



RULES OF THE ROAD *for* EUROPEAN AUTOMOTIVE LEADERS

The European automotive industry has changed dramatically in recent years. As the European economy began to recover, manufacturers rebounded but now find themselves facing increasingly fierce competition, growing demands for innovative features and model designs, ongoing financing constraints, and emerging supply chain challenges.

Yet, this dynamic atmosphere also brings opportunity for the automotive leaders who are able to chart a course amid uncertainty. Spencer Stuart surveyed a broad group of nearly 100 senior executives at European Tier 1 suppliers and original equipment manufacturer (OEM) passenger vehicle companies, including CEOs, executive vice presidents, senior vice presidents and vice presidents in various functions, to gauge their perspectives about the biggest challenges they face today, the skills executives need to succeed in the industry and where they are finding the best talent. Some highlights from our survey include:

- > Globalization and the redistribution of resources to higher-growth markets and lower-cost regions, and overcapacity were named as the trends that continue to present the greatest challenge to the automotive industry.
- > The majority of respondents (63%) reported that maintaining a variable cost structure in order to respond to pricing and competitive pressures has been and still is one of their company's top strategic priorities.
- > Alliance and partnership management was identified as the most important functional experience for senior general management talent in the next five years.
- > More than half (53%) said that international experience will be the most important business experience for senior general management in the next five years.
- > The majority (74%) of respondents said they typically look within the automotive industry for talent.

We sat down with a few European automotive leaders for a deeper exploration of the key issues cited by our survey respondents and gained further insights into the challenges and opportunities that lie ahead in the industry.

Navigating a changing landscape

Globalization and the distribution of resources to higher-growth markets and lower-cost regions, overcapacity, and the need to innovate with limited financial resources topped the list of concerns for our survey respondents. The phenomenon of globalization has shaped the automotive industry for years now, according to many executives, and is no longer a coming wave but a well-established reality — China has exploded, India has taken off and South America is up and running. As one CEO aptly stated, “We are global now.”

In this global environment, automotive companies must be able to design products in two to three places worldwide and then manufacture them in five or more different regions to be competitive. Senior industry leaders are pursuing different paths to achieve these goals, from relocating to reimagining their offerings.

Pressure from unions and increased government regulations are shrinking margins for automotive suppliers and spurring the shift of operations and manufacturing to other regions. “In Western Europe, the significant political steering of the automotive industry has become more visible and therefore manufacturing and operations are being transferred to Eastern Europe,” said Jan Carlson, CEO of Autoliv. He also anticipates that automotive suppliers will need to adopt more global approaches to their business. However, a global strategy is not only a response to constraints, but also a pursuit of growth. A number of executives we spoke with pointed to the significant growth in the Asian automotive industry and, in particular, the consolidation of the industry in China, as integral to their broader global strategies.

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Yet, growth will be tempered by the effects of the now widened gulf between the incomes of the upper and lower classes in Europe resulting from the economic crisis. The erosion of the middle class is dramatically changing customer buying behavior. “There seems to be a reduction of the traditional ‘middle class’ and a separation between the high-end luxury market and the lower end of the spectrum,” observed Bram Schot, a member of the board of management of VW Commercial Vehicles. “OEMs must try to interpret the evolution of demand. Typically, the customer changes tastes, habits and behaviors in terms of cars around the age of 40, and then tends to consolidate their preferences for a certain brand or type of car.” Customer tastes are more polarized, Schot said, and he has witnessed a trend toward more functionality and practicality, with mobility concepts becoming more important than the actual physical product.

The industry must be prepared to cater to a younger consumer, according to Jean-Marc Gales, president and CEO of Clepa. “It is a fact that younger generations have changed their preferences with regard to cars,” said Gales. “Car-sharing is a reality, evidenced by many players such as City Car Club or emerging business models such as Sixt’s, which is quite advanced in offering a new way of using cars.”

