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# Introduction

We have the pleasure of presenting to you our new study “Automotive Industry Outlook (2017 Survey)” which ask questions such as: What are the key competitive advantages and main disadvantages of the Czech automotive industry? What are producers’ expectations towards suppliers and what is the suppliers’ stance? What trends will influence this sector in the next 5 years? And what will be the role of innovations in this segment?

This is only a short list of questions asked within Deloitte’s survey. We focused on the automotive industry which has a rich tradition and history in the Czech Republic. We aimed to map the landscape of the Czech automotive industry with respect to the Czech economy as well as the attitudes of the industry’s representatives as regards future developments of the segment.

The answers obtained this year were compared with the outcomes of the 2015 survey which had been conducted in the Czech Republic as well as in the CE region. The conclusions we have reached are presented on the following pages. We will only state by way of introduction that the vast majority of enterprises have no reason to consider transferring production to another CE country. And that is good news!

We would like to thank all respondents for their willingness and cooperation in completing the questionnaire.

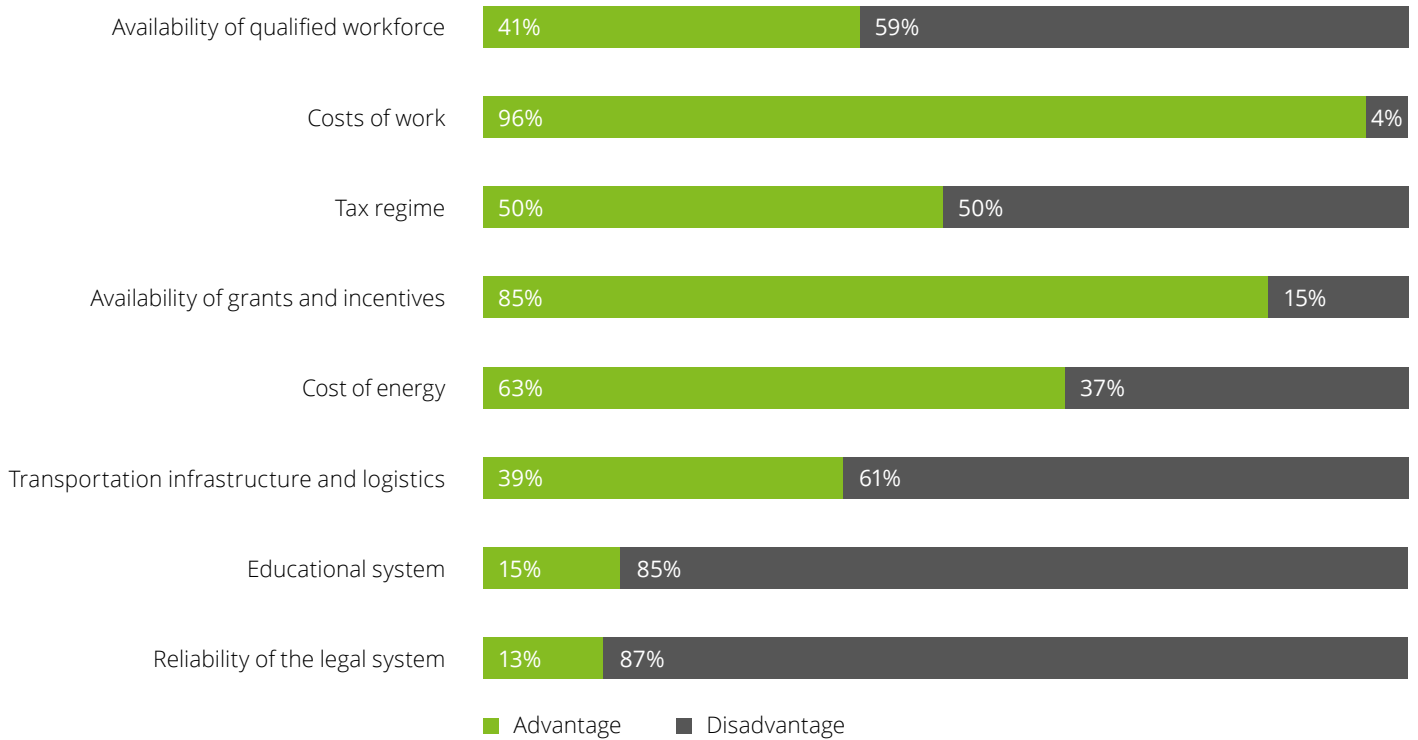
**Petr Michalík**

Partner, Deloitte

# Automotive Industry in the Czech Republic

## Competitive advantages and disadvantages

Which three of the following factors concerning the location in the Czech Republic do you consider a competitive advantage and which three factors do you believe to be a disadvantage?



