BUSINESS INTELLIGENCE

AUTOMOTIVE

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Introduction

Welcome to the first edition of Zenith's new Business Intelligence reports, each of which will focus on a specific business category. We will look at the main trends in advertising in that category, and forecast their future, while also examining the top-level business environment, and how consumer behaviour is shaping the development of the industry.

For this first edition we focus on the automotive industry. This has suffered disproportionately from the coronavirus pandemic, but the prospects for growth are good once the recovery takes hold. Consumers who need new cars have postponed, not cancelled, their plans to buy.

The development of more advanced and environmentally friendly vehicles, combined with new demand for private transport among consumers wary of crowds, is forecast to spur sustained growth in new vehicle sales from 2021 onwards.

Auto brands will need to develop new ways of communicating with consumers, whose expectations for how to research, choose and buy cars are shifting online, a trend that the pandemic has accelerated. Digital advertising is already the biggest channel for automotive brands, and its importance will only grow over the next few years.

AUTOMOTIVE
ADVERTISING FORECASTS

Automotive advertising will shrink 21% in 2020, compared to 9% for the global ad market

In most countries, automotive advertising will recover rapidly in 2021, with the worst-hit markets seeing the biggest recovery

Auto brands spend more on television than average: it's still key for mass-audience brand-building

More than 70% of automotive advertising in Australia and Canada is digital, proving that the channel can take consumers through the whole customer journey

Automotive adspend will shrink 21% in 2020

Automotive advertising expenditure is expected to shrink by 21.0% in 2020 across 10 key markets according to Zenith's Automotive Advertising Forecasts. That's two-and-a-half times faster than the decline of the ad market as a whole in these markets.

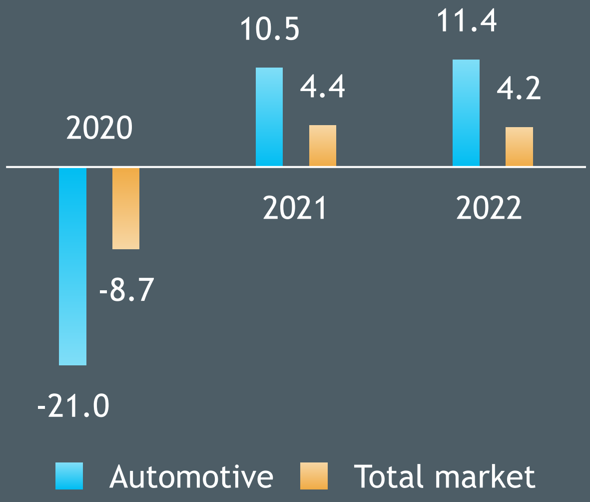
The markets included in this survey are Australia, Canada, Germany, India, Italy, Russia, Spain, Switzerland, the UK and US, which collectively account for 57% of all global adspend.

The spread of the novel coronavirus and its effect on the global economy have left consumers uncertain about their financial futures. As a result, many have delayed discretionary purchases, especially big-ticket items like cars: in a global consumer survey conducted by GlobalWebIndex at the beginning of July, 80% of people said they planned to delay big purchases. Car manufacturers have also suffered from disruption to their supply chains, as lockdowns shut down manufacturing in different countries at different times.

Faced with pressure on both supply and demand, car brands cut their ad budgets sharply when the severity of the crisis became clear. The months of April and May had the greatest decline in most markets. Year-on-year declines have since eased, and Zenith expects them to moderate progressively over the rest of the year.

However, automotive adspend is poised to outperform the market in both 2021 and 2022. Initially the large decline in 2020 will make the comparison easier in 2021, but delayed purchase decisions, and persistent reluctance to use shared and public transport will lead to the first growth in passenger car sales since 2017.

Year-on-year growth in adspend (%) - ten key markets



Source: Zenith

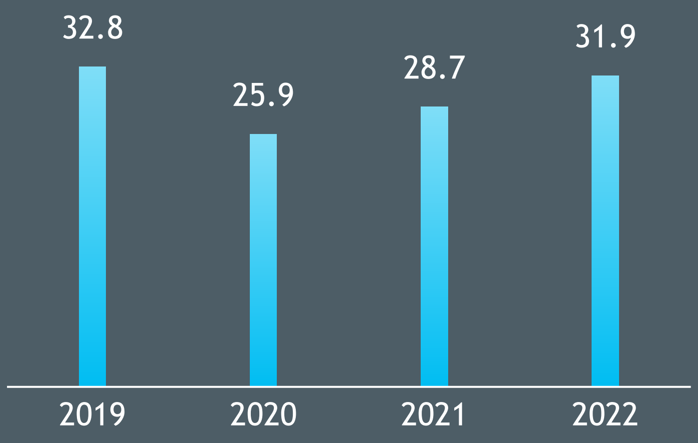
Automotive adspend will remain behind its 2019 level in 2022

Despite the speed of recovery in 2021 and 2022, automotive advertising is forecast to be 2.8% lower in 2022 than it was in 2019. It will have recovered less lost ground than the market as whole, which is forecast to be just 0.6% below its 2019 level in 2022. This suggests that automotive advertising will outperform the market beyond 2022.

Automotive advertising is a highly visible and substantial part of the advertising market, representing 9% of all advertising in 2019.

"Automotive advertising will outperform the market beyond 2022"

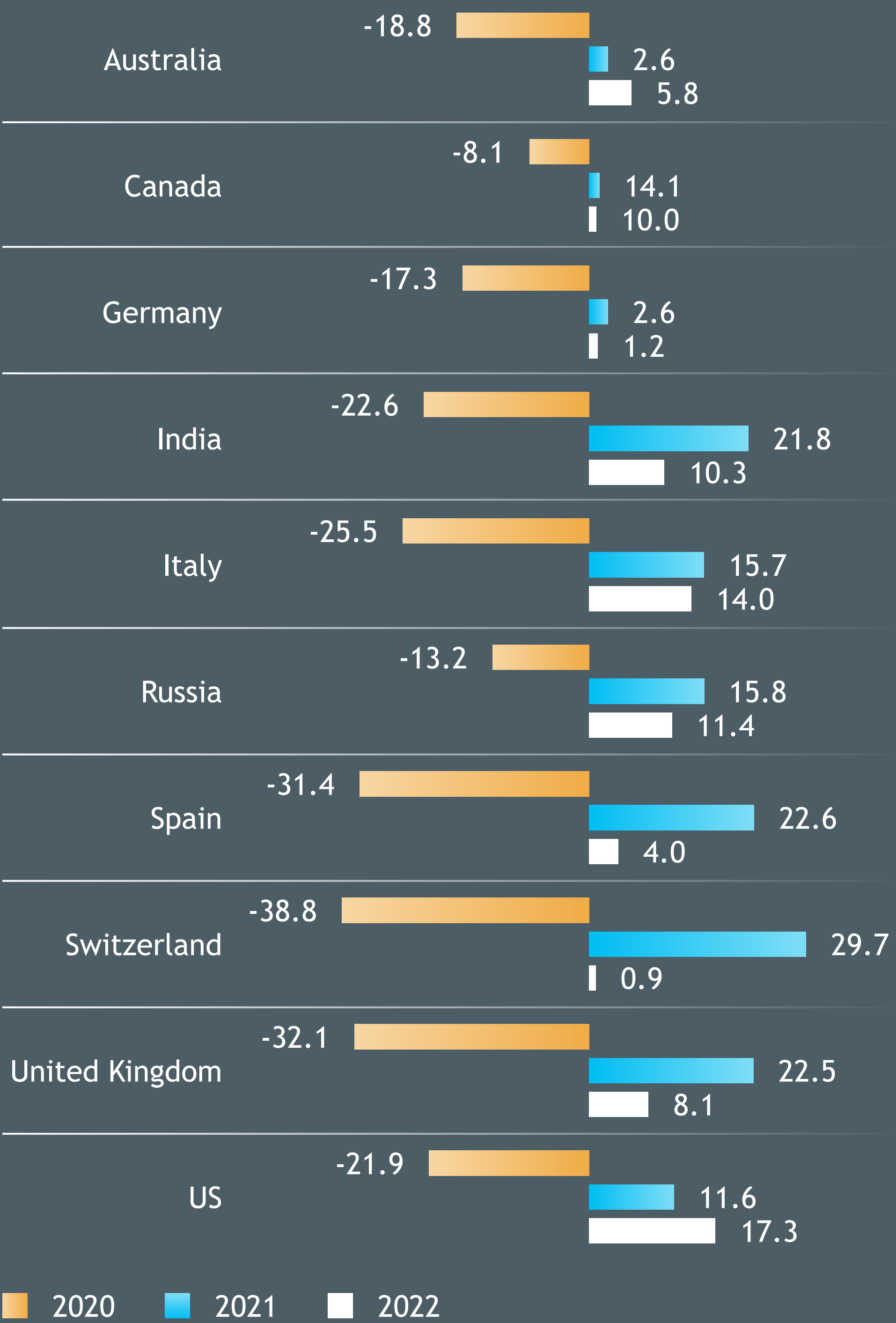
Total automotive adspend (US$bn)



Source: Zenith

Worst-hit markets to benefit from biggest recovery in 2021

Year-on-year growth in total adspend by market



Source: Zenith

The timing of the advertising downturn caused by the coronavirus has been unlike any other on record. Budgets were cut heavily and quickly, but money started to return to most markets after three or four months, leading to more moderate year-on-year declines. This intense shock to spending will flatten the year-on-year comparisons in 2021.