Changing customer demands, coupled with CO₂ and fuel consumption regulations in Europe and abroad, are driving automakers to develop new technologies. “This push for technology requires tremendous financial resources and companies must seek alliances like never before,” said Eugenio Razelli, CEO of Magneti Marelli.

Features of successful automotive leaders

Our survey respondents said the most important business experience for senior general management is international experience (cited by 53% of participants), followed by product innovation and entrepreneurial

orientation. People development and succession planning, as well as customer relationship management, were also named among top desirable skills.

International experience has proven especially valuable in an increasingly global supply chain. “Today the supply chain has become much more complex, and the impact of some event somewhere in the world can have consequences that are impossible to foresee,” said Razelli. “Think of how the tsunami in Japan can stop the production of a pigment used in car paint in another part of the world, which, in turn, stops the production of that car in a certain color. You must adjust your systems on a global scale and supply chain in particular is crucial.”

Because of the vital importance of the end-to-end supply chain, Arthur De Bok, president of Goodyear EMEA, looks for leaders with analytical and transformational skills for the function. “We need a step-by-step transformational approach, not just the traditional problem-solving approach,” said De Bok. “Today it takes vision and communication. We have to be much more forward-thinking than before.”

Throughout the European automotive industry, the nature of roles and responsibilities are evolving to meet the demands of a more exacting customer. For example, manufacturers are now relying on suppliers for more substantive contributions to help satisfy their car buyers’ hunger for innovation. Gales estimates that up to two-thirds of the value of a car today is in the hands of Tier 1 suppliers versus one-third a few decades ago.

According to Hari Nair, COO of Tenneco, carmakers’ growing expectations have driven the organization’s evolution and redefined its sales function. “As a Tier 1 supplier, we used to be a mere hardware provider, then we evolved into a supplier capable of providing improved materials, with more value added in design and specifications,” he said. “Now we are moving beyond that state, becoming a provider of full system solutions where some customers expect us to offer new technological ideas and solutions for their products. They encourage us to offer and present alternative options to meet their requirements.” Some Tier 1 suppliers are bolstering their marketing

capabilities in order to better position themselves as strategic partners versus providers of parts.

Gales also anticipates a growing emphasis on marketing and design at OEMs. “Car makers will concentrate more and more on design, on vehicle integration, on the validation of the vehicle, on marketing,” he said. “The key functions and the key jobs are changing, more design and marketing and less procurement or manufacturing among the OEMs.”

Beyond technical skills, Razelli is seeking leaders who are “fast and flexible” and empowered to act proactively. He believes that it can be more important to be faster than bigger to compete and win in this environment; building an intelligent organization means developing people who understand how to receive and circulate information, with autonomy and initiative, i.e., an internal intelligent network. “We want to be a ‘curious company’ made of executives and managers who are curious to learn, to explore, to try,” said Razelli. He has also observed a shortage of commercially oriented executives with business development expertise — commercially skilled and oriented people who can simultaneously see all aspects of the business, the bigger industry and economic picture, and operate within a complex organizational matrix.

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Building a high-performing team

Interestingly, the vast majority (74%) of our survey respondents said they look within the auto industry for talent, but slightly more (75%) say it is/will be important to recruit from outside the industry. With companies competing for the same limited pool of industry candidates, many will have to turn to other industries for talent. As technology has become the underpinning of innovation in the industry,

some leaders have found success by recruiting executives from technology-driven industries.

New leaders will likely come more from sectors in which there is competence in the needed technologies, such as consumer electronics, IT or telecommunications — sectors in which software engineering is more advanced. Also, considering the changing approaches of distributing new cars, it is possible that OEMs will recruit more talent from other retailing sectors.

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Other executives hope to balance their existing engineering talent with executives from consumer products and design backgrounds. But identifying talent is only part of the battle. Many leaders believe the automotive industry as a whole needs to experiment with new ways of attracting talent from more creative fields, as well as from other cultures.