The representatives of the Czech automotive industry believe that the complex legal system, low quality of education and poor infrastructure/ logistics, which are the areas that have been also debated and addressed by the government in the long-term, remain to be the key competitive disadvantages faced by the Czech Republic. These areas already received negative feedback in 2015; nevertheless, more respondents in this year's survey considered them to be an obvious disadvantage.

The results of the survey indicate that the cost of work, availability of grants and incentives as well as the cost of energy are major advantages. The latter two factors obtained better evaluation than in 2015. What is more, the cost of energy even saw a twist from a negative evaluation (0% of respondents considered it an advantage in 2015) to a positive one (63% of respondents).

“Quality and availability of workforce are nowadays the key factors for further growth in this segment. Besides, taxation as another aspect of competition between countries is increasingly more important. If the government does not give attention to these matters, the Czech Republic may become less attractive for foreign investors.”

**David Marek**  
Chief Economist at Deloitte

#### 9 key factors substantially increasing the competitiveness of the Czech Republic in the next five years

1. Supporting businesses with a higher added value (research and development, technology centres etc).
2. Changing the system of investment incentives in this respect.
3. Supporting education in technical fields as well as lower vocational education.
4. Emphasising new technology and investments therein.
5. Automation and decreasing staffing shortage.
6. Availability of a sufficient number of qualified employees.
7. Increasing workforce mobility.
8. Opening the labour market for workers from Ukraine.
9. Improving transportation infrastructure.

Are you considering relocating production to another country in the next five years?

The vast majority of respondents (95%) do not contemplate any production relocation while the possibility of relocating to another CE country was admitted by 5% of survey participants. It is 3% less than in 2015.



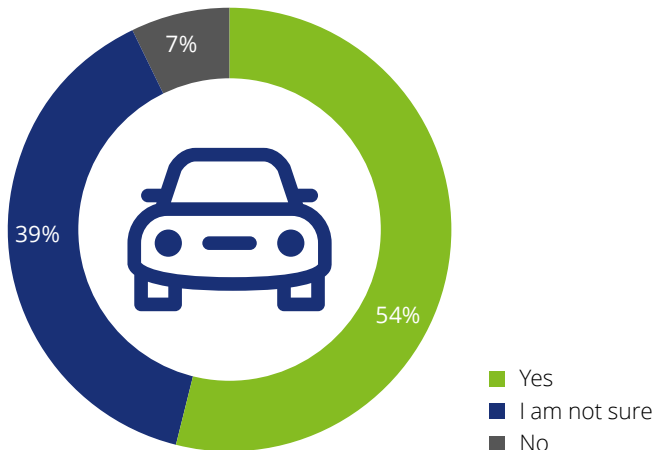
# Investment Incentives

## More details and how to obtain them

“The Czech Republic has implemented several programmes supporting research and development in the form of both direct (cash) grants and tax relief (tax deductions and investment incentives). The EU structural funds, from which most projects are financed, are a considerable advantage. However, the setup of individual programmes for project implementation may be overly strict and in this respect, it is advisable that the Czech Republic revise its approach in the future. It is no less important to unify the interpretation practice in providing this support and thus reduce tax uncertainty which is perceived distinctly by Czech businesses.”

**Luděk Hanáček**  
Partner, Tax & Legal, Deloitte

Are you aware of investment incentives possibilities and do you have sufficient information? If so, are you satisfied with the investment incentives which have been obtained by your company so far?



54% of respondents believe that they have sufficient information on investment incentive possibilities, almost 39% are unsure and 7% state that they do not have such information.

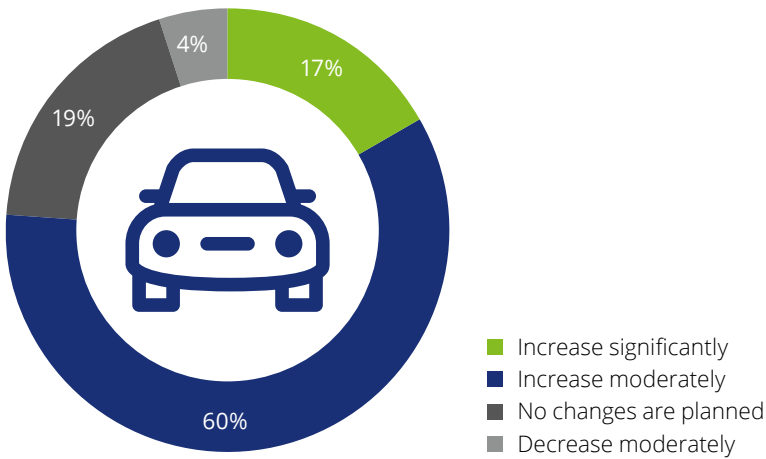
With regard to respondents who have already obtained investment incentives, 50% of respondents are satisfied with the incentives, 28% are unsure and 22% stated that they were unsatisfied. As a comparison: 33% of respondents in 2015 were satisfied with investment incentives.

