The future enterprise

A transformation road map for the automotive organization
The Fourth Industrial Revolution represents an existential threat to companies in every industry. Automotive incumbents are being challenged to move beyond their traditional business models as the industry changes at warp speed. Traditional players must transform themselves, move into automotive technologies and experiment in new fields of play – adding value to the customer experience and positioning themselves as providers of mobility, rather than solely manufacturers of vehicles.

Original Equipment Manufacturers (OEMs) have been reluctant to take the lead into innovative areas that may cause them to have to face difficult choices in the future. This is mainly because it is hard to anticipate the way the markets will change in today’s volatile and politically increasingly unstable environment but also because automotive incumbents are not set up to deal with exponential growth in new business models.

As OEMs and suppliers focus on the future of mobility – they need to prepare their organizations for this change at a global scale, managing their customer and employee perception in the process.

For some of these organizations, this change may take time. People may not always respond positively to changes to the status quo, and some changes have far-reaching implications that may not be immediately visible.

Our research and survey of C-suite executives of automotive companies, academics and other industry experts revealed a number of themes that are integral to the industry transformation.

With these drivers in mind, and following a broad review of successful organizations, we have set out to map the journey towards becoming the future enterprise.

So how can the industrial entity survive and thrive in the digital world?
Why transform?

There are many drivers pointing towards the need to transform from product to customer centricity:

**Battling to own relationships.** Who owns the customer relationship? This has traditionally been a question for manufacturers and dealerships. Now with new entrants and digitalization disrupting the marketplace and raising the stakes, the new entrants have joined the chase to “own” customers – and gain their attention, revenue and data.

**Digitalization across the value chain.** Owning the customer also means owning ever-rising volumes of customer and vehicle data. For the industry, this is both a game-changing opportunity and a huge source of risk. Ownership brings with it the ability to leverage the data to generate new monetizing streams, create new customer initiatives, improve internal workplace efficiency and much more. However, it also opens the door to cyber risks and privacy issues whose potential threat can truly be existential.

**Securing resources for business continuity.** At a time when innovation in the automotive industry is being driven by disruptive new entrants and their non-traditional activities, vital strategic resources aren’t limited to hard assets such as factories, materials, dealerships and capital. More than ever, incumbents need the key intangibles of talent, knowledge and intellectual property and the ability to adapt it.

**Diverse sources of unpredictability.** Having a presence in most major markets forces industry players to face all sorts of unpredictability. These range from social and demographic forces to economic uncertainty, geopolitical instability, shifting national priorities, protectionism, trade dynamics and income inequality.

**Unprecedented scrutiny.** Pressure from regulators, activist investors, advocacy groups and the public continues to grow on a global scale, placing additional strains on an industry already struggling to cope with transformation. Companies across the ecosystem must deliver higher returns on capital, meet increasingly stringent regulatory standards and provide more transparency on their use of ethical business practices.

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1. For further elaboration of these themes, see Automotive change drivers for the next decade, EY Global Automotive & Transportation Sector, February 2017.
1. Purpose

Our research shows that there is a type of company that is doing better than the rest in thriving in today’s uncertain times. They are the companies that embrace purpose and fully align all that they do in order to pursue it. These organizations, where purpose becomes a driver of strategy and decision-making, report a greater ability to drive successful innovation and ongoing transformation, as well as revenue growth.²

A myriad of ongoing high-profile issues concerning quality control and compliance with environmental, trade and safety regulations has negatively affected customer perception of the industry. This leaves organizations in a grey zone, at a time where a new type of agile player is evolving and thriving in disruption. Manufacturers and suppliers in automotive have an opportunity to restore trust by reorganizing themselves through purpose-led initiatives such as promoting sustainability and, in the process, positively impacting the communities in which they live. They can transform the industry not only by creating next-generation vehicles and mobility services, but also by thinking publicly and transparently about their place and purpose in the world.

There are some examples of OEMs transforming through technology, yet maintaining a focus on people. One even talks about having transitioned from an automotive to a technology company, declaring its employees are no long building cars, they are improving customers’ lives.³

Our research shows however that having a Purpose (see box) doesn’t necessarily make an organization Purposeful. The key to deriving value from Purpose is how well integrated it is within an organization. Integrating Purpose brings benefits, but only talking about Purpose could expose a company to risk.

