Eight mega trends shaping the global light vehicle industry

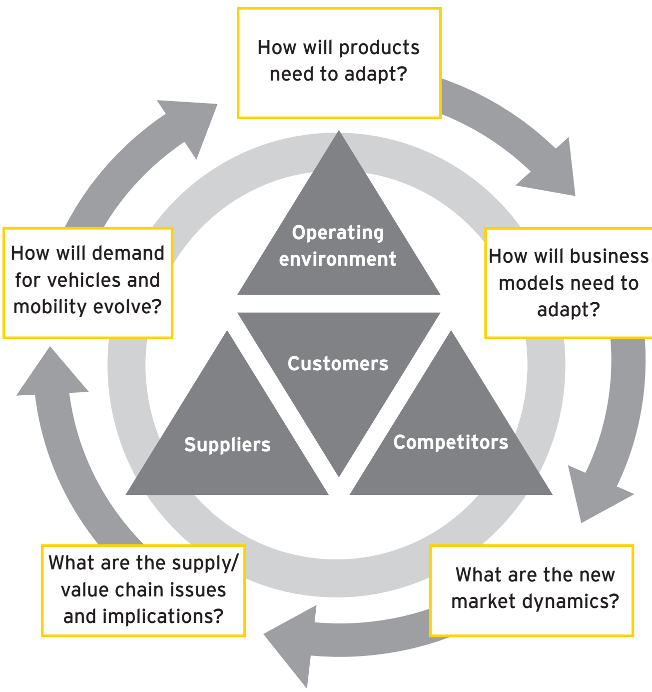
EY

Building a better working world

Executive summary

Stakeholders across the industry are being impacted by fast-changing events across the automotive ecosystem – be it in the operating environment, customer preferences, competition or supply chain.

To prepare for the next decade, automotive companies need to raise the following five questions and assess how well they are prepared to respond to the opportunities and challenges these present:



In answering these questions, EY has identified eight mega trends that will significantly impact the revenues, costs and profitability of the industry during this decade of tremendous change. From the social media phenomenon to structured government initiatives, these diverse trends influence vehicle manufacturers, suppliers and dealers on multiple fronts. To seize the opportunities that lay ahead, players old and new must leverage their ability to innovate and remain flexible. No doubt, it's a new era for the automotive industry.

Among the trends ahead:

1 Governments push for safer, cleaner transportation

Governments are focusing on three areas to secure individual mobility: preservation of resources, environmental compatibility and safety. In response, OEMs will begin to build cleaner, safer and more diverse range of cars, including a variety of zero-emission vehicles. From the customer's perspective, penalties and incentives will influence their decision to own a vehicle and how it will be used. Penalties may include congestion and road user charging, and incentives, such as rebates, will be used to reduce the cost of ownership for zero-emission vehicles.

2 OEMs develop new value propositions to meet shifting mobility needs

Consumers in the developed and developing world have different mobility needs. Continued urbanization is likely to lead consumers in the developed world to seek alternatives to car ownership even as it leads people in the developing world to buy more cars. Car-sharing and integrated mobility businesses will become more popular in developed economies. In the emerging markets, more people will be forced to buy cars simply for transportation, but infrastructure development will not keep up with the demand. In response, the OEMs will need to diversify their portfolios to offer more services (such as car-sharing schemes) and have a wider presence across all the different vehicle segments.

3 New players take the lead in the mobility market

New players will enter the market because of advances in technology and unmet consumer needs. Non-automotive companies are providing services, such as car-sharing, mobility integration, usage-based "black-box" insurance that sets premiums based on real-time monitoring of driving performance, electric vehicle integration and advanced car entertainment systems. The evolution of these new business models brings new entrants into the traditional automotive value chain, adding additional areas of risk and opportunity for OEMs in redefining their business focus.

This is an executive summary of a detailed analysis conducted by EY's Global Automotive Center. Please contact the automotive professionals on the back of this document for more in-depth information.