In order to retain executives, European auto companies are designing better career paths for the long term and providing rotation opportunities. For example, it has become more common to see a financial director moving into a general manager role inside the same company. When possible, companies such as Goodyear tend to recruit younger, high-potential executives who may be over-qualified for the roles for which they are initially hired, but groom them for long-term careers with the company.

Planning for the road ahead

Nearly half (47%) of our respondents rate their succession and talent development as average when compared with best-in-class companies. More than one-third (35%) of our respondents say they are below average or conduct little to no succession planning or talent development.

One of the first steps in succession planning is understanding the current talent bench. An executive assessment can provide accurate and objective information about key players' strengths and weaknesses, enabling Tier 1 suppliers and OEMs to make thoughtful, informed leadership decisions at times of succession or transition. An increasing number of companies are contemplating conducting executive assessments of the top managers in the group and benchmarking them against competitors or external leaders. Capturing the leaders of tomorrow early in their careers and giving them room to grow is also an effective way to both develop talent and build the pipeline of potential succession candidates. Top leaders recognize that the war for talent is more intense than ever before. Automotive companies must commit resources to robust recruiting, training and development programs to help prepare executives for the next role while they are still in their current ones.

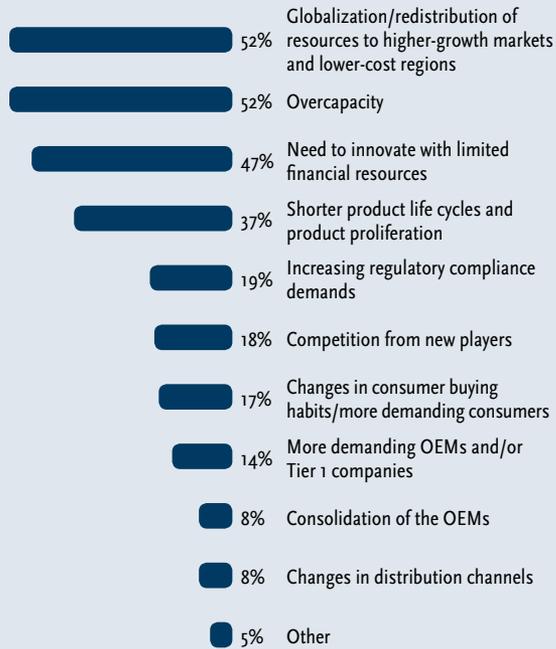
Moving forward

Given changing consumer tastes and an ever-growing emphasis on technology talent, now is the opportune time for European automotive companies to examine what leadership skills they need for both today and tomorrow. Undoubtedly, globalization will continue to be one of the largest forces affecting the European automotive industry. In a landscape in which an event thousands of miles away can have almost immediate, but nonetheless lasting effects, companies that view their organizations through a global rather than regional lens will be best prepared to respond to unexpected changes. European automotive companies must act with the same agility when it comes to building their talent bench. While the majority may currently be looking within the industry for future leaders, organizations willing to break the old paradigm by going outside their comfort zones to seek executives from other disciplines and environments will not only rise above the intense industry competition for top talent, but will find leaders with the broader skill-sets, perspectives, the right cultural fit and leadership competencies needed to grow future business.

Spencer Stuart European Automotive Leader Survey Findings

Spencer Stuart surveyed nearly 100 senior executives at European Tier 1 suppliers and OEM passenger vehicle companies, including CEOs, executive vice presidents, senior vice presidents and vice presidents in various functions. Here is what they had to say about key industry challenges and the skills they are looking for in leaders.

