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Are you ready for
pole position?

Driving digitization in the
auto industry

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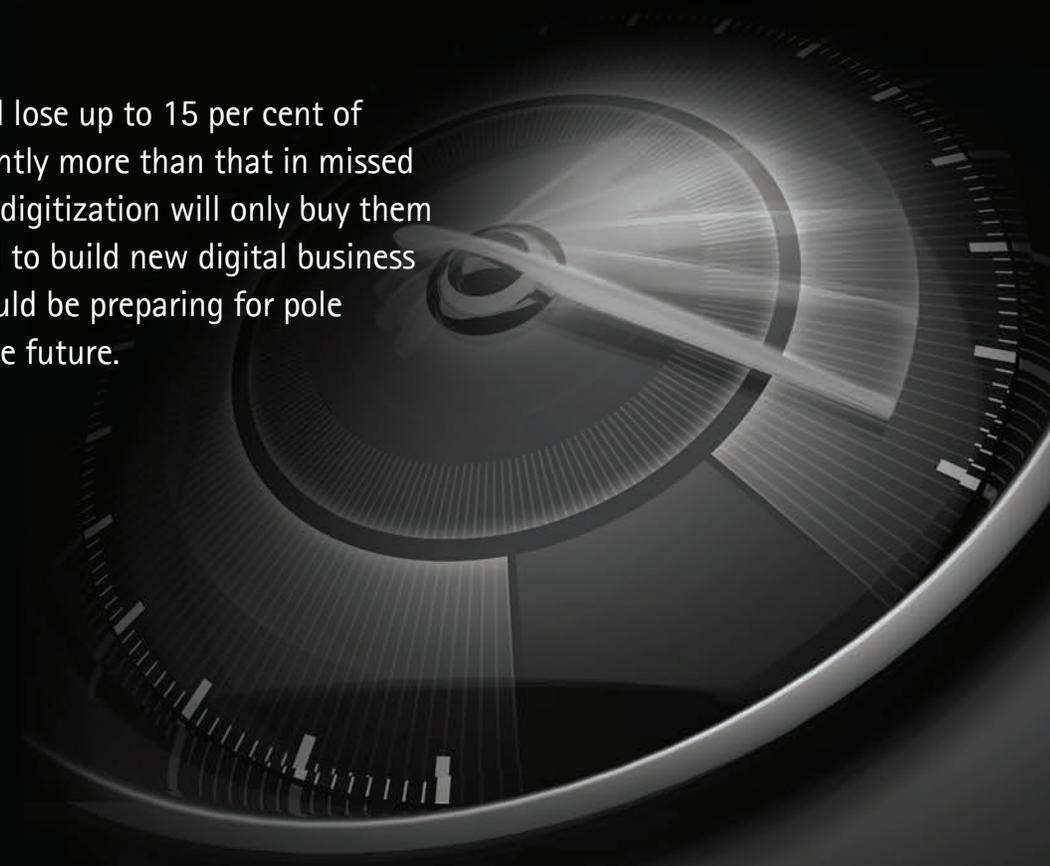
Digital disruption is transforming the automotive industry. Car making isn't only about the product any longer. It's becoming a digital service game. And by leveraging digital across all dimensions, OEMs could boost their profitability exponentially.

Accenture research shows that by 2020, for an OEM with US\$55 billion in annual net revenues, digitization could be unlocking more than US\$2.3 billion in new value—with both top- and bottom-line impact (see About the Research).

Most OEMs recognize digitization's power to transform their brands. But although many are partially digitizing key areas of their current value chain, few are going far—or fast—enough.

To unlock digitization's full value potential—a total profitability uplift of close to 43 per cent by 2020—OEMs also need to build new value chains.

If they fail to digitize, OEMs could lose up to 15 per cent of current profitability, and significantly more than that in missed future opportunities. Even partial digitization will only buy them time. But by also moving at speed to build new digital business models, any automotive brand could be preparing for pole position in the auto markets of the future.



