



Changing lanes 2016-17

The automotive
C-suite's agenda

Changing lanes 2016-17

This is the fourth edition of EY's global automotive C-suite study. We interviewed over 140 global executives to understand their boardroom agenda for the next 18 months and how well they are prepared to respond to the major drivers of change for the next decade.

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"The C-suite are optimistic about the value that digital and demand evolution can bring to their businesses. There is an urgency to change faster to bridge the preparedness gap by responding to political and regulatory unpredictability, embedding digitalization across the ecosystem, improving data management and analytics capabilities to drive value, and partnering for disruptive innovation. The industry needs to understand how new mobility preferences (vehicle access over ownership) can fit into its business strategy and develop approaches for dealing with these preferences. Developing a talent strategy for attracting and retaining in-demand digital talent is the need of the hour, as the industry is looking to accelerate development of capabilities for leveraging convergence of mobility, connectivity and security."

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Randall J. Miller
Global Automotive & Transportation Sector Leader, EY

Comparing key findings from *Changing lanes* studies over the years

2013-14

Urgency of strategic and tactical moves to manage risks and reinventing value proposition:

- Developed markets slowdown
- Vehicle ownership losing attractiveness
- Connectivity and mobility

2014-15

Embedding flexibility to react to the unexpected:

- Emerging markets volatility
- Resource availability
- Competition from new sectors and market entrants

2015-16

Optimistic about strategic initiatives but concerned about:

- Preparedness for volatility
- Challenges in implementing operational and technological initiatives
- Securing resources, particularly talent

2016-17

Urgency to change:

- Responding to political and regulatory unpredictability
- Embedding digitalization across the ecosystem
- Partnering for disruptive innovation

Executive summary

How well are the C-suite responding to drivers of change over the next decade?

The mix of markets driving the global automotive sales has changed yet again. Growth has shifted to markets such as the US, Western Europe and China while the emerging markets have cooled off.

Also, the pace of global vehicles sales growth is expected to slow down over the next few years. We believe the auto industry is likely to witness more changes in the next decade than in the last 20 years. We have identified six drivers of change that will shape the automotive ecosystem over the next decade.

The drivers of change are likely to have impact on the future viability, strategy, business model and performance results of multiple stakeholders across the automotive ecosystem. They point toward the need for a radical pace of change, whereas, looking at the automotive C-suite's agenda, they appear to focus on progressive change. In short, the only way the auto industry executives can expect to bridge the gap will be to drive the sense of urgency to change throughout their organization and also business ecosystem.

Automotive change drivers for the next decade

Turbocharged disruption – accelerating pace of disruptive innovation driven by new entrants, competition and collaborations

Eyes on the customer ... or the consumer? – battling to own relationships in a digital marketplace that is driving divergence of customers and consumers

Navigating digitalization across the value chain – digitalization and seamless connectivity overwhelming automotive industry's data management and process transformation capabilities

Securing strategic resources – business plans collapse without meaningful resource acquisition, staffing and business continuity initiatives

Unpredictability ahead – global footprint exposes the auto industry to diverse sources of unpredictability that will challenge companies' ability to deliver results

Unprecedented scrutiny! – the automotive industry faces unprecedented scrutiny from regulators, activist investors, advocacy groups and the public

C-suite priorities over the next 18 months

Recalibrating the value proposition – industry looking to cater to demand for mobility innovation, fleet management solutions and an engaging digital customer experience

Firing on all cylinders – leveraging big data and analytics to maximize value of data; however, need to address data privacy, cybersecurity and quality risks

Moving into the lead – industry focusing on catering to demand from growing regions, and looking at cross/within sector partnerships

Securing critical resources – focus on attracting, developing and retaining the right talent and gaining access to nontraditional technology and intellectual property

Living with unpredictability – uncertainty in the operating environment vis-à-vis regulatory, geopolitical, economic scenario across the globe

Highlights that reflect how auto companies lack preparedness to respond to the new change drivers

85% of respondents agree demand for app-based transport and mobility services is good for business, but just **15%** are well-prepared to take advantage.

1 in 2 car manufacturers rank customer data analytics as a top priority. But just **5%** of them are well-prepared to drive revenue growth this way.

75% of respondents believe strategic partnerships are vital to turbocharge innovation, but just **15%** feel ready to implement these initiatives.

1 in 3 respondents believe talent is key to driving innovation, just **3%** are well-prepared to attract it.

