

Automotive

As our respondents vouch, the automotive industry is undergoing massive change. For every hypothesis, there is more than 50 percent agreement.

New players from converging industries, including manufacturers of electric components like batteries, consumer electronics companies and even energy providers are emerging along the automotive value chain.

Original equipment manufacturers (OEMs) need to think about their long-term positioning and decide whether to become “mobility providers” or “component manufacturers”. The majority of respondents (59 percent) share this view, but 18 percent disagrees. However, recent developments, such as BMW and SIXT’s “Drive Now” mobility services joint venture and Daimler and Peugeot’s existing activities support the hypothesis.

Change is also evident in China – the automotive growth market. But even its growth cannot last forever due to, for instance, more stringent registration regulations in mega-cities like Beijing. Among respondents, 63 percent believe that China will experience massive vehicle overcapacity within the next few years, putting pressure on OEMs and industry suppliers globally. Most notably, the established markets, which already struggle with overcapacity, will suffer. It is an interesting paradox that industry players, though they acknowledge potential overcapacity, continue to invest in China. Once the Chinese market slows, manufacturers will need to come up with sustainable solutions to manage the excess.

Similarly, we see plenty of investment in electric vehicles (EVs). However, more than three-quarters (76 percent) of automotive respondents do not anticipate that this will become the principal alternative propulsion technology of the future. Price, battery inadequacy and a limited recharging infrastructure legislate against it.

But if today’s battery driven e-cars are not the answer, what is? Hydrogen-fuel cell technology looks promising but has limitations such as an inadequate refuelling infrastructure. Not only is technology changing, but also the way we travel, especially in cities. Congestion charging, reduced in-town parking, inner-city entry restrictions, car sharing, bike rentals, etc are increasingly commonplace. It is unsurprising, therefore, that 80 percent of respondents agree that city

planning will influence car design in the future. I anticipate greater alignment between what we use a vehicle for and how we design it so that it is fit for purpose.

This industry is in such a state of flux that it is unsurprising that 42 percent of automotive respondents identify managing risk as a top priority, compared with 30 percent of the total population. They are equally mindful that investment in new technology and the decreasing importance of car ownership, especially in western markets, mean very uncertain returns. Similarly, the earthquake in Japan revealed the need to tighten up risk management in globally interconnected supply chains. Respondents recognize that change is on its way but, for now, finance issues are their priorities. We see, for instance, that “preparing your organization for major business model change” comes in at just 24 percent compared with 33 percent for the total industry population. This suggests that respondents, though conscious of shifts in the industry, are reluctant to change their business models in response. While dissenters will be swept along by consolidation in the industry, those who dare will win.

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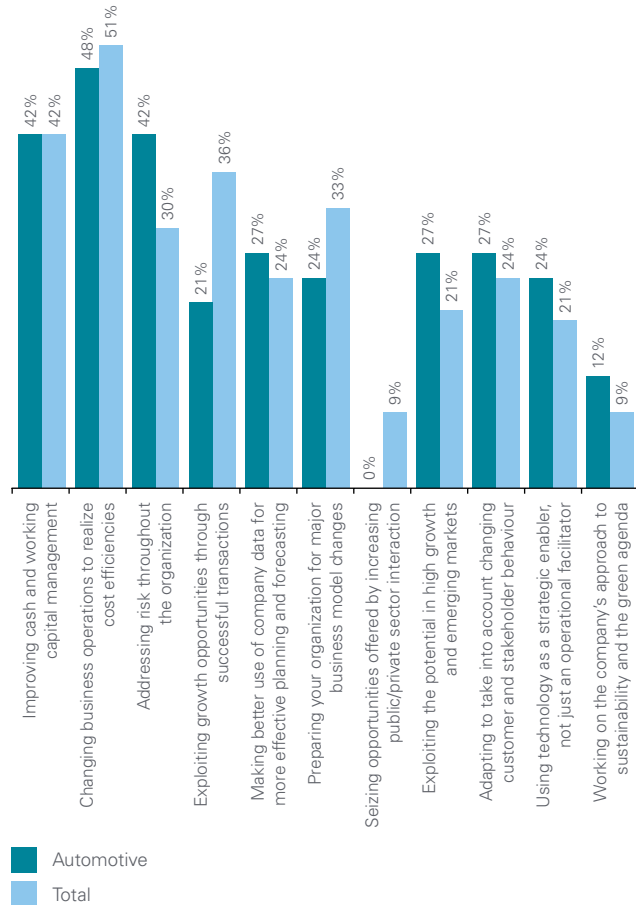
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Automotive

