

THE ENTERPRISE OF THE FUTURE

...IN THE AUTOMOTIVE INDUSTRY



Looking across the five traits for future success that emerged from the IBM Global CEO Study’s more than 1,000 CEO interviews, what are the key implications for automotive leaders?¹

HUNGRY FOR CHANGE

Automotive CEOs anticipate more change over the next three years than most CEOs, but they also report less past success managing it. Across all the industries we studied, automotive has one of the highest “change gaps” – 88 percent of CEOs expect substantial change, but only 54 percent have successful track records of change, leaving a 34 percent shortfall. Financial outperformers, however, have a much smaller change gap (29 percent) than the industry’s underperformers (46 percent). Although both groups see significant turbulence ahead, outperformers are far more successful at managing such change.

Implications: Automotive Enterprises of the Future are change masters – organizations that recognize the change management process as a “must have” strategic capability. They identify change agents and visionary challengers, insert them in key business units and functions, and give them freedom to maneuver. These companies have the process speed and flexibility to exploit viable ideas quickly. They use technology as a change enabler for their businesses, not just in their products.



.....
“The following factors have enabled our responsiveness to change: a performance-driven culture, measurements, nimbleness and integrity.”
CEO, Automotive Supplier, North America
.....



.....

● **INNOVATIVE BEYOND CUSTOMER IMAGINATION**

.....

“Customers demand ‘connectedness.’ In the past, automotive OEMs drove technology into the vehicle. Now, OEMs are asking for our insights.”

CEO, Automotive Supplier, Japan

.....

Automotive CEOs are enthusiastic about rising consumer purchasing power – particularly the tremendous opportunity in developing markets like India and China. They are already investing well above average in this trend – and plan to increase that investment by 30 percent over the next three years. However, investment growth in serving today’s increasingly informed customers is essentially flat. These findings pose some critical questions for the industry: Could the intense focus on new markets cause automotive companies to neglect the needs of more informed customers? Is the growth from new markets sustainable if the expectations of more sophisticated customers are not met?

Implications: To increase innovation across both developed and developing markets, Automotive Enterprises of the Future actively pursue and use consumer insights. OEMs rethink how information is gathered, analyzed and applied. Suppliers are more involved and work closely with OEMs to develop a deeper understanding of the end consumer. Dealers replace their transactional approach with one based on providing customer value over a lifetime of ownership. And the industry as a whole collaborates more – with each other and with the consumer.

.....

● **GLOBALLY INTEGRATED**

.....

“Our management talent has to be upgraded to lead in the new realities of the global automotive industry... Global integration is the biggest opportunity because there is so much value at stake.”

CEO, OEM, North America

.....

The automotive industry has a higher percentage of CEOs pursuing global business designs than almost any other industry we studied. In particular, automotive CEOs are focused on optimizing global operations, globalizing their products and brands, and deeply changing their mix of capabilities, knowledge and assets. Automotive outperformers are planning even more aggressive moves in these three areas.

Implications: The strategies of outperformers suggest that automotive companies must work toward global integration, not just globalization. Automotive Enterprises of the Future have the ability to perform work wherever the best capabilities are – and their brands and products are competitive worldwide. This involves extensive collaboration, partnering and integration.

● DISRUPTIVE BY NATURE

While 69 percent of our entire sample is pursuing extensive business model innovation, only 49 percent of automotive CEOs are doing so. In fact, automotive is one of the least active industries in terms of business model innovation – on par with other capital-intensive sectors such as utilities, petroleum and aerospace. Among the industry’s extensive innovators, the primary focus is Enterprise Model Innovation – specializing and delivering greater value by rethinking what is done in-house and through partners.

Implications: The Automotive Enterprise of the Future will continue this focus on specialization, but also find other ways to disrupt the competitive status quo. Delphi for instance is using its strength in automotive electronics to move into the healthcare industry, providing equipment for remote medical monitoring.² And Tata Motors is disrupting the industry’s pricing norms with a new category of ultra-low-priced vehicles, and in the process attracting an entirely new segment of buyers who traditionally have not purchased automobiles.³

● GENUINE, NOT JUST GENEROUS

It’s no surprise that automotive CEOs are more concerned about environmental issues than other CEOs. However, the degree of difference is dramatic – 32 percent of automotive CEOs see it as a major change driver versus 18 percent across the full sample. What’s even more intriguing is that three out of four automotive CEOs believe customers’ rising corporate social responsibility (CSR) expectations will have a positive impact on their businesses. And they’re planning a 35 percent increase in investment over the next three years to address this trend (versus 25 percent study-wide). Although environmental impact is important, it is not the only CSR issue on their agendas.

