

BERYLls BY ALIXPARTNERS INSIGHT

USED CARS, NEW RULES: TURNING RESIDUALS INTO REVENUE

INTRO

The German used car market has become increasingly volatile. Ownership transfers have declined from an all-time high of 7.4 million in 2016 to just 5.6 million in 2022, while vehicle prices increased due to supply shortages during the pandemic and following Russia's attack on Ukraine. Furthermore, the first generation of battery electric vehicles (BEVs) have entered the used car market, with large declines in their residual value compared with traditional ICE vehicles due to the constantly evolving technology.

Despite this volatility, the used car market is more important than ever. Rising take rates of leasing and subscription shares have expanded the balance sheets of captives and fleet owners, exposing them to increasing residual value risk in the used car market. For dealers, the importance of the used car business continues to grow: due to fixed margins and BEV quotas, sales and profits need more than ever to be generated in the used car business.

To exploit the full potential of what is now a € 121 billion market in Germany alone, automotive providers need a new playbook. They must rethink the used car business right along the value chain, from OEMs to mobility and service providers, used car platforms and dealers.



ONE MINUTE READ



The used car business is changing from an one-off sales model to a **multi-cycle sales model**



Although ownership transfers are declining in the long run, the German used car market is **growing consistently**



For dealers, used car sales are a **more important profit stream** than new car sales



Used car sales growth will be driven by **rising new car prices** coupled with economic uncertainty



With BEVs, **used car leasing and subscription** offerings can maximize value in the face of declining residual values



Switching to a multi-cycle sales model requires **new capabilities along the vehicle lifecycle**



Fleet owners can use **multiple levers** to optimize their used car business

INSIGHT

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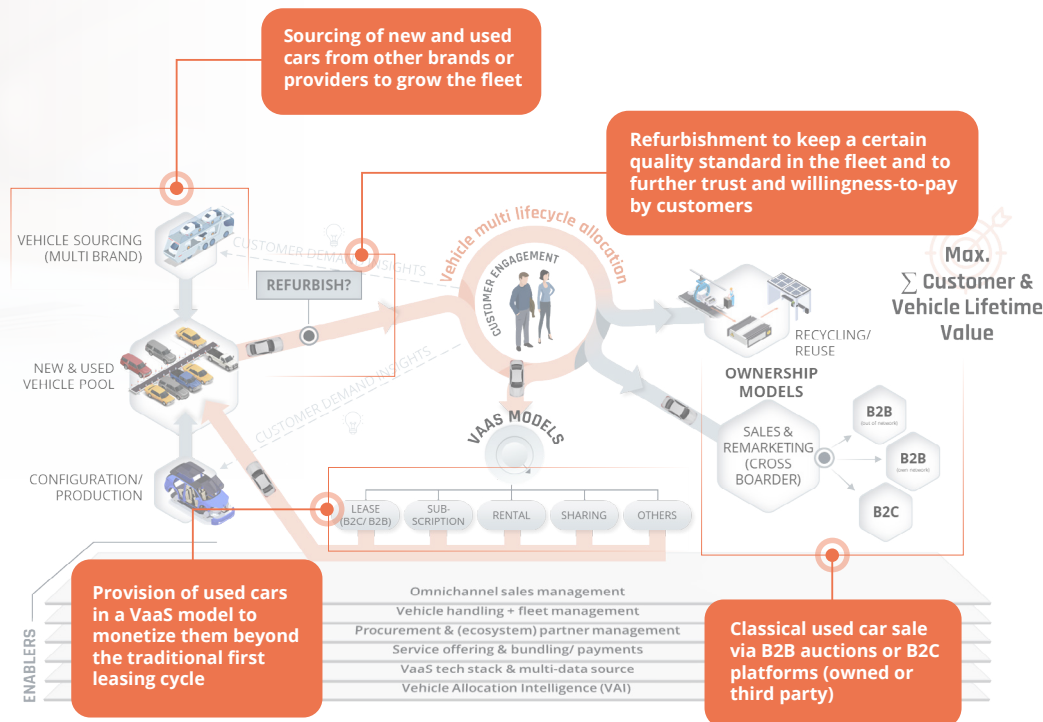
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1 | DEFINING THE USED CAR MARKET - FROM ONE-OFF SALES TO A MULTI-CYCLE APPROACH



THE VEHICLE LIFETIME VALUE (VLV) TARGET PICTURE

In early 2022, we first published our Vehicle Lifetime Value (VLV) target picture, which describes the journey of a vehicle throughout its lifecycles ([Link](#)). It shows the reality that has long been neglected by OEMs: vehicle lifetime does not end with the sale of a new car.

