WHITE PAPER

Automotive Suppliers at the Crossroads

Insights from BCG's 2025 Automotive Supplier Industry Report

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Global Automotive suppliers

The automotive supplier industry is undergoing a profound transformation. Its pillars are being shaken by macroeconomic, technological, geopolitical, and regulatory challenges.

BCG's 2025 Global Automotive Supplier Study takes a close look at these and other challenges with an in-depth financial analysis, as well as one-on-one interviews with more than 90 executives to gauge cross-industry sentiment. By combining these two viewpoints, we have identified five key strategic imperatives for suppliers to secure a leading position in today's fast-changing world.

Auto Industry Struggles Amid BEV Transition

Since the Covid pandemic struck in 2020, supply shocks have severely impacted the automotive industry. Inflation and capital costs have not returned to pre-crisis levels, and skilled labor shortages are creating problems on a global scale (see exhibit 1).

Exhibit 1 - Market headwinds | Although inflation and energy costs are lower, suppliers face high interest rates, labor shortages, low business sentiment, and geopolitical tensions

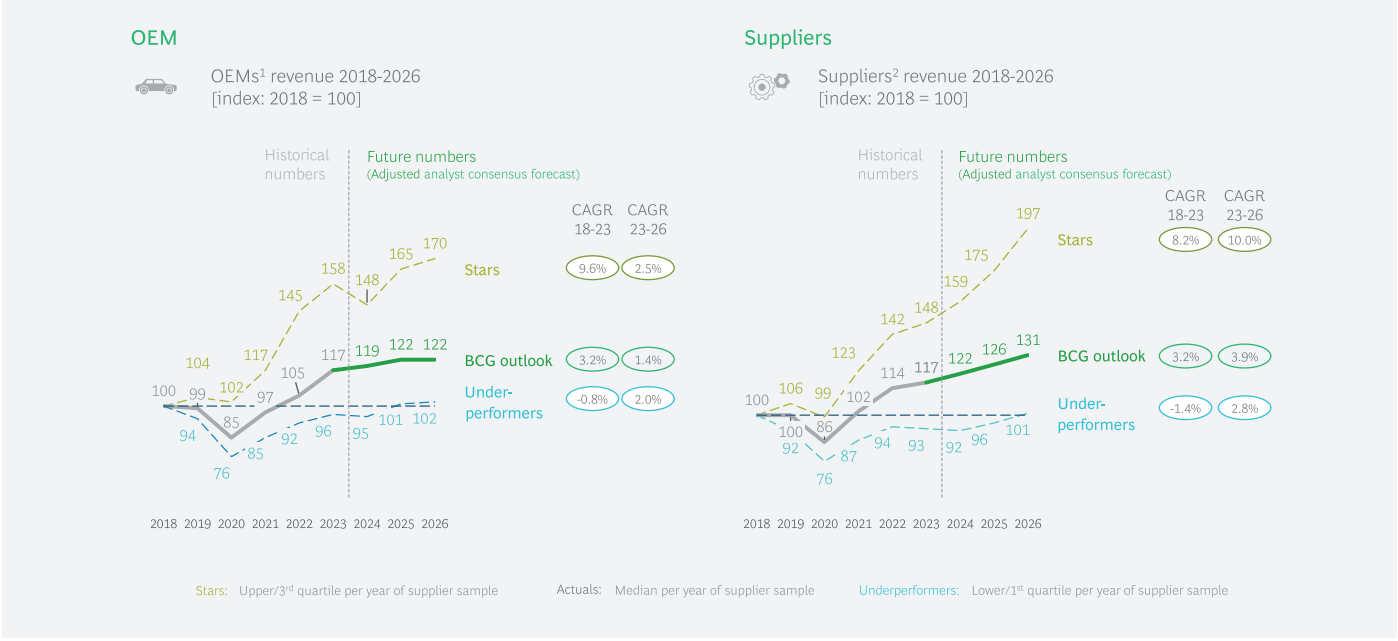
Source: Bloomberg; Deutsche Bundesbank; EIU; European Central Bank; Flexport; ManPowerGroup; OECD; Oxford Economics; Statistisches Bundesamt; The World Bank; US EIA; BCG analysis

Moreover, the slower ramp-up in EV-demand looms heavily over many car manufacturers. This is due to the sudden consumer reluctance to purchase battery electric vehicles (BEVs) in several important car markets. A slower transition from internal combustion engines (ICE) to BEVs has major implications for suppliers' near-term financial health, and how quickly companies that have invested significantly in the BEV future will begin to see returns on those investments.

