



AUTOMOTIVE

# KPMG's Global Auto Executive Survey 2010

Industry Concerns and Expectations to 2014

KPMG INTERNATIONAL

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# Contents

Chapter	Page
1 Survey methodology	2
2 Executive summary	3
3 Introduction	4
4 The growth prospect	6
Executive view: volume automaker – Europe	8
Overcapacity is now critical	9
Emerging markets are becoming overbuilt	11
5 The performance angle	12
Executive view: mid-size automaker – US	14
No easy cost savings expected	15
Capital costs to remain high	17
M&A set to grow	18
Debt and technology needs will drive M&A	20
6 Product innovation and consumer change	22
Fuel efficiency and environment top of consumer concerns	24
Low-cost producers to win most market share	26
Hybrid technology rated clear leader	28
Executive view: large Tier 1 supplier – US	30
R&D will win most investment	31
7 Investing in new markets	34
Executive view: diversified supplier – emerging market	36
BRIC sales forecasts continue to grow	37
Smaller emerging markets to gain	40

# Foreword



**Dieter Becker**  
Global Chair, Automotive  
KPMG ELLP

KPMG's Global Auto Executive Survey 2010 was conducted at the end of a historic year for the auto business. The intensity of the crisis that engulfed the entire industry can hardly be underestimated.

Last year we surveyed an industry that had been plunged, very suddenly, into total uncertainty. As one of the large automakers interviewed as part of this year's report said, "a year ago we were in the middle of nowhere ... anything was possible."

This crisis was in part a consequence of success. Auto products are better than they have ever been: with today's high levels of reliability and longevity, many customers can defer the purchase of a new vehicle. So when confidence collapsed on a global scale at the end of 2008, that is exactly what customers did. Sales plummeted in almost every market, while financial conditions became intolerable even for companies with moderate levels of indebtedness. The destruction of large segments of the world's auto industry – and other industries too – became a real possibility.

As our survey records, the industry is already on the way out of that period of crisis. Confidence is higher, while growth and new investment are back on the agenda.

But more striking is the record of auto industry caution that the survey depicts. We have come a long way, respondent companies are saying, but we have a lot further to go. In particular, we note that many companies are saying that overcapacity is still at very high levels – respondents believe it is significantly higher than last year, despite a year of closures and bankruptcies – and the consequence is that much of the expected restructuring of the industry may still lie in the future.

And there are huge technology challenges to be met. Last year companies told us that fuel efficiency and emissions improvements were top of their agenda. This year they are still top of their agenda.

Meanwhile, companies face the challenge of financing the cycle of innovation – and let us not forget that we are still in the middle of a rapid innovation cycle – while consumers feel they are poorer than before, and less inclined to spend. That, say our respondents, means that companies are likely to have to compete on technology and on cost. That is a tall order.

Meeting that challenge inevitably means more change – more change in the structure and in the practices of the auto industry. If anything is clear from what respondents are saying to us today, it is that change has only just begun.

# Chapter 1: Survey methodology

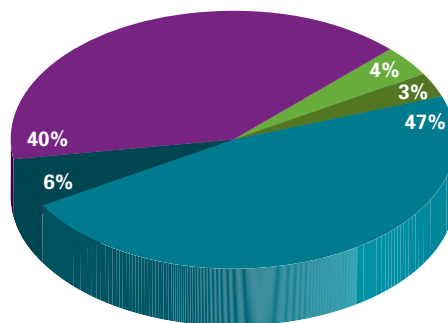
KPMG’s Global Auto Executive Survey 2010 is the 11th consecutive annual survey of senior global auto executives carried out by KPMG International. This year the survey is more extensive than in previous years: 200 respondents from 24 countries took part in the survey between mid-September and early November 2009, including companies in the Americas, Asia Pacific, Europe, Africa and the Middle East. All survey questions relate to the coming five-year period, extending to 2014, unless specifically stated otherwise.

Each year we ask executives to describe themselves and their companies. In earlier surveys automakers and suppliers describing themselves as Tier 1, Tier 2 and Tier 3 companies participated. However, the increasing difficulty of finding a large sample of Tier 3 suppliers that are of sufficient size to participate in the survey (with revenues in excess of US\$100 million) meant that in last year’s survey no respondents chose to describe themselves as Tier 3 suppliers, and results from Tier 2 and Tier 3 suppliers in data from earlier years were grouped together. In the current survey KPMG restricted the survey to Tier 1 and Tier 2 suppliers. In almost all cases this permits direct year-on-year comparisons of results from Tier 1 and Tier 2 suppliers – in only one case (noted in the text), comparative data from 2007 includes some results from Tier 3 suppliers.

In last year’s survey a number of questions were restricted to regional companies. In the present survey all companies were offered the opportunity to respond to all questions, irrespective of the region in which the company was headquartered. The result is a greatly expanded sample base throughout the current survey.

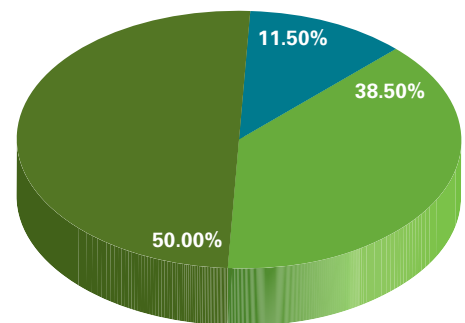
Some questions elicited no response from some respondents; therefore total results may be less than 100 percent.

**Survey participants by job title**



- CEO/President/Chairman
- C-level Executive
- Business Unit Head/Functional Head
- Business Unit Function Management/Leadership Team
- Business Unit Functional Manager

**Survey participants by company type**



- Vehicle manufacturer
- Tier 1 supplier
- Tier 2 supplier

## Chapter 2: Executive Summary

### Key results

Expectations of emerging market performance and auto investment accumulation have strengthened considerably.

Overcapacity is still seen to be very high over the five-year period in the Americas, Europe and Japan; M&A activity is expected to be strong.

The long-term investment focus remains on new products and new technologies, especially fuel efficiency.

### The growth prospect

All emerging economy regions are expected to contribute growth: not only Asia excluding Japan, but also Eastern Europe and Russia.

Growth expectations for Western Europe are low, and lower still for both Japan and North America.

The industry still believes that overcapacity in the established manufacturing “triad” – North America, Europe and Japan – remains very high.

Companies also have strong concerns over the emergence of automotive overcapacity in the BRICs. Concern is highest in Russia but companies also believe that the automotive industry in Brazil will be overbuilt in the near to medium term, and that China and India will also have significant overcapacity not much later.

### The performance angle

Profitability expectations have fallen. Respondents believe best performers will be companies able to leverage the whole of the supply chain, with higher profits expected of automakers, and the lowest expectation for Tier 3 suppliers.

Companies expect financial conditions to improve, but only moderately, with conditions better for consumers than for companies.

Expectations for M&A have risen, marginally, from an already high level in the preceding year, with the exception of the dealer business, where after a year of closure and rationalization companies now see M&A falling back.

Companies expect to find fewer cost-saving opportunities in existing businesses.

### Product innovation and consumer change

New products and new technologies have moved higher in the ranking of concerns from an already high leading position.

Fuel efficiency and the environmental profile of products continue to be considered by companies the most significant consumer buying issues.

Chinese and Indian brands remain in the top three places in terms of expectation of market share gain, but conviction is slightly lower than last year. Two significant winners of market share competition are seen as Hyundai/Kia and VW.

Companies in all three global regions cite exactly the same three vehicle types as top market share gainers (hybrids, other alternative-fuel vehicles and low-cost introduction cars).

Alternative propulsion technologies are the key technological focus for companies. Electric power ranks only just behind hybrid power developments and battery and fuel-cell approaches are ascribed almost equal priority.

Companies say they will direct most investment capital to technology and new model development. New plant building is accorded very low priority.

### New markets

Companies are nearly unanimous in expecting emerging markets to build most automotive capacity and to provide the most growth in automotive revenues. The majority of companies surveyed say they intend to increase their investments in the BRICs.

Expectations for both domestic and export Chinese sales have increased.

The consensus view of companies on sales growth in Brazil, India and Russia is also strong, although Russian export potential is not rated so highly.

Beyond the BRICs companies expect strong demand growth and auto investment in South East Asia and in Eastern Europe.

Top-rated individual destinations for auto investment beyond the BRICs are Ukraine, Thailand and Mexico.

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## Chapter 3: Introduction

Last year's KPMG Global Auto Executive Survey reported on an industry falling into crisis. Sales were collapsing, growth expectations were swinging from positive to negative, investment schedules were being torn up, and for more than one large company, bankruptcy loomed.

This year, we report on an industry that has confronted the crisis, and has just begun to emerge into a landscape of greater stability. In many ways the crisis was much worse than the gloomiest predictions. Bankruptcy became a reality for a number of large automakers, as demand fell further and faster than expected, and as the ability of indebted businesses to finance themselves simply evaporated.

Yet the worst was avoided. Exceptional government intervention helped to shield the industry from the worst of the fall in demand, and allowed some companies to begin to rebuild themselves behind the wall of temporary bankruptcy. Above all, the sudden loss of confidence in demand and growth in the big emerging economies was counteracted by an equally sudden resurgence, as it became clear that emerging world growth was much more resilient than pessimists feared. The stabilization and subsequent recovery of asset prices against a background of less volatile energy costs helped immeasurably.

But we are left with a world that has changed: a deep restructuring of the automotive industry has begun, and continues. One dimension of this has been a significant transfer of automotive technology to the emerging world. Existing producers with lower costs have seen their businesses strengthened. And with a global market that has clearly shrunk, many established producers are having to confront the fact that competition for sales is likely to be much, much tougher in the next few years than any time in the last two decades.

As one European automaker interviewed for this report commented: "this last year has made us confront reality".



## Chapter 4: The growth prospect

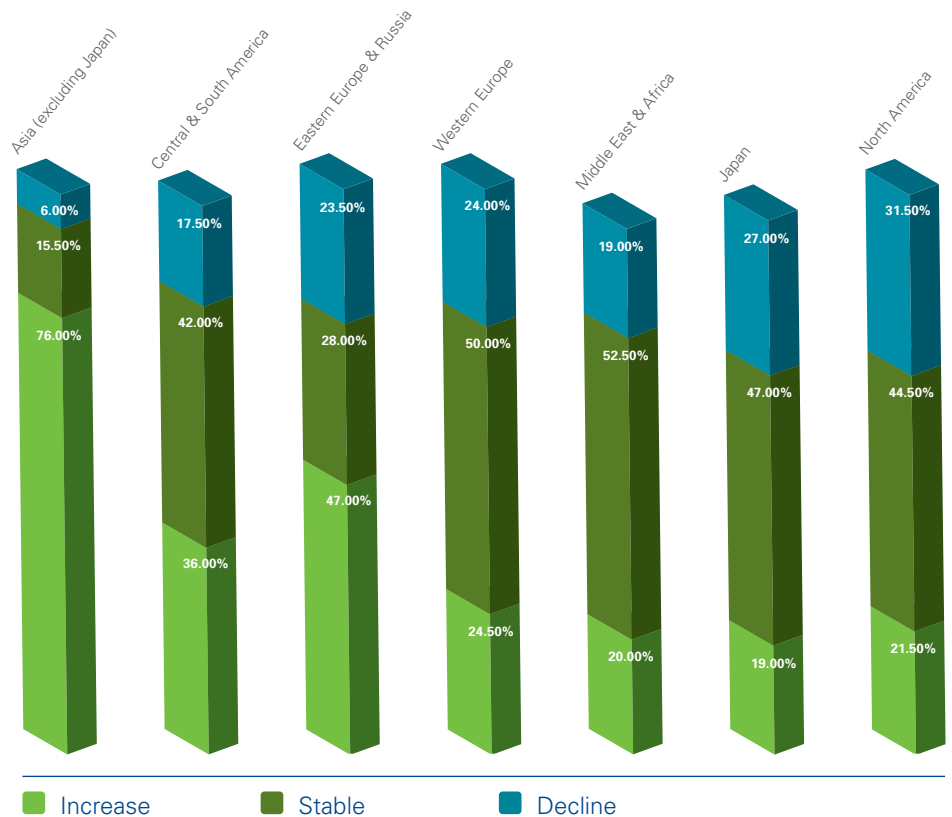
The current survey shows that the gradual reorientation of growth expectations away from the mature economies and toward Asia and other significant emerging economies has passed a tipping point. Although previous surveys show that companies have consistently been forecasting a decline in the growth trend for some years, the great majority of companies now locate all their significant growth expectations for the next five years in the emerging world.

All emerging economy regions are expected to contribute growth: not only Asia (excluding Japan), but also Eastern Europe and Russia. The balance of expectations for Western Europe is now even between companies expecting some decline and companies expecting some improvement (most expect little change), but the balance is negative for both Japan and North America: more companies now expect decline in those regions than expect improvement.

On a regional basis, pessimism on revenues in the Americas is strongest in European and Asian companies. Companies in the Americas are slightly more positive both regarding their own region, and on growth prospects in Asia.

