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Disruptive impact of “new mobility” makes for a bumpy road ahead as the auto industry prepares for the future

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Electrification and the “Death of Diesel” sees heavy spending on new mobility, but slowing sales and shrinking profits leads to bumpy road ahead, says AlixPartners study

The report highlights some of the challenges the industry faces going forwards:

• Automakers could incur a $60-billion pre-tax profit hit through 2023

• 86% of Chinese consumers and 59% of UK consumers polled say internal-combustion engines should be banned or further regulated

• Suppliers could see margins drop by as much as 40%, as vehicle electrification reduces the value of components by 85%

• Dealers to face 20% margin declines and a $1,300 per-vehicle drop in service-and-parts revenue

• 140 powertrain plants, or around 40% of the worldwide total, could be in need of restructuring or closure

London (June 26 2019) – The automotive industry faces a significant profit drain as it contends with massive spending on new-mobility programs, starting with electric vehicles (EV), and stagnation in key markets globally. Consumers surveyed in seven bellwether auto markets—China, Germany, Japan, Norway, the United Kingdom, the United States and California (surveyed separately)—say they generally not only feel positive about EVs but large numbers, including 86% of Chinese consumers, 59% of consumers in the UK, and 50% of consumers in the United States, say internal-combustion-engine (ICE) vehicles should be banned or further regulated.

Automakers could incur a $60-billion pre-tax hit to their profits through 2023, and suppliers could see their profit margins drop by up to 40% by 2021. Additionally, dealers are predicted to see 20% margin declines, including $1,300 less revenue per vehicle in service and parts due to vehicle-electrification alone.

The AlixPartners annual study, now in its 16th year, projects that industry spending earmarked for electrification has grown 25% over the past year and will reach $297 billion by 2023. The amount targeted for autonomous-vehicle (AV) technologies through that same period is now up to $75 billion. One significant result of this revolution under the bonnet: As many as 140 powertrain plants, or around 40% of the worldwide total, could be “in play” (i.e. in need of restructuring or closure), according to the report.

In addition, the study forecasts that maintaining dual ICE and EV powertrains could cost automakers on average $2.3 billion per year per vehicle platform—a sobering prospect, as most automakers are currently confronted with no other option. This is coupled with the aftereffects of dieselgate, with Europe’s diesel share falling from 52% in 2015 to 36% in 2018. Diesel’s share of the market is predicted to fall as low as 10% in countries such as the UK and France by 2030, while EVs will make up over 40% of these respective markets. This also helps explain why 25% in the UK say their next vehicle is likely to be an EV.

Regarding suppliers, the study finds that mass vehicle electrification in the auto industry will reduce the value of traditional auto suppliers’ components by 85%. The average number of powertrain components could drop from 1,500 for today’s ICE powertrains to just 230 for EV ones, contributing to the forecasted 40% drop in pre-tax margins by 2021.

On the retail front, the study finds that dealers stand to see $1,300 per vehicle in service-and-parts revenue totally evaporate due to vehicle electrification alone, as an estimated 35% of scheduled maintenance for today’s vehicles will become moot with EVs. Overall, says the study, dealers are facing as much as 20% revenue and 20% gross-margin declines due to the industry’s switch-over to new mobility—and that to maintain profitability, dealers should both examine their current cost structures critically and look for new pools of revenue sources.

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Overall, the study forecasts that the global auto market will grow at an annual rate of just 1.6% through to 2026, and that this year sales in the all-important China market will fall dramatically, to 24.8 million units (from 27 million in 2018). The UK market is forecast to only have a slight decline, falling to 2.7 million units (vs. 2.9 million last year), before returning to a likely 2.9 million in 2023.

Among the other findings in the study:

• The European market is forecast to be 20.4 million units this year, down from 20.6 million in 2018, with electric vehicles predicted to capture at least 40% of that market by 2030, largely due to strict government regulations of CO_2 coupled with the aftereffects of the “Dieselgate” scandal earlier this decade. Meanwhile, sales in Western Europe are forecast to shrink 0.5% per year through to 2026.

• Breakeven points—the point at which revenues catch up with costs—have risen dramatically in recent years for both European and American automakers. For the biggest automakers in the US the average breakeven point is up 18% this decade, and for the biggest four European companies the average is up 22%. One reason breakeven points are up: automakers have added 400,000 jobs since the Great Recession period, the study finds.

• Nearly half (48%) of ICE-powertrain suppliers are continuing to invest in ICE projects or otherwise remaining status quo vis-à-vis making moves (such as investment or divestments) toward new mobility—a strategy that the study calls “risky.”

• On the M&A front, though slightly down from 2017 both volume and value of automotive deals remained relatively high last year, at c.140 deals and $38 billion, respectively. Importantly, the portion of those deals tied to new mobility also remained high: 55% of the deals last year, worth $21 billion (vs. 50% and $25 billion, respectively, in 2017). Meanwhile, private-equity deals in automotive also remained relatively steady, albeit with smaller transactions, with 54 deals worth $8.6 billion undertaken last year (vs. 92 deals worth $14.7 billion the year before).

Andrew Bergbaum, AlixPartners’ automotive leader and a Managing Director at the firm said:

“This industry needs to brace for some sizeable bumps ahead, profit wise, as the necessary spending on new mobility ramps up just as key markets around the world continue to cool. It is the perfect storm and those that emerge successfully from this will be determined by the action they take in the next few months, not years. We are at a pivotal moment in the automotive industry’s evolution and this is not a time for small tweaks. Success and long-term future relevance require bold decisions and significant investments to underpin dramatic transformations of operations and in many cases entire business models.”

Nick Parker, a Director in AlixPartners’ automotive practice added:

“Whether you’re a manufacturer, supplier, dealer, rental-car company, finance provider or even a tech company, the future is going to be littered with those who either make the wrong bets or who don’t take suitably decisive action to ensure their bets pay off. By far the biggest disruption in this industry’s history is around the corner and being prepared for it will be a lot tougher than many thought even just six or eight months ago. However, this has never been an industry for the faint-hearted, and with bold strategies coupled to a strong focus on end results, today’s leading players can accomplish great things over the next few years, just as this industry’s founders did over a century ago.”

About the Study

The study, The AlixPartners Global Automotive Outlook, was based on months-long analysis of data from both public and proprietary sources, and included an online survey of consumers age 18 and older possessing driver’s licenses conducted May 1-28, 2019, in Greater China (1,108 respondents), Germany (1,008), Japan (1,033), Norway (1,031), the United Kingdom (1,030), the United States (2,385), and California (surveyed separately, 1,019).

About AlixPartners

AlixPartners is a results-driven global consulting firm that specializes in helping businesses successfully address their most complex and critical challenges. Our clients include companies, corporate boards, law firms, investment banks, private equity firms, and others. Founded in 1981, AlixPartners is headquartered in New York, and has offices in more than 20 cities around the world. For more information, visit www.alixpartners.com.

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