The orange path in the chart on the left shows how a vehicle needs to be allocated to the best customer via the best Vehicle as a Service (VaaS) model, whether rental, subscription or leasing. Once the contract period ends, the vehicle returns to the fleet pool and undergoes the same cycle again (potentially after some refurbishment).

Depending on the market and vehicle condition these cycles can happen multiple times, allowing providers to monetize a ve-

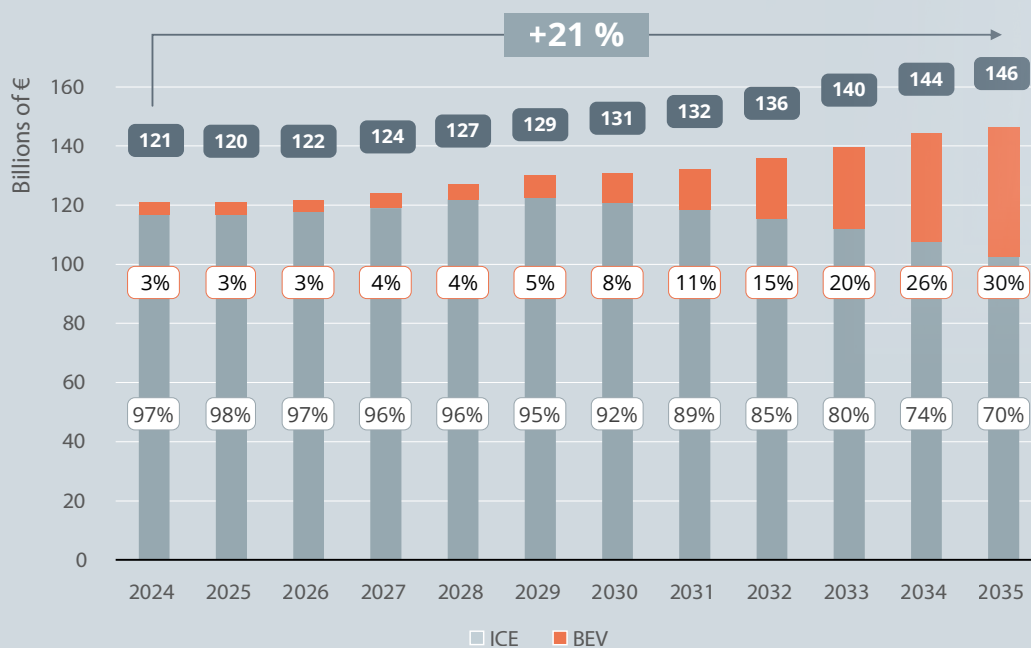
hicle over an extended period of time until eventually recycling, reusing or selling it (shown in the grey paths).

Traditionally, the used car market has been thought of as restricted to vehicle sales. However, our VLV target picture shows that the used car market also includes a substantial offer of used vehicles through Vehicle-as-a-Service (VaaS) models, be it leasing, subscription, rental or others.

Understanding that the used car market is no longer a one-off sales business implies a fundamental change in required capabilities: suddenly its not just good auctioning skills that are required but the management and matching of a large fleet and customer base.

2 | A MARKET IN MOTION – USED CARS ARE GAINING GROUND

VOLUME OF THE USED CAR MARKET IN GERMANY



The importance of the used car market in Germany is frequently underestimated. In 2024, there were around 6.5 million ownership transfers of used cars, compared to around 2.8 million new car sales. In value terms the used car market is already large and set to grow: in 2024 the market was worth around €121 billion and we expect the market to grow by 21% to around €146 billion by 2035.

The shape of the market is set to change, albeit gradually. Even by 2035, the vast majority of used cars sold will still be internal combustion engine (ICE) vehicles, but this is purely the result of historical and projected car parc sizes. Starting with an ICE car parc of around 47.7 million units (compared to

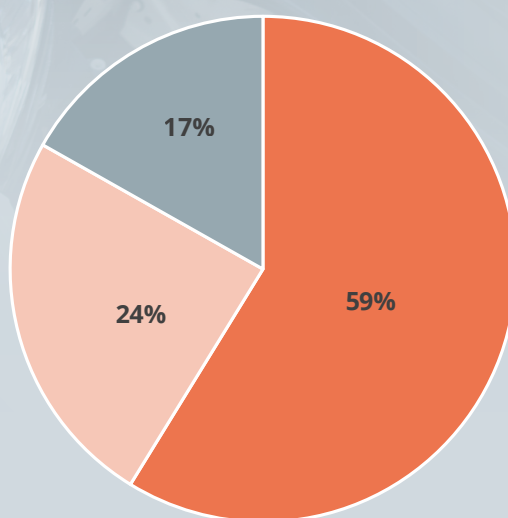
1.4 million units of BEVs) in 2024, it will take until 2030 for BEVs to overtake ICEs in number of new car registrations, and this will lead to a delayed effect in the used car market.

