



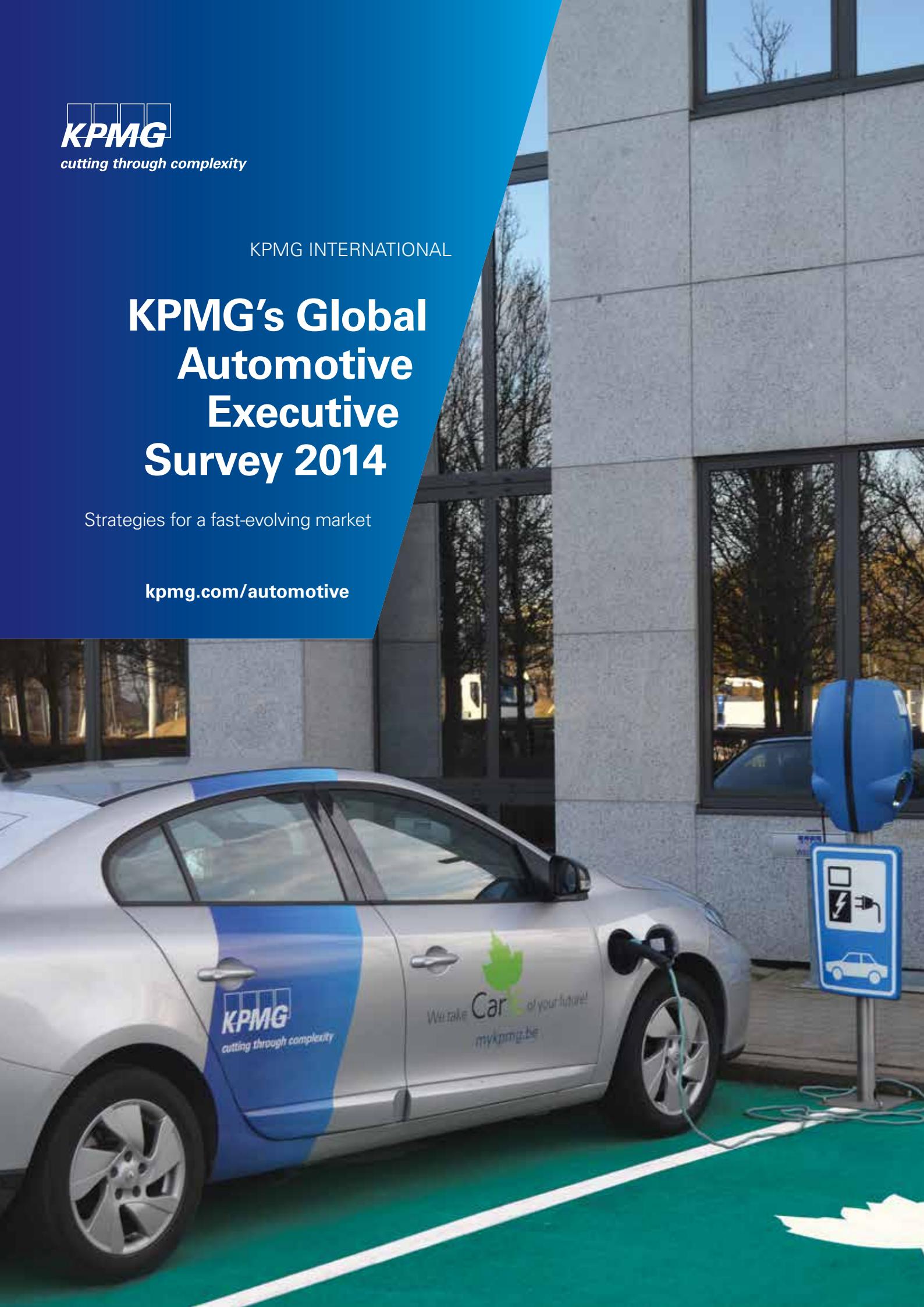
cutting through complexity

KPMG INTERNATIONAL

KPMG's Global Automotive Executive Survey 2014

Strategies for a fast-evolving market

kpmg.com/automotive



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 services providers, rental companies and mobility solution providers. The responses were very insightful and we would like to thank all those who participated for giving us their valuable time.

Special thanks to Magdalena Simonji-Elias who led the project and Martha Collyer, Margaret Johnston, Liv Lichtenfeld, Jens Lund and Dominik Staiger for their efforts.

The story behind the cover

As part of KPMG's commitment to sustainability and alternative mobility solutions, employees in Brussels can access a pool of electric cars for visiting clients or attending events. Our pioneering CarE initiative also includes a charging station outside the main office, which is available for customers and other visitors that drive e-vehicles.

Foreword

Although the automotive industry is undergoing unprecedented change, the relatively long development cycles mean that some of these new advances may take as much as 5-10 years to evolve – something that is recognized by the respondents to the fifteenth edition of KPMG's Global Automotive Executive Survey.

And the various changes are not taking place sequentially, which is why the trend towards e-mobility is happening in parallel with continued efforts to improve the efficiency of the internal combustion engine (ICE). Plug-ins are becoming the dominant e-technology and are expected to take an increasing market share in future.

Mobility solutions are increasing in importance, boosted by the emergence of self-driving cars. Although this phenomenon is not likely to damage new car sales, it may threaten demand for second or third car ownership. In a recent KPMG study into self-driving cars, many respondents say they would consider giving up their second car if they could access an alternative vehicle quickly and easily.¹

Another trend captured by this year's edition is the continuing rise in global share of vehicle sales in the BRICs (Brazil, Russia, India and China), although manufacturers from these countries

are still struggling to conquer the more mature markets of Western Europe and North America.

The 2014 survey has provided compelling reading for me – as I am sure it will for you, representing the views of senior executives from the heart of the industry, including original equipment manufacturers (OEMs), suppliers, dealers, captives, mobility service providers and car rental companies from around the world.



Mathieu Meyer

Global Head of Automotive

¹ *Self-Driving Cars; Are We Ready?* KPMG, 2013.





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Executive summary

Strategies for a fast-evolving market



Consumers

Consumers have to choose between their conscience, their wallet and their status

92 percent say buyers' top priority is **fuel efficiency**; **70 percent** want a longer lasting vehicle (page 7).

47 percent consider use of **alternative fuel technologies** as critical to consumers' purchase decisions, down from **70 percent** in 2009 (page 7).

Connected car solutions are gaining importance year-on-year (page 7).



Technologies

Plug-in hybrids set to lead the e-vehicle race

35 percent predict **plug-in hybrids** to attract the greatest demand of any **e-vehicle** by 2019, with TRIADS being the most optimistic (page 16).

77 percent believe that **e-vehicles will only go mainstream** if prices come down and the network of retail, repair and servicing expands (page 17).

71 percent say **state subsidies** for e-car sales are key to further expansion; **58 percent** feel the powertrain technology itself should be subsidized (page 17).

A broad mix of competing powertrains will continue to fight for dominance

76 percent believe that **ICE downsizing** is the major focus for the automotive industry; **69 percent** consider **fuel cell mobility** critical for future growth (page 4).

46 percent say their biggest powertrain investment up to 2019 will be in **ICE optimization** (page 12).

52 percent feel it will take **6-10 years** before e-vehicles become the **cleanest and most efficient powertrain** (page 14).

Cooperation the key to self-driving car development

23 percent of BRIC (Brazil, Russia, India and China) respondents say **driverless cars** are a key industry trend (page 24).

94 percent view **safety** as customers' **main concern** over self-driving vehicles (page 26).

76 percent think cooperation with players from **converging industries** is an important strategy; compared to just **50 percent** in 2013 (page 24).



Automakers

OEMs could become pure mobility solution providers

54 percent believe under-25-year-olds **do not wish to own** a car; **46 percent** say the same is true for over-50s (page 20).

14 percent believe **mobility solutions** are already **profitable** and a further 31 percent expect them to achieve profitability by 2019 (page 21).

77 percent believe **OEMs** are on the way to becoming pure **mobility solution providers** (page 56).

Automakers refocus from joint ventures (JVs) and partnerships to organic growth

84 percent favor **organic growth** as the best way forward (compared to 65 percent in 2013) – overtaking **JVs** and partnerships (page 47).

73 percent see marketing and brand management as a **top investment area**. 74 percent of **suppliers** are beginning or raising **investment for new plants** (page 49).

61 percent forecast **vehicle production** in Europe to **rationalize** and move to emerging markets (page 6).

Technology leadership is key to survival

7 of the top 10 companies considered to be technology/product driven, are from TRIAD markets (page 51).

BMW, VW, Tesla, Hyundai/Kia, Toyota and Tata considered to have the best chance to **remain independent** (page 52).

BRIC manufacturers **not yet** perceived as **top technology leaders** (page 51).



Dealers

Fast-evolving dealership landscape

71 percent expect **online dealerships** to be important and 63 percent view **multi-brand dealerships** as a successful model (page 30).

53 percent consider **conventional retailing** a key approach for future success, down from 61 percent in 2013 (page 29).

95 percent of dealers consider **brand performance, multi-branding, effective controlling and dealer management systems** as highly important (page 33).



Emerging markets

BRIC OEMs make progress in battle for global dominance

70 percent expect **Hyundai/Kia** to **gain market share** by 2019 – ranking it number one in terms of growth (page 55).

Expectations over **AvtoVAZ** increased by **34 percent** since 2013, pushing the Russian carmaker towards the top five of companies expected to **grow market share** (page 55).

7 out of the **top 10 companies** increasing market share are from the **BRICs** (page 55).

Big BRIC export push is imminent

39 percent agree that the **most popular region for BRIC manufacturers to expand is South East Asia**; **21 percent** say Africa and the Middle East (page 37).

44 percent are confident that **China** will export **2 million vehicles** by 2016; 37 percent predict **India** to export **1 million by 2016** (page 38, 39).

BRIC borders are opening up as **trade barriers ease** (page 40).

Markets and consumers: the bigger picture

KPMG's 2014 Global Automotive Executive Survey confirms that the rising economic power of the emerging markets remains the overriding force for growth over the next decade. And as the industry becomes more global, automakers are striving to use flexible, modular platforms, to adapt to changing customer preferences and free up resources to invest in powertrain technology, to satisfy increasingly tough environmental regulations.

Respondents to this year's survey feel that emerging nations offer the best hope for expansion, as many traditional automotive markets continue to decline. Eighty-five percent say that growth in the BRICs and other up-and-coming nations is the biggest single industry trend up to 2025, which is consistent with the 2013 survey.

These findings reinforce wider market data forecasting that China, for instance, will account for almost one-third of annual new worldwide vehicle sales by 2020, making it the major automotive market by some distance.²

Perhaps more surprising is the sharp decline in the importance of pure battery electric mobility compared to the 2013 survey, as automakers turn their attention to improving the efficiency of the traditional internal combustion engine (ICE). Seventy-six percent believe that ICE downsizing and optimization is a key issue, compared to just 59 percent for battery-powered technologies.

There is a noticeable difference in views between the emerging and more mature markets. Auto executives from the BRICs are less likely than their TRIAD (Japan, Western Europe and North America) counterparts to consider ICE downsizing as important. Indeed, 60 percent of the respondents from China believe ICE downsizing is a major trend; a big fall from the 2013 figure of 80 percent. Enthusiasm for ICE downsizing appears to be swinging, pendulum-like, over the last few years. The most recent Five-Year Plan's positive outlook for e-mobility has been tempered somewhat by a lack of breakthroughs, and the future outlook appears to favor a balance of the two technologies, although the situation could change very quickly.

Fuel cell mobility, on the other hand, is generating increasing enthusiasm, with 69 percent considering this technology as critical to future growth. Respondents from the established TRIAD markets are more optimistic

There is a sharp decline in the importance of pure battery electric mobility, as automakers continue to turn their attention to improving ICE efficiency.

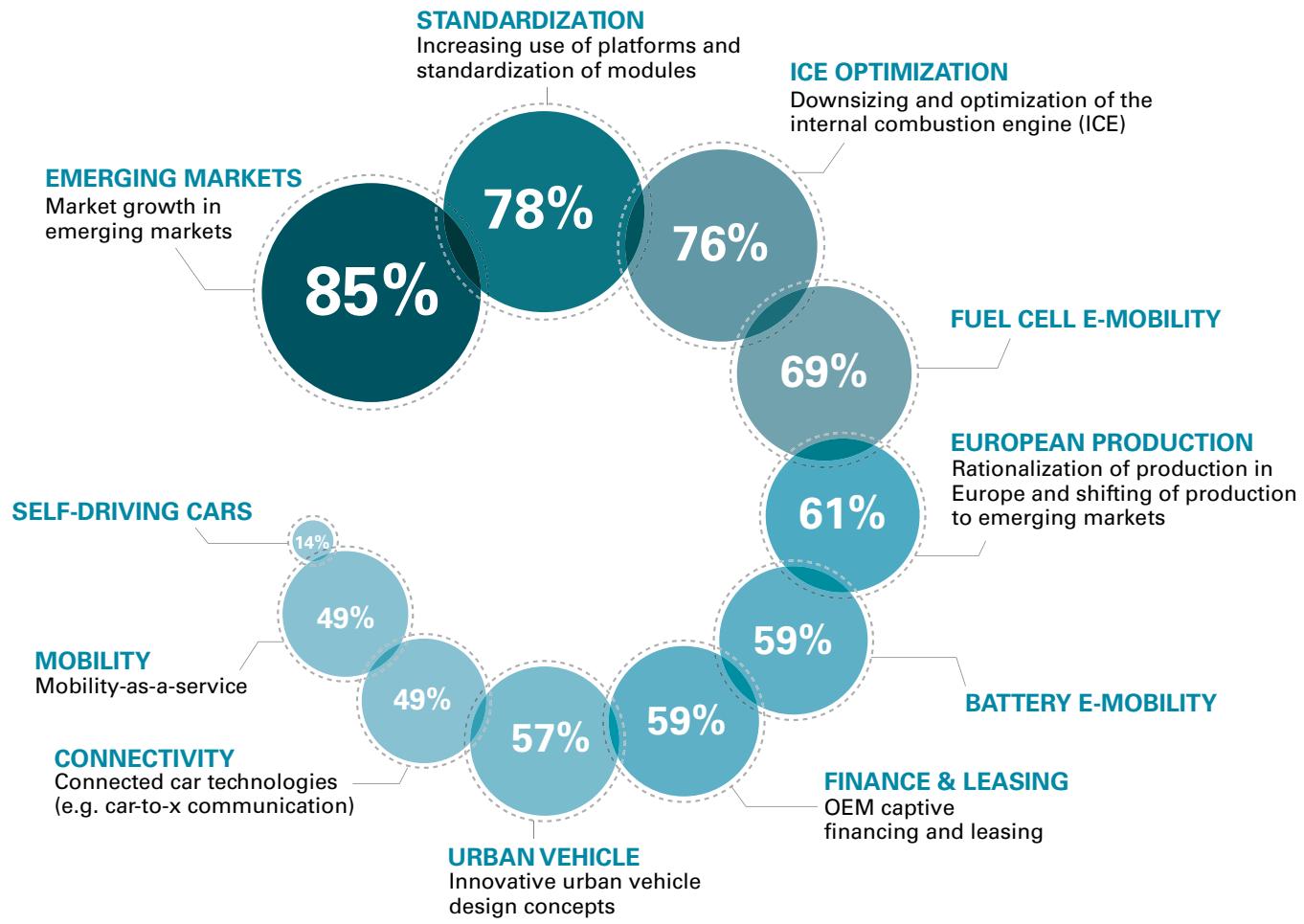
² KPMG 2013 Global Automotive Retail Market: From selling cars on the spot to centrally managing the retail grid, KPMG, September 2013.

about fuel cells than those in the emerging regions, which reflects the relatively advanced state of manufacturers in these geographies. At the 2013 Frankfurt Motor Show, Toyota announced plans to introduce a fuel cell hybrid vehicle concept for its Prius model in 2015. The new car would have a lighter, more compact and more efficient hybrid powertrain,

with batteries that have greater energy storage capacity within a smaller unit.³ Honda already has a fuel cell vehicle in the marketplace, albeit in very small numbers. The Japanese automaker plans to introduce a new version of its FCX Clarity model in 2015, in a bid to commercialize a car that virtually matches its ICE competitors for driving range and fill-up time.⁴

Key automotive trends up to 2025

Percentage of respondents that rated a trend as 'extremely important' or 'very important'



Source: KPMG's Global Automotive Executive Survey 2014.

³ Frankfurt Motor Show 2013: Toyota's hybrid future, Daily Telegraph, 6 September 2013.

⁴ Test Drive: Honda FCX Clarity is fuel-cell fab, USA Today, 27 July 2013.

The second most critical global trend is the growing use of platforms and standardization of modules. As the industry strives to become more efficient and benefit from scale economies – while also offering a broad and diversified product portfolio – a modular approach can bring significant savings, enabling OEMs to produce larger volumes on common platforms. It is estimated that, by 2020, the 10 major OEMs will concentrate mass production across a few, core platforms, enabling them to reduce the total number by about a third. GM alone plans to almost halve its vehicle platforms from 30 in 2010 to 14 in 2018, in the process saving around a billion US dollars (US\$) a year. By 2015, the top 20 platforms are forecast to account for 45-47 percent of passenger cars launched globally.⁵ With 80 percent rating the prospects for platforms significant, OEM respondents from the established TRIAD markets are more positive than their peers from the BRICs (only 59 percent chose this trend).

In another sign of the shift in the axis of automotive power, over six out of ten respondents agree that vehicle production in Europe will rationalize and shift to emerging markets. This view is more likely to be held by automakers in countries such as India, Russia, Brazil, France and Germany, while those from the USA are more sceptical. LMC figures back up these views, forecasting that between 2014 and 2020, the proportion of cars made in the BRICs will rise from 38 percent to 45 percent.⁶

Although urban vehicle design is a relatively lower priority for auto executives from the TRIADs, those from the BRICs place it in their top five trends – and Chinese respondents rank it in first place. The phenomenal expansion of cities in China is putting pressure on the infrastructure and calls for radical solutions – such as greater connectivity and self-driving cars – to avoid congestion and air pollution. New technology also gives producers the opportunity to play catch-up with OEMs in Europe, Japan and the US, who remain dominant in ICE and hybrid development.

Chinese executives rank urban vehicle design as the top industry trend.

Consumers choose economy over innovation

The top priority for today's car buyers is a longer lasting vehicle with low gasoline consumption, according to the 2014 survey. Fuel efficiency remains by some way the number one purchase criteria, as consumers vote with their wallets in the face of fast-increasing prices at the gas pump. Enhanced vehicle lifespan has risen in importance for the third consecutive year, with 70 percent of respondents citing this factor as influential.

Conversely, alternative fuel technologies are taking a back seat in the quest to economize. Less than half of the executives involved in the survey feel that this factor is critical to buyers, well down from 70 percent in 2009. Although driving an environmentally friendly car is still high on the wish list, other factors such as vehicle styling are playing a bigger part in

the buying decision, suggesting that the car is likely to be a fashionable accessory for some time to come.

A growing proportion of customers in the BRIC auto markets are expected to demand greener vehicles, which may be a response to the level of pollution in some of the teeming megacities in China, Brazil, India and Russia.

