



cutting through complexity

KPMG INTERNATIONAL

KPMG's Global Automotive Executive Survey 2013

Managing a multidimensional
business model

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Acknowledgements

The Global Automotive Executive Survey is KPMG International's annual assessment of the current state and future prospects of the worldwide automotive industry. In this year's survey, 200 senior executives from the world's leading automotive companies were interviewed, including automakers, suppliers, dealers, financial service providers, rental companies and mobility service providers. The responses were very insightful and we would like to thank all those who participated for giving us their valuable time.

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Foreword

Today's automotive leaders face a host of critical decisions as they attempt to satisfy the demands of tomorrow's travelers.

Should they strive to lead the race for e-mobility, knowing that batteries are costly, driving distances relatively low and recharging infrastructure still in its infancy?

Or would they be better off trying to make traditional internal combustion engines more efficient, despite dwindling supplies and rising costs of energy, and ongoing concerns over emissions?

Then again, should they focus on small, lightweight city vehicles at a time when the rising middle classes in the emerging nations still want to drive SUVs and luxury marques?

Do they want to venture into the relatively unfamiliar world of mobility-as-a-service, and grapple with the complexities of coordinating multiple modes of transport?

And with drivers expecting ubiquitous connectivity, can they own the customer interface and keep pace with the incredible rate of change in software applications?

On top of this they have to cope with the rise of the emerging economies and the ongoing challenge of overcapacity.

These are just a few of the issues that this year's KPMG Global Automotive Executive Survey – our 14th such publication – sets out to address, by seeking the views of executives from the world's leading automotive companies. We have interviewed a representative cross-section of the industry, including OEMs, suppliers, dealers, captives as well as mobility service providers and car rental companies.

Their responses provide an important barometer for automakers everywhere as they look to make the right investment decisions to fund a profitable future.



Mathieu Meyer

Global Head of Automotive





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Executive summary

Consumer demand remains a challenge

- **92** percent consider **fuel efficiency** the number one purchase criteria (page 6)
- **36** percent believe **plug-in hybrids** will attract most consumer demand (page 9)
- **66** percent of **BRIC** respondents expect increasing **demand for SUVs** – whereas **58** percent of **TRIAD** respondents see **growing popularity of basic cars** (page 10)

E-mobility excitement dampens

- **85** percent believe **ICE downsizing** offers best chance for **fuel efficiency/low emissions** (page 13)
- **29** percent of OEMs and suppliers are **investing** primarily in **ICE downsizing**; for China it is **40** percent (page 15)
- **24** percent considering big investments in **plug-in hybrids** (page 15)
- Only **8** percent see **battery technology** as their biggest investment (page 15)
- **12** percent **do not know** how their **R&D budgets** are allocated (page 19)

The race for global market share

- **81** percent see **Volkswagen (VW)** increasing market share (page 59)
- **Toyota's** market share increased by **24** percent in the past year (page 59)
- **7** out of the **10** automakers expected to **increase market share** are from **ASPAC** (including four from China) (page 59)

Managing a business

Investing in future success

- **88** percent see **new products** as the major **growth** tactic up to 2018 (page 49)
- **80** percent of **OEMs** say **corporate partnerships** are the key to success; **73** percent of **suppliers** focus on **expanding value chains** and **diversification** (page 50)
- **85** percent of **OEMs** plan to increase investments in **power electronics** for e-cars and **battery technology**; **suppliers'** priorities are **logistics/distribution** and building **new plants** (page 51)
- **33** percent see **vehicle manufacturing** as main source of future profit for OEMs (page 56)

Note: Percentages may be rounded

Source: KPMG's Global Automotive Executive Survey 2013

multidimensional model

Megacities driving urban mobility concepts

- **59** percent see cars as part of a **wider mobility concept** (page 20)
- **72** percent anticipate **alternatives to car ownership**, such as sharing or pay-on-use (page 20)
- **68** percent say **added-value service** is a source of profitable business (page 23)
- **83** percent agree that the new urban environment will impact **vehicle design** (page 24)

Dealers influenced by changing customer behavior

- **64** percent say **online dealerships and intermediaries** increase in significance – rising to **95** percent in the US (page 27)
- **63** percent see **multi-brand dealerships** as a successful future model (page 27)
- **82** percent consider **financing** as key (page 32)

No common solution to overcapacity

- Over **50** percent feel Japan, Germany, US, Korea, Spain and France all have a **high risk of overcapacity** (page 47)
- **25** percent believe **consolidation/JV/ alliances** can help overcome overcapacity (page 47)
- There is **no common global solution** – each country acts differently (page 48)

The rising influence of the BRICs

- **61** percent believe **BRIC** customers will demand the **same levels** of quality, safety and reliability as **TRIAD** markets **by 2018** (page 34)
- **40** percent see best growth markets for **BRIC** manufacturers in **South East Asia** and **19** percent in **Eastern Europe** (pages 36–37)
- **Eastern Europe** and **Mexico** are considered to be the best hubs for **BRIC** manufacturers to enter Europe and North America (pages 36–37)
- In **3-5 years** **BRIC** countries are expected to **export significant numbers** of vehicles (pages 40–41)
- **Import/export duties** and **governmental interventions** are expected to rise fast (pages 42–43)

Market trends and a view from the consumer

Automakers around the world are pinning their hopes on rising demand in the developing nations, according to KPMG's 2013 Global Automotive Executive Survey. And while e-mobility continues to be a major priority, the love affair with the pure electric car has faded somewhat, with an increasing focus on hybrids and internal combustion engine (ICE) improvement. Although customers in mature markets are downscaling to fuel-efficient basic cars, a sizeable proportion of consumers in the BRIC markets (Brazil, Russia, India and China) still aspire to own bigger cars, such as SUVs.

With demand for vehicles declining in most mature markets in the face of the global recession, high fuel costs and urban driving restrictions, the industry is turning its attention even more strongly towards the expanding middle classes in the new powerhouses of China, India, Brazil, Russia and other growing nations.

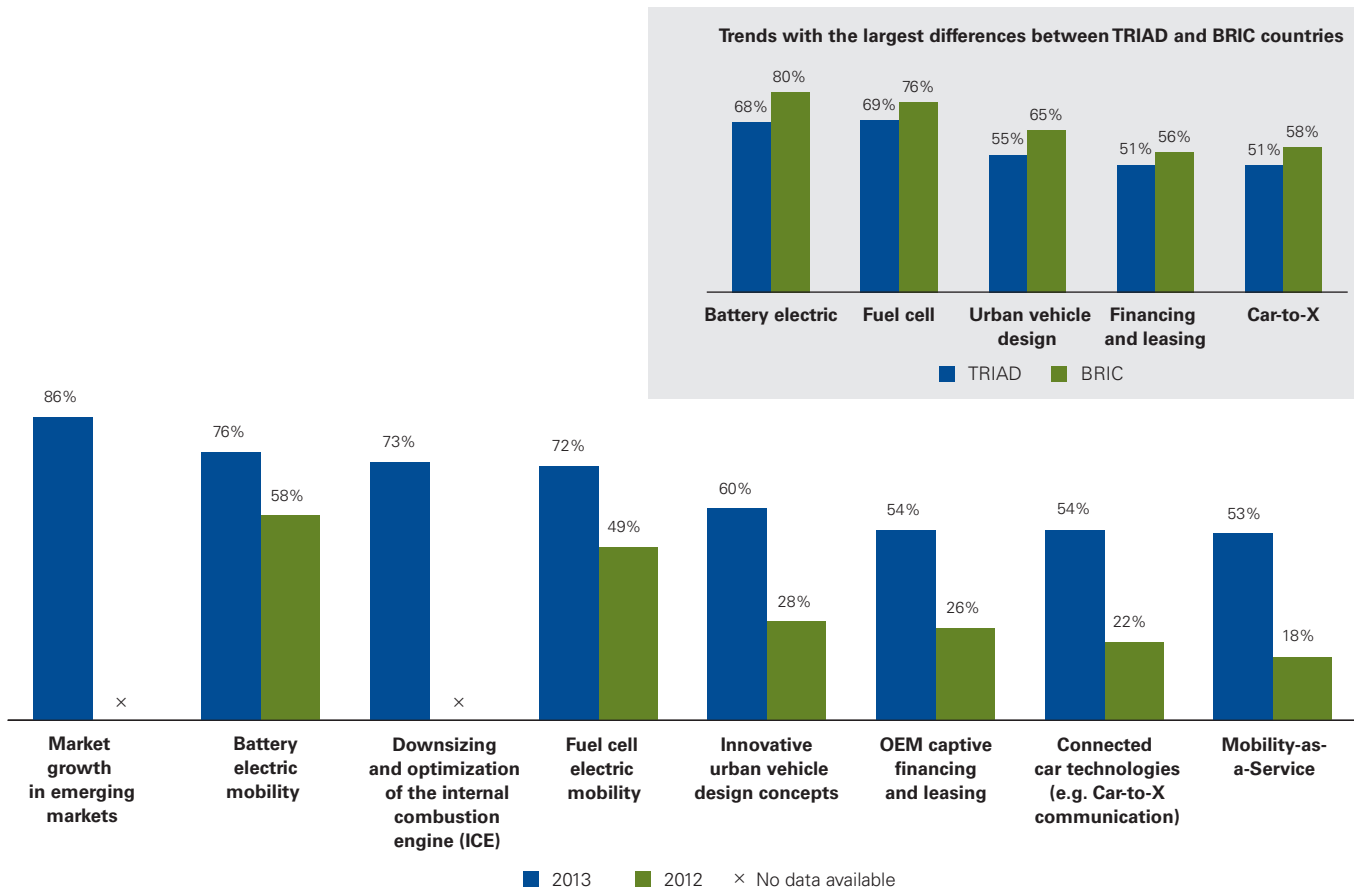
Eighty-six percent of respondents in this year's global survey feel market growth in emerging nations is an important trend – a view shared by auto executives from both the TRIAD markets (Japan, Western Europe and North America) and the BRICs. The changing urban landscape is exerting a mounting influence upon the strategic thinking of the industry's

executives. Compared to our 2012 survey, issues such as innovative vehicle design, mobility-as-a-service (MaaS) and connected car technologies are all considered vastly more important.

Despite relatively low car ownership, emerging markets are equally if not more eager than their developed counterparts to address the needs of the 21st century city dweller. Sixty-five percent of respondents in the BRICs feel innovative urban vehicle design concepts are an important trend – compared to 55 percent from the TRIADs.

The industry is being shaped by the rise of the developing markets, e-mobility and the changing urban environment.

Key automotive industry trends up to 2025



Note: 2013: Percentage of respondents rating trend as 'extremely important' and 'very important'

2012: Percentage of respondents rating trend as 'most' and 'second most important'

Source: KPMG's Global Auto Executive Survey 2013

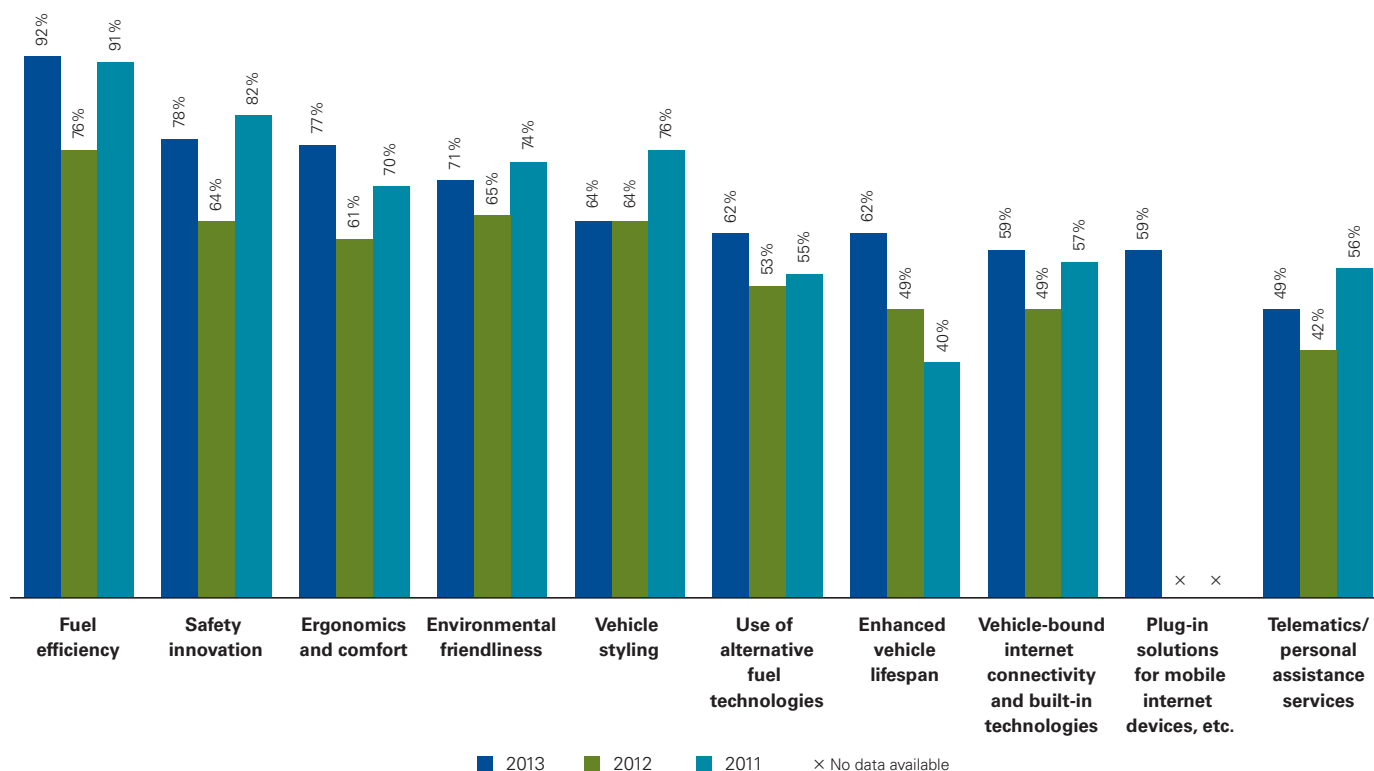
Consumers are feeling the pinch

Vehicle purchase decisions appear to be driven more by hard-headed financial factors than a desire to be green. The survey's participants rate fuel efficiency as the number one priority for consumers over the next 5 years, reflecting the rising cost of filling the tanks of their cars. Although growing in importance since last year's survey, environmental friendliness is only ranked fourth. The proportion of buyers seeking an enhanced vehicle lifespan has also jumped for the third consecutive year to 62 percent, which is a further sign of prudent belt-tightening from buyers.

Drivers from all over the world have rising expectations of safety and are demanding more comfortable, ergonomically advanced vehicles. And with vehicle styling becoming less critical, it seems that pragmatism is winning the day over design and luxury. Interestingly, 83 percent of respondents from the BRICs consider comfort to be an important factor, indicating an aspirational desire to trade up from basic cars.

Consumers are looking for more efficient, longer-lasting cars, primarily to save costs.

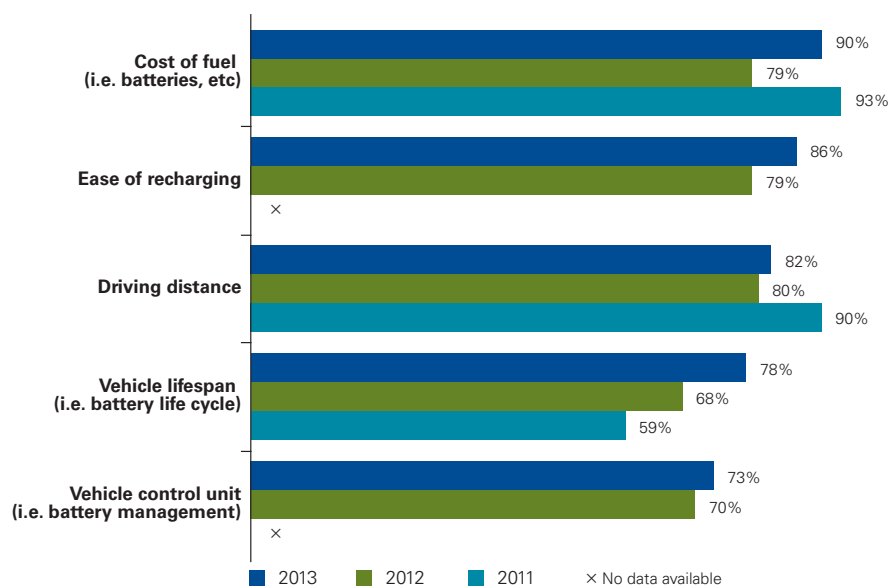
Top consumer purchase issues



Note: Percentage of respondents rating issues as 'extremely important' and 'very important'
Source: KPMG's Global Auto Executive Survey 2013

When purchasing electric vehicles, consumers are again concerned about their wallets. Ninety percent say that the cost of 'fuel' (i.e. the cost of batteries and recharging) has a major influence upon their decision. Compared to the previous year's survey, more drivers are looking for longer-lasting e-vehicles (78 percent versus 68 percent), signaling a need for mature and sustainable technologies. A battery makes up a significant chunk of the overall price of an e-car, and actual or potential owners are still uncertain how long the vehicle/battery will last and at what rate it will depreciate.

Top five purchase criteria: electric vehicles



Note: Percentage of respondents rating issues as 'extremely important' and 'very important'
Source: KPMG's Global Auto Executive Survey 2013

Plug-ins soar in popularity among customers

Of the various e-technologies, plug-in hybrids are thought to have the greatest sales potential by 2018, leaping ahead of conventional hybrids, which were the number one choice in the previous survey. There is, however, a question mark over whether the infrastructure will be available to support plug-ins. Recharging points are few and far between and it is doubtful whether any government could finance the building of such a network in the current economic conditions.

Despite the R&D dollars being poured into fuel cell technology, only 17 percent of respondents feel these cars will take the lead, which is a decline from the 2012 survey. Interestingly, BRIC automakers have much greater confidence in fuel cells than their counterparts in the TRIAD markets. In China, fuel cells seem to have become a promising option as they are ranked the most popular by some margin (44 percent). As fuel cell technology is also a part of China's 12th 5-year plan there is no doubt that BAIC and SAIC are both investing in the production of fuel cell cars. SAIC even plans to mass-produce the fuel-cell model in 2015.¹

Just one in 10 of all survey participants think that battery electrified vehicles will be the next big thing, which again puts the spotlight on both automakers' and

governments' e-mobility strategies, as customers appear unwilling to spend their hard-earned money on such cars.

Japan has already taken to hybrids in a big way. In May 2012, a fifth of all new vehicles registered were hybrids² (although this figure excludes minicars). Consequently there is little expectation among Japanese auto executives that battery-powered cars will be in high demand, especially given the worries over electricity supplies in the wake of the Fukushima nuclear disaster.

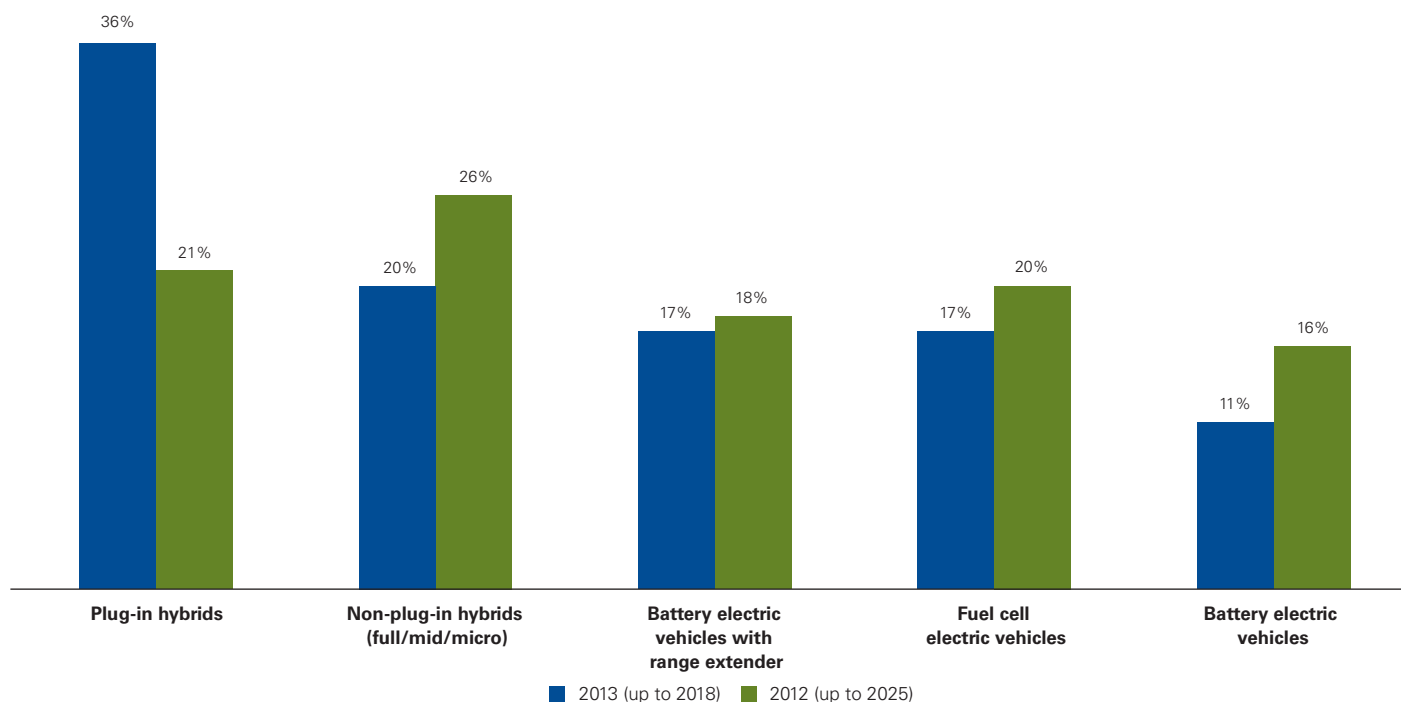
Of all the BRICs, Russia is the most optimistic about battery technology, with 20 percent of respondents from this country saying that these vehicles will attract the greatest consumer demand – despite the abundance of oil in the Federation. Chinese respondents, on the other hand, are relatively pessimistic about the short term prospects for pure battery propulsion technologies, even though this technology is strongly supported in China's 12th 5-year plan. However, it seems that the Chinese government is softening its ambitions and recognizing the lack of consumer demand and infrastructure, as it has recently included hybrids in its revised plan. In India, fuel cells are the preferred choice, along with plug-in hybrids.

Pure battery driven cars have lost ground in the battle for new propulsion technology; they are expected to attract the lowest consumer demand by 2018.

