REPORT

Global Automotive Supplier Study 2025

"Stagformation": Trends, outlook, and recommendations to navigate stagnation and transformation

LAZARD

Roland Berger

Management summary

The global automotive supplier industry is facing a challenging market landscape, clouded by stagnating growth, geopolitical uncertainty, rising competition, and mounting cost pressures from prolonged technological transformations. In essence, what we currently observe in the automotive supplier industry can be aptly described as a period of "stagformation", where stagnating volume growth is coupled with the urgent need to transform established business models.

The financial performance of automotive suppliers reflects this challenging sentiment, with EBIT margins remaining 2 percentage points below pre-Covid levels. While there was a temporary stabilization in 2023, forecasts indicate a further decline in 2024, with industry averages expected to drop to 4.7%. We expect profitability challenges to persist and likely intensify in the coming years, driven by five key trends: 1) stagnating global sales volume, 2) slower adoption of battery electric vehicles (BEVs), 3) rising software costs and increasing customer demand for advanced driver assistance systems (ADAS) and connectivity features, 4) swelling economic and competitive pressures in China, and 5) resurging geopolitical tensions and global trade barriers.

To remain competitive in today's dynamic automotive landscape and prepare for the future, we recommend suppliers optimize their portfolios through partnerships, streamline their product offerings, and focus on strategic technologies. Western suppliers must prioritize structural cost improvements to stay competitive amid rising pressure from Chinese players. Technology and cost leaders should focus on strategic, well-executed expansion to sustain their advantage. Given the accelerating geopolitical dynamics and market volatility, executing clear and disciplined regional strategies is crucial. These strategies will be essential for ensuring resilience, enhancing profitability, and improving capital structures.

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Fast Facts

4.7%

Estimated industry-level EBIT margin in 2024

67%

Expected market share of local OEMs in China in 2030

111 m

Production overcapacities in the automotive industry, 2020-2030

1 Getting started

The past couple of years have been tough for the automotive supplier industry. The post-Covid bounce fizzled out, with lackluster growth and increasing cost, regulatory, and supply challenges.

Although we saw a certain stabilization and recovery until the first half of 2024, the automotive environment became increasingly challenging throughout the year. The electric vehicle market is experiencing a slowdown and overcapacity, structural shifts, and rising costs are intensifying competition. We see five overarching trends in the overall automotive market that have specific consequences for the supplier industry:

1. Global production is stagnating, with Europe recovering most slowly, while China and South Asia are the main drivers of modest global volume growth.

2. BEV sales are stagnating in Europe and North America as subsidies are withdrawn, but hybrid vehicles are experiencing a resurgence.

3. Software-defined vehicles (SDVs) are expected to become increasingly dominant in the coming years, impacting both OEMs and OESs.

4. The market environment in China is getting even tougher with fierce competition among OEMs, resulting in a further margin squeeze.

5. Accelerating geopolitical dynamics are reshaping global trade among core automotive regions through tariffs and subsidies aimed at fostering local economic competitiveness.

"To navigate the complexities of 'stagformation', automotive suppliers must prioritize strategic partnerships and optimize their portfolios to remain competitive in a rapidly evolving market landscape."

Felix Mogge, Senior Partner, Roland Berger

2 Automotive state of health

Recovery has halted, with challenges particularly in Europe and for BEVs

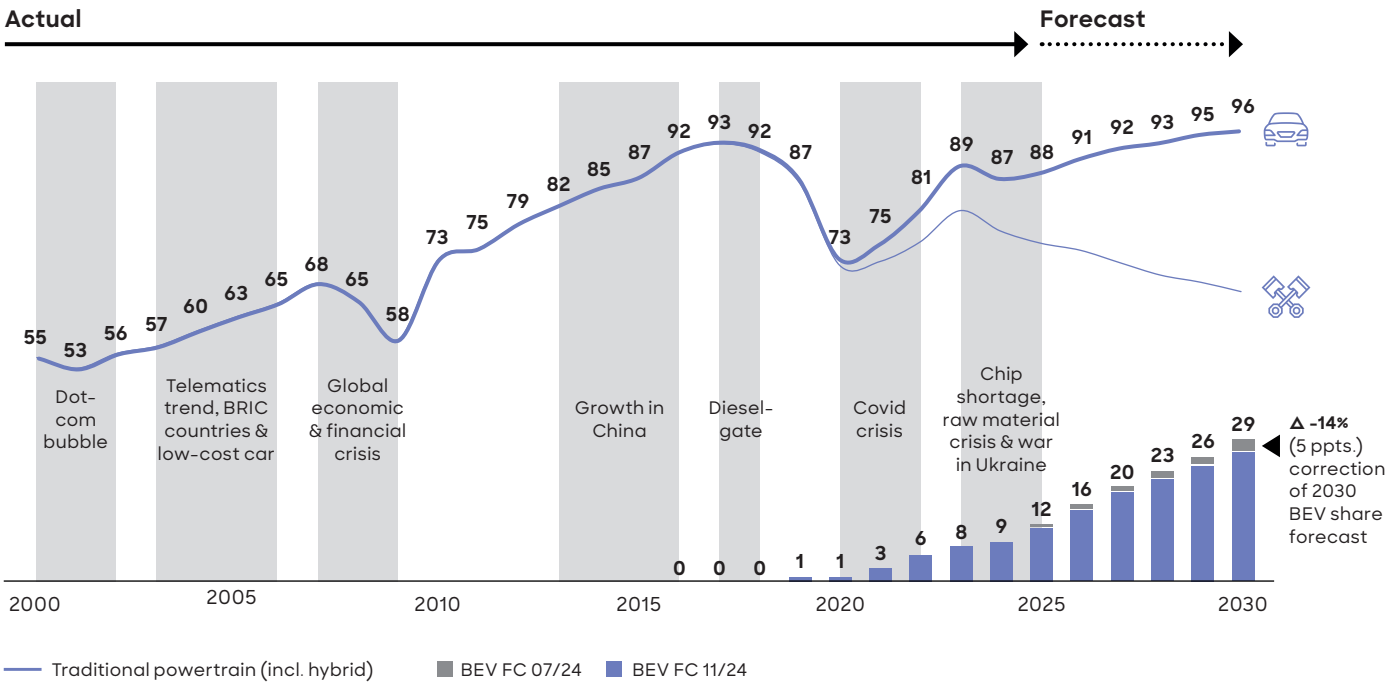
The unprecedented disruptions of the past few years, from Covid-19 to semiconductor shortages and heightened geopolitical tensions, have sent the automotive industry into a steep decline. Our analysis shows that after a certain recovery in 2023, 2024 was marked by accelerating challenges once again. In this section we examine some of the key performance indicators of the supplier industry, which are fundamental to their financial performance, as examined in the subsequent chapter 3.

Global vehicle production: Production volumes are projected to gradually recover only towards the end of this decade

Global vehicle production, which dropped to 73 million units in 2020, is expected to exceed 96 million units in 2030. Forecasts suggest that pre-Covid peak levels will not be reached before 2028. The shift in powertrain technology from internal combustion engines (ICE) to battery electric vehicles (BEVs) continues to play a key role in this growth. Despite the unique challenges currently faced in BEV production, it remains a significant factor in shaping the industry's growth trajectory through to 2040. ▶ A

A The automotive industry's recovery has halted and is not expected to return to pre-Covid levels before 2028

Global automotive production[1], 2000-2030 [m units]



1 Excluding Russia, Ukraine, Uzbekistan, Kazakhstan

Source: S&P Global Mobility LV Production Forecast July/November 2024

Regional vehicle production: China and the Global South countries are leading the recovery

China and the countries of the Global South are driving the recovery. Production volumes in China are projected to rise from 29 million units today to 33 million units by 2030, with growth also expected in South America and South Asia. The European and North American markets are forecasted to experience only modest recovery leading up to 2030. Europe is projected to stagnate at approximately 16-17 million units, while North America is anticipated to see a gradual increase to around 15-16 million units. Both figures remain below pre-Covid levels of 19 million and 16 million units, respectively.

As China's significance in the global automotive landscape continues to grow, Europe and North America are expected to remain key priorities for industry players. Although the Global South is experiencing notable growth, its influence on revenues and profit pools is anticipated to be limited.

Electric vehicle market: BEV adoption is slowing but strong sales of hybrids are supporting growth

From a technological viewpoint, the adoption of BEVs is progressing more slowly than expected. BEVs are projected to account for 41% of global light vehicle sales by 2030, a decrease of 12 points compared to forecasts from December 2023. A strong decline in government incentives and policy changes after elections in the EU & US, along with less of a push by OEMs, are key reasons for this correction. Continued high costs and limited charging infrastructure further drive consumer skepticism and reluctance to switch to BEVs. Hybrid electric vehicles, however, are forecast to increase their share of the light vehicle market, helping to plug the gap in slower BEV growth. Consumers are seeking a bridging technology between ICE vehicles and BEVs while they wait for charging infrastructure to improve and BEV technology to mature.