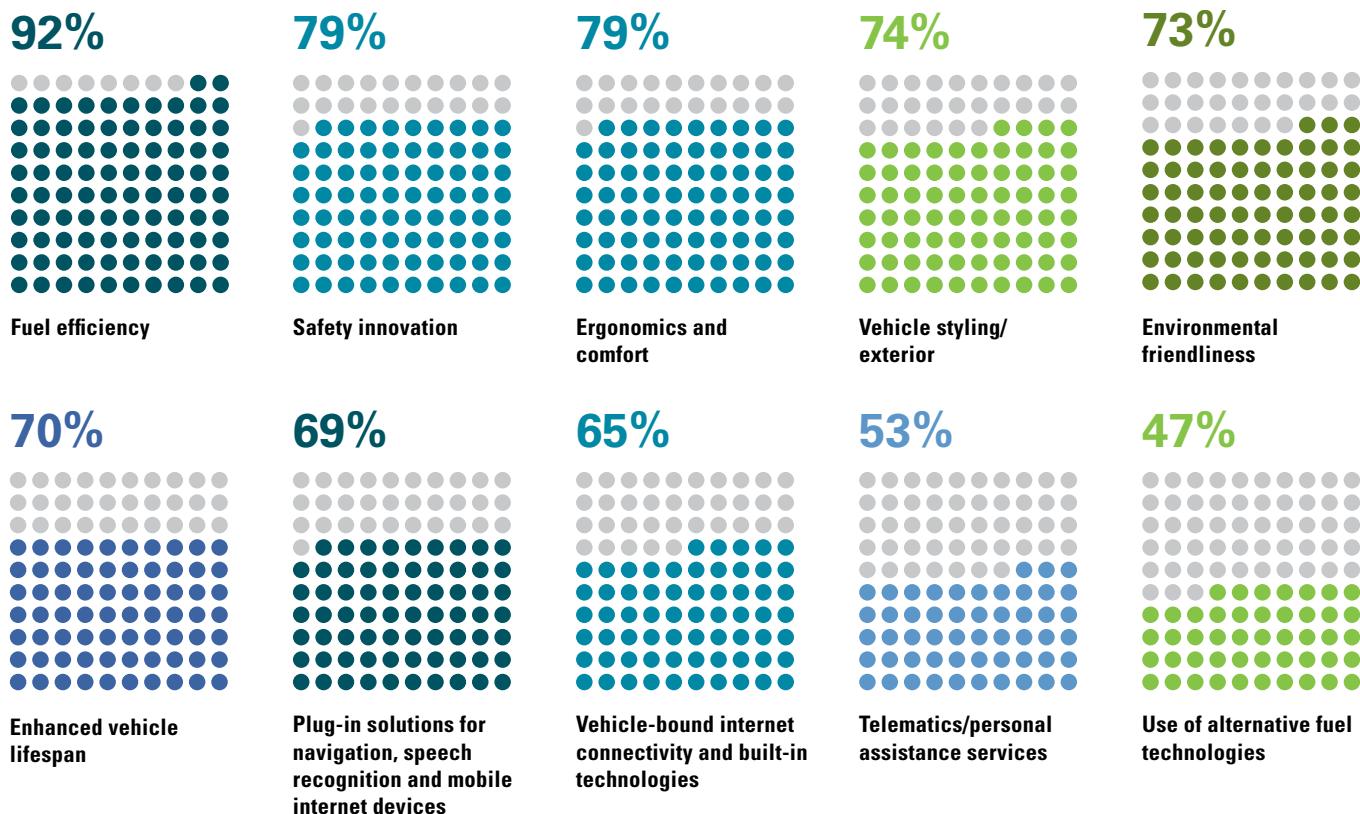
Not surprisingly, in-car technology solutions are in greater demand, as people expect a seamless extension of their home or office in-car, either via proprietary software or through plug-ins for mobile devices. Currently, these features do not come cheap, so automakers may have an opportunity to improve their margins through such added value services – as well as gaining greater control over essential auto technologies.

⁵ Platform Strategy will Shape Future of OEMs; Flexibility to Drive Growth, Evalueserve white paper, January 2012.

⁶ LMC Automotive, Q3, 2013.

Factors most likely to influence consumers' purchase decisions

Percentage of respondents that rated issues as 'extremely important' or 'very important'



Source: KPMG's Global Automotive Executive Survey 2014.

When it comes to the models that people are choosing, not everyone appears quite so concerned about fuel economy. The previous 2013 survey highlighted the relentless demand for SUVs and other luxury cars in the emerging markets, a trend that shows no sign of abating. SUVs have also retained their popularity in the established auto markets, with the main marques battling for dominance via new models such as the Mercedes GLA or Renault Captur.

Given the growth in the BRIC economies, it is no real surprise that, in most vehicle categories, a higher proportion of respondents from these countries forecast consumer demand to increase. At the budget end of the market, auto executives from the BRICs anticipate basic cars to rise in popularity. This represents a great opportunity for established OEMs, with a number of launches imminent. VW has announced a new model aimed especially at the Chinese market, to be sold under an alternative nameplate.⁷

SUVs remain popular in both the emerging and established markets, although 71 percent of respondents from the BRICs also expect demand for basic cars to rise.

⁷ Volkswagen's budget brand close to production (2013), Car Magazine, 7 January 2013.

Prices continue to rise – especially for premium cars

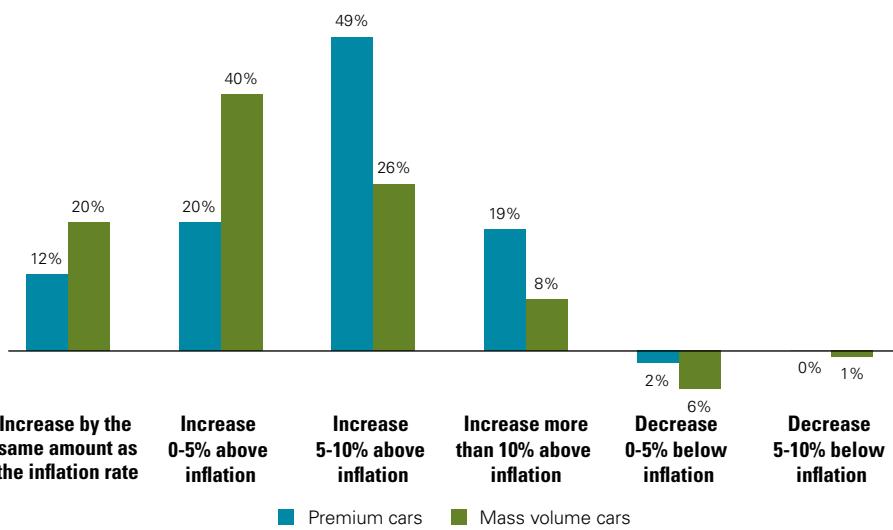
Sales margins for premium cars appear to be both recession- and inflation-proof. Just over two-thirds of respondents anticipate prices to increase by at least 5 percent above inflation in 2014, and a fifth are confident that they will even climb by over 10 percent. When it comes to the mass market, expectations are more realistic, with a majority forecasting price rises of no more than 5 percent above inflation.

Participants from the BRICs are more likely to predict modest price leaps for mass-market vehicles. Although the swelling middle classes in these regions

are increasing the base of potential car buyers, disposable income is still modest compared to more affluent parts of the world. Perhaps more importantly, in growing economies such as Russia, competition is fierce, with automakers from China and Taiwan adding to the glut of new products. Under such conditions, manufacturers are placing relatively less emphasis upon margins and more upon capturing market share and building brands; something acknowledged by the survey respondents on page 49, where three-quarters say they plan to begin or increase their brand and marketing expenditure.

Expected change in car prices in 2014 (compared to the inflation rate)

Percentage of respondents that chose the respective answer



Note: Percentages may not add up to 100 due to rounding.
Source: KPMG's Global Automotive Executive Survey 2014.

Component price hikes are expected to be more modest. Fifty-nine percent say that suppliers will keep any increases at 5 percent or less, although the outlook is slightly more pessimistic in the TRIAD countries. The views of the suppliers

themselves are largely consistent with that of the wider survey population. Nevertheless, 18 percent of suppliers from the TRIADs and 10 percent from the BRICs feel they will have to reduce prices, due to competitive pressures.

The true price of cars

As automakers look to maintain or increase margins, they are broadening the range of specifications, in order to reach smaller, specialized segments with tailored models, enabling them to charge a premium for optional extras. For example, connectivity may come as standard in cars aimed at a younger consumer, whereas buyers of more mainstream vehicles may have to pay an additional charge for such a function. The new Opel Adam, launched in Europe in 2013, claims to come in over a million different specifications, making it virtually impossible to compare different versions directly.⁸

Opportunities to raise prices of mid-sized cars have been limited, due to intense competition, with established players such as Honda and Toyota under threat, either from premium marques like BMW, Mercedes and Audi bringing out smaller models, or from new entrants – notably Hyundai or Kia. The response of this ‘squeezed middle’ has been to move the battleground upmarket in the form of new luxury cars such as the Ford Mondeo Vignale, which has a number of inclusive add-ons such as a pick-up and drop-off facility for service and maintenance.⁹

⁸ Your Adam, your way; one car – a million possibilities, Opel website <http://www.vauxhall.co.uk/vehicles/vauxhall-range/cars/adam/overview.html>, accessed 5 November 2013.

⁹ Ford launching Vignale luxury vehicle line in Europe in 2015, Yahoo! News, 14 October 2013.



Global forces shaping the sector

Automotive companies are adapting to a fast-changing competitive landscape. CO₂ emissions are becoming a major concern, due to increasingly tough regulations and consumer concern over pollution. Such environmental factors, combined with rising fuel prices, mean that ICE downsizing is becoming a higher priority, as electric battery technology has so far failed to produce a cost-effective alternative.

Digitalization has become virtually an industry in itself. Vehicles are becoming ever more dependent upon software, while the journey to greater connectivity has only just begun, with self-driving cars becoming a probability

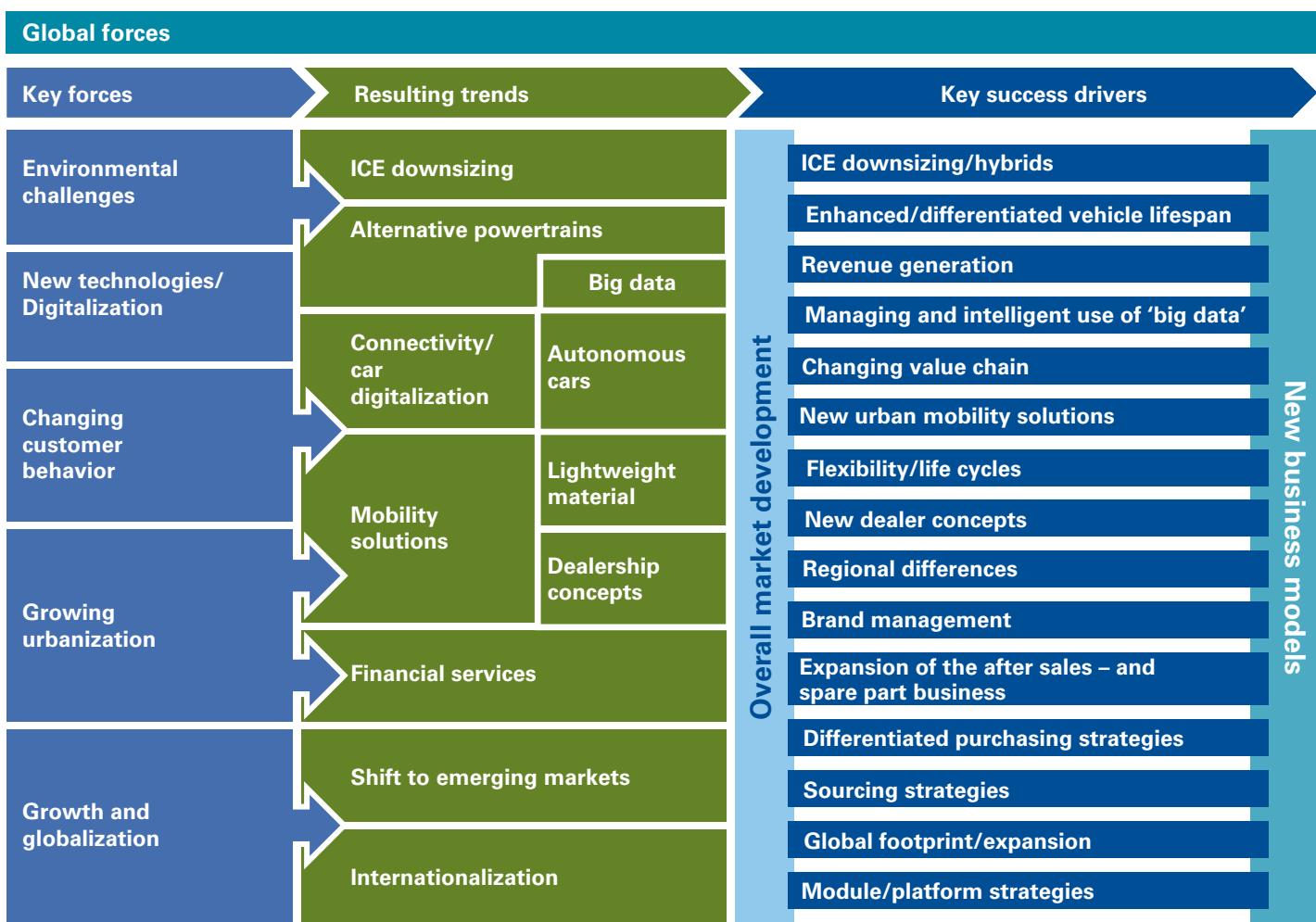
rather than just a dream. Meanwhile, automakers are still pondering how to make best use of the huge volumes of customer data, for development, servicing or marketing purposes.

Manufacturing techniques are also changing rapidly, as modularization reduces the cost and time of assembly, and enables vehicles to be put together and marketed more easily around the world, to swiftly roll out new models that reflect changing consumer tastes. Dealers are continuing to transform their business models to cope with the shift to online buying, and assessing where they can build margins.



The continuing urbanization of the world's population is putting unbearable strains on road infrastructure, and calls not just for new vehicles but a new approach to ownership. Mobility-as-a-service (MaaS) is starting to make inroads, but with a whole new generation of city inhabitants possibly never owning a car, the sector needs to find ways to satisfy this segment and build brand loyalty.

Finally, as the BRICs take up a greater share of the global market, auto executives face tough choices on how to expand and who to partner with, as well as having to square up to the growing competition from overseas producers looking to gain a foothold in traditional developed countries.



Source: KPMG's Global Automotive Executive Survey 2014.

Technology:

A broad mix of competing powertrain technologies, with the internal combustion engine prolonging its leadership

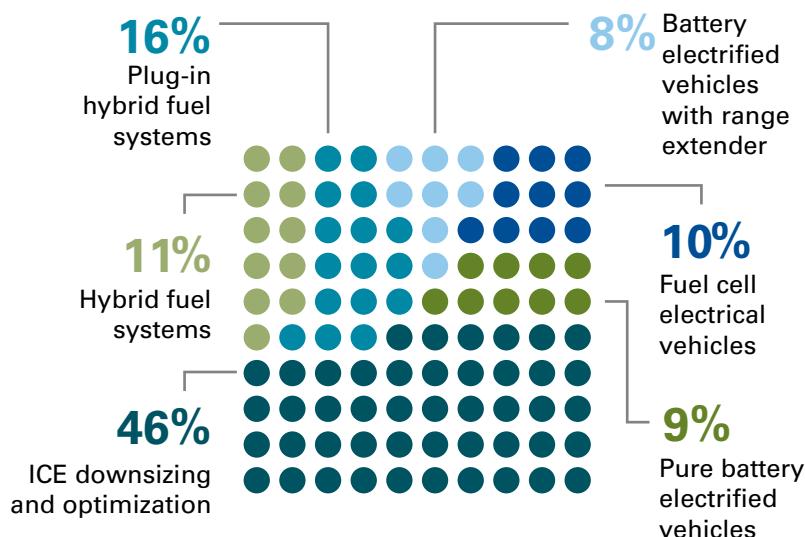
The race to produce cleaner, more efficient vehicles appears to have taken another turn, as optimization of the traditional ICE remains the clear priority for automotive companies. OEMs from the emerging regions are more inclined to invest in alternate power technologies than their TRIAD counterparts, which could signal a shift in technological leadership. Plug-in hybrids are forecast to be the leading e-car, with fuel cell-powered models growing in popularity.

Fears over the imminent demise of the internal combustion engine are clearly premature. Almost half of all respondents – 46 percent – say that over the next 5 years their biggest powertrain investment by far will be aimed at downsizing and optimization

of ICE. This is a huge leap from 2013, and suggests that ICE will remain the dominant technology for the foreseeable future, as fuel consumption and emissions continue to fall, and power grows. Many larger vehicles now contain smaller petrol-fueled engines than ever

Main investments in powertrain technologies over the next 5 years

Percentage of respondents that chose the technology they plan to invest the most in



Note: Percentages may not add up to 100 due to rounding.
Source: KPMG's Global Automotive Executive Survey 2014.

before yet enjoy greater acceleration and speed, such as the Ford 1.0-liter EcoBoost¹⁰ or the Opel 1.0 SIDI Turbo.¹¹

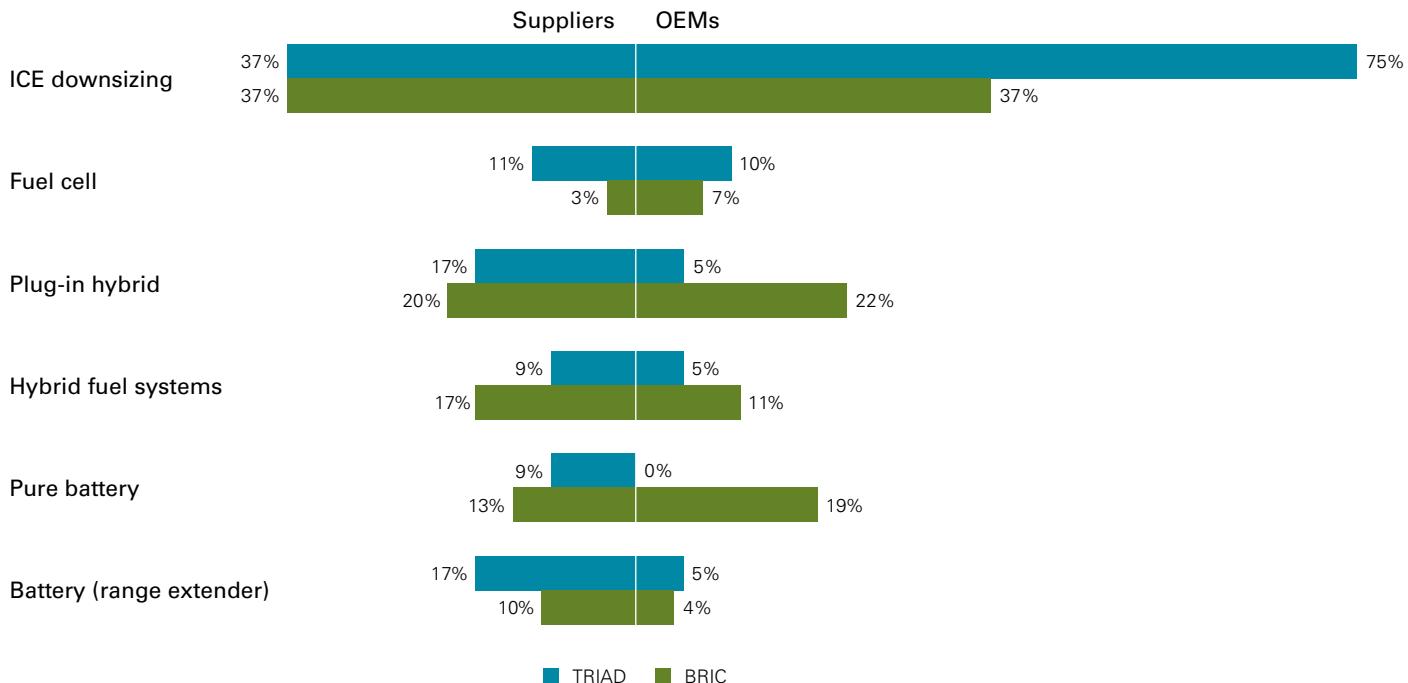
This change in emphasis has been particularly noticeable amongst respondents from the TRIAD markets, where automakers appear to be aiming to consolidate their historical lead in ICE powertrains. Eighty-eight percent of Japanese respondents report that their biggest priority is ICE optimization; car manufacturers from Japan have

made significant progress in alternative technologies, so may be seeking to balance these achievements with similar progress with traditional engines.

TRIAD OEMs in particular are expressing a strong preference for ICE, at the expense of plug-in and pure hybrids. Suppliers, on the other hand, have maintained their faith in plug-ins, although they have diverted investment dollars away from pure battery engines towards ICE.

Main areas for technology investment up to 2019

Percentage of respondents that chose the technology their companies plan to invest the most in



However, there is a strong difference in views between TRIAD and BRIC OEMs. The former are twice as likely to invest in ICE downsizing, whereas the latter are more focused on the various forms of e-mobility – especially plug-in hybrids and pure battery electrified vehicles.

Consequently, OEMs from the emerging markets appear to have a more balanced portfolio, and, according to our survey, China is a prime example, with OEMs from the People's Republic planning to invest across all the e-technologies except pure battery vehicles.

TRIAD OEMs are twice as likely as BRIC OEMs to invest in ICE downsizing, with the latter more focused on e-mobility.

¹⁰ Ford website <http://www.ford.de/UeberFord/FordTechnologien/Gruen>, accessed 24 October 2013.

¹¹ Opel-blog <http://www.opel-blog.com/2013/08/07/1-0-sidi-turbo-druckvoller-dreizylinder/>, accessed 24 October 2013.

