



# Changing consumer demands put suppliers in the driver's seat

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Power and influence in the automotive industry is shifting dramatically. Consumers today are asserting more control in their relationships with the industry. They have a new set of expectations for what the industry must deliver and how. Original equipment manufacturers (OEMs), meanwhile, are reassessing their traditional roles, which emphasize final assembly, branding, and distribution in an effort to better meet the demands of this more sophisticated consumer and capitalize on new revenue opportunities.

Business savvy suppliers are responding to the changing roles of consumers and OEMs by ramping up their focus on product innovation and doing it in a way that aligns closely with the changing consumer expectations. In this brief, we explore the trends driving demand in the automotive industry and the ways automotive suppliers can become more customer-driven enterprises and expand their role as innovators in the industry.

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## Everything is different in the auto industry

The roles and responsibilities of key stakeholders in the automotive industry have changed dramatically in recent years. Those changes have affected everyone—customers, dealers, original equipment manufacturers, and the entire supply chain—from the largest supplier down to the smallest.

The industry has experienced a resurgence since the 2008 recession, which has driven much of that change. But it's also true that the industry resurgence may have accelerated some of the long-term trends that began decades ago.

Globalization, which began in earnest in the latter part of the 20<sup>th</sup> century, continues to reshape the industry and, in particular, the role of OEMs. In their 2015 report, “[The Evolution of Automotive Suppliers](#),” Bill Russo and Chee-Kiang Lim of the Gao Feng Advisory Company, said, “By the latter part of the last century, the competitive forces of an increasingly globalized industry forced OEMs to decentralize the various elements of the value chain, and rely more on specialized suppliers to take over responsibilities for R&D and manufacturing of certain core components.”

They also note that as the OEMs decentralized, they created the conditions for a new group of “mega suppliers” to emerge. These are companies like Aisin Seiki, Continental Corporation, Denso® Corporation, and Robert Bosch, all of which have tens of billions of dollars in annual revenue and consequently, a lot of influence in the industry.

For auto suppliers of all sizes, the current industry dynamics are creating new opportunities for growth.

As automotive suppliers move to claim an expanded role in the automotive value chain, they will need to develop and execute on strategies to better understand, anticipate, and manage customer demands. For many suppliers, implementing a new growth strategy will necessitate investing in new, innovative technologies with no guaranteed return.

## Change starts with the consumer

Consumers are driving much of the change in the industry. For suppliers, the impact is felt directly or through new requirements imposed on them by OEMs acting out of self-interest or in response to government regulation. Here are the top seven ways that consumers are directly or indirectly impacting automotive suppliers.

**1) Consumers have more leverage.** Consumers can now easily go to websites like TrueCar®, AutoTrader®, CarFax®, and Kelley Blue Book® to determine what they will ultimately need to pay for a vehicle. The impact on the industry is mixed. For auto information service providers, the consumer's eagerness for information is a boon to their business. But for the more traditional segments, it makes things more challenging. Consumers, armed with better information, are able to drive a harder bargain.

## 2) What consumers want from their new vehicles

**has changed.** Automobiles are now typically less of an emotional purchase. The preoccupation with horsepower and body styling has been replaced with a much different set of priorities.

*Performance is no longer the priority.*

To a large extent, first time or younger auto buyers have lost their zeal for performance. Instead they are interested in what they can do in the car, not just how it drives. [A McKinsey report](#) aptly summarizes the situation, “The automobile, mechanical to its soul, will need to compete in a digital world, and that will demand new expertise and attract new competitors from outside the industry. As value chains shift and data eclipses horsepower, the industry’s basic business model could be transformed.”

*Communications and connectivity is a new priority.*

Consumers increasingly view their car as an extension of their connected lives. They want infotainment. They want seamless connectivity. Given this demand, it’s not surprising that companies like Apple® see great opportunity in integrating their technology into vehicles or entering the highly competitive automotive market directly.

The industry has been responding. “Today’s car has the computing power of 20 personal computers, features 100 million lines of programming code, and processes up to 25 gigabytes of data an hour,”

[McKinsey observed in its September 2014 report](#), “What’s driving the connected car.” The firm found that 13 percent of buyers would no longer even consider a new vehicle if it didn’t have built-in Internet access.