82% of respondents believe that currency exchange rates will have a negative impact on business, but only **1 in 5** are well-prepared to tackle these.

Executive summary (continued)

Views from across the automotive value chain

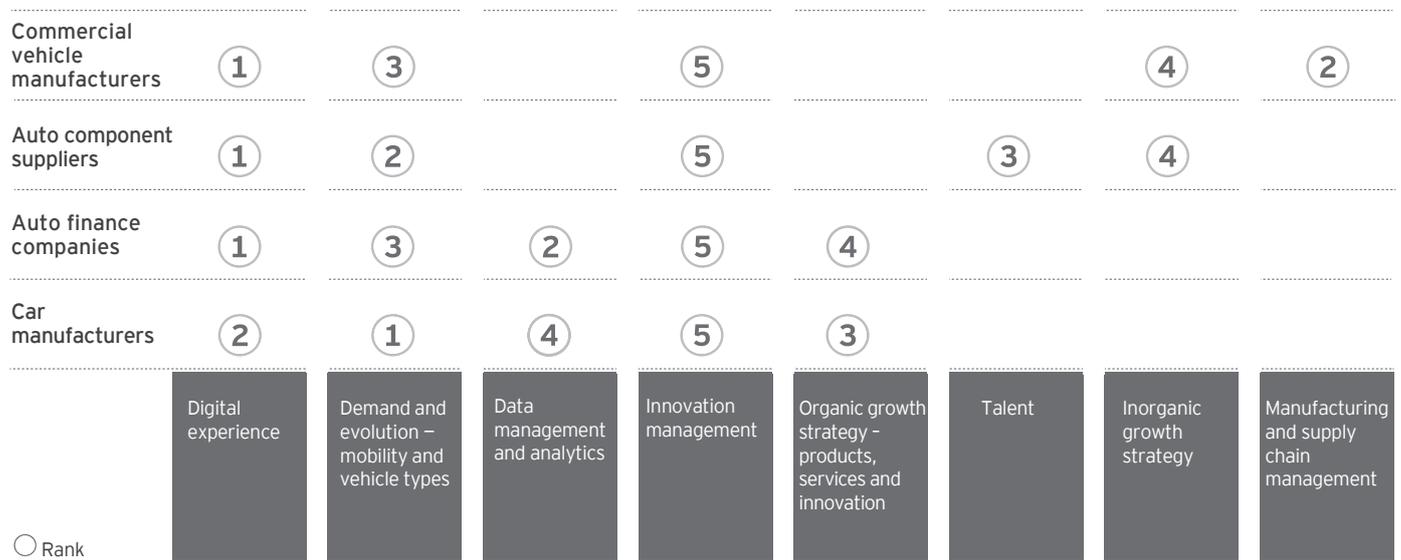
Economic value drivers for the auto industry for the next decade

Our discussions with the automotive C-suite confirms that the factors that will drive economic value in the ecosystem will be very different from the past. Their views for the future recognize the urgency to shift from a product-oriented model in the past to a service- and digital-based business.

The top five drivers of value overall were:

- ▶ Digital experience
- ▶ Demand evolution – mobility and vehicle types
- ▶ Data management and analytics
- ▶ Innovation management
- ▶ Organic growth strategy – products, services strategy and innovation

Comparing the views across subsectors



How the C-suite priorities differ across subsectors

Automaker executives	Demand evolution-mobility and vehicle types and digital experience top the C-suites' agenda. However, they are concerned about demand scenario in emerging markets and evolving product regulations, and are not well-prepared to tackle them.
Supplier executives	C-suite feel well-prepared to tackle core product innovation, and product-related regulations (emissions, safety, etc.). However, concerns exist around demand for disruptive innovation by OEMs and implementing flexible production systems.
Automotive finance executives	They expect regulatory environment to be challenging, but appear well-prepared to tackle it. They are focused on implementing customer data analytics to enable real-time decision-making, and enhancing the digital experience by engaging customers across multiple digital touch points.
Commercial vehicle executives	C-suite believe they are well-prepared to cater to demand for fuel efficiency, safety, vehicle performance analytics and fleet management solutions. They are aiming to strengthen data management across organizations, and talent attraction and retention.

Executive summary (continued)

Overall impact, strategies and preparedness to execute

Living with unpredictability

The automotive C-suite remain concerned about demand unpredictability in developed and developing markets, and forex fluctuations. While regulatory and political uncertainties have taken center stage, few feel their organizations are ready to respond effectively.



