

What competition do I face on the European market for automotive parts and components?

The European automotive parts and components sector is highly competitive. The buyer power is strong and the supplier competition is intense. Despite these factors, it is possible for exporters from developing countries to improve their position in the marketplace. This can be done by using innovative techniques, materials and concepts in the production processes. Buyers have to be chosen carefully and client relationships need nurturing.

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1. Market entry

Entering the European market in the automotive parts and components sector is not easy. Your products need to be of high quality and you need to be able to produce at a low cost. However, since European buyers usually buy large quantities, exporting to Europe may result in high revenues.

Buyer and regulatory demands will increase

Many parts and components are not tested until they are assembled into a vehicle. As a result, you can adjust the quality of these products to your buyers' demands. Because governmental registration becomes stricter, your buyers' demands will increase in the coming years. In addition to offering a high quality, your products need to be coded and you need to provide proper product information.

Tips:

Although the quality of your products is not tested by the EU, beware that there is a lot of regulation on the [packaging](#) and [coding](#) of your products.

For more information on requirements in the EU, read our study of [buyer requirements in the automotive parts and components sector](#).

Find more information about legal and non-legal requirements for the European market in the [EU Export Helpdesk](#). These requirements are sorted per product; many automotive products can be found under chapter 87.

More information on tariffs and quotas can be found through the [ITC Market Access Map](#).

Find out a smart route to export your products to Europe. Europe has free trade agreements with many countries. For a complete overview of FTAs with the EU, see the [European Commission website](#).

The willingness of European buyers to switch mostly depends on quality

Original Equipment Manufacturers (OEMs), Tier 1 buyers and most Tier 2 buyers usually have contracts with their suppliers for the duration of several years. Before potential buyers are willing to sign a contract, they will want to check the quality of your products extensively. (ISO) certification will help you with this process. The demands of lower Tier buyers are usually a little less strict.

Tips:

Make sure that your products are of the highest quality.

As nearly all buyers demand [ISO certification](#) from their suppliers, find out what kind of ISO certification is expected from yours.

Conduct an internet search to find out about your buyers' quality requirements. Many buyers have information about this matter on their website. More information can be found in our [study of buyer requirements](#).

In order to find buyers and to do business, read our studies of [finding buyers](#) and [doing business](#).

Intellectual property rights will remain highly important

The automotive industry has the third-highest amount of patents out of all industries globally. Within the industry, patents are extremely important. Due to the high amount of technical innovations, intellectual property will remain an important asset.

Tips:

Be aware of existing patents and legislation.

Protect your intellectual property by trademarks, copyrights and patents.

Respect intellectual property legislation by developing new products based on your competitor's ideas instead of copying them.

Economies of scale are required for most suppliers

OEMs, and almost all lower tier suppliers, continuously aim for cost reduction. To be able to compete at the lowest cost, you need to be able to produce high quantities. There are few exceptions to this rule; when you produce very specialised parts for only a limited number of cars, for example, economies of scale are of lesser importance. There are also some chances in the aftermarket for small-size companies which have a good distribution network.

Tips:

Merge or cooperate with competitors to decrease competition and to increase economies of scale.

Either decide to specialise in a niche market or be prepared to produce large quantities at a low cost.

New technologies and innovations offer opportunities to enter the market

While in the past, experts considered it impossible for new OEMs to enter the market, a few years ago Tesla proved this to be possible. Because the power train of electrical vehicles is less complex, new competitors in the OEM market will present themselves. [Google](#) and [Apple](#) will probably enter the market within a few years.

Adjusting your products to innovative, IT-minded buyers may offer opportunities.

Tips:

Explore new markets in the IT sector.

Develop new products and services together with IT companies, which is the key to innovation.

Read more about new players in the market in our [study of trends](#).

2. Product competition

On most products, the competition is fierce. However, some niche markets show opportunities for suppliers from developing countries.

Western Europe as a market will not grow

The demand for new vehicles will not rise in western Europe in the near future. Several causes for this development can be pointed out. First, the European market is saturated. Second, car ownership is losing its attraction to many European citizens. This is especially true in the cities, where parking is difficult and [car sharing concepts](#) such as car rental and ride-sharing are becoming more popular. Third, due to their improved quality, vehicles are less frequently replaced.

Tips:

Explore the possibilities for entering the aftermarket, as this market is growing.

Look for markets which are not yet saturated. These can be found for new technologies in western Europe. Also, the automotive market in many eastern European countries is still growing.

