

THAT MAKES CENTS



Season 4 Episode 2

How automotive subscriptions are boosting equity in mobility and driving connectivity

Host: Bobby Stephens, Principal, Deloitte Consulting LP

Guests: Matt Murphy, Chief Operating Officer, AVVA

Rodolfo Dominguez, Auto Tech Practice Leader, Deloitte Consulting

Bobby Stephens: Hi everybody, I'm Bobby Stephens. Welcome, or welcome back, to That Makes Cents. This is the podcast where we break down consumer industry trends and explore their impact on both businesses and on us as consumers. Today we have a very interesting topic that is actually a follow-up to an episode we did last season. Our topic is about new and emerging subscription models in the automotive industry. We'll be discussing driver experience and how these subscription models can help democratize vehicle ownership, allowing for equitable access to mobility and enhanced connectivity. Joining me today, we have Matt Murphy, chief operating officer at AVVA, an innovative company rethinking

the traditional vehicle ownership model. Also joining me is my colleague Rodolfo, Deloitte's Auto Tech practice leader and two-time That Makes Cents guest. Welcome, Matt. Welcome, Rodolfo.

Matt Murphy: Hello. Thanks for having me.

Rodolfo Dominguez: Thanks, Bobby. Great to be back.

Bobby Stephens: Absolutely. To ground ourselves just a bit—Matt, first, maybe Rodolfo second—can you just quickly tell us a little bit about yourself and why you are passionate about the subscription model car service.

Matt Murphy: Absolutely. Thank you, Bobby. I am a serial entrepreneur, very tech focused, and have had a desire to resolve some of those large disruptive opportunities in the marketplace, especially one in the automotive space that's existed for so long. So I wake up with a lot of passion every morning to not take any more phone calls from my daughters, telling me that there's a new emoji on the dashboard and the vehicle needs to be fixed as soon as possible, and try to replicate that across a much larger base of users! But I find that my 25 years in the technology business has allowed me to figure out how to get to consumers, how to serve them in a way that is more seamless and frictionless and provide them with efficiencies that allow them to go about their

day-to-day operations, or their day-to-day life, with a little less complexity. And so that's the basis of where we feel subscription is headed and the customers—what they receive and reward for that.

Bobby Stephens: Cool. Rodolfo, what about you?

Rodolfo Dominguez: Fantastic. So, and just so, so happy to be here with you and Matt, Bobby. So as a nearly 30-year industry veteran who has seen a lot, the one thing that I am very passionate about changing is the way we are delivering the brands, the value of mobility, to consumers. I think consumers are telling us day in, day out how they would prefer to interact with automotive brands and personal mobility. And I think the industry has, you know, made leaps and bounds in terms of actual vehicle technology and all kinds of cool, exciting products out there. But the experience of shopping and ownership, and financing vehicles, still [has] a long way to go.

So I am very, very passionate about working with leaders in this space to truly advance the ownership experience and the mobility experience and accessibility to all. So that drives me every day, and that's what we help our clients to do here at Deloitte. So, thrilled to be here again.

Bobby Stephens: Awesome. Thank you both for the introduction. We definitely have a good group to talk about this particular topic, and I think it is great to see the value and potential that alternative models seem to have in today's market. So, Rodolfo, let's start at that high level and build off of your introduction. And Matt, certainly feel free to chime in. When you think about subscription models in particular, have there just been any recent updates or shifts in consumer wants and needs that are driving more investment in this area?