The Chinese government is strongly supportive of electric cars as part of its longer-term plan to lower pollution in its fast-expanding cities, and reduce dependence upon fossil fuels.¹²

In addition, the Chinese government's revised green vehicle subsidies, announced in September 2013, demonstrate a clear and continuing preference for electric vehicles, fuel cells and plug-in hybrids – but exclude conventional hybrids. Under the new policy, buyers of pure e-vehicles could be subsidized by up to US\$9,800, while for hydrogen-powered fuel cell vehicles, this could rise to over US\$30,000. Such a move suggests that China is aiming for pre-eminence in the more open, pure electric sector (where no automaker has managed to achieve dominance), rather than take on firms such as Toyota, who have already attained a clear lead in hybrids. Hybrids are a more established form of powertrain, and therefore have more immediate potential to reduce China's acknowledged pollution problems. However, for now at least, the focus appears to be on attaining technical leadership.¹³

BRIC manufacturers are acknowledged to be playing catch-up on ICE technology, and the survey findings suggest a strong push for leadership in alternative powertrains. In another example of the longevity of ICE, over half of respondents (more than in

2013) feel that it will take 6-10 years before electric vehicles become the cleanest and most efficient form of powertrain – and a quarter believe it will take between 11 and 20 years. Auto executives from TRIAD countries have revised their expected timescales for e-mobility efficiency compared to the previous 2013 survey (when one-third felt that they would be on a par with ICE as early as 2018).

Advances in materials production can also aid the energy-efficiency of vehicles, thus reducing running costs. Fifty-five percent of executives taking part in the survey expect lightweight materials to be available for mass-market production within 5-10 years, with models such as the battery-powered BMW i3 leading the way. The i3 has an innovative passenger cell made of plastic reinforced with carbon fiber, which BMW claims is as strong as steel and 50 percent lighter, with the entire vehicle weighing in at just 1,220 kilograms (kg).¹⁴

Such materials can enable further innovation in design and manufacturing techniques, and lead to closer cooperation with a new generation of suppliers. In addition, light, high-tech steel offers a cheaper alternative to carbon fiber, and could reduce the weight of a vehicle by as much as 300 kg in a model such as the new VW Golf R, set for release in 2014.¹⁵

BRIC OEMs and suppliers are investing in a broader mix of powertrain technologies than their counterparts in TRIADs.

¹² China economy: Bumps in the road for electric cars, Economist Intelligence Unit, 4 September 2013.

¹³ Beijing ignores the benefits of conventional hybrids, Automotive News China, 13 September 2013.

¹⁴ BMW Unveils the Electric i3, a 'New Type of Megacity Vehicle,' Environment News Service, 30 July 2013.

¹⁵ 2014 Volkswagen Golf R to pack up to 213 KW, carmag.co.za, 7 February 2013.

KPMG insight

Carbon fiber and e-mobility are complementary, not competing technologies

Launched with much fanfare in July 2013, the all-electric BMW i3 has got everyone talking about carbon fiber, the ultra-lightweight material used extensively in the chassis.

The material itself is nothing new, having been deployed by Formula 1 teams and aircraft manufacturers for decades, and more latterly in high-end cars. However, its appearance in a mass-produced road car suggests that carbon fiber prices may have fallen to a level that makes the technology a better bet than e-propulsion.

With high costs and limited driving ranges, electric cars have yet to achieve their hoped-for breakthrough. Even with a range extender, the i3's top distance is 290 kilometers (km – 180 miles).

Every ounce removed from an e-vehicle brings its commercialization one step

further, yet the excessive cost of its carbon fiber body is one reason behind the i3's modest annual sales forecasts of 20,000 units.

With relatively long timeframes before either electric propulsion or carbon fiber become mainstream, industry and governments should recognize that the destinies of these two technologies are inextricably linked.

The i3 has excited trade and private equity investors, and if governments can pump further capital into lightweight materials and e-mobility, driving ranges will rise and costs fall. With low market entry barriers for carbon fiber, new suppliers from the US, China, Germany, Japan and UK should quickly emerge to hasten development of a material whose time may just have come.



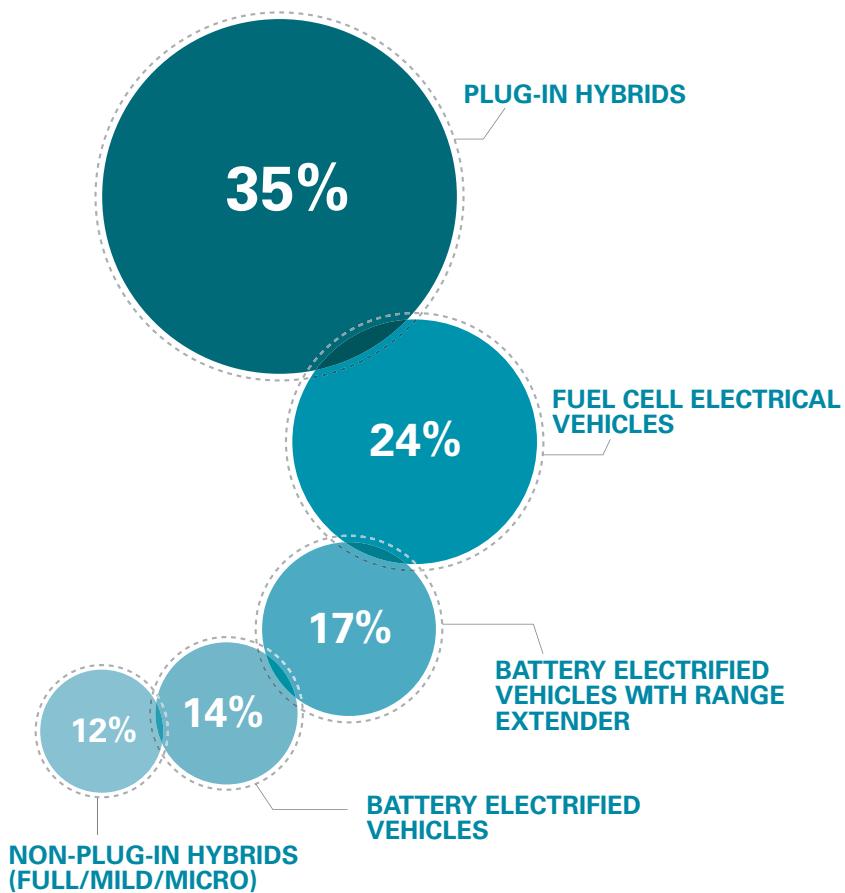
John Leech
Partner
KPMG in the UK

Plug-in hybrids remain the e-vehicle of choice

Over the next 5 years, plug-in hybrids are forecast to attract the greatest demand of any e-vehicle, for both TRIAD and BRIC markets. Many premium OEMs have elected to introduce hybrid engines in higher-end models, such as the Mercedes S500, the BMW i8,¹⁶ as well as the Lexus CT 200h and GS 450h,

Lincoln MKZ and Infiniti M35h,¹⁷ which signals a transformation in image away from the more utilitarian look of most hybrids. Nevertheless, the fact that the majority of investment is still going into ICE downsizing could hold back further advances.

Electric vehicle technology attracting the most consumer demand by 2019



Source: KPMG's Global Automotive Executive Survey 2014.

¹⁶ Plug-in-Hybrid: Der Bastard wird salonfähig, Spiegel Online Auto, 16 September 2013.

¹⁷ 10 Luxury Hybrids, CNBC, accessed 23 October 2013.

Fuel cell electric vehicles are experiencing a rise in popularity since the 2013 survey; 24 percent of respondents feel this will be the dominant e-technology by 2019. Expectations for non-plug-in hybrids, however, have plummeted from 26 percent in 2012 to just 12 percent in 2014, suggesting that these models are being replaced by plug-ins.

Automakers from the BRICs appear to be considerably more interested in driving battery electric cars, so long as they have a range extender. This response reflects the relatively limited infrastructure for recharging. Despite these trends, 31 percent

of respondents feel that battery electrified vehicles (either pure or with range extenders) will be the most common e-vehicle by 2019, enabling manufacturers to gain market share.

Although many people may wish to drive an electric car, harsh economic realities are deterring them from paying the current high prices. Cost is the single most important purchase factor for e-vehicles, followed by ease of recharging and driving distance. The battery constitutes a significant part of the overall price, and buyers are uncertain over the life expectancy and depreciation of this vital element.

Achieving a critical mass for electric cars

When asked how to make electric vehicles more appealing to buyers, automotive executives have a range of views, but no clear preferences, citing comprehensive service and repair networks, and price reductions through leasing of expensive components like batteries. Another suggestion for stimulating take-up is joint ventures and alliances among e-car technology stakeholders, which could help reduce the risks associated with this new technology. Interestingly, government subsidies/tax concessions on sales are considered to be a more effective tactic than subsidizing the actual research and development of e-vehicles. For example, pure electric cars make up 3 percent of monthly car sales in Norway, which now has over 10,000 such vehicles (more than in the whole of Germany), thanks to generous government subsidies such as tax breaks, exemption from vehicle and road tax and parking fees.^{18,19}

Another barrier to progress is the limited re-charging infrastructure in

most countries, which – according to the survey – can only be resolved through collaboration. Cooperative efforts by all relevant stakeholders is seen as the single best way (according to 40 percent of survey participants) to develop national networks of power points, although almost a third of respondents from TRIADs feel that gas stations and oil companies should also take some responsibility.

In addition to cost, driving range has proved a barrier to adoption, as many electric cars are unable to go beyond 160 km (100 miles) without re-charging. However, almost half of the executives surveyed are confident that e-vehicles can attain the same distance range as fuel-powered cars within 5-6 years. For TRIAD respondents, the figure was even higher at 58 percent. As mentioned earlier, Tesla claims to have achieved almost 640 km (400 miles) on a single charge, although its cars come with a sizeable price tag.²⁰

Respondents believe that subsidizing e-car sales is more important than subsidies for power technologies.

¹⁸ Norway shows the way with electric cars, but at what cost? Reuters, 13 March 2013.

¹⁹ E-Mobilität in Norwegen: Das verstromte Land, Spiegel Online Auto, 2 August 2013.

²⁰ Dutch team nearly doubles Tesla Model S range by driving 388 miles on a single charge, Digital Trends, 23 August 2013.

Looking forward to 2029, the majority of respondents expect e-vehicles to be playing a significant role in the sales mix, without coming close to knocking ICE powertrains off the top spot. Approximately 40 percent of respondents from the US, Western Europe and China anticipate e-vehicles to make up 11-15 percent of new registrations, which is consistent with the previous year's findings.

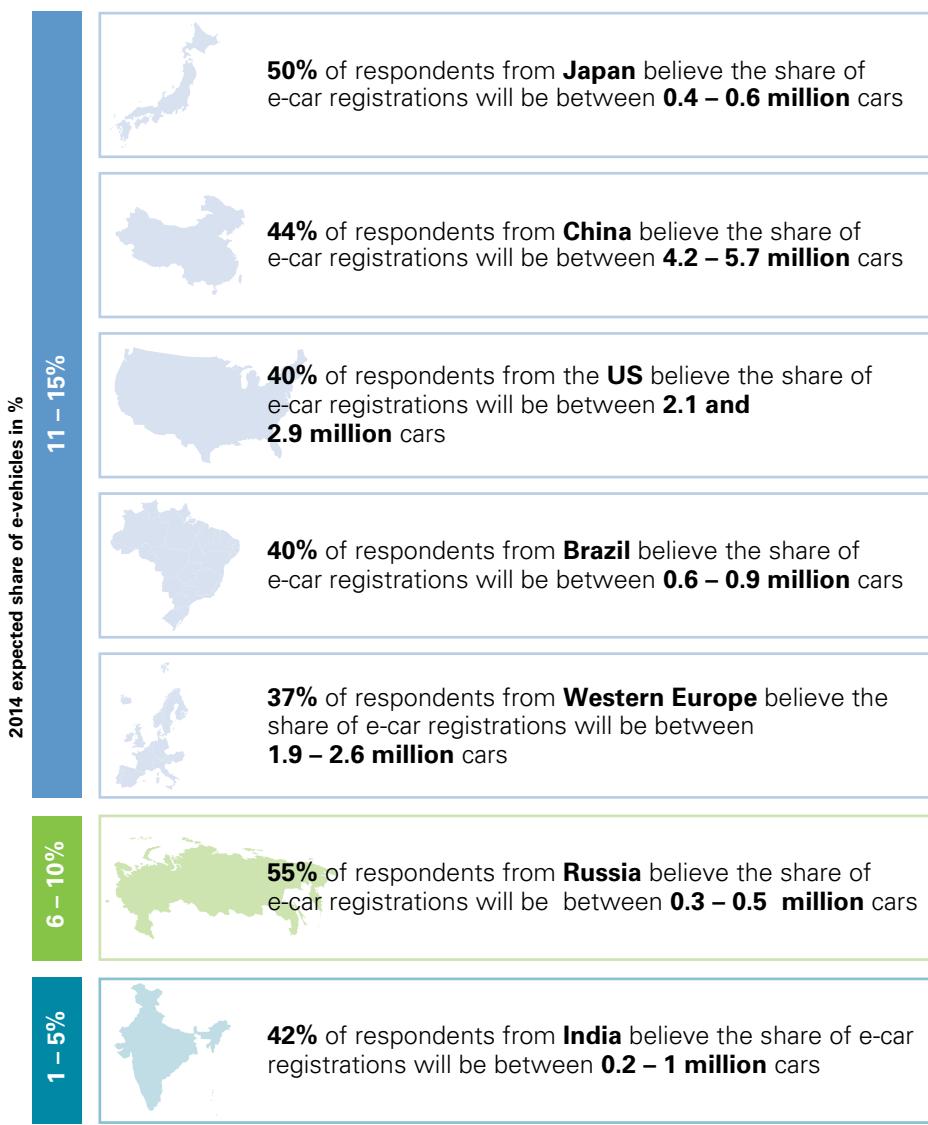
Compared to the 2013 survey, respondents from Brazil are far

more optimistic about the growth of e-mobility in their country, while those from Russia have lowered their expectations significantly, and India has the lowest projection of any of the major markets.

Regardless of the specific percentages, these figures suggest that e-mobility is set to play an important role in all the major markets within the next 15 years, achieving sales of 4 million in China, 2 million in the US and Western Europe and around a million in India.

Expected share of all new e-vehicle registrations by 2025 (based on light vehicles)

Expectations of the majority of survey respondents from the respective country



Source: KPMG's Global Automotive Executive Survey 2014; LMC Automotive, Q3, 2013.

Combined powertrains set to flourish

The continually rising interest in improving ICE efficiency has revived the fortunes of the gasoline engine vis-à-vis diesel, accompanied by a surge in popularity for hybrids across all segments. Strategies differ, however, according to geography. German manufacturers are inclined towards offering hybrids in more

upscale vehicles as an additional power boost, and to enable short, electric-powered journeys. In Japan, on the other hand, companies such as Toyota are positioning hybrids for the mass market. These developments are a further indication of the breadth of powertrain technologies for the foreseeable future.

KPMG insight

Electric vehicle manufacturers may be pursuing the wrong customers

Despite the acknowledged barriers, most OEMs are persisting in their search for a small, affordable e-vehicle, believing that only scale can bring down production costs and raise margins. With the exception of a few idealistic, green drivers, however, most mass-market consumers are very price-sensitive and remain uncertain about the impact of battery life, driving range and re-charging facilities upon these vehicles' dependability.

As dealers will confirm, the typical premium/luxury car buyer, on the other hand, is far less concerned about cost and more motivated by the desire to be

a pioneer of the latest technology. Many of these customers already own one or more other cars, so are happy to use their e-mobile for shorter journeys, where charging is not an issue.

Rather than targeting the lower end of the market, e-vehicle manufacturers should instead shift their attention to the first-movers in the upper segments. Once the price and convenience of owning an electric car has improved sufficiently, the rest of the driving population should follow suit in classic, trickle-down fashion.



Ulrik Andersen
Partner
KPMG in Russia

Urbanization

The changing shape of mobility in tomorrow's cities

Respondents feel that mobility solutions are becoming an increasingly viable alternative to car ownership, particularly in the more established automotive markets, as well in Russia. And almost half feel that these services can deliver a profit within the next 5 years.

As the world's population grows and cities become more congested, traditional patterns of vehicle ownership are likely to change dramatically. However, not everyone is quite yet ready to give up his or her cherished automobile. The vast majority (almost 80 percent) of the survey participants believe that those aged 25-50 will continue to own a car as their main form of transport. In the established TRIAD markets, where consumers are accustomed to such personal mobility, the figure is closer to 90 percent.

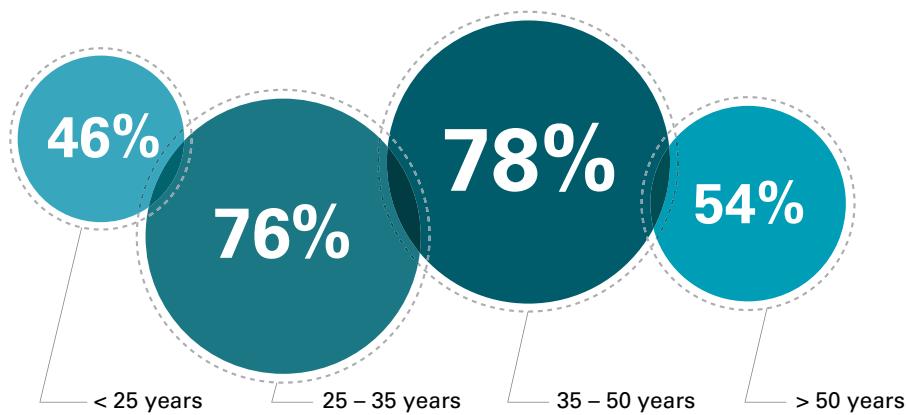
Age is a contributing factor. Just 46 percent of respondents think that

those under 25 and 54 percent of the executives believe that those over-50s feel the need to own a car. In the BRICs, where automobiles have traditionally been unaffordable to most of the population, the findings are even more pronounced. Respondents from these regions say that just 28 percent of under-25s and 42 percent of over-50s view car ownership as essential for personal mobility. Such a mindset could have a particularly strong impact on second-car sales; KPMG's self-driving cars study shows that many drivers would consider giving up their second car – so long as an alternative vehicle was ready for them within 15 minutes.²¹

Almost half of executives believe that those under 25 need to possess their own car, while 54 percent believe over-50s do also.

Proportion of consumers that need to own a car (by age group)

Percentage of respondents that rated their answer as 'extremely important' or 'very important'



Note: Percentages may not add up to 100 due to rounding.

Source: KPMG's Global Automotive Executive Survey 2014.

²¹ Self-Driving Cars; Are We Ready? KPMG/The Center for Automotive Research, 2013.

This trend calls for wide scale mobility solutions in urban centers, and OEMs and other players are considering their roles in the new model. The so-called 'millennial' generation of young adults appears less interested in traditional

purchases such as houses and cars (preferring alternatives such as mobile devices and clothes), and the challenge for the main auto brands is to come up with a new way to meet their needs.

Selling your brand without selling your cars

Mobility as a service (MaaS) is arguably an idea that has already arrived, via services such as car sharing and wider solutions involving multiple modes of transport booked through a single provider. Many of the major brands have moved into this space. Respondents from the TRIAD nations are the most optimistic about the potential for MaaS, with a significant proportion forecasting that up to a quarter of city inhabitants will use these services by 2029 – a huge increase on the corresponding 2013 survey results.

Expectations amongst the BRICs are more modest, which is understandable, given that many citizens in these countries are still aspiring to own their first car. The likely penetration of MaaS in these key emerging markets is between 6-15 percent, with the exception of Russia, where respondents have significantly higher expectations of the number of potential

mobility customers in their country by 2029. Their latest forecasts are for an average of 15.8 million – a substantial rise over the 2013 figure of 2.4 million.

One of the biggest questions surrounding mobility solutions is whether they can deliver a profit – as opposed to merely being a tool for spreading brand awareness. The responses from the 2014 Global Automotive Survey suggest a resounding "yes," with one in seven respondents stating that these services are already delivering positive margins, and a further 31 percent expecting profits within 5 years.

