

# Compete & Collaborate

What is  
success in  
a connected  
world?\*

Automotive summary

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The PricewaterhouseCoopers 11th Annual Global CEO Survey – ‘Compete & Collaborate’ – examines the impact of an increasingly connected world on the way companies work, grow, deal with risk and, ultimately, achieve business success. We focus on collaboration this year because achieving the correct balance between this emerging business model and traditional management discipline is a key to leveraging results in the connected world.

The survey divides into two main sections with special attention in each to the key enablers and barriers to success:

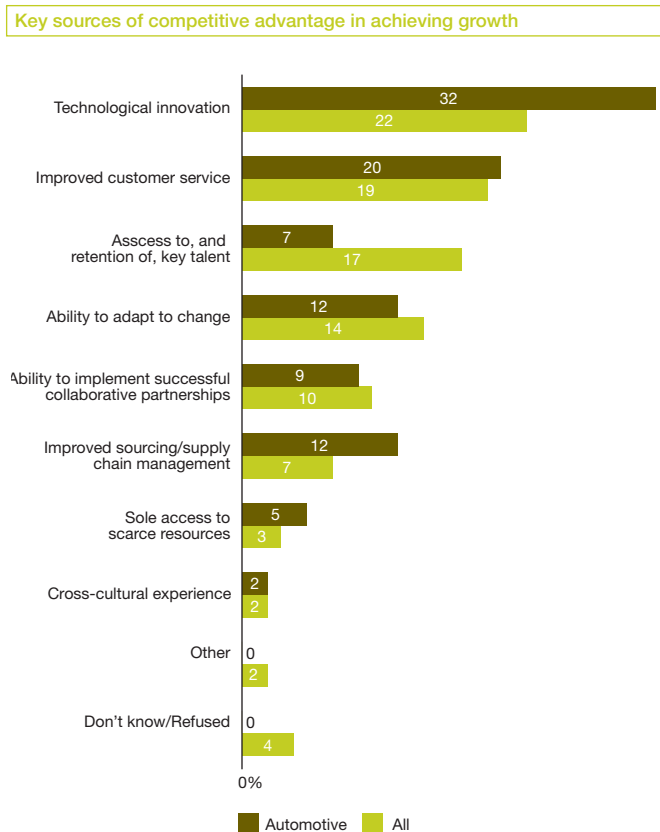
- Section 1 – The business environment: Business confidence, M&A, global risks, and climate change
- Section 2 – The impact on business models: People and change, collaborative business networks, and regulations

In addition to providing the analysis of the views of 1,150 CEOs, each section includes the personal views of individual CEOs who provide their perspective on how their organisations are meeting the challenges and addressing the opportunities of a connected world. In this Sector Summary, we look specifically at how Automotive CEOs view and are addressing these challenges and how their views compare and contrast with CEOs across all industries

Full findings of the PricewaterhouseCoopers 11th Annual Global CEO Survey are available at [www.pwc.com/ceosurvey](http://www.pwc.com/ceosurvey)

## The business environment

The automotive industry falls in line with the global benchmark on this year’s CEO survey in terms of confidence. But they differ widely from the benchmarks when assessing major economies and low cost competition. Automotive executives are concerned with the potential threat of a downturn in major economies: 34% are extremely concerned, while only 21.3% of all survey respondents are extremely concerned. Furthermore, respondents in the automotive industry express more concern about the potential threat to business growth prospects that may result from low-cost competition: 32.2% are extremely concerned compared with only 20.7% of all CEO respondents. Yet, more than half (53%) of automotive CEOs are very confident of revenue growth in their companies over the next 12 months, while only 36% are very confident of revenue growth during the next three years. This compares with 50% and 40%, respectively, with the overall survey average.



Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

Characteristic of the automotive industry, new product development (33.9% automotive CEOs vs. 19.6% all CEOs) rather than better penetration of existing markets (15.3% automotive CEOs vs. 29.6% all CEOs), is viewed as the main opportunity for business growth in the next 12 months. However, automotive technological innovation requires several years and automotive companies will have to compete fiercely to achieve growth in the interim.

### **Mergers & acquisitions: Underlying optimism & Contrasting direction**

As geographic expansion drives growth in the automotive industry, cross-border mergers and acquisitions continue to emerge as a significant trend. Nearly a quarter (24%) of automotive CEOs report completing such a transaction in the past 12 months, compared to 23% of all survey respondents. The trend looks to continue as 27% of automotive CEOs anticipate participating in a cross-border merger in the coming 12 months with the greatest reported interest in Western and Eastern Europe, followed by North America. In Eastern Europe, in particular, automotive CEOs report a much higher rate of planned M&A than peers in other industries (44% of automotive vs. 24% overall). These activities reflect an expectation of continued strong growth in the region's manufacturing base (see recent PwC series *Eastern Influx: Automotive Manufacturing in Eastern Europe*).