*Customers want autonomous vehicles.*

While self-driving vehicles won’t become mainstream for many years, the ultimate appeal to consumers is virtually assured, as evidenced in the popularity of Advanced Driver Assistance Systems like self-parking and lane departure warnings. Technology companies see a significant business opportunity in autonomous vehicles. Two leading technology companies, Google® and Intel®, have been designated as the most influential companies in the autonomous car segment, according to [a study released by Appinions in mid-2014](#). They were followed by General Motors®, Mercedes Benz®, Audi®, and Nissan®. Apple ranked seventh.

*Or in some cases, consumers want no vehicle at all.*

Ridesharing services like Uber®, Zipcar®, and others have grown significantly in recent years. According to researchers Susan Shaheen and Adam Cohen of the [Transportation Sustainability Research Center at the University of California, Berkeley](#), membership in car sharing programs in the US increased from 325,000 in 2009 to 1,300,000 in 2014.

In some respects, these changing consumer priorities are still in an early stage. But the potential impact is clear, [according to a 2015 report by Roland Berger Strategy Consultants](#). “Shared mobility, automated driving and connectivity are trends that change both technology and the value chain dramatically.

Together, they have the power to reshape the entire automotive industry and the concepts of automotive ownership and mobility as we know them today.”

### 3) Consumers want more customized products.

Consumers’ growing appetite for individualized automotive products is part of a larger trend impacting discrete manufacturing as a whole. According to the [IDC report, The Future of Manufacturing](#), “In the future, fulfilling customers’ needs through a ‘make-to-individual’ approach—fulfilling clients with a single, specifically tailored customized product, made on demand—will be the norm.”

No company epitomizes how this trend may impact the automotive industry more than Local Motors, a company founded in 2007. Local Motors promotes the Strati, [a fully functional, 3D printed vehicle](#) designed and developed by its global community of designers, engineers, enthusiasts, and hobbyist innovators.

**4) Consumers are changing their demands more rapidly.** Consumers are less patient today. They don’t want to wait a long time to get the product they’ve selected and they also don’t want to wait long for the industry to start delivering new products when their wishes change. For example, in response to a sudden drop in gas prices, consumers will shift their priority from fuel economy to something else. This will dramatically alter what products they buy and cause major disruptions in the automotive supply chain. If a company makes parts for diesel engines that get high mileage, a sudden drop in the price of gasoline may mean a sudden drop in demand for their product. But for a company that makes fuel injection systems for truck or sport utility vehicle (SUV) engines, product demand will likely increase.

#### Top seven trends driving demand in auto

- Auto consumers have more power.
- Consumers want different things from their new vehicles.
- Consumers want more customized products.
- Consumers are changing their demands more rapidly.
- Consumers are demanding a different buying experience.
- Consumers want regulatory protection with no cost to them.
- OEMs see opportunity in changing customer demands.

**5) Consumers are demanding a different buying experience.** Consumers want a different retail experience, one that is more efficient and more comprehensive. According to [PwC’s 2015 Auto Industry Trends report](#), “Consumers want a seamless car-buying experience that includes the purchase decision, financing, and insurance—and both customers and dealers are motivated to speed up the transaction.”

**6) Consumers want regulatory protection with no cost impact.** Consumers want safer, more reliable, more ecologically sound cars, and support the regulations that make them possible. They just don’t want to pay for the full cost of meeting these regulatory demands. As, [PwC explains](#), “U.S. CAFE standards that will go into effect in 2016 are projected to add as much as US\$1,000 to the production cost of a vehicle, according to the National Automobile Dealers Association. Only a minority of auto buyers are willing to pay for more environmentally friendly choices such as electric vehicles, so the cost pressure falls largely on OEMs.”

## 7) OEMs see opportunity in changing customer

**demands.** OEMs are feeling the pressure from these changing consumer demands and, not surprisingly, are seeing new revenue opportunities. For example, OEMs, which today own the data collected by vehicle sensors, are eager to monetize this data. They are also investing in many of the emerging auto usage and ownership models. They're investing in car sharing and mobility services as a way to offset the revenue they stand to lose as people buy fewer cars.

[An analysis of the trend in Automotive News](#) notes that Daimler® has invested in Car2Go®, a car sharing service, and mytaxi®, a taxi booking app. Meanwhile, Honda® has a partnership with Zipcar® and has been testing a one-way Zipcar service in Boston.

