

Accenture And The Automotive Industry
Traction For The New Marketplace



accenture

Automotive



• Consulting • Technology • Outsourcing

Some inventions make a splash. Some make a difference. Some change the world. The automobile? Almost a century ago the combined power of inventiveness, technology and mass production launched an industry that did indeed change the world. By putting an automobile in the hands of even ordinary people, the automotive industry brought to the human experience a geographical reach and a breadth of opportunity never before known.

What a ride it has been. Not only for the driver but for the world economy as well. Today the global automotive business produces 54 million vehicles a year and generates sales of US \$3 trillion. In some parts of the world, the United States and Germany for instance, it supplies a living for one in every seven people. For most of the planet, it provides the underpinnings of everyday life.

Just as it has changed the way the world lives and works, the automotive industry continues to change itself. Necessarily so, as this business has always been heavily cyclical. The industry has sustained its long and successful run by learning to navigate shifts in the economic weather. The freshest historical tracks on the road mark some of the best years ever for the automotive industry. Sales have climbed to a record high. Revenue growth over the last few years has hummed along nicely.

What we look at here, however, are not just recent tracks on the automotive surface. We look at the marketplace — the one that is and the one that is coming for this industry that is so essential to the global economy.

Because, healthy as recent times have been for original equipment manufacturers (OEMs), suppliers and retailers, concerns are growing. As the automotive industry knows too well, revenues are not profits. The record-breaking sales belie profit margins that are in fact slim, difficult to wrest and, in the end, insufficient. For the OEM, a 3.9 percent before tax margin. For the supplier, 5.2 percent. And for automotive retailers, 2 percent.

And while market capitalization has ballooned to the lofty billions, its annual growth rate for most of the industry has dwindled over the last decade. The recent numbers on shareholder value have been dire: OEMs, down nearly 23 percent in 2000. For suppliers it's an even steeper slide: down nearly 35 percent. Public retailers plunged 32 percent.

The current overcapacity tells its own story. Plants across the globe, if fully utilized, could produce more than 20 million more cars than the world's customers would buy. The gap is some 7.5 million vehicles in Europe, three million in North America and 10 million in Asia.

What's Shaking The Foundations?

Several global and industry forces are shaking "business-as-usual" for the automotive industry. Some of them:

- **Globalization** — Trade barriers are diminishing; borders are vanishing. The competitive domain of the automotive market is global. OEMs and suppliers must do business and operate production where the markets dictate — with costly capital requirements.
- **Structural Change** — A consolidated industry has taken shape amongst all players — OEMs, Tier 1 suppliers and retailers. Retail consolidation is the most recent trend, with the top 20 retailing groups now accounting for more than 10 percent of all new vehicles sold in North America.
- **The Internet** — The Internet makes price and performance information transparent, integrates complex processes across the value chain, enables new business models, offers new solution applications, provides time savings and reduces costs in production development.
- **New Product Technology** — New materials are changing production methods and modular assembly is more feasible. Vehicle electronics, fuel cells and telematics take on new importance.
- **The Informed Customer** — A highly knowledgeable customer has emerged, with a discerning mind for the best buy, specific product preferences and a disposition to leverage that knowledge. Empowered through the Internet, the customer enjoys unprecedented access to features, quality and pricing information.

The question is, what does the industry do to succeed on a sustainable basis in this transformed automotive world?

Hunkering down and waiting for the next upturn in the cycle is clearly not a strategy for success. Not even for survival.

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Accenture's Role

Accenture has worked with OEMs and suppliers worldwide as they have adapted to the shifting economic and industry terrain. We have helped move clients forward at every level of their businesses, from high-level strategic planning to improved customer service to day-to-day operations.

But producing those results is a dynamic process. Just as our clients are enhancing their capabilities to lead in the new economic climate, so too is Accenture. Under its strategy, Accenture is building a network of businesses to meet the full range of client needs – consulting, technology, outsourcing, alliances and venture capital.

We serve Fortune 100 and Global 2000 clients with equal energy: connecting our deep global knowledge of today's businesses with the ideas and entrepreneurial energy of tomorrow's leaders. We have formed new technology alliances, participated in incubation efforts and have hundreds of start-up firm relationships.

Like our clients, we hope to make changes in the way the world works and lives.

The New Contours Of The Automotive Industry

The effects of the changes swirling inside and outside industry walls vary to some extent with geography. But several are common worldwide.