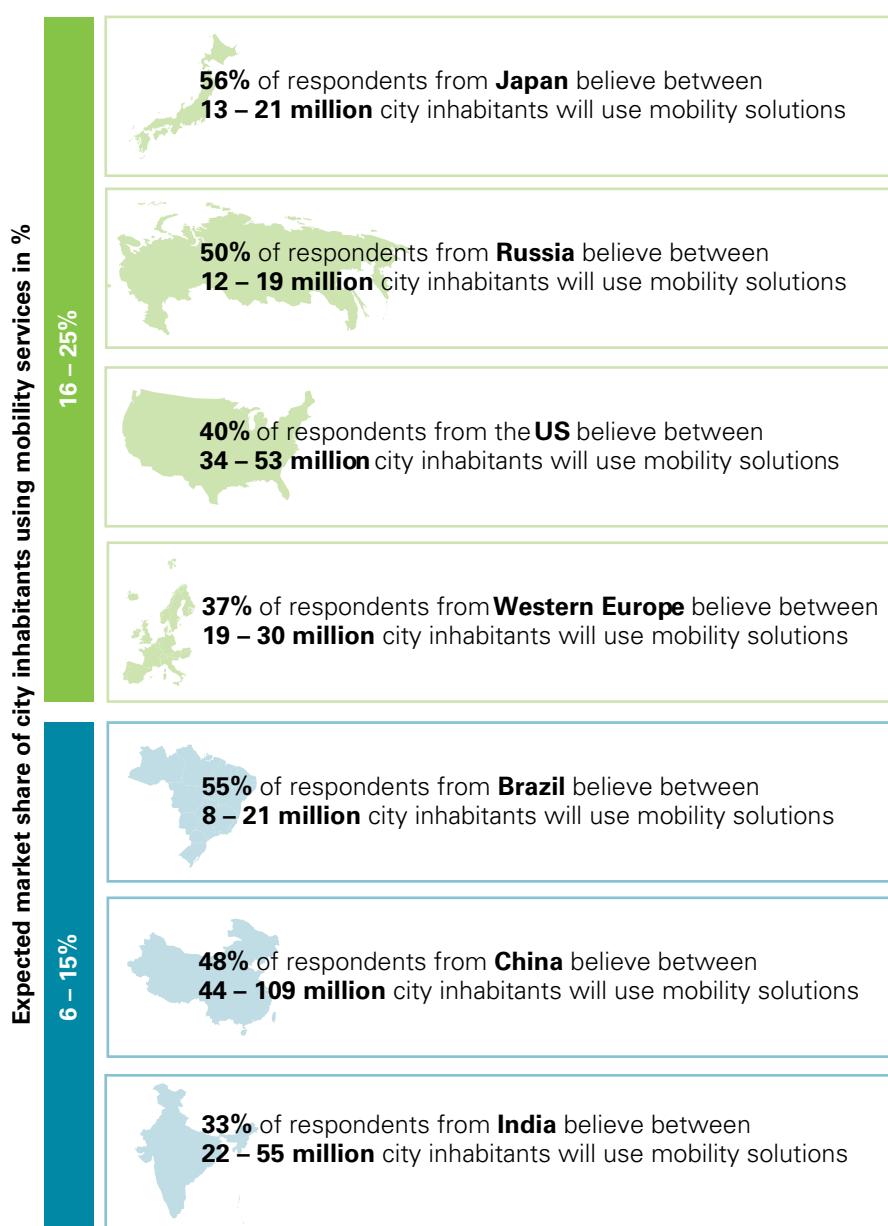
OEMs are keen to make inroads into this growing segment, and with TRIAD markets at a more advanced state, it is no real surprise that manufacturers from these regions have higher hopes, with 50 percent seeing MaaS bringing profits within 5 years. In the BRICs, however, a majority do not foresee profitable mobility until 2024 or later.

One in seven respondents say mobility solutions are already delivering positive margins, and a further 31 percent expect profits within 5 years.



Expected share of on-demand mobility solutions in cities in 2029

Expectations of the majority of survey respondents from the respective country

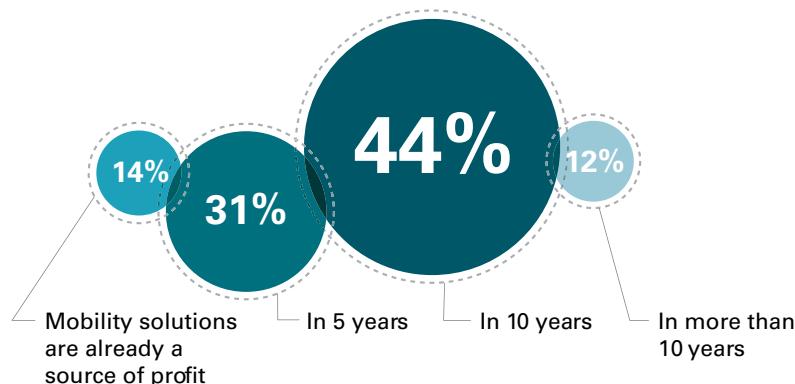


Russian respondents have significantly higher expectations for the average number of potential mobility customers in their country by 2029 – a big rise over the 2013 figure of 2.4 million.

Source: KPMG's Global Automotive Executive Survey 2014; United Nations World Urbanization Prospects.

When will mobility solutions become an important source of profit

Percentage of respondents that chose the respective answer



Note: Percentages may not add up to 100 due to rounding.

Source: KPMG's Global Automotive Executive Survey 2014.

KPMG insight

Adapting OEMs' approaches to the Chinese after-sales and mobility markets

After-sales and mobility solutions offer new and expanding sources of revenue in China, but conditions differ considerably from established countries.

Financing is at an early stage in China, as most customers pay in cash or borrow from their families, so buyers need to be educated on the benefits of services such as branded insurance, extended warranties and leasing. Any potential solutions should also consider Chinese consumers' generally low level of brand loyalty and strong price sensitivity.

Tastes and regulations also vary between cities and provinces. For example, license plate restrictions exist in four of China's

largest cities, but not yet in lower tier markets. Uncertainty in this area impacts the timing and difficulty of planning and setting up new mobility businesses around the country.

The market does appear receptive to new ideas, and some 'micro rental' services have already been piloted in a number of Chinese cities, enabling drivers to rent a car for as little as 1 hour to a whole weekend. Mobile technology is sure to play an integral part in successful marketing and delivery, given Chinese citizens' increasing preference for accessing and buying services via their smartphones and tablets.



Mirko Hilsheimer
Partner
KPMG in China

Digitalization and self-driving cars

Cruising the new digital (super) highway

As more and more software becomes embedded in vehicles, the self-driving car becomes a real possibility. However, most of the respondents feel that it will be 20-plus years before driverless automobiles are a common sight on our roads.

Much has been written about the potential for self-driving cars to change not just the individual driving experience, but the way cars interact with each other, and, ultimately, the look and feel of roads and cities. In 2014, the world's automotive leaders do not yet see such vehicles as a major area of focus for their businesses. Just 14 percent of respondents feel that self-driving cars represent one of the key industry trends, although these figures differ widely by country.

Across the BRICs, the expectations for driver-free transport are considerably higher (23 percent) than in the TRIADs (11 percent). The overall skepticism is reflected in the expected timescales for the adoption of self-driving automobiles. Four out of ten survey participants say it will take at least 20 years before they are in common use, and a further three out of ten predict that such cars will never succeed.

Chinese and Russian automakers are the most positive, whereas their

counterparts from the TRIADs believe that it will take much longer for these cars to become widely available. Nevertheless, individual companies are pursuing the dream; for example, Nissan has already announced plans to introduce autonomous drive by 2020, and several other OEMs have voiced similar ambitions.²²

Should the concept of driverless mobility take off, it is unclear whether OEMs will continue to be the dominant force. KPMG's 2013 study on self-driving cars indicates that consumers would be willing to buy, lease or otherwise access these vehicles from technology companies. Having become accustomed to the role of technology leaders, automakers now have to adjust to and partner with new players from technology and other sectors.²³ Seventy-six percent of respondents say that cooperation with converging industries is an important strategy (compared to just 50 percent in 2013).

Expectations for driver-free vehicles are considerably higher in the BRICs than in the TRIADs.

²² Nissan to build self-driven cars, CNBC, 27 August 2013.

²³ Self-Driving Cars; Are We Ready? KPMG/The Center for Automotive Research, 2013.

KPMG insight

Electronics companies have automotive targets on their M&A radar

The surprise October 2013 announcement of Japanese electric motor manufacturer Nidec's acquisition of a subsidiary of Honda highlights the growing influence of electronics companies in the automotive market. This news comes hot on the heels of Panasonic's pledge to double its automotive business to 2 trillion Japanese Yen (JPY – US\$20 billion) by 2018. As the computerization of cars accelerates, they are increasingly resembling moving electronic devices, to the extent that almost half the cost of a hybrid vehicle goes on electronic parts. With its renowned technological capability, Panasonic – along with rivals Hitachi and Toshiba – is well-placed to provide battery systems, sound systems, cockpit systems, sensors and

cameras, all of which are becoming a core part of many vehicles.

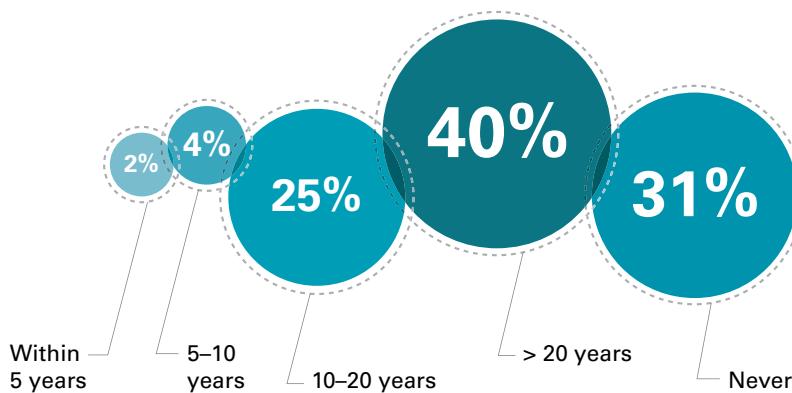
Facing intense competition in traditional areas such as televisions and semiconductors, electronics businesses see enormous potential in the auto market, which may herald further merger and acquisition activity. The two most obvious strategies are to acquire venture capital-funded companies specializing in self-driving cars and/or electric or fuel cell-powered vehicles, or – like Nidec – to buy a division of an OEM or supplier to achieve R&D economies of scale. If the acquirer has deep enough pockets, it may even be bold enough to target a Tier 1 or 2 parts supplier.



Hirokazu (Hiro) Funahashi
Director
KPMG in Japan

Self-driving vehicles on public roads

Percentage of respondents that chose the respective answer



Note: Percentages may not add up to 100 due to rounding.
Source: KPMG's Global Automotive Executive Survey 2014.

According to the survey respondents, safety is considered the biggest customer concern over self-driving cars, as drivers get used to the idea of surrendering control of their vehicles. And with large amounts of personal information fed into the system, privacy and data security are also high on consumers' agendas, along with government regulation.

If driver-free cars are to achieve a real breakthrough, then certain conditions

must be satisfied. The survey suggests that the relevant stakeholders need to make a substantial investment in vehicle-to-internet communications, along with cost effective sensor- and radar-based solutions. Another requirement is an after-market solution for vehicle-to-vehicle communication. These are huge commitments and the various elements within the industry have to consider how to pool their resources to achieve such a transformation.

KPMG insight

Self-Driving Cars: are we ready?

The momentum around self-driving vehicles is astonishing. In some ways, the industry is moving even faster than predicted. Rarely does a day go by without another announcement about a new technological breakthrough or a new joint venture. Traditional automotive manufacturers are teaming up with high-tech companies and innovative start-ups are seeking and finding investors. The landscape is shifting before our eyes.

But introduction of disruptive innovation is fraught with risks. No matter how great the potential of self-driving cars, its trajectory will be determined by markets. And those markets are composed of people – consumers – who will ultimately adopt or reject the technology.



Gary Silberg
The Americas Head of
Automotive
KPMG in the US

Knowledge is power: the growing importance of big data

The connected car is already the third fastest growing technological device after phones and tablets.²⁴ As cars become more connected, manufacturers, dealers, technology companies and other providers are gathering huge amounts of information on users. How these players use this 'big data' could determine their success in building brand loyalty and generating income streams.

In September 2013 the international automotive supplier Continental entered into collaboration with IBM,²⁵ announcing that the two would be working on developing fully connected mobile vehicle solutions for car manufacturers.²⁶ These developments are a response to consumers' demand for ubiquitous connectivity, with drivers not only looking for safe, reliable performance, but also viewing the motor

car as a highly personalized extension of their daily and digitally connected lives.²⁷ In the next 5 years, Intel alone is investing US\$100 million in companies that can quicken the adoption of connected cars. And connectivity can also improve the driver experience. For example, when stopped at a traffic light, trials have shown a system where a time can pop up on the dashboard letting drivers know how long until it changes.²⁸

Thirty-four percent of respondents (rising to 40 percent for OEMs) are confident that they have a strategy for using big data, and 31 percent say that data will be used to develop products. However, only a small minority (12 percent) claim that the proliferation of information will lead to new services for connected cars, suggesting that other competitors could gain a share of this segment.

31 percent of respondents believe big data will be used for developing new products.

²⁴ 'Every new car' connected to web by 2014, BBC News, 12 February 2013.

²⁵ Continental and IBM Enter Connected Vehicle Collaboration, IBM news release, 10 September 2013.

²⁶ Continental and IBM to use Big Data for connected car services, Telematics News, 11 September 2013.

²⁷ Continental and IBM Enter Connected Vehicle Collaboration, IBM news release, 10 September 2013.

²⁸ Every new car connected to web by 2014, BBC News, 12 February 2013.



Transforming the dealership model

Dealers expand their range of services and touch points with customers

Although the future shape of the dealer sector is still uncertain, almost half of the respondents believe that conventional models are inappropriate, with online retailing and multi-brand providers set to rise significantly. Dealerships are also refining their operations, systems, prices and supplies, to increase efficiency and boost margins.

The good news for automakers and dealers is that brands still matter a lot. Eighty-four percent of those surveyed say that brand is extremely or very important to the customer purchase decision, which should help maintain margins in a highly competitive market – especially for premium brands.

With many workers in TRIAD nations facing cost-of-living increases, pay freezes and cuts, competitive financing has increased in importance in these regions since 2013. And financing remains a big factor for BRIC-based buyers, as they move away from a

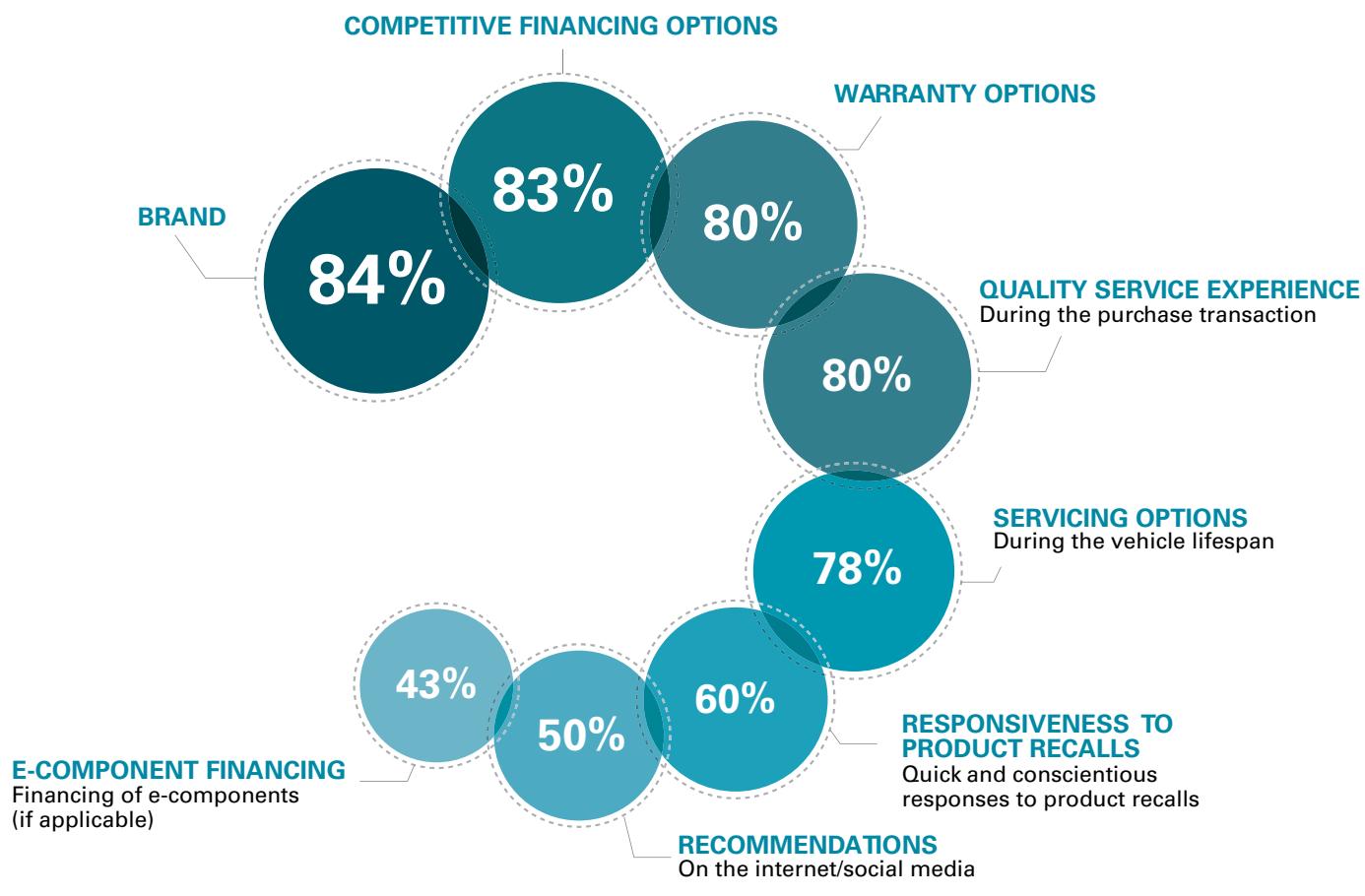
traditional cash-purchase culture. The quality of the overall service experience also ranks high on buyers' priorities – particularly among respondents from the BRICs – suggesting that consumers in these countries are becoming more demanding.

Compared to the 2013 survey, TRIAD customers are placing a far greater emphasis upon warranty and servicing options. This may signal a desire to retain their vehicles for longer, and could bring some excellent opportunities to increase income from what are traditionally high-profit activities.

78 percent of BRIC respondents feel competitive financing influences the consumer purchase decision; this could signal an opportunity for establishing global financing operations.

Factors influencing consumers' purchase decisions

Percentage of respondents that rated each topic as 'extremely important' or 'very important'



Note: Percentages may not add up to 100 due to rounding.
Source: KPMG's Global Automotive Executive Survey 2014.

The rise of the online dealership model

Traditional models of dealership are in steady decline, according to this year's survey. Just 53 percent say that conventional retailing is a key approach for future success, down from 61 percent in 2013.

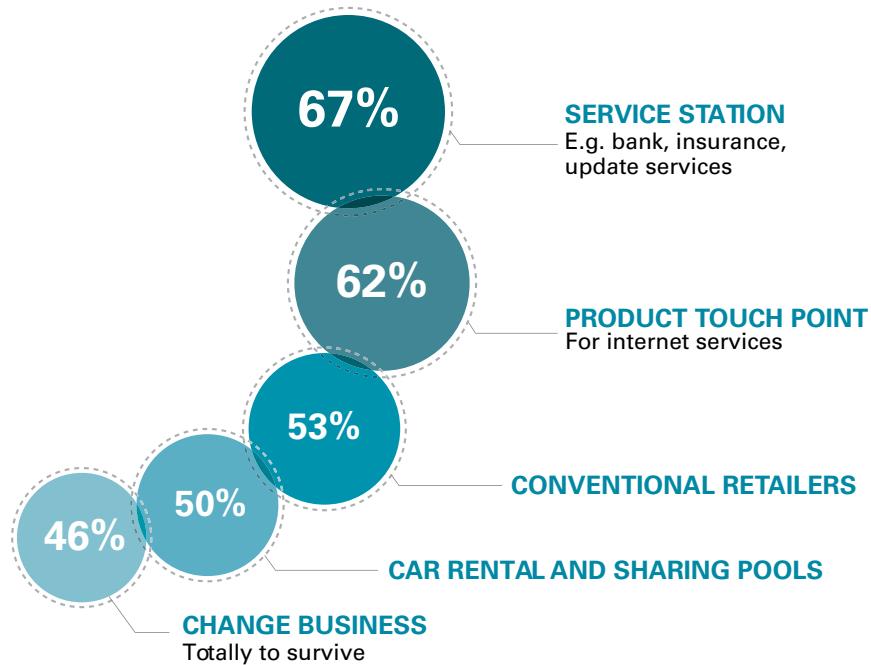
In clear first place is the dealership as a service station (consistent with the 2013 findings), offering additional services such as banking, insurance and service updates. Many executives also feel that retail outlets are becoming touch points

for relationships established on the internet, a preference that is especially strong amongst executives from the TRIAD markets, where online shopping is growing.

The survey results indicate that many dealers are not planning a big move into car rental and sharing; in 2013, 57 percent felt this was a good strategic option, whereas in 2014 the proportion in favor has dropped to just 50 percent.

Strategies for future success for retailers/dealers

Percentage of respondents that rated the answer as 'extremely important' or 'very important'



Note: Percentages may not add up to 100 due to rounding.
Source: KPMG's Global Automotive Executive Survey 2014.

