

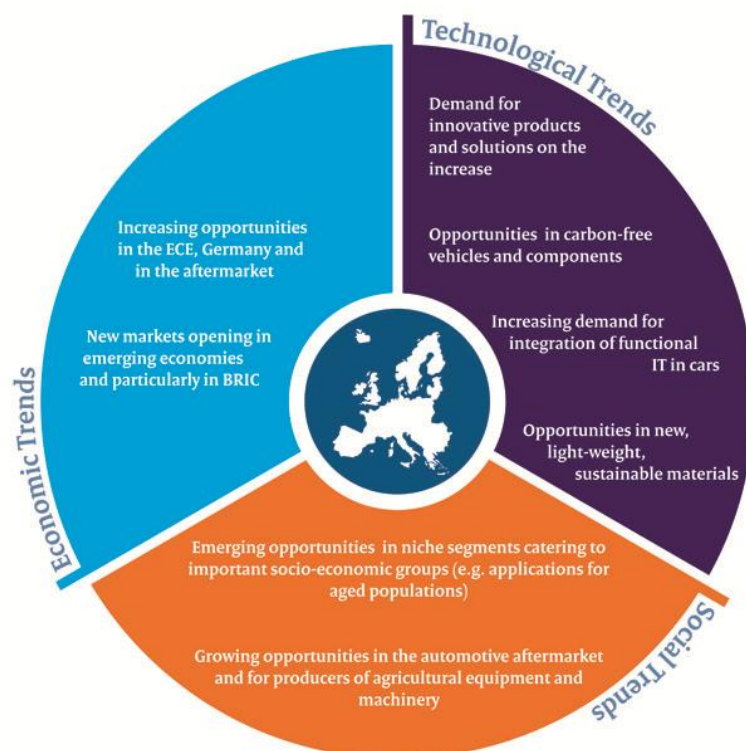


CBI Trend Mapping for Automotive Parts and Components

'Insights and foresights on key European market dynamics'

Although the European market is expected to stagnate over the short/medium term, there are still opportunities to be explored by DC exporters in some of the countries and sectors, particularly in Germany, the ECE, and in the aftermarket. The European automotive industry is currently shaped by a number of powerful forces, such as: intensified global competition and resulting higher cost pressures; fierce rivalry in the area of innovation; increasing scarcity and prices of raw materials; steady loss of competitiveness in Western Europe and the parallel capacity build-up in the emerging economies; changing socio-demographic landscape; and last, but not least, extensive structural shifts between OEMs and suppliers.

Economic, Social and Technological Opportunities in the European Automotive Parts and Components Sector



Social Market Drivers

TREND 1: Changing socio-demographic composition will create opportunities in niche markets

Europe is undergoing quite radical and dynamic changes in its socio-demographic composition and the carmakers have the challenge of deciding what type of car and for what type of buyer they will design, produce and market in the future.

ST/LT Foresights

- The European population will continue to age, and the population growth will continue to be driven by immigrant populations, creating an ever greater diversity in the potential consumer base. With ageing, there will be a greater number of drivers who will have special needs in relation to such things as comfort, eyesight support, etc.
- Urbanisation will progress, creating overpopulation and congestion in some urban areas and resulting in increasing demand for different solutions, such as smaller cars.
- The income disparity and a gap between the haves and the have-nots will continue to grow.
- Car producers will need to know their consumers better and will need to provide more varied options compatible with individual and emerging social groups.

Opportunities/Considerations for Action

- Specialise in niche components which are in demand by different segments of the population, e.g. parts related to safety, comfort, special needs, as such components are likely to have higher margins than more standardised parts, as well as being in greater demand.
- Consider developing products for smaller and ultra-low-cost cars and partnering with companies which have these products on their European platforms.
- Target the low-cost or premium sectors, as these will expand at the cost of the mid-price sector.
- It will be essential to have good market research or to partner with companies which have very good market knowledge. Increase your capacity to produce for shorter product cycles, and with more variety in terms of colours, shapes, functionalities and possibly cost-effective individualised products.

TREND 2: Changing attitudes towards car ownership means that producers need to find strategies

The attitudes of European consumers towards owning cars are changing. The need for mobility remains high but is accompanied by new pressures and aspirations, such as environmental concerns, urbanisation, demand for differentiation, and increased energy prices.

ST/LT Foresights

- The car will increasingly become less a prized possession and more a means of transport for the modern consumer. Consumers will increasingly look for mobility, rather than simply owning a car. As city congestion intensifies and petrol prices increase, some will decrease their mileage and others will opt out of car ownership altogether.

Opportunities/Considerations for Action

- Enter into partnerships with companies which understand the direction in which the market is going, rather than with companies which do not change their traditional strategies.

