

# Automotive highlights

## Global Capital Confidence Barometer



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A note from Kris Ringland, EY Global Advanced Manufacturing & Mobility Transaction Advisory Leader & EY-Parthenon Diversified Industrials Products Leader

## Automotive companies must collaborate across multiple stakeholders to remain resilient in post-COVID-19 crisis

The COVID-19 pandemic has emerged as one of the major threats to the automotive industry in decades. With complete restrictions in movement from outright bans to extensive government quarantine, automotive companies and mobility startups are grappling with an unprecedented situation.

Though most businesses are likely to experience significant ongoing upheaval, the automotive and transportation sector was identified by the largest number of global respondents (27%) in the *EY Global Capital Confidence Barometer (CCB)* as facing the highest impact from the pandemic.

Automotive companies are in a dire situation, as the pandemic has tested supply chain resilience, exacerbating a perennial risk as most automotive players have long, complex supply chains spread across geographies. Companies may need to accept an increase in costs to make their supply chains more robust and resilient. Still, we would expect some of these costs to be partially offset in the long term by the benefits of technological advances, such as automation.

### Now: managing the downturn

Although the easing of lockdowns in some parts of the world offers hope for large manufacturers, several large economies are still in the early phases of restarting production. As a result, 81% of automotive executives said that COVID-19 will have a severe impact on the global economy.

With most companies closing their production plants to curb the spread of the virus, workers have been let go in huge numbers. More restructuring measures such as layoffs and spending cuts could be in the offing if sales remain depressed. However, this has allowed OEMs such as GM and Volkswagen to direct some of their production capacity toward building ventilators and respirators for the broader benefit of society.

The impact of the outbreak has also been visible in the funding of mobility startups as new funding and investment exits have declined. Some of the major mobility startups with high valuations were already reeling under losses before the crisis. The sudden halt in operations has posed even more uncertainty about their economic sustainability.

As a result, there appears to be a great demand for new funding from the mobility startups, but investors seem reluctant to meet that demand; the financial outlook of these companies remains uncertain, with the COVID-19 crisis following an already slow period in the automotive industry. Almost half of automotive executives (49%) say valuations are coming down, and most of them (32%) are focusing more on a target's business resilience when evaluating a transaction. However, we might witness a gradual pickup in the investments and valuations once the situation normalizes and mobility players adapt to the new normal.

### Next: handling supply chain complexities; capitalize on strides achieved in technology

Though supply chains have become more efficient and cost-effective, they are also potentially more exposed to a breakdown in collaboration among participants across regions. Now, as carmakers prep for the gradual restart of production, the health of their tier 2 to tier 4 suppliers will prove to be critical. They face dire consequences in this pandemic, with many lacking enough capital and on the verge of collapse. This could drive a consolidation among small suppliers. Almost all automotive executives (96%) are either already taking steps to restructure or re-evaluating the global supply chain in the wake of COVID-19.

## Automotive highlights

COVID-19 has hampered operations globally and can have an impact lasting for a few quarters or even years. To successfully come out from such scenarios, automation is emerging as one of the plausible options to make production and supply chains more resilient. More than one-third (38%) of automotive companies have responded that the virus has led them to change their speed of automation, and another 45% are re-evaluating the same.

The pandemic is rapidly emerging as one of the most powerful and abrupt agents of behavioral change that we have ever experienced. With the majority of global population having been under some form of lockdown, public transportation usage has collapsed. The mobility players either shut down their operations or broadened their offerings to provide essential services.

### Beyond: focus on long-term resilience

COVID-19 will no doubt have an impact on bottom-line profits and margins for automotive companies, and it could be a while before production returns to pre-COVID-19 levels. It is imperative that companies move away from traditional supply chain structures to a more robust and resilient network. Moreover, measures taken during this crisis should make automakers embed resilience in their strategies to better withstand future disruptions.

Long-term focus on digital customer engagement, robotic process automation and artificial intelligence has become indispensable. For example, 40% of executives think that they need to re-evaluate their digital transformation strategy. More OEMs need to move toward full e-commerce capabilities in their dealerships that can handle everything online, providing an immersive car-buying experience.

Following the crisis, consumers could be more inclined to buy a car than use shared mobility services or public transport due to infection concerns, because the car is perceived as a safe space and driving has a relatively low infection risk.

That said, automotive companies and mobility players also need to come up with technological innovations that can protect commuters and drivers against potential safety risks. The focus on deep cleansing and sanitization of shared mobility spaces has now taken center stage. For instance, a US-based micromobility player has now deployed e-bikes, which come with self-cleaning nano-septic handlebars and brake levers. Also, ride-hailing service providers have put in place a multi-step sanitization process for their vehicles to regain consumer trust.

Further, automated deliveries using robots or autonomous vehicles have also emerged as an accelerating concept during the crisis, helping to provide contactless deliveries. We might see a faster adoption of the autonomous technology in goods deliveries compared with the passenger segment. In the end, collaborations across multiple stakeholders would be the key to innovate and deliver a sustainable and resilient mobility future.

### Some highlights from our survey findings:



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