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Quo vadis corporate mobility ?

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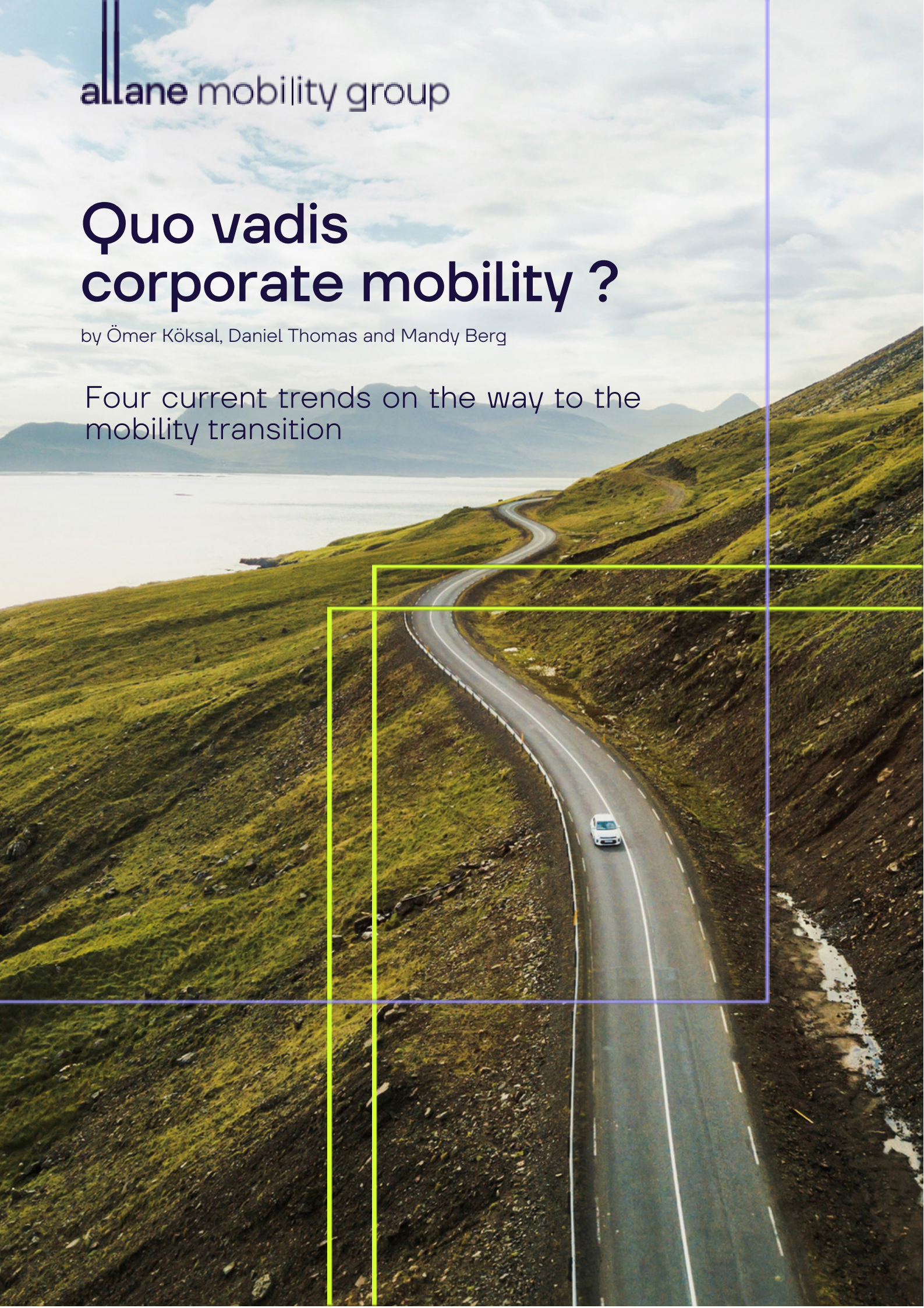
Four current trends on the way to the mobility transition



Quo vadis corporate mobility?

