

Automotive

Incumbents Strike Back

Global C-suite Study
19th edition

IBM Institute for
Business Value



Which way to the future?

The signals are utterly bewildering. As digital technologies transform the world, monopolies are winning big-time. Yet collaborative systems are also flourishing, and even in industries where the competition is shrinking there's still plenty of creativity. Little wonder top executives are puzzled.

Automotive CxOs are no exception. In 2015, they were largely convinced that new markets would present the best opportunities for growth. Today, they're not quite so sure. And where, previously, most envisaged that open innovation would predominate, opinion has now swung the other way: although 40 percent of respondents are placing their money on outside innovation, 48 percent say proprietary research will prevail. But there are two points on which Automotive CxOs broadly agree. They expect more emphasis on customer experiences than products over the next few years and more widespread partnering.

Automotive CxOs also state that there's been a major shift in the external factors most likely to affect their organizations in the near future. Market forces have overtaken technological advances to claim the top spot, while talent has soared from seventh to third place on their agendas. Automotive CEOs are especially anxious about the battle for brains. They're not alone in this respect; other IBM research shows that industry executives see expertise in science, technology, engineering and math (the STEM subjects) as one of the two most critical workforce requirements.¹

The IBM Institute for Business Value, in cooperation with Oxford Economics, interviewed 410 CxOs from the Automotive industry. These conversations included both quantitative and qualitative responses. The analytical basis for this Automotive industry report uses 402 valid responses from the total data sample collected.

More than 12,800 CxOs, representing six C-suite roles, 20 industries and 112 countries, contributed to our latest research. We used the IBM Watson Natural Language Classifier to analyze their contextual responses and ascertain overarching themes. We also used various statistical methods, including cluster analysis and discriminant analysis, to scrutinize the millions of data points we collected.

Reinventors race ahead

In the course of our research, we identified a group of automotive companies that outshine their peers on the path to Digital Reinvention™. Auto Reinventors focus on developing breakthrough products, services and business models, excel at extracting value from their ecosystems and actively experiment. Their IT strategies are aligned with their commercial goals, and they're superb at managing change – all of which helps them outperform both financially and as innovators. This group consists of leading Original Equipment Manufacturers (OEMs) and Suppliers.

The remaining automotive enterprises in our sample are less advanced. We have subdivided them into two groups, according to the roles they play in the supply chain, and referred to them as “Other OEMs” and “Other Suppliers,” respectively (see Figure 1).

Reading the road signs

So what's actually going on? Four topics stand out from our conversations with CxOs and our work with academics:

Dancing with disruption

The path to personalization

The pull of platforms

Innovation in motion.

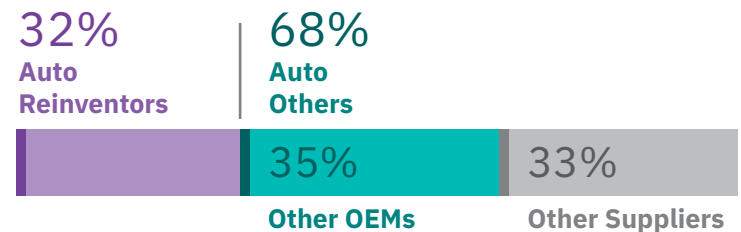
“Technology has disrupted the industry for good, making possible things like mobility, autonomous driving and connectivity.”

Chief Operations Officer, Automotive, Australia

Figure 1

Automotive split

Auto Reinventors have distinct characteristics that result in differing vantage points



Dancing with disruption

Two years ago, CxOs told us they were deeply worried about digital giants and ankle-biters from other sectors invading their territory. Now, it's not outsiders they're most concerned about: 79 percent of Automotive CxOs report that the *real* disruption is coming from innovative industry incumbents – once unwieldy enterprises that have reinvented themselves to thrive in the digital age. An example? BMW plans to “out-Uber” Uber by creating a fleet of cars that can be optimized for different services, based on daily demand.²

Many of the Automotive CxOs we interviewed are steeling themselves for a period of great turmoil. More than half of them anticipate major changes in the roles played by each industry participant, with considerable knock-on implications for the traditional automotive value chain. While the areas in which they expect to see most disruption differ, depending on whether they represent OEMs or Suppliers, both groups envisage that after-market service providers and online intermediaries will be particularly seriously affected.

However, Automotive CxOs say there's an upside to disruption, too: 74 percent anticipate that the blurring of the boundaries between different industries will spark new strategies. More than half of all respondents also predict that convergence will produce new opportunities for growth. The Auto Reinventors in our sample are particularly well placed to capitalize on these opportunities because they already have clearly defined formal business strategies to manage disruption (see Figure 2).

The path to personalization

Connecting with the customer on a personal level is vital these days, but designing compelling personalized experiences is very difficult; it takes a profound understanding of what makes different people tick. Again, Auto Reinventors are ahead of the curve: 83 percent excel at using data to identify unmet customer needs (versus 59 percent of Other OEMs and 50 percent of Other Suppliers).

However, Auto Reinventors don't just trawl through yottabytes of data. They approach problems like design thinkers – by empathizing and engaging directly with customers, consulting their partners to get a better picture of the customer experience and analyzing detailed journey maps. The result? A full 81 percent of Auto Reinventors are effective at creating personalized customer experiences, compared with just 57 percent of Other OEMs and 50 percent of Other Suppliers.

“We've started personalizing our standard products with different services. We want our automobiles to become lifestyle statements, not just vehicles.”