### What are your forecasts for auto industry revenues in the following regions and countries?

- Growth expectations largely geared to Asia
- Eastern Europe shows second biggest increase
- Biggest declines seen in North America and Japan

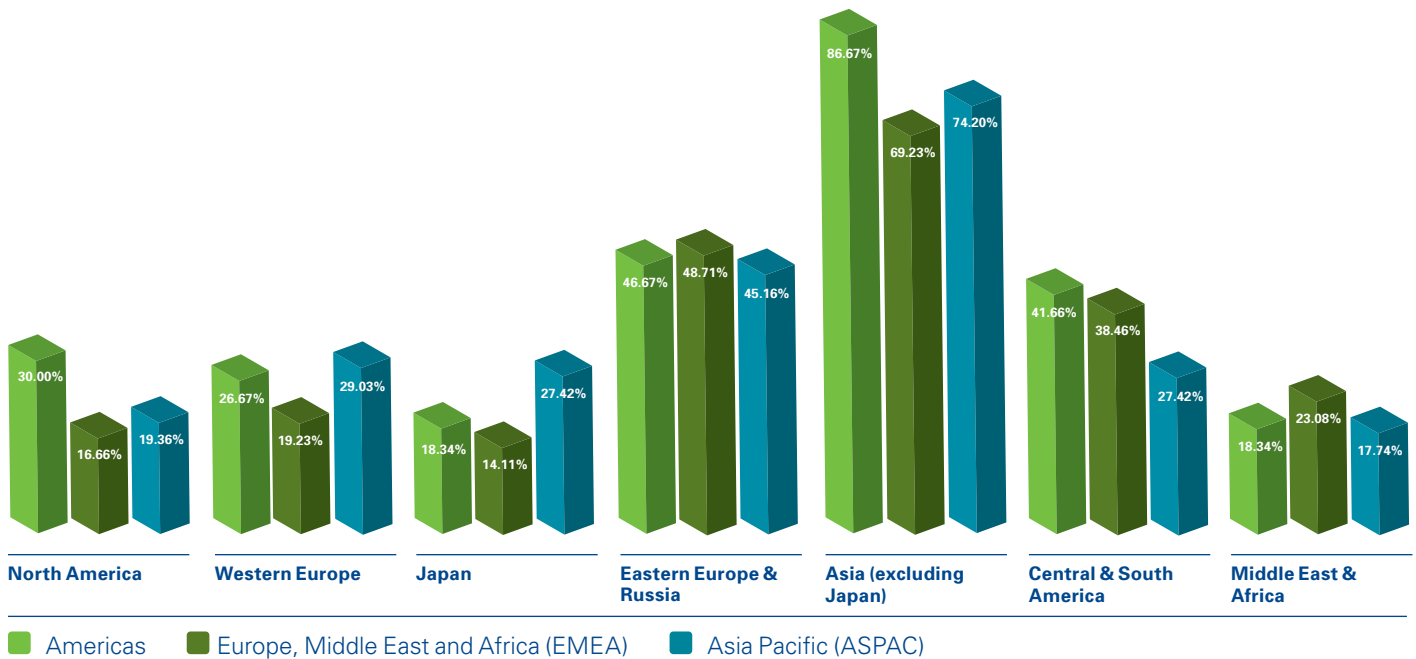




### What are your forecasts for auto industry revenues in the following regions and countries?\*

- Companies in the Americas most optimistic on emerging economy growth
- Japan rated lowest growth market by EMEA companies
- Broad regional consensus on high Eastern European and Asian growth

\* Percentage of companies expecting improvements



## Executive view: volume automaker – Europe

This Europe-headquartered global automaker with significant manufacturing and sales in all regions of the world says that more than ever the key to success is product excellence.

“My confidence level has increased significantly in the last 12 months. A year ago we were in the middle of nowhere – not just in the auto industry; it applied to all businesses. Nobody knew what the next 24 months would bring. Anything was possible. But now we have some clarity.

Consumer demand has recovered better than we expected a year ago. It is still going to take a long time to recover fully, but the important thing is that recovery is predictable.

I share the general faith in demand from the emerging markets. From the consumer point of view these markets are simply better placed than the US or Europe or Japan. In the past these economies were highly dependent on foreign direct investment for their growth, but now they are generating their own trade surpluses, they have growth that is not investment-dependent, and some of them are still benefiting from very low interest rates.

So the emerging market economies will be fairly positive over the next one to two years. The question is, what does this mean for autos? We've seen a huge increase in demand over 2009, but for the near future I am more doubtful about auto demand. I don't expect a collapse, but incentives like we have seen in China and Brazil cannot continue forever.

As for the global picture, I think the next five years are going to see the industry challenged to compete both on technology and on cost. In technology we have a huge challenge ahead of us, especially in CO<sub>2</sub> reduction where expectations are enormous. And on the cost front there is no reason to expect our mature-economy consumers to become very much wealthier over the next few years, so there is also going to be a strong focus on affordability.

The last year has shown us that the winners in tough situations are always the companies with strong products at affordable cost. If you have weak products you are going to suffer even with a good cost situation. That is irrespective of segment or market”

# Overcapacity is now critical

For several years KPMG’s Global Executive Auto Survey has asked companies about their perceptions of overcapacity: the extent to which the manufacturing capacity of the industry is overbuilt is a key determinant of profitability now and the likely path of restructuring through mergers, acquisitions and divestments in the coming five years. In the current survey these questions were expanded to provide an insight into industry perceptions of regional overcapacity. (It is worth noting that these questions on overcapacity relate to long-term capacity: companies were asked to rate levels of overcapacity over a whole business cycle, and not just overcapacity in relation to the current year’s market).

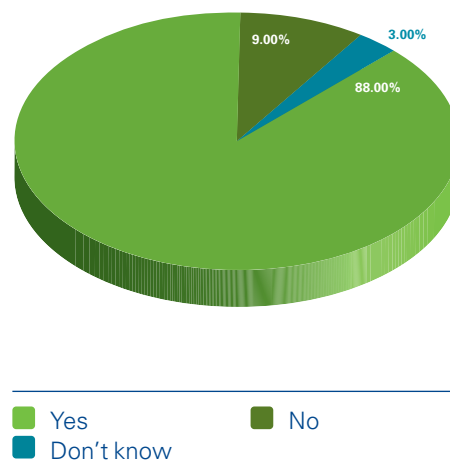
The result is one of the most striking in the survey. After a year of unprecedented change in the structure of the auto industry, one in which automakers – including the large US manufacturers – and suppliers closed capacity around the world, the industry still believes that overcapacity in the established manufacturing “triad” – North America, Europe and Japan – remains very high.

Companies see more overcapacity in North America than in other regions, but in all cases the majority sees significant overcapacity.

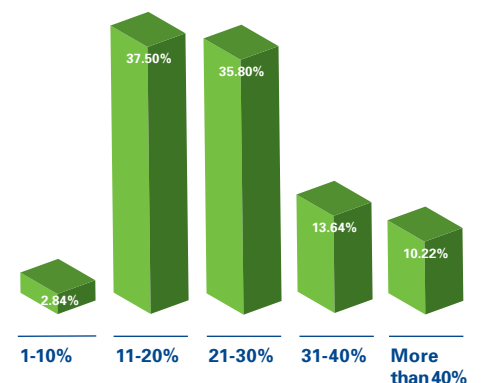
Those companies that do see overcapacity, are more likely to rate the level of overcapacity higher in North America than elsewhere, with a consensus of around 25 percent overcapacity, although a significant minority see higher levels – one in ten companies thinks overcapacity in North America is more than 40 percent, for example.

## Is there automotive overcapacity in North America today?

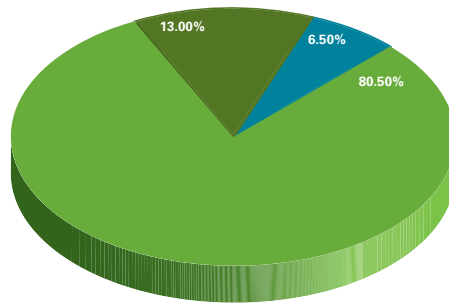
- North America seen as most overbuilt
- Perceptions of 20 percent plus overcapacity have risen strongly year-on-year



## How much?

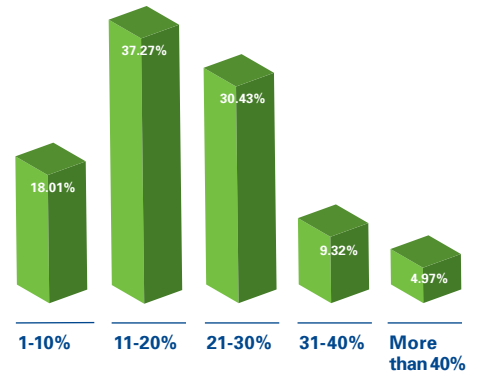


### Is there automotive overcapacity in Western Europe today?

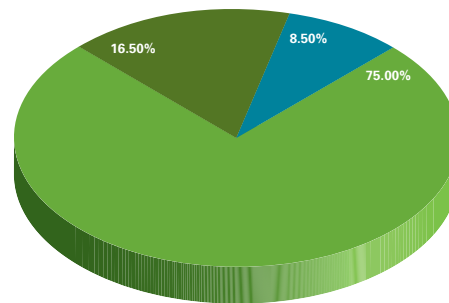


■ Yes      ■ No  
■ Don't know

### How much?

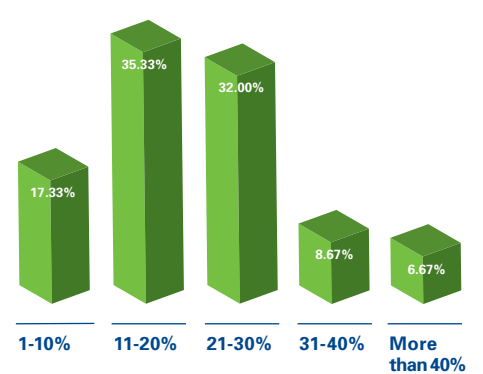


### Is there automotive overcapacity in Japan today?



■ Yes      ■ No  
■ Don't know

### How much?



# Emerging markets are becoming overbuilt

Given the high level of expectation of revenue growth in the BRICs and the high level of expressed intentions to build investment in those economies, the fact that companies also have strong concerns over the emergence of automotive overcapacity in the BRICs is striking.

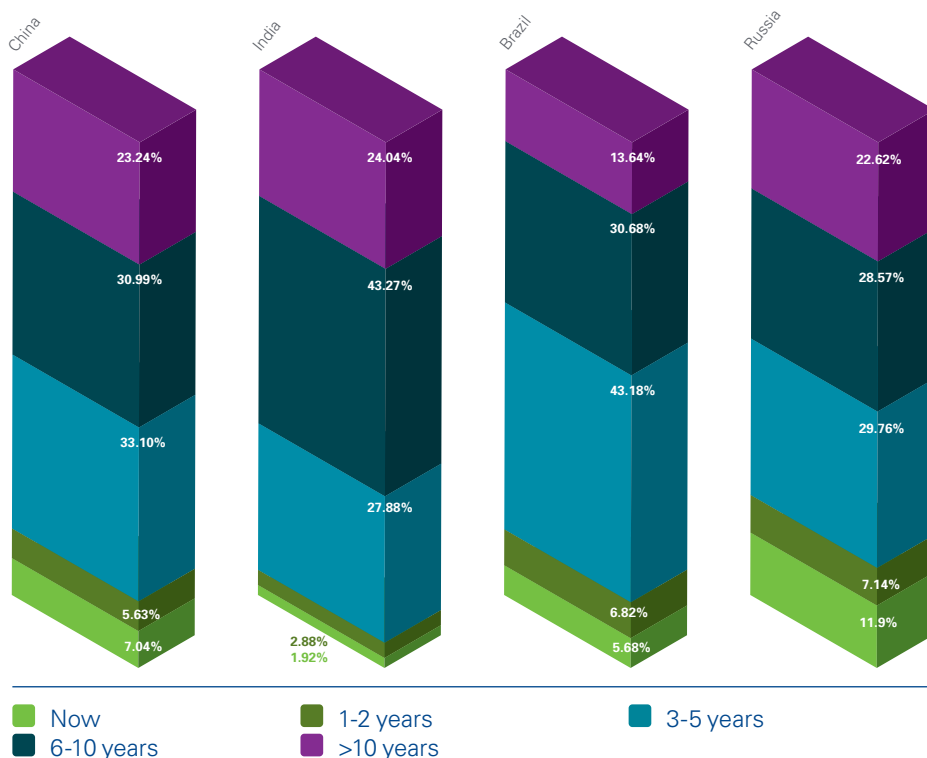
Companies believe that the automotive industries in both Russia and Brazil will be overbuilt in the near to medium term, and that China will also have significant overcapacity not much later. Concern over

near-term capacities is highest in Russia, where almost 12 percent of companies think that overcapacity is already emerging and 19 percent believe it will emerge within two years.

However, it is worth noting that it is not irrational for companies to plan investment in locations where they believe overcapacity is emerging: more efficient manufacturers can always utilize fully their own investments and make profits in an overbuilt economy.

## When do you expect overcapacity in the BRICs to become a serious issue?

- Overcapacity not confined to 'triad'
- Russia seen as most overbuilt in the short run
- Brazil seen as most overbuilt in five year forecast



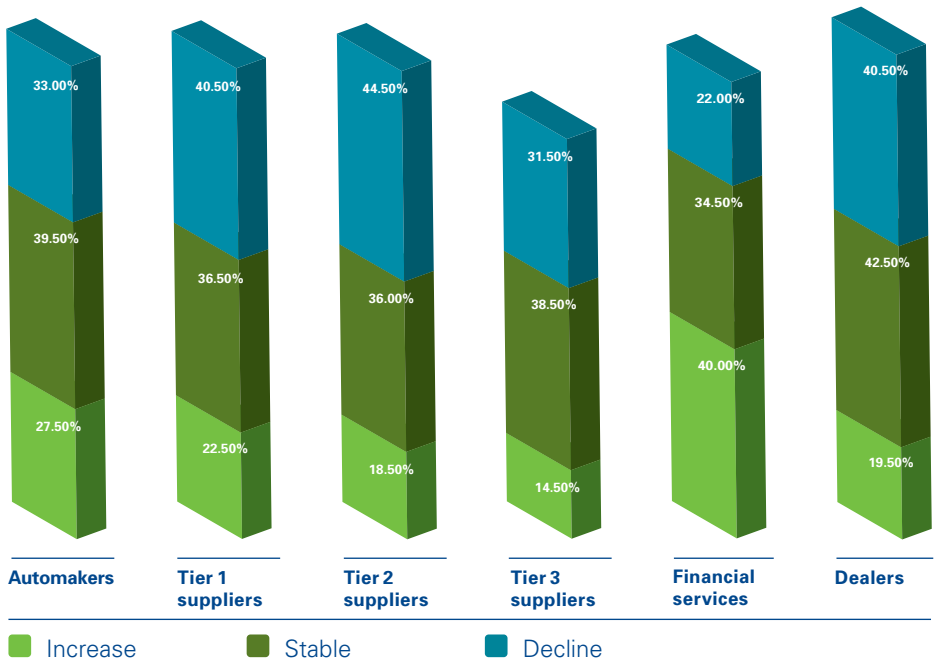
# Chapter 5: The performance angle

Who will best be able to make profits against this background of falling revenue expectations? Industry expectations of profitability by company type over the next five years are strikingly negative – especially when companies are asked about the profitability of their own type of company. Overall, it is unsurprising that in an era expected to be highly competitive

companies believe that higher profits will accrue to companies better able to leverage the whole of the supply chain, with higher profits expected of automakers, and the lowest expectation for Tier 3 suppliers. On a regional basis, profitability corresponds roughly to revenue expectations, with the best outlook in ASPAC.