Where engine performance or engine capacity were decisive in the past, new requirements are emerging that are based on the 17 sustainability goals from the United Nations' Agenda 2030, the EU's Green Deal, and the EU taxonomy. The German sustainability strategy of 2016 also demands that the livelihoods and life opportunities of future generations are secured in the long term and that the effects of all decisions are taken into account. Against this backdrop, consumer behavior has already changed significantly: In corporate mobility, sustainability, availability, flexibility and diversification as well as compliance with legal requirements are the key factors in both the leasing and purchasing business. These trends are currently the biggest challenge for companies and the leasing industry. They are discussed in more detail below.

Trend 1: Sustainability

The Saxon mining official Hans Carl von Carlowitz (1645-1714) was the first to describe the principle of Sustainability in 1713. He recognized that wood is a finite resource and therefore called for consistent reforestation and "sustainable" use of the forest. Only as much forest should be cut down as can grow back. Carlowitz thus laid the foundation for sustainable forestry in Germany. For today's mobility, this would mean that there would simply be no vehicles. This is because their production requires finite resources, such as bauxite, from which aluminum is extracted. The impact on our society and economy would be immense. So what would a sustainable vehicle look like according to Carlowitz's definition? Would it be made of wood? Then the German car industry would only be allowed to build as many vehicles as trees are growing in the country. This scenario is far from reality. How can the need for sustainable action and the right of all people to individual mobility be reconciled? This calls for innovative technologies, such as hydrogen or sustainable power generation, which must also be economically competitive. The task is to develop an intelligent and, above all, feasible plan for the transition from the fossil fuel status quo to a post-fossil age via electric and hydrogen mobility.

Leasing: Focus on benefits

This is where leasing comes in: The principle of use instead of ownership puts the benefit of a vehicle in the foreground. Leasing enables investments in modern, energy-efficient, and environmentally friendly technologies, thereby promoting the energy transition in the transport sector. Leasing is expected to contribute to Germany's sustainability strategy. E-vehicles can now be found in every fleet, and companies are increasingly looking toward "green" fleets. Typically, they lease new vehicles as company cars for twelve to 48 months and trade them at the end of the term for newer and more efficient vehicles with the latest technology. The old vehicle enters a second life cycle and is resold as a used car to private or commercial customers. For the car industry, this means a continuous demand for new vehicles, since customers need a new vehicle at the end of each lease term. From an ecological point of view, this is initially negative. However, the old leased vehicles are not disposed of but are available as lower-cost used cars. On the one hand, this extends the life cycle of vehicles, and on the other hand, more people can afford individual mobility. This creates a cycle in which the fleet vehicles are regularly exchanged for "greener" vehicles. However, "greener" vehicles are not necessarily "green" vehicles. For example, e-vehicles do not produce any direct emissions or pollutants while driving and are therefore considered emission-free. However, the production of electricity to power e-vehicles generates CO2 emissions and other pollutants. In addition, the production of lithium-ion batteries for e-vehicles must be viewed critically: Both the extraction of the required raw materials and the coverage of the high electricity demand during production have so far hardly been possible under sustainable conditions.

With the current electricity mix in Germany, e-vehicles are only more environmentally friendly than vehicles with gasoline or diesel engines after about 100,000 kilometers. Nevertheless, the use of e-vehicles has a positive effect on the CO2 balance of companies, because the regular purchase of new vehicles means that the latest technologies are always installed. This reduces the CO2 emissions of the fleet.

