



The forces of change

The key trends shaping the future of
automotive retail

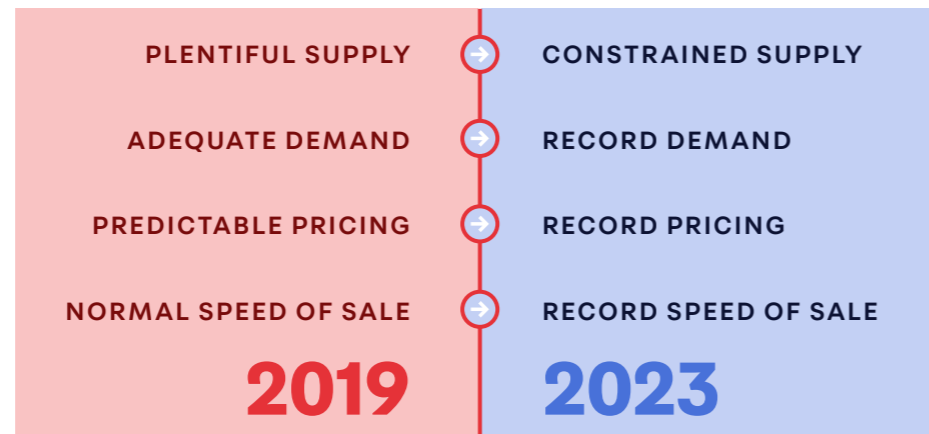
 **AutoTrader**



Introduction

A market in motion

Despite the turbulence and uncertainty of recent years, the market remains in good health. However, 2023 is very different to the market conditions of pre-pandemic 2019. Over the course of a few years, there's been a dramatic change in dynamics.



The forces of change

As well as changing market dynamics, there are major forces of change that are already beginning to shape the future of automotive retailing:

- Challenges in supply
- Electrification of the car parc
- Changing consumer behaviour

2023 marks the year these forces will become increasingly difficult for retailers to ignore.

The challenge in supply will bite, EVs will need to be taken seriously, and the changes in consumer behaviour will take another leap forward.



Force of change 1 : Supply

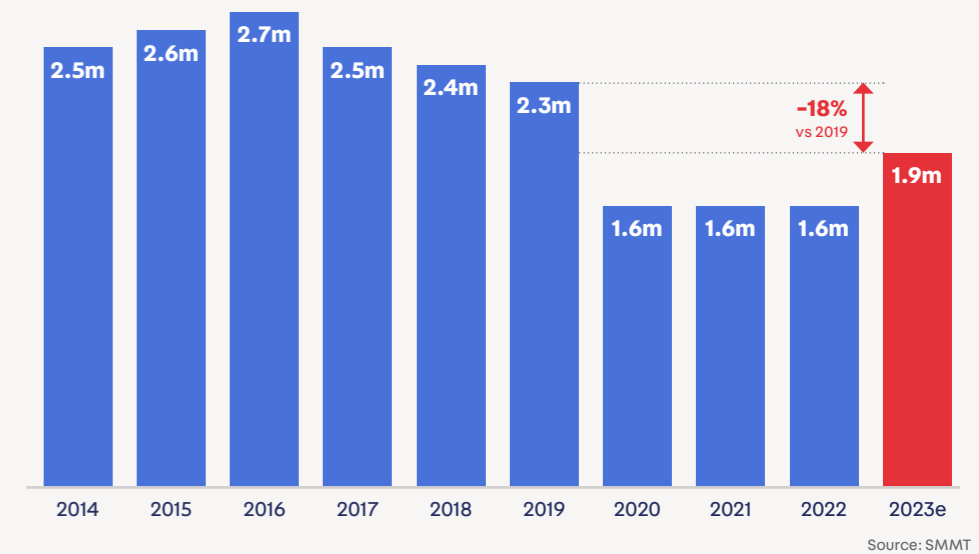
The shortfall in supply

The most immediate change retailers will be experiencing, is the huge shortfall in new car registrations since the end of 2019, and the resulting undersupply in the used car market.



