

**AUTOMOTIVE INDUSTRY  
MEGA TRENDS**



Everyone in the automobile industry knows the business has evolved into much more than “making and selling cars.” Multiple and complex forces are shaping the industry’s future.



Alexa Nassif

To succeed, manufacturers must focus on more than traditional economic factors. These mega trends are continuing influences that cannot be addressed with short-term solutions. To attain sustainable profitable growth and differentiate themselves in the global automotive market, vehicle producers must develop a multi-faceted and long-range strategy that is responsive and adaptable to evolving market forces.



Anil Valsan

Ernst & Young identifies eight mega trends that are defining tomorrow’s automotive industry. Commenting on them from Ernst & Young’s Global Automotive Center are Alexa Nassif, Senior Manager based in Detroit, and Anil Valsan, Lead Automotive Analyst based in London.

**Why are so many forces at work on the automotive industry today?**

For one thing, the growth driver has shifted away from traditional to emerging markets, which has a huge global impact on product development, investment and marketing strategies. At the same time, societal concerns about energy, urban congestion, material usage and the environment are significantly changing attitudes about how vehicles are used. Traditionally, the business of the automotive industry was to produce and sell cars. Now carmakers recognize they must sell mobility, which is a very different proposition.

Technology is driving another automotive industry mega trend. It isn’t just about such high-profile features as telematics, vehicle-to-vehicle communication and compatibility with personal electronic devices. The speed with which new technology is enhancing safety, reducing exhaust emissions and improving overall operating efficiency continues to accelerate. These services and capabilities may define a vehicle’s appeal just as much as size, styling and price.

**How has selling vehicles changed?**

In emerging markets, the desire for car ownership is very high. Cars are both a status symbol and a transportation necessity. These are characteristics of the classic automotive market. But in mature markets, the need for ownership is less clear. Several companies are exploring the idea of a subscription service that enables consumers to choose the vehicle they need at the moment—but without requiring ownership. The next decade also is likely to witness early entrants that will be selling integrated mobility services to consumers in mature markets such as Western Europe, rather than just private vehicles.

These mega trends all have one thing in common:

They attract non-traditional players to the industry. From utilities to Internet giants, these entrants are creating new revenue streams in the transportation sector over which vehicle manufacturers have little or no control. One of the big challenges for carmakers today is deciding whether and how to pursue these income sources for themselves. For instance, in integrated mobility, carmakers are almost the late entrants with their foray into the car-sharing market.

**What is the industry doing to respond?**

Collaboration among vehicle manufacturers and their suppliers continues to expand. This global trend lowers costs, helps bring new technologies to market faster and spreads—but does not always reduce—the risks associated with technology investment. Currently the industry is sorting out which competencies will belong to vehicle assemblers and which will reside with suppliers.

The suppliers themselves will continue to refine their core competencies. The tier ones have come a long way in this regard. The biggest risk to the supply base lies with sub-tier suppliers. Many of them lack product diversification and have been perceived as price-defined commodity providers.

They face perhaps the strongest competitive pressure within the industry today, and this pressure will continue. Many sub-tier companies will try to differentiate themselves, but it will be difficult because most lack the analytical tools or access to capital and financing that are available to their tier one customers.

The OEMs also are realizing the need to collaborate with companies outside the automotive industry, such as the utilities and local governments, to create the requisite infrastructure and enabling technologies to support new-energy vehicles.



**8 AUTOMOTIVE MEGA TRENDS**

- Increasingly stringent safety and environmental regulations
- Alternatives to car ownership
- Non-automotive entrants
- Social media’s impact on marketing
- Collaboration
- Shifting competitive landscape
- New risks of globalization
- Need for sub-tier suppliers to become more strategic

**What is your advice to the industry?**

Carmakers really need a holistic strategy that covers the industry’s traditional economic drivers but also encompasses these new factors. 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 seizing opportunities in high-growth markets. Suppliers at all levels must remain extraordinarily agile and aware of global trends that may affect their business in unexpected ways.

*For more information about automotive mega trends, contact Alexa Nassif at 313.628.8376 or alexa.nassif@ey.com; or Anil Valsan at +44 207.951.6879 or avalsan@uk.ey.com.*