Automotive Industry Overview

The global vehicle market is valued at about three trillion dollars. After several years of decline between 2017 and 2022, the industry is still trying to find its sea legs amid ongoing supply chain issues, the price of materials, the push away from the combustion engine, and consumer expectations for Internet-connected technologies. In the US, one result is that only 8% of new cars cost less than $30,000.

Even before the pandemic, buyer preferences had shifted toward fully loaded vehicles, primarily SUVs and trucks, and that has continued. In May 2023, the average transaction was more than 47 thousand dollars. Electric cars are even pricier, with an average price of nearly 65 thousand dollars. That has pushed many buyers into the used car market, where the purchase price is less, but the cost of ownership may be higher when mileage and maintenance are considered.

Did you know

- About **60 million** vehicles are produced each year
- The industry employs **four million** people directly and millions more indirectly
- Automotive accounts for **3% of global GDP and 7% in China & India**

It's unclear when, or if, that upward curve will flatten, so motorists are not likely to see the incentives of old, nor are dealer lots expected to be teeming with inventory as they once were. So, what are the expectations? Increased digitization, new technologies, reshaped business models, and a growing remote workforce will all impact sellers and buyers alike.

Industry trends

Whatever a vehicle's power source, it has to have one, and energy sources and prices are industry wildcards. In the meantime, the last few years have put the customer experience back into focus. Prospective buyers have grown accustomed to not being followed on lots when browsing and to browse without going to dealerships in the first place.

Various studies show a consumer preference for a more effortless and less time-consuming and paper-intensive buying experience, and they are willing to trade higher prices for a more seamless journey. Many of the other trends are focused on technology and how it is incorporated:

- From digital cockpits to onboard 5G connectivity to voice-activated controls, the automobile has come a long way from four-on-the-floor and factory-installed AC. It's a connected world, and motorists expect that to extend to their cars and trucks. Technology also offers the value of remote diagnostics and predictive maintenance.
- In 2018, barely 1% of vehicle sales were made online. Today, the figure is closer to one-third of purchases, meaning the digital and physical environments of car-buying have to be seamless. Even people who buy in person will shop around and compare models and prices online, and dealers will make greater use of AI in interacting with prospective buyers and in managing routine inquiries and tasks.
- As such, automakers are collaborating with tech companies in a soft form of outsourcing on creating the software and other machinery needed for autonomous and electric vehicles. Fuel-cell EVs are also on the way, offering quicker recharge times and longer driving ranges.
- Video will see more frequent use in everything from shopping to test drives to service appointments. With the latter, video evidence effectively gains owners' trust about the condition of their vehicles and the necessity of repairs. This also ties back to putting the customer in the driver's seat, so to speak, as skepticism over the need and cost of repairs has been a long-standing issue among consumers who often believe they are at the mercy of mechanics.

On the buying front, there remains a strong demand for pre-owned cars and trucks, and there are the emerging economic markets where car ownership is moving away from luxury status. About 85% of the world's population lives outside of Europe and North America, yet there are fewer cars in APAC, Africa, and the Middle East combined than on Western roadways. Those regions are potentially huge markets that will gradually be unlocked.

Critical challenges

The same consumer curve that dealt with a supply problem during the pandemic is now facing a demand issue. The shortage drove up prices for new and used vehicles, with most purchases above the manufacturer's suggested retail price. As inventory increases and sales are expected to rise, automakers lose some of their pricing power and profit potential as the buying market becomes less captive.

The cost curve is also being impacted by:

- The prices of raw materials for either conventional or electric vehicles remain well above pre-pandemic levels. A growing aftermarket concerns automakers who might be doing their jobs too well. Cars and trucks last longer than before, consumers have second-hand options, and economic uncertainty leads people to hang onto reliable transportation for longer than they might otherwise.
- Lingering supply chain issues, the availability of semiconductors, uncertainty over fuel prices and interest rates, and global unrest all loom, and each is beyond the industry's control. These factors point to what industry experts call "demand destruction," just as production is ramping back up.
- The industry faces a shortage of qualified technicians, and upcoming talks with labor unions in the US and Canada are likely to be combative over issues like pay, job protection, and the impact of plants shutting down or transitioning to EV production.
- Speaking of EVs – while they are a growing market segment, they are still less than 1% of the 250 million vehicles in the US and account for 2.2% globally. That share will rise, but there are still serious challenges to address regarding the number of charging stations, how long cars run on a single charge, disposal of spent batteries, and the mining for the materials needed to build them.

At some point, consumers will likely see a return of buyer incentives to generate activity. This will most likely be in a high-volume market segment, such as smaller SUVs. Competition typically works to consumers' benefit and still affords profit potential to sellers, though at smaller margins than they have enjoyed in the past few years.

Uncertainty will hinder the ability of automakers and dealers to find consistent footing in sales, and tactics such as cash-back or subsidized financing will collide with unsettled inventories. For buyers, such incentives may be enough to make a purchase. For sellers, they are investments in retaining market share.

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How we fit in

The technology explosion plays to our strengths as a company that has supported the SaaS and IT spaces for more than 20 years. We have walked numerous clients through their digital transformation by managing their customer care functions or working as an adjust to in-house IT teams. Among our clients is a manufacturer of premium in-dash multimedia and navigation systems for off-road vehicles.

Beyond that, we are familiar with the service-related issues that clients face, such as scalability, managing periods of peak volume, and delivering "wow" experiences:

- Data analytics for real-time insight to enhance the experience and support outcomes
- Omnichannel proficiency built on customer preferences
- Retention expertise and a track record of generating new sales
- Scalable support in onshore, offshore, and nearshore locations

Our team also has prior experience with automakers, parts companies, fleet management companies, and makers of ancillary products.