

THAT MAKES CENTS



Season 3 Episode 17

Shifting into a new era of the automotive industry
How technology is driving changes in vehicle ownership

Hosts: Bobby Stephens, principal, Deloitte Consulting LLP

Guests: Scott Painter, Co-Founder of Autonomy,
Ivan Mihov, Vice President of mobility at AutoNation;
Rodolfo Dominguez, a leader in Deloitte's auto tech practice

Bobby: Hi, everyone. I'm Bobby Stephens. Welcome, or welcome back, to That Makes Cents, the podcast where we break down consumer to industry trends to explore their impact on businesses and all of us as consumers. In this episode, we will be diving into consumer shifts in the automotive industry. Vehicle ownership is undergoing a transformative shift driven by rapid advancements in electric vehicle [EV] technologies.

This next-gen era is characterized by an emphasis on shared mobility services, subscription-based models, new financing options, and an increased focus on sustainability. You know, as traditional ownership models give way to more

flexible and environmentally conscious alternatives, consumers are presented with a range of options that offer convenience and cost-effectiveness.

And with the integration of digital platforms and connectivity, users can now seamlessly access on-demand transportation solutions, enabling them to choose from a diverse fleet of electric and autonomous vehicles to meet their changing needs.

That was a lot to say all at once, so I'm going to bring in some other folks to help me on this. And joining us, we really have three automotive industry luminaries. First, Scott Painter, co-founder

of Autonomy, a leading automotive subscription company that's on a mission to make EVs more accessible and affordable. Welcome, Scott.

Scott: Thanks for having me.

Bobby: Next, we have Ivan Mihov, vice president of mobility at AutoNation. AutoNation is a provider of personalized services that recently introduced AutoNation Mobility, which is an innovative micro lease program. Welcome, Ivan.

Ivan: Pleasure to be here with you, Bobby.

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Bobby: And finally, my colleague, Rodolfo Dominguez, a leader in Deloitte's Auto Tech practice, with 25-plus years of automotive and mobility service experience at leading premium brands. Welcome, Rodolfo.

Rodolfo: Thank you for having me, Bobby, and great to be here.

Bobby: Yeah, awesome. Thank you guys all for being here. Why don't we just get started and dive right in. So Rodolfo, I want to start with you. We've talked on many previous episodes of this podcast on how consumer wants and needs are changing rapidly and changing across many dimensions. And a lot of that's based on our study, Deloitte's Future of Consumer Study. Why don't you just help us dive in a little bit to automotive? How are these shifts and consumer wants and needs really playing out in the automotive industry?

Rodolfo: Absolutely, Bobby. So what we see is that over the last few years—and we monitor this in our Global Automotive Consumer Survey, these trends—and what we see, especially for our younger consumer generations, is that demand is changing towards flexible and usage-based products, with basically half of the US consumers one in the convenience that comes with consolidating monthly mobility-related payments into a single payment that they know what it's like every month, they can predict, and they can budget for it.

Affordability and accessibility is another big topic we see with frictionless and fully-digitized transaction process and payment options with flexible plans. And that's become table stakes, Bobby. However, not all of the automotive players are equipped to offer that today. Furthermore, we see that average monthly payments for a new vehicle reached a new record high in the US at \$733 in the second quarter of this year, up from about \$678 in the same quarter last year.

And, of course, electric vehicle buyers expect to pay less than \$600 per month, or roughly something comparable to combustion, you know, vehicles. So, yes, adoption for electric vehicles is increasing. However, in the current environment, we see there are some headwinds, too, right? So there's [an] interest rates environment making it a little bit expensive, or far too expensive, for most folks. There's also, 50% of consumers telling us in our study that premium is the biggest hurdle for electric vehicle adoption today. So lots of work to be done to really transition to carbon-free mobility here.

Bobby: That's interesting to—keeping up with the market and the changing demands—I'd like that friction between sort of the interest in it but some of the final hurdles to get over for, you know, wide mainstream adoption.