¹ SAIC green lights green cars, China Daily, May 2011

² 19.75 of new cars sold in May in Japan were hybrids; Prius and Aqua dominate, Green Car Congress, 9 June 2012

Electric vehicle technology that will attract most consumer demand by 2018



Note: Percentage of respondents rating topic as 'attracting the most consumer demand'
 Percentages may not add up to 100 due to rounding off
 Source: KPMG's Global Auto Executive Survey 2013

What is the future for e-mobility?

The changing views on pure hybrids, plug-ins, fuel cell and battery-powered vehicles reflect the uncertainty as to which will be the dominant technology. In the short term the individual driver is likely to prefer a conventional hybrid, whereas fleets may opt for electric cars as they have greater access to re-charging facilities. However it seems that battery power will not prevail, at least in the next decade.

Marketing strategies for e-vehicles are equally varied. Some manufacturers position hybrids as premium brands with an additional power source, while others may gamble on battery

power being available sooner and skip hybrids altogether or use micro systems.

As customers become more comfortable with e-technology, their purchasing habits are likely to change. One solution to the current high cost of electric cars is to buy the car and lease the battery; a facility already available with models such as the Renault Twizy™. Others may accept the limitations on speed and distance of battery power, and will make their purchase decision based upon very practical reasons, rather than for the emotional appeal of the brand.

Emerging middle classes want bigger, more luxurious cars

Not surprisingly, respondents from the BRIC markets anticipate far more growth in demand for vehicles than their counterparts in the United States (US), Europe, Japan and Australia. However, despite acknowledged fears over environmental issues and high fuel prices, many buyers in developing markets still crave larger, more upscale models such as SUVs, midsize, MPVs, vans and pickups. SUVs in particular stand out as the 'must-have' for many aspiring buyers eager to demonstrate their new-found wealth.

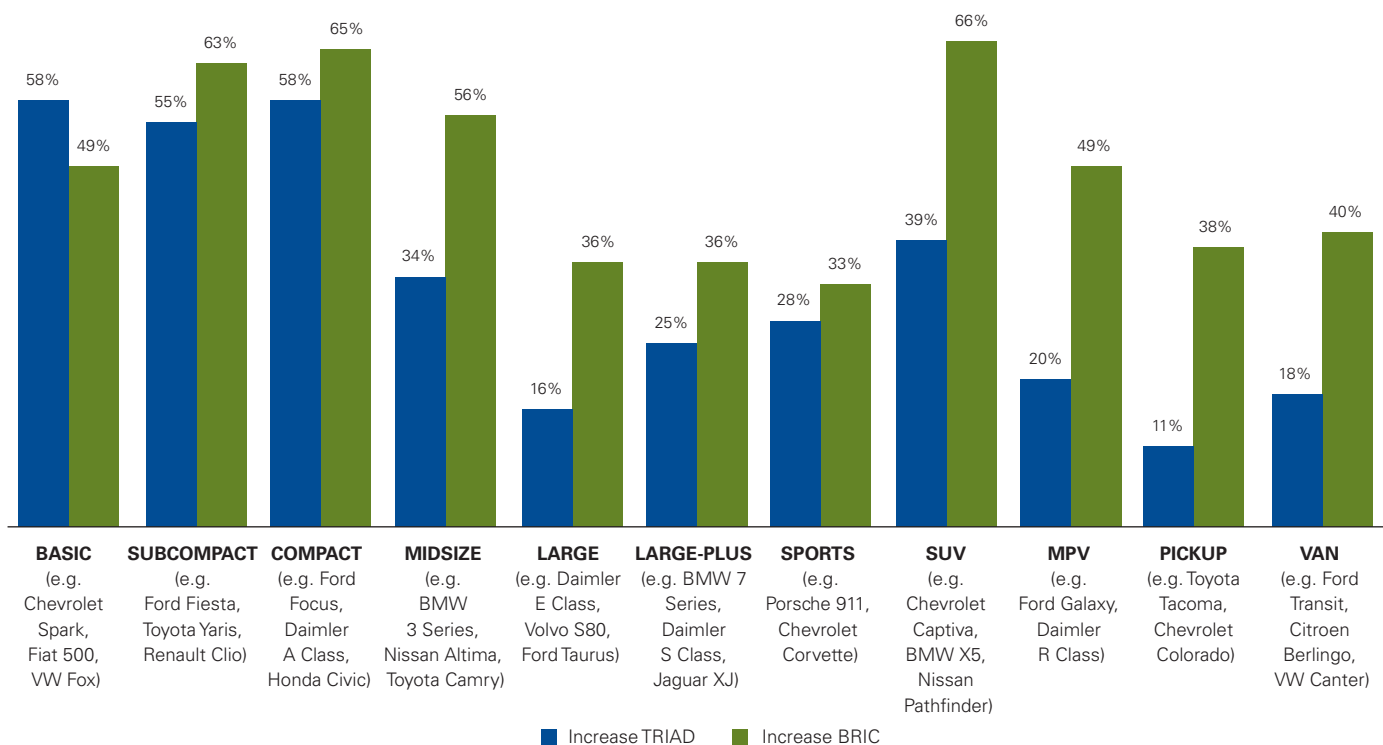
In the mature markets the reverse is true, with people downscaling to smaller, more

efficient, greener cars, with the biggest increases expected in the compact, basic and subcompact categories. As an illustration of this trend, sales for Dacia in Western Europe are forecast to rise by 14 percent between 2012 and 2019.³

Of course, simple cost limitations mean that a sizeable proportion of consumers in BRICs will still go for the more basic cars, but it seems that they are often just biding their time until they can afford a premium marque.

In mature markets people are downscaling, whereas in the emerging nations SUVs and big cars are booming.

Expected vehicle demand increases by 2018



Note: Percentage of respondents expecting market share to 'remain stable' or 'decrease' are not shown
Source: KPMG's Global Auto Executive Survey 2013

³LMC Automotive, Q3 2012

China's blossoming love affair with the SUV

SUVs are the fastest growing car segment in the Chinese automotive market, registering a dramatic year-on-year increase of more than 24 percent during the first 10 months of 2012 compared to an increase in overall car sales of 5.9 percent in the same period.⁴

Multinational manufacturers are consequently striving to boost their capacity in China to meet this rising demand. Fiat recently announced it was having extensive conversations with Guangzhou Automobile Group Co. with a view to manufacturing all its Jeep models in China. Ford is also launching four different SUVs in China in early 2013, two of which will be made in Chongqing (the EcoSport and Kuga models).⁵

Not wanting to miss out on this trend, Chinese manufacturers are also revving up their SUV operations. FAW has confirmed

that its Hongqi (Red Flag) SUV – built by the FAW-Toyota joint venture – will hit the Chinese market in 2014.

Luxury automakers are also getting in on the act. Lamborghini chose the 2012 Beijing auto show to introduce its Urus SUV and the Porsche Cayenne is extremely successful in China.

SUV growth is driven by the emerging Chinese middle classes. The vehicles are especially popular among women, who can transport the whole family in safety and style, whether it is for the school run or sports lessons. Ultimately many choose an SUV for the caché it brings, as one owner commented: "If you can't afford a chauffeur, at least it is nice to drive a car with high seats so you can look down on other motorists!"⁶

⁴ China's passenger car market picks up, English.news.cn, 8 November 2012

⁵ Foreign automakers aim for SUV market, Global Times, 28 October 2012

⁶ China's motor industry; Stepping on the gas, The Economist, 24 April 2012



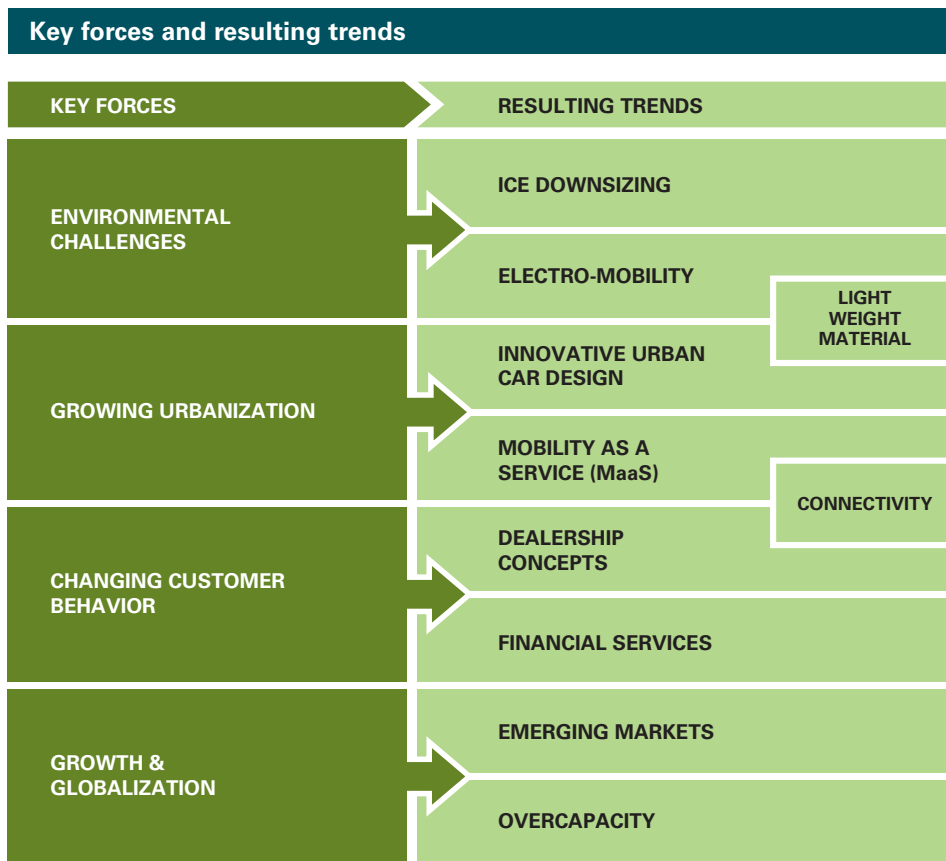
Forces of change

The automotive industry is being shaped by a number of forces. Environmental pressures are leading to more efficient engines either via e-mobility or improvements to traditional ICE technologies. With an increasing proportion of the world's 7 billion people living in already overcrowded cities, new, smaller, urban-friendly vehicles are necessary, with car sharing and other mobility concepts growing in popularity.

Consumers are now demanding new functionality within the car – particularly full connectivity via the internet – while the emergence of battery powered vehicles calls for innovations such as the

leasing of batteries. The globalization of markets, along with the rise of the BRICs, means that automakers everywhere have big decisions to make on where to source and sell their products.

Together these forces add considerable complexity to OEMs' business models. Automakers traditionally concentrated on developing and producing ICE cars; now they have to cope with a range of propulsion technologies, completely new concepts such as car sharing, internet connectivity and new materials, as well as the growing international significance of the emerging markets.



Source: KPMG's Global Auto Executive Survey 2013

Environmental challenges: Pursuing the green dream

The initial excitement about the potential of e-mobility has subsided somewhat, with a majority of respondents now believing that ICE downsizing offers the best chance for fuel efficiency over the next decade. Investment strategies mirror this thinking, with ICE and plug-in hybrids receiving considerably more R&D dollars than hybrid fuel or battery alternatives. However, both OEMs and suppliers are still hedging their bets by continuing to develop a range of available technologies.

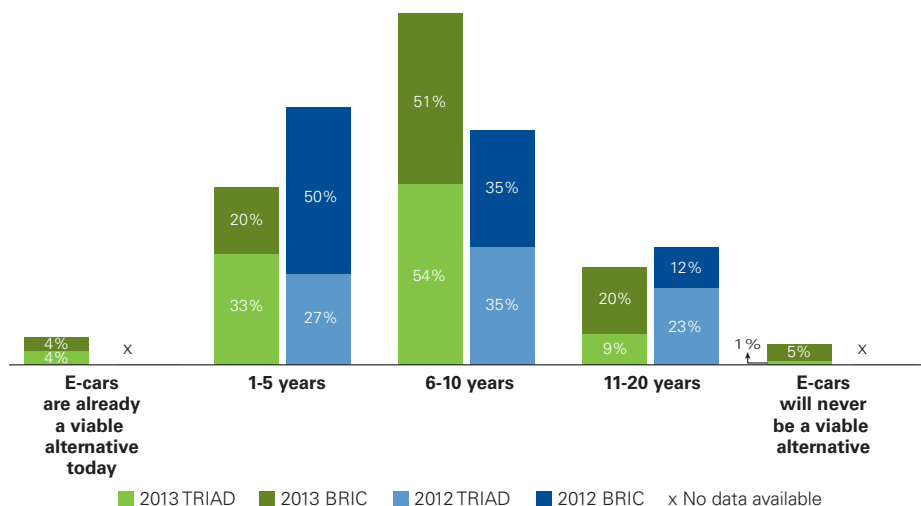
In the 12 months since the last KPMG automotive survey, the optimism over electric cars has dampened considerably among automakers from TRIAD countries, the majority of whom now acknowledge that it will be well over 6 years before electric vehicles overtake ICE as the cleanest, most efficient technology. The trend is similar among respondents from the BRICs: in 2012 half believed ICE had up to 5 years left as the leader, yet this year they acknowledge it could be another

6 to 10 years before e-cars become more efficient.

These results show an increasing realization that the electric vehicle is not quite the savior many had hoped for. Although e-technology is still high on the agenda, respondents from the mature regions now place a greater faith in optimizing ICE technologies. Even in the BRICs, ICE downsizing has become a big deal.

Despite new technological developments, ICE downsizing is expected to be the leading solution for the foreseeable future.

Time period in which ICE offers the greatest potential for clean, efficient engines



Note: Percentages may not add up to 100 due to rounding off
Source: KPMG's Global Auto Executive Survey 2013

Building environmental credibility

Although cars have long been criticized for their contribution to global warming, the response by manufacturers has brought some surprising benefits. By investing in alternative, fuel-efficient technology, automotive brands have managed to improve both performance and perception.

Eight automotive brands have made it into the list of 50 Best Global Green Brands 2012 (published by brand consultancy Interbrand⁷) with four making it into the top 10. Toyota's investment in Prius and other models has helped it retain

the number one spot, while Honda (3), Volkswagen (VW) (4), BMW (10), Ford (15), Mercedes-Benz (16), Hyundai (17), and Nissan (21) have all achieved impressive rankings.

In addition to its family of sustainable automobiles, Toyota has also achieved near zero-landfill status at all of its North American manufacturing plants, and continues its commitment to build LEED certified buildings and dealerships.

Around the world the greatest investment is going into ICE downsizing

One of the biggest questions facing the automotive industry is: which powertrain technology will prevail and when? Although ICE downsizing and plug-in hybrids are expected to receive the greatest investment from manufacturers and suppliers over the next 5 years, most companies are hedging their bets and spreading their funding across a wide range of areas.

OEMs are allocating a higher proportion of their resources into hybrids (either plug-in or pure), while suppliers are more likely than manufacturers to invest in battery technology and fuel cells.

Interestingly, there is an increasing realization in the developing nations that ICE has further scope for generating revenue. Forty percent of Chinese and 37 percent of Brazilian manufacturers and suppliers are placing their trust – and more importantly their money – in improving the traditional combustion engine. This is quite a turnaround in direction and a sign that some of the newer technologies are taking longer

than expected to emerge. OEMs from mature markets have decades of experience in designing combustion engines, so it is understandable that they are keen to make the most of such advantages. Ford's recent announcement of a new, fuel-efficient one liter engine for its Mondeo model shows that there is plenty of life left in this technology.

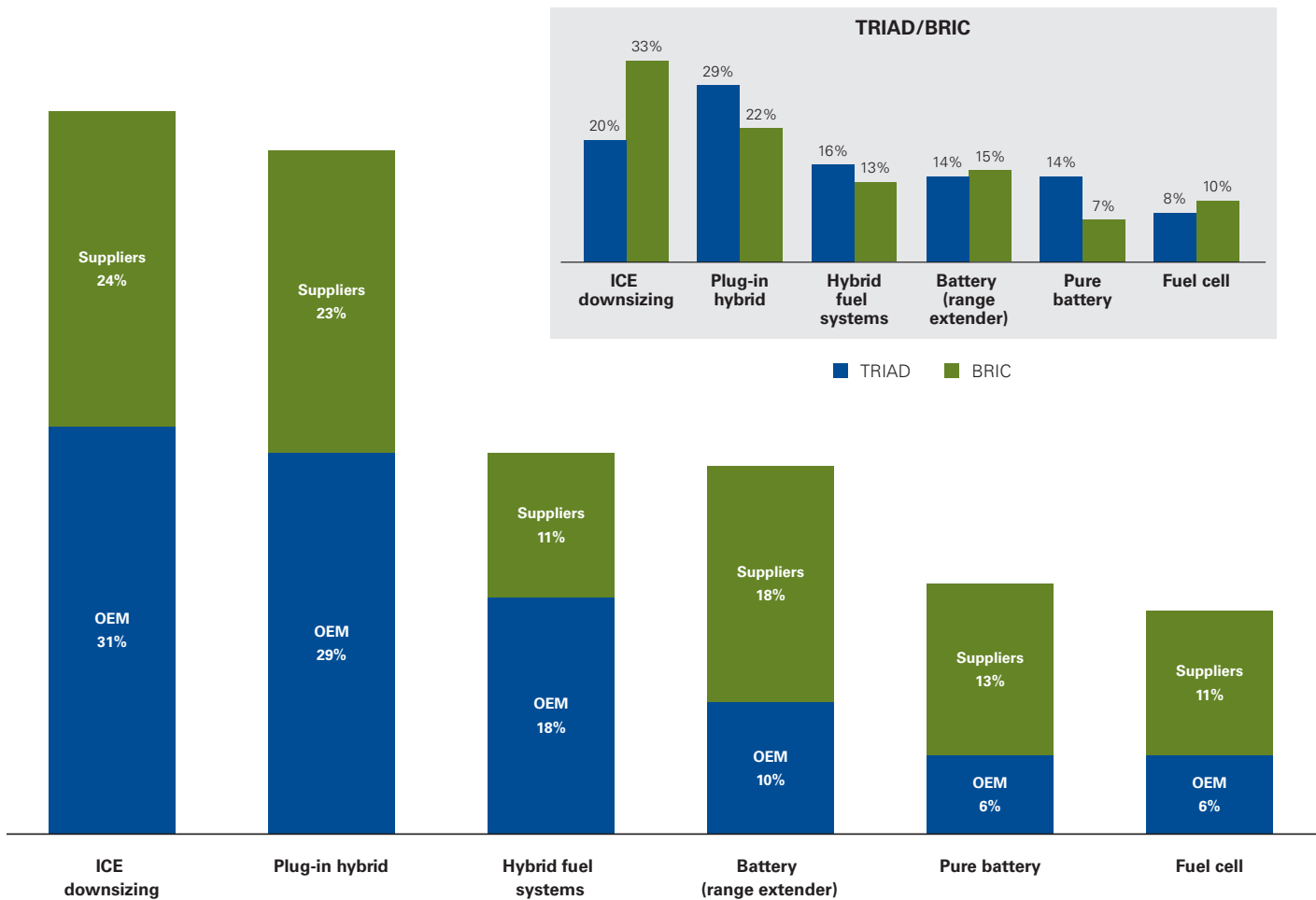
It is arguable that the TRIAD markets have already established quite a lead in ICE powertrains and are therefore choosing to expand into newer areas, whereas the BRICs are playing catch-up. Consequently respondents from the developed TRIAD nations are more likely to invest in pure battery R&D. Currently, lithium ion batteries are the leading choice, but we may see a move towards lithium-oxygen or lithium sulfur, as they can store five to six times more energy within the same space.

Despite being more expensive, fuel cell technology has the potential to enhance premium vehicles, as the driving distance is further and the charging time shorter.

Around four in 10 Chinese and Brazilian manufacturers and suppliers are investing the largest proportion of their powertrain resources into ICE optimization.

⁷Interbrand and Best Global Green Brands 2012, 26 June 2012

Biggest investments in powertrain technologies in the next 5 years



Note: OEMs' and suppliers' rating from TRIAD and BRIC markets shown
 Percentages may not add up to 100 due to rounding off
 Source: KPMG's Global Auto Executive Survey 2013

Downsizing the gasoline engine in China

With electrics and hybrids unlikely to achieve a large market share for some time, Chinese automakers' attention has shifted to creating a more efficient ICE.

A downsized ICE (which could also be combined with a hybrid) could play a big role in meeting the Chinese government's strict quotas for low-emission vehicles. Forty percent of passenger vehicles must have engines of 1.5 liters or less and 15 percent just 1.0 liter or less,⁸ as part of a push to reduce emissions to European target levels by 2020.⁹

However, it is uncertain where diesels will fit into this new reality, as Chinese consumers have not embraced these engines, which are regarded as more for commercial or agricultural use. Gas, on the other hand, is receiving considerably more attention and could become a viable

alternative. It is favored nationally, especially for taxis. There are gas powered buses and taxi fleets in 100 cities. In Chongqing, 85 percent of taxis and 92 percent of buses are using a LNG (liquid natural gas) engine.¹⁰ Additionally, new sources of shale gas have been found that support the development of gas driven cars. However, this gas is proving very difficult to extract.

Suppliers have bought into the downsizing story and many have established R&D centers within China. Component and spare part supplier Federal-Mogul opened an Asia-Pacific regional technical center and headquarters in Pudong, Shanghai in 2010, providing a range of technical solutions aimed at improving ICE fuel efficiency and reducing CO₂ (carbon dioxide) emissions. With a local presence, the company is well-positioned to respond to demand.

E-car potential is rising in Russia and the US

Our respondents' conservative estimates on electrified vehicles' market share in 15 years confirm that the ICE technologies will dominate powertrain for some time.

Seventy-nine percent of executives taking part in the survey believe that government subsidies are needed if e-vehicles are to become affordable. And two-thirds believe that e-vehicles will represent just 15 percent or less of total new car sales by 2025. Nevertheless, this still constitutes a sizeable market, with potential sales of up to 5.7 million in China, 2.5 million in India, 3.8 million in the US and 2.1 million in Western Europe.

Since the 2012 global survey, respondents from both the US and

Russia have become more optimistic about the potential for e-mobility in their countries, whereas those from Brazil and Japan have reduced their expectations, which is surprising given that Japan has traditionally been seen as a pioneering force in electric vehicles.