BCG expects BEVs to account for 36% of the global automobile market by 2030 and 61% by 2035, but near-term adoption is significantly delayed, particularly in Europe and North America. In contrast, the Chinese market transition towards new energy vehicles (NEVs) continues with full force. And while many European and American OEMs suffer from eroding BEV-demand in their home markets, Chinese OEMs are the primary beneficiaries of this disparate regional developments, especially as Chinese car buyers often prefer local brands when buying a NEV. This is reflected in the numbers: Asia-Pacific (APAC) based OEMs are showing higher growth potential than North America and Europe with yearly revenue growth of more than 10% between 2023 and 2026 for the top performers (vs. 2% in Europe).

These BEV-driven revenues come with intense price competition and still require high investment, leaving several Chinese OEMs with negative EBIT-margins. On average, China-based OEM profitability in 2024 and for the next few years is expected to be between 4% and 5% vs. a global average of 7%. European OEMs have recently enjoyed margins close to 10%, but are now facing a 3 percentage-point drop in 2024. Meanwhile, they are struggling to stabilize market share and profits in China while Chinese players push into the European BEV market with attractive cars at very competitive prices.

Exhibit 2 - Revenue | Supplier and OEM revenues have had similar annual growth rates since 2018, but the outlook is now diverging



Source: S&P Capital IQ; BCG analysis

1 OEMs: n = 34 (historical values); n = 30 (adjusted analyst consensus forecast 2024-2026) 2 Suppliers: n = 780 (historical values); n = 275 (adjusted analyst consensus forecast 2024-2026)

Against this backdrop, we expect slower–even flat–revenue growth for OEMs in many regions until 2026 (see exhibit 2). By comparison, some suppliers look poised for a more prosperous future, with growth rates for star performers expected to hit 10% from 2023-2026. BCG's overall estimate for supplier growth is 3.9%, but success will be highly concentrated in a few supplier geographies and component segments. Many won't have any growth at all.

Divergent Sentiment Among Supplier Executives

Our sentiment survey found that many supplier executives in Europe and APAC are worried about weak industry performance over the next 12 months, while North Americans were optimistic (see exhibit 3). The deteriorating sentiment among Chinese executives might seem surprising at first. But the recent implementation of tariffs on Chinese products with the potential for more protectionism to come, as well as a highly competitive local market, help explain the dour outlook.

In strong contrast, North American managers were very bullish about the future of the industry and their own companies. Their sentiment improved significantly from last year, which was already at a high level (see exhibit 3). In North America, where an economic upswing is expected, protectionism and tariffs may offer some relief for the local auto industry while slowing BEV adoption.

Exhibit 3 - Sentiment | Optimism in North America shot up last year, while in Europe and APAC it plunged

Source: BCG Automotive Supplier Executives Sentiment Survey conducted by mm customer strategy

Note: n = 90; Votes for "company resp. industry development stays unchanged for next 12 months" not shown; Score = "improve" ./. "deteriorate"

