



berylls

BERYLLS STRATEGY ADVISORS

WHAT DO THEY HAVE THAT WE DON'T?

December 2022



AGENDA OVERVIEW



1

Auto100 Companies founded after 2000

What can traditional players learn from the new breed of automotive companies



2

The six key success factors

Understanding of the main strategic and operational control variables and how they interrelate

Established and new automotive players can learn from each other in the battle for future customers, as the transformation of the industry accelerates

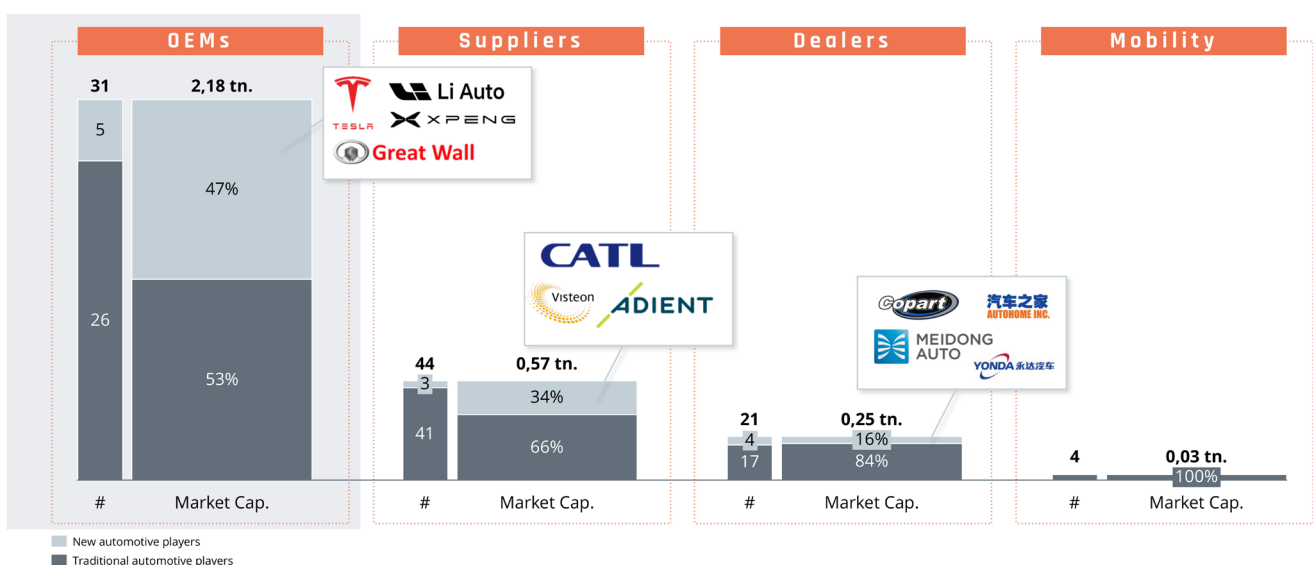
Consider the following number: in August, **42%** of the AUTO100 Index's global market capitalization was held by companies which did not even exist in 2000 (Figure 1). That gives you some sense of the scale of disruption experienced by the industry in the past two decades, powered by the rise of electric mobility and the growing importance of connected, shared and autonomous vehicle technology. For an industry with more than 130 years of history, the question arises, what can traditional players learn from the new breed of automotive companies – and vice-versa. Both sides stand to benefit by asking: what do they have that we don't?

¹ To protect against the bias inherent in under- or overvalued stocks, the index share of any one stock in the AUTO100 is capped at 2.5 percent.