Accelerate—now

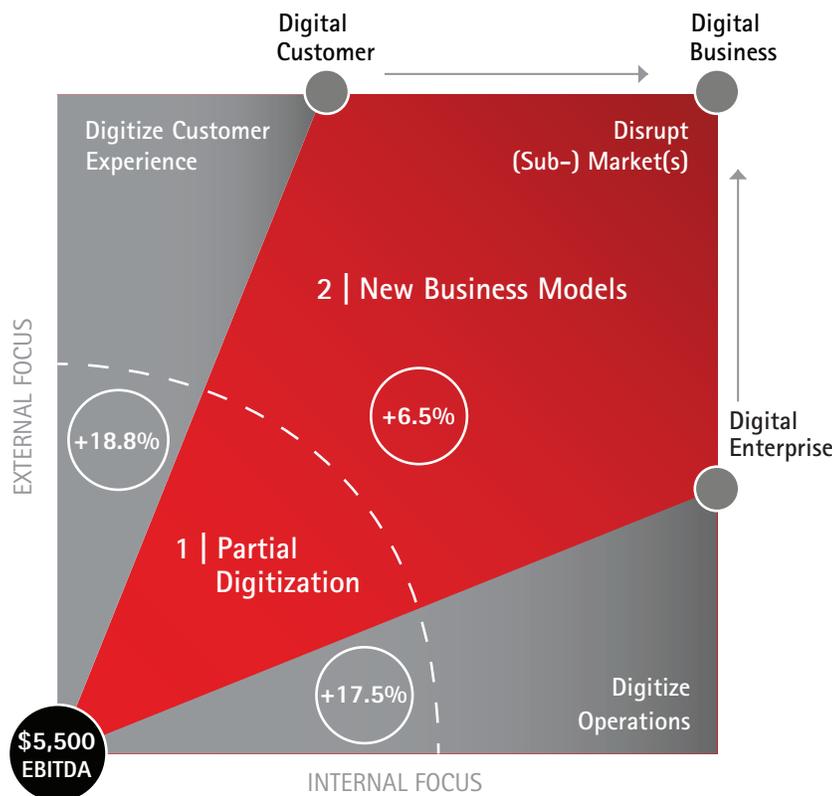
Swift, agile digital disruptors—many from outside the industry, and particularly from the technology sector—are already eating into all areas of the auto value chain with offers that give them direct access to customers and their data. Their incursions directly threaten the profitability of the established OEM business domains.

It's essential that the OEMs accelerate their own digital efforts—and fast.

Accenture developed a comprehensive digital strategy framework for OEMs with two strategic options: partially digitize the existing value chain; and in addition define new business models that will result in completely new revenue streams (see Figure 1).



FIGURE 1 | Digital Strategy Framework



Strategic Options

-  **1. Partial Digitization**
Realize EBITDA opportunities through digitization of existing value chain
-  **2. New Business Models**
Realize EBITDA opportunities through development of new revenue streams enabled by a new value chain

Value Areas

-  **Digital Customer**
Apply digital technology to address customers in a more sophisticated way to increase revenues and profitability
-  **Digital Enterprise**
Decrease costs of the existing value chain's primary functions (e.g. R&D) as well as support functions (e.g. HR)
-  **Digital Business**
Digitize your current business model or develop new business models generating profits based on digital technology

