Leading Research

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booz&co.

2011 U.S. Automotive Survey
Is the U.S. Auto Industry Ready for Economic Recovery?

Background

- The U.S. automotive industry is currently emerging from one of the most tumultuous periods of its 100-plus-year history—a period that has significantly altered the landscape
- Though the industry has come a long way during the past two years, it still has far to go to address fundamental weaknesses and return to sustained profitability
- To help address these important issues, Booz & Company, with *strategy+business* magazine, examined the current state of the U.S. automotive industry. The study broadly touched on three key themes:
  – State of the overall industry
  – The outlook for OEMs and suppliers coming out of the downturn
  – Key challenges and what companies are doing (or are planning to do) in response
- More than 200 original equipment manufacturer (OEM) and supplier executives participated in the study; a quarter are either C-level or executive vice presidents

Executive Summary (1 of 2)

- Executives have a fairly sober view of the overall state of the industry and believe it is only somewhat better than it was during the depths of early 2009. Almost two-thirds of respondents say the industry restructuring did not go far enough in addressing fundamental structural weaknesses
- Approximately 30% of respondents expect the failure of an OEM within the next 24 months
- Greater discipline in vehicle production and pricing and continued emphasis on developing better vehicles are viewed as essential for restructuring the industry going forward
- While leading auto industry forecasters predict that light vehicle sales will rise to more than 16 million in 2015, up from 11.6 million vehicles in 2010, our survey respondents expect a much more modest uptick, to only 13.5 million in 2013 and 14.5 million in 2015
- This less optimistic view stems largely from uncertainty about the economy, credit availability, and overall demand
- Despite this, approximately 25% of respondents expect their company's revenue growth in 2011 to exceed 15%, and more than 80% expect their company to gain market share over the next 36 months

Executive Summary (2 of 2)

- OEMs confirm the importance of product, superior quality, and differentiated positioning as essential for success
- Suppliers cite improving their cost position, high QRD, and supporting OEMs globally as essential for success
- Approximately 75% of respondents expect alternative powertrain penetration to be less than 20% by 2020
- About 90% of executives believe that China-based OEMs will reach product parity with vehicles sold in the U.S. within 10 years. Branding and consumer perception is cited as the most significant hurdle that Chinese OEMs will face in gaining consumer acceptance
- In summary, the U.S. auto industry is in a period of extraordinary transition. Despite all the real improvements in efficiency, quality, and lean practices, many executives are still bracing for further change

Industry Restructuring

Market & Company Sales Outlook

Key Challenges

Keys to Winning

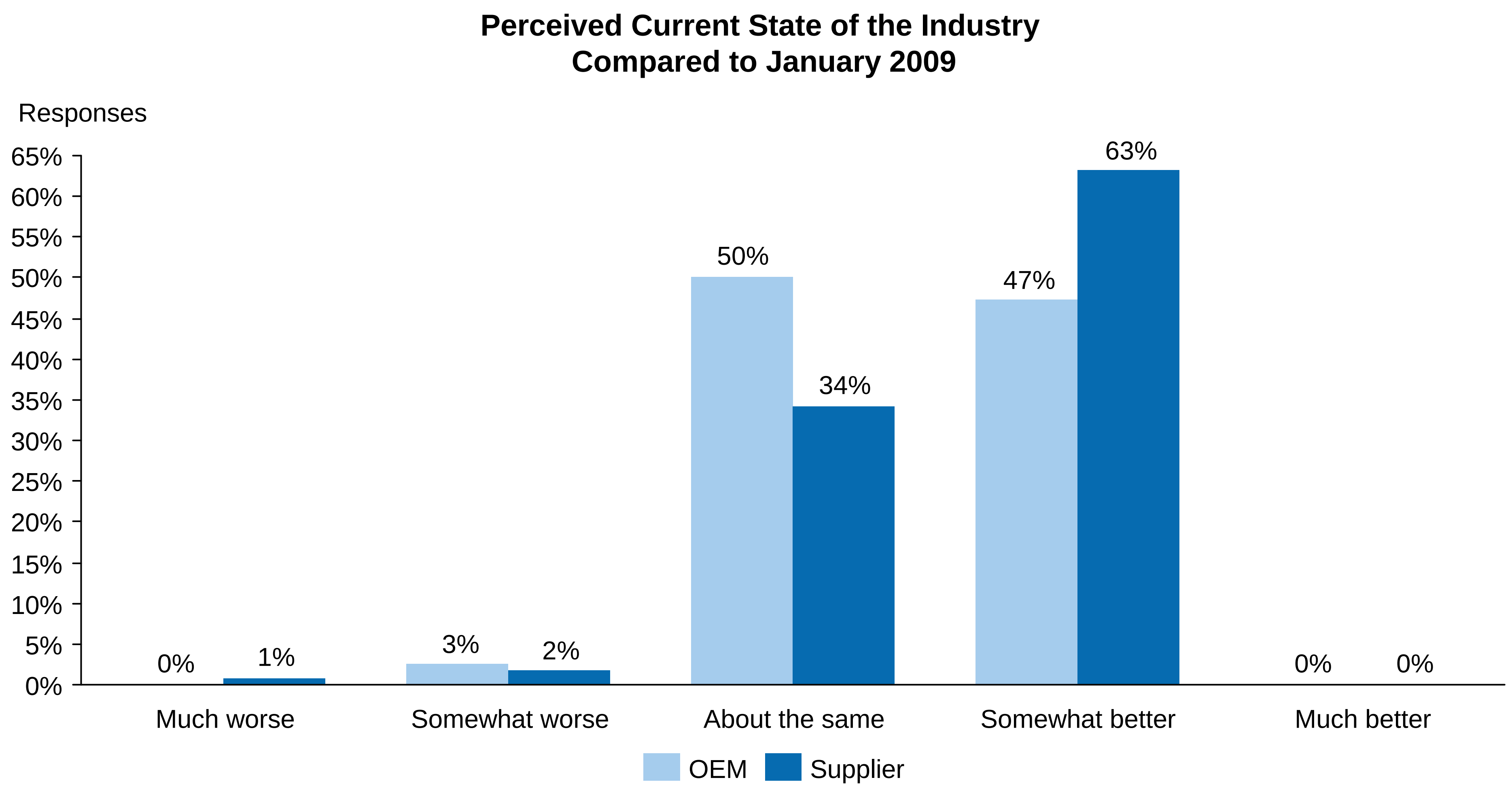
Alternative Powertrains

Chinese Entrants

Respondent Profile

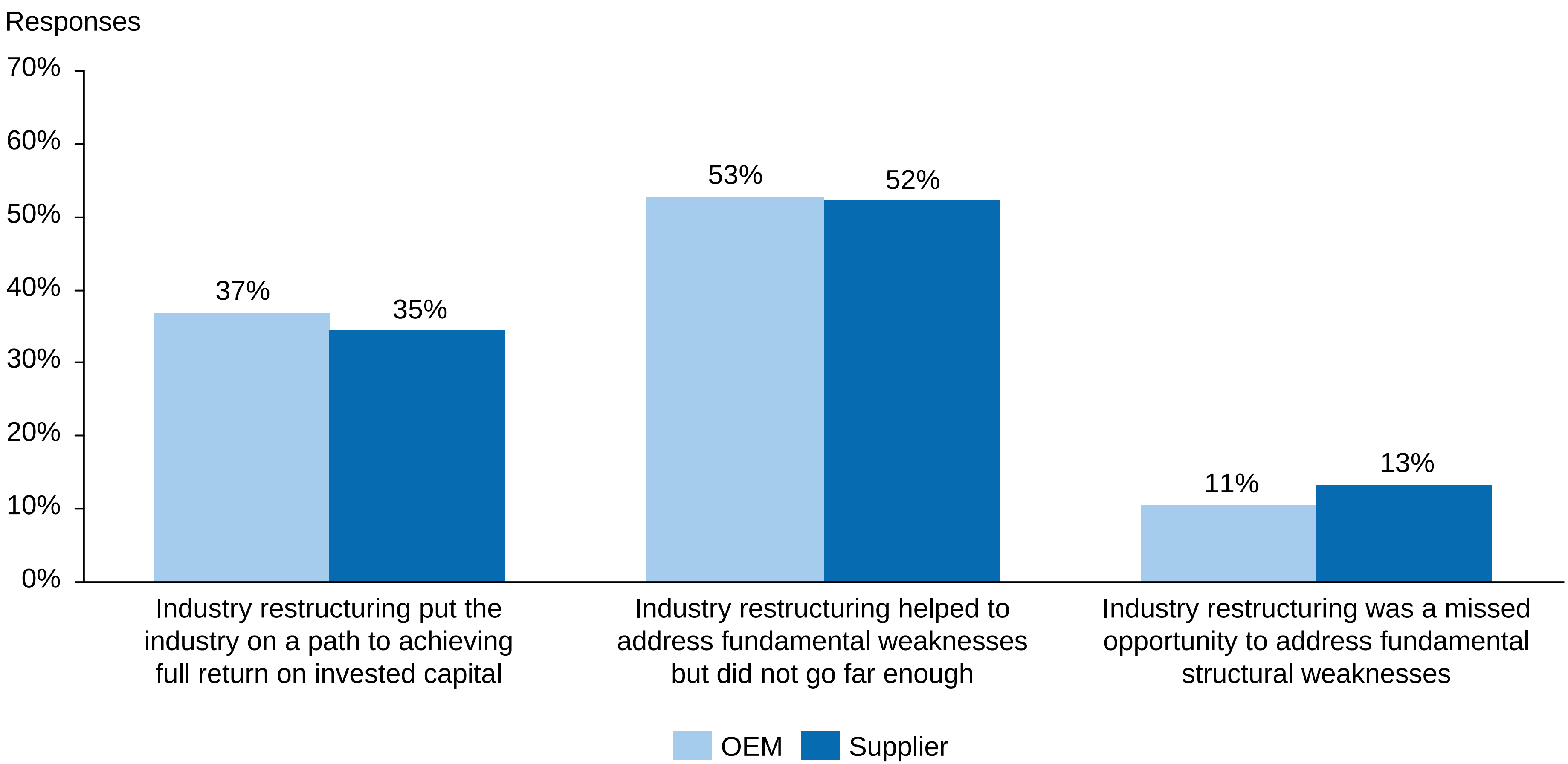
About Booz & Company

Executives view the overall state of the industry as fairly similar to, or only somewhat better than, its low point in January 2009