- OEMs move toward becoming keepers of their brand image, design capability and marketing responsibility.
- In a mature and saturated market, OEMs emphasize one or a hybrid of market strategies. Some play a niche, seeking "best in breed" position and high product asking prices. Some focus on a broad portfolio of products and services to meet all customers' mobility needs. Others trade off low margins for high volume. The endangered, without any edge, look to be acquired.
- Suppliers remain in a value squeeze under OEM price pressure, but grow in importance through technological innovation and cost-effective modularization. Large suppliers increasingly migrate to engineering and manufacturing whole systems and, in Europe now, complete cars. Small suppliers become more focused, pursuing niche positions in the market.
- Retailers become bigger and smarter. Buying additional points, they gain economies of scale, invest in new productivity enhancements and manage their businesses with increasing discipline and sophistication. Large retailing groups also begin to build customer relationship management capabilities, intensifying the battle for control over the customer.
- Product proliferation continues, with established OEMs and new entrants introducing a blizzard of new models in existing segments.
- New players come forward. Information technology, telecommunications and consumer electronics players step in to provide new models of customer service. Service providers like Sixt, the largest European leasing and rental company, work the interface between manufacturers and customers.

Inroads Of Opportunity

Taking up a confident direction and proceeding with speed and skill in this environment is the challenging agenda of the entire industry. Yet it is an entirely realistic goal, since in Europe, North America and Asia, market opportunities abound.

What emerges as automakers, suppliers and retailers explore new paths of profitability are some preferred strategies. Four strategies in particular present "inroads of opportunity."

These are designed to fit the contours of the North American and European automotive marketplace. In Japan, consolidation and restructuring will continue and accelerate within both the manufacturing and distribution segments. Throughout Asia, the industry is very likely poised for explosive growth, but strategies to be pursued there will differ. With consumers just starting to achieve the prosperity needed to buy an automobile, the Southeast Asia market is relatively untouched. This means the infrastructure is also under development, offering industry players the opportunity to do it right the first time by planning for a sales, marketing and distribution capability that is electronically enabled (eEnabled) from day one, with the distributor/dealer structure designed to meet customer needs. Bottom line: Integration into the global marketplace is key, and significant changes are in order to move in this direction.

We do not suggest that the strategies presented here for North America and Europe around branding, focus on the customer, value management and supplier relationships are "choose one" propositions. But they are paths that individually or in combination direct the resources and attention of the enterprise to the most robust prospects for profitability.

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Focus On Branding

With variations for OEMs, suppliers and retailers, focus on branding presents rich value-enhancing opportunities.

No longer counting on technology to win a market edge, OEMs look to other forms of differentiation. The one they unequivocally own and control is brand image.

In Europe, the gravitation to brand exploitation puts OEMs increasingly in the role of car configurators as they manufacture less and less of the vehicle. The impact on market value can be significant. Witness the rise in shareholder value of BMW and Mercedes Benz – or Porsche, whose assembly is now 50 percent outsourced – compared to the decline for commodity or volume-driven manufacturers.

In North America, the OEM migration to car configurator is also under way, foreshadowed by Dana Corporation supplying a rolling chassis.

The competitive advantage in this focus on branding is not to the product, but to the perception. The value-building investment, then, is in enhancing that perception – which can pose some uncomfortable choices.

In Europe, the gravitation to **brand exploitation** puts OEMs increasingly in the role of car configurators as they manufacture less and less of the vehicle.

Does an OEM, for instance, spend \$500 million to build a new transmission plant or invest this money in getting more insightful customer data – thereby building brand affinity with customers? Does it do both? Not a realistic option. The question becomes, which decision creates the most value?

Brand leveraging for the mid-class car proves to be extremely difficult. But the OEM that can cash in on niche image has the opportunity to create markets. In Europe, high penetration of niche cars has stimulated such buying pressure. With a DaimlerChrysler or a BMW offering a proliferation of new models every year, market pressure to replace cars earlier keeps building. Holding periods for European cars are going down as buyers jump in and purchase sooner.

For the large supplier, branding is the automotive equivalent of "Intel Inside." Ingredient **branding** leverages the technology dominance of suppliers by asserting a claim in the consumer market. For the supplier with a product the end consumer can recognize, branding becomes an attractive way to gain **market share**. If consumers come to view an interior by Lear Corporation

or electronics by Delphi Automotive Systems as a high-value item, market pressure for the automaker to install that system grows. GM expects to boost sales exponentially for its OnStar in-vehicle communications technology through deals to offer the GM brand of telematics in Volkswagen's Audi and Honda's Acura.