When quizzed on the future shape of the retail automotive sector in their own countries, respondents feel the online model is growing in importance, up from 64 percent in 2013 to 71 percent in 2014. GM has piloted a new online service called Shop-Click-Drive, a website that allows customers to buy cars from around 100 dealers across the US. Interested buyers can browse new cars, get quotes, select additional features and apply for financing, with dealers even prepared to deliver the new cars.²⁹ The rising power of the internet is also reflected in the fact that 50 percent of the respondents say recommendations on the internet/social media are impacting consumers purchase decisions.

However, only 60 percent of dealers involved in the survey feel that the online route will thrive. Some dealerships may be wary of digital sales, believing it could affect their ability to sell customers

additional features in the store. It is also harder to cultivate loyal clients when customers are interacting with a computer instead of a human being.

The second most significant concept is that of multi-brand dealerships owned by third parties.

Our survey also shows that dealers are more likely to believe they can remain independent, whereas other parts of the industry feel that dealerships will be integrated into the larger OEM business. With consolidation the order of the day in many industries, independent automotive retailers may have to rethink their strategies.

Views on independence also differ according to the level of market maturity; 53 percent of BRIC respondents expect dealerships will stay independent, while just 31 percent of auto executives from the TRIADS feel the same way. KPMG's global

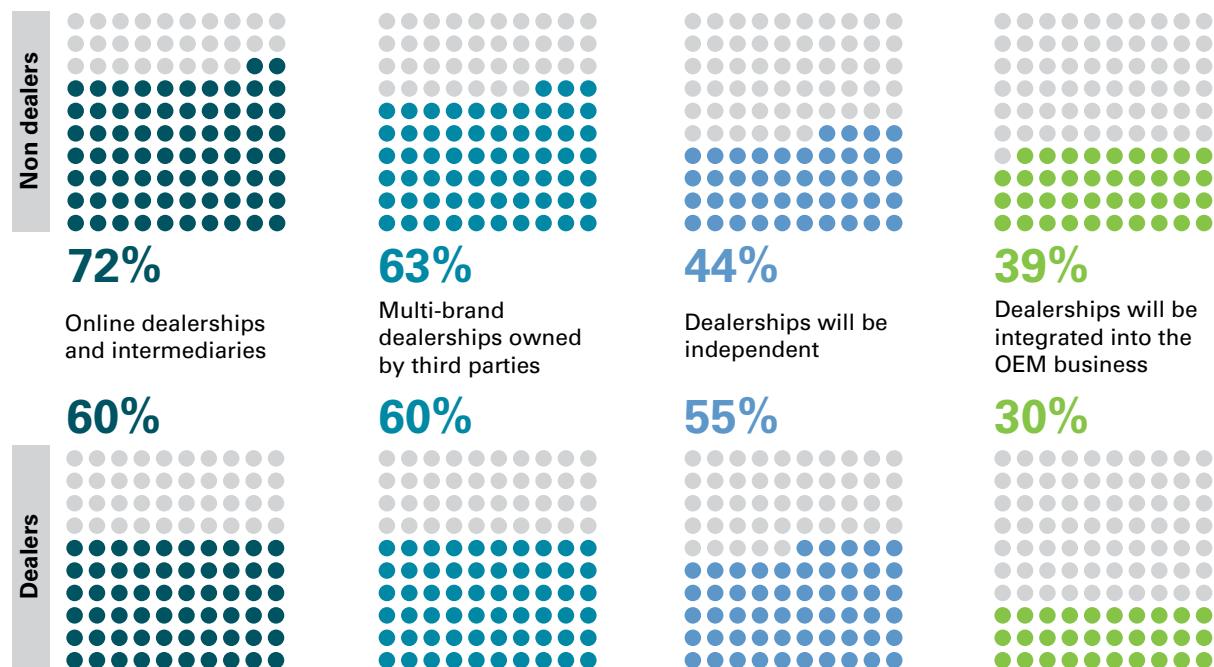
²⁹ Buying a Car Online is about to Get Way Easier, Time Business & Money, 10 October 2013.

automotive retail market study reveals that in less mature markets, where demand is high, the fast growth of outlets leads to a decentralized structure. As demand slows over time

and competition intensifies, profits decrease and customers become more sophisticated, resulting in greater consolidation to reduce operational costs.³⁰

Importance of different dealership models for future success

Percentage of respondents expecting the importance of each concept to increase



Note: Percentage of respondents expecting importance of the respective concept to remain stable or decrease are not shown.
Source: KPMG's Global Automotive Executive Survey 2014.

KPMG insight

The future may be multi-brand

Large, typically OEM-owned multi-store networks have been around for some time in Canada and the US, enabling owners and dealers to provide their full range of models under one roof, to ensure they meet a variety of customer tastes.

In fast-growing markets such as India, China and Africa, however, dealers have made significant investments in new outlets, and have adopted a multi-brand approach in order to achieve scale,

maximize revenues and hasten payback and profitability.

In North America, brand loyalty is on the decline, with a majority of customers leasing or financing their vehicles. To counteract this trend, an increasing number of retailers are now offering multiple brands, which significantly widens the range of available vehicles, and helps persuade consumers to remain loyal to that dealership.



Peter Hatges
Partner
KPMG in Canada

³⁰ Global Automotive Retail Market; From selling cars on the spot to centrally managing the retail grid, KPMG September 2013.

Market maturity brings a greater focus on efficiency

Although no single factor appears to offer a key to dealer profitability, most respondents acknowledge the need for a more sophisticated approach to operations and finance. Between 2013 and 2014, the percentage of dealers choosing effective controlling and dealer management systems as a key factor rose from 75 to 95 percent. In the same period, managing price and supply also grew in importance.

Dealers from the TRIADs have shown a particularly big swing in their views over the past year. The importance of managing price and supply has rocketed up from 40 percent to 75 percent, while financing costs and equity structure has gone from 60 percent to 88 percent. Such a focus is indicative of a tough market, with discounting rife, putting additional pressure on

dealers to be efficient and cut costs. Regional practices also come into play. In the US, where stock sales are the norm, 60 percent of respondents state that pricing and supply is extremely important. In Western Europe, on the other hand, where dealers tend to have cars built to order, only 37 percent feel the same way.

BRIC dealers show an increasing emphasis upon brand performance and multi-branding, which is to be expected in an expanding market, where the growing middle classes are seeking aspirational brands to reflect their newly acquired social status. However, these dealers are also looking for efficiencies, with a big leap in the proportion striving to improve their continuous cost and working capital management, as they try to build sustainable profitability.

BRIC dealers place a growing emphasis upon brand performance and multi-branding; they also want to improve their cost and working capital management, to build sustainable profitability.

KPMG insight

Auto retail's balancing act

More than ever, decision makers have to carefully balance their retail strategies and concepts between globally varying market maturity levels and market-specific customer preferences.

Our recent study³¹ indicates that, for the foreseeable future, none of the BRIC markets will reach a state of maturity that is comparable to the current levels in the TRIAD. To effectively develop and steer a retail grid, decision makers have to keep in mind that each stage of maturity requires a particular retail strategy, a reasonable degree of centralization as well as a distinct set of management competencies and key performance indicators (KPIs). Of course, maturity stages are nothing new, but they are much shorter than in the past, and therefore requirements for management

skills change much faster than ever before. How do you assess that?

Market maturity comes along with an altered set of drivers and challenges, such as the ubiquitous technological progress and the change of the social and moral mindset that determine customer preferences. Geared towards these preferences, we see four complementary automotive retail concepts between the poles of emotionality and functionality in the car buying process: flagship stores and virtual stores with sales agents strongly focusing on emotionality, and traditional dealerships and super stores directed at more rational customers. Most importantly, the silver bullet will not be either one of these retail concepts, but rather the ideal balance between all of them. Do you know how to balance best?

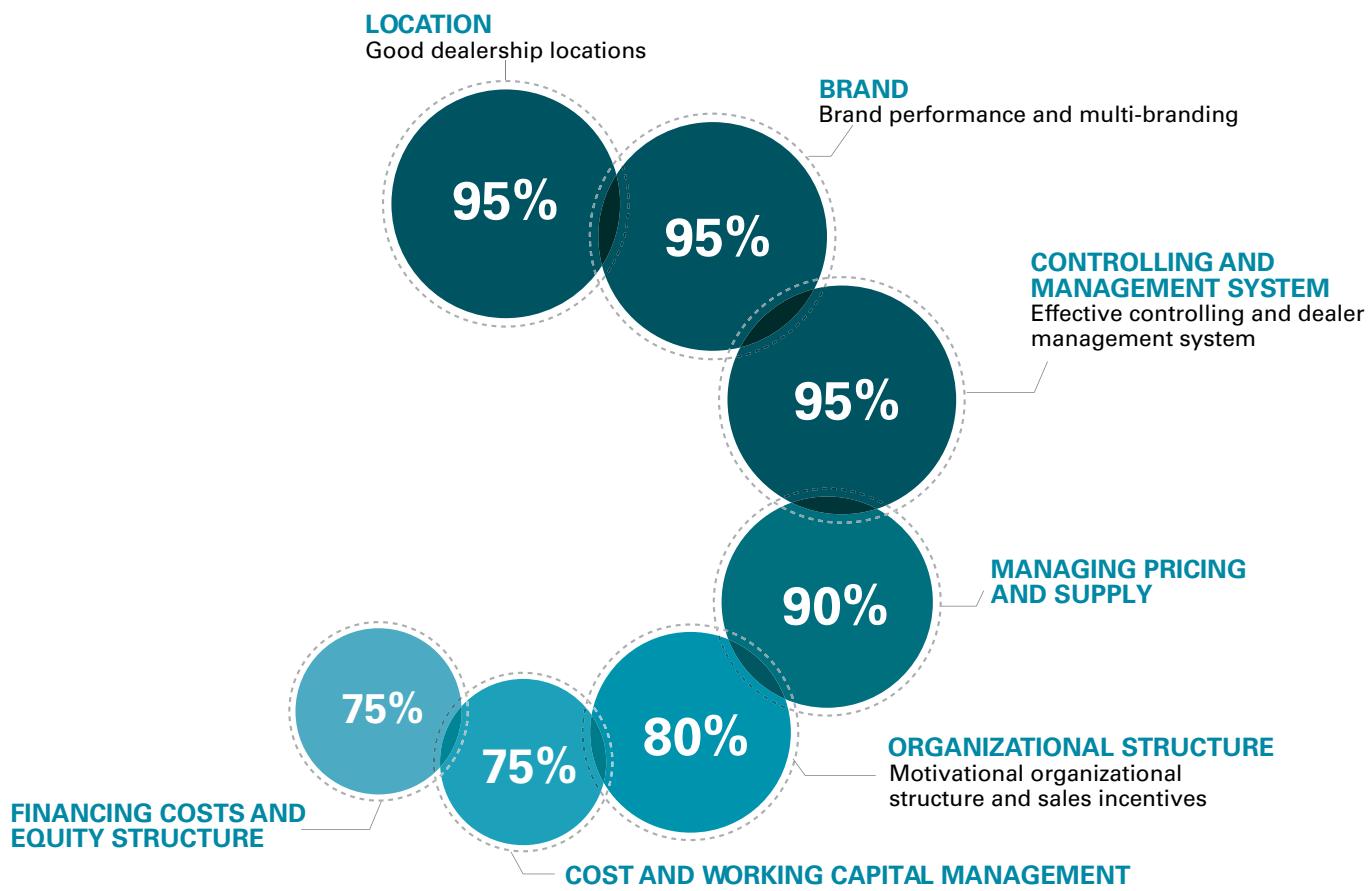


Dieter Becker
Partner
KPMG in Germany

³¹ KPMG's 2013 Global Automotive Retail Market Study.

Factors influencing dealer profitability

Percentage of dealer respondents that rated the respective answer as 'extremely important' or 'very important'



Source: KPMG's Global Automotive Executive Survey 2014.

Emerging markets

The big BRIC export push is not extending to mature nations

Since the 2013 survey, respondents have become more optimistic about the export prospects for BRIC automakers, with 44 percent confident that China will sell 2 million cars overseas by 2016.

The enormous potential within the emerging nations is reflected in the high proportion of companies planning to either begin or increase their investment in these markets, with China the number one target, followed by India, and Brazil and Russia in equal third place.

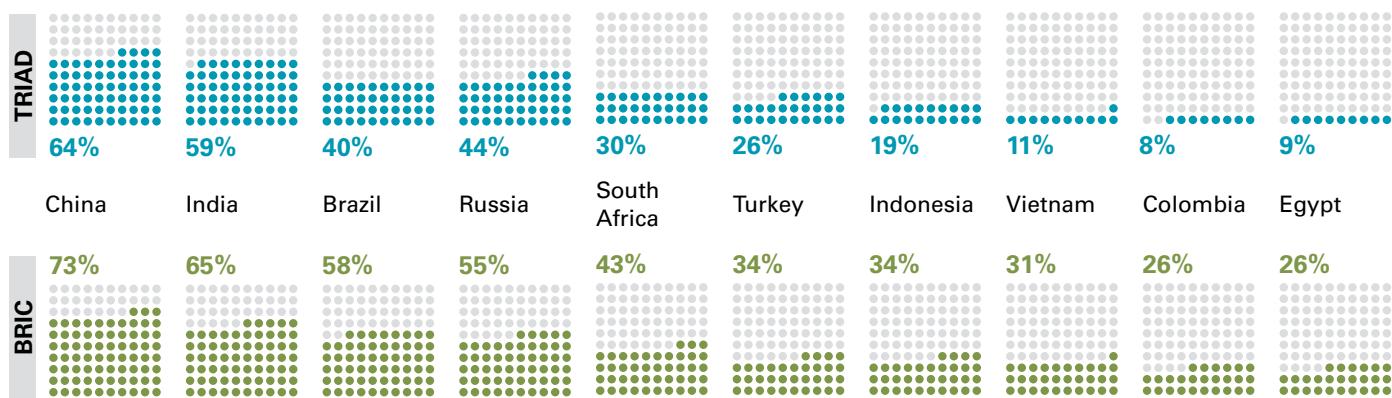
BRIC automotive companies are also demonstrating their ambitious

international expansion plans, and are more likely than their TRIAD peers to raise their investment levels in every major emerging market. This can be partly explained by the fact that BRIC automakers are starting from a lower base. South Africa has lost its position as the third most important market for ambitious BRIC automakers, replaced by Russia and Brazil.

BRIC automakers are more likely than their TRIAD peers to raise their investment levels in every major emerging market.

Where the automotive players plan to invest

Percentage of respondents that plan to 'begin' or 'increase' their investment in each country



Source: KPMG's Global Automotive Executive Survey 2014.

KPMG insight

Positioning brands for success in China's lower tier cities

Around three-quarters of new car demand in China is currently coming from inland, lower tier (two to five) cities and their surrounding regions, as a new era of economic development sweeps the country. A recent study by KPMG and leading market research firm Ipsos MORI suggests that consumers in these areas have sophisticated tastes and high expectations, despite their modest purchasing power.

The research covered three cities in the Shaanxi, Henan and Hubei provinces, representing 188 million people – 14 percent of China's total population. Respondents expressed ambitious aspirations for upward mobility, and a strong preference for recognized brands offering good quality and contemporary design.

Such desires are encapsulated in what the Chinese call "Da Qi (大气)," a phrase that conveys notions of "grandeur, status and decency," and brands are expected to be reliable, trustworthy, mature, best-in-class, superior and respected. However, with an average gross domestic product (GDP) per

capita of just 28,000 Chinese Yuan (CNY – US\$4,500) in these provinces (compared to CNY85,000 (US\$13,600) in Shanghai), such far-reaching demands may exceed consumers' ability to pay.

One particular success story is GM's Chevy Sail, which sold 280,000 units mostly in China's lower tier cities in 2012, at a retail price of less than CNY60,000 (US\$9,600). The Sail offers a respectable level of quality at a price consumers can afford. Although this achievement may point a way forward for other automakers, Chinese OEMs are likely to face a greater uphill struggle in bringing their quality levels up to the expected standards compared to their Western counterparts.

Retailers are similarly challenged to provide convenient, local points of sale staffed by polite, efficient and knowledgeable sales and service personnel, at a time when competition is pushing back margins and payback periods, and good employees are increasingly hard to find and retain.



Andrew Thomson
Asia Pacific Head of
Automotive
KPMG in China

BRIC manufacturers avoiding Western Europe and North America

Western Europe, Northern America and Oceania continue to be largely off-limits for BRIC manufacturers, given the fierce competition and wider range of existing consumer options. For example, almost every major global player is active in the US, making it much harder for new players to establish a foothold.

South East Asia is still considered to have the greatest potential, and automakers are starting to develop models exclusively for these markets, such as long wheel base vehicles, sedans (instead of hatchbacks), and a higher use of chrome. In some cases,

new models are even being launched in Asia ahead of established geographies.

Since the 2013 survey, a greater proportion of respondents feel that BRIC auto companies have good growth opportunities in Africa and the Middle East. Iran appears to have exciting prospects, with annual sales expected to reach 1.8 million cars by 2020.³² In the face of heavy sanctions, many established automakers have ceased operations in Iran,³³ leaving the door open for BRIC manufacturers such as Russia's AvtoVAZ, which has announced plans to export its Lada Granta and Lada Kalina models.³⁴

21 percent of respondents see high growth potential for BRIC automakers in Africa and the Middle East.

³² Global Automotive Retail Market: From selling cars on the spot to centrally managing the retail grid, KPMG, 2013.

³³ Iran's Car Industry – A Big Sanctions Buster, Forbes, 13 May 2013.

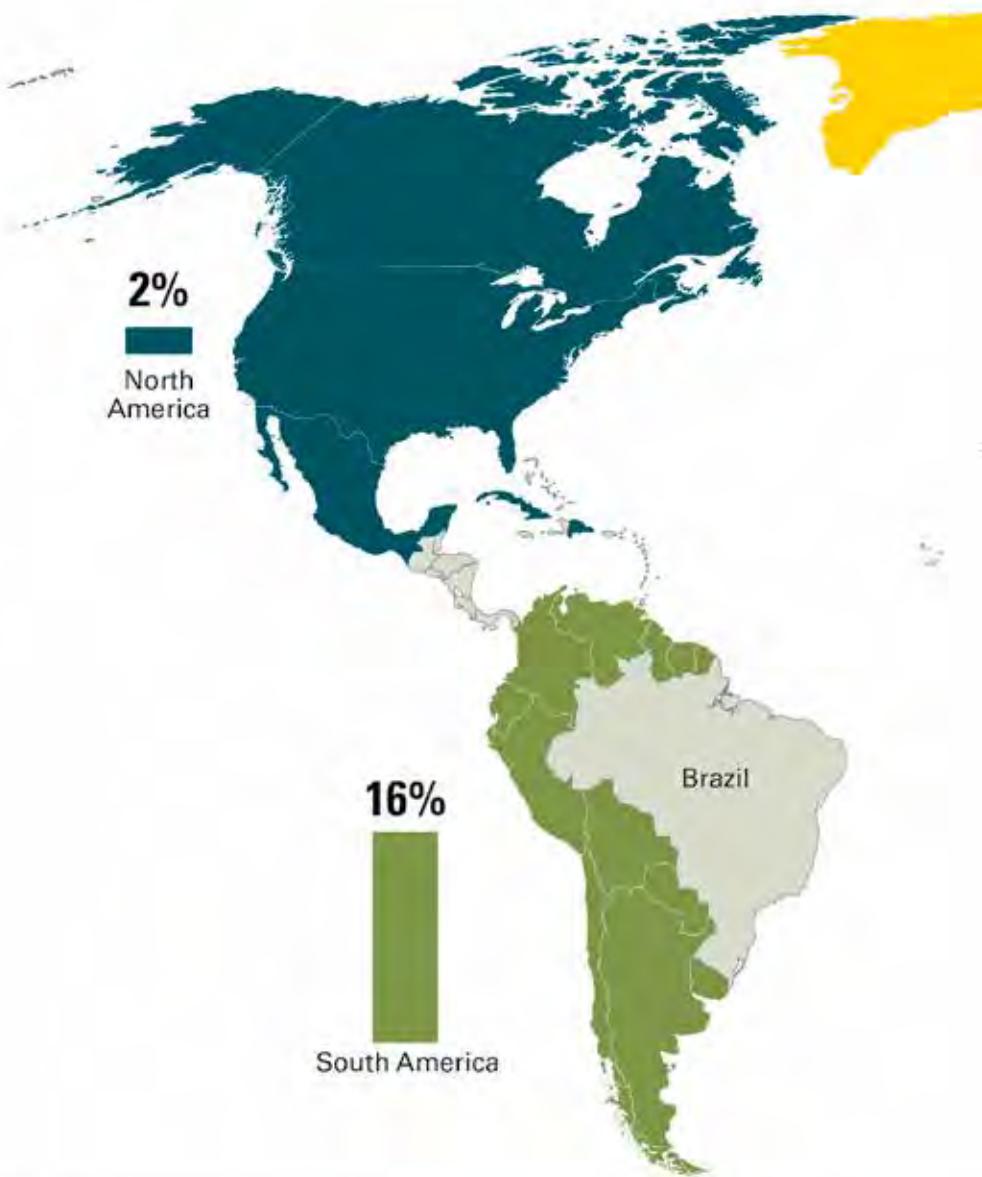
³⁴ Lada Granta and Lada Kalina will be sold in Iran, Autostat, 24 September 2013.

