

Which trends offer opportunities on the European market for automotive parts and components?

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The automotive parts and components sector changes rapidly. In 2015, the sector changed more than it had in the past ten years. In order to remain competitive, you need to be aware of these trends.

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1. The European automotive parts and components sector is vast and growing

In 2015, 91.5 million vehicles were produced globally, with Europe having a market share of 23.4%. In 2015, Europe showed the largest growth worldwide in terms of market share (3.8%) (source: [ACEA](#)). While Germany is the largest vehicle manufacturer in Europe, the Czech Republic and Poland have very high growth rates within the sector. This makes entering the European automotive market a major opportunity for suppliers from developing countries.

The European automotive parts and components sector is still recovering from the economic crisis which started in 2008. In 2015, however, vehicle production was only a little lower than before the crisis. The forecast for the European automotive parts and components sector is good. An important factor influencing this forecast is the reputation of European Original Equipment Manufacturers (OEMs). The sector's reputation is still very good, despite the major emission scandal by the Volkswagen Group. Another factor influencing the forecast is the quality of European cars, which is very high.

Although the forecast is positive, the European automotive parts and components sector has some major issues to deal with as well. The global competition is increasing, for example, while European governmental regulations are becoming stricter. At the same time, the Brexit and the meagre economic growth within the EU are a cause for concern.

Tips:

The competition in the European market is fierce. Read our study of [competition in the automotive parts and components sector](#).

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

A lot of information about the European automotive parts and components sector can be found on the website of the [European Automobile Manufacturers Association \(ACEA\)](#).

2. The breakthrough of e-mobility is unstoppable

While the automotive industry is still struggling with fuel efficiency and various conventional powertrains, the trend toward electrically driven vehicles becomes more and more obvious. This means that the demand for your products may change rapidly.

The e-mobility technology is developing quickly. Some e-cars, for example, already have a range of 500 kilometres. Sales of e-cars are heavily supported by the government, because electric and hybrid cars produce fewer emissions. Due to governmental regulations and technological improvements, e-cars have become very affordable in Europe. Electric and hybrid cars have gained market share at a very rapid pace, leading many experts to think that the introduction of e-mobility will mean the end of the conventional combustion engine in the next ten years. At the same time, manufacturers of e-mobility are – and will be – struggling with many issues such as range, speed and fuelling time. Some experts think that the e-car will only remain in use so long as the government subsidises it. Due to decreasing government support, the demand for e-cars in Germany dropped by 6% in 2015. As a result, the future of e-mobility is very uncertain.

The introduction of e-mobility offers many opportunities for exporting your products to Europe. As e-cars require different parts, components and materials, OEMs need to find new suppliers as well. At the same time, e-cars have a less complex powertrain, making it easier for you to supply parts.

Tips:

Find out what this development will mean for your business and determine your strategy. Bring newly invented products to the market (be an “early adaptor”), or develop improved products derived from your competitors (a “follower”).

Know your buyers’ strategy. If they have the ambition to enter the e-mobility market, this may change their demands radically.

Read our study of [vehicle batteries](#) to gain more inside information on this trend.

As European OEMs will remain in control over the powertrain production, focus on supplying batteries or battery-related products for the aftermarket.

Consider entering the German market, which is at the forefront of e-mobility in Europe.

3. Increased intelligence and connectivity have a major influence

A major trend within the automotive sector is the increase of intelligence and connectivity within cars. This means that the demand for specific materials is increasing. Even more important, it means that your knowledge level may need to increase, because products are becoming more complex.

Cars are increasingly connected to the internet. While Wi-Fi systems are common, advanced infotainment systems are on the rise. Routing information based on real-time traffic conditions are becoming more common,

while systems that indicate the necessity to make repairs are improving. Technologies such as pedestrian detection systems and parking assist systems are making driving easier.

You need to be aware that an increasing percentage of the total car costs is spent on electronics. Intelligent features are also used to differentiate between lower and higher segments. Furthermore, non-electronic parts need to be compatible with electronic devices.

The increased intelligence also has an impact on sales. As sales are more often done via the internet, big data is used to differentiate between customers. In the aftermarket, retailers and consumers are making use of the internet to order products. In the OEM supply chain, OEMs and many Tier 1 suppliers have created platforms where suppliers can subscribe in order to sell their products.

