

BERYLLS BY ALIXPARTNERS

OPTIMIZED BEV AFTERSALES PRICING - THE SOLUTION TO SECURE YOUR TOP- AND BOTTOM LINE!

AGENDA

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1 | DOWNSIDES OF BEV BUSINESS ON AFTERSALES

Especially political support and massive subsidies have made electromobility gain popularity. The penetration of Battery Electric Vehicles (BEVs) has and will further increase, and we will have to content with it, also in aftersales. However, there are potential downsides from BEVs in aftersales (post-purchase services and maintenance). Some of these are:

1.

Fewer Aftersales Revenue Opportunities: BEVs generally have fewer moving parts and simpler drivetrains compared to internal combustion engine (ICE) vehicles. While this is an advantage in terms of reduced maintenance needs, it is a downside for businesses that rely on traditional aftersales services, such as repairs and part replacements.

2.

Specialized Skills and Training: Aftersales staff require specialized training to service and repair electric vehicles, as the technology and components differ from traditional vehicles. This causes additional costs for training, certifying, and retraining employees to keep up with evolving electric vehicle technology.

3.

Dependence on Original Equipment Manufacturers (OEMs): In the case of BEVs, the aftersales business may be more dependent on relationships with OEMs for spare parts and technical support. This dependency can limit the flexibility and control that independent and franchised repair shops have in providing services.

4.

Challenges in Battery Replacement: The most expensive component of a BEV is always the battery pack. When a battery needs replacement, it is a costly affair, severely affecting vehicle lifecycle economics and customer satisfaction. The pricing and availability of replacement batteries can impact the overall profitability of the aftersales business.

5.

Infrastructure Investment: To provide effective aftersales services for BEVs, businesses may need to invest in specialized infrastructure, such as charging stations and diagnostic equipment. These upfront costs can be a barrier for some businesses, especially smaller ones.

6.

Market Uncertainty: The electric vehicle market is still evolving, and the pace of technological advancements can be challenging for aftersales businesses to keep up with. Rapid changes in battery technology, charging standards, etc. may pose challenges in offering up-to-date services.

To cite two of our very recent studies: The growing number of BEVs is already challenging OEM aftersales revenues. Experience of markets with high BEV penetration shows that the reduction in aftersales requirements for BEVs is primarily in regular maintenance. Based on Berylls research, an overall profit loss of €7bn only for Germany can be expected until 2030.

🔷 **VAAS: Another hole in the sinking ship of automotive aftersales?**

🔷 **The final wake-up call for aftersales - Spotlight on Germany**



2 | MITIGATION LEVERS

Despite these potential downsides, the growing adoption of electric vehicles presents new opportunities for businesses in the aftersales sector. Diversifying, embracing new technologies, staying abreast of industry trends, and enhancing customer loyalty can help alleviate the aforementioned potential downsides.

So, what are potential levers to compensate for this decline in revenue?

- **Focus on customer loyalty:** Fostering loyalty among car owners when it comes to servicing is crucial. The longer customers stick with their first-choice workshop, the greater their overall value over time. To encourage this loyalty, consider providing incentives like special service packages, or exclusive benefits for returning customers. These efforts can go a long way in building a steadfast and long-lasting customer base. Also binding customers with long-term service contracts can be an opportunity, especially for BEV as the technology is still new.
- **Increasing spare parts prices:** The increase in spare parts prices, especially for BEVs, offers a strategic opportunity. Recognizing the heightened willingness of customers to pay for BEV components, adjusting prices accordingly can enhance overall revenue and bottom line by 3-8% based on our project experience. Willingness to pay will obviously differ between brands, regions and within the model range and must be evaluated on an individual company basis. And the pricing of replacement batteries remains a tricky science.
- **Increasing service prices:** Elevating service prices, particularly through increased hourly rates or package rates for BEVs, points into the same direction as parts price increase and presents a strategic avenue to better capitalize on the discernible willingness of customers to pay for specialized electric vehicle maintenance and repair. By aligning service prices with the unique requirements of BEVs and their advanced technology, businesses can not only reflect the inherent value of their expertise but also cater to the specific needs and expectations of electric vehicle owners.
- **Create strategic partnerships:** Establishing partnerships with BEV manufacturers or OEMs is one aspect. In addition, build strategic partnerships with entities involved in the electric vehicle ecosystem. This includes partnerships with charging infrastructure providers, fleet operators, and other stakeholders to expand service offerings.

