

BERYLLS STRATEGY ADVISORS

HOW VEHICLE-AS-A-SERVICE CAN BE 50% MORE PROFITABLE THAN TRADITIONAL CAR SALES

Many OEMs are struggling to create a business case for VaaS that captures all the benefits. Here, we set out the key considerations that are not covered by traditional assessments.

AGENDA

- 3 Introduction
- 4 Direct benefits of VaaS
- 6 Indirect benefits of VaaS
- 8 Call to action

THE 30-SECOND READ

- » The **direct benefits of Vehicle-as-a-Service generate up to 50% more profit** for OEMs compared with the traditional sales model, through keeping ownership of vehicles for longer and over more use cycles, and retaining customers by offering them new contracts when their old ones run out
- » There are also indirect customer-related benefits that **further strengthen the business case**, including lower customer acquisition costs and more options to upsell newer models.
- » However, many OEMs are not capturing these benefits in their VaaS business cases. As a result, they are **delaying adding the service and risk missing out entirely** on a fast-growing, profitable new line of business.

CUSTOMER PREFERENCES CHANGE

Customer needs and the resulting demand patterns are changing in the automotive industry. Owning a prestigious car used to be a symbol of status, but vehicle ownership is no longer the aspiration of many drivers. This is the result of rapidly changing customer expectations, and influences inside and outside the automotive world. Three main trends dominate:

- » **Flexibility:** Long-term commitments and rigid asset ownership are not in sync with the lives and demands of today's customers, who want to keep open the option to try something new in all aspects of their daily lives.
- » **Technology risk:** Constant improvements in technology lead to shorter product lifecycles and increased risk for buyers as new vehicle value declines even faster.
- » **Fear of missing out:** The number of vehicle brands and therefore options is increasing, making customers reluctant to be tied to the same car for an extended period of time. Today's customers also show less brand loyalty than in the past. (For a more in-depth assessment of these trends please see [Berylls' Vehicle-as-a-Service \(VaaS\) study](#)).

These forces present a fundamental challenge for the traditional automotive business, built on one-off sales and after-sales revenue from parts and servicing. Vehicle-as-a-Service (VaaS) models, in which the customer does not own the vehicle anymore and returns it at the end of the contract, are on the rise – based on current customer feedback, we estimate there will be a **38% increase in the market share of use-based models by 2025**.

DIRECT BENEFITS OF VAAS: 50% MORE PROFIT OVER VEHICLE LIFETIME

VaaS very much caters to what customers already expect and value from services in other parts of their lives, such as music or video streaming. The good news is, it creates two central opportunities for OEMs and other providers:

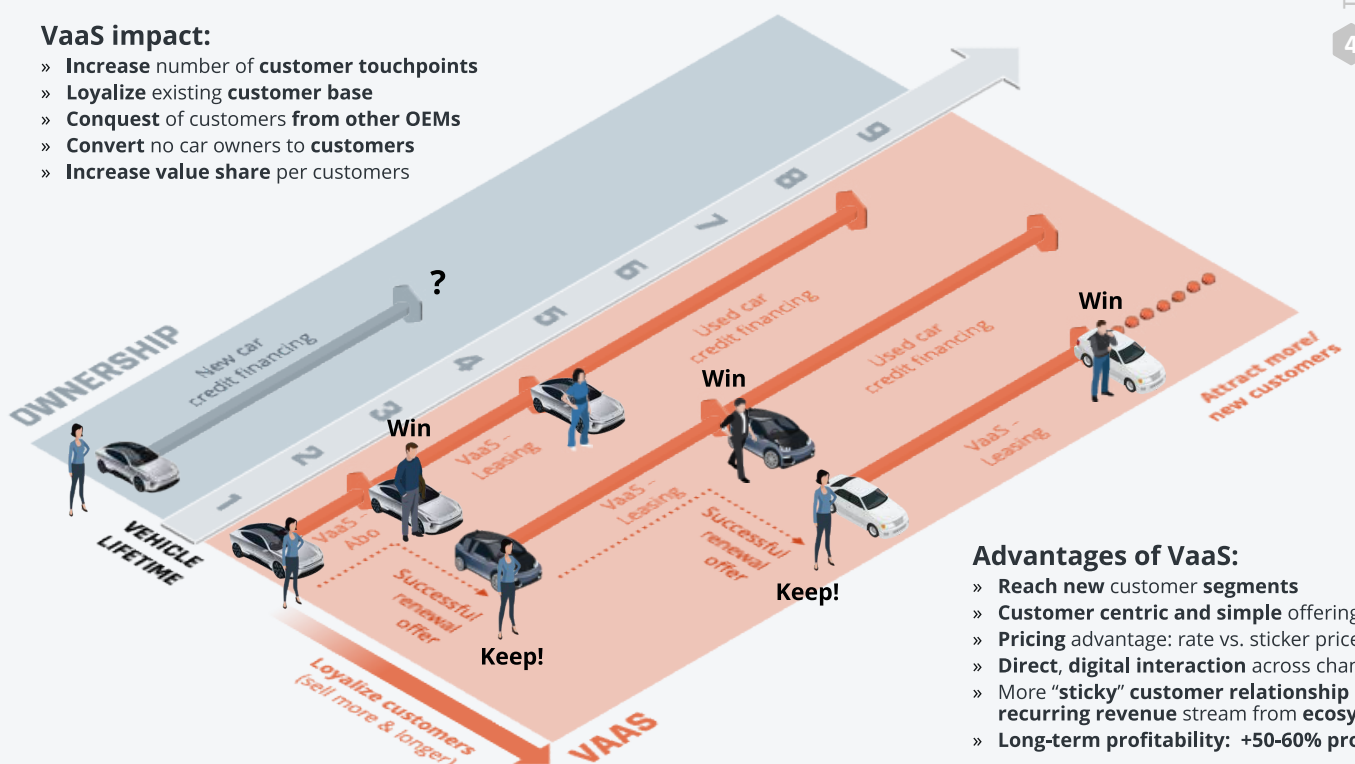
- » **Firstly**, it is far easier to stay in touch with **customers**, contacting them to renew or update their contract, each time their current agreement ends. As a result, customers can be retained for several usage cycles. Providers can also optimize returns by selling complementary products and services (such as insurance packages or electric vehicle charging services), tailored to the customer and the vehicle.
- » **Secondly**, the OEM or service provider retains ownership of the **vehicle**, and can find new customers for it over multiple use cycles due to flexible usage periods (see figure 1).

