the balance sheet.

Under agency, OEMs remain unlikely to participate in warranty and servicing, and the agency sales journey risks the ability of the dealer to capture point-of-sale ancillary and in-life servicing profits. Staff will be expected to act as “product experts” (cf Apple Store) for the new car sale and OEM finance, but as “hard sellers” on value pools retained by the dealer. The future shape of the new car customer journey is not yet clear.

- **Vehicle supply environment remains challenging on Used**

In the background, the supply of new vehicles is slowly normalising, with major brands like BMW and Mercedes bringing volumes back to market. Better stock availability on new should provide support to the dealer channel, but margins will normalise too, and we expect to see the return of discounting and incentives; including in agency channels.

Nevertheless, it will take time for any new volume to flow into used stock and availability of quality younger used stock will be very constrained for several years to come as the impact of >2m ‘lost’ new car sales in recent years flows through.

The exception is used EV stock - where the first wave of adoption on leases and salary sacrifice is maturing and the supply of 3-year-old EV will increase dramatically over the next 12-24 months.



- New OEMs are entering, with different distribution models**





Tesla is already well established and has pioneered a direct distribution model. New EV OEMs from China are set to enter, with Chinese EVs forecast to reach 12-20% of the European EV market by 2030. There is risk they will adopt D2C models as Tesla have, though initial signs are this is an opportunity for dealers: Pendragon now sell BYD cars, and Lookers have dedicated GWM ORA outlets. At the premium end of the spectrum, Genesis has also recently switched in the UK from an online-only direct distribution model to looking for dealer group partners to run franchises.

- Consumer behaviour and preferences are changing, but not uniformly, making it difficult to serve them under today's 'one size fits all' model**

Almost all customers now start their car buying journey online. While most still transact in person, the online entry point is allowing insurgents to gain share by reordering the customer journey. Examples include brokers deploying a "finance first" journey, directing buyers to their own cultivated dealer panel, as well as car buying services decoupling part exchange and subscription players starting to achieve lift-off. Traditional lead gen players are also reaching further into the transaction - for example Carwow acting as an agent for new sales.

Based on OC&C's recent Speedometer survey, we also see consumer preferences segmenting: 17% of consumers are "early adopter" enthusiasts for all three of digital transaction, EVs and subscription ownership, while 23% are "carservatives" who want to stick to the traditional approaches.

The effects are most pronounced in used sales, where traditionally franchise dealers have been losing share to other players in the used car market by 1-1.5%pts pa.

	Status Quo	Segment-focused New Entrants			
Customer Journeys	Hybrid: start research online but transact in person	Transact Unseen	Finance First	Sell my Car First	Fixed Monthly Payments
UK Insurgents Serving Not Exhaustive	N/A	 + traditional dealer click and collect	 CarFinance 247	 Selling Made Simple	
Scale Indicator (vs ~9m car sales pa)	Vast majority of market: 70% want to see the car in person	Cazoo and Cinch combined run rate of c.100k sales pa	CarFinance247 thought to be c.50k sales pa	Motorway c.150k purchases pa in 2022 (over 2x vs 2021), WBAC c.350k in 2019	Small today (<c.50k cars on the road) with Cazoo having shuttered Drover
Impact on Dealers	N/A	Competition for used sales (and used stock given BCA/Cinch relationship)	Seeking to (partially) disintermediate the dealer by capturing the lion's share of finance commission	Threat to PX sourcing - affecting used volumes and margins	SMR becomes intermediated. Dealer is relegated to a service provider in a bundled product.

- Government regulation is pushing EV penetration, but this need not drive down aftersales profit pool**

Government carbon reduction targets are stimulating BEV growth - set to reach c.20-25% of UK parc by 2030. OEM factory and R&D investment required to transition to EV is driving cost rationalisation from OEMs in sales, marketing and distribution, including reducing rooftops.

EV servicing requirement is materially (up to 50%) lower, which will lead to large amounts of excess bay capacity across servicing networks. It is not clear, however, that the profit pool open to franchise dealers will erode: dealers are well positioned to gain share from independents in older car SMR given complexity, advantage in technician recruitment, and consumer trust issues around EV, and given the large capital costs of enabling EV servicing and charging.

### 3. Traditional dealers have enduring advantages

Integrated, branded physical sites will remain a key source of advantage: they are an operational necessity for servicing and for hybrid sales journeys, 70% in the UK value seeing the car before purchase, and customers are 15% more likely to buy a used car online from an OEM-branded dealership.

For franchise dealers, the OEM connection is powerful: it supports approved used metal margins (c.£300 higher than independents), a servicing price premium, and reduced customer acquisition costs. New vehicle sales support a privileged sourcing mix via part exchange (Inchcape source 90%+ of UK used sales from consumers), avoiding intermediary fees and logistics costs.

The pureplay digital models of Carvana, Cazoo and Cinch have turned out more manual and asset-heavy than the early promise, with multiple sites for handling, preparation, and customer service, including servicing hubs - replicatory costs inherent on the traditional dealer world.

	Number Of Logistics Moves (Used)	Used Sourcing	Servicing Revenue Capture (Used Cars)	Marketing Costs
Traditional Dealer	<p><b>0 - 1</b></p> <p>Prep and retail collocated; often no move to prep if PX</p>	<p><b>High PX Mix</b></p> <p>Lower for multi marque independents</p>	<p><b>c.50%</b></p> <p>Lower for multi marque independents e.g. Motorpoint c.25%</p>	<p><b>Low</b></p> <p>OEM brand halo for Franchises, mainly Autotrader</p>
Online Insurgents	<p><b>2 - 3</b></p> <p>Source to prep to collection point or home delivery</p>	<p><b>High Auction Mix</b></p>	<p><b>c.20% attach</b></p>	<p><b>High</b></p> <p>Large ATL spend</p>

### 4. Adapting to the changing profit pools creates near-term imperatives

A combination of a profit pools under pressure and high investment requirement to pivot to EV SMR will lead to continuing dealer consolidation. While there are challenges to navigate and a transition to fund, larger dealers are well positioned to benefit.