By attending to these essential levers, service providers can strategically position themselves to capitalize on the burgeoning electric vehicle market. Successfully navigating this evolving landscape necessitates a proactive stance, ongoing learning, and a steadfast commitment to delivering top-notch services tailored to the needs of electric vehicle owners.

But are the prerequisites given to effectively pull those levers, or at least some of them? In our study, we analyzed two out of the four levers, namely “service prices” and “loyalty”. The good news is that the results show that BEV buyers in general have a higher willingness to pay for services and are more loyal than ICE buyers.



BEV buyers show higher loyalty and willingness to pay.

3 | MARKET STUDY RESULTS

Let's take a closer look at the results from our study:

In our comprehensive market analysis, we engaged in dialogue with over 380 dealers and more than 1200 end customers across Germany to discern prevailing trends and insights. These extensive conversations have provided valuable perspectives. Here are the key observations derived from our discussions:

Firstly, an intriguing divergence was uncovered in the post-purchase behaviour of BEV customers as opposed to ICE counterparts. Remarkably, over 60% of BEV customers exhibit a propensity to patronize the brand workshop affiliated with the dealership from which they acquired their vehicle. In stark contrast, only 35% of ICE customers demonstrate a comparable loyalty to their dealership's brand workshop.

This suggests a higher level of loyalty among BEV customers to the specific brand's workshop. Nevertheless, the divergence in loyalty patterns may be due to various factors, such as the unique maintenance requirements of electric vehicles, customer satisfaction with the dealership experience, or other factors specific to the BEV market. Whatever the underlying reasons are, this represents a big opportunity for OEMs and (their) dealers alike to enlarge their revenue streams from BEV customers.

Furthermore, when examining the long-term choices for maintenance and repair, a pattern emerged. Approximately 60% of BEV customers view a brand workshop as a permanent option. A substantial contrast to the roughly 40% observed among ICE customers.

Providing reliable and efficient service over the vehicle's lifecycle can contribute to customer satisfaction and loyalty.

Noteworthy differences were also identified in the financial inclinations of electric (and hybrid) vehicle drivers regarding inspection and repair services at brand workshops. Whereas ICE customers are inclined to allocate an average of 121€/hour for repairs and maintenance, BEV customers exhibit a higher willingness to pay, approximately 129€/hour, marking a premium of over 6%. Intriguingly, this disparity becomes more pronounced among BEV customers of German premium brands, who demonstrate a willingness to pay an average of 142€/hour, reflecting a premium of over 17% compared to their ICE counterparts.

The higher willingness of BEV customers, especially those of German premium brands, to pay more for inspection and repair service hours suggests a huge opportunity for premium workshops to capitalize on this willingness. This could involve offering specialized or premium services, thereby potentially increasing revenue in this segment even further.

Service duration emerged as another significant factor, with a majority (over 60%) of service and repair shops estimating that they require 25% or even 50% more time to service an ICE compared to a BEV. This figure escalates to nearly 70% for German premium brands. Simultaneously, service and repair costs were perceived as higher for ICEs by approximately 63% of the interviewed workshops.

The findings indicate that there is a willingness among both premium and volume customers in Germany to pay significantly higher service rates, suggesting potential opportunities for the automotive service industry to adjust pricing strategies and potentially increase revenue and profit from service offerings.



17% higher willingness of BEV customers for the service hour compared to ICE

Up to **170€** willingness to pay for the service hour of half of German BEV volume customers

Only **11%** of workshops interviewed are differentiating rates by vehicle segment or brand

The observed longer service times and perceived higher costs for ICEs compared to BEVs may influence customer perceptions. While ICE workshops may need to streamline their operations to reduce service times and address the perceived cost disparities to remain competitive, this also signals an opportunity for BEV workshops to further emphasize their efficiency and potentially attract more customers.

Nearly 60% of German Premium BEV customers are willing to pay up to 170€ for a service hour at their brand workshop. Compared to currently around 160€ per hour for German premiums there is still room for improved prices. Also, around half of German volume customers are willing to pay up to 170€ for the services whereas they are currently paying 120€ on average.

Finally, we probed repair shops regarding their pricing differentiation strategies based on vehicle segments, such as premium versus volume brands, size, or specific brand distinctions. Astonishingly, only 11% confirmed implementing such differentiations, while a substantial 86% indicated a lack of differentiation, thereby highlighting a potentially underexplored avenue in the market.