## How profitable do you think the global automaking, supplier and dealer industries will be over the next five years?

- Financial services seen as most profitable
- Tier 3 suppliers expected to show lower profitability
- Profitability expected to decrease along value chain

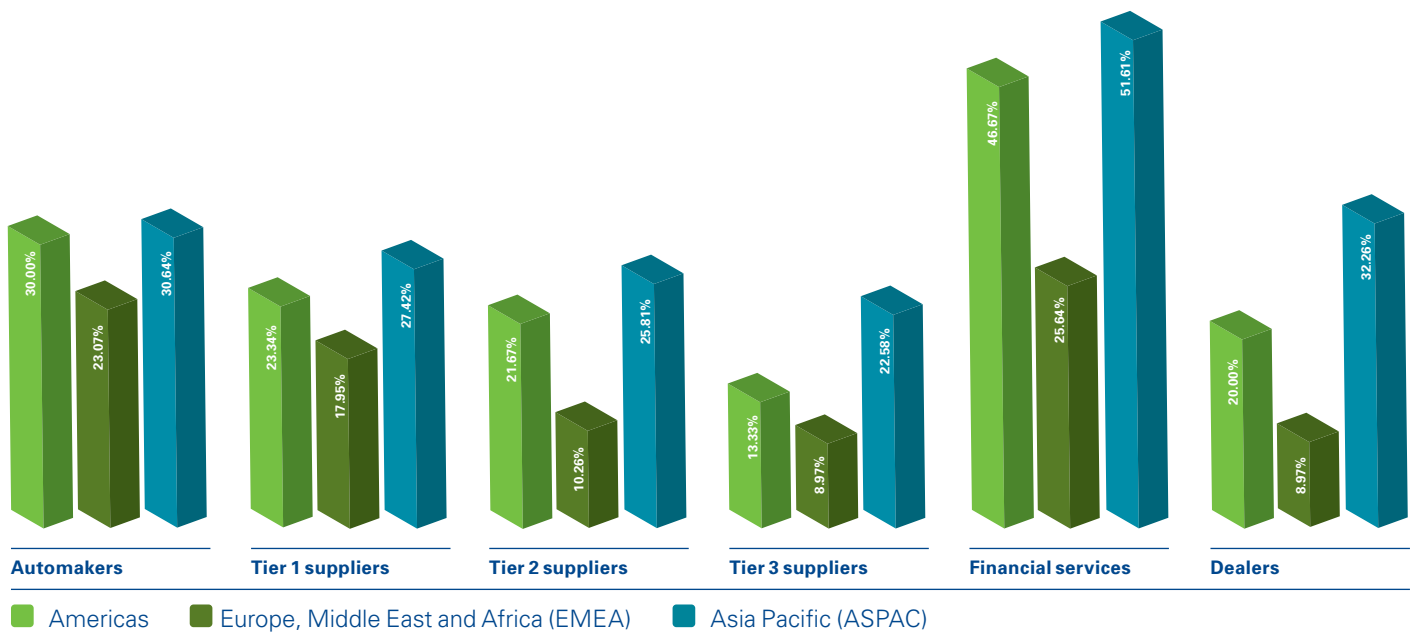




### How profitable do you think the global automaking, supplier and dealer industries will be over the next five years?\*

- EMEA profitability expectations lowest
- Across the whole value chain ASPAC expectations highest

\* Percentage of companies expecting improvements



## Executive view: mid-size automaker – US

This subsidiary of a Japanese-owned global manufacturer remains extremely cautious about long-term sales and profit prospects.

“Over the last year my confidence level has not improved much. Unfavorable fundamentals in the market have been with us for some time now, but if anything it is getting harder for people to sustain their spending. No, I’m not much more confident.

We have cut capacity. Perhaps not as much as we should have done. If it weren’t for our contract with the United Auto Workers we would have done a lot more. We have changed the product mix as well – the old big SUV products, for example, are just not viable any more. Our competitive offers now are in compact and crossover vehicles. When we started developing small SUVs people thought we were crazy – but now we are developing crossovers that are even smaller, and people understand what we are doing. These are the cars people want.

The government assistance scheme in the US certainly had an impact, although of course it was not as great as we might have hoped. Whether a company benefits from a cash assistance program like that depends a lot on the level of inventory it holds. We gave up on the strategy of holding high inventory and waiting for a miracle a long time ago – but when “cash-for-clunkers” came in, we just didn’t have the inventory. The Koreans on the other hand do hold very high inventories, so they had a home run.

When the cash assistance scheme ended, sales plummeted. There just isn’t the natural demand in the market. So it is going to be a very difficult 12 months, at least. But we are going to have to grow our way out of it. Government can’t go on making sales for us.

Growth is the challenge, and that means investment is the challenge. When you look at the return on a dollar of investment in China or in India, and you look at the return in the US, the US does not look attractive. So the future is going to be all about operating more efficiently. We just cannot afford to waste money on anything inefficient.

The winners from what has happened in 2009 will be primarily the Korean companies. They have the lowest cost of production in the US. That means they can profit in this very weak market. But Japanese companies also have low costs – lower than the domestic US makers, even after all the restructuring. The Japanese also have the culture, the camaraderie and the dedication on the factory floor. If the domestic US automakers cannot reproduce that, they will never prosper.”

# No easy cost savings expected

Falling expectations of both revenues and profitability over the next five years imply a continued intense concern with cost-saving opportunities. Yet in the current survey the overall picture is that company expectations of finding cost-saving opportunities have fallen somewhat: in particular, there is less expectation of finding savings through overhead cost-reduction and supply chain innovation, and more interest in implementing advanced IT in design. There is a low expectation of finding savings through cutting wage costs (the opportunity for making savings in

white-collar salaries is higher – this year’s survey is the first in which companies have been asked to distinguish between wage and salary savings opportunities).

On a regional basis (results not shown in chart) ASPAC companies are more likely to view new design technologies as a cost-saving opportunity. Companies in the Americas are clearly more concerned than other regions about salary costs and see this as a cost opportunity, while European companies continue to focus more on low-cost country sourcing.

## What are the cost-saving opportunities for auto manufacturers and suppliers?\*

- Cost focus shifts away from restructuring
- Increasing number of companies believe supply chains are fully optimized
- Computer modelling rated sharply higher

\* Percentage of companies seeing cost-saving opportunities by year

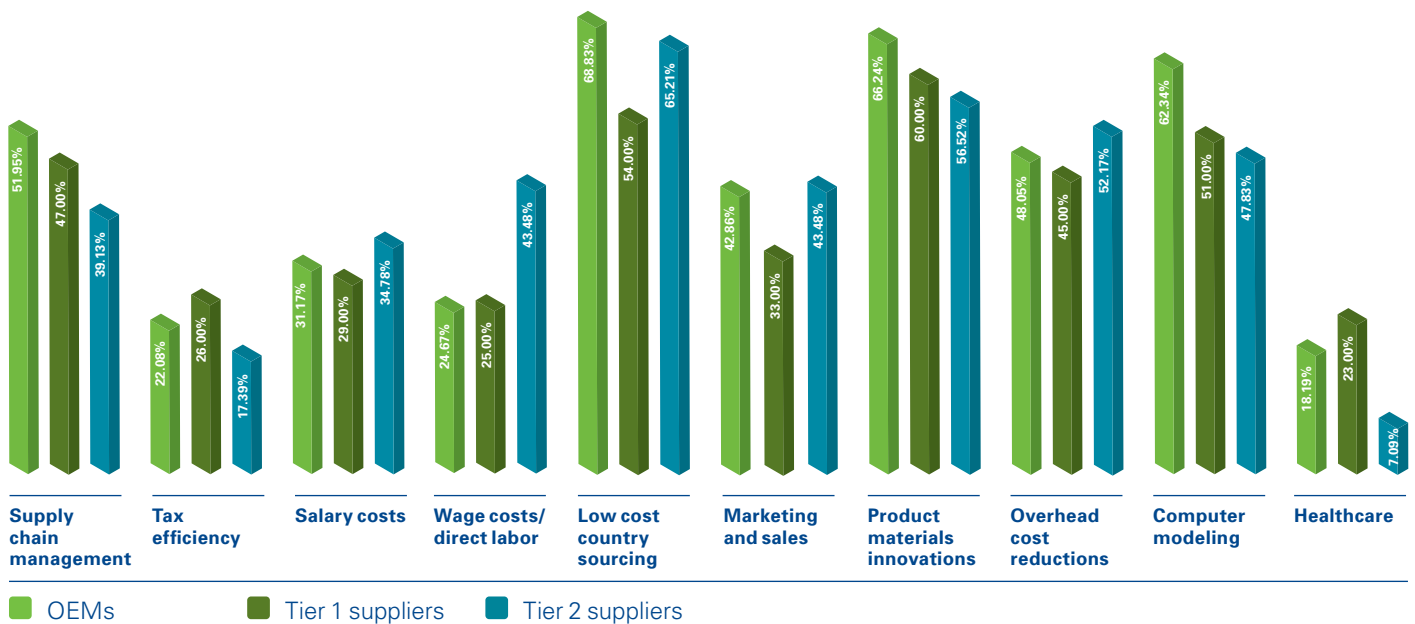




### What are the cost-saving opportunities for auto manufacturers and suppliers?\*

- OEMs see higher cost saving opportunities
- Materials innovation, computer modeling and low-cost sourcing top opportunities for OEMs
- Tier 2 suppliers most likely to cut labor costs
- Wage and benefits cost opportunities rated low by most companies

\* Percentage of companies seeing cost-saving opportunities



# Capital costs to remain high

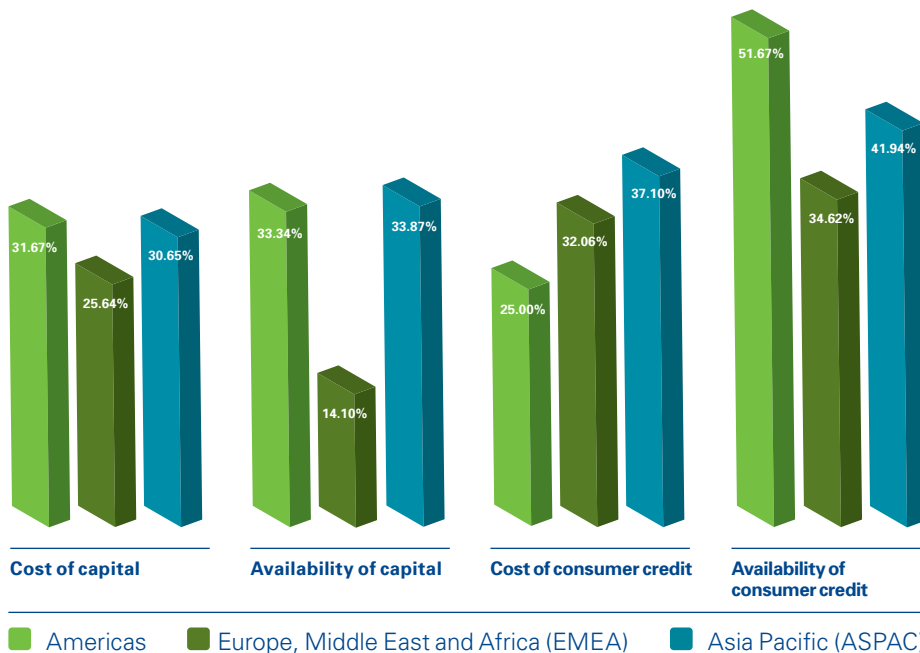
The sudden contraction in late 2008 in the availability of capital for consumers and companies, and the increase in borrowing costs which remain high despite low policy interest rates, have been key components of the auto business crisis of the last year. In the current survey, companies were asked for the first time how they expected financial conditions for consumers and companies to evolve.

The chart shows company expectations of improvement. They expect the improvement to be less apparent in corporate financing than in consumer financing, and European companies are most pessimistic about an early return to easy finance.

## How do you expect financial conditions to evolve in the next 12 months?\*

- Companies expecting financial improvement outnumber those expecting decline
- EMEA companies most pessimistic on corporate financing

\* Percentage of companies expecting improvement



# M&A set to grow

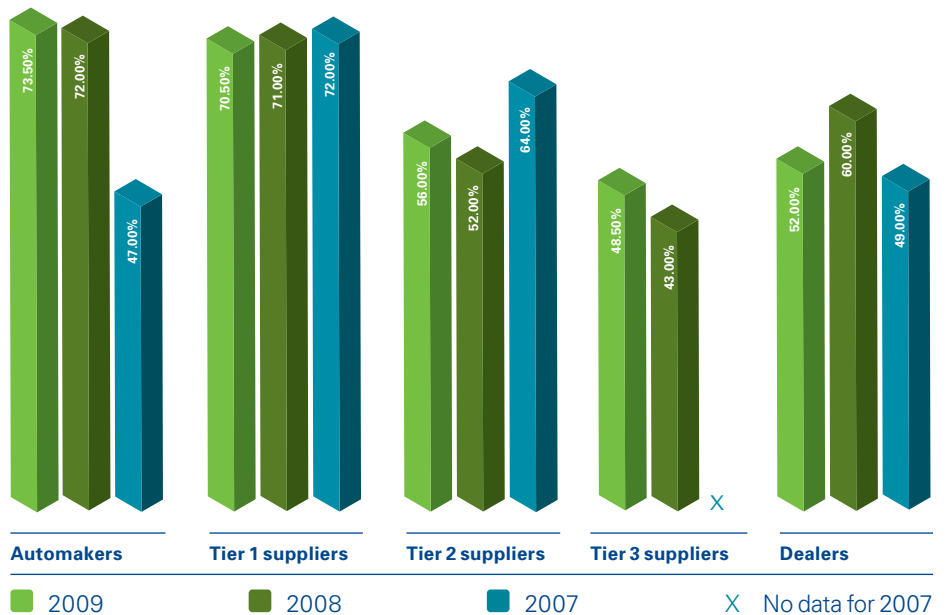
Perceptions of a continued high level of overcapacity in the face of a diminished consumer market imply continuing merger and acquisition activity. The results in the current survey show that expectations for M&A have risen, marginally, from an already high level in the preceding year – although interestingly the one exception to that rising expectation is in the dealer business, where after a year of closure and rationalization companies now see M&A falling back.

M&A is also expected in growth markets as well as in stagnant markets: companies believe that the rate of M&A will not only be high in the Americas and Europe, but also in Eastern Europe and in Asia. Companies appear to be telling us that M&A may be driven by high growth as well as by overcapacity in the mature economies. Expectations for Japan are lower, but still highly significant given the historically low rate of M&A activity in Japan.