FIGURE 1

IMPACT AND ADVANTAGES OF VAAS

VaaS impact:

- » **Increase** number of **customer touchpoints**
- » **Loyalize** existing **customer base**
- » **Conquest** of customers **from other OEMs**
- » **Convert** no car owners to **customers**
- » **Increase value share** per customers



Advantages of VaaS:

- » **Reach** new customer segments
- » **Customer centric and simple** offering
- » **Pricing** advantage: rate vs. sticker price
- » **Direct, digital interaction** across channels
- » More "sticky" customer relationship and recurring revenue stream from ecosystem
- » **Long-term profitability: +50-60% profit**

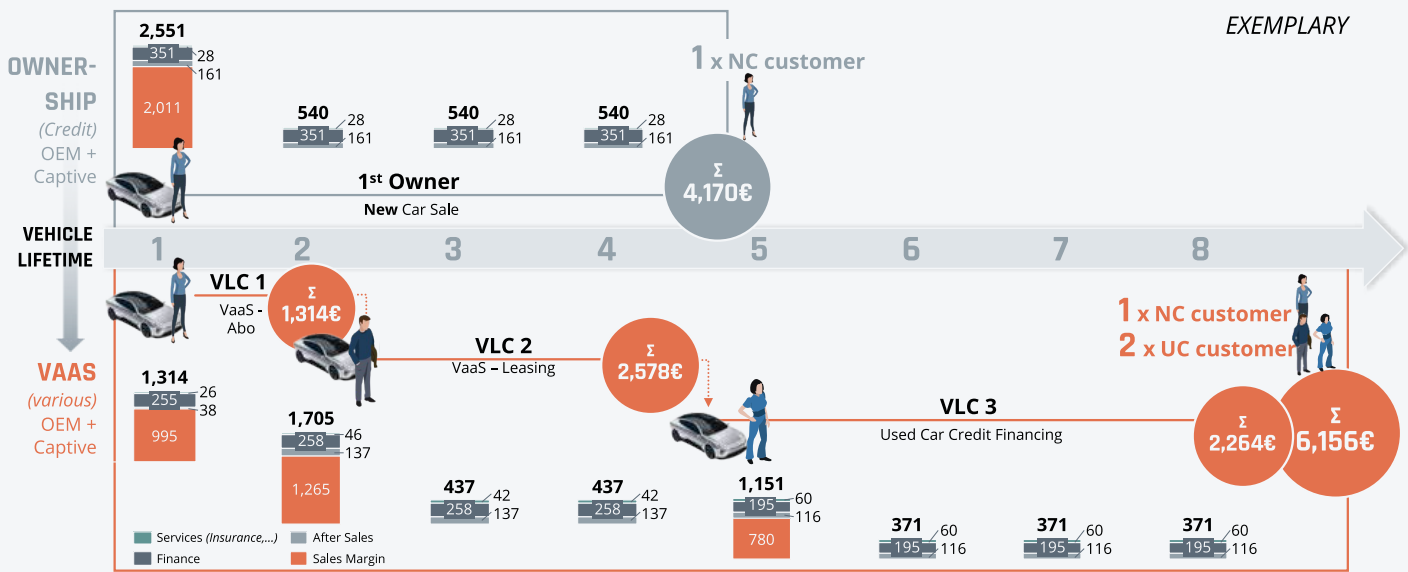
Source: Berylls Strategy Advisors

In contrast to the traditional ownership model, in which the seller loses access to the customer and the vehicle after the initial sale or financing contract ends, VaaS providers can at least in theory benefit from an **ever-increasing customer and vehicle base**.

Based on past project experience, we have calculated that **long-term profitability can increase by 40 to 50% as a result**. In **figure 2** below we show an indicative comparison of product profitability for both sales models. The calculation is based on anonymized data from a volume OEM, taking the average across several of its battery electric SUVs.

As the chart shows, individual VaaS offerings themselves are less profitable than traditional new car sales. However, profits across multiple use cycles add up to create a far higher total vehicle lifetime value (VLV) for the VaaS provider:

FIGURE 2
PROFIT COMPARISON OF OWNERSHIP AND VAAS MODELS



Source: Berylls Strategy Advisors

BUILDING THE VAAS BUSINESS CASE: DON'T OVERLOOK THE INDIRECT BENEFITS

In addition to the direct benefits outlined above, the VaaS model also offers important indirect – and frequently overlooked – benefits. Combined, these will strengthen the business case even further.

Indirect benefits include creating loyalty by offering a convenient, appealing service that meets changing customer demands. At a time when the brand or particular vehicle hardware is no longer a reason to buy or to stay with one OEM, loyalty must be built up through outstanding service and a superb customer experience.








Another indirect benefit of multiple, shorter use cycles is the ability to cross- and up-sell more often. A customer might decide after just a couple

of months to switch to a contract for a more expensive model, a decision that would have taken a couple of years in the traditional sales model with longer holding periods.

By making targeted offers to customers they already have a contract with, OEMs will also be able to spend less on marketing because they will have a larger pool of “locked in” customers.

The table below looks at the top- and bottom-line benefits of further little-noticed advantages offered by VaaS, focusing on customer relationship management **(there are further indirect benefits to VaaS which relate to the operating model, which we will explore in an upcoming article):**