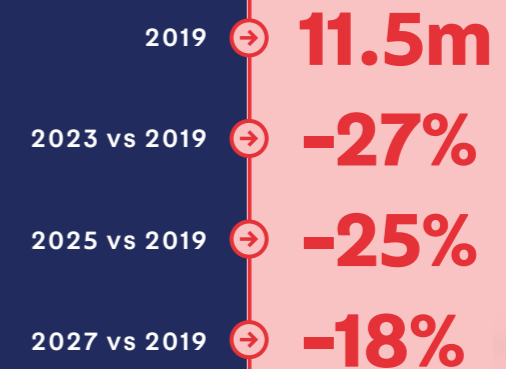
NEW CAR REGISTRATIONS

2014-2022: SMMT 2023e: AutoTrader



The 0-5-year-old car parc is shrinking

The shortfall is having a lasting impact, with fewer cars flowing through the car parc causing supply constraints in different age bands. The sub-5-year-old parc is already shrinking significantly, but with the same number of retailers competing for stock.



Source: SMMT & Auto Trader forecast

And forecourts are aging

We're already seeing the average age of stock on retailers' forecourts getting older. **In 2022, the average age of stock on franchise and independent forecourts was circa one year older than in pre-pandemic 2019.**

This shift in stock profile is having broader consequences for retailers, including requiring longer preparation time, as well as greater preparation costs, and warranty costs.

The impact on used car sales

Contrary to some reports, softening used car sales in 2022 was due to the shortage in supply, not a shortage in demand, which has remained robust.

The data is clear: **where's there's stock, there's a sale.**



Source: SMMT and Auto Trader internal data



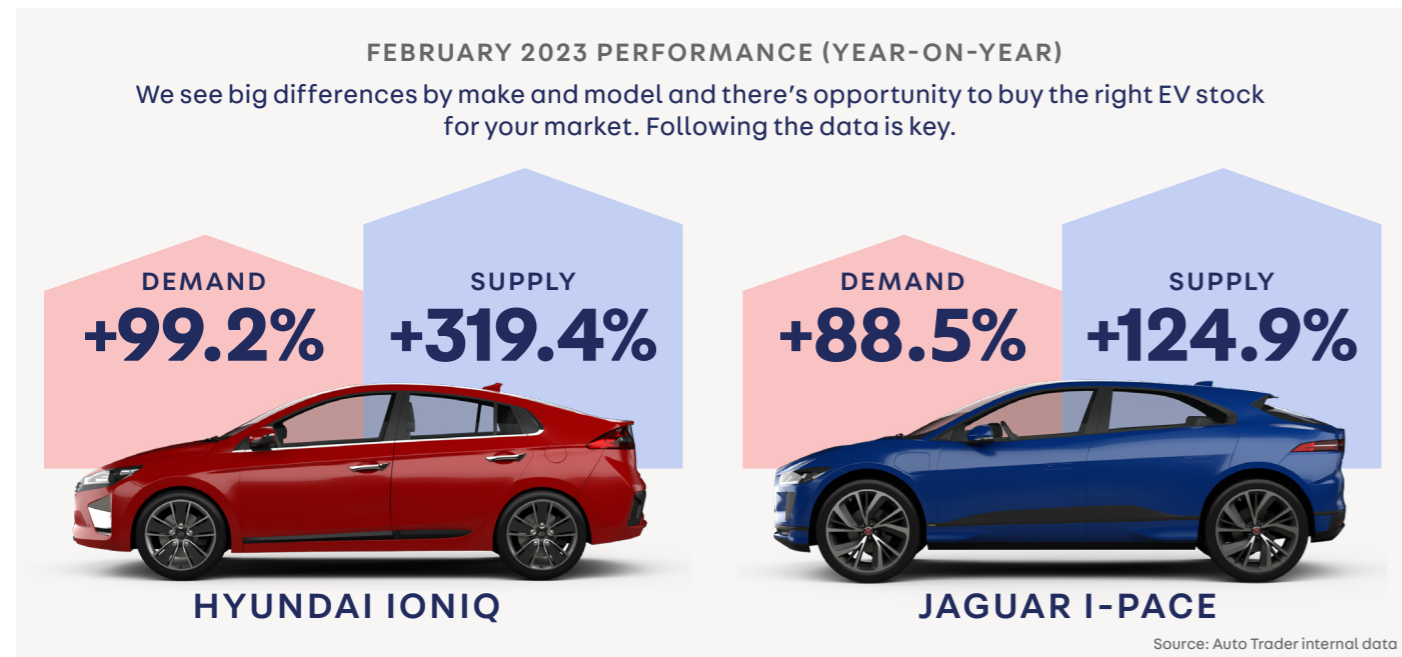
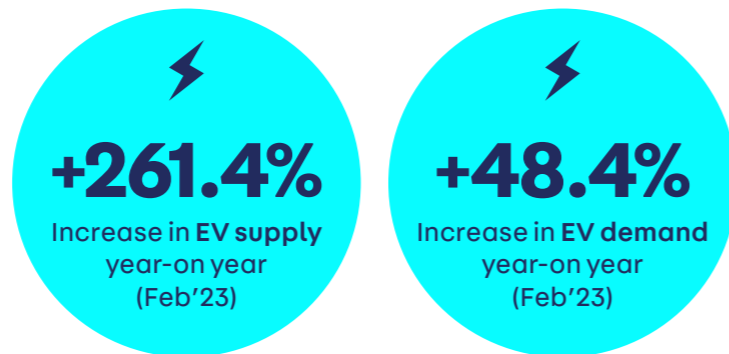
Force of change 2: Electrification of the car parc