We expect the BEV used car market to mature slowly during the 2030s, due to broader BEV adoption driven by smaller vehicle segments, coupled with a slowing of the technological evolution of BEVs.

In a mature market, used car prices for BEVs and ICEs will eventually be comparable, but we still expect BEVs to be on average about 8% more expensive than ICEs in 2035 across the whole car parc.

Source: Berylls by AlixPartners, KBA, ZDK, AutoScout24, Bloomberg

DISTRIBUTION OF USED CAR SALES REVENUES BY SALES CHANNEL IN GERMANY



■ Franchised Dealers

■ Non-Franchised Dealers

■ C2C Sales

The vast majority of used car sales are still generated by franchised dealers who have the easiest access to recent-model leasing returns via their affiliated OEMs and captives. In 2024, franchised dealers generated around €71 billion in revenues from the used car business, compared to around €65 billion in revenues from the new car business. Considering that margins in the used car business are higher, the importance of the used car business for franchised dealers cannot be overestimated.

Currently, more than 40% of these used car sales are generated outside of the OEM network, which offers potential for growth in the context of the current consolidation

in the retail market. While conquering the C2C sales segment might appear to be counter-productive since it mainly consists of older and cheaper vehicles, taking over non-franchised dealers with a solid used car business is a potentially profitable inorganic growth strategy.

Source: Berylls by AlixPartners, KBA, ZDK, AutoScout24, Bloomberg

The growth of the used car market is multifactorial – we identified four key growth drivers

01

HIGH NEW CAR PRICES:

According to car price specialist DAT International, the average new car price in Germany in 2014 was €28,330, rising to €44,630 in 2023 – an increase of around 57.5%. German consumers had to work 1.28 years to afford a new car in 2014 based on average net income, but this had risen to 1.53 years by 2023, meaning that consumers needed to spend an additional three full months of net income on an average priced car. The scale of price increases is driving consumers to the used car market.

02

HIGH UNCERTAINTY:

In addition to price increases, greater consumer uncertainty is holding people back from making expensive new car purchases. Germany is in the middle of an economic crisis, with consecutive years of very low or negative growth rates. In addition there remains a high degree of uncertainty about new automotive technologies and especially electric vehicles. While BEVs' share of new car sales rose consistently until 2023, BEV sales declined significantly in 2024, suggesting that consumers are not currently willing to make the change. Instead, they are turning to the used car market, where they can continue to buy cheaper ICE vehicles and wait for further technological certainty around EVs.

03

AGING CAR PARC:

In 2014, the average vehicle age in Germany was 8.8 years, growing to 10.3 years in 2024 – an increase of 17%. As driving older used cars becomes increasingly popular in Germany, the higher average vehicle age means that vehicles are sold more often across their lifetime, creating additional potential revenue for the used car market.

04

PROFESSIONALIZATION OF THE USED CAR MARKET:

