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The XII European Automotive Congress

Julian Buckley reports from Madrid as OEMs and suppliers meet to hear ideas about what can be done to support Europe's shrinking automotive industry, or whether the new opportunities lie outside the region

At the recent 13th European Automotive Congress, held in Madrid, Spain, top automotive executives met to discuss aspects of the national and international automotive industry, including what role suppliers will play in the changing landscape as OEMs undergo major upheavals in terms of market shift and consumer demand.

Speaking at the event, Dr. Klaus Draeger, BMW board member in charge of the purchasing and supplier network, noted that there are four different 'battles' that OEMs and suppliers must face together: cost, flexibility, quality and innovation. While cost was self-explanatory, he went on to say that flexibility in the face of evolving markets would be crucial in maintaining successful partnerships between OEMs and suppliers. Using the current market growth in China and North America as an example, Draeger noted that because customers in these areas traditionally prefer petrol rather than diesel engines, BMW was seeing an increased need for petrol engine parts and he believed it was up to the suppliers to help the carmaker meet this demand.

"We need to anticipate trends, not react, so we need a good network of suppliers that delivers the correct parts just when we need and at a good cost," he explained. Draeger continued by outlining the characteristics of a modern supplier, describing him as honest, committed to his values, and prepared to do a deal on a handshake. A good supplier, he continued, will set standards with his behavior and he takes on responsibility with regards to economics and international business and he defends these values. It is these qualities which build trust, which is key in the changeable business climate. Draeger further outlined that BMW as a group is backing the euro to survive, noting that it is important for the company and for all of Europe that the currency is maintained in order to preserve stability.

Hans Jürgen Kracht, WOCO Group CEO

Alfredo Vila, managing director at Citroen Spain, echoed this sentiment, noting that the complexity of the Spanish legal system has made it too difficult to do business. "There are too many laws in this country," he said. "They don't encourage investment and investment is the only way to develop jobs." This is of critical importance as nearly 25% of the Spanish population is currently unemployed.

Additionally, Vila stated that it is the responsibility of carmakers to adapt to the current and future situations. Market contraction of up to 50% in Spain has resulted in local over-capacity, but he saw that there had been no change in the number of car dealers. “OEMs will need to work with local dealers and distributors to move the business forward, using collected data to offer the customer a better service,” he said.

In addition to good business practices, Frank Torres, managing director of Nissan Motor Iberia spoke about how he considers market growth, supported by improved product quality, to be the essential combination which will serve as the bedrock of Nissan’s manufacturing operations in Spain. As part of this, he noted that the Nissan plant in Barcelona has recently undergone EUR100 million of upgrades to deliver a second pure electric commercial vehicle which will be shipped to various countries around the world, including Japan.

Torres went on to say that in addition to growth and quality, he believes a constant, ongoing dialogue with unions and government is necessary to achieve market competitiveness. Hon continued by saying that although the industry has become more competitive, it would be achieving excellence through quality, through the support of his supplier network, that would carry Nissan manufacturing in Spain through this particularly challenging period.

International experience

One of the tier suppliers participating in the congress was Woco Group, whose CEO, Hans Jürgen Kracht, noted that he believed the Spanish market would undergo a limited recovery in the near future. Beyond that, he highlighted China as an area of both opportunity and risk for suppliers, this coming after the failure of the turbocharger and acoustic technology provider’s first attempt to enter the market in 2009.

Following this, the Woco Group opened Woco Wuxi, located near Shanghai, in 2011. According to Kracht, this second attempt to enter the Chinese market proved considerably more successful than the first, due in large part to the quality of the selected partner company – this is a critical factor, he believes, when moving into China for the first time, which can make or break the joint-venture.

Based on these experiences, he went on to outline the areas a company must investigate before moving ahead with plans to set up a business in China. The first was to produce parts which were unavailable or in short supply, which could also be manufactured to original specification using local engineering skills. “You must be a value seller and not just a price seller,” observed Kracht, who continued: “Companies must create a clear difference and build trust between themselves and competitors who simply want to sell product.” In addition, he said that any company planning to do business in China must be capable of producing parts at a competitive price, without factoring in low-cost labour, as China will not be low-cost region over the long-term. Related to this, he noted that employee churn was a problem that small and medium enterprises would have to deal with, as workers were generally only loyal to larger, international companies and would quickly move to gain higher wages.

Despite these potential pitfalls, and the possible problems presented by a growing real estate bubble, Kracht was positive about continued Chinese expansion, predicting that the country would maintain an annual growth trend of between 8% and 9%. Due to this positive growth, Woco Group is planning to add a second plant in

China in 2016.

Two further international groups at the congress were the Moroccan Investment and Development Agency (AMDI) and Tangier Automotive City (TAC), as the respective agencies took the opportunity to talk about the growing in-country automotive sector. Morocco is only 14 miles (20km) from Spain and according to Aziz El Atiaoul, director at AMDI, in 2015 approximately 500,000 vehicles will be produced in the north African country. The majority of these will be built at the Renault-Nissan plant near Tangier, which has been in operation since 2005. The local automotive market, which now stands at 125,000 units per annum, is expected to double by 2020. Other positives to investing in Morocco include lower salaries, which are up to 13% less than the European equivalent, while VAT (value-added, or sales tax) is not applied to imported or exported raw materials.

Speaking on behalf of TAC was company director Ahmed Bennis, who extended an invitation to all suppliers to join the Moroccan-owned and foreign component suppliers already manufacturing in the area. He pointed out that 70% of the companies already located in the TAC were related to the automotive industry, with parts used both locally and also shipped via Tangier Med - one of the top five ports in the Mediterranean – for delivery to OEM plants across Europe. Bennis also said that the region could offer locations within a dedicated industrial park only 20km from the port and within the Tangiers free zone. Products already being produced and exported from within the TAC include wiring harnesses, interior accessories and electrical parts.

Ralf Landmann, senior partner at Roland Berger Strategy Consultants

Future forward

In his presentation at the congress, Ralf Landmann, senior partner at Roland Berger Strategy Consultants, focused on how globally shifting markets will affect OEMs and suppliers. Central to this idea is the need to maintain growth in the Chinese market as OEMs and suppliers continue to move investment into the region in order to support continuing growth. Landmann noted that there was the possibility that the Chinese market could cool, which would clearly be disastrous for OEMs producing vehicles in the region, but he believes that it is more likely that the country will continue to grow, attracting new OEMs to the region. While this could erode the profits enjoyed by companies already producing vehicles in China, the addition of new players to the region would mean new revenue streams for suppliers.

“A lot of suppliers were in crisis, but they have done their homework and they are much better prepared,” Landmann explained, before explaining that this improved industry flexibility will see more suppliers manufacturing in low-cost markets and shipping final products to high-margin regions. This, he added, has the potential to create new revenue streams, particularly as carmakers look to integrate the telematics equipment needed to share data between cars – and beyond. “Someone, somewhere, is planning a way to be able to collect all data from all cars, which will be a powerful enabler,” he predicted.

Beyond the possible benefits of new technologies, Spain as a whole is a problem for OEM manufacturers and suppliers. For the OEMs, the poor local economy acts as a financial millstone, but flexible solutions such as that the Martorell plant in northern Spain, which produces both locally-popular Seat models and also the Audi Q3 CUV, will reduce the local drag on global profits.

For suppliers, such flexibility is only an option for the larger players, as they will look to make up numbers lost locally due to locally contracting production figures by securing contracts outside Spain. But if national vehicle production levels fall any farther, it is likely that a large number of smaller Spanish suppliers which only deal with OEMs operating in-country will find it very difficult to continue trading in the unworkable business climate. ■