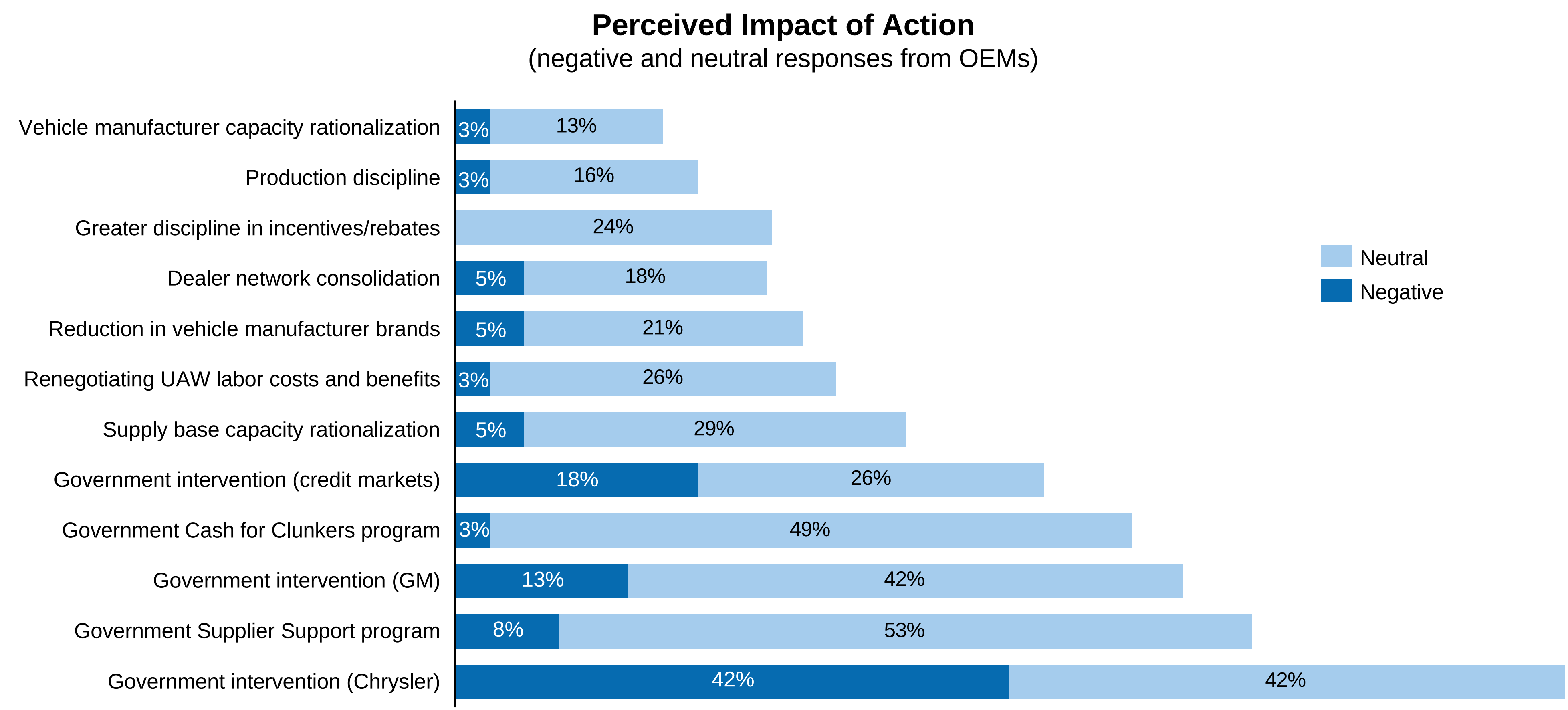
Almost two-thirds say the industry restructuring did not go far enough in addressing fundamental structural weaknesses

Impact of Restructuring on Future Profitability



Note: Numbers may not add up due to rounding.

OEMs view capacity reduction, production discipline, dealer consolidation, and incentive and rebate discipline as having the most positive impact on industry restructuring



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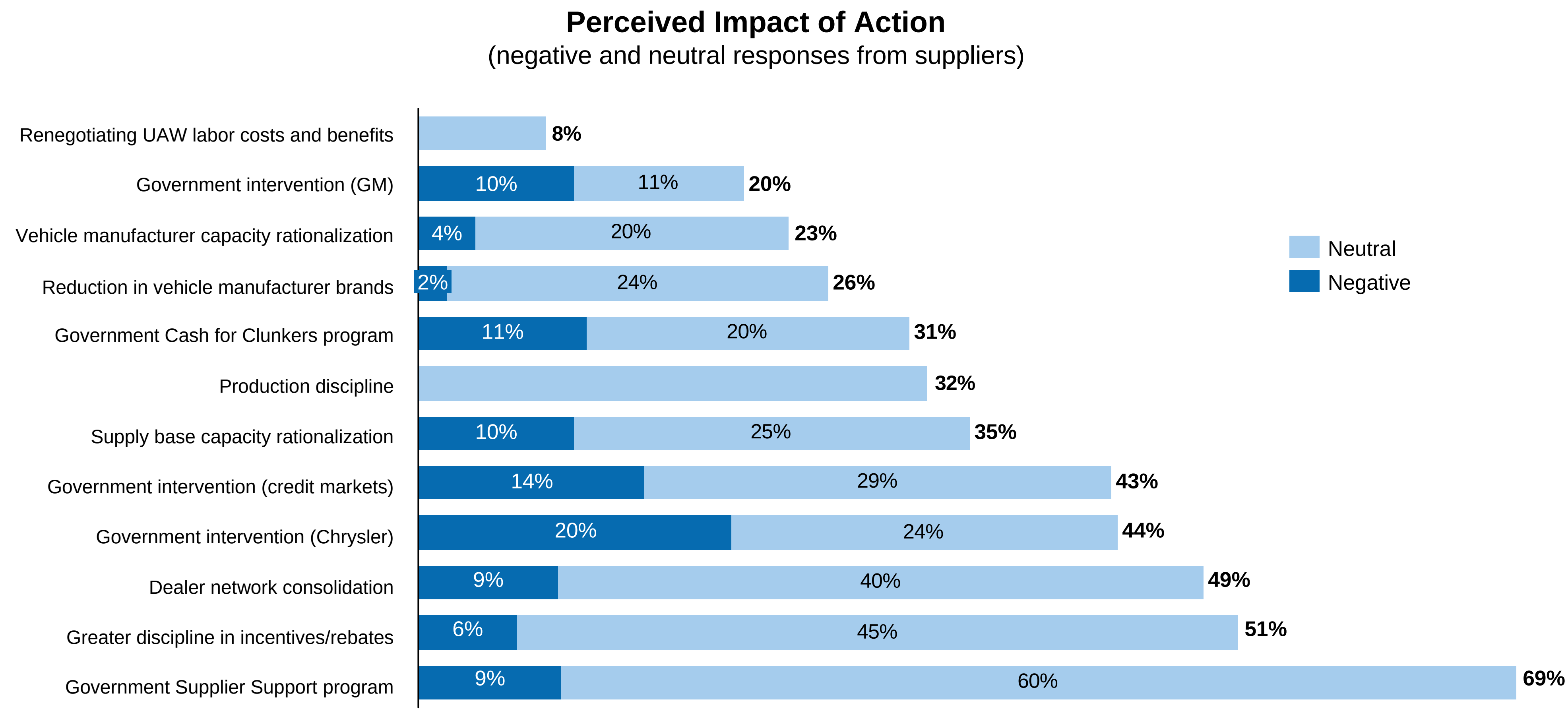
Meanwhile, suppliers felt that addressing UAW labor costs and the government intervention in GM had the most positive impact—the Supplier Support program was largely viewed as ineffective



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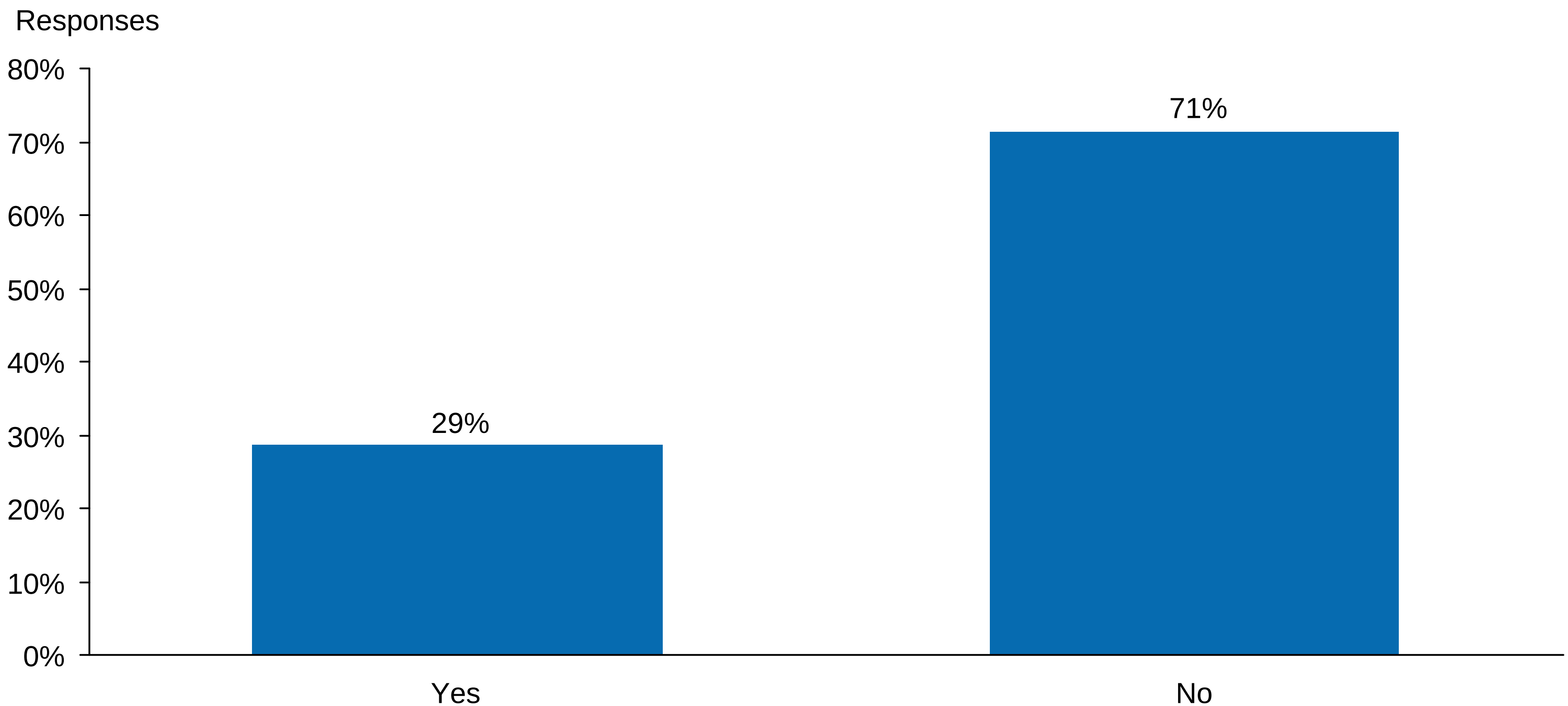
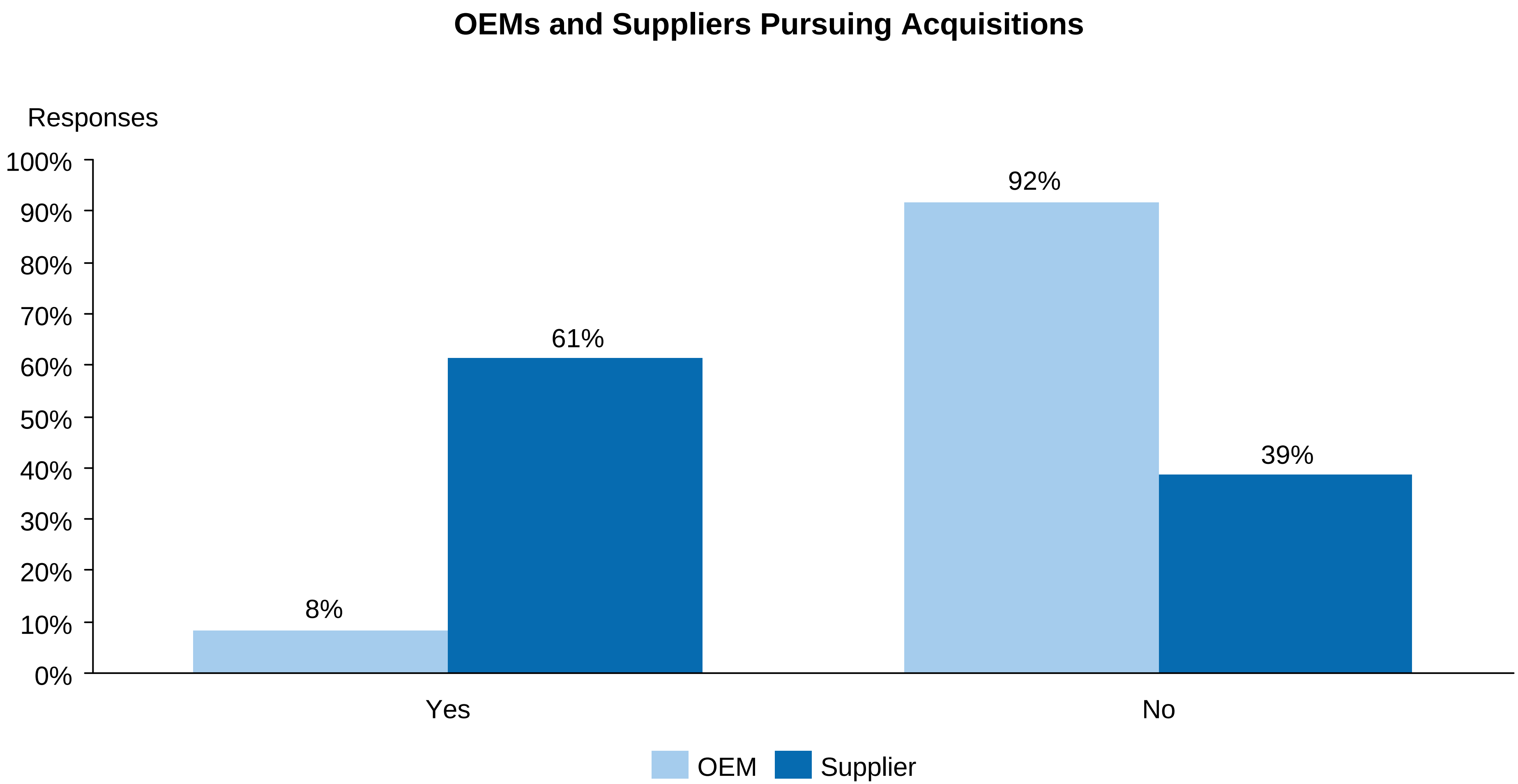
Even after the restructuring of the past two years, almost 30% of respondents expect the failure of an OEM in the next 24 months