Also taking on new importance are opportunities to extract brand value beyond selling the car.

Consider: If every person who knows the brand Mercedes Benz and possesses a certain level of purchasing power spent \$50 on Mercedes Benz brand related products, the company could double its revenue. Without selling a single car.

Such is the power of the brand for the carrier of a distinctive image. Cross-selling opportunities that can be bundled with the brand are myriad: financial services, travel packages, accessories. Is the owner of that Range Rover an outdoor type? Might a travel package to the mountains or a hunting trip to Canada then appeal? An example of another product extension: Delphi Automotive Systems is marketing the company's high-tech products to new industries, including telecommunications and health care.

For strong brand players who know their customer segment, new products and services can serve to extract significant additional value from their brand.

The skill comes in doing this while maintaining central focus in the core auto industry. Because here, as always in the industry, there is little room for a mistake.

Customer-Centered Enterprise

It's not about selling the car. It's about buying the driver — for a **lifetime.**

That is what has really changed in the car world.

It means that the question with currency now is this: What are this customer's mobility needs and how can I serve them? That leads to another question. Who can bring me customers — what alliances and collaborative relationships?

Simple proposition here. Value will attach to those enterprises that know the customer's mobility needs on a granular level. Those OEMs, suppliers and retailers that can develop products that more precisely anticipate customer desires will in so doing directly fuel organizational performance and long-term profitability.

Keeping the eye on the prize — the customer — it is possible to target value-enhancing investments in a more specific way than ever before.

Customization of the vehicle presents one such opportunity for OEMs. The build-to-order goal is already advancing in Europe, where 80 percent of vehicles are largely customer-configured. To capitalize further on that market preference, automakers now turn to gathering useful data for segmenting customers into more meaningful groups. Behaviors become more important than traditional demographics.

For instance, if this is a commercial segment, good customer insight can identify the buyer as a plumber. What accessories might that customer consider? How about a plumber's package, with all the right racks? This market segmentation not only generates more profit from the sale, it also aids forecasting. Knowing what the customer values allows for a more accurate prediction of new model demand in that segment.

The channel closest to the customer information, certainly in North America, is the dealer channel. Early OEM-dealer alliances in this channel are appearing, allowing OEMs to capture and apply knowledge gained at customer touchpoints.

Wherever the customer, auto-related services can vastly expand business for the OEM, supplier and retailer.

The potential isn't lost, to be sure, on new players intent on serving the customer's life-cycle mobility needs. Large retailer groups like Sixt have come forward to exploit customer knowledge and multiple brand offerings. For a contract fee, for instance, will this customer go for buying not just a car, but access to a choice of vehicles? A sports car for weekends, perhaps, and a four-wheel drive in the winter – available wherever the customer chooses?

For the supplier, what gives fertile ground to customer-centered initiatives is a strong channel to the aftermarket – with its tantalizing profit margin. The supplier that can access customer information in the aftermarket can then potentially and profitably serve that insight up to the assembler.

Wherever the customer, auto-related services can vastly expand business for the OEM, supplier and retailer. Financial services and the aftermarket are profit levers that are already providing high-end margins. While the sale of the vehicle itself offers only 3.2 percent profit, aftermarket business can reap as much as 53 percent.

It is the supplier, after all, that should know best a seat's customer appeal. That in Europe a wheel device is preferred for seat positioning, and in North America, a lever. It is the supplier that knows customer preferences in navigation systems and other components. While OEM-exclusive suppliers that produce hidden components like electric power systems and axles will not likely have opportunities here, suppliers with a presence downstream are tapping a lucrative channel.

What it will take to mine the customer's full value – across the industry and across the globe – is deep, granular-level, customer knowledge. Advanced information technology, Internet-enabled, takes on pivotal importance as it makes data and customer communications increasingly specific – enabling ultimately one-to-one customer marketing.

The territory here is broad. It is the customer's total lifetime ownership experience. Who will claim the territory? It will help to have the biggest footprint in the marketplace. But just as important will be the keenest eye for the customer.

Networked Value Management

The automotive industry is kaleidoscopically rearranging its participants. OEMs, suppliers, retailers and third parties — historically linear in the value chain — are evolving into a networked circle of more equally empowered business partners. And all are increasingly interdependent.

Even here, though, the fundamental enterprise competencies apply. Cost containment, flexible adaptation to cyclical demand, advanced electronic technology (eTechnology) in business processes, efficient manufacturing operations, supply chain management and customer-centric organization — these are still the ground rules.