“On an ongoing basis, it is not simple to monitor compliance with all of the requirements concerning the main conditions for granting investment incentives. They are provided for by two legal regulations, namely the Act on Investment Incentives and the Income Taxes Act. Two principal conditions to be monitored by an investment incentive applicant/recipient include the condition for obtaining an investment incentive and condition for retaining it in the course of its utilisation for the recipient to avoid potential sanctions. There is certainly room for change. The state administration is already considering increased flexibility in responses to economic changes such that part of the changes in conditions for providing investment incentives would be addressed directly by Decrees of the Government rather than by legislative changes.”

**Daniela Hušáková**  
Senior Manager, Tax & Legal, Deloitte

# Changes in Production Capacity, New Investments

Are you planning any changes in production capacities in the next five years?

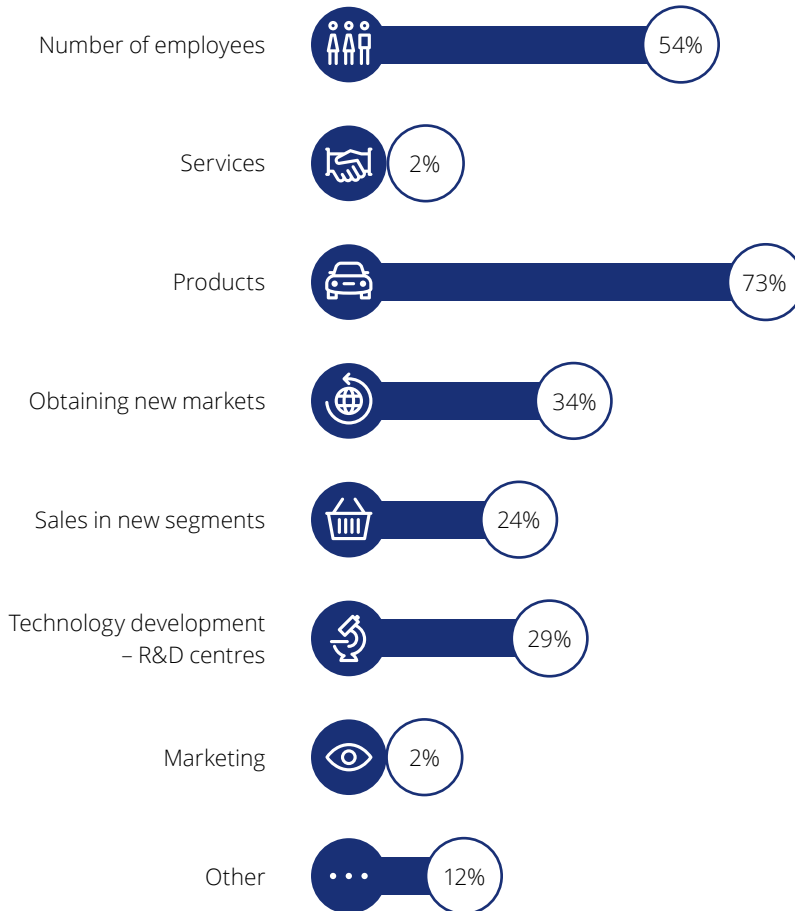


60% of respondents are planning to moderately increase production in the next five years; no or significant increase is intended by 19% and 17% of respondents, respectively.





If you are planning new investments in the next five years, which of the following factors are you going to increase? (Respondents were allowed to insert no more than three answers.)



**Five main reasons affecting the market according to automotive industry representatives**

1. The market is already at its peak, or will be in no more than five years.
2. The market may subsequently experience a decrease, or a relocation of demand to Asian countries.
3. The Czech Republic is in delay as regards launching new technology and monitoring trends.
4. There is the lack of qualified workforce.
5. It is necessary to focus on activities with added value, instead of being only an “assembly place”.

