

Automotive suppliers are slightly more profitable, but necessary investments still at risk

Brussels 7 November - CLEPA and McKinsey & Company present the latest insights into the automotive supply industry's health and sentiment through its bi-annual survey. Based on >150 responses, the survey provides perspectives on the sector's business climate, trends, current challenges, and opportunities.

- Survey unveils a mixed general outlook, with 39% of respondents holding a negative perspective and 31% having a positive one.
- Half of suppliers expect low profits or even losses, while 43% express concern about EU competitiveness and 41% believe that other regions are racing ahead in bringing new technologies to the market.
- Despite these concerns, Europe's automotive suppliers continue to see opportunities, with 49% expecting revenue growth over the next 12 months.

In 2023, 56% of suppliers anticipate operational profitability below 5%. While this is a notable improvement from 76% in 2022, it is still not sustainable in the long run. For next year, this figure is expected to improve further, with only 48% expecting profitability below 5%. However, that still represents about half of the industry with low profitability or even losses, questioning the ability to fund the green and digital transition.

Lukas Michor, leader of McKinsey's EMEA supplier practice states, "While the overall outlook has improved compared to Covid times, the industry is still very much dominated by uncertainty. This is particularly driven by an unstable volume outlook. On the one hand, it remains unclear how much the overall volumes will pick up in the current inflationary environment and on the other hand the forecast on vehicle platform level is as uncertain as ever."

A key challenge that remains for many suppliers is increasing costs and the inability to pass these on to OEM customers. High production costs remain a particular concern, with 43% of suppliers highlighting it as a primary strategic challenge, an increase from 35% six months ago.

Benjamin Krieger, CLEPA's Secretary General states, "Suppliers need to maintain significant investments to meet the twin green and digital transition to remain globally competitive. Energy, material, and administrative costs are a challenge and undermine the competitiveness of the EU. While the industry has what it takes to bring cutting-edge technology to the market, it will require increased effort and regulatory support for the industry to reinforce its competitive edge."

In addition, 41% express apprehension that other regions, particularly China, are outpacing the EU in technological innovation. Shorter product development cycles and the display of innovation at events like the Shanghai Auto Show are contributing factors to this concern.

Respondents show mixed feelings about the risks and opportunities in China. The survey found that 34% of suppliers are actively reducing their dependency on the Chinese market, while 29% still identify China as central to their future growth strategy. However, most suppliers agree that there is a need to catch up on both operational and strategic capabilities to remain competitive. Only 17% of suppliers believe their cost structure and pricing are competitive, and just 25% feel that their product development cycle and decision-making processes are sufficiently fast and agile.

Despite the challenges, European suppliers remain forward-looking, with 21% prioritising "investing to grow" and 44% adopting a balanced approach of cost reduction and targeted investment. Besides

executing a new China strategy, digitalisation remains a core element of suppliers' growth strategy with two-thirds actively pursuing digital transformation, particularly in the areas of R&D, production, and supply chain management.

About CLEPA

CLEPA, the European Association of Automotive Suppliers based in Brussels, represents over 3,000 companies, from multi-nationals to SMEs, supplying state-of-the-art components and innovative technology for safe, smart and sustainable mobility, investing over €30 billion yearly in research and development. Automotive suppliers in Europe directly employ 1.7 million people in the EU.

For further information, please contact:

CLEPA's Head of Strategic Communications Filipa Rio at f.rio@clepa.be

About McKinsey

McKinsey is a global management consulting firm committed to helping organizations accelerate sustainable and inclusive growth. We work with clients across the private, public, and social sectors to solve complex problems and create positive change for all their stakeholders. We combine bold strategies and transformative technologies to help organizations innovate more sustainably, achieve lasting gains in performance, and build workforces that will thrive for this generation and the next.

For further information, please contact:

Senior Manager of Communications Martin Hattrup-Silberberg: martin_hattrup-silberberg@mckinsey.com