## How will M&A in these types of companies develop over the next five years?\*

- Expectations of OEM M&A growth stay at last year’s high levels
- Increasing expectation of M&A growth for Tier 2 and Tier 3 suppliers
- Only dealer M&A set to fall back

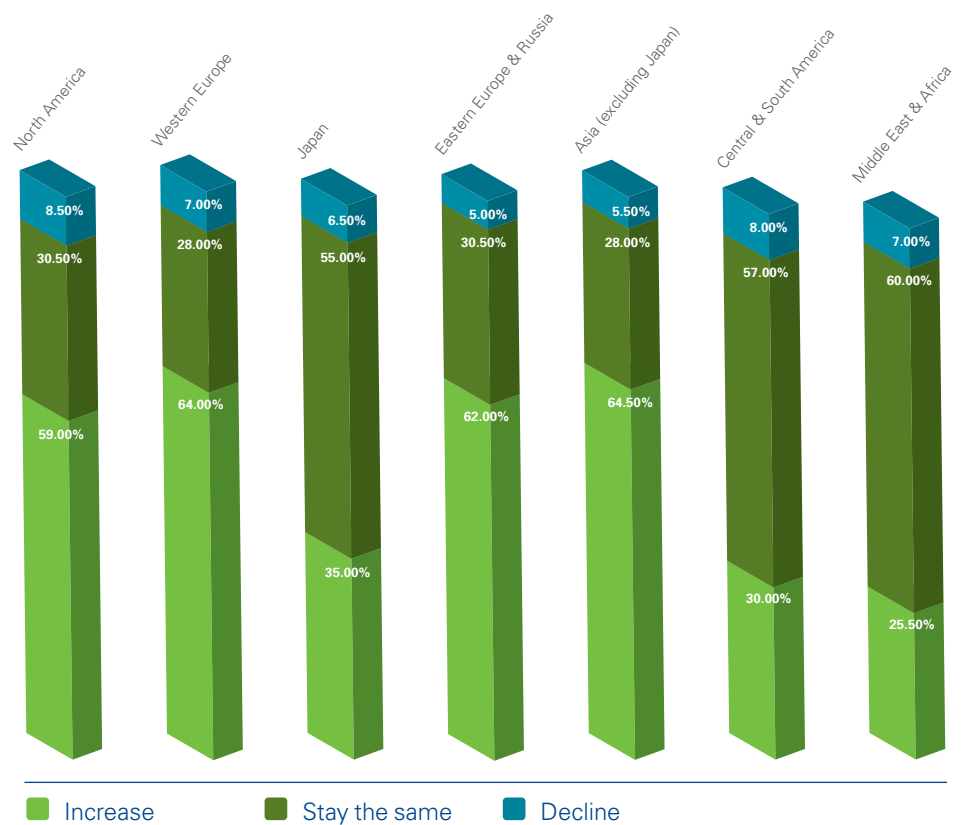
\* Percentage of companies expecting increase





### How will M&A in these regions develop over the next five years?

- High expectations of Eastern European and Asian M&A
- Less than one in ten companies expect M&A to decline anywhere



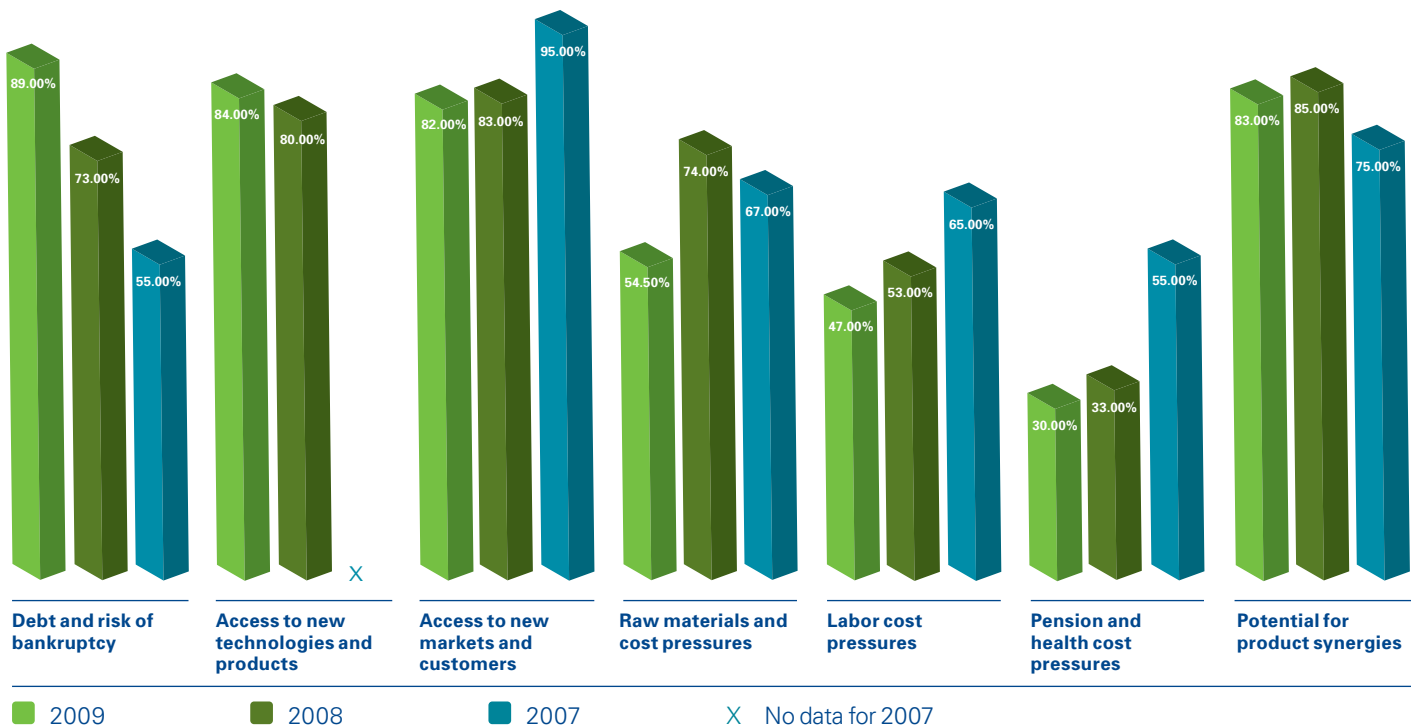
# Debt and technology needs will drive M&A

Companies believe that a rising rate of M&A will be driven partly by crisis factors, and partly by the long-term imperative of finding and developing new technology solutions for a changing market (the continued high stress that companies place upon new technology development is explored further in chapter 6 of this survey). So both debt and new

technologies rise in companies' ratings of the drivers of M&A, while access to raw materials is seen as less important against a background of falling raw material prices during 2009. Pension and labor costs fall further from an already low position in companies' ratings of M&A drivers.

## What will drive M&A over the next five years?

- Indebtedness now seen as top driver of M&A
- All cost pressures now seen as less significant

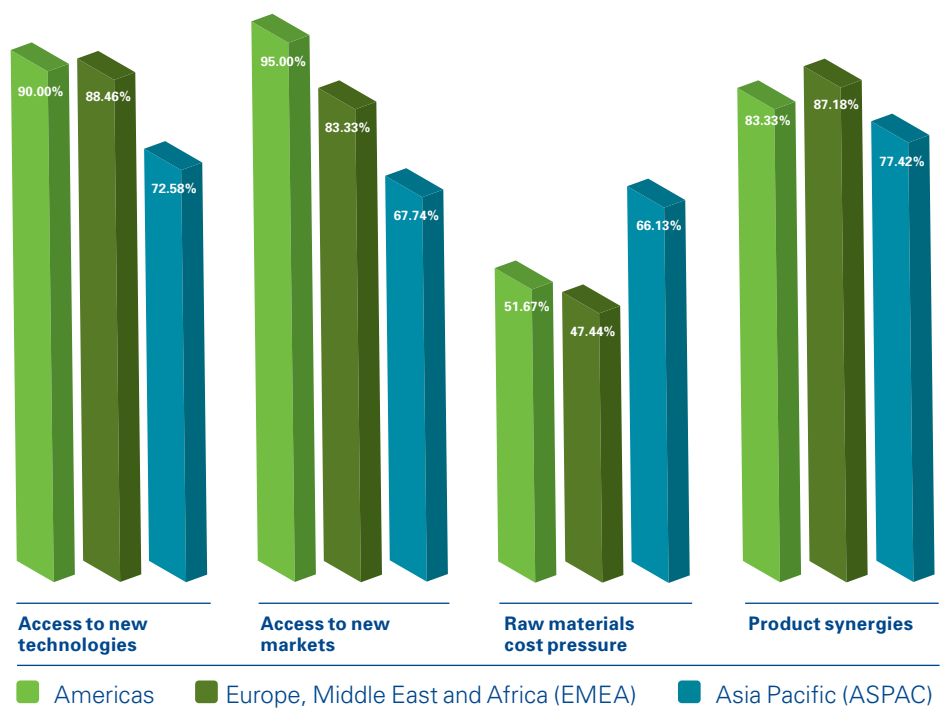




### What will drive M&A over the next five years from a regional perspective?\*

- Americas and EMEA level of global consensus on M&A drivers is high
- Americas companies more concerned with market access
- ASPAC more concerned with raw materials cost pressure

\* The four largest regional disparities shown



## Chapter 6: Product innovation and consumer change

When asked about their long-range priorities, automotive companies have consistently told KPMG’s Global Auto Executive Survey that their highest-ranking concerns are with new technology and new products. That remained the case in the current survey: both new products and new technologies have moved higher in the ranking of concerns from an already high leading position in last year’s survey.

Cost reduction has moved slightly lower, and, interestingly, in a reversal of trend environmental issues are now accorded slightly less weight than in last year’s survey, suggesting that companies believe they have already made significant environmental advances. Managing labor relations remains a low priority.

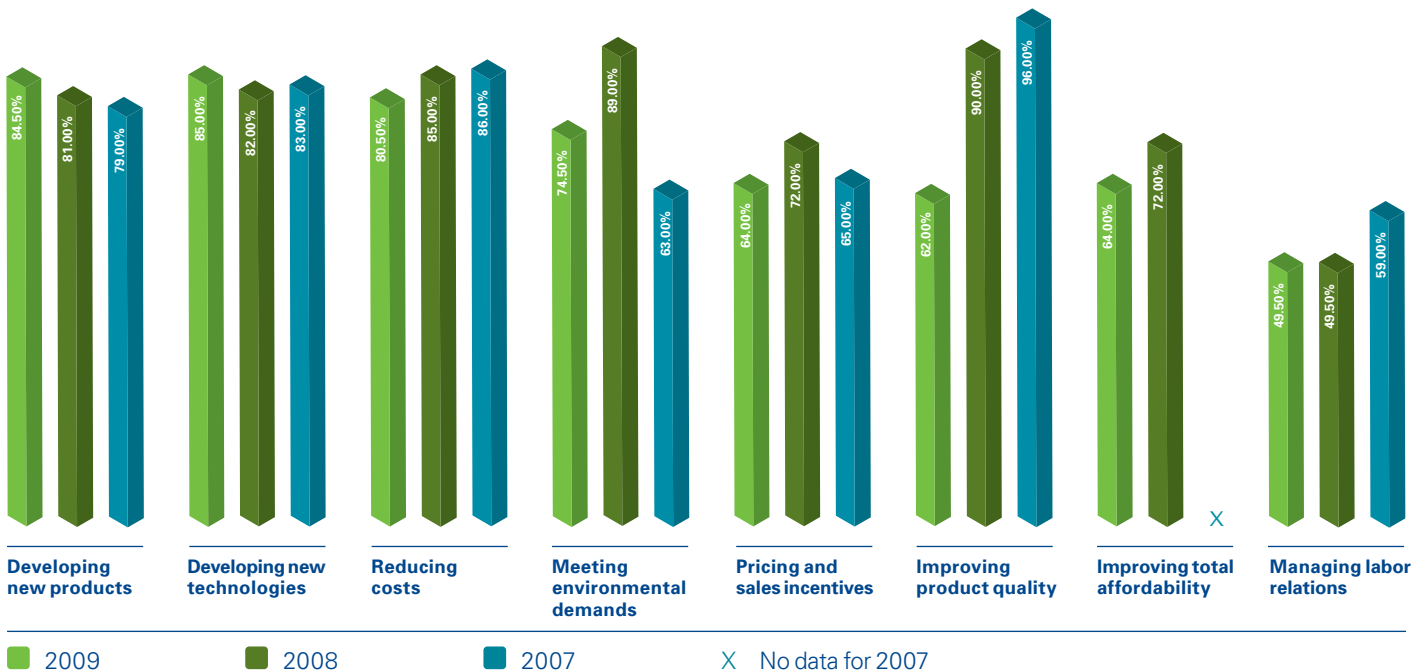
Regional results show very similar patterns, suggesting as in earlier surveys that the broad shape of priorities remains the same in all regions of the world: auto companies tend to take a global view.

But there are differences – ASPAC companies are markedly more concerned than others with managing labor, and markedly more concerned with product quality (the proportion of ASPAC companies rating it “very important” as against “moderately important” is high). ASPAC companies are also more concerned with pricing, while companies in the Americas and in Europe prefer to prioritize total affordability.

### How important today are the following issues to the global auto industry?\*

- Companies are shifting focus from quality improvement to new products
- Total affordability and pricing seen as less important than innovation
- Environment falls in rating for first time in three years

\* Percentage of companies rating issues as important

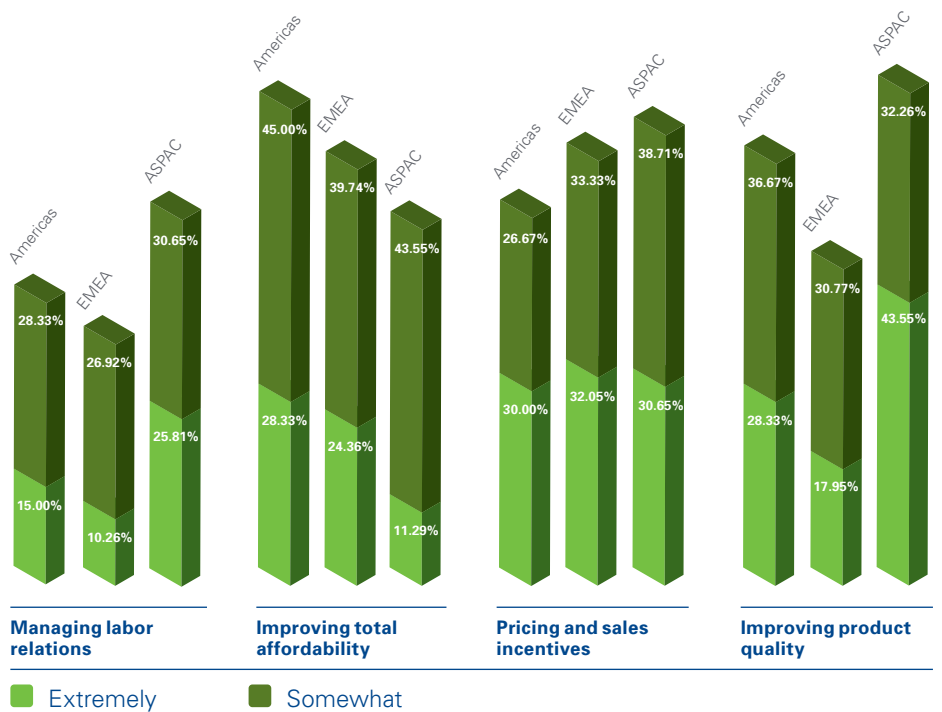




### How important today are the following issues to the global auto industry?\*

- Asian companies least concerned with total affordability, most concerned with quality
- EMEA companies give low rating to quality improvement
- Affordability a leading issue for companies in the Americas

\* The four largest regional disparities shown



# Fuel efficiency and environment top of consumer concerns

In qualitative interviews which accompanied the preparation of the current survey, companies repeatedly stated that they believe that adaptation to changing consumer demand will be an important key to survival in the coming five years. The survey questions on drivers of consumer buying give an insight into just how companies will do that.