On a regional level, China and Europe are driving BEV and hybrid growth, with BEV penetration expected to reach 50-55% in both regions by 2030. North America, on the other hand, is projected to lag behind, with BEV adoption expected to reach only 20-30%. This slowdown is anticipated to be influenced by the legislative changes under the new US presidency.

Industry comparison: The automotive supplier industry is underperforming relative to other sectors

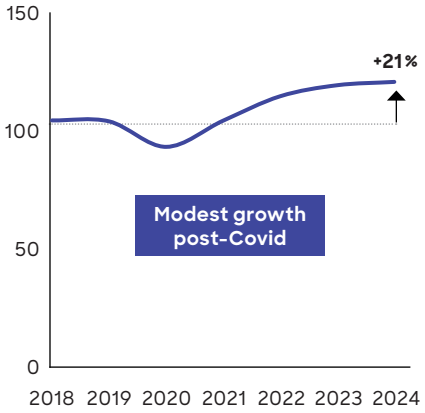
Compared to other industries, the automotive supplier industry has underperformed in recent years, especially in terms of industry profitability. While other industries, such as broader industrials or MedTech, experienced only moderate growth and a faster recovery of post-Covid revenues and profitability, the automotive supply sector has seen a modest revenue recovery at a structurally lower level of profitability. ▶ B

B Compared to other sectors, the automotive supplier industry has significantly lost momentum in recent years

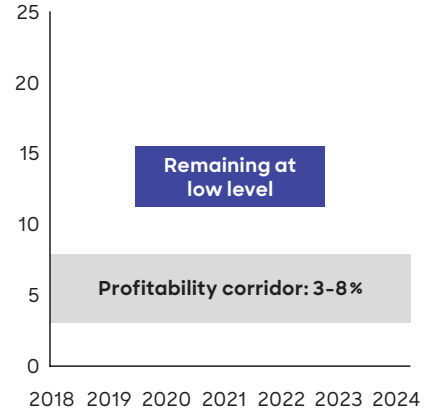
Industry state of health assessment, 2018-2024 [Indexed; %]

Automotive suppliers

Revenue [Indexed 2018 = 100]

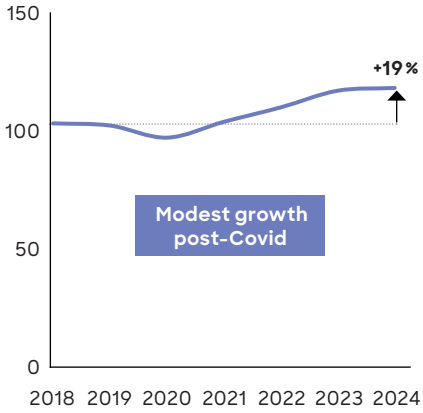


EBIT [%]

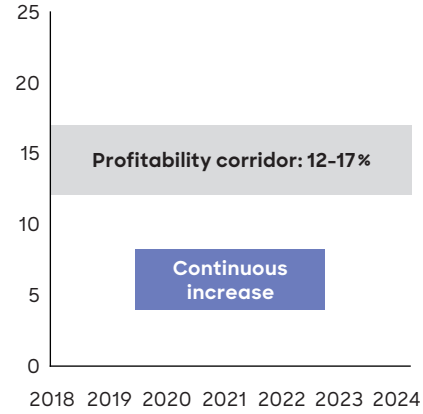


Industrials[1]

Revenue [Indexed 2018 = 100]

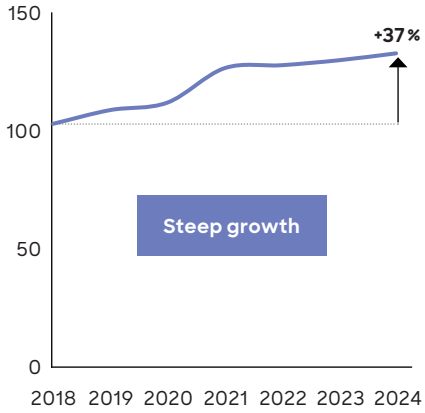


EBIT [%]

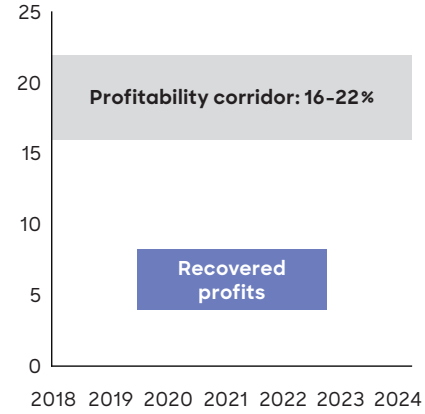


MedTech[1]

Revenue [Indexed 2018 = 100]



EBIT [%]



Takeaway

- Automotive suppliers' revenue base has stabilized after a significant Covid-19 downturn
- Yet, transformational forces are exerting additional pressure on the already diminished profitability levels within the automotive sector

- Industrials have shown a steady post-pandemic recovery, driven by Capex catch-up effects, stable price levels, and infrastructure programs
- Healthy profitability is enabled by specialized products, effective business models, operational excellence, and strategic cost management

- MedTech capitalizes growth on macro-trends such as an aging population, increased access to healthcare and a rise in lifestyle-related diseases
- Superior profitability levels stem from innovative, high value-added products, and less competition in a regulated market

1 Top 25 companies by market capitalization

Source: Roland Berger/Lazard supplier database, Bloomberg October 2024

Credit ratings and interest rates: Financial pressure is increasing due to higher credit risks and likely elevated interest rates

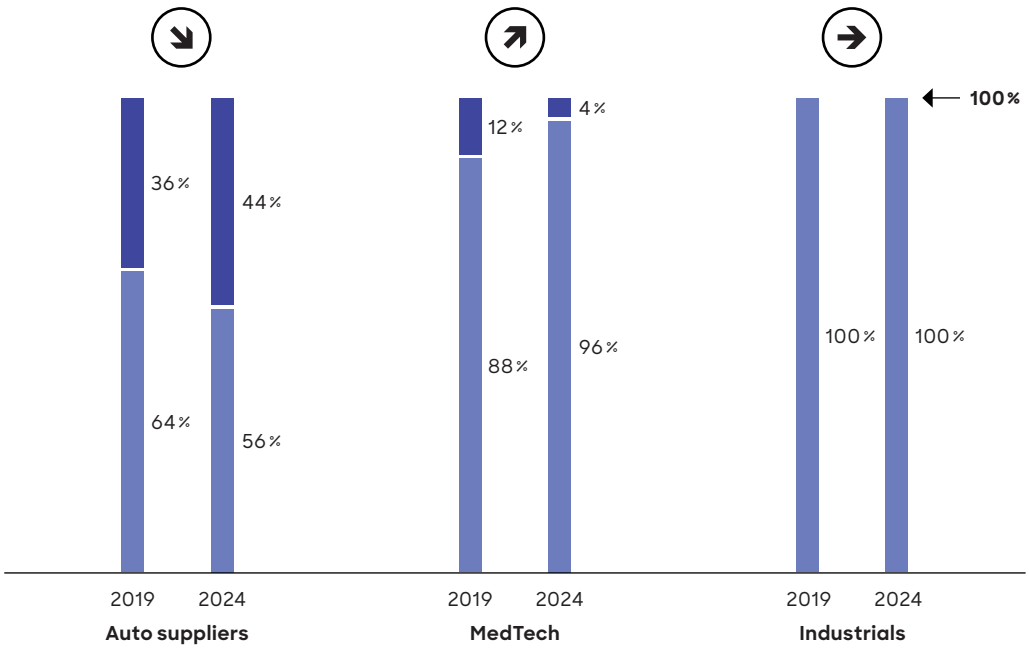
Credit ratings highlight the tough market conditions for automotive suppliers, with over 40 % of the 25 largest automotive suppliers (by market capitalization) now rated as non-investment grade. This proportion is significantly higher than in other sectors, such as MedTech or industrial companies, where less than 5 % of the respective top 25 are non-investment grade.

The lower proportion of investment-grade ratings increases refinancing costs and risks for automotive suppliers, adding strain to financial stability in a sector that requires capital for technological innovation and transformation. This sector still faces significant CAPEX requirements for the BEV transformation, software-defined vehicle roadmaps, and autonomous driving ambitions for the 2030s. ▶ C

Continued high interest rates have widened the gap between EBIT and EBT, putting further pressure on pre-tax profitability. In 2023 and 2024, for example, interest payments reduced EBIT by >20 % to generate pre-tax earnings. This structural change is likely to persist, as the era of zero-interest-rate policies has ended, and interest rates may go down more slowly than initially planned to keep inflation under control.

