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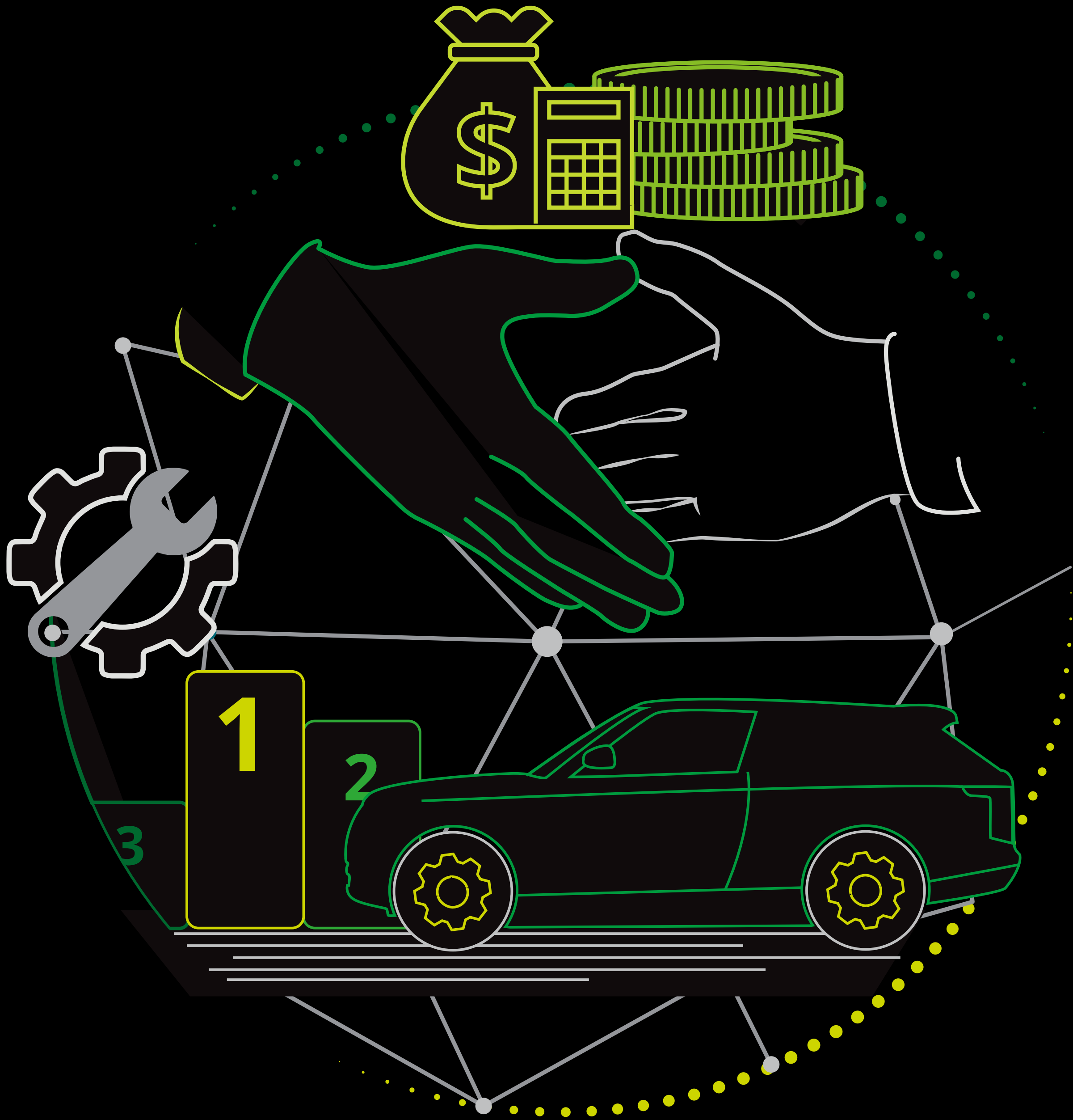


Omnipresence of services & direct sales in auto finance

How new products and sales models will threaten the market position of captives

Monitor Deloitte is Deloitte's strategy consulting team. We help leading global organizations to navigate the future with confidence by making clear, timely and inspirational strategic choices that deliver growth in a dynamic, disrupted world. We achieve this through a combination of deep industry experience, cutting-edge capabilities and an entrepreneurial mindset, which allows us to collaborate with our clients to resolve their most critical decisions, drive value, and achieve transformational success.

Executive Summary

- **82% of new vehicle sales** in EU5 (Germany, United Kingdom, France, Spain, Italy) markets are either financed or leased. This is **equivalent to 10.4 million units or EUR 316bn in total asset volume per year**
- In **2017, captives** had a **market share of ~39%, equal to a total asset volume of EUR 150bn**
- **New vehicle sales in EU5 markets are set to continue stagnating** until 2025
- This trend is **reinforced by changing mobility preferences**
- **Private customer requirements are expected to become increasingly aligned with those of corporate customers,** leading to more demand for flexible/modular products and services, direct online sales and full-service contracts
- This creates a **market environment ready for disruption** by various players (e.g. non-captive leasing companies, start-ups, fin-techs, and PE funds)
- **Companies** traditionally **focusing on corporate customers have begun to cater to private customers** by developing corresponding offers (e.g. full-service leasing)
- As the market declines, we expect **predatory competition to result in approximately 1.4mn units or a total asset volume of EUR 42bn being redistributed** from incumbents (e.g. captives) to new players (e.g. non-captives and start-ups) by 2025
- **Incumbent market leaders are now called upon to defend** their market position **by disrupting their own business sector**

Preface

Changing markets are putting the captive finance industry's highly successful business model under increasing pressure.

Captives, that is, auto finance companies wholly owned by OEMs (original equipment manufacturers), have enjoyed remarkable success over the last few decades, and have proven highly effective at helping their parent companies drive vehicles sales, increase profits, manage risks, provide customer services and promote customer loyalty. Their success has been based on an indirect business model that leverages their parent company's dealer networks to sell related products and services, mainly to private customers.

However, this traditional business model is currently in jeopardy. In Europe, in particular, several simultaneous market trends are posing challenges on different fronts. One such trend is new mobility, which is leading to market saturation and driving new vehicle sales down, reducing the overall size of the future market. Another is customer empowerment, which has seen people become more used to having their individual wishes fulfilled and therefore less inclined to accept conventional products and services. Digitalization is another challenge in that it has allowed competitors to leverage online sales channels to approach customers directly, bypassing traditional dealer networks. This enables them to challenge the captives' market segment, which up until now had been relatively well shielded.

These competitors include companies that, while traditionally focused on the corporate sector (e.g. fleet management and car rental companies), have recognized the increasing alignment between private customer and corporate customer expectations and begun to expand their products and services accordingly.

In view of these circumstances, the study at hand seeks to quantify the different trends, that is, to indicate the business volumes at risk for the stakeholders affected (captives and other auto finance companies), and to also offer approaches for tackling the myriad of challenges ahead.

The industry is changing

From vehicle ownership to vehicle usage

Fig. 1 – Future of Mobility: Changing usage and vehicle sales

3

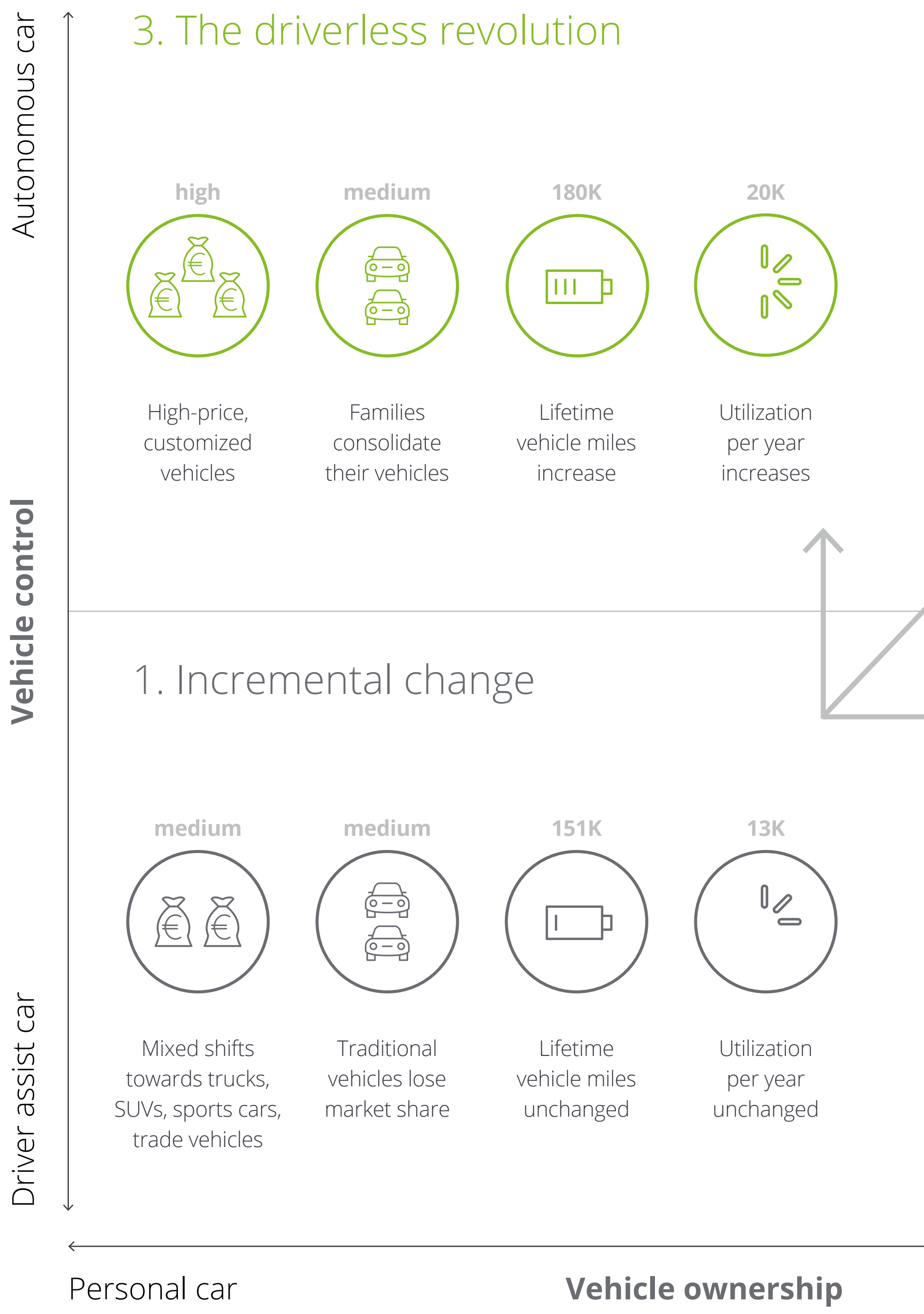
Future state 3 –
The driverless revolution

Future state 3 sees the widespread adoption of autonomous vehicles, but private ownership remains dominant. Drivers still prefer owning their vehicles but seek driverless functionality for safety and convenience.

