Everything must change: why disruption in the automotive industry means brands must transform to survive

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The automotive industry is on the brink of enormous change. Regulatory, social and environmental pressures, along with evolving consumer demands, mean that traditional operating models are rapidly becoming unsustainable.

After decades of a comparatively stable business model – selling internal combustion engine cars which eventually wear out or become obsolete, then selling new ones – car manufacturers are fundamentally reconsidering their futures. So what's driving this disruption in the automotive industry?

Environmental sustainability

The move to electric cars is intensifying in many countries, driven by a combination of public concern about the environment, greater consumer acceptance, lower battery costs and tighter emissions regulations. In the UK, for example, the government is banning sales of internal combustion engines by 2030, and many other countries have similar plans.

As a result, Deloitte predicts that sales of electric vehicles will rise from 2.5 million in 2020 to 11.2 million in 2025 and 31.1 million by 2030[1]. Many car manufacturers have announced roadmaps to full electrification; Jaguar, for example, plans to be all-electric by 2025, and Bentley promises an all-electric range by 2030.

Commercial vehicles and fleets also represent a significant area for electrification. Bloomberg suggests that by 2040, a third of commercial vehicles worldwide could be electric[2], driven by corporate sustainability commitments and the potential for cost savings.

Cars as a service

As consumers increasingly move away from owning products to accessing them in a flexible way that suits their lifestyles, more and more businesses are moving towards a service model. Given that the majority of vehicles are only driven for a tiny percentage of the time, it's no surprise that the automotive industry is moving the same way.

According to a survey by Avis, 68% of people think that within the next decade, outright car ownership will no longer be the most popular way to access a car[3]. Instead, usage-based models, such as subscription-based services, leasing and car-pooling, are likely to become the norm. This represents a huge departure for an industry that has historically been almost entirely based on individual ownership of the product.

The changing role of the car

Autonomous vehicles have the potential to turn the automotive industry on its head, dramatically improving road safety and reducing traffic congestion in the process.

Aside from the sheer technological challenge of creating self-driving cars, vehicle manufacturers are beginning to think about whether this trend redefines what a car actually is. Once the people within a vehicle are passengers rather than drivers, what does that mean for the user experience? Will cars become entertainment hubs, or mobile offices, or something else entirely?

As cars increasingly become a series of networked end points, there is great potential for data to be continuously gathered, analysed and fed back to the vehicle and the cloud. This enables tasks such as predictive maintenance and troubleshooting, automatic parking payments, safety improvements and optimising journey time – all of which make life easier and safer for passengers.

Supply chain resilience

As vehicles become more complex, they require a greater number of more sophisticated components. Ongoing supply chain problems caused by Covid-19 have significantly affected automotive production capacity, and this may even continue into 2022.

This has led many brands to question the transparency, resilience and sustainability of their supply chains in the face of unexpected events.

New world, new business

We're already seeing major changes in the industry in the face of these pressures. Volvo, for example, is shifting away from traditional dealerships with its recent announcement that vehicles will only be available to purchase online by 2030. Similarly, while Tesla offers physical locations for viewing cars, purchases take place through its website.

But this is only the beginning. The combination of factors we've looked at is creating a perfect storm of disruption that's highly reminiscent of the upheaval already seen in other sectors, such as music, entertainment and retail. In these industries, the organisations that have survived and thrived are the ones that adapted rapidly to evolving market conditions and consumer demands.

In just the same way, automotive brands must now align their business and operating models to these changing patterns of consumer demand, environmental concerns, technological developments and social and regulatory imperatives. This transformation will not only allow them to survive, but to fully take advantage of the opportunities that this rapidly evolving market offers.

In our next blog, we'll take a look at how working with a service-oriented technology partner helps automotive brands to navigate these challenges.

[1] https://www2.deloitte.com/uk/en/insights/focus/future-of-mobility/electric-vehicle-trends-2030.html

[2] https://about.bnef.com/electric-vehicle-outlook/

[3] https://avisbudgetgroup.com/the-car-continues-its-rule-of-the-road-but-ownership-is-evolving/