C Credit downgrades reflect challenging market conditions for automotive suppliers compared to other industries

Credit ratings per industry – Global top 25 players[1], 2019-2024 [%]



1 Top 25 per industry by market capitalization; excluding tire manufacturers and NVIDIA

Source: Bloomberg October 2024

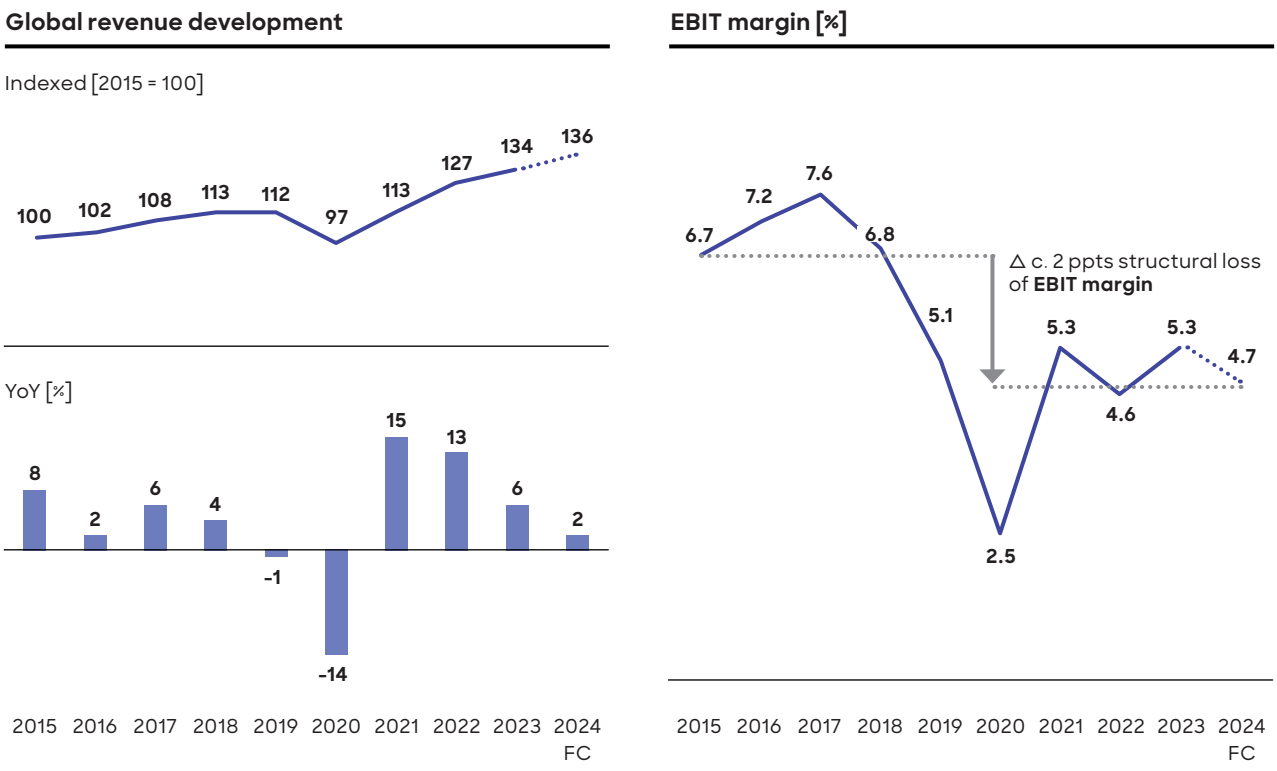
3 Review of financial health of the automotive supplier industry

Supplier revenue and EBIT: Revenues are recovering but profitability is declining

Revenues in the supplier industry have been slowly recovering since the Covid-19 pandemic, especially in 2022 and 2023, partly driven by inflation. More importantly, profitability has structurally declined. Global EBIT margins were 5.3% in 2021 and 2023, a two percentage point loss compared to 2016/17, and a 25% loss in absolute terms. This downward trend is anticipated to persist into 2024, with industry-level EBIT margin estimates projected at 4.7%.

The decline was driven by the Covid-era production downturn and inflation-driven increases in personnel and material costs. EBIT margins for traditional suppliers now put them at a disadvantage compared with other automotive players. Semiconductor manufacturers and software companies, for example, recorded much higher EBIT margins of 21.6% and 35.5%, respectively. With increasing headwinds for OEMs, supplier margins are projected to remain under pressure in the coming years. ▶ D

D The automotive supplier industry has structurally lost c. 2 percentage points of its EBIT margin compared to pre-Covid levels, expected to fall below 5% in 2024
Key supplier performance indicators, 2015-2024 (n = ~600 suppliers)



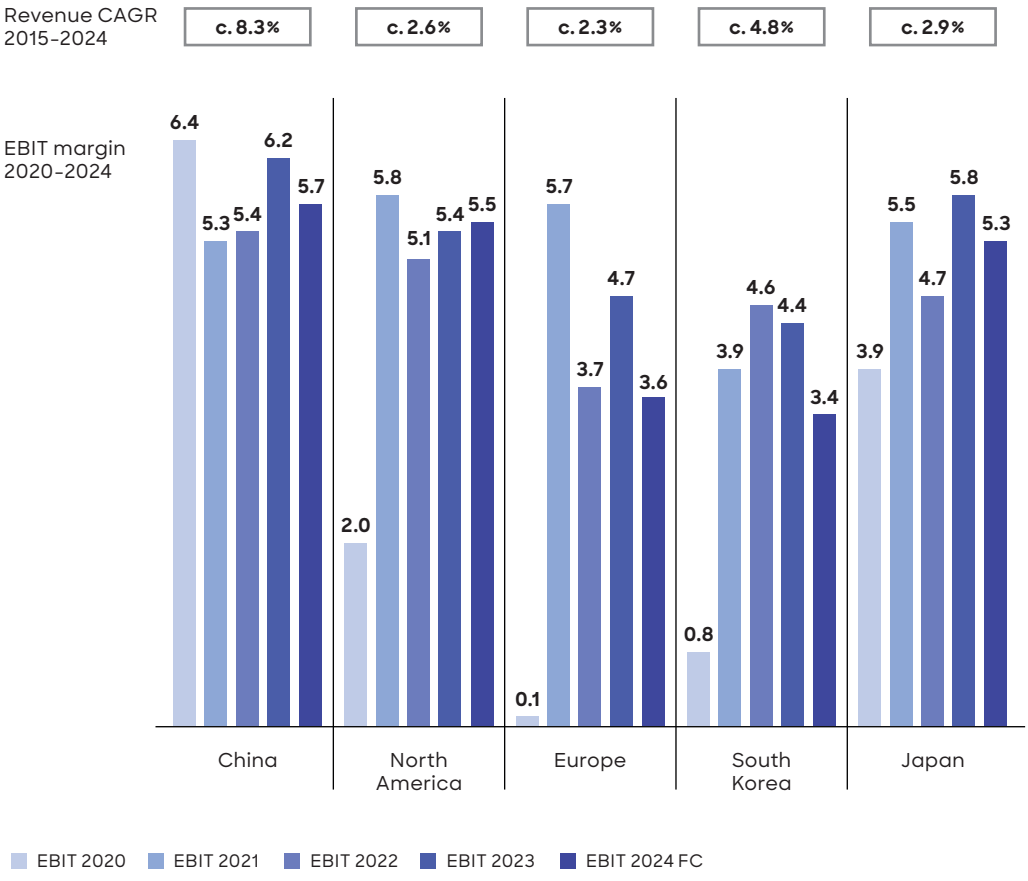
Source: Company information, Roland Berger/Lazard supplier database

EBIT by region: Global profit margins deteriorating, with China seeing the highest returns

Growing pressures and challenges on the automotive sector continue to lead to declining profit margins. Chinese suppliers recorded still the healthiest EBIT margins in 2024 (5.7 %), while European (3.6 %) and South Korean (3.4 %) suppliers are suffering the most. Weaker demand, especially in H2/2024, paired with tenser price claim negotiations with OEMs, put pressure on suppliers' profitability.

Chinese suppliers benefited from growing domestic OEM demand, fueled by government incentives and private investments, a growing customer base, and footprint optimization. However, this also slowed down in 2024, with more price competition coming from OEM pressure and overcapacities among the regional brands. In North America, operational excellence initiatives were offset by rising labor costs and shortages, as well as stagnating production volumes. European suppliers were hit hardest by low production levels, overcapacities, and labor cost inflation. ▶ E

E **All major regions except for South Korea record a margin increase in 2023, before most see a renewed deterioration in 2024**
Key supplier performance indicators by region [%]