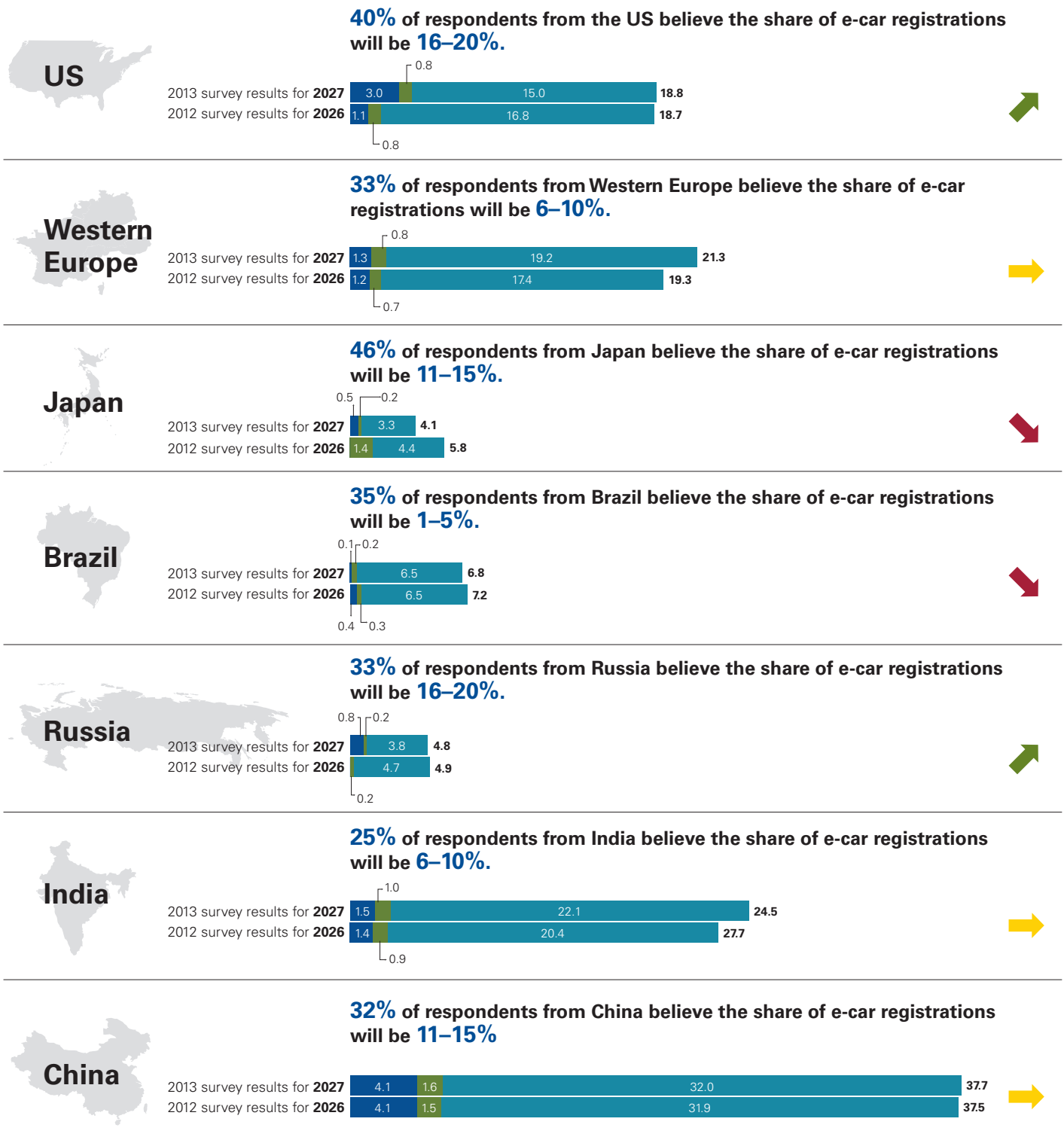
It seems that a lack of infrastructure, high purchase prices and limited driving range are deterring consumers from embracing e-vehicles on a large scale. However, despite the caution of manufacturers, more than half of auto executives involved in the survey feel that battery electric vehicles will have the same driving range as their petrol-fueled equivalents within 6 years.

⁸ A report on downsized gasoline engine's application in China, China Suppliers & Market, Gasgoo.com, 23 February 2011

⁹ Natural Gas Vehicles in China, Forbes, April 2012

¹⁰ Q&A with Federal-Mogul's A-Pac chief, just-auto, 14 October 2010

Share of all annual new e-vehicle (based on light vehicles) registrations by 2027 (in million cars)



Note: Expectations of most survey respondents from the respective country

Percentages may not add up due to rounding off

Source: KPMG's Global Automotive Executive Survey 2013 (expectations by 2025) & LMC Automotive (Q3 2012 forecast 2027)

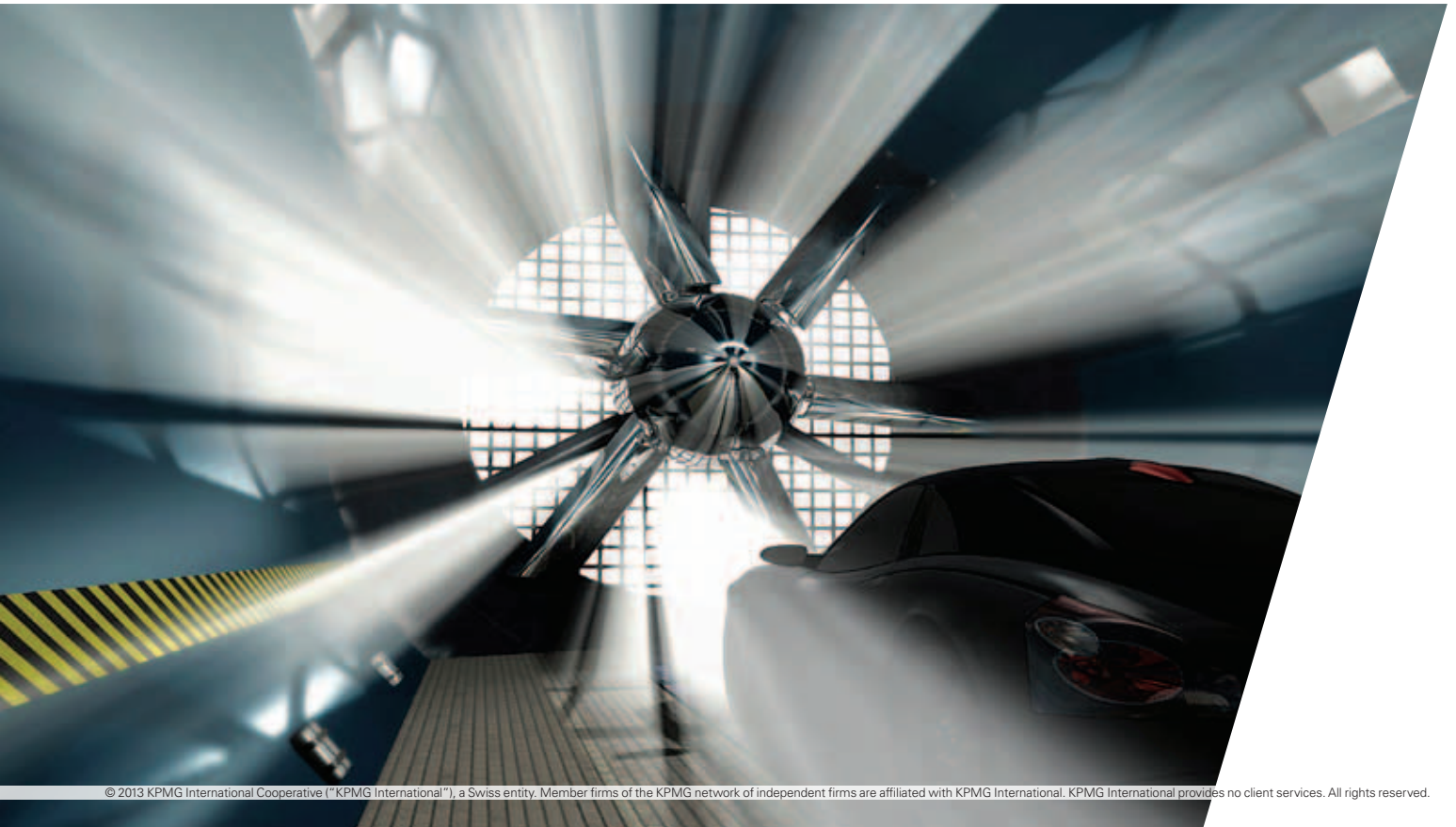
Automakers are still striving to manage R&D spend effectively

When asked where the OEMs' and suppliers' largest R&D expenditure is allocated, the single biggest response around the world (from 42 percent of respondents) was for the traditional combustion engine. Only 13 percent voted for alternative propulsion technologies, demonstrating how big the gap remains. However, the picture is not completely clear cut: 24 percent split their spending equally among different technologies and 21 percent are uncertain how their company splits its expenditure, suggesting a lack of clarity over development strategies.

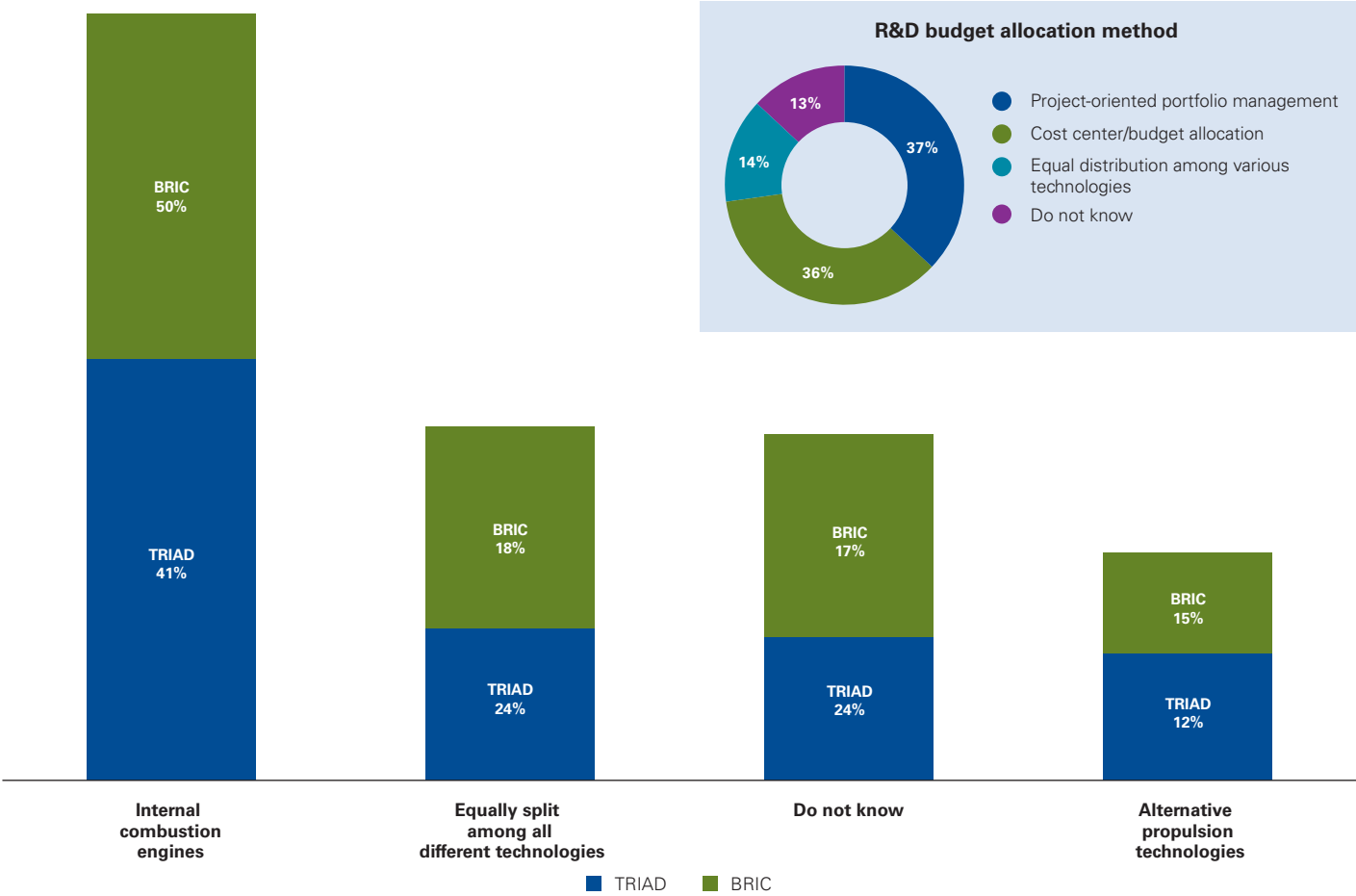
Developing new propulsion technologies requires huge sums of money and calls for a clear investment strategy, as well as sophisticated budget allocation and management, to ensure that the right projects are in the pipeline.

The single most popular method of allocating R&D spending is via project-oriented portfolios. These ensure that development projects pass a robust selection process where they must meet a set of proven criteria, which greatly increases the chances of success.

However, 36 percent of OEMs and suppliers say they still favor traditional cost center allocation. The sustainability of such an approach is questionable, as it can lead to inefficient project management, and makes it hard to compare projects from different departments. Such a lack of transparency could compromise the choice of projects. Thirteen percent say they have no clear methodology for funding R&D, and these mixed findings suggest that many OEMs and suppliers are still searching for an effective way to manage their development.



How R&D powertrain development is allocated and managed



Note: OEMs' and suppliers' rating from TRIAD and BRIC markets shown
Percentages may not add up to 100 due to rounding off
Source: KPMG's Global Auto Executive Survey 2013

Growing urbanization: Coping with the narrow streets of the big city

Our survey suggests that in future, more and more city dwellers will choose not to own a car, preferring to access vehicles and other forms of transport through 'mobility-as-a-service' (MaaS). OEMs are switched onto these changes in behavior and see MaaS as an important potential new revenue stream.

Respondents acknowledge the changing face of cities, with congestion, restrictions on driving, charges for road use and parking, and stricter rules on CO₂ emissions. More than half see cars as part of a wider mobility concept and over two-thirds anticipate alternatives to car ownership, such as car sharing or pay-on-use. Auto executives from India, Brazil and even the US are the most likely to foresee these new developments, while those from China and Russia are a little more cautious.

A majority believes that 6-15 percent of urban inhabitants will use MaaS in the next 15 years. These figures look promising given the huge urban populations of China and India in

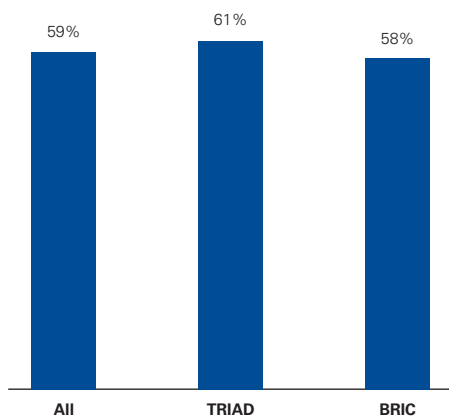
particular. The market for MaaS could be as high as 105 million people in China, 54 million in India, 32 million in the US, 20 million in Brazil and 18 million in Western Europe. In comparison to last year's survey, these figures are a significant increase. This is largely due to the expected increase of the urban population in China, within which the percentage of potential MaaS users has stayed the same.

Even the US, with its traditional love affair with the automobile, is getting excited by the prospect of MaaS; compared to the 2012 survey, a higher proportion of respondents from the US believe that these new concepts will become more common.

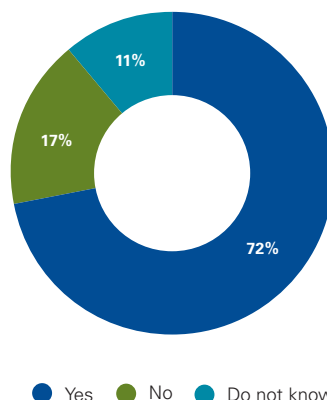
Respondents agree that cars will become part of a wider mobility solution and 72 percent see MaaS as a genuine alternative to car ownership.

Moving towards new urban mobility concepts

Likelihood of a car as an integral part of an overall mobility concept

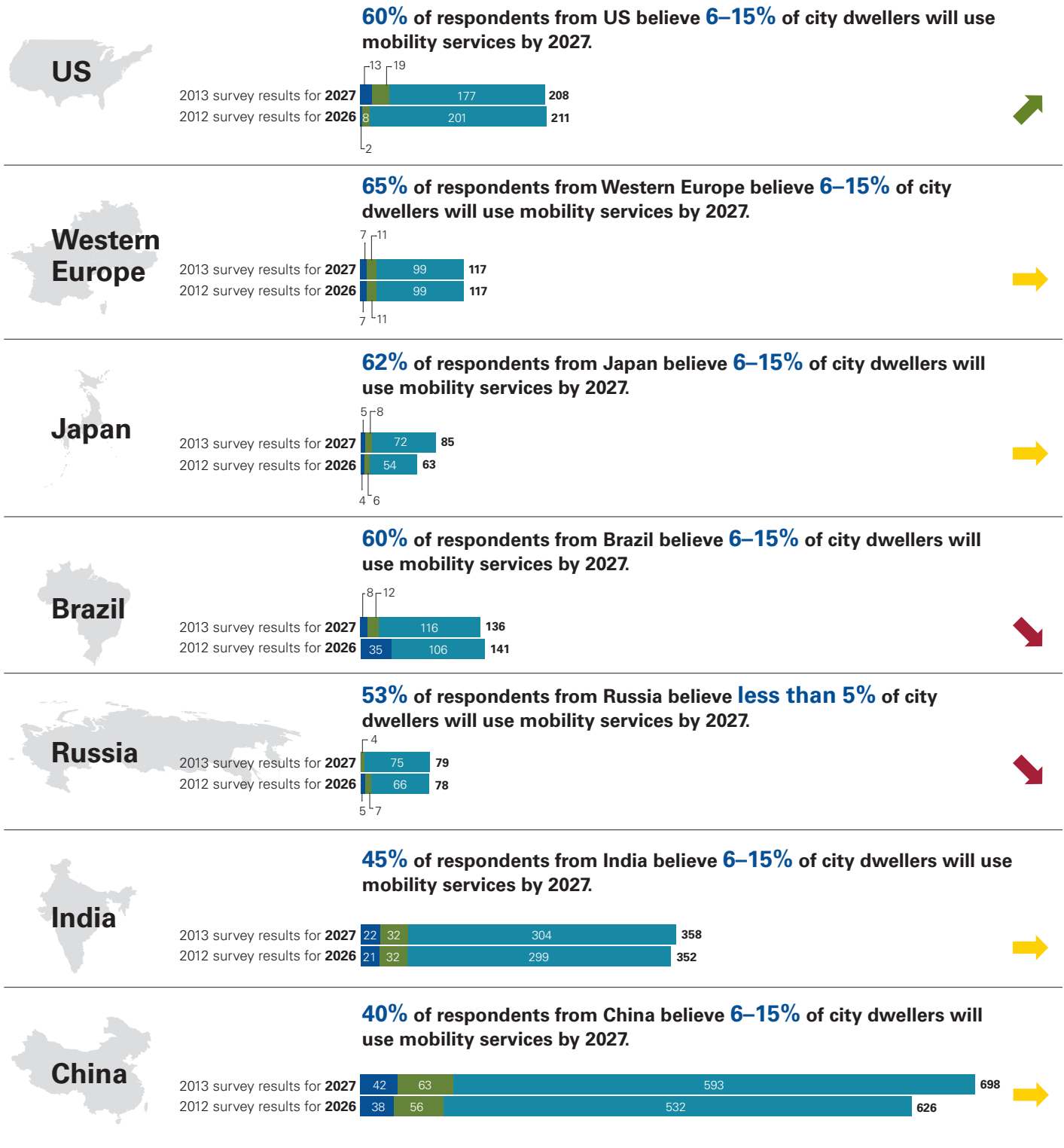


Mobility-as-a-Service as an alternative to car ownership in urban areas



Note: Percentage of respondents rating options as 'extremely likely' and 'very likely'
Source: KPMG's Global Auto Executive Survey 2013

Mobility services usage among city dwellers by 2027 (in million people)



Note: Expectations of the majority of the survey respondents from the respective country

Percentages may not add up due to rounding off

Source: KPMG's Global Automotive Executive Survey 2013, United Nations World Urbanization Prospects

Mobility in the megacity

World Bank figures show that in 2008, for the first time, more than 50 percent of the global population was living in urban areas.¹¹ And according to research company Frost & Sullivan (F&S), our increasingly urbanized world will see 30 'megacities' by 2025 (having a population over 10 million).¹²

In Europe alone, demand for passenger transport is set to increase by 35 percent between 2000 and 2020. Consumers are becoming more receptive to the concept of shared mobility. F&S forecasts car sharing schemes to grow tenfold

between 2010 and 2016. Technology will be a key driver as a result of advances in connectivity and payment services, ultimately leading to 'smart cities' that place high importance on smart transportation and environmental responsibility.¹³

Mobility integrators will bring together the various constituent elements, including transport operators, telecoms operators, online mobility booking agencies, technology solution providers and payment engines.

¹¹ State of World Population 2007, Unleashing the Potential of Human Growth, UNFPA, 2007

¹² Impact of Urbanization and Development of Megacities on Personal Mobility and Vehicle Technology Planning, Frost & Sullivan, 16 November 2010

¹³ ANALYSIS: Mega-cities and the future opportunities for 'mobility integrators,' just-auto, 1 June 2012



Making mobility solutions profitable

For OEMs accustomed to selling and leasing cars, MaaS is to some extent a leap into the unknown. There are a number of ways to achieve positive margins from such new business models, with respondents most optimistic about the provision of added-value services, such as apps for mobile payment and location-aided services.

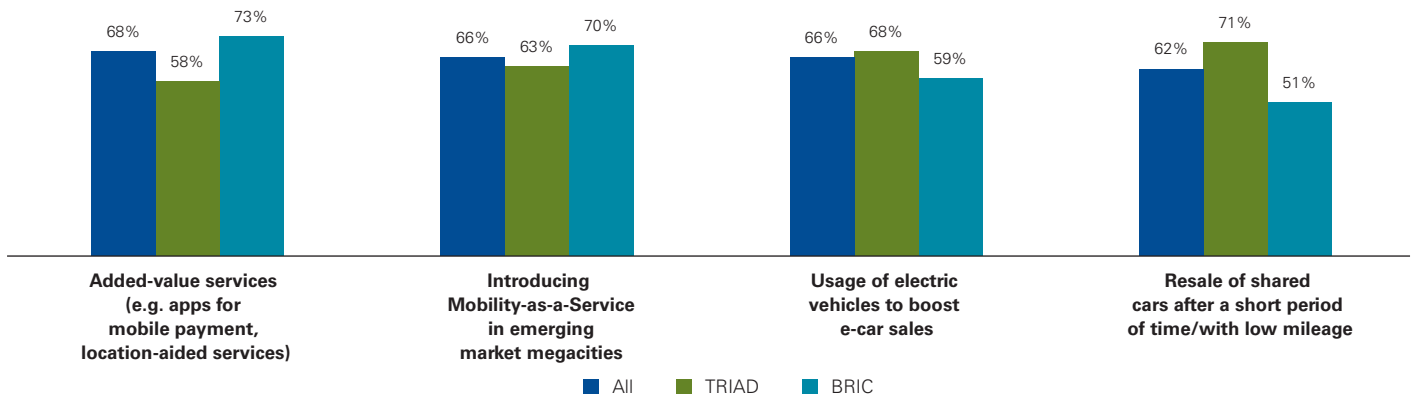
Two-thirds believe that MaaS could be a profitable solution for the overcrowded megacities of the emerging markets. Resales are seen as an attractive option especially in TRIAD markets, and this could also spread to China, with its anticipated rapid increase in demand for used cars.

