

Welcome and context

The COVID-19 pandemic has accelerated the adoption of digital technology within the South African automotive retail industry, with similar trends being observed globally. The impact of the pandemic has influenced how traditional vehicle finance institutions, original equipment manufacturers (OEMs) and dealerships interact and transact with customers as more consumers get comfortable with online shopping. Globally, the rise of Connectivity, Autonomy, Shared Mobility and Electric and new energy vehicles have come to the fore, which combined is referred to as ('CASE') technology which is reshaping the automotive landscape and impacting the oil industry said Martyn Davies, Deloitte Africa's Automotive Leader.



Speakers



Pertunia Sibanyoni
CEO InspectaCar



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Group Head: Vehicle & Asset Finance; Standard Bank



Mark Dommissie
Chairperson; National Automobile Dealers Association (NADA)



Tinashe Ruzane
CEO and Co-founder; FlexClub



Dr Marco Hecker
Auto Sector Leader; Deloitte China

Facilitator



Dr Martyn Davies
Automotive Leader; Deloitte Africa

Overview of automotive retail landscape

One of the major contributors to inflation in the United States in the past year has been attributed to vehicle prices; similarly, in South Africa, new and pre-owned vehicle prices contributed 11.2 per cent and 10.5 per cent, respectively, to inflation. South Africa's automotive industry like other industries were hit hard during the COVID-19 lockdown resulting in the rise of unemployment with Q1 unemployment rate at 32.6 per cent in a struggling economy.¹ The trend in consumer spending behaviour showed an increase in distressed vehicle owners downsizing to smaller, more affordable, used vehicles that are fit for purpose said CEO of InspectaCar, Pertunia Sibanyoni.

The increase in new vehicle prices subsequently led to an increase in demand for pre-owned vehicles as consumers buckled up on spending. According to the TransUnion Vehicle Price Index Q1 2021 new passenger finance deals decreased by 5 per cent while used passenger vehicles increased by 7.4 per cent year on year.² The National Association of Automobile Manufacturers of South Africa (NAAMSA) has reported the pre-owned to new vehicle sales ratio at 2.41 to 1.²

Demand, however, for both new and pre-owned vehicles remains high. According to Mark Dommissie, Chair of The National Automobile Dealers Association (NADA), the current demand for vehicles outstrips supply. This arguably counter-intuitive situation is a result of relatively unpredictable and fluctuating demand that makes forecasting and planning difficult for OEMs and often leads to supply bottlenecks. Simphiwe Nghona, Standard Bank's Group Head for Vehicle and Asset Finance, added that the insufficient public transport system in South Africa continues to drive private vehicle demand. In addition, the all-time low prime interest rate of 7 per cent has made finance terms for cars more favourable.³



1. Statistics South Africa, "More people participate in the South African labour market in the 4th quarter of 2020", Stats SA, February 25, 2021, accessed June 10, 2021.

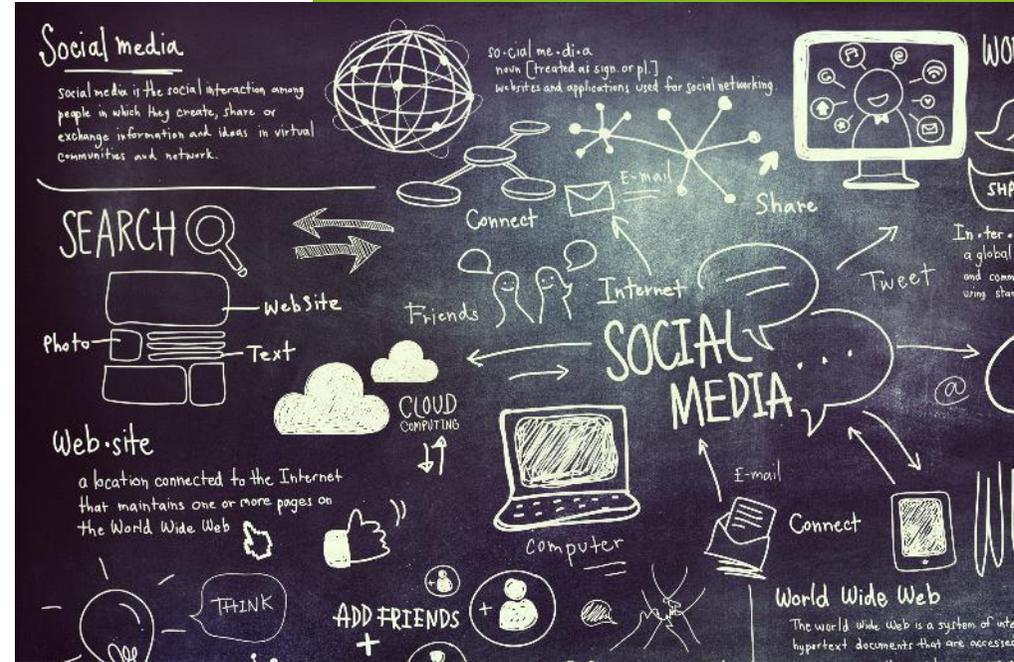
2. TransUnion. "Vehicle Pricing Index Q1 2021"