- Consumers will increasingly focus on sustainable and environmentally-friendly products.
- The biggest challenge for current and future carmakers in Europe will be to know how to persuade European consumers to buy new cars. This is likely to result in shorter product cycles and in a more varied and customised offering (including different colours, shapes and functionalities).
- Growing populations will put pressure on the food market and will drive the demand for agricultural machinery.
- Focus on producing sustainable and environmentally-friendly products, especially those made from organic and biodegradable local materials.
- As new cars sales stagnate and the market will continue to consist of replacement cars, the aftermarket is expected to grow, creating new opportunities. Enter the aftermarket as it is expected to sustain stable growth.
- Produce for the agricultural machinery market, where market growth is high and the competition is less intense.

Technological Market Drivers

TREND 1: Increasing innovation and know-how will improve market opportunities

Currently Europe is driving innovation within the automotive industry but the competition in this field is expected to intensify, especially as non-traditional players attempt to enter or to strengthen their position in the market.

ST/LT Foresights

- Europe will retain its innovation lead in the short and medium-term but it will be threatened by the growing technological capacity in the emerging economies as expertise and innovation increasingly migrate to emerging economies.
- New players will include countries like China and India, which are investing massively in their technological know-how and R&D.
- Other new players will come from sectors traditionally not linked to the automotive sector (e.g. Google or Apple), but who have the technologies which consumers will want to see in their vehicles.
- The traditional automotive industry is becoming increasingly less attractive to talented people, which might result in a shortage of skilled personnel to fill its automotive positions.

Opportunities/Considerations for Action

- Research local trends and assess whether any of your own or other local products could be considered innovative in the European market. Enter into strategic partnerships in order to improve your capabilities.
- Consider partnering with Chinese or Indian companies in order to acquire some of their know-how and to become a potential supplier that they might take with them when they expand into Europe.
- Keep in touch with what is considered innovative through reading the trade press, and approach your buyers proactively with genuinely interesting products and solutions.
- Invest in improving your technological and R&D capacities and in attracting a talented and skilled workforce. Create internship and financing opportunities for bright local students and young engineers.

TREND 2: Early entry into the carbon-free vehicle market will create advantages

Increasing environmental concerns, as well as concerns over the price and scarcity of oil, have been creating a favourable environment for the development and adoption of new propulsion/electric powertrains and putting into question the long-term viability of combustion engines.

ST/LT Foresights

- Committing to e-vehicles will require significant investments on the part of the OEMs. Commercial prospects may be uncertain. In the short and medium-term, the OEMs will continue to struggle with some technological obstacles relating to batteries, such as product cost, autonomy, functionality and safety, but eventually these issues will be resolved.
- Different companies are developing different technologies, and right now it is not clear which of these technologies will prevail. The company, which develops an efficient carbon-free car, will be the winner in the automotive marketplace in the long-run. The companies which do not invest and develop products in this field run the risk of being outflanked by newcomers.

Opportunities/Considerations for Action

- Develop know-how in different carbon-free technologies through partnerships with European and Chinese companies (approach them with subcontracting opportunities, in particular if you can offer labour-intensive components at a lower price).
- Specialise in components and technologies connected to carbon-free vehicles. Try to diversify your options among various technologies and enter into more than one partnership. Since this playing field is not yet saturated, you could benefit from early entry.

TREND 3: Integrating IT in cars will continue to increase

Both on the technology and on the demand side, attention is shifting to less traditional functionalities for the passenger, with today's consumer expecting a range of electronics to be incorporated in the car, and demanding increased reliability.

ST/LT Foresights

- As the technology continues to improve, car reliability will increase, leading to older car fleets and an increased demand for replacement wear and tear parts.
- Connectivity in cars will be the strongest technological trend in the short and the medium-term.
- The trend towards incorporation of ICT in

Opportunities/Considerations for Action

- Specialise in high volume wear and tear replacement and spare parts in the aftermarket. Enter into partnership and subcontracting agreements with spare parts wholesalers.
- Invest in your knowledge and technological capacities in order to be able to provide products which are in demand. Investigate whether you can produce any parts that capitalise on connectivity or other functional technological trends.
- Consider entering into partnerships with local IT

passenger and other vehicles will continue to intensify.

- There will be an on-going change in the types of products produced and procured. Product lifecycles will increasingly become shorter as customers start demanding products that suit their lifestyles.

companies (especially ones with interesting proprietary software or hardware that could be incorporated in vehicles) to gain from their ideas and to create unique solutions.

- Be flexible in your production capabilities, designing and creating a production platform that is versatile, adaptable and which can accommodate different and varied products.

TREND 4: Importers will increasingly look for innovative, lightweight and sustainable materials

Adoption of new materials is a very important driver for the development and implementation of new manufacturing technologies. The variety of materials used in automotive design is steadily increasing and there is a clear trend towards the use of specific materials for specific purposes.