1

Future state 1 –
Incremental change

A world where private ownership remains the norm as consumers opt for the forms of privacy, flexibility, security, and convenience that come with owning a human-driven vehicle. While incorporating driver-assist technologies, this future state assumes that fully autonomous vehicles do not completely displace driver-controlled vehicles at any time in the near future.

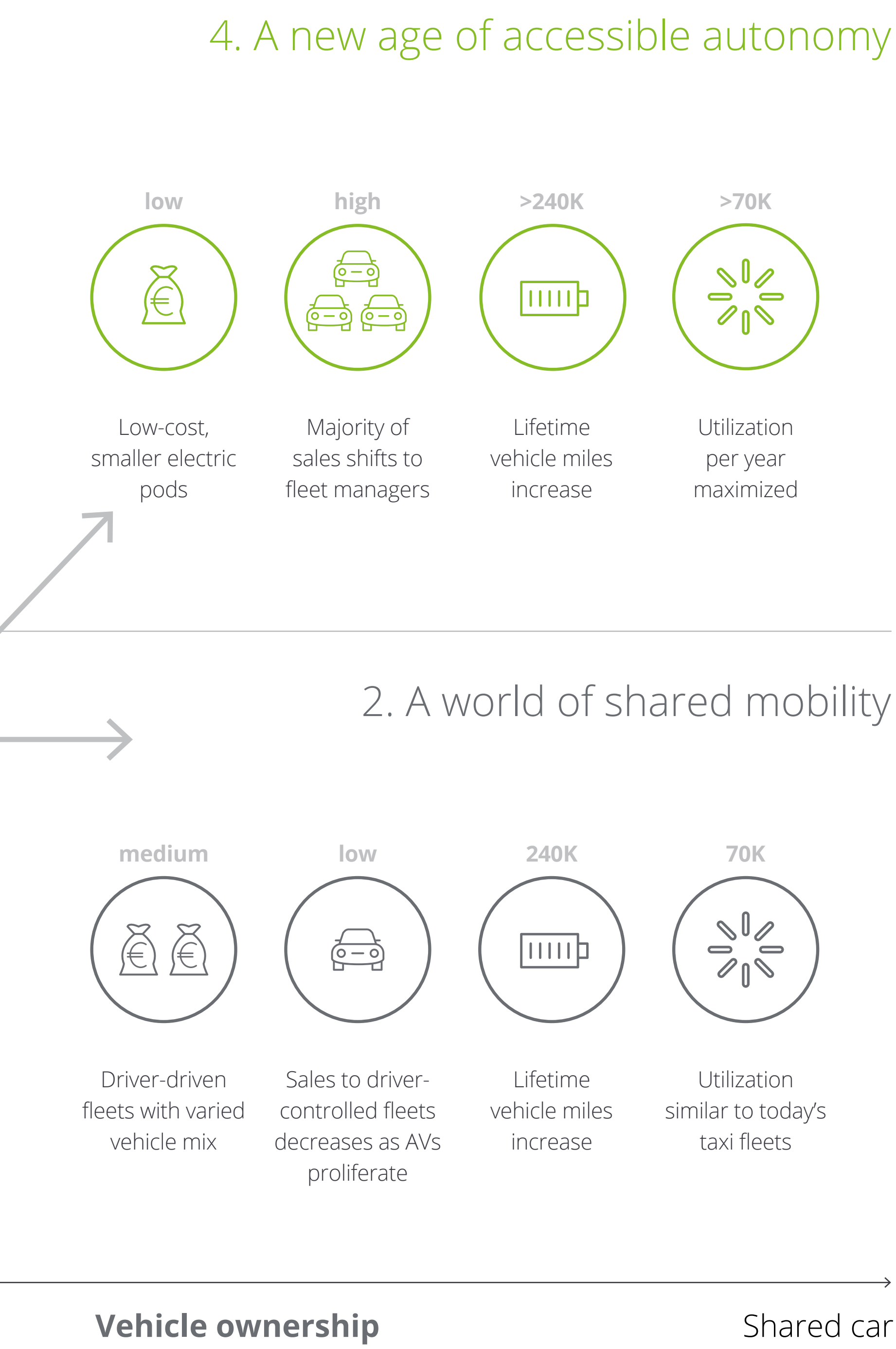


Source: Deloitte University Press

The four states of future mobility

Deloitte's publication "The future of mobility" lays out a framework that depicts the emergence of four concurrent "future states" within the mobility ecosystem. A key aspect of this framework is that all four states will likely co-exist across a number of geographies (urban, suburban and rural) and consumer demographics to a varying extent. They are therefore characterizations of market segments existing in parallel, rather than alternative scenarios.

For the next decade, Deloitte sees an overall growing importance of car and ride sharing as well as autonomously driven vehicles. In particular, the gradual shift from vehicle ownership to usage and the emergence of new cheap ride-hailing services in urban areas will ultimately result in declining new vehicle sales. In addition, more and more municipalities are looking for sustainable, environmentally friendly solutions for their increasing traffic problems. These include diesel/ICE bans.



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Future state 4 – A new age of accessible autonomy

Future state 4 anticipates a convergence of both the autonomous and vehicle-sharing trends. Mobility management companies and fleet operators offer a range of passenger experiences to meet widely varied needs at differentiated price points, initially in urban areas but spreading rapidly into suburban communities.

2

Future state 2 – A world of shared mobility

Future state 2 imagines how continued growth of ride-sharing and car-sharing may impact both companies and people. Economic scale and increased competition could drive the expansion of shared vehicle services into new geographic areas and more specialized customer segments. As shared mobility serves a greater proportion of local transportation needs, it might reduce the need for personal vehicles, particularly in homes that have several.

Welcome to the age of the customer

Empowered customers are posing an increasing challenge for the traditional sales channels used by OEMs and captives.

The automotive sector is seeing fundamental changes not only in mobility behavior, but also in auto customer preferences. Over the course of the past decade, digitalization has disrupted various industries and put the customer at the center of all activities. As a result, customers have become increasingly used to having their individual demands met. Amazon's same-day-delivery, Netflix's video on-demand and Wikipedia's knowledge library are three examples of services at the heart of this development.

Of course, these higher customer demands are not limited to the retail and media industries. With the walls that used to separate the various industries having been torn down by digitalization, changing customer demands are as much a challenge in the automotive sector as they are anywhere else.

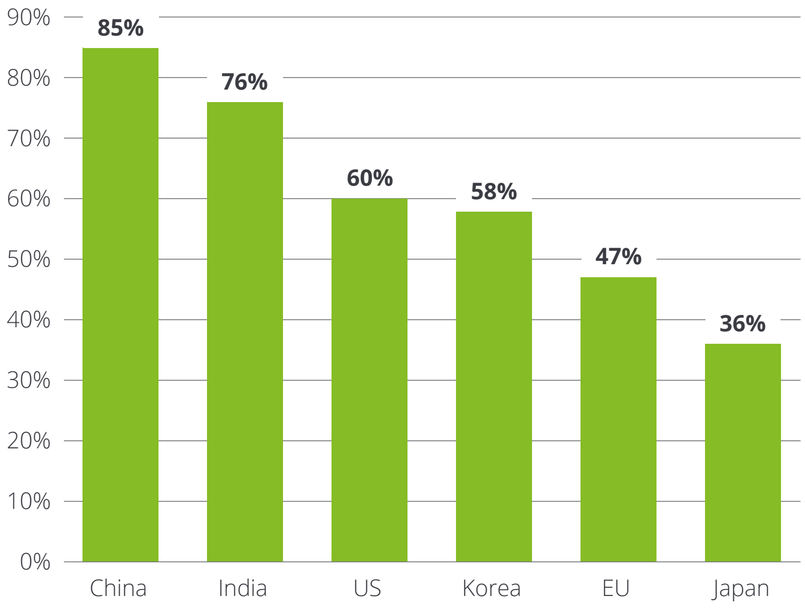
There are three trends driving this automotive industry shift:

- **Data ubiquity**
  Potential car buyers have to contend with an unprecedented amount of information. This includes not only "hard facts" (data about OEMs, models, powertrains, etc.) but also "soft facts" (e.g. opinions and rankings published by both independent organisations and customers (e.g. via online forums).

- **Online affinity**
  Potential car buyers are becoming increasingly willing to purchase their next car online. This trend varies considerably from region to region, however (EU: 47% vs. China: 85%), as Deloitte's Global Automotive Consumer Study indicates.

- **Empowered customers**
  OEMs and their captives are increasingly having to deal with empowered car buyers demanding a new level of customer focus. With the proliferation of technology, data, and channels, today's connected car buyers engage with OEM brands on their own terms and ultimately define what OEMs offer.

Fig. 2 – Percentage of consumers interested in acquiring their next vehicle online