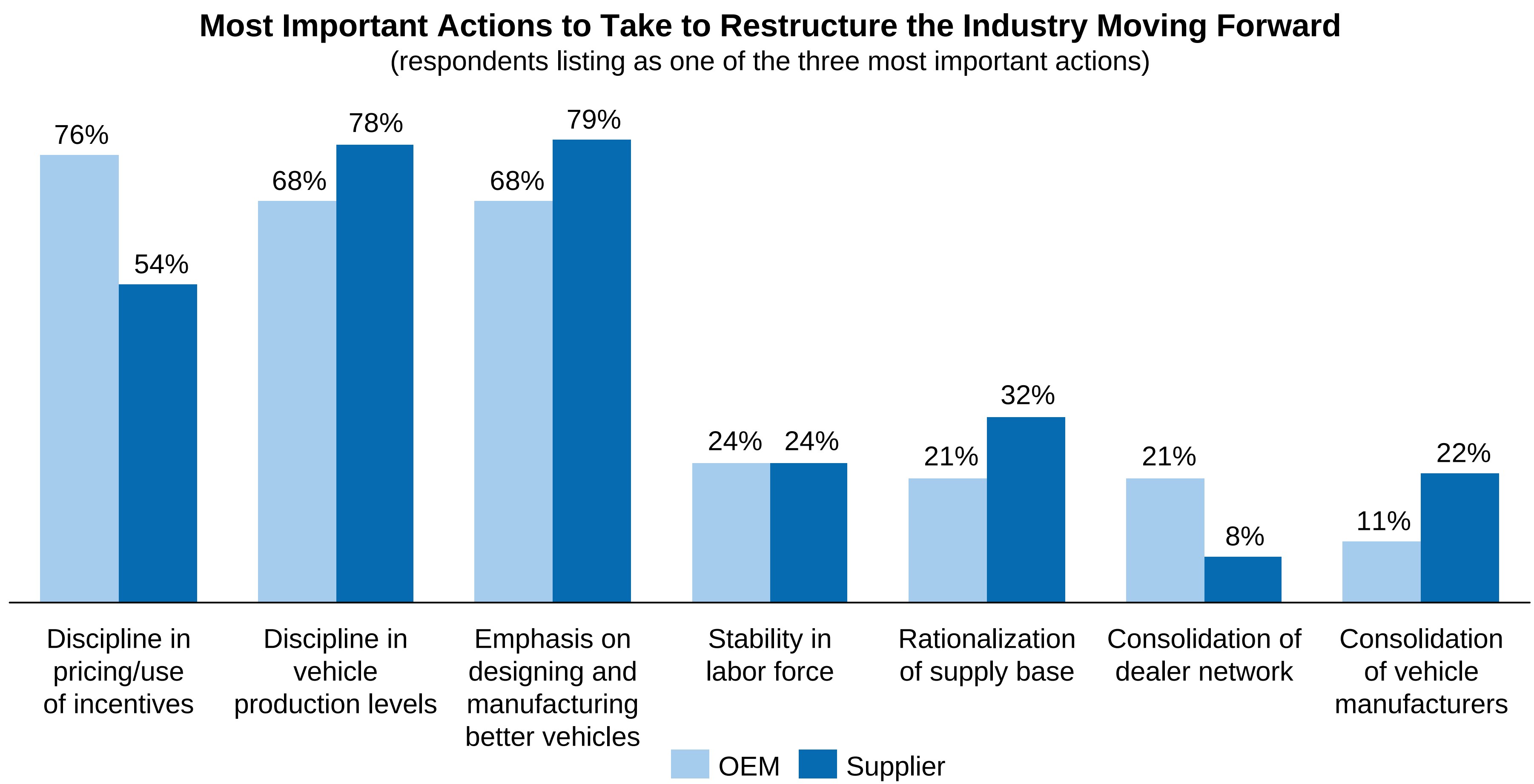
Respondents Expecting an OEM to Fail Within the Next 24 Months



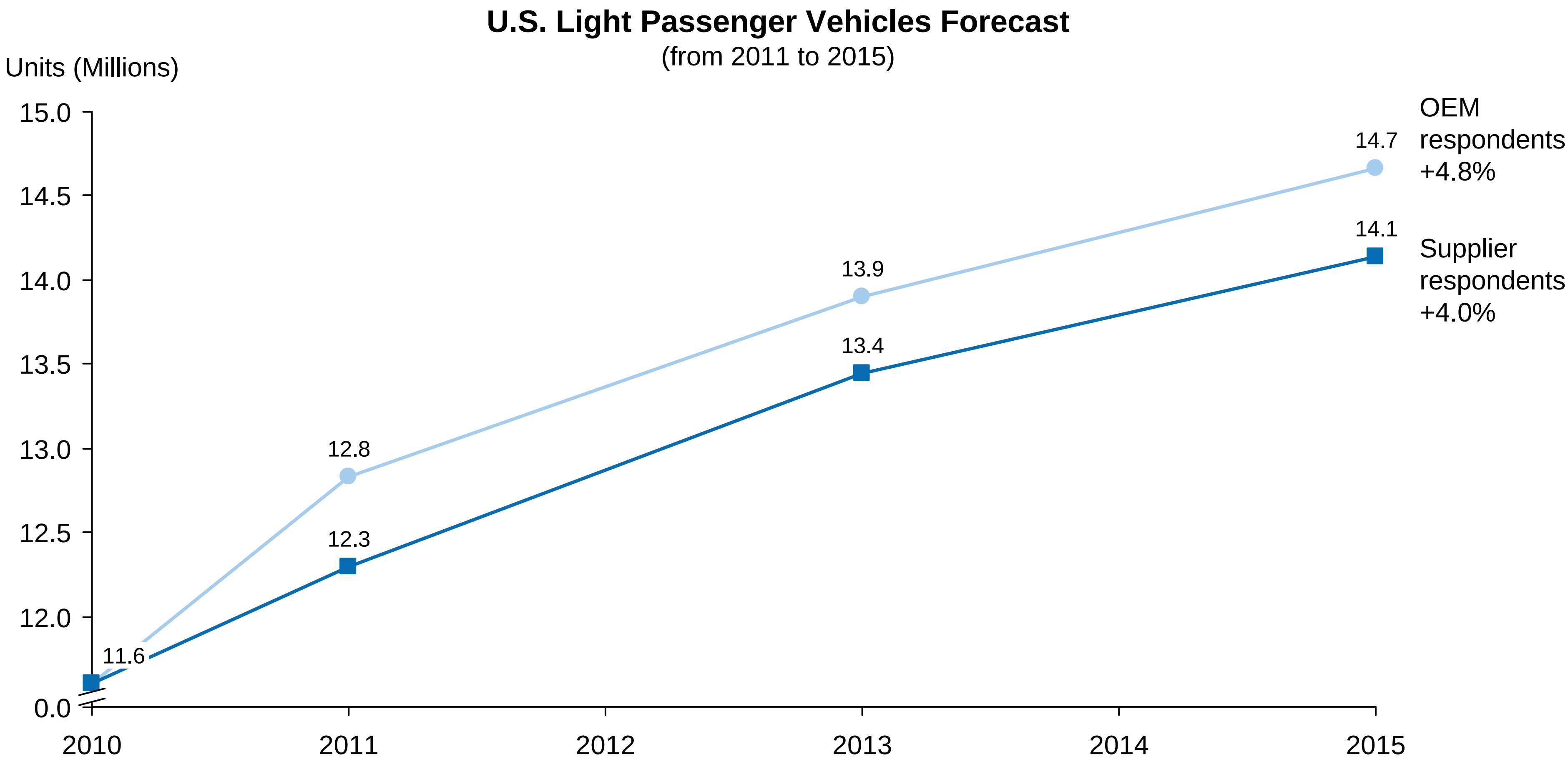
Furthermore, more than 60% of suppliers surveyed are actively pursuing acquisitions



Greater discipline in vehicle production and pricing and continued emphasis on better products are viewed as the keys for restructuring the industry going forward

