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Outlook for the automotive supplier industry

Steps for transformation identified from a survey of over 150 companies

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Contents

Introduction

At PwC Advisory LLC, our Auto Sector team supports our clients across the automotive industry, including automotive original equipment manufacturers (OEMs), automotive suppliers, distributors, dealers, leasing and auto finance companies and mobility-related companies as a deal advisor addressing their management challenges.

The automotive industry is currently undergoing a once-in-a-century transformation driven by electrification, softwarisation and tightening environmental regulations. Electrification represents one of the most significant shifts, with a transition expected from conventional internal combustion engine vehicles to hybrid electric vehicles (HEVs) and plug-in hybrid electric vehicles (PHEVs), followed by a full-scale shift to battery electric vehicles (BEVs) in due course. As a result, the dynamics between automotive OEMs and suppliers, as well as the required supplier value chains, are expected to change significantly. In the EV domain, investment is accelerating, with new entrants from other industries—such as battery and semiconductor companies—and the formation of international alliances. In addition, the global business environment remains unstable due to geopolitical risks, including the so-called 'Trump tariffs' buffeting the global economy, challenges in rare earth procurement, market withdrawals associated with sanctions against Russia and heightened tensions in the Middle East leading to rising crude oil prices. From the perspectives of both resource nationalism and technological innovation, advances in electrification technologies by Chinese automotive OEMs and the electrification of the Chinese automotive market are having a significant impact on the global strategies of automotive OEMs in Japan, the US and Europe. In this challenging business environment, we believe it is critically important for the Japanese economy that automotive suppliers, which serve as a key foundation of Japan's core industries, steer their management appropriately and achieve sustainable growth. With this in mind, we have published this report focusing on automotive suppliers.

This report analyses challenges facing the automotive supplier industry* and provides recommendations for future actions, based on a survey of major Japanese automotive suppliers (number of respondents: 157 companies) and the latest industry trends. The survey identifies gaps across short-, medium- and long-term timeframes between the issues that suppliers recognise as important and their current actions. It also examines perceptions of alliances (inter-company collaboration) and the factors hindering them, and considers specific measures that suppliers should take to address these challenges. In addition, the report focuses on how suppliers' strategies and approaches to alliances differ across technology domains, including internal combustion engine (ICE) vehicles, BEVs and software-defined vehicles (SDVs).

Based on the survey results and publicly available information, this report aims to outline urgent challenges facing the automotive supplier industry in Japan and their underlying factors. It also aims to provide concrete measures to address these challenges, thereby supporting suppliers in formulating their strategies.

*In this report, the automotive supplier industry includes (i) companies that develop, manufacture and supply various components, modules and systems to original equipment manufacturers (OEMs) for use in automobiles, and (ii) engineering service providers that support product development through activities such as design, analysis and prototyping of vehicles and components.

Survey overview

Survey period: from 22 October to 28 November 2025

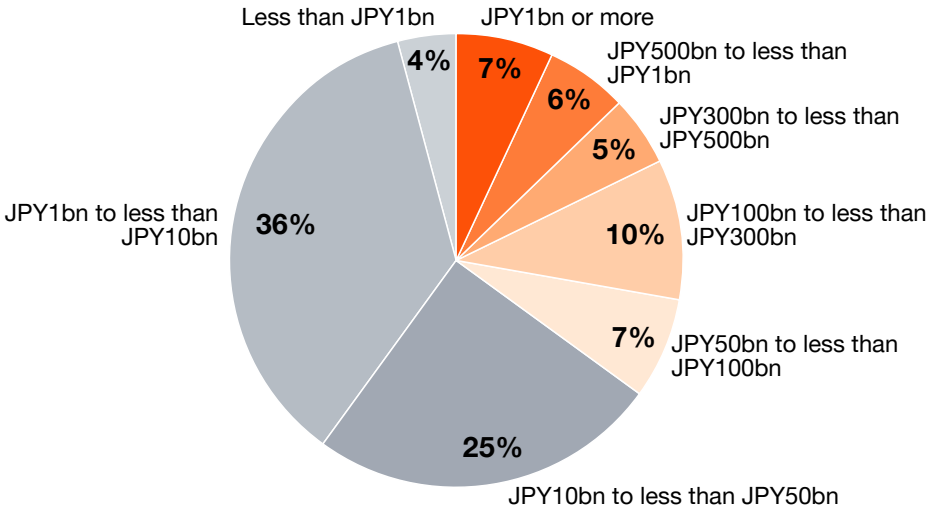
Number of respondents: 157 companies

Methodology: online survey

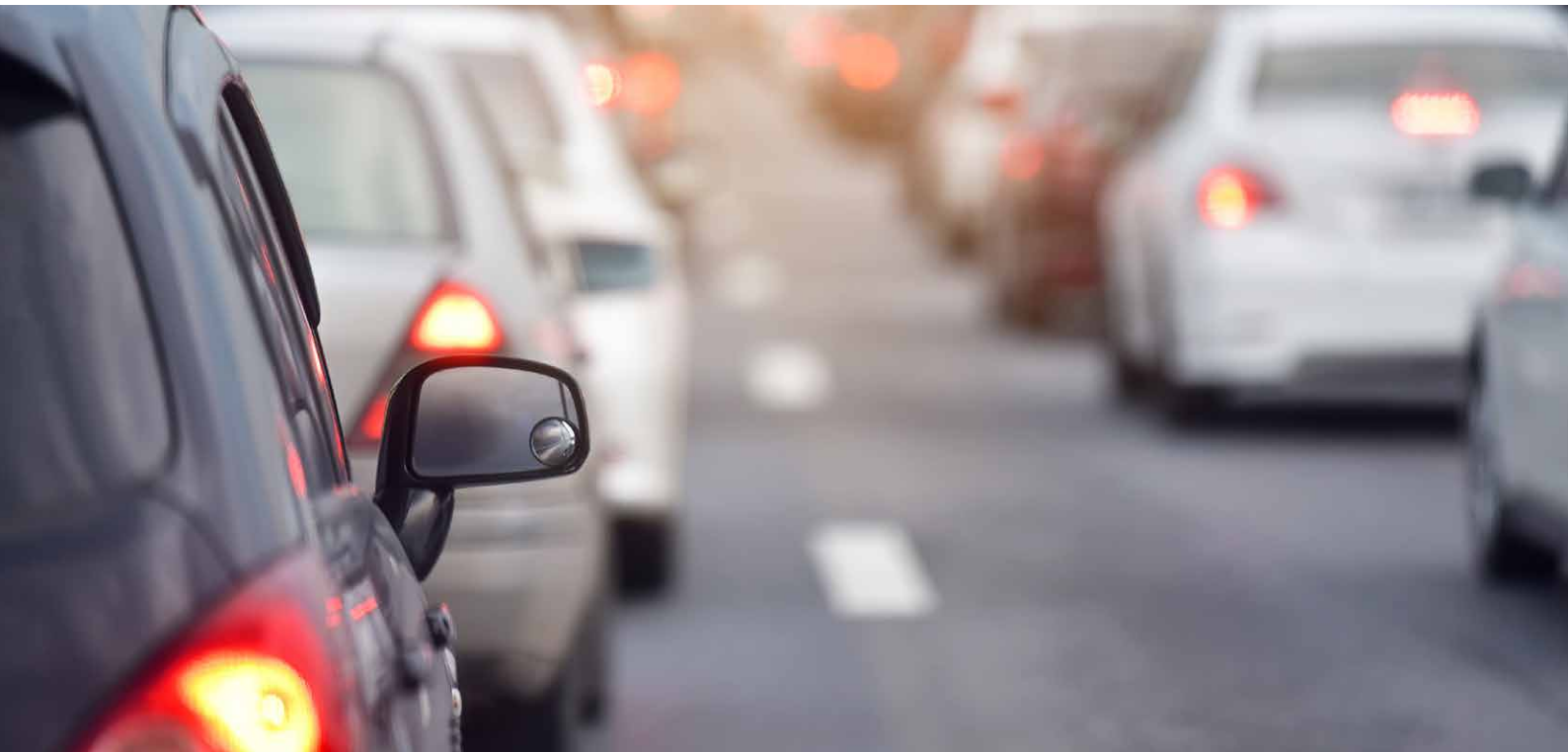
Eligibility criteria: ・Automotive suppliers based in Japan

・Companies with annual revenue of JPY3.0bn or above

◯ Breakdown of respondents by revenue size



Source: PwC analysis

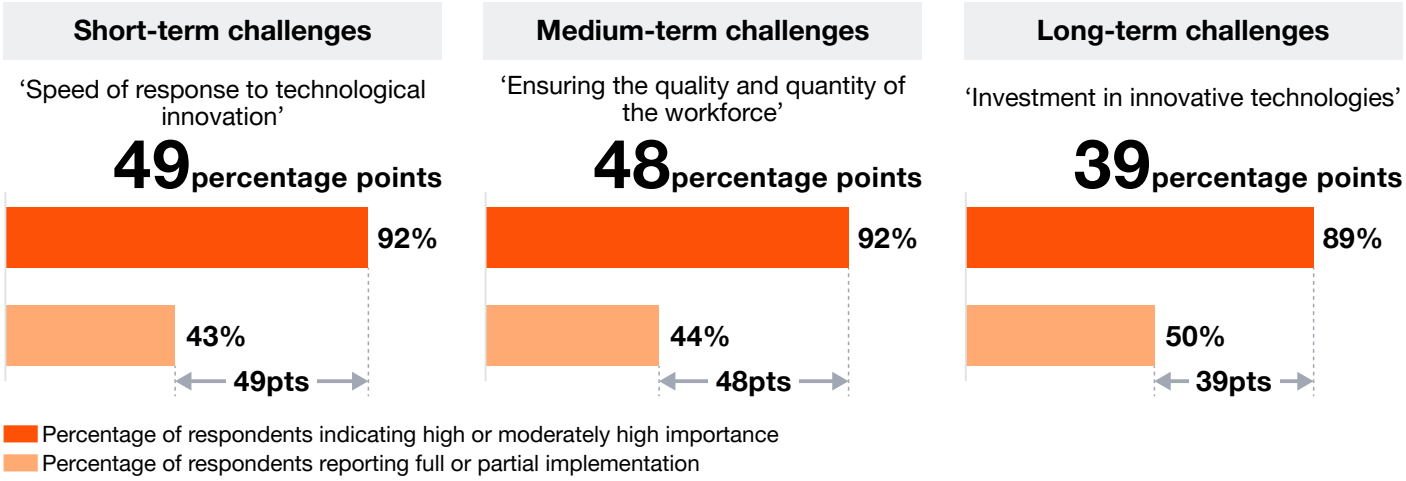


Executive summary

Overview of survey results (facts)

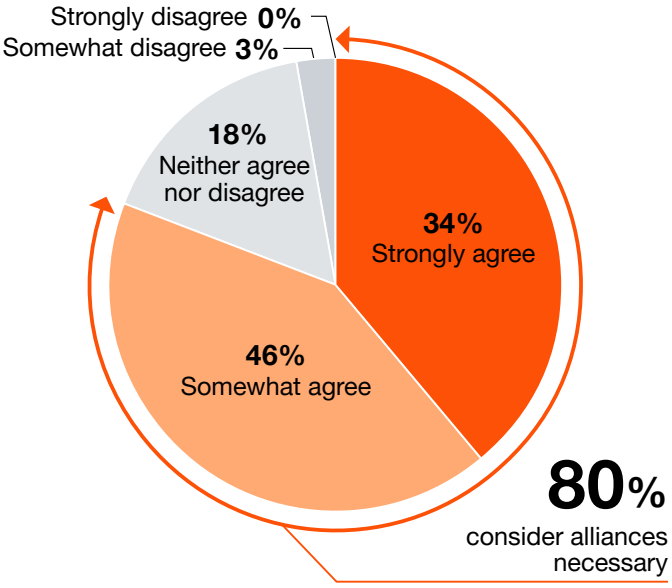
According to the survey, suppliers recognise a wide range of issues as important, from short- to long-term challenges, but significant gaps were observed in their current actions. For example, the largest gaps were identified in 'speed of response to technological innovation' for short-term challenges, 'ensuring the quality and quantity of the workforce' for medium-term challenges and 'investment in innovative technologies' for long-term challenges. Amid these challenges, alliances are attracting attention as an important strategic lever, with approximately 80% of suppliers indicating that alliances are necessary to address future challenges. However, at the same time, approximately 76% perceive the current industry environment as not conducive to alliances. Key barriers to collaboration include a lack of talent to drive M&A and partnerships (43%) and barriers arising from keiretsu (corporate group structures) (32%).