A higher proportion of respondents from developed countries think that mobility solutions offer opportunities to market e-vehicles.

Auto executives say that the single most important value proposition for MaaS is functionality and ease of use, followed by the option of having a vehicle picked up and dropped off. Although convenience is vital, the executives involved in this year's survey also recognize that mobility is still an extension of the brand, with 77 percent reporting that brand reputation can help the service become more successful.

77% agree that brand reputation can help to boost OEMs' mobility services.

Likely sources of profitable business from MaaS (for OEMs)



Note: Percentage of respondents rating options as 'extremely important' and 'very important'
Source: KPMG's Global Auto Executive Survey 2013

moovel: a new direction for Daimler

This innovative new mobility platform shows its users the best possible way to get from A to B, incorporating a diverse range of private and public transport providers to offer suitable travel options available via an app and mobile website.

Launched as a pilot by Daimler in 2012 in Stuttgart, moovel shows rail, taxi and bus times and prices – as well as offering ride-sharing opportunities with other travellers – and is planned to also provide access to car2go, Daimler's car sharing service.

moovel has successfully brought together a number of partners from public transport and city government, who were all involved in the platform's development. By linking different mobility options, moovel makes efficient use of existing resources, which should appeal to the conscience of the young professional urban citizens.¹⁴

¹⁴ moovel offers integrated mobility for one and all, Daimler.com, 11 July 2012

The continued evolution of city cars

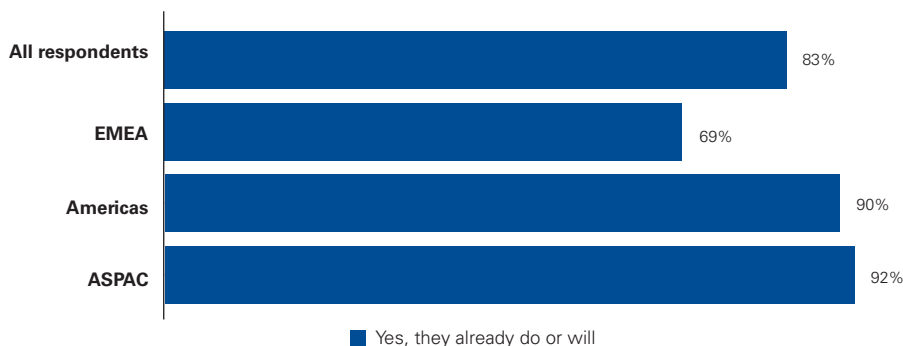
Vehicle restrictions are increasing in cities all over the world in a bid to speed up traffic flow, reduce pollution and make the streets friendlier to pedestrians and cyclists. Currently in China, four cities – Beijing, Shanghai, Guiyang and Guangzhou – have implemented a lottery system for license plates and Wenzhou and Nanjing will soon follow suit.¹⁵ Five other cities are likely to follow. Despite having a hefty congestion charge, London still has a slower average car speed than Berlin or Warsaw.¹⁶

A vast majority (85 percent) of respondents to this year's survey say that limitations are either in force or planned. In addition to the aforementioned mobility solutions, this

changing environment is certain to impact the design of cars, a view echoed by 83 percent of those involved in the survey, including the US, where the car plays an integral role in the life of most cities.

An overwhelming 95 percent of Brazilian auto executives feel that design and usage will alter, which reflects concerns over congestion in expanding megacities such as Rio and São Paulo. Responses were on a similar scale from survey participants in China and India. Only in Western Europe were the figures slightly lower, which is probably because in many of these countries cars are already limited in the bigger cities.

Influence of urban planning initiatives and governmental interventions on design and vehicle usage



Note: Percentage of respondents rating it as 'likely' from the respective region

Source: KPMG's Global Auto Executive Survey 2013

¹⁵ Guangzhou car restrictions spark debate, English.news.cn, August 2012.

¹⁶ Wie Metropolen dem Verkehrsinfarkt entkommen, manager-magazin online, 27 August 2012

As urban vehicles become smaller, they are also getting lighter and therefore more fuel-efficient thanks to new materials such as carbon fiber, steel, aluminum, titanium, magnesium and plastics. Although the use of such high-tech materials is currently limited by their expense, a majority of survey participants expect them to be in mass-production within 5-to-10 years; and 37 percent believe this will happen sooner – by 2016.

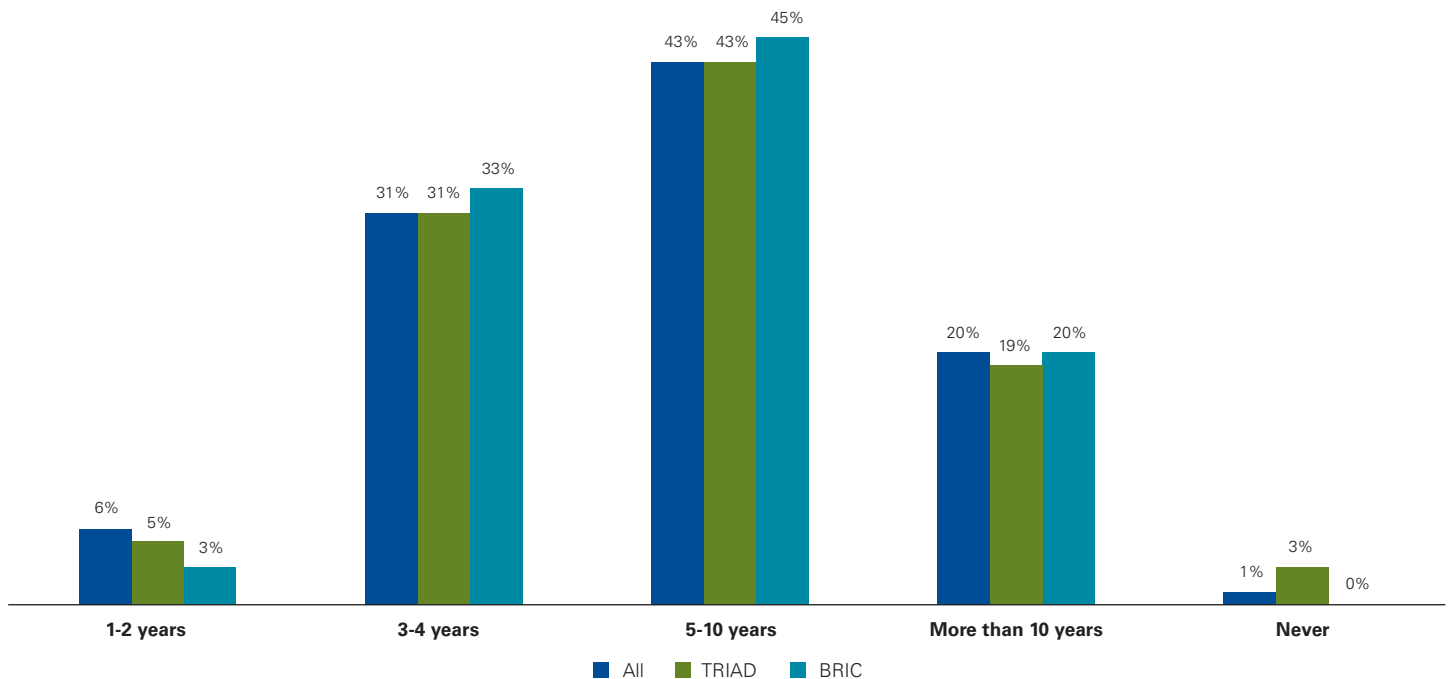
Respondents from Japan are especially optimistic about these new technologies,

with an overwhelming 92 percent saying that they should be in mass use within the next 3-to-4 years.

The potential for new materials is exciting, with possible applications for the main body – which currently accounts for 40 percent of the weight of an average vehicle – and the wheels. Not only do these advances change the overall material mix of a vehicle; they also enable new types of design, which can enhance both the efficiency and aesthetics of cars.

80% of survey participants expect lightweight materials to be in mass production within 10 years.

Expected mass-market use of lightweight material such as carbon fiber



Note: Percentages may not add up to 100 due to rounding off
Source: KPMG's Global Auto Executive Survey 2013

What is mine is yours

Felipe Barroso, Managing Director of Brazil's first car sharing operator, Zazcar, believes the future of mobility is all about access, not about ownership.

Like many Brazilian cities, congestion in São Paulo is a huge and worsening problem. When we launched Zazcar in 2009 car sharing seemed an interesting solution, but we never anticipated how quickly the concept would take off.

From humble beginnings, we have already grown from 10 to 60 cars, which is a 500 percent increase, and we plan to expand even faster in the future. With a population of around twenty million, São Paulo's potential for car sharing is significant. With current expected penetration levels between 1 percent and 2 percent, there is every chance that the market could reach as high as 5 percent or even 6 percent over the next decade. We plan to open Zazcar operations in 10 more cities across Brazil, as well as in other parts of Latin America, amassing a fleet of around 3,000 cars and a projected membership of 180,000–200,000 people.

To achieve these goals we will need to be more collaborative and innovative, to align Zazcar with other parts of the transportation jigsaw; for example by integrating our Zazcards with the RFID cards used on public transport networks and partnering with car manufacturers. We are also exploring a number of services that complement car sharing, such as taxis, bike sharing and traffic information, all of which broaden the travel network accessible to members.

Car sharing customers are very enthusiastic about the service, with our research indicating that almost a quarter of our members sold their cars after joining Zazcar. Our

user profile is similar to that of the North American car sharer market, with about 70 percent being professional males, mid-30s in age, well educated (over 80 percent have a college degree), who are either single or recently married. Our aim is to present car sharing as 'cool', without criticizing those who want to continue to own their vehicles. Nor do we stress our green credentials, preferring to promote sharing as a cheaper and more convenient option, otherwise we would become too niche.

One significant barrier to growth in Brazil is a lack of understanding on the part of local and national governments, which do not allow on-street parking for car sharing operators – a practice that is widely accepted in other parts of the world. Such restrictions make it harder to locate cars in convenient spots, which limits both accessibility and brand visibility.

As the market for car sharing in Brazil matures, we hope to extend our offering to include one-way usage (dropping off cars at the nearest convenient location), and peer-to-peer car sharing, where car owners make their vehicles available to other users in return for a fee. Another untapped market is corporate deals targeting business users, while apartment blocks are a further source of new users, with residents having shared access to cars within the complex. Zazcar's growth should create a virtuous circle, with potential customers attracted by the increasing availability of our cars around their cities.

Changes in customer behavior: How dealers are adapting

The dealership of the future is likely to look very different, with a stronger online presence and a growth in multi-brand availability. Dealers are also likely to be touchpoints for a wider range of products, such as mobility services, financial services and car servicing. Captive financial service arms present an increasingly attractive option to OEMs, especially in emerging markets.

The way we buy our cars is changing, and dealers are adapting to these new needs in several ways. An online presence is vital for any business, and more and more consumers are using the internet to help choose their cars, a trend that is particularly strong in the Americas; 83 percent of auto execs from this region predict that online activity will increase for both dealerships and intermediaries. It is likely that OEMs will want to gain more control over online sales to maintain their position as brand custodians, with a flagship store in major cities to support this strategy – following in the path of consumer giants such as Nike or Apple.

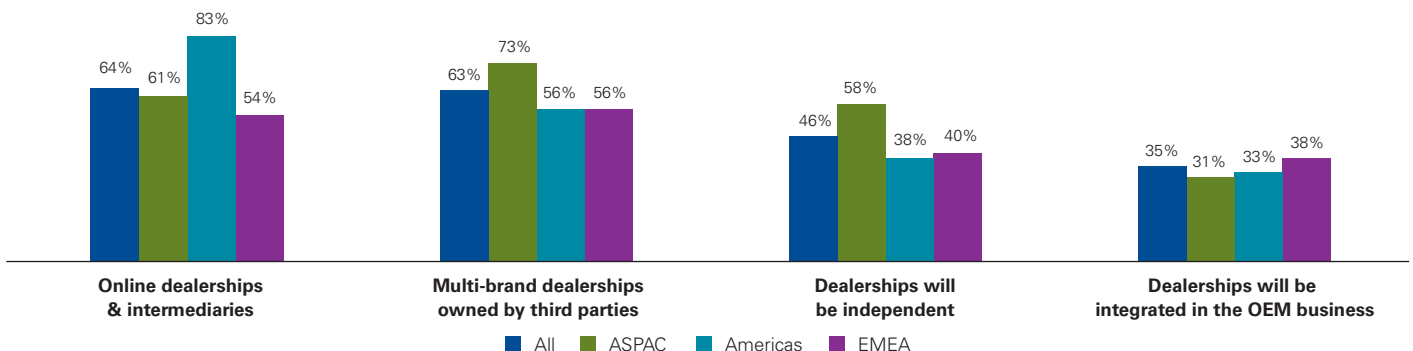
Survey respondents from Asia Pacific feel more strongly that traditional dealership models will remain important, either as independents and/or multi-brand outlets. However, it should be noted that the retail environment in China is undergoing substantial change, due to a number of issues.

There is a rapid expansion into the country's western provinces, to exploit the next wave of growth from Tier three, four and five cities in these regions. Service is moving up the agenda as customer expectations rise, while retail models and subsequent store environments, are adapting to changing consumer tastes and behavior – which is heavily influenced by the growth of the internet. Dealers also have to cope with increasing competition and a fast-growing used car market.

Automotive companies are responding in innovative ways to such pressures and opportunities. BMW has launched its 5S retail concept, with 'sustainability' the fifth dimension that supplements the familiar 4S classifications of dealers. Online consumers can now browse and

83% of auto execs from the Americas predict that online activity will increase for both dealerships and intermediaries.

Increasing significance of dealership models



Note: Percentage of respondents expecting the share of importance 'to remain stable' or 'to decrease' are not shown
Source: KPMG's Global Auto Executive Survey 2013

buy Geely's Panda model via the Taobao internet shopping website.¹⁷ And VW's aggressive expansion continues, with plans to double its current number of dealerships in China by 2015, as well as introduce its DasWelt Auto used car business model by 2014.

In Europe, where there is a history of independent dealers, there is a small but not significant trend towards OEM ownership.

Most respondents agree that dealerships will have to evolve their range and mix of services in order to thrive in the future. Additional services are rated as the most important offering, particularly in the BRIC markets, where dealerships are relatively new and service stations less prevalent. Three-quarters of auto executives from these markets see great potential for such developments. Maintenance and repairs have been excellent, high margin business for dealers in the past,

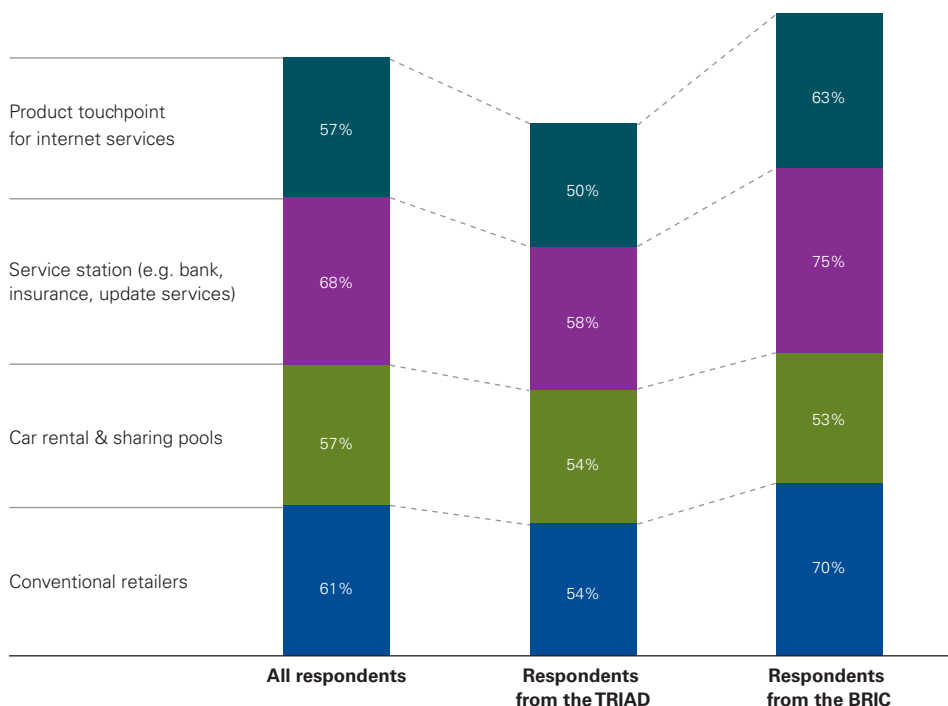
yet with the growth of e-vehicles and improvements in reliability, this source of income may decline.

In the more established markets in particular, there is broad acknowledgement that the conventional dealership model is declining, with only 54 percent of respondents from TRIAD countries believing that the existing format is vital to future success. Again, the relatively underdeveloped BRIC dealer markets still appear to hold greater promise for traditional approaches, due to the lack of comprehensive dealer networks in these regions.

The survey also shows that dealerships are starting to embrace other new industry concepts, such as mobility services (via car sharing and rental) and online purchasing, where consumers may start the process on their laptop or iPad™ and complete the transaction in the actual location, by picking up their new/used car or dropping it off for service.

Only 54 percent of respondents from TRIAD countries believe the existing dealership model is vital to future success.

Dealership concepts considered important to future success



Note: Percentage of respondents rating options as 'extremely important' and 'very important'

Source: KPMG's Global Auto Executive Survey 2013

¹⁷ Geely to start selling Panda online! Great Idea?! This is what it looks like, chinacartimes.com, April 2012

Imagining your dream car

Advances in technology and changes in customer expectations are impacting traditional dealership models, according to Roman Fischer, Head of Global Sales Development at Mercedes-Benz.

Buying a new car is one of the biggest purchase decisions anyone ever makes, influenced by a combination of emotion and logic. Although brand preferences remain strong, today's internet-savvy consumers are also far more informed about every aspect of a vehicle and often carry out extensive online research, including social media consultation. Nevertheless, most customers still choose to visit a dealer, either to see and feel the car or because they are wary of completing such a large financial transaction online.

With so many car configurations available, it is just not possible for dealers to show customers a comprehensive range of models – particularly in city centers, where rising property prices restrict the availability of suitable real estate. Rather than a barrier, we see this as a great opportunity to pilot new models of dealership that embrace the latest technology.

Mercedes-Benz recently opened a 'visionary' store in Milan that enables customers to imagine their dream cars using virtual reality. Armed with an iPad and large LCD screens, prospective buyers can create a unique, personalized version of a car by choosing from a wide

variety of modifications including color, wheel rims, seat materials and infotainment options. By 2020 we expect more and more dealerships of this type, with fewer actual cars on display.

We are also seeking innovative ways to deepen the Mercedes-Benz brand relationship with our customers. For example, in Tokyo we have launched a concept store called Mercedes-Benz Connection™, where like-minded individuals can connect with each other to talk about our products and benefit from loyalty programs. Representatives from local Mercedes garages are on hand to answer questions and customers can also arrange a test drive of our latest models.

One thing that has not changed is the importance of the personal relationship between the customer and the dealer. Intelligent use of technology can bring the buyer and the seller closer together, as dealers make use of personal information to anticipate needs and personal preferences. The more the dealer knows about the vehicle and the owner, the higher the level of tailored customer service, which should allow long-term relationships to flourish.



Maintaining dealer margins

'Location, location, location' still appears to be the biggest factor for a profitable dealership, with dealers in the more mature markets especially concerned about being in the right place. However, this is likely to change as online activity becomes popular.

In the emerging countries, on the other hand, respondents place more emphasis on organizational structure and reward schemes that motivate employees to sell effectively.

The rise of the internet has empowered consumers to quickly and easily compare prices and service among dealers, yet 85 percent of respondents feel that brand is still a major influence on buyer behavior. And dealers appear to be less worried about financing costs and equity structure, in the developed nations at least, as most are backed by the financial service arms of a powerful OEM.

The issue that most divides dealerships is the management of pricing and supply. In the BRICs this is a very high priority,

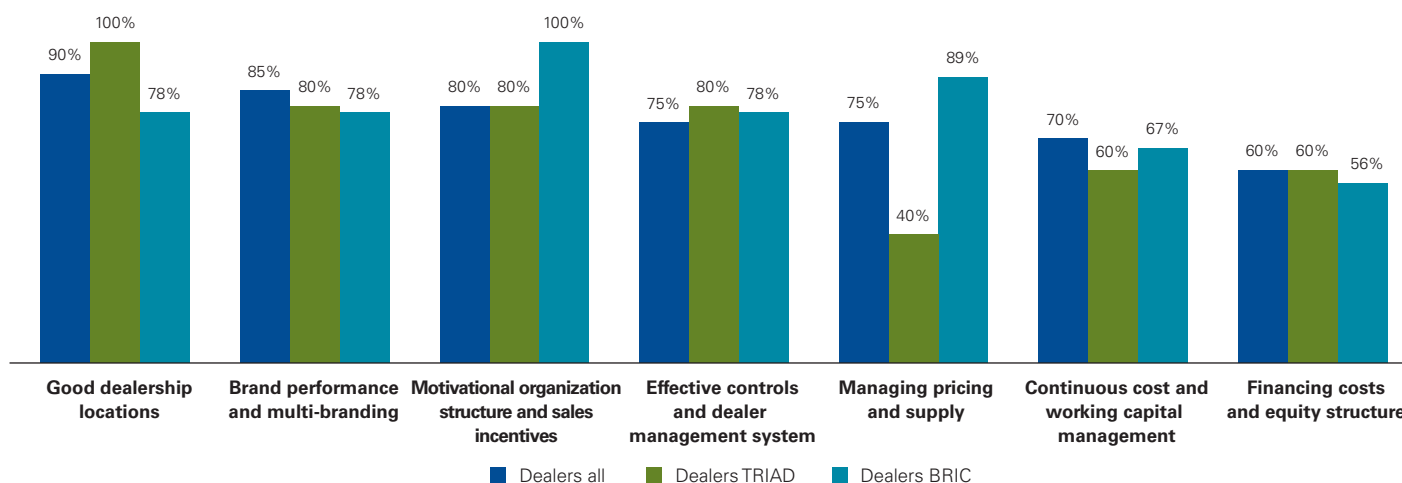
whereas in Western Europe and North America it ranks far lower. Customers have become accustomed to different ways of buying cars in different parts of the world. In the US it is traditional to walk into the showroom and choose immediately from a wide selection, whereas in Germany a buyer will order a car in advance and wait for delivery.