Source: Company information, Roland Berger/Lazard supplier database

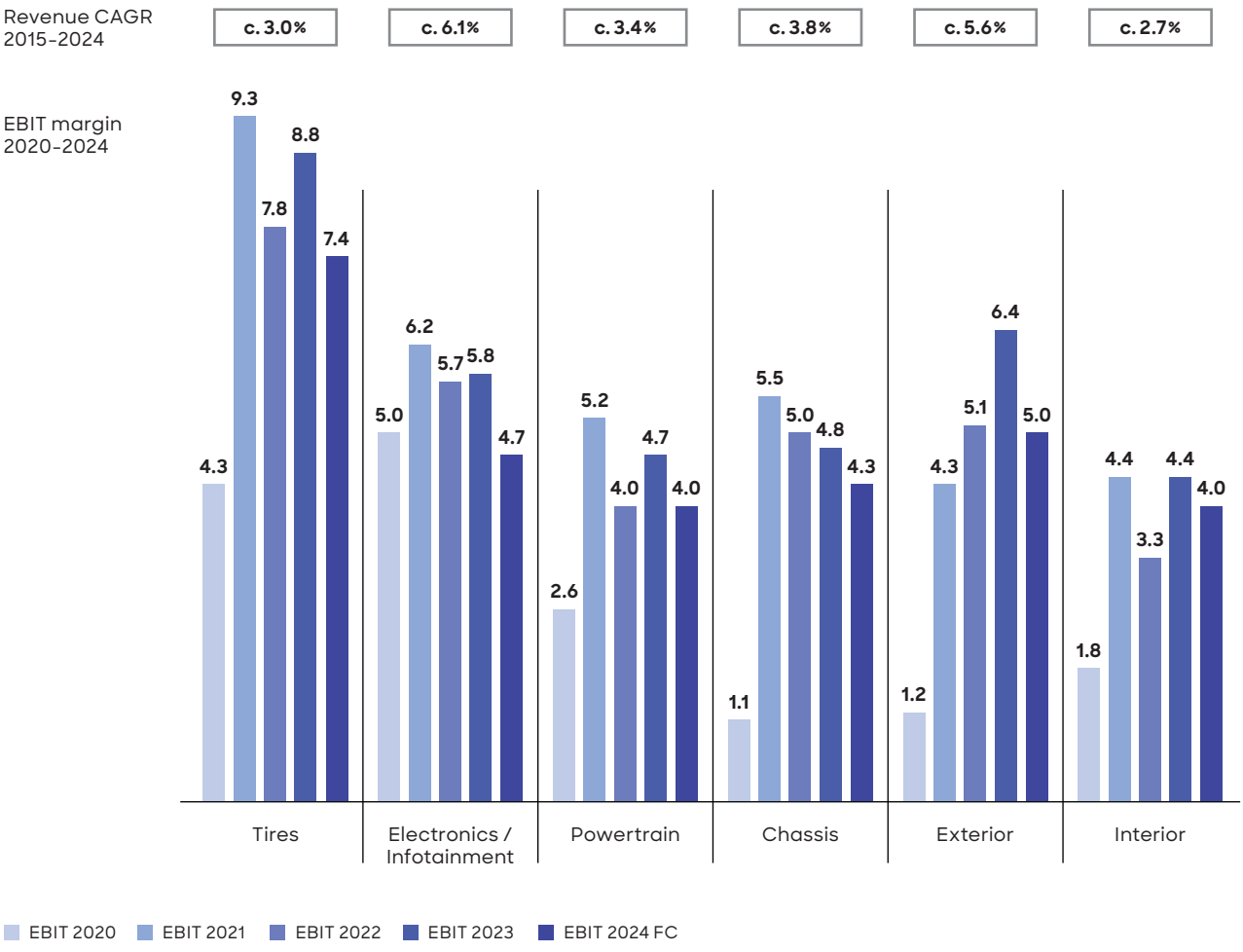
EBIT by product segment: Margins are largely consistent across segments, with tire suppliers in the lead

Tire suppliers remained the leading OES group in 2024 with a 7.4% EBIT margin, driven by stabilizing raw material prices, a shift to higher-value products (such as EV and SUV tires), and structurally higher margins from their aftermarket business. Powertrain suppliers compensated for falling BEV sales by capitalizing on the renewed growth in profitable ICE and hybrid components, while exterior and interior players, especially in Asia, benefited from the slight recovery in vehicle production and the stabilization of material price inflation.

Suppliers of electronics and infotainment components experienced declining margins, despite having the highest revenue CAGRs. The growing amount of content demanded by OEMs has been offset by significant R&D expenditures, increasing costs of electronic parts, and high product launch expenses. ▶ F

F Margin developments are heterogeneous across product categories – Tire segment remains most profitable

Key supplier performance indicators by product focus [%]



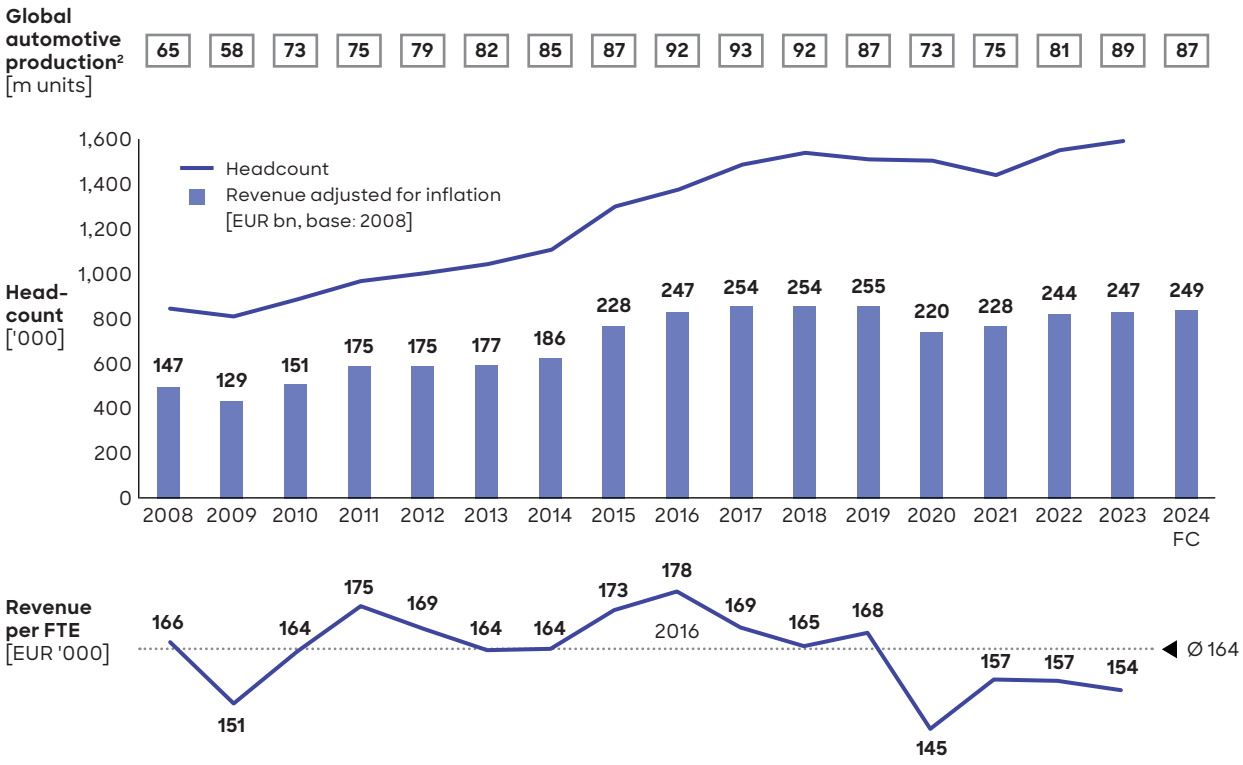
Source: Company information, Roland Berger/Lazard supplier database

Short-term profitability: Gains are unlikely due to excessive overheads at many suppliers

Short-term gains in profitability appear challenging for suppliers, partly due to their expanded overhead structures. For example, headcounts at the top eight global suppliers grew by around 2 % to 1.6 million annually between 2016 and 2023, despite flat production volumes and revenues. Most Tier-1 suppliers are now addressing this economically unsustainable issue, cutting up to 5-10 % of their total workforce. ▶ G

G **Despite no real growth for the top 8 suppliers since 2016, headcount grew until recently, substantially eroding their productivity**

Revenue vs. workforce of top 8 global suppliers[1], 2008-2024



1 Robert Bosch GmbH, Denso, ZF Friedrichshafen, Continental, Magna, Aisin, Michelin, Lear
2 Excluding Russia, Ukraine, Uzbekistan, Kazakhstan

Source: Company information, S&P Global Mobility LV Production November 2024

Absolute EBIT forecasts for 2025: Broker quarterly profit projections have fallen consistently

Looking ahead, the outlook for the industry in 2025 has worsened substantially over the past 18 months. Global 2025 EBIT analyst forecasts have been cut by 17 % since summer 2023, with six consecutive quarters of declining projections. Sentiment in Europe has worsened most, with a 30 % reduction in forecasts.

4 Key supplier trends and implications

The global supplier market is influenced by a range of dynamics, from geopolitical shifts to competitive pressures and fluctuations in raw material availability. Leveraging our Supplier CEO Trend Radar, we identified five overarching trends with the most significant impact on the industry today and in the medium term: global production volume stagnation, the slowdown of BEV adoption, the technological shift towards SDVs, the intensifying competitive dynamics within the Chinese market, and the impact of geopolitical challenges and changes. We delve into each below.