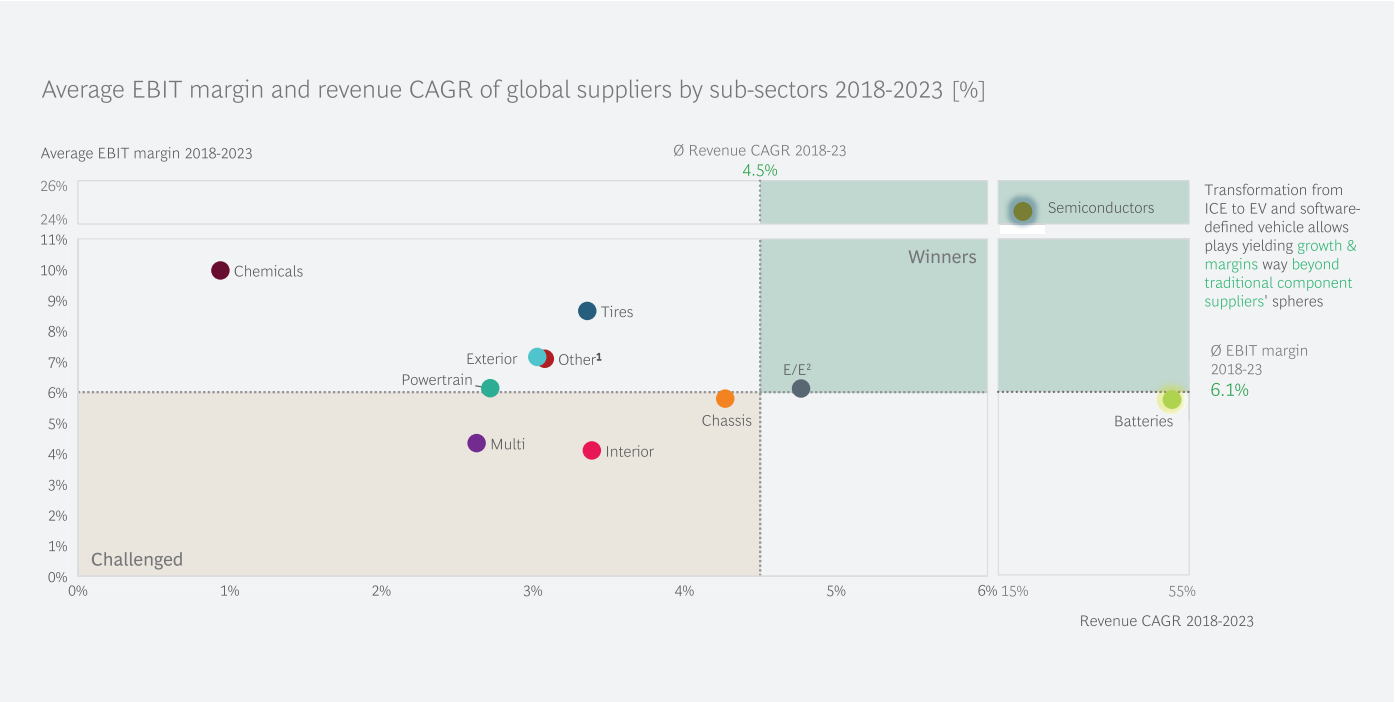
When asked what issues keep them up at night, supplier executives generated a list of more than 150 topics. Top concerns included economic pressures and costs (named by 53% of respondents), human resource related problems (43%), market dynamics and competitive pressure (33%), transition to electrification and EV technology (30%).

Suppliers with Portfolios Aligned to Tech Shifts Thrive

While as a whole industry players today are under pressure, the picture is more mixed depending on a supplier's product portfolio and ability to benefit from core technological trends.

From 2018 to 2023, the revenue of semiconductor suppliers more than doubled, achieving average EBIT margins of 25%. Revenues of battery suppliers have multiplied tenfold, albeit with weaker margins as they focused on new products and ramping up capacity. For suppliers of more traditional components, revenues grew by 18% (or around 3-4% annually), with margins mostly in the 4-7% range (see exhibit 4). Semiconductors and batteries now account for about 10% of total supplier revenues, up from about 2% in 2018. At the same time, the market is extremely concentrated and dominated by Chinese and Korean players with high barriers to entry.

Exhibit 4 - Revenue x EBIT | On average diversified suppliers posted relatively lower performance, especially compared to semiconductor and battery businesses



