



# OUTSIDE THE CORE FOR AUTOMAKERS

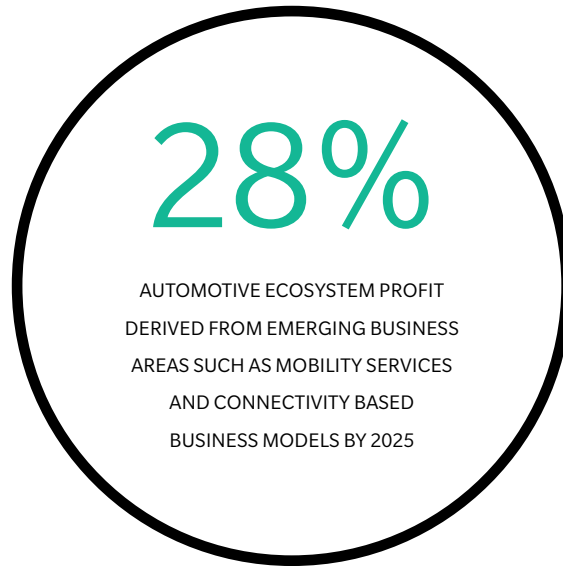
New mobility and connectivity services are not a core competency at most automakers, which specialize in manufacturing, sales and service. So achieving success will require them to function more like software and Internet service startups. Automakers that decide to enter these new business areas will have to compete against a whole new set of rivals, which means they will need a systematic approach to establish themselves as key players.

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Automakers entering new business areas such as car-sharing or ride-hailing services will need to move beyond their traditional structures and processes, which have been fine-tuned for decades as they focused on delivering high-value products in multi-year life cycles. Automakers have created successful processes for developing, producing, and selling vehicles around the world. These systems have been upgraded and enhanced in response to factors such as growing model complexity, a fast-expanding global footprint, the need for an ever-greater volume of production, without sacrificing on quality or safety.

Mastery of the above mentioned areas, however, does not help automakers when faced with non-core challenges such as developing connected fleet management services or offering intermodal mobility solutions or connected-life applications. The business logic here is radically different, requiring expertise in creating and selling services instead of products. Automakers will not only compete against each other but also against large digital players.

To enter this sector, automakers will need to employ a portfolio management approach while carefully deciding how much independence to give these new business areas.

## NEW AREAS MEAN NEW REQUIREMENTS

Business areas driven by services and data have very different requirements than automakers' core businesses. The most significant difference is the very high rate of innovation and

constant transformation of this sector. This means that in most cases there is no blueprint to borrow and follow. There are, however, some keys to achieving success.

- Customer orientation is crucial because solving the users' problems determines whether a digitally dominated business model will succeed.
- Having strong innovation capabilities is critical because companies that are fast and first are rewarded.
- It is pivotal to build up the ability to test thoroughly and to quickly discard ideas that do not work. Life cycles are dramatically shorter in these sectors.
- Flexible structures, flat hierarchies and direct communication channels are needed.
- Strong partnerships with digital players are required because software and data are at the heart of these business areas.
- Following "platform logic" is critical – especially in the mobility space – to quickly reach massive scale and create rapid growth through network effects.

## GETTING STARTED

When setting up a new business area, automakers need to decide how close the unit initially should be to its core operations. What often works is giving the new unit organizational and operational independence because if it functions as a separate entity it is not encumbered by the same corporate rules as the company's legacy businesses. Physical detachment should be considered, as well as setting up the unit's headquarters near independent competitors, which likely will mean having a location in a city that places a high

## GLOBAL PROFIT SPLIT BY BUSINESS AREA 2014 VS. 2025

By 2025, new business areas will have over €60 billion profit opportunity

2014 €273 BILLION



2025 €~433 BILLION



■ NEW CAR SALES ■ USED-CAR SALES ■ FINANCIAL SERVICES ■ AFTER-SALES ■ MOBILITY/CONNECTIVITY ■ NEW BUSINESS AREAS

Source: System profit study, Oliver Wyman

value on entrepreneurial spirit. Hiring dedicated, specialized staff for the new unit also is recommended because this expands the company's talent pool by adding people with expertise in areas where it is lacking.

The automaker may serve as a supplier to the new business unit, providing vehicles, after-sales services, and financing. But the new unit should not be forced to use products from the parent company that do not fit its cost structure. The new unit also should have separate midterm strategic and financial targets.

## DEVELOPMENT PATHS FOR NEW BUSINESS AREAS

When the new business matures, three different development paths can be taken.

**ABSORB:** If the new business generates synergy effects for the company's core business then it makes sense to absorb it. Bringing the unit closer to the core, however, must be done with caution to ensure competitiveness. The level of integration should be determined by how well the new unit fits within the parent company's existing structure. A good example is the evolution of the performance arms at some automakers. Often founded by entrepreneurs to provide independent tuning services to boost the power or improve the handling in the automaker's base models, many of these companies have been acquired by automakers and integrated into their core businesses. Some of the performance units now take over significant responsibilities related to the automakers' product and options portfolios.

**COMPLEMENT:** Business units that are outside the parent company's core, such as mobility platforms, are more likely to maintain their entrepreneurial independence if they are run separately. Furthermore, they can serve as compensation for value created in the core business, which might to some extent be replaced. Mobility offers give the customer a usage right, but this does not necessarily result in instant vehicle sales for the automaker.

**OUTGROW AND CAPITALIZE:** Automakers may need to adopt a portfolio management view for their new business units. This way they have financial objectives that need to be met and a clear timeline so that startups can be developed and grown with a clear exit strategy.

Establishing new business areas used to be viewed as something that only happens occasionally, therefore, everything needed to be re-invented each time. With so many emerging business areas to address, automakers need to set up a portfolio management approach across divisions and functional units. This way they can oversee the development and provide support – across multiple entities, divisions and functional areas.

Regardless of which paths are chosen for the development of the new business areas, automakers eventually will need to adapt their longtime practices so that they can cope with the rapidly growing need to have digital and, data-driven business models. The set up of new business areas can serve as a guide to the company, while also providing a test lab for new approaches, ideas, and processes. ●