4.1/ Global production volume stagnation

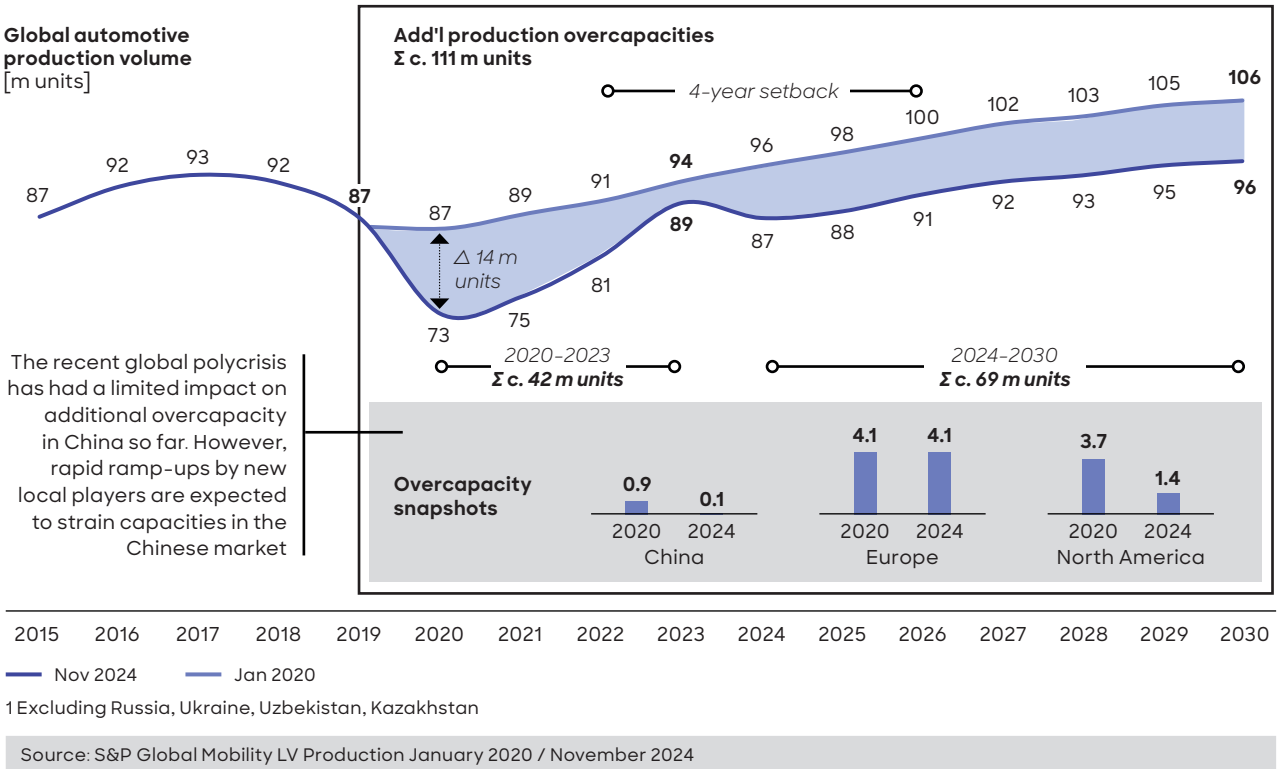
As mentioned in the previous chapter, China and the Global South will continue to be the growth drivers as Europe and North America stagnate. But several other trends are also at work.

PRODUCTION OVERCAPACITIES ARE MOUNTING

First, as production volumes fall, further overcapacities that began during the Covid-19 pandemic are expected to become a persistent challenge. They are projected to result in a cumulative excess of >100 million units between 2020 and 2030. Competition for smaller-than-expected volumes will trickle down the value chain. The impact will be most pronounced in Europe and North America, where excess capacity remains at its highest

H Recent polycrisis increased production overcapacities by c. 111 m units - Europe and North America affected most

Production overcapacities in the automotive industry[1], 2015-2030 [m units]



1 Excluding Russia, Ukraine, Uzbekistan, Kazakhstan

Source: S&P Global Mobility LV Production January 2020 / November 2024

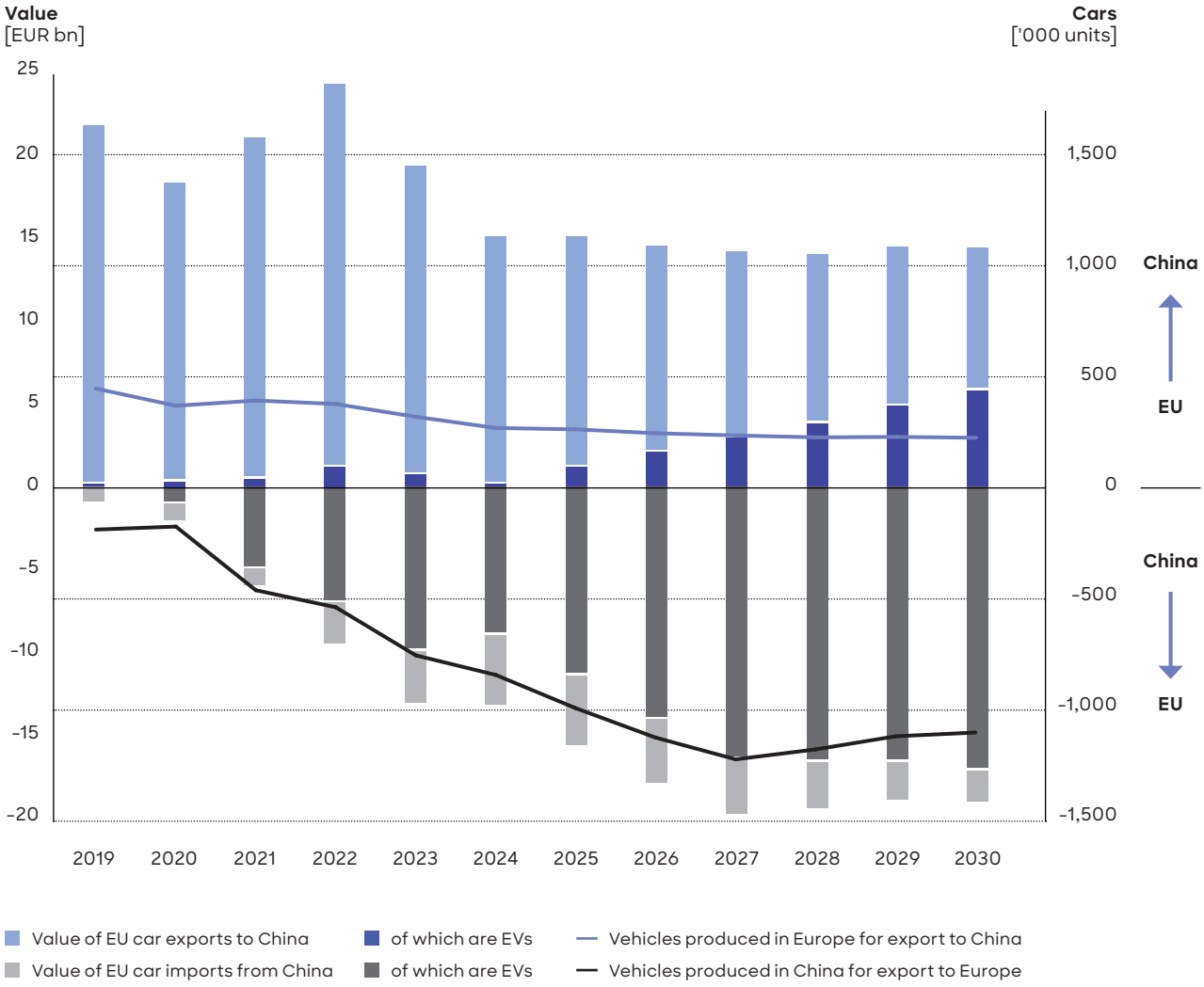
levels. Although China is more in line with previous production forecasts, an increase in competition and new plants also drives overcapacities, especially for Western OEMs competing with new Chinese OEMs who have quickly ramped up their capacities. ▶ H

VEHICLE TRADE BALANCES ARE CHANGING

This also drives a significant shift in the dynamics of the global vehicle market. The same Chinese OEMs are now tackling the export of BEVs to Europe, while European exports to China are declining at an alarming pace. This is turning Europe from an export-oriented market into an import-driven one. The transition places additional pressure on both European OEMs and suppliers, amplifying capacity challenges and competition within the region. The EU has begun an anti-subsidy probe into electric vehicle imports from China. ▶ I

I Chinese OEMs increasingly export BEVs to the EU, while EU exports decline - EU starting anti-subsidy probe

Vehicle exports & imports from EU and China [EUR bn; '000 units]



Source: UN Comtrade (product code: 8703, 870380), S&P Global Mobility Production November 2024, European Automobile Manufacturers' Association (ACEA), China Association of Automobile Manufacturers (CAAM)

VEHICLE MODEL LIFECYCLES ARE SHORTENING

To maintain and increase market shares in this competitive environment, OEMs have been expanding their model offerings. This is leading to lower production volumes per model – production volumes of the top 10 best-selling cars are projected to fall to 672,000 in 2027 from 800,000 in 2018 – and there will be higher R&D costs per vehicle sold.