Effects of Goverment Subsidies

Switching to a "greener" fleet can also be less expensive thanks to government subsidies, for example, the "BAFA premium or the GHG quota. However, the changes to the guidelines for promoting the sale of electrically powered vehicles as of 1 January 2023, have an ambivalent effect. As of this year, plug-in hybrids (PHEVs) are no longer subsidized. As numerous individuals and companies wanted to secure the premium for such vehicles beforehand, the highest number of newly registered electric cars in history was recorded in Germany in December 2022. As a result, the market research company Dataforce lowered its May 2022 forecast of battery electric vehicle (BEV) registrations for 2024 by approximately 360,000 units. The German Association of the Automotive Industry (VDA) expects about 765,000 e-vehicles to be registered in 2023, a decline of about eight percent compared to the previous year. Another example of the impact of government subsidies: Anyone who bought a battery-powered vehicle by 2022 received a subsidy of 6,000 euros on a purchase price of up to 40,000 euros. If, however, delivery is postponed until 2023 due to supply bottlenecks and the purchase price exceeds 40,000 euros due to special equipment, only half the premium is available, i.e. 3,000 euros. This is because from January 1, 2023, the price cap is no longer based on the price of the base model, but on the list price, i.e. the actual configuration. This is likely to create uncertainty and discourage potential electric vehicle buyers. But who will fill the gap if the government cuts subsidies? Here, too, leasing comes into play. In view of ever shorter innovation cycles, hardly anyone would be able to invest regularly in innovations without the flexibility of liquidity-preserving leasing. In addition, leasing offers the opportunity to respond to changing needs and requirements and to ensure the necessary flexibility. Leasing providers support all consumer segments: In the B2B segment, they serve the interests of domestic companies and their employees; in the B2C segment, they meet the needs of consumers at all stages of their lives.

Brand- and manufacturer-independent providers can access vehicles from established and new manufacturers. However, customers can also use flexible offers from comprehensive mobility providers. Here, for example, they have the option of choosing a mobility budget, in addition to traditional lease financing for vehicles or bicycles. According to the bfp Mobility Barometer 2022, this is becoming increasingly interesting for company car users in the context of Corporate mobility.

Sustainability through second and third use

For private use, there are various leasing options for new and used cars. Thanks to leasing, private households can also invest in more environmentally friendly technologies: For example, they can obtain used, previously leased vehicles at low cost after the initial lease period has expired. They can either buy the vehicles or take them on as full-service leases. European platforms also offer used vehicles to commercial buyers. In this way, the assets enter further life cycles in a sustainable manner. Due to the technologies and batteries installed, the initial purchase costs of electric vehicles are usually significantly higher than those of conventional combustion vehicles. The purchase price of a new electric car is usually between 30,000 euros and 50,000 euros, while models in the upper price segment are available for 80,000 euros to 100,000 euros. According to the Autoscout24 used car price development index, a used electric car cost an average of 43,968 euros in 2022. It can therefore be deducted that the value of e-cars is significantly more stable than that of combustion vehicles. After two years, the residual value of electric vehicles is 79 percent on average, compared to 69 percent for combustion vehicles. Currently, however, electric vehicles make up less than one percent of the used car market. However, this is likely to change in three to four years when the first and second generation of electric vehicles reach this market. The low depreciation might then make the purchase of used BEVs and hybrids not attractive enough. This is likely to be worsened by the fact that government subsidies are only available for new cars. This will further reduce the price difference between new and used vehicles.Nevertheless, the demand for used car leasing is likely to increase significantly in the coming years. In addition, not all private customers are liquid enough to buy an electric vehicle. Leasing allows them to split the high purchase price and maintenance costs into monthly installments.

Nevertheless, more sustainable mobility solutions are needed to comply with the German Federal Environment Agency's recommendation that no new passenger cars or light commercial vehicles with combustion engines be permitted after 2032 or 2035. Here, too, electric vehicles can play a decisive role, especially as part of holistic mobility solutions. Together with companies, the public sector and service providers, new mobility providers are building networks of different mobility solutions, including car-as-a-service, scooters, bicycle leasing and public transport. In the long term, this will lead to an improvement in the range of services – not just for company car users.