◯ The following shows items with the largest gaps between issue recognition and current actions.

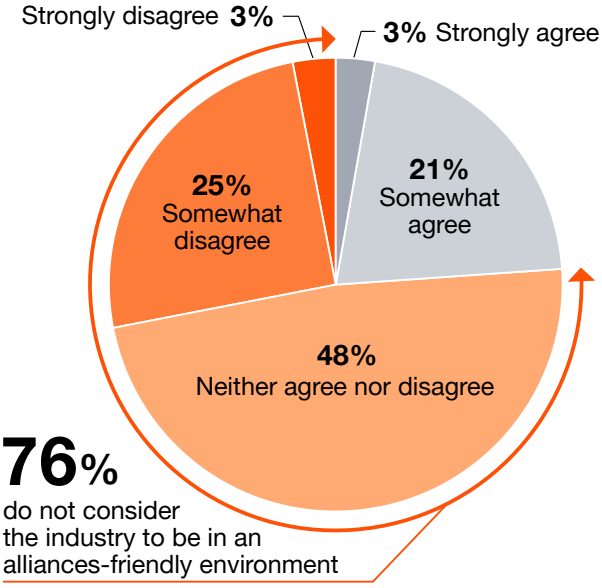


◯ Supplier indicated that alliances are necessary to address challenges, but that they are not easy to implement in the current environment.

Q. To what extent do you consider alliances (collaboration among a broad range of related suppliers) necessary to address future challenges?



Q. To what extent do you consider the Japanese automotive supplier industry to be in an alliances-friendly environment?



Note: Totals may not equal 100% due to rounding to the nearest whole number. (The same applies to all figures below).

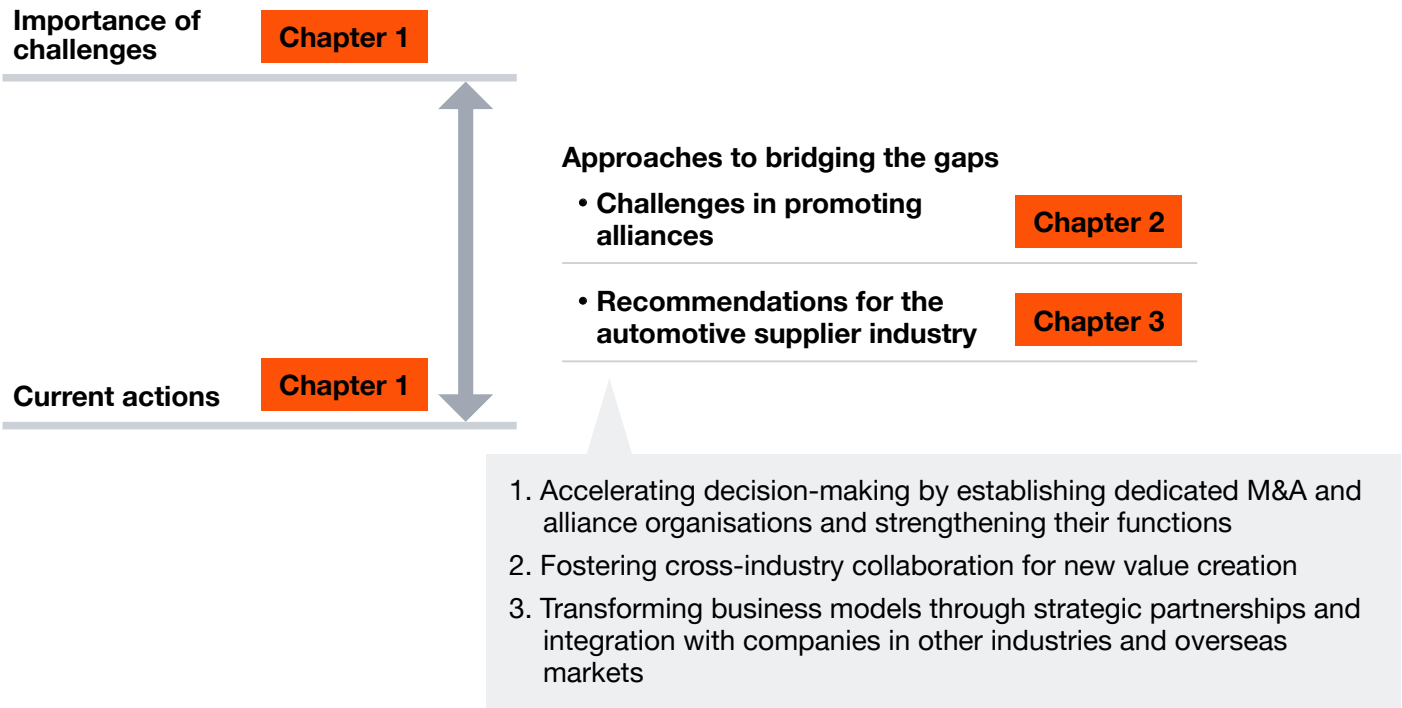
Implications and recommendations (key messages)

Direction for addressing challenges through alliances

The survey results reveal that suppliers do not always respond adequately to issues they themselves consider important. In particular, the proportion of suppliers that have yet to take action is higher for long-term strategic challenges, raising concerns that preparations for the future may be delayed. Therefore, alliances are widely expected to help address these challenges. Suppliers are seeking to complement their technologies and know-how through collaboration and to share—through joint investment—the burden of development and capital investment that would be difficult to undertake independently. This approach enhances their ability to respond more quickly to rapid changes in the industry environment.

The report is structured as follows. Chapter 1 organises the key issues recognised by suppliers and their current actions based on the survey responses, and analyses both quantitatively and qualitatively the gaps between the desired state and the current state identified through this analysis. Chapter 2 examines the potential and challenges of alliances as a means of bridging these gaps. Chapter 3 presents specific actions that the industry should pursue going forward based on these findings. These recommendations set out high-impact, actionable plans, such as accelerating decision-making through the establishment and strengthening of dedicated M&A and alliance functions and promoting cross-industry collaboration for new value creation. They also aim to transform business models through strategic partnerships and integrations with companies in other industries and overseas markets (proactive growth strategy).

Figure 1: Structure of this report



Source: PwC analysis

Chapter 1

Key challenges for companies and current actions (short, medium and long term)

Survey on short-, medium- and long-term challenges with delayed actions

Suppliers recognise urgent management challenges. However, even for short-term challenges, their actions cannot be considered sufficient, and delays are even more pronounced for medium- and long-term challenges. As a result, significant concerns remain regarding preparedness for the future, and strengthening the industry's overall capacity to address these challenges has become an urgent priority.

In this survey, for each time frame—short term (Q1), medium term (Q2) and long term (Q3)—we present, for each main challenge item in the questionnaire, the proportion of companies that recognise the item as highly important and the proportion of companies that have taken action on it (including partial actions). We then quantitatively analyse the gaps between these two proportions. We also identify the items with particularly large gaps within each question and examine them based on the free-text responses (Q10). In addition, we provide supplementary observations and insights derived from cross-tabulations by respondent attributes. The challenge items and an overview of the survey are shown in Figure 2.

Figure 2: Challenge items and survey overview

	Short-term challenges (next 1–2 years)	Medium-term challenges (next 3–5 years)	Long-term challenges (next 10–15 years)
Challenge items	a. Cost management and margin pressure	a. Transition to electrification and digital shift	a. Investment in innovative technologies
	b. Supply chain stabilisation	b. Utilisation of AI and data analytics technologies	b. Contribution to a sustainable society
	c. Quality management and recall risk reduction	c. Enhancement of international competitiveness and review of regional strategies	c. Adaptation to evolving mobility concepts
	d. Speed of response to technological innovation	d. Environmental regulation compliance	d. Corporate culture transformation
	e. Competitiveness readiness	e. Ensuring the quality and quantity of the workforce	e. International collaboration network strengthening
	f. Market changes and stock price volatility		

Survey overview

Survey of how suppliers actually perceive the above items

- To what extent do they consider these items important or in need of action?
- How far have their actions progressed?
- Are there any other issues that they recognise as challenges?

Source: PwC analysis

Short term: challenges that companies should address in a few years (Q1)

In the short term, actions to address technological innovation and competitiveness are lagging.

While progress has been made on existing issues, efforts to address future-oriented challenges remain limited.

Figure 3 shows the results of a survey of suppliers' perceptions and actions regarding the six items (a–f) presented as short-term management challenges.

- **Importance assessment (short term)**

Combined percentage of 'strongly agree' and 'somewhat agree': More than 80%–90% of suppliers recognise most items as important to address over the next several years. For item f (market changes and stock price volatility), the percentage of suppliers that consider it important is 66% overall. However, among the listed suppliers (47 out of 157), the percentage reaches 85%, indicating that it is regarded as important in line with other items.

- **Current actions (short term)**

Combined percentage of 'implemented' and 'partially implemented': Even for challenges recognised as important, actions are lagging. For item a (cost management and margin pressure), where progress is relatively advanced, the percentage is relatively high at 81%, yet nearly 20% report that no action has been taken.