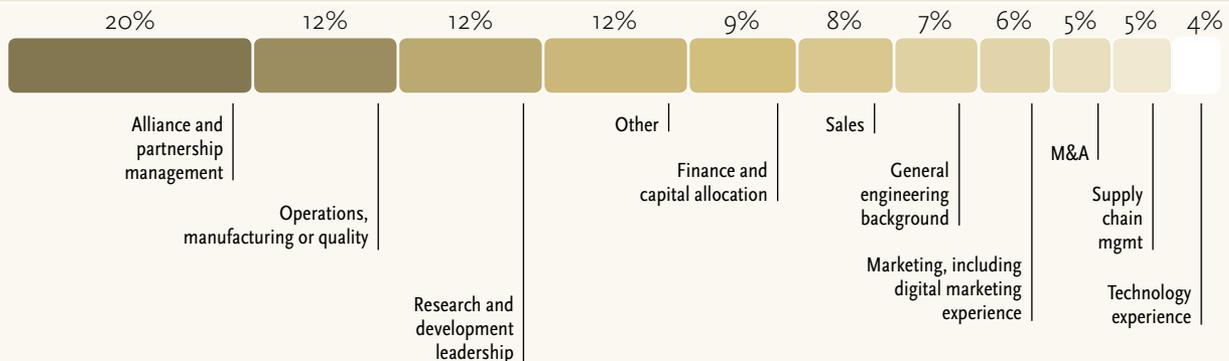
What industry trends represent the greatest challenge to the automotive industry?[†]



What are your company's top strategic priorities?[†]



What functional experience will be most important for senior general management during the next five years?

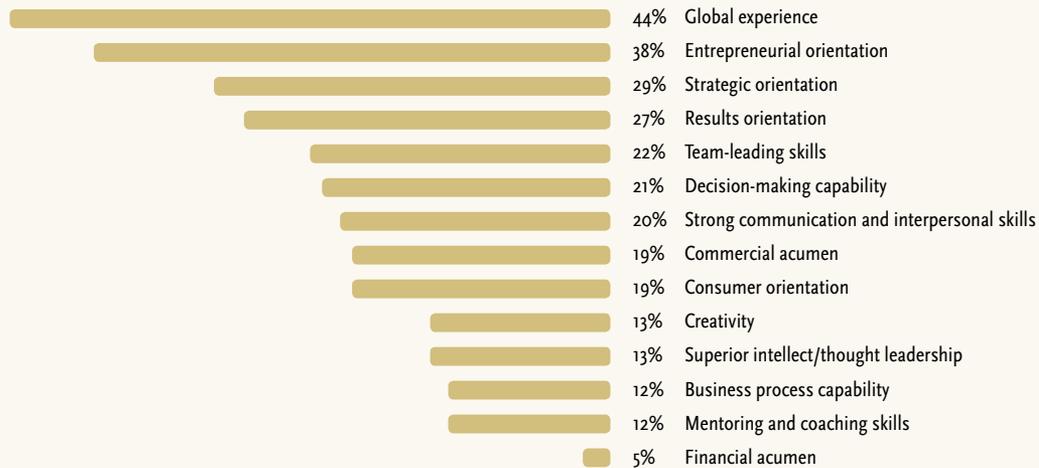


[†] Respondents were allowed to choose multiple responses.

What business experience will be most important for senior general management during the next five years?[†]



What characteristics and competencies will be most critical for senior general managers during the next five years?[†]

