Mega trends shaping the Middle East light vehicle market
What is shaping the Middle East light vehicle market?

Gulf Cooperation Council (GCC)* is the largest economic block in the Middle East, accounting for more than half of the region’s GDP. GCC countries are witnessing strong economic development largely attributable to high oil prices, low interest rates, increased private sector activity and government spending. Light vehicle (LV) sales in the region witnessed strong growth of over 20% in 2012 to touch around 1.5 million units. The industry is expected to continue this upward trend, albeit at a slower pace, over the medium term.

To prepare for the years ahead, automakers and dealerships across the Middle East LV market need to ask themselves the following five questions and assess how well they are prepared to respond to evolving opportunities and challenges:

- How will the demand for vehicles evolve?
- How will products need to adapt?
- How will business models need to adapt?
- What are the supply or value chain issues and implications?
- What are the new market dynamics?

In attempting to answer these questions, EY has identified six mega trends that will impact the revenues, costs and profitability of participants in the Middle East LV market.

*Includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.
Sources: EY analysis, US Census, QNB Capital, and BMI, IMF and EIU
Rising infrastructure spend, buoyant private sector activity and low interest rates to drive growth of LVs
  • High GDP per capita, increased public spend and healthy banking sector help drive growth in LV sales.
  • Global automakers are looking to set up/expand local distribution network and production facilities.

Divergence of demographics and affluence levels drive the demand for premium and entry-level cars
  • Luxury car demand is driven by affluence level, while SUV sales are witnessing strong demand due to large family sizes and a rugged terrain.
  • Youth and expat population drive the demand for small, fuel-efficient cars.

Dealers shift from “product” to “service” mindset amid rising competition and growing consumer expectations
  • Dealers improve the customer's retail experience through employee training and online presence.
  • Premium brand dealers work with automakers to offer greater customization and streamline order-to-delivery process.

Manufacturers and dealers collaborate to optimize parts distribution network and expand the service and maintenance network
  • Dealers increase adoption of IT systems to gain transparency around parts distribution and connect with manufacturer’s system.
  • Dealers set up dedicated service centers that provide options ranging from express service to comprehensive vehicle inspection and maintenance.
  • Automakers, dealers and suppliers cooperate with government to issue regulations and tackle counterfeiting.

Growth in fleet sales and used vehicles creates new opportunities for dealers and finance companies
  • Dealers invest in used car business despite the market being small and unorganized.
  • Finance companies, manufacturers and dealers collaborate to offer customized packages to target fleet buyers.
  • High penetration of vehicle financing attracts attention from captive finance arms of automakers and dealers.

Government incentives, regional demand and raw material availability to drive investment in local vehicle and component manufacturing
  • Favorable investment climate attracts automakers to set up assembly/manufacturing facilities and establish the requisite ecosystem.
  • Manufacturers train local workforce to address skill shortage and comply with labor regulations.

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<th>Key strategies for consideration of stakeholders</th>
<th>Automakers</th>
<th>Dealerships</th>
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<td>Evolution of demand for vehicles</td>
<td>• Introduce small, fuel-efficient vehicles</td>
<td>• Focus value proposition on optimizing the cost and experience of ownership</td>
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<td>• Develop customizable options for fleet buyers</td>
<td>• Expand network coverage to serve the emerging demand centers</td>
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<td>Adapting products</td>
<td>• Adapt products to suit local climate and terrain conditions</td>
<td>• Expand service network and set up express-service facilities</td>
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<td>• Capitalize on the huge potential of vehicle customization</td>
<td>• Enhance customer experience across all touch-points</td>
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<td>• Offer better connectivity solutions within vehicle and train dealers to be able sell them</td>
<td>• Increase focus on vehicle aftermarket</td>
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<td>• Educate fleet owners on telematics and offer low-cost telematics solutions</td>
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<tr>
<td>Adapting business models</td>
<td>• Increase focus on used car business</td>
<td>• Develop dedicated infrastructure for used vehicle refurbishment and sales</td>
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<td>• Introduce captive-finance offerings</td>
<td>• Offer customized leasing and financing solutions</td>
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<td>Addressing supply/value chain issues</td>
<td>• Evaluate setting up manufacturing and assembly facilities</td>
<td>• Establish robust and efficient supply chain networks through use of IT systems</td>
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<td>• Invest in training and upgrading skills</td>
<td>• Collaborate with other stakeholders to keep a check on counterfeit parts</td>
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<td>Preparing for new market dynamics</td>
<td>• Ensure consistently fair pricing across dealerships</td>
<td>• Leverage online presence to share product information and support sales and servicing</td>
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<td>• Synchronize online and showroom experiences</td>
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This is an executive summary of a detailed analysis conducted by EY’s Global Automotive Center. Please contact our automotive professionals (contact details) for more in-depth information.
How EY's Global Automotive Center can help your business

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 implications and make informed decisions that support your business goals. Our Global Automotive Center enables our worldwide network of more than 7,000 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, will help you to 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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