59% feel that operating environment is unfavorable.



19% are prepared to respond effectively.

Recalibrating the value proposition

Demand for car sharing, fleet management solutions and integrated mobility services should all drive value for the industry. The automotive C-suite also expect engaging digital customer experiences to support their overall value proposition; however, the overall level of preparedness seems low.



78% feel change in demand is supportive.



19% feel well-prepared to respond.

Moving into the lead

The industry continues to focus on exploiting demand from growing regions. Further, partnerships within and across industries for product innovation and new mobility services are all priority strategic initiatives, but few feel well-prepared.



76% focused on strategic initiatives to enhance value proposition.



20% feel well-prepared to implement these initiatives.

Firing on all cylinders

Capturing the value of data from customer and business processes enables companies to reduce costs and bring more competitive offerings. However, reliance on technology presents the challenges of cyber threat, supply chain integration and effective risk management.



50% aim to decrease costs, while the rest are focused on increasing revenues.



18% are confident in their organizations' ability to execute.

Securing critical resources

The C-suite believe that hiring the right talent is one of the keys to driving innovation. Acquiring and developing technology and differentiated IP are also critical objectives for them. However, securing these core resources is a major challenge.



58% believe critical resources will help drive operational excellence.



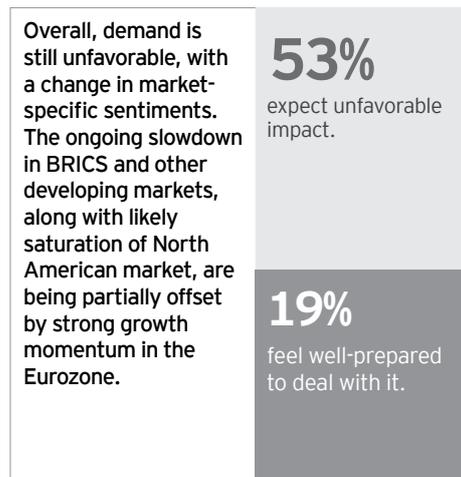
14% are well-prepared.

1. Living with unpredictability

When the future's constantly changing, how do you plan ahead?

C-suite remain concerned about demand unpredictability in developed and developing markets, and forex fluctuations. While regulatory and political uncertainties have taken center stage, few feel their organizations are ready to respond effectively.

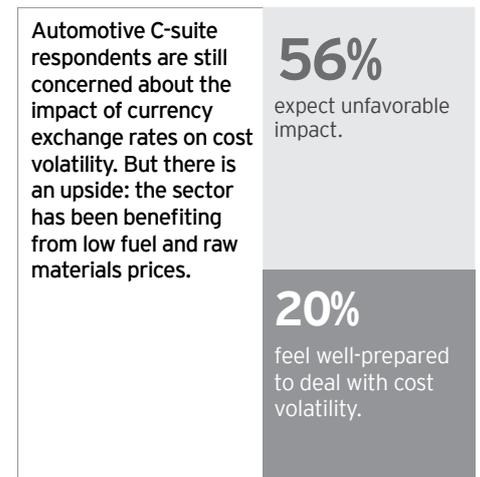
Heightened demand unpredictability



Political and regulatory uncertainty – unstable conditions ahead



Cost volatility – finding a balance?



2/3 of respondents expect increased demand in Eurozone to have a favorable impact (up from 1/3 a year ago and a negative impact from the Eurozone a year ago).

Just **20%** of automotive executives feel well-prepared to meet product-related regulations around emissions and safety, while suppliers are relatively well-prepared (36%).

There is a gap between levels of preparedness in HQs and regional operations. None of the regional executives are well-prepared (vs. 22% of HQ executives).

Doing business in developing markets is becoming more challenging – **83%** identify increased difficulty in these territories, with just **22%** feeling well-prepared to tackle it.

78% expect negative impact from fluctuating foreign currencies – up from 67% a year ago.

55% say there's been a positive impact from raw material prices – up from 33% a year ago.

Key highlights

- ▶ While disruptor companies feel the need to work with regulators on cybersecurity and privacy-related policies, traditional companies are more focused on meeting product-related regulations on safety and emissions.
- ▶ Ease of doing business is a concern for disruptor companies, as they look to have on-the-ground partners and local co-investors.

