



Lead the charge with alternative fuel vehicles (AFVs)

The view from the forecourt



A note from **Seán Kemple**

Welcome to The Road Ahead, a whitepaper exploring the current landscape and future outlook for Alternative Fuel Vehicles (AFVs). At Close Brothers Motor Finance, we set out to understand how the industry is managing the shift to AFVs, especially with the ban on new petrol and diesel cars set to come into effect in 2030.

It would be an understatement to say that the past few years have been challenging for the automotive industry. Just as businesses began to get back on track following the pandemic, Russia's invasion of Ukraine and issues such as the semiconductor chip shortage have laid down further hurdles which have stalled progress. However, as some of these issues begin to subside and production levels start to return to adequate levels, dealers can now really focus on the transition to AFVs.

As one of the biggest developments in the history of the automotive industry, the widespread adoption of AFVs is no longer just 'likely;' it is inevitable and will become a legal requirement in the near future – at least for new vehicles. But questions do remain as to whether the UK is ready for the 2030 switch, with concerns still surrounding the cost of the vehicles, and the infrastructure required to support a significant uptake in AFVs.

In this paper, we investigate the impact of AFVs on car dealerships across the country. We'll conclude by asking the critical question; how can we, as an industry, be best placed to travel the road ahead?

Methodology

Except otherwise cited, the figures in this report are based on Close Brothers Motor Finance's own research and data, from a survey of 200 dealers across the UK. The survey was conducted in January 2023 by Censuwide.

Deal or No Deal; AFVs on the forecourt

As infrastructure begins to improve and the choice of makes and models continues to grow, AFVs are quickly becoming a more popular choice for consumers.

Almost 850,000 new AFVs hit the road in 2022¹, and dealers sold 40.1% more new battery electric vehicles (BEVs) than in 2021².

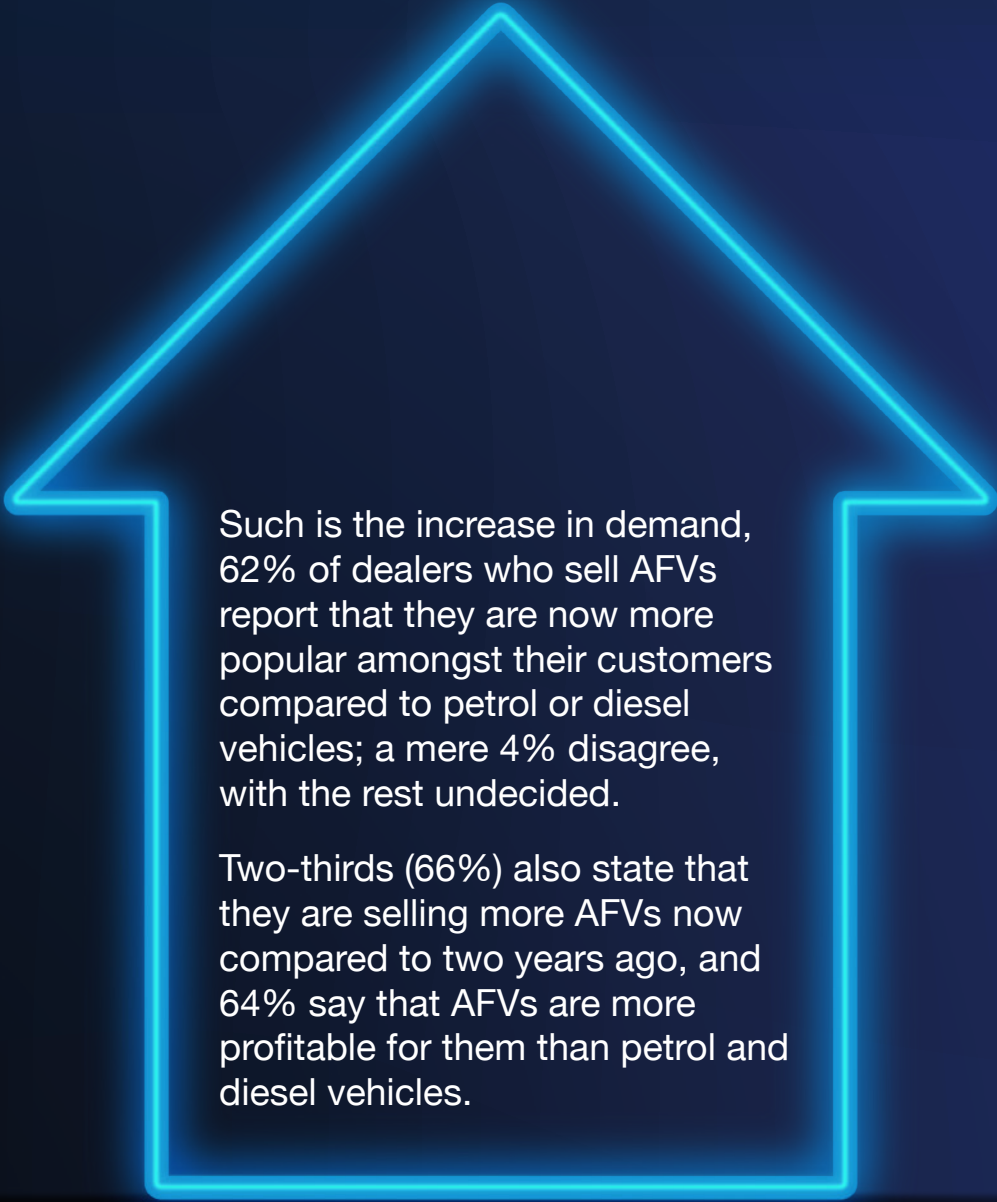
And this trend is not reserved to the new market; in 2022, used AFVs soared too; transactions of BEVs rose by 37.5%, Hybrid Electric Vehicles (HEVs) rose 8.6% and Plug-in Hybrid Electric Vehicles (PHEVs) 3.6% against 2021 performance³.