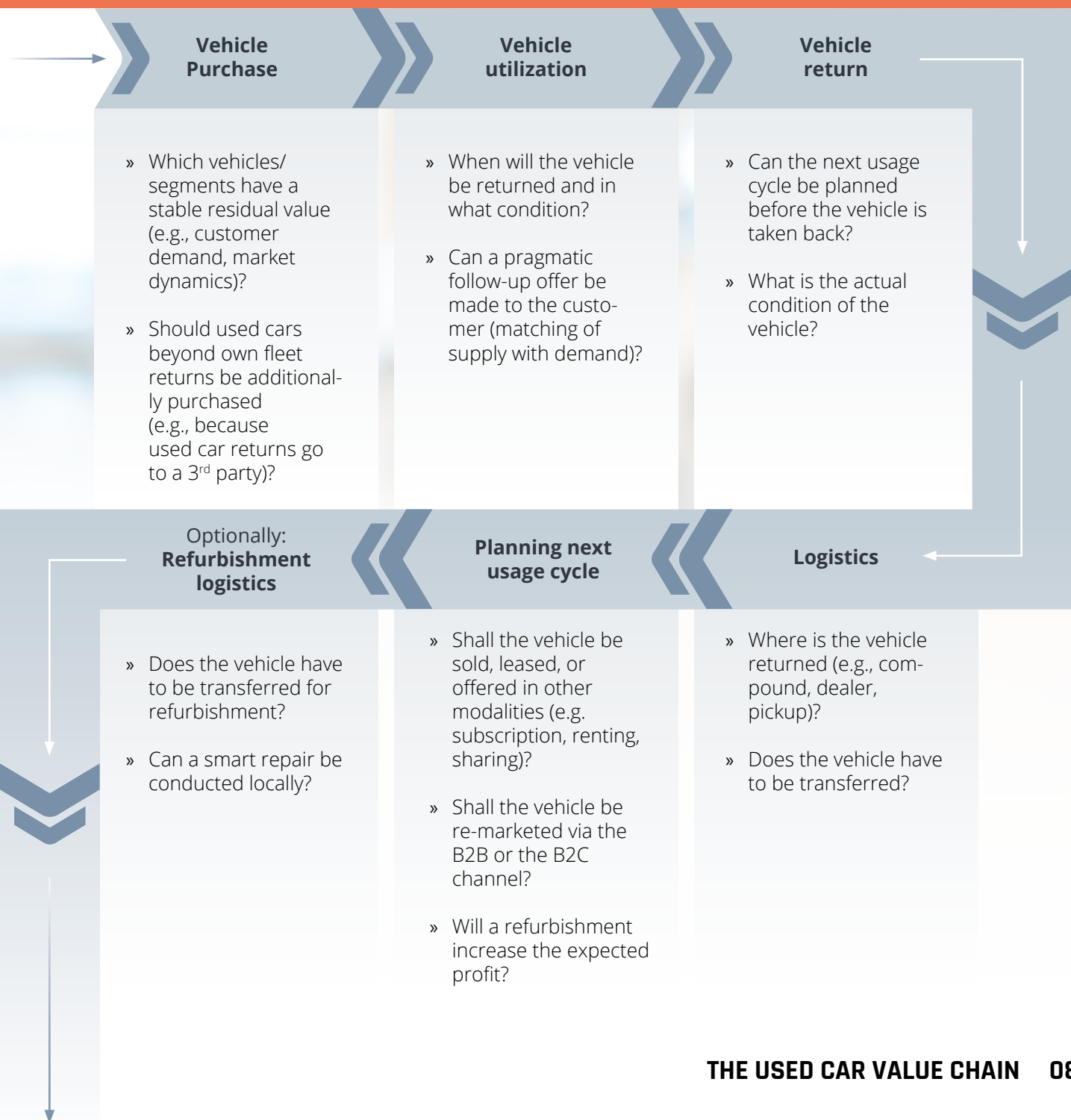
While the used car market used to be highly localized and largely built on personal relationships, it has now undergone several waves of modernization. Digitization and used car sales platforms have enabled easy comparability and price transparency and turned a local market into a national market. At the same time, the increasing importance of leasing as a means of sale for the first lifecycle has led to more used car returns for OEMs and affiliated dealers, which in turn has increased the pressure for them to optimize their approach to the used car market. This extends to refurbishment, warranties, certified pre-owned programs, and the development of a customer experience approach that makes buying a used car more like buying a new car.

Source: DAT, Universität Duisburg-Essen, KBA

3 | THE USED CAR VALUE CHAIN - KEY QUESTIONS TO ASK

KEY DECISIONS & OPERATIONAL IMPROVEMENT LEVERS ALONG THE USED CAR PROCESS

Overarching question: Should BEVs be treated differently than ICEs?





- » Should the vehicle be auctioned within or out of network?
- » What is the right auction type?
- » What is the right price point?

- » Can additional services such as financing or leasing also be sold?

B2B SALE

Auctioning

Upselling

Sales planning

Sales process

Upselling

Logistics

Optionally: Refurbishment

- » To what extent do refurbishments need to be carried out?
- » How can the refurbishment be implemented as cost-effectively and value-maximizing as possible?

- » When will the vehicle be returned and in what condition?
- » Can a pragmatic follow-up offer be made to the customer (matching of supply with demand)?

- » Who places the vehicle on the usual channels?
- » Who provides advice and test drives?

- » Can additional services such as financing, leasing, maintenance and insurance also be sold?

- » Who hands over the vehicle to the customer?
- » Does the vehicle have to be transferred for this?
- » Is home delivery offered?

B2C SALE



From the perspective of a fleet owner such as a leasing company, an OEM (captive) or a car dealer, several important decisions must be made and optimized through the vehicle lifecycle. For fleet owners with a long-term perspective, the used car market starts with the purchase of new cars, especially when they are not being bought via buy-back agreements or leased but capitalized on the balance sheet along with their residual value risk. In addition to a good purchase price, the vehicle features that determine price stability and therefore residual value need to be closely considered to avoid additional depreciation. These features include everything from the BEV or ICE drivetrain to the details of the trim.

