



strategy&

Part of the PwC network

COVID-19: UK industry focus

Where next for automotive?



“

Car makers and suppliers are contributing to the national effort by diversifying and forming alliances that would have seemed improbable just a few months ago.”

Where we are today

When a population is in lockdown the automotive industry has felt the effects. A short-term downturn in sales is the inevitable consequence. Dealership networks are closed while manufacturing facilities are either mothballed or, in some instances, repurposed to make ventilators, masks and other protective equipment.



“

We may see a temporary recovery in sales as lockdown conditions are relaxed – a consequence of pent up consumer demand, the expiry of Personal Contract Purchase (PCP) contracts, and potential payment holidays for dealers and car buyers – but it’s likely to take 18 to 24 months before the market makes a full return.”

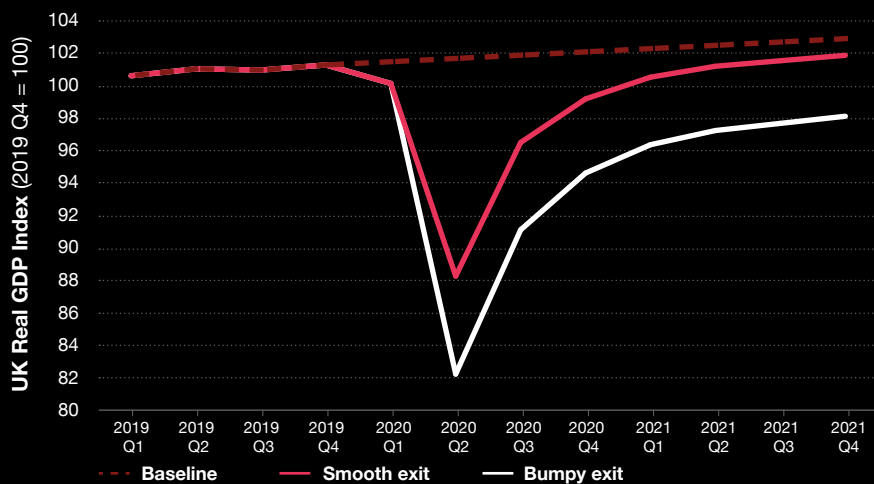
The automotive industry faces a capacity issue, too. Even if car makers choose to continue production, it’s unrealistic for manufacturers to restart operations and expect to be producing the volumes they were previously. With lower levels of demand, they may have to store or park a significant number of cars. Car makers, therefore, will need to calculate these new levels of demand and re-organise themselves accordingly. Attractive opportunities exist for the long-term – which we explore in detail below – but the short-term outlook is tough.

The challenges facing the sector reflect those of the wider economy. With the ‘Smooth exit’ and ‘Bumpy exit’ scenarios we have modelled (on page 5), overall UK GDP could contract between 20% to 30% quarter on quarter in Q2 2020 respectively. When applied at a sector level, a fall in economic output of 62% is possible.

62%

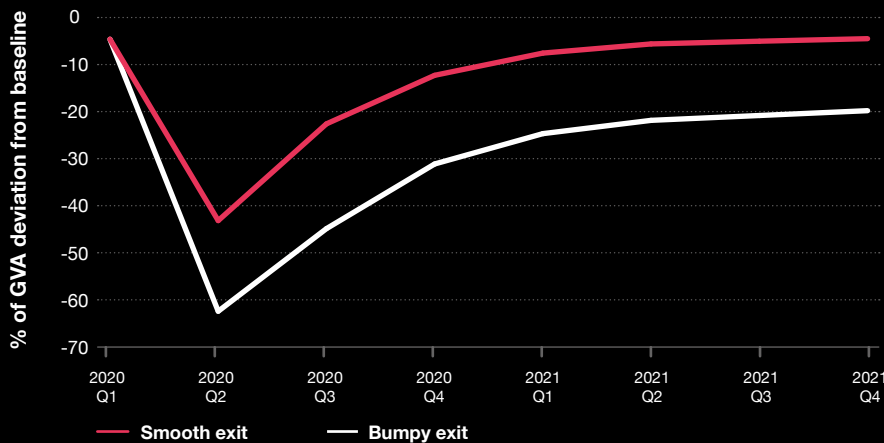
fall in economic
output is possible

UK GDP index (Q4 2019 = 100), quarterly levels in each scenario



Source: Strategy& UK Economic Analysis May 2020

Impact of COVID-19 on Automotive GVA by scenario



Source: Strategy& UK Economic Analysis May 2020

Further PwC consumer research shows half of those who were intending to buy a car pre-crisis are now undecided. Of those still expecting to purchase, many will be trading down to reflect constrained budgets and changed circumstances.