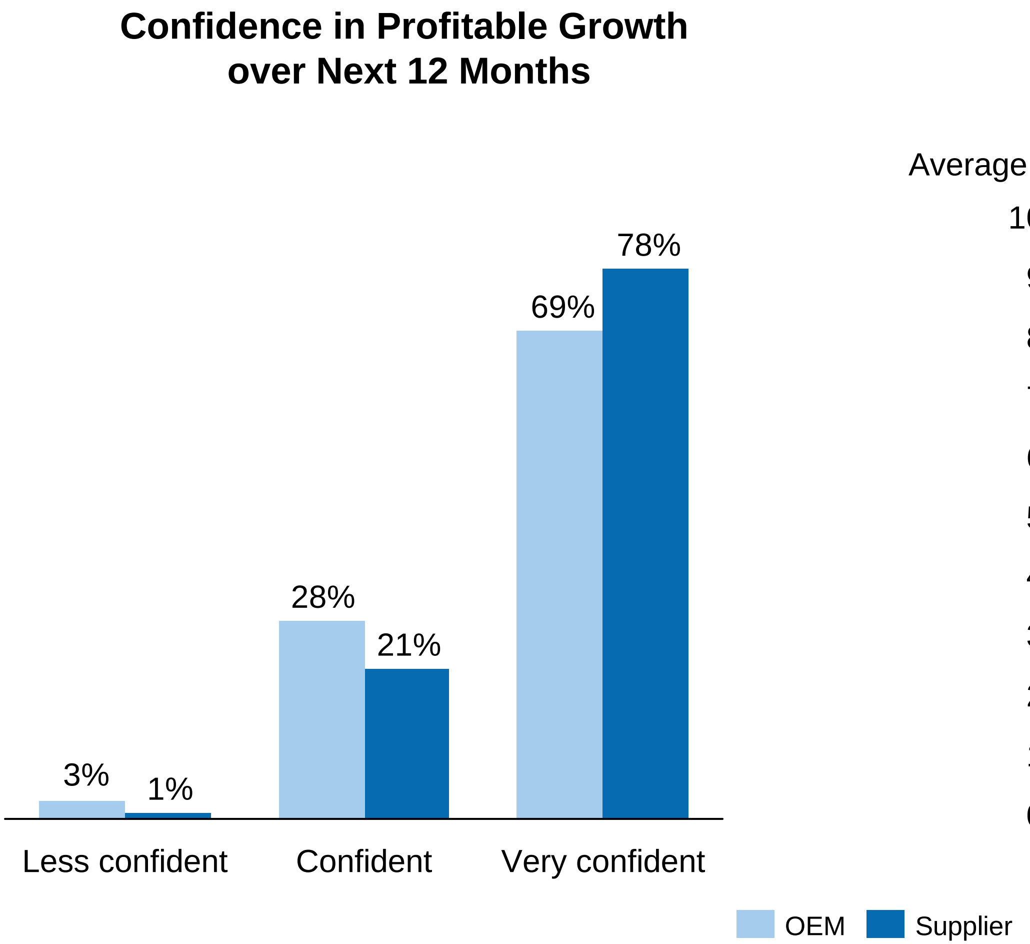


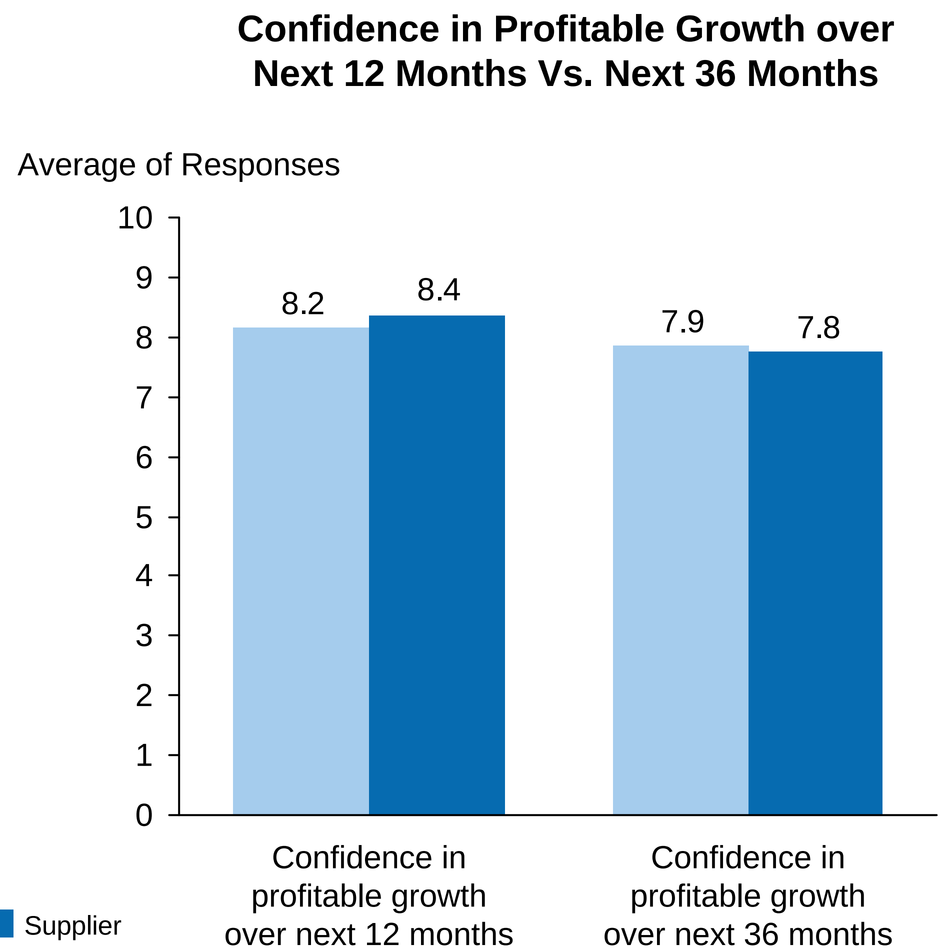
OEMs and suppliers predict U.S. light vehicle sales will grow 4% to 5% annually from 2010 to 2015



Note: Leading auto industry forecasters have predicted a more dramatic rebound in post-recession U.S. auto sales, from 11.6 million in 2010 to 16 to 17 million in the next four years.

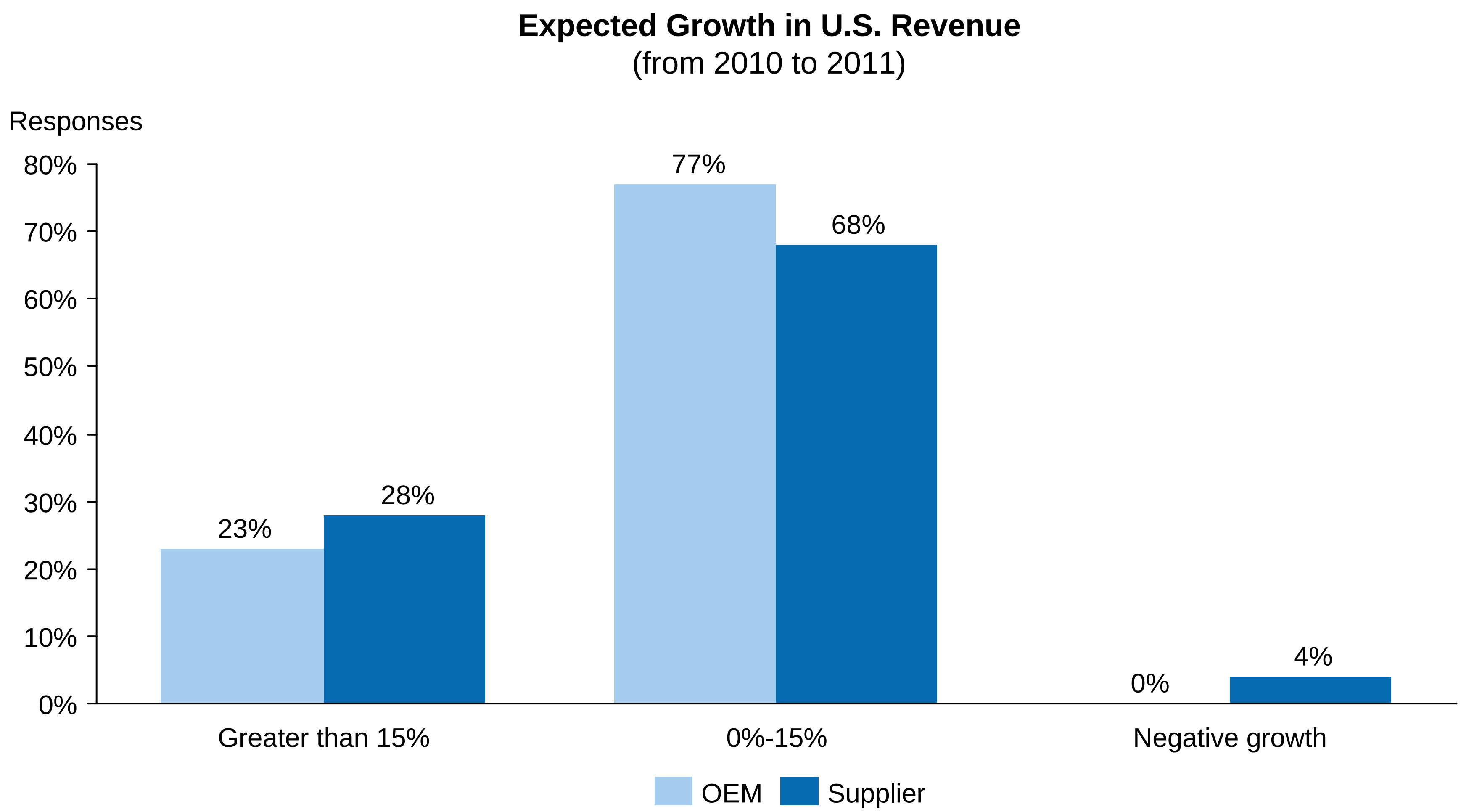
Both OEMs and suppliers are optimistic about achieving profitable revenue growth in 2011, slightly less so in 2012 and 2013



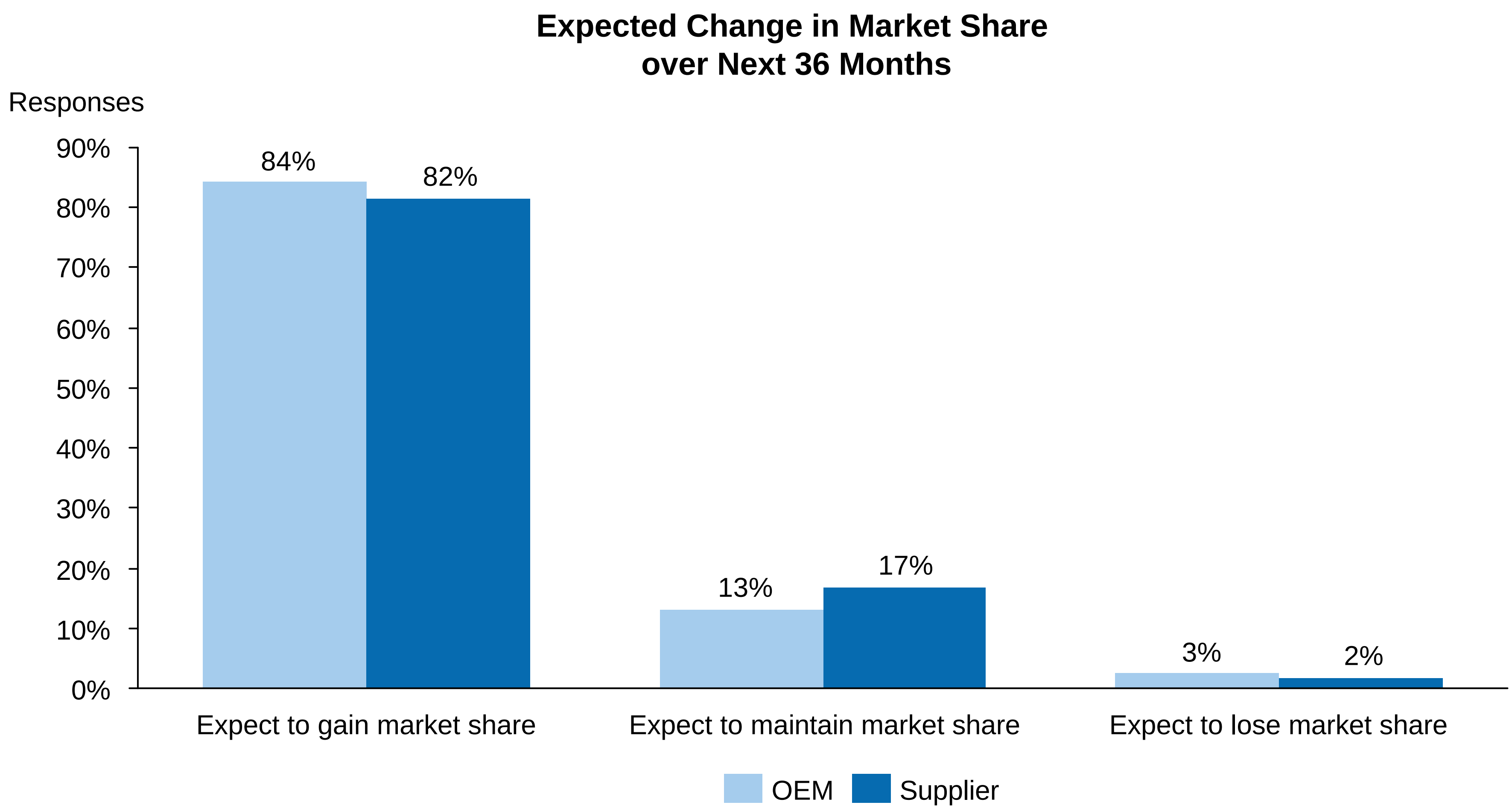


Notes: Interview scale of 1 to 10: less confident = 1 to 4, confident = 5 to 7, very confident = 8 to 10. Numbers may not add up due to rounding.