Investments planned by companies in 2015 principally aimed at the development of technology (75%), and new markets and products (25%) whereby no increase in the number of employees was scheduled. In this year’s survey, however, most respondents (73%) are going to increase the number of products and staff (54%) and 34% of respondents are planning to penetrate new markets.

The results indicate that other massive investments in technology development are not intended. This year’s survey highlighted the growth potential (emphasis on the development of markets and number of products) requiring an increase in personnel. This may pose an issue considering the low unemployment rate in the Czech Republic and the lack of qualified workforce.

# Employee Expertise, Increasing Qualification

What methods do you employ to retain the expertise of your personnel?

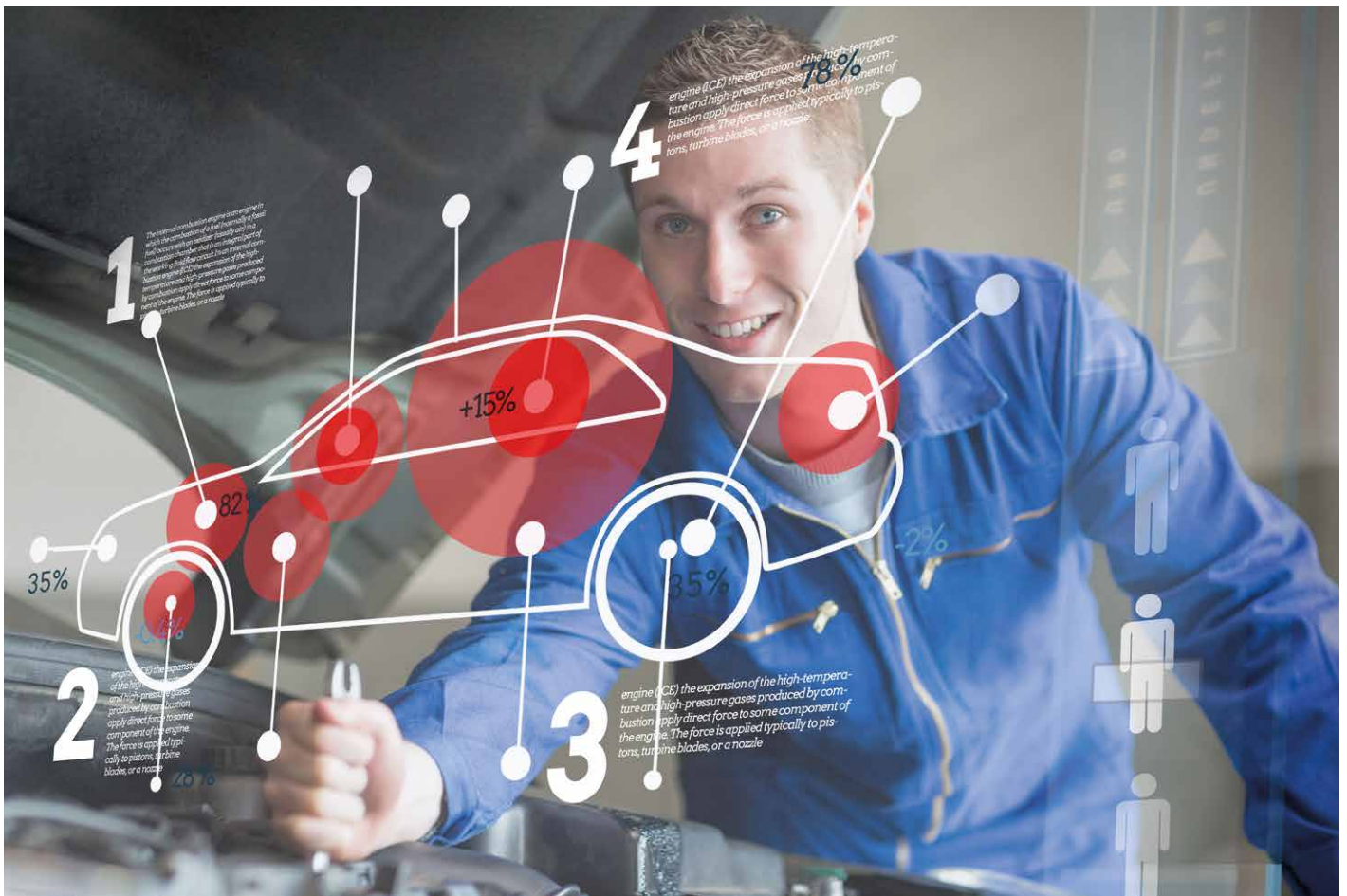


71% of respondents retain their personnel's expertise in the form of internal training, with 55% cooperating with public schools and institutions and 14% having their own specialised school or training centre.