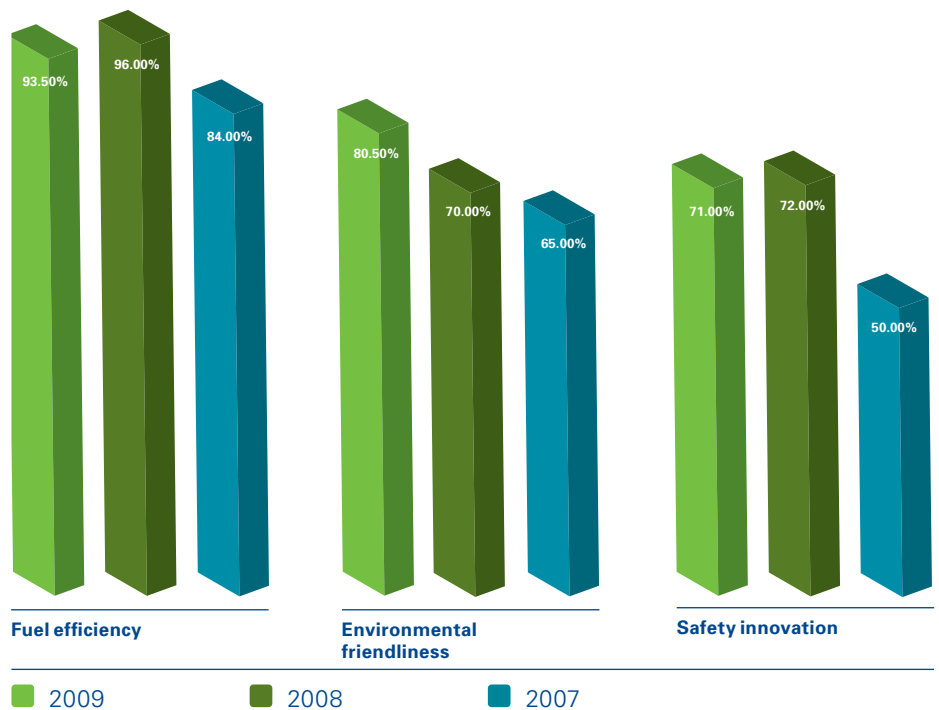
In the current survey fuel efficiency and the environmental profile of products continue to be considered by companies the most significant consumer buying issues. But on a regional basis it is clear that consumer concerns are believed to differ: the high rating accorded to safety is due to ASPAC companies citing this issue – and on all issues ASPAC companies are more

inclined to rate consumer preferences as “very important” than are companies in other regions. The relatively low priority ascribed to telematics is consistent with results last year – globally, telematics received the highest number of “not important” scores. Overall, the efficiency of vehicles is believed to dominate consumer concerns.

## How important are these product issues to consumer purchase decisions over the next five years?\*

- Fuel efficiency top concern over last three years
- Companies think consumer concerns on environment continue to rise

\* Percentage of companies rating issues as important (the top three issues shown)

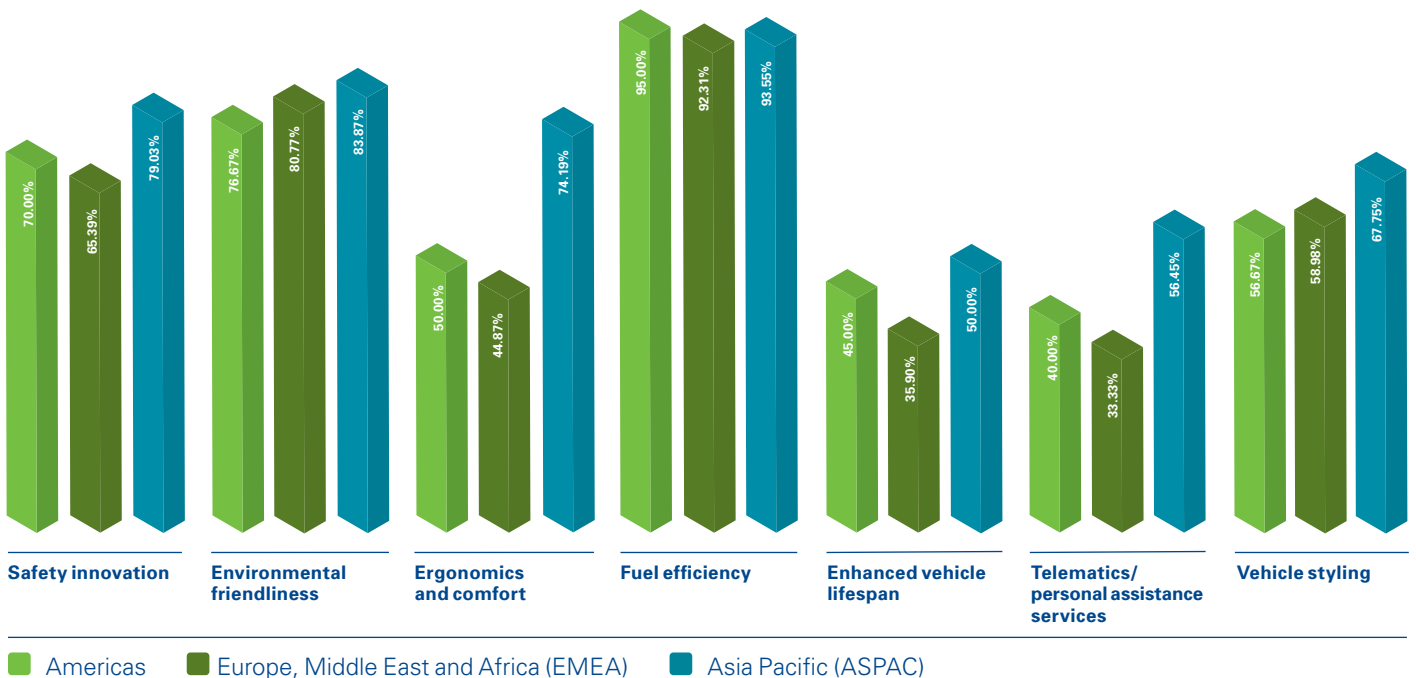




**How important are these product issues to consumer purchase decisions over the next five years?\***

- Asian companies now rate styling, comfort and safety significantly higher than others
- Asian companies also most likely to rate environment as top consumer concern
- Fuel efficiency for all regions most important

\* Percentage of companies rating issues as important



# Low-cost producers to win most market share

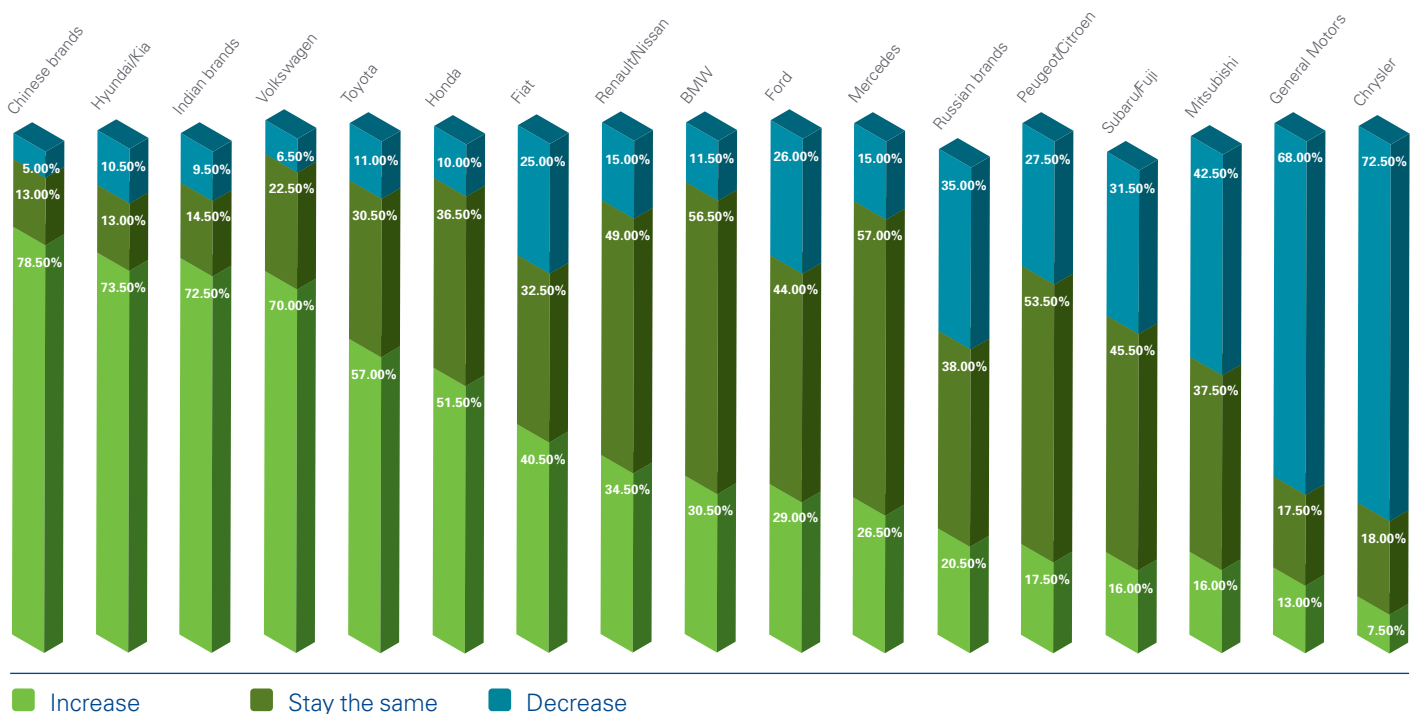
Company expectations of market share gain and loss have changed in significant ways. Chinese and Indian brands remain in the top three places in terms of expectation of market share gain, but conviction is slightly lower than in last year's survey. Both Toyota and Honda are expected to win market share at a lower rate than in previous years, and there has been a fall in expectation for Russian brands. Overall we note that the top six rated companies have either very strong cost or product advantages, or both.

Two significant winners emerge in year-on-year comparisons: Hyundai/Kia is one – a result that may reflect the success of Korean automakers in profiting from government sales subsidies during 2009 – and VW is the second. Market share gain expectations for the big three US makers remain low and Chrysler has fallen further, although Fiat, now the key actor in Chrysler's immediate future, is rated higher in terms of market share prospects than in the previous year.

Both Mercedes and BMW are also seen as better placed to win market share, both companies having defied expectations of a collapse of premium vehicle sales.

## How will market share by company change in the next five years?

- Low cost makers in top three places
- Toyota and Honda fall in ratings for first time in three years
- VW seen as strongest European OEM, Ford as strongest US OEM

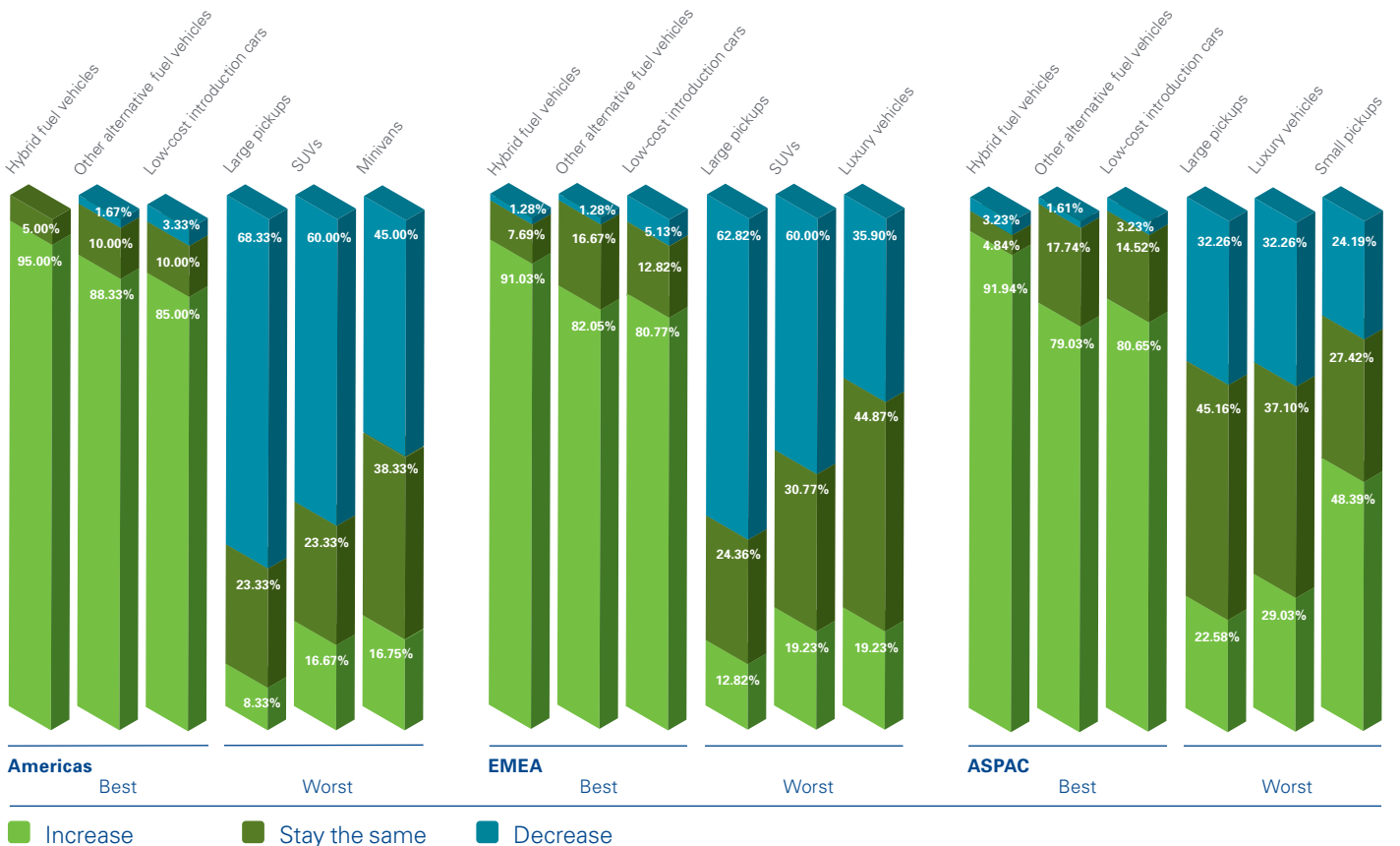


Expectations of the performance of sales by vehicle type show a remarkable degree of consensus: companies in all three global regions cite exactly the same three vehicle types as top performers (hybrids, other alternative fuel vehicles and low-cost introduction cars). Expectations of declining sales performance are perhaps not surprisingly focused on larger and more inefficient vehicles, although it is notable that companies in the Americas do not cite luxury vehicles in their “bottom three”.