Tips:

Read our study of [instruments and electrical equipment parts](#).

Read our study of [vehicle wiring](#).

Be aware of our market information about [electronics and electrical engineering](#).

When you are not into electronic devices, make sure that your parts and components are nonetheless compatible with these electronic devices.

Develop a Web-based sales strategy.

Make sure that your products can be sold via the internet.

Explore whether your buyers use online platforms where you can subscribe as a supplier.

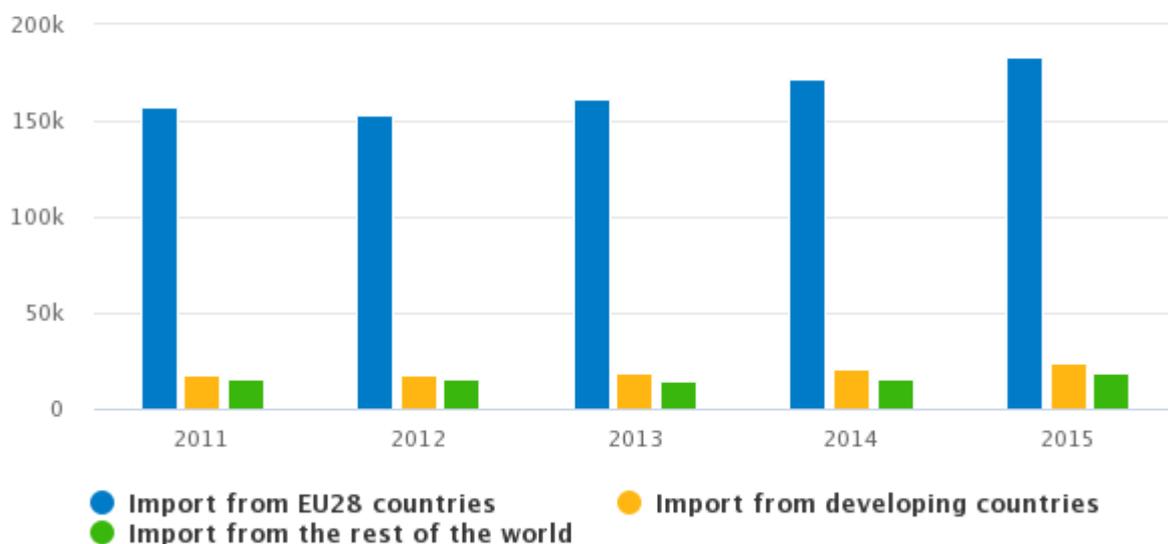
4. Europe's import of automotive parts and components is growing

In 2015, the European Union (EU) imported €225 billion's worth of automotive parts and components. These imports had a Compound Annual Growth Rate (CAGR) of 4.2% between 2011-2015. In the same period, import from developing countries developed quickly with a CAGR of 6.9%. This shows that European buyers are willing to buy from you and that there are still many opportunities to seize.

Together with its growing production, Europe's import has also been growing. Since the forecast for the European automotive industry is positive, we expect the import to continue to rise in the coming years. European buyers mostly import from inside Europe because of the geographical proximity and European trade agreements. Within the EU, no import duties are levied.

Figure 1: Import of automotive parts and components in the EU

In € millions



Source: Eurostat, 2016

Tip:

Read our study of [market channels and segments](#) for more detailed information on which markets offer opportunities.

5. European manufacturers aim for emission reduction

The [EU has set binding emission targets](#) for new cars and vans. As a result, European OEMs aim to produce more efficient cars every year. To be ahead of competition, you will constantly need to develop lighter and more efficient parts and components.

To achieve emission reduction, OEMs build lighter vehicles. Lightweight production is mostly achieved through working with different materials that are equally strong. Every year, more plastics and composite materials are being used. Experts expect that in 2020, 18% of a vehicle's weight will be made up of plastics. Efficiency is mostly achieved by new technologies, which can be found in all major vehicle components. In e-car production, better batteries are being developed. An example of a new technology for diesel engines is [Diesel Exhaust Fluid \(DEF\)](#), also known as AdBlue or AUS 32, which reduces NOx emissions. Due to the race for better fuel efficiency, the complexity of powertrains is on the rise.

The expectation for the future is that government regulations will further increase on the subject of emissions, resulting in more demand for lightweight and efficiency production. This trend offers opportunities when you are supplying either "new materials" or innovative technologies for emission reduction.