OEMs, suppliers, retailers and third parties — historically linear in the value chain — are evolving into a **networked** circle of more equally empowered business partners.

The other important value-enhancing play in recent years — mergers and acquisitions — begins to recede as the most likely marriages are already made. Still, certain suppliers, especially at the Tier 1 level, will continue to explore advantageous alliances to stay relevant in the market. And medium-sized suppliers who choose to grow new capabilities might well pursue the well-chosen alliance.

But value management all along the chain, from OEM to supplier to retailer, is rooted in each organization's ability to compete for the customer's wallet in a networked community. That network features all the established players. But these players shift in identity as they assume new value-enhancing postures and strike advantageous partnerships.

New players are quickly claiming their stake in the customer community. Large retail groups like Sonic Automotive and AutoNation bring customers to the table by selling mobility and product. Internet companies such as AOL and Yahoo leverage their online access to customers. Integrators like Supply Solution provide hosted supply chain coordination, tightening the supply chain and offering value-adding efficiencies. Clearly more are yet to come as they mine lucrative opportunity segments in the networked customer community.

No longer is this the “inside-out” worldview of pushing products to customers. It is the “outside-in” worldview, with customer knowledge inspiring new value-enhancing services and brand positioning.

The value is no longer in the car or the component alone. Just as tangibly it is in working the channels, accessing the Internet and forging vigorous linkages that strengthen the connection with the customer.

The new value management thrives on alliance. On aggressive pursuit of mutual network interests. Companies thus get more definitively focused on their core expertise around technological and related manufacturing processes. Anything else is increasingly outsourced to narrowly defined providers.

This is a democratic circle, wide open to be sure. There is room for everyone. The massive assembler. The start-up with a unique offering.

But who succeeds, who struggles, who collaborates — and who reaches for the future with the surest hand — that dynamic is still swirling. The industry value chain will reshape itself even faster as new ways to package value creation are discovered. The industry increasingly is willing to try new business models, combinations and outsourcing, as companies search for sources of profit and competitive advantage.

The only constant here is the customer. In the middle. With the wallet.

The value is no longer in the car or the component alone. Just as tangibly it is in working the channels, accessing the Internet and forging vigorous linkages that strengthen the connection with the customer.

Integrated Supplier Relationships

Suppliers continue to get bigger and fewer, taking on module and systems development for the assembler. With this transfer of responsibility, the supplier must add value to the assembly process, or else it is a zero-sum game. Building that value comes through innovative product technology and process advances.

But it is a task that demands collaboration. Collaborative product commerce is in fact a condition for effective design and production coordination between OEMs and suppliers, as well as among suppliers. At the end of the day, the suppliers producing interiors and climate control have to come together for assembly.

Better information technologies for managing that process continue to emerge, such as Internet-enabled workflow management and Enterprise Application Integration (EAI).

But the collaborative imperative is also being served by the entry of third-party integrators. The morphing of pure exchange models into integrators of planning and production, as with Covisint, suggests more of these new business models are on the horizon.

Who wins this game? Is it the **innovative** supplier with the capital capacity to invest in technology? Sometimes.

But it could be the supplier that chooses to be the customer champion – with a product visible to the end consumer – and markets direct to the customer. It could be the cost champion, producing a component like axles, playing quantity while optimizing on cost. Or a product technology champion with features to leverage.

The company that wins here is the one that knows what role to take, as well as when and where. This is not an either-or option. More likely it is a decision on the product/technology level. The same supplier, for instance, may choose to be a customer champion in the electronics division and a scale champion with the brakes.

Either way, the same caveat applies: The supplier must be first or second in the target market.

“I Should Talk To Them”

The inroads of opportunity we speak of here — focus on branding, maintaining a customer-centered enterprise, networked value management and integrated supplier relationships — are means to the same end that OEMs, suppliers and retailers have always sought: profitable growth.

Toward that goal, we at Accenture hope that OEMs, suppliers and retailers alike will find some discussable options in the thoughts presented here.

We can work with you to plot your business strategy, build capabilities and execute in the marketplace. We can deliver on technology and manage processes and businesses. We can form ventures to establish new capabilities for your enterprise. Accenture can stay with you from beginning to end or any space in between. Wherever and however we work, our purpose is the same: to help you gain a competitive advantage.

If you have come to this point thinking, “I should talk to them,” we invite you to do so. Our door is open. We would be privileged to discuss how our knowledge and expertise might advance the success of your enterprise.

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