Trend 2: Availability

Anyone who currently configures and orders a vehicle has the following problem in particular: the delivery date is uncertain. Reasons include the semiconductor shortage, the war in Ukraine, and the lingering effects of the coronavirus pandemic. According to a study by the management consultancy Alix Partners, supply bottlenecks will persist in 2023 and 2024. This calls for a rethink: viable solutions must be found to bridge the long waiting times. According to a study by Dataforce, almost all fleet operators have problems with vehicle procurement. As a result, most make compromises when selecting vehicles, or decide to keep leased vehicles in the fleet longer. When a fleet manager keeps vehicles in the fleet, it is initially positive in terms of sustainability, as the vehicles are used longer. However, if the transition to alternative powertrains does not happen as quickly as planned, combustion engine vehicles will remain on the road longer. In addition, the cost usually increases significantly with the extension of a leasing contract. It is therefore preferable to make compromises when procuring vehicles, for example by foregoing certain equipment or changing the model or vehicle manufacturer. Due to supply bottlenecks, preconfigured vehicles are becoming more popular because they are already in production or on a dealer's yard. The disadvantage: You can no longer change the equipment of the vehicle and have to take it as it is. Manufacturers are also reducing the equipment options on their vehicles to shorten delivery times. They then sell additional equipment through subscriptions. BMW, for example, offers additional equipment such as driving assistants or heated seats on a subscription basis under the name “ConnectedDrive”. In this case, the leasing provider can offer a standardized configurator and an individual fleet policy by providing targeted advice tailored to the customer.

One response to the supply bottlenecks that can already be observed is "nearshoring" as opposed to "offshoring". For the European market, this means that companies move their production to nearby countries, i.e. to Central and Eastern Europe. The main advantage of nearshoring is shorter supply chains. Partner companies are much closer, time differences are smaller, and problems can be solved more effectively and efficiently. Nearshoring incurs higher costs than offshoring but is still significantly less expensive than production in Germany. However, it is more difficult to find a suitable partner company because there are fewer options due to the smaller search area.

Trend 3: Flexibility and diversification

In addition to the underlying conditions, customers’ and society's expectations of mobility are also changing. Vehicle manufacturers are expanding their core business towards shared and flexible mobility. In addition, society is demanding inclusive and seamless mobility. Medium-sized and large companies must also adapt to this when designing operational mobility. Flexibility is a particularly important new market need. According to a survey in 2022, more than half of the respondents believe it is important to be as flexible and independent as possible in their mobility. That is why the topic of mobility budgets is becoming increasingly important for companies. Within this framework, employers provide their employees with a budget that they can use for different forms of mobility. Although it will not replace classic corporate mobility with the company car, it will become an important component in the mobility mix. Companies should start transforming mobility as soon as possible and potentially take small steps first to gain experience and still be able to reorient themselves if necessary. Mobility is not limited to company vehicles, but can also include leased bicycles, car sharing or public transportation. The goal is to enable employees to consciously choose a type of mobility through a fixed budget. Another challenge is the diversification of drives and materials. For propulsion, the market offers hydrogen or biogas in addition to conventional electricity. Lighter materials such as aluminum or carbon-fiber-reinforced plastics reduce weight (and thus fuel consumption) and increase efficiency.