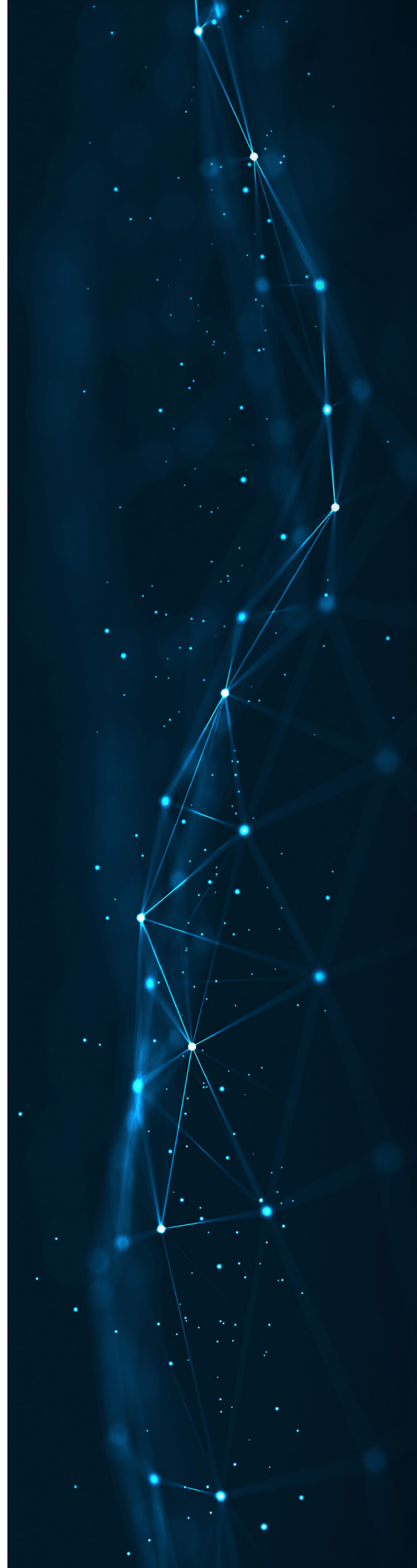
Rodolfo Dominguez: Absolutely. Since the last time we spoke, Bobby, there [have] been a few new players entering the

marketplace—and including also some of our clients who are already experimenting with these models both for consumer, for gig economy drivers, and other consumer demographics that we will explore a little bit more today. So this is very validating of all of our research, right? So our global automotive consumer study, which has some 27,000 data points, clearly talks about nearly 50% of especially younger consumers being willing to give up traditional ownership altogether in favor of a subscription.

Affordability continues to be a very, very serious concern. You know, afflicting all consumers of all age groups, and there's a huge disconnect between what consumers are able and willing to pay for a vehicle—including all of the costs related to owning the vehicle, operating the vehicle—with the marketplace reality. So average monthly payment is roughly over \$750 per month, and consumers would prefer and would expect to pay around \$600. So there's a huge gap to cover here.

And then maybe last but not least, it is also the way consumers are getting used to consuming, interacting with goods and services, where everything is digital, convenient, flexible, and hyper-personalized. And, of course, they know that the technology is available to make this happen, but we now need to move the industries that have more of these legacy paradigms into that space. So very, very exciting space filled with opportunities. I would love for Matt to chime in because that's what drives him out of bed every morning, I think. Matt?

Matt Murphy: Absolutely, and I think it's a great opportunity to preface my statement with: EV is inevitable, autonomous is inevitable. But they're on the horizon, and the early adopters in that space, likely more of a luxury market, market where it was a third vehicle in their driveway, they still had an SUV for road trips or another vehicle for a child, whatever it might be. And that the overall support system in place in terms of charging or access and other things is a



little further on to the horizon that the early subscription providers entered the space on the premise that EV was going to be entered into the market as a subscription service. And that's because the current footprint of dealerships and the model in this current franchise space is really designed around the traditional model of purchase and lease. And the only way for a new auto-type solution or mobility solution to enter the marketplace would likely be through a subscription model: online purchasing, delivered to door, service the customer through digital and mobile app technology and really provide a different consumer experience.

And so how do we build the bridge to get there? And building the bridge to get there is servicing the consumer that needs mobility now, every day. And we look at that as kind of the essential space. I think it's inevitable that EV will be the default on the horizon 10, 15 years out for the large portion of drivers. Until then, internal combustion will lead the way. Creating efficient and cost-effective subscription models to lay over the current internal combustion engine model is where we're focused because that gets us to a price point to conserve a much larger market. They don't have to worry about plugging into their charge at their apartment, which they likely can't do today. They likely have the opportunity to treat it as something that's never been served to them before, which would be a new vehicle to get to and from their very important job.

So I think that the transition that's happening is we're seeing a consumer that has one vehicle, that needs it for everything, that getting to work is their number one priority, and in doing so, we have to provide a solution that creates an efficiency for them. They don't have an hour to sit at a charging station. They don't have a day to go spend at the dealership. They likely don't have as much time to do oil changes or tire changes and those types of things. And so bringing a white glove concierge model to a consumer that's never had it feels pretty good to wake up to in the morning.