A lot going on in the market. Thanks for sharing on that, Rodolfo. And, you know, keeping up with those changing customer demands in the market is tough. One of the things you mentioned was the tension between interest in EVs but some headwinds, or some hurdles, to get there. One way that could be eased is subscription or sort of differing from the traditional models. So how do subscription models differ from traditional buying models, and why does the market seem right for subscriptions at the moment?

Rodolfo: Yeah, so first of all, let's start with flexibility and affordability. So flexibility comes with the notion of unlike a traditional lease or financing model, the consumer can walk away from the contract whenever they are done, if it's not for them.

So say, for example, if someone wants to try an EV, and they give it a go for six months and they realize the experience—the ownership experience, the driving experience—is not for them, then they can simply walk away from the contract without the obligation of making remaining payments as you would in a

traditional lease program. So that is one advantage.

Then you have other segments of the population that have needs. Take, for example, folks that live six months of the year in one part of the country and six months of the year in a different part of the country. So that means that instead of owning two vehicles or hiring a rental car or driving across the country, you have the flexibility to use a vehicle in either location of your choice.

Bobby: Excellent. Scott?

Scott: I think, you know, subscription models are really a timely thing. Entrepreneurs and really good businesses, I think, are all about solving a particular problem, and making a thing easier is a big, big objective. And I think a lot of people have a lot of fear, frustration, anxiety around going through the auto lending process and buying a car. It tends to be something that not a lot of people understand very well. But what subscriptions really enable is a completely digital conversation that is very simple and straightforward.

Because in a subscription, a customer isn't borrowing money. There is no interest rate. There's no money factor. Because they're not buying a car, they are effectively using a car for a flexible period of time. There isn't a cap cost or a selling price. There isn't a residual or residual term. All of those things that would otherwise represent confusing information to the consumer are now gone.

I think that we're certainly living in a, you know, sort of a state where technology today is part of an everyday part of modern life. We subscribe to just about everything we do. And whether we call it a "subscription," it really is. It's about using what you need and having it be done very easily. I've been asked for the last 30 years, "When are we going to be able to buy a car on the internet?" And the answer to that question is really a 50-state problem, and it's not going to

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happen anytime soon.

What subscriptions enable is a 100% digital debt-free transaction that starts and ends entirely on your mobile phone. One of the other very compelling components of a subscription is that because it is not debt, it doesn't show up on your credit report as though you borrowed any money. And because it's not debt, specifically, you can pay for it using a credit card. Um, you cannot use a credit card today to pay a traditional car loan or a traditional car lease.

And so, this tends to be a much more modern contract. It is technically an open-ended lease that is full service where we include all of the other natural adjacencies to owning a car. So, subscriptions do something that loans and leases have never been able to do, which is to help the customer solve the problem of title, registration, insurance, maintenance, roadside assistance. It is a complete bundled turnkey solution that offers ease and savings. And so, I think that, you know, subscriptions are about to go through a major surge. It has many of the same sort of features and benefits of everything else that we see using technology, but it is a very simple and direct experience that does not require an offline signature, for example.

Bobby: Love it. Ivan, coming from a larger dealer group, I would love to get your take on some of these new technologies. You guys do a lot of innovation there as well. So how is the role of the dealer evolving when it comes to new operating models, such as micro leases, subscriptions, etc.

Ivan: That's an awesome question, Bobby. So, um, I have the privilege to lead a new business unit within AutoNation. AutoNation is one of the largest dealership auto retailer groups in the US. And really, our mission and our strategy is to become the most comprehensive transportation solution provider in our industry. So what does that mean? That means going beyond the traditional auto retail model, but offering consumers new ways to get access to vehicles whether

that's, you know, shorter term.

In fact, the product that we just launched a couple of weeks back, we called the "micro lease," which is, you know, similar to a subscription in many ways. It's a 6- or 12-month product, like Scott mentioned. Everything is included except for insurance and gas—so all the title, the registration. And once again, it is one of the key things that we're pioneering here; it's a fully digital transaction. So people can go browse our website, pick the exact car that they want.