For comparison: In 2015, 92% of respondents had internal training in place, 67% relied on public schools and institutions, with only 8% having their own specialised school or centre. Obviously, there has been an increasing trend towards educating employees at own specialised centres and schools.

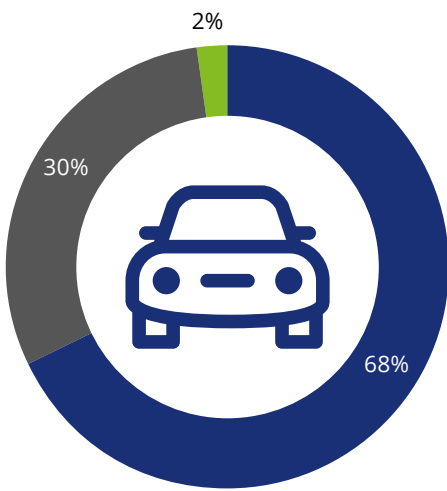
“The company’s own custom-tailored specialised training will be on the rise in the Czech Republic. This is an indication of a growing tendency to train employees according to the company’s specific needs. Germany may be a good example.”

**Petr Michalík**  
Partner, Deloitte



# Customer-Supplier Relations

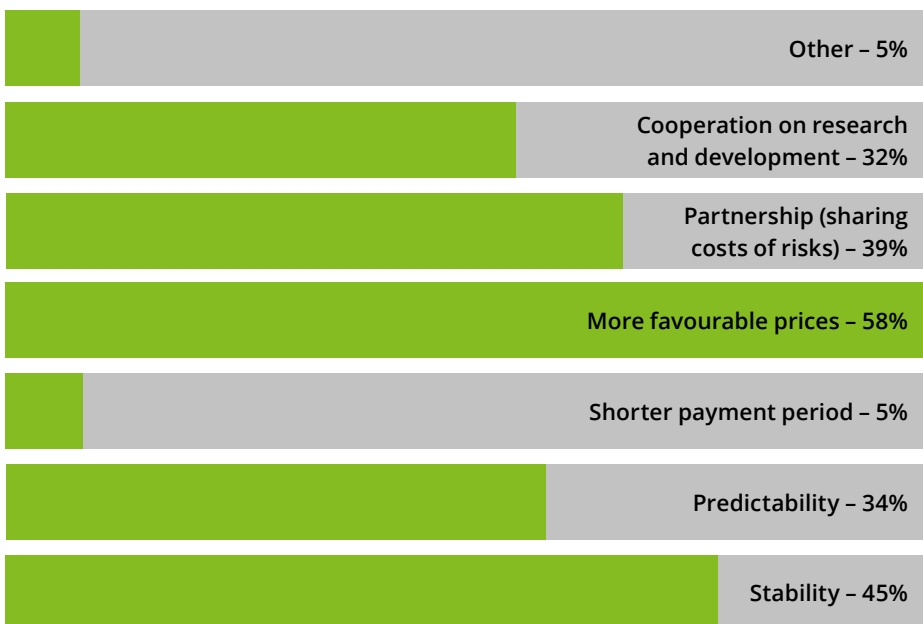
If you are a supplier, are you going to change the number of customers you have in the next five years?



68% of suppliers are going to slightly increase the number of their customers whereby no changes are planned by 30%. Plans for a sharp decrease in customers are made by a mere 2% of respondents. The results are similar as in 2015 when 71% of respondents planned a slight increase, 29% did not intend to make any change and no respondents were going to sharply decrease the number of their customers.