Approximately 25% of respondents expect revenue growth in 2011 to exceed 15%



More than 80% of survey respondents expect to gain market share in the next 36 months



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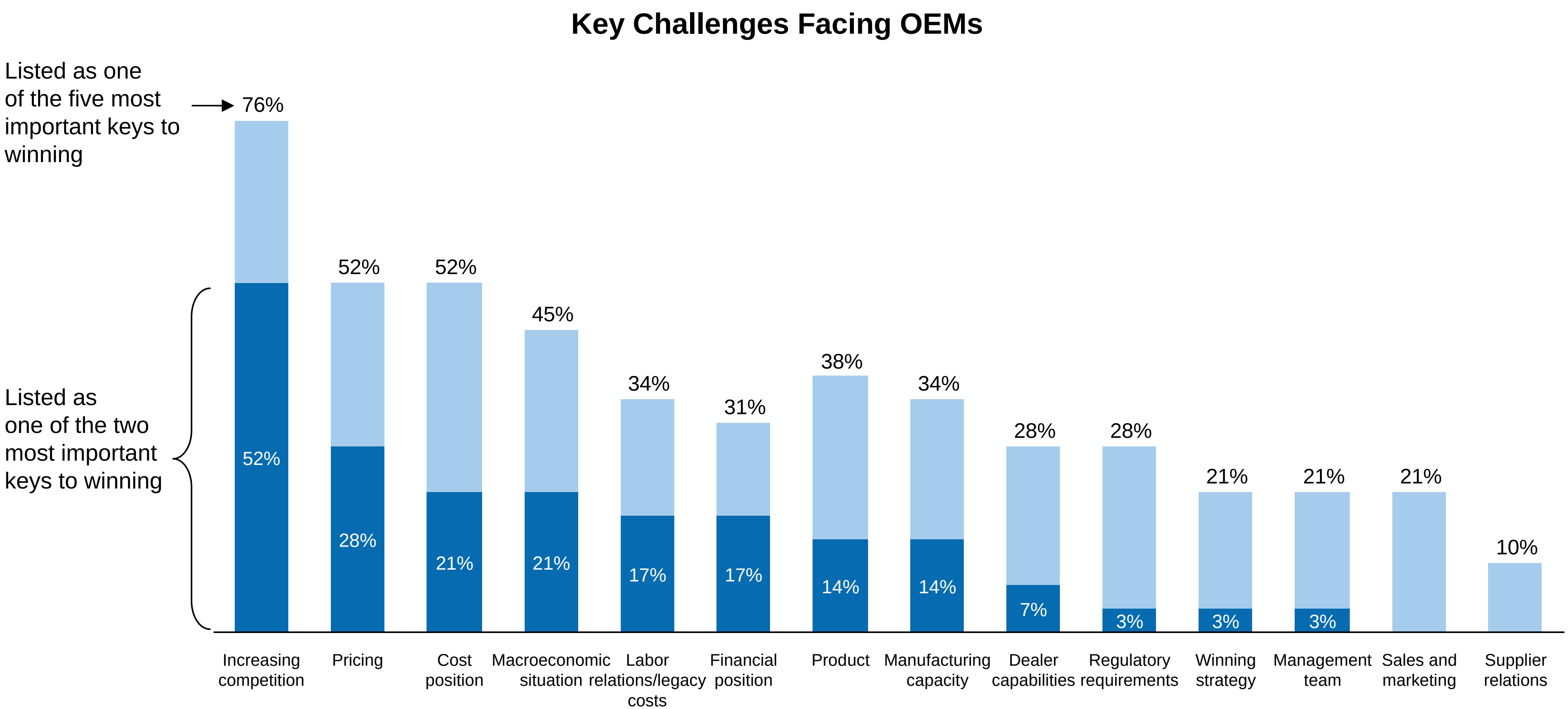
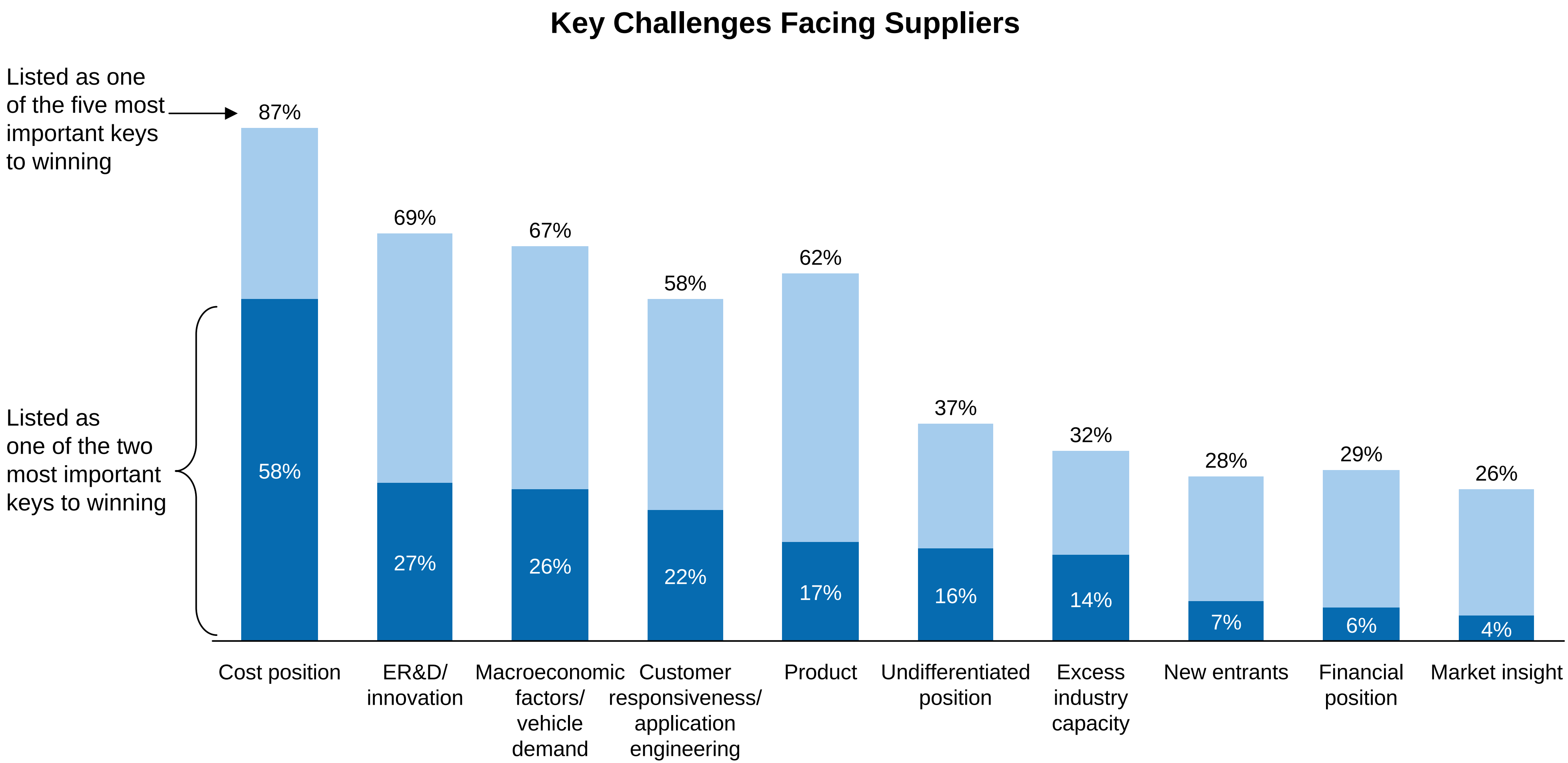
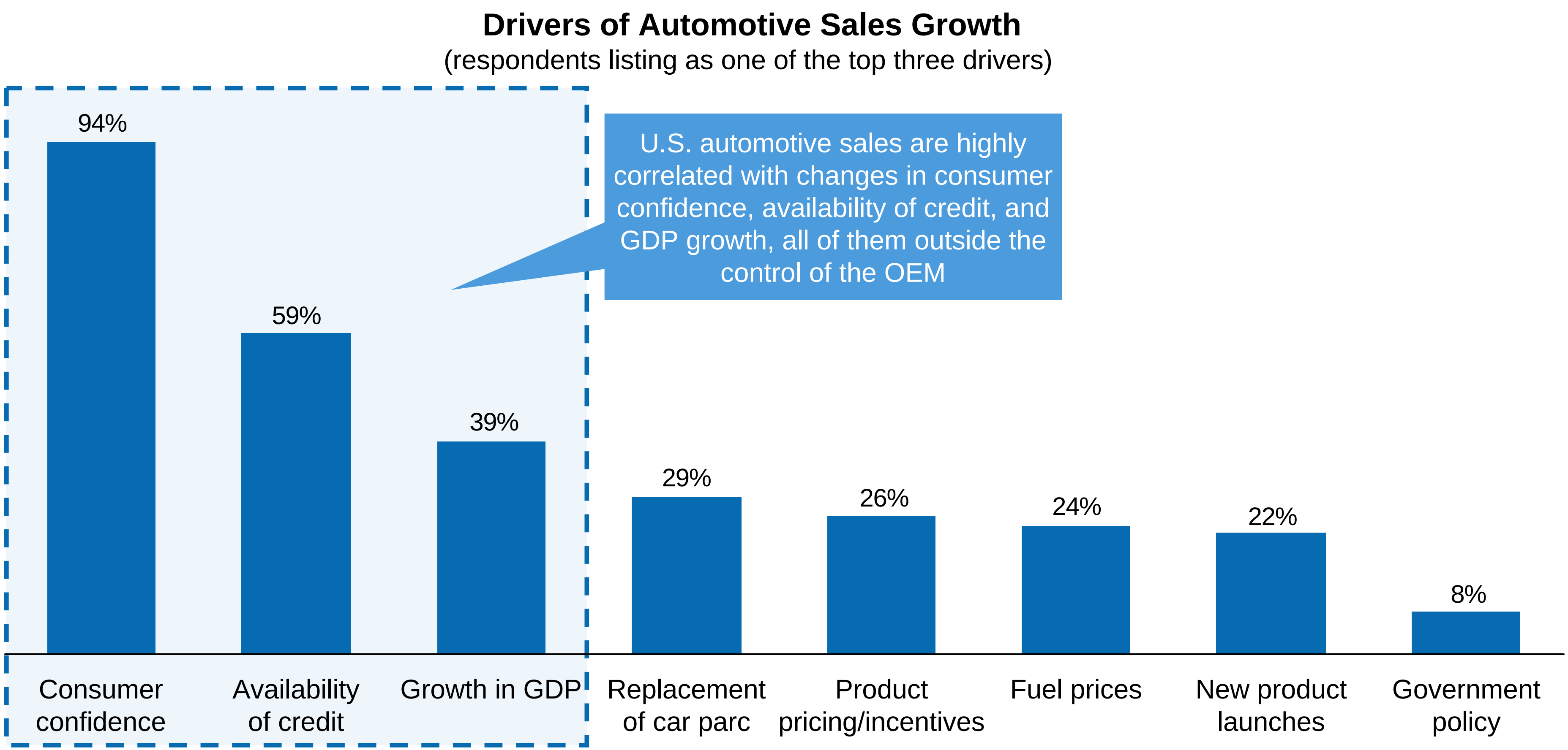
OEMs cite increasing competition as their main challenge going forward; interestingly, supplier relations are of little concern



Suppliers cite improving their cost position and developing better ER&D/innovation capabilities as their greatest challenges