Hybrid and electrical vehicles become serious competition

Increasing environmental concerns, as well as concerns over the price and scarcity of oil, have created a favourable climate for technologies that increase engine efficiency in internal combustion engines (ICE) and plug-in hybrid electric vehicles (PHEV). The main threat from product substitutes is found in components for carbon-free vehicles which have completely different engines and associated parts.

Tips:

Assess whether you are capable of entering the carbon-free vehicle supply chain.

Keep track of possible product substitutes and threatening innovations, and evaluate if your product can compete with these in terms of price and quality/function.

The threat from product substitutes is increasing

Currently, not many substitutes are available for automotive parts and components, although generic parts act as substitutes for branded parts. As the marketplace tends toward lower prices and traditional raw materials are in short supply, market players will develop products made of cheaper and/or more unconventional materials.

Tip:

Focus on alternatives made out of new materials, such as lightweight, sustainable and biomaterials.

Both quality and price are essential

All European OEMs demand the highest quality. When you are able to meet the minimum requirements, you can either reach for higher quality by expanding your Research & Development (R&D) capacity, or aim for price reduction. Note that there is a clear downward pricing trend, as well as a trend of seeking out increasingly cheaper sourcing options.

Tips:

Provide lower prices in order to be competitive, and try to diversify your customer base in order to become less dependent on the OEM and tier 1 buyer power.

Diversify your offerings in order to decrease the power that the automotive buyers have over you. You can, for example, produce equipment components for the agriculture and/or construction sector.

Procure all necessary quality and standards certifications and make sure that you deliver consistently high product quality, positioning yourself as a trusted supplier. Over the long term, assurance of good quality and timely delivery will be more important to importers than the lowest price.

Make sure that the quality of your products at the very least equals the quality delivered by Eastern and Central European (ECE) countries, with your price being even more competitive.

Suppliers in low-cost countries can increase their market shares by adopting strategies driven by market intelligence. Most OEMs are open for mergers with suppliers that aim for further offshoring and healthier price structures.

Produce winning products

Due to technological developments, some products become more in demand while others are at the end of their life-cycle.

Tips:

Act proactively and approach the buyers with a product proposition, which can be differentiated from the competition through innovative materials or interesting properties. Keep on top of industry trends and innovations.

Consider developing parts and systems that are in line with market trends such as urban mobility, the ecological mindset or connectivity. For additional information on relevant trends in the automotive industry, consult the [CBI study of Trends](#).

Invest in the development of promising modules such as H2 tanks, 48V batteries, fuel cells, electric/mechanical calipers, composite coil and leaf springs, composite A- or B-pillars, electric AC compressors, electronic pedals or PTC heaters.

Stay away from products with bad prospects, such as diesel unit injectors, (e-)hydraulic power packs and HVAC modules.

3. Company competition

Although the buyer power of European OEMs and Tier 1 suppliers is high, there are many opportunities for suppliers from developing countries.

Buyer power is and will remain strong

The buyer power of the original equipment manufacturers (OEMs) and Tier 1 suppliers remains strong, with suppliers competing for access. As their price pressures increase, they will continue to transfer their purchases to their lower-tier suppliers. One of the reasons for weak supplier power is the multitude of suppliers and the lack of product differentiation.

Tips:

Find a niche market. Suppliers who can deliver a product that is different and in demand (for example, having innovative properties or appealing to the sustainability trend) can significantly increase their power.

Start your export to Europe with the easier targets. Lower-tier suppliers, wholesalers and retailers will present exporters from developing countries with interesting opportunities, as will the emerging economies in Eastern and Central Europe.

OEMs are concerned about the power of the Tier 1 suppliers

The buyer power of the OEMs and the Tier 1 suppliers is very strong, with these players currently dictating the rules and the prices to their suppliers. OEMs are becoming increasingly worried about their overreliance on their Tier 1 suppliers, thus creating potential opportunities for suppliers from developing countries in the long term.

Tip:

Try to deal with OEMs directly in order to avoid that your profit margins verge on those of Tier 1 manufacturers. In our [study of finding buyers](#), you can find tips on how to get in touch with European buyers.

Chances are the highest for lower-tier suppliers and suppliers in the aftermarket

In the short term, exporters from developing countries are more likely to secure Tier 2 and 3 clients, as well as aftermarket sales to wholesalers and retail chains, because they are not as firmly locked into supply

agreements or as reliant on specific suppliers as the OEMs are. Since these buyers can all choose from among thousands of suppliers, their buyer power continues to be strong.