We may see a temporary recovery in sales as lockdown conditions are relaxed – a consequence of pent up consumer demand, the expiry of Personal Contract Purchase (PCP) contracts, and potential payment holidays for dealers and car buyers – but it's likely to take 18 to 24 months before the market makes a full return. In the first week that China's dealerships reopened, service and maintenance revenues were down by 66% compared to pre-crisis.

626,000

Current no. of sector employees

'Total number of employees' represents the total number of employees in the automotive sector. These figures are deduced from ONS data, specifically the Business Register and Employment Survey 2018 provisional.

High

Jobs at risk RAG rating

'Jobs at risk' rating reflects the analysis conducted by the International Labour Organisation. They assessed the global impacts of COVID-19 on different sectors, assessing those most likely to lay off workers due to lower cash flow.

30%

of workers normally come into physically close contact with >20 fellow workers

Physically close contact is defined as a distance of 2m. Source: PwC Research QuantiBus April 2020.

39%

of workers can work from home

The Work From Home index is based on a survey carried out by PwC Research, and is the equivalent to the % of respondents saying they can work from home.

What are we learning?

Digital is the channel of (forced) choice

The importance of digital is not new. Twenty years ago, a car buyer would go to five different dealers before buying a car. Today, when most of the buyer journey is online, it takes just one visit to commit. Nevertheless, the current crisis helps highlight the importance of the digital channel, especially for an industry often resistant to change.

Consumers will be more accepting of – and engaged with – technologies than ever before. Enforced change presents an opportunity to bring the showroom experience to the home. Some are already experimenting. The BMW 3 Series Google Action allows the would-be buyer to preview the car's design, technology, performance and model options from any Google Assistant-enabled device. Others will follow, experimenting with direct-to-consumer and dealer business models. A transition to digital channels will lead some dealerships with multiple, expensive sites to begin rationalising their estate.

Unexpected diversification and unlikely alliances

Car makers and suppliers are contributing to the national effort by diversifying and forming alliances that would have seemed improbable just a few months ago. VentilatorChallengeUK, for example, has brought together industrial, technology and engineering businesses from across the aerospace, automotive and medical sectors. In a similar spirit, Ford is working with 3M to produce respirators. Meanwhile, Jaguar Land Rover has redeployed its 3D printers to produce visors for NHS staff, targeting a production output of 5,000 items per day. These examples of co-operation and production agility point the way for new modes of working post-crisis.

Manufacturing technology is set for the real world

Jaguar Land Rover's efforts teach us something else: advanced manufacturing technologies – so far deployed mainly for internal prototyping and simulation – are ready for commercial application. Automation is another technology that has obvious applications. In an environment likely to be limited by social distancing even after lockdown, those who have invested in automation will be able to augment the workforce and be better prepared to restart their plants.

5,000

Jaguar Land Rover has redeployed its 3D printers to produce visors for NHS staff, targeting a production output of 5,000 items per day

“

While consumer confidence and willingness to spend remain low, those offering mobility-as-a-service (MaaS) – including shared mobility providers, intermodal journey planners and data platform providers – should fare well.”

Supply chains are only as strong as their weakest link

Automotive manufacturers need complete supply chain visibility. Multi-tiered and global, supply chains are only as strong as their weakest link. If they don't have sight beyond Tier 1 suppliers, switching production back on will prove challenging.

The crisis also emphasises the need for car makers to diversify their supplier base. It was only in the aftermath of the 2011 Fukushima earthquake that the reliance of major automakers on a nearby plant became clear. Onahama was the only factory that produced a pigment called Xirallic, used in metallic paint.

Remote working influences car usage

Should working from home remain more widely adopted after current restrictions are lifted, the effects will be felt by the industry. Home working could, for example, prompt a shift from weekday commuter vehicles to small electric vehicles as range anxiety becomes less of a concern. It is also possible that ongoing anxiety about shared spaces may boost car usage as public transport is shunned.

Smart mobility makes sense in uncertain times

While consumer confidence and willingness to spend remain low, those offering mobility-as-a-service (MaaS) – including pay-for-use mobility providers, intermodal journey planners and data platform providers – should fare well.

Electric cars get a likely boost

One potential upside to the slowing short-term demand in cars is a medium-term uptick in electric sales. Those putting off buying this year may instead jump straight to a hybrid or fully electric car in 12 to 18 months, bringing forward an intended purchase. Consumer intention could be supported by policy as governments choose to subsidise electric cars as part of any stimulus package to kick-start the economy.