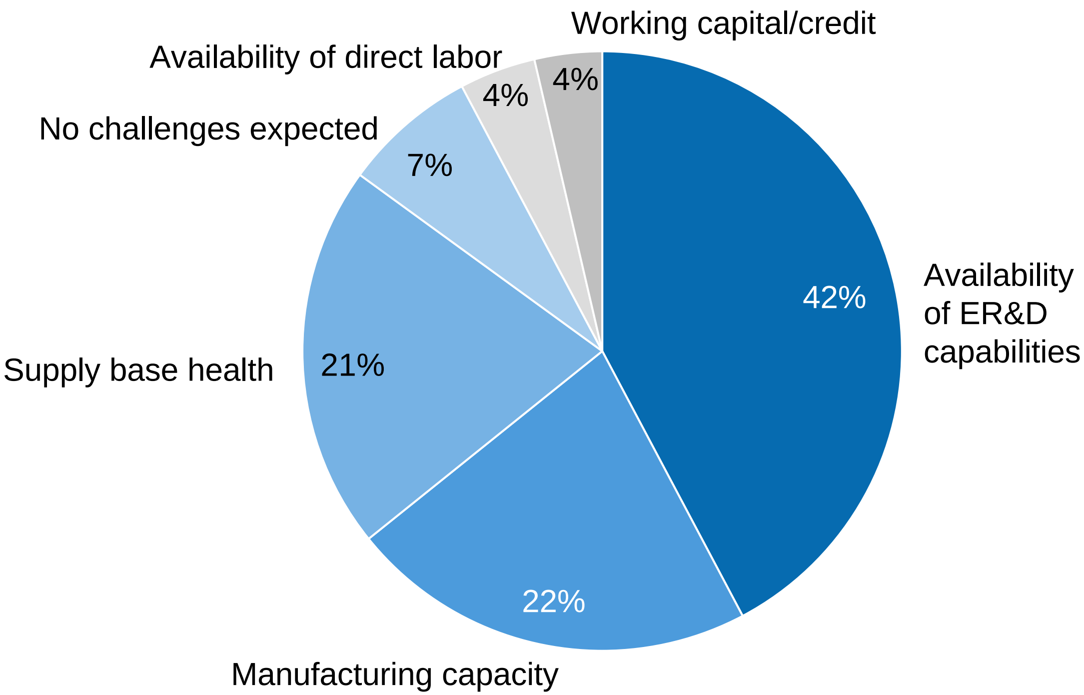
Improved consumer confidence and availability of credit will drive the market rebound



Listed as #1 driver	60%	10%	10%	6%	7%	2%	4%	1%

More than 40% of all supplier respondents cite insufficient ER&D capabilities as their main obstacle to near-term growth

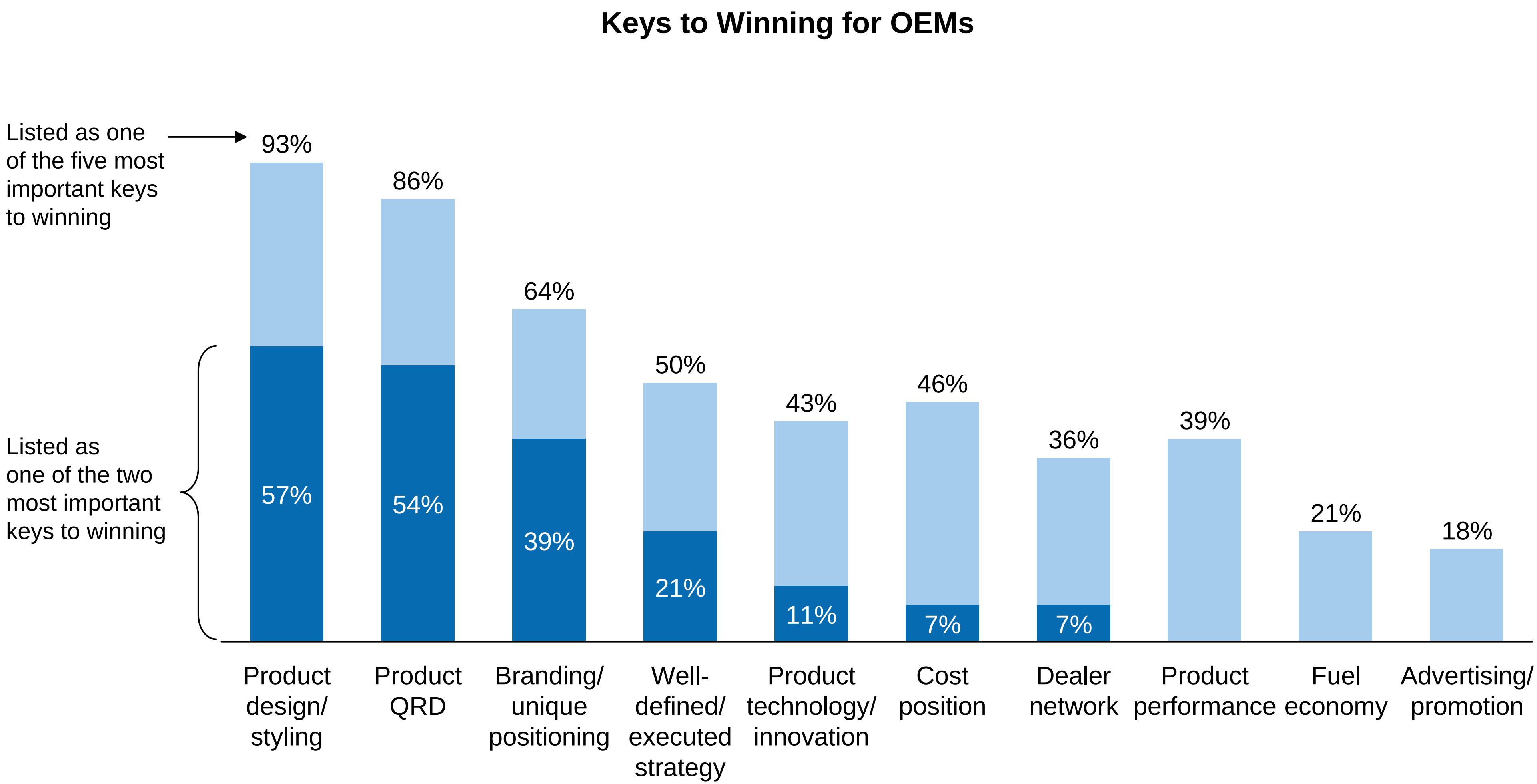
Obstacles to Growth for Suppliers



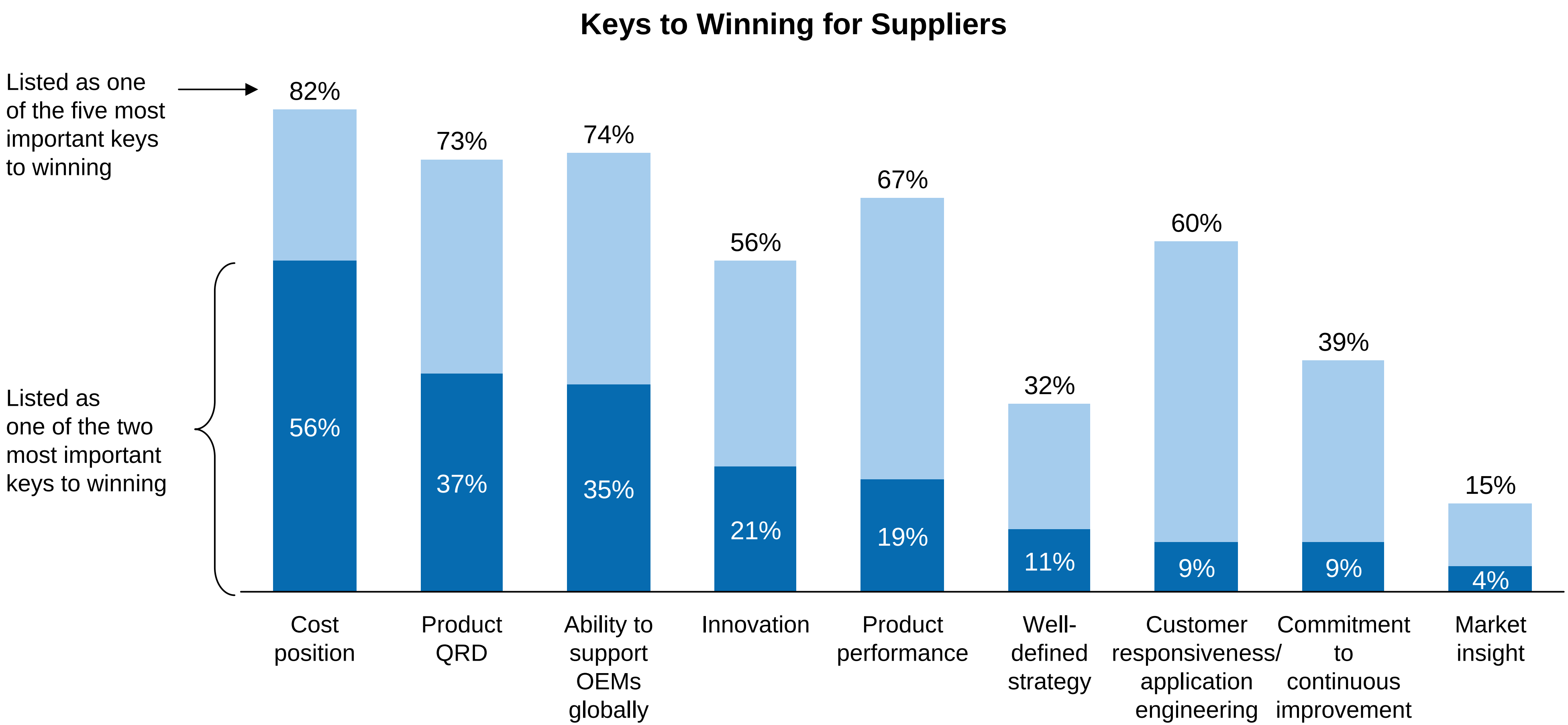
Near-Term Supplier Challenges

- The industry is having difficulty finding sufficient ER&D talent to assist in the innovation process and product launches
- Suppliers are also concerned about having adequate capacity to meet increased demand
- Parts shortages started to cripple assembly facilities even before the earthquake in Japan further stressed the supply chain

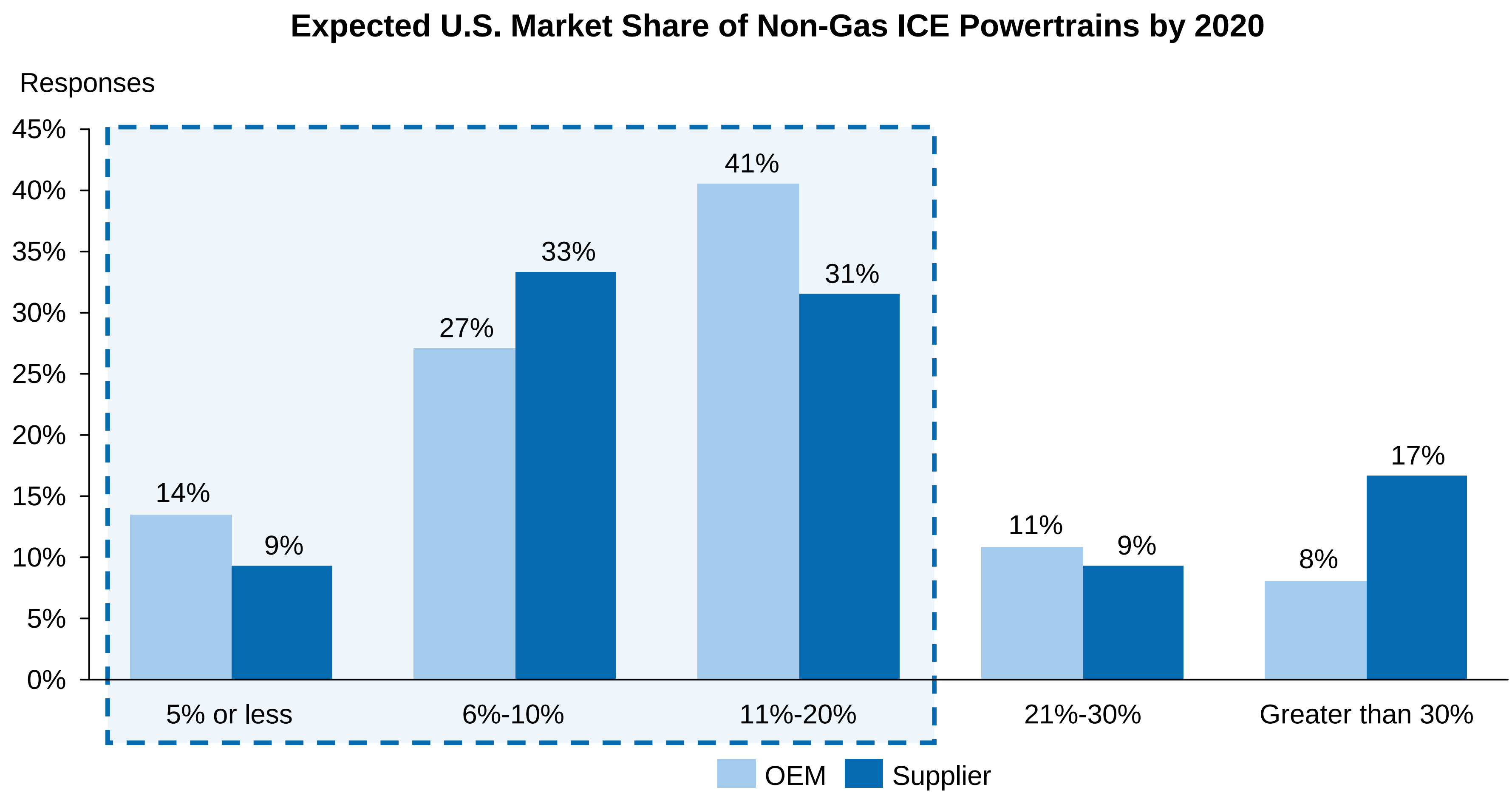
OEMs confirm the importance of product, superior quality, and differentiated positioning as keys to winning