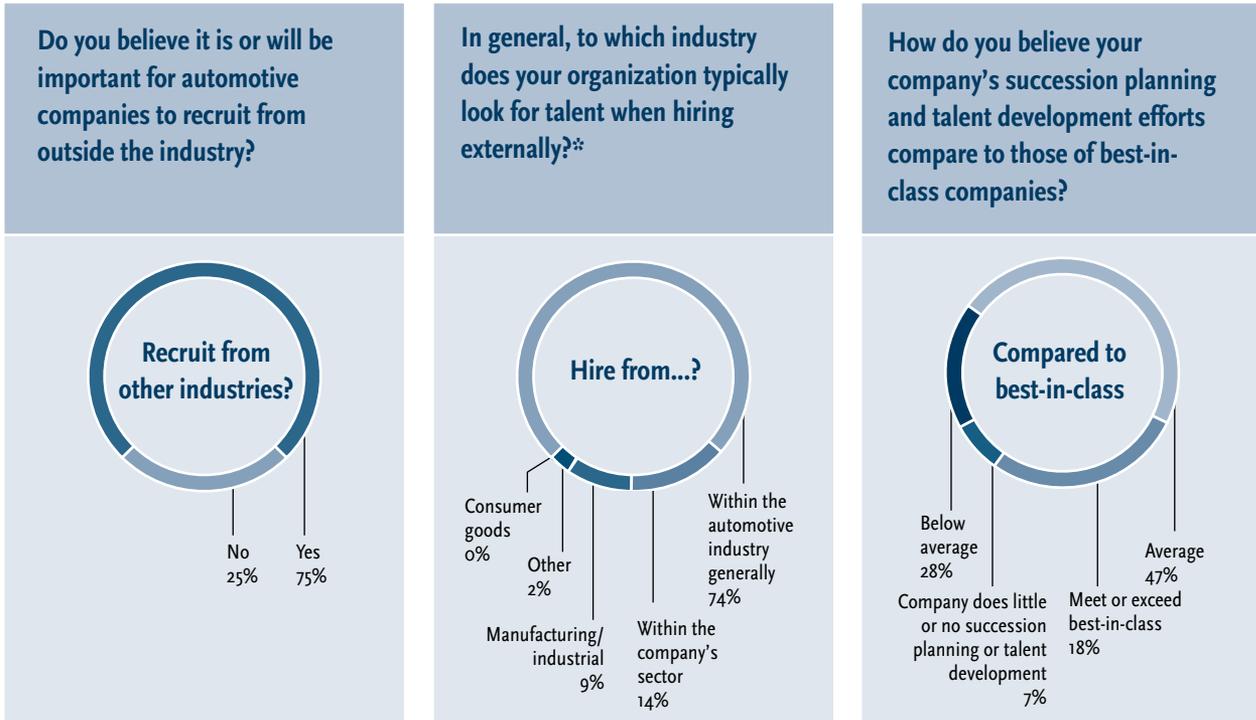


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85% of the automotive executives we surveyed have worked outside their native countries for longer than 18 months — underscoring the importance of international experience

Recruitment and development



*Percentages may not total 100 due to rounding.

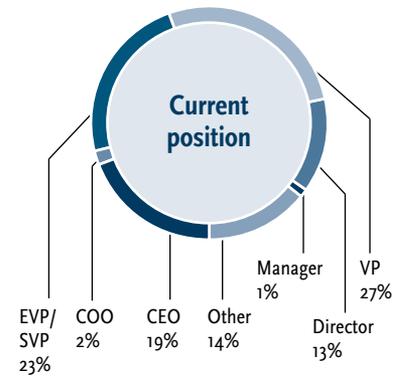


74% typically look within the automotive industry for talent but 75% believe it is or will be important to look outside the industry for talent

