Changing lanes
The automotive C-suite's agenda for 2013–14

EY provides a wide range of business services to the global automotive ecosystem. Our professionals work alongside many of the sector’s leaders virtually every day, giving us a unique perspective on the strategic priorities of many of the world’s leading automotive companies. To gain more insight into the priorities of the sector’s C-suite, we interviewed 32 of our most senior partners about the challenges faced by their automotive clients and identified five themes that will dominate the boardroom’s agenda for the next 18 months.

“As the automotive sector continues to evolve, the urgency of these strategic and tactical moves could determine which companies gain a sustainable competitive advantage despite the tough market conditions.”

Mike Hanley, Global Automotive Leader, EY
Mind the gap
State of competition – winning companies pull ahead

Market leaders, in terms of profitability, are finding the right balance across a wide range of value drivers and continuously adjusting their focus as market dynamics dictate; never losing sight of short- and long-term objectives. Now companies on either side of the divide must choose their response, whether that means trying to turn their lead into a lasting advantage or finding new allies to keep from falling further behind.

“Overall, this company is looking like a two-speed business with rapid growth in the emerging markets, particularly Russia, and slower growth in Europe.”

“Success in emerging markets
Leveraging brand for right products in right markets
Making collaborations and alliances work

Leaders are pulling ahead

“Complexity within the business that companies have to manage is even increasing and in order to drive better financial results, management teams will be held accountable to a higher standard of performance.”

“Selling in emerging markets is clearly a big focus, but to fund that expansion, you need to get the mature markets right.”

“Excessive exposure to weak markets
Failed products, launches, investments and alliances

“My client is very worried about the Chinese market because the high end is occupied by certain German and Asian carmakers and the low end by Chinese carmakers.”

“Those that can manage the significant number of launch events flawlessly will gain a competitive advantage and increased profitability.”

“These guys had a much looser operating model than their Indian partner. When they realized that it wasn’t a win-win, the only way they could get out was to unwind it.”

Sources: S&P CapitalIQ, EY analysis
Note for acronyms: 1Q11 – Jan–March 2011; 1Q12 – Jan–March 2012; 4Q12 – Oct–Dec 2012; BPS – Basis points; BRIC – Brazil, Russia, India and China; CBOE – Chicago Board Options Exchange; EBITDA – Earnings before interest, taxes, depreciation, and amortization; G7 – France, West Germany, Italy, Japan, United Kingdom, United States and Canada; GDP – Gross domestic product; GSA – Germany, Switzerland, Austria; LV – Light vehicles; P&L – Profit & Loss statement; OEM – Original equipment manufacturers.
Steer through fog
New operating environment – navigating volatility and low visibility

With significant economic uncertainty and high volatility ahead, automotive executives must cope not only with high variability and inability to predict demand, but also intensifying competition in flat or contracting markets. Sector participants must continuously improve their ability to operate in this environment with tools that enable enterprise-wide scenario planning and accelerated decision making.

“2012 was fraught with a lot of concern and skepticism. It prevented companies from taking action. 2013 may be even more complex.”

“The challenge with emerging markets is that regulation can be quite unstable. You’ve only got to look at Brazil’s sudden change in import tax.”

“The key risk is the increasing volatility of individual markets. Whether it is in China, India or Europe, they have to be much more flexible in operating their organizations, [and they] need to be globally connected to offset any volatilities in certain markets.”

“Carmakers in Italy and Spain are in the middle of a hurricane, facing an economic crisis, a financial crisis, an employment crisis. The question is when the situation will be unblocked.”

“They’ve got a lot tied up in Europe that they’re very concerned about.”

“Such conditions will draw a variety of responses from competitors ranging from incentives to shift inventory, to production fluctuations and plant shutdown impacting supply chain sustainability.”


*Rapid-growth markets is an EY classification and includes Brazil, Argentina, Mexico, South Africa, Nigeria, Egypt, Saudi Arabia, UAE, Poland, Czech Republic, Turkey, Russia, China, India, Korea, Indonesia, Thailand, Vietnam and Malaysia.
### Plot the route

**Connecting with customers – re-inventing the value proposition**

Carmakers need to satisfy a world where consumer preferences in terms of vehicle function, price and features vary widely across markets – most of the customers in their youngest markets can't afford their product, and many of the youngest customers in their oldest markets don't necessarily want to own it.

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"Convergence of technology and the automobile ... the cell phone went from device to software. Is there a potential that the vehicle goes that same direction?"