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Automotive – Sector Results

Comparison of top business issues for Automotive with total results



Percentage add up to 300 percent as all respondents had three votes.

Hypothesis 1:

A completely new business model will evolve in the automotive industry with existing relationships between OEMs, suppliers and dealers changing radically. A new value chain will emerge, involving any combination of module manufacturers, assemblers, vehicle manufacturers/car designers and mobility service providers. Even new players from other industries like energy or consumer electronics could play significant roles. Within the future of mobility, traditional OEMs will have to carve out their respective roles to become either a "mobility provider" or a "component manufacturer".

Hypothesis 2:

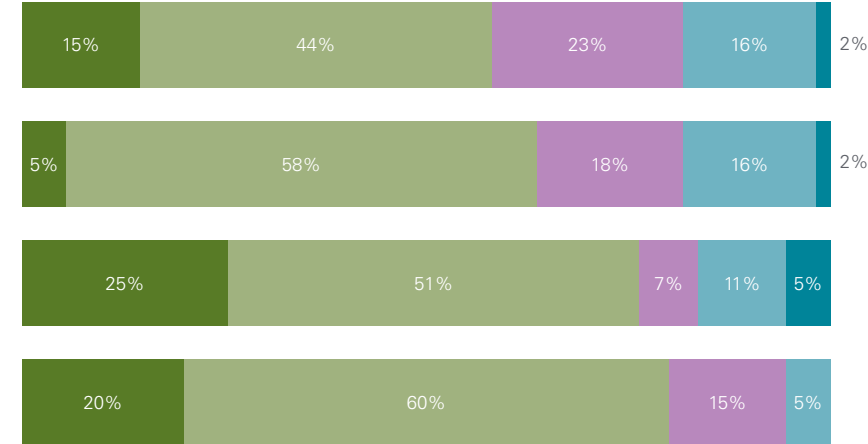
In order to compete in the race for market share in China, OEMs have had to rapidly invest in plants in this country to meet demand. It does seem likely that China will see serious overcapacity within the next few years, especially as neighbouring states like Thailand and Indonesia are exporting most of their production volume to China to benefit from the current demand gap.

Hypothesis 3:

Electric cars (or "electro-mobility") have many challenges to face. The price of electric car batteries is still not competitive when compared to traditional propulsion systems. Furthermore, the required infrastructure for widespread power distribution is not in place yet while range restrictions make electro-mobility unattractive for rural customers. The severity of these challenges means that electro-mobility is unlikely to become the premier alternative propulsion technology of the future; despite the requirements of highly specific usage patterns such as city commuting. Instead, it will have to take its chances in combination with other technologies.

Hypothesis 4:

Whereas, in the past, the car has influenced the design of towns and cities, the reverse now appears to be true, with a rise in low-emission zones, declining numbers of parking spaces, congestion charges and the proliferation of car-free streets and neighbourhoods. In the future, urban planning will influence the design of cars and city-friendly traffic planning will be more common than car-friendly city planning.



- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

Further info

The SiCW Business Leaders survey Exec Summary is available at: www.kpmg.eu/businessagenda

A suite of videos and kitcards, on the top themes is available online. This includes Jeremy Kay outlining what the Board is thinking about in terms of changing their business operations to realise cost efficiencies; and Andrew Ashby on how companies can improve cash and working capital management. To view the information please go to: www.kpmg.eu/businessagenda

“Eighty percent of respondents agree that city planning will influence car design in the future. I anticipate greater alignment between what we use a vehicle for and how we design it so that it is fit for purpose.”

Dieter Becker