Suppliers cite competitive cost, high QRD, and supporting OEMs globally as keys to winning, with a well-defined strategy and market insight coming in surprisingly low



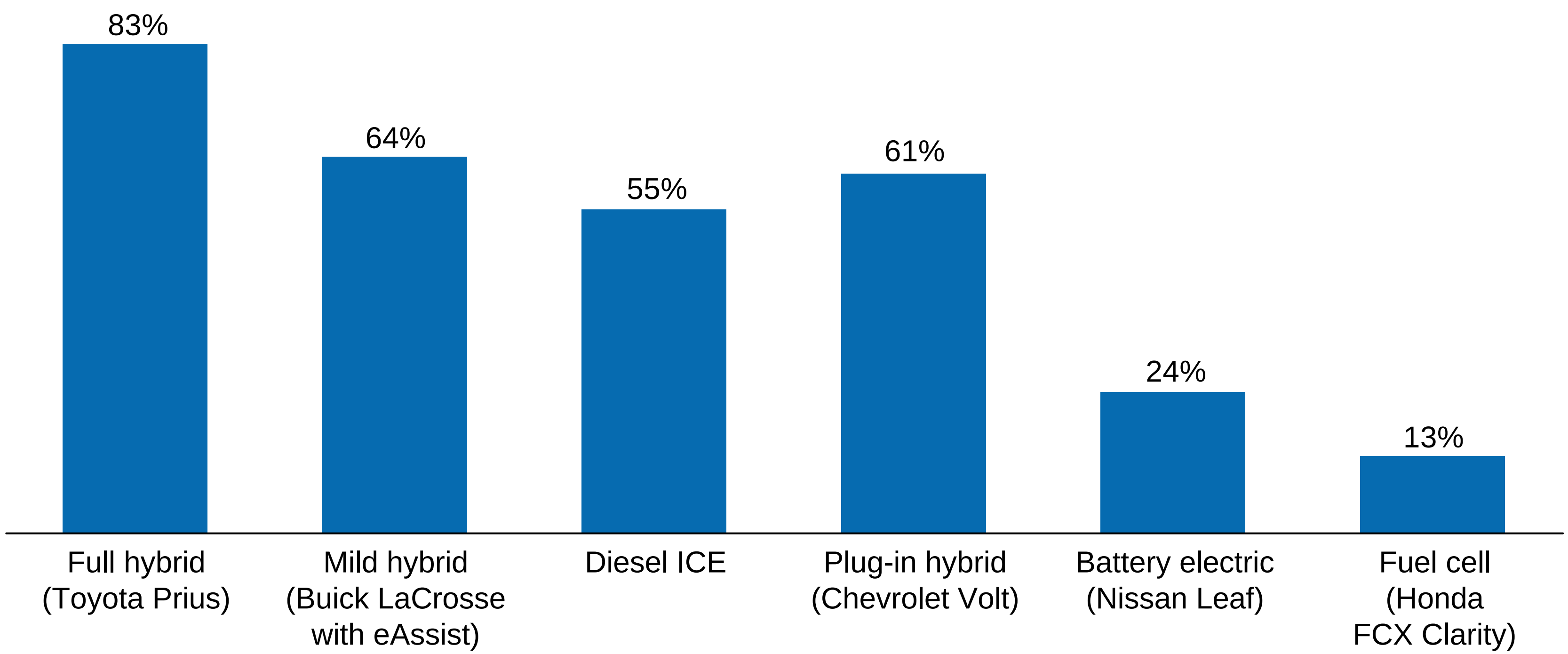
Approximately 75% of respondents expect alternative powertrain penetration to be less than 20% by 2020



Note: Numbers may not add up due to rounding.

No powertrain technology has emerged as the dominant solution, with results suggesting that a variety of powertrains will be used

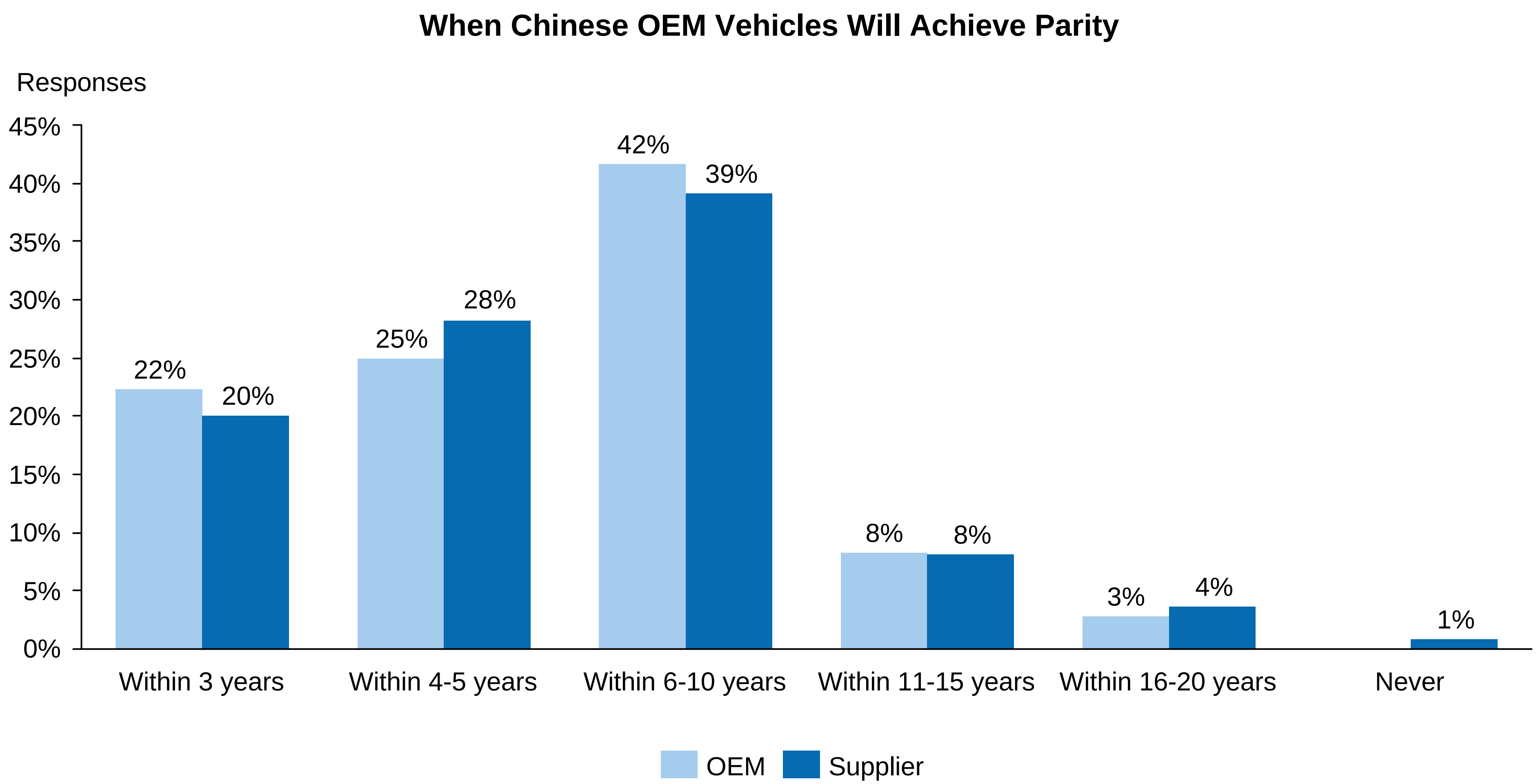
Prevalence of Alternative Powertrains by 2020
(mentioned as one of top three)



	Full hybrid (Toyota Prius)	Mild hybrid (Buick LaCrosse with eAssist)	Diesel ICE	Plug-in hybrid (Chevrolet Volt)	Battery electric (Nissan Leaf)	Fuel cell (Honda FCX Clarity)
Listed as leading alternative powertrain solution	36%	23%	26%	10%	3%	1%

Note: Numbers may not add up due to rounding.

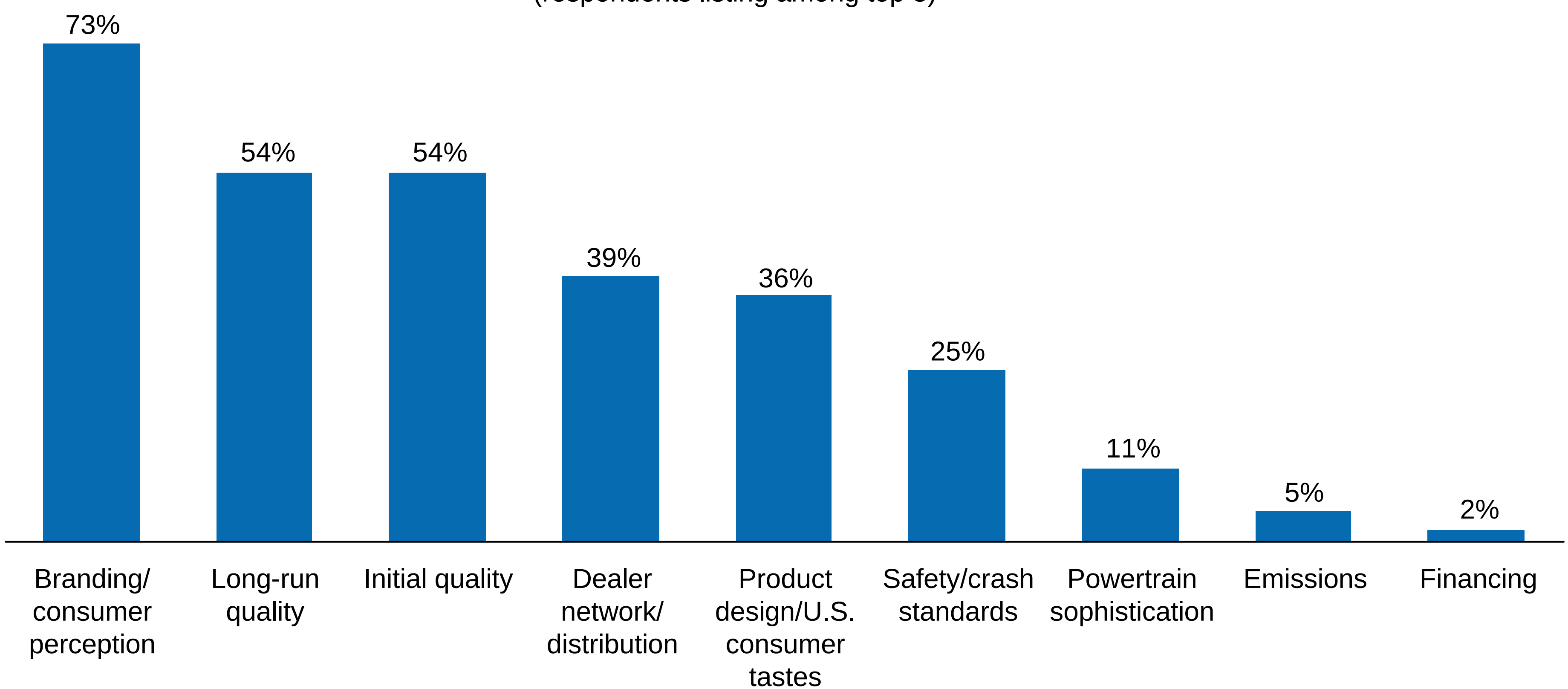
Approximately 90% of executives believe that Chinese-based OEMs will reach product parity with vehicles sold in the U.S. within 10 years