So we've got one of the biggest selections of inventory on the market. And they can pick the exact car that they want and then take out a micro lease. And at the end of that micro lease, if they want to keep it for longer, they can extend; or if they want, they can return it. And so, flexibility is a big part of the value proposition, as is, you know, being able to do this transaction from your phone at home, on the couch, on the beach.

We see consumers love that experience and, you know, ultimately, as a large dealership group, we want to meet customers where they're at. Some people love going into a dealership and, you know, speaking and taking the cars for test drives. And others want to just transact—they're used to Amazon. And so we can offer both of those. So even on our micro leases, if a consumer wants to take the car for a test drive, they can come down to a store. We'll gladly arrange that for them.

So we're pretty excited about innovating on a number of fronts. I think the only constant is change. And, you know, one of the best, as Scott said, you know, we're solving key problems for the customers. And improving the customer experience, in my book, is always, you know, kind of a worthy mission. And yeah, we're excited to bring that to the market. We're live in a couple of markets today, including South Florida, as well as California. So, more to come!

Scott: So, I think that AutoNation is probably one of the best examples of a traditional auto retailer that is evolving to meet the needs of consumers in a modern context. But when we sit down and talk about what should the future of vehicle ownership and access look like? What is the future of mobility? This is one of the real reasons why technology is such a powerful change agent. We're living in a time where we're certainly changing our behavior and how we communicate and over what modes of communication we do it.

But I was asked almost 20 years ago now to give a speech on the future of car buying. And I prepared a really thoughtful presentation around how would Captain Kirk of the Starship Enterprise buy a car? And almost everything that we saw on Star Trek, from the flip phone to communications being seamless from surface to, you know, spaceship—all of that has happened in modern life.

I think that when you think about how Captain Kirk would buy a car, though, he'd probably not be on planet Earth. He'd probably be coming home from some far-off voyage, and he would simply say to the computer, "Computer, I'm going to be home, and I need a car." And the computer is going to already know everything about Captain Kirk. It's going to know how much money he makes. It's going to know where he lives. It's going to know everything it needs to not only completely conduct the transaction for him, it's going to handle all of the natural adjacencies to car ownership. From financing, insurance, and all of the things you have to get done from a technical point of view.

But the most that Captain Kirk would have to do is go to the holodeck to take a virtual test drive. And he might tell what his favorite color is or what he's needing the car for but it's really going to be about consumer preference. And when we think about the future of car buying, organizations like AutoNation are going to bring us there by being on the front line with consumers. Companies like

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Autonomy play a little bit of a different role. We're really there to challenge the status quo and say, "Is there a radically better way to do a thing? What's potentially possible? And what should that future look like?"

And we believe that it's a completely frictionless future. We don't think that you're going to have to negotiate. We don't think people should be intimidated. We don't think that anybody is going to get a better or a worse deal. You're going to get a fair deal because we're going to take this art of negotiation, the "art of the deal" out of the equation. And the thing that most people ultimately get intimidated by or frustrated by is all going to be resolved.

Subscription is the platform that paves the way to that future of auto buying and ownership being a completely new and totally different thing. This idea that we've been forcing consumers to go into soul-crushing debt to get access to a car to get to work is absolutely preposterous because the people who can least afford the debt are the ones who have to pay the most for it. So, I think that, you know, we're entering a very, very interesting era where, not just subscriptions, but we question the actual end of ownership, the "fleetification" of cars, the ability for consumers to get anything they need anytime they want it, without having to go through all of this very confusing and high-conflict type of stuff.

And it is going to be companies like AutoNation that bring that to you physically. It's going to be companies like Autonomy that challenge the status quo. You know, the partnership that we have is really about that tension of pulling the experience into the future of what it's potentially able to be.

Bobby: I've heard some version of three words so many times in the last 20, 30 minutes: ease, right? You know, all of the things that are hard, sort of, about car buying and/or even just after you've already made the decision to buy it and get it titled and get it out on the street. Um, convenience, right? Or flexibility

in terms of, "What do I need now? Do I always need the same car? Do I always need the same vehicle?"