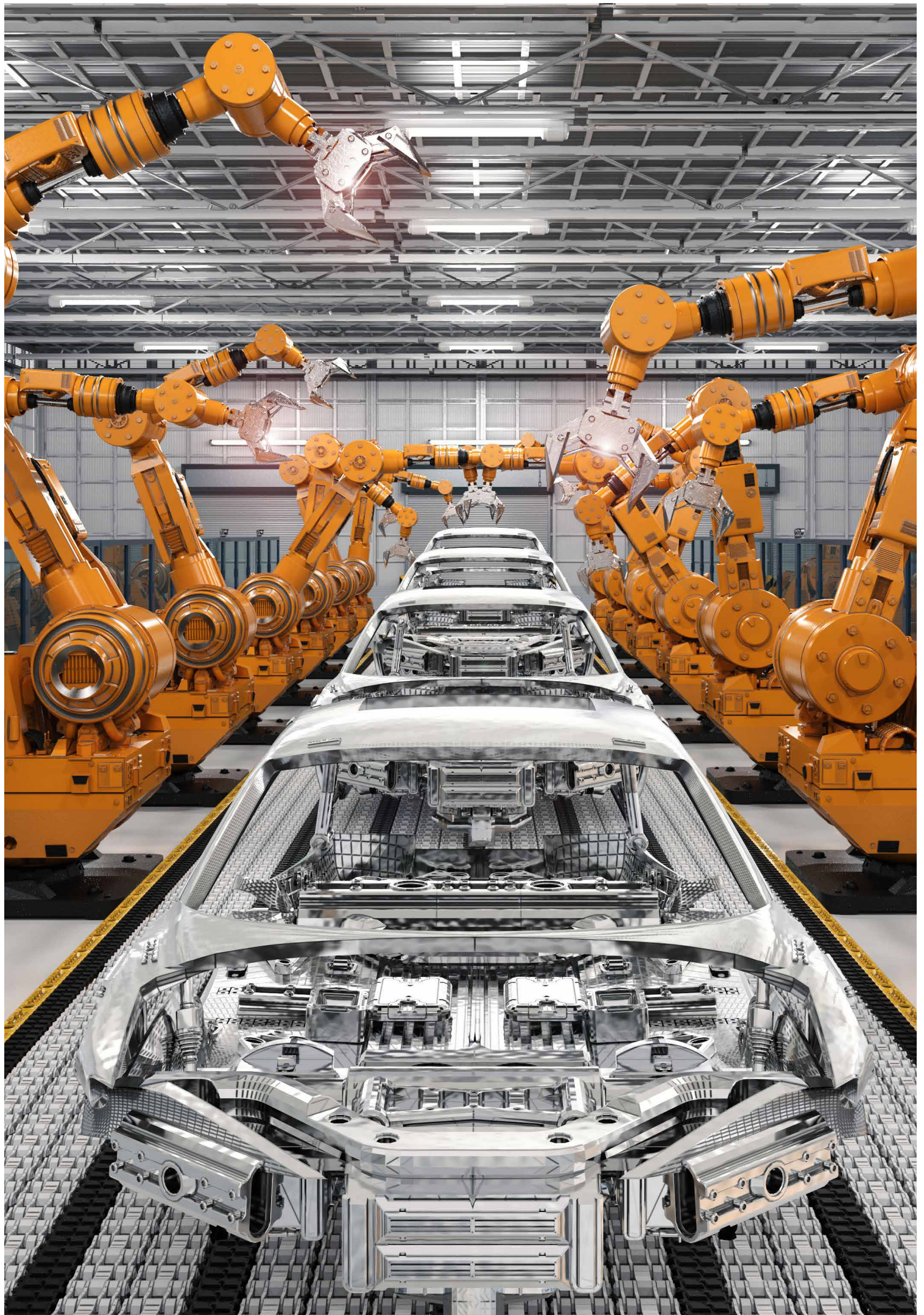
- Slightly increase
- No changes are planned
- Slightly decrease

If you are a supplier, what are your expectations towards the customers purchasing your products?



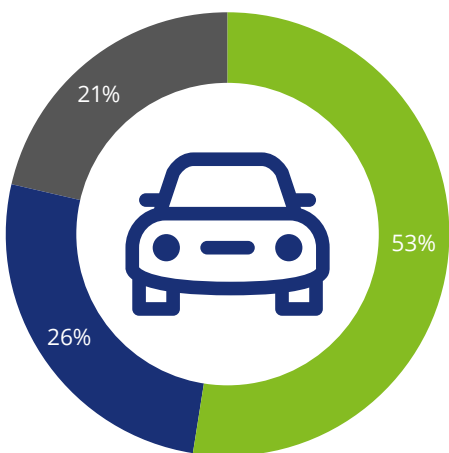
Suppliers univocally expect more favourable prices (58%), stability (45%) and partnership – ie sharing the costs of risks (39%). Central topics in 2015 included partnership (42%), cooperation on research and development (33%) and stability (25%), with more favourable prices being important for only 8% of suppliers, which is 50% less than this year.

As for changing the number of suppliers, customers are not planning substantial changes while expecting improved quality of products. In 2015, the greatest emphasis was given to the reliability of supplies.