The shorter lifecycle volumes of BEVs (around 2.5x lower, driven also by predominantly shorter BEV lifecycles of Chinese OEMs) are exacerbating the trend. For example, the growth in popularity of BEVs will see average lifecycle volumes of the top 10 best-selling cars fall from 5.4 million to 4.4 million between 2018 and 2027. This means more suppliers are competing for their content-per-vehicle share, especially in BEVs, necessitating price adjustments and efficiency improvements. Both trends are therefore driving the already fierce competition in the automotive supplier industry.

4.2/ BEV slowdown and increasing pressure

The second trend is the projected slowdown in BEV adoption.

BEV RAMP-UP SCENARIOS HAVE BEEN REVISED DOWN

Past forecasts for BEV adoption have proven overly optimistic, with actual volumes falling short of expectations. The BEV market share is now projected to reach 41% by 2030, a downward adjustment of 12 points compared to the forecast in December 2023. The removal of subsidies and tax breaks, especially in the EU, along with market concerns about the phasing out of ICE vehicles and the transition to BEVs, has caused a loss of momentum.

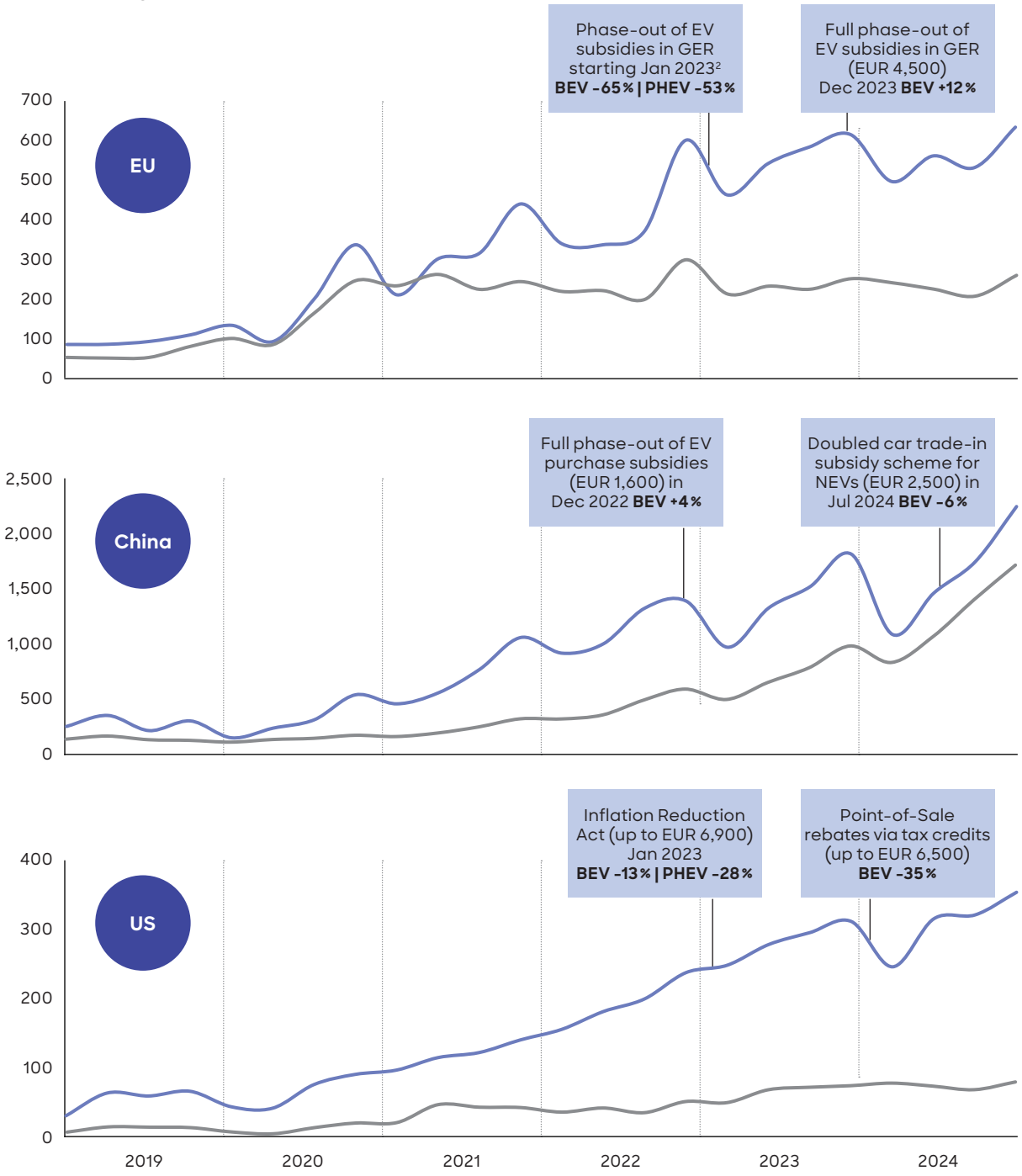
Indeed, short-term BEV production forecasts for 2025 show declines across all major regions, including a drop from 4.2 million to 2.9 million units in the EU, 11.5 million to 10.5 million units in China, and 3.1 million to 1.8 million units in the US. Mid-term projections for 2030 reveal similar downward adjustments, indicating much lower volumes than initially expected across all regions. This has resulted in an increased focus by OEMs on cost optimization of BEVs, as well as leveraging the ICE **"stay of execution"** to invest in BEV technologies.

> **"The slower pace of BEV adoption and increasing price competition will lead to further global consolidation."**
>
> **Dr. Christian Kames, Co-Head of Investment Banking, DACH Region, Lazard**

J Influenced by subsidy changes, BEV volume currently stagnant and highly volatile in EU and the US

EV new car registration in exemplary markets, 2019-2024 ['000 units]

EV new car registrations[1] until December 2024



1 Seasonal effects have not been considered
2 PHEV incentives down to EUR 0, for BEVs up to EUR 65,000 list price down to EUR 6,750, for BEVs up to EUR 40,000 down to EUR 4,500

Source: EV Volume

CONTINUED VOLATILITY AND UNCERTAINTY AMONG BEV DRIVERS

Overall, the BEV ramp-up has been characterized by high volatility and uncertainty, with global BEV production volumes affected by regional variations in government incentives, charging infrastructure, and consumer adoption. For example, incentives in Europe and China were withdrawn starting in 2022, whereas incentives under the US Inflation Reduction Act began in January 2023 but are now expected to slow down again with the new government in the US. Other policy headwinds include removal of the Biden administration's target for EVs, as well as a potential slowdown in charging infrastructure buildout as a result of freezes and cuts. OEMs are still pushing BEVs hard, especially in Europe and China, partly driven by legislation and ICE bans. ▶ J

LOW BEV MODEL VOLUMES ARE RESULTING IN INTENSE COMPETITION

The slower-than-expected adoption of BEVs is leading to reduced production volumes compared to traditional ICE models, limiting the economies of scale needed for profitability. For instance, an ICE-powered Volkswagen Golf VII reached a peak production volume of 1.06 million units, whereas the comparable BEV model, the ID.3, has achieved only 355,000 units. This volume limitation also applies to the premium segment, where lower BEV production volumes lead to a higher fixed-cost share per vehicle, putting further pressure on profitability.

Moreover, direct product costs of BEVs are also significantly higher than those of ICE models. For example, the powertrain costs of a typical C-segment (compact) ICE car are EUR 4,700 compared to EUR 11,400 for an equivalent BEV. As further increases in sales prices are limited by consumers' price sensitivity, regaining profitability based on sales remains a challenge. Therefore, product cost and holistic efficiency improvements will likely move up the agenda for automotive players.

4.3/ Software-defined vehicles

With increasing software costs for OEMs and suppliers alike, software-defined vehicles (SDVs) will dominate the approach across regions in the coming years. Stabilizing these costs is crucial for OEMs in a market where the customers are not willing to pay even higher prices for vehicles, following the inflation-driven price increases of 2022 and 2023. By adopting SDVs, OEMs also address core security requirements and functionalities expected by customers in the future, such as advanced driver assistance systems (ADAS) up to Level 3+. Also, many connectivity and digital features, in line with customers' digital experiences from consumer electronics, will play a bigger role and further push the requirement for SDVs. ▶ K

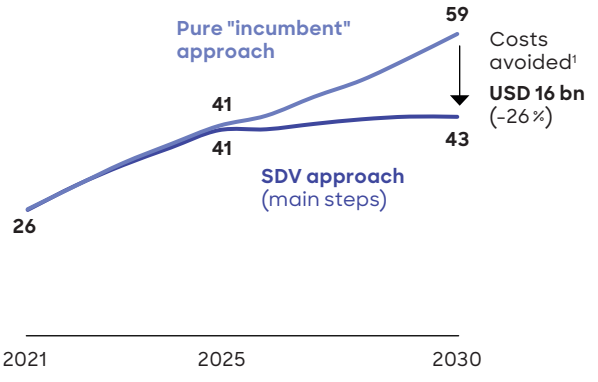
"Software-defined vehicles will offer potential for new players, but put pressure on today's Tier-1 system integrators."