Maybe I don't, depending where I am, what the occasion is. And then also access, right? Access to it, whether that's economic access, whether it's timely access to it. Those three things. And it's interesting because as a retail guy, those are three critical things that we're always striving to get right and are changing a lot in the expectations of our consumers. And so I think it's really great to hear that that's there.

Rodolfo: Yeah, and maybe just to add there, Bobby, I think if we look at the market forces that are shaping this—this is a historical moment, right? So our data indicates that the vehicle subscription market is projected to be greater than \$20 billion in the US by 2030 and continue to grow rapidly. So this is one of the fastest-growing profit pools that we see, based on our future of automotive mobility, along with bundled services such as insurance, vehicle-related services, charging, etc.

And then at the back end, of course, recycling, reconditioning, remarketing of these vehicles is going to become increasingly important for our OEM clients, for the environment, for the planet. We also see EV share, you know, will continue to grow. Yes, there are some headwinds right now, but I think it's not a matter of if, but how, rapidly EV adoption will take place between now and the end of the decade. And last but not least, affordability as we talked about, and the flexibility of the models entering the markets and consumers wanting increasingly flexible access to mobility are just some of the converging forces that really excite us about this opportunity.

Bobby: Rodolfo, you mentioned environmental aspects, and that kind of drives me to our final topic. As we've done this Future of Consumer Survey, we've seen a real shift with consumers looking at what we're calling "buying into better." So voting with their wallet towards companies that not just provide

the best services and experiences, but also do things for the greater good, ESG [environmental, social, and governance].

And so I would really like to understand from you guys as experts in this area, how people are prioritizing purpose in this particular area. So maybe each of you can speak to how these new business models that we talked about today, So micro leases, subscriptions, EVs, how they support sustainability, how they support equity, and maybe how they directly impact your life. So I'll do an order here. So Rodolfo, since you said the word environment, you get to go first; Ivan, you second; and Scott, maybe bring us home.

Rodolfo: Great. So, from a Deloitte perspective, we're highly committed to helping our clients, as they go market with new and innovative mobility models that accelerate adoption of carbon-free mobility. And so to that end, we are working very closely with partners such as Autonomy, such as Circular, and others who are basically at the core of this revolution. And the ecosystem is so interconnected. You know, you see amazing companies like AutoNation joining the ecosystem to enable uh, you know, responsible and accessible mobility models.

We also see some other startups in the space directly addressing, perhaps underserved sectors of the consumer population. And so for all these clients, for all the clients who want to accelerate their time to market with relatively low risk and/or in less time, Deloitte is investing actively in accelerating the creation of these capabilities to help accelerate the adoption of subscription and flexible models that would lead to equal access to EVs and other carbon-free options for consumers.

Ivan: Awesome. Yeah. So if you just go back, step back in time, you know, we had the horse and carriage of more than a century ago. And that was the primary dominant form of transportation. Then along comes the Ford Model T and really invents the architecture of what's

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essentially the modern combustion engine vehicle. And that was the dominant form of transportation for 80 or 100 years. And in the last decade, maybe decade and a half, you've just seen this Cambrian explosion of different mobility options out there, and it's not slowing down, right?

So you've seen the rise of Uber and ride-sharing, car-sharing, bikes, scooters, peer-to-peer car rentals, subscriptions we call the third way of owning a car. Despite all of that change, I think there is still ... consumers still have this strong affiliation with their own personal car. So even in the future with this autonomous and shared and connected and all of those things, I still think there will still be a huge market for personal mobility, or personally owned mobility, whether it's autonomous or not, but it will be my car. And I think what subscription models really do unlock in that scenario is you are getting access over ownership and the experience by which that mobility is delivered, it's still personal, but it's digital. It's really emphasizing convenience.