These variations have implications all the way up the supply chain. The US has historically relied on mass production in its factories, accompanied by aggressive selling in the showrooms, with little incidence of build-to-order and less cooperation in OEM-dealer relationships.

In Japan, on the other hand, 60 percent of retail sales are customized to meet customer orders,¹⁸ which reduces inventory levels, meaning that the average Japanese dealer turns over its stock every 21 days compared to 66 days in the US.¹⁹ In an age of economic uncertainty, customization can help cut costs for both automakers and dealers.

Respondents from BRIC markets feel that incentives – and the management of pricing and supply – are the key factors influencing profitability. In the TRIADs it is all about location.

Most important factors influencing the profitability of dealers



Note: Percentage of dealer respondents rating options as 'extremely important' and 'very important'
Source: KPMG's Global Auto Executive Survey 2013

¹⁸ Build to Order: The Road to the 5-day Car, Ch.2, M. Holweg, 2008, ISBN: 978-1-84800-224-1

¹⁹ Building cars to customer order - what does it mean for inbound logistics operations? J. Miernczyk, M. Holweg, Journal of Business Logistics, 2004, Vol. 25, ISS 2, p. 171.

KPMG insight

Auto sales in Brazil set to resume their upward trend

2013 looks like a bumper year for the Brazilian automotive industry, which is forecast to grow by 4.5 percent, following a disappointing 2012, where sales fell for the first time since 2002. This likely surge comes on the back of a special government scheme making it easier to lend money to vehicle buyers, along with tax incentive programs, and has been further boosted by higher than expected truck sales to support construction for the forthcoming World Cup in 2014 and a forecasted record in crop production.

2013 output is expected to reach 3.51 million vehicles, although exports are likely to fall to just 415,000, less than half the peak figure of 900,000 in 2005, due to uncompetitive prices and tax barriers in key markets such as Argentina. The auto sector also faces the potential specter of overcapacity, although any planned increases in production are roughly in line with a high-growth market.



Charles Krieck
Partner
KPMG in Brazil

Customers are seeking competitive financing, but not for e-components ... yet

With the recession continuing to bite in many parts of the world, competitive financing has leapt to the top of consumers' demands, as they struggle to find the funding to buy new or used vehicles. Eighty-two percent of respondents feel finance is the most important value-added service, up from just 60 percent in the 2012 survey.

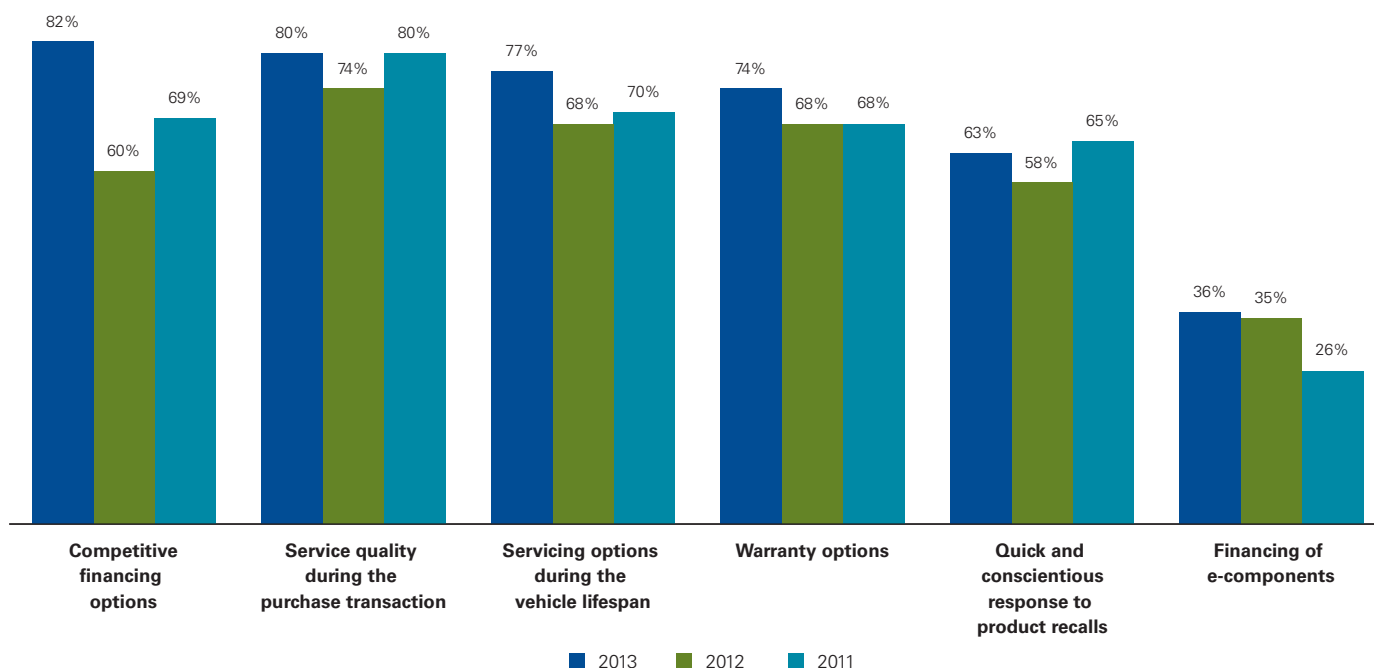
Interestingly, buyers in the emerging markets appear to attach more importance to service quality than their counterparts in more developed regions. Ninety percent of respondents

from BRIC countries say this is a major influence on their decision to buy, which shows the increasing sophistication of the new and growing middle classes.

Financing of e-components is still of less interest, but nevertheless steadily increasing in a world where electric vehicles have yet to reach mass-market status. However, the Renault Twizy™ and the Smart Fortwo Electric Drive™ both give owners the chance to buy the car and lease the battery, which could point the way forward for sales in this category.

Respondents from BRICs say service pre- and post-purchase is a key factor when buying a car.

Importance of value-added services in consumer vehicle purchasing decisions



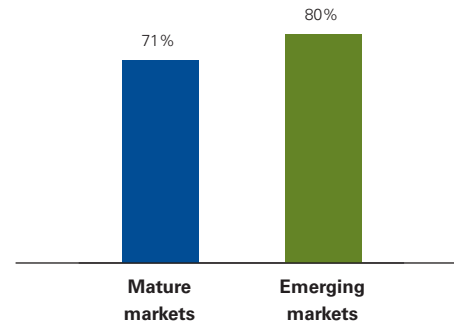
Note: Percentage of respondents rating service as 'extremely important' and 'important'
Source: KPMG's Global Auto Executive Survey 2013

The continued value of captives

Captive financial service arms remain an important element of OEMs' strategies to provide financing and leasing options for customers. Over 7-out-of-10 respondents feel that captives are an integral part of their future business.

Buying via credit is a relatively new concept for consumers in countries such as China and Russia, so captives represent a potentially huge opportunity for branded manufacturers to expand their presence and improve profitability.

Importance of operating a captive financial service arm for the future success of automotive OEMs



Source: KPMG's Global Auto Executive Survey 2013

Automotive finance and leasing around the world: US, Western Europe, China, India, Russia

Finance and leasing landscape: US

The US is a mature and highly fragmented environment, where recovery in the automotive market will continue to drive financing growth. Captives dominate the new car market and banks own the largest share of the used car financing market. The greatest opportunities in this market lie in the development of new mobility services and the expansion of banking services through a full banking license.

Finance and leasing landscape: Western Europe

Western Europe is a highly competitive market where captives dominate. With cars sales expected to increase modestly, the growth in this market is expected to come from additional banking services, new mobility services and insurance offerings.

Finance and leasing landscape: China

China's growing economy and car market translates into a significant opportunity in the automotive finance and leasing

business. The opportunities in this market are for the early entry leaders to widen service and insurance offerings, and to be poised as consumer habits change and business opportunities open up.

Finance and leasing landscape: India

India is a fragmented market with a high potential for automotive and finance and leasing sales growth. Car financing is well accepted in this underdeveloped market and there is an opportunity here to introduce basic finance and leasing products and to invest in the 'green agenda'.

Finance and leasing landscape: Russia

There are opportunities in Russia as the economy rebounds, car sales rise and consumers' incomes and acceptance of financing improves. Finance and leasing companies can prosper by expanding their financing offerings, introducing basic banking products and improving service networks and fleet services.²⁰

²⁰ KPMG's Global automotive finance and leasing: The role of product diversification and emerging markets, 2012

Growth and globalization: Emerging markets surging forward

The majority of respondents feel the BRICs' share of global vehicle sales will edge towards the 50 percent mark by 2018, with these nations also making an increasing impact upon the world's export markets. Manufacturers from BRIC markets see the biggest growth potential in South East Asia, Eastern Europe and South America.

The pace of convergence between established and developing markets has implications for all automakers, making it easier to produce cars that will be acceptable anywhere in the world. Over 61 percent of respondents believe that within 6 years, customers in the BRICs will be demanding the same levels of quality, safety and reliability as those in mature economies. Despite this, there is still considerable variation in consumer preferences. Volkswagen (VW) is selling cars designed specifically for the Chinese market that reflect Chinese tastes. Furthermore, over half expect that regulations such as emission standards and vehicle taxation will also be on a similar level within 6 years.

Auto executives in this year's survey see no slowdown in the rise of emerging markets, with 47 percent of the respondents reporting that the four BRICs' share of

total new car sales will be between 41 and 50 percent by 2018. These figures are even more optimistic than comparable LMC figures which estimate a share of 44 percent by 2017.²¹

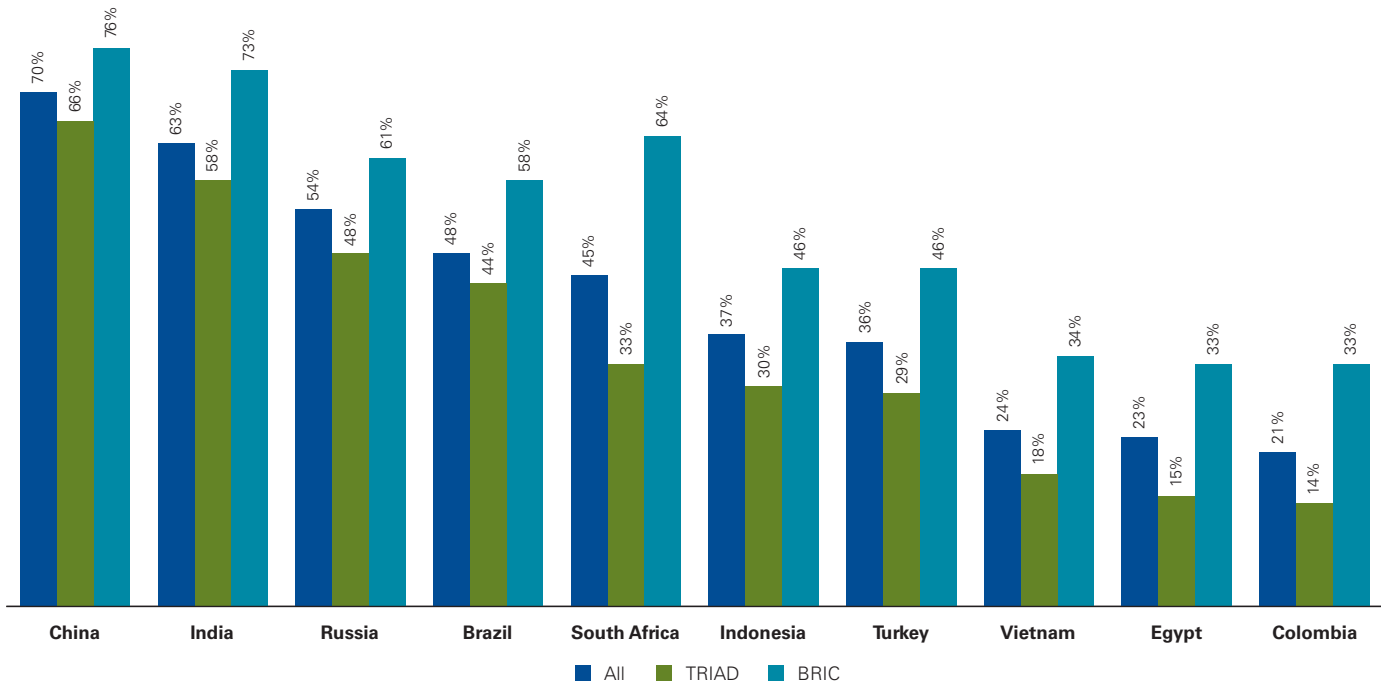
Consequently, China is clearly the top choice for investment from all automakers globally, followed by India, with Russia and Brazil some way behind in third and fourth places respectively. A significantly higher proportion of respondents from the BRIC countries (compared to their TRIAD counterparts) say they will be increasing their investment in South Africa, Colombia, Indonesia, Turkey and Vietnam. In particular, Indonesia has the potential to become a rising star in the automotive world. Automakers from other parts of the world see great potential in Indonesia also, with Toyota planning to invest more than US\$700 million in this market over the next 5 years.²²

TRIAD and BRIC markets are expected to converge in terms of customer demands and behavior within the next 6 years.

²¹ LMC Automotive, Q3, 2012.

²² Toyota group companies to invest \$727 million in Indonesia, Reuters, 9 September 2012

Increasing investments by country



Note: Percentage of respondents 'beginning' or 'increasing' investments
Source: KPMG's Global Auto Executive Survey 2013

KPMG insight

A new kind of alliance for suppliers?

The globalization of Japanese OEMs has been accompanied by the similar expansion of automotive parts suppliers, in many cases via alliances that have created closer, co-dependent relationships.

Parts suppliers typically had one year's grace to establish new operations to support manufacturers' growth, but recently these time periods have fallen sharply, as OEMs require parts for multiple locations at very short notice. Suppliers therefore have to consider acquiring businesses overseas to meet these demands.

At the same time, the flat domestic market has left limited scope for growth from traditional business alliances, and consequently Japanese Tier 1 parts suppliers are seeking ways to expand independently of OEMs.

Acquisition of other leading parts suppliers in North America and/or Western Europe is not just a way to keep existing partners happy; it can also be a route to a greater share of new markets overseas, via fresh alliances with foreign OEMs.



Tsuneo Miyamoto
Partner
KPMG in Japan

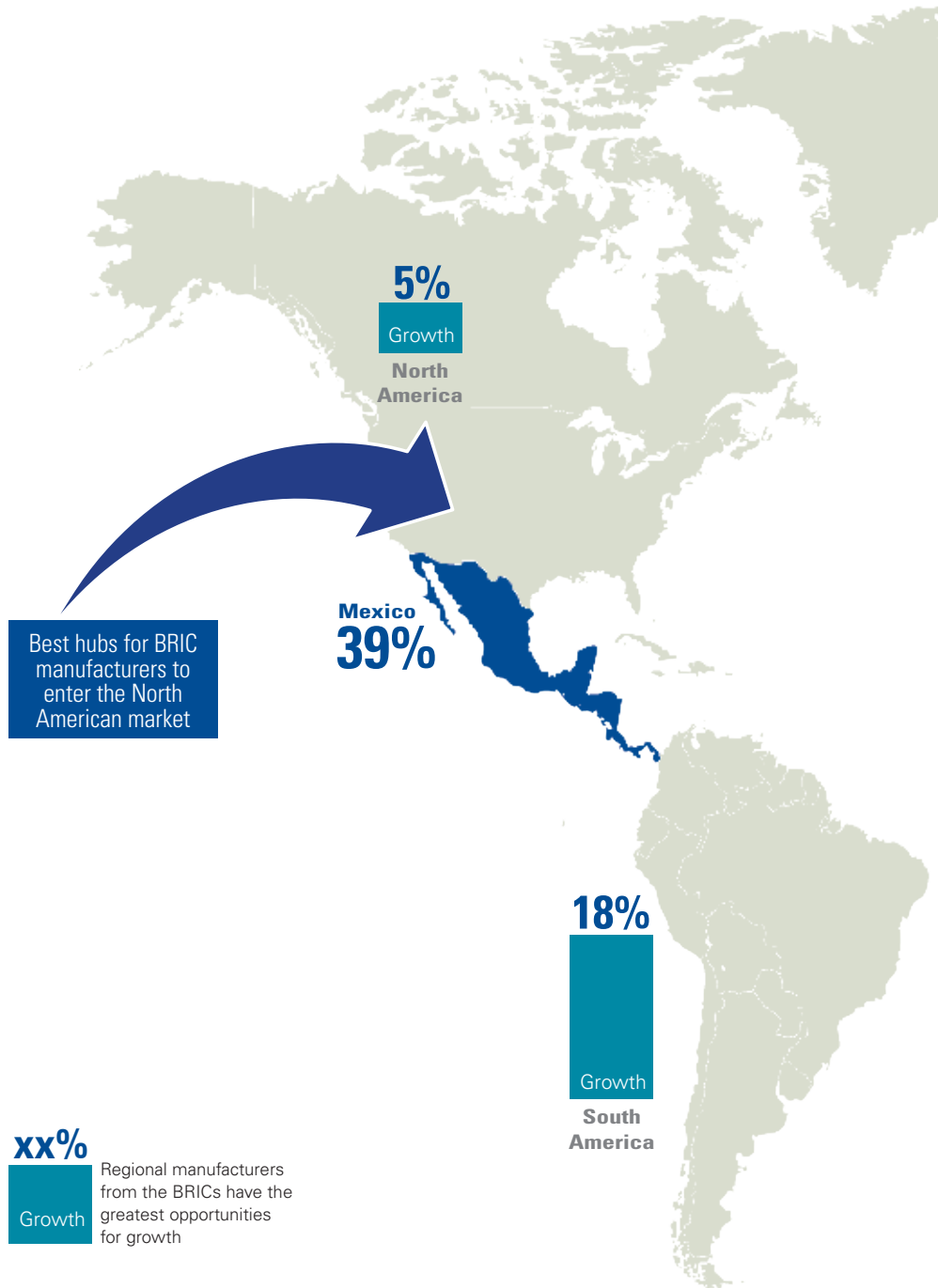
BRIC manufacturers heading for South East Asia and Eastern Europe

As they expand beyond their domestic markets, respondents see the biggest growth potential by far for BRIC OEMs in the countries of South East Asia, which have relatively low entry barriers and are geographically close to the two powerhouses of China and India. Eastern Europe and South America are the next two most promising choices.

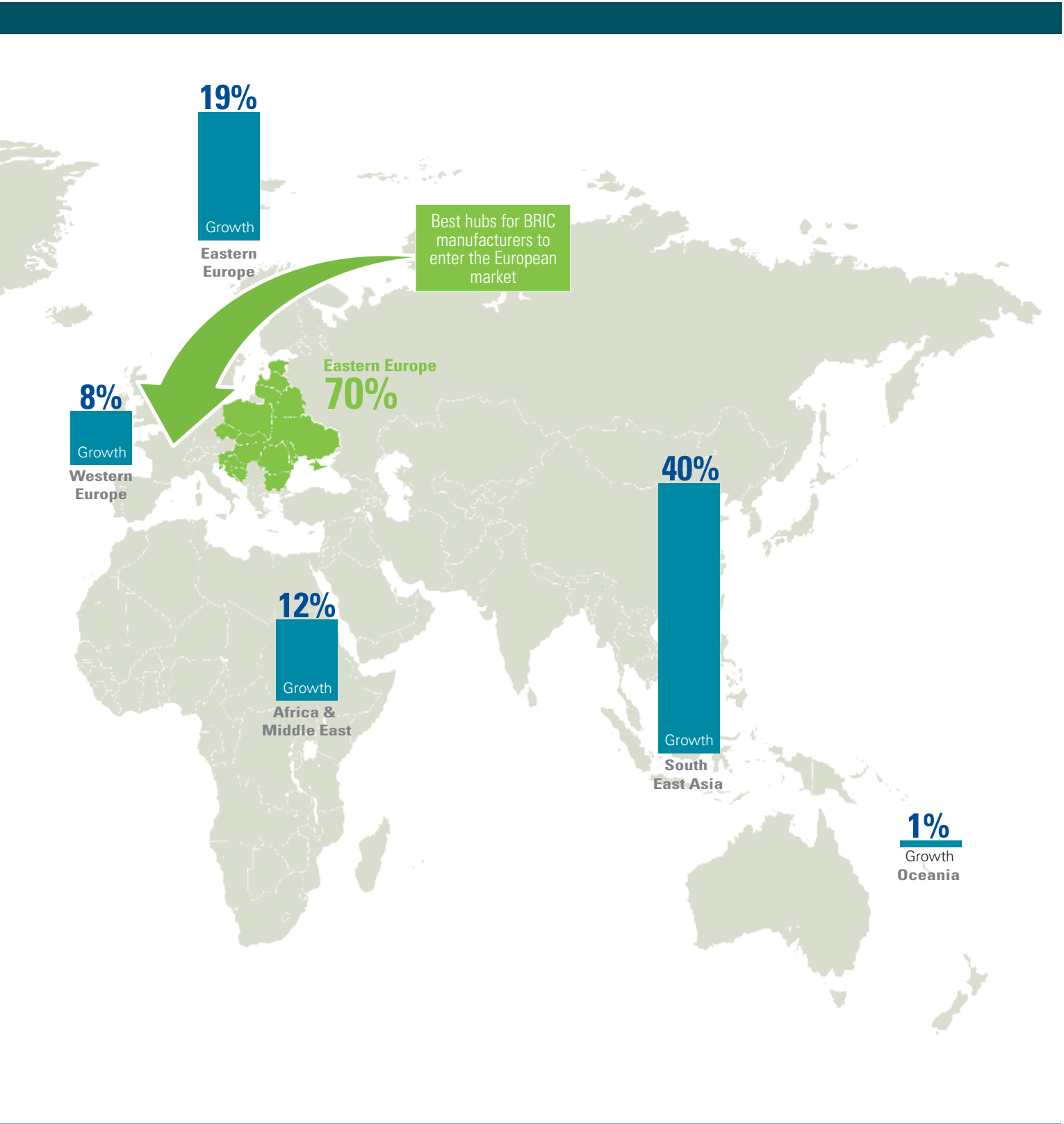
Only a few believe that the US and Western Europe will be fertile hunting grounds, and surprisingly, just 12 percent feel that the Middle East and Africa provide good growth opportunities – despite the fact that 64 percent of BRIC manufacturers plan to heavily increase their investments in South Africa.

Seventy percent of respondents say that Eastern Europe provides the best hub for entering Western European markets. Chinese automotive giant Geely is building new factories in Ukraine and Belarus, to add to its existing facilities in Russia and Egypt. And although Mexico is the number one choice as a hub for entering the US, a sizeable minority of 26 percent see a healthy potential for BRICs setting up manufacturing facilities within North America, to take advantage of the relatively modest wage costs and general ease of doing business.

Regional opportunities for BRIC manufacturers



Source: KPMG's Global Auto Executive Survey 2013



Exploring new horizons

Ashok Thakur, CEO of Indian automotive manufacturer Mahindra and Mahindra South Africa, explains why Africa is such an attractive new market.