Ideally, fleet owners should consider the next stages in the vehicle lifecycle while the vehicle is being used by the customer and before it is returned. Planning ahead helps to keep utilization high and optimizes revenue per vehicle.

Once the vehicle comes back from its first usage cycle and officially becomes a used car, there are several possible next stages in the lifecycle:

- » **The vehicle could be offered through used car leasing to the existing customer**
- » **The vehicle can enter a further VaaS cycle with a new customer**
- » **The vehicle can be sold B2B to a dealer (in or out of network)**
- » **The vehicle can be sold B2C to an end customer (for example via online sales)**

In all cases, the vehicle can potentially be refurbished before the next cycle to increase its value.

Once the next stage of the lifecycle has been determined, upselling opportunities can be evaluated. Used car customers have different needs than new car customers and may be buyers of warranties or service packages as well as finance products such as credit or insurance.

4 | THE BEV CHALLENGE - RETHINKING RESIDUAL VALUE APPROACHES

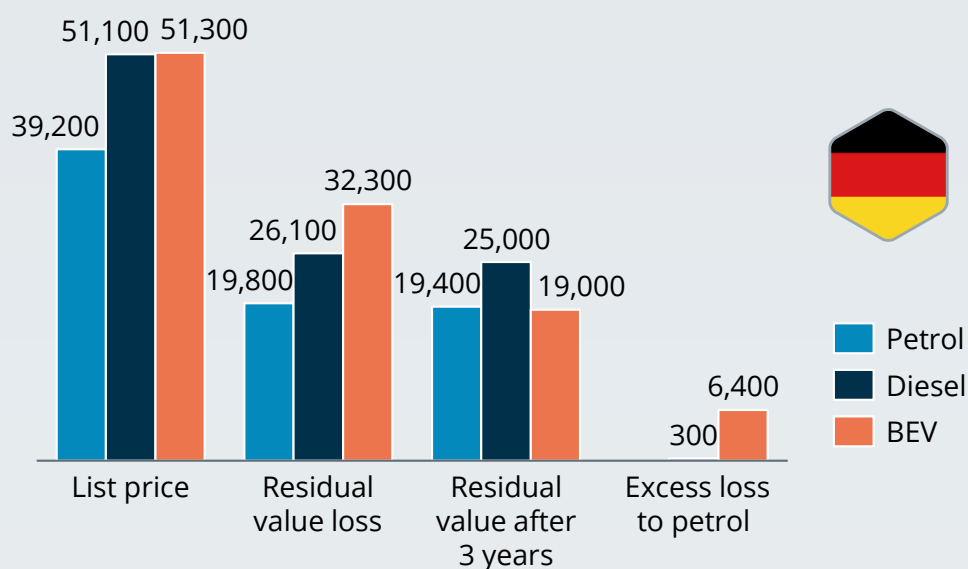
**THE BEV USED CAR MARKET IS STILL BEING FORMED - DURING THE
TRANSITION, USED-CAR VAAS CAN BECOME A REMEDY**

SITUATION

In 2025, fleet emission standards set by the European Union will tighten from 115.1 g CO₂ per km to only 93.6 g CO₂ per km. This means that OEMs will be forced to sell significantly more BEVs than previously. However, given the recent collapse of the German BEV market, this will most likely require large financial incentives for consumers.

As identified above, increased BEV sales come with a specific risk: residual value (RV) decline. Our research shows that BEVs have an average excess RV loss of €6,400 compared with a petrol engine vehicle. Since end customers will most likely not be willing to bear this risk, OEMs and their captives will have to manage RV risk for newly leased BEVs on their own balance sheets.

RESIDUAL VALUE PER DRIVE TRAIN AND EXCESS LOSS IN COMPARISON TO PETROL (ROUNDED VALUES IN €)