Dr. Christian Kames, Co-Head of Investment Banking, DACH Region, Lazard

K Software-defined vehicles are expected to be the dominant approach in the second half of the decade, bringing many value-added attributes to vehicles

Expected development and attributes of software-defined vehicles

OEM automotive software spending forecast, 2021-2030
[USD bn]



With **major OEMs planning to roll out central + zonal E/E architectures** and new software architectures, the industry is expected to fully transition to the software-defined (or "tech") approach by 2030.

Beginning 2025, the **industry could keep its software spending constant** without sacrificing software innovation. **Freed-up resources** and a development approach that allows for **continuous deployment will boost software innovation.**

Key attributes of software-defined vehicles (SDVs)

Always "new"
SDVs can receive software updates to improve performance, add new features, and enhance functionality. Hardware becomes upgradable

App store on wheels
Functions on demand and applications become available across multiple vehicle brands and models

3rd, 4th, 5th screen
SDVs seamlessly integrate in-vehicle digital experience with consumer devices

Integration with digital services
SDVs seamlessly integrate with digital services and platforms, e.g., voice assistants, music and video streaming, smart home

Always connected
SDVs seamlessly communicate with other vehicles, infrastructure, and the cloud

Enhanced safety
SDVs incorporate advanced driver assistance systems (ADAS) and autonomous driving capabilities

Improved efficiency
SDVs leverage software optimization to improve fuel efficiency and reduce emissions

Enhanced personalization
SDVs can be customized to meet individual preferences, providing a personalized driving experience

1 Assuming fixed SW feature level in all scenarios

Source: Roland Berger

4.4/ Chinese market & competitiveness

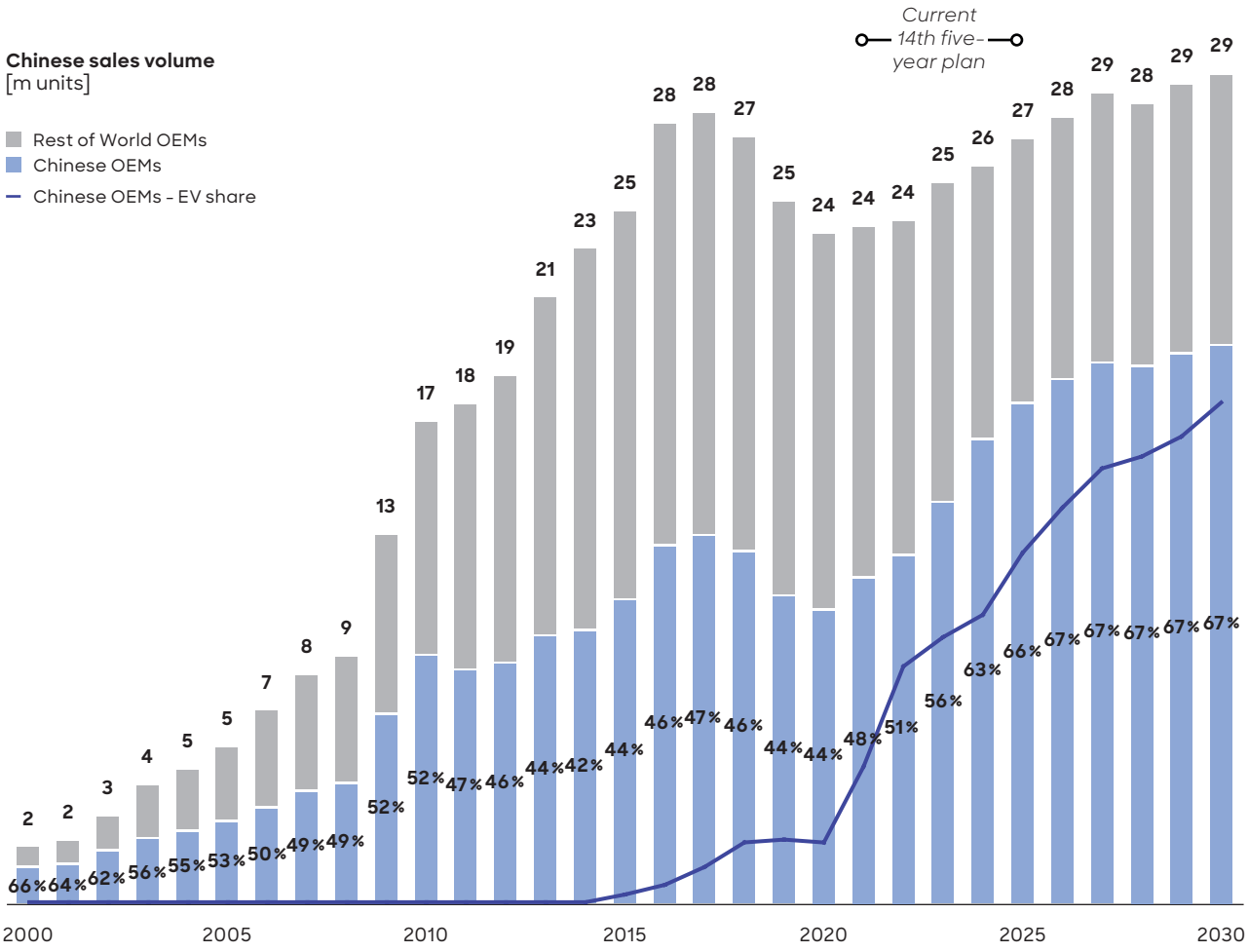
Chinese OEMs have significantly increased their domestic market share since 2020, especially in the electric vehicle (EV) sector. This growth has been driven by the country's last five-year plan (2020-2025), which heavily promoted EV sales and exports, as well as the development of associated advanced technologies. ▶ L

CHINESE OEMS' REVENUES ARE GROWING FAST, BUT MARGINS ARE LOW, SO SUPPLIERS NEED TO ADAPT

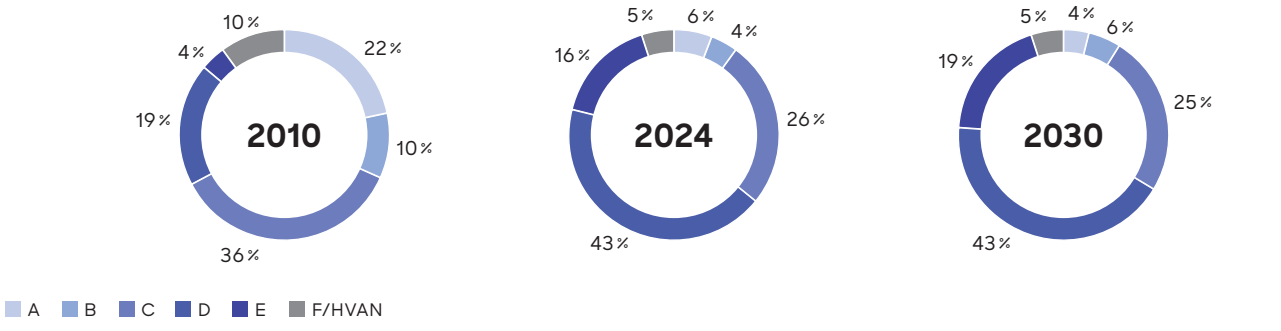
Revenues at Chinese OEMs have increased dramatically in recent years on the back of increased sales. For example, automotive-related revenues at BYD, a large conglomerate and China's leading OEM, jumped from EUR 8 billion in 2019 to EUR 63 billion in 2023, a CAGR of 66%. However, Chinese OEMs are competing fiercely for market share, resulting in intense price competition and lower profit margins compared to global competitors. Consequently, OEMs are becoming increasingly price sensitive to suppliers, who are experiencing margin pressure. Therefore, suppliers in China should build and nurture collaborations with winning Chinese OEMs that build the largest platforms.

L Chinese OEMs gained domestic market traction with a steadily growing xEV portfolio and upper segment share

Automotive sales in China by OEM origin, 2000-2030 [m units; %]



Segment shares



	2010		2024		2030	
A	94%	6%	100%	0%	100%	0%
B	42%	58%	74%	26%	85%	15%
C	32%	68%	34%	66%	43%	57%
D	30%	70%	68%	32%	69%	31%
E	14%	86%	69%	31%	77%	23%
F/HVAN	97%	3%	98%	2%	97%	3%

Source: S&P Global Sales November 2024, S&P Global Production November 2024

CHINESE OEMS ARE SEIZING MARKET SHARE; SUPPLIERS IN CHINA NEED TO STAY CLOSE TO BENEFIT

Chinese OEMs and new technology OEMs (NTOs, such as Tesla) are rapidly winning market share in China at the expense of legacy global mass-market and premium OEMs. Combined, they are expected to have a market share of 71 % by 2030, up from 58 % in 2023. The share of traditional OEMs (VW, Toyota, etc.) is expected to fall correspondingly. This highlights the importance for suppliers in China of maintaining strong relationships with the local OEMs, as these will help grow their businesses as OEMs capture more and more market share.