ST/LT Foresights

- Hybrid materials and composites will increasingly be in demand, as will biodegradable materials for interior parts. The industry will continue to look for better material solutions in the mid and long-term, and materials are expected to continue evolving.
- The industry is also increasingly turning towards light-weight materials in the short and mid-term (such as aluminium, plastics, and nanomaterials) which help the industry to meet economic and environmental requirements.

Opportunities/Considerations for Action

- Research opportunities in light-weight, sustainable and/or biodegradable materials. Investigate the local solutions/trends/patents.
- Research opportunities in new materials that can be used for traditional components, such as dashboards, seats, etc. Give priority to materials that can be sourced locally (e.g. materials made from fibres such as jute, flax, hemp, rubbers, or composite materials made of organic inputs).

Economic Market Drivers

TREND 1: Despite the stagnation of automotive production and consumption in most of Western Europe, there are opportunities in ECE countries and in the aftermarket

ST/LT Foresights

- 2012 is expected to witness a 2% decline in Europe as the new car demand will continue to stagnate/decline over the next 5-10 years. As the demand for new cars continues to stall, the average age of the car park will continue to increase, creating opportunities in the aftermarket.
- In the short and medium-term, Western

Opportunities/Considerations for Action

- Increases in the average age of the car park create opportunities for replacement parts (new or overhauled). DC exporters should enter into partnerships with spare parts wholesalers and retailers and specialise in high-volume, labour-intensive replacement parts.
- DC exporters can successfully compete with ECE

European production will increasingly relocate to East and Central Europe (ECE) in order to benefit from lower production costs and a growing regional demand.

- In the short and medium-term, some European OEMs will need to close a part of their Western plants to counter their widespread overcapacity (currently concentrated in France, Italy and Spain), while other more competitive countries such as Germany and the ECE countries will continue to prosper.
- Cost pressures are expected to continue to intensify across the entire value chain resulting in consolidation, production outsourcing to lower-cost countries, and increasing parts sourcing from overseas, with OEMs developing capacity in “best-cost” countries and moving low-end production overseas.
- The OEMs will increasingly outsource more responsibility to their 1st tier suppliers, making the two more and more interdependent and increasing supplier power as they jealously guard their know-how.

if they can deliver comparable quality at a lower price (thanks to lower labour costs). It is also worthwhile researching export opportunities to ECE countries (in particular, to high growth countries such as the Czech Republic and Poland), and following growing automotive demand.

- Decide carefully to which countries you want to export. Germany, Spain, France, the UK and the Czech Republic are the largest European markets, but only Germany and the Czech Republic (in addition to other ECE countries) demonstrate sustained sector growth. On the other hand, Southern Europe will be looking for cheaper parts and components, so they may be an interesting market for DC exports in the short-term.
- Improve your competitiveness through better know-how, technologies, production efficiency, etc. Offer subcontracting agreements to major components/systems suppliers. Reduce fixed costs and increase the scale of production through consolidating your operations and optimising your production, or through entering into partnerships with other DC producers.
- Improve your technological and R&D capacities to become more of a partner to your European buyers. Continue to innovate to add value to your product.

TREND 2: Fast Growth in the Emerging Countries, particularly BRIC, opens up new markets for DC exporters

While the European automotive market is mature and oversaturated, the emerging markets, and especially BRIC, boast low car density and large populations, which provide the basis for significant growth.

ST/LT Foresights

- In the short and medium-term, Asia will continue its extraordinarily rapid development both as a production location and as a consumption zone. China, in particular, will continue to be the world’s leading market.

Opportunities/Considerations for Action

- Enter into partnerships with Asian (particularly Chinese) companies to take advantage of their growing markets and in order to sharpen your production capacity and increase your know-how.

- The core automotive market will continue to move to emerging Asian economies; however, as wages in China increase, it will become easier for other DC producers to compete as outsourcing locations.
 - There will be an increased focus on premium markets in Asia and an increased investment in local capacity building, but European companies will increasingly face Asian competition as local production picks up.
 - Chinese and Indian automotive players will increasingly attempt to enter the European market, possibly through a niche segment (e.g. ultra-low-cost cars or electric vehicles).
- Enter into partnerships with European companies which outsource their production to lower-cost countries (e.g. providing component sub-assembly) with a view to supplying them in Europe once you have developed a solid business relationship.
 - Try to participate in the premium markets in Asia (as a partner of both Asian and European companies) in order to learn new technologies and to become a producer capable of supplying premium products to the European and to the local market.
 - Enter into partnerships with Chinese and Indian companies which are planning to expand into Europe. It is likely that they will bring their local suppliers with them (consider specialising in their niche products).

This survey was compiled for CBI by Global Intelligence Alliance
in collaboration with CBI sector expert Jan Oude Elferink

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