C.A.S.E. Study: Automotive Down Cycle Coming

It may be tempting to be bullish about the long-term prospects for the automotive sector, given that US auto sales are currently at record levels not seen in 15 years and production capacity is tight from the rationalization during the last downturn.

However, the auto industry, globally, remains a cyclical one, and our firm predicts it could face a downturn in the US at the same time new investment requirements ramp up—investments beyond traditional plant and new-vehicle design.

Over the next five years, we look for the global automotive industry to face reduced market growth, down from an annual 3.1% (between 2007 and 2014) to an annual 2.6% (between 2015 and 2021). In North America, we forecast that the US automotive boom of the last few years might see a significant downturn by 2018.

The Demands of “CASE”

Meanwhile, the industry must invest tens of billions, according to our new study, “C.A.S.E., the Car of the Future: AlixPartners Global Automotive Outlook.”

Among the demands:

Connected. Over the next four years, we look for global market volume for connectivity services and hardware to double to an estimated $40 billion, with more than half of that in services and apps. During the past decade automotive OEMs have begun shifting from traditional, hardware-centric in-vehicle infotainment and communication systems to software-based connectivity solutions. According to data from Connected Car Forum more than 50% of vehicles sold worldwide this year will be connected—either by embedded, tethered or smartphone integration.

Autonomous. The self-driving car will unlikely come in one big bang; rather, look for incremental developments. With self-parking, highway-cruise and new safety assists in development, the first steps have already been taken. In 5-10 years, fully autonomous cars will likely be technically feasible and in demand, even though liability questions and other constraints could limit their use initially.

Shared. Many OEMs have started to experiment with car sharing, mostly in cooperation with car-rental companies. One reason: In order to build a car-sharing business up-front investments are high, and earnings difficult to sustain. However, car sharing shows steady growth—some 30% per year—so a foothold in this market may prove a crucial strategic asset in the future. Moreover, car sharing is just one example of new ownership approaches that allows consumers to “atomize” transportation costs, including coupling automotive with multimodal transportation. In fact, our research suggests it is not the environmental appeal so much as the economic utility that is driving consumers to Zipcar, Uber and others.

Electrified. Despite lower oil prices of late, we believe electric-powered vehicles will remain a big part of the future of the auto industry. More than 50 fully-electric or hybrid models are now available, and forecasts predict annual growth rates of up to 31% through 2025. Meanwhile, even as powertrains move to electric, also look for more electrification of components, with everything from steering wheels to oil pumps moving away from hydraulic or belt-driven systems in order to eke out a little more MPG and less CO2. An example of this would be the predicted growth in 48-volt electrical systems to 14 million vehicles by 2023.

Meeting the CASE Challenge

All of these requirements will trigger investment needs on top of normal development work throughout the auto industry, and will bring significant changes to established business models for suppliers and OEMs alike.

Because industry earnings are insufficient to meet this enormous task, especially for some volume manufacturers, OEMs and suppliers will need to find ways of funding the additional CapEx and R&D investments required. We expect this could result in a considerable wave of partnerships and even consolidation—also encompassing new entrants from the technology sector.