C-suite barometer

Automotive insights

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Electrification, emissions and efficiencies are the watchwords of the automotive sector as it adjusts to changing customer demands and tight sustainability regulation. As one of the sectors covered by the Mazars 2020 C-suite barometer, Christian Back, Partner and Co-head of automotive, Mazars, reacts to the findings, saying automotive businesses have to be optimistic about the year ahead and find ways to put sustainability at the core of everything they do.

Q1. The automotive sector predicts technology to be a key business transformation over the next three to five years, according to the Mazars 2020 C-suite barometer. What are the key technological transformations on the sector's horizon?

Electrification, sustainability, digitalisation like connectivity, and autonomous driving are all top of the agenda. Leaders in the sector now need to prioritise which is most important for them. Original equipment manufacturers (OEMs), for instance, are focusing on electrification as a high priority, which is going to impact them sooner than autonomous driving. The dream scenario of an autonomous car that picks us up, takes us to our destination and gives us the chance to relax, sleep and work along the way is still realistic, but it will not be a common occurrence in the next five to ten years.

Digitalisation is the other important trend. New features like artificial intelligence and natural language processing built into cars means OEMs can sense the mood of the driver, making it easier to interact with and enhance the customer experience. Predictive maintenance is becoming more advanced, allowing 'health checks' to take place before the car gets damaged. Road conditions can also be analysed by cars that use their sensors to detect infrastructure issues. Moreover, connectivity and in-tcar experience enhancements are very important for OEMs. Connectivity, for example, makes live traffic services available, as well as parking assistance in real-time, music streaming, smartphone integration, speech control and more.

Q2. Sustainability and reducing carbon emissions is a top priority for the public and the private sector around the world. How is this leading to changes in the automotive sector?

Customers and governments globally are calling on the sector to significantly reduce emissions. Some countries have already set standards that lead to serious penalties for OEMs if they do not bring emissions below a certain threshold, which is leading to an increased push for electric cars - particularly in the EU.

The UK will ban non-electric new car sales from 2030 and hybrid vehicles from 2035; and France will ban new car sales of all diesel and petrol vehicles from 2040. Many other countries have similar plans. And OEMS are also committing to concrete plans to cease production of non-electric vehicles.

OEMs are, consequently, having to find ways to 'future proof' their businesses, namely by creating new markets for themselves by reducing their diesel and petrol production and making up for that loss by increasing their focus on electric vehicles.

This development doesn't just impact the OEMs but also the suppliers. To understand how this will affect the sector, it can be useful to split suppliers into three different categories. The first are those suppliers not dedicated to the automotive sector alone and therefore able to compensate for lower volumes of internal combustion engines with other products for other sectors. The second are suppliers fully dedicated to the automotive sector - not only making parts for petrol and diesel vehicles but also for electric vehicles and parts for automotive components other than the engine. This second category is well-placed to compensate for lower volumes of the internal combustion engine with other technological solutions to 'keep up' with low emission expectations.

The third category covers suppliers dependent on automotive OEMs and totally dedicated to parts for the internal combustion engine. This is the area of concern as in a few decades' time it's reasonable to imagine some markets will only have electric cars - and that means significant losses for this category over the coming decade.

That negative outlook impacts the future development and even survival of theses suppliers. How can those suppliers attract people to work for them if their existing product sales could fall to zero within the next 10 years?

Q3. What is being done to help automotive suppliers totally dedicated to the internal combustion engine and unable to pivot?

We have seen some funding companies consider how they could invest and work with 'at risk' automotive businesses. Governments could also make compensation available to support employment in the sector and keep the supply chain going. The situation bears similarity to the downsizing of the mining sector in western Europe at the end of the twentieth century, when governments helped with falling demand and the impact of closures.

Q4. Respondents in the automotive sector view activities related to sustainability as having the longest-term impact on their business. How crucial is sustainability to the sector's long-term outlook?

Sustainability runs through everything an automotive business does today. Building cars, powering them, connecting them – it's all about how do it sustainably. Even factories will soon have to be carbon neutral: Volkswagen, BMW and Ford have committed to being carbon natural by 2050, GM by 2040, and more will follow. However, it will not be straightforward because of the complexity of sector supply chains.

Regulators are putting the industry under serious pressure but at the same time the sector is asking governments to commit further to electric mobility, claiming the infrastructure is not consistent and governments need to do more to ensure the transition is a success.

Q5. More than two-thirds (68%) of respondents from the automotive sector expect to grow in 2021. What is driving growth in the automotive sector? Are there any challenges that might stall growth?

Optimism is expected: the pandemic meant 2020 was a tough year for the automotive sector, with around 15-20% of losses in production and sales volumes. 2021 has to be a better year for the sector: the electric vehicle market will continue to grow, private transport has been increasingly seen as a reasonable solution because of the Covid-19 pandemic, and less money spent on leisure and international travel could mean an uplift in car sales.

However, mobility as a service, which was doing well pre-Covid as we covered in Reinventing the wheel, has stalled. We also have a shortage of semiconductors, which has halted automotive production in some countries.

Q6. Brand strategy, operating efficiency and cost reduction were cited as key areas of focus for the automotive sector, according to the barometer. Is that a fair reflection of how the sector has approached 2021 so far?

For OEMS, brand strategy is one of the most important issues for their business model. There is always a new player out to gain market share, consider Tesla: not even twenty years old, it is the most valuable OEM according to market capitalisation and just one example of how brand strategy is crucial. The industry is improving its efficiency year by year, month by month. High competition and tight regulation mean automotive businesses are always looking for ways to increase capacity and make a profit though improving efficiency and reducing costs.

2021 has, so far, reaffirmed that the sector is dedicated to increased digitalisation and sustainability. While the short and long-term future will be complex, automotive businesses that keep up with regulation and understand how to respond to changing customer demand will set themselves up for success.

The Mazars 2020 C-suite barometer surveyed over 500 business leaders around the world, including representatives from sixteen sectors in more than 20 countries. You can see the global results and analysis here.