Partial digitization is a crucial prerequisite to picking up pace

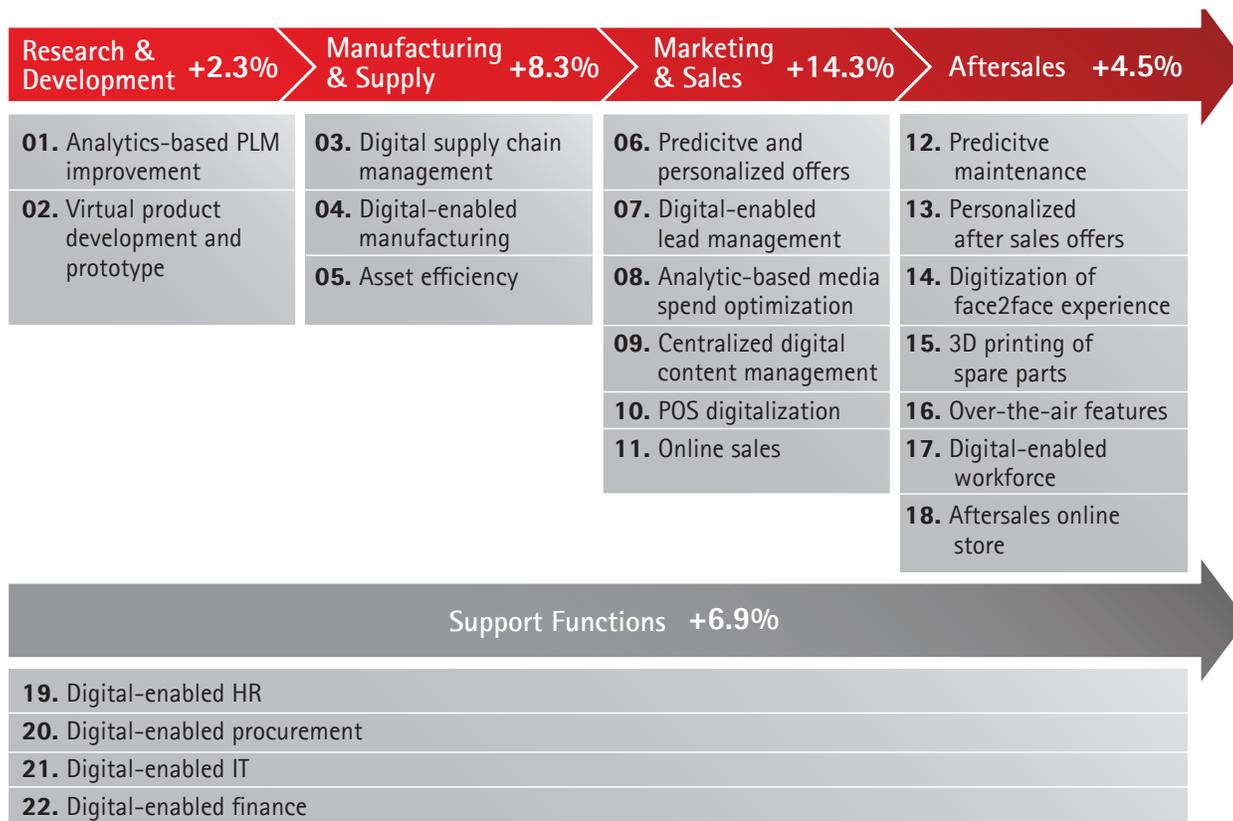
Partially digitizing the existing value chain is critical to realizing the full potential of digital value creation. We estimate, indeed, that by 2020 it could increase an OEM's profitability by 36.3% per cent (see Figure 2).

Two dimensions need to be considered. First, the digital customer and his or her interaction with the OEM: digitizing the customer experience in marketing & sales and aftersales contributes 52 per cent of the overall potential for partial digitization. And second, the digital enterprise: professionalizing such internal processes as R&D, manufacturing and supply, and support functions by digitizing them contributes 48 per cent.



Even so, carmakers that limit themselves to partial digitization are unlikely to get as far as the finish line. And that's because, just as they have in other industries, digital disruptors are redefining what business success looks like in the auto industry.

FIGURE 2 | Partial digitization strategy—EBITDA potentials per value chain element