Source: Deloitte (2018) Global Automotive Consumer Study, for EU5 n=6,813

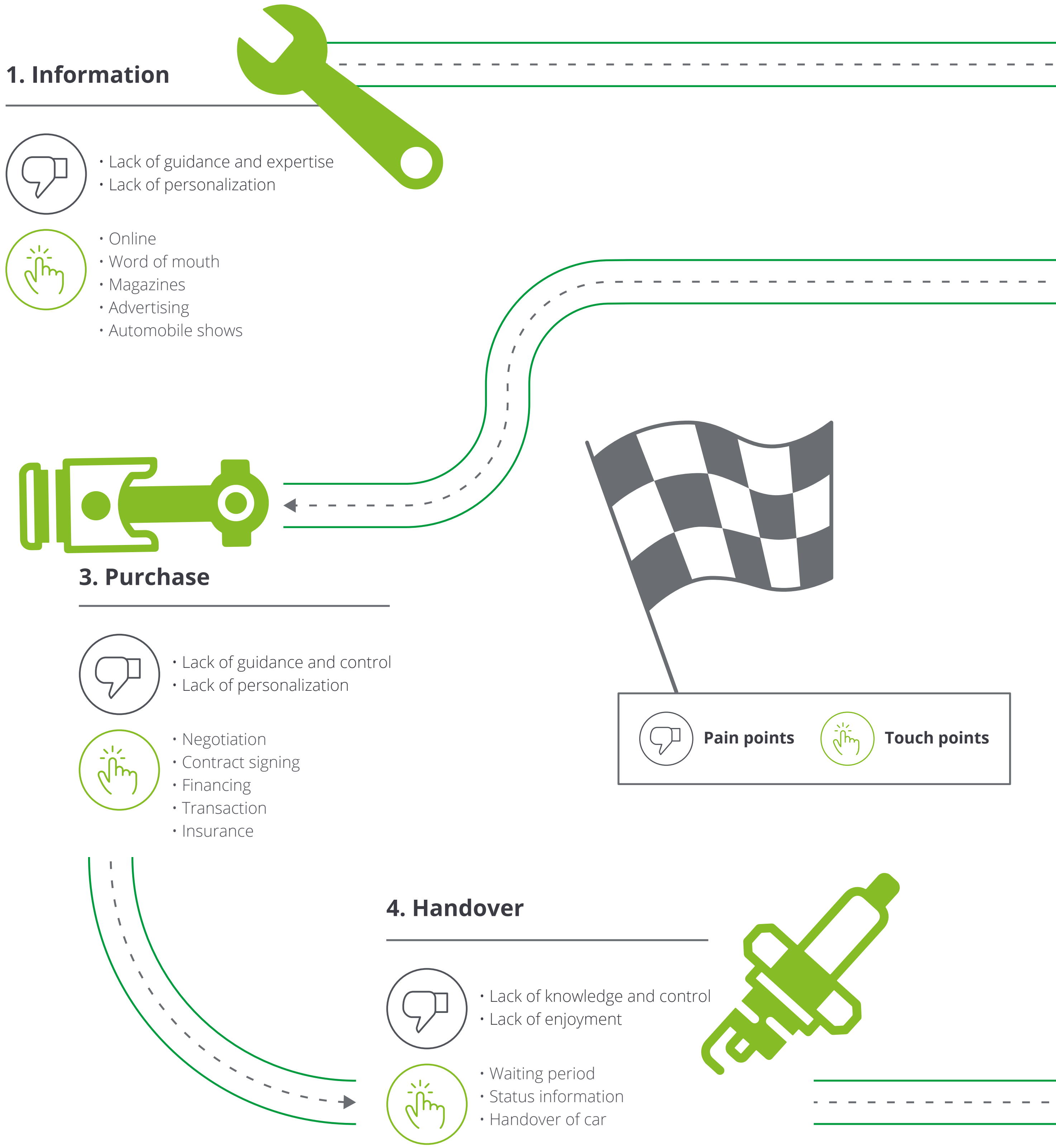
As with every disruptive development, these changes bring significant challenges for OEMs and captives.

The immense amount of information provided by a myriad of different sources and available on multiple devices has made customer journeys markedly more complex ("At first, I wasn't really sure what I wanted. So I consulted the internet magazines, etc. But there was so much information available, I ended up becoming completely overwhelmed," explained a German participant in Deloitte's study "Driven by Experience").

At the same time, the attention spans of potential car buyers have gradually become shorter. As our Global Automotive Consumer Study shows, over two-thirds of European customers take less than three months and spend less than 10 hours in total researching their vehicle purchase.

The two aforementioned trends that is, increasing data availability and shorter attention spans, are set to pose a considerable challenge when it comes to future automotive sales.

Fig. 3 – Automotive customer journey including pain points and touch points



Source: Deloitte (2015) Driven by Experience

2. Contact

- Lack of personalization
- Lack of appreciation

- Retailer visit
- Test drive
- Website

5. After sales

- Lack of appreciation
- Lack of personalization

- Maintenance
- Repair service
- Spare parts
- Newsletters
- Mailings
- Events

The automotive industry – historically engineering driven – is becoming part of today's experience economy and is thus undergoing a paradigm shift.

OEMs and captives are under increasing market pressure

New players are entering the home turf of traditional players and threatening their market position

With an evolving industry and changing customer preferences, the call for action from OEMs and their captives is less about quickly converting to autonomous, electrified mobility, and more about transforming the customer experiences they offer to make them more human-centered, digital, and omni-channel.

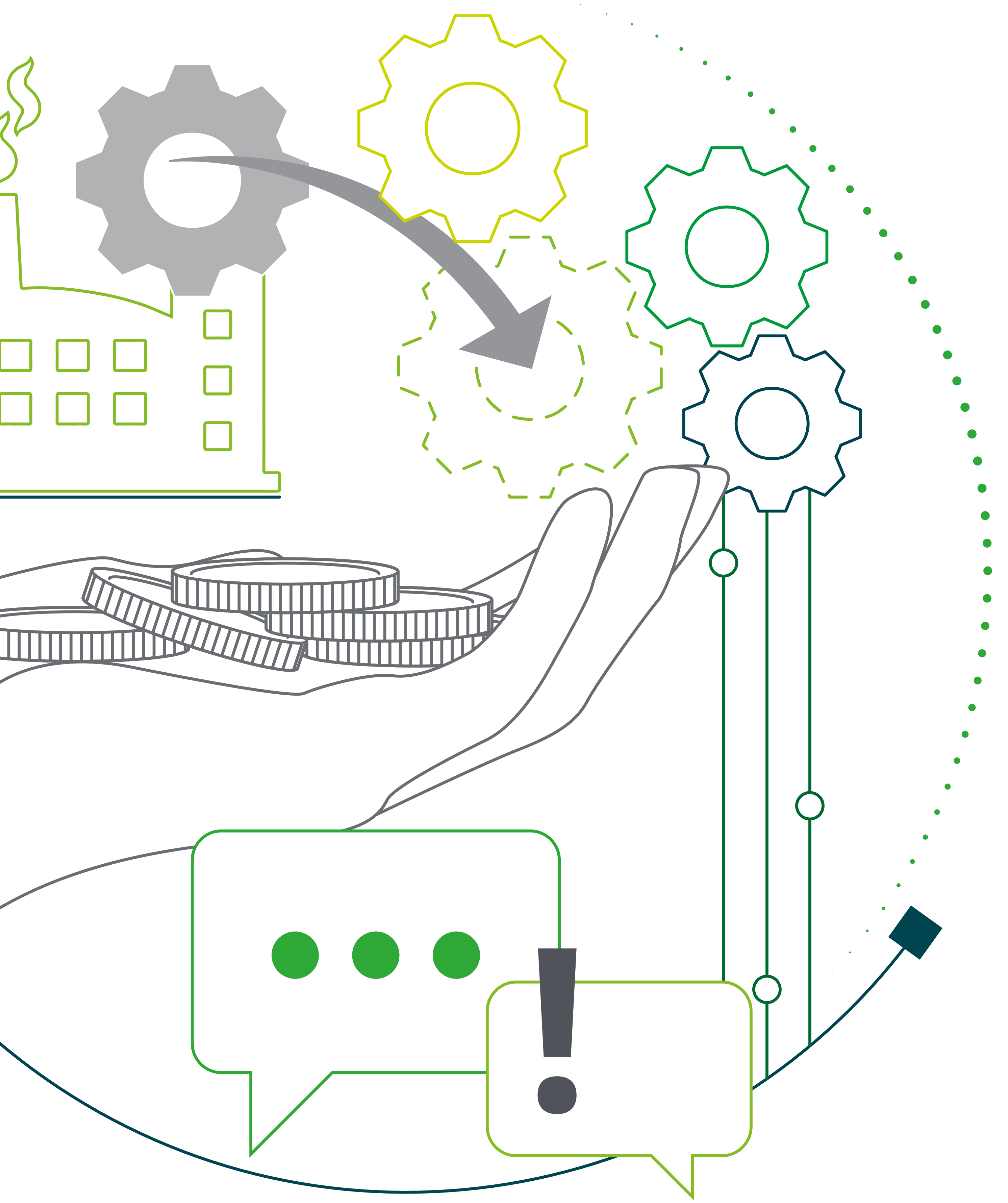
Customers increasingly want services that make their lives easier. One-stop-shop solutions that offer guidance and personalization during the sales process, and that provide peace of mind through full information transparency and cost control, are therefore flourishing.

In the automotive sector, the increasing demand for private full-service leasing products is one manifestation of this trend. Full-service leasing (and subscription models as the next evolutionary step in this regard) offers customers mobility at predictable cost of ownership/usage. Its increasing popularity represents a convergence of private customer and traditionally corporate customer demands. The benefits of full-service leasing services that corporate customers have come to appreciate include the tax incentives, the elimination of risks, the hassle-free mobility with full cost control, and the fact that the service provider takes care of aspects such as insurance, maintenance, registration and tires.

So far, however, OEM's and their captives have had little to offer private customers in this regard.

This has opened the way for non-traditional players, such as independent leasing and fleet management companies, to muscle in on the private customer market and gain market share from OEMs and their captives. Indeed, many such companies already have successful online sales channels and full-service leasing offers on the market, and are effectively exploiting private sector demand for leasing models formerly reserved for the corporate sector.

The aim of this point of view is to quantify the impact of the market developments described above, and to thus facilitate sound decision-making in times of changing mobility preferences and behaviors.



New vehicle sales decline in EU5 markets

New vehicle sales within EU5 (Germany, United Kingdom, France, Spain, Italy) markets have experienced strong growth over the last few years, with new vehicle sales expected to reach almost 13 million in 2018, compared with just over 10 million in 2012 (equivalent to growth of +30% in 6 years).

However, this success is not expected to continue in 2019. Indeed, between 2019 and 2025, total new vehicle sales are forecast to decline by an annual average of -0.5%.

This decline is driven, of course, by the general shift from vehicle ownership to usage and by the emergence of new mobility services (as described on previous pages), but there are other factors fuelling it too.