The growing electrification of the market is another force of change.

EVs are changing the brands we see, the product we drive and the way we buy.

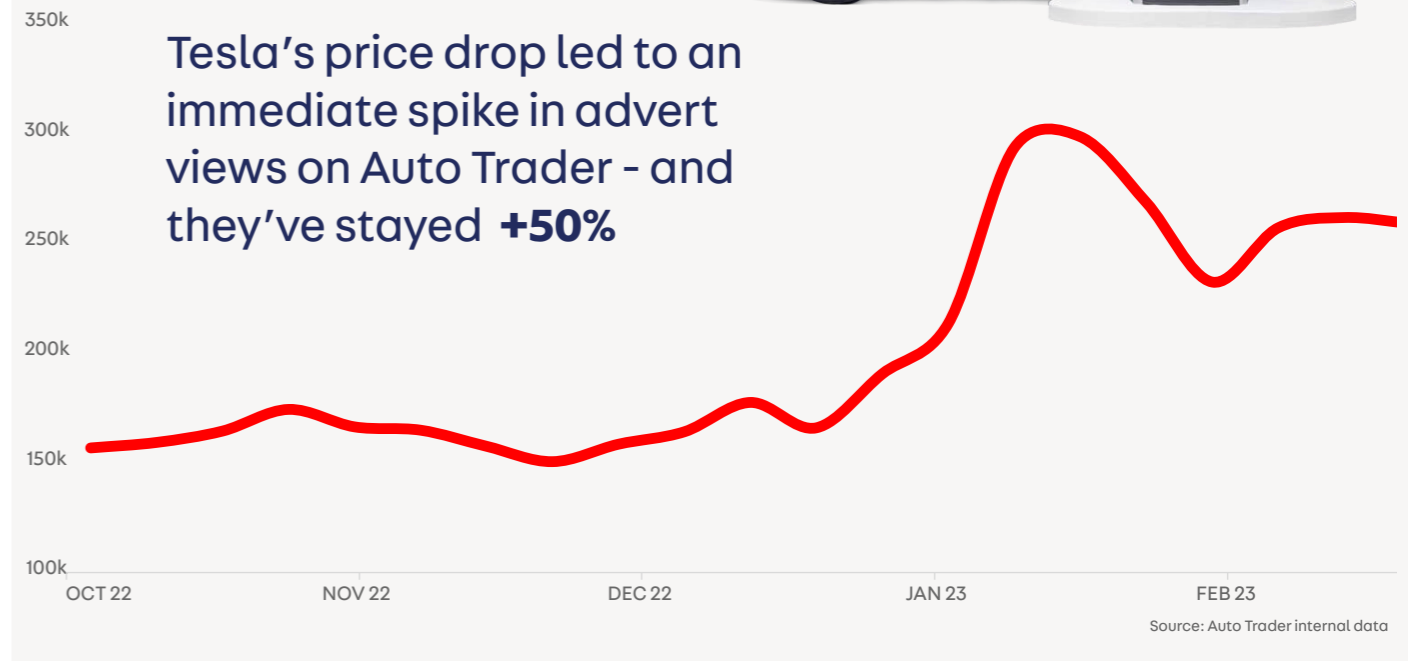
Demand is growing, but being outpaced by supply

Demand for EVs remains robust and continues to grow, but is being outpaced by a surge in supply. This is resulting in a softening in used EV prices: down 10.6% year-on-year in February.