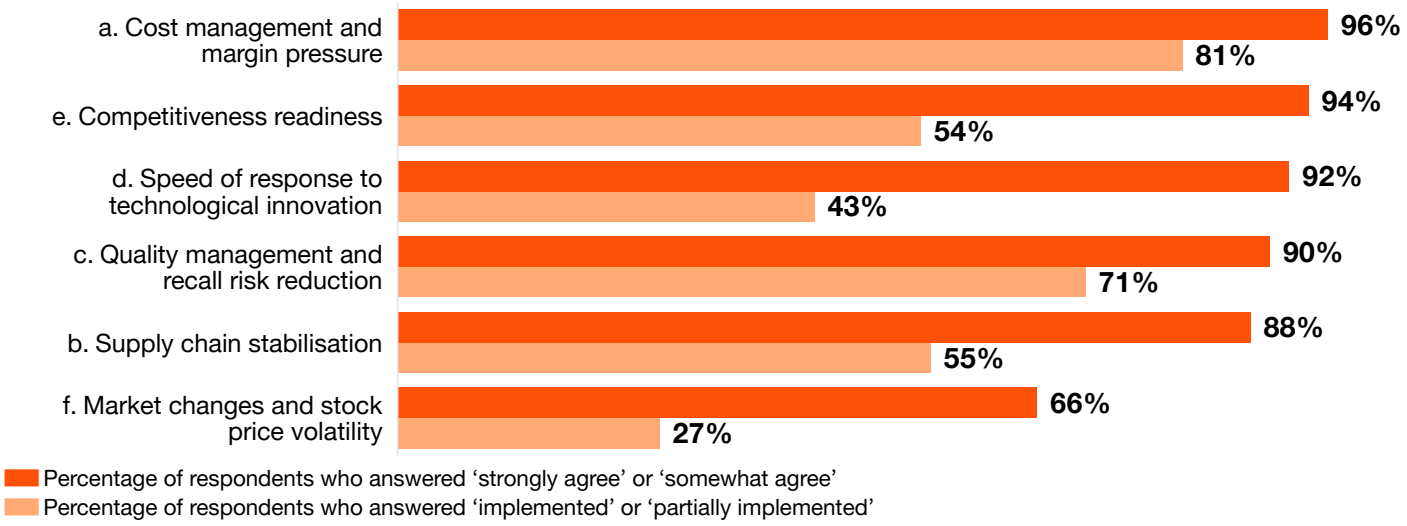
- **Gap between importance and actions (short term)**

Gap (difference between the percentage of respondents selecting 'important' or 'somewhat important' and the percentage selecting 'implemented' or 'partially implemented'): For item d (speed of response to technological innovation), the gap stands out at 49 percentage points and clearly illustrates a challenge that is recognised but not addressed. For item f (market changes and stock price volatility), the gap reaches 47 percentage points among the listed suppliers, suggesting that efforts to improve market valuation and engagement with capital markets remain limited.

These results indicate that, in the short term, many companies are not able to act quickly on challenges that they themselves recognise as important. In particular, efforts to address technological innovation and preparations to ensure competitiveness have been slow to commence and have become urgent management issues, despite being recognised as important. Free-text responses also include concerns that 'declining profitability is forcing companies to prioritise cost reductions and productivity improvements', suggesting that delays in efforts to address technological innovation are posing a competitive risk.

Figure 3: Q1-1/Q1-2 survey results

Q1-1 (upper): For each specified item, please select those that you consider important to address over the next several years.
Q1-2 (lower): For each specified item, please indicate your company's current actions.



Source: PwC analysis

Medium term: need for medium-term actions on trends and challenges (Q2)

In the medium term, efforts to ensure the quality and quantity of the workforce and to utilise AI and data analytics technologies have not progressed sufficiently, leaving challenges in preparing for changes in business structures.

We surveyed five items (a–e) regarding issues considered important by suppliers from a medium-term perspective (3–5 years) and suppliers' current actions. The results are shown in Figure 4.

- **Importance assessment (medium term)**

Combined percentage of 'strongly agree' and 'somewhat agree': For medium-term challenges as well, many companies recognise their importance, indicating a strong sense of urgency regarding changes in business structures over the medium term.

- **Current actions (medium term)**

Combined percentage of 'implemented' and 'partially implemented': Delays in actions are broadly observed for medium-term challenges as well, with a lower percentage of companies taking action than for short-term challenges.

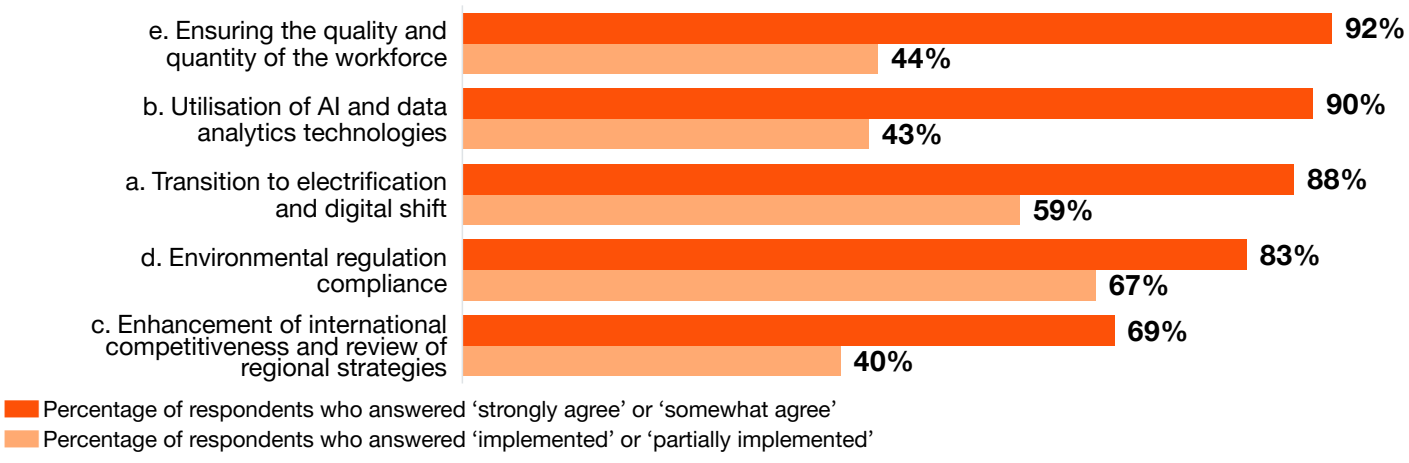
- **Gap between importance and actions (medium term)**

As with short-term challenges, gaps are observed across all items. In particular, item e (ensuring the quality and quantity of the workforce) shows a gap of 48 percentage points and item b (utilisation of AI and data analytics technologies) shows a gap of 47 percentage points, highlighting significant delays in digital adoption and workforce-related areas. In addition, item a (transition to electrification and digital shift) and item c (enhancement of international competitiveness and review of regional strategies) both show gaps of 29 percentage points, indicating insufficient progress in medium-term business transformation areas.

These results indicate that, in the medium term, delays in addressing human resources and digital technologies are particularly pronounced. Free-text responses also include concerns about a shortage of engineers and indicate that companies recognise the need to improve productivity through investment in AI and digital transformation (DX). Insufficient preparedness in both human resources and technological capabilities for key medium-term challenges cannot be overlooked, and prompt action is required.

Figure 4: Q2-1/Q2-2 survey results

Q2-1 (upper): For each specified item, please indicate the extent to which you feel a need to respond to trends and address challenges from a medium-term perspective.
Q2-2 (lower): For each item, please indicate your company's current actions.



Source: PwC analysis

Long term: perceived importance in long-term management plans (Q3)

Overall, a gap is observed between the importance of challenges and current actions.

While the level of awareness varies across issues, the need for collaboration and restructuring is widely recognised.

We surveyed five items (a–e) regarding issues considered important by suppliers from a long-term perspective (10–15 years) and their current actions. Long-term challenges often relate to future visions and reflect each company's strategic stance. The results are shown in Figure 5.

- **Importance assessment (long term)**

Combined percentage of 'strongly agree' and 'somewhat agree': Many companies recognise these long-term challenges as important as well. More than half of suppliers recognise these challenges as important across all items. This suggests that they are taking their future positioning seriously from a long-term perspective.

- **Current actions (long term)**

Combined percentage of 'implemented' and 'partially implemented': For long-term challenges, the proportion of companies taking action is extremely low at present, with more than half of suppliers reporting no action for many items.

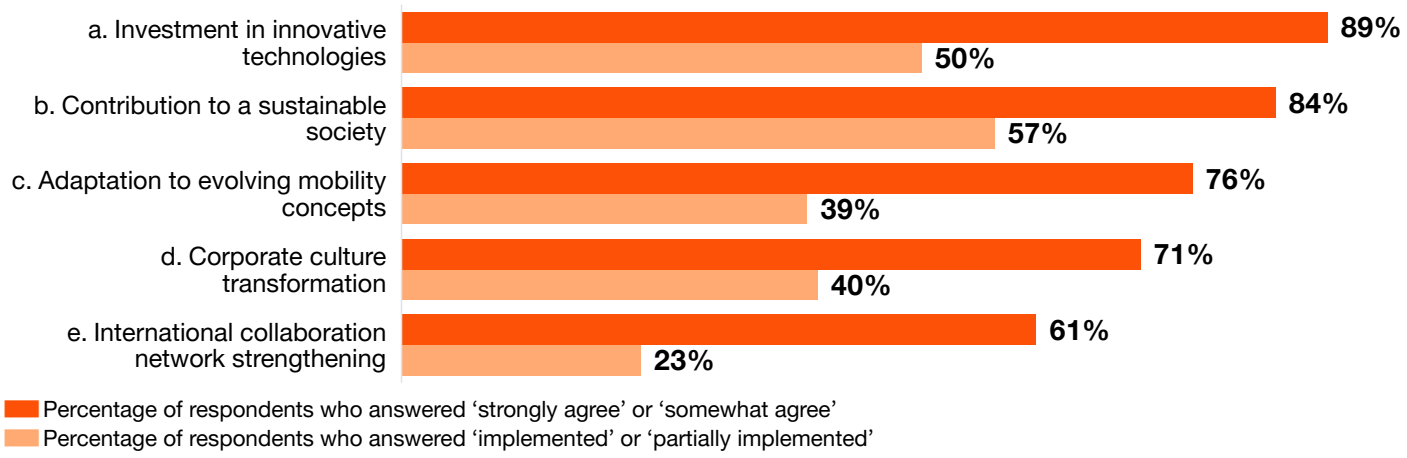
- **Gap between importance and actions (long term)**

Gaps are observed across all items for long-term challenges as well. The largest gap is 39 percentage points for item a (investment in innovative technologies), followed by 38 percentage points for item e (international collaboration network strengthening). While the gap levels appear broadly similar to those for short- and medium-term challenges, long-term items are characterised by particularly low action rates, indicating a high proportion of companies not taking action.

Taken together, these results indicate that many companies understand the importance of long-term challenges but have not translated this recognition into concrete action. Free-text responses also highlight concerns from a long-term perspective, such as the risk that the shift to BEVs will significantly reduce the number of components and shrink the supply chain. In addition, some responses note that, given the traditional industry culture, it is difficult for suppliers alone to engage in information sharing and open innovation. They also indicate that industry-wide efforts are needed, including coordination by automakers and industry associations, such as the Japan Automobile Manufacturers Association (JAMA) and the Japan Auto Parts Industries Association (JAPIA). These findings suggest the need for an industry-wide enabling environment to address long-term challenges.

Figure 5: Q3-1/Q3-2 survey results

Q3-1 (upper): For each item, please indicate the extent to which you perceive it as important in your long-term management plans.
Q3-2 (lower): For each item, please indicate your company's current actions.



Source: PwC analysis

Overall trends and insights across Q1–Q3

Three key areas are prioritised: adaptation to technological change, human resources and organisation and global readiness.

Based on an analysis of the importance of challenges and the status of current actions across short-, medium- and long-term periods, the following findings have emerged.

