



Embracing Disruptive Innovation, Auto Industry Winners Focus on Partnerships and Performance

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Anyone following the Automotive market has been inundated with a deluge of headlines as automakers and technology companies continue to invest in and propel the advent of disruptive innovation. Electric Vehicles (EV), autonomous cars and telematics are part of the daily buzz, and it's clear that the Automotive landscape continues to evolve.

The changing landscape isn't being driven solely by high-tech companies such as Tesla and Google, but rather by staple Original Equipment Manufacturers (OEM) in the industry who are embracing and bolstering the evolution. Recently, General Motors announced its plans to launch two new all-electric vehicles over the next 18 months. These will be the first of at least 20 new EVs that the automaker will launch by 2023. General Motors has also stated it will deploy a fleet of self-driving Chevrolet Bolt electric cars in Manhattan in early 2018, while Ford Motor Company plans to bring an autonomous vehicle to market in 2021.

OEMs and other large Automotive groups are developing prototypes or acquiring technology companies. Artificial Intelligence (AI) efforts by startups such as Cerbri AI and WayRay, as well as radar, terahertz and laser sensors initiatives by GhostWave, Neteera and Innoviz have gained traction in the market, and as a result traditional automakers and suppliers are starting to take notice.

Ford Motor Company is investing \$1 billion over the next five years in autonomous technology company, Argo AI, and recently announced its intention to bring autonomous vehicles to a test market as early as 2018. Delphi Automotive has agreed to acquire Boston-based nuTonomy for up to \$450 million and plans to have 60 self-driving cars in its fleet by year-end.

Autonomous vehicle investments worth noting also include General Motors' recent acquisition of Strobe, a company that specializes in laser-imaging technology geared toward enhancing the development of autonomous vehicles. Strobe's operations will be folded into Cruise Automation, a subsidiary dedicated to self-driving technology, which General Motors acquired in 2016. When autonomous cars will reach critical mass and become socially accepted is unclear. However, pilot programs launched in Pittsburgh, San Francisco and Manhattan indicate that it will be "sooner than you think." Further demonstration of this growing mindset is a U.S. Senate panel's recent unanimous approval of a bill aimed at speeding self-driving cars to market without human controls and banning states from imposing regulatory road blocks.

While the debate on whether human touch is needed for autonomous cars continues, the Strobe acquisition is a clear indication of General Motors taking a big step forward in bringing this important technology in-house and closing in on becoming a vertically integrated autonomous vehicle manufacturer. Vertical integration isn't new to the Automotive industry. However, supply chain optimization will certainly take on a new look and feel given the evolving technologies, as companies seek to strike the right vertical integration balance.

The developing landscape will impact dealerships and retail, Aftermarket, in addition to OEMs and Tier I/II suppliers. While no one can predict the timing of adoption or tipping point of moving from a few innovators and early adopters to an early majority or critical mass, the implications of the evolving market are clear. Industry leaders are positioning themselves to be competitive in the short and medium term. Successful companies are capitalizing on this transformation, seizing opportunities and evaluating supply chain risk mitigation strategies.

To prepare, Automotive leaders are focused on identifying the right partnerships, while improving performance.

1. The Right Partnerships: Identifying and Executing Merger and Acquisition Opportunities

Pre–Acquisition Diligence is a critical step in assessing investments and can enable companies to:

- Rapidly identify and quantify key value drivers;
- Rapidly assess prospective deal breakers or “red flags;” and
- Prioritize any synergy capture, operational improvements and analyze gaps and potential risks.

Whether the goal of the transaction is cost–optimization, growth, merger/synergies or a carve–out, identifying pre–acquisition operations and value–creation opportunities via diligence has become more and more critical.

After deal–close, it is important to drive end–to–end merger integration (or separation, in the event of a carve–out). Assessment, planning and execution for companies that disposition areas of business can be just as strategic of a decision as acquiring a new company.

2. Improving Performance: Identifying Sustainable Operational Efficiency and Improvement Potential

Operations and Supply Chain – The introduction of EVs and autonomous vehicles will not come without a paradigm shift in the Automotive industry’s supply chains. Whether reevaluating a supply chain network strategy, assessing Make vs. Buy decisions, or optimizing warehousing and transportation footprints, leaders in this space will benefit from developing solutions to reconfigure their internal combustion engine (ICE) centric supply chain to one that supports EV.

Supply Base and Procurement – Third–party sources of supply will evolve as vehicles shift from ICE to EV. New strategies will need to be deployed and new partners identified for sourcing non–battery components globally. Companies will have to contend with optimizing inbound freight volume and logistics costs, including reverse logistics for battery recycling, as well as assessing third–party battery producer capacity and service levels (or creating new vertically integrated joint ventures). OEMs and Tier I/II are the only companies that will have to strategically navigate the new marketplace, as Aftermarket providers seek to maintain competitiveness with increased spare parts obsolescence and embrace telematics for service data.

Despite cyclical highs and lows, the Automotive industry is one that was born from the disruptive innovation of the assembly line and interchangeable parts. Automakers have adapted to changing industry dynamics and consumer behavior throughout the industry’s history, and they will continue to do so. The winners, however, will leverage the right partnerships and improve operational performance to prepare for the “sooner than you think” landscape that is emerging.

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