The impact of the Tesla price drop

Tesla's new car price cut had an immediate impact on used values, with the price of a one-year-old Standard Range model falling circa £1,400 overnight on Auto Trader. The drop had a wider impact on confidence levels in the market for retailers, funders and manufacturers.

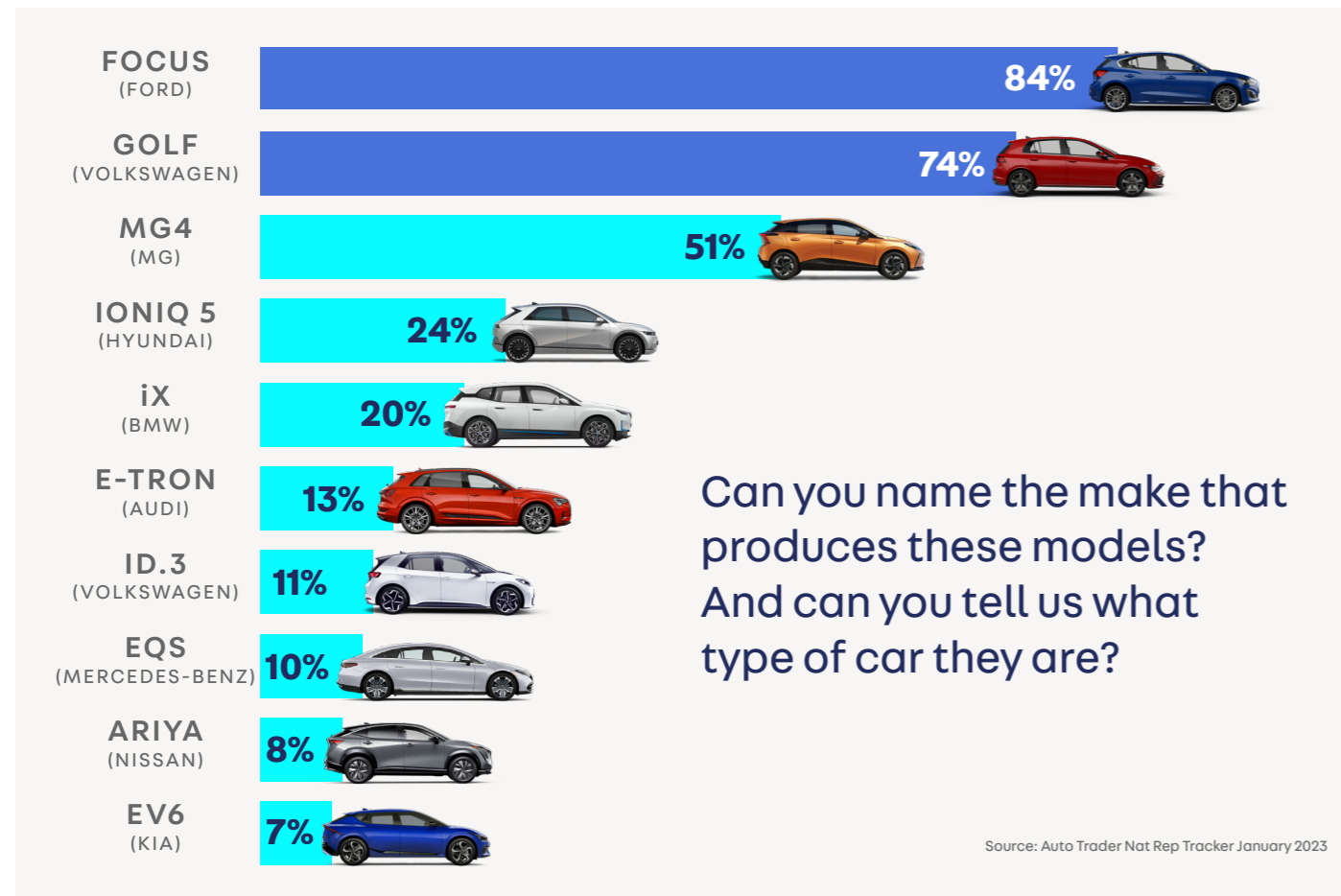


The consumer EV experience remains confusing

Despite the growing demand for EVs, confusion amongst car buyers remains. Many aren't just confused by industry jargon, but the cars themselves. Marketing, and information to demystify EVs will be essential to support and encourage the transition to electric.