For those BRIC manufacturers that have taken the bold decision to enter established markets, most are doing so via hubs in lower-cost countries. Since 2013, Brazil has surged forward as a potential launchpad for exports to the US, and now rivals Mexico as equal first choice. Both Mexico and Brazil have strong trade agreements with China and other BRICs, increasing their attractiveness. Brazil's economy is expanding, and state and local governments have lured foreign investors by providing a variety of incentives. The country's 'Inovar-Auto program' offers tax discounts to companies that invest in local engineering processes, direct more resources to research and development, and develop more energy-efficient vehicles. Brazilian consumers are already enjoying falling prices due to lower import taxes on automotive products covered by the scheme.^{35, 36, 37} By virtue of its proximity and close trading links to the US, Mexico remains an obvious choice, despite some infrastructure limitations and concern over reliability of suppliers.

Since 2013, Brazil has surged forward as a potential launchpad for exports to the US, and now rivals Mexico as equal first choice.

Areas of greatest potential growth for BRIC manufacturers (besides their domestic markets) up to 2019

Percentage of respondents believing that this area has the greatest potential for BRIC manufacturers (excluding the BRIC's own domestic markets)

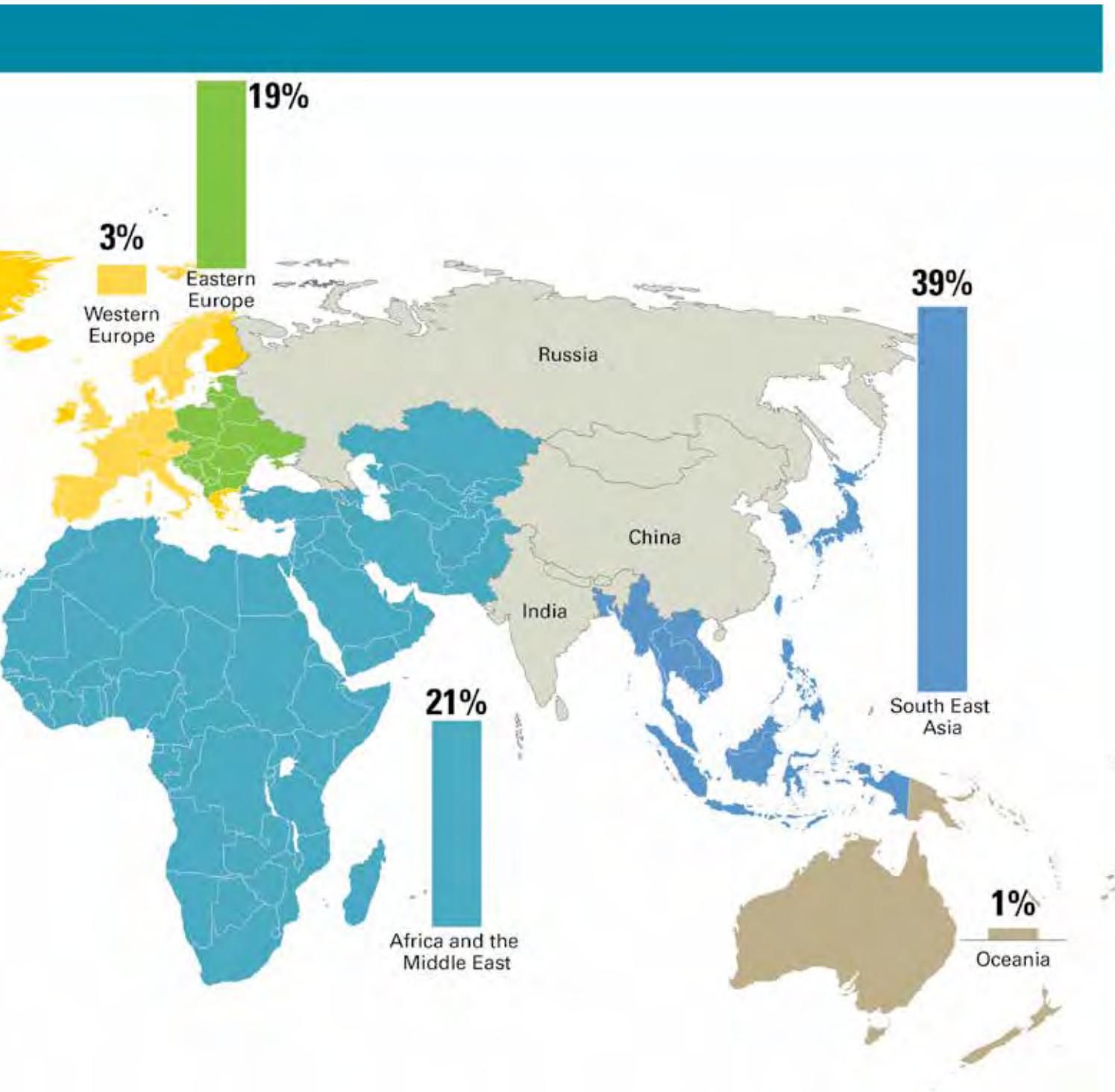


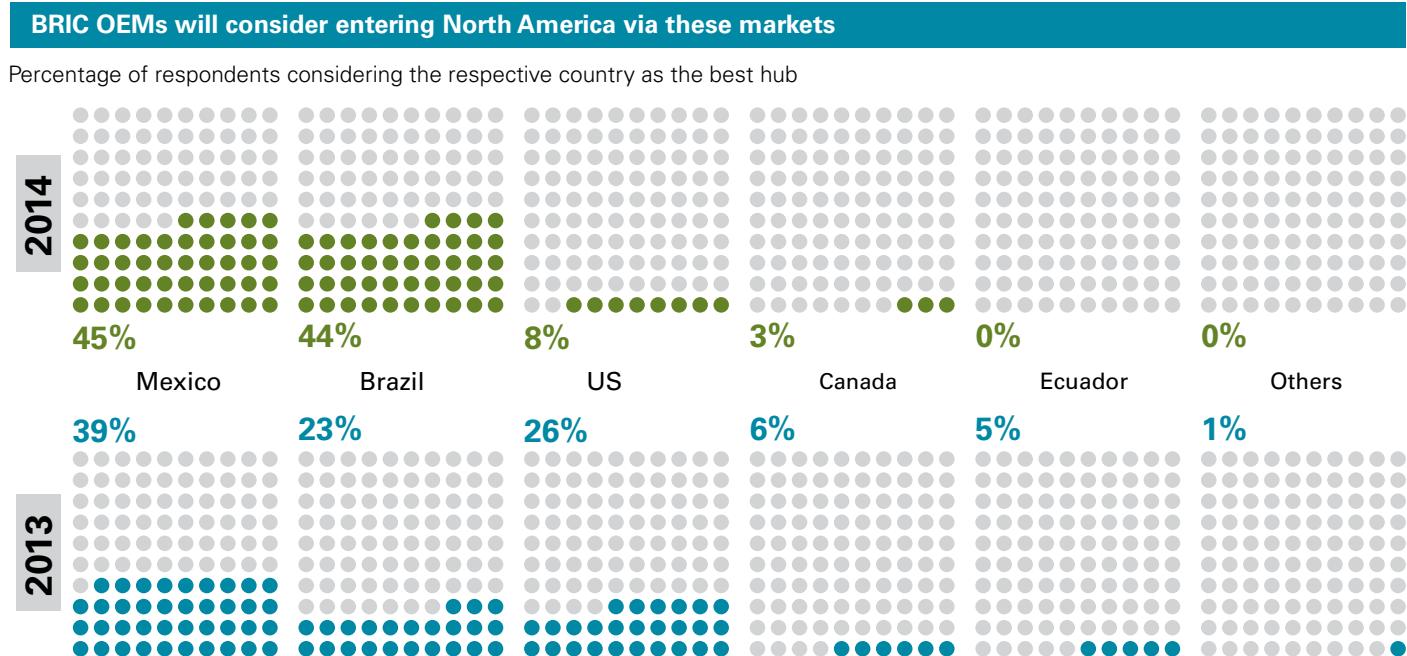
Source: KPMG's Global Automotive Executive Survey 2014

³⁵ The KPMG Green Tax Index 2013, KPMG, 2013.

³⁶ Brazil Auto Maker Association Wants to Double Exports by 2017, The Wall Street Journal, 22 April 2013.

³⁷ Brazil extends Inovar-Auto programme, Automotive Logistics, 3 April 2013.





Note: Percentages may not add up to 100 due to rounding.
Source: KPMG's Global Automotive Executive Survey 2014.

Almost three-quarters of survey participants expect BRIC manufacturers to continue using Eastern and South Eastern Europe – which includes Turkey – as their main hub for entering Western European markets. As evidence of this trend, the fourth Chinese Eastern Europe assembly hub is scheduled to open in 2013 in Belarus, where Geely has

set up a joint venture with Belarussian company BelDzhi, with a view to launch the locally assembled SC7.³⁸

Despite the acknowledged political troubles in Northern Africa, more BRICs are eyeing this region as a possible base, although to date, none have made any notable moves.

The big BRIC export push is imminent

As more and more automobiles roll off the production lines of BRIC companies, an increasing proportion of these appear to be aimed at export markets. Since KPMG's previous 2013 survey, optimism has risen over when these countries will break through to significant export volumes, with 44 percent (double the amount of just a year ago) confident that China will break the 2 million barrier within 2 years. The proportion that believe India will export a million cars

within 2 years has also increased from 31 percent to 38 percent.

It does, however, seem unlikely that China can match such bold expectations, as a big export push – especially into more mature markets – would require significant efforts to improve not only quality, but also brand perceptions and distribution networks. The current top export destinations for Chinese cars are Russia, Brazil, Iran and Venezuela.

44 percent of respondents (twice as many as in 2013) expect Chinese manufacturers to break the 2 million export barrier within 2 years.

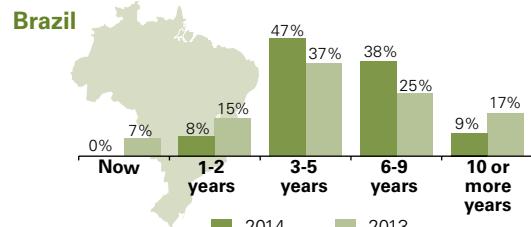
³⁸ Best Selling Cars Around The Globe: How The Chinese Are Setting Themselves Up For Success (Part 3: Eastern Europe), thetruthaboutcars.com, 15 October 2013.

Expected timeline regarding export potential of BRIC OEMs

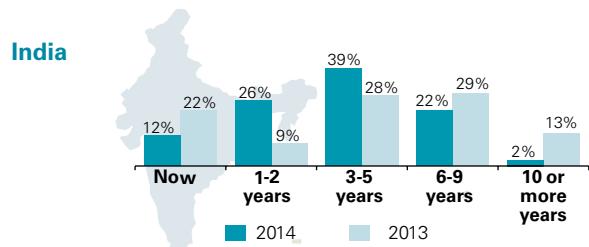
China will export more than 2 million cars



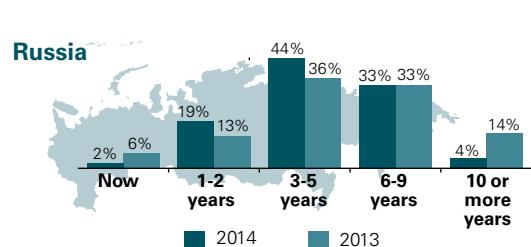
Brazil will export more than 1 million cars



India will export more than 1 million cars



Russia will export more than 1 million cars



Note: Percentages may not add up to 100 due to rounding.
Source: KPMG's Global Automotive Executive Survey 2014.

KPMG insight

Another way out: a new trend in Chinese outbound investment?

Despite a decade spent knocking on the doors of mature markets, Chinese auto manufacturers have achieved limited penetration – although some claim to have acquired essential new technologies from their overseas ventures.

As world trade opens up post-recession and increases in free trade zones, the time may be right for a new, concerted attempt by Chinese automakers to establish a global brand presence, placing design, engineering, production and marketing in the hands of a truly multinational team. These operations could be located closer to the end customer, working in partnership with local suppliers and complying with the highest international quality standards.

Qoros is one OEM already going down this route. By creating a completely new brand designed specifically for mature markets, yet funded by a Chinese automaker and its Israeli investment partner, this newcomer is forging a different path by not simply trying to adapt and sell a China-developed car in Western markets. Thus far, China's OEMs have had little success in selling passenger vehicles in any real volume outside of countries such as Russia, Brazil, Iran and Venezuela. Qoros' first sedan debuted at the Geneva and Shanghai auto shows in 2013. Marketed and branded in Europe, and manufactured for the European market, time will tell if the Qoros approach is 'another way out' for Chinese OEMs.³⁹



Lewis W. Liu
Director
KPMG in China

³⁹ Qoros debuts in Geneva with first production car and two concepts, Qoros News Center, 18 January 2013.

BRIC import restrictions starting to relax

While the established automakers watch the emergence of new entrants in their home markets, borders also appear to be opening up in many of the BRICs. In India, Russia and Brazil, more respondents expect restrictions to decrease than increase.

Take India, for example, where 59 percent believe import and export duties will ease, and 57 percent expect local content rules to decrease. In Brazil, 47 percent foresee local governmental interventions

being relaxed, while in Russia – which has joined the World Trade Organisation – 44 percent envisage import and export duties to decline. General market entry barriers and restrictions are forecast to go down in every one of the four BRICs. The picture in China is a little less positive, but even here, a majority envisage conditions remaining stable.

These findings are in contrast to the 2013 survey, when most respondents felt that barriers were rising steeply.

Compared to 2013, auto executives are more pessimistic over how long it will take for BRIC and TRIAD markets to converge in terms of infrastructure, customer needs and regulations.

KPMG insight

Clearing a path towards freer trade

Should it gain the support of China and Korea, the proposed Trans-Pacific Partnership (TPP) could have a significant impact upon the flow of trade between Asia and the rest of the world, leading to reduced tariffs and an easing of restrictions on direct foreign investment.

Such free trade agreements (FTAs) offer OEMs and parts suppliers a beacon of light in a world that has been dogged by barriers since the global recession.

However, it is not all good news. The FTAs could arguably discriminate against businesses located outside this community, while other barriers have emerged – notably to counter claims of dumping of excess vehicle stocks. Automakers in China and France are holding trials contesting imports from the US and Korea respectively, and

there is a range of measures to counter the dumping of auto parts originating in China, Brazil, and India.

Further 'third generation' actions include a US/EU ban on the use of 'conflict' minerals (mined in conditions of armed conflict and human rights abuses), a reversal of Russian tariff reductions, and controls on automotive parts destined for Iran.

Automotive companies can hedge against an uncertain trade environment by improving IT systems to better demonstrate country of origin, and assessing exposures on foreign exchange risks. Along with a robust global sourcing strategy, careful choice of factory locations, and customs and transfer-pricing strategies, it is possible to develop a more sustainable trade policy.



Seung Hoon Wi
Partner
Samjung KPMG in Korea



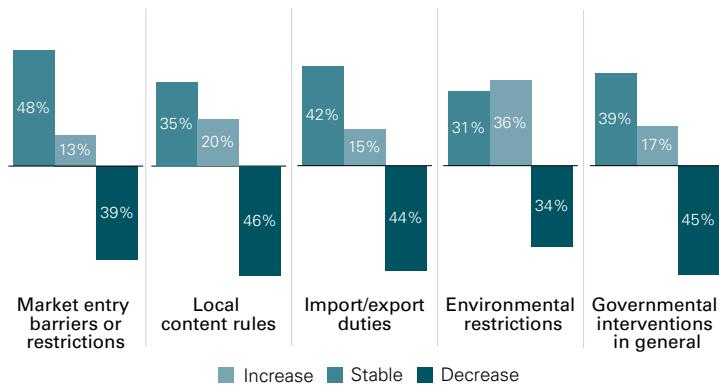
Differences in infrastructure, market maturity, customer needs and regulations can influence the move to a common global marketplace. The largest proportion of respondents (43 percent) say that it is likely to be 7-9 years before the TRIAD and BRIC

markets converge in terms of customer demand and behavior. These responses are more pessimistic than the 2013 survey, which could be a result of some challenging experiences in developing, producing and selling vehicles overseas.

Expected changes in market conditions and barriers

Percentage of respondents expecting barriers to increase/stable/decrease

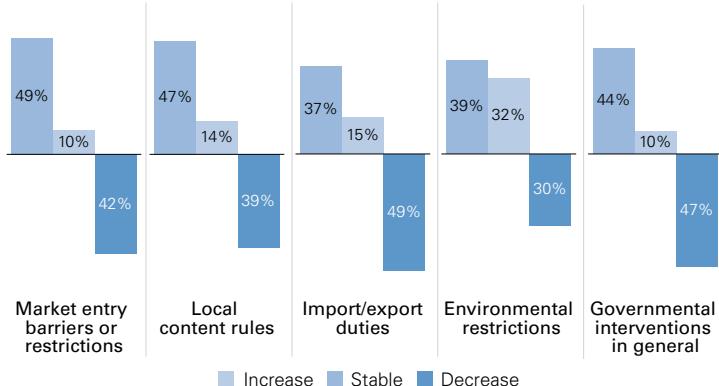
RUSSIA



Source: KPMG's Global Automotive Executive Survey 2014.

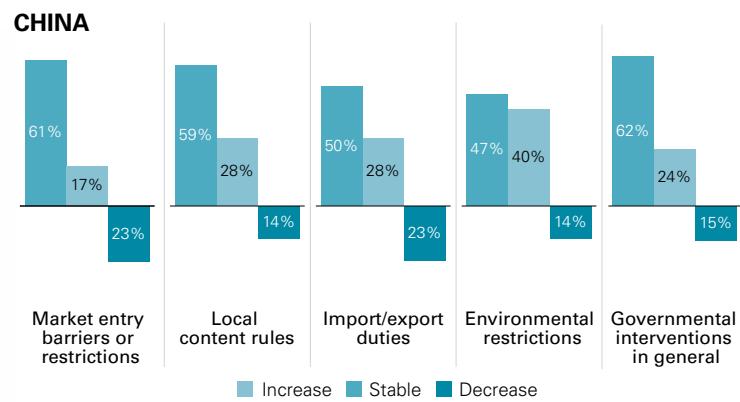


BRAZIL

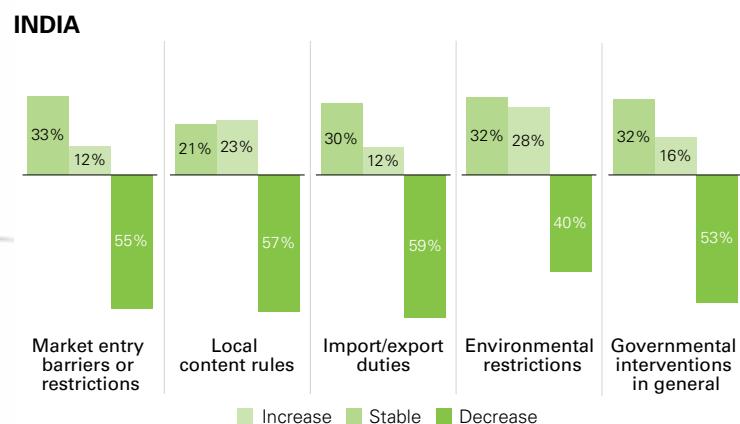


Source: KPMG's Global Automotive Executive Survey 2014.

In India, respondents expect a decrease in all trade barriers, and in Brazil and Russia, import export/duties and governmental interventions are forecast to ease.



Source: KPMG's Global Automotive Executive Survey 2014.



Source: KPMG's Global Automotive Executive Survey 2014.

Overcapacity remains a challenge

The polarity in economic fortunes between emerging and established markets is reflected in the perceived overcapacity levels. Executives taking part in the survey say there is a very high risk of overcapacity in the TRIADs, whereas the reverse is true for the BRICs, as well as for Turkey and Mexico.