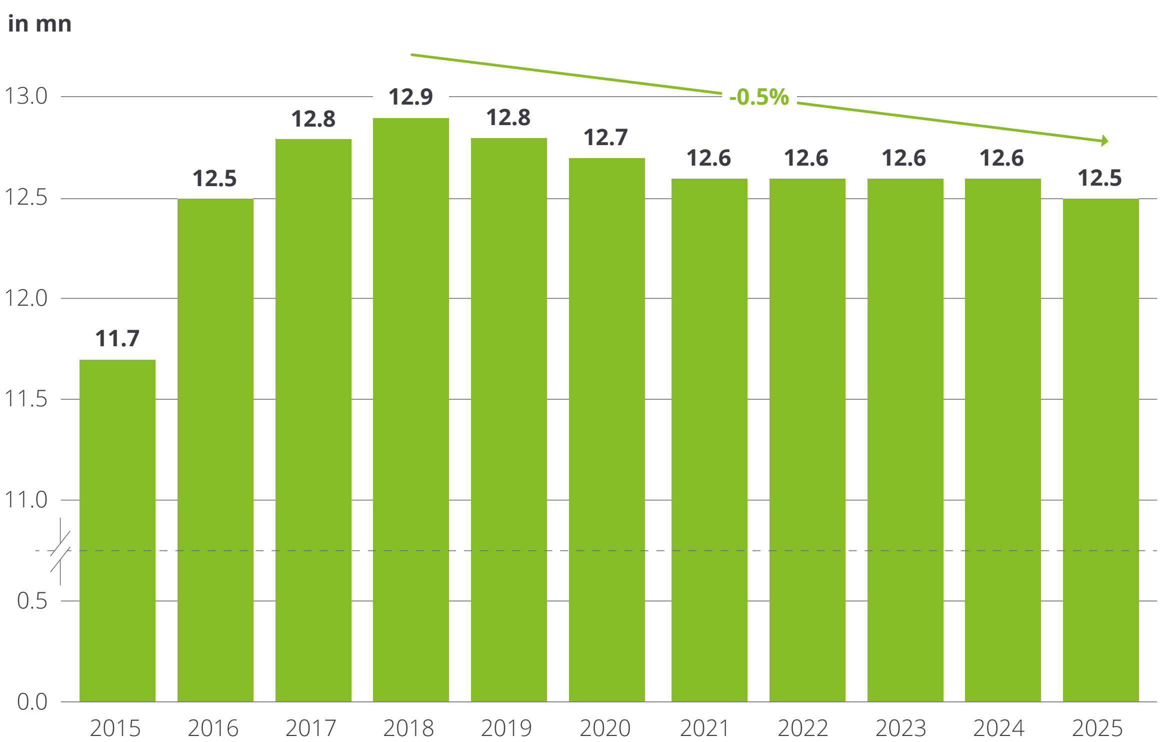
These include the following:

- Increased vehicle sales prices due to tightening regulations (e.g. to meet stricter emission laws)
- Rising vehicle financing costs related to anticipated base rate increases
- Uncertainty in the political sphere
- The increasing importance of sustainability and environmental awareness
- Pending driving ban zones in many European cities and internal combustion engine sales bans

While the precise impact of these drivers cannot yet be fully predicted, the assumption that vehicle sales are set to decline is fairly certain.

Declining new vehicle sales look set to significantly shrink the European car market.

Fig. 4 – New vehicle sales forecast for EU5 markets (in mn)



Source: IHS 2018

The auto finance market in EU5

The 12.8mn new vehicle sales recorded in 2017 for the EU5 markets had a total asset value of ~EUR 387bn.

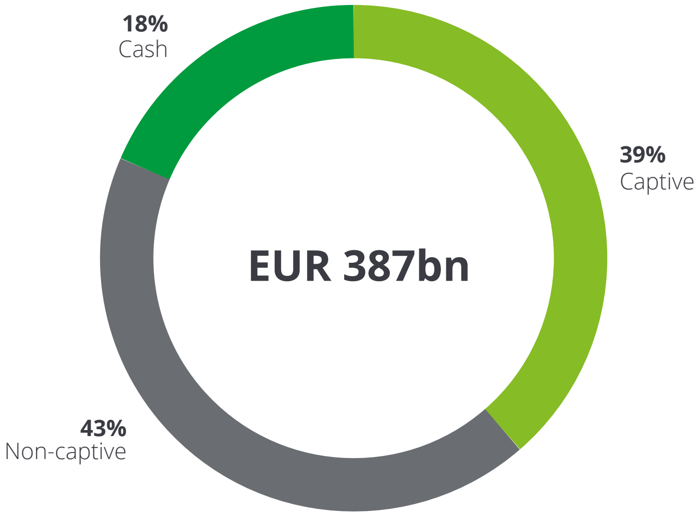
On average ~80% of all new vehicle sales (equal to a total asset volume of EUR 316bn) in these five markets were backed by a financial institute (either a captive or a non-captive). The vast majority was backed either by an operating leasing contract (where the financial institute remains the owner of the vehicle after the contract expires) or by a credit contract (where the driver becomes the vehicle owner after the contract expires).

This figure underscores the significance of the auto finance industry for OEMs and, in particular, for their vehicles sales targets.

Understanding this significance, most large OEM's founded their own captive banks decades ago. By 2017, captives had a nearly 40% share of the auto finance segment in EU5 markets, a figure that equated to a financed and leased volume of around EUR 150bn (total asset volume not only interest bearing asset).

As these figures indicate, captives have developed into some of the largest and most profitable banks in Europe. In 2017, the German captives (Daimler FS, BMW FS, and VW FS) clearly outperformed incumbent financial service providers in terms of earnings before tax (e.g. VW FS EUR 2.3bn vs. Deutsche Bank EUR 1.2bn).

Fig. 5 – Auto finance market segmentation in EU5 (in 2017)

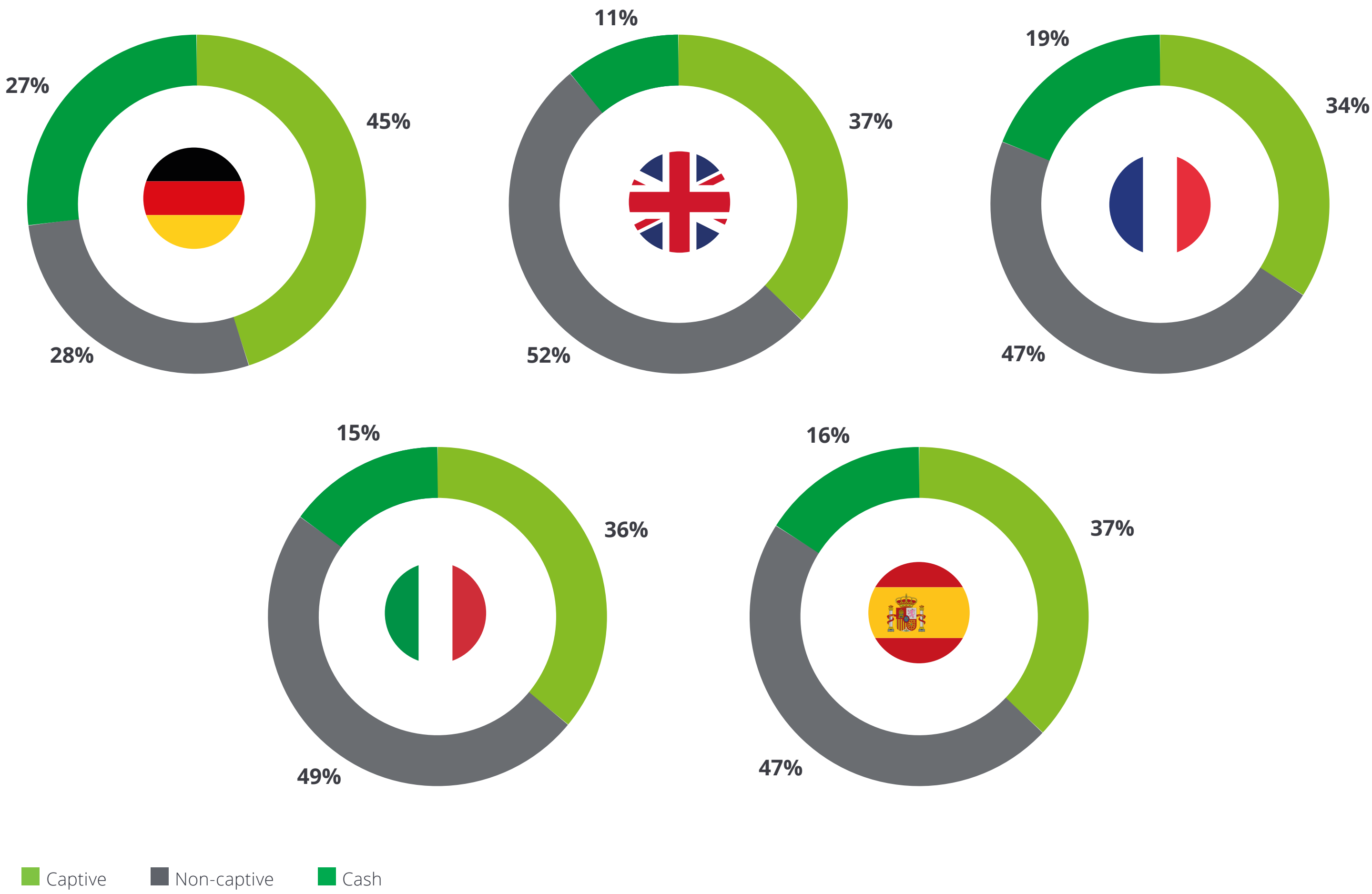


Source: Monitor Deloitte Analysis

In 2017, around EUR 150bn of new vehicle market volume was financed or leased by captives.

Please note: Throughout the study we will always indicate the total asset volume (based on the number of vehicles sold and their average value) and not exclusively the interest-bearing asset volume. Obviously the interest-bearing asset volume is sometimes considerably smaller than the total asset volume (up to 40-50% of total asset volume), depending on the auto finance product specifications and market characteristics.

Fig. 6 – Market details EU5 markets (in 2017)



Note: Captive and non-captive includes financing and leasing products
Source: Monitor Deloitte Analysis

Market segmentation in the auto finance market is quite homogenous across EU5 markets.

Minor differences can only be seen on the German market, where the share of non-financed vehicle sales (i.e. cash payment) is almost twice as high as in other EU5 countries, and the share of vehicle sales financed by captives is 25-30% higher than in the other markets.

This is explained, on the one hand, by the high market share held by German OEMs and the dominance of their captives within the German market, and on the other, by Germany's strong tradition of cash payments.

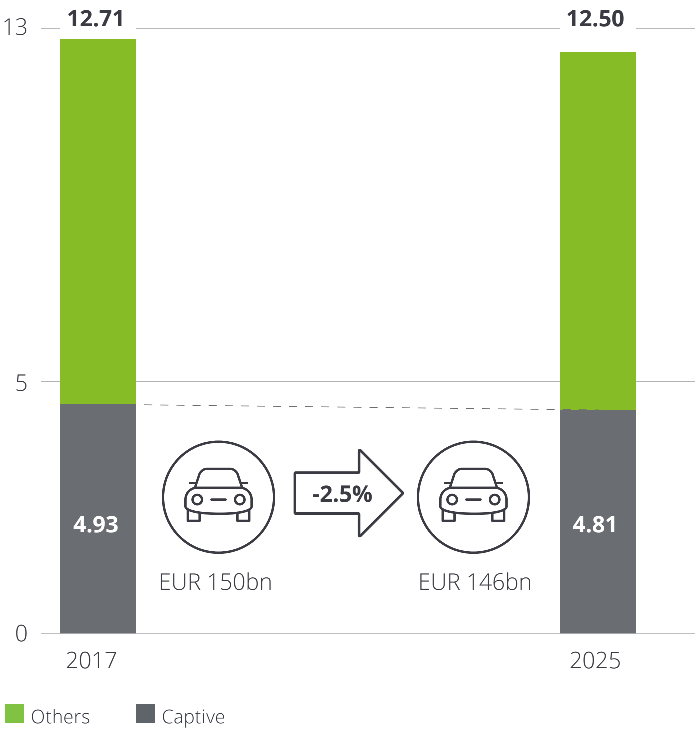
Captives have enjoyed remarkable success over the last few decades, proving remarkably effective at promoting sales of their OEM's vehicles. Their success has been based on an indirect business model that leverages their parent company's dealer networks. Steadily rising vehicle sales and increasing penetration rates (the share of the respective OEM's vehicle sales financed by its captive) have led captives to become one of the key profit contributors of their OEMs. On average they contribute up to one third of their OEM's total profits and up to 50% of its total assets.