### How will sales by vehicle type change in the next five years?\*

- Hybrids, alternative fuel and low cost vehicles lead in all regions
- Inefficient vehicles to lose most sales

\* Regional best and worst performers



# Hybrid technology rated clear leader

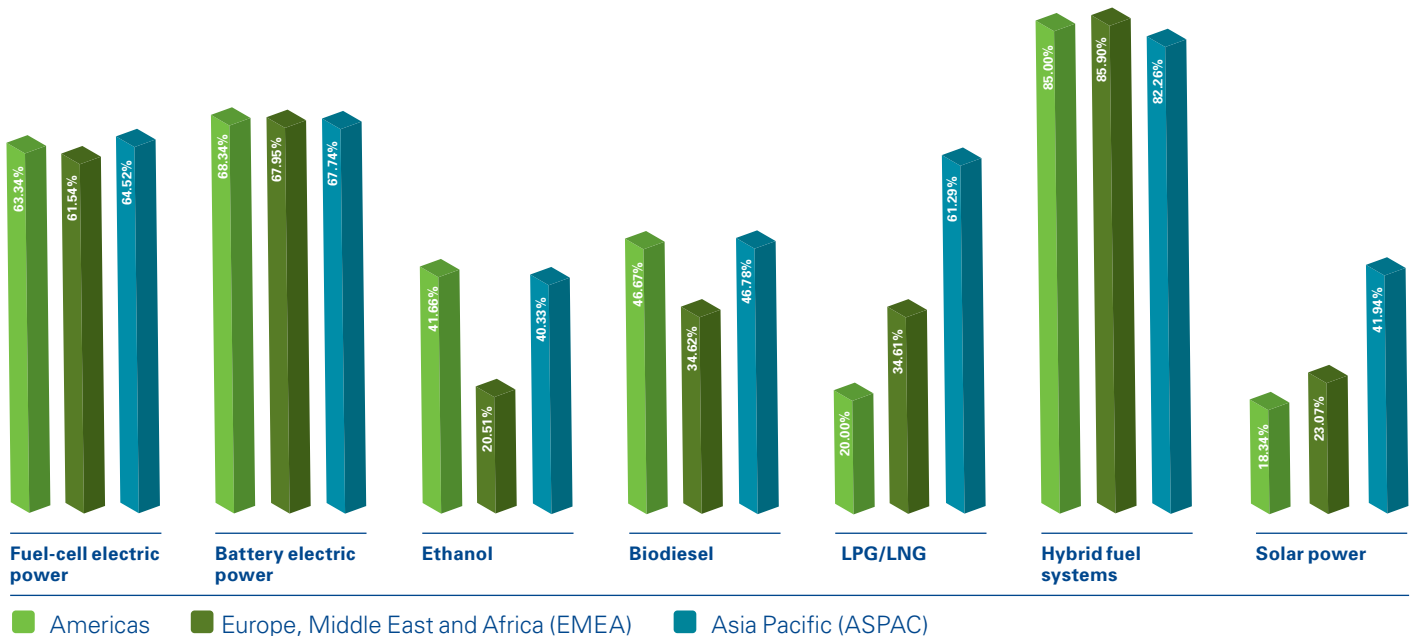
The primary importance that companies ascribe to vehicle efficiency and the further development of alternative propulsion technologies is already apparent from earlier questions in the current survey, as well as from the growing emphasis on these developments in year-on-year responses despite relatively low sales (see next page). Electric power ranks only just behind hybrid power developments in the current

survey responses, and battery and fuel-cell approaches are ascribed almost equal priority. Regional views of other alternatives are clearly influenced by regional issues, particularly the extent of installed fuel infrastructure; accordingly, ethanol is rated low priority by EMEA companies, while LPG is considered considerably less important in the Americas than elsewhere.

## How important are these alternative fuel technologies over the next five years?\*

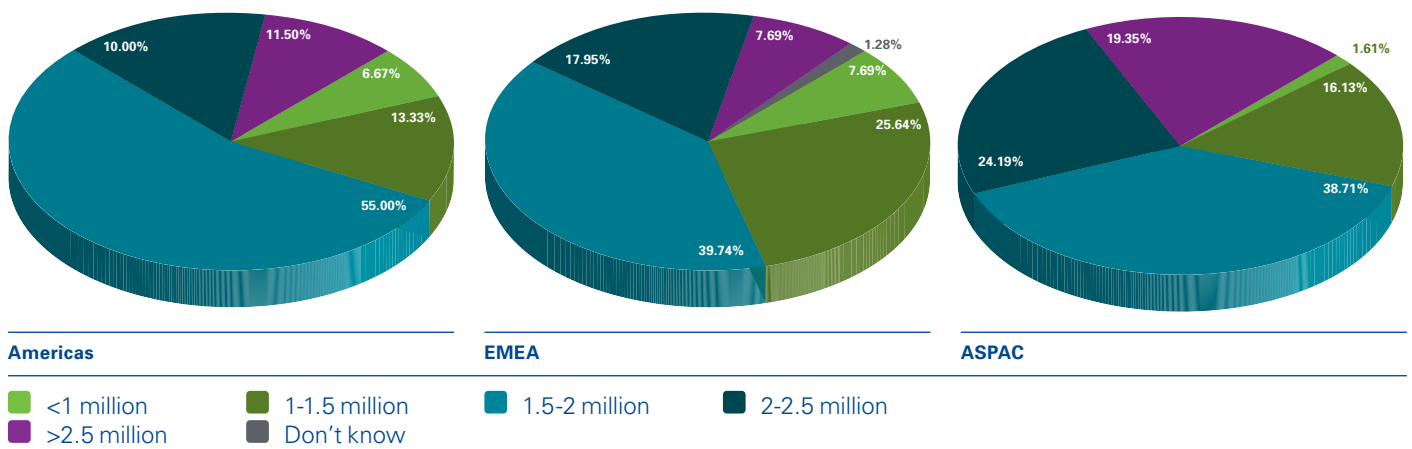
- Strong global consensus on importance of hybrids and electric technologies
- ASPAC companies rate solar power much higher than other regions

\*Percentage of companies rating technologies as important



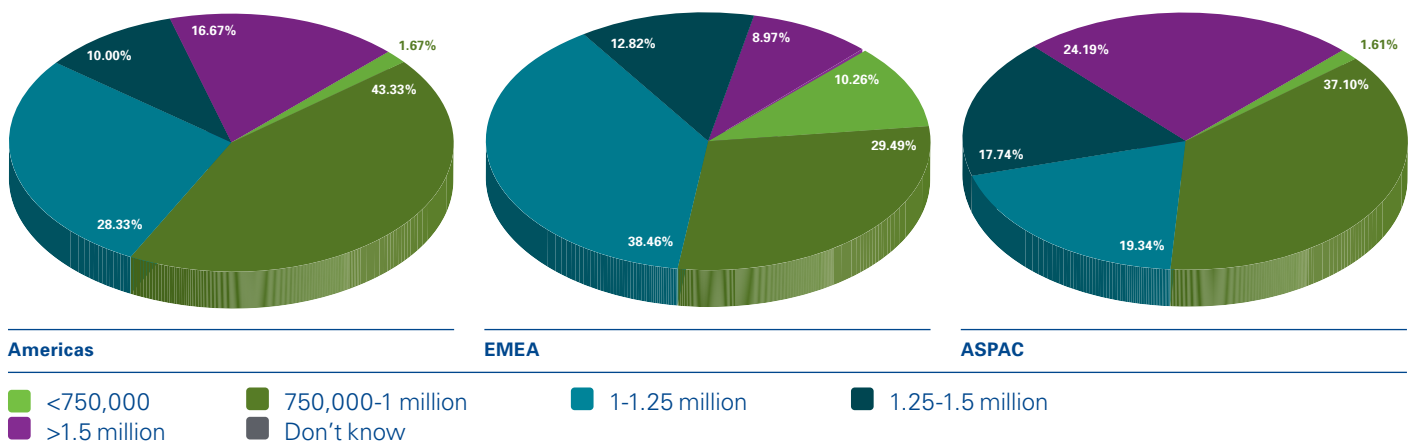
### How many alternative fuel vehicles (not including hybrids) will be sold in 2010?\*

\*2008 sales approximately 1.5 million



### How many hybrid vehicles will be sold in 2010?\*

\*2008 sales approximately 780,000



## Executive view: large Tier 1 supplier – US

This large US supplier believes that the industry has made progress in 2009, but that more needs to be done.

“I am a little bit more optimistic than I was a year ago, but there are a lot of uncertainties.

The US is only going to sell around 10 million cars this year. Whether the recovery we’ve seen during the second half of the year is sustainable in 2010 is uncertain: the economy has not bottomed yet, and unemployment is still rising. Elsewhere, China is still growing, although that bubble may burst. India still has huge potential, although whether consumers have the money to buy cars in volume we don’t yet know. And Europe I think may have a more difficult time next year than this, once the ending of the government incentive schemes hits home. But South America will grow, and especially Brazil will grow.

My sense is that in the US people still do not understand how things are changing. The automakers are very busy developing smaller cars, but whether they are going to sell them to the US consumer is another matter: the mindset is not there, not yet.

We are working with a number of companies on electric cars, hybrid-cars and super-economical vehicles. I think the pure electric car as a mass-market product is ten years away at least. For now, plug-in hybrids have more potential. But in both cases the economics of the vehicles are unfavorable. For example, we are working on a small electric vehicle, but it will still have to cost around \$40,000 – that’s an expensive car. Even with hybrids, if you do the math then they don’t really make sense. People don’t buy them for economic reasons, because as things stand you will never get your money back in fuel savings. It is hard to see that as a mass market proposition.

Overall the industry still needs to cut capacity. It is much easier to cut capacity in the US than it is in Europe, and that is one reason why the big three have all cut capacity in the US. That is something they still have to do in Europe. The carmakers will all need to continue moving European production to the East to cut costs, and they will need to cut their production in Western Europe because there just won’t be the sales for those plants.

I think the biggest winner over the last year has been General Motors. And it has a pretty good model line-up now. As for the others, Ford has had to borrow money and that has damaged their finances. Chrysler still has to be turned around, and it’s an open question whether Fiat can achieve that. I think European makers will suffer unless they can find more ways to cut costs. Even Toyota has seen a fall in US market share for the first time. Almost everyone has suffered in some way.

For the US the question is all about demand. The potential for selling 16 or 17 million cars a year is there – the demographics are there. The only question is, will people have the money to buy those cars? I don’t know the answer to that.”

# R&D will win most investment

When companies were asked where they would direct investment capital, while new technology and new model development remained top priorities, companies also said they would spend more on marketing – but less on logistics and much less on new plants. The pattern of investment intentions for suppliers remains the same as in last year’s survey, but for suppliers too the reduction in expectation of new plant building is striking. Tier 2 suppliers are expected to show a higher propensity

to invest, reflecting the concern of many Tier 2 suppliers (supported by the results on profitability earlier in this survey) that they need to invest to raise profitability.

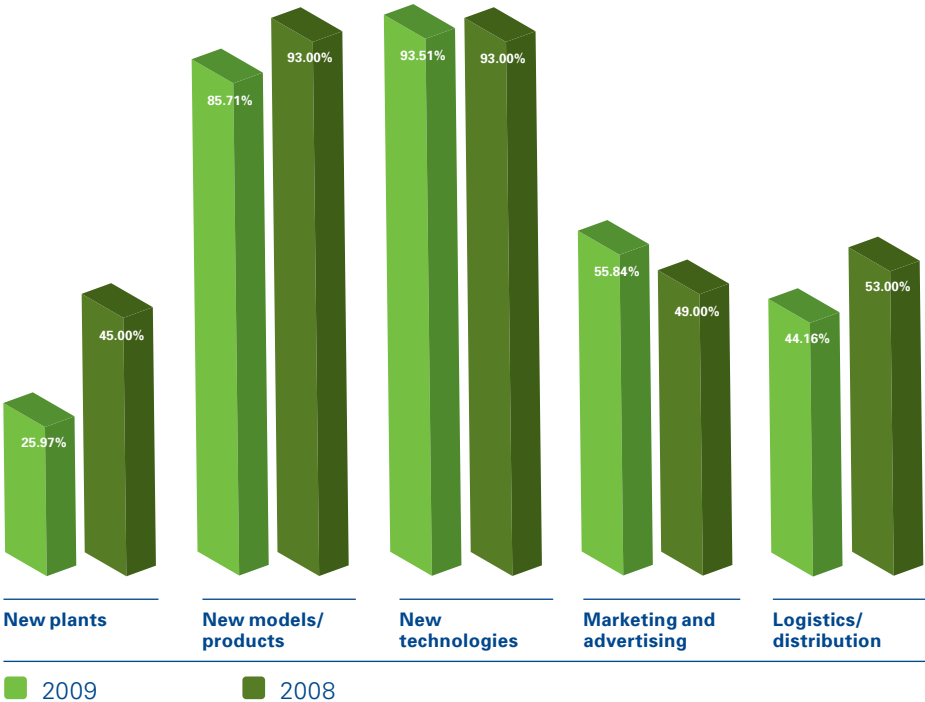
The responses on dealer investment represent the views of manufacturers on dealer businesses (dealers themselves were not participants in the survey). Companies believed that ASPAC dealers will have a higher propensity to invest, and believed that domestic and cross-

border dealer expansion will be muted, especially in the Americas and in EMEA. We also note companies’ expectation of significant IT and training investment in the dealer industry; this reinforces results from KPMG’s study of the global dealer industry published in early 2009, which found that dealers themselves believe that the industry suffers from an IT and training deficit.