Bridging the gap – what can the C-suite do?

Target flexibility across their operations to weather the ongoing slowdown in emerging markets, currency volatility and political uncertainties. As product-related regulations become a major concern, the industry would need to adapt processes and product, or services portfolio to meet evolving regulations and enable a holistic regulatory risk management approach.

2. Recalibrating the value proposition

How disruptive is your pace of innovation?

Evolution of mobility demand is seen as the principal value proposition disruptor. Digital is transforming the way society and businesses operate. Overall, the value proposition drivers seem supportive for the industry; however, the overall level of preparedness seems low.

Demand evolution – “access” over “ownership”

The rise of collaborative economy is driving a shift in mobility preferences, with an exponential rise in demand for car sharing (B2C, B2B), fleet management solutions and integrated mobility services.

78%

expect evolution in mobility and vehicle types to support their value propositions.

19%

are well-prepared (vs. 26% a year ago).

Digital experience – evolving paradigms of customer engagement

Digital “everywhere” and “mobile first” cultures are driving the automotive C-suite to focus on developing omni-channel strategies for delivering engaging and differentiated customer experiences. But they’re still not equipped to meet the digital needs of their customers.

86%

expect demand for digital experiences to support their value propositions.

17%

feel well-prepared.

In-vehicle features and functions – what’s in demand?

Advanced connectivity and autonomous driving capabilities are becoming the new value proposition differentiators. At the same time, auto C-suite continue to focus on lower emissions and active safety, to comply with stringent and complex regulatory system.

87%

expect demand for in-vehicle features and functions to support their value propositions.

29%

are well-prepared to offer these (down from 39% a year ago).

85% are encouraged by rising demand for app-based transport and mobility access. But just 15% are well-prepared to handle it.

Automotive finance executives are better prepared than automakers to capitalize on the preference for used vehicles. 40% of auto finance executives identify used vehicles as a source of value for their businesses (vs. 18% of automakers).

88% are in support of using digital to manage trust and complexity. But just 12% of them are well-prepared to do so.

84% of car manufacturers believe that engaging customer experience across multiple touch points is supportive to their value proposition; only 8% are well-prepared.

Executives in regional locations are more focused than their counterparts at HQ on the need to provide an engaging digital customer experience.

80% of car manufacturers believe that autonomous and connectivity features are supportive to their value proposition; 36% are well-prepared. It is noteworthy that Japanese companies believe they are better prepared than the others.

Automotive component suppliers are the most focused on meeting demand for fuel efficiency, lower emissions and safety (54% of them vs. 30% of car makers).

Only **5%** see fuel prices and total cost of ownership as a source of value for their businesses.

Key highlights

- ▶ While automotive finance companies selected demand for app-based transport and mobility access as a top priority and are better prepared to cater to these, fewer car manufacturers picked this.
- ▶ While traditional companies are focused on enhancing digital experience for a seamless customer experience across multiple touch points, disruptor companies are working toward improving the in-vehicle experience.

Bridging the gap – what can the C-suite do?

Adopt a customer life cycle approach to identify touch points to cross- and up-sell. They also need to focus on accelerating transformation to streamline distribution channels and deliver a seamless customer experience across multiple touch points.

3. Moving into the lead

In an industry where collaboration fuels innovation, how can you accelerate high-octane partnerships?

C-suite is aiming to leverage partnerships and collaboration to enhance value proposition; however, few feel well-prepared. Further, auto industry continues to focus on exploiting demand from growing regions.

Market penetration strategies – focus on organic growth

C-suite executives are prioritizing an increased presence in high-growth markets, which also helps them diversify market-related risks.

74%

believe organic growth initiatives will be a source of value.

21%

are well-prepared to implement these strategies (vs. 26% a year ago).

Collaboration for disruption – access to innovation

Collaborations (within and outside the auto industry) are viewed as a significant source of business value – providing access to core technologies, and enabling disruptive innovation and participation in new mobility networks.

75%

of industry executives believe inorganic growth strategies will drive value into their businesses.

13%

are well-prepared to execute these strategies.

Home-grown product/services innovation – too little too late?

Respondents understand the growing importance of digital and omni-channel sales and marketing capabilities. They're also targeting development of integrated mobility solutions.

76%

of executives believe organic growth through home-grown products, services and innovation will bring value to their businesses.

1/3

are well-prepared to deliver.