### **Climate change: Pragmatism & Heightened awareness**

The automotive industry has been identified a significant contributor of carbon dioxide (CO<sub>2</sub>) which exacerbates climate change and automotive executives are acutely aware of the ongoing debates in media, academia, governments, nongovernmental organisations, and special interest groups about the impact of carbon emissions on the environment. Consequently, a greater percentage of automotive industry respondents expressed concern about the potential threat to business growth prospects as a result of climate change: 22% of automotive CEOs are extremely concerned vs. 12% of all CEOs. Automotive CEOs also are more concerned about the potential threat to business growth prospects as a result of increased carbon emission regulations, with 37.7% extremely concerned vs. only 14.4% of all respondents. Rising demand for fossil fuel, longer supply chains, and the growing demand for more fuel-efficient technologies are reflected in automotive CEOs' concern about rising energy costs as a potential threat to growth: 50.8% are extremely concerned vs. an overall survey average of 27.9%.

### **Collaborative business networks: Opportunistic & Systematic**

Respondents in the automotive industry agreed more strongly that businesses need to collaborate more effectively with industry peers and

business partners to mitigate climate change – 40.7% of automotive CEOs agreed strongly with this statement vs. 29.8% of all CEOs. Consequently, it is not surprising that respondents in the automotive industry disagreed more strongly that establishing networks remains a secondary business activity for their companies: 35.6% of automotive CEOs disagreed strongly with this statement, while only 21.2% of all CEOs disagreed strongly. The importance of collaboration to those in the automotive industry is reflected by the number (30.5%) of automotive CEOs who disagreed strongly with the statement that, to date, the costs and risks of networks outweigh the benefits. Only 19.2% of all surveyed CEOs disagreed strongly with this statement.

However, the automotive industry participates much less in networks that share best practices, influence policy, create innovation, mitigate operational risk, and those that address threats such as social, economic, and environmental risks. Subsequently, respondents in the automotive industry found the networks that they are involved with to be less effective at enhancing brand reputation and learning best practices. In particular, technological innovation and improved sourcing/supply chain management were seen as the key sources of competitive advantage in achieving growth by automotive CEOs, as opposed to improved customer service and access to, and retention of, key talent, which were more highly favoured by all-industry CEOs.

## Regulations: Public & Private

Mirroring the global average, 88% of automotive industry respondents feel that regulations factor in making business decisions to a great extent or to some extent. As environmental and safety regulations increase, we may see the automotive industry impacted even more greatly by regulatory matters.

Not surprisingly, the automotive industry would like to see improved regulations around labour law. When asked, ‘Which of the following areas in which the government could potentially improve would you consider to be the most important area?’ 42% of all respondents felt that labour law is the most important area; however, 51% of automotive respondents identified labour law as the most important. Interestingly, 11% of all respondents would like to see governments improve healthcare, while only 3% of automotive respondents indicate this as the most important area.

The globalisation of the automotive industry is reflected in its response to the statement, ‘My current government should drive convergence of global tax and regulatory frameworks.’ While 53% of all respondents agree or strongly agree that tax regulatory frameworks need to be harmonised, 64% of automotive respondents agree or strongly agree with that statement. As survival in the automotive industry increasingly depends on globalisation, the desire for the convergence of global tax and regulatory frameworks will continue to mount.

## People and change: Strategy & Execution

Hyper-competitiveness and globalisation also dominate the responses in the automotive industry. When asked about their people agendas, for example, 83% of automotive respondents indicate difficulty recruiting people with combined technical and business expertise, while the overall respondent average is 67%. Compounding the difficulty in recruiting people with the right skills and characteristics, the necessity to find people with global experience and the ability to anticipate and manage risk elevates the challenge. While 65% of all survey respondents report difficulties recruiting people with global experience, 75% of global automotive respondents endure difficulties in this area. Equally ominous for the automotive industry is the difficulty recruiting people with the ability to anticipate and manage risk: 59% of all respondents report difficulty in this area, but 75% of automotive respondents experience difficulty recruiting these types of individuals. Clearly, globalisation and highly competitive markets are straining the automotive industry’s ability to attract qualified applicants.

### Looking forward

The PricewaterhouseCoopers CEO Survey highlights many of the challenges automotive companies face, particularly those not typically addressed in the media, academia, and even within the industry itself. Despite these challenges, the industry should not be considered obsolescent.

In emerging markets, the automotive industry remains an important vehicle of growth, while in mature markets, automotive companies strive to maintain or gain competitive advantages to survive. Consequently, automotive companies – those that are extremely mature as well as new entrants – are looking for product breakthroughs and talented people to lead the industry into a new era of technological innovation and globalisation.

The PwC automotive institute sums up the industry as follows: ‘The significant economic growth of BRIC countries has ultimately translated into a positive wealth effect across a growing set of global consumers. As a result, the midterm assembly forecasts predict BRIC countries will combine to contribute 54% of the expected 12.7 million units of global growth from 2006-11.

‘Assembly localisation efforts offer advantages in terms of cost management and market expansion. Localised facilities afford OEMs the opportunity to align product portfolios with local preferences, mitigate exchange rate risk and establish low-cost assembly bases capable of producing future exports.’

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This summary provides a sampling of some findings within the Automotive sector. Full findings of the PricewaterhouseCoopers 11th Annual Global CEO Survey are available at [www.pwc.com/ceosurvey](http://www.pwc.com/ceosurvey)

For additional information regarding PricewaterhouseCoopers’ Automotive sector practice, please visit [www.pwc.com/automotive](http://www.pwc.com/automotive)