# Innovations in the Automotive Industry

Are you expecting any innovations, which are constantly debated in the automotive industry (such as electric cars, connectivity, autonomous driving), to affect your business in the next five years?



53% of respondents emphasise the ability to launch innovative solutions to production. It is a 17% increase as opposed to 2015. There is a clear tendency to innovative production. 26% of respondents stated that although they

- Yes, we strongly emphasise launching innovative solutions to production.
- Yes, we keep an eye on innovations but they will not affect our production in the next five years.
- Certainly not in the next five years.

monitor innovations, their production will not be affected by them in the next five years. Innovations will have no effect on 21% of respondents. The corresponding values in 2015 were 33% and 17%, respectively.

“At present, standard equipment of medium and high class vehicles already includes a wide range of electronic assistants increasing the crew’s safety as well as the driver’s comfort. The newly launched mandatory car connectivity (the ‘Emergency Call’, ie the possibility to automatically call for help in case of an accident) gives rise to a broad array of relating services that are being tested. In terms of autonomous driving, it will be necessary for the government to prepare robust and rigorous legislation. It remains unclear who will be held responsible in case of an accident. Legal regulations are also required for shared economy within the automotive sector (Uber or car sharing services).”

**Petr Michalík**  
Partner, Deloitte



#### Key trends affecting the Czech market in the next five years

1. Automation, robotics, digitalisation, Industry 4.0.
2. Decreasing production costs, new materials.
3. Electromobility and autonomous driving.
4. Pressure on increasing qualification and growing personnel costs.
5. Innovation, research/development, adaption to new trends.

“The automotive industry is a segment most clearly manifesting robotics and automation. This will continue to transform the relation between the car manufacturer’s capital and employment more intensely in this segment. New technology also modifies the visual appearance of vehicles. At present, a car manufacturer is already more of an IT firm and in five years, this tendency will be substantially more evident. The engine remains to be an essential car component but a computer is slowly becoming the core.”

**David Marek**  
Chief Economist at Deloitte

# Industry 4.0

## Ready for New Solutions

Do you anticipate implementing the Industry 4.0 solution in your company in the next three years?

