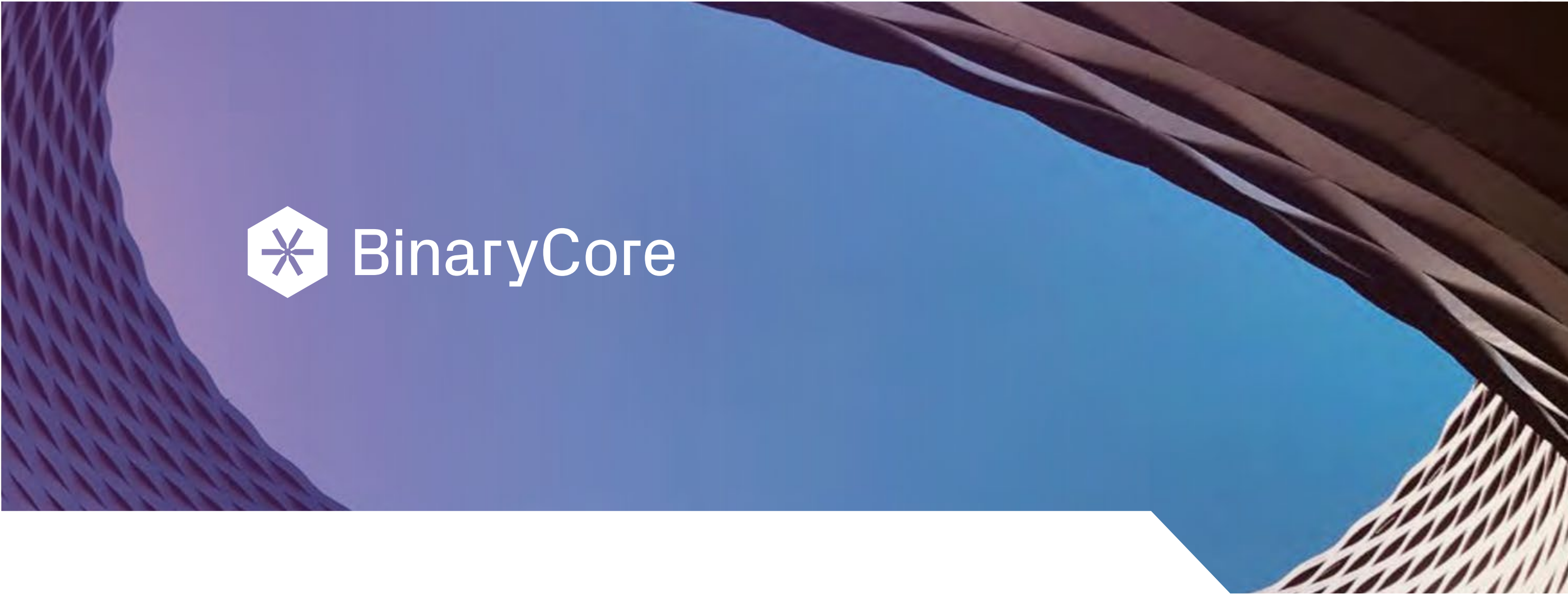


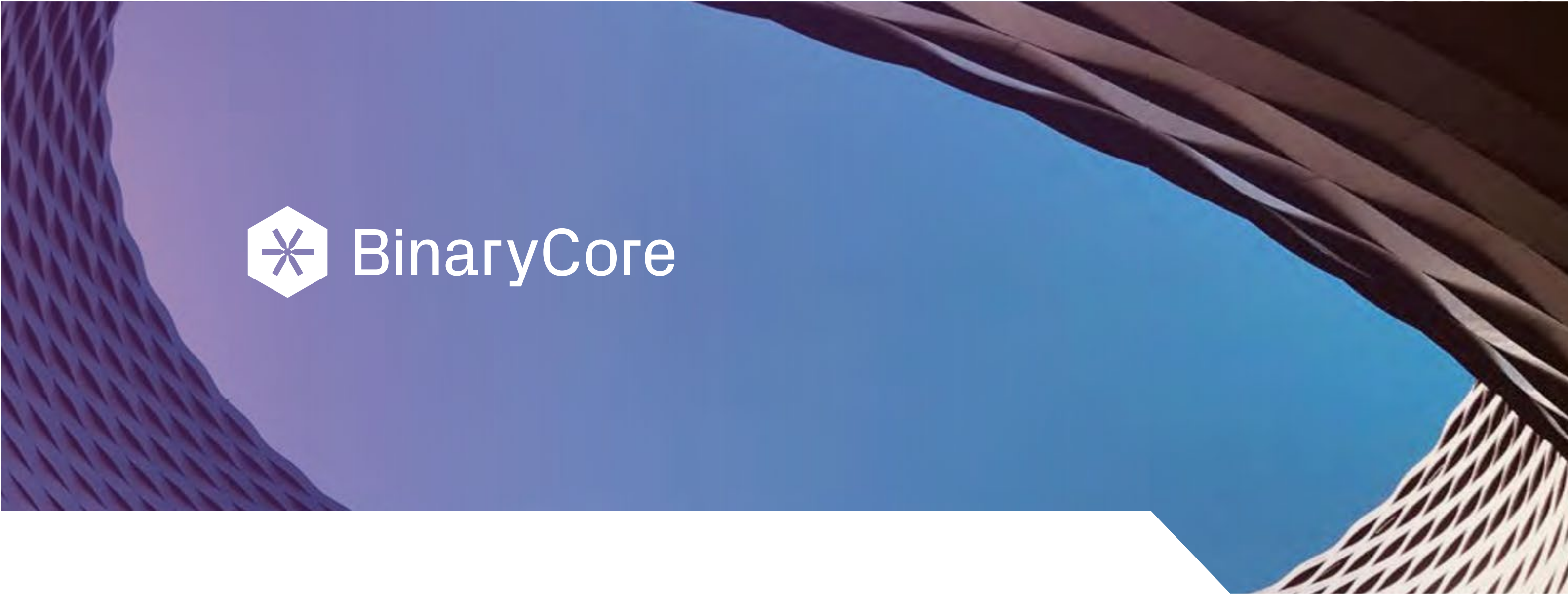
6 July 2022

A new era for automotive business models

Our analysis shows that by 2030, leading OEMs aim for up to 50 percent of their profits via recurring digital revenue streams and connected services. To unlock these potentials, traditional OEMs need to first reimagine their role and relationships within the automotive ecosystem.

Currently, their primary role is to assemble the vehicles, sourcing up to 80 percent of the materials from suppliers. Conversely, disruptors such as Tesla have a make-ratio of around 80 percent. For traditional OEMs to create more customer-focused products and services, the answer is not to build everything themselves, but to work much more closely with those they buy from. In this way they establish their place in the value chain as deep tech integrators and develop win-win collaborations with suppliers, ushering in a new era of automotive revenue.

Visit www.binarycore.com for more information.



Why collaboration is essential