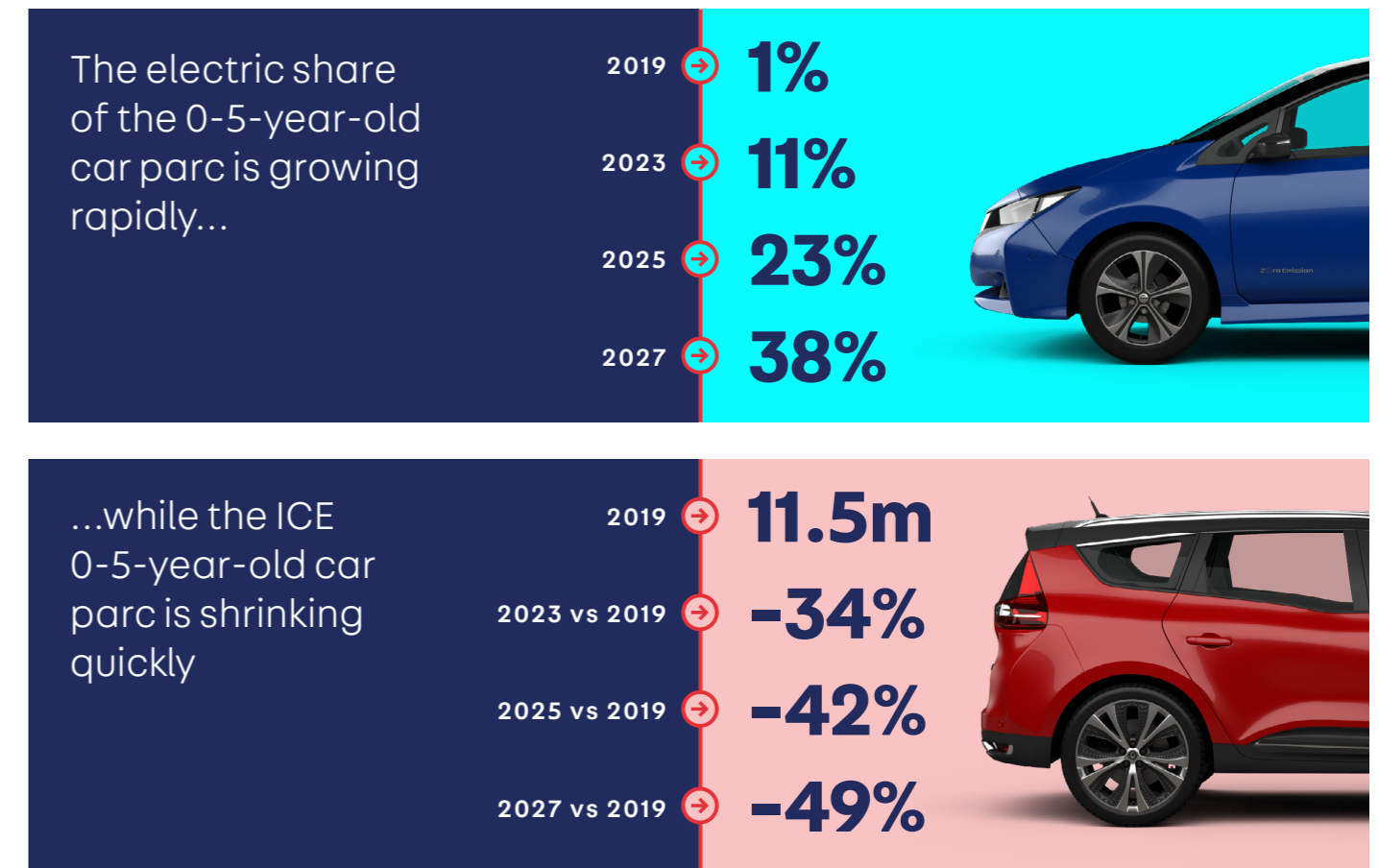


Most car buyers struggle to connect EV models to brands



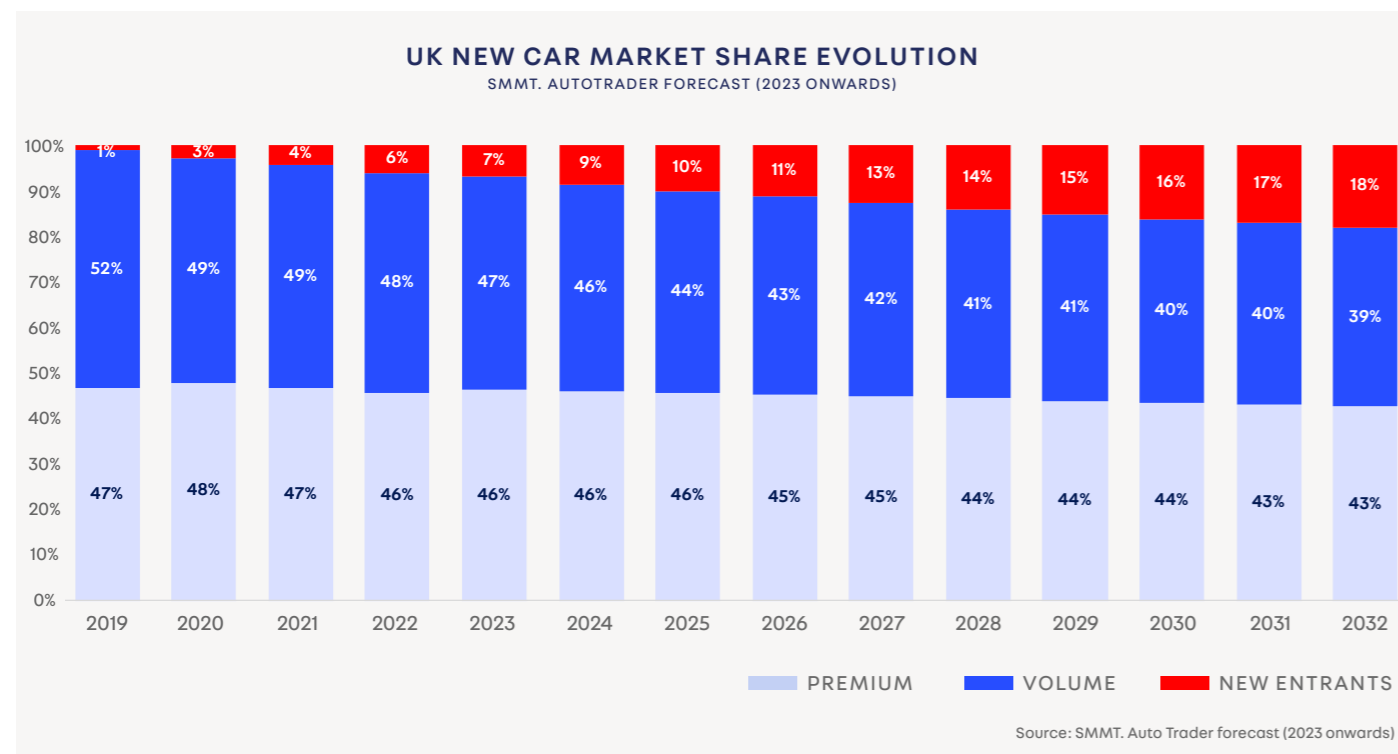
EVs are changing the shape of the car parc

The growth in EV supply is fuelling a dramatic and rapid shift in the UK car parc.



New entrants are already disrupting the market

We've already seen Tesla disrupt the market, but now other EV only manufacturers are poised to enter the UK - changing the brand landscape even further and adding to consumer confusion. These brands will capture market share, and based on what we have seen in Norway, we estimate that their market share will rise from circa 6% today to approximately 18% by 2032.



Retailers aren't keeping pace

Despite the growth in EVs, a large number of retailers aren't prepared for the electrification of the market / have no plans to adapt to electrification.