Branding/consumer perception is cited as the most significant hurdle Chinese OEMs will face in gaining U.S. consumer acceptance

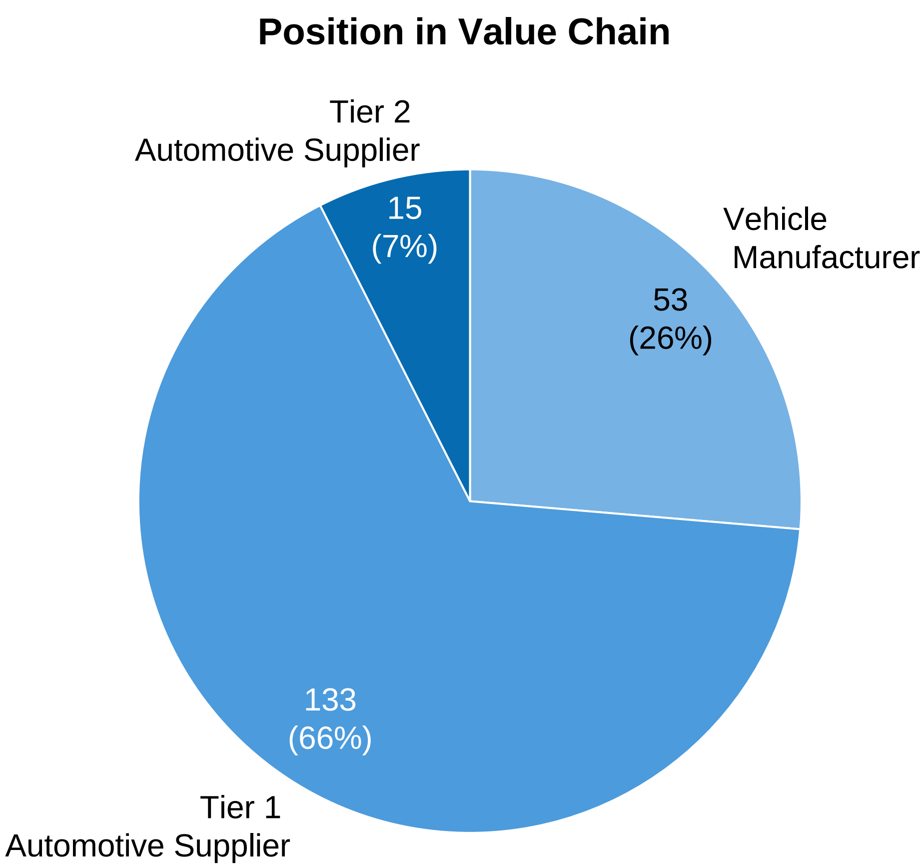
Most Significant Hurdles

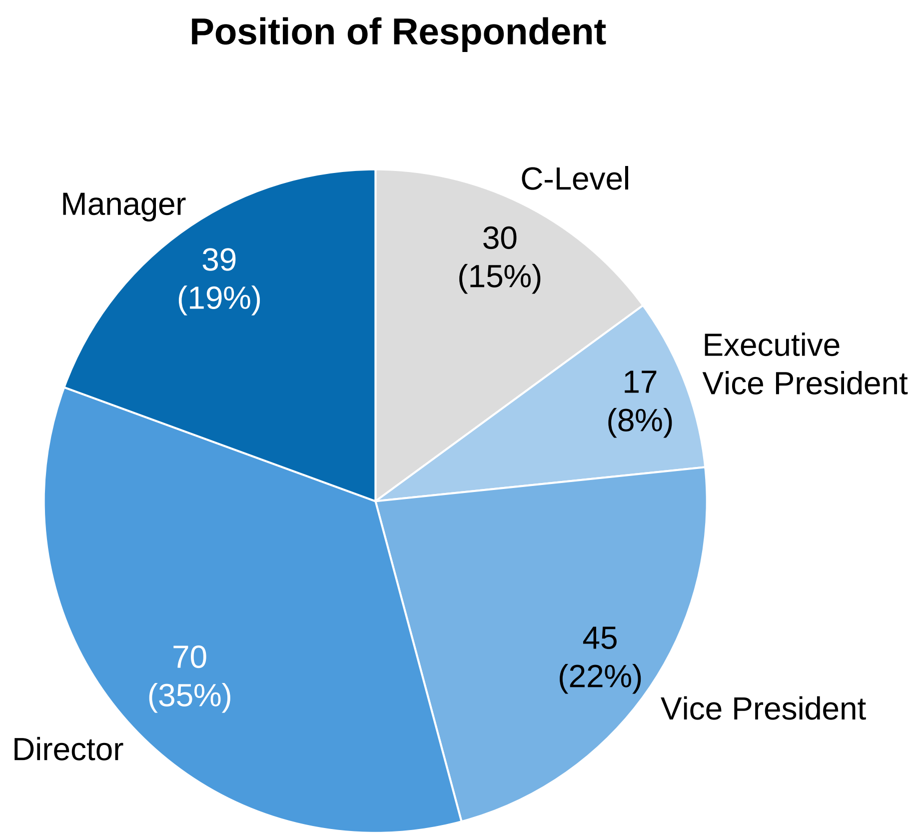
(respondents listing among top 3)



Listed as #1 hurdle	11%	19%	46%	8%	9%	5%	1%	1%	0%

More than 200 OEM and supplier executives participated in the survey, nearly a quarter of them C-level or executive VPs





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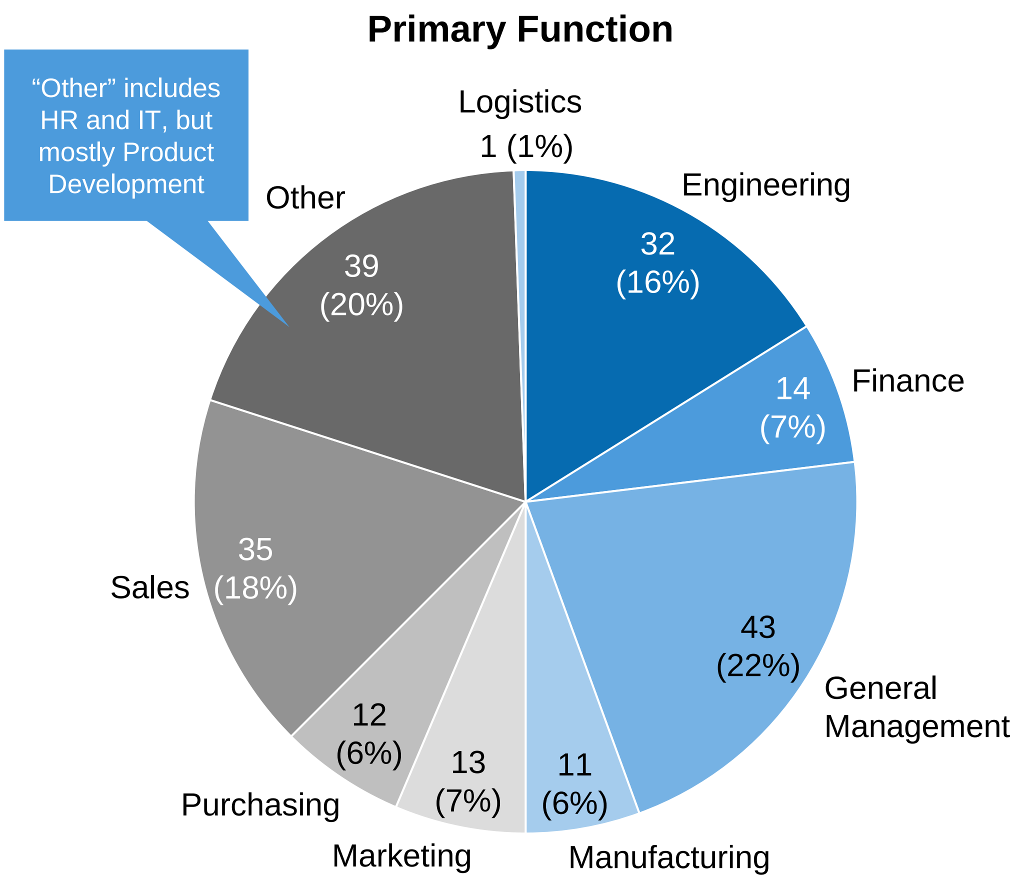
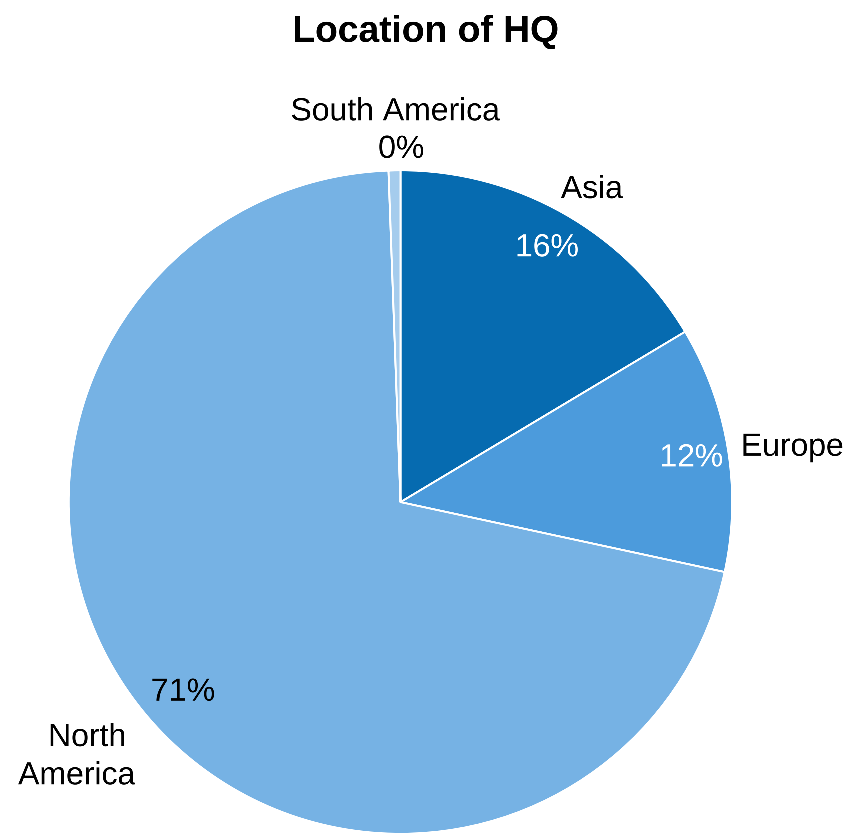
The survey respondents represent a good mix of functional roles, and 71% are from North American-based companies





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