- **The longer the time frame, the higher the percentage of companies not taking action**

The survey results indicate that the longer the time frame, the more likely suppliers are to fall behind in addressing challenges. Even for short-term challenges, some items, such as the speed of response to technological innovation, remain unaddressed by many suppliers. In the medium term, areas such as talent acquisition and the use of AI, and in the long term, issues such as investment in innovative technologies and international collaboration network strengthening, show that the more future-oriented the issues are, the more suppliers have yet to take action. In other words, while suppliers are able to address short-term issues, particularly in existing business domains, to a certain extent, many tend to postpone actions in response to emerging trends. This tendency is consistent with the reality that, amid the pressures of day-to-day operations, investment and transformation for the future are often deferred. This tendency also underscores the need to encourage early action based on a long-term vision across the industry.

- **Top three challenges with the largest gaps**

Among all items, the largest gaps were observed in the following areas: (i) short term: speed of response to technological innovation (49 percentage points); (ii) medium term: ensuring the quality and quantity of the workforce (48 percentage points); and (iii) medium term: utilisation of AI and data analytics technologies (47 percentage points). These challenges are also common across Japan's manufacturing sector and the automotive industry as a whole. A survey by the Ministry of Economy, Trade and Industry identifies 'electrification and autonomous driving', 'labour shortages' and 'digital transformation (DX)' as key challenges for suppliers, and our survey results can be seen as reinforcing this recognition. Without strengthening both technology and human capital as two complementary pillars, it will be extremely difficult for suppliers to remain competitive in the evolving market environment.

- **Key issues identified from free-text responses (Q10)**

In free-text responses, differences in areas of focus can be observed depending on respondents' roles and company size. For example, larger suppliers with global operations frequently referred to perspectives such as 'strengthening overseas bases' and 'cross-border M&A', whereas mid-sized suppliers more often raised issues directly related to stabilising their own management, including 'improving financial soundness' and 'reducing dependence on specific customers'. In addition, responses from corporate planning and senior management tended to emphasise company-wide strategies, such as 'transforming corporate culture' and 'cross-industry collaboration', while those from finance, accounting and administrative functions more frequently highlighted specific operational challenges, including 'addressing rising costs' and 'coping with labour shortages'. These differences are also evident when analysed by overseas sales ratio. Suppliers with higher overseas sales ratios were more likely to select 'agree' for Q2, item c 'enhancement of international competitiveness and review of regional strategies'. In the free-text responses, there were references to promoting overseas production, such as 're-imports from overseas production are increasing due to domestic labour shortages', indicating that more globally oriented suppliers place greater emphasis on overseas strategies. By contrast, suppliers with a higher reliance on the Japanese market tended to identify 'reforming domestic business practices and intra-group adjustments' as key challenges. While the intensity of issue recognition varies depending on each company's circumstances, the analysis in this chapter clearly shows that three areas—technology response, human capital and organisation and global strategy—are commonly regarded as important and remain insufficiently addressed.

Based on the above analysis, the next chapter examines alliances (inter-company collaboration) as a solution to address these challenges and analyses the current state and key issues of alliances, drawing on the results of survey questions Q4 to Q9.

Chapter 2

Evaluation of alliances and associated challenges

The need for alliances and challenges to their implementation

As a means of addressing the transformation challenges outlined in Chapter 1, there is a growing recognition among suppliers that inter-company alliances can be effective. However, the Japanese automotive supplier industry faces structural barriers unique to the sector and alliances have not progressed as expected in practice. This chapter summarises the results of survey questions Q4 to Q9. It then analyses overall trends across Q4 to Q9, together with the free-text responses in Q10, to examine the positioning of alliances in addressing the challenges that showed significant gaps in Chapter 1, as well as differences in alliance strategies by technology domain (ICE, BEV and SDV).

(Overview of survey questions)

- Recognition of the need for alliances (Q4) and the current industry environment (Q5)
- Barriers to alliance formation (Q6)
- Actions required to promote alliances (Q7)
- Alliance strategies in the absence of constraints (Q8)
- Key enablers for advancing alliance strategies (Q9)

Recognition of the need for alliances (Q4) and the current industry environment (Q5)

While 80% of suppliers recognise the need for alliances, 76% do not consider the current environment conducive to forming alliances.

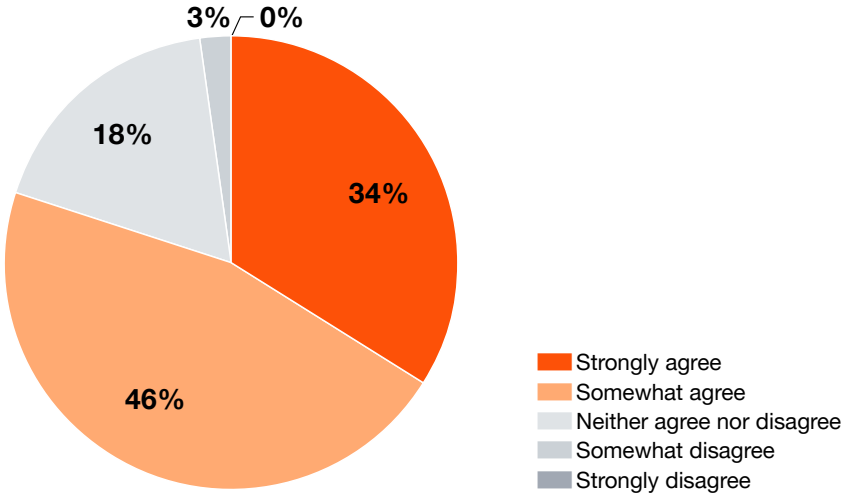
As shown in Figure 6, there is a growing momentum across the industry to promote alliances. One of the key drivers is the increasing number of challenges that are difficult to address on their own, as discussed in Chapter 1, including advanced technologies, digital transformation (DX), talent and the burden of capital investment. This has made it increasingly essential to share risks and costs and to complement capabilities through inter-company collaboration. Free-text responses also included comments such as ‘Rather than continuing fragmented competition among domestic players, it is important for Japanese players to act as a unified force capable of competing globally,’ and ‘There is a need to share management, technological and commercial resources beyond traditional keiretsu boundaries.’ These responses suggest that strengthening collaboration among suppliers is increasingly being recognised as a common industry-wide challenge.

While suppliers recognise the need for alliances, alliances remain difficult to pursue in practice, highlighting an industry-wide dilemma (Figure 7).

To better understand this gap between the high perceived need and the challenges in the operating environment, the following section examines in detail the barriers to alliance formation and actions to promote it.

Figure 6: Q4 survey results

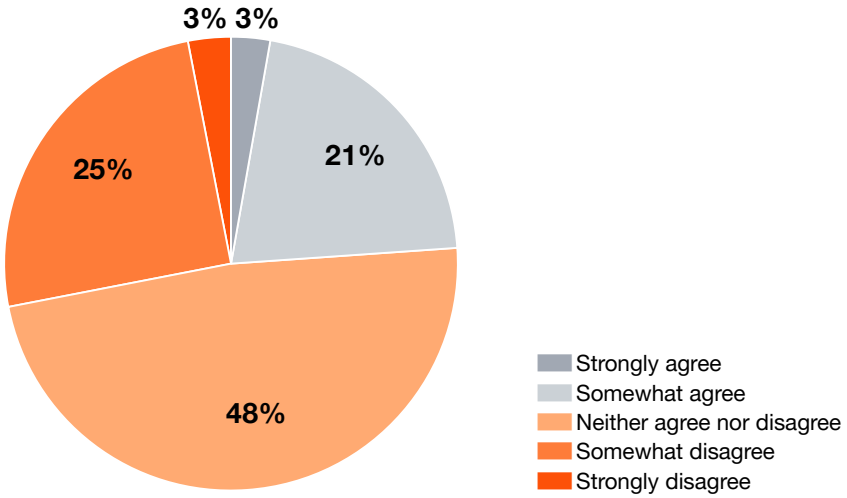
Q4: To what extent do you consider alliances (collaboration among a broad range of related suppliers) necessary to address future challenges at your company?



Source: PwC analysis

Figure 7: Q5 survey results

Q5: To what extent do you consider the Japanese automotive supplier industry to be in an alliances-friendly environment?



Source: PwC analysis

Barriers to alliance formation (Q6)

Key barriers: lack of internal capabilities and structural constraints

Respondents were asked to select up to three factors from seven options that hinder the progress of alliances in the industry. The results are shown in Figure 8.

- **Rank 1: b. Lack of personnel capable of driving M&A and alliances—selected by 43% (68 of 157 companies)**

The most frequently cited factor was the lack of internal talent and experience to drive collaboration, making human capital constraints the primary barrier.

- **Rank 2: a. Difficulty in collaborating with external partners due to keiretsu structures—selected by 32% (50 of 157 companies)**

This reflects the view that existing business relationships within traditional automaker-led keiretsu structures act as a barrier, making it difficult for suppliers to collaborate outside their group, including with firms from other keiretsu. In Japan's automotive industry, ties within corporate groups centred on automakers remain strong, and partnerships across different keiretsu are often perceived to involve both psychological and contractual hurdles. Approximately 30% of suppliers selected this structural issue, underscoring that industry-specific cultural and stakeholder dynamics are inhibiting collaboration.

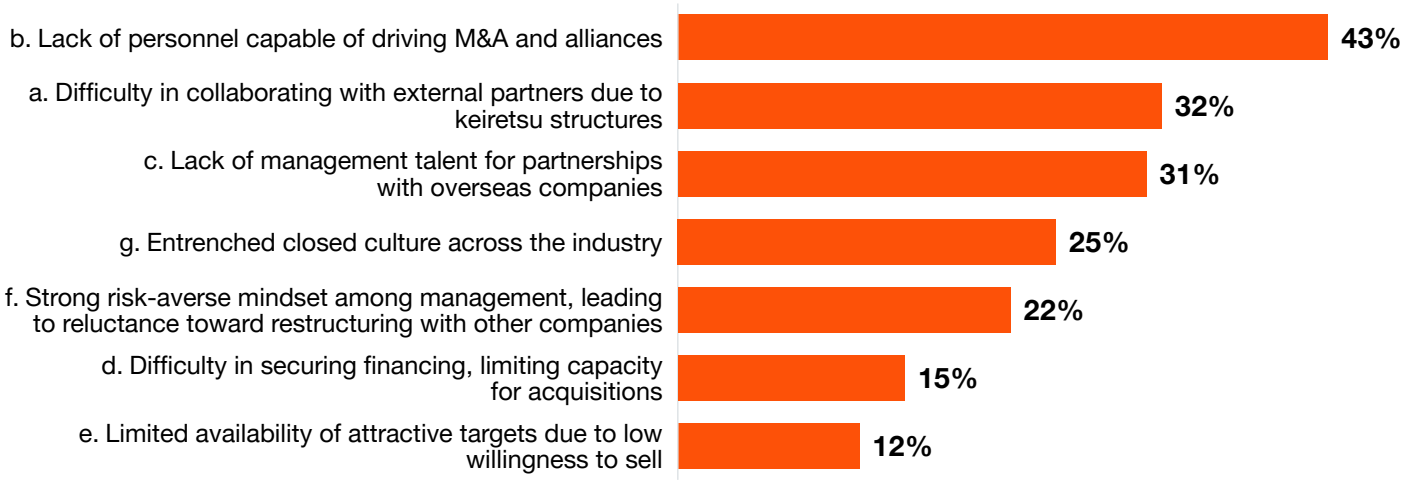
- **Rank 3: c. Lack of management talent for partnerships with overseas companies—selected by 31% (49 of 157 companies)**

Advancing joint ventures and international partnerships with overseas companies requires leaders with language proficiency, negotiation skills and cross-cultural understanding, but the limited availability of such talent within organisations has become a key barrier.