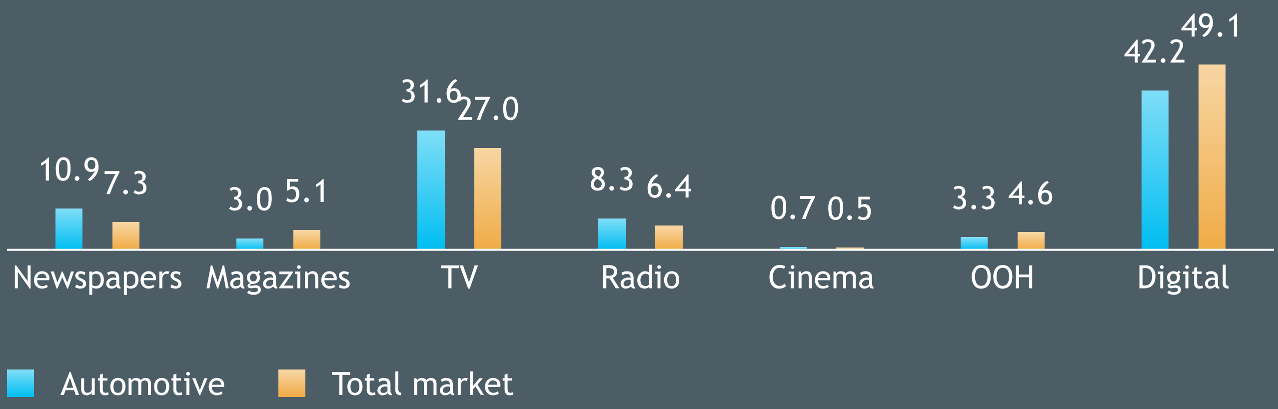
Most markets will see rapid growth next year, generally in proportion to the decline they suffered in 2020, even though spending will still be substantially below 2019 levels. Switzerland, for example, is forecast to enjoy the strongest growth at 30% after the steepest decline in 2020 of 39%.

"Most markets will see rapid growth next year in proportion to the decline they suffered in 2020"

Australia and Germany are forecast to experience weaker recoveries in 2020 and 2021; Australia's ad market has suffered decreased demand since 2017, while new vehicle demand in Germany will be supressed by government restrictions and incentives designed to promote alternatives to car use.

Auto brands lag behind the market in digital

Share of adspend by medium, 2019 (%)



Source: Zenith

Digital advertising is the most important single channel for auto brands, but is less than the market as a whole. Automotive brands spent 42% of their budgets in digital channels in 2019, while the average brand spent 49% digitally. Automotive brands are also less prominent in magazines and out-of-home.

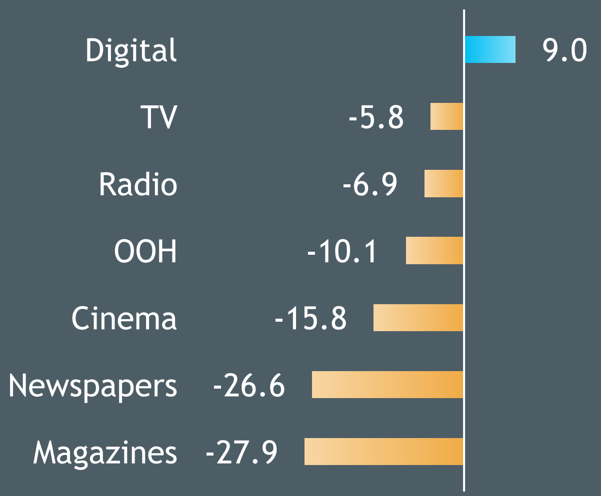
Television is the second-biggest channel for auto advertisers, which spend significantly more of their budgets in television than the average brand. Television is still a key platform for their mass-audience brand-building, though premium digital environments are starting take over this role for some audiences. Auto advertisers also spend more in cinema, which is good at brand-building among young, relatively well-off audiences, and radio, a particularly relevant medium given that a large proportion of radio listening takes place in the car.

Interestingly, automotive brands spend substantially more on newspaper advertising than the average brand. That’s primarily due to two markets, Germany and India, where newspapers still have high reach among well-educated, wealthy readers. Auto brands make use of their ability to convey more detailed information such as brand values, specifications and accessories.

But digital advertising is the only channel forecast to grow

Zenith predicts that digital will be the only channel in which auto brands spend more in 2022 than in 2019. Brands will focus more on premium digital video to compensate for declining prime-time TV ratings, and make better use of their customer data to target digital ads more effectively. Even before the pandemic, digital channels were becoming more important in the path to purchase, and the pandemic has only accelerated that trend. We expect this to continue over the next few years.

Total growth in automotive adspend 2019-2022 (%)



Source: Zenith

> *"Brands will focus more on premium digital video and make better use of their customer data"*

Newspapers and magazines have been losing market share for years as their readers migrated online, and are forecast to recover barely any of the ad revenues they lost in 2020 by 2022. Out-of-home and cinema, by contrast, are forecast to recover strongly in 2021 and 2022 from even steeper losses in 2020, which were caused by social distancing restrictions.

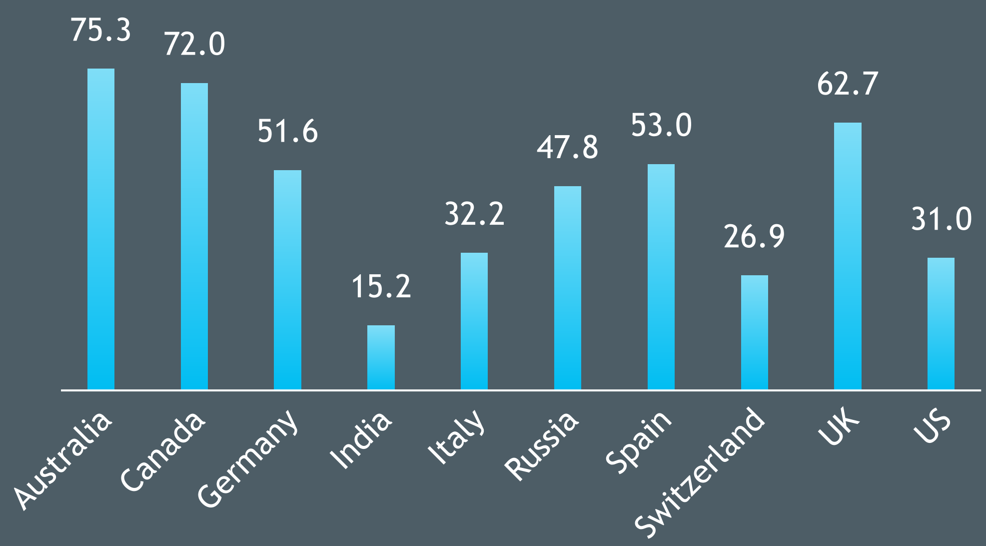
Television and radio will remain important media for automotive advertising, with relatively restrained decline between 2019 and 2022.

Australia and Canada are pioneering digital-led auto marketing

Australia and Canada are the most advanced markets for automotive digital advertising, each devoting more than 70% of total spend to digital channels. These markets demonstrate that digital advertising can take consumers through the whole customer journey, from awareness to consideration to purchase. Even here there is potential for more growth – digital's share of spend is forecast to rise in Australia from 75% in 2019 to 79% in 2022, and in Canada from 72% to 75%.

In other markets the potential for growth is even higher, especially in the markets that are currently lagging behind. Zenith forecasts the digital market share of auto advertising to rise in India from 15% in 2019 to 23% in 2022, in Switzerland from 27% to 33% and in the US from 31% to 38%.