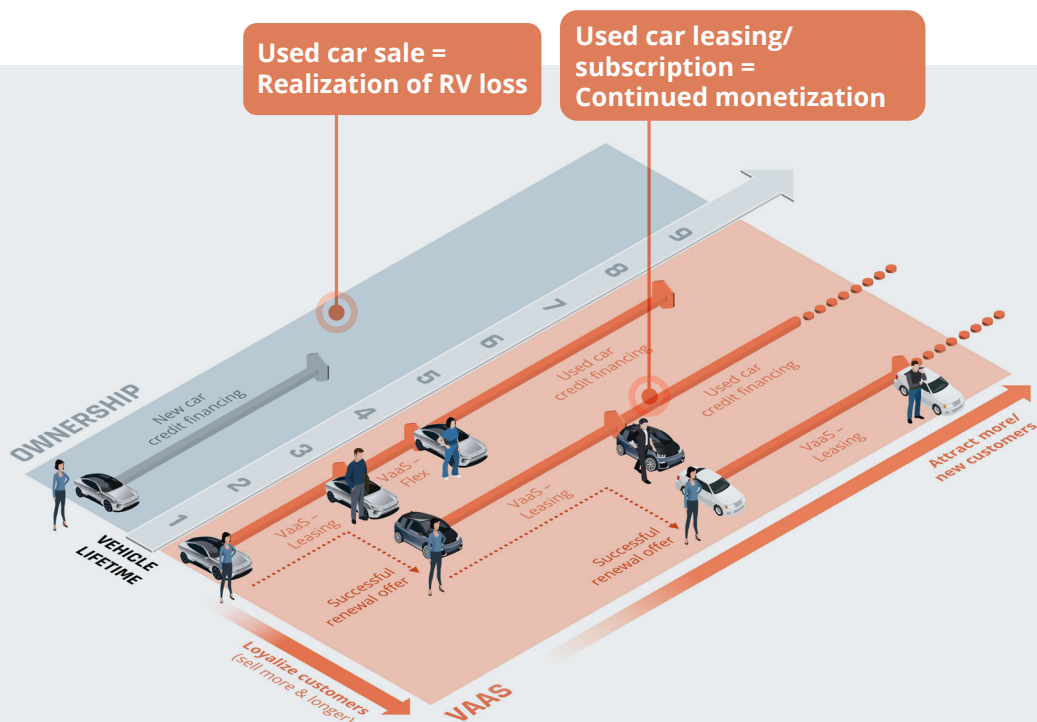


Source: Autovista Group

SOLUTION

Generally speaking, no company wants to own assets that are sharply declining in value. But there are strategies to mitigate the risks posed by such RV declines.

From a profit perspective, what matters most is whether the RV decline will actually be realized. Here fleet owners have a smart exit option: instead of selling their vehicles off and realizing an RV decline after the first usage cycle, the vehicle can be kept in the fleet and further monetized in a used car VaaS cycle. By integrating used car VaaS offers into their portfolios, fleet owners are no longer forced to sell off vehicles on unfavorable terms. Instead, they can sell vehicles over an extended period of time, actively restricting used car supply and thereby limiting price decreases. During this period, the vehicles continue to generate profits from used car leasing contracts. As a result, across the vehicle lifetime, this approach can be up to 50% more profitable ([Link](#)).

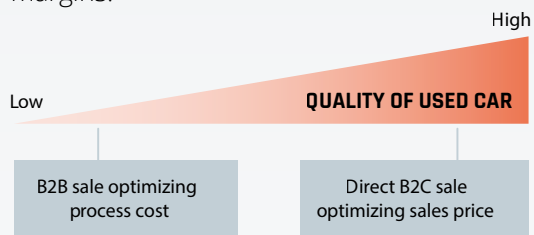


5 | EVERY PERCENT COUNTS - BOOSTING PROFITABILITY IN REMARKETING

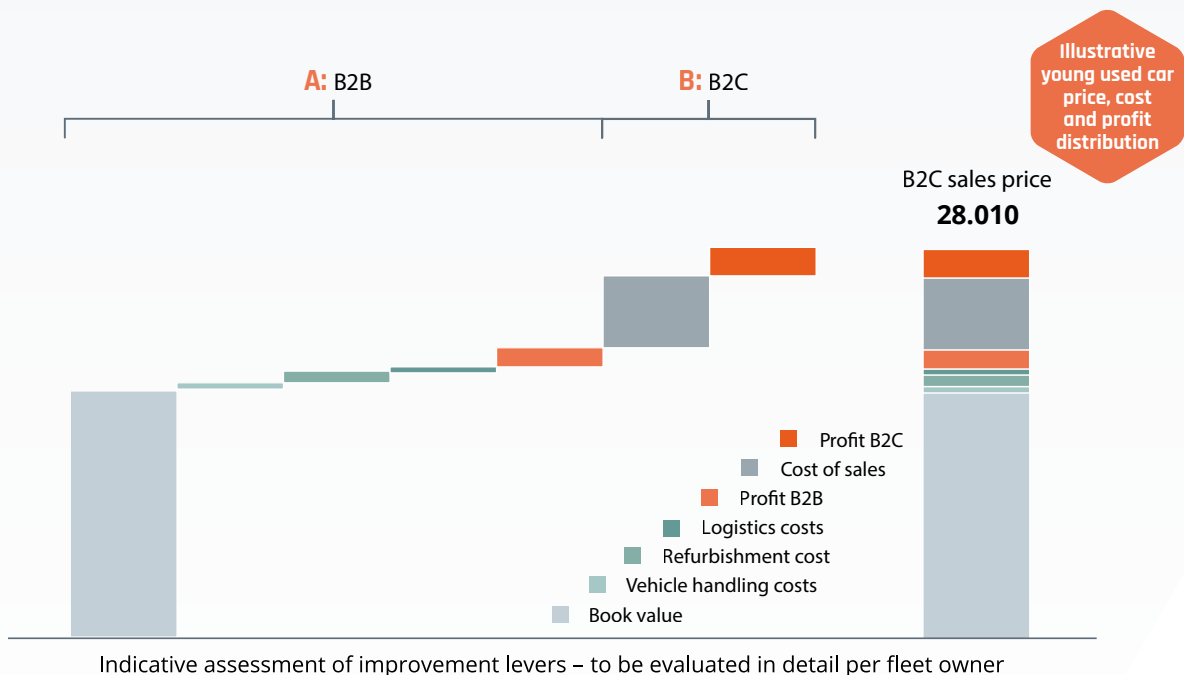
In vehicle remarketing, there are typically two profit pools that can be captured: a B2B profit that is created by a sale to a dealer and a B2C profit that is created by a sale to an end customer. While the B2C profit is typically higher, it also requires different capabilities, more effort and additional costs to capture it. This may include the administration of an online sales platform or offering test drives. Depending on the quality