Based on the above results, the primary reasons why alliances have not progressed lie in internal capability gaps and structural constraints within the industry. Specifically, a lack of talent and experience, as well as insularity stemming from keiretsu structures, have emerged as major barriers. Accordingly, advancing alliances will require, first and foremost, strengthening internal capabilities and driving a shift in mindset. The next section summarises suppliers' perspectives on internal and external actions to address these challenges.

Figure 8: Q6 survey results

Q6: What do you consider to be the main reasons why it is difficult to form alliances in the Japanese automotive supplier industry? Please select up to three options.



Source: PwC analysis

Actions required to promote alliances (Q7)

Government policy support as an enabler of alliance development
Need for greater awareness of alliance trends and best practices in companies

Respondents were asked to select up to three options from six that are needed at the industry level to further promote alliances. The results are shown in Figure 9.

- **Rank 1: b. Development of cross-industry restructuring support frameworks (e.g. public-private partnerships)—selected by 47% (74 of 157 companies)**

The most frequently selected action was industry-wide restructuring support frameworks driven by public-private collaboration. Specifically, this suggests an expectation for frameworks in which government bodies and industry associations take the lead in facilitating consolidation and strategic collaboration among companies.

- **Rank 2: d. Development of information-sharing platforms on technology and market trends—selected by 46% (72 of 157 companies)**

The second most frequently selected action was the development of platforms to share information on technology and market trends across the industry. For example, this could include organising technology exhibitions and networking events that bring together companies from different keiretsu, as well as establishing data-sharing platforms to address global external developments, such as supply chain disruptions caused by conflicts and geopolitical risks, that are difficult for individual companies to monitor and address on their own.

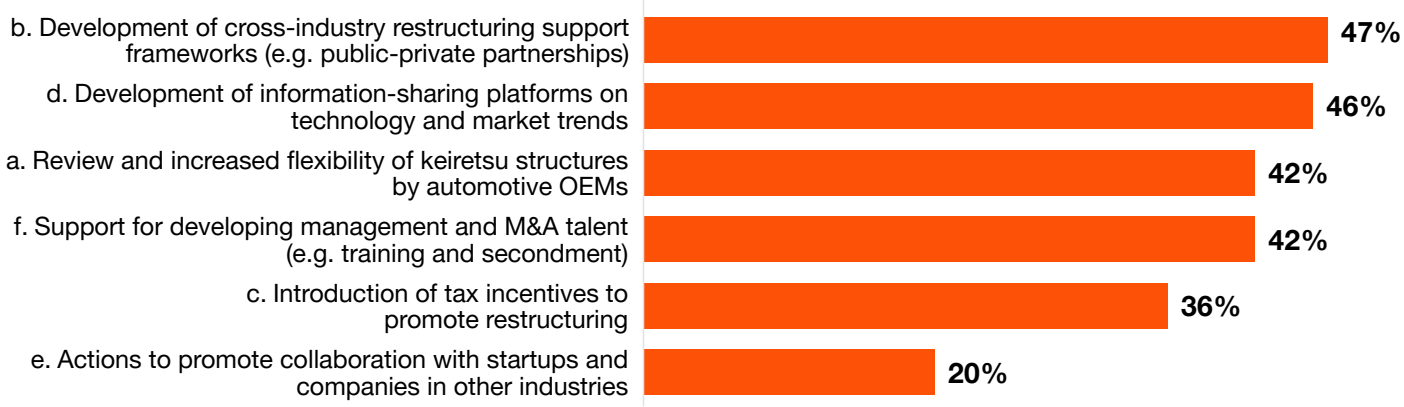
- **Rank 3 (tie): a. Review and increased flexibility of keiretsu structures by automotive OEMs and f. Support for developing management and M&A talent (e.g. training and secondment)—each selected by 42% (66 of 157 companies each)**

Two items were tied for third place. One was the review and increased flexibility of keiretsu structures by automotive OEMs, indicating that many companies seek collaboration beyond traditional group boundaries and view cooperation from automakers (particularly a willingness to remove such barriers) as essential. The other, f: 'Support for developing management and M&A talent (e.g. training and secondment)', suggests that many companies support this action as a lever to address the talent shortages identified earlier (one of the top-ranked issues in Q6).

Based on the above, the actions that suppliers seek to promote alliances can be categorised into two areas: institutional support (frameworks driven by public-private collaboration) and the facilitation of information sharing and talent exchange. Notably, there is strong demand for industry-wide restructuring support through public-private collaboration, as reflected in the free-text responses, such as 'companies would be more willing to act if supported by government measures.' In addition, removing keiretsu-related barriers and promoting talent exchange are areas that suppliers themselves can more readily address. Accordingly, Chapter 3 presents concrete actions in these areas.

Figure 9: Q7 survey results

Q7: What actions do you consider necessary to further promote alliances in the Japanese automotive supplier industry? Please select up to three options.



Source: PwC analysis

Alliance strategies without constraints (Q8)

Envisioning business efficiency through horizontal integration and the creation of growth businesses over the medium to long term

Suppliers were asked to select up to three options from seven regarding the alliance strategies that they would pursue if there were no constraints. This reflects the types of alliances that suppliers truly seek. The results are shown in Figure 10.

- **Rank 1: d. Creation of new businesses through collaboration with companies in other industries—selected by 50% (79 of 157 companies)**

The most frequently selected strategy was the creation of new businesses through collaboration with companies in other industries. For example, this could include partnering with companies in the IT and electronics sectors to develop next-generation mobility services, as well as leveraging technologies from other industries to create new products. This reflects a strong intention to move beyond traditional components businesses and pursue diversification.

- **Rank 2: a. Horizontal integration with peer companies (industry restructuring)—selected by 47% (74 of 157 companies)**

The next most frequently selected strategy was horizontal industry restructuring, including mergers and integration among peer companies. This reflects suppliers consolidating or partnering to achieve scale expansion and improve efficiency by eliminating overlapping businesses, and can be viewed as restructuring driven by the need to survive. In Japan, several large-scale restructurings have taken place in recent years, indicating that many companies are pursuing the creation of mega-suppliers through management integration.

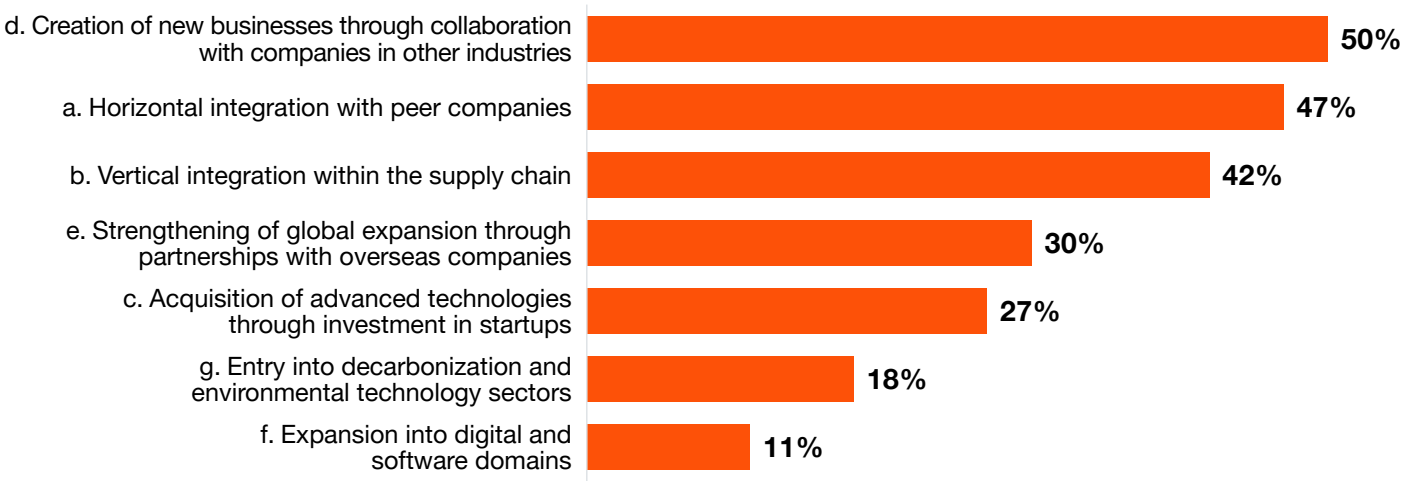
- **Rank 3: b. Vertical integration within the supply chain (supply chain integration)—selected by 42% (66 of 157 companies)**

The third most frequently selected strategy was vertical integration along the supply chain, that is, integration with upstream suppliers and downstream customers. From the suppliers' perspective, this can also be seen as a strategy to enhance added value and profitability by expanding upstream (e.g. into materials and electronic components) and downstream (e.g. moving to a Tier 1 status by supplying systems and units).

Based on the above results, it is evident that suppliers fundamentally show a strong preference for both the creation of new businesses through cross-industry collaboration and industry restructuring across both horizontal and vertical dimensions. In other words, many suppliers are seeking to identify new avenues for growth by pursuing transformation beyond their own boundaries and through partnerships and integration with other companies. In fact, globally, trends such as investment in companies with promising technologies and restructuring across component segments have been attracting attention, suggesting that Japanese suppliers are exploring similar directions.

Figure 10: Q8 survey results

Q8: What alliance strategies would your company pursue if there were no constraints? Please select up to three options from the list.



Source: PwC analysis

Key elements for advancing alliance strategies (Q9)

Strengthening the capability to gather industry information for faster decision-making by management

Finally, respondents were asked to select up to three elements that are required to execute and advance alliance strategies from six options. This question addresses the internal requirements for successful alliances. The results are shown in Figure 11.

- **Rank 1: c. Strengthening of capabilities to gather information on industry and technology trends—selected by 65% (102 of 157 companies)**

By far the most frequently selected element was the strengthening of capabilities to anticipate industry and technology trends and gather information accurately. Approximately two-thirds of respondents selected this option, indicating a high level of awareness of the importance of intelligence capabilities. Many companies recognise the need to enhance their ability to gather market and technological information in order to keep pace with changes in the business environment.

- **Rank 2: b. Improvement in the speed of decision-making by management—selected by 42% (66 of 157 companies)**

The next most frequently selected element was faster decision-making by top management. Alliances are highly time-sensitive, and decisive leadership by top management is essential to avoid missing opportunities. As discussed in Chapter 1, delays in addressing medium- to long-term challenges may also be attributable to deferred management decisions, highlighting the need for top-down leadership to drive collaboration.