Figure 1

THE 12% OF AUTO100 COMPANIES FOUNDED AFTER 2000 – HOLDING 42 % OF TOTAL MKT. CAP

AUTO100 LISTED COMPANIES PER AUTOMOBILITY GROUP, MARKET CAPITALIZATION IN USD AS OF AUG 9TH 2022



Notes:

- Definition and selection criteria of the AUTO100 index: Prerequisites: publicly listed with > EUR 1bn Market cap, share of revenue from automobility >50%, Selection through >20 individual scores that assess both, strategic and fundamental performance
- Definition traditional / new players: traditional players have long automotive history; new players were founded in 2000 and after

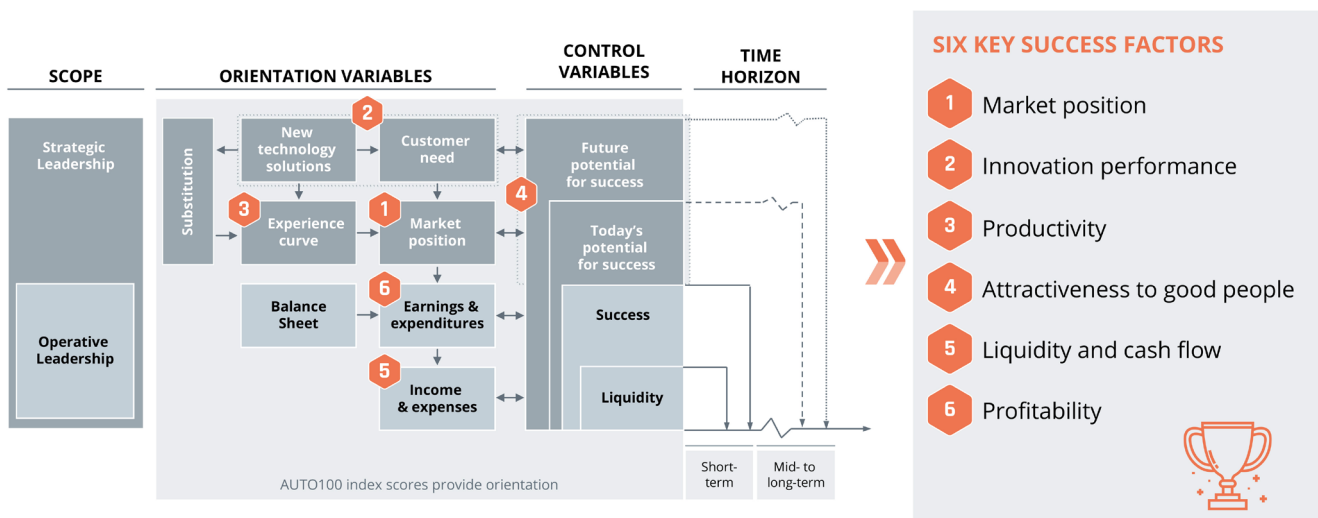
Source: Berylls AUTO100 Index, Berylls Strategy Advisors

THE SIX KEY SUCCESS FACTORS THAT LINK STRATEGIC AND OPERATIONAL LEADERSHIP

Leading companies succeed because they closely link strategic and operational leadership. What sounds like a simple maxim is hard work in practice. It requires a clear understanding of the main strategic and operational control variables, and how they interrelate. For this, Berylls' transformation team relies on Aloys Gälweiler's framework, which focuses **on six key success factors**. Four are key for mid- to long-term success and these are: market position, innovation performance, productivity, and attractiveness to good people. In the short term, liquidity and cash flow, as well as profitability, matter most. (Figure 2)

Figure 2

SIX KEY FACTORS DEFINE SHORT-TERM AND LONG-TERM SUCCESS

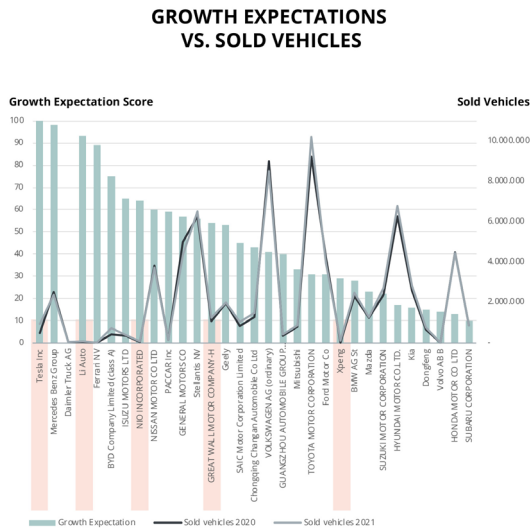


Source: Berylls Strategy Advisors based on Aloys Gälweiler

MARKET POSITION

Successful automotive companies understand exactly what their customers value and are willing to pay for. They also have a clear understanding of how they are viewed in relation to competitors.