CHINESE PLAYERS HAVE LOWER COSTS AND ARE QUICKER TO MARKET THAN THEIR GLOBAL RIVALS

The success of Chinese OEMs and suppliers is rooted in their competitive advantages in crucial key purchasing criteria for end customers, such as battery and electric powertrain costs. For example, their battery and e-drive unit costs (for an average hatchback) are both more than 20 % lower than those of European rivals. Several factors contribute to this cost advantage, including easier access to raw materials, robust governmental support and incentives, as well as production efficiencies derived from high absolute production volumes. Furthermore, these cost benefits are realized alongside high R&D efficiency and speed, enabling the rapid introduction of cutting-edge technologies to the market through agile development processes. Benchmarking analyses indicate that typical development cycles currently range from 24 to 30 months in China, which is significantly shorter than the 42 to 63 months often required in incumbent automotive regions such as Europe or Japan.

4.5/ Geopolitical developments

Significant geopolitical developments have notably influenced the global automotive industry, particularly in the EV sector. A key event was the European Union's decision to impose substantial tariffs on Chinese-made EVs, with duties reaching up to 35.3 % in addition to the existing 10 % tariff. This move aimed to protect European automakers from what the EU perceived as unfair competition due to Chinese state subsidies. However, this action raised concerns about potential retaliatory measures from China, which could adversely affect European manufacturers operating in the Chinese market.

Concurrently, the United States intensified its scrutiny of Chinese technology within its automotive sector. The Biden administration proposed a ban on the use of Chinese and Russian software and hardware in US autonomous vehicles, citing national security and data privacy concerns. This proposal necessitates automakers seeking alternative suppliers, potentially disrupting existing supply chains and increasing production costs.

In response to these international pressures, China accelerated its efforts towards technological self-sufficiency. The Chinese government pushed for a higher integration of domestically produced semiconductors in its EVs, reducing reliance on foreign suppliers. This initiative aligns with China's broader strategy to bolster its domestic industries amid escalating trade tensions and technological competition with Western nations.

With the election results in the US in November 2024, a further tension, not only between the US and China but also between the US and Europe, is arising. Four important dimensions need to be considered when looking at the impact of the elections on (automotive) industries in US, Europe, and China: 1) potential tariffs and trade barriers overall or specific to the automotive/BEV industry, 2) the cancellation of existing or introduction of new subsidies in the US (and as countermeasures in Europe and China), 3) an adaptation of emission and other regulations in the US, and also 4) a change in emission and other regulations in the US that favors ICE over BEV.

The US administration's initial tariff measures against Canada, Mexico, and China as well as on imported autos and auto parts signal potential broader policy shifts even toward Western allies, with significant repercussions for the global automotive industry. More recent tariff decisions are currently, include potential duties on European imports, reciprocal tariffs on most US-imported goods, and anticipated revisions to the USMCA agreement set for 2026. In response, major automotive OEMs and suppliers have been developing strategic contingency plans since the election to ensure swift adaptation to various trade scenarios. ▶ M

> **"In this new era, suppliers will need to consider more radical strategic portfolio realignment measures than in the past."**
>
> **Christof Söndermann, Managing Director, Lazard**

M If broadly and durably implemented, policy changes by the US administration will force automotive players to review their production and delivery strategies

Implications of the second Trump administration

Anticipated policy changes

1 Trade changes

USMCA renegotiation
e.g., review of rules of origin and tariffs, including auto content rules

Import tariffs (China and global)
e.g. 20% tariffs on Chinese goods, 25% tariffs on autos and parts, >10% reciprocal tariffs on 60 trade partners, steel and aluminum tariffs

Targeted trade measures
e.g., "surgical" tariffs on EV battery supply chains, critical minerals, or EV components

2 Subsidy & incentive reduction

EV tax credits
e.g., rollback of IRA BEV subsidies (new and lease vehicles)

EV infrastructure programs
e.g., pullback of incentives and funding for charging networks (NEVI program)

Supply-side incentives
e.g., removal of IRA production and investment credits indicated, yet complex

3 Regulatory liberalization

Emission standards
e.g., relaxation of vehicle emission rules, delay of Phase 3 GHG rules

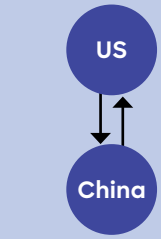
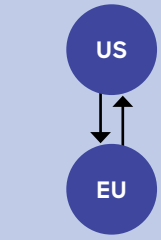
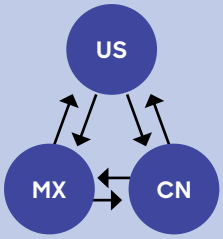
Safety & technology regulations
e.g., halt/review of pending (safety) regulations, shift R&D support away form climate objectives

4 Energy policy change

"Unleashing American Energy"
e.g., incentivizing domestic oil, gas, and coal production

Clean energy generation
e.g., reduction in federal support for clean energy – terminate the "Green New Deal ethos"

Potential impact

	Moderate policy reform	Structural policy reform
	• Potential trade war with consequent **decrease in vehicle** and **component trades** • Enforcement of extended bans on Chinese **connectivity** and **ADAS technology**	• **Sweeping tariffs** would **price Chinese automotive goods** out of the US market • Retaliation from China might accelerate **global automotive industry bifurcation** (Chinese vs. Western supply ecosystems)
	• **Moderate trade frictions** (higher costs for EU vehicle imports and EU tariff retaliations) • **Product bifurcation** may unfold (BEVs for EU, ICE models for US) • More US production by **EU OEMs** and adaptation of **supply chains**	• Sustained **25% or higher** universal vehicle tariffs would heavily **disturb transatlantic trade flows** • **OEMs** would either **absorb tariffs** or **invest heavily** in local production, driving **geographic fragmentation** of the industry
USMCA 	• Tightening of **USMCA rules of origin** in/before the 2026 review, would reduce sourcing flexibility and raise costs for auto players • **Moderate tariffs** on **Mexican automotive parts** (like steel and aluminum tariffs in 2018-2019)	• More aggressive stance might involve 25 % tariffs on all **Mexican/ Canadian automotive goods with no exemptions or deductions** • Withdrawal from **USMCA** would disrupt the highly **integrated regional automotive supply chain**

Further global tariffs under investigation
(e.g., Korea, Japan)

Source: Roland Berger

5 Recommendations

The global automotive industry is currently navigating a complex landscape characterized by several converging challenges. These include stagnation in sales volumes, a slowdown in battery electric vehicle (BEV) adoption, rapid technological transformations driven by software advancements, and heightened competition from Chinese OEMs. Additionally, geopolitical shifts, such as EU tariffs and changes in US policies, are disrupting global trade and supply chains.

Our study indicates that the era of steady market growth has come to an end. We anticipate that headwinds will increasingly dominate the industry's sentiment and transformation in the medium term, leading to significant financial implications, particularly as pressure on profits and cash flows continues to mount.

To successfully navigate this volatile environment and ensure sustainable business success, automotive suppliers must establish a strategic positioning that is tailored to regional market characteristics, leverages their technological competencies, and aligns with their unique competitive advantages. Some may need to undergo radical repositioning to survive.

In our study, we have identified distinct supplier archetypes, from traditional powertrain manufacturers to innovative tech-driven firms. Each archetype possesses specific strategic priorities and postures that necessitate individualized alignment with the rapidly evolving automotive landscape. Consequently, there is no one-size-fits-all solution to achieving success in this new automotive environment.

Despite the diversity within the automotive supplier industry, we have distilled three overarching strategic moves that should be prioritized on the agendas of automotive supplier executives.

Portfolio optimization and scale through strategic partnerships

Automotive suppliers should prioritize strategically defensible product segments while exiting non-core areas. Strengthening market positioning through targeted partnerships and mergers and acquisitions (M&A) will drive innovation or create better scale, securing a competitive edge in stagnating or disrupted markets.

Regional strategy refinement

Furthermore, it is essential to align production and supply chain strategies with regional market dynamics and geopolitical realities. A localized, risk-adjusted approach is crucial, with a focus on Europe, the US, and China as core regions. In doing so, suppliers must build operational resilience by embedding local-for-local production and diversifying supply dependencies.

Cost leadership through efficiency gains and standardization

To combat margin pressure, suppliers should restructure their footprint to increase best-cost country (BCC) shares, scale automation, leverage AI-driven process optimization, and embrace digitalization across operations. From a technological perspective, it is vital to monetize expiring internal combustion engine (ICE) cash flow pools in the short to medium term, while investing in BEV technologies to capture long-term value for companies with a right to win. Additionally, driving industry-wide technological standardization will help reduce component complexity and enable cost efficiency.

"Despite the current slowdown in BEV adoption, the long-term powertrain transformation remains inevitable. Suppliers must navigate this carefully - ensuring progress continues without stalling the transition while managing short- and mid-term challenges."

Florian Daniel, Partner, Roland Berger

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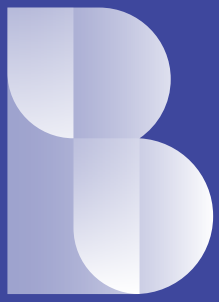

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