We entered the South African market in 2004 to build a foundation for expanding into the rest of Africa. This continent has many similarities to our home market of India: right hand drive, road conditions (particularly in the sub-Saharan region) and a strong consumer desire for good value.

Until 2004 Mahindra sold only a modest number of vehicles in Africa. After the start of operations in South Africa, Mahindra embarked upon extensive market development in other parts of Africa. This included many countries in North Africa, and completely knocked-down (CKD) assembly operation in Egypt. Now that we are actively targeting the region, we have to continuously improve our products to stay competitive in a tough marketplace.

Mahindra's success in Southern African markets is based upon giving customers quality and reliability together with after-sales service, all at a reasonable price. In a market where it is not uncommon for drivers to cover considerable distances (often as much as 70,000–80,000 km per year), mostly in harsh conditions, cars should have off-road capability, durability and quick, accessible service to keep them in good shape.

To deepen our roots in Africa, we have been trialing the assembly of cars imported in kit form. The logical next step for Mahindra would be to start production in South Africa, something that has been under consideration for a while. However, to make such a commitment, the economic and political landscape needs to be right, so we are looking towards automotive industry growth back to the pre-recession levels. Costs are also considerably higher in South Africa than in India, due to higher wages, energy and in some cases commodities. So even taking into account a 25 percent import tariff, it still makes business sense to produce vehicles in India and import them to South Africa.

Although Mahindra is one of the fastest growing motor vehicle brands in South Africa, we are encountering stiff competition from longer-established companies with wide distribution networks. Nevertheless, with the launch of our new XUV500 passenger vehicle, we are optimistic that we can raise awareness over the next 3 to 5 years and fulfill our ambition to become one of the top five car brands in the African market.

KPMG insight

Hyundai's value growth strategy

Hyundai Motor's breathtaking ascent up the automotive profitability league table is testament to a well-conceived and superbly executed strategy. In 2012, it has transformed itself from a high-volume growth strategy, into a quality marque second only to BMW in terms of value growth.

Having established a global capacity of 8 million cars, through rapid growth and a partnership with Kia Motors, Hyundai changed direction in 2011. As its prices rose and discounts fell, consumer perception climbed steadily, with Hyundai ranked seventh highest automobile brand in Interbrand's 'Best 100 Global Brands 2012' – putting the Korean automaker above Audi.²³

At a time when many manufacturers are struggling, Hyundai's margins have rocketed from 4.1 percent in 2006 to an astonishing 11.4 percent in first half of 2012, with sales hitting a record high in 2011. With the new 2013 Azera and Elantra Touring models set to retail in North America at prices 20-25 percent higher than previous versions, Hyundai has entered a virtuous circle of brand value that augurs well for future success.



Seung Hoon Wi
Partner

Samjong KPMG in Korea

²³ Best 100 Global Brands 2012, Interbrand, 2012

Compared to our previous survey, respondents forecast exports from the BRICs to rise more quickly – especially for Russia. In last year's survey 34 percent believed that Russia would not be able to export over a million cars within the next 10 years, whereas now 36 percent feel this milestone will be reached within the next 3 to 5 years. It is a similar story for India where 22 percent believe the country exports a significant number of vehicles today. Expectations for China on the other hand have reduced; even though 11 percent still say China will export a significant number of cars in 1 to 2 years, a majority now only expect this to happen within the next 3 to 5 years.

Within just 6 years, BRIC manufacturers are expected to play an important role in export markets.

Export potential of emerging market OEMs

China

11% believe China will export a significant number of cars in **1–2 years**

↓ *in 2012: **32%** expected >1 mio. to be exported*

China

47% believe China will export a significant number of cars in **3–5 years**

↑ *in 2012 only **41%** felt this way regarding >1 mio. exports*

2013

2014

2015

2016

2017

India

22% say India exports a significant number of cars now

↑ *in 2012 just **2%** felt this was the case*

Russia

36% expect Russia to export a significant number of cars in **3–5 years**

↑ *in 2012 the figure was **31%***

Note: Significant number of cars with regard to the respective country:

China: more than 2 million vehicles

India: more than 1 million vehicles

Russia: more than 1 million vehicles

Brazil: more than 2 million vehicles

In the 2012 survey expectations were asked for all countries with more than 1 million cars.

Source: KPMG's Global Auto Executive Survey 2013

Brazil

37% say Brazil will export a significant number of cars in **3–5 years**



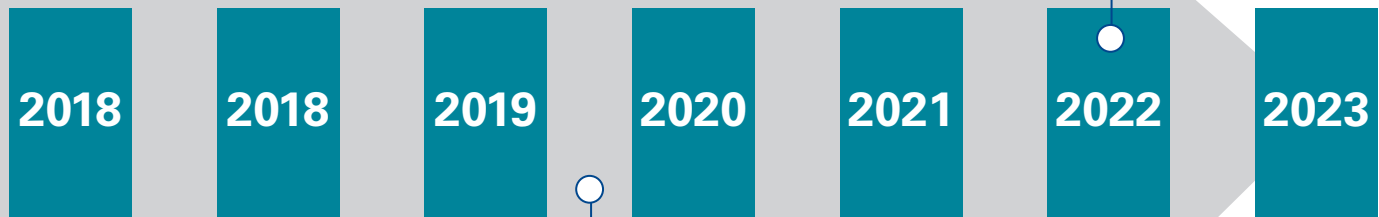
*up slightly from the 2012 figure of **35%** with expected > 1 mio. cars to be exported*

Russia

14% believe Russia will export a significant number of cars in **>10 years**



*in 2012: **34%** shared that opinion*



India

29% believe India will export a significant number of cars in **6–9 years**



***43%** shared this view in 2012*

Regulations getting tougher in the BRICs

It appears to be getting harder to export into or set up production facilities in the four BRIC markets.

Respondents feel that environmental restrictions will increase more than any other type of barrier; three-quarters of auto

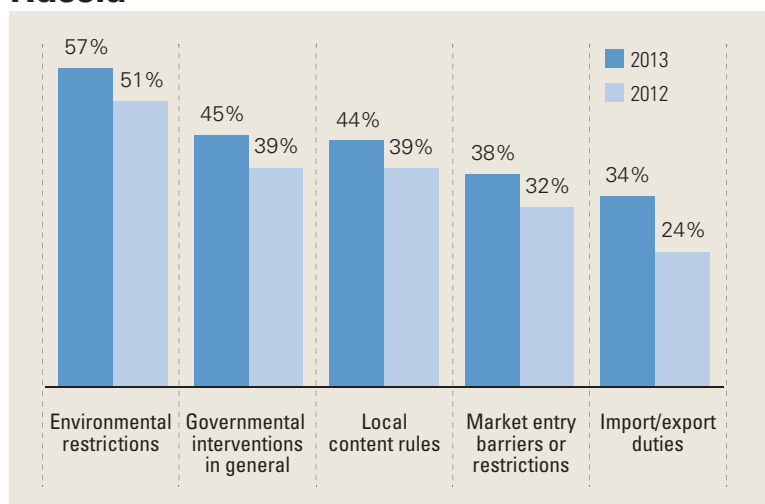
executives believe that such obstacles will become greater in China and 57 percent foresee a similar situation in Russia.

Across the four BRICs 43 percent expect governmental interventions to rise, with even bigger increases in India and China.

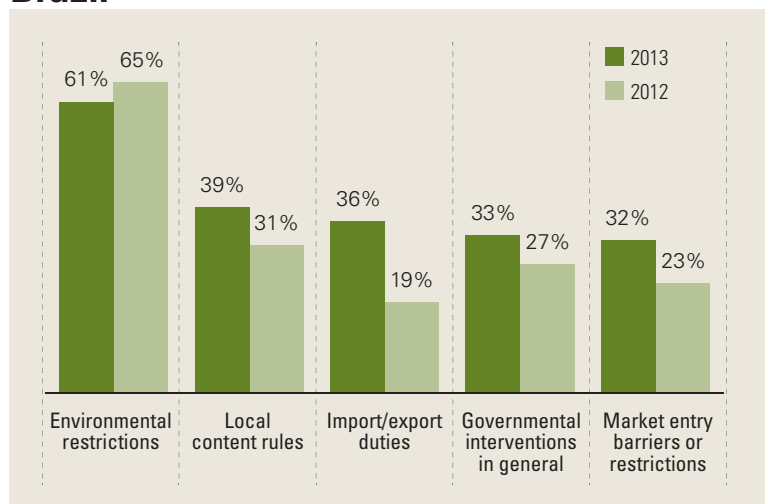
Compared to the 2012 survey, the most significant change in market conditions is the anticipated rise in import/export duties. Almost twice as many respondents now believe that these duties will go up in China, India and Brazil.

Expected changes in market conditions and barriers

Russia



Brazil

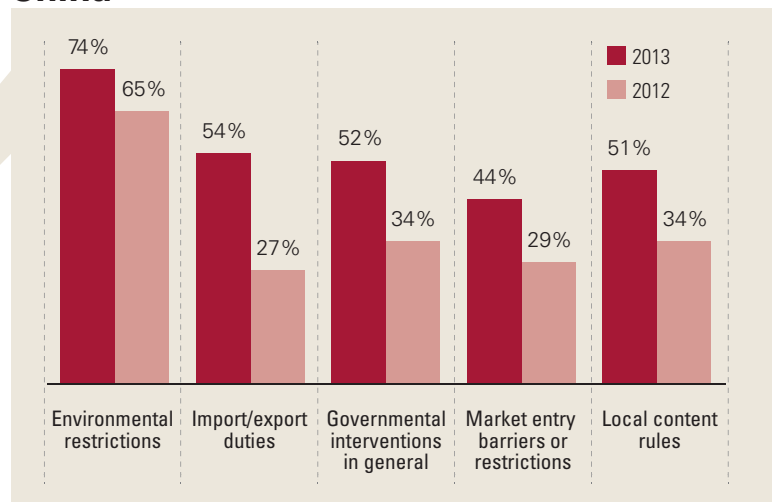


Note: Percentage of respondents expecting barriers to 'increase'
Source: KPMG's Global Auto Executive Survey 2013

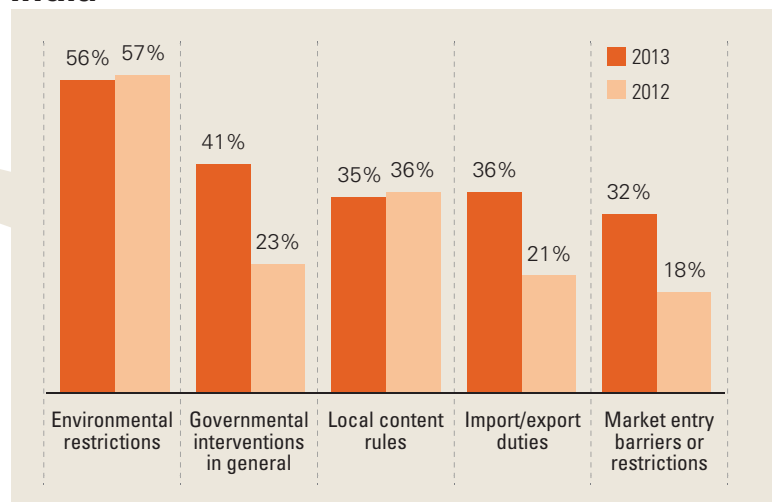
In September 2012 Jaguar Land Rover²⁴ shelved plans to establish a car assembly plant in Brazil after proposed tax credits on foreign-made vehicles were withdrawn. Anyone assembling in Brazil now needs to meet a number of strict criteria, with a certain proportion of components sourced domestically.

Environmental restrictions will remain challenging, while import/export duties are rising fast.

China



India



²⁴ Jaguar Land Rover halts Brazil plans, FT.com, 6 September 2012

Growth and globalization: Keeping a lid on capacity

Sales and production in Western Europe and Japan are forecast to continue their decline, although the reverse is true for the four BRICs along with Indonesia, Malaysia, Mexico and South Africa. Yet these growth markets will not halt the development of further overcapacity in the industry – something that respondents are uncertain how to address.

Our survey's findings reflect the general economic gloom encircling Europe. A significant proportion of respondents believe that both sales and production will decrease across the continent over the next 5 years. Spain and Italy appear to be hardest hit, while most feel that Germany will avoid a similar fate, with 46 percent expecting production to stay stable. Beyond Europe, one-in-three see Japan's sales falling, with 46 percent expecting production to stay at current levels.

It is a completely different picture in the emerging markets, with a large majority expecting rising sales and production volumes in China, India,

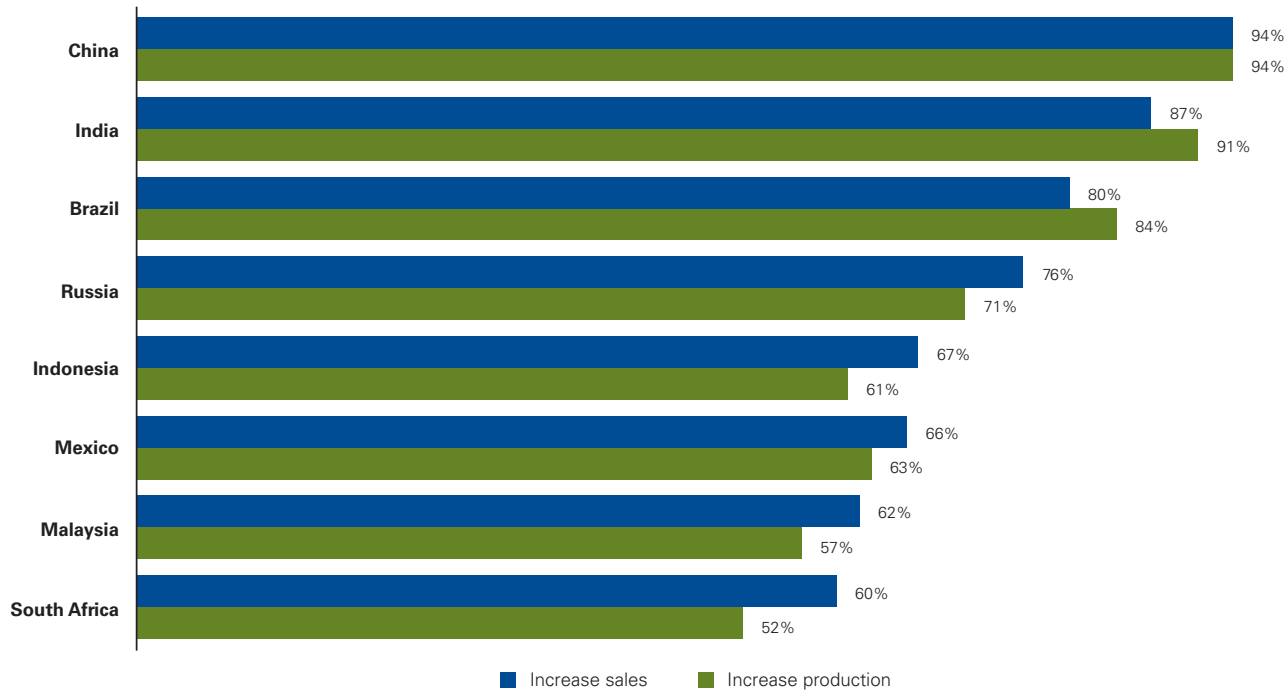
Brazil and Russia. Hopes are also high for Indonesia – as well as for Mexico and South Africa.

The one outstanding exception to the above trends is the US, where over 40 percent believe that both sales and overall vehicle output will either stay the same or go up; quite a transformation for a country whose automotive industry has suffered so much in recent years. US automakers have responded quickly and decisively to the downturn by cutting capacity, and now appear better positioned to grow relative to their European and Japanese counterparts.

A significant proportion of respondents believe that both sales and production will decrease in Spain, Italy and France, and to a lesser extent in the UK, over the next 5 years.

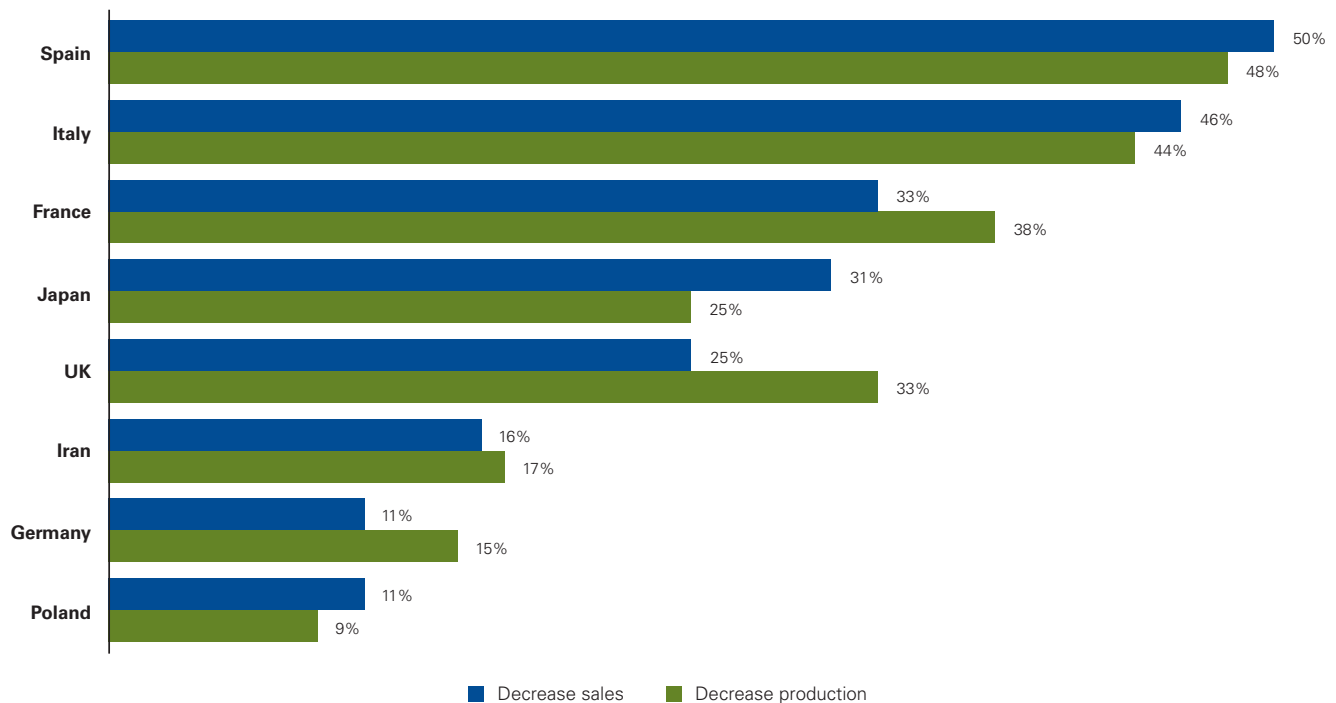
Expected domestic vehicle sales

Top eight increase



Note: Percentage of respondents choosing 'increasing' option
Source: KPMG's Global Auto Executive Survey 2013

Top eight decrease



Note: Percentage of respondents choosing 'decreasing' option
Source: KPMG's Global Auto Executive Survey 2013

Expand overseas – innovate everywhere

The poor economic conditions in Europe have forced a change in strategy for Renault, explains Jérôme Stoll, Executive Vice President for Sales and Marketing & Light Commercial Vehicles.

Despite an abundance of popular car brands, the European automotive market has been suffering for some time now. Car purchases in the region have slowed and the short-term outlook is far from positive, with a recovery 5 to 6 years away. With high fixed costs, changing regulatory requirements (such as the Euro 6 emissions standards) and slack demand, existing business models appear to be unsustainable. We have consequently had to reduce production capacity (without closing plants) and adapt our production systems.

Renault has two strategic priorities to address these challenges. The first is to reduce dependence on Europe and focus on high-growth emerging markets such as Brazil, Russia, India, and China. Our proportion of sales to these countries has risen dramatically over the past decade. In 1999 Renault sold just one car in 10 outside Europe; in 2012 this figure is likely to be closer to one car in two.

Our second strategic imperative is to develop cheaper, entry-level products by developing the entry platform that feeds both the Dacia and the Renault brands. This enables us to compete effectively in emerging markets, under the Renault badge, where buyers require less sophisticated

products, and in Europe, under the Dacia brand, where appetite is shifting towards cheaper vehicles. The entry range is all about lower costs, with manufacturing costs kept low by re-using older technologies and producing in low-cost centers such as Romania and Morocco. We have also scaled back our distribution costs for the Dacia brand and introduced a fixed 'one price' policy across Europe, with no discounts. Although only introduced in 2004, the Dacia brand has already filled a gap in the European market, with about 1.7 percent – 1.8 percent share.

We have also developed the strengths of the Renault brand, namely quality, design, innovation and environment. The DNA of our brand is affordable innovation for all customers, as exemplified by our electric vehicle strategy or our navigation systems. In-car navigation may be ubiquitous, but Renault was the first to bring in a base navigation at less than EUR500 (US\$650), and with the electric vehicle, the innovation is to bring sustainable mobility to all customers.

The fragile state of European markets may be set to continue, but we are confident that our dual approach will help Renault thrive over the coming years.

Solutions to overcapacity remain elusive

Despite concerted attempts to address overcapacity, many markets around the world still have excess production capability. Over half of respondents feel that Japan, Germany, the US, South Korea, Spain and France, all have a high risk of overcapacity, with Japan and Germany at the top of the list.

One-fifth of respondents from Germany, France, Italy, the UK and Japan believe that the best way to counter overcapacity is through exports into existing and/or new markets. Given the competitive marketplace and falling demand in certain regions, such a strategy remains questionable.

Perceived solutions vary considerably from country to country. Auto executives in Japan and Italy lean towards consolidation and joint ventures and alliances, while German automotive companies believe that government intervention (i.e. production quotas

and subsidies) can help solve the problem, although this is arguably not a sustainable long-term strategy.

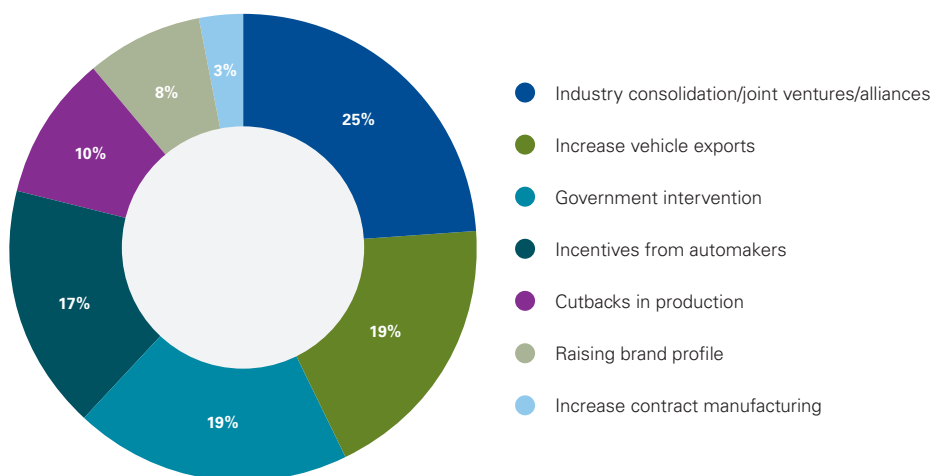
Respondents from Japan, France and to a lesser extent the UK, believe that investing in the brand can help win market share and improve sales.