Figure 3



As companies race to keep up with the EV transition, future growth expectations trump past sales records. New players have the ability to adapt, improve and expand their business models at a rapid pace, which leads to high growth expectations. But they still need to build trust and a loyal customer base.

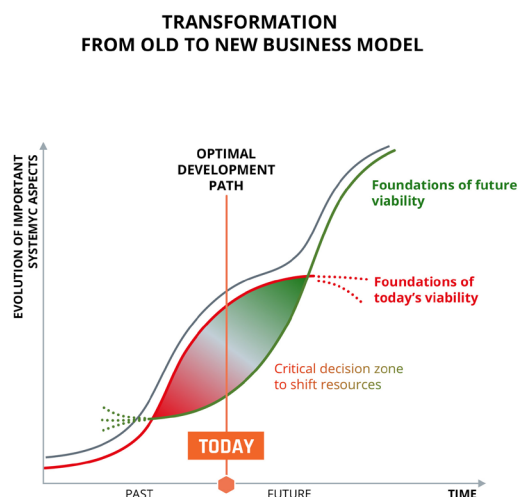
On the other side, traditional players are adept at leveraging their established brand profile and reputation to win and retain customer trust and loyalty.

However, their sheer size and market power blurs their customer focus and slows down decision-making. Entwicklung des Aftersales-Geschäfts sowie wichtige Handlungsfelder aufzeigt.

INNOVATION PERFORMANCE

Innovation performance hinges on a company's ability to transition from old to new business models.

Figure 4



New players have the freedom to fully focus on disruptive products for the future mobility ecosystem (green curve, Figure 4), within a culture that supports fast ideation and execution. The challenge for them is to rapidly respond to customer feedback and improve their product's performance to make it relevant at scale.

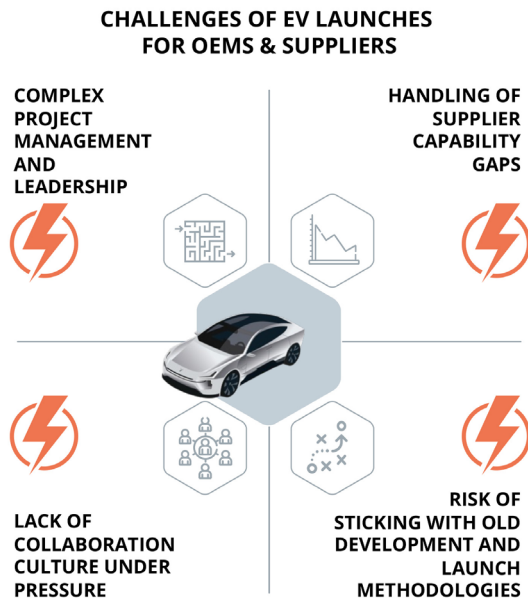
Traditional companies, by contrast, have built their success on past disruptive innovations, which they now need to sustain to run their existing business (red curve, Figure 4) while also transforming to meet future customer needs.

As a result, they face multiple challenges, including competing projects and resource requirements, developing future skills and building collaborative partnerships.

PRODUCTIVITY

High market share allows companies to realize lowest costs per unit. However, as the competitive mobility landscape is changing with new products, services and technologies, automotive players need to understand their own cost position relative to their competitors’.

Figure 5



Source: Berylls Strategy Advisors
Ramp-up Excellence: How Can OEMs and suppliers master E-MOBILITY LAUNCHES?

Traditional automobile manufacturers are paragons of productivity in several ways: they have deep engineering and industrial know-how and unrivalled ability to scale up to large production volumes. However, with the increasing need for new capabilities and partnerships along the value chain, they need to find ways to collaborate more closely with suppliers and close existing capability gaps.

In contrast, new players often have a lack of system and process know-how related to the automotive value chain, leading to great challenges to get products ready for series production.

