

EVALUESERVE

Sector Intelligence: Impact of Covid-19

Automotive

Updated : March 23, 2020



Automotive: The What?

Global Activity and Critical Updates at a Glance

North America

- The US auto sales have started to slow down, and analysts estimate a 9-10% decrease in sales due to the Covid-19 outbreak.¹
- Analysts have cut share price targets and trimmed 2020 profit forecasts for leading US automakers such as GM and Ford.²
- Automakers and their suppliers have started making makeshift arrangements to avoid any production disruptions/factory shutdowns.³
- As a safety measure, automakers are forming a coronavirus task force with the United Auto Workers (UAW) union to improve protections for their employees and limit the spread of the virus.⁴
- Further spending on ride-hailing services Uber and Lyft plunged in the US. This is because a large number of Americans started working from home, avoided travel, and curtailed social gatherings in an effort to contain the spread of the novel coronavirus.⁵



EMEA

- The coronavirus crisis has hit the European automotive industry at a time when it is already struggling with weak global demand and tough new pollution regulations.
- Leading automakers are cutting auto production and shutting down their European plants as they struggle with the outbreak and the weak demand.
- Fiat Chrysler, Peugeot, Renault, and Volkswagen have halted factory production at various plants in Europe. This step is taken to protect staff and adjust to the decreasing demand.⁶
- Worker representatives in Italy, France, Belgium, Spain, and Germany have demanded stricter controls on hygiene, disinfection, and isolation for employees who are still working on Europe's automotive production lines.⁷



APAC

- The Asian automotive industry has been hit the hardest by the coronavirus outbreak.
- Chinese auto manufacturers are operating at less than 40% of production capacity, and auto sales were down by 79% in February. It is estimated that auto sales in the first half of 2020 will likely drop by 10%.⁸
- Chinese automakers have approached the government for help to boost auto sales. Manufacturers are demanding a cut in purchase tax on smaller vehicles, measures to support sales in rural markets, and an easing of car emission requirements.⁹
- The global spread of COVID-19 is also hurting confidence in Japan as vehicle sales in the first two months of 2020 were down by almost 11% over 2019.¹⁰
- To deal with the shortage of auto components it imports from China, Mazda Corp. has shifted production of parts to central Mexico.¹¹



Analyst Note

Global auto sales were already struggling to keep pace even before the outbreak of Covid-19. China led the descent with its dramatic sales drop of more than 20% year on year during this month. Initially, the Asian auto industry was hit the hardest due to the coronavirus impact, where the Chinese industry witnessed a 79% decrease in the sales. As the virus now spreads globally, other regions like the Americas, Europe and India are also facing or are beginning to face a slump in demand. China is the largest auto component supplier to the world and as such any supply chain disruption in China is likely to impact the automotive production across the globe.



Automotive: The So-What?

Near-Term Risk Outlook, Risk Assessment and Opportunities



		Level of Risk and Opportunity	Potential Disruptions	Risk Assessment	Opportunity Assessment	
		Near-term risk	High impact region			
»»	Original equipment manufacturer	Very High	Global	Vehicle/Equipment manufacturing	<ul style="list-style-type: none"> Manufacturing of vehicles could significantly decrease 	<ul style="list-style-type: none"> Auto manufacturers could focus on regions that have reported fewer number of infections to increase production and sales
»»	Auto parts suppliers	Very High	Asia	Supply of auto parts	<ul style="list-style-type: none"> Reduced production of auto components Closure/shutdown of supply chain operations 	<ul style="list-style-type: none"> Auto manufacturers could shift their supply chain to less affected regions Opportunity to diversify supply chain locations in the long run
»»	EV and AVs	Moderate	China and the US	Supply of lithium-ion battery and development of AVs	<ul style="list-style-type: none"> Development of autonomous and electric vehicles could halt 	<ul style="list-style-type: none"> Opportunity for live testing of autonomous vehicles in the impacted areas to minimize human intervention
»»	Ride-hailing	Very High	Global	Lower demand and Shared ride	<ul style="list-style-type: none"> Significant decline in spend on ride-hailing services due to tepid demand Companies have suspended their pool option in various locations across the globe Sick pay burden on ride-hailing companies 	-
»»	Vehicle dealers / retailers	Very High	Global	Sales for automotive vehicles and Foot fall in showrooms	<ul style="list-style-type: none"> Reduced demand due to deferment of discretionary purchases like vehicles Shutdown of showrooms and retail outlets due to lockdowns 	<ul style="list-style-type: none"> Vehicle dealers will look for alternate channels to increase their sales such as use of drones for delivering of keys, selling through online platforms



Automotive: The Next-What?