Digital share of automotive adspend (2019, %)



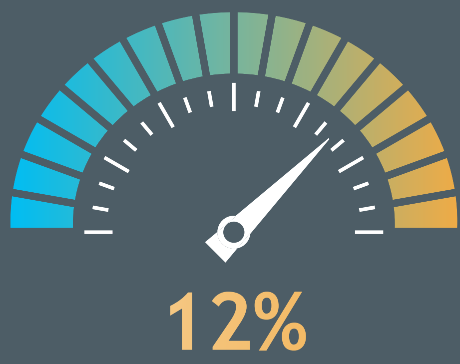
Source: Zenith

AUTOMOTIVE
CATEGORY GROWTH

Demand for new cars will start growing again in 2021, after three years of decline – including the steep drop in 2020

China was the main source of sales growth in the past decade, but India will be more important in the new one

Investors are rewarding brands with advanced drivetrain technology



High-performing brands can expect 12% annual growth once the crisis is over, six times faster than the market as a whole

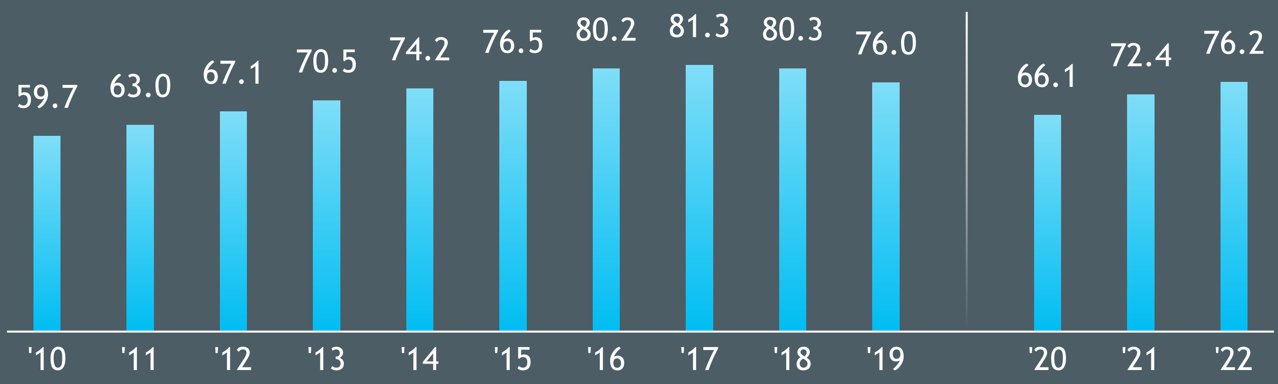
Global car sales growth to resume in 2021, with long-term growth of 2% a year

The coronavirus crisis will lead to a steep drop in car sales in 2020 - Euromonitor is forecasting a 13% global decline. The European Automobile Manufacturers' Association forecasts a 25% decline in Europe. Sales fell sharply as countries entered lockdown and consumers put most discretionary purchases on hold.

"Car sales are forecast to fall 13% in 2020 after consumers put discretionary purchases on hold in lockdown"

But consumers have generally not given up the idea of buying new cars, just postponing it. Euromonitor forecasts a 10% recovery in unit sales in 2021, followed by 5% growth in 2022, when sales will return to 2019 levels. The global market is then expected to resume a slow but steady growth of 2% a year.

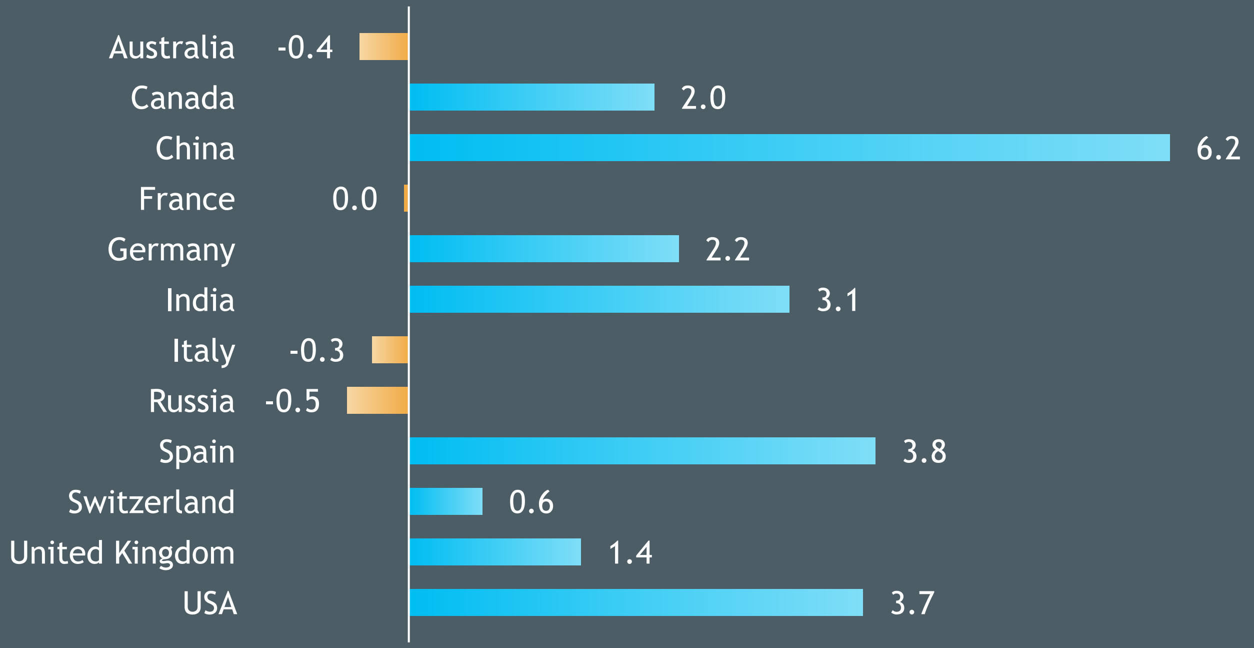
Global passenger car sales (million)



Source: Euromonitor

China has been the main source of sales growth

Annual growth in passenger car sales 2010-2019 (%)



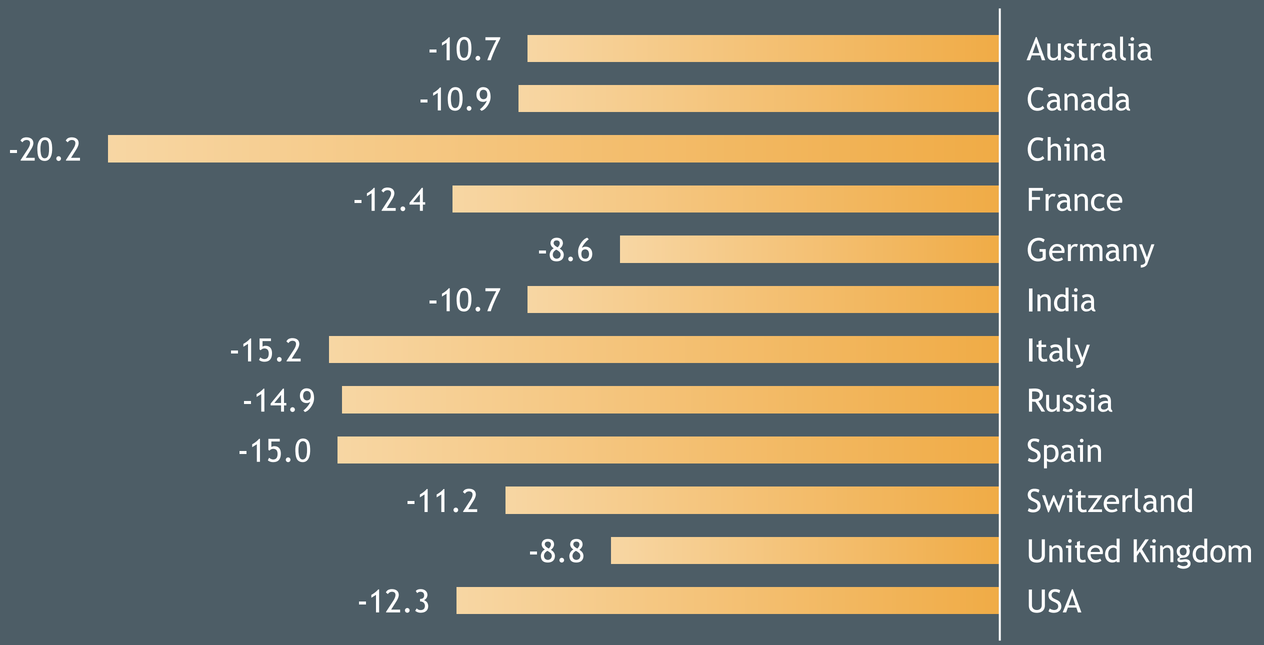
Source: Euromonitor

China stood out as the fastest-growing market by some distance, with an average growth rate of 6.2% a year. A combination of rising wealth, a reserve of consumers who have never previously owned cars, and a burgeoning domestic car industry have all boosted car sales here. India, Spain and the US have been strong contributors, each with annual growth between 3% and 4%. Australia, France, Italy and Russia have all been negative.