¹ SMMT – YTD 2022 figures of MHEVs, BEVs, PHEVs and HEVs sum to 848,609 – 5th Jan 2023

² SMMT – YTD BEV change from 2021 to 2022 is 40.1% – 5th Jan 2023

³ SMMT Used Car Sales – 10th Feb 2023





Such is the increase in demand, 62% of dealers who sell AFVs report that they are now more popular amongst their customers compared to petrol or diesel vehicles; a mere 4% disagree, with the rest undecided.

Two-thirds (66%) also state that they are selling more AFVs now compared to two years ago, and 64% say that AFVs are more profitable for them than petrol and diesel vehicles.




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car
store



When looking at profitability of AFVs, there is one stand out in Tesla, who have a retail margin of £7,907 for new cars. However, a slight cooling in demand led to Tesla reducing the retail margin to maintain market share. Whilst it is fair to say that other BEV brands aren't currently in the same league as Tesla, with the increased influx of Chinese Brand Manufacturers who are entering the UK market to compete for market share and who are able to manufacture BEVss significantly less than EU auto car makers, this will undoubtedly drive down BEV prices.



Whilst this could significantly impact on dealer profit, this will of course be very much welcomed by consumers from an affordability perspective and become more affordable to mass market, when historically they have been out of reach for ownership for so many. With an influx of manufacturers entering the UK market and as new AFVs become used stock, It's understandable that the retail price indicators can be uncertain and volatile for the foreseeable, allowing significant profitability some make model, derivatives but no so with others.



Sourcing stock

But as demand grows, it can be a challenge for dealers to source the required stock to adequately cater for their customers' needs. This has been led by the semiconductor shortage, which significantly impacted production for many manufacturers and caused a widening gap between supply and demand in the new market. The impact has filtered down into the used market, as consumers turn to quality second-hand cars to avoid the lack of new stock. This has led to increased prices, as well as a more competitive market for dealers seeking good used stock to fill their forecourts.