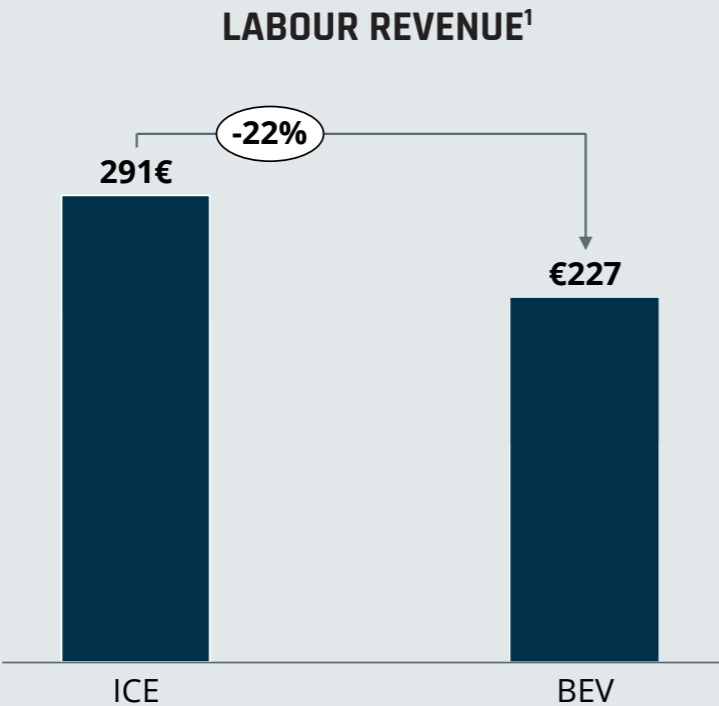
The low percentage of repair shops differentiating prices based on vehicle segments indicates an underutilized strategy. Exploring differentiation based on factors like premium versus volume brands, or specific brand distinctions could provide repair shops with a competitive edge and potentially enhance profitability.

4 | TOP- AND BOTTOM LINE LEVERS FOR AFTERSALES

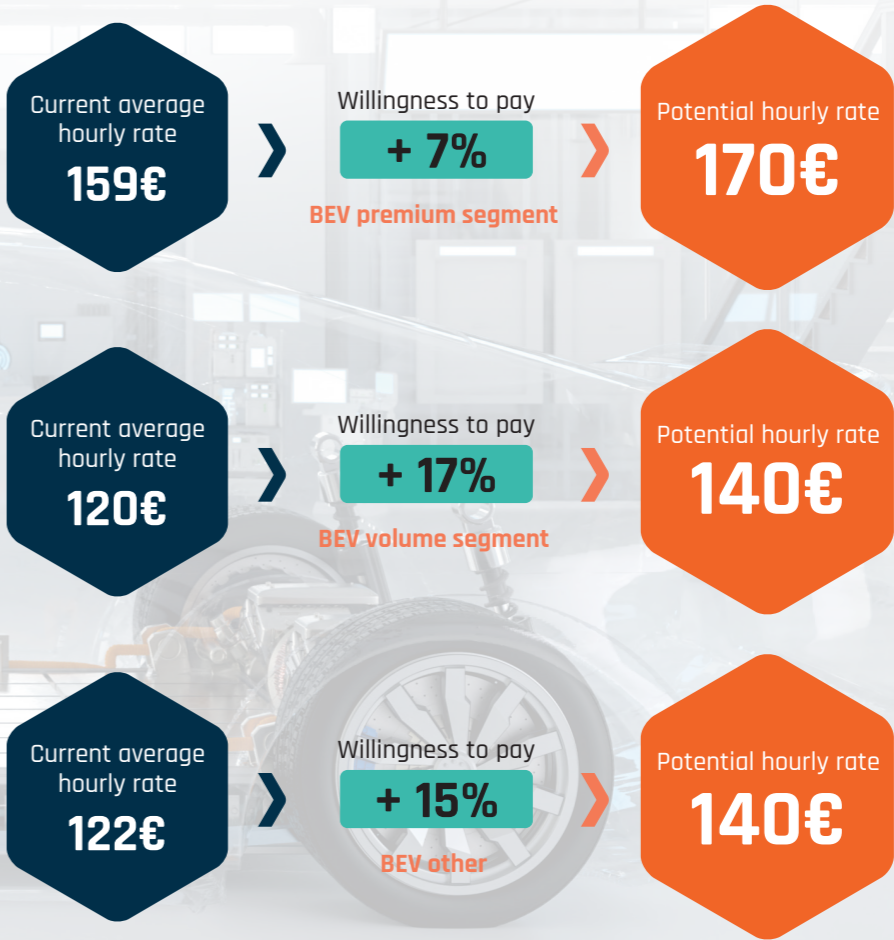
In the following we want to focus on the potential positive counter effects to reduce the negative impact of BEVs in the aftersales business, especially on labour revenue.