However, this business model is at risk. Vehicle sales rates are expected to drop steadily between now and 2025, leading to a potential decline in captive financing volume of 2.5% or EUR 4bn (assuming that new vehicle prices remain constant, see below).

But to which extent are new market entrants likely to pose an additional challenge to the captive's market share? What will be the impact of companies expanding their current business operations into captive market segments (e.g. fleet management companies offering services for private customers)?

Fig. 7 – Market size of captive market segment (2017 vs 2025)

in mn vehicles



Source: Monitor Deloitte Analysis (assuming that average new vehicle sales prices remain constant, at the same level as in 2017, until 2025)

Declining annual new vehicle sales in EU5 markets are expected to shrink the total auto finance market volume by EUR 10bn by 2025.

To further compound the challenge of a shrinking European market, the captives' market share is being put under additional pressure by new market entrants and their ambitious growth targets. The leasing company ALD, for instance, has recently announced plans to double its current fleet size from 1.5mn to 3.0mn by 2025.

But how exactly are the growth ambitions of non-captives going to impact the competitive landscape, in particular as the overall market size is shrinking?

According to an analysis of the current EU5 market segmentation (please see call out box on next page), the RaC (rent a car) and OEM segment accounts for roughly one quarter of the total market size. The RaC segment includes short-, mid- and long-term rental vehicles, whereas the OEM segment consists of OEM corporate cars and vehicles registered by OEMs themselves for a few days without the vehicles being moved in traffic in order to offer substantial discounts.

Within both segments the penetration of leasing and credit financing is already above market average. The two segments therefore provide only limited further growth opportunities for captives and non-captives (and the OEM segment is relatively well-shielded from non-captives anyway).

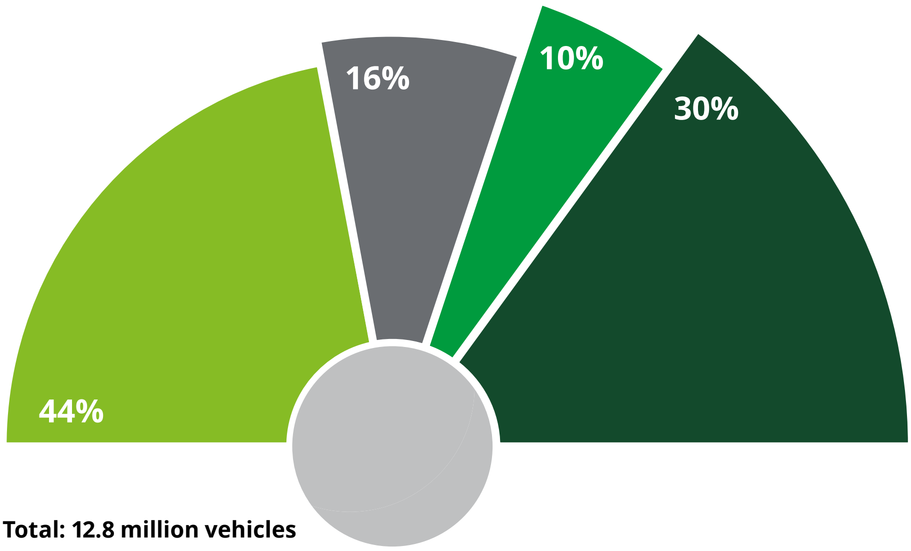
Consequently, significant expansion plans can only be realized within the private and fleet market segment (~9.3mn new vehicle registrations in EU5 in 2017).

Non-captive players have historically concentrated their business on the corporate segment (e.g. fleet financing & management) and have already established a strong competitive position in this channel. Only recently have they begun to transfer their expertise from the corporate to the private market, having recognized that the demands of these two markets have been becoming increasingly aligned.

For instance, ALD Automotive aims to serve 1.0mn private customers by 2025, mainly by leveraging direct (online) sales channels to sell full-service leasing contracts (formerly a typical product for corporate customers, now also offered to private customers).

To better understand the implications for the corporate and private market segments, we are going to analyze the current competitive situation per segment.

Fig. 8 – European market deep dive (in 2017)



Total: 12.8 million vehicles

Private | OEM | RaC | Fleet

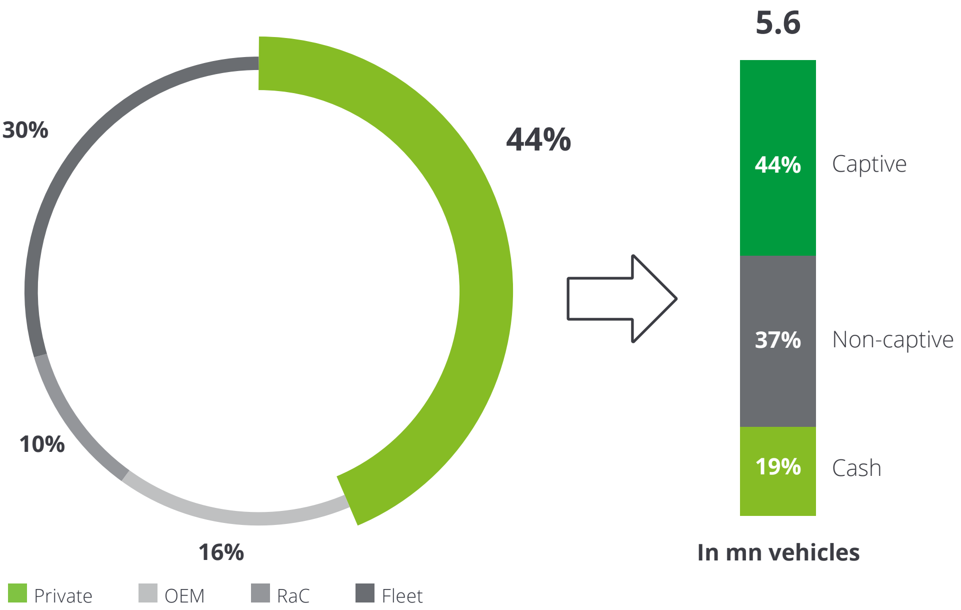
Source: Monitor Deloitte Analysis

Today, the EU5 market is clearly dominated by the corporate channel (corporate comprises the OEM, RaC and fleet segments). The share of the private channel has been declining over the past few years (starting at a comparable market share in 2010), falling to a 44% share of the total market.

Within the corporate channel the share held by the OEM segment is considerably higher. This can be explained by the increasing number of daily registrations (as tool used by dealers to promote new vehicle sales) over the past few years and the high number of company cars owned by European OEMs.

"Today, the European vehicle sales are in a full swing towards corporate channel which requests more services than the private channel."

Fig. 9 – Auto finance market segmentation in EU5 for the private channel (in 2017)

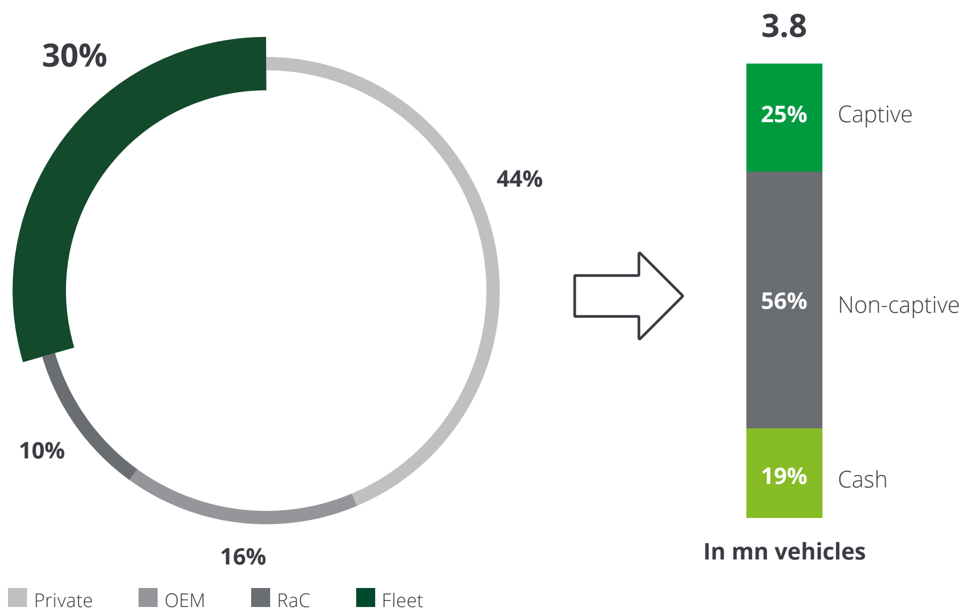


Source: Monitor Deloitte Analysis

In 2017, a total of ~5.6mn new vehicles were registered within the private channel in EU5 markets.

Within the private channel, every fifth vehicle is still paid for in cash (incl. credits, other than car credits). With regard to the remaining 80% of the market, captives have a strong position. They finance 45-45% of all new vehicles within the private channel. Non-captives account for 30-40%.

