

European automotive suppliers face unprecedented uncertainty amid shrinking profit margins

Brussels, 16 April – CLEPA and McKinsey & Company unveil the latest insights into the European automotive supply industry’s health and sentiment through its bi-annual survey. With over 130 responses, the survey provides comprehensive perspectives on the sector’s business climate, trends, current challenges and opportunities.

- A prevailing sense of uncertainty leads to 42% of suppliers expressing a negative outlook, signalling a decline in overall industry sentiment.
- 65% of suppliers expecting profits to remain low, and approximately a quarter expecting to operate at break-even or facing losses.
- Survey indicated a modest outlook for business growth in China, with 31% of suppliers expecting a substantial share of future business from this market.
- In response to mounting challenges, suppliers are seeking to optimise investment, including in R&D, while accelerating product development cycles.

The European automotive supply industry, a vital pillar of the EU economy, is confronted with volatility and uncertainty from both their customers and upstream suppliers. Despite facing substantial headwinds, industry players maintain a cautious optimism, navigating through challenges and strategising for transformation.

Industry sentiment and profitability projections

High levels of uncertainty surrounding new projects and EV demand in Europe, coupled with pressure from vehicle manufacturers (OEMs) to cut costs and concerns regarding EU competitiveness, are contributing to the deterioration of business sentiment in the sector. As a result of these challenges, 25% of suppliers anticipate operating at marginal or negative profitability levels, while only 37% expect profitability above 5%. While 47% of suppliers expect an increase in revenues for 2024, 31% expect a decline.

Lukas Michor, co-leader of McKinsey’s EMEA supplier practice states, “The outlook for the automotive supply industry has worsened over the past twelve months. While some suppliers managed to structurally improve their cost base during COVID-19 and are now able to reap the benefits from it, most continue to face significant challenges. The high uncertainty with regards to the future market development and the transition to electric vehicles are key concerns.”

The Pulse Check reveals that suppliers are facing tough price negotiations from OEMs, with 74% citing insufficient OEM compensations as the most pressing operational challenge, followed by demand reduction (52%), disruptions in the supply chain (24%) and suppliers moving to other industries (20%). Correspondingly, 70% of respondents prioritise engaging in commercial re-negotiations with OEM customers to offset inflationary production costs.

Benjamin Krieger, CLEPA’s Secretary General, underscores the sector’s concerns, stating, “More than half of European suppliers fear production costs are making the EU uncompetitive, and 65% of the sector is operating at profitability levels that are not sufficient to sustain investments. The deterioration in sentiment on both of these fronts compared to six months ago, highlights the need to enhance EU competitiveness.”

Outlook for business growth and resource allocation

The survey also highlights strategic challenges, including decreasing EU competitiveness due to high production costs (54%) and faster technology implementation in other regions (39%). Forecasts indicate a modest outlook for business growth from China, with only 31% of suppliers expecting a substantial share of future business from this market.

In response to mounting challenges, suppliers are intensifying resource allocation towards R&D and production while streamlining efficiency gains. Additionally, 58% of respondents identify material and component design optimisation as key for achieving an optimised cost structure, while 54% emphasise the importance of efficiency gains in manufacturing.

Moreover, European suppliers express decreasing EU competitiveness due to the high production cost structure (54%) and faster technology implementation in other regions (39%) as major strategic challenges. Cost competitiveness and product development cycles are also of specific concern for suppliers operating in China.

Difficulty implementing OEM requirements (24%) and compliance with emission targets (22%) are strategic concerns for a smaller part of the supply chain. However, CO2 reduction targets are a major challenge for the industry as a whole, with 52% considering required changes in the supply chain and production footprint as the most relevant challenge.

The survey also revealed the need for hiring and developing skilled talent, including software engineers, as a major challenge. Two-thirds of suppliers are currently re-skilling their workforce or are planning to do so, indicating a proactive response to the talent challenge.

About CLEPA

CLEPA, the European Association of Automotive Suppliers based in Brussels, represents over 3,000 companies, from multi-nationals to SMEs, supplying state-of-the-art components and innovative technology for safe, smart and sustainable mobility, investing over €30 billion yearly in research and development. Automotive suppliers in Europe directly employ 1.7 million people in the EU.

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About McKinsey

McKinsey is a global management consulting firm committed to helping organizations accelerate sustainable and inclusive growth. We work with clients across the private, public, and social sectors to solve complex problems and create positive change for all their stakeholders. We combine bold strategies and transformative technologies to help organizations innovate more sustainably, achieve lasting gains in performance, and build workforces that will thrive for this generation and the next.

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