Bobby Stephens: Yeah, you know, Matt, let's build on that a little bit. Certain consumers vote with their wallets, but for others, time really is critical. And so, that's what I think makes it important to democratize access to those vehicles. So maybe you could talk a little bit about how a subscription model does do that and who that population is. You mentioned building a bridge to get there for the folks who need access now. So talk a little bit about how and who is at play here when we talk about subscription models.

Matt Murphy: Well, I'll tell you that I'm a student of the subscription space, and there are some incredible players that have charted a path towards an opportunity in the marketplace. And I think there were a couple of things that leaned into that. In my first answer, where I talk about EV, EV really pushed the envelope on how we're going to deliver mobility. And I think Tesla is something that we all look at as the "build it digital-first," treat the consumer differently, and provide a model that would be the future of mobility. I think Tesla really has created a model for that in their EV space. With that being said, COVID. It impacted everyone in certain ways. It relates to mobility. We were in the process of building a customer with a test base of customers in the marketplace.

And during COVID, the only consumers that needed to get in a car to go to work every day were the essential workers. And an essential worker has to get up every day, had to go to their daycare job, had to go to their job at the hospital, had to go to their retail job. They had a need to get to work regardless of all of us that may have been able to stay at home. And so we were serving a market that was already in a challenging space. We were serving a market where there was no access to dealerships or maintenance or service, and we had to create a way to bring that service to them, bring the vehicle to them, serve them so they could get to their nursing job that day.

And, ultimately, we also find that this essential worker wasn't a heavy driver, in fact. You know, the car sits in front of their apartment all night and it sits in front of their job all day—that it was really about getting to and from work was a very important part of their day. And so mobility is more about getting to the interaction or the experience than it is the experience of driving. A subscription model is a non-debt-incurring model. And so I can extend the service to a consumer that may be credit challenged. And credit challenged consumers are the most disenfranchised, underserved market that exists in the marketplace. If they're out for a purchase, they're buying a 10-year-old car with a 15% interest rate that requires a lot of maintenance.

And in a world where mobility is their number-one priority, we know this: The car payment always gets made because if they can't get to work, they can't pay their rent, they can't feed themselves. So when you really embed yourself with that consumer, A) they were never offered a lease. So you never talk about lease. B) When it came to a purchase, they were at a "tote the note, buy here, pay here" lot being treated really poorly.

So when you tell them they can have a brand new or nearly new vehicle delivered to their front door, they can have an experience that they interact with a mobile app to schedule their service, to make their payments, to have their tires changed, and for that service to come to them as well as not have the need to negotiate their insurance every year or every month or every six months for that challenged buyer, the need to not have to manage their extended warranty or a roadside assistance—for all those things to be in a single payment instead of eight or nine separate payments to different providers, those are the efficiencies and the friction reduction spaces for that essential worker that is beneficial to their day. And that's why they are a huge target base for subscription.

Bobby Stephens: You know, I have a question that kind of follows up on that, that I think I'd like to send to both of you guys. You know, considering that demographic, they wouldn't just benefit from quick access to this. Like, it becomes almost a livelihood for them every day that it's difficult to get to work or home from work or, you know, get the kid to daycare before you go to work is a big deal. And so maybe, Rodolfo, we'll start with you, but Matt, would love to hear you kind of close it out.

What are some tips that you guys have learned in the case of getting this to market quickly? What are some things we can learn to get this out there and get it in front of the people who need it as soon as possible?

Rodolfo Dominguez: Absolutely. So I think, the first misnomer that we like to dispel and to discuss with our clients is this model of subscription is not the model that was available some five years ago when companies first started to play with that, which was the ultra-luxury, you can change cars every week. That was, very, very difficult to operate. It was very challenging financially as well. And that catered to a certain specific demographic and kind of

use case that was great to try—because I'm all for innovation—but this model description is not what we're talking about.