Fig. 10 – Auto finance market segmentation in EU5 for the fleet channel (in 2017)



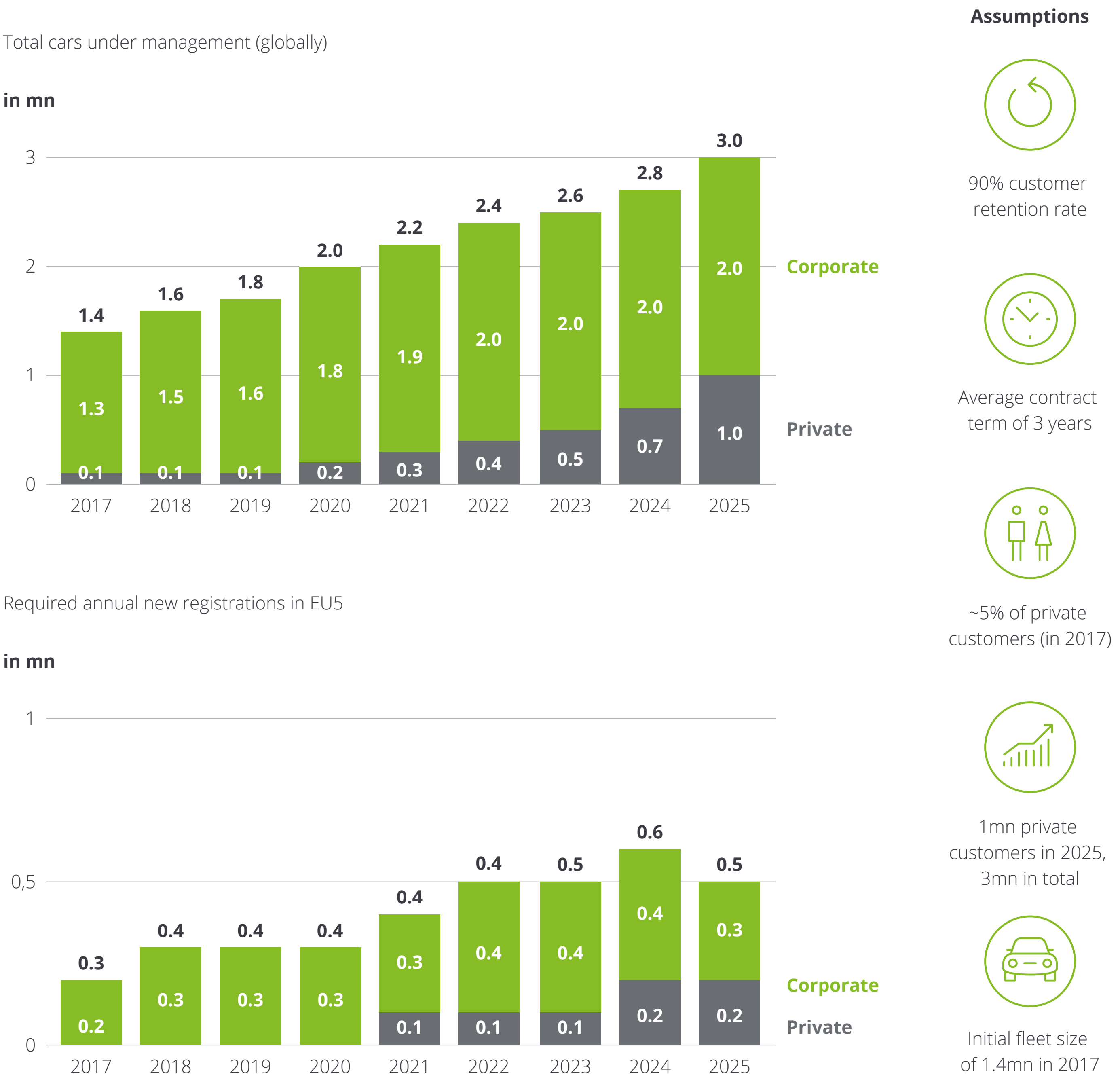
Source: Monitor Deloitte Analysis

In 2017, a total of ~3.8mn new vehicles were registered within the fleet channel in the EU5 markets.

At around 20%, the share of cash payments is similar to that of the private channel. This is attributable to the high number of small and medium-sized enterprises, which act in a similar way to private customers.

But the balance of power within the auto finance segment is the other way round. Non-captives have a share of 55-60%, whereas captives have a share of 20-25%.

Fig. 11 – ALD Automotive's announced growth strategy

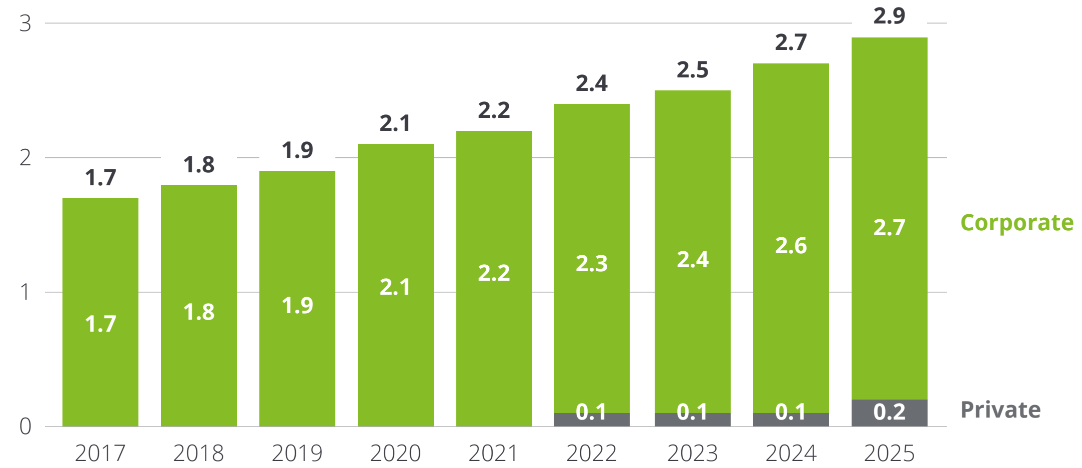


Source: Monitor Deloitte Analysis based on "Aiming for 2 million vehicles in 2020", Fleet Europe (July 4, 2018)

Fig. 12 – LeasePlan's growth forecast

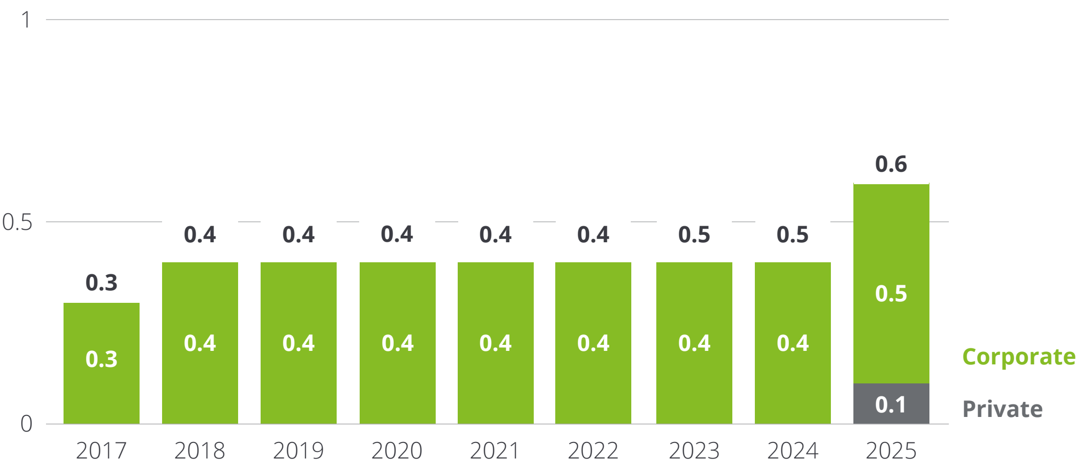
Total cars under management (globally)

in mn



Required annual new registrations in EU5

in mn



Assumptions

90% customer retention rate

Average contract term of 3 years

<1% of private customers (in 2017)

+60% CAGR for private customers; +6.7% CAGR for total fleet

Initial fleet size of 1.7mn in 2017

Source: Monitor Deloitte Analysis based on "LeasePlan's Q2 report: 10% net growth", Fleet Europe (August 7, 2018)

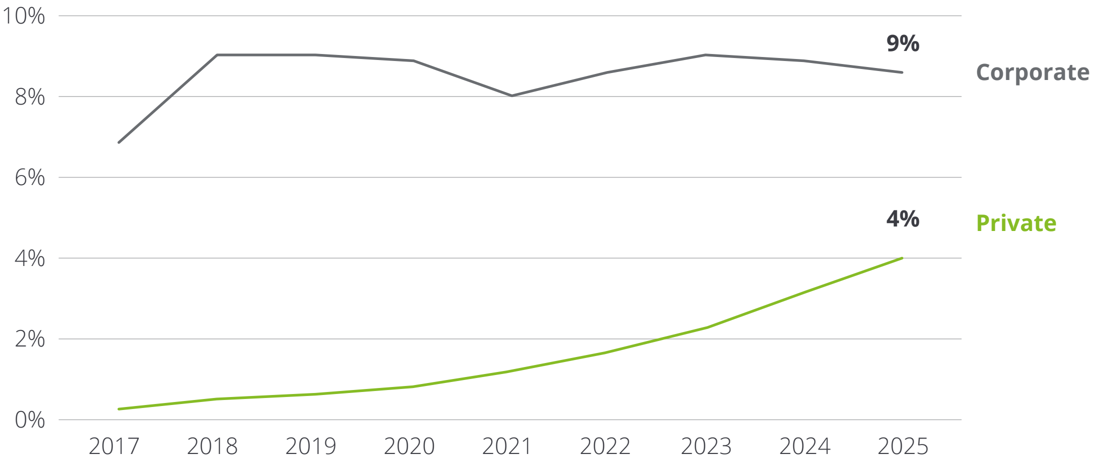
Implications for EU5 market segmentation

To get a better grasp of the impact that published growth targets are going to have on the various market segments, we have broken down the overall targets of two of the largest non-captive players on the market (ALD Automotive and LeasePlan) into more tangible annual values (please see pages 20 and 21). As a next step, we will combine the two analyses to quantify the impact of these growth rates on market distribution within EU5.

> If ALD and LeasePlan achieve their growth targets, they will have a private segment market share of 6% by 2025.

Fig. 13 – Market share forecasts of ALD & LeasePlan (for new vehicle registrations in EU5)

Estimated market share ALD Automotive

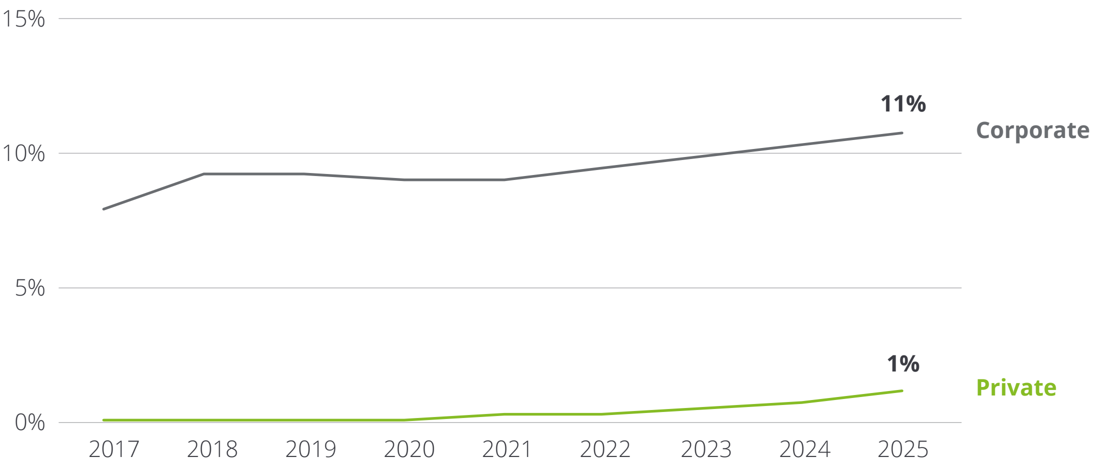


Assumptions

- 90% of ALD's fleet is in EU
- of which 62% is in EU5

Corporate channel excl. RaC & OEM

Estimated market share LeasePlan



Assumptions

- 82% of LP's fleet is in EU
- of which 65% is in EU5

Corporate channel excl. RaC & OEM

Source: Monitor Deloitte Analysis

Non-captives such as ALD and LeasePlan are well-equipped to gain ground from incumbent players.