40% of those selling AFVs are also unsure if they are paying the correct price for AFVs

62% of dealers who sell AFVs agreed that accessing good stock has become harder over the last two years, and two thirds of dealers (66%) feel that they lose out to bigger dealers when attempting to obtain stock. 40% of those selling AFVs are also unsure if they are paying the correct price for AFVs. While these elements can be a challenge for dealers trying to sell more AFVs, more than half (58%) of dealers did confirm that they do not have any problems getting hold of stock.

Obtaining quality, nearly new stock has not been a challenge for us recently. As long as we work closely with our customers to understand their requirements and ensure that we are analysing current demand, we can make sure that our used stock is tailored accordingly to meet customer needs.

Neil Price
Director of Ask Motor Company



With stock becoming more readily available as supply has increased, it is in fact demand that fluctuated with fears around rising energy prices and overall cost of living. Understanding how to price and manage the forecourt effectively has never been so important.

This is where Close Brothers Motor Finance can assist dealer partners in making sure that they are best positioned to manage their stock effectively, by understanding the desirability of an asset and how to price in-line with a fluid market. By having full transparency, dealers will be able to maximise speed of sale and their profitability.

“ **A note from Seán**

With the continued volatility of the market, it's more important than ever to ensure retailers evolve their stock profile to meet consumer demand. As we head towards 2030 and retailers transition from ICE to AFV assets, an insight-led approach to ensure they stock those in demand vehicles for their forecourt is vital; whilst it's just as important to also stay aligned to market through the lifecycle of the asset from entry to exit of the market. Working in partnership with Autotrader, our insight solution “Forecourt Insight” helps our dealer partners to adopt this approach and maximise speed of sale and profitability.

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Hurdles ahead

Of course, many dealers are not yet comfortable selling AFVs. Of those not yet stocking any alternative fuel vehicles, 67% are aware they're going to need to start doing so soon; a mere 9% don't think they will.

It isn't a lack of demand driving the commitment to traditional fuel types. Only a quarter of those dealers not selling AFVs (25%) think that their customers aren't interested. Most dealers are grappling with infrastructure issues, with 46% telling us that their forecourt is not prepared for AFV – for example, no charging points. Close Brothers Motor Finance can support dealers with funding to ensure that their forecourts are ready to the shift to AFV.