Tips:

Read our study of [plastics within the automotive industry](#).

Read the [product factsheets](#) which apply to your situation, as all products are affected by this trend.

Develop know-how in different powertrain technologies through partnerships with European and Chinese companies (approach them with subcontracting offers, in particular if you can offer labour-intensive components at a lower price).

Develop know-how on engine weight reduction, downspeeding, direct fuel injection, boosting, improving aerodynamics and semi-electric powertrains.

Increasing powertrain complexity demands specialisation. Choose carefully and focus on the development of a small number of technologies.

Specialise in components and technologies related to fuel-efficient vehicles. Try to diversify your options among various technologies and enter into more than one partnership. As this playing field is not yet saturated, you could benefit if you enter it at an early stage.

6. The automotive industry is becoming more flexible

The automotive industry is changing, with new players entering the market. Strategic partnerships are being revised due to the Industry 4.0 wave. For you, this means that there are new opportunities for strategic partnerships, but you will also need to become more flexible.

A few years ago, experts agreed that it was impossible for a new OEM to enter the vehicle market. Now [Tesla](#) has proven this to be possible. Because of digitisation, IT companies are also entering the automotive parts and components sector. While traditional car manufacturers are currently buying from IT companies, this process may in the future be the other way round. [Mobileye](#), which used to be mainly a weapons manufacturer, now produces detection systems for the automotive parts and components sector, while [Google](#) and [Apple](#) are also entering the market. This may provide you with new options for strategic partnerships and markets.

Industry 4.0 means that production processes are increasingly digitised, as companies across the value chain are integrating their IT systems. As a consequence, you need to adapt your production process to your buyers. Your IT systems need to be flexible and compatible with your European buyers.

Tips:

Explore the possibilities of adapting your resource planning system to that of your most important buyers.

Keep track on how your competitors deal with these innovations.

Keep your processes flexible, because it will be the most flexible businesses that will survive.

Enter into partnerships with companies that understand the direction in which the market is heading, rather than with companies unwilling to change their traditional strategies.

Explore new markets in the IT sector.

Develop new products together with IT companies, as this is the key to innovation.

7. Automated and autonomous driving will change the market

The introduction of autonomous cars is set to change the landscape of the OEMs completely. As a consequence, you may need to look for new strategic partnerships in the near future. Furthermore, autonomous cars need different parts, which may create opportunities for you.

The first autonomous cars are already on the road. Between 2025 and 2035, we expect autonomous vehicles to gain a serious market share. The appearance of autonomous vehicles will have an enormous impact on the automotive parts and components sector. Due to the safety-critical nature of the technology, the amount of government regulation will further increase. OEMs will also demand more and different products from their suppliers. The OEM segment will increase its market share in the aftermarket because of the specific know-how which comes with this software.

Tips:

Explore your possibilities of claiming a part of the future revenues which will come with this technology.

Explore how autonomous driving affects the parts or materials that you are supplying.

Seek out buyers which focus on autonomous driving, as these buyers will probably survive in the future.

8. Government regulations are becoming stricter

Governmental regulations within the UE are becoming stricter every year, with most regulations applying to the whole of the EU. This means that you need to be well aware of the legal requirements.

A combination of a focus on safety (for example, preventing digital distractions), autonomous driving, retail channel disruptions and new mobility (for example, taxi services) is causing governments to develop regulations that affect industry participants. Regulatory bodies across the globe are starting to pave the way for autonomous vehicles by developing the appropriate legal framework for vehicle testing and operation. In Europe and other countries that have signed the Vienna convention on road traffic, legislation is being altered in favour of promoting autonomous vehicle development. Recently, the Vienna convention ruled that drivers must maintain permanent control of their vehicles. A recent amendment was made by the UN Working Party which permits autonomous driving so long as it can be overridden or switched off by the driver. Thus, a preliminary legal framework for partially autonomous driving already exists and serves as a basis for future regulations.

In the coming years (starting in 2017), the testing system for vehicles will be adjusted and emissions will be measured more realistically. This means that the demand for efficient engines and lightweight parts will further increase. In addition, since Original Equipment Manufacturers need to comply with more regulations, their parts suppliers will have to deal with the same legislation.

Tips:

Stay up to date on European regulations, as these are expected to become stricter.

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

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