

Performance tune-up

**Using digital to help improve
data management, governance
and analytics capabilities**

Automotive industry insights



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Current situation

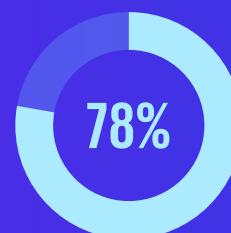
The automotive industry should aim to overcome the many challenges it currently faces in order to build and realize sustainable and resilient future business models. Vehicle electrification, autonomous driving, shared mobility, software-as-a-service (SaaS), sustainability and the circular economy are all forcing traditional OEMs and suppliers to reevaluate and revamp their present business models. Corporate performance management becomes even more complex with the increasing trend of online vehicle purchases, as well as with a greater share of vehicle subscriptions.

Key topics from corporate performance management, like enabling more transparency on profitability of different business models, predicting and simulating different revenue streams, and integrating ESG analytics are all high on executive agendas. In this market disrupted as it is by new digital start-ups and various uncertainties (caused by geopolitical issues and COVID-19), companies should adopt and implement strategies that enable new revenue streams, higher margins and corporate growth in order to compete successfully.

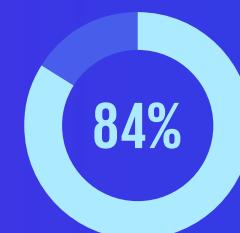
Companies require a comprehensive view and meaningful data analytics on their set of financial and non-financial KPIs, to not only remain competitive but also to meet compliance stipulations. Furthermore, companies should develop agile performance management tools and modernize their transactional systems to enable the proper functioning of these new business models. And as the car of the future becomes more connected and software-enabled, different ways of monetizing data become even more pivotal in helping to ensure the success of carmakers, given the rising adoption of new business models. While carmakers, in different stages of maturity, are already pivoting their businesses to match these dynamic market trends, success may only be tracked when performance measurement also works.

Figure 1:

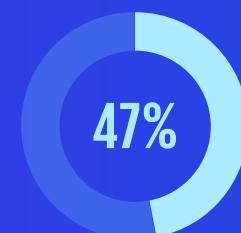
Key insights from KPMG's global automotive executive survey 2021



... are convinced that the majority of vehicle purchases will be made online by 2030.



... believe that vehicle subscriptions will be a competitive offering to traditional purchases and leases.



... are either neutral or are concerned about whether they will achieve more profitable growth over the next 5 years.

Source: 22nd global automotive executive survey, KPMG, 2021



Challenges to overcome

Lack of transparency with regards to profitability of new business models

Companies across the automotive value chain are now being overloaded with a colossal amount of unstructured data that often sits in silos. With cars becoming more connected and autonomous, this data is only going to increase in the future and is expected to pose serious challenges to automakers with respect to its integration and potential monetization. In addition, insufficient data sharing across business units impedes objective analysis of these new business models, and there is also hardly any focus on them among carmakers in standard reporting.

Product-centric profitability analysis fails to reflect the customer's view

With an average car now containing 100 million lines of code (compared to the 14 million lines of code in a typical wide-body aircraft), automakers are now in a position to enhance lifetime customer value from new – mostly digitally-enabled – business models. With features- or functions-on-demand, customers can now choose to upgrade their cars without taking them

to a workshop (by way of subscription). These features include, for example, safety-focused services (emergency calls, automatic crash response), premium connectivity (real-time traffic info, satellite map view, onboard internet), self-driving, maneuverability-on-demand, car-as-a-wallet, cabin or seat pre-heating/cooling, predictive maintenance and usage-based insurance.¹ Thus, the vehicle of the future will likely behave not so much as hardware but rather more like a smartphone with regular software updates, and vehicle-as-a-hardware products are expected to lose relevance as a result.

Automakers should make “Digital”, “Customer” and “ESG” the centerpieces of their new business model strategy, so as to own the wide-ranging relationship with their customers and successfully compete with new tech companies and digital start-ups entering the market. Hence, instead of a product-oriented approach to strategy and profitability analysis, automakers should adopt a service-oriented approach to provide long-term customer satisfaction. Unfortunately, as of today, reporting and management accounting still rely mostly on product-oriented profitability analysis.



New ESG reporting requirements will likely require additional methodologies, processes and personnel from automakers, and non-compliance may likely incur heavy penalties.

Goran Mazar, EMA Head of ESG and Automotive, KPMG International

¹ Medium, “Maximizing Lifetime Customer Value with New Business Models”, September 2021



ESG mandates challenge current operating and business models

Automakers face the mammoth task of reorganizing their companies according to new ESG requirements (e.g., Corporate Sustainability Reporting Directive (CSRD)) and integrating the same into their corporate performance management systems. CSRD, the EU's new common reporting framework for non-financial performance, affects around 50,000 companies covering three quarters of the turnover of all EU companies. Without having established the necessary processes, measurement methods and workforce, automakers will have to generate and compile over 250 non-financial KPIs.