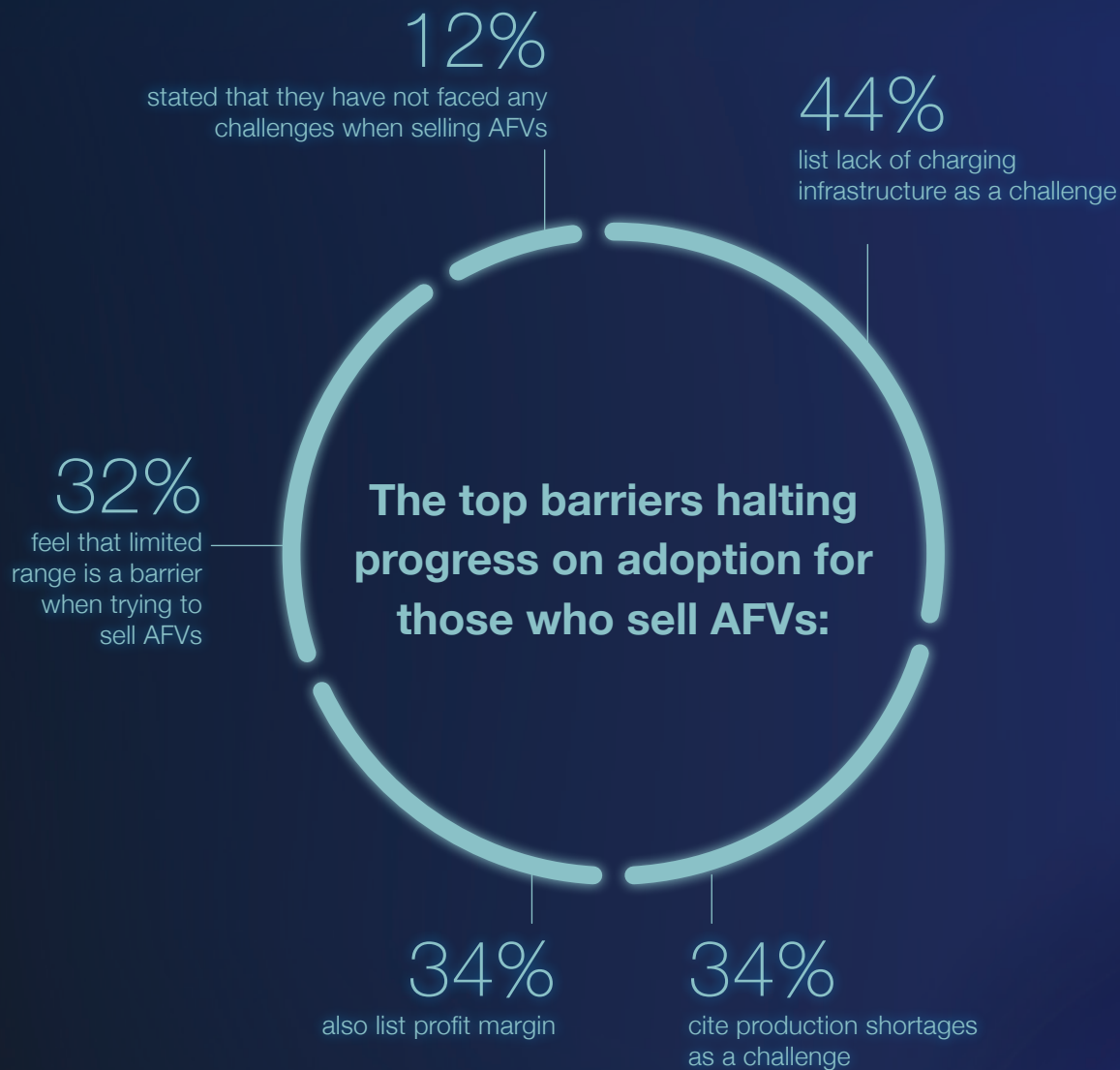
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32% of dealers who don't sell AFVs currently say it's too early to be concerned, as the deadline is too far away. The same number are waiting for the ban on petrol and diesel before they make the switch. But this risks being too late; the direction of travel of the industry is clear, and dealers who sit on their hands now may well find their competitors over-prepared at crunch-time.

There is also a knowledge-gap. More than a quarter of dealers who don't currently sell AFVs (27%) simply don't feel knowledgeable enough about the vehicles to do so, and 31% would like better education for their teams to help them sell AFVs.



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Dealers can't afford to have a short-term mindset on AFVs. With promising SMMT data on electric vehicles (EV) sales which are set to increase this year, dealers should have confidence in the EV market and prepare as necessary, firstly in order to be ready for the shift in 2030, and secondly to make sure their business is best placed to succeed financially.

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The road to 2030

In November 2020, the UK Government confirmed that the sale of new petrol and diesel cars would be banned in the UK in 2030, and that all new cars and vans would be fully zero emission at the tailpipe from 2035 (allowing a five-year extension for most hybrids).

As we race towards the 2030 changes, barriers will need to be overcome in order for dealers to be able to best meet demand and ensure that they are able to sell AFVs. Auto Trader's Road to Zero report said that nine million EVs will be on UK roads by 2030⁴, so it's not surprising that more than two thirds (68%) of dealers stated that they need to get ready for the shift to AFVs, and 67% admitted that they need to start stocking AFVs soon.

⁴ <https://www.autotraderroadto2030.co.uk/>



On a positive note, 65% of dealers do believe that the infrastructure in their region is ready for the shift, and three in five also said it was easier than expected to prepare their forecourt for AFVs. We are also seeing some other positive trends in other areas of the market, such as company car sales.

Around a year ago, especially when stock was really difficult to source for customers, we saw a big shift from company cars to people instead taking car allowances. This trend has now flipped, however, and we are seeing an increasing number of AFVs being taken as company cars now that it is an option on many company car schemes.