This is about, you know, folks needing in a car to go from point A to point B that, as consumers have expressed to us in our studies, need the convenience of a single-payment transparency. They know what to expect every month. They know the car's going to be available, and they can have the convenience of the servicing based on what Matt described. Now, if we think long term—and I think also bridging to the starting point Matt laid out—in terms of the future being autonomous, electric, and connected, for me, there is no doubt that's a path that we are in. And it's not a matter of if but how long it's going to take us to get there.

And all of the capabilities that we are building and helping our clients build in this space are going to be stepping stones to that point. Just think about a fleet of robo taxis, right? That is autonomously operated, basically you can summon on your app (which could be the case already today), and it is all again connected, digital, etc. So, we are effectively shifting from asset financing to fleet operation, fleet

management, which eventually would be autonomous, connected, etc. What does that do for any platform to be successful? As we have seen with ride hailing, once you achieve that democratization, that accessibility to the masses, that is when the platform succeeds. And I believe that we are exactly at the mobility revolution of the next 10, 15 years. And these are all the foundational, you know, models, and, of course, serving the majority of a population who need that car to go from point A to point B in a seamless personalized way—and even fun way—Matt will talk a little bit more about that later, I'm sure—that is, you know, paramount for any company in the mobility space to be successful in the future. Matt?

Matt Murphy: Absolutely. I think that when you take a consideration of where you were just at, when you talk about autonomous in the future, I mean, that is a subscription platform from day one. And that will be the default way we communicate with things. I think when you look at how we get there, I think about our consumer, and our consumer also uses public transit. So public transit today is being disrupted by ride-hailing, and so, needless to say, what is



ride-hailing? I have a subscription to Uber, I pay for my ride-hail and my rides when I come to and from. I believe that public transit will move towards a subscription-based solution where trains, planes, automobiles, buses, and everything that they can roll up under their public works and public transportation model will be accessible through a mobile app per user. And that will also build the bridge towards the future of people interacting with mobility as a service. And that really is the business that I believe that we're in.

Mobility as a service is the business. The interface is subscription. And we've talked about it on a couple of different levels, that subscription is a wallet and subscription as the default center of all mobility solutions. A consumer is going to become very accustomed to using one interface to do a lot of things in their life, and we believe that subscription is that path.

I have an interesting example that I like to use when I talk to or am educating a new audience about the tips or the future of where we're going. Internal combustion engine cars are going to exist for a certain consumer base for the next 10 to 15 years. Getting them on the platforms, and getting them used to the interface of how they interact with mobility? As soon as EV becomes available to all consumer sets, it's just a plug-in, it's just the hardware attachment to the interface.

And so we believe companies in the subscription space are going to drive these large OEMs and captive solutions towards subscription platforms as the default way to interact with mobility in the future.

Bobby Stephens: You know, one thing you mentioned there, you mentioned the OEMs, the actual manufacturers of these beautiful vehicles that need to be there to make this all come to life. You know, I'm curious, what's in it for them? So Matt, like, what are some of the ways that maybe the connectivity, the overall ecosystem that

Rodolfo was talking about, and that overall connectivity with the driver experience, like, how does that help the automaker, how does that provide them data, how does that provide them some benefit so that they are willing to participate in this as well?

Matt Murphy: I think that's a great question. The fact is that my consumer is using a base model sedan or SUV in almost all cases. These are models that are low, base-level models in the marketplace, where you have \$25,000 or under price range for a brand-new vehicle. In that particular case, if you're OEM-agnostic, you're providing, really, technology solutions over the current OEM format or footprint.

I would think, in the next 10 years, that subscription becomes the third option. Like, when we think about, I can purchase a vehicle, I can lease a vehicle, but there will be a button there in the near future that says, "Subscribe to a vehicle." And I believe that that solution will look something like, when you hit that button, you drop into an online application and inventory selection. Based on where you're sitting ZIP code-wise, it will align with whatever franchise dealer has a unit that matches that inventory requirement in that ZIP code. That dealer in that franchise network would get that applicant, if they are approved; they would deliver that vehicle to that applicant, if they are approved. And they would manage the maintenance and parts and all of what are the—what I think—are the profitable portions of the current dealer franchise and the OEM model is that the OEMs are going to participate, but that means that we have to build these solutions as technology solutions that are modular, that offer multiple function, and allows the dealer and the OEM to participate in the process of offering subscription as that third option.