So give me my personal example, which is, you know, back in March, I've always wanted a convertible, but I've got three young kids and I can't—it's not really a practical car for me to have. They don't even fit in it. And I got my wife to allow me to have it for six months. It was an amazing experience, and it was all digital. And now I'm excited for the next one, which is going to be a four by four. So I think, you know, if you create delight, if you give consumers choices, I think that is moving society forward. And I'm really excited about what the future holds because I think we're still at the very early stages of the transformation. It's going to take a long time, but there's a lot of innovation happening, and that's an exciting place to be. Both with startups, with traditional companies as well as large dealership groups, also have a huge role to play in that ecosystem. And so we're pioneering and leading the way for our industry on that front.

Scott: Yeah, Bobby, I think that, you know, all of us would agree that ESG as sort of an acronym is an important thing to be focused on as a company today. If you're not focused on sustainable practices and paying attention to your employees and having a world-positive outcome, you're just not paying attention. You know, one of the things that we really focus on with subscriptions is obviously providing access because affordability is one dimension of a good deal. Another is some people can't even qualify for a traditional car loan, and because we're not lending people money in a subscription, it doesn't prevent them from getting access to a car.

And that's really important. And, you know, this is especially true for college students or people in the military who are just getting started in life and who may not be able to qualify for traditional forms of auto finance. So accessibility is about really giving people the ability to experience this whole new wave. And certainly, you know, we, even though we're small, our cars are being driven over a million miles a month. An internal combustion vehicle, every 2,500 miles, it generates about a ton of CO₂. So you're talking about massive transfer of CO₂ being emitted into the atmosphere versus going to a more sustainable form of transportation.

We very much believe about, you know, what we're doing as an accelerator to this transformation. So not only are we behaving well as a company, our focus around accessibility and then environmental impact are very, very core to what we're doing. We do believe we're all going to be driving electric cars. And really, in summary, I would say this is probably the most exciting time in the automotive century to be a consumer. Not only do we have these cool new technologies that are going to let you get a car on your phone.

I mean, I remember when I turned 16, the things I had to do to get access to a car were a lot different than my sons and

my kids! And so, you know, we're living at just a wonderful time. But you've got at least a half a dozen, soon to be a dozen or more, brand-new car companies coming up with some of the coolest products that I've ever seen in the automotive industry. It is just such a cool time to be looking at this stuff! And whether or not you can necessarily afford a Lucid or a Fisker, some of these cars are just absolutely, mind blowingly cool.

It is changing what we think of as transportation. And they're coming up with new ways to utilize the car. And certainly the battery changes how the car's sort of hard points work. And it sort of opens up the imagination to what we think of as a vehicle even. So I think that, you know, the combination of subscriptions and electrification and this whole new set of new entrants... You've got, you know, a bunch of car companies that are just rolling out product for the first time ever. Going to a car show now is one of the most exciting things you can do. It is just a really cool place to be. So having flexible access to all of this new variety is going to be, I think, a really big benefit to consumers. Very exciting time!

Bobby: Love it. You got me excited! Thank you for sharing. I've got some work to do. When the lease runs up on the old family minivan. I think that I'm going to have a lot more options as to what we can do next with one of our cars. So that's awesome there.

Unfortunately, we have reached the end. We did cover a lot of ground in a small amount of time for our listeners. We discovered next-gen vehicle ownership, how that's impacting the consumer market. We talked about different technologies. And we really talked in detail a bit about subscriptions and micro leases and what those mean from a convenience and ease and access perspective.

And so as we venture into this next frontier, I—next frontier! You see how I used that there, Scott, or Captain Kirk?!

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Scott: There you go!

Bobby: (laughs) Um, I ask our listeners to think about the long-term implications of these solutions. You know, how might the intersection of sustainability, convenience, affordability really shape the future? And what role could these new ownership models play in the larger narrative surrounding the automotive industry and the future of the automotive industry? So one way you could learn more is to check out Deloitte's Automotive Industry site and specifically look out for Deloitte's Beyond vehicle ownership: Changing the way consumers think about mobility report.

Another way is to connect with any of our guests that I want to thank right now. Thank you, guys, for the great conversation. Listener, feel free to look up any of them on LinkedIn and connect. Thank you for tuning in. We'll see you on the next episode of That Makes Sense.

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