Impact factor	Top line impact	Bottom line impact
Enhanced product & experience design 	» Today's customers require solutions that fully cater to their needs; VaaS is already seen by a whole group of users as a possible solution to the need for short-term contracts or greater flexibility	» Providers can leverage customer insights produced in real time to create improved and new products without a lot of trial and error
Customer churn prevention/ Customer Acquisition Cost (CAC) 	» Recurring revenues from ongoing customer relationships » Hassle-free/ easy-to- use offers prevent customer dissatisfaction » Protected market share due to less change in the customer base; satisfied customers are less likely to look for alternatives and continue the relationship, staying locked in the provider's ecosystem	» Automatically renewing/ recurring customer contracts (e.g. subscriptions) result in reduced CAC in general » Multiple pieces of research show that the CAC of a new customer is significantly higher (5-10 times) than keeping existing customers loyal. The cost can add up to a couple of hundred euros per new customer.
Decrease in service cost 	» No direct top line impact, but saved service cost	» More intuitive VaaS products including self-service options result in fewer customer service requests » Digital/ direct channels result in more efficient processes requiring fewer sales personnel » VaaS customers are generally more attracted to using cost-effective service channels
Word of Mouth 	» People are more likely to try out/ follow recommendations from someone who is also user of the service	» Reduced marketing spending due to buzz generated by existing customers
Decrease in employee churn 	» Experienced employees with a greater track record in sales/ product development design better/ more successful products and services	» Satisfied/ loyal customers result in higher employee satisfaction and reduced hiring costs for providers » Increased customer satisfaction as there is less change in the contact person on VaaS provider's side
Up-/ Cross Selling Potential 	» Leverage better customer insights, based on ongoing contractual relationships, for tailored offers resulting in higher conversion rates and upselling to the next vehicle category » Easy-to-use offerings draw customers in to higher order volumes/ basket sizes	» Reduced generic marketing cost for existing customers » Higher return on marketing budget, requires smaller overall advertising budget
Price increases/ less discounts 	» Products and experiences tailored to actual customer needs result in a higher willingness to pay » Keeping the customer in the provider's ecosystem for longer makes them less sensitive toward price increases and less dependent on discounts	» Existing customers demand fewer discounts to stay than new customers require to switch to a new provider