## How suppliers should respond

The shifting of power in the automotive industry creates new opportunities for suppliers who understand the trends and can create a strategy to take advantage of the new opportunities they present. Below are seven ways suppliers can adapt their core business strategies to make the most of these new opportunities.

**1) Research the market.** Suppliers are now in a much better position to play a leading role in how the industry responds to changing consumer demands. But to succeed, suppliers need to directly monitor, analyze, and anticipate both short-term, localized trends as well as longer-term, global trends. This may require investments in technology, primary research and, in all likelihood, investing in internal resources to support the activity.

### Top seven ways auto suppliers can respond

- Research the market.
- Take the lead on product innovation.
- Pitch new ideas proactively.
- Form new partnerships outside the auto industry.
- Reallocate capital investments.
- Change the manufacturing paradigm.
- Change the corporate culture.

**2) Take the lead on innovation.** With an increasing percentage of each vehicle being produced by a smaller pool of Tier 1, 2, and 3 suppliers, these companies are now in a position to take the lead on innovation. Many major auto suppliers have already made this move. “Decades of OEMs' aggressive outsourcing and their demand for systems-based solutions have shifted the burden of innovation,” [write Bill Russo and Chee Kiang-Lim](#), noting that more suppliers have established core research & development (R&D) capabilities, which often are more experienced in engineering and innovation than the OEMs. But for every auto supplier that has built up its R&D capabilities, there are many more that haven't. And given the industry trends, it is a good time for these suppliers to explore how they can leverage innovation to strengthen their business.

**3) Pitch new ideas proactively.** For auto suppliers, success in the future won't just be a matter of responding to an RFQ with the lowest price and highest quality. As the power and influence of suppliers grows, there is a greater burden on these companies to take more initiative and proactively pitch their new ideas to the OEMs. It's a logical step, after investing in market research and developing product innovations based on this research.

**4) Form new partnerships outside the industry.** With the growing demand for automotive infotainment and connectivity capabilities, suppliers should embrace opportunities to partner with non-automotive technology companies. There are lots of opportunities for mutually beneficial relationships. Technology companies are putting more emphasis on the automotive market and they clearly bring expertise to any potential partnership with an automotive supplier. But the same is true of suppliers, who understand better how the industry operates and have existing supply chain relationships that can be put to good use.

**5) Reallocate capital investments.** For suppliers, the new expanded role in the automotive value chain requires significant new investments in market research and R&D. Information technology can be an ideal place to identify cost-saving measures to help fund these new investments. Adopting a cloud-based IT infrastructure is often the best way to do this. Auto suppliers adopting a cloud-based IT infrastructure can exchange their significant capital investment in information technology with a model in which IT support becomes a more manageable ongoing operational expense. With a cloud solution, suppliers also get greater agility, so they can adapt their IT strategy and support more quickly in response to changes in customer demands.

**6) Change the manufacturing paradigm.** The manufacturing strategies of many auto suppliers have failed to keep pace with shortened product lifecycles and increasing consumer demand for more individualized products. Fortunately there are new manufacturing strategies to consider. One such strategy is using Computer Numerical Control (CNC) machines for manufacturing. [Mazda® is using CNC machines to manufacture its SKYACTIV® engines.](#) By manufacturing with CNC machines, Mazda is able to produce different types of engines—for instance, both gasoline and diesel—at the same time, while maintaining profit margins that rival higher volume manufacturers.

**7) Change the corporate culture.** No corporate culture can support the dramatic changes described here without undergoing fundamental transformation. A more entrepreneurial, risk-taking culture will be needed for a suppliers to transform their companies into proactive product innovators, instead of just highly efficient and highly responsive manufacturers of auto components and systems.

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## more power and influence

in the industry than ever before. And this has created a new set of risks and potential rewards for suppliers.

## The payoff

Consumers are exerting more power and influence in the industry than ever before. And this has created a new set of risks and potential rewards for suppliers. While the current trends in automotive demand are impacting all the key players, it's the auto supplier who may be in the best position to take advantage of the latest industry transformation.

Auto suppliers committed to thriving in the future will be best served by taking bold steps to invest time and resources in understanding the new forces driving demand in the industry and then developing the right new strategic initiatives based on their clear understanding of these demands. In this brief, we've offered insights into what's different about demand in today's auto industry and what suppliers can do about it.

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INF-1465347-en-US-0317-2