"Financing is going to change throughout all these markets ... for instance, how consumers in these emerging markets are going to buy cars in the future versus the way they've been paying for them now."

"Everybody is getting out of the bankruptcy, refocusing efforts on improving quality and building vehicles that people want versus building vehicles that we want to sell."

“They all think they can win with their global platforms, but the Indian consumer is not willing to pay for that. ... They keep trying to shave off pennies on parts here and there, but what they need is to take a fundamentally new approach."

"A key risk is how urban mobility will develop, and carmakers will have to evolve from just providing cars to offering a broader range of premium mobility services. Carmakers will need to gain competencies outside their core areas, so the need of the hour is more cooperation within the auto sector and with companies outside."

**Trendicators**

- **11.3b**
  
  Daily urban trips by 2025 (from 8 billion in 2010)

- **32%**
  
  Of daily urban trips will be by public transport in 2025 (up from 16% in 2005)

- **104m**
  
  New cars expected to have some form of connectivity by 2025

- **8%**
  
  Growth forecast for vehicle density in BRIC markets, compared to only 0.4% in G7 for 2012-22

- **10**
  
  OEMs active in car sharing either through own services or by equipping vehicles with enabling technologies; fivefold: increase in global car sharing members in past five years

Tune the engine
Organization efficiency and flexibility – remodeling the business and cost structure

The threat of a deepening recession is now leading automotive companies to not only drive more efficiencies and flexibility, but also recognize the need to leverage data for making better informed decisions across their business.

“As a global company, the client could make money by utilizing the excess capacity in Europe. However, neither the Asian nor the North American business unit heads want the costs on their P&L.”

“The client is shifting to new centers in Europe including Poland, Romania, Turkey and Hungary. In addition, the focus is on balancing production and sales within the countries, especially in India, Brazil and Japan.”

“With the variety of models in their portfolio, they want to increase the use of platforms (for instance, reduce the 100 different air conditioning systems to 20–30 modules), a $1,000–$1,500 advantage per car. However, if you have quality problems with one of your modules, it could affect a million vehicles and devastate your brand.”

“IT security is another worry, particularly in emerging markets. I think companies are going to get very focused on it, and not just for protecting the product, but for protecting the brand as well.”

“They’ve broken down the bureaucracy. We’re going to build cars together now and make money – together.”

“Due to their flexible production system and their connection between the different plants, they are able to respond to the volatility of markets easier than in the past. So there is currently no intention to reduce capacity.”

Watch the dials
Resource management – securing resources across the value chain

Heading into yet another period of uncertainty, executives sense an urgency to have visibility across the value chain and secure access to key resources. Managing these key inputs – from ensuring talent and credit availability to procuring supplies and scarce raw materials – can make the difference between a red or black bottom-line.

“Once this tranche of leaders goes, who will be the ones to take over? There doesn’t appear to be a people development culture outside of the engineering function.”

“Pension liability will continue to be an issue going forward. If a US-based carmaker has operations in Europe or if a Japanese carmaker has operations in the US, it will need to take into account ages of workers, traditions (such as in China), and government health care systems.”

“Two years ago, they faced a big compliance issue. This took a lot of work and people, and therefore they have installed a chief compliance officer.”

“Carmakers and suppliers are acquiring/partnering for technology-based specific needs, especially in electronics, transmission and powertrain segments. Also, the need to expand production and engineering capabilities in emerging markets is driving M&A activity in the auto sector.”

“The company is worried about finding talent – they need to hire around 5,000 engineers a year.”

Sources: Tracking global trends: Demographic shifts transform the global workforce, EY, 2012; Employment Outlook 2012 India, Kelly Services; Talent Shortage Survey, Manpower, 2010; Technology Metals Research, 2011; EY analysis; Capital Confidence Barometer, Automotive sector, EY, October 2012.
## Key considerations for stakeholders

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<td>Leverage digital presence including social media to anticipate product demand</td>
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<td>Commonize global management processes such as finance, administration and procurement</td>
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<td>Identify and improve visibility of key elements of the supply chain</td>
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<td>Resource management</td>
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<td>Quality of information flows to support enhanced visibility of liquidity and cash risks and opportunities</td>
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<td>Talent management program (for instance management rotation program) to balance global, regional and local talent and addressing cost, speed and flexibility</td>
<td>Cash culture with clear performance metrics and accountabilities</td>
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