Tips:

Aim to enter a market as a supplier to the lower tiers, as these are more likely to switch between suppliers. Good business relationships with the lower tiers may eventually lead to more direct contact and business with the OEMs.

Make sure that you have a budget available for long-term product development. In order to supply to European OEMs, your products need to be of the highest quality.

Sell directly to wholesalers/retail chains. Although these offer lower margins, they also provide access to wider markets and can thereby comprise a part of your diversification strategy.

Competition more often comes from outside Europe

While in the past, the European and American automotive parts and components sector dominated the world market, parts from other countries are becoming very important. Especially China is a major exporter within the automotive sector due to its innovative products. In 2015, 27.1% of all vehicles were produced in China. In the same year, South America (mainly Brazil) suffered an enormous drawback, as its vehicle production decreased by 21.6%.

Tip:

Look for partners in China in order to supply to European buyers.

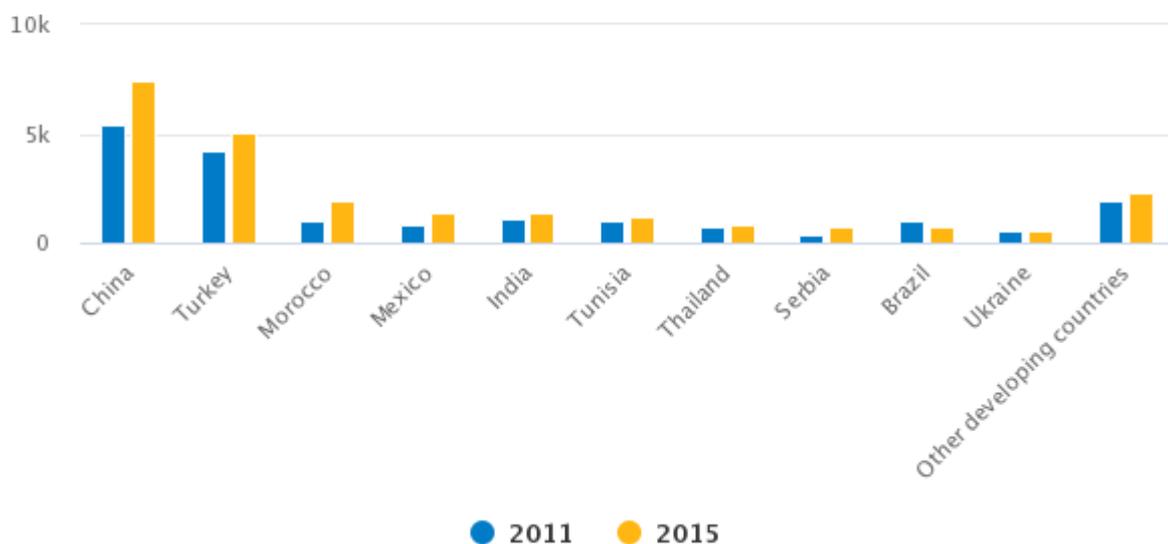
Many developing countries are highly successful

Compared to other non-EU countries, developing countries are gaining market share. The developing countries which export the most to the EU are China (€7.4 billion), Turkey (€5.1 billion), Morocco (€1.9 billion), Mexico (€1.4 billion), India (€1.4 billion) and Tunisia (€1.2 billion).

Out of the countries mentioned above, Morocco shows the most growth potential with an impressive CAGR of 17.9% between 2011-2015, followed by Mexico with a CAGR of 15.2%.

Figure 1: Import of automotive parts and components from developing countries

In € millions



Source: Eurostat, 2016

Some developing countries increase their market share rapidly

Some smaller but fast-growing developing countries include Macedonia with an export value of €221 million and a CAGR of 138%, Panama with an export value of €64 million and a CAGR of 74.7%, and Moldova with an export value of €159.7 million and a CAGR of 28.3%. All such successful countries have a well-developed infrastructure and/or are geographically close to the EU. Due to these factors, we expect some North African and Eastern European countries to become very successful in increasing their exports of automotive parts and components to the EU. Their success will, however, rely on the political stability of these countries.

Tips:

Set up strategic partnerships with companies in China, Turkey, Morocco and Mexico, as they form an important bridge into Europe.

When sufficient budget is available, invest in new production capacity in countries which are not far from Europe, have a good infrastructure and are politically stable. These countries have excellent opportunities for exporting into Europe.

Consider developing sales relationships in Eastern and Central Europe. Not only is this region currently experiencing a production boom, it also promises to be the fastest-growing market in Europe (unlike most markets in western Europe).

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