

Hot, thirsty and crowded: *time for a model change*

attitudes to environmental sustainability have reached a tipping-point; time for a model change never rang so true for the automotive industry

special report

By Dr John Wormald



This provocative report concentrates on the European automotive industry but the problems facing it apply just as much to the industry worldwide. In their book *Time for a Model Change* John Wormald and Graeme Maxton laid down some strong challenges to the industry. The environmental pressures described in the book – notably global warming and the cost of fuel – have escalated faster than the book’s authors ever envisaged.

A 64-page report succinctly written up into four main chapters and containing 50 figures to illustrate his arguments:

- **Introduction: inconvenient truths**
- **The unwelcome guests: the European industry versus the Asian giants**
- **Ripe for change: the downstream sector**
- **Hot and thirsty: the environmental challenge**
- **The 4th revolution: a new model for the industry**

The European industry is now caught in a triple vice: intensifying Asian competition; the wastefulness of its own business model, sheltered by its tied distribution channels; and the need for a huge increase in investment in real technological innovation over the rather low levels of it today. The time of reckoning has come. We must choose now between continued graceless degradation of the industry and a complete change of business model.

The Asian vehicle and supplier industries are into their third wave: China and India, after Korea and Japan, and rising fast! They are deadly competitors to the established Western players, particularly as they are so strong in smaller vehicles, economical of both money and energy. Their know-how is growing rapidly as their engineering and production experience continues to build. They will have the financial resources to outspend their competitors in technological R&D.

The protective shield of proprietary, brand-exclusive retailing channels: the franchised dealer system is looking more and more like the industry's Maginot Line; magnificently constructed but outdated and out-manoeuvrable. Extracting near-monopoly profits from captive consumers, in order to cross-subsidise financially weak new vehicle operations, is not a viable strategy, in the face of informed consumers and regulators. Worse, it perpetuates the industry's addiction to product proliferation and over-production, at the expense of genuine technological innovation. It also makes it very difficult for genuine innovators to penetrate established markets.

Climate change and the need to reduce anthropogenic greenhouse gas emissions: this is now accepted by all but a small band of contrarians. Everyone can see the impact on fuel prices at the pump of the conflict between tightening supply and exponentially-increasing demand for oil. The transport sector, dominated by road vehicles, is the fastest-growing generator of carbon dioxide and consumer of oil. The developed world must change its approach towards motorised mobility and the emerging markets need to avoid its past mistakes. Every lever must be pulled, from short-term disincentives to unnecessary consumption to long-term changes in how we live, work and play. Our whole approach to the provision of mobility and the design of road vehicles has to change.

Business as usual is no longer on the agenda: the present approach that this industry takes, its products and how they are sold and supported, only perpetuates its financial weakness and strangles creativity. This is true both on the supply side -- where cost-down pressures on suppliers threaten their key role in technological innovation -- and on the distribution and service side. Vertical unbundling and restructuring is an urgent necessity. We can achieve a more open, competitive industry, fully capable of meeting the challenges of the 21st century. The only real enabler of competitiveness is real competition, not the industry's present command-and-control mode. It is indeed Time for a Model Change.



John Wormald is the co-founder and Managing Partner of autoPOLIS, a globally respected 30-year veteran of automotive industry as a writer, strategist and consultant. He is recognised for his outspoken commentary on the structures and dynamics of the global automotive industry. He is the author of two books; "Time for a Model Change" and "Driving off a Cliff?" autoPOLIS advises international companies that are in, or associated with, the industry and also advises various governments on industry policy.

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