Implications: The carbon footprint of the tail end of the automotive value chain – after the vehicle is in use – is drawing much attention these days, with more hybrid, electric and fuel-efficient models than ever before. But Automotive Enterprises of the Future also focus on the impact of manufacturing operations, inbound and outbound logistics and component sourcing. And “impact” means much more than carbon footprint – it includes the overall “footprint” that the enterprise leaves on the societies in which it operates.

.....
“We are only doing ‘selective’ business model innovation. It is too risky to try to innovate with our largest customers and their core business.”

CEO, Automotive Supplier, North America
.....

.....
“One percent of our profit after tax goes to address CSR, health, education and environmental issues.”

CEO, OEM, India
.....



FIVE KEY IMPERATIVES FOR THE AUTOMOTIVE INDUSTRY

- Change is a required management capability. Those auto companies that are successful at change have demonstrated superior financial performance.
- Leveraging customer insights is a key differentiator and creates competitive advantage.
- True global integration, not just globalization, enhances financial performance.
- Being selectively disruptive, as well as differentiating, can point the way to new profitable lines of business.
- The auto industry is a leader regarding concerns for environmental issues and investment; this focus should be integrated throughout the extended value chain and broadened to include other aspects of corporate social responsibility.

BUILDING YOUR ENTERPRISE OF THE FUTURE

We look forward to learning more about where you think business is heading – and working with you, as you build your Enterprise of the Future.

For additional information about the IBM Global CEO Study, please visit ibm.com/enterpriseofthefuture or e-mail one of the following contacts:

Americas	Mahesh Lunani	mlunani@us.ibm.com
	Karen Newman	newmank@us.ibm.com
Asia Pacific (excluding Japan)	Seong Yol Kim	ksyol@kr.ibm.com
Japan	Tomoaki Takemoto	TTOMOAKI@jp.ibm.com
Northeast Europe	Alexander Scheidt	SCHEIDT@de.ibm.com
Southwest Europe	Olivier Payraud	olivier.payraud@fr.ibm.com
Global	Sanjay Rishi	sanjay.rishi@us.ibm.com
IBM Institute for Business Value	Kalman Gyimesi	gyimesi@us.ibm.com

ABOUT IBM GLOBAL BUSINESS SERVICES

With business experts in more than 170 countries, IBM Global Business Services provides clients with deep business process and industry expertise across 17 industries, using innovation to identify, create and deliver value faster. It offers one of the largest Strategy & Change practices in the world, with over 3,250 strategy professionals. The IBM Institute for Business Value, part of IBM Global Business Services, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues.

© Copyright IBM Corporation 2008

IBM Global Services
Route 100
Somers, NY 10589
U.S.A.

Produced in the United States of America
July 2008
All Rights Reserved

IBM, the IBM logo and ibm.com are trademarks or registered trademarks of International Business Machines Corporation in the United States, other countries, or both. If these and other IBM trademarked terms are marked on their first occurrence in this information with a trademark symbol (® or ™), these symbols indicate U.S. registered or common law trademarks owned by IBM at the time this information was published. Such trademarks may also be registered or common law trademarks in other countries. A current list of IBM trademarks is available on the Web at "Copyright and trademark information" at ibm.com/legal/copytrade.shtml

Other company, product and service names may be trademarks or service marks of others.

References in this publication to IBM products and services do not imply that IBM intends to make them available in all countries in which IBM operates.

NOTES AND SOURCES:

- 1 Of the 1,130 interviews conducted for the IBM CEO Study, 59 were from the automotive industry. Of this subset, 49 percent were from Asia Pacific, 41 percent from the Americas and 19 percent from Europe, the Middle East and Africa.
- 2 Delphi Medical Systems. <http://delphimedical.com/>
- 3 Giridharadas, Anand. "Four Wheels for the Masses: The \$2,500 Car." *The New York Times*. January 8, 2008.

ACKNOWLEDGEMENTS

We would like to acknowledge the major contributions of Gloria Lara, IBM Global Business Services Strategy & Change, and Kal Gyimesi, IBM Institute for Business Value, who led the automotive industry analysis of the IBM Global CEO Study.