## Do you expect manufacturers to increase their investment over the next two years?\*

- Investment growth expectations of OEMs fall slightly year-on-year
- Expectations of investment growth in innovation remain high

\* Positive responses from manufacturers only

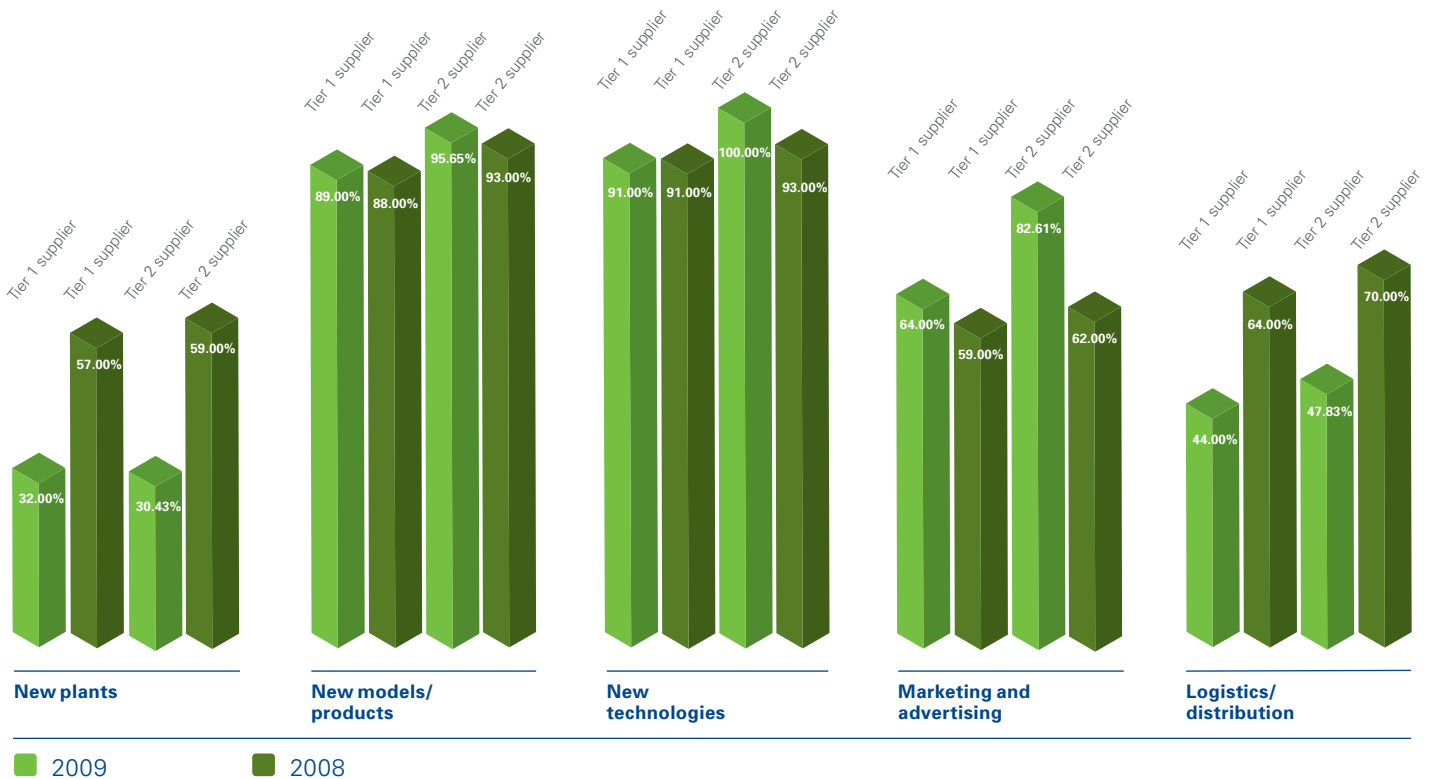




### Do you expect suppliers to increase their investment over the next two years?\*

- Supplier expectations of innovation investment have grown
- Investment growth in new plants to fall by almost half
- Tier 2 suppliers expect to increase investments in marketing and advertising

\* Positive responses from suppliers only. 2008 results include some responses from Tier 3 suppliers

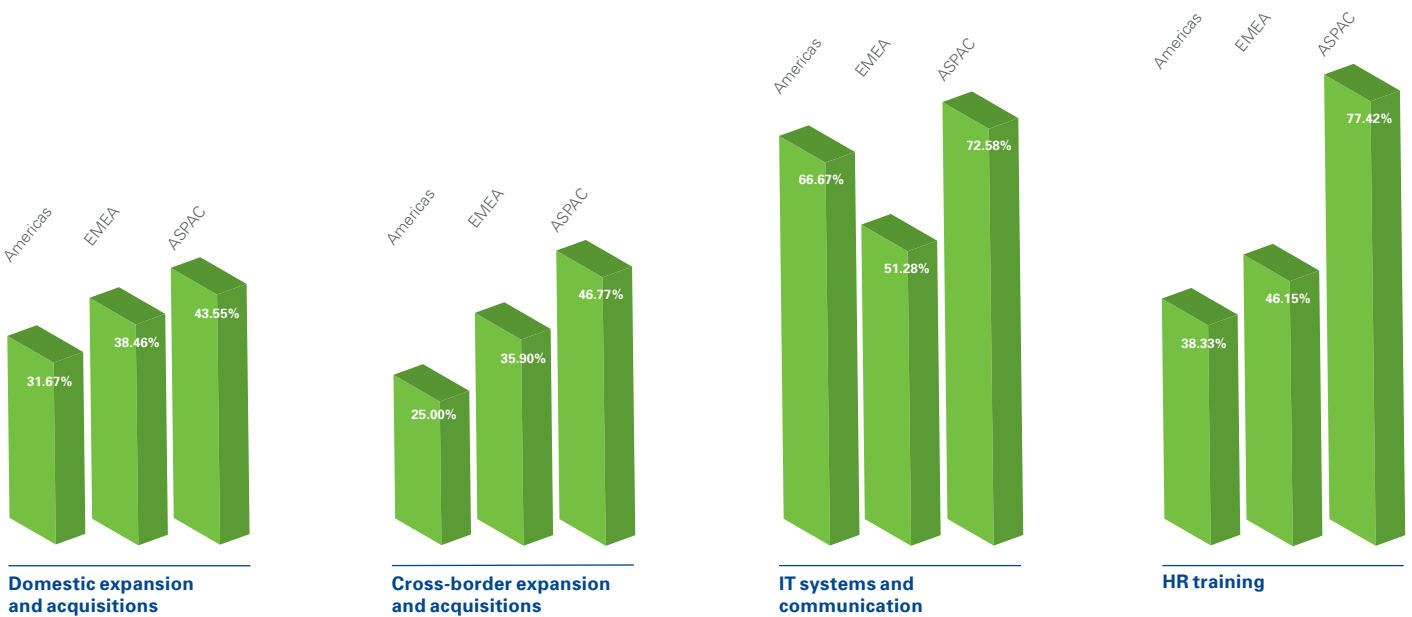




### Do you expect dealers to increase their investment over the next two years?\*

- ASPAC companies see HR deficit as significant dealer issue
- All regions expect dealers to improve IT

\* Results from manufacturers and suppliers



■ Yes

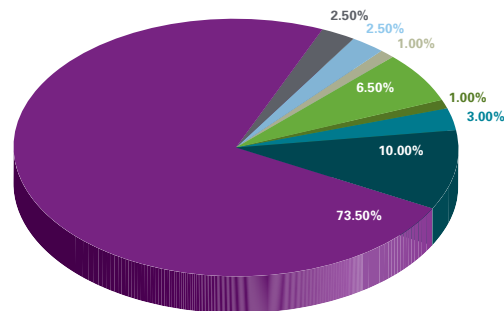
## Chapter 7: Investing in new markets

Companies are nearly unanimous in expecting emerging markets to build most automotive capacity and to provide the most growth in automotive revenues. The majority of companies say they intend to increase their investments in the BRICs (Brazil, Russia, India and China).

Of companies with existing investments in the BRICs, most say they will increase the value of those investments (the number of companies with existing investments that say they have no plans to change their level of investment is negligible). Those results

reflect companies' revenue expectations: the strongest expectations are for revenues from China although a very small minority of companies envisage revenue decline in China. In India many more companies see moderate growth than see strong growth, although no companies at all envisage revenue falls. Moderate rather than strong growth is also the majority expectation for Brazil. Russia is the outlier – while more than half of all investors have expectations of moderate or strong growth, a significant minority now anticipate a fall in revenues over five years.

### Over the next five years which region of the world or country do you think will build the most manufacturing capacity?



- North America (US & Canada)
- Western Europe
- Japan
- Eastern Europe and Russia
- Asia (excluding Japan)
- Central & South America
- Middle East & Africa
- Don't know

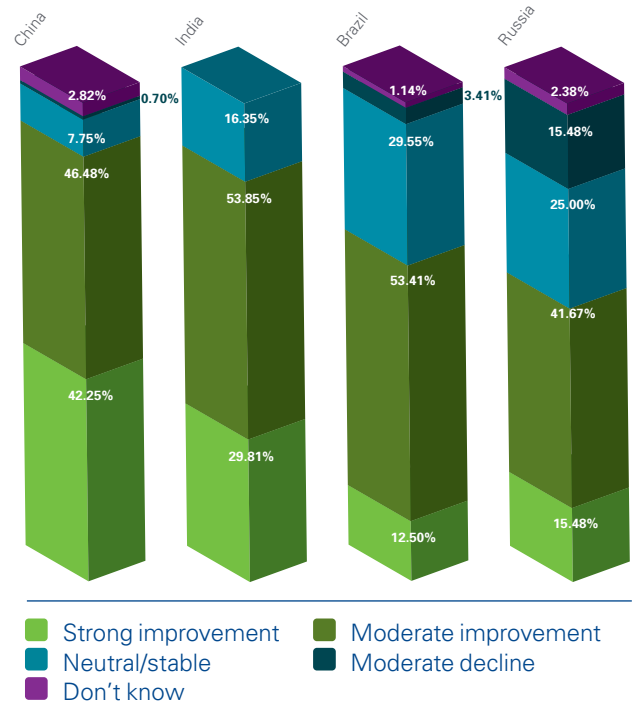
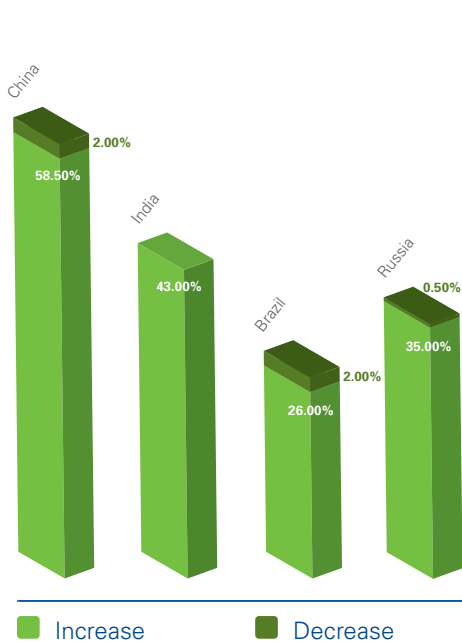


### Do you plan to increase or decrease your investment in the BRICs?

- Existing BRIC investors will increase exposure
- Reduction of investment negligible

### What are your revenue forecasts for the BRICs?

- India and China seen as biggest growth markets
- Significant minority see Russian decline



## Executive view: diversified supplier – emerging market

This India-focused supplier, part of a group with sales of over half a billion US dollars and over 6,000 employees, says that automotive demand in emerging markets is set to grow at breakneck speed.

"I am almost 100 percent more confident than I was at this time last year, and I am especially confident about the Indian market.

The crisis certainly had a very negative effect on many of our customers. We saw the worst effects in the commercial vehicle market. Vehicle usage was down, demand for new vehicles was down, and it was very difficult for companies to finance new purchases. Private passenger car demand held up better: personal finances were more resilient than company finances.

We have cut output, but we did that by reducing staffing, a cut of somewhere between 20-30 percent. We have not closed any facilities. And in the last quarter of 2009 we stopped cutting manpower. It is quite likely that by the end of the first quarter of 2010 all those job cuts will be reversed.

We have also cut costs by reducing the number of processes we outsource, things like powder coating and machining. Our strategy has been to increase the amount of value we add in-house.

As we go into 2010 I can see a lot of M&A opportunities. Many companies outside of Asia are not in good shape, and we may be able to buy them cheaply. The limiting factor is financing: banks have cut lending, and we will have to rely on internal sources of capital.

We would look for market share and for technology. In commercial vehicles, for example, we have the market share, but we are concerned that we don't have future technology. For passenger cars we need market share.

For the next five years our biggest challenges are going to be dealing with a growing market. We have two or three main competitors in India, and we need to maintain market share as the market grows. A key will be winning business from the world's main OEMs as they invest more in India."

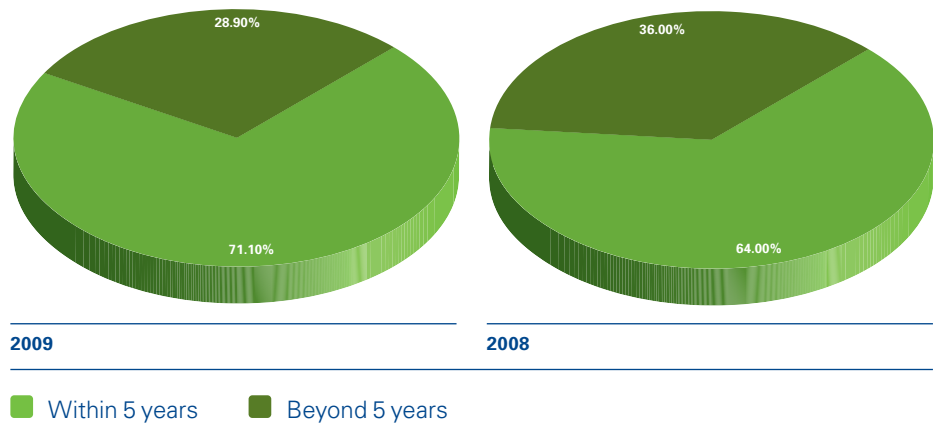
# BRIC sales forecasts continue to grow

In previous editions of this survey, companies were asked to give specific forecasts of domestic unit sales growth ranges and export sales in China in five years' time: the current survey extended these questions to all of the BRIC markets.

Expectations for both domestic and export Chinese sales have increased. There has been an increase in expectation for the higher ranges of domestic sales to be achieved by 2014, except in the extreme high range of 18 million plus: we believe this indicates both a growth in optimism on and knowledge of the Chinese market on the part of companies. The proportion of companies expecting export sales to pass one million within five years has also increased.