“

Advanced manufacturing technologies – so far deployed mainly for internal prototyping and simulation – are ready for commercial application.”

How do we respond?

To emerge from the current crisis in the best possible shape, we advise taking a series of short and long term measures.

Preparing for the short term: Anticipate, stimulate and fulfil demand

Prioritise and sequence business ramp-up

Use demand signals such as customer leads and market insight to inform next steps – which production lines, countries, retailers, customers to prioritise. At the same time, unlock maximum value from existing stock.

Enable rapid revenue generation

Engage virtually with live leads during lockdown to secure sales. Provide VR or AR experiences where possible. Alternatively schedule test drives with services like home vehicle delivery and collection to stimulate orders. Use discounts, competitive financing terms and intelligent flexible pricing to drive post-lockdown sales.

Identify and address supplier risks and gaps

Assess critical suppliers' ability to restart by evaluating workforce availability, financial viability, and any potential cross-border restrictions. Support at-risk suppliers where viable. This might be through an injection of liquidity via advanced payments, equity investments, or even vertical integration or direct mergers with viable suppliers.

Identify and address workforce risks and gaps

Assess workforce requirements and identify potential shortfalls in critical skills. Mitigate risks where possible by, for example, introducing measures to protect returning employees from second wave infection, rolling out cross-training programmes to increase transferable skills and workforce resilience, and introducing digital training tools to rapidly and remotely onboard new talent.

Winning in the long term: Rebuild as a rejuvenated company

Transform sales channels

Transformation will take several forms. For example, redefining traditional dealer relationships as part of a broader network, introducing online retail platforms either direct-to-customer or via dealers, and digitalising and integrating commercial tools from augmented reality to CRM systems. Businesses should also seek to upskill the retail network and workforce, explore downstream integration in selected markets, and improve the customer experience.

Fix the operating model

Permanently adopt digital business processes put in place during lockdown while maintaining those technologies that supported remote working. Retain the streamlined decision-making processes adopted during the crisis. Abolish siloed ways of working and look to standardise, automate and relocate functions as appropriate.

Experiment with market proposition

Consider offering subscription models as an alternative to outright ownership or leases. Invest strategically in smart mobility solutions and explore alliances or joint investments in new innovations and technologies.

Build resilience through agility

The UK is highly dependent on overseas parts, so consider reshoring parts of the supply base while investing in technologies – such as 3D printing – that enable flexible supply and distribution of parts. In the spirit of resilience, reevaluate the make or buy decision on essential parts and introduce a digital supply chain solution for early detection of potential issues.

“

Any business committed to an aggressive carbon emissions target in the medium term will require a fundamental overhaul of business processes.”

Build emissions targets into the new model

Those building a post-COVID-19 business model should do so with their net zero targets in mind. Any business committed to an aggressive carbon emissions target in the medium term will require a fundamental overhaul of business processes. However, it is better to make the move now when change is necessary than face another overhaul in 10-15 years.

For an industry that has traditionally been resistant to change, the COVID-19 crisis has overturned convention by imposing change and enforcing experimentation. Automotive firms will soon have a choice to make – whether to move from crisis mode to business as usual, or use this moment to create something better than before and position themselves for future growth.

Who to talk to

Darren Jukes

Partner, UK Leader of Industry for Industrial Manufacturing and Services, PwC

+44 (0) 7966 297427
darren.jukes@pwc.com

Mark Couttie

Partner, Strategy&

+44 (0) 7824 328012
mark.couttie@pwc.com

Chris Temple

Partner, Strategy&

+44 (0) 7715 704870
christopher.temple@pwc.com

Cara Haffey

Partner, Automotive and Manufacturing Leader, PwC

+44 (0) 7809 551517
cara.haffey@pwc.com

Akshara Kothari

Director, Strategy&

+44 (0) 7900 163433
akshara@pwc.com

This insight is brought to you using the capability of Strategy&, PwC's global strategy house, alongside our PwC industry experts. Together, we transform organisations by developing actionable strategies that deliver results.

We are uniquely placed to combine strategy with technical, industry and execution expertise. We embed our strategy capabilities with expert teams across our PwC network, to show you where you need to go, the choices you'll need to make to get there, and how to get it right.

The result is an authentic strategy process powerful enough to capture possibility, while pragmatic enough to ensure effective delivery. It's the strategy that turns vision into reality. It's strategy, made real.