Three-quarters of respondents fear that the risk is high or very high in Germany, France, US and Japan, and only slightly less so in Spain and Korea. These figures are greater than in the corresponding 2013 survey, which is

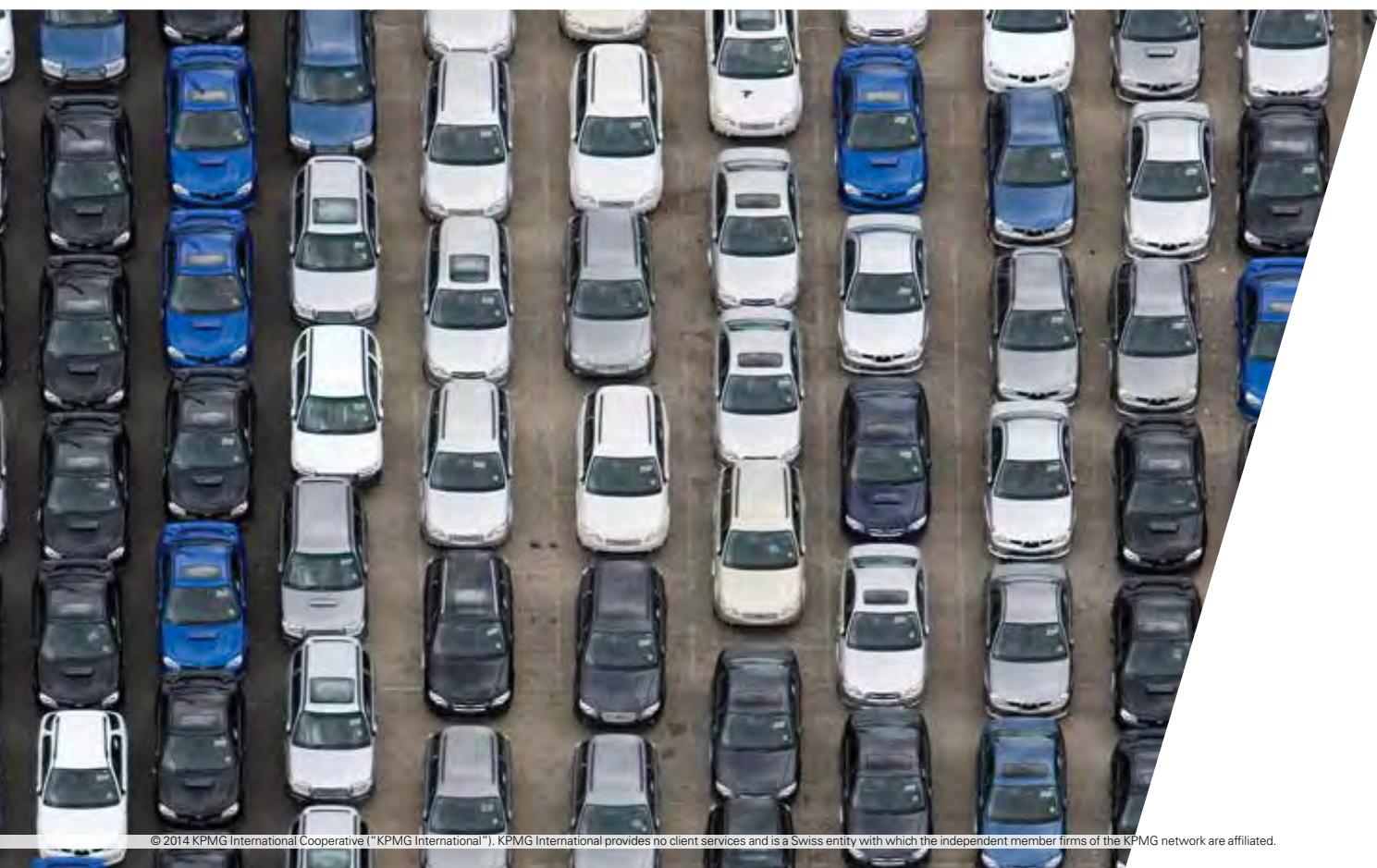
possibly due to the continued harsh competition, with a series of price wars leading to consolidation, mergers and strategic alliances.

With demand soaring, the developing markets need to increase capacity, especially given strong restrictions on imports – a situation that may change as trade opens up. However, when asked specifically about the country where they are located, over half of BRIC respondents replied that there is some overcapacity.

The US bucks the trend on overcapacity

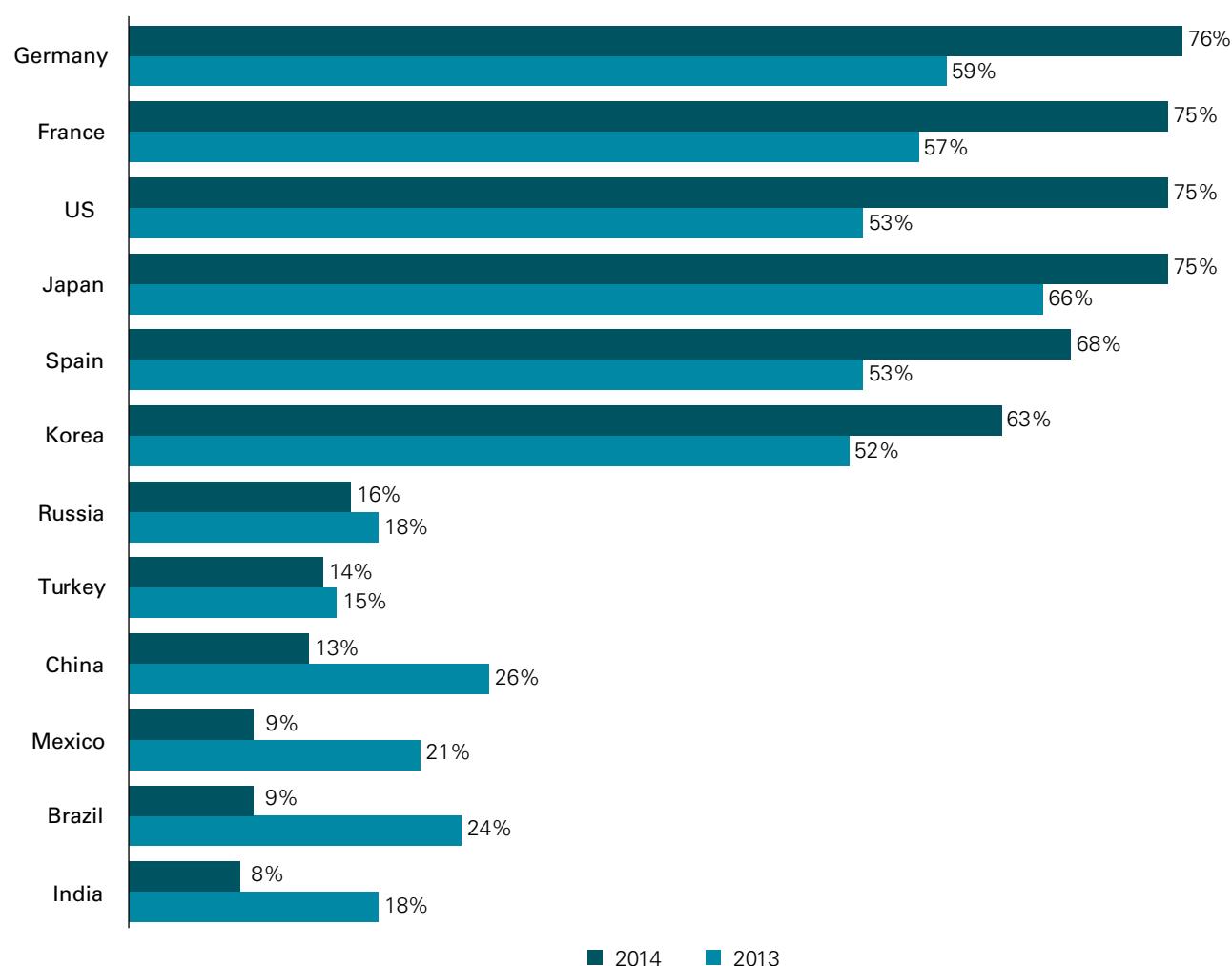
After some difficult years, the US automotive industry has confounded expectations to come back stronger than before the recession. The world's second-largest car market has become one of the few remaining growth spots in the TRIAD region and among the first movers for next-generation mobility services.

In contrast to the survey findings, many US production sites are now facing under-capacity issues and several OEMs have announced major investment plans in both engine production and vehicle assembly facilities.



Expected overcapacity levels

Percentage of respondents that rated the risk of overcapacity as 'very high' or 'high'



Source: KPMG's Global Automotive Executive Survey 2014.

Evolving strategies for market success

Achieving growth and technological leadership

Organic growth has overtaken joint ventures and alliances as the most common business strategy, as automotive businesses reconsider the benefits of partnerships. And internal strengths such as innovation also appear to be critical, in order to retain independence and avoid mergers or alliances.

In the past year, there appears to have been a re-think over the key business strategies. In our 2013 survey, respondents placed joint ventures and alliances as the main approach, while in 2014, organic growth tops the list, with 84 percent ranking this option as extremely or very important (up from 65 percent). This change in view is felt most strongly amongst OEMs from the TRIAD countries, with an overwhelming 95 percent voting for organic growth (although 81 percent of BRICs feel the same way). TRIAD suppliers express a similar shift in their focus, whereas BRIC suppliers favor expansion of the value chain and diversification as the top business strategy.

Partnerships are by nature challenging, with each party having to adapt to issues such as cultural differences and non-compete clauses. Having already entered into a number of such alliances, many automotive players acknowledge the

difficulties in gaining mutual agreement on strategy and realizing synergies.

Another interesting reversal in opinion concerns mergers and acquisitions (M&As). The 2013 survey showed OEMs from BRIC nations to be far more willing to follow such a course of action; however, 1 year later, it is the TRIAD manufacturers that express the stronger preference. Again, this could be a backlash by TRIAD players against what they may see as restrictive or poorly functioning partnerships.

The executives involved in this year's survey believe that joint ventures, alliances and M&A are most likely in China, rest of Asia and Central and South America in the 5 years up to 2019. These observations reflect the evolving nature of these geographies, as new and existing players strive to gain leadership positions. Three out of ten respondents expect a fall in the number of alliances in Japan.

Automakers are refocusing from joint ventures and partnerships towards independent growth.

Business strategies considered important for future success

Ranking 2014	Ranking 2013	Business strategy	Percentage
1	▲ 3	Organic growth	84%
2	➡ 2	Expansion of the value chain and diversification	77%
3	▼ 1	Corporate partnerships (JVs and partnerships)	77%
4	▲ 6	Cooperation with players from converging industries	76%
5	▼ 4	Outsourcing of (non-)core activities	55%
6	▼ 5	Mergers and acquisitions	50%

Note: Percentage of respondents that rated the strategy as 'extremely important' or 'very important'
Source: KPMG's Global Automotive Executive Survey 2014.

As automakers consider ways to grow organically, new products and technologies are considered the single most effective strategy, with entering new markets a close second. The big change from the 2013 and 2012 survey is the rising importance of diversifying product portfolios. Last year, 63 percent rated this factor as crucial to growth; in 2014 the proportion shot up to 80 percent. The days when automakers turned out a handful of models are long gone, as the individualization of consumer tastes, combined with

more flexible manufacturing platforms, enables a host of different products to satisfy specialist niches.

Respondents also feel that expanding after-sales and spare parts business in the BRICs is an important tactic to generate growth, as both domestic and foreign players jostle for dominance. Automotive executives from the BRIC nations feel more strongly than their TRIAD counterparts about the value of managing multiple brands and gaining synergies.

The top six tactics for generating growth up to 2019

Ranking 2014	Ranking 2012	Growth tactics	Percentage
1	➡ 1	Developing new products and/or new technologies	89%
2	▲ 6	Entering new markets	86%
3	▲ 7	Product portfolio diversification	80%
4	New	Expansion of the after-sales/spare parts business in BRICs	80%
5	▼ 3	Improving total affordability	78%
6	▼ 5	Offering price and sales incentives	76%

Note: Percentage of respondents that rated the strategy as 'extremely likely' or 'very likely' to generate growth
Source: KPMG's Global Automotive Executive Survey 2014.

Growing competition is leading to a resurgence in brand marketing

Marketing and brand management has become a more urgent priority, with 73 percent of auto executives planning to either begin or increase their investments in this area. This is more than any other part of the business and a huge increase on the 2013 survey, where it ranked ninth.

With growing competition from brands in emerging markets, established automakers are seeking to consolidate their position, while BRIC OEMs are also spending more on marketing in a bid to build their brands. This is particularly true in China, where 80 percent of respondents say their companies are investing in marketing and brands over the next 5 years.

The flow of investment dollars is to some extent diverting away from alternative power technologies. Compared to 2013, a lower proportion of survey participants expect to begin or increase expenditure in technologies such as battery, power electronics and

e-motor production. Other areas rising in prominence are module and platform strategies – which can help improve the cost structure – and the development of lightweight materials.

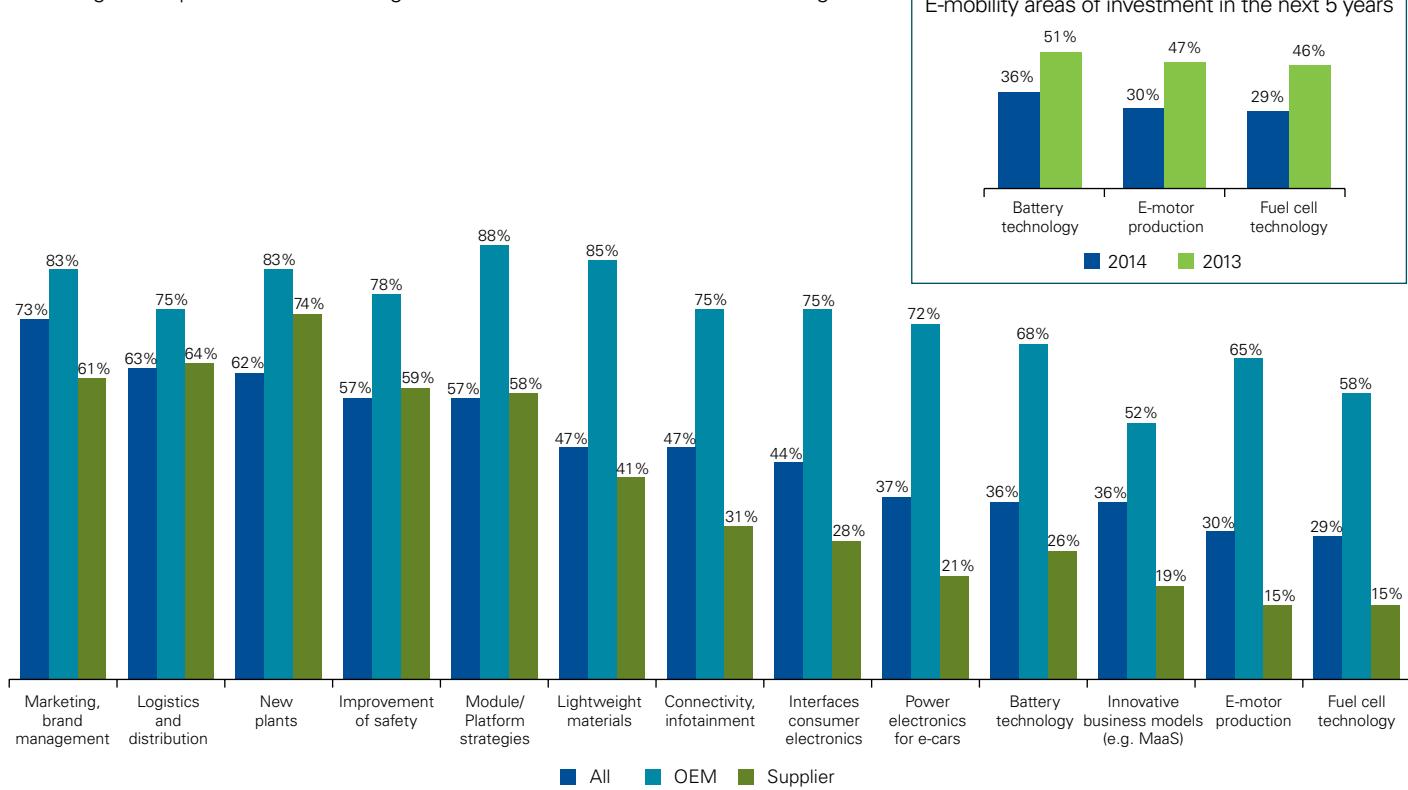
Suppliers are far less likely than other players to begin or increase investment in most areas, and have dropped their interest in alternative power technology to an even greater extent than OEMs. As OEMs become more global and expand production facilities in emerging markets, suppliers have to follow in order to present a local presence. Consequently suppliers' number one area of investment is the building of new plants.

Suppliers are also far less focused on connectivity than OEMs, with the latter putting considerable effort into vehicle-to-vehicle and vehicle-to-x communication, in order to build up their networks and own the customer relationship. Planned investment in mobility solutions also shows a sharp fall between 2013 and 2014, particularly for suppliers.

Investments in alternative power technologies are becoming a lower priority over the next 5 years.

Areas of investment up to 2019

Percentage of respondents that will 'begin' or 'increase' investments in the following areas



Source: KPMG's Global Automotive Executive Survey 2014.

Striving for technological dominance

Our survey results suggest that BRIC automakers are still playing catch-up when it comes to innovation: of the top ten companies perceived as product/technology-driven, seven come from TRIAD markets. The three highest ranked firms are Renault/Nissan, BMW and Tesla, thanks to their investments in alternative technologies and innovative product ranges, which has seen the launch of the Nissan Leaf, the Renault Twizy and the BMW i3.

At the other end of the table, some automakers are seen as placing brand image ahead of technology development – including several Japanese OEMs. Yet in their home market, both Mazda and Subaru are acknowledged for their technology-driven approach, while Isuzu has a strong reputation for producing good diesel engines. There appear to be a number of routes to technological excellence, and mere size and spend is by no means the only determining factor, as the top three

demonstrate. BMW is a good example of a premium manufacturer with a long history of investment in innovation, whereas Renault/Nissan feel that the 'power of two' is an effective way to build an outstanding R&D pipeline. Tesla occupies a completely different space in the market, as a new, small entrant with a narrow focus on e-mobility, which is raising its profile considerably.

The highest ranked Chinese manufacturer is Chery in fifth place. Chery is not only the largest Chinese independent automobile manufacturer, but also one of the few companies from the People's Republic that has also developed technology to build core components.⁴⁰

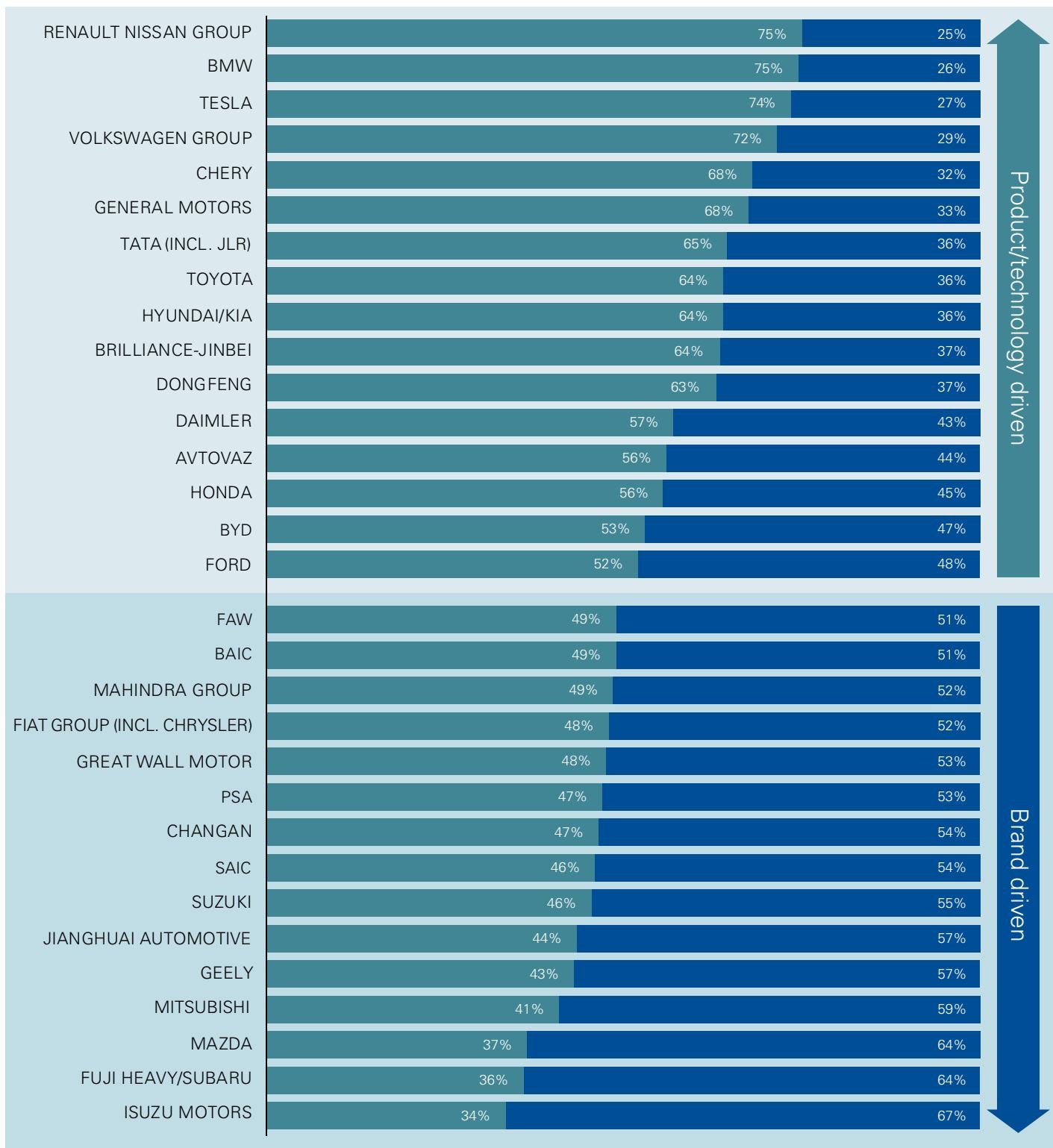
Innovation excellence may be more than just a means to gain competitive advantage; it could be critical to the survival of the company, as there seems to be a strong correlation between technological leadership and the ability to remain independent.