Mega trends

4 Social media redefines automotive marketing

The traditional means of marketing a vehicle with a 30-second spot displaying a gleaming car on a mountain road has shifted dramatically. In recent years, consumers have had a great deal of information available when they decided to buy a vehicle. The social media phenomenon has brought access to uncensored feedback including other consumers' opinions and perceptions. Buyers' decisions are being influenced by other consumers, influential websites/blogs and news articles — sources that automotive companies cannot control or restrict. At the same time, the new social media platforms make it possible for OEMs to create much closer bonds with customers. Automotive companies, especially OEMs, are gradually recognizing this paradigm shift and using this to their advantage in marketing their products.

5 Collaboration among industry stakeholders

Technology innovations are triggering business changes. OEMs and Tier 1 suppliers are looking to collaborate more than before, not only within the industry, but also with technology companies and telecoms. In particular, they will likely work together to draft standards for emerging technologies, such as common protocols for in-vehicle connectivity and a common battery-charging infrastructure for electric cars. Additionally, OEMs are more willing to share platforms with competitors and focusing on flexible production in order to decrease R&D cost, reduce risk and decrease time to market.

6 Portfolio rationalization among OEMs

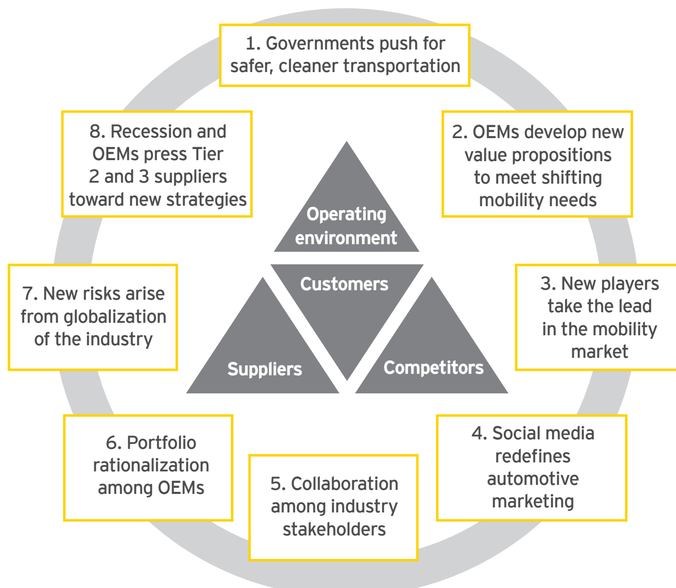
Following the recession, most OEMs in developed countries will be looking for sustainable, profitable growth and not just volume. Yet, emerging market OEMs will be reaching for scale as fast as they can, through acquisitions in either their home market or the developed world to build global brands and establish a global presence.

7 New risks arise from the globalization of the industry

OEMs are being challenged to devise radical operational strategies to tackle the new risks emerging from globalization. From demand – supply misalignment and volatile raw material prices, to changing regulatory policies and shortage of qualified workers in developed markets, the automotive industry's globalization efforts are facing a reality check today. In the face of these risks, the industry must implement mitigation strategies to enable the value chain to be flexible enough to adapt.

8 Recession and OEMs press Tier 2 and 3 suppliers toward new strategies

The dramatic tightening of belts at the OEMs and Tier 1 suppliers exposed the vulnerability of Tier 2 and 3 suppliers, in particular their relatively weak financial health and the absence of product, market and customer diversity. However, rather than simply try to cope with increasing demands to do more with less, Tier 2 and 3 suppliers will need to become increasingly strategic. The winners are likely to jettison non-core businesses for greater profitability and diversify their risks by creating relationships with a range of OEMs, and developing products that can serve customers, even outside the automotive ecosystem.



The global recession reset the automotive industry landscape. As the industry recovers, automotive companies across the value chain must focus on profitable and sustainable growth, financial and operational flexibility, investments in new technologies and on seizing opportunities in high-growth markets.

For more information on the automotive mega trends, contact:

Michael Hanley
Global Automotive Leader
Tel: +1 313 628 8260
Email: michael.hanley02@ey.com

Jeff Henning
Global Automotive Markets Leader
Tel: +1 313 628 8270
Email: jeff.henning@ey.com

Anil Valsan
Lead Automotive Analyst
Tel: +44 20 7951 6879
Email: avalsan@uk.ey.com

Regan Byron
Global Automotive Marketing Manager
Tel: +1 313 628 8974
Email: regan.byron@ey.com

EYG no. ED0087

ey.com