The 'circular economy' trend is another challenge to be dealt with, as the mounting waste of used EV batteries may soon prove to be a cost burden to EV makers and battery manufacturers. These used EV batteries will likely appear as 'liabilities' on automakers' balance sheets and thus drag down overall profitability.

Legacy systems mean a difficult transformation to transparency

Legacy systems within a company often prove burdensome to the current IT infrastructure and hold a business back from achieving its true potential. These legacy systems can be outdated hardware, old ERP solutions and/or accounting software running on an old operating system. They can act as a deadweight since their integration is difficult, they are less effi-

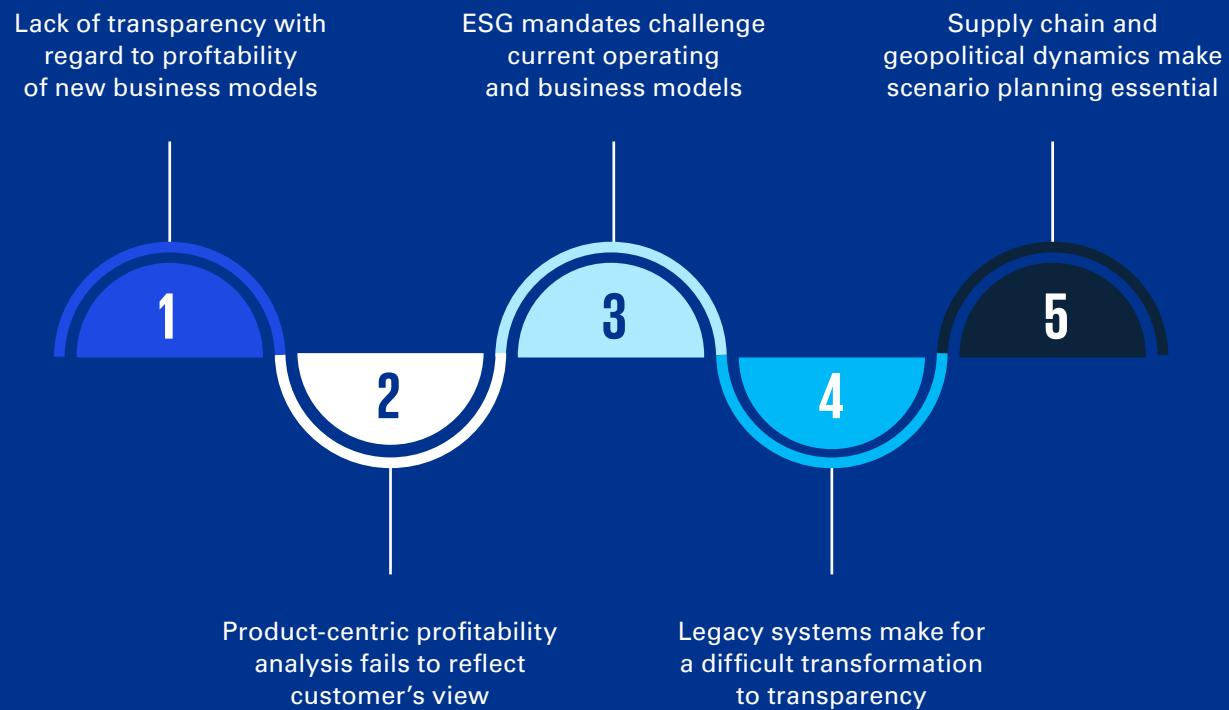
cient, there is a lack of IT support from the vendor, and the skills needed to maintain them are no longer available in the job market. In short, legacy systems are complex, cannot be integrated in many instances, are costly and struggle to meet the requirements for governing new business models. Automakers and suppliers that still rely on legacy systems can suffer from a competitive disadvantage compared to those new competitors that have built their firm and system architecture using a Greenfield approach.

Supply chain and geopolitical dynamics make scenario planning essential

The complex interplay happening between supply chain disruption, geopolitical crises, electrification, autonomy and mobility leads to rising uncertainty, which is often not considered by current bottom-up driven and inflexible planning processes. Automakers seem to be caught between rising profitability from selling gas-guzzling SUVs and increasing downside risks from carbon-emission fines and taxes. Also, automakers may be struggling to decouple themselves from certain regions (from a supply chain perspective) that might prove costly in the long-run. Such trends make it difficult to predict profitability, especially in light of new business and sales models without historical precedent. Hence, OEMs need to build up and establish holistic simulation and scenario models that reflect the main business drivers of both traditional and new businesses. In an environment of rising uncertainty this should be the way to drive better and faster decisions.