Profile of survey respondents

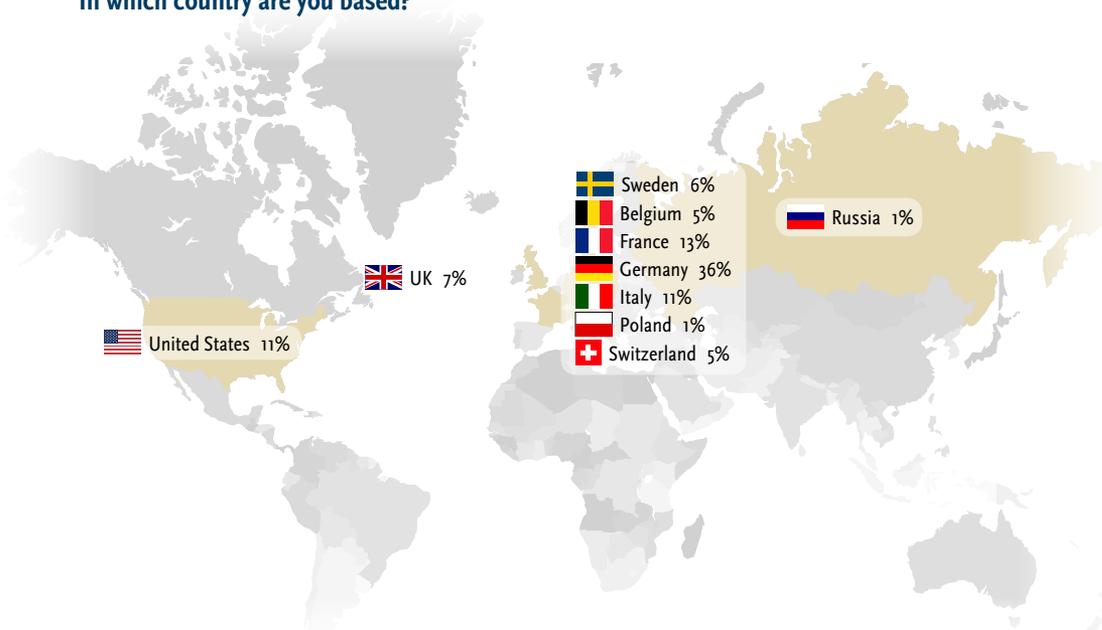


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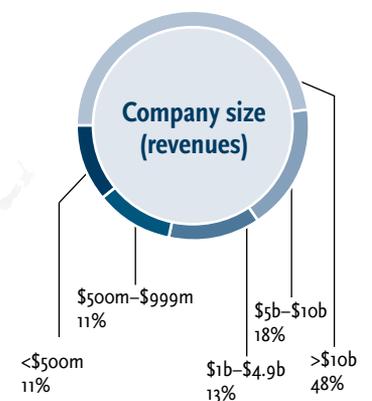
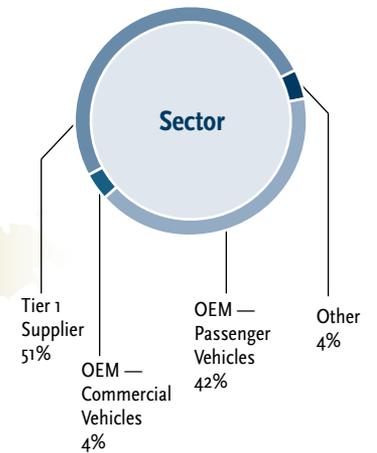


* Percentages may not total 100 due to rounding.

In which country are you based?*



*Percentages may not total 100 due to rounding.



About the authors

Simone Maggioni is a member of Spencer Stuart's Industrial and Automotive practices and formerly led both globally. He currently leads the firm's Brussels office.

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About Spencer Stuart's Automotive Practice

Spencer Stuart's global Automotive Practice has completed more than 350 board and senior-level executive searches over the past four years. Our searches in the industry span functions, including marketing and sales, finance, operations, and research and development, as well as general management and boards. We serve large and midsize global companies throughout Europe, North America, Asia Pacific and South America and have unrivaled access to leading automotive executives around the world through our deep relationships.

About Spencer Stuart

Spencer Stuart is one of the world's leading executive search consulting firms. Privately held since 1956, Spencer Stuart applies its extensive knowledge of industries, functions and talent to advise select clients — ranging from major multinationals to emerging companies to nonprofit organizations — and address their leadership requirements. Through 55 offices in 30 countries and a broad range of practice groups, Spencer Stuart consultants focus on senior-level executive search, board director appointments, succession planning and in-depth senior executive management assessments. For more information on Spencer Stuart, please visit www.spencerstuart.com.

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