However, there are a number of near-term imperatives.

	Emerging Trends	Imperatives
New	Agency Model	Optimise and unbundle site <b>footprint</b> Digitise <b>on-site journey</b> <b>Reconfigure staff and commissions</b> eg, site vs central; sales vs product experts
	Growth in <b>D2C</b>	
Used	Segment-focused new entrants	Choose which <b>diverging consumer segments</b> to serve Grow <b>owned sourcing</b> beyond current PX & PCP return
	Supply squeeze & sourcing competition	
Aftersales	Impact of <b>EV</b>	CRM and pricing to <b>take SMR share from independents</b> Cross - site <b>service/repair plans</b> <b>EV SMR investment</b> <b>Mobile SMR offer</b>
	Dealer <b>disintermediation</b>	

Across vehicle sales (new and used) and aftersales, networks will need to be rationalised and reshaped. As OEMs seek efficiency by reducing the extent of their retail footprint, servicing capability close to customers will need to endure, likely leading to partial “unbundling” of new sales from used sales and SMR. New car showrooms will still be needed, though will focus more on product experience than the “hard sell”. The best dealer groups will centralise certain activities to reduce costs and move towards clusters of sites under different marques (with common back-end servicing and logistics where possible).

The nature of sales sites will also change: as journeys move to multi-channel and (in some cases) agency, the nature of sales and support roles will change. The amount of resource required may be the same but with a different footprint e.g., more product experts and fewer transaction managers. This will necessitate changes to sales commission and rebate structures, changing balance of base vs variable on areas where salespeople will become “order-takers” and focusing variable reward on what they can influence (e.g., finance).

Within used sales, dealers need to work out how to serve the divergent needs of different customer segments/purchasing journeys: finance-first, PX-first, mainly online, etc. Dealers should also act to protect their lucrative PX flows being unbundled by car buying services - we expect most to set up their own car buying channels, both to protect used car flow and to tap into PX-first car sales journeys.

As EVs reduce demands on servicing bays, dealers will need to use CRM and pricing to take share from independents in older vehicles, supported by B2B infill. The rise of distance selling in new and used also inhibits the ability to retain servicing income and reduces the incentive to sell service plans, and we expect more co-ordination between OEM’s franchise dealers across the country to address

this. We also expect to see mobile SMR grow to fill the gap and fulfil consumers’ unmet desire for convenience, particularly for EV where some routine service intervals are easier to do mobile (due to no oil changes). Today innovation in mobile is coming from the independent segment (e.g., Halfords with >500 vans in the UK and RepairSmith in the USA) but OEMs/dealers may follow.

There is much to do!

5. As well as short-term imperatives, dealers have options to participate in emerging business models

	Emerging Trends	Imperatives	Strategic Options
New	Agency Model	Optimise and unbundle site footprint	Multi-marque showroom in low density areas  Distributor for new/niche OEM
	Growth in D2C	Digitise on-site journey Reconfigure staff and commissions eg, site vs central; sales vs product experts	
Used	Segment-focused new entrants	Choose which diverging consumer segments to serve	Digital-first multi-brand used  Configure for transactional (metal margin, speed) or life-time value (SMR, repeat)
	Supply squeeze and sourcing competition	Grow owned sourcing beyond current PX & PCP return	
Aftersales	Impact of EV	CRM and pricing to take SMR share from independent	OEM-branded servicing specialist to infill (when points of sale reduce) and as OEM parts wholesaler to 3P garages
	Dealer disintermediation	Capture demand through service/repair plans  EV SMR investment  Mobile SMR Offer	

The emerging trends also create opportunities for dealers - many of which are less constrained by existing OEM relationships and industry norms.

In new car sales, as existing OEMs encourage the reduction in rooftops, retrenching to the most densely populated areas, consumers in less dense areas may still want convenient locations to see and test drive cars. In other industries, multi-brand retailers serve this need (e.g., in mobile phone retail, Vodafone relies on Carphone Warehouse rather than its own stores in low-density areas). Smaller and new entrant OEMs will need both a sales enablement solution and might be willing to give their national distribution contract to one dealer group who can piggyback off their existing physical footprint. These same opportunities apply in building in-life servicing garages linked to a marque but without (extensive) retail on site, or to organising new vehicle servicing and parts wholesale for niche/entrant OEMs.

In used car retail, franchise dealers will continue to get off-marque and older vehicle PX flow. Rather than disposing of it via auction, scale dealers have the opportunity to acquire or set up in-house multi-marque used car showrooms/supermarkets, likely with a digital-first customer journey.

Equally, dealers face a choice on which customer segment to focus on. Either a “local” model focused on driving customer life-time value oriented around high attach rate of financing, subscription SMR and repeat purchase to maximise CLTV, likely with a tight marque mix, or a more “national” business model oriented around using digital channels to maximise volume and transaction margin.



Pursuing some or all these strategies would both defend profit streams currently held by dealers and allow access to new ones, helping fund the expensive transitions of site consolidation, journey digitisation and EV readiness. Conversely, if dealers don't seize these opportunities, others will: marketplaces, finance brokers, digital entrants and branded after market players are all well-placed to take a slice of the value pools at stake.

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