"Car sales in China have been boosted by rising wealth, first-time car buyers and a burgeoning domestic car industry"

All markets are facing steep declines in 2020

Year-on-year change in passenger car sales 2020 (%)



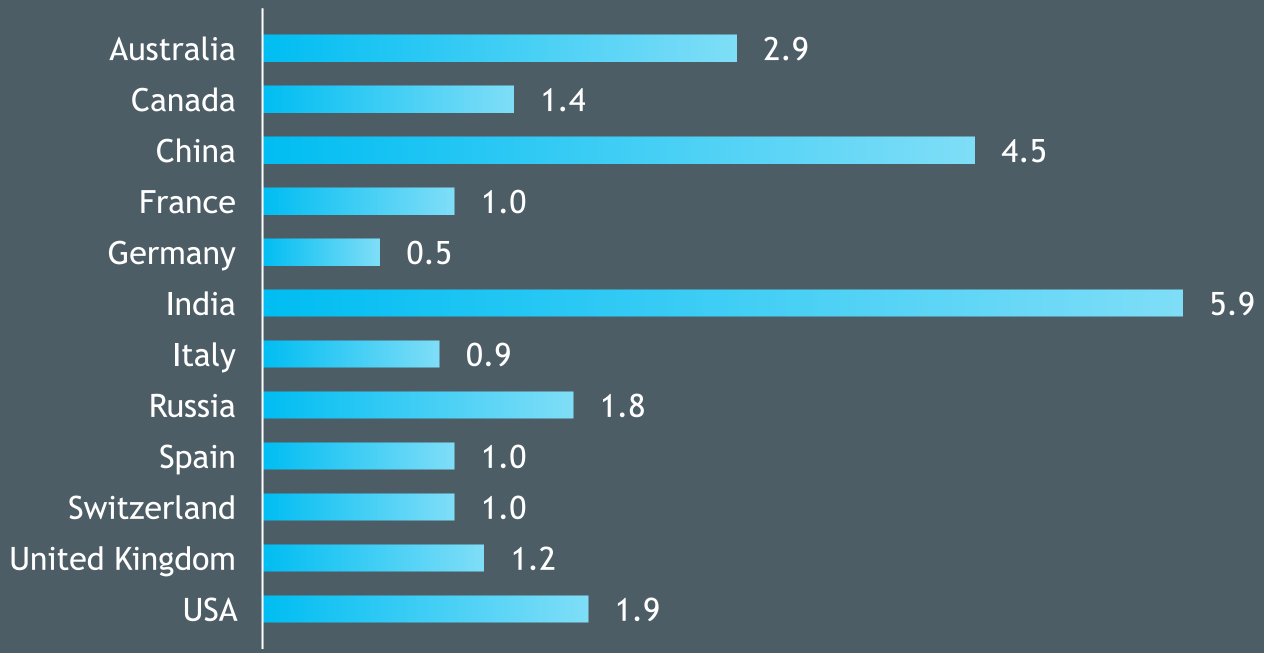
Source: Euromonitor

With the global car market forecast to shrink 13% in 2020 in reaction to the spread of the novel coronavirus, the pain will be shared across all major markets. China, where the virus emerged and has some of the toughest restrictions on movement to prevent its spread, faces the steepest decline of 20%. Italy, Russia and Spain are facing 15% declines this year, while other markets are facing 9%-12% declines. Clearly there is a great range of uncertainty here, but we can be sure that all these markets face a very tough year ahead.

> *"The pain will be shared across all major markets"*

India to lead long-term growth after recovery

Average annual growth in passenger car sales 2021-2025 (%)



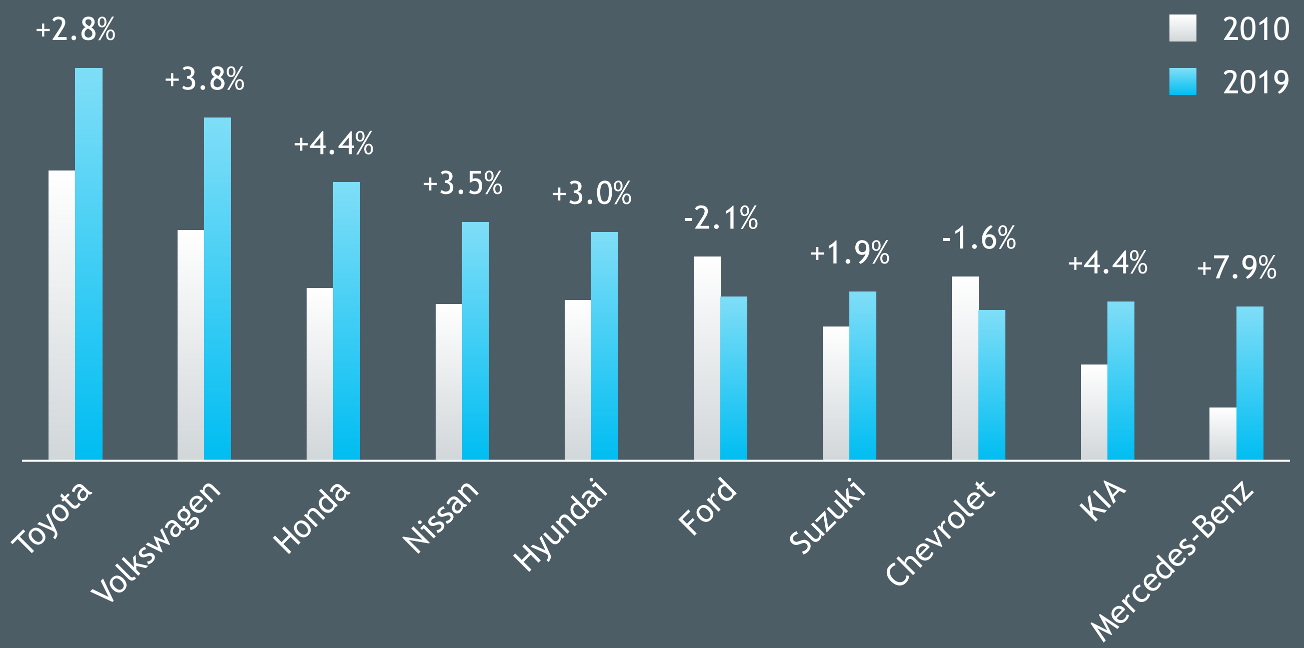
Source: Euromonitor

In the longer term prospects for car sales are rosier. Lingering concerns about the safety of public transport and ride sharing will create new demand for personal vehicles, and some consumers will find they prefer holidaying in their own country and travelling by car to flying abroad.

All of the 12 markets we surveyed are forecast to grow in the long-term, and that's after the expected big jump in 2020 as markets recover from the coronavirus shock. Asia Pacific will enjoy the fastest growth, with 3%-6% annual increases for Australia, China and India. Canada, Russia and the US will grow by 1.4%-1.9%, while the Western European markets will lag behind at 0.5%-1.2%.

Toyota is the biggest-selling car brand, while Volkswagen added the most sales

Top ten global car brands - sales in millions of units (and average annual growth rates)



Source: Euromonitor

Toyota sold 7.1 million units globally, more than any other brand, up from 5.5 million in 2010. Over this time, its sales grew 3.8% a year on average. Mercedes-Benz was the fastest-growing of the top ten brands, enjoying an average of 7.9% a year, while Chevrolet and Ford suffered declines of 1.6% and 2.1% respectively. Volkswagen added the most unit sales in this period, rising from 4.4 million to 6.1 million sales a year.

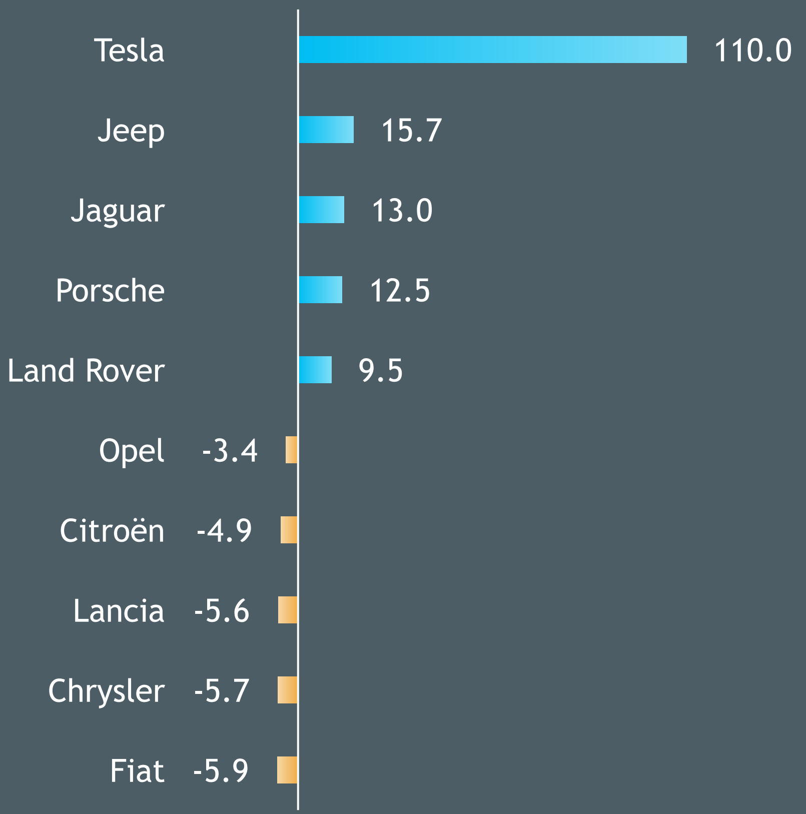
"Mercedes-Benz was the fastest-growing of the top ten brands, enjoying average growth of 7.9% a year"

Tesla is by far the fastest-growing global brand

Looking at the fastest-growing global car brands, one stands out far above all the others: Tesla, which grew by an average of 110% a year from 2010 to 2019. That's partly because sales were extremely low in its early years, totalling just 423 vehicles in 2010. By 2019 sales rose to 335,000, making it the 44th-largest car brand in the world. It's still growing rapidly, though, despite this increased scale, with 46% growth in 2019.

Jeep, Jaguar, Porsche and Land Rover have all done well over the decade, beating the growth rate of the market – 2.7% a year – by between 3.5 and 5.8 times.