Over the last few months, we have really noticed an increase in the availability of stock. Whereas a year ago we were having to quote customers with long lead times or lack of availability, more often than not now we can source vehicles to match their requirements.”

Ash Jackson
Sales Manager at Fleet UK



Manufacturer discounts are also starting to reappear, indicating that supply is beginning to recover to levels where this is feasible, and lead times are significantly reduced compared to this time a year ago. This, of course, is promising news for dealers. In fact, only 6% of those surveyed said that they had not seen any benefits since they started selling AFVs.

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The motor industry will continue to face challenges in 2023, as we continue to deal with production issues and other barriers. But it's clear that some incredibly positive signs and trends are emerging around AFV, and adoption is increasing across the UK, not just from personal car buyers, but across company vehicles and fleets as well.

How can we support?

We're more than just a finance provider; at Close Brothers Motor Finance we thrive when we're working in partnership with our dealers. Our dedicated account managers pride themselves on their personalised approach. Here's how we can help your business grow:



Finance

Our competitive finance product offering for your customers, including Personal Contract Purchase, Hire Purchase and Conditional Sale.



Insight

We can provide Forecourt Insight to help you optimise pricing, review market data, and analyse trends to help you meet demand, as well as providing expert advice from our Dealer Council and Dealer Optimisation Partners.



Funding

We offer flexible stock funding to help stock your forecourt with vehicles and business development loans to improve your site.



Compliance

We can provide masterclasses and training to ensure your staff are equipped with the knowledge and skills they need.

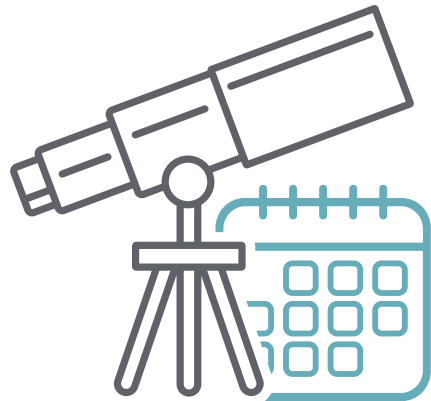
Passionate about Partnerships

For over 30 years we've built an established reputation as a flexible and trusted finance provider and have supported our dealer and broker partners through both good and challenging times.

- We work hard and provide products and solutions that ensure the whole process is as quick and easy as possible, for you and your customers.
- Your finance partner needs to see the individual behind their finance application –and we look beyond an automated decision, where appropriate and affordable.
- We share pioneering market, forecourt and business data, and work in partnership with you to deliver insight on what's selling and who's buying, and we give you better ways to fund your forecourt to grow your business.
- We're here for you, as a valuable member of your panel and long-term partner you can trust.



Five things to takeaway:



1

The deadline of 2030 isn't as far away as it feels; now is the time to prepare your forecourt

Other dealerships are preparing for the switch, so it's vital you start planning now to keep up with the competition. Work out what infrastructure you need on your forecourt, and think about what the next few years needs to look like for you to be prepared when 2030 comes.

2

Do the work to understand your customers

70% of dealers say customers ask more questions about AFVs compared to petrol and diesel cars, highlighting the need to understand consumer behaviour and trends, in order to ensure dealers are able to effectively meet demand.





3

Managing your forecourt

by understanding and managing your forecourt effectively through adapting to demand and pricing to market, you can enhance speed of sale, maximise profitability and reduce cost.

4

As AFVs become increasingly popular leading up to 2023, they are likely to become an increasing part of your revenue

The research shows that investing in AFVs will have a financial benefit for your business. Ensure they're part of your business plan and establish what pace of switch will work for you in your area. It's not all or nothing; slow and steady might be best for you.

5

Provide staff training and masterclasses to build sound AFV knowledge

There is a knowledge gap surrounding AFVs. Invest in masterclasses and training to ensure that all of your members of staff have the required knowledge, skills and confidence to sell AFVs to customers in your region.



Passionate about Partnerships

We're passionate about partnerships and committed to going the extra mile for customers.

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