By realizing their ambitious growth plans (see previous page), ALD and LeasePlan would double their current market share within EU5 markets by 2025.

This achievement alone would not pose a significant threat to other incumbent non-captives or captives, as the two aforementioned companies together constitute only 11% of the overall non-captive market in EU5 (see below).

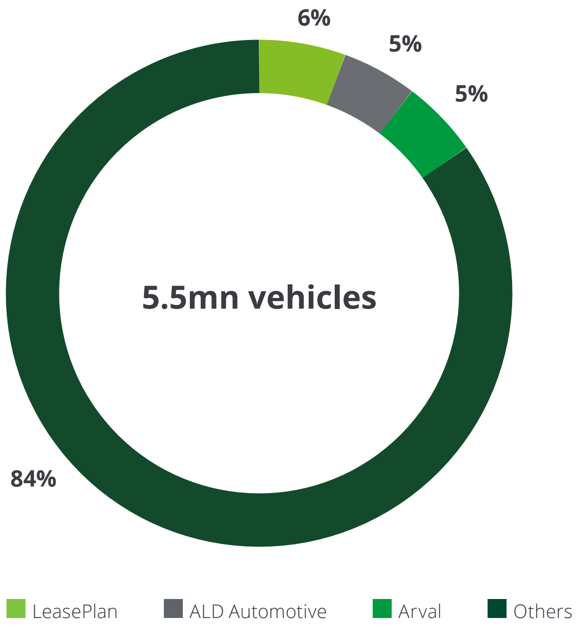
However, in our opinion, the growth targets presented are by no means unrealistic. With private customers becoming focus areas of growth, non-captives are starting to utilize their B2B experience to target private customers with corporate-like offers (e.g. full-service leasing). Their likely success in this respect is based on two principal factors.

The first is that non-captives are able to offer highly attractive financing rates and, as such, better deals to end-consumers. This is because, by buying large quantities from OEMs, non-captives have substantial buying power and are granted competitive prices. They also possess deep knowledge about vehicle life cycles as well as considerable experience in used car remarketing. Non-captives, especially bank-owned fleet management companies, moreover tend to have excellent credit ratings, enabling them to negotiate better interest rates and refinancing options.

The second factor is that non-captives have highly efficient operating models and have already begun to cater (to some extent) to future customer requirements. For example, non-captives offer (full-service) financing solutions across all brands, without using intermediaries. And with brand loyalty decreasing steadily, especially when it comes to subscription-based services and car-sharing, their direct and multi-brand capabilities give them a distinct competitive advantage. Non-captives are therefore very well-versed in terms of providing customers with flexible mobility services, and have the capacity to build on this expertise to develop even more attractive products and services.

ALD and Leaseplan are two striking examples of successful non-captives and, in our opinion, harbingers of what is to come. It is clear to us that the auto finance market is set to see the emergence of digitally enabled direct sales models and supplementary finance and service offers targeting the private customer segment. This will be driven mainly by new market entrants partnering with non-captives (e.g. a brick-and-mortar electronics retailer) or non-captive players themselves.

Fig. 15 – Market share distribution within the European non-captive market segment in EU5 (in 2017)



Source: Monitor Deloitte Analysis

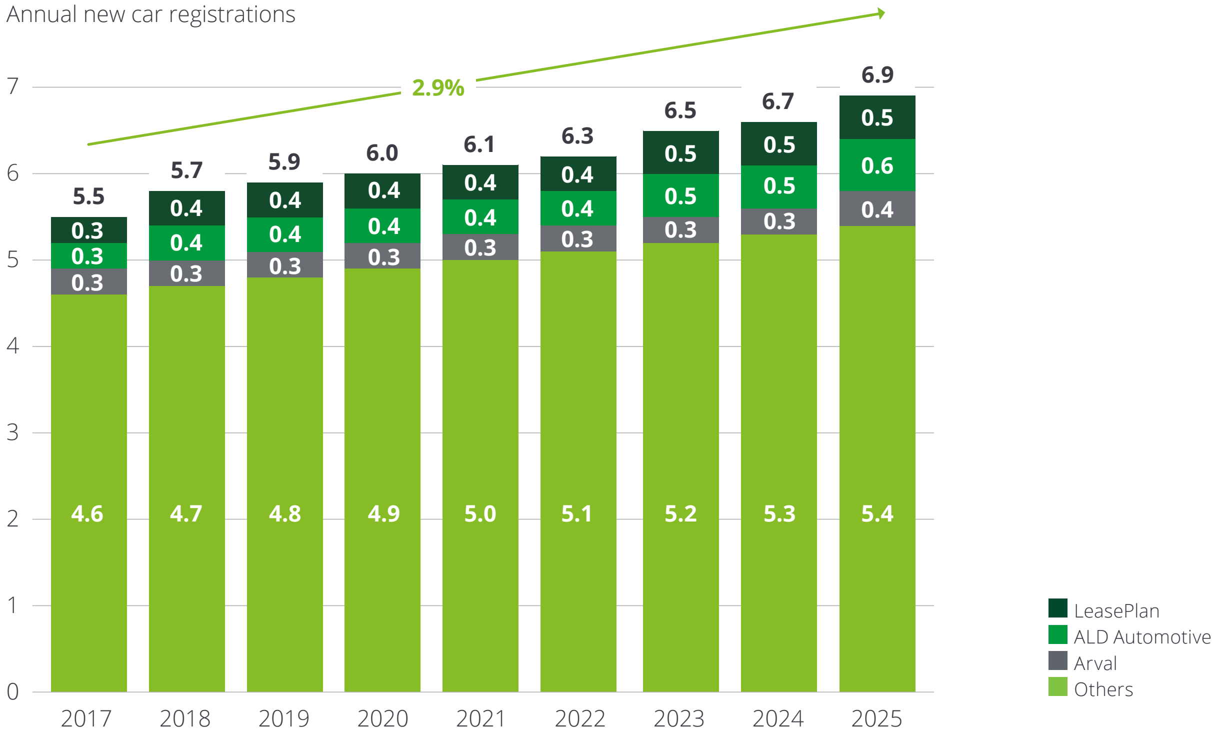
Based on this trend, we forecast how the non-captive market could develop between now and 2025 by blending different growth rates for individual sub-segments.

This results in a total CAGR of +2.9% or in absolute growth of +1.4mn vehicles by 2025.

With total European new vehicles sales expected to decline and the share of cash payments expected to remain constant, this trend implies that the non-captive segment is set to expand at the expense of captive segment.

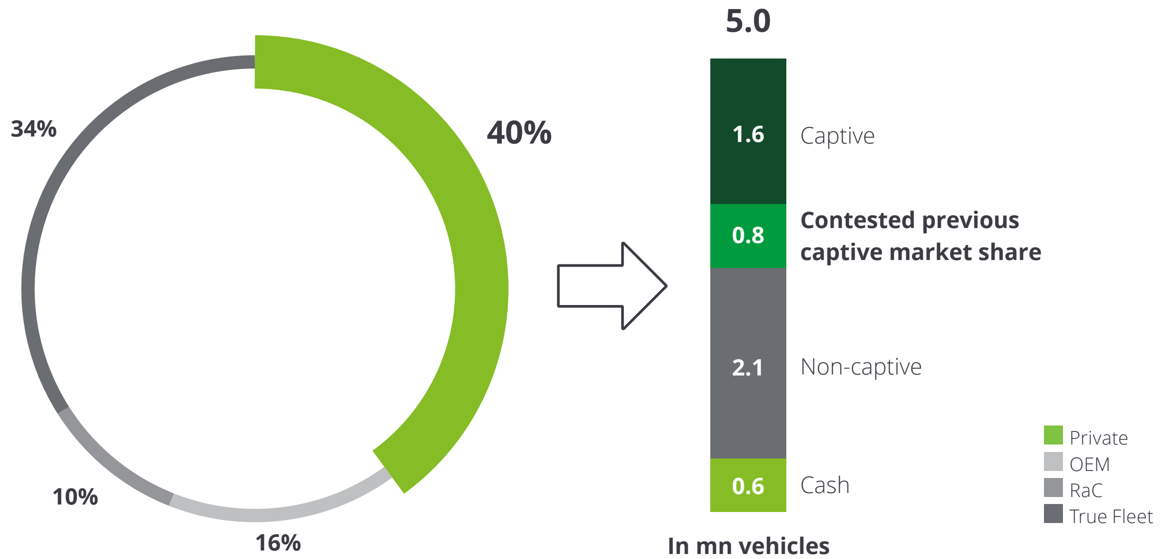
As outlined on page 19, we expect such predatory competition to arise within the private and fleet market segment in particular (please refer to figures 9 and 10).