Source: S&P Capital IQ; BCG analysis

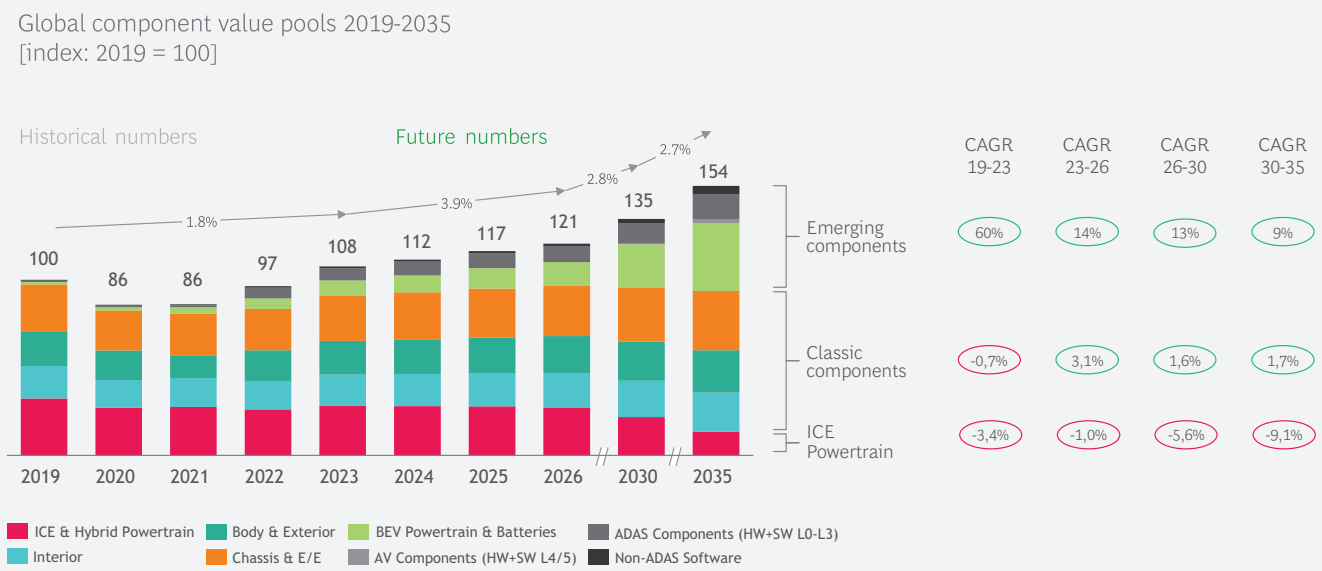
Note: 754 suppliers

1 Other includes Aftermarket, Other components, Stamping & Tooling 2 Electrical/Electronic

BCG's Value Pools analysis classifies automotive components into three categories (see exhibit 5): Classic components such as interior, body & exterior, chassis & electrical/electronic, these are relatively independent of the technological shifts and are likely to grow in line with global vehicle production. Meanwhile, ICE-bound technologies will suffer from a continued decline, which won't reverse even if EV adoption slows.

In contrast, components needed to fuel ongoing or nascent trends such as powertrain electrification, assisted and autonomous driving, or the move to a more software-defined vehicle, will see growth rates far beyond pure vehicle unit development. In fact, these growth rates have already been robust.

Exhibit 5 - Value Pools | Global demand for automotive components will be stable through 2035, but the shift towards electrified, software-defined and automated vehicles will fuel pockets of faster growth



Source: BCG Value Pools Model (11/2024)

Note: Stable prices assumed except for batteries

But even suppliers benefiting from technological transformation face challenges: Battery manufacturers continue to struggle to turn their strong revenue growth into profitability (margins in 2024-2026 are expected at 6%-7%), and now that the pent-up demand after the global semiconductor shortage has been satisfied, chip players are experiencing significantly softer revenue - 4-5% annual growth between 2023 and 2026. Analysts also foresee revenue growth rates around 4% until 2026 for classical component suppliers, and average EBIT margins at 6%. That is aligned with what we've seen in the past (see exhibit 6).

Based on insights from our supplier executives survey and our daily client interactions, we anticipate margins will remain on the lower end of the forecasted range over the next three years. At the same time, the industry is increasingly becoming more polarized: Suppliers that position themselves strategically for success can achieve margins exceeding 10%. In contrast, the bottom 25% of suppliers in traditional components (excluding historically more profitable segments like tires and chemicals) are projected to achieve EBIT margins below 1%-3%, depending on the specific component.