Long-term success will largely depend on new business models

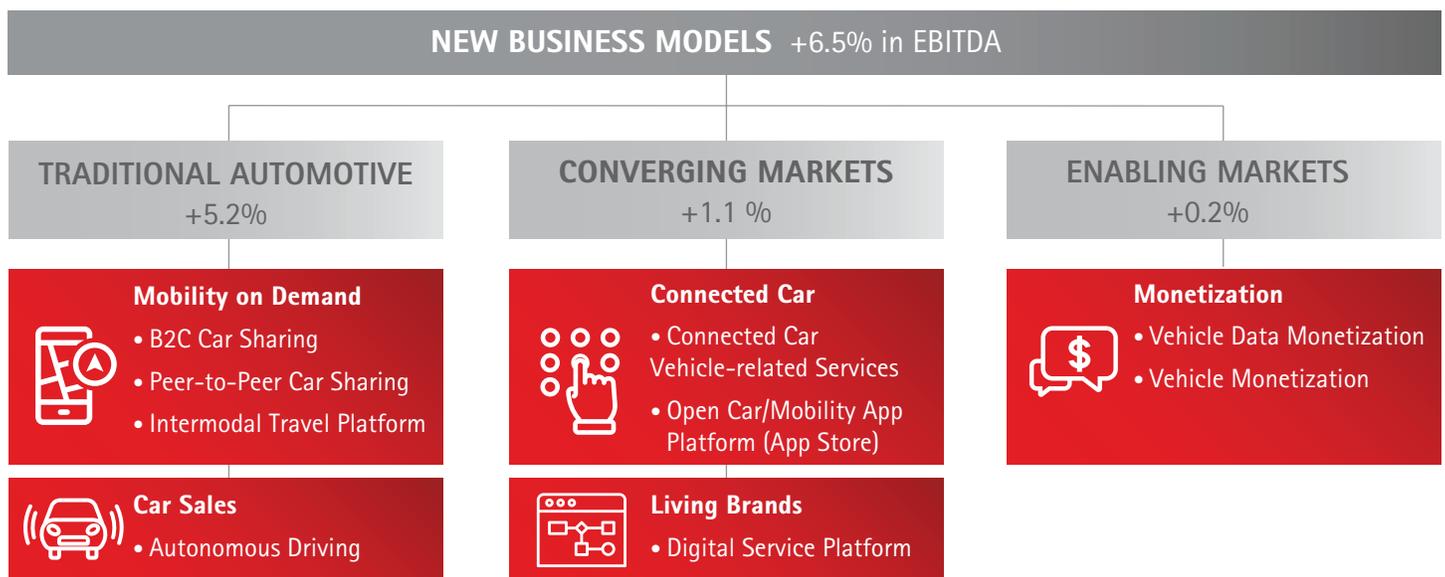
Apps, add-on services and digital service platforms that relate to the connected car and its digital eco-system will increasingly define the new, industry-dominant business models—and the digital disruptors are shaping these developments.

Some OEMs are rising to the challenge with inter-modal travel platforms that integrate their own and others' vehicle sharing and mobility options (e.g. train, taxi) into a single, mobile, payment account. But access to customer data and its monetization are emerging as decisive factors in building truly successful industry eco-systems. And here too, the disruptors are in the lead. Consider, for example, groundbreaking initiatives like open platforms for the Internet of Cars, which enable developers and engineers to build third-party apps and service integrations.

Plainly, the OEMs will need to move fast if they hope to catch up. But the rewards for fast movers promise to be huge. Our research indicates that by moving at speed to build new eco-systems, any automotive brand could boost its profitability by 6.5 percent by 2020—and by 2025 it could be generating as much as US\$2.8 billion in new value (see Figure 3).



FIGURE 3 | New business model strategy—2020 market/EBITDA potentials



Becoming a digital champion

No two brands are alike. Each will require a digital strategy tailored to its unique characteristics. And each option, together with its corresponding profit potential, will need to be evaluated in detail.

Every player can accelerate the process however, and the following considerations will help:

Set a destination.

Define the value of digital for your brand and align the results with a digital vision. Provide compelling and aspirational leadership from the top.

Chart the roadmap.

Define your required initiatives, timeline and approach. Assess them carefully to ensure that you can be flexible while remaining targeted.

Build digital IQ.

Make digital integral to your brand's DNA. Train to up-skill. Hire to boost your capabilities in analytics and data. Consider partnering with the disruptors and other parties to enhance your own capabilities.

Foster agile decision-making.

Establish a governance structure and organizational processes that help your people respond fast and flexibly in an uncertain and constantly changing market environment.

Only those OEMs that digitize their entire enterprise by leveraging partial digitization in tandem with new business models—and invest in both ahead of their competitors—will gain pole position in the auto industry of the future.



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About the research

Accenture research is based on a typical automotive OEM with a net revenue of 55bn \$ per year. Our proxy for profitability was EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization). We reviewed all international OEMs in detail, as well as numerous digitization strategy projects both within and beyond the automotive industry. We identified the most successful new business models by leveraging both Accenture global research as well as other available studies concerning digitization. We also identified some 20+ key growth initiatives for partial digitization along the entire automotive value chain. We used market simulations to estimate both the digital impact on other industries and learn from them, and the impact of digitization on automotive companies by 2020.

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