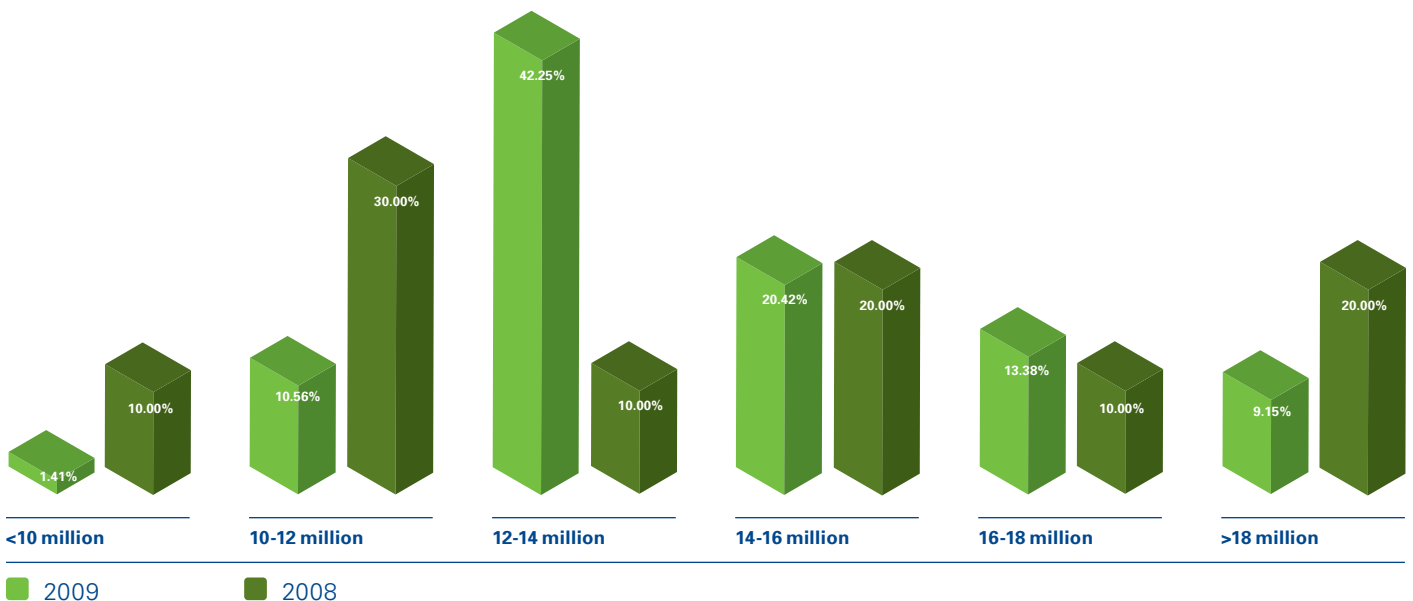
## When will China sell a significant number (1 million+ a year) of cars in other markets?

- Expectations of Chinese exports improve after falling last year



## What do you estimate will be the annual volume of unit sales in China by 2014?\*

\*2008 sales approximately 9.4 million cars and commercial vehicles

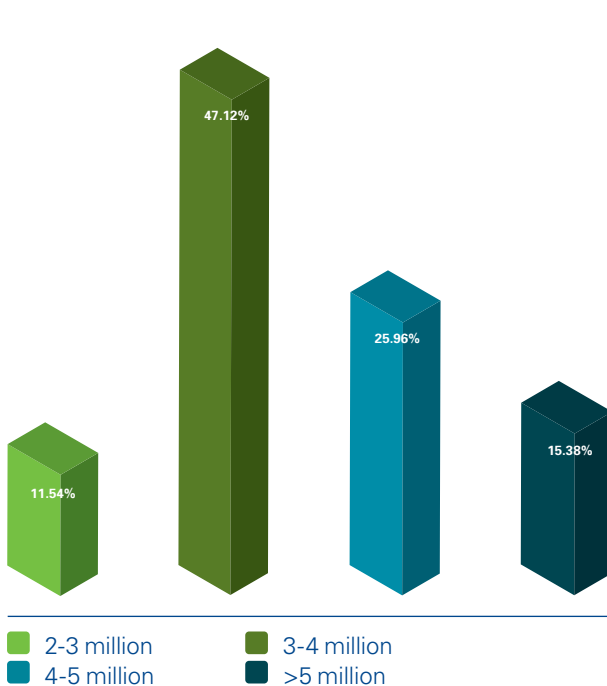


The consensus views of companies on sales in Brazil, India and Russia are also strikingly strong. Expectations of sales volumes in India are equivalent to a consensus that growth of 17 percent will be achieved annually. The consensus is for growth of around 30 percent over five years in Brazil, and of around 40 percent over five years in Russia (although it should be noted that a significant minority think Russian sales will be flat or even fall).

It should also be noted that investment intentions noted elsewhere in this survey for India in particular do not seem commensurate with sales expectations, suggesting that companies may be expecting to sell in India a significant proportion of vehicles manufactured elsewhere.

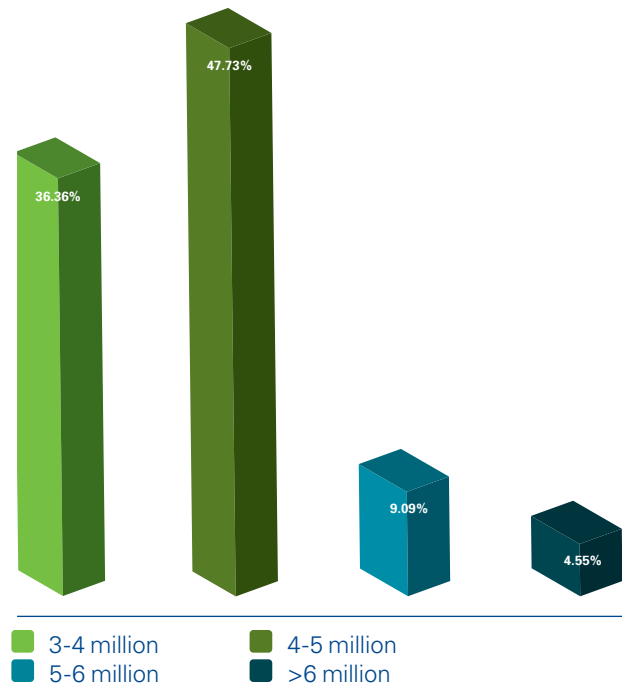
### What do you estimate will be the annual volume of unit sales in India in 2014?\*

\*2008 sales approximately 2.3 million cars and commercial vehicles



### What do you estimate will be the annual volume of unit sales in Brazil in 2014?\*

\*2008 sales approximately 3.2 million cars and commercial vehicles

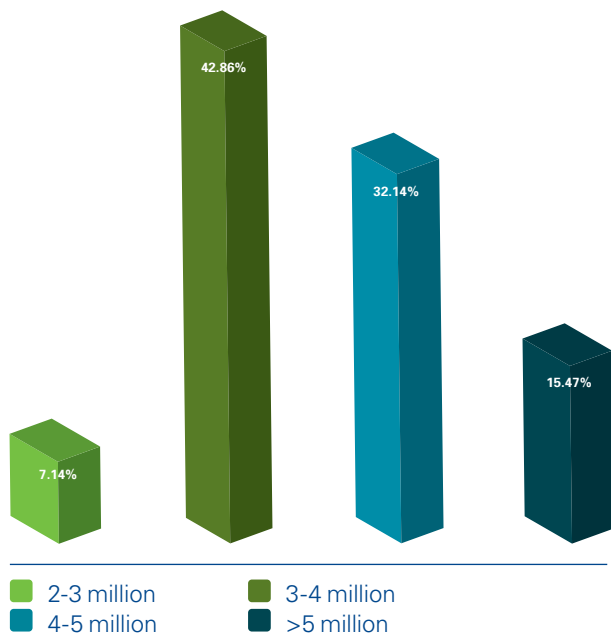


Expectations for the achievement of export sales of over one million rank in order India, Brazil and Russia. Over 50 percent of companies think that level will be achieved by India within five years, and over 45 percent of companies think it will

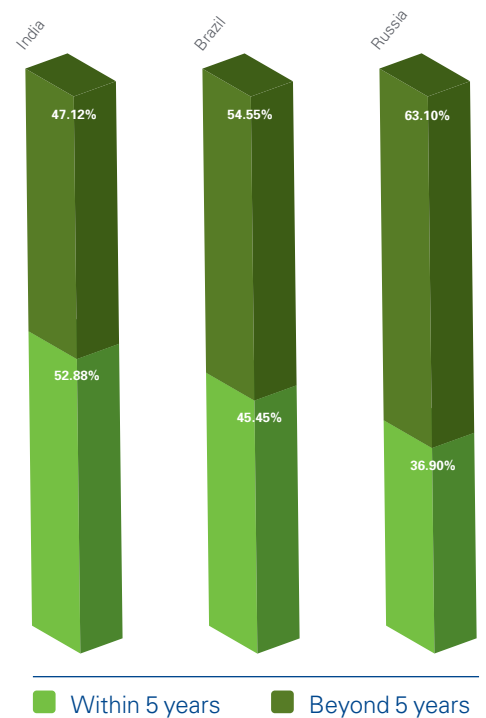
be achieved by Brazil within the five-year horizon. However companies do not believe that Russia is in that league: almost two thirds of companies believe Russia will not sell more than one million cars outside its borders within five years.

### What do you estimate will be the annual volume of unit sales in Russia in 2014?\*

\*2008 sales approximately 2.8 million cars and commercial vehicles



### When will Brazil, Russia and India sell a significant number (1 million + a year) of cars in other markets?



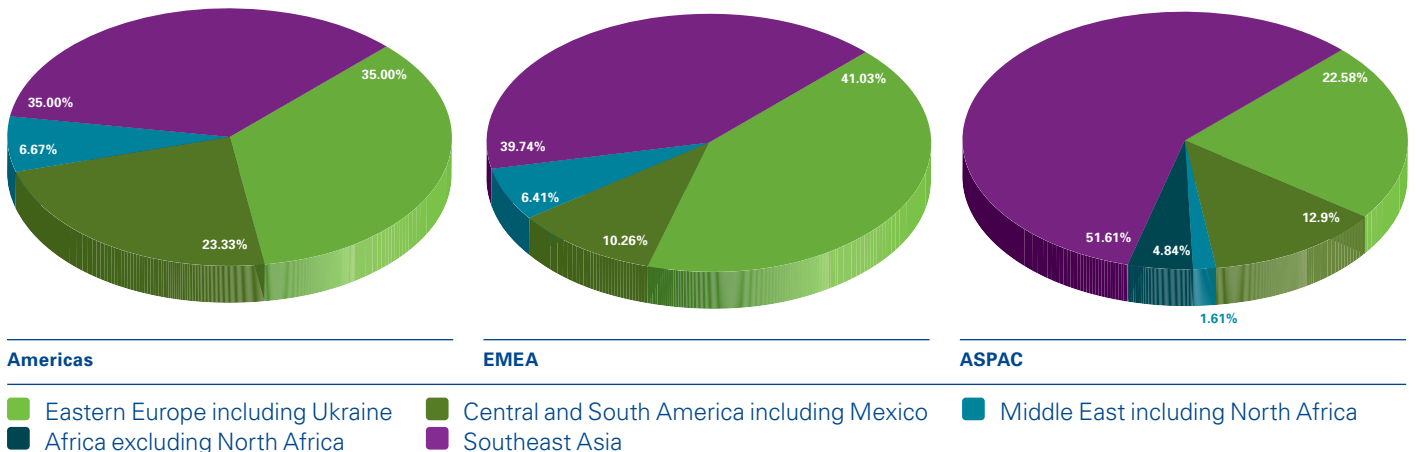
## Smaller emerging markets to gain

For companies looking for new growth markets, the BRICs are no longer the only game in town. Companies in KPMG's Global Auto Executive Survey say they expect growth and auto investment in many other growing economies, with the strongest expectations for Southeast Asia and for Eastern Europe, with ASPAC companies most focused on the former

and EMEA companies on the latter. However, ASPAC companies are shown to be considerably more interested in Africa than any others, reflecting Asian companies' long-standing willingness to invest in economies that others may see as marginal. Companies in both EMEA and the Americas are more likely to expect investment in the Middle East.

### Not counting the BRICs which regions will attract most auto industry investment over the next five years?

- For all regions expectations of South East Asian investment highest



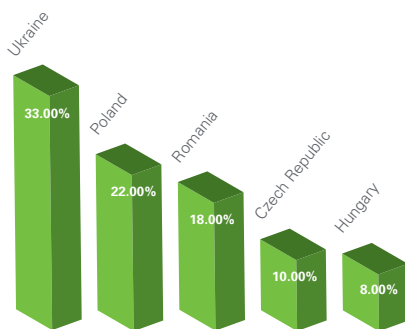
It is striking that when asked which individual countries outside the BRICs will attract auto investment in the coming five years there are clear winners: Ukraine is seen as the outstanding East European destination (although on regional basis Americas and EMEA favor Poland); Thailand is the outstanding destination in Southeast Asia (although on a regional basis both ASPAC and EMEA companies prefer

Malaysia over Thailand, and ASPAC companies prefer Vietnam slightly over Malaysia). In the Middle East Morocco was the clear leader in investment expectations, albeit on a low base of companies responding. In South and Central America, Mexico emerges – unsurprisingly given its significance as a manufacturing base for US companies – as the outstanding destination.

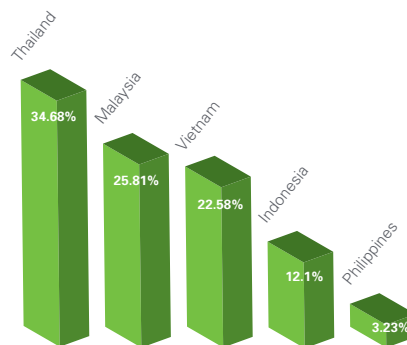
## Which emerging economies will attract most auto investment over the next five years?\*

- Biggest existing manufacturing countries to attract most new investment

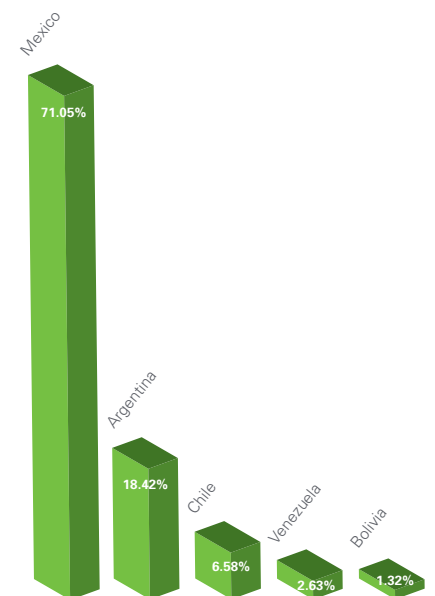
\*Top five investment destinations



Eastern Europe



Southeast Asia



Central and South America

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Designed by Roundel

Publication name: KPMG's Global Auto Executive Survey 2010

Publication number: 912007

Publication date: December 2009

Printed on recycled material