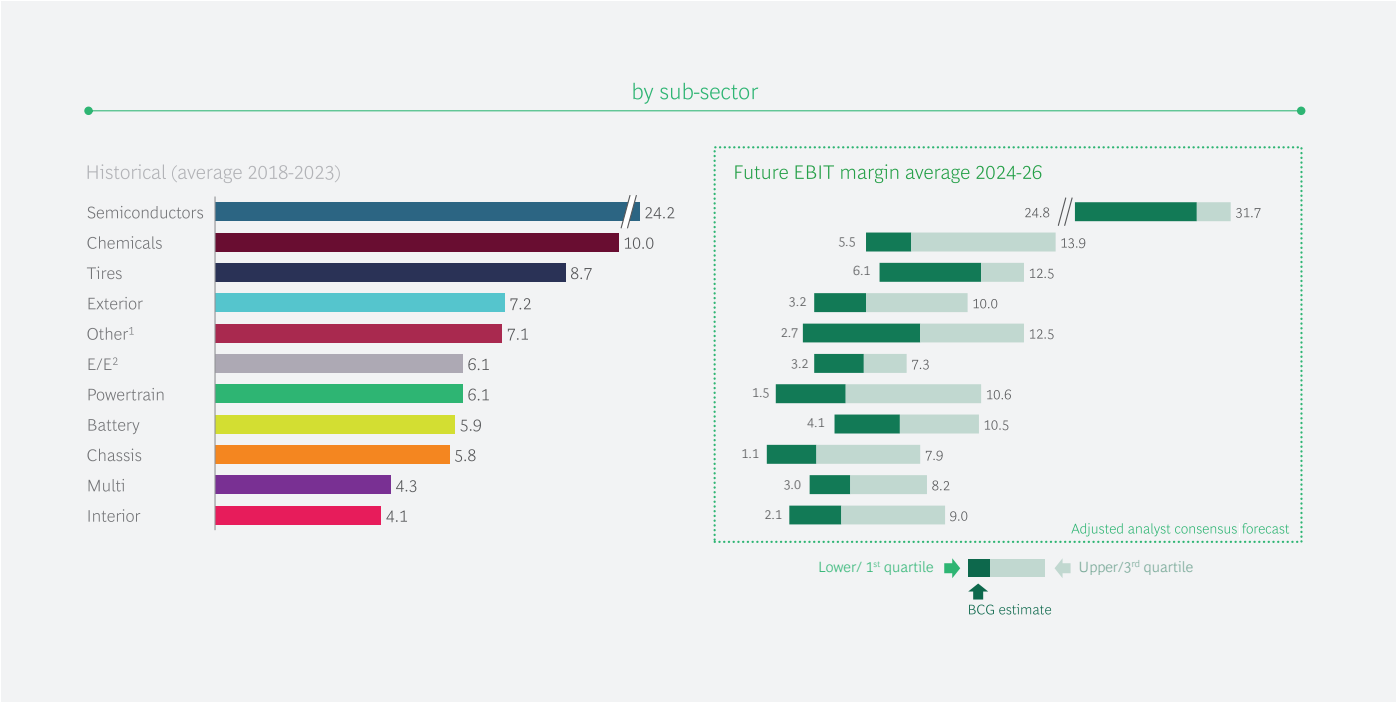
Such levels of profitability are unsustainable, as suppliers must allocate substantial resources to CAPEX and R&D investments to maintain long-term competitiveness.

Rapid Acceleration of Chinese Market Influence

We are in the middle of a massive regional re-distribution of supplier revenues, with China emerging as clear winner. In 2018, Chinese suppliers in our dataset of close to 800 companies made 10% of global supplier revenues. This share has jumped to more than 15% in 2023.

China is the biggest and fastest growing market for smart EVs in the world and is not yet dominated by an established player. This provides Chinese suppliers with a huge home market in which to compete. Chinese suppliers systematically leverage their competitive advantage in innovation, cost structure, fast reactivity, and flexibility to fuel their growth. For example, they regularly accept lower margins in exchange for winning new business. This represents a strategic growth vector for Chinese suppliers not only with local manufacturers, but also with global OEMs. As a result, China-headquartered suppliers positioned themselves for future success as China-based car manufacturers source 83% of parts for EVs from local suppliers (see exhibit 7). Obviously, multinational suppliers counldn't carry over their dominance in ICE vehicles (where they still supply 71% of parts) to electric cars.

Exhibit 6 - EBIT | Average EBIT margin of automotive suppliers by sub-sector [%]

