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Supplier concerns abound in an uncertain landscape

Deloitte: Q1 2023 MEMA OE Automotive Supplier Barometer

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The key findings from MEMA OE's Q1 2023 Automotive Supplier Barometer[1] (the "Barometer") underline the level of uncertainty felt by companies across the automotive supply base. Executives surveyed point to weakness in the U.S. economy as the top risk factor along with labor shortages, ongoing supply chain disruptions, and overall industry transformation driven by electrification and software.

Despite these concerns, there may be some near-term relief on the horizon tied to vehicle inventory levels that continue to normalize as the industry works through remaining semiconductor shortages.[2] A global light vehicle production forecast of 85 million units this year represents a 3.3 percent increase over 2022, providing further cause for cautious optimism.[3] However, there are significant issues that could derail recovery efforts in 2023, including the impact inflation is having on consumers that were already facing record vehicle transaction prices.[4]

Findings from Deloitte's 2023 Global Automotive Consumer Study ("GACS") also suggest the current inventory crisis may be training consumers to expect longer wait times for delivery of a new vehicle, potentially opening the door to a more 'build-to-order' manufacturing paradigm. In the United States, nearly 1 in 3 surveyed consumers said they were willing to wait three to four weeks for delivery of their next vehicle, while 17 percent said they are willing to wait five to twelve weeks.

As the Barometer results point out, there is also a significant challenge accessing skilled talent. In fact, according to the U.S. Chamber of Commerce, more than 47 million workers quit their jobs in 2021.[5] The Chamber went on to state that the manufacturing sector faced a significant setback by losing 1.4 million jobs. It's no wonder the struggle to attract and retain talent is top of mind for automotive suppliers, but this issue may extend much further to encompass the critical need to acquire new skill sets that align with macro trends impacting the sector.[6] For example, there is a need to fully understand and prepare for the workforce implications tied to the fundamental shift toward electrification and software defined vehicles.[7] Viewing these Future of Work requirements through a fully integrated approach can unlock a supplier's ability to help drive value and growth going forward.

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When it comes to vehicle electrification, results from Deloitte's GACS suggest the global shift to electric vehicles is happening at very different speeds depending on the individual market. According to the study, interest in hybrid technology also continues to outstrip full battery electric vehicles (BEVs) in most countries except China. In the U.S., nearly two-thirds of consumers surveyed said they would prefer a gasoline or diesel engine in their next vehicle. Another 28 percent of respondents would prefer a hybrid powertrain, followed by eight percent of consumers that would most want a battery electric vehicle (BEV). These findings align with the results in this quarter's Barometer where suppliers expect a 20 percent share of battery electric vehicle production to occur first in China, followed closely by Europe, with North America taking an estimated seven years to reach that threshold.

This is a unique time in the automotive supplier industry as some companies race to realign their business in the face of major disruptive forces while having to cope with global economic headwinds. As digital technology transforms the nature of mobility, consumers could demand different features and functionality, encouraging a shift from hardware to software. An evolving regulatory framework, investments in infrastructure, battery technology development, and changing consumer expectations could continue to drive significant growth in electric powertrains. In addition, significant shifts in vehicle technology and the rise of complex electronic content may lead to commoditization in some traditional component segments.

Findings from Deloitte's most recent Global Automotive Supplier Study suggest the global commitment to an EV future is accelerating, but fossil-fueled engines are probably not going away anytime soon, so there could still be a lot of mileage left in these component categories as electric vehicle infrastructure develops and scales. Looking at specific supplier segments, electric drivetrain, batteries, and ADAS segments may be the most attractive, driven by increasing penetration of these technologies. Conversely, some traditional hardware segments that are highly commoditized and dependent on traditional automotive technologies such as fuel systems, exhaust, axles, and brakes could face stagnation or decline.

In order to try to capture market share and remain a strategic partner for global vehicle manufacturers, suppliers can employ a variety of strategies. These may include developing and/or acquiring cutting-edge technologies to help create or preserve a competitive advantage; leveraging non-traditional financing sources to help fund growth and innovation; and using partnerships to help plug talent gaps and drive skill development, particularly in the critical areas of software and engineering.

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Endnotes

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