Average annual change in unit sales (%)



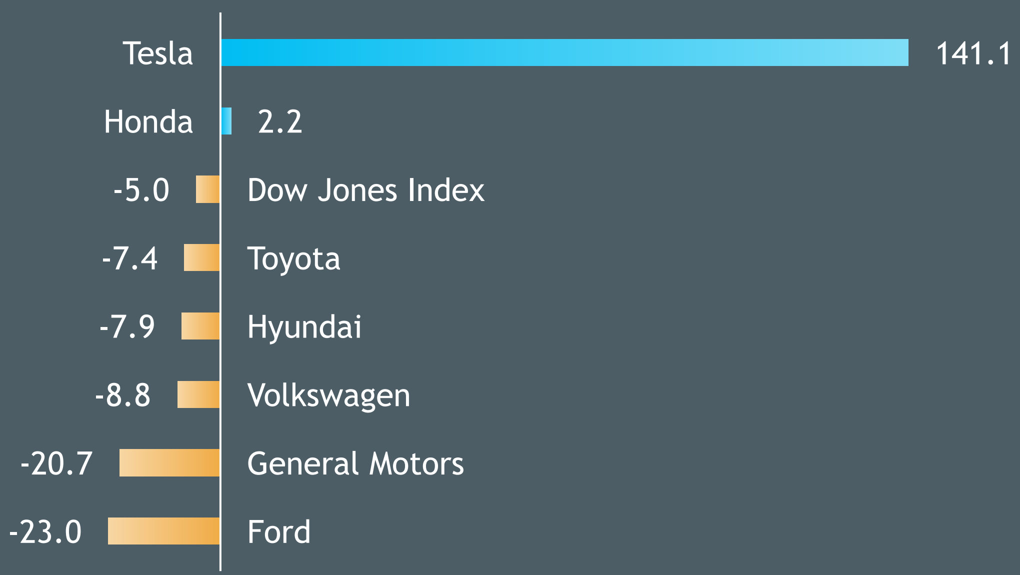
Source: Euromonitor

Investors have mixed feelings about the manufacturers' prospects

The share prices of most car manufacturers have fallen during 2020 as the markets have tried to price in the impact of the pandemic. That means assessing both the immediate drop in sales, as consumers deferred large purchases, and manufacturers' capacity to adapt to changing market conditions as sales start to pick up.

The variance in share price performance has been very wide. Honda's rose by 2%, while Tesla's more than doubled, rising 141%. Toyota, Hyundai and Volkswagen shrank by 7%-9%, not much more than the Dow Jones Index's 5% decline, while General Motors and Ford fell by more than 20%. This was a collective assessment not just of the impact of the coronavirus on immediate sales, but also of how prepared manufacturers are to meet consumers' demands for cleaner and more efficient vehicles. Those with a clear plan for transitioning to advanced drivetrain technology will be best positioned for the recovery.

Change in share price, 1 January - 1 July 2020 (%)



Source: Euromonitor

The best-performing brands can expect six times more growth than average

Excluding Tesla the fastest-growing brands grew by 13% a year in 2010-2019, ten percentage points faster than the market as a whole, which grew by 3%. The fastest-shrinking brands declined by 5% a year, underperformed by 8 points.

“We can expect the best-performing brands to grow by 12% a year, compared to 2% for the market as a whole”

Euromonitor predicts growth in car sales to be slightly slower once the main coronavirus-related fluctuations are over, forecasting 2% annual growth between 2022 and 2025. Taking this forecast as a base and assuming similar levels of performance, we expect the best-performing brands to grow roughly 12% a year in the medium term, compared to 2% for the market as a whole, while the worst-performing brands shrink by 6% a year.

Average annual growth in sales, 2022-2025 (%)

Source: Euromonitor, Zenith

AUTOMOTIVE
CONSUMER TRENDS

The pandemic will lead to a resurged interest in personal car ownership

Consumers are looking to delay purchase, but not cancel

Growing environmental concern will drive interest in electric vehicles

Brand messaging should be tailored for new entrants, and for changing attitudes post-COVID-19

A return to private ownership at the expense of public transport and shared mobility

Over the past three years, passenger car sales decreased globally. There are a number of potential reasons for this – new innovations and new players in the car-hailing, car-sharing and micro-mobility (small, personal, lightweight devices with lower speeds) categories, and changing attitudes toward mobility and to the environment. As a result, even traditional automotive brands have invested in alternatives to the ownership model in order to compete.

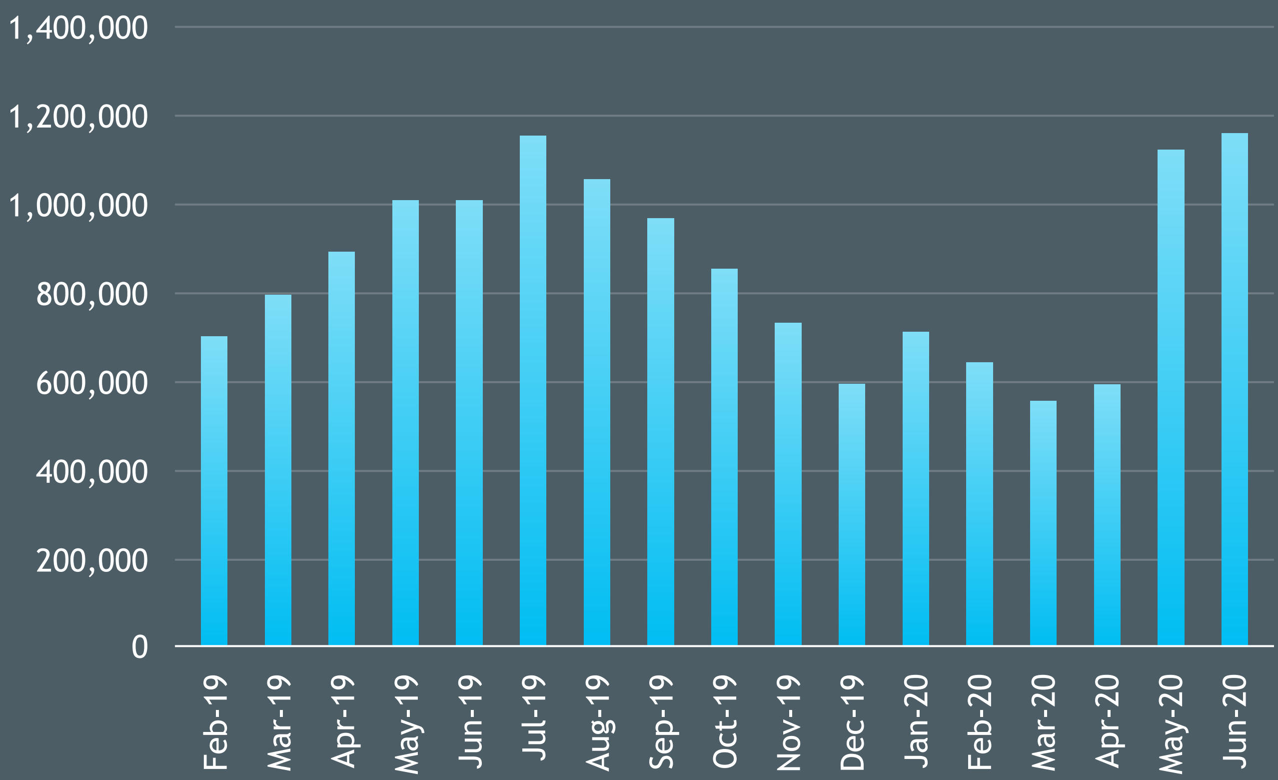
However, the emergence of COVID-19 may well change it all again, with new rules around social distancing and restrictions on human movement.

Before the pandemic, the commute was the most common journey made by consumers. According to the Euromonitor Mobility survey, on average 74% of consumers travelled to work or school either most days or at least one-to-two days each week. Of those commuting, 34-63% typically use their personal car, and 15-54% use public transportation. This percentage is mostly dependent on population density, and public transportation infrastructure in the individual countries. However, particularly amongst the younger and urban populations, ride-sharing / hailing and micro-mobility also gained traction as affordable and flexible alternatives to driving.

During lockdown, a huge decrease in the number of trips and a reduction in available services facilitated the adoption of walking and cycling as transport alternatives. In London, Transport for London operated 60% of tube services and close to 80% of bus services during the crisis. But in May, as lockdown eased, the requirement to social distance meant that they could only take 15% of the normal number of passengers on the tube and bus networks, even as services increased. As a result, the Bicycle

“total cycling sales in April were up by over 50% versus last year”

Association of Great Britain announced that total cycling sales in April were up by over 50% versus last year, and Santander bike hires increased greatly.