However, with greenfield operations set-ups and the flexibility to informally reshuffle resources, they have the opportunity to set up their operations for future productivity leadership.

ATTRACTIVENESS TO GOOD PEOPLE

The right people are at the heart of every successful company. But, with the increasingly high number of employees in the industry looking for new jobs, leaders must be very clear about their value proposition not just to their customers, but to existing and prospective employees alike.

Figure 6



Source: Gallup (2021): Engagement Index Deutschland, p. 10;
URL: <https://www.gallup.com/de/321938/engagement-index-deutschland-2020.aspx>

The most competitive new players are already talent magnets. They have a compelling company purpose and culture, are fully focused on core priorities, and have flat team hierarchies. Rewards are high for star performers, who are paid according to their talent and skills, rather than length of service and seniority.

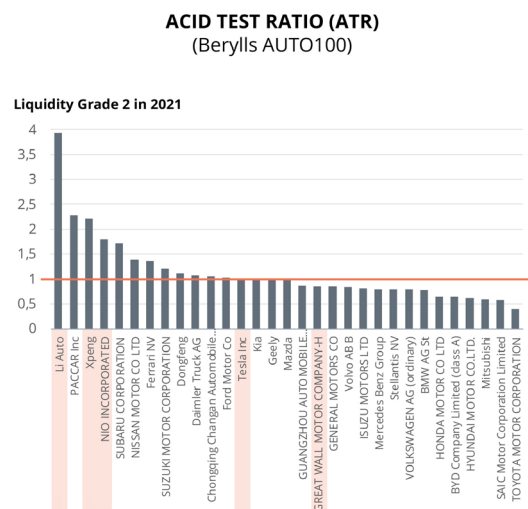
Traditional players have well-known brands and very good reputations as employers, as well as offering stable jobs.

The bad news is that traditional companies typically suffer from convoluted corporate structures with multiple management levels, while internal politics often prevents a sharp focus on customer value. At its worst, this leads to directionless and demotivated teams.

LIQUIDITY AND CASH FLOW

Liquidity and cash flow represent a key success factor in operational management, in particular when it comes to the short-term success of the company.

Figure 7



Source: Berylls AUTO100 Index, Berylls Strategy Advisors

Notes:

Definition Liquidity Grade 2 (ATR):

$$\frac{\text{Cash \& equivalents} + \text{Receivables} + \text{Assets held for sale}}{\text{Current liabilities}}$$

High ATR at Paccar driven by high receivables and stable long-term financing

In the past, traditional manufacturers were cash machines during strong periods of growth, able to generate their own liquidity from the business. To some extent this is still true, but they are operating in a market where their expensive infrastructure and high vehicle turnover increase the risk of costly bottlenecks, at a time when the pandemic and the war in Ukraine have severely disrupted supply chains and triggered spiraling inflation.

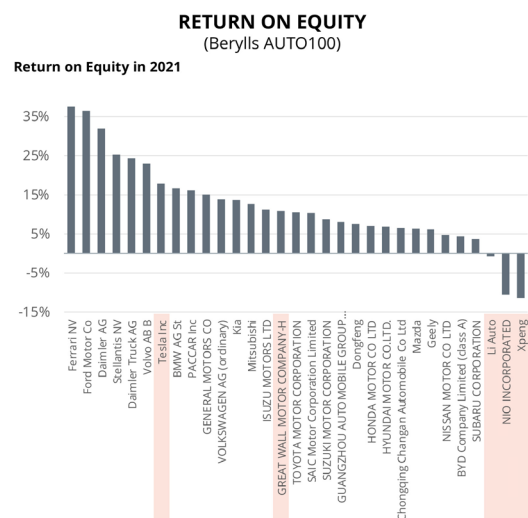
New players have a different challenge in the current volatile market conditions. They still need to prove that their value proposition will establish a viable business model in the long term.

This will be an ever-greater challenge in the face of the looming recession, with more difficult access to capital.

PROFITABILITY

In addition to liquidity, annual profit is an important factor for measuring short-term success. The effects of high market share and economies of scale are particularly evident here.