»Leasing ensures the flexibility required by the market.«

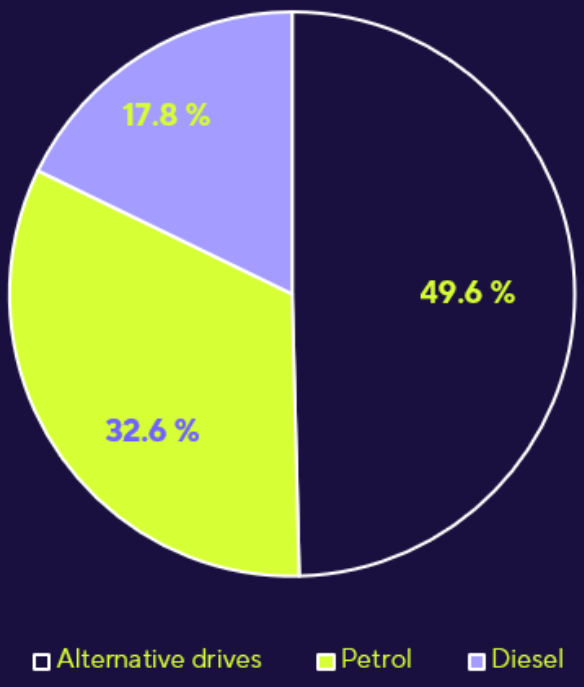
Such innovations are expensive for the manufacturers and lead to high acquisition costs for the vehicles. This is because the automotive industry needs external expertise for complex technological transformation projects and can therefore only implement them together with development service providers. The German automotive industry invests around 45 billion euros a year in research and development. At Volkswagen, research and development costs in 2021 were 12.2 percent higher than in the previous year at 15.6 billion euros. In addition to new models, the main focus was on the electrification of the vehicle portfolio, digitalization, new technologies and modular kits and platforms. Research and development spending at the BMW Group also increased to 6.6 billion euros as part of their ongoing transformation. This primarily involved new models and the sixth generation of electric drives planned for them. Funds also flowed into the digitalization of the vehicle fleet and automated driving. The growing need for environmentally friendly alternatives and for high flexibility can be well met by the leasing construct without the need to purchase a vehicle. Lessees can drive and test the vehicles for a fixed period and return them at the end without risk. In a holistic mobility provider, leasing is therefore an important component.

Trend 4: Regulation

In the field of mobility, there are many complaints about bureaucratic hurdles and disagreements between representatives of opposing interests. However, regulatory barriers can only slow down the chosen path of mobility transformation, not reverse it. How large should the regulatory share be compared to individual responsibility? Strong regulation will probably be indispensable, particularly in view of climate change, as the mobility sector has a major responsibility in this context. But regulation also stimulates innovation. National and European regulations, for example, subsidies, cybersecurity, connectivity, and artificial intelligence (AI), have a very significant impact on the transformation of corporate and personal mobility. For example, the EU Taxonomy requires companies to report on their contribution to a sustainable future. A CO2-neutral fleet and CO2-neutral corporate mobility are important issues in this context. However, the transformation of corporate mobility towards CO2 neutrality remains a major challenge. With a lease term of 36 to 48 months, there are still two lease cycles before a company fleet must have reached the net-zero target.

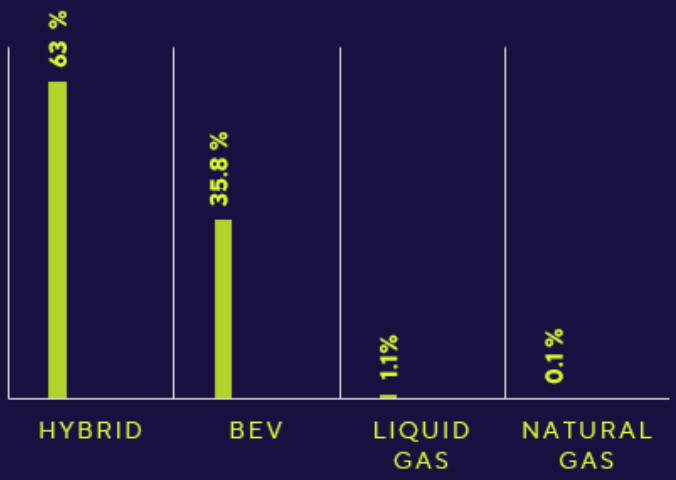
A conventional company car policy then becomes, for example, an e-car policy. But there are still many steps to take on this path. The biggest challenge for the automotive industry is the rapid and profitable transformation towards sustainable, available, flexible, and diversified mobility that meets all regulatory requirements. This requires tailored access to a variety of mobility solutions. Leasing offers represent an important element and can be designed to drive the transportation transformation.

Drive systems in Germany 2022



Source: Kraftfahrt-Bundesamt

Sustainability – Breakdown: Drive systems in Germany (January to December 2022)



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This report is a result of a collaboration between the authors of Allane Mobility Consulting.

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