Most HQ executives (**94%**) identify value in globalization, with expansion in high-growth markets while only **50%** of regional executives feel the same way.

65% executives believe that innovative and successful product and technology launch strategies will help enhance value proposition.

Although **68%** believe that cross-industry partnerships will enhance value proposition, only **9%** are well-prepared.

36% of car manufacturers are considering partnering with other industries to access disruptive innovation. But only 1 in 10 are well-prepared to make this happen.

82% of HQ executives identify business value from partnerships with other industries. Only 38% of regional executives feel the same.

Self-driving vehicles are high up the agenda as a strategic priority. But less than **20%** of car manufacturers appear well-prepared to develop products in this area.

73% believe that integrated mobility solutions will help enhance value proposition while only 12% are well prepared.

Key highlights

- ▶ Automotive finance companies (28%) and component suppliers (21%) are better prepared in terms of their organic growth strategy, compared with vehicle manufacturers (7%).
- ▶ While 24% of tier 2 executives believe that integrated mobility solutions are a top priority, only 10% are well-prepared. On the other hand, 15% of tier 1 executives picked this as a top priority, of which, none are well-prepared.

Bridging the gap – what can the C-suite do?

Create an innovation platform to enhance collaboration within the business and with external partners. They can use need-based and strategic alliances, JVs and acquisitions to gain technology and geographic coverage, and should assess investment opportunities and risks associated with new segments and business models.

4. Firing on all cylinders

How can you use data to improve effectiveness of your manufacturing processes and customer engagement?

Industry executives are split on impact of business process improvements – cutting costs or increasing revenues? They remain focused on leveraging data and analytics for supply chain optimization and risk management. However, few are confident in executing.

Data management and analytics – digital horsepower

C-suite aim to enable real-time decision-making in their organization by accurately capturing and analyzing data from customers and internal processes. However, the survey confirms the looming cybersecurity risks associated with data-led innovation.

55%

executives feel that data management and analytics initiatives will help increase revenues (up from 16% a year ago).

20%

are well-prepared to implement these.

Manufacturing and supply chain management – optimization and flexibility

The industry is focused on optimizing global manufacturing footprint and implementing flexible production systems to decrease operating costs.

67%

believe improvements in manufacturing and the supply chain will help decrease operating costs.

13%

say they're well-prepared to implement these.

Managing risk and quality – better compliance and lower costs

The C-suite believe that implementing quality and risk management and pulling down silos across organizations will accelerate compliance with regulations and meet social responsibility expectations.

79%

believe that quality and risk management can help them decrease operating costs.

19%

feel well-prepared to make improvements in these processes.

Although **50%** of automakers identify data analytics as a top priority, just 13% are well-prepared to implement these initiatives.

1 in 2 car manufacturers are seeking to decrease operational costs through flexible production systems. But only 10% of them are well-prepared to do this.

Of the HQ executives looking to avoid malpractice through improved quality and risk management, just **27%** believe they're well-prepared to implement these initiatives.

While **1 in 4** auto component suppliers are well-prepared in optimizing their global manufacturing footprint, *none* of the car manufacturers are well-prepared to do so.

It is noteworthy that only **6%** of respondents selected IP protection as a top priority.

Key highlights

- ▶ Tier 1 executives are much more likely than tier 2 and 3 executives to attach higher priority to real-time decision-making based on data analytics (55% vs. 35% and 17% respectively).

Bridging the gap – what can the C-suite do?

Build analytics capabilities to positively impact supply chain efficiencies and other key value chain processes. They should consider proactive monitoring of internal data to reveal compliance issues, and integrate big data and advanced forensic analytics to reduce cyber threat, fraud and corruption risks.

5. Securing critical resources

Talent and technology drive innovation – but are you successfully linking them?

Resources such as talent, technology, infrastructure and capital are key to driving operational excellence. But securing these resources presents a major challenge for much of the industry.

War for Talent – driving technology innovation

Ongoing disruption in the automotive sector has sparked a global battle for securing and retaining talent for vehicle innovation, analytics, robotics and cybersecurity. However, few feel their organizations are well-prepared to compete in this arena.

58%

believe that securing talent is essential for achieving operational excellence.

14%

are well-prepared to secure this talent.

Technology and IP – disrupt or be disrupted

In the race to develop autonomous and connected vehicles, the C-suite believe that acquiring and developing new technologies and IP will be key – to ensure business continuity and confront the threat of disruptive competition.