An expansive definition of purpose

While there can be significant differences in its meaning from one company to the next, an expansive, human-centered, socially engaged definition of capital P Purpose has emerged. Today’s most admired companies, increasingly, are those that have made Purpose their animating, motivating raison d’être. This broad understanding of corporate Purpose is now more widely held than other definitions, including bringing value to customers and benefiting employees, both of which also speak of a company with broader human-centric concerns than simply maximizing shareholder value.

². How can purpose reveal a path through disruption? EY Beacon Institute, 2017.
³. CA Technologies, Automotive Companies are Embracing Digital Transformation, 2016.
While much has been written about the digital transformation of the industry, few automotive companies have fully undertaken the daunting work of actually transforming. Everyone is familiar with Moore’s law and the falling cost of IT. But what caught many industrial companies by surprise was how these newly affordable technologies could be applied to an ever-growing set of use cases across the industrial world. Successful organizations have shifted focus from defending their core business and are moving strongly into a growth orientation by investing in new capabilities and pursuing new business models.

These companies use their stable core as cash flow backbone, invest significantly on new business models and consciously address ambidexterity.

This requires building a platform and enabling new business by focusing on identifying and developing the new competencies necessary to effectively lead in the digital age. This can include techniques like ways of decision-making and co-creation, but also ranges to entrepreneurial spirit and purpose on an individual level. Both current and future leaders should be focused here and supported through facilitated coaching and new ways of learning.

2. Agility – the two-speed organization
Consumers and employees have higher expectations than ever. It used to be that employers selected employees, but today employees select employers. Those organizations that are focused on creating a compelling employee experience are more likely to be successful in securing the right talent.

In this context, the employee experience should be defined broadly and would take into account the physical environment our employees work in, the tools and technologies that enable their productivity, and learning, to achieve their best at work. In our view seven areas can positively impact the employee experience:

- Purpose
- Agility – the two-speed organization
- Employee experience
- Change

A renewed focus on seven core areas can positively impact the employee experience:

- Mind clarity
- Teaming ability
- Digital leadership
- Technology experience
- Performance and rewards
- Physical environment
- Collective purpose

Change management, far beyond the established lean or quality optimization techniques, must become part of the automotive organization’s DNA for the organizational transformation to succeed. Automotive companies should view change management as an ongoing capability. So far, change has been entrenched as a “freeze/unfreeze model.” Change initiatives have traditionally been conceived to manage a financial crisis, a downturn, a specific circumstance, and when completed defined, the new status quo. In the future, areas of faster and slower change need to be defined within an organization.

In the change context, there is a pervasive myth that classifies individuals into a left-brain or a right-brain person. The truth is that both are necessary. With both sides of the brain working together, we are able to function as complex human beings. Likewise, organizations need to harness the powerful combination of analytic and humanistic perspectives to create change. Humanistic approaches to change recognize that people are at the center of change — without people changing their behavior, change is not sustainable.
Creating the future enterprise

Of course, none of these suggestions are necessarily quick or simple fixes to the scaling challenges that the industry faces.

However, they may be a good starting point to creating the transition to a brighter future where OEMs, suppliers and other parties in the automotive ecosystem work purposefully to create sustainable solutions for consumers around the world.
As the world continues to be impacted by globalization, demographics, technology, innovation and regulation, organizations are under pressure to adapt quickly and build agile people cultures that respond to these disruptive forces. EY People Advisory Services believes a better working world is helping our clients harness their people agenda – the right people, with the right capabilities, in the right place, for the right cost, doing the right things.

We work globally and collaborate to bring you professional teams to address complex issues relating to organization transformation, end-to-end employee lifecycles, effective talent deployment and mobility, gaining value from evolving and virtual workforces, and the changing role of HR in support of business strategy. Our EY professionals ask better questions and work with clients to create holistic, innovative answers that deliver quality results.
How EY's Global Automotive & Transportation Sector 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 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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