⁴⁰ Chery website, <http://www.cheryinternational.com.my/aboutus.php>, accessed 24 October 2013.



Perceptions of leading automotive companies

Percentage of respondents that consider each company to be product/technology driven or brand driven



■ Product/technology driven ■ Brand driven

Note: Percentages may not add up to 100 due to rounding.

Source: KPMG's Global Automotive Executive Survey 2014.

A small proportion are likely to retain their independence

The results of the survey suggest that leadership in innovation is possibly the most critical factor for survival – more so than mere size. Only six of the 32 major companies in our tables are expected to remain independent, with the remainder more likely to merge with other OEMs or form stronger alliances in order to survive. These six players are all renowned for their innovative products and features.

When it comes to individual companies, BMW, VW, Tesla, Hyundai/Kia, Toyota

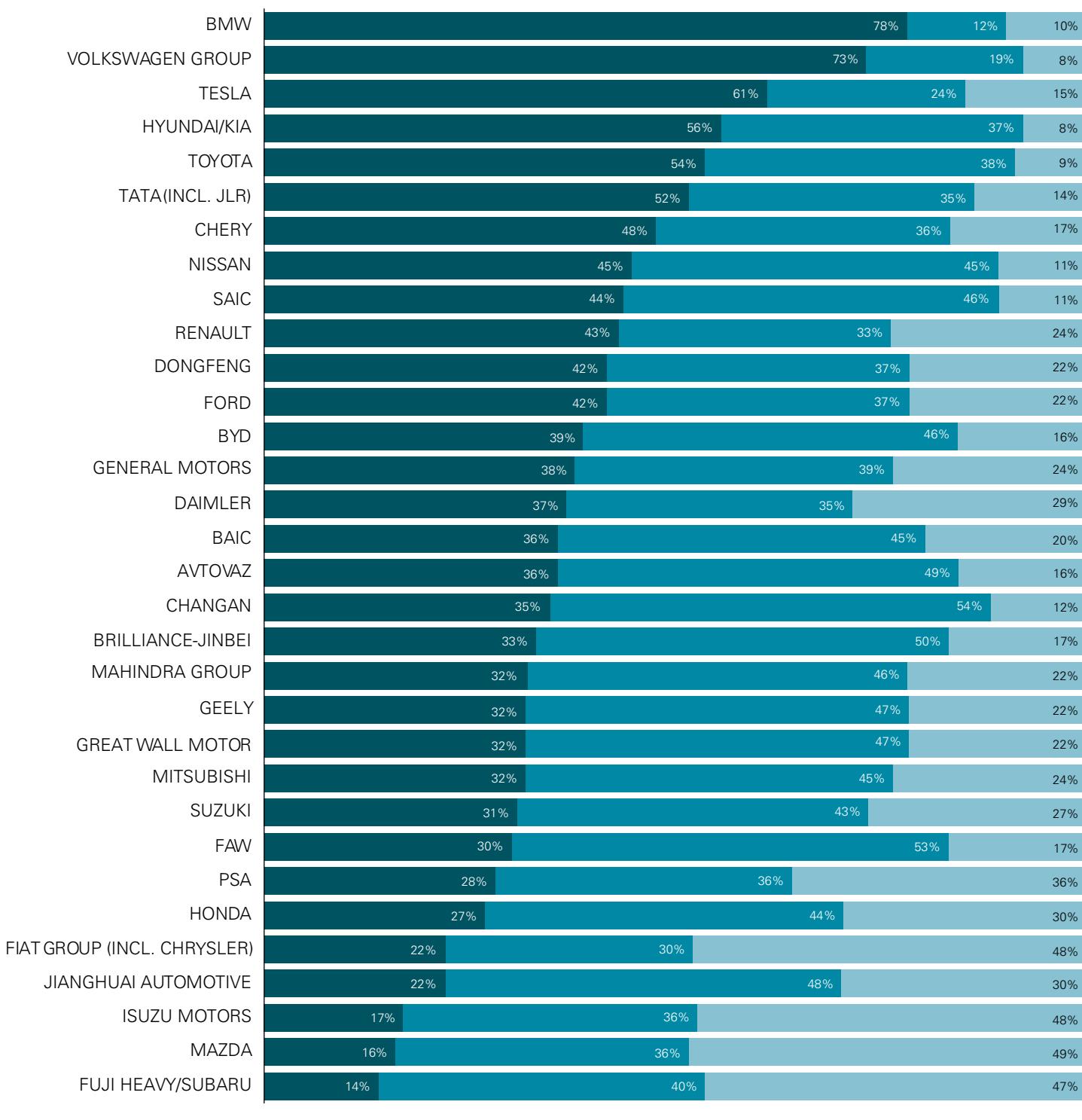
and Tata are seen as having the best chance to retain independence. BMW is in clear first place, and along with Tesla is ranked high on the scale of product and technology innovators.

Mazda, Fiat, Isuzu and Fuji Heavy/Subaru, on the other hand, are viewed as candidates for mergers with other OEMs. Many of the Chinese manufacturers are expected to strengthen their alliances in order to survive, which should lead to further market consolidation.



Expected strategies for survival

Percentage of respondents believing that the company has to adopt this strategy in order to survive



■ Remain independent ■ Strengthen alliances ■ Merge with other OEMs

Note: Percentages may not add up to 100 due to rounding.

Source: KPMG's Global Automotive Executive Survey 2014.

Winners and losers in the battle for global dominance

It is all change at the top of the global growth rankings, as the European and Japanese presence diminishes, and the BRIC automakers climb steadily upwards. According to KPMG's 2014 survey, seven out of the ten OEMs most likely to grow in the next 5 years are from China, Russia and India.

Of those companies expected to increase global market share by 2019, VW drops off the top spot to be replaced by Hyundai/Kia, which has moved from sixth place in 2013. Seventy percent of respondents feel that the Korean manufacturer will gain a bigger share, thanks to new models set to make a mark on the premium segments.

Tata has risen from 10th to seventh and AvtoVAZ has made a huge leap from 21st to third. Russia's leading automaker is 25 percent owned by Renault, with the links between

the two (and Renault's ally Nissan) expected to deepen in future.⁴¹ Compared to the wider survey participants, Russian respondents are far less optimistic about AvtoVAZ.

Mahindra – which was not in the rankings in 2013 – has made it into the Top 15 in 11th place. Toyota, however, has fallen from fourth to 21st in the past 12 months, which may be due to the fact that the Japanese giant already has high market shares in Asian countries such as Indonesia and Thailand, leaving little room for further growth.

Tesla is the top-rated American OEM in 18th position, as the California-based electric vehicle manufacturer sets its sights on expansion into Europe.

⁴¹ Renault-Nissan, AvtoVAZ Create Common Purchasing Group, WardsAuto, 1 October 2013.

Respondents expecting global market share to increase/decrease up to 2019						
2014	2013	Company	Country	Decrease	Increase	
1	5	Hyundai/ Kia	South Korea	-14%		70%
2	1	Volkswagen Group	Germany	-12%		67%
3	21	AvtoVAZ	Russia	-10%		66%
4	6	SAIC	China	-14%		66%
5	13	Chery	China	-20%		65%
6	11	Dongfeng	China	-11%		65%
7	10	Tata (incl. JLR)	India	-17%		65%
8	2	BMW	Germany	-14%		63%
9	17	Brilliance-Jinbei	China	-16%		59%
10	3	BAIC	China	-11%		58%
11	-	Mahindra	India	-20%		55%
12	23	BYD	China	-16%		53%
13	9	Nissan	Japan	-23%		52%
14	7	FAW	China	-16%		51%
15	12	Changan	China	-21%		51%
16	8	Geely	China	-22%		49%
17	-	Great Wall Motor	China	-23%		48%
18	-	Tesla	US	-25%		46%
19	20	Renault	France	-26%		43%
20	15	General Motors	US	-21%		42%
21	4	Toyota	Japan	-16%		41%
22	-	Jinghuai	China	-26%		39%
23	16	Daimler	Germany	-29%		38%
24	24	Suzuki	Japan	-35%		33%
25	22	PSA	France	-32%		33%
26	14	Ford	US	-20%		31%
27	-	Isuzu Motors	Japan	-47%		28%
28	19	Honda	Japan	-38%		28%
29	18	Fiat Group (incl. Chrysler)	Italy	-44%		25%
30	26	Mitsubishi	Japan	-33%		23%
31	25	Mazda	Japan	-40%		22%
32	27	Subaru/ Fuji Heavy	Japan	-31%		18%

Note: Percentage of respondents expecting market share to remain stable are not shown.

Source: KPMG's Global Automotive Executive Survey 2014.

OEMs' position in the future global marketplace

The impact of the ongoing changes in the global automotive market are profound, as OEMs seek to produce energy-efficient vehicles that meet the demands of megacities and embrace the technological revolution. At the same time, the rapid growth of the emerging nations brings tremendous opportunities but also intensifies competition.

The automotive executives taking part in the survey have some strong views on where manufacturers are heading. Eighty-one percent believe that they will gradually lose their dominance in motor expertise, as suppliers take a more involved role in the process. A similar proportion say that OEMs are likely to become pure mobility solution providers, to satisfy evolving patterns of car ownership. An example of this direction is Daimler's car2go mobility concept, where drivers can hire a car instantly from a range of cities in

Europe and North America. Members can locate available cars online, swipe their details against a reader in the windscreens, use the vehicle for as long as they want, and then leave it in any public parking space in the city zone.⁴²

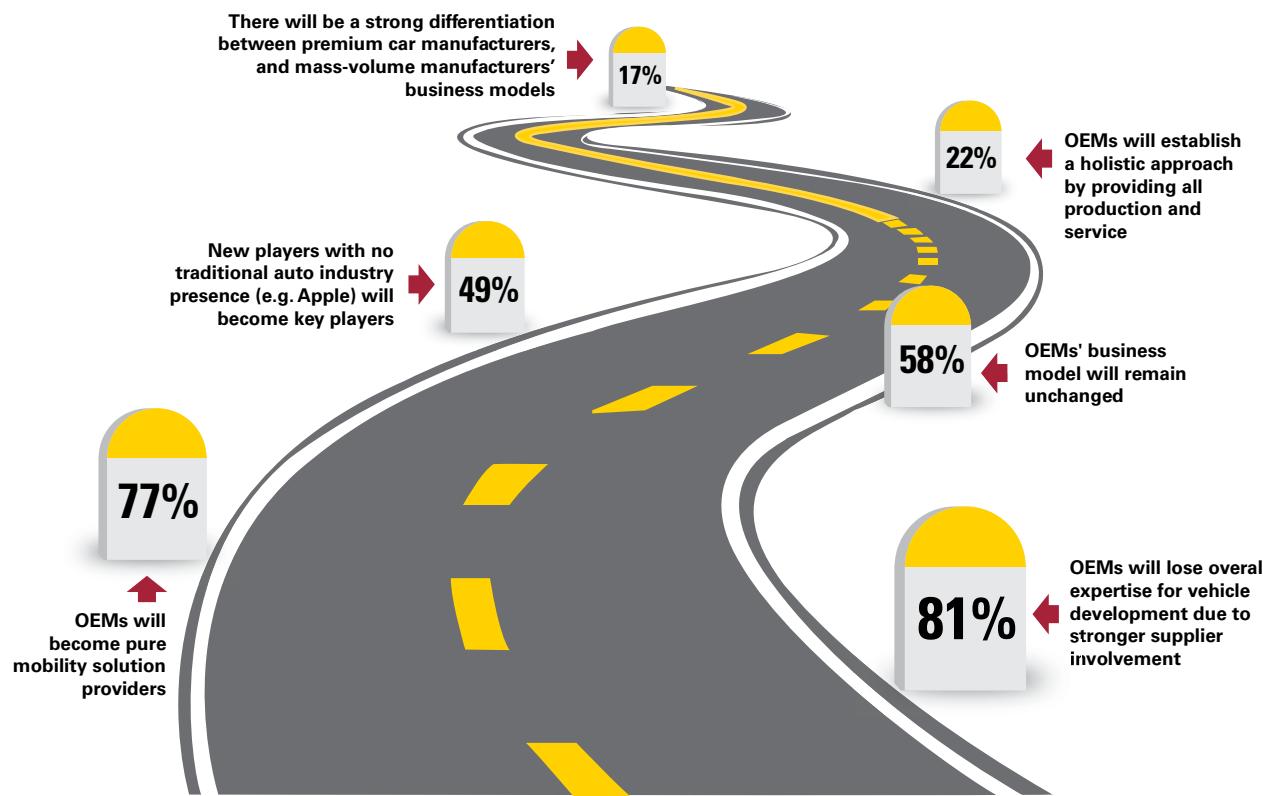
Half of the respondents predict that completely new entrants from sectors such as technology and utilities are likely to become important players, gaining greater brand awareness. TRIAD-based survey participants are more likely than their BRIC peers to hold such a view.

As a possible warning against complacency, almost six out of ten say that the traditional OEM business model will remain unchanged. Given the emergence of new technology players, and developments such as Google's self-driving car, such an attitude could potentially be shortsighted, as tech firms are demonstrating their ability to move into OEM territory.

⁴² Daimler Mobility Concepts car2go, <http://www.daimler.com/technology-and-innovation/mobility-concepts/car2go>, accessed 5 November 2013.

Potential future shape of the automotive industry

Percentage of respondents rating the answer as 'extremely likely' and 'very likely'



Source: KPMG's Global Automotive Executive Survey 2014.

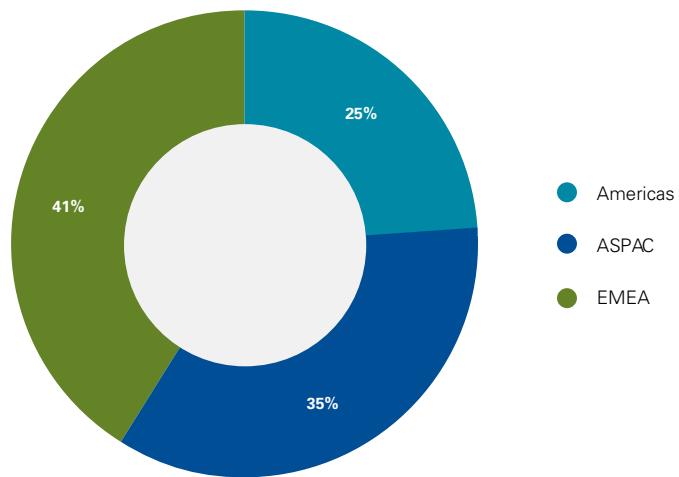


About the survey

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 solution providers.

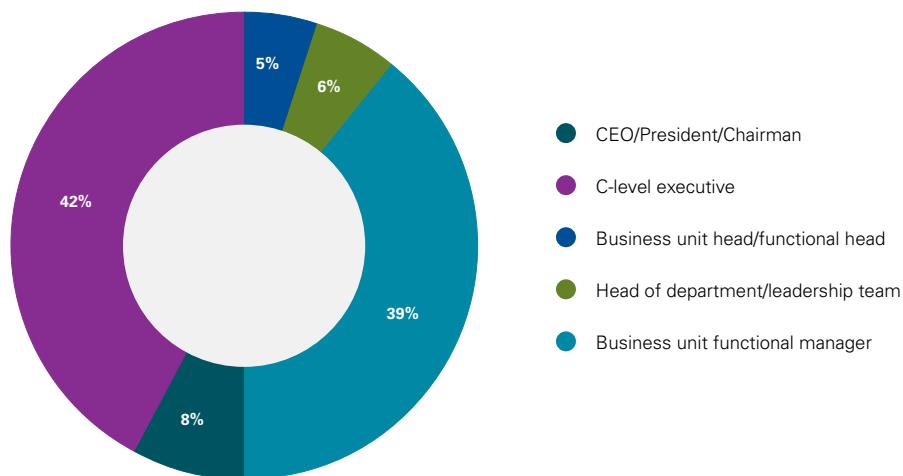
Forty percent of the executives are based across Europe, Middle East and Africa, 35 percent in the Asia-Pacific region and 25 percent in the Americas. All of the participants represent companies with annual revenues greater than US\$100 million, and 39 percent work for firms with revenues of over US\$10 billion. The respondent interviews, which were held by phone, took place in July and August 2013.

Respondents by region



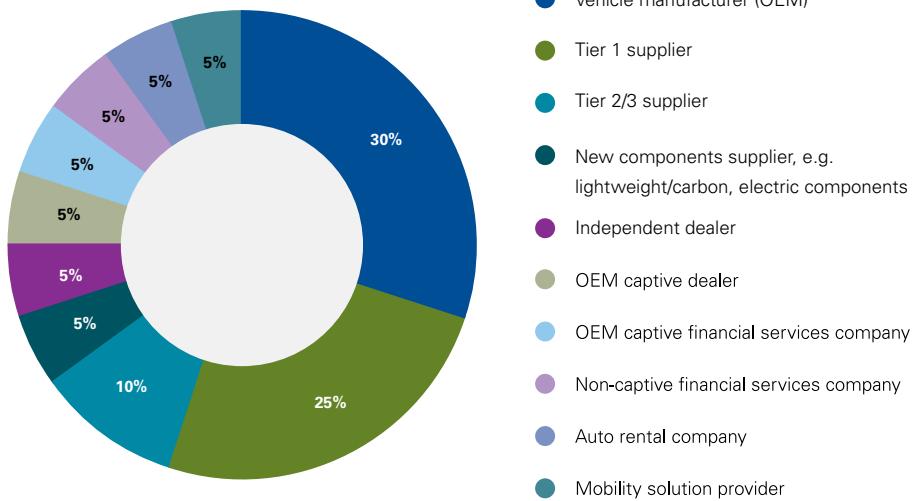
Note: Percentages may not add up to 100 due to rounding.
Source: KPMG's Global Automotive Executive Survey 2014.

Respondents' job titles



Note: Percentages may not add up to 100 due to rounding.
Source: KPMG's Global Automotive Executive Survey 2014.

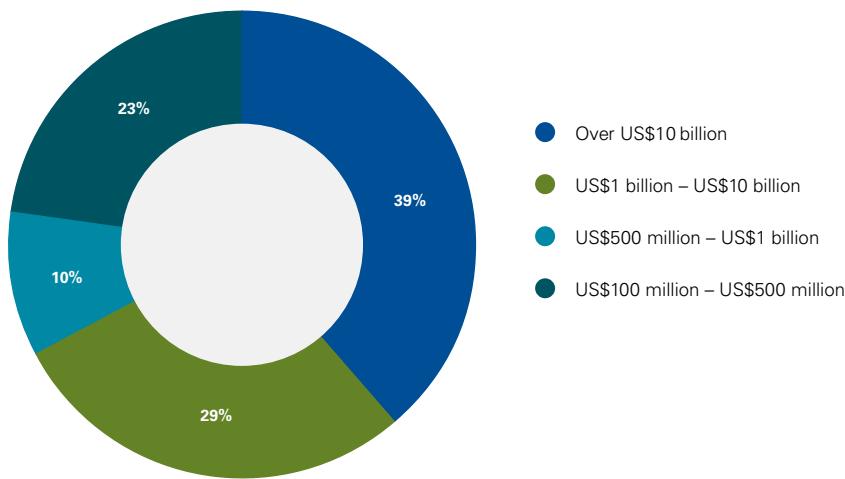
Company category



Note: Percentages may not add up to 100 due to rounding.

Source: KPMG's Global Automotive Executive Survey 2014.

Company annual revenue



Note: Percentages may not add up to 100 due to rounding.

Source: KPMG's Global Automotive Executive Survey 2014.

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Designed by Evaluateserve.

Publication name: KPMG's Global Automotive Executive Survey 2014

Publication number: 130811

Publication date: January 2014