Figure 8



Source: Berylls AUTO100 Index, Berylls Strategy Advisors

Notes:

Definition Return on Equity:
$$\frac{\text{Net income}}{\text{Stakeholders' Equity}}$$

High profitability at Tesla due to significant carbon dioxide certificates selling

New players must invest heavily in R&D to build up their operational capacities and supplier networks. At the same time, they have limited turnover and production volumes and no opportunity to realize economies of scale. As a result, their profitability is generally low or they are loss making.

By contrast, traditional players leverage their deep industry experience to develop efficient operations. Their leading market positions and high vehicle volumes strengthen their negotiating power with suppliers and increase their ability to realize economies of scale.

At the top end of the market, luxury models generate higher margins and profitability.

HOW OEMS CAN USE THE LESSONS TO TRANSFORM

Just as traditional players must take cues from new ones, for example in how to transition to more agile working methods, so new entrants need to look at incumbents to achieve the kind of operational excellence that will ensure their long-term survival. In our experience, the top priorities for new players should be improving their market position, productivity, and profitability, while traditional OEMs should focus on innovation, attracting talent and boosting liquidity.

Yet while the challenges that confront new and traditional players are as different as their respective starting positions, the same factors will help both groups manage this intense period of transformation and successfully position their businesses in the future mobility ecosystem. In our experience, this requires **holistic systems thinking**, in the following ways:

- Defining a clear vision for the future

A shared “north star” vision provides orientation for transformation and enables all staff to fully understand their contributing role. Management teams must act as role models to make their vision tangible.

- Being able to operationalize strategy

Companies need to link their strategic and operational leadership closely to ensure long- to mid-term success. This means that building the foundation for their strategic approach to market position, innovation performance, productivity and attractiveness to good people becomes a central task in the here and now.

- Having a holistic view of strategy, structure, culture and leadership and their interdependencies

Fully understanding the interrelationships between strategy, structure, culture, and leadership is vital to realizing sustainable changes. A good example is time to market: If a company wants to become faster, it needs to make decisions more rapidly. This requires a culture that tolerates mistakes and a governance model that enables decision-makers to circumvent existing processes in cases when speed is of the essence.

- Adapting organizational structures into viable units with a high degree of autonomy and rapid decision-making

In the rapidly changing automotive ecosystem, speed and adaptability are key. Adapting organizational structures into viable units steered with a high degree of autonomy, while aligned with the overall strategy, allows organizations to act fast and effectively.

- Reinforcing the leadership qualities of foresight, making decisions amid uncertainty, taking responsibility, and providing orientation

Company leaders must model the change they want to see in their employees. They must lead by example, be decisive and provide employees with an inspiring picture of what the future will be like in their daily interactions, to create the kind of atmosphere required to carry out sustainable change.

- Developing the skills and capabilities required to succeed in the future

Closing performance and opportunity gaps not only means hiring new people in future competency areas such as software, but also making clear the need for change to people already in the organization and enabling them to contribute to what will make them successful in the future.

Both new and traditional players need to boost their resilience to weather the accelerated industry transformation successfully. Traditional players face the additional challenge of walking the difficult path from what has made them successful in the past to what will make them successful in the future. Or as Aloys Gälweiler puts it, „Strategic thinking, decision-making and acting is always the sacrifice of immediate advantages in favor of higher future advantages.“

WHAT'S NEXT IN THIS SERIES

New and traditional players need to learn fast from each other or risk falling behind swifter competitors. In the coming weeks, we'll publish our perspective on how to apply the following key lessons rapidly and effectively:

Successful transformations – six secrets

Winning leaders – what leadership skills OEMs need

Digital capability building – solving the key bottleneck for transformation

The viable system model – organizational steering in a VUCA world

SEEKING ADVICE?

MEET BERYLLS.

Berylls Strategy Advisors – The expertise of our top management consultants extends across the complete value chain of automobility – from long-term strategic planning to operational performance improvements. Based on our automobility thought leadership Berylls Strategy Advisors stand out with their broad experience, their profound industry knowledge, their innovative problem-solving competence and, last but not least, their entrepreneurial thinking.

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