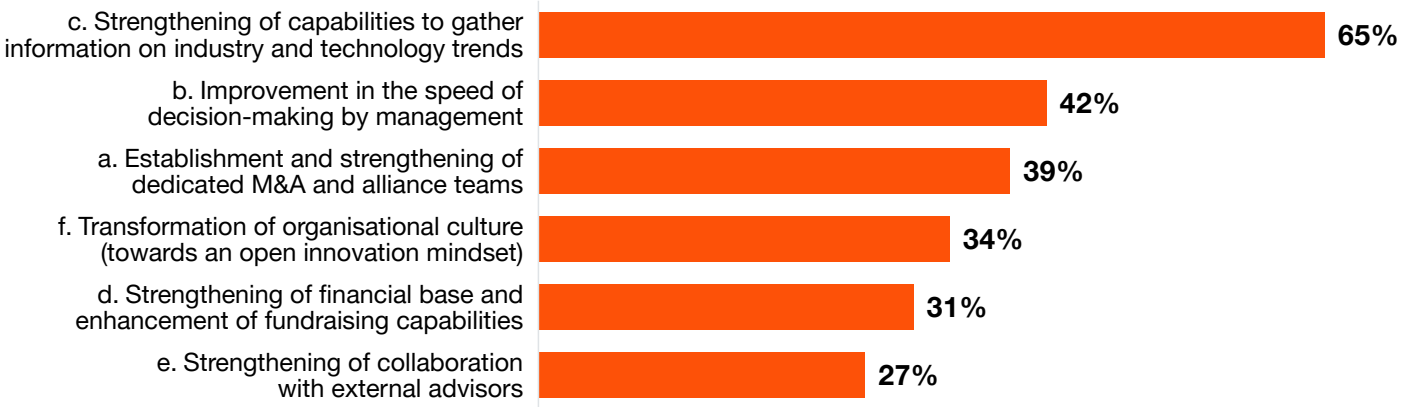
- **Rank 3: a. Establishment and strengthening of dedicated M&A and alliance teams—selected by 39% (62 of 157 companies)**

The third most frequently selected element was the establishment of dedicated internal organisations or teams, chosen by approximately 40% of suppliers. This can also be interpreted as a concrete action to address the top-ranked barrier identified in Q6 (shortage of M&A talent). Given that many companies currently do not have such dedicated teams in place, this likely contributed to the relatively high selection rate for this item.

Based on the above results, the key internal elements required to advance alliance strategies can be summarised into three pillars: information-gathering capabilities, top management leadership, and dedicated organisations and talent. Conversely, without these elements in place, alliance strategies may remain merely aspirational. Concrete actions to address these requirements are presented in Chapter 3.

Figure 11: Q9 survey results

Q9: What elements does your company require to execute and advance alliance strategies? Please select up to three options from the list.



Source: PwC analysis

Insights from an overall and cross-sectional analysis of Q4 to Q9

By implementing actions tailored to their own circumstances, suppliers can effectively leverage alliances and enhance competitiveness

This report has reviewed the results of Q4 to Q9 by item so far; this section provides an integrated analysis of the findings. It also examines the role that alliances can play in addressing the key gap areas identified in Chapter 1 (technology and digital transformation [DX], talent and global readiness), as well as the strategic direction of alliance approaches across technology domains such as ICE, BEV and SDV.

• High expectations for alliances

The survey results clearly indicate that suppliers view alliances as a cornerstone of their survival strategy. Not only did approximately 80% of respondents express a positive view regarding their necessity (Q4), but responses to Q8 also revealed more ambitious strategic preferences, including cross-industry partnerships, industry consolidation and vertical integration. This suggests a growing shared recognition that the challenges identified in Chapter 1 (technological innovation, digital transformation, talent and scale competition) cannot be addressed by individual companies alone, and that collaboration and integration with other companies are essential. In fact, free-text responses included views such as the need to share management resources beyond corporate boundaries, as well as examples of companies actively expanding their business domains through M&A, indicating an increasing openness to more collaborative strategic approaches.

• Overcoming barriers is an urgent priority

On the other hand, responses to Q5 and Q6 highlight significant hurdles to advancing alliances. In particular, shortages of internal talent and constraints related to corporate group affiliations and organisational culture are serious issues, and unless they are addressed, alliances risk failing to translate into meaningful outcomes. The cross-analysis shows that larger suppliers are more likely to identify shortages of M&A talent (Q6). This suggests, somewhat paradoxically, that even large firms may lack sufficient experience in major M&A and partnership initiatives and may be lagging in talent development. In contrast, smaller suppliers are more likely to cite weak financial foundations and risk-averse attitudes (Q6) as barriers, indicating both financial and psychological hurdles. Accordingly, actions tailored to each company's circumstances are required. Large companies should take the lead by establishing dedicated internal teams and promoting talent exchange, thereby acting as drivers for the industry as a whole. Meanwhile, small and mid-sized companies should actively leverage support measures provided by industry associations and government bodies (e.g. subsidies for new business development from the Ministry of Economy, Trade and Industry and intermediation by regional financial institutions) to complement areas that are difficult to address alone. This also aligns with the public-private collaboration initiatives and the use of external advisors discussed in detail in Chapter 3.

• Impact of alliances on key challenges

This section examines how alliances can contribute to addressing the gaps identified in Chapter 1, namely in technology and digital transformation (DX), talent and global readiness. First, from a technological perspective, alliances enable companies to acquire and integrate advanced technologies through cross-industry partnerships and the acquisition of startups. The top-ranked strategy in Q8, cross-industry collaboration, clearly reflects this direction; for example, partnering with IT companies in the software domain allows suppliers to leverage expertise in in-vehicle operating systems and autonomous driving AI. In addition, integration among suppliers can facilitate the concentration of R&D resources, thereby improving efficiency and accelerating technological development. With regard to talent shortages, alliances can help bridge gaps by enabling collaboration with skilled personnel from other companies through talent exchange and the establishment of joint ventures. Integration can also allow for the redeployment and more effective utilisation of surplus personnel. As suggested by free-text responses calling for the mutual secondment of executives to promote talent mobility and development, alliances can serve as a platform for both talent development and acquisition. In terms of global readiness, partnerships with overseas companies (ranked fourth in Q8) and the development of international collaboration networks provide direct solutions. In this way, advancing alliances can be regarded as a highly effective means of addressing the key challenges identified in Chapter 1. However, it should be noted that overcoming the aforementioned barriers remains a prerequisite for the successful implementation of alliances.

Differentiated alliance strategies across ICE, BEV and SDV domains

From a technology perspective, differences in alliance strategies among the suppliers are evident, as shown in Figure 12.

- **ICE-related domains**

The market is expected to contract in these areas, so the primary direction is consolidation among peers aimed at improving cost efficiency and ensuring technology transfer. In practice, there are increasing instances of suppliers with strengths in conventional technologies such as engines and transmissions pursuing mergers and joint ventures beyond traditional corporate group boundaries, with the aim of aligning technologies in mature domains and reducing development costs. There are also cases in which financially stronger companies undertake roll-ups by acquiring and integrating other players. Such cases have been increasing recently, with companies taking over mid-sized suppliers facing financial difficulties.

In ICE-related domains, strategies focused on industry consolidation and business integration to capture survivor benefits are becoming increasingly prominent. While such consolidation efforts continue to face barriers arising from corporate group affiliations, as noted above, restructuring beyond these traditional boundaries is gradually becoming more feasible. Chapter 3 proposes actions to further accelerate this trend.

Figure 12: Alliance strategies in ICE, BEV and SDV domains

Domain	Primary Objective of Alliances	Key Players	Main Forms of Collaboration	Key Barriers	Enablers
ICE	Cost efficiency and technology transfer to sustain productivity in mature domains	Alliances among existing suppliers (including across different corporate groups), with automotive OEMs acting as coordinators	Horizontal integration (mergers and acquisitions among peers) and vertical restructuring (consolidation of in-house component production)	Barriers from corporate group affiliations, antitrust constraints and investment reluctance due to declining demand	Automotive OEM-led consolidation, policy support for integration and bold roll-ups to capture survivor benefits
BEV	Burden sharing for both large-scale investments and new technology acquisition, and responsiveness to rapidly expanding markets	Alliances among cross-sector suppliers, between suppliers and materials/battery manufacturers and among automotive OEMs	Joint development JVs, strategic alliances, joint venture manufacturing facilities and cross-licensing	Uncertainty due to technology immaturity, concerns over sharing intellectual property and burdens arising from capital investment	Investment support through public-private funds, revenue visibility improvement through joint standardisation and sharing of investment burdens and risks through collaboration
SDV	Software development capabilities, platform development and leadership in future competitive domains	Suppliers, IT companies (cloud/AI), semiconductor companies, standards bodies and consortia	Cross-industry partnerships, participation in consortia, joint research and corporate venture capital (CVC) investments	Lack of expertise and talent, cross-industry cultural gaps and uncertainty in standard-setting competition	Joint development of common platforms, speed prioritisation through dedicated teams and a shift away from a product-centric culture

Source: PwC analysis

- **BEV-related domains**

Rapid technological innovation and significant investment requirements have led to a marked increase in resource sharing through joint development and the establishment of joint ventures. The survey results also show that cross-industry partnerships are the most widely supported approach, indicating a clear tendency to actively leverage external capabilities in response to electrification. In practice, automakers and suppliers have sought to stabilise in-vehicle battery supply across domestic and international markets, sharing both risks and investment burdens through joint ventures. Alliances are also expanding in emerging technology areas such as semiconductors, with partnerships between automakers and semiconductor manufacturers growing for the development of semiconductors for next-generation BEVs. Through these alliances, Japanese players aim to combine their strengths in automotive expertise with technological capabilities from other industries to enhance competitiveness in core BEV components. At the same time, collaboration with new entrants is also progressing, as seen in partnerships between electronics companies and suppliers aimed at creating new business opportunities in the BEV domain. In addition, collaboration with overseas companies has become essential for market development and the acquisition of advanced technologies. There are numerous examples of overseas Tier 1 suppliers partnering with automakers for these purposes, highlighting an increasingly proactive approach in BEV-related domains to capture both technological capabilities and growth opportunities through collaboration, regardless of geography.

- **SDV-related domains**

Software development capabilities and next-generation platform strategies are key determinants of competitiveness. SDV development is likely to accelerate collaboration with IT companies and semiconductor manufacturers beyond the traditional boundaries of the automotive industry, alongside the development of open standards. In practice, automakers are increasingly partnering with major IT companies, while suppliers are engaging in joint development of in-vehicle software and electronic control architectures, indicating a growing shift towards ecosystem building that transcends the traditional divide between hardware and software. To secure increasingly critical software talent, alliances aimed at talent development in anticipation of the SDV era are also emerging. The use of open-source technologies is gaining attention as well, with companies seeking to incorporate external software capabilities to accelerate development.

Furthermore, participation in standardisation consortia is becoming increasingly important in SDV-related domains. Although not explicitly reflected in the survey results, free-text responses indicate expectations for cross-industry initiatives, such as the development of globally recognised standards originating from Japan and the standardisation of architectures across the industry. This underscores the need to view vehicles as ‘mobile IoT devices’ and suggests that suppliers will increasingly form alliances with IT and telecommunications companies. In this domain, independent development is not a realistic option, and the key challenge will be how to establish leadership in open ecosystems.