Chief Marketing Officer, Automotive, Russia

The pull of platforms

One of the most exciting recent trends is the emergence of the platform business model, which connects producers directly with consumers, enabling organizations to grow faster and generate higher profits. While only 7 percent of Automotive CxOs already have platforms, 18 percent are experimenting with the concept and 19 percent are planning to reallocate capital for this purpose. Equipment giant Caterpillar exemplifies the platform approach; it recently acquired Yard Club, an online marketplace for helping contractors rent out idle equipment to other contractors.³

But what makes a platform work? We identified three “rules” for success: creating value from reciprocity, capitalizing on data and committing to innovation. Auto Reinventors perform some of these activities especially well. They’re more open than their industry counterparts to the idea of collaborating selectively with competitors. They’re also more willing to pool resources with the rest of their ecosystems: 50 percent share physical assets with their partners (versus only 32 percent of Other OEMs and 37 percent of Other Suppliers). Lastly, Auto Reinventors are more likely to be investing in mobile, cloud computing and the Internet of Things (IoT), three of the key technologies required to bridge the digital-physical divide.

Figure 2

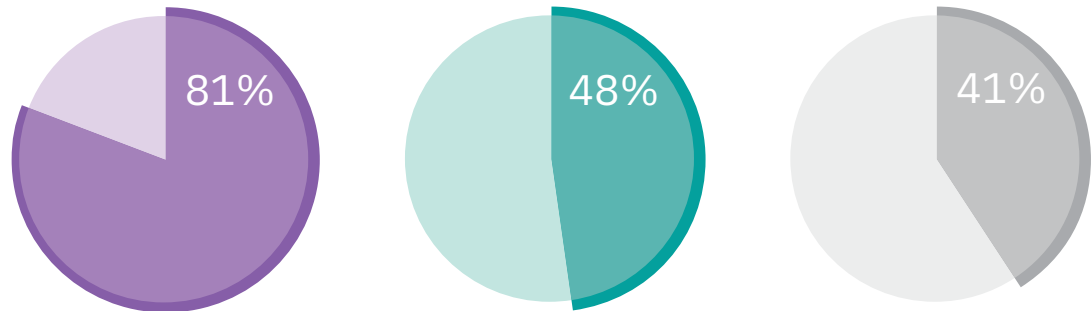
Strategic advantage

Auto Reinventors are adjusting their strategies to deal with disruption

Auto Reinventors

Other OEMs

Other Suppliers



Q: To what extent does your enterprise have a well-defined, formal business strategy to respond to disruption? (Percentage of respondents choosing “to a large extent.”)

Innovation in motion

The organization of work is altering dramatically as enterprises collaborate to innovate and ecosystems replace go-it-alone entities. Auto Reinventors are in a far better position to adapt: 92 percent have C-suites with a strong grasp of how the industry is evolving (versus just 68 percent of Other OEMs and 63 percent of Other Suppliers). The CxOs who head these companies are also much better at articulating their corporate strategy.

There's more. The majority of Auto Reinventors are creating nimble enterprises that learn on the fly: 80 percent solicit input from employees to develop new approaches, compared with just 63 percent of Other OEMs and 49 percent of Other Suppliers. And many Auto Reinventors have gone much further: 73 percent are embracing fluid, cross-functional teams to stimulate continuous learning (versus only 54 percent of Other OEMs and 47 percent of Other Suppliers). Three-quarters of all Auto Reinventors also empower their teams to decide on the best course of action (see Figure 3).

“Our first goal is to help our employees acquire new skills. Then we plan to create teams that integrate talent from the different parts of the business.”

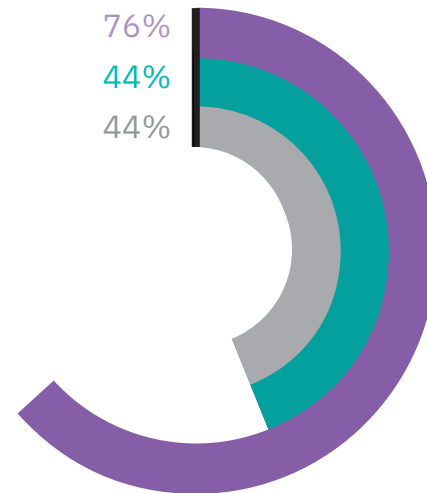
Chief Human Resources Officer, Automotive, China

Figure 3

Auto Reinventors
Other OEMs
Other Suppliers

Autonomous teams

Auto Reinventors empower their teams to decide on the best course of action



Q: To what extent does your enterprise empower teams to decide on the best course of action? (Percentage of respondents choosing “to a large extent.”)

Lastly, Auto Reinventors reward fast failure as well as successful innovation. In short, they combine a dynamic vision with an open culture and agile operations – and these, as our research shows, are the three stepping stones to organizational dexterity.

Strengthening advantage: Actions to take now

Embrace disruption. Partner with companies in other industries to learn from leading practices elsewhere and create exceptional automotive experiences. Foster a culture that welcomes innovations “not invented here.” Engage and disengage rapidly, as your needs dictate.

Exploit the data, reinvent the business. Invest in digital technologies to capitalize on new data sources from different facets of your business, whether it’s vehicles, mobility services or customers. Use analytics to identify new innovation opportunities. Share insights freely throughout your enterprise and ecosystem.

Tap the crowd. Harness the intellectual power of consumers, partners and employees to uncover new ideas, insights and opportunities. Utilize different “systems of engagement” to connect through the channels and technologies people prefer to use as they seek information or offer feedback.

Related IBM IBV C-suite Program executive reports

To read the full report, “Incumbents Strike Back,” please go to ibm.com/globalcsuitestudy. You can also find copies of our monthly insights and three related C-suite executive reports on IoT, artificial intelligence and blockchain at the same location.

For more information

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Notes and sources

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