While challenger OEMs partially operate at a much higher make-ratio for software and hardware, they mostly focus their sourcing activities on non-differentiating features with potential cost savings directly from suppliers. To remain competitive, traditional OEMs must develop platforms that enable deep tech integration for software suppliers, providing them with direct access to as much as 80 percent of the car's systems and the plug-and-play connectivity of new features. Only by inviting closer collaboration with suppliers can these OEMs match the speed at which challengers continually meet customer demands, increase revenue, and reduce costs.

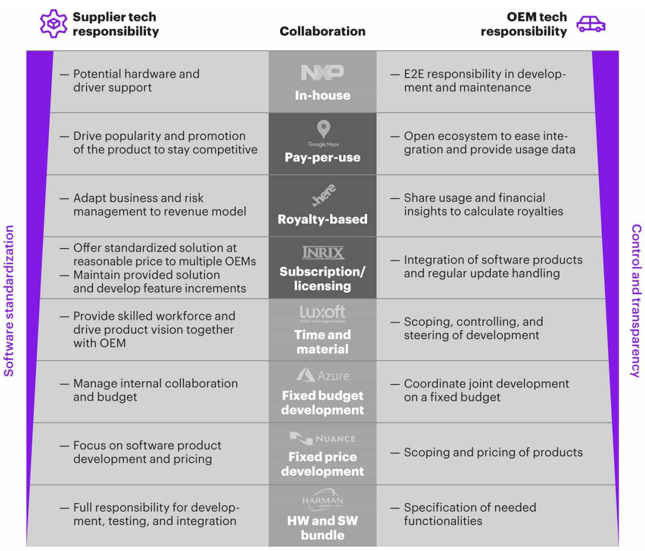
Looking beyond traditional sourcing to joint business models

With our extensive experience in this sector and insights from software company benchmarks, we see a significant opportunity presented by the adoption of new collaborative business models. By using the open vehicle platform ecosystem, OEMs and suppliers can achieve a revenue increase of 40 percent by 2030.

This new era will be shaped by OEMs and suppliers together, working toward mutual profitability increase. Shared success relies on the clear division of responsibilities, where OEMs have control over the right vehicle platform and suppliers are enabled to establish a certain degree of software standardization to build upon (see figure).