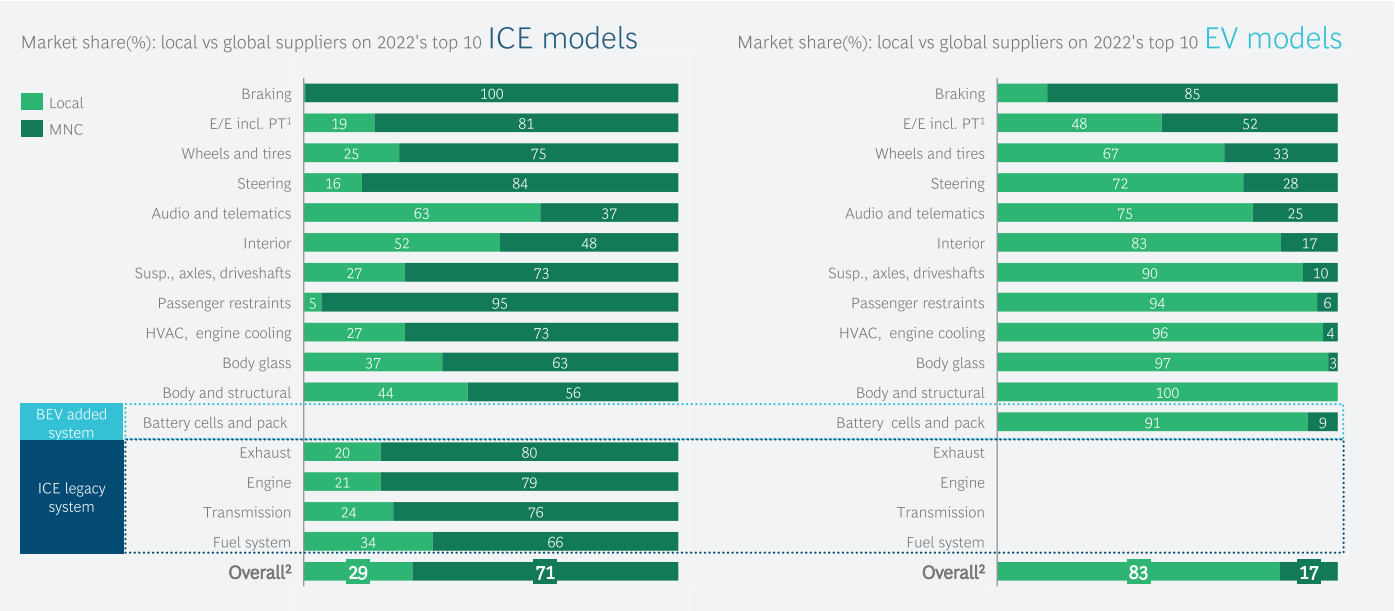


Source: S&P Capital IQ; BCG analysis

Note: n = 754 suppliers (historical values); n = 277 suppliers (adjusted analyst consensus forecast 2024-2026)

1 Other includes Aftermarket, Other components, Stamping & Tooling 2 Electrical/Electronic

Exhibit 7 - Market share | “Share of wallet” of local suppliers grows in EV space in China



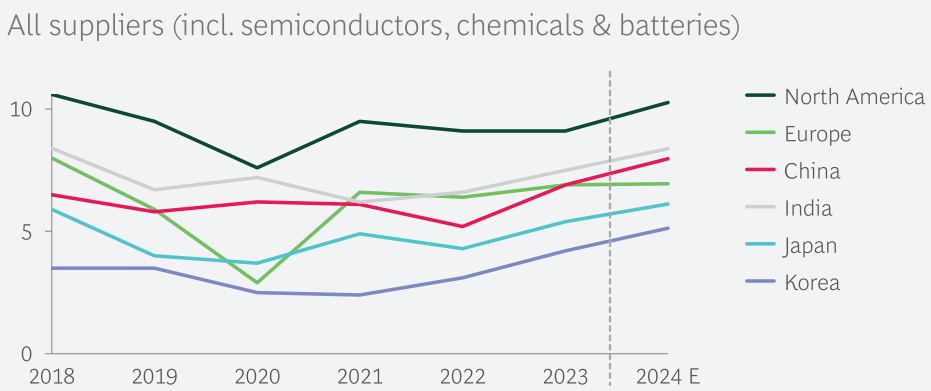
Source: S&P Global Mobility; BofA; BCG benchmark and analysis

1 Electrical/Electronic incl. Powertrain, e.g. OBC 2 Estimated based on share of domestic and global suppliers by each component category and weighted average based on estimated BOM cost breakdown component categories

Fueled by the bright outlook for Chinese BEVs, revenues among the top quartile of Chinese suppliers are forecasted to grow more than 16% annually from 2023 to 2026 – compared to 6% and 5% for suppliers in North America and Europe respectively. Within 4–5 years, two of the world’s top five suppliers could originate from China.

In terms of earnings, North American suppliers have led the way since 2018, and Chinese suppliers have historically trailed both North America and Europe with EBIT-margins of 5-6%. They have been under constant pressure to scale the business, raise R&D budgets to drive innovations, and at the same time face extreme price competition in their home market. But margins in China have started to improve and are expected to surpass their European counterparts, landing at close to 8% in 2024 (see exhibit 8). The further outlook to 2026 shows a side-movement with EBIT-margins at similar levels as today with North American players at the top. Those are followed by Indian and Chinese suppliers, meanwhile European suppliers are likely to fall a bit further behind.