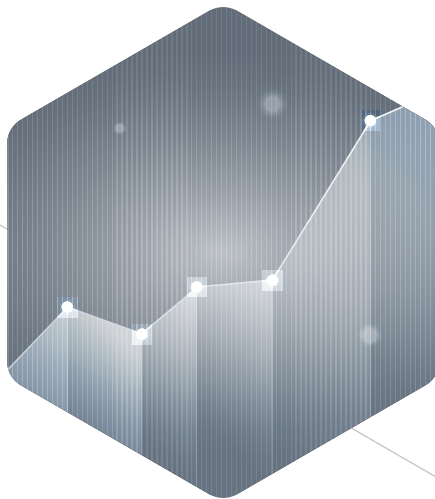
HOW WILL THIS HELP OEMS AND PROVIDERS TO ACKNOWLEDGE THE TRUE VALUE OF VAAS?

To date, many OEMs are struggling to create a positive business case for VaaS. From the outset, their analysis fails to recognize the 40 to 50% direct profit increase that VaaS can deliver across multiple use cycles (as this profit is usually booked separately across different departments). Further, they do not consider the indirect benefits of the VaaS business model. In this blog we have focused on the customer-related benefits, but there are even greater positive effects if one also considers operating model improvements. These include synergies from increased asset utilization if one common fleet was used for various VaaS offerings in parallel.

For many providers, in particular incumbent OEMs that are looking to expand their traditional, ownership-centered sales offerings to include VaaS, it's difficult to fully assess even the direct impact factors in their business case. This is because in many companies, the product development process is still siloed, with every department seeking to optimize its own profitability rather than take a cross-functional approach to designing a new service model.

As a result, there is a risk that **many potentially successful VaaS offerings will not be launched, because the underlying business case failed to show their true potential.** This represents a missed opportunity for providers, as Vehicle-as-a-Service offers are here to stay. Without a VaaS product, OEMs and other potential providers are missing out on securing their customer base in this emerging market.

Today, this may mean losing only a little market share, but in the near future, it means missing out on addressing entire customer groups because they don't have the right offers: our [Vehicle-as-a-Service study](#) showed that by 2025, 50% of Gen Z drivers would use VaaS to buy their next electric car.





THE BERYLLS GROUP'S SERVICES are fully dedicated to the automotive industry. Our experts in Germany, China, Great Britain, South Korea, North America and Switzerland understand the industry's key challenges and are developing ways to achieve sustainable success in the automobility eco system. They use advanced digital strategies and other innovative approaches. Our professionals are networking across our four specialised units to offer our clients end-to-end support, from strategy development to the implementation. We call this network our Berylls Quartet:

Berylls Strategy Advisors – The expertise of our top management consultants extends across the complete value chain of automobility – from long-term strategic planning to operational performance improvements. Based on our automobility thought leadership Berylls Strategy Advisors stand out with their broad experience, their profound industry knowledge, their innovative problem-solving competence and, last but not least, their entrepreneurial thinking.

Berylls Digital Ventures – The development and operation of digital products or the implementation of new business models are increasingly required to drive the realization of our clients' strategic concepts. The Berylls Digital Ventures team takes up this challenge – working together with our clients end-to-end. Furthermore we invest in promising startups and bring digital solutions to market, turn-key ready for our clients. Always with a keen focus on automobility.

Berylls Mad Media – The radical digitalisation of the customer interface undermines the boundaries in the automotive sales model. Our Berylls Mad Media experts develop and operate tailored solutions, including data-driven marketing, integrated service designs, and including the agile realisation of integrated process and IT architectures. We strengthen customer loyalty, market exploitation, and profitability – taking vehicles and services to market digitally.

Berylls Equity Partners – is a private investment company, supported by strong anchor investors and pursuing an entrepreneurial approach. We carefully select, acquire, and improve operationally, companies with value potential in the mobility industry – with a long-term strategic direction.

The automotive industry is currently facing fundamental challenges. We have made it our mission to support industry players in accomplishing an effective and future-proof change process. The unique value we bring to the table is based on digitisation, technological innovation, market insights and renowned partnerships. The Berylls Quartet is your high-performance engine to succeed on this exciting road.

The future will be, but different.

BERYLLS GROUP

YOUR CONTACT PERSONS

T +49-89-710 410 40-0

info@berylls.com



Christopher Ley
Associate Partner
Berylls Strategy Advisors
christopher.ley@berylls.com



Florian Tauschek
Associate Partner
Berylls Strategy Advisors
florian.tauschek@berylls.com



Nikolas Horn
Senior Associate
Berylls Mad Media
nikolas.horn@berylls.com



Tobias Detzler
Senior Consultant
Berylls Strategy Advisors
tobias.detzler@berylls.com