Only the French automakers appear to favor cutbacks in production. And despite the declining performance of the Japanese auto industry, automotive executives from this country are not recommending any cuts in output, which could hinder the industry's efforts to recover.

Contract manufacturing does not figure highly on the agenda for any of the companies taking part in the survey, yet this strategy can give OEMs much greater flexibility to increase or decrease production according to demand, and has been used successfully in the US in recent years.

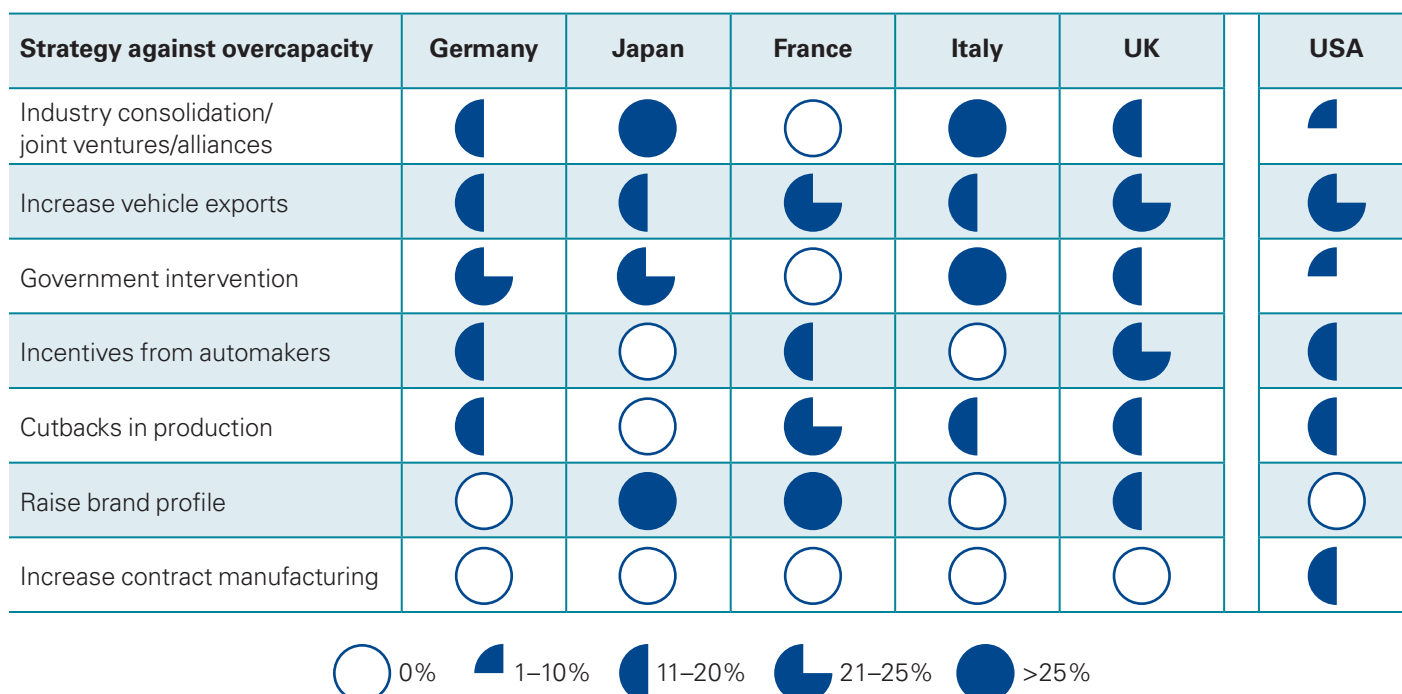
Only France appears to favor cutbacks in production as a solution to overcapacity.

Most effective ways to overcome overcapacity



Note: Percentage of respondents rating aspect as 'most effective'
 Percentages may not add up to 100 due to rounding off
 Source: KPMG's Global Auto Executive Survey 2013

Countries facing significant overcapacity



Source: KPMG's Global Auto Executive Survey 2013

It is not just the mature markets facing overcapacity: one-fifth of respondents consider the risk of overcapacity in the four BRIC markets as high or very high, particularly in China (26 percent) and Brazil (24 percent).

Nevertheless, these figures are still relatively modest, with most anticipating overcapacity between 1 percent – 10 percent in the BRICs, except for India

where the level rises to 11 percent – 20 percent.

BRIC respondents consider industry consolidation (31 percent) and government intervention (26 percent) as the most successful strategies to counter overcapacity. Brazilian respondents feel that incentives from automakers to drive sales (30 percent) will have the greatest impact.

Planning a route to future success

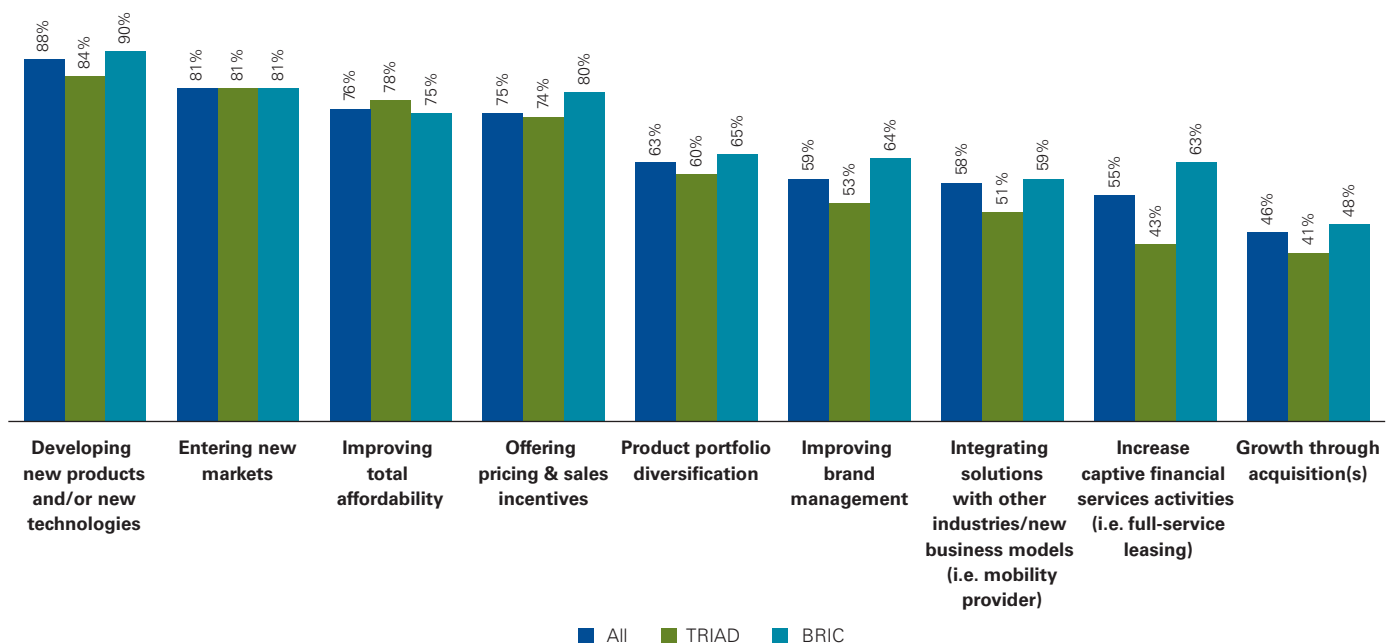
As automakers around the world seek growth, they are considering a range of tactics, including new products and new markets, affordable vehicles, as well as sales and price incentives. For OEMs, corporate partnerships have the edge over organic growth, while suppliers see more benefit in expanding their value chains and diversifying.

New products and technologies are the key to growth over the next 5 years, according to this year's survey. Other potential tactics include entering new markets (which is especially popular among OEMs) and finding ways to improve the total affordability of a

vehicle – an approach that appeals particularly to dealers. Respondents from the BRICs are especially optimistic that pricing and sales incentives can stimulate sufficient extra demand to stimulate growth.

Respondents say that new products and technologies are the key to growth over the next 5 years.

Most effective growth tactics up to 2018

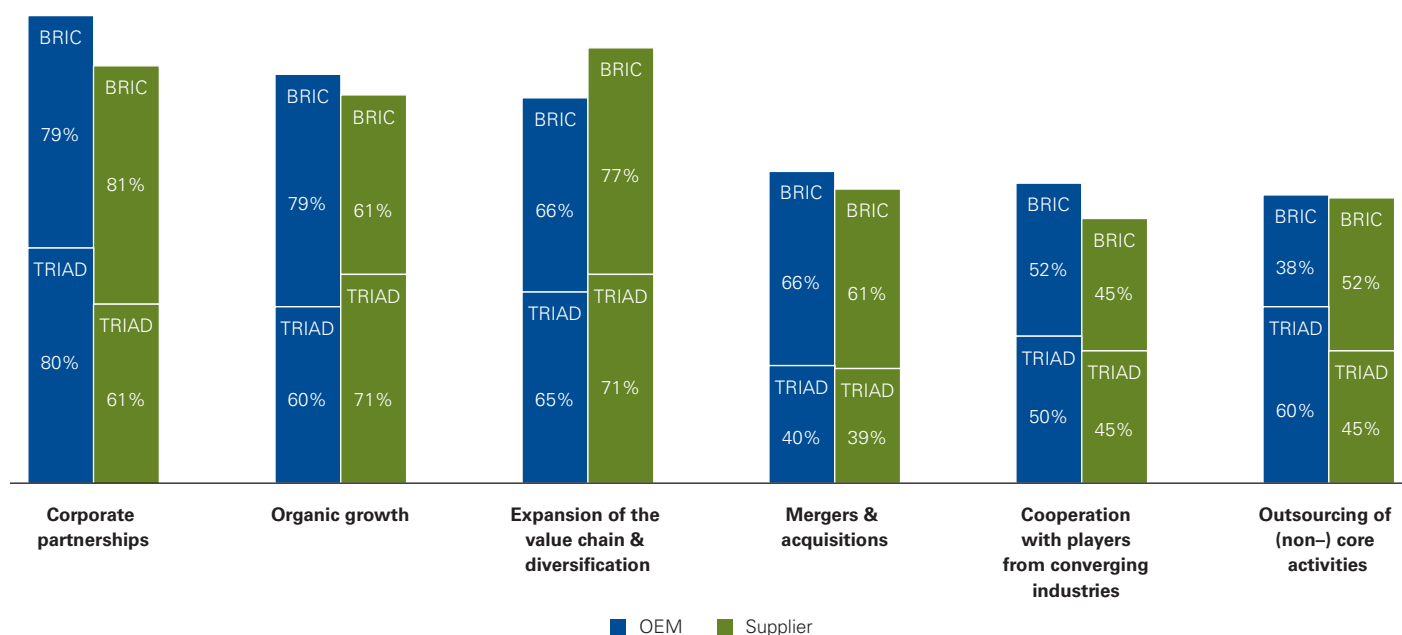


Note: Percentage of respondents rating strategy as 'extremely likely' and 'very likely' to generate growth
Source: KPMG's Global Auto Executive Survey 2013

Organic growth is still an important part of automakers' plans, although corporate partnerships are seen as the best strategy for success, particularly among OEMs. Suppliers on the other hand place a higher premium on finding ways to expand their value chain and diversify. Such a strategy is understandable, as suppliers have traditionally concentrated on very specific areas. The broadening of technologies in the industry, along with growing connectivity, creates a need to diversify and widen their global footprint to keep pace with OEMs.

In the emerging markets, 61 percent of suppliers say that mergers and acquisitions will play a central role in their future strategies, which reflects the speed of growth in these regions. A significant proportion of manufacturers from the established TRIAD markets have a preference for outsourcing non-core activities, a practice that is yet to be firmly established in the BRICs.

Business strategies considered important for future success



Note: Percentage of respondents rating strategy as 'extremely important' and 'very important'
Source: KPMG's Global Auto Executive Survey 2013

Safety and logistics remain high on the investment agenda

Most of the OEMs and suppliers involved in the survey expect to increase or begin investment in a number of areas, with the most popular being the improvement of safety, logistics and distribution, and new plants. Interestingly, many of the main trends are common to both the TRIAD and BRIC markets, as well as to OEMs and suppliers.

In comparison to their peers in the BRIC countries, respondents from the TRIADs have a preference for investing in module/platform strategies, lightweight materials, battery technologies and fuel cells. This reflects the well-established market operations and production processes in these regions, providing a strong foundation for investing in new process or technological innovations. One notable example is Volkswagen's MQB/MLB™ (modular transverse matrix/modular longitudinal matrix) strategy, which provides shared platforms able to support a wide range of models, vehicle sizes and brands.

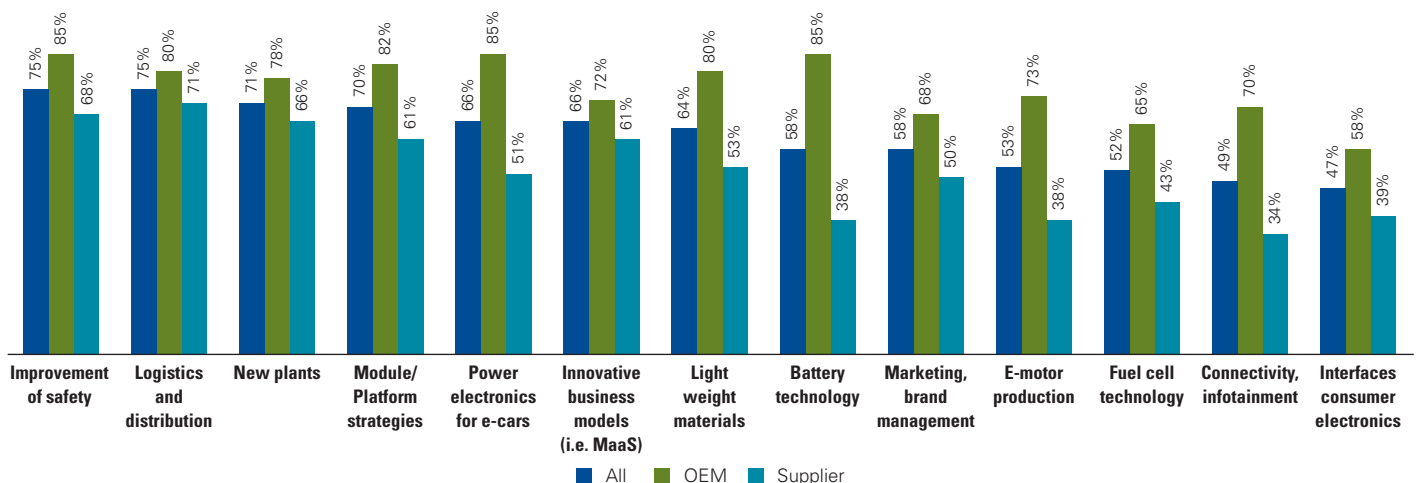
When it comes to OEMs and suppliers, the latter's investment plans are considerably less ambitious, due to their limited range of activities. Although suppliers' main focus is operations, 61 percent say they will be investing in innovative business concepts such as MaaS, indicating a willingness to adapt to a changing environment.

OEMs place a high priority on battery technology, power electronics for e-cars, e-motor production and fuel cell technologies, reflecting the future importance of electro mobility – despite the slow market growth. For example, German Chancellor Angela Merkel acknowledged in October 2012 that the country would struggle to reach its target of a million electric cars on its roads by 2020.²⁵

Both suppliers and OEMs have relatively less ambitious investment plans in connected car technologies and consumer electronics, suggesting that these innovations will be driven primarily by technology companies.

Chinese respondents' biggest investments will be in lightweight materials (e.g. carbon), e-motor production, new plants, safety and logistics.

Areas of investment for OEMs and suppliers up to 2018



Note: Percentage of OEMs' and suppliers' respondents who plan to 'begin' or 'increase' investments
Source: KPMG's Global Auto Executive Survey 2013

²⁵ Merkel warns over electric cars target, Times of Malta, 2 October 2012

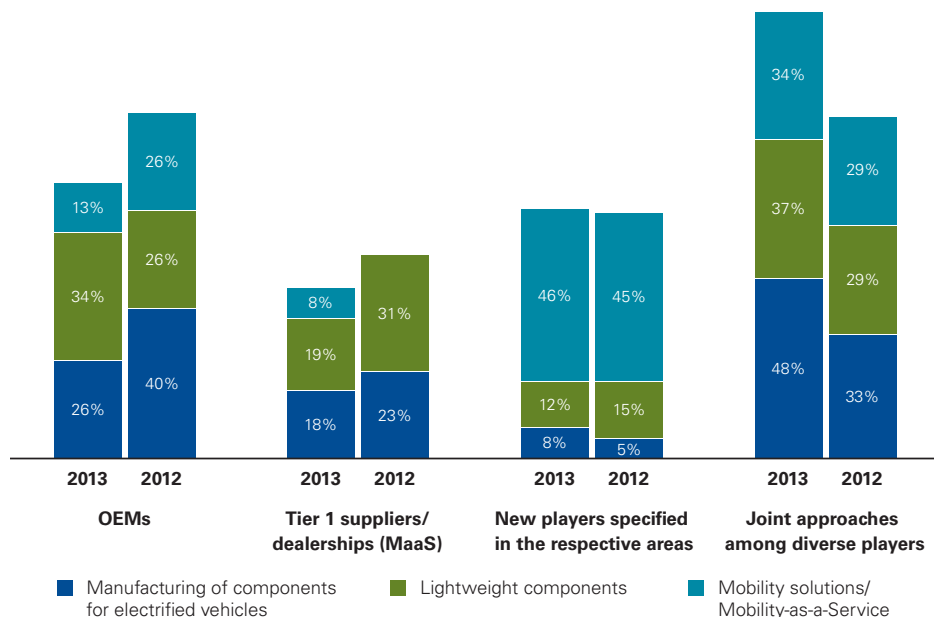
Partnerships and joint ventures are increasingly important in building new technology blocks

With fresh concepts, materials and technologies entering the automotive landscape, the future roles of existing players are uncertain. Our survey's findings suggest that OEMs will not be dominant in any of the emerging technology building blocks, although they will exert the greatest influence in the development of lightweight components. A quarter of respondents say OEMs will be the major producer of components for electrified vehicles. Tier 1 suppliers are expected to have even less of a part to play across all the technologies; with lower rankings than in the 2012 global survey.

According to auto executives, joint approaches are the most likely solution for manufacturing components for e-vehicles and lightweight materials. The future of mobility solutions seems to be in the hands of new players that have already established a substantial market presence, including Zipcar or Flinkster (owned by the German railway company Deutsche Bahn). Only 13 percent of respondents feel that manufacturers will be the main player in mobility, which could have big implications for their brands and customer ownership, with the danger that they could be frozen out of this growing segment.

OEMs will not be dominant in any of the emerging technologies.

Industry players responsible for major technology building blocks



Note: Percentage of respondents choosing 'player' as responsible
 Percentages may not add up to 100 due to rounding off
 Source: KPMG's Global Auto Executive Survey 2013

Relationships do not always work out the way you want

Although partnerships help spread risks and costs as well as pooling complementary skills, they can also be hindered by cultural and strategic differences. After four years of partnering with Samsung SDI on lithium-ion battery production for electric-drive vehicles, Bosch decided in 2012 that once the contract had ended, it would take over all battery systems operations and expand battery production in Europe. Each company will, however, continue to give the other access to its patents.²⁶

Similarly, in 2011 Chinese battery and car manufacturer BYD ceased its cooperation with German utility RWE for the development of electric vehicles and charging facilities in Europe. RWE plans to push ahead with other partners (such as Renault/Nissan) and is continuing to expand its charging infrastructure network in Europe.²⁷

Automotive connectivity throws up new opportunities for technology companies

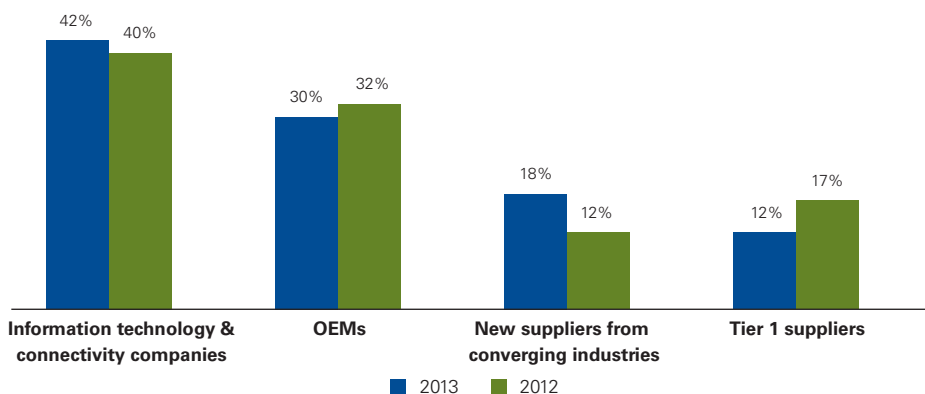
Connected car technologies have leapt in importance since the last survey; 54 percent of respondents now consider this to be a key trend, compared to just 22 percent 12 months ago. OEMs and technology companies are both vying to control in-car technology and own the expected substantial ensuing revenues.

Technology companies appear to be leading the race for dominance

with 42 percent expecting these organizations to move ahead in this area, increasing their lead over OEMs compared to the previous year.

Tier 1 suppliers, however, have slipped back in the rankings; only 12 percent now feel these companies will have a significant role, compared to 17 percent one year ago.