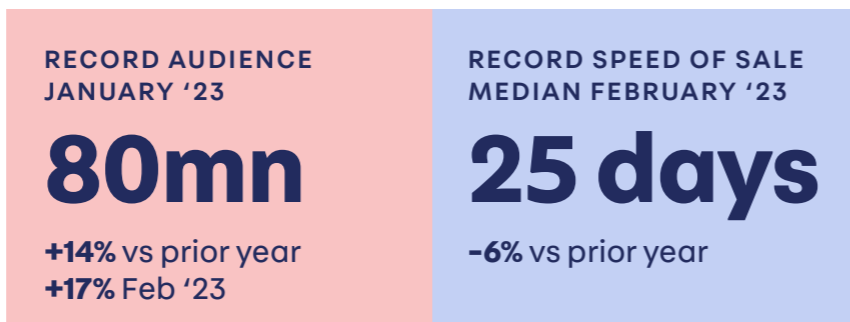


Force of change 3: Changing consumer behaviour

2023 has got off to a strong start

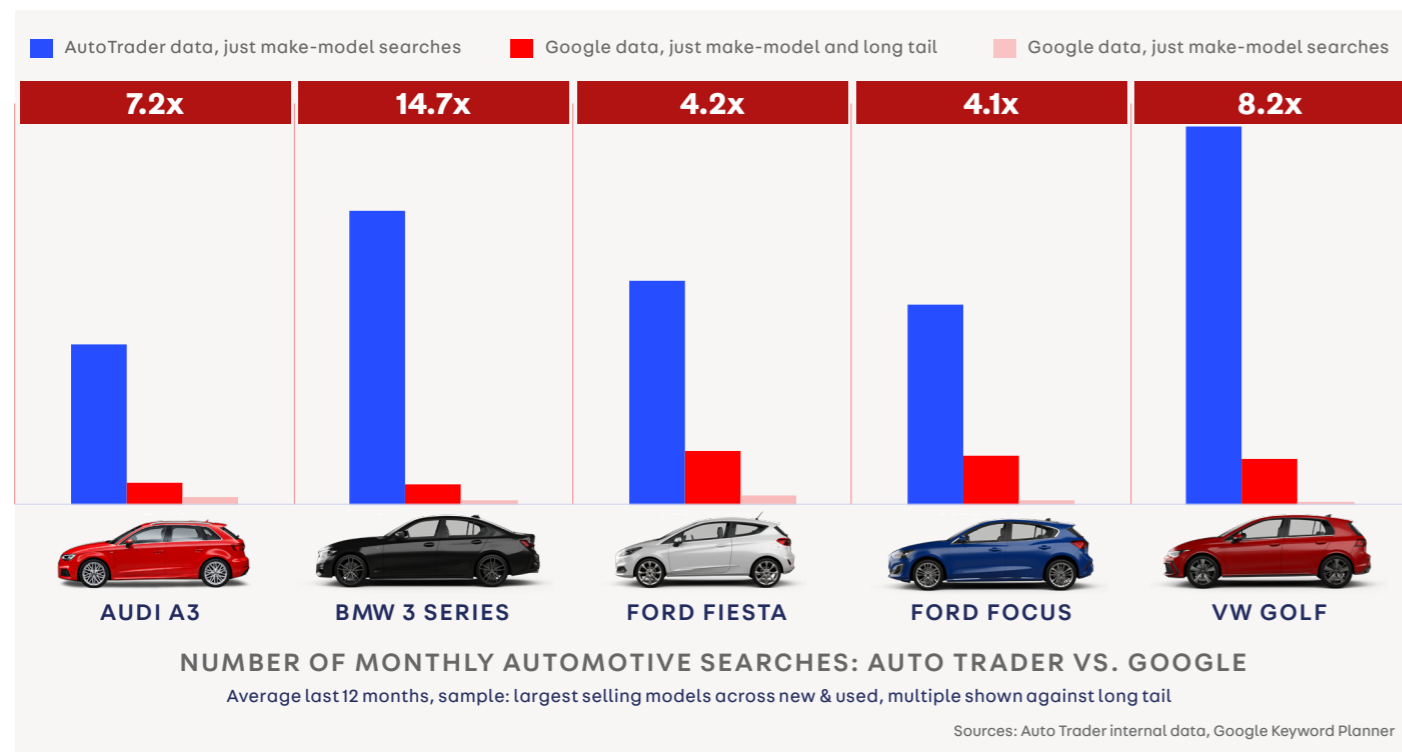
So far, 2023 has maintained very positive market momentum.

Auto Trader's audience reached a record high in January, while cars sold at a record pace in February.



Familiar makes and marques continue to dominate searches on Auto Trader

When it comes to search volumes and what people are doing on Auto Trader, despite the growth in EV momentum, we're still seeing the familiar makes and models dominate search.