and value of the used car, fleet owners can choose different approaches. For higher quality cars, optimizing the sales price by investing in a B2C sale can be worthwhile, while for lower quality cars, process cost should be reduced via a B2B sale.

In both cases there are optimization levers that fleet owners can use to maximize their margins.



ASIDE FROM PARADIGM-CHANGING MULTI-CYCLE-SALES, ALSO THE TRADITIONAL USED CAR REMARKETING MODEL OFFERS MANY LEVERS TO TRANSFORM TOWARDS A PROFIT-POWERHOUSE INSTEAD OF A COST-CENTER



SKIMMING OFF B2C MARGINS (PART B OF THE BAR CHART):

1

Certified pre-owned program: Increasing consumer trust and thereby willingness-to-pay by creating guarantees and certificates for the constitution of the used car

2

Channel optimization: Leveraging the advantages of several channels (e.g., different used car platforms, physical locations) to identify the profit-optimizing vehicle/channel match

3

Marketing & pricing excellence: Creating sufficient and smart demand for the used car portfolio and the respective sales channels to be able to request high prices

			POTENTIAL IMPACT	EASE OF IMPLEMENTATION	ATTRACTIVENESS
B2C levers	1	Certified pre-owned program	★ ★ ★	★ ★ ★	★ ★ ★ ★ ★ ★ ★
	2	Channel optimization	★ ★ ★	★ ★ ★	★ ★ ★ ★ ★ ★ ★
	3	Marketing & pricing excellence	★ ★ ★	★ ★ ★	★ ★ ★ ★ ★ ★ ★
B2B levers	4	Mode of sale, e.g., auctions	★ ★ ★	★ ★ ★	★ ★ ★ ★ ★ ★ ★
	5	Cross-border sales	★ ★ ★	★ ★ ★	★ ★ ★ ★ ★ ★ ★
	6	Smart repair	★ ★ ★	★ ★ ★	★ ★ ★ ★ ★ ★ ★
Process levers	7	Process optimization logistics	★ ★ ★	★ ★ ★	★ ★ ★ ★ ★ ★ ★
	8	Process optimization refurb	★ ★ ★	★ ★ ★	★ ★ ★ ★ ★ ★ ★
	9	Process digitalization	★ ★ ★	★ ★ ★	★ ★ ★ ★ ★ ★ ★
	10	Outsourcing & partner mgmt.	★ ★ ★	★ ★ ★	★ ★ ★ ★ ★ ★ ★

OPTIMIZING THE B2B REMARKETING MODEL (PART A OF THE BAR CHART):

4

Mode of sale: Optimizing the mode of sale for the particular vehicle (bundles) at hand, e.g., by setting the right auction types

5

Cross-border sales: Actively exploiting arbitrage effects for models with different prices across markets if price differences are sufficient to sustain higher costs (e.g., logistics)

6

Smart repairs: A data-driven choice of value-optimizing repair measures drives sales price while minimizing cost

7

Logistics optimization: Initiating regular tenders to create competition and keep costs low – bundling volume, potentially also in combination with refurbishment

8

Refurbishment optimization: Optimizing refurbishment process efficiency e.g., by centralizing refurbishment activities in dedicated factories

9

Process digitalization: Leveraging of digital tools to streamline vehicle handling, e.g., through fully-digital & integrated appraisals, vehicle uploads, auctions and sales processing