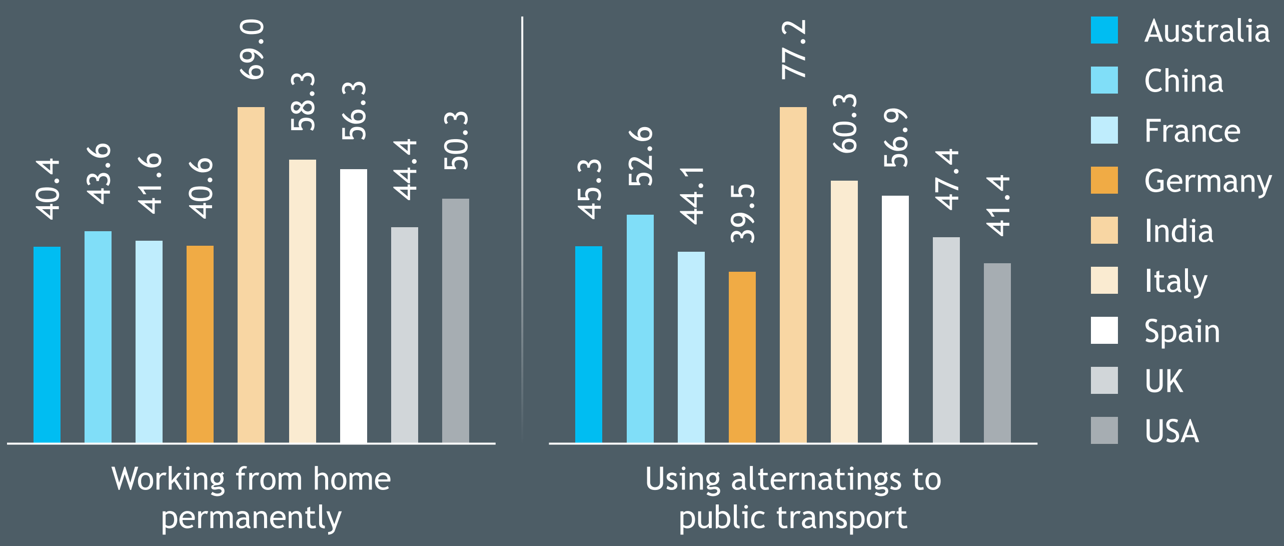


Source: Transport for London; Number of Bicycle Hires

Personal safety will continue to drive consumers' desire to avoid public and shared transportation for the immediate future. Global Web Index data shows that people have an increased desire for flexibility when it comes to working from home and using alternatives to public transport post-pandemic; as lockdown eases and people return to work, we will likely see a resurgence in private car ownership.

> *"Personal safety will continue to drive consumers' desire to avoid public and shared transportation for the immediate future."*

Levels of interest in post-pandemic behaviours (%)

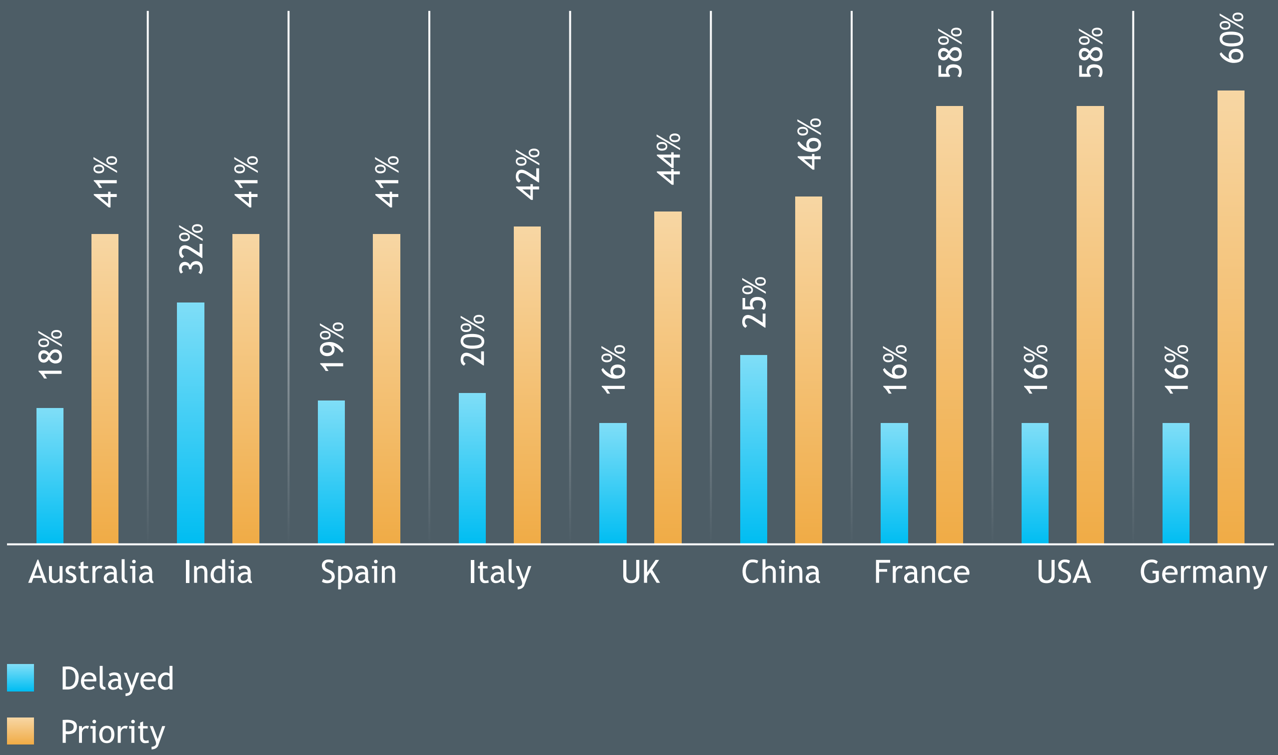


Source: Global Web Index

Those consumers that were planning to purchase a car before the pandemic will extend the timeframe for purchasing, but will still buy. Global Web Index data shows that 41-60% of consumers who delayed the purchase of a car will prioritise it post COVID-19.

This is validated by Google Trends data that shows a promising increase in searches for automotive brands as restrictions have eased. The length of this extended period will depend on the control of the virus in each market.

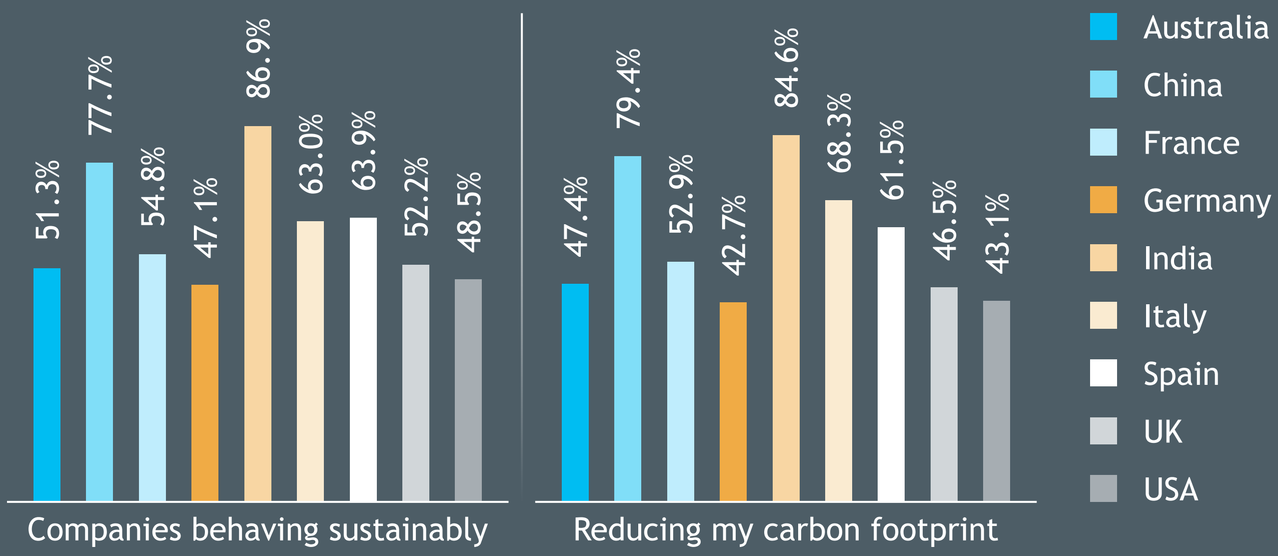
"a promising increase in searches for automotive brands as restrictions have eased."