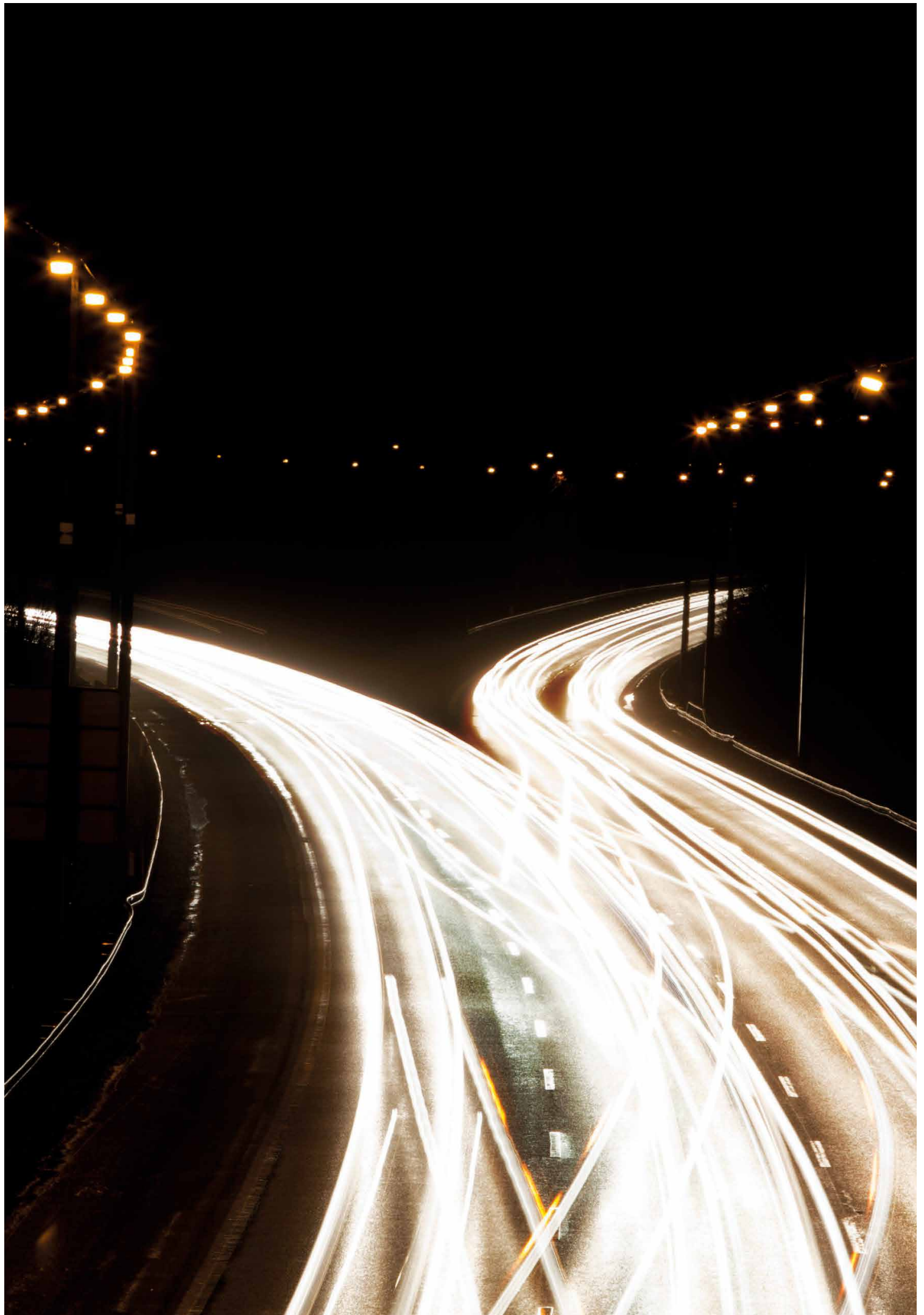


29% of respondents only consider implementing the Industry 4.0 solution in the long term. 27% have already used it and are planning to expand it, with another 27% of respondents being uncertain but considering such solutions.

Are you prepared for structural changes to be introduced by Industry 4.0?

27% of respondents (ie those who stated in the previous question to have already introduced Industry 4.0) are prepared for the relating structural changes, with 63% being unsure and 10% unprepared. Given that another 27% of respondents in the previous question consider implementing those solutions, it is clear that structural changes will be of major significance for them.





# Conclusion

The results of the survey indicate that automotive leaders in the Czech Republic are relatively satisfied and are not considering relocating production to another CE country. This possibility was mentioned by only 5% of respondents, compared with 8% in 2015.

Respondents believe that the competitive advantage of the Czech Republic includes low costs of work, availability of grants and incentives as well as the cost of energy. These aspects were perceived much better than in 2015, with the cost of energy seeing a twist from a negative to a positive assessment.

Competitiveness constraints involve legal system reliability, the educational system and infrastructure/logistics. These disadvantages were perceived more negatively than in 2015. Therefore, no improvements have been observed in this context and potential economic recession may result in a partial relocation of production.

Respondents who have used incentives expressed their satisfaction. 60% of businesses are going to slightly increase production, with 17% planning substantial growth. This is to be achieved by investments in new products, increasing the number of employees and acquiring new markets. In 2015, major investments in technology development were planned while the number of employees and new markets will be critical in the next five years.

Acquiring qualified personnel and their training seems to be the key to success, with a growing number of companies having their own training centre or school.

Producers principally expect from suppliers better quality and reliable supplies whereby higher product quality is anticipated by 30% more respondents than in 2015. On the other hand, suppliers perceive strong pressure on pricing, with the number of respondents seeking better financial conditions growing by 50% as opposed to 2015.

Most leaders of standalone automotive businesses believe that the automotive industry in Europe is currently at its peak, or will be in the next five years. Subsequently, demand may shift to Asian countries.

Trends affecting future developments include automation and robotics, the Industry 4.0 solution, decreasing production costs, electromobility and autonomous driving.

Respondents are convinced that the competitiveness of the Czech Republic could be principally increased by supporting technical education, directing investment incentives at businesses with higher added value, such as technology or research and development centres. Owing to the current lack of workforce, opening the labour market for workers from non-EU countries (namely Ukraine) is also demanded.

In general terms, the outlooks of the Czech automotive industry seem to be optimistic. Automotive leaders are aware of potential risks and are planning to address them. The unreliability of the legal system, educational system and Czech infrastructure are among the persistent issues.

# Methodology

The survey was conducted in the form of a questionnaire given to leaders of automotive companies in the Czech Republic, including both end producers and sub-suppliers. In 2017, a total of 54 companies participated in the survey which was conducted from May to August.

The survey aimed to compare the results with the outcomes of a similar survey performed by Deloitte in six CE countries including the Czech Republic in 2015. For this year's study, data relating solely to the Czech Republic have been extracted.



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