56%

believe that securing technology and IP is essential for achieving operational excellence.

17%

are well-prepared to secure technology resources.

Infrastructure and capital – the framework for excellence

Seeking to expand market share and drive innovation, the majority of C-suite executives expect that cross-border shared service centers and access to financing, distribution and supplier networks will play a critical role.

61%

of executives believe that securing infrastructure and capital will help them achieve operational excellence.

11%

feel well-prepared to secure these resources.

52% respondents believe talent is a critical resource for innovation. Only 14% of them are well-prepared to attract talent.

1 in 3 tier 1 executives feel they're well-prepared to execute innovative HR strategies, while only 10% of the Tier 2 executives feel well-prepared in this area.

While automotive finance companies (**72%**) believe that disruptive technology is essential for business continuity, car manufacturers (**57%**) believe it is important to achieve operational excellence.

While tier 1 executives (**60%**) believe they are well-prepared in acquiring, developing and tackling disruptive technology, only **8%** of the tier 2 executives feel well-prepared.

52% of the C-suite executives believe that financing for R&D and capex investments is essential for operational excellence. Of them, just 10% are well-prepared to secure these resources.

55% of automotive component suppliers selected financing for R&D and capex investments as a prerequisite for achieving operational excellence. Only 9% of them are well-prepared.

Key highlights

- ▶ While tier 1 executives (60%) believe they are well-prepared in acquiring, developing and tackling disruptive technology, only 8% of the tier 2 executives feel well-prepared.

Bridging the gap – what can the C-suite do?

Align business and talent strategies; emphasize on innovative strategies to engage, reward and empower the workforce. They need to look to extend the value chain to new industries for technology and infrastructure, and integrate government incentives, direct loans and guarantees in capital raising strategies.

Key considerations for C-suite

Strategic implications

- ▶ Design new operating models to compete in the new mobility industry
- ▶ Increase adoption of global platforms to drive supply chain simplification and consolidation
- ▶ Adopt customer life cycle approach to identify touch points to cross- and up-sell
- ▶ Create an innovation platform to enhance collaboration within the business and with external partners
- ▶ Improve their ability to interact with customers by gathering, understanding and acting on consumer intelligence

Financial capital and results

- ▶ Integrate government incentives, direct loans and guarantees in capital raising strategies
- ▶ Need to strengthen their reporting processes to demonstrate economic value added
- ▶ Need to identify new metrics for measuring success/performance – fleet utilization, share of customers' miles traveled, revenues per mile, revenues from connected vehicle services
- ▶ Initiate “buy, build or cooperate” discussions with non-traditional suppliers offering new technologies and services

Operational implications

- ▶ Assess readiness to the risk of cyber attacks as digitalization of the supply chain gains prominence
- ▶ Embed program risk management into product development and launch processes
- ▶ Integrate big data and advanced data analytics to reduce fraud and corruption risks
- ▶ Develop a compliance program to guide the organization's decisions and meet regulatory requirements
- ▶ Develop sophisticated supply chain monitoring and transparency capabilities to manage the new technology suppliers entering the automotive industry

Infrastructure and resources

- ▶ Need to attract new talent within each function and invest in protecting intellectual property to successfully transform
- ▶ Leverage the industrial cloud infrastructure to adopt smart manufacturing and capitalize on M2M connectivity, mobile technologies and robotics to build flexibility across manufacturing and support functions
- ▶ Invest in developing strong supply chains for disruptive innovations centered on mobility, connected and self-driving vehicles.
- ▶ Evaluate effectiveness of currency hedging strategies

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The global recession reset the automotive sector landscape. As the sector recovers, automotive companies across the value chain must focus on profitable and sustainable growth, financial and operational stability, investments in new technologies and seizing opportunities in high-growth markets. If you lead an automotive business, you need to anticipate trends, identify their implications and make informed decisions that support your business goals. Our Global Automotive & Transportation Sector enables our worldwide network of more than 13,000 sector-focused assurance, tax, transaction and advisory professionals to share powerful insights and deep sector knowledge with businesses like yours. These insights, combined with our technical experience in every major global automotive market, can help you accelerate strategies and improve performance. Whichever segment of the automotive sector you are in – from component suppliers to commercial or light vehicle manufacturers or retailers – we can provide the insights you need to succeed.

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