Exhibit 8 - EBIT | Average EBIT margin for auto suppliers by region, 2018-2024 [%]



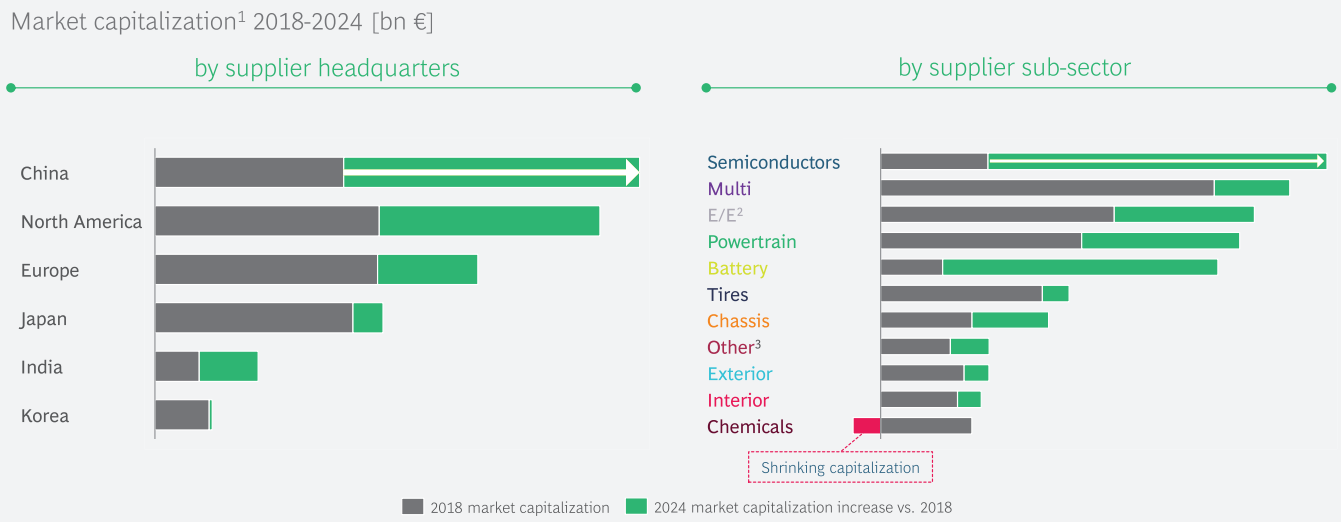
Source: S&P Capital IQ; BCG analysis

Note: n = 754 suppliers (historical values); n = 310 suppliers (adjusted analyst consensus forecast 2024)

Capital Markets Anticipate Shifts in the Supplier Industry

Another way to gauge the shifts occurring in the industry is to analyze suppliers' ability to attract capital. From 2018 to 2024, valuations for China-based suppliers rose the most, followed by North American suppliers (which did well, doubling their valuations, thanks largely to semiconductor-players). European suppliers should take heed that they dropped from a tie with North American suppliers in 2018, to third place in 2024 (see exhibit 9).

Exhibit 9 - Capital markets | Investors favor Chinese and US suppliers and high-growth markets (batteries, chips)



Source: S&P Capital IQ; BCG analysis

Note: n = 705 suppliers

1 Market capitalization weight-adjusted by auto-revenue share for non-pure play suppliers 2 Electrical/Electronics 3 Other includes Aftermarket, Other components, Stamping & Tooling

The market capitalization of semiconductor and battery suppliers grew four to five times since 2018, and those players are typically located in the US and China. Put differently, semiconductor and battery players have captured half of the supplier industry's valuation increases after 2018, surging from 11% of the industry's total market capitalization to nearly 30% by 2024. This remarkable shift becomes even more striking when compared with their revenue growth during the same period, which increased from 2% to 10% of the total supplier market. This stark contrast underscores investors' strong confidence in the promising future of these players.