BEVS WILL INEVITABLY REDUCE AFTERSALES REVENUE

Impact in aftersales is delayed through the vehicle parc – yet just as inevitable



As you can see in the chart aftersales revenue per vehicle will go down from 291€ for a premium German ICE to 227€ for a BEV of similar class. Which according to an average price per hour of roughly 112€ would be around 2,5 hours per vehicle per year. These figures are coming out of a recent Berylls study. The figures can be taken as a good starting point to evaluate the positive effects coming out of higher willingness to pay and higher loyalty of BEV drivers. Based on the figures, we have done some calculations to quantify the potential effects.



The majority of interviewees are willing to pay between 5-15% more for the service hour, contingent upon the specific segment being targeted.

Battery guarantees of 5-7 years cause customers to stay loyal longer to their repair shops which extends the period of revenues with individual customers of the repair shops.

If repair shops manage to increase the currently low willingness of signing long lasting service contracts with BEV customers (only around 25% of interview customers are willing to agree to service contracts as of today) these could potentially push revenues by another 10% overall.

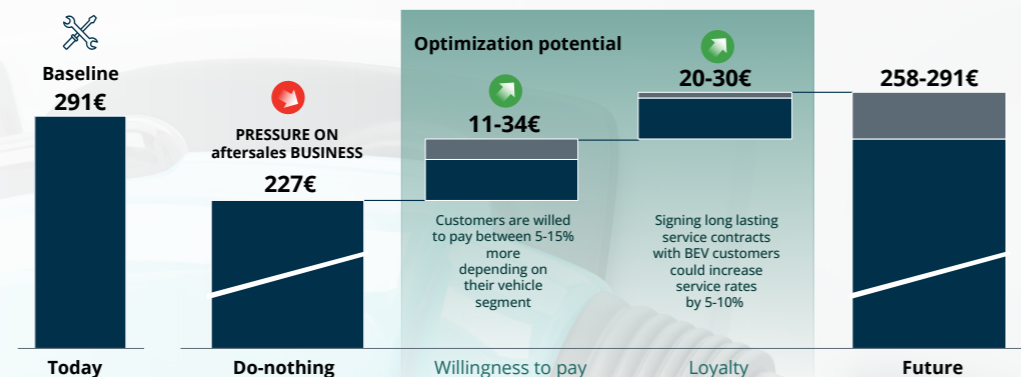
¹ Berylls analysis 2022 based on DMS invoice data (sample size approx. 7.000 VINs, revenue per VIN in 12-month, comparable model, Norway market)
Source: Berylls

So let us summarize:

For German premium brands you could move up from:



Compared to the initially 291 it is only a decrease of 9-10% compared to the initially 22% shown above.



Upon synthesis of various optimization avenues, several notable potentials emerge:

Firstly, leveraging the willingness to pay among Battery Electric Vehicle (BEV) customers presents an opportunity for service rate augmentation ranging from 5% to 15%, contingent upon the specific vehicle segment catered to.

Lastly, instituting loyalty programs presents a prospect for a 2% to 5% enhancement in revenue while fostering enduring customer engagement and retention within repair shop clientele. These measures not only amplify revenue streams but also fortify long-term customer bonds.

In summary, we have established a pathway to elevate the average revenue per vehicle from 227€ for a BEV to a range of 260-300. This would be a more or less full recovery of the BEV downside versus ICE.

