

A World of Cars in One Subscription

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21/12/2022 The automotive industry is reinventing itself. As it must. And not only in terms of the drive. Customers want independence, more flexibility, and less capital commitment. Suppliers are responding.

People want to be mobile. The invention of the steamship 300 years ago was a milestone. It was followed in 1825 by the first railroad, then the airplane and the automobile—and a car at your doorstep quickly became a status symbol. As a result of social issues such as sustainability and climate protection, as well as the development towards what is known as the sharing economy—the temporary lending or sharing of vehicles, for example—the number of people who have changed their demands regarding automobility has grown rapidly in recent years. And demand is transforming what is being offered. One of the new products is the car subscription.

Subscription contracts for magazines, TV, and music streaming services are classics. But does this also work for cars? The first providers of vehicles at flat-rate tariffs rolled onto the market in 2017. Initially,

they were mainly independent start-ups. Then Volvo, Jaguar Land Rover and a handful of other manufacturers followed. As a rule, the in-house financial service organizations at the manufacturers' headquarters assume operational responsibility. They are, as it were, the automotive banks that traditionally handle vehicle financing and leasing.

Conventional car rental companies such as Europcar, Hertz, and Sixt have also jumped on the bandwagon. And it has picked up speed. Small cars such as the Opel Corsa and mid-size and luxury sedans such as the Volkswagen Passat and the Audi A4 are all available on a subscription basis. But also sports cars like the Porsche 911. Demand for car subscriptions is growing rapidly. According to a Porsche Consulting estimate, in 2021 the number of contracts concluded in Germany already exceeded 50,000. The principle: customers pay a flat monthly fee for use of the vehicle during the contract period. All costs are included in the monthly installment: maintenance, wear and tear, general inspection, insurance, motor vehicle taxes. As a subscriber, the customer only has to pay for fuel—or electricity in the case of an electric car—plus a trip to the car wash and a refill of operating supplies.

What is the difference between car subscription and car leasing? First of all, the term of the contract is shorter: while leasing requires a commitment for at least twelve months, some car subscription providers entice customers with a term of just one month. Six- or nine-month contract periods are also feasible. The cost per month for the car ranges from a few hundred euros to over 3,000 euros, depending on the make and model. In the vast majority of vehicles available, the equipment is already configured. Changes are generally not possible. The terms of the contract and details such as registration fee, minimum age (between 18 and 25 years, depending on the provider), number of additional authorized drivers listed on the contract, delivery period, or mileage allowance are similar to those for long-term rental cars. If a subscriber drives more kilometers than agreed, they usually also have to pay extra for these at the end. As with leasing, users do not own the vehicle.

But how do companies benefit from this business model? The majority of subscription providers are more concerned with medium- and long-term goals in this new market. Many providers are currently investing in these new business models in order to find out how great the potential is. A 2020 study by the market research institute Puls reveals that the greatest appeal is for 30- to 50-year-olds; nearly 40 percent of respondents in this age group find car subscription offers "very interesting." The car subscription is also suitable as a test market for electromobility products, as some interested parties use it to find out whether an electric vehicle would make sense for them in day-to-day life. Volume manufacturers, who produce millions of vehicles a year, also use car subscriptions to give one model or another from their model range a little extra push. Leasing and car-sharing returns can also be remarketed through subscriptions.

Porsche Financial Services (PFS) launched the first car subscription model for the Porsche family brand back in 2020. Along with addressing additional target groups, PFS was also directing a focus on establishing a sustainable and economical business model as an additional pillar for the core business. Porsche Drive subscription service is intended to give Porsche customers and prospective customers an opportunity to "react flexibly to changing life circumstances while enjoying the fun of driving a Porsche," says Christoph Köhler, Senior Consultant in the Mobility Services division at the management

consultancy Porsche Consulting. Together with his colleagues, he assisted the auto finance experts at the sports-car manufacturer's PFS subsidiary with the subscription.

Porsche relies on a minimum term of six months, with a notice period of three months. The cost of the subscription depends on the model and its equipment. For the Porsche 911, for example, these costs range from 2,800 to 3,500 euros.

Porsche Consulting supports the Stuttgart-based sports-car manufacturer in developing innovative business models. Christoph Köhler says, "We assist Porsche with car subscription along the entire value creation path." Porsche Consulting is successful because it is able to test new ideas directly on the market. "Our Service Development approach allows us to validate innovations on the market with real customers within just a few weeks, without creating a direct link to the brand," explains Köhler. In addition, Porsche Consulting's expertise in the automotive world enables it to provide analyses and optimization, prepare business calculations, and support the establishment of agile product organizations.