In summary, the analysis in Chapter 2 has clarified the necessity of advancing alliances, the associated challenges and the strategic direction by technology domain. Taking into account the differences in how companies operate across ICE, BEV and SDV domains, the next chapter outlines concrete actions going forward for the automotive supplier industry, incorporating approaches tailored to each domain.

Column

Global trends in the automotive supplier industry

The transformation of the automotive supplier industry analysed in this survey is not limited to Japan. According to a study* published by Strategy& in 2025, the German automotive industry is also facing structural changes unprecedented in the past 30 years, and this wave of transformation—often described as occurring once in a century—is affecting not only Japan but also Europe. Driven by technological innovation, including the shift to BEVs and digitalisation, as well as dramatic changes in market structures, the German supplier industry is likewise confronted with significant challenges.

In addition, the rise of Chinese players cannot be overlooked. As highlighted in the same report, Chinese suppliers are beginning to outpace traditional players in terms of product development speed. In fact, based on publicly available financial data, Chinese companies have, for the first time, secured as many as eight positions in the global top 100 supplier ranking by revenue, underscoring the rapid expansion of their influence. In the automotive industry, the overwhelming speed of Chinese players has already become a competitive factor that can no longer be ignored, and it is now necessary to view China speed not merely as a point of admiration but as a challenge to be addressed.

Furthermore, as highlighted in the same report, industry restructuring in Europe, particularly in Germany, suggests that expansion strategies based on horizontal integration through M&A among peers are already approaching their limits, which is worth noting. Going forward, it is considered increasingly important to enhance competitiveness by scaling along the vertical dimension of the value chain.

Against this backdrop of global trends, it is critical for Japanese suppliers to move forward with the promotion of alliance strategies and the restructuring of business portfolios as proposed in this report. The greatest risk lies in inaction, and maintaining the status quo could lead to gradual decline. Japanese companies must recognise that failure to act will result in being left behind, and are increasingly required to make agile decisions and undertake bold reviews of their business portfolios.

*Strategy& Germany, 'Automotive supplier study 2025'
https://www.strategyand.pwc.com/de/en/industries/automotive/automotive-supplier.html

Chapter 3

Recommended actions for the future

Building on the analyses in Chapters 1 and 2, this chapter presents concrete actions for the Japanese automotive supplier industry going forward.

Recommendation 1:
Accelerating decision-making by establishing dedicated M&A and alliance teams and strengthening their functions

Recommendation 2:
Fostering cross-industry collaboration for new value creation

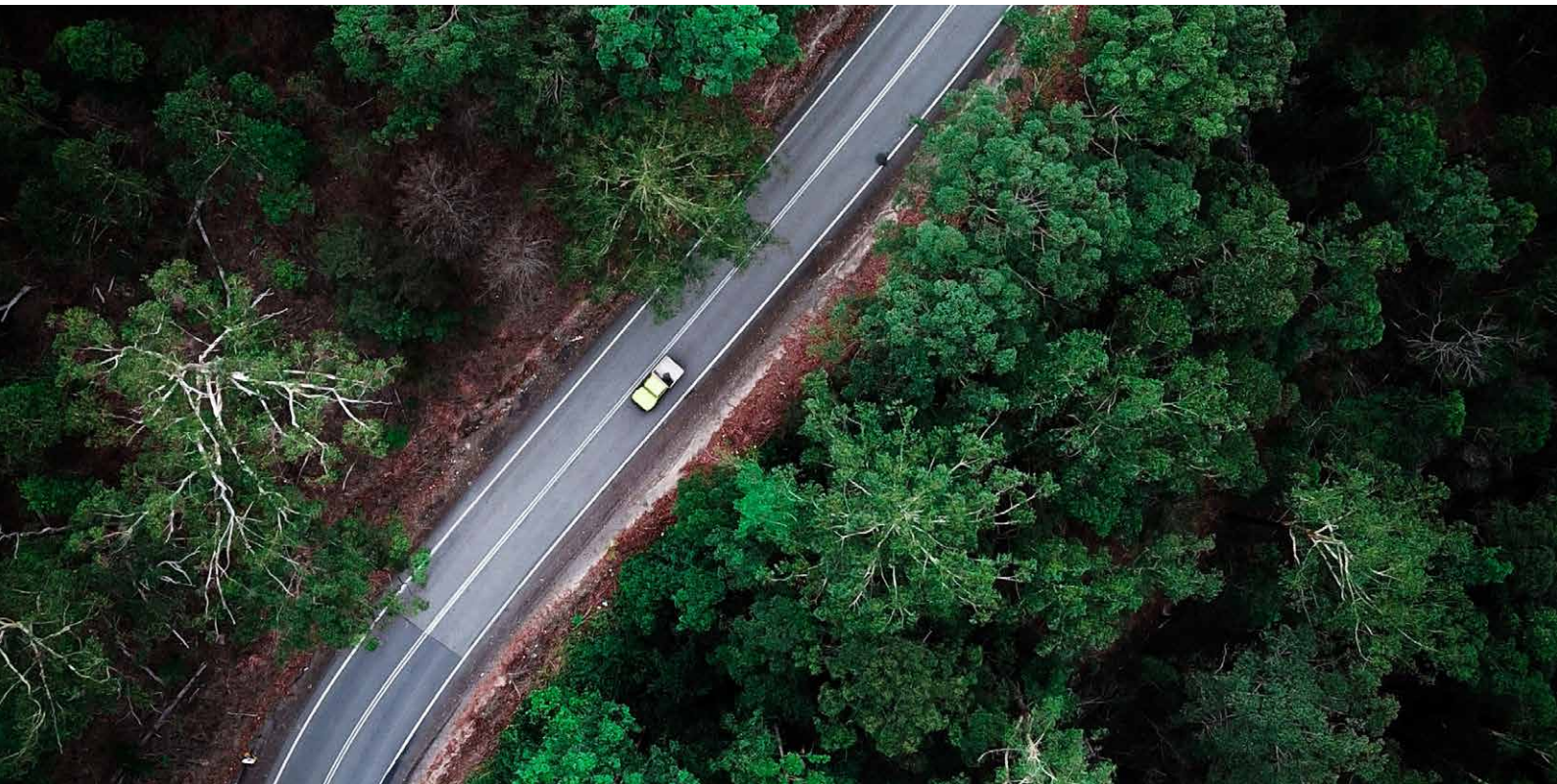
Recommendation 3:
Transforming business models through strategic partnerships and integration with companies in other industries and overseas markets (proactive growth strategy)

Other considerations:

Strengthening R&D through financing, including the use of private equity (PE) funds

Engaging with national and local governments via industry associations such as the Japan Automobile Manufacturers Association (JAMA) and the Japan Auto Parts Industries Association (JAPIA)

These actions have been developed based on the gaps identified in the survey results and an analysis of the current state of alliances in the industry. In particular, the actions have been formulated by linking the key challenges identified in Chapter 1 (response to technological innovation, talent acquisition and global readiness) with the corresponding alliance strategies discussed in Chapter 2. Each recommendation is explained together with its underlying rationale. In addition, areas of strong interest in the free-text responses, such as access to growth capital and public-private collaboration, are presented as 'Other considerations'.



Recommendation 1: Accelerating decision-making by establishing dedicated M&A and alliance team and strengthening their functions

Overview: This recommendation involves establishing and strengthening a dedicated internal team for M&A and alliance promotion, assigning specialised personnel to this function, and placing the team under the direct supervision of top management to enable a rapid decision-making process. This will facilitate the strengthening of information-gathering capabilities and improvement in the speed of decision-making, which were identified in Chapter 2 as key requirements for advancing alliances.

• Background and rationale

To promote M&A and alliance activities, information-gathering capabilities and the speed of top management decision-making were identified as highly important factors (Q9). It is considered effective to establish a framework that enhances information-gathering and intelligence functions, enables the proposal of company-specific strategies to management and facilitates rapid decision-making under the direct supervision of top management.

• Specific actions

First, suppliers should establish a dedicated team, such as a Business Strategy and Alliances Office (tentative name). This team should bring together specialised personnel in areas such as finance, legal and business planning, while also recruiting individuals with external experience, including those from financial institutions and consulting firms, to conduct information gathering and strategic analysis. According to the survey, 39% of respondents indicated that the establishment of a dedicated team (Q9) is necessary, suggesting that this approach is worth considering for many suppliers. Furthermore, placing this team under the direct supervision of the CEO and minimising decision-making layers will enable faster decision-making at the top level.

• Talent development and utilisation of external talent

For personnel assigned to such a dedicated team, suppliers should promote skill development through actions such as secondments to business schools and on-the-job training in M&A execution. In addition, the proactive use of external advisors is effective (Q9, selected by 27% of respondents). In M&A and alliance projects, collaboration with financial institutions and M&A advisors possessing specialised expertise has a significant impact on outcomes. Establishing relationships with external experts at an early stage can provide substantial benefits in identifying scarce M&A opportunities and mitigating risks through due diligence. In this way, it is important to enhance execution capabilities by integrating internal and external talent.

• Expected impact

The implementation of Recommendation 1 will strengthen information-gathering capabilities and improve the speed of decision-making, which serve as the driving forces for advancing alliances. This will allow suppliers to pursue potential alliance opportunities that may previously have been overlooked and will help prevent missed opportunities for promising collaboration and restructuring. In addition, accumulated know-how from M&A and partnerships will be shared internally as knowledge and are expected to be leveraged in other initiatives, such as factory collaboration and joint procurement. While Recommendation 1 requires initial investment and additional personnel costs because it involves strengthening the organisational foundation, it is expected to generate substantial returns over the medium to long term.

Recommendation 2: Fostering cross-industry collaboration for new value creation

Overview: This recommendation promotes cross-company collaboration beyond traditional automaker group boundaries and aims to foster an open culture of collaboration across the industry. To this end, suppliers should shift towards a more collaboration-oriented corporate culture and embed a mindset of proactively leveraging external capabilities. This will help reduce barriers identified in the survey, such as difficulties in collaboration across group affiliations and closed organisational cultures. It is also intended to increase meaningful alliance opportunities and enhance overall industry competitiveness.

- **Background and rationale**

The keiretsu system (corporate group structures) has long been a defining feature of the Japanese automotive industry. However, many Japanese automakers face a more challenging growth outlook, so the traditional model in which suppliers rely primarily on their respective automakers within the keiretsu system is becoming increasingly unsustainable. To achieve the scale of sales and production required as suppliers, it will be necessary to expand business with automakers outside their existing corporate group structures. Furthermore, addressing increasingly complex technological development will require collaboration among suppliers with complementary capabilities. The survey results also highlight these challenges. Issues related to the keiretsu structure (Q6: 32%) and the need to promote collaboration beyond corporate group boundaries (Q7: 42%) were prominent. Free-text responses included specific suggestions that automakers and industry associations should take the initiative in promoting collaboration beyond corporate group boundaries, underscoring the need for top-down cultural transformation and cross-organisational collaboration.

- **Specific actions**

In responding to electrification and autonomous driving, standalone suppliers may not be able to fully bear the funding requirements and risks associated with technological development. Collaboration among suppliers across both horizontal and vertical dimensions is therefore becoming increasingly necessary. Accordingly, automakers need to consider restructuring their supply chains to facilitate collaboration beyond traditional corporate group boundaries. Suppliers should assess what types of partners they need in order to address challenges that cannot be resolved on their own, without excluding suppliers outside their existing corporate group structures. For example, industry exhibitions and networking events that bring together companies from different groups can play a meaningful role in facilitating such collaboration and are expected to create opportunities for new partnerships.