Long-Term Sector Implications for Professional Services

Original Equipment Manufacturers (OEMs)

Once the outbreak is contained, the auto industry is expected to witness an increase in demand.

- **Normalcy of operations:** Unlike the 2008-09 automotive recession, the current situation does not involve high structural issues (such as overcapacities), and the market will likely rebound gradually once the outbreak is controlled, though the production volumes are expected to fall short of earlier forecast.

COVID-19 may force manufacturers to enhance automation and digitalization capabilities for long-term operations to reduce the impact from epidemics like Covid-19 in the future.

- **Use of automation:** Investing in emerging manufacturing technologies such as autonomous factories can help minimize the impact on production disruption due to unavailability/shortage of labor force.

Some of the OEMs are venturing into completely new line of business to help mitigate the COVID-19 spread.

- **Venturing into new business:** These initiatives will not only generate rewarding revenues but also create positive reputation for these companies. Examples: BYD Co. is now the largest producer of face masks; GM, Tesla, Ford offered to make ventilators.

Auto Parts Suppliers

The lag between the outbreaks in Europe, North America, and China will help rebuild the missing inventory of parts resulting from the shutdown in China, which could create better alignment for a fresh start once the confinements end.

- **Shutdown of operations:** The entire supply chain will be disrupted, as plants will shut down for four to eight weeks due to “social distancing” measures taken across the globe. With OEMs officially halting production globally, ripple effects of supplier plant shutdowns are likely to be felt across the industry.
- **Shifting of supply chain base:** The possibility of shifting supply chain base partly from China to other locations cannot be ruled out in the long run. Countries like Mexico and Vietnam, with low labor costs, stable regulatory environments, and adequate infrastructure facilities, are likely to be the biggest beneficiaries.



Analyst Note

Automakers are scrambling to find parts and prevent shortages in their supply chains as the spread of the coronavirus rattles markets and threatens to disrupt manufacturing processes globally. This may provide an opportunity for consultants to help companies operating in automotive sector across the value chain to deal with this extraordinary situation. The range of services consultants may provide in this space include: diversification of supply chain, renegotiate debt terms with the lenders, create alternate sales channels, implement automation, identify new pricing strategies, and more.



Automotive: The Next-What?

Long-Term Sector Implications for Professional Services

Electric Vehicles/Autonomous Vehicles

Investing in technologies like autonomous and electric vehicles can play a big role for automotive companies, potentially ensuring smooth running of business with minimal human intervention

- **Long-term strategies:** Companies should look for and identify the right solutions/technology providers for partnerships/M&A/JVs to avoid any huge scale supply chain disruptions in the future.
- **Autonomous vehicles:** Investment in autonomous vehicles can also be very helpful to diversify the revenue stream of traditional automakers. Even during the current crisis, there have been instances of deploying autonomous vehicles to deliver essential supplies to doorsteps of citizens in affected areas, including in Wuhan, China.
- **Localizing supply chain:** Automotive companies may accelerate efforts to localize supplies of essential electric vehicle parts, such as lithium for electric car batteries.

Automotive Retailers

The sector would face pressure from not only the supply side, but also the demand side and exports, if the spread of Covid-19 persists for longer. However, once the virus is contained, automotive companies can develop different strategies to boost their sales.

- **New point of sales:** Since the footfall in showrooms and kiosks has decreased due to the preventive measures taken to curtail the coronavirus outbreak, consultancies can guide automotive companies in developing online sales portals and help identify right partners / technology providers on augmenting their capabilities on virtual retailing, "no contact" contracting, at-home test drives, and concierge delivery for service etc.
- **Easy financing and incentives to buyers:** In all likelihood, the COVID-19 pandemic is expected to keep customers out of showrooms for longer. As a counter measure, several automakers/lenders are currently rolling out special financing programs and incentives to encourage sales.

Ride-Hailing Services

Ride-hailing companies are forced to suspend their operations as a preventive measure against coronavirus. Suspension of services along with the sick-pay burden is likely to reduce the ride-hailing companies' revenue and profitability significantly. However, as soon as normalcy is achieved, it is expected that demand for ride-hailing services will bounce back again.

- **Renewed pricing strategy:** Major players, such as Uber and Lyft, may tweak their pricing strategies to focus on capturing market share instead of revenues.

To Watch Out For

- Automotive is one of the most vulnerable sectors to Covid-19 outbreak, although it is very early to ascertain the overall impact on the sector at this moment.
- The automotive manufacturers will continue to remain under pressure due to their high dependency on international suppliers.
- The ability of OEMs and suppliers in the value chain to withstand the impact of Covid-19 will all depends on their economic conditions and the duration of the outbreak.