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Preface

Automotive players are facing disruptive times. Many insights, opinions, and recommendations have been voiced on this. Earlier in 2017, we published our views on the drivers that will likely shape the automotive industry over the next decade. We ranked and fused these into four scenario narratives, giving an outline of what the automotive value chain might look like in 2025. Our previous issue primarily highlighted implications for car manufacturers (OEMs). In this next piece we move further down the value chain, in an attempt to shed light on supplier market implications.

We defined a set of four hypotheses as a starting point to our investigation:

- Commonly discussed automotive mega-trends, like connected and autonomous drive or electrification, will lead to significant change in demand for specific vehicle component clusters
- As a result (some) suppliers will face drastically shrinking market volumes, whereas others must be able to manage massive demand increases
- This will result in significant, strategic, operational, financial, transformation demand for many suppliers
- Portfolio and localization strategy definition processes should be supported by a solid market volume projection model taking all these drivers and megatrends into account

We worked towards validating all these hypotheses by developing the Deloitte Automotive Value Chain (AVC) Industry Model, a comprehensive material cost forecasting tool, which gives volume predictions broken down into a vehicle's component clusters. The model shows that 15 out of 19 vehicle component clusters will likely see a decline in market volume (in Germany, NAFTA and China; not considering effects from general inflation or spare parts demand). The biggest losers will be components related to conventional combustion engines, e.g. transmissions dropping up to -36% in volume. Likely winners, especially suppliers with stakes in the fields of electric drivetrains and battery technology, as well as autonomous driving feature development, on the other hand, must prepare to manage and cater for growing demand of up to 15 times their current volume. Regional projections show that while material cost volumes in Germany are facing a general decline, volumes in China will increase due to general strong vehicle sales forecasts.

Our core premise, however, is that scenario-based thinking is the best preparation for dealing with the uncertainties the future automotive industry developments hold. Therefore, we split each of our volume projections along our four scenarios for 2025 and beyond.

By presenting the Deloitte AVC Industry Model now to the broader public, we are

confident that we are bringing valuable support to the table for automotive decision makers when it comes to tackling some of the most burning strategic decisions.

We hope you enjoy reading our insights and thoughts on the future of the automotive value chain and the related supplier markets.

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