Control over connectivity and in-car infotainment systems of tomorrow



Note: Percentages may not add up to 100 due to rounding off
Source: KPMG's Global Auto Executive Survey 2013

²⁶ Samsung SDI ends electric battery venture with Bosch, Reuters, 5 September 2012

²⁷ Elektroautos: RWE beendet Kooperation mit chinesischer BYD, Heisse Online, 11 June 2012

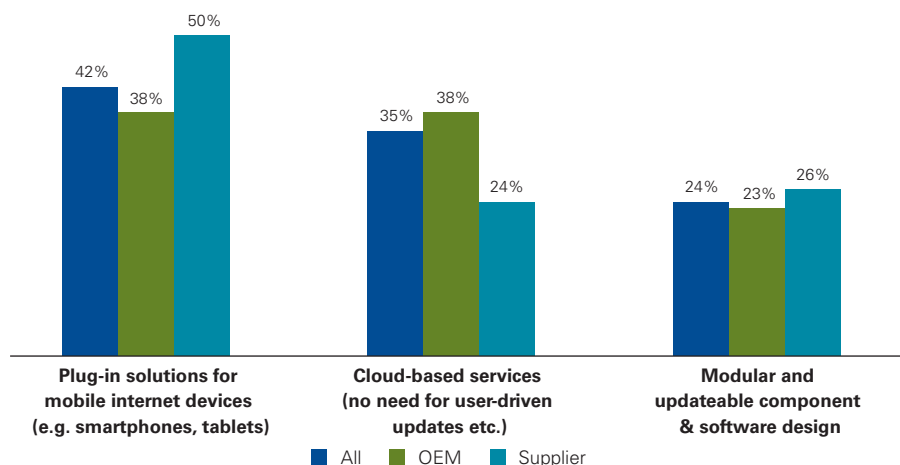
One challenge facing all the main players is the incredible speed at which connectivity solutions are changing. Automotive components' development is pedestrian by comparison, and any fixed in-car system could potentially be outmoded within months of the car being launched, which not only puts off consumers, but may also cause the overall vehicle value to depreciate more rapidly.

Respondents – particularly suppliers – feel that plug-in solutions are the best way to avoid such obsolescence, although this could take ownership of connectivity out of the hands of the manufacturers. Cloud-based services are the next most popular option.

Less than a quarter believe that modular (and therefore exchangeable) components and software design are the way forward, yet this approach is already in use by Audi with its Modulare Infotainment-Baukasten™. Vehicles contain a modular central computer that can be easily exchanged, enabling Audi to stay in control of updates.

Regardless of who 'owns' the connectivity, data security remains an issue, with customers seeking reassurance that appropriate safeguards are in place, especially in shared cars.

Best way to overcome varied development lifecycles



Note: Percentages may not add up to 100 due to rounding off
Source: KPMG's Global Auto Executive Survey 2013

KPMG insight

Self-driving cars: sci-fi fantasy or achievable reality?

The pace of automotive innovation is speeding up and the industry is on the brink of a new technological revolution with the advent of 'self-driving' vehicles. New technology could provide solutions to some of our most intractable social problems – the high cost of traffic crashes and transportation infrastructure, the millions of hours wasted in traffic jams, and the wasted urban space given over to parking lots – just to name a few. But if self-driving vehicles become a reality, the implications would also

be profoundly disruptive for almost every stakeholder in the automotive ecosystem. For those who embrace innovation and opt to lead rather than follow, a new frontier is opening in the realm of mobility services, with the potential to dramatically reshape not just the competitive landscape, but also the way people interact with vehicles, and indeed, the future design of roads and cities.



Gary Silberg
The Americas Head of
Automotive
KPMG in the US

Vehicle manufacturing will continue to be the main source of profits

The source of OEMs' margins depends in part on their location. In the developed countries, respondents are almost evenly split between vehicle and electric powertrain manufacturing, whereas in the BRICs, the largest proportion (39 percent) have a preference for vehicle manufacturing.

In addition to car production, component manufacturing could figure more highly, especially for European OEMs.

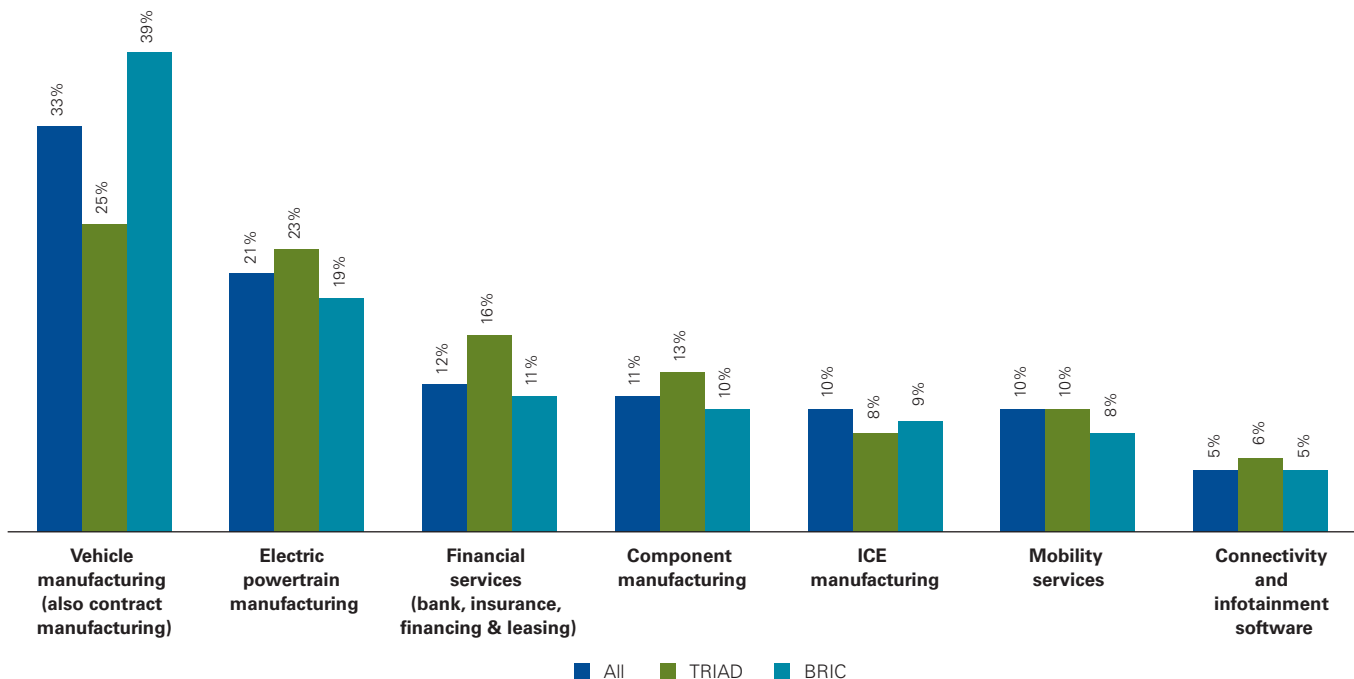
With several mass-market manufacturers facing continued hard times – especially in Europe – one

option could be a shift in the business model down the value chain, to become a Tier 0.5 supplier.

Interestingly, all respondents feel that traditional vehicle, component and ICE manufacturing will count for 54 percent of margins, with the remaining 46 percent covered by new technological development, such as e-mobility or connectivity. This suggests that OEMs have to broaden their focus on existing and new areas of business to avoid missing out on profitable business opportunities.

TRIAD OEMs feel that vehicle and electric powertrain manufacturing will contribute roughly equally to future profits.

Sources of future profit for OEMs



Note: Percentages may not add up to 100 due to rounding off
Source: KPMG's Global Auto Executive Survey 2013



Winners and losers in the battle for global dominance

Of the top 10 companies expected to gain market share in future, only two – Volkswagen (VW) and BMW – come from Western nations. VW remains at the top, with a large majority of respondents (81 percent) believing that its global share will continue to rise. Tata has dropped down the rankings from fourth place in 2012 to 10th, while Toyota has gone in the other direction, jumping from 11th to 4th,

demonstrating a strong recovery from its earlier product recall problems.

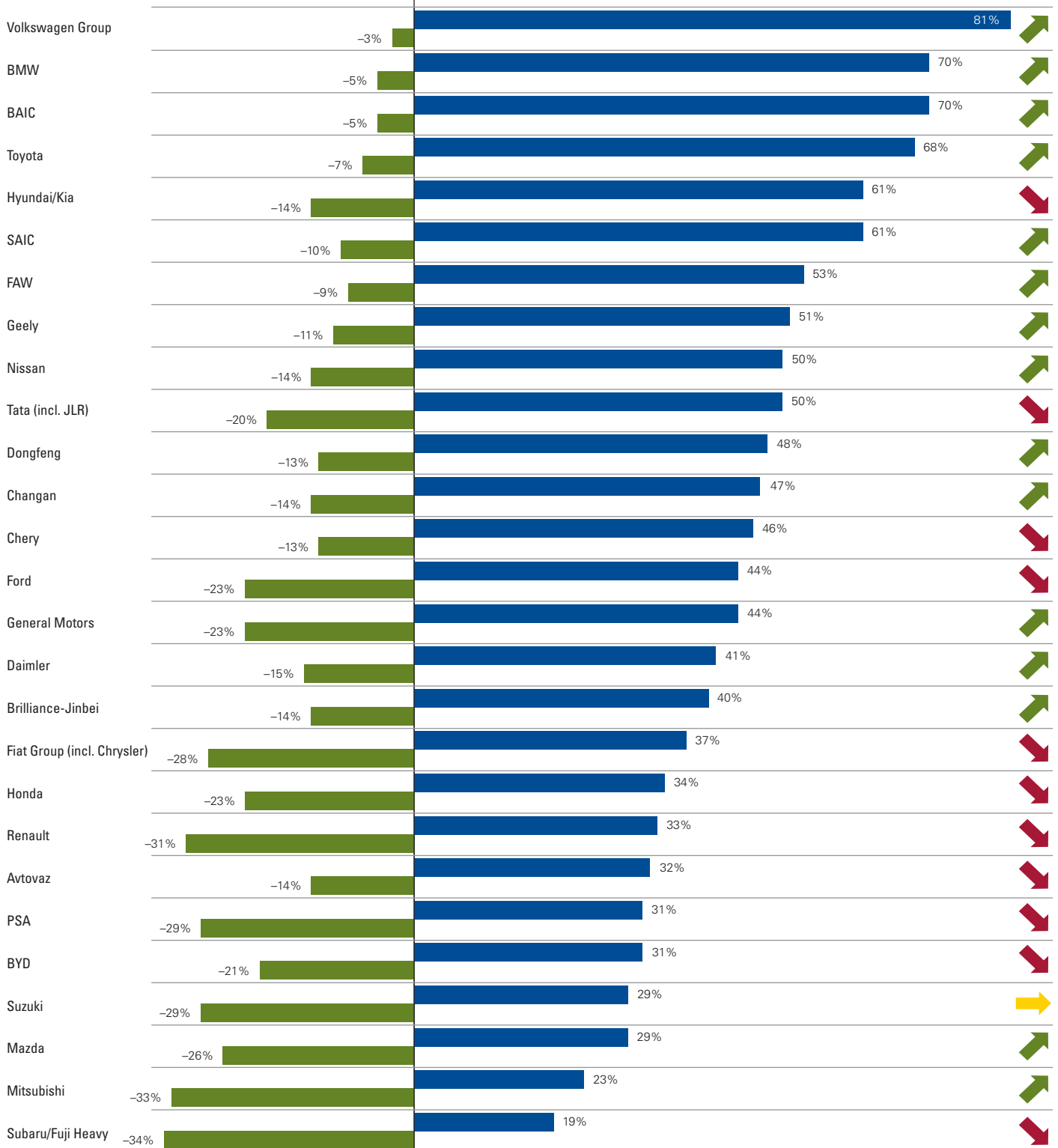
Ford is the top-rated American OEM yet it has still slipped down from 8th position to 14th, just above its counterpart GM. Although there are four Chinese manufacturers in the top 10, it is not all smiles, with Chery falling from 7th to 13th in the past 12 months.



Respondents expecting global market share to increase/decrease up to 2018

■ Decrease ■ Increase

YoY: Data from 2012/2013



Note: Percentage of respondents expecting market share to 'remain stable' are not shown
Source: KPMG's Global Auto Executive Survey 2013

Looking forward: Auto executives need to consider their position within a multidimensional automotive world

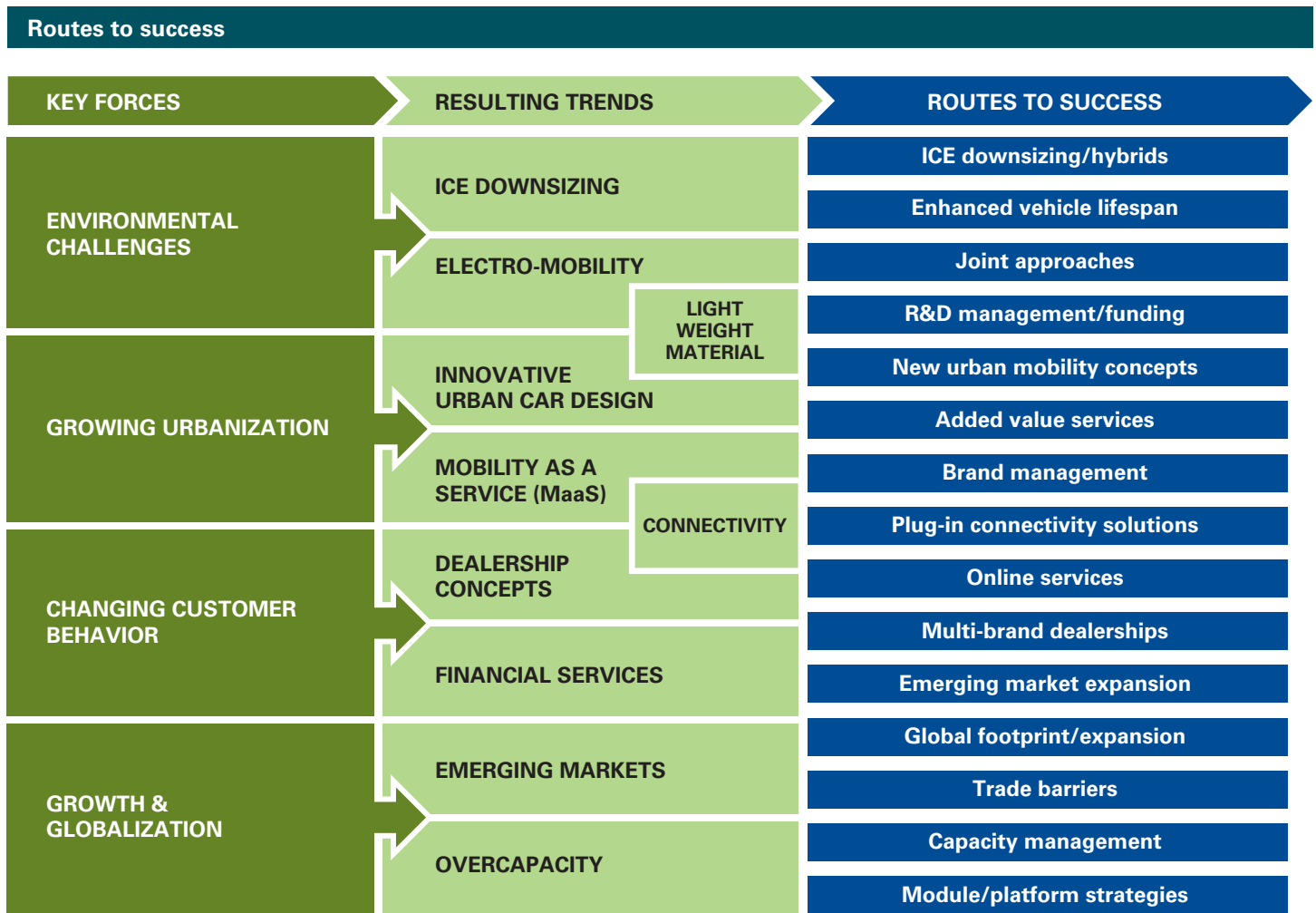
In the past, OEMs had a relatively straightforward business model, where they manufactured, distributed and marketed cars at home and abroad. Today they must adapt to far greater complexity in a number of different areas, such as electric vehicle technology, innovative urban car designs, mobility services, vehicle connectivity and financial services, while also staying alert to new sales channels.

On top of this, established players – particularly from the Western hemisphere – are impacted by the growing power of the emerging nations. This translates into vast sales opportunities overseas, but also means that there will soon be greater competition in their home markets

from the rising auto giants in China, India and elsewhere.

To overcome these new challenges, OEMs have to rethink their business models and redefine their core competencies. In future, OEMs will have responsibility for a range of new and different businesses, each with its own unique issues, and each requiring specific expertise.

As they embrace this new automotive world, OEMs must choose whether to move into multiple new areas of business, focus on selected businesses, or become a niche supplier to the new breed of multidimensional automaker.



Source: KPMG's Global Auto Executive Survey 2013

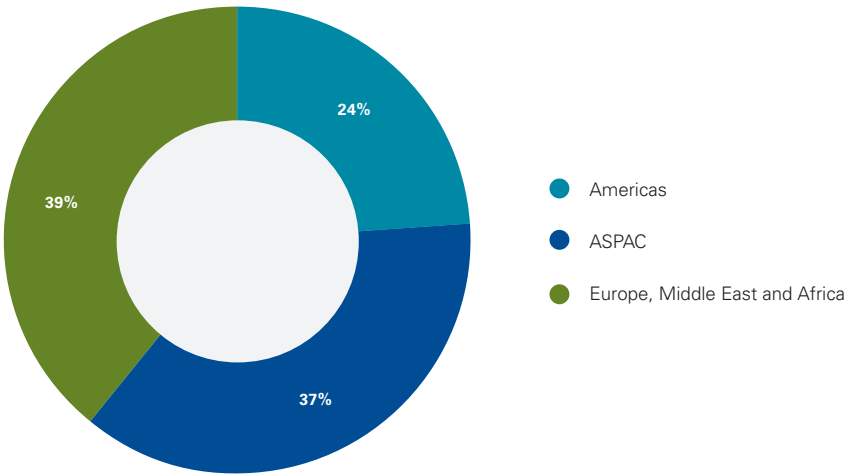
About the survey

Two hundred automotive executives participated in the survey, over half of whom are business unit heads or higher. The respondents come from all parts of the automotive value chain, including vehicle manufacturers, Tier 1, 2 and 3 suppliers, dealers, financial service providers, rental companies and mobility service providers.

Thirty-nine percent of these executives are based across Europe, the Middle East

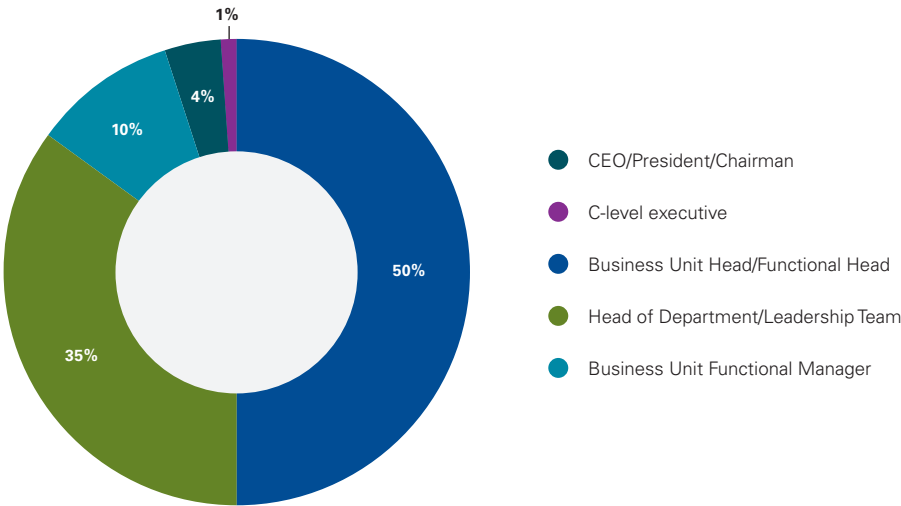
and Africa, 37 percent in the Asia-Pacific region and 24 percent in the Americas. Ninety-nine percent of the participants represent companies with annual revenues greater than US\$100 million, and a quarter work for firms with revenues of over US\$10 billion. The respondent interviews, which were conducted by telephone, took place in July and August 2012.

Respondents by region



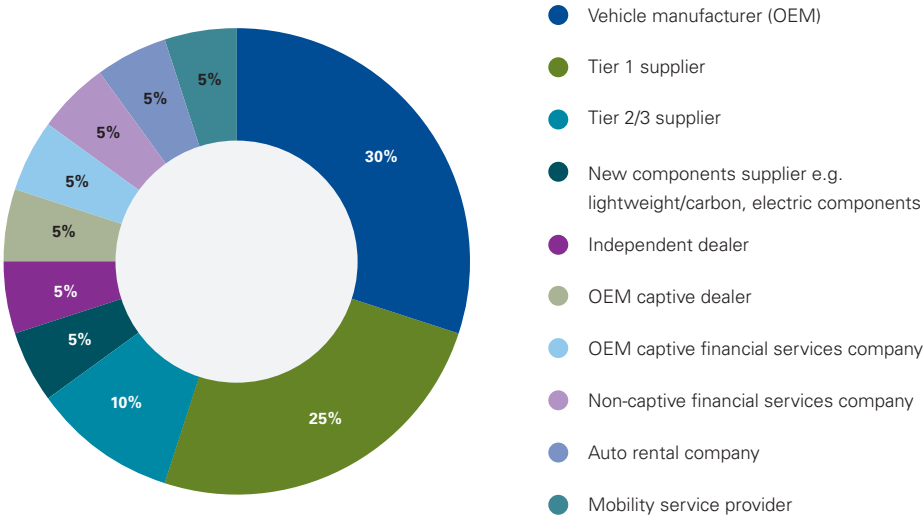
Source: KPMG’s Global Auto Executive Survey 2013

Respondents’ job titles



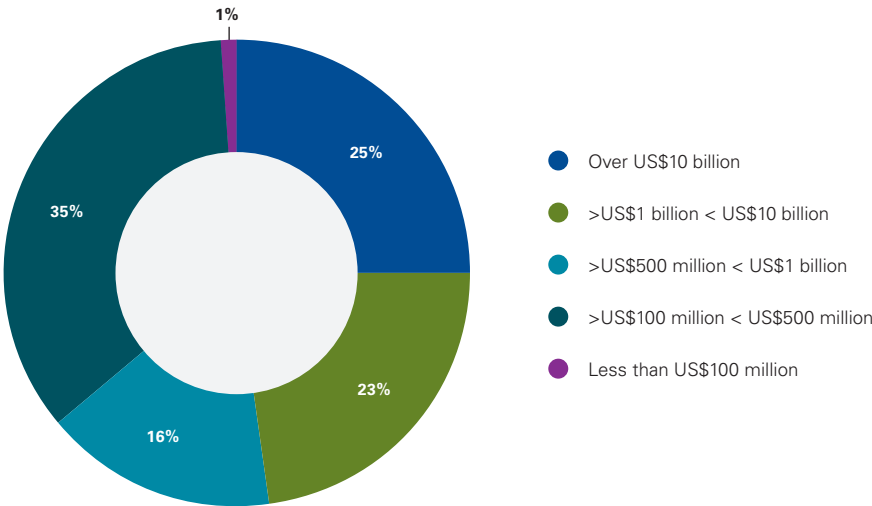
Source: KPMG’s Global Auto Executive Survey 2013

Company category



Source: KPMG's Global Auto Executive Survey 2013

Company annual revenue



Source: KPMG's Global Auto Executive Survey 2013

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