- **Internal cultural transformation**

Alliances with other companies are difficult to achieve under an inward-looking mindset. Suppliers therefore need to deepen their understanding of other companies' technological capabilities and cultures. Suppliers should also recognise their position within the industry, identify what is lacking for their growth and consider how to establish complementary relationships with other companies. To this end, it is important to foster a culture of ongoing external engagement and information gathering. For example, suppliers can introduce mechanisms that recognise and reward collaboration-oriented behaviour. This may include recognising successful collaborative projects or evaluating employees who propose new partnerships. At the same time, careful consideration is required in areas such as profit-sharing arrangements and the handling of intellectual property. Suppliers should therefore establish support frameworks involving functions such as legal departments and clear rules. This will help alleviate internal concerns that partnerships may complicate rights and obligations and encourage a greater willingness to pursue mutually beneficial alliances.

- **Expected impact**

Recommendation 2 is expected to have the following impact. If horizontal collaboration among suppliers and vertical collaboration between suppliers and companies in other industries become more active, improvements in development efficiency and cost reductions can be expected, as well as the creation of new products and services. From a cultural perspective, as successful experiences of collaboration accumulate, employees' mindsets are likely to shift in a more positive direction, leading to the establishment of the view that leveraging external capabilities is not a risk but an opportunity. This, in turn, is expected to generate a virtuous cycle that encourages further collaboration, ultimately contributing to the revitalisation of the industry as a whole and the strengthening of its competitiveness.While Recommendation 2 is relatively abstract and will require time to implement, it can be regarded as an essential initiative for strengthening the industry structure from a long-term perspective.

Recommendation 3: Transforming business models through strategic partnerships and integration with companies in other industries and overseas markets (proactive growth strategy)

Overview: Recommendation 2 discusses collaboration with industry peers and adjacent sectors in suppliers' core business. While the level of difficulty increases, broadening perspectives on potential partners can be effective in driving dynamic growth. Through strategic partnerships and integrations with companies in other industries and overseas, some suppliers may consider transforming and upgrading their business models beyond conventional frameworks. Specifically, this may include incorporating technology companies from other industries through M&A or joint ventures to address the shift towards electrification and software-defined technologies, as well as redefining their position within the supply chain through vertical integration and capital alliances with overseas suppliers. Through these proactive initiatives, suppliers are expected to develop new business domains and enhance corporate value, thereby helping to address the long-term challenges highlighted in Chapter 1, namely responding to technological innovation and achieving sustainable growth.

- **Background and rationale**

Cross-industry collaboration, which ranked highest in Q8 of the survey, is precisely the direction advocated in Recommendation 3. While many suppliers are in a situation where they would like to pursue bolder actions but are unable to do so due to various constraints, the organisational reforms and cultural development described in Recommendations 1 and 2 are intended to help remove those constraints. On the premise that such an environment is in place, Recommendation 3 encourages each company to take concrete actions to shape its own future.

For example, in response to electrification and autonomous driving, collaboration with software companies and electronic component manufacturers is essential. In addition, even in hardware domains, the integration of mechanical and electrical technologies is accelerating overseas. Proactive partnerships aimed at responding to technological innovation are also emerging among automotive OEMs, such as collaborations for BEV development, and suppliers will need to align with this trend.

- **Specific actions**

As with Recommendation 2, suppliers should first reassess the areas in which they lack capabilities and clearly identify the functions that need to be supplemented or strengthened. Based on this, they should identify suitable partner candidates and initiate discussions and negotiations at the top-management level (the dedicated teams established under Recommendation 1 will play a key role at this stage). For example, a mid-sized supplier seeking to acquire power electronics technologies for BEVs may establish a joint venture with an electronic components manufacturer that has strong capabilities in power control. In the case of a joint venture, both parties can share risks and returns, enabling them to enter new business domains. In terms of relationships with automotive OEMs, suppliers may also aim to expand orders not only domestically but also from non-affiliated overseas automotive OEMs, such as by establishing overseas operations through joint ventures or partnerships.

- **Expected impact**

The implementation of Recommendation 3 can fundamentally transform profit structures and business portfolios. Collaboration with companies in other industries can enable the creation of innovations that would be difficult to achieve independently. For example, companies that have traditionally focused on mechanical processing may diversify their business models by expanding into software-based services as an additional source of revenue. This is also important from the perspective of business continuity (resilience), as it strengthens the ability to respond to market changes highlighted in Chapter 1.

Furthermore, Recommendation 3 is directly linked to enhancing corporate value. In the equity market, even companies with limited standalone growth prospects may be able to articulate a new growth narrative by integrating with high-growth companies in other industries. For component manufacturers facing low price-to-book ratios (PBR), bold restructuring can serve as a catalyst for valuation improvement. In fact, there are overseas cases where mergers among major suppliers have driven stock price increases by highlighting synergies. By presenting bold strategies, Japanese suppliers can gain investor confidence, which in turn is expected to create a virtuous cycle, including strengthening financial foundations and improving the ability to attract talent. Recommendation 3 represents the tangible outcomes that can be achieved once Recommendations 1 and 2 have been put into practice. As its realisation requires companies to commit to a more proactive stance, strong leadership from management and alignment across the organisation are essential.

Other considerations: Strengthening R&D through financing, including the use of private equity (PE) funds

Overview: One potential direction is to transition from the traditional supplier business model to a position closer to automotive OEMs, often referred to as 'Tier 0.5', which involves joint development and value co-creation that integrate software and services. To support this shift, it is also worth considering the strengthening of R&D capabilities through financing, including the use of private equity (PE) funds.

- **Background and rationale**

The automotive supplier industry is undergoing a period of transformation, including electrification and software-driven development, making it increasingly difficult to maintain competitiveness under a business model that is solely dependent on traditional component supply. Accordingly, suppliers may consider redefining their positioning and aiming to establish a Tier 0.5 role by working more closely with automotive OEMs and developing capabilities as system integrators or module suppliers. In fact, some well-capitalised European and U.S. suppliers have already shifted their strategies toward providing solutions to automotive OEMs and delivering value through software development. To advance such transformation, it is essential to strengthen R&D through investment.

- **Specific actions**

First, in preparation for raising funds from sources such as private equity (PE) funds, suppliers should clarify their long-term strategy and the growth potential derived from it. They should then formulate an R&D plan and business strategy. They should communicate their growth strategy to investors and seek to secure funding by gaining investor buy-in. Using the funds raised, they will then implement the formulated R&D plan and business strategy. To do so, they will need to recruit new technical personnel, redeploy highly capable engineers within the company and strengthen digital and software development functions in order to enhance development capabilities that meet the needs of automotive OEMs. Even where a company aims to become a Tier 0.5 supplier through the use of external funding, past failures suggest that it should not simply expand its scale in line with the fund's guidance. Instead, it should pursue highly strategic M&A that further strengthens or complements its existing strengths. In doing so, a company should not only confirm the target company's position within the industry, profitability and financial soundness, but also closely analyse differences in management style and corporate culture. In addition, a company will need a concrete plan to realise value creation through post-merger integration (PMI).

- **Expected impact**

By aiming to become a Tier 0.5 supplier and strengthening development and production capabilities, companies will be able to engage in developing and producing higher value-added components than before. This, in turn, is expected to lead to greater trust from automotive OEMs and, consequently, to new business opportunities. As companies advance joint development projects with automotive OEMs, they can generate new intellectual property (IP), which also contributes to securing technological advantages. By leveraging newly acquired IP to provide products and services tailored to market needs, they can build a highly profitable business model and achieve stable growth while maintaining sustainable competitiveness.

Other considerations: Engaging with national and local governments via industry associations such as the Japan Automobile Manufacturers Association (JAMA) and the Japan Auto Parts Industries Association (JAPIA)

Overview: Suppliers need to strengthen R&D in order to maintain a global competitive advantage. At the same time, constraints such as limited internal funding and resources, as well as antitrust regulations, pose hurdles to advancing alliances. Accordingly, to promote restructuring both horizontally and vertically, it is necessary to seek antitrust exemptions and the establishment of transition finance frameworks* through industry associations, such as JAMA and JAPIA.

• Background and rationale

In order for Japanese suppliers to maintain technological and cost competitiveness globally, they need to further advance R&D and bring higher value-added products to market. However, in many cases, suppliers do not have sufficient funding and resources to pursue R&D on their own. To address this issue, it is necessary to promote restructuring among suppliers both horizontally and vertically, but antitrust regulations and other constraints pose hurdles to such restructuring. The survey results also indicate strong demand for institutional support, including public-private frameworks, and free-text responses suggest that suppliers would find it easier to take action if government support measures were in place. Accordingly, there are expectations for regulatory easing and financial support from national and local governments.

• Specific actions

To facilitate regulatory easing, suppliers should seek the application of antitrust exemptions related to mergers and acquisitions from the government, through industry associations, such as JAMA and JAPIA. This is expected to help address structural challenges underlying the development of cross-industry restructuring support frameworks (e.g. public-private partnerships), which was frequently requested in the survey (Q7, selected by 47% of respondents). In addition, where funding for R&D is a constraint, suppliers may also seek the establishment of transition finance frameworks by the government and financial institutions to support transformation in the automotive supplier industry, thereby helping to drive change on the supplier side.

• Expected impact

By addressing antitrust constraints and funding limitations, it will become possible to reorganise the industry, in which suppliers have long remained fragmented amid decades of competitive pressures, into a more globally competitive one.

*This report proposes the establishment of frameworks to advance transformation, rather than decarbonisation.

Conclusion

For Japanese automotive suppliers to achieve sustainable growth over the long term, their management and employees must share a clear commitment to transformation and translate that commitment into concrete actions. In light of rapidly evolving global conditions, the accelerating pace of technological innovation (including AI), increasingly stringent societal demands regarding environmental and safety issues and the rise of Chinese OEMs and suppliers, a business model that continues along a conventional trajectory will inevitably lead to a gradual loss of competitiveness and financial resilience. The three recommendations in this report represent the fundamental steps required to put transformation into practice. To advance transformation without being absorbed in day-to-day operations, suppliers need to establish dedicated teams for M&A and alliances and create a structure that enables swift decision-making at a level close to top management.

Addressing these challenges requires time and resources. However, amid intensifying competition, companies will be unable to keep pace with the speed of change if they rely solely on in-house approaches. For example, gaps in expertise, know-how or resources can be addressed swiftly through alliances with companies that possess such capabilities. In addition, the acquisition of new capabilities essential for future growth through M&A is also a viable option.

In the face of these challenging circumstances, now is the time to break away from conventional approaches and make the leap from automotive suppliers to 'solution providers in the mobility industry'.

The Auto Sector team at PwC Advisory LLC sincerely hopes that, in order to navigate this once-in-a-century transformation, Japanese automotive suppliers will engage with the three recommendations and two considerations presented in this report, which are based on a survey designed to capture the underlying concerns of Japanese automotive suppliers. By doing so, suppliers can steadily advance transformation in day-to-day operations and contribute to the sustainable development of the industry as a whole, as well as enhance corporate value for each company.

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Published: May 2026 Control No: I202510-04