Fig. 16 – European non-captive market segment growth forecast in EU5 (until 2025)



Source: Monitor Deloitte Analysis, totals may vary due to rounding

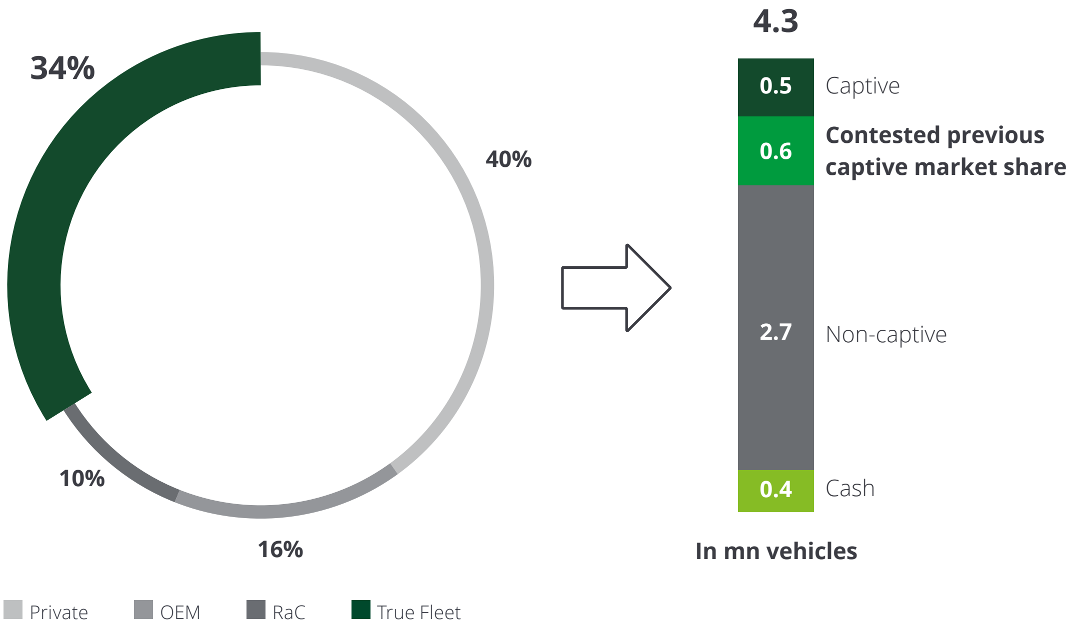
Fig. 17 – Auto finance market segmentation in EU5 for Private channel (in 2025)



Source: Monitor Deloitte Analysis, totals may vary due to rounding

If we now allocate the total non-captive growth of 1.4mn vehicles according to the channel size (private and fleet) non-captives would contest a new auto finance acquisition volume of up to 752k vehicles (per year) within the private channel from captives. This equates to a **potential loss in total financed asset volume of EUR 22.7bn per year for captives in the private market segment** (effect on interest-bearing asset volume in proportion; absolute number for interest-bearing assets expected to be smaller).

Fig. 18 – Auto finance market segmentation in EU5 for Fleet channel (in 2025)



Source: Monitor Deloitte Analysis, totals may vary due to rounding

Similarly, non-captives would contest up to 649k new vehicle registrations within the corporate channel. This equates to an additional **financed total asset volume of EUR 19.6bn at risk for incumbent captive players** (effect on interest-bearing asset volume in proportion; absolute number for interest bearing assets expected to be smaller).

Across both segments, we expect a volume of around EUR 42bn per year or 25% of business volume to be at risk for captives by 2025.

Captives will not leave EUR 42bn in market potential to their competitors without a fight

Although captives are experiencing multiple disruptive trends and increasing numbers of competitors are jeopardizing up to 25% of their current business, it is not too late for captives to fight off the push of non-captives into their market segments. Indeed, captives – as part of their respective OEM group – are well-equipped to deal with such predatory competition. After all, they benefit from an integrated automotive network spanning vehicle production, financing, aftersales and used car remarketing. Captives not only have access to a large funding base for their business transformation, they also tend to be among the most innovative entities (future lab) within their respective group. In addition, captives can ensure highly competitive prices as compared with non-captives through renegotiated sales conditions by building on a "one family" mindset.

However, if the signs of the times are recognized, additional bold decisions have to be made sooner rather than later.

Switch from indirect to direct sales model

Captives need to realize that their traditional dealer sales channel will decline in relevance over the next decade(s). In combination with an increasing number of digital native customers, captives have to develop new online sales channels able to match the level of customer experience and professionalism customers are used to from other industries (e.g. media and retail).

In this context, partnerships between OEM groups can yield valuable synergies in the transition towards new sales channels. For instance, Volkswagen Financial Services' used car online platform heycar (founded in 2017) partners with Daimler Financial Services, which acquired an 20% equity stake (regulatory approval pending as of 10/2018) to expand its portfolio.

Evolving product portfolio towards flexible car-as-a-service offerings

Pure asset-based financing (credit, leasing and wholesale) will gradually decline in importance. To defend against the attack from non-captive and fintechs, captives need to substantially increase their full-service leasing and on-demand offerings for corporate and, in particular, for private customers. Additionally, the flexibility and customization level of the underlying leasing assets need to be further increased. This can include car-as-service models such as Sixt Flat or Mercedes me Flexperience.

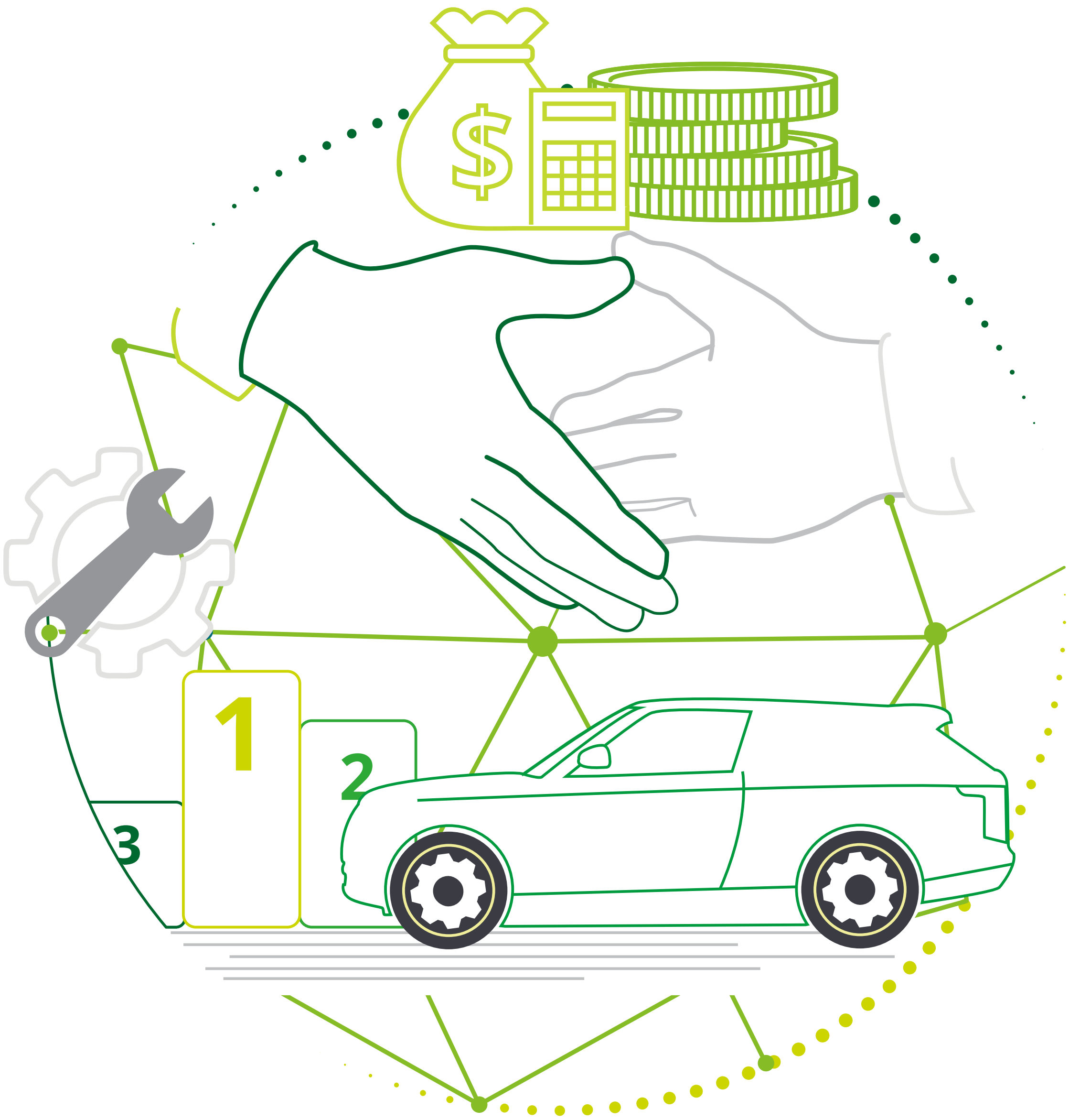
Through their group, captives can rely on an established network and long-term service capabilities to run highly efficient service operations.

In addition, With their direct access to vehicle production and their deep customer knowledge, captives can influence their OEM's R&D processes and, as a result, offer products specifically customized to the needs of various customer groups.

Customer centricity and branding become key

The key factor differentiating captives from their competitors and giving them a competitive advantage will be their ability to provide a seamless customer experience (CX) along the entire mobility ecosystem of their OEM. Empowered car buyers are demanding new levels of customer focus from companies, and are increasingly looking for strong brands able to fulfil their (mobility) needs. With OEMs investing heavily in a seamless customer journey and in the associated branding of their vehicles, captives can leverage spillover-effects and set themselves apart from non-captives, which currently tend not to have strong brand identities.

Overall, the demand for new and innovative products and services, the emergence of new sales channels and the rising number of customer interactions pose significant challenges. Captives have to find convincing value propositions quickly, as their competitors have already heated up their engines.



Complimentary readings

Future of Captives

What will be the core businesses for automotive captives in 2030?

To answer this question, Deloitte joined forces with the board members of almost all leading global captives and, using a scenario-based approach, developed four extreme, yet plausible scenarios.

Across all scenarios Deloitte expects the asset-based financing business to decline in relevance. New mobility services and flexible leasing offerings on the other hand will increase substantially and will contribute the majority of the profits by 2030.

Fleet management in Europe

Growing importance in a world of changing mobility

In this study Deloitte explains in great depth why the strategic relevance of fleet management will continue to grow, what the key characteristics of the business model are, and what will be the future drivers of the corporate car market.

Furthermore, the study names the key players in the industry, which main M&A activities have recently characterized consolidation in the industry, and what implications the main trends in the automotive industry with regard to the future of mobility will have for fleet management.

Conclusion

The European private customer segment is increasingly demanding flexible car-as-a-service offerings and direct sales models. Hence, the characteristics of this market segment are increasingly aligning with those of the corporate market segment. Non-captive leasing companies, which have a dominant market position within the corporate channel, have already identified this trend and defined bold growth targets for the private segment. If non-captive players are able to realize these targets, captives will lose up to 25% of their annual business volume in Europe (1.4mn new vehicle registrations).

Our analysis shows that the environment in which automotive captives compete will undergo fundamental changes between now and 2025.

As a result, captives will need to transform their core business model (asset-based financing business leveraging their respective OEM's dealer network) to remain competitive.

Full-service leasing contracts and flexible on-demand models are expected to supplement and maybe even replace the traditional leasing and credit business.

This in turn will necessitate a fundamental shift in mindset: instead of focusing on the one-time sale of assets, companies will need to focus on recurring revenue over the full customer and vehicle lifetime.

Due to their unique competencies, captives are well-positioned to become a key enabler of this transition from asset focus to customer centricity and service orientation.

But they have to act now in order not to be displaced by their competitors.

Monitor Deloitte is ready to support your company in developing the necessary strategies and actions for your journey in these exiting but challenging times.

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