Roland Berger

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# Increasing challenges for automotive suppliers as global vehicle production declines and margin pressure grows

- **Sales decline in China hits suppliers**
- **Cost reductions at OEMs add to financial pressure for suppliers**
- **High investments required for trends like autonomous driving and electric mobility**
- **Financial flexibility, cost management and active portfolio management will be key to success in the new environment**

Munich / Frankfurt, August 2019 – The global automotive supplier industry is facing difficult times: In the first six months of 2019, vehicle production declined by 5% compared to the first half of 2018. For the full year 2019, an average EBIT margin of around 6% is expected, the lowest figure since 2012. These are the key findings of the new "Global Automotive Supplier Study 2019" (Download study here) from Roland Berger and Lazard. The study analyzed performance indicators of approximately 600 suppliers around the globe to assess the current state of the industry, as well as trends and challenges.

"The main drivers of the production decline are weak Chinese sales figures for passenger cars as well as a global economic slowdown. In addition, the market faces structural changes around the growing trend of electrified mobility", explains Felix Mogge, Partner at Roland Berger. "International trade tensions and ongoing cost cutting programs at the OEMs add to these pressures."

**Overcapacities due to slowing growth in China**

China has served as a growth engine for the global automotive industry in recent years. However, the trade conflict with the US has significantly changed market conditions. For example, automobile sales in China in the first half of 2019 decreased by double-digit percentage points compared to the same period a year earlier. "The growth forecasts had been positive and many suppliers built up additional capacities," says Felix Mogge. "At some suppliers, 60 to 70 percent of new capacities remain unused.”

**Access to capital more difficult**

In this new environment, suppliers should ensure that they have sufficient long-term financial leeway. Access to capital could become more difficult given weak markets. "Many equity investors prefer sectors other than the cyclical automotive industry. At the same time, banks are becoming more restrictive with credit financing – which particularly affects smaller suppliers in product areas that will come under structural pressure in the future," says Christof Söndermann, Managing Director at Lazard. In addition, the number of M&A transactions in the supplier sector is declining in 2019. Chinese companies in particular, which have been significant buyers of supplier companies in recent years, are much less active now.

**New trends increase pressure to invest**

Suppliers also need financial flexibility to benefit from major trends in the automotive industry: digitization, new mobility business models, autonomous driving and e-mobility. These trends are putting the entire industry, from OEMs to suppliers, under pressure to invest. For many projects, it is difficult to predict when, or if, these investments will turn profitable. At the same time, OEMs are trying to reduce their costs, including through purchasing saving programs, which in turn affects suppliers.

Established suppliers face a difficult balancing act. They have to manage their traditional business profitably while at the same time they cannot afford to ignore the industry’s transformative changes. In this context, large and financially solid companies tend to be in a better position than smaller companies in commodity segments.

**Suppliers need individual strategies**

The study shows there is no universal remedy to master these challenges. Every supplier must find the right strategic approach based on its own situation and market position. In general, many suppliers need to become more flexible in order to keep pace with rapid technological developments. "Above all, they need agile structures and procedures in their organization - and many should consider cooperative arrangements," advises Roland Berger partner Mogge.

Active portfolio management is just as important. "Suppliers must decide whether they can achieve or defend market leadership in areas that are stagnating or shrinking in the long term. If so, they should foster this business and focus on efficiency improvements and cash flow generation. Otherwise, they should consider an exit," says Christof Söndermann at Lazard. "Cash generated from these activities should be invested in areas in which the company has a realistic chance for profitable growth."

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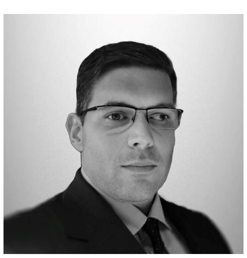

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