Figure
New business models shift the tech responsibility toward the OEM, driving increased transparency and the need for standardization (exemplary navigation stack)

Traditional sourcing model
Joint business model



Notes: OEM is original equipment manufacturer. E2E is end-to-end. HW is hardware. SW is software.
Source: Kearney analysis

Pay-per-use

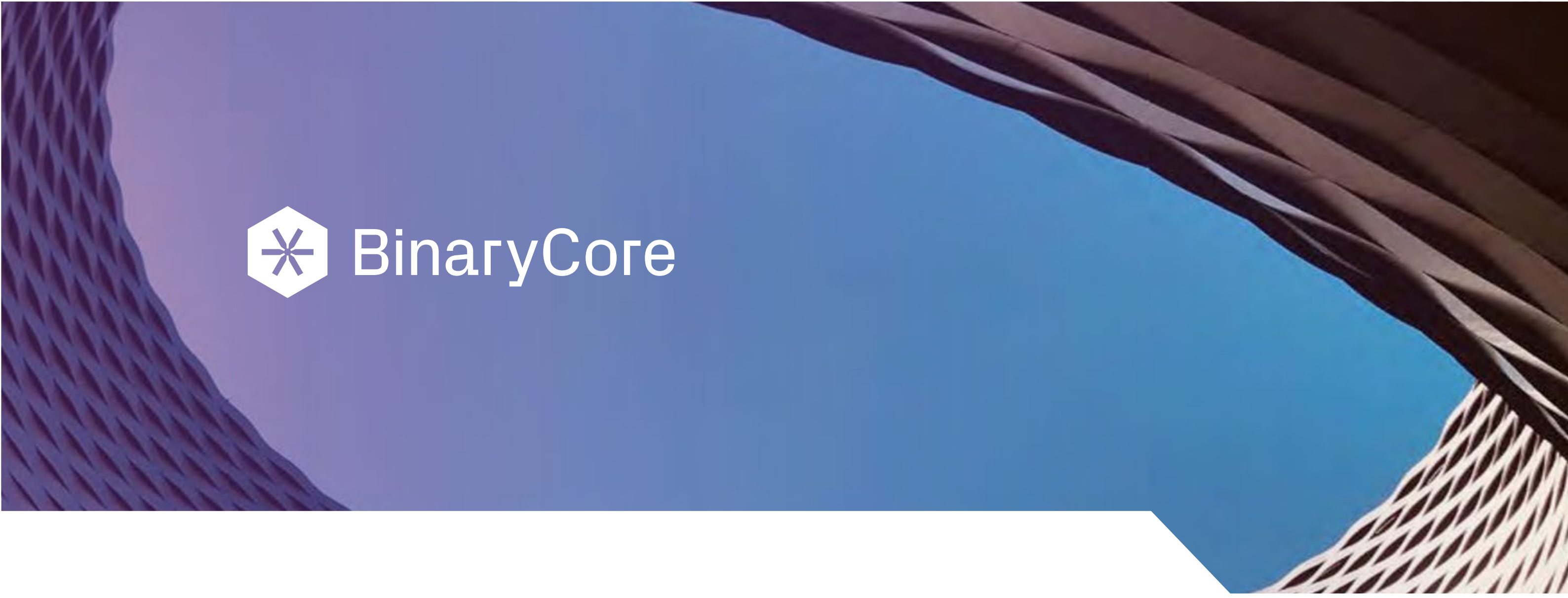
Adopting a pay-per-use business model allows for an increasing scope of both commodity and differentiating vehicle features. The open ecosystem provided by the OEM enables easy feature integration as well as in-field data collection. The ownership and further usage of the data can lie with the OEM, supplier, or both, depending on specific features and the possibility of value creation for each company. Alongside this, suppliers have the chance to drive promotion of the product to stay competitive and decrease unit costs.

Royalty-based

Because the OEM must provide financial insight for the fair calculation of royalties, a trusting relationship between the OEM and supplier is a prerequisite for royalty-based business models. As a result, suppliers can better adapt their business and risk management models. A profitable business for the supplier will ensure its longevity and provide the necessary resources for further development. Meanwhile, the OEM maintains consistent revenue and profit flow.

Subscription/licensing

Lastly, a subscription/licensing model allows OEMs to achieve an even more efficient bottom line. Suppliers can scale commodity features beyond customized OEM solutions toward standardized solutions for multiple OEMs. The role of the OEM is reduced to the integration of software products and handling of regular updates while they benefit from a reduced cost per unit.



Interested in exploring new business models?

We understand the complexity involved in the adoption of these new business models. Success requires a cross-company approach with a deep understanding of what is possible for your organization. To talk more about your ambitions and how we can help, please contact the authors below.

To read our "Achieving excellence in automotive software" series click here, or to access our software features database contact: socialmedia@binarycore.com

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