Strategic Imperatives for Navigating an Evolving Landscape

Classic automotive multi-component suppliers – particularly in North American and Europe – face a rough road. But there are still many possible avenues to success. Their long-term ties with OEMs are a principal advantage, positioning suppliers to drive innovation in development and production. Going forward we expect OEMs to concentrate increasingly on their core competencies, outsourcing more development and production. Suppliers could leverage these relationships and position themselves to help drive innovation in development and production. We see in particular 5 strategic imperatives that CEOs need to address now to succeed in this challenging environment (see exhibit 10).

1. **Adapt to the Rapid Growth and Competition of Chinese Suppliers**
   Chinese suppliers are growing even faster than anticipated. To capitalize on this momentum, they must navigate the complexities of internationalization and develop efficient strategies to serve global markets. Meanwhile, Western suppliers face a dual challenge: They must address heightened competition in their domestic markets while intensifying their China strategies to leverage the robust growth of the Chinese automotive sector and secure vital access to Chinese OEMs.

2. **Strengthen Resilience through Cost Optimization and Geopolitical Readiness**
   To navigate a challenging global landscape, suppliers must enhance resilience by driving cost efficiencies, optimizing net working capital, and proactively managing geopolitical risks. The latter investing in capabilities to anticipate, monitor, and manage risks, adopting scenario thinking, and activating senior leaders to build alliances and advocacy plans.

Exhibit 10 - Strategic imperatives | Global suppliers need to address 5 key topics to succeed in today's challenging environment

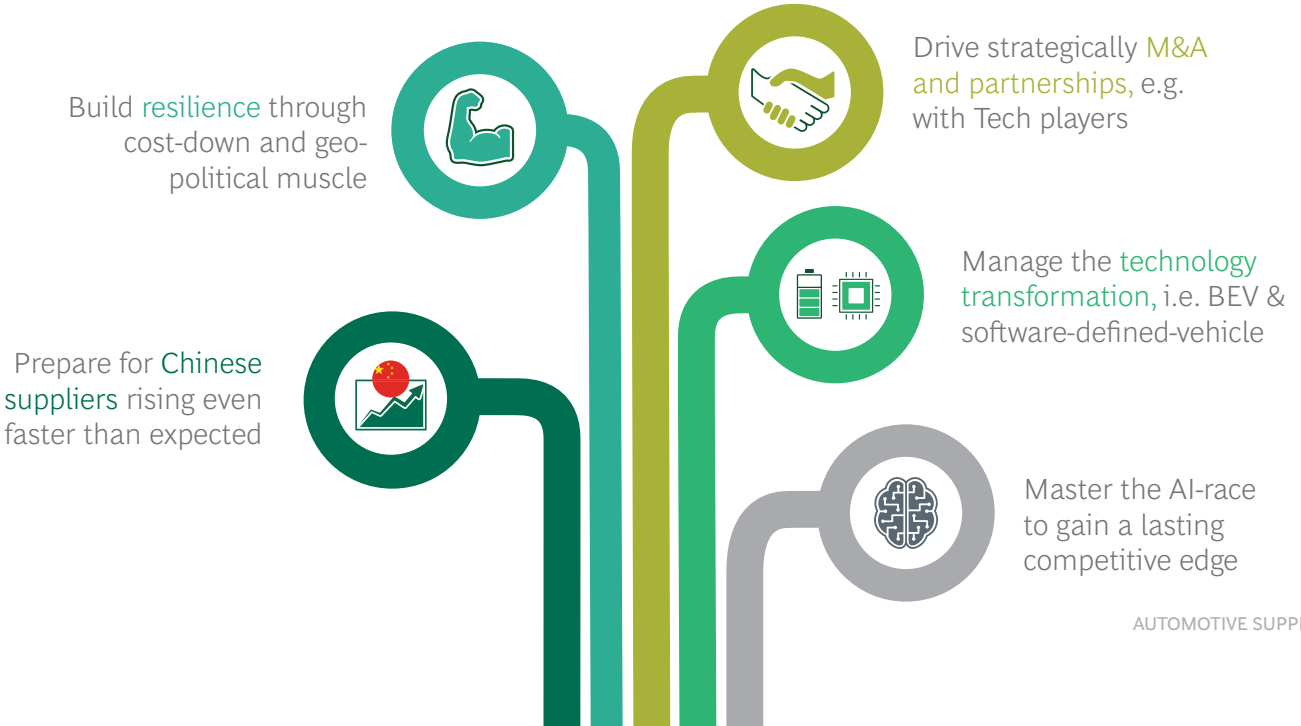