End-to-end online retailing growth has stalled

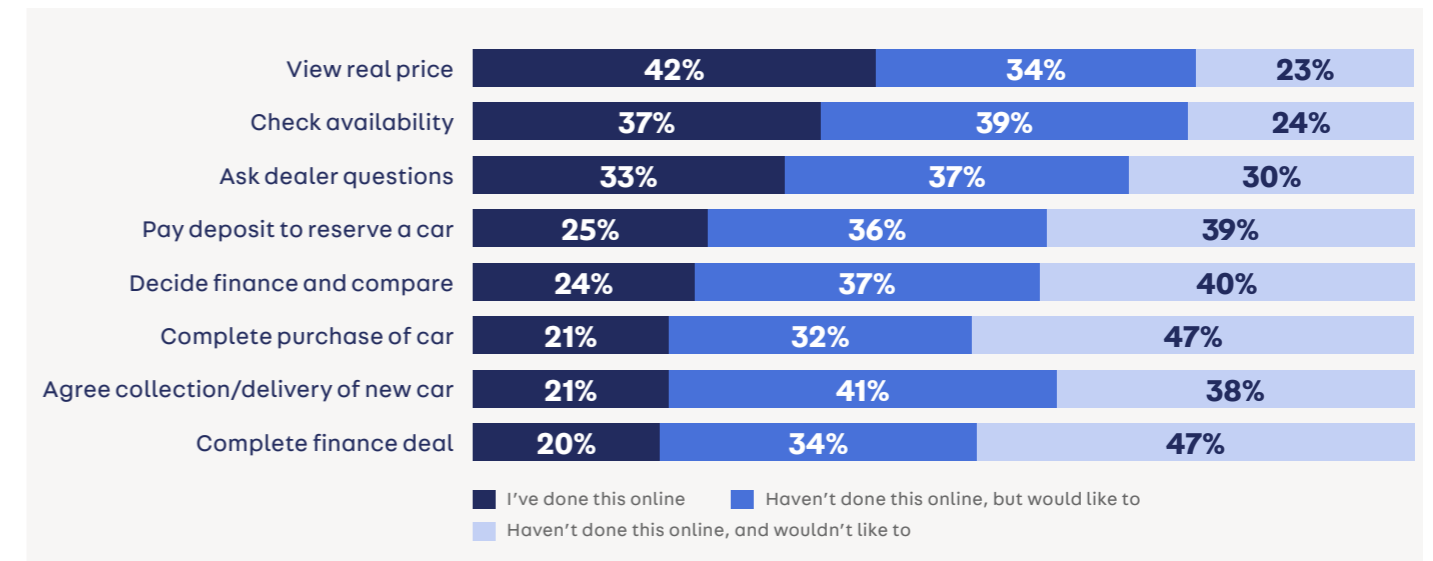
Fuelled by lockdown conditions, consumer appetite for online retailing increased significantly over a very short amount of time. However, appeal to buy fully online is plateauing.



Source: Auto Trader Nat Rep Tracker

Omnichannel experience is still the future

Whilst interest in a fully end-to-end retailing experience is slowing, more car buyers are looking for a blended offline - online experience. Buyers want to do more of the jobs necessary to purchase their next car online. **63% car buyers have done or want to do the majority of key jobs digitally.**



Source: Where buyers would prefer to do car buying jobs, Auto Trader Car Buyers Tracker Jul-22

What do these forces of change mean for retailers?

2023 is the year these forces of change evolve from being the future industry themes we're thinking about, to the reality we're all living today. This is the year change will happen and this is the year it all counts, which means:

- **Supply:** the impact of the shortfall in supply will be felt for years to come. Retailers need to think differently about sourcing, and sources of supply.
- **EVs:** retailers need to embrace the EV agenda - slowly and cautiously, but with growing demand and a rapidly changing car parc, retailers are at risk of being left behind. With so much consumer confusion, there's an opportunity for retailers and brands to stand out by demystifying electric.
- **Consumer behaviour:** retailers need to start building for the future when it comes to the consumer and the way they want to buy cars - the future is not building an end-to-end solution, but rather an omnichannel experience that seamlessly blends the online and offline.

If you have any questions, or would like to know more on how we can help you adapt to these forces of change, please do get in touch with your Account Manager who will be happy to assist you.

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