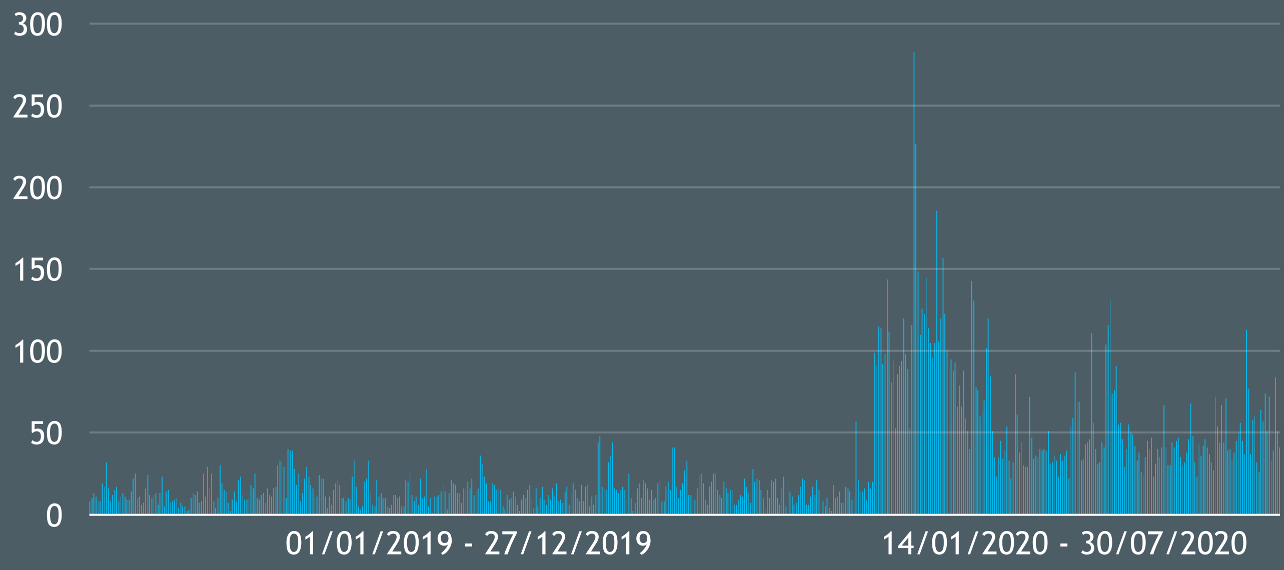
Source: Global Web Index

Electric vehicles appeal to consumers' sustainable attitudes, but they will require financial incentives to buy

As the Global Web Index data shows, the importance of "companies behaving sustainably" and in "reducing my carbon footprint" have increased because of Coronavirus. The biggest claimed increase in the importance is seen in China and India while the lowest is in Germany. This aligns with the Global Web Index analysis that middle-income countries (as defined by The World Bank) are more concerned about climate change and the environment. The pandemic has given consumers a brief view into life without cars and emissions, and this positive experience will create increased pressure on governments and automotive brands to switch to electric or hybrid. Already in 2020 we can see an increased volume of conversation regarding "electric cars" on social media platforms - by both brands and consumers.



Source: Global Web Index



Source: Publicis Media Social Tools (content search: "electric car")

The post-pandemic desire to avoid public transportion will likely motivate younger and first-time buyers into the market. These consumers previously relied on alternative mobility methods, not only for lower cost and flexibility, but for environmental reasons. Brands have an opportunity with their electric models to appear relevant and responsible to these new and young buyers.

> *"Brands have an opportunity with their electric models to appear relevant and responsible to new buyers"*

However, to truly become a viable alternative to petrol and diesel, brands and/or governments will need to address two of the biggest consumer barriers: finances and "range anxiety." The cost of electric vehicles is still much higher than that of regular diesel or petrol cars. In markets such as China, the government provides incentives that ultimately lower the price for consumers. Whereas in Russia, there are no tax reductions, subsidies or support, and consumer interest and sales are low. More than pre-COVID-19, the prices and payment options of electric cars will need to appeal to the financially cautious consumers.

"More than pre-COVID-19, the prices and payment options of electric cars will need to appeal to financially cautious consumers"

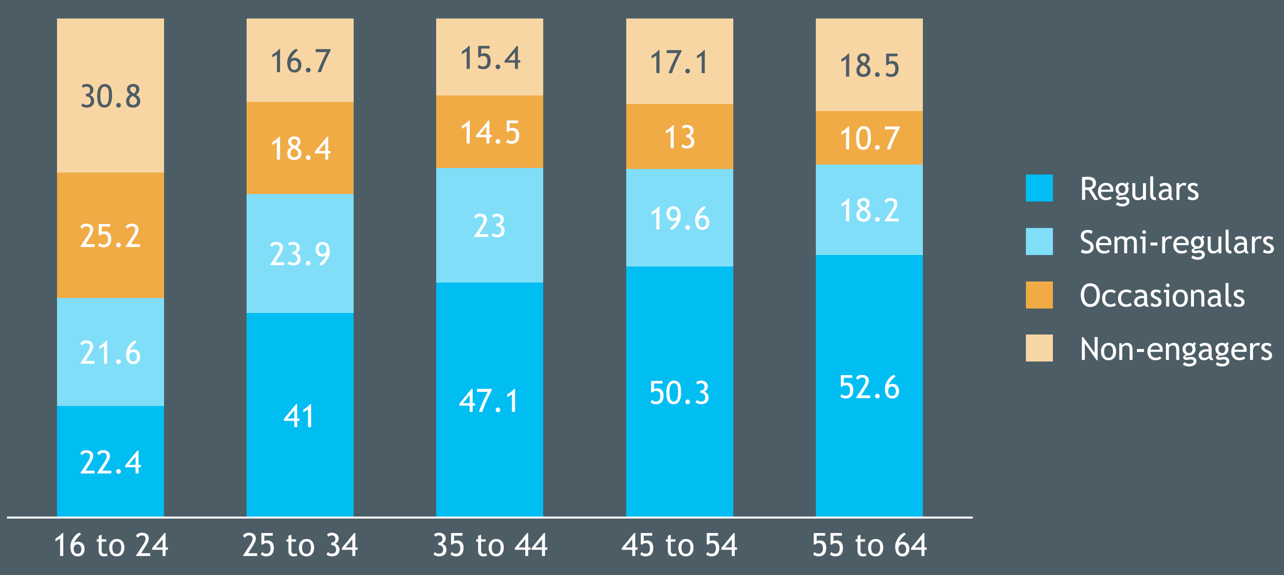
The other main barrier is "range anxiety," which is the worry that the electric car battery will run out of power before arriving to its destination or a charging point. Currently this worry is justified, as the number of charging stations is inadequate or imbalanced across most markets. But as sales grow, the need for charging away from home will become more important. Tools like Google Map's charging point function, which shows the location and availability of charging points in the US and UK, and Volvo's Polestar 2 in-car tech that calculates in advance if charging will be required and where it can be done, will help to ease consumer concern.

Brands need to develop exisiting digital solutions, be flexible and be seen as helping consumers in uncertain times

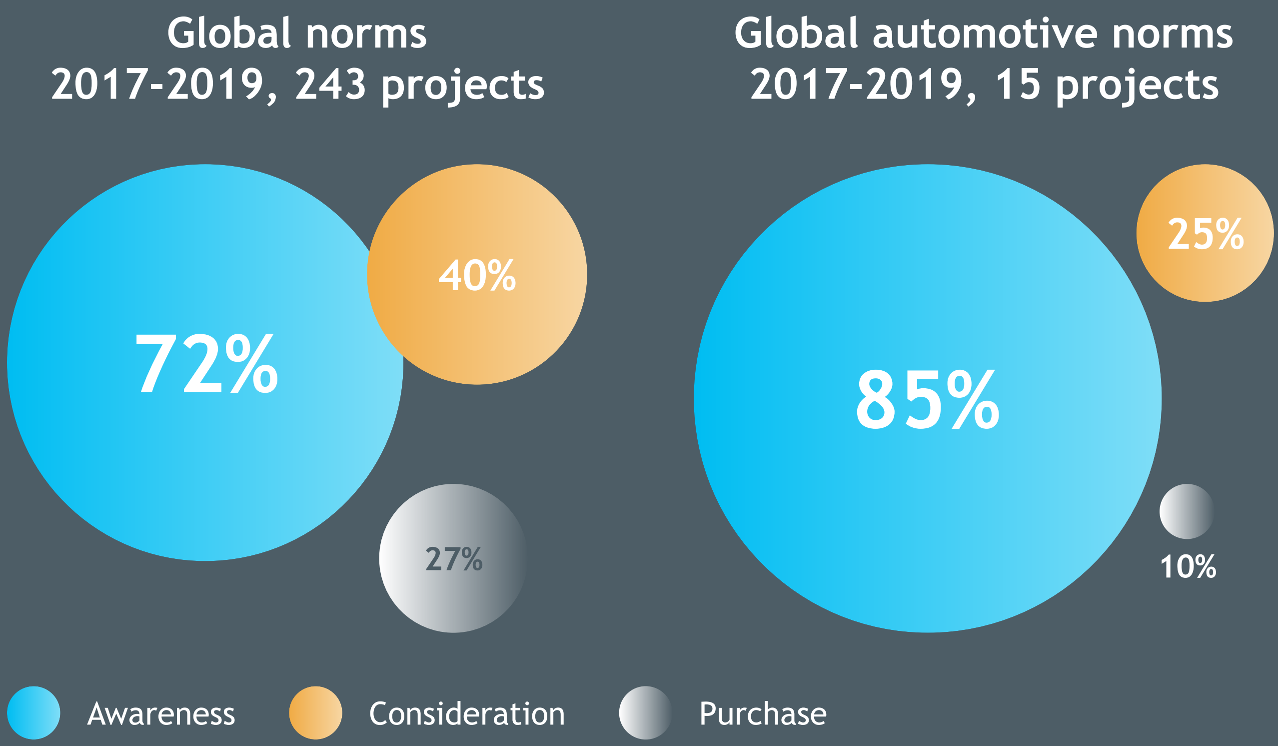
According to Global Web Index data, 56% of people aged 16-24 are either occasional drivers or don't drive at all, compared to only 30% of those aged 55-64. But 61% of people who are extremely or very interested in using alternatives to public transport post-pandemic are under 35.

This suggests that there will be new, younger entrants in to the market. In the UK, the AA Driving School saw lessons increase more than 500% after the government announced lessons could resume in early July.