3. South African Reserve Bank, "Current market rates", accessed June 10, 2021.

Digital emerging as the new normal

The emergence and adoption of digital technologies is changing the retail landscape across industries. The surge in the used car franchise market has led retailers to start creating unique channels to address consumer needs with customised digital solutions. Sibanyoni highlighted that it has become increasingly important for automotive retailers to have a digital presence in the market. Digitalisation benefits consumers as it offers real time engagement, less paper-based applications and increased convenience to make purchases from the comfort of the home. Automotive retailers have started introducing end-to-end solutions that assist consumers in the journey from vehicle searching to post vehicle purchasing.

A rise in informal interventions developed in the wake of the national lockdown which saw dealerships starting to increasingly use social media as a new channel to interact with prospective buyers. This speeded up processes with dealers having to respond swiftly to customer queries, said Dommissie. Facebook and WhatsApp became widely used communication channels between dealers and consumers. While formal initiatives were introduced by vehicle finance institutions, through mobile applications customised to provide real time finance offerings to consumers, ensuring an easier process to buying a vehicle with features that can compare quotes and determine the consumer's affordability via the application. From a retail perspective, "retailers need to provide a one stop shop experience for vehicles in a seamless ecosystem that provides an end to end journey" said Sibanyoni.



A move away from the traditional ownership model

According to Tinashe Ruzane, Co-Founder and CEO of FlexClub, the pandemic has introduced a new way of consuming cars and it's not a "one size fits all for South African automotive consumers". Alternative vehicle ownership models such as vehicle subscription and leasing are gradually disrupting the traditional market in South Africa and Mexico, and likely to play a significant role in the future of automotive retail. This business model allows consumers to lease a vehicle in a highly flexible contract basis, with the option to end the contract, swap the vehicle or choose to purchase the car at any point in time. The car subscription market is designed to appeal to individuals who do not need to own the vehicle and want to avoid the risk and cost associated with vehicle ownership.

The car subscription model intends to make the "experience as easy as buying a pair of shoes online" said Ruzane, who further explained that the uptake in the market has been positive in South Africa, with a peak of 100 cars being delivered to partners per week. An opportunity exists for car dealers and financiers to expand this market in South Africa and enter other parts of the continent to reduce the complexities associated with digital transactions. From a financial institution perspective, Nghona said there is a need for traditional vehicle finance institutions to recognize the changing landscape driven by digital players and look to partner with them as financial service providers have a role to play in how the industry meets up with consumer demands.



Evolving mobility ecosystem

Connectivity, Autonomy, Shared Mobility and Electric 'CASE' technology has been a major trend in the industry although its uptake is varied in pace and impact across different markets. Internationally, North America and Western Europe are considered more mature automotive markets in the digital retail space.⁴ The pandemic played a role in accelerating some components of CASE. According to Marco Hecker, Deloitte China Auto Sector Lead, COVID-19 accelerated Connectivity in particular, where 80 per cent of leads came from social media.

In South Africa connectivity and electric are expected to be the front runners, said Hecker. This has posed a challenge for OEMs in deciding what vision and strategy to follow. Key factors for OEMs to consider include brand value, quality products and generating extra premiums. As it stands few OEMs have mastered omni channel, online channel and digital and direct sales. In markets such as China, Japan, and Australia electric vehicles are being piloted as test cases to go into direct sales. Hecker says from a Deloitte perspective it is expected that future trends encompass a mix between online platform, stores and physical dealerships.



4. Sarwant Singh, "Top 10 Global Automotive Trends, 2021". Forbes. January 12, 2021

Concluding remarks

The automotive industry is gradually breaking away from traditional sales models to support a digitally led future state. Companies are becoming more agile due to changing consumer needs and preferences. Automotive retail is moving to a more inclusive, seamless ecosystem focused on consumer convenience. This transition presents an opportunity for traditional mobility stakeholders to collaborate with technology players and build a strong ecosystem focusing on consumer needs and leveraging on digital enablers.



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