Figure 2:

Corporate performance management challenges



The way forward

Transform financial steering models for new business

Automotive OEMs should enhance their traditional steering models and incorporate instruments to cover the specific wants of new businesses, such as direct distribution (KPIs: retail and performance marketing efficiency and subscription, customer churn). Steering their new business according to a customer perspective that takes into account key metrics like customer profitability and lifetime value will likely become a key success factor for an efficient direct-to-consumer business.

Modernize transactional systems to enable new business models

To cater for the needs of highly integrated new business models, IT systems from the era of traditional wholesale business should be redesigned. Steering information that is relevant to new business models should be generated in up-to-date financial transactional systems (customer, sales bundles, car services).

Develop agile performance management tools and processes

Automotive OEMs should be able to adapt to and evaluate changing market circumstances on the fly. In particular, the continuous evaluation of new business models requires adaptive performance management capacities, as success drivers are different to those in traditional business. These new success drivers will rely heavily on an organization's digital nimbleness, customer centricity and ESG readiness.

Invest in master data management and governance

Traditional automotive OEMs should clean up their legacy systems-driven master data jungle. Harmonized master data sets across company silos are necessary for tying together information from different perspectives. New solutions should be adopted to help future-proof direct customer business growth; understanding customer preferences and behaviors are expected to be key to this endeavor. These solutions can also serve as ready and useful inputs into the simulation models and tools that carmakers often run to predict market demand and test out new business models.

Grow data analytics capabilities and skills

Performance and profitability analysis are still product-driven and should be widened into areas like customer and sales channels. Capabilities for analyzing historical data and building intelligent forecasting mechanisms can be crucial for an effective churn and pipeline management of subscription fleets. Automotive OEMs would do well to explore the possibility of acquiring or collaborating with digital start-ups that are involved in vehicle data or sales channel analytics, since building their own custom AI software for data extraction or hiring leading machine learning engineers can be a daunting task.

Traditional automotive OEMs should start treating data as a valuable asset. Properly sourced and processed data is the foundation on which customer-focused revenue streams can grow significantly.

Figure 3:

Recommendations for overcoming corporate performance management challenges

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To remain competitive it's essential that automakers add customer perspective to their product perspective as well, and integrate new KPIs, such as customer churn and customer profitability into their control systems.

Christian Willmes, Partner, Consulting,
Digital Finance, KPMG in Germany

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Transform financial steering models for new business

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Modernize transactional systems to enable new business models

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Develop agile performance management tools and processes

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Invest in master data management and governance

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Grow data analytics capabilities and skills

Current experiences

Steering new business models for a premium global automotive OEM

The client is a global car manufacturer and as a driver of automotive sector transformation is adopting a go-to-market strategy to strengthen online sales and establish new business models, like subscription or data monetization. In the past, governing the business was focused on product profitability measurement but product-centric profitability analysis failed to reflect both the customer's view and transparency with regard to the profitability status of new business models.

A project to define a future-oriented steering model was set up to reflect new controls and governance. KPMG defined the new controlling requirements in conjunction with the client. Relevant controlling structures and value flows were designed based on the aligned steering concept. By way of an agile approach, the new structures and value flows were included in the relevant systems and processes.

Next-level performance management for an automotive sales organization

The client is the European sales unit of a global automotive company. Planning was undertaken in a complex Excel model with a high degree of manual effort and without flexibility or any simulation modeling functions. A professional system-based planning solution with simulation and scenario functions was, therefore, deemed necessary.

KPMG supported this transformation – based on planning better practices and broad tool know-how – by developing the business and technical concept and implementing a professional planning system. An important element was a change management approach, in order to build up all the required system expertise within the client organization. The implemented planning solution now provides the client with the capacity to simulate different scenarios and integrate additional business views that lead to better decision-making and transparency.

Value driver simulation for a supplier of power solutions

The client is a global supplier of power generation solutions, including environmental-friendly solutions for energy, as well as propulsion systems. Since strategic planning was undertaken in a decentralized Excel model without any scenario modeling functions, the client required a planning model based on value drivers that had the ability to simulate specific characteristics.

KPMG analyzed existing data to verify the links between value drivers and then developed a prospective business blueprint. Parallel to developing the concept, KPMG professionals also implemented a uniform database with real-time calculations. The resulting integrated model provides transparency for various financial metrics on the impact of value drivers. This optimization offers the client greater forecasting flexibility and enables them to better assess potential future risks or opportunities.

Key contacts



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