How often drive a car on average



Source: Global Web Index

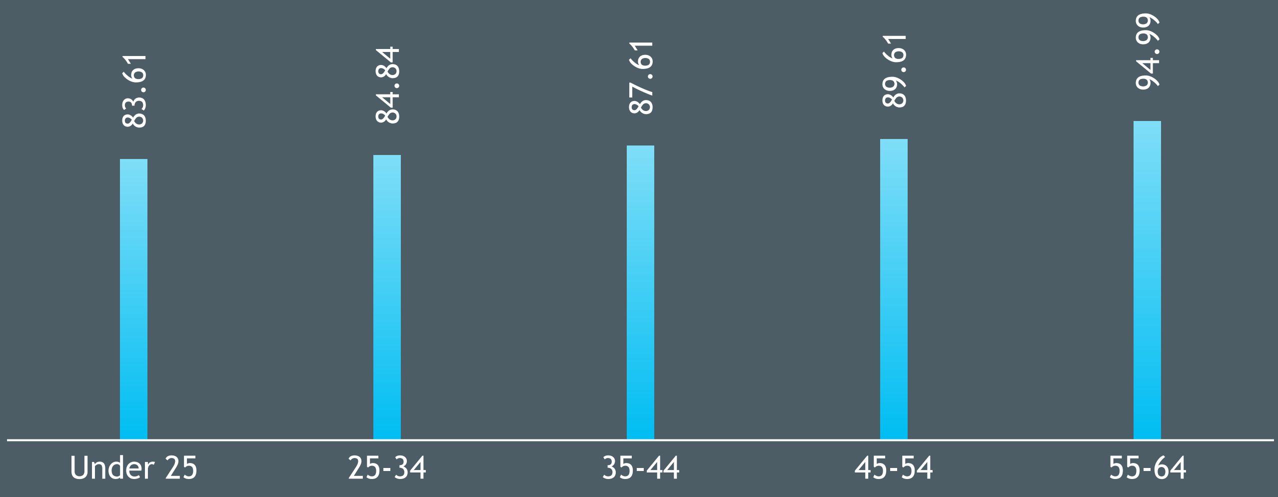


Source: Touchpoints ROI Tracker - Norms, 2017-2019

Touchpoints is Publicis Media's proprietary contact measurement and planning tool that evaluates and helps to optimise all forms of contact that brands have at each point on the consumer journey. This data tells us that whilst brands in the automotive category have high awareness, consideration and purchase are much lower than we see across all categories combined. Given that new entrants will have limited knowledge or associations with different brands, this is an opportunity to consider whether the drivers of consumer choice in a post COVID-19 world have changed as well.

For example, entirely remote buying is likely to appeal to a set of consumers who use platforms such as Uber, Deliveroo, etc. rather than visiting a dealership. According to Touchpoints data, even pre-pandemic dealerships were less influential for younger consumers. The influence metric - a score from 0-100 that gives us the relative influence per exposure of each contact point on category purchasing - for visiting a dealership is 83.61 for under 25s compared to 94.99 for age 55-64. Some brands, like Renault, have already accelerated remote buying capabilities and launched a new end-to-end online car retail platform.

Touchpoints influence for visiting a dealership



Source: Touchpoints ROI Tracker - Automotive Norms, 2017-2019

Brands will also need to communicate differently with consumers as a result of the pandemic. The Global Web Index coronavirus study shows that 53-85% of consumers want brands to run advertising showing their response to coronavirus and helping customers. This would include easing the customer journey, providing flexibility in purchasing and options for financial help. The same study shows than 80% of people expect some financial impact from the pandemic. Since a car is one of the largest purchases a consumer makes, incentives can help ease hesitations; 64%+ of consumers want brands to offer flexible payment terms and 69%+ expect promotions, offers and loyalty perks. To help support customers affected by COVID-19 in the US, Hyundai reinstated their Assurance Job Loss Protection program, a program to protect shoppers in the event that they lose their job as a result of the pandemic.

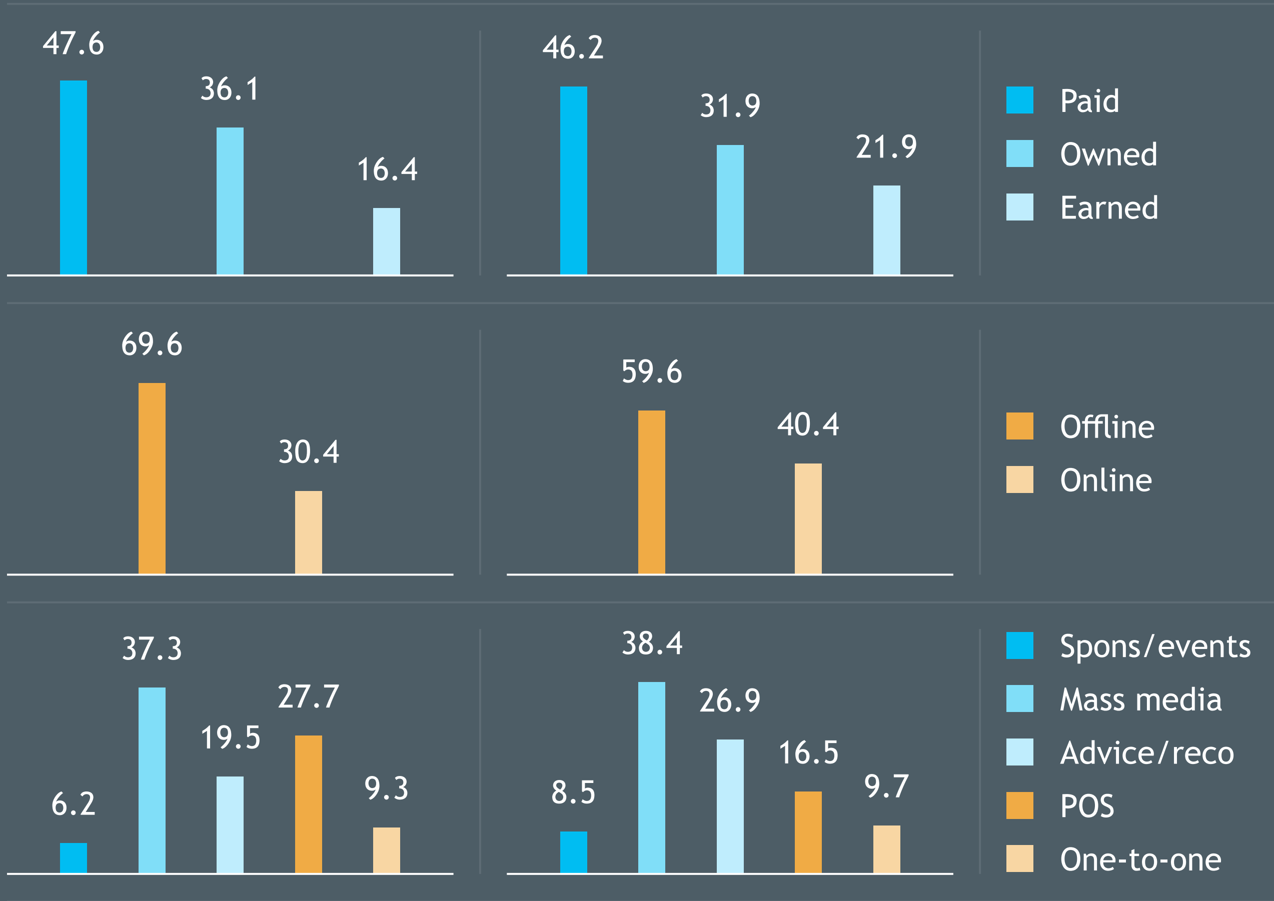
Consumers will also likely be looking at different features as they reassess their needs. In China, some brands are marketing their vehicle's "anti-virus features." For example, Geely adapted its "Healthy Car Project" from appealing to consumers' concern about air pollution to easing their worry over the spread of the virus. Meanwhile, Ford is testing a software enhancement that can heat the inside of a vehicle until viruses are deactivated.

Above all, recent changes in consumer behaviours and media consumption will drive all purchases online to a greater extent than pre-COVID-19, even of big-ticket items. Touchpoints data shows that the automotive category already has greater brand experience share from digital (+10%) and earned (+5%) touchpoints than the global category norms.

"Recent changes in consumer behaviours will drive more big-ticket item purchases online"

Global norms - 2017-2019
243 projects

Global automotive norms - 2017-2019
15 Projects



Source: Touchpoints ROI Tracker - Norms, 2017-2019

Pre-COVID-19 digital channels were a key source of information and research for consumers. But post pandemic, this will now extend to the entire consumer journey, and the driving experience itself. Brands should enhance their existing digital solutions as a priority.

In the US, Lexus recently used augmented reality (AR) to launch the 2021 IS model. This method not only allowed customers to see and walk around the vehicle from their own home, but also showcased different personalisation options. Other brands have also made use of virtual showrooms, AR “test driving” and guided tours.

“As purchase moves online there will be new start-ups ready to take advantage”

Just as pre-COVID-19, ride sharing and micro mobility were disrupting the category, as purchase moves online there will likely be new start-ups or platforms ready to take advantage. Traditional brands will need to adapt quickly.