But if you ask me where we're going to be 15 years from now, I believe subscription will be the number-one option.

Rodolfo Dominguez: Yeah, I'll just add there, the key question that I always raise to my clients is, who do you want to be in the future if you're in the automotive space? I think that the ecosystem orchestrator is going to capture the share of the consumer's wallet and loyalty and experiences. So, again, to do that, you have to build these composable business models and ecosystems where you can easily plug and play different services that are appealing to each individual consumer, but you have to be able to do that at scale. So this is where the composable business models come in. And this is where we're seeing a lot of our investments, here at Deloitte as well, Bobby and Matt. So we have an entire suite of IndustryAdvantage solutions, and so, for example, we have Converge BankingSuite that allows us to bring preconfigured, hardened customer banking journeys from source to post, including engagement, integration, back-end core, infrastructure layers, that allows us to enable clients [to] bring an enterprise-grade solution faster to market. So, I would plug the solutions at scale from banking to health care to insurance. So, this is a way to do it; it's a platform business. It's a composable business that allows us to bring solutions to life in a fraction of the time, the cost, and the risk to accelerate the progress of these new businesses.

Bobby Stephens: Really fascinating. I wish I could talk more about this specific topic, but we're getting a little short on time for how we work this podcast. So I'm going to move us to the final question, which for our listeners, you know, we lean a touch personal on this last question. And so, Matt and Rodolfo, as we sit here, we're kind of nearing the end of summer. I'd love if both of you could reflect on, sort of the year to date and just mention one highlight for each of you in terms of that concept we mentioned earlier, on buying into better. Thinking about something more than just the thing you're buying, maybe who it's helping, or how it's contributing to the environment, or something of the

broader social good. So, maybe Rodolfo, you go first, and then Matt, you close us out on a highlight from this year.

Rodolfo Dominguez: So, what I love seeing is that more and more companies are teaming to advance sustainable, responsible solutions to big problems. So, you have partnerships and alliances across the board between OEMs, technology companies, sustainability, agencies, and so on. And I think that's going to be super important as we continue to move forward. It is a very dynamic and turbulent time, but it is also a very interesting point in the market, right? We're coming back from all of the disruptions that we were describing earlier. Some things are starting to normalize, and it is an opportunity for companies to bring value to consumers that have been under so much pressure, so much stress, financially and otherwise. And I think we see some of our clients and players exactly doing that. We're doing good for society, for humanity, in different ways, by bringing accessible mobility. So, that's the highlight of my year and something that I look forward to continue developing here.

Matt Murphy: That's great. When I think about how difficult the economy has gotten for my consumer, that consumer has had a much more difficult time putting groceries

on the table. It's had a much more difficult time getting to and from work and affording gas. And being able to bring them a service with a very reliable mobility solution that is cost-effective. Their ability to work with us in creative ways to solve problems as you can in the subscription space that you can't in the traditional finance space, allows me to feel like we're helping a very necessary consumer group that serves all consumers, and in doing so, we're providing them with a service that has only been a luxury that they never thought they would have access to.

Bobby Stephens: Matt, Rodolfo, fascinating and inspiring discussion, frankly, today. I took a note. I liked, Matt, how you said mobility as a service is sort of the broader offering; a subscription is the interface. I may have paraphrased that just a little bit there, and I really do. I think we see the benefits of a subscription model in the automotive industry—and maybe in other industries that contribute to mobility, especially for those underserved segments of the population. You know, also, subscription software, the connectivity, the data, can enhance the customer experience and can provide valuable insights to automakers and their partners. So, the whole ecosystem—back to what you said, Rodolfo—orchestrating that ecosystem. There's a lot of value that could

be distributed amongst many players, and being at the center of that is a valuable spot to be. So, thank you so much, Matt, for joining us today.

Matt Murphy: Thank you for having me.

Bobby Stephens: Thank you, Rodolfo, for joining us again.

Rodolfo Dominguez: Thank you, both.

Bobby Stephens: Listeners, we hope you found this discussion as insightful as we have, and don't forget to subscribe, so you don't miss our next episode, and please, take a look at our description for more content. Until then, keep making sense of your world. This is Bobby Stephens. Stay safe and take care.

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