10

Outsourcing and partner management: Identification of the right steps of the remarketing process to outsource to the best partner

OPTIMIZING THE REMARKETING MODEL AS A WHOLE:

11

Multi-cycle-sales model: Next to optimizing the individual parts of the current business model, fleet operators should also consider changing their whole business model to a multi-cycle sales model to be able to monetize vehicles longer and to spread risk across time

Finding the right combination and prioritization of these levers is key to optimizing profits in used car remarketing, and potentially to tap into the used car B2C business as a fleet operator. We recommend a rapid

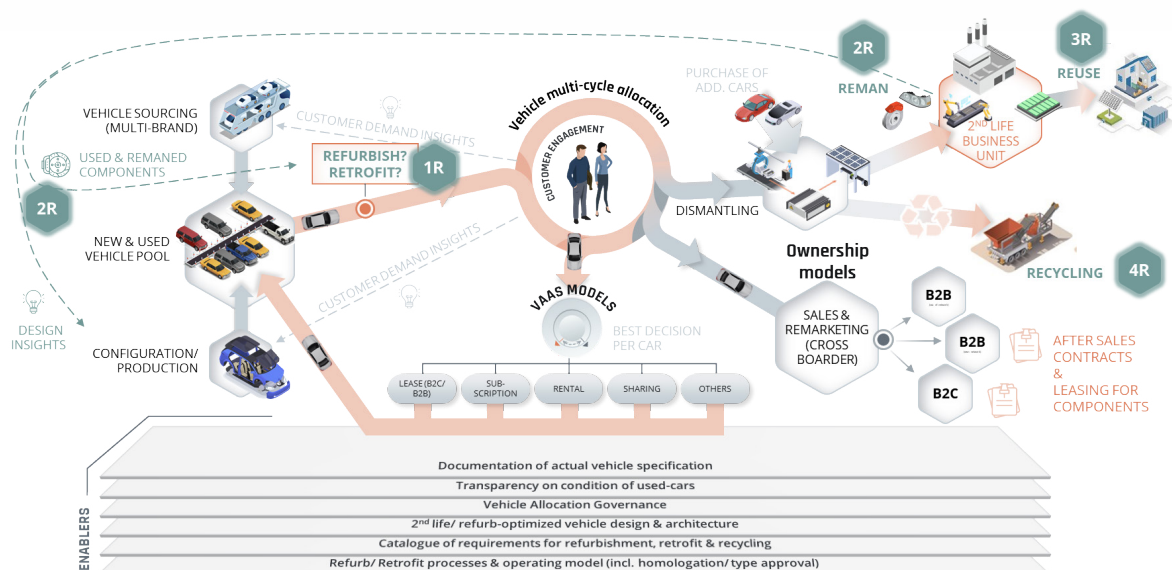
analysis of the current financials and the current process structure and maturity before taking action, to ensure that the measures with the greatest potential are implemented first.

6 | BEYOND SALES - REFURBISH, REMARKET, REPEAT

The used car business is becoming increasingly complex and thus increasingly responsive to optimization. The most significant shift that automotive providers can adopt is a full transformation towards multi-cycle instead of one-off sales. This can become a fully integrated lifetime approach incorporating what we call the 4Rs ([Link](#)).

The first R is refurbishment and this is at the core of the used car business. The other Rs are Remanufacturing, Reuse and Recycling:

optimizing these three Rs means extracting the maximum value from a vehicle once the value of vehicle's components is higher than the value of maintaining the vehicle in use. This means that not only can new car and used car sales be exploited profitably in a multi-cycle sales model; everything that follows is also potentially profitable. By treating car values holistically, total profits can be maximized across departments and across each vehicle's lifetime.



7 | FROM INSIGHT TO IMPACT - UNLOCKING HIDDEN USED-CAR VALUE & SAVING POTENTIAL FAST

In order to bring your used car business to the next level, we will apply our proven Quick Strike approach to identify and detail the most relevant fields of action specifically for your business!

QUICK STRIKE APPROACH

01

Profit & process analysis

Review used car P&L for anomalies and analyze the as-is used car business process.

02

Identification & modeling of improvement levers

Identify levers for business improvement, model their potential profit impact and prioritize them based on financial benefit.

03

Used car optimization plan

Detail concrete next steps to implement the most important levers, not just as stand-alone interventions but as part of a harmonized optimization plan.

04

Measure implementation

Initiate the implementation by assigning responsibilities for individual work packages and by setting up a delivery organization.



Let's talk

If you would like to engage in a non-binding discussion on how to take your used car business to the next level, just call us or send us an e-mail.



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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