Porsche, a premium supplier, has continued developing its subscription model in the interim. A second business model pillar has emerged: Porsche Drive Flex. What's particularly attractive is the free choice of model during the subscription period: 911 today, Cayenne tomorrow, Taycan the day after. As Christoph Köhler notes, "Whether it's the way to the office, weekend driving pleasure, a family outing, or a road trip with friends—the customer has maximum flexibility, can change vehicles quickly and easily within the versatile fleet." The fixed monthly price comes to 2,899 euros. The minimum term for Porsche Drive Flex is three months, and the notice period is one month.

Interview with Marc Rieß: Fulfilling dreams on time

Dr. Marc Riess is Managing Director and Chief Operating Officer of Porsche Financial Services GmbH- a wholly owned subsidiary of the sports car manufacturer Dr. Ing. h.c. F. Porsche AG. In an interview with Porsche Consulting Magazine, Riess describes what is special about Porsche Drive subscription.

Porsche Financial Services launched Porsche Drive subscription in August 2020. How has this new offer been received since then?

Very well. We started with small steps. These included, for example, the introduction of new processes and extensive dealer training. As our partners and guarantors of quality, the operators of the Porsche Centers also play a particularly important role for Drive subscription. We have already acquired many customers. We're hoping to see significant increases in 2023 and the following years. The greatest demand for the program is currently for the 911 and Taycan model series.

What distinguishes Porsche Drive from other subscription car models?

Using the "Porsche Finder" online platform, interested parties and customers can select their desired

vehicle from a wide range of immediately available models in our inventory, reserve it and subscribe to the vehicle via their local Porsche Center. For a monthly package price, we enable the vehicle to be used in many European countries, even by a second driver. All maintenance costs are covered, as well as, for example, our mobility service, Porsche Assistance. This helps in the event of a breakdown or accident. The Porsche Drive subscription also includes the Connect "Navigation & Infotainment" package. Only the costs for refueling or charging are in addition to the package price. The local dealer is fully involved, providing advice and is available as a competent contact partner alongside Porsche Financial Services throughout the entire term. Simple and flexible access to our Porsche vehicles without long-range terms is also available with our new "Porsche Drive Flex" product. As part of a pilot project, we are offering our customers the opportunity to change their Porsche model on a daily basis with a lead time of two working days in each case, at a monthly package price and with a minimum term of three calendar months.

What goals is Porsche pursuing with its car subscription offer?

Market studies have shown that this segment has great potential. That is why we do not want to stand on the sidelines in this promising business area, but rather contribute our strengths and create additional added value for our customers. Our approach is to introduce a new and younger generation of customers to the Porsche brand with Porsche Drive subscription and Porsche Drive Flex.

What is your forecast for the young car subscription market?

Its development has been very dynamic since 2018. We expect significant growth rates not only in Germany, but also see potential in the USA and China. With our offerings, we are ideally positioned to offer our customers added value there as well.

Porsche Financial Services

Responsibility for all Porsche mobility services is bundled at Porsche Financial Services. The wholly owned subsidiary of the Stuttgart-based sports car manufacturer is steadily expanding its flexible mobility models. The focus is on simple and flexible access to vehicles without long-range terms. The range also includes customized leasing and financing offers for Porsche vehicles and the exclusive Volkswagen brands Bentley, Lamborghini and Bugatti, as well as dealer financing, insurance and credit cards. The company operates internationally with more than 600 employees and manages more than 320,000 leasing and financing contracts worldwide (as of 2022).

Info

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Title: Dr. Marc Rieß, Managing Director and COO at Porsche Financial Services, 2022, Porsche Consulting
Subline: Dr. Marc Rieß, Managing Director and Chief Operating Officer at Porsche Financial Services, relies on close collaboration with the Porsche dealer organization for Porsche Drive products. Credit: Porsche Consulting/Jörg Eberl

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Title: Dr. Marc Rieß, Managing Director and COO at Porsche Financial Services, 2022, Porsche Consulting
Subline: "Some people may opt for a subscription first, lease a Porsche later, and then buy one," says Marc Rieß. Credit: Porsche Consulting/Jörg Eberl

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