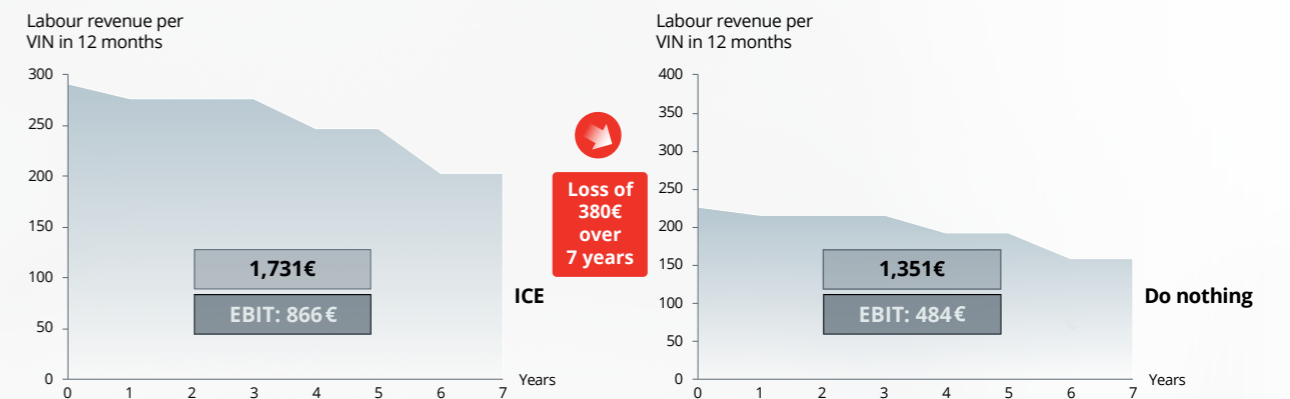
But what do all these numbers mean in terms of bottom line / profitability:

We looked at **topline effects** but surely there will also be a positive effect on your **bottom line** calculations. We are working off the premise of a 70% gross margin on revenues and a 50% EBIT margin before any adjustments. Additionally, fixed costs are expected to remain constant from the original scenario. We anticipate that price increases will have a direct 95% impact on the bottom line.

With increasing hourly service rates, there is an almost **1:1 translation of the additional revenues into profitability**. Let us assume that some small additional investment into personnel might be necessary but this should be already everything it takes. Capturing the higher “willingness to be loyal” of BEV drivers results into a prolonged revenue stream with recurring profits per year.

Overall, the bottom line effects are a result of increased revenue, improved profitability, enhanced customer loyalty, and a strengthened competitive position in the automotive service industry. In terms of tangible worth, it is evident that **over the span of seven years EBIT has the potential to increase** from approximately **484€ in the “do nothing” scenario**, if no further actions are processed, **to about 904€**, potentially surpassing ICE premium profits if the aforementioned strategies are implemented.

ICE vehicles compared to BEVs with no further action



Through fine-tuning pricing structures to align with the discerning preferences of customers for German premium BEVs and leveraging the amplified customer loyalty, one can effectively mitigate potential losses and potentially even yield a modest profit over the course of seven years.

German premium ICE vehicles compared to BEVs with the potential of willingness to pay and loyalty bonus



Even though we mostly focused on German premium brands in this study it is important to state that also other brands and segments stand to reap similar benefits from the aforementioned strategies, potentially augmenting profits by approximately 5% and more over the identical timeframe.



5 | CALL TO ACTION

Based on our study what needs to be done now:

1. Assess your current competitiveness:

Evaluate your current pricing structure to understand where your services stand in the market. This involves analyzing your competitors' pricing, identifying your unique value proposition, and gauging customer willingness to pay.

2. Increase prices smartly:

Formulate a clear strategy that balances generating revenue with ensuring profitability. Consider factors such as market demand, cost structures, and long-term business goals to align your pricing strategy with overall financial objectives.

Explore opportunities to differentiate your services through segmentation and specialized offerings. Segment your target market based on factors such as demographics, needs, or purchasing behaviour, and tailor your pricing and services to meet the specific needs of each segment.

3. Monitor effects and react to what you find:

Develop an action plan outlining specific steps to implement your pricing strategy and monitor its effectiveness over time. Establish new, or use your existing KPIs, to measure progress, such as sales volume, revenue growth, customer satisfaction, and profitability, and regularly review and adjust your pricing strategy as needed based on market feedback and performance metrics.

We are looking forward to work and to discuss with you on these upcoming challenges.

GET TO KNOW US.

Berylls by AlixPartners – 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 by AlixPartners stand out with their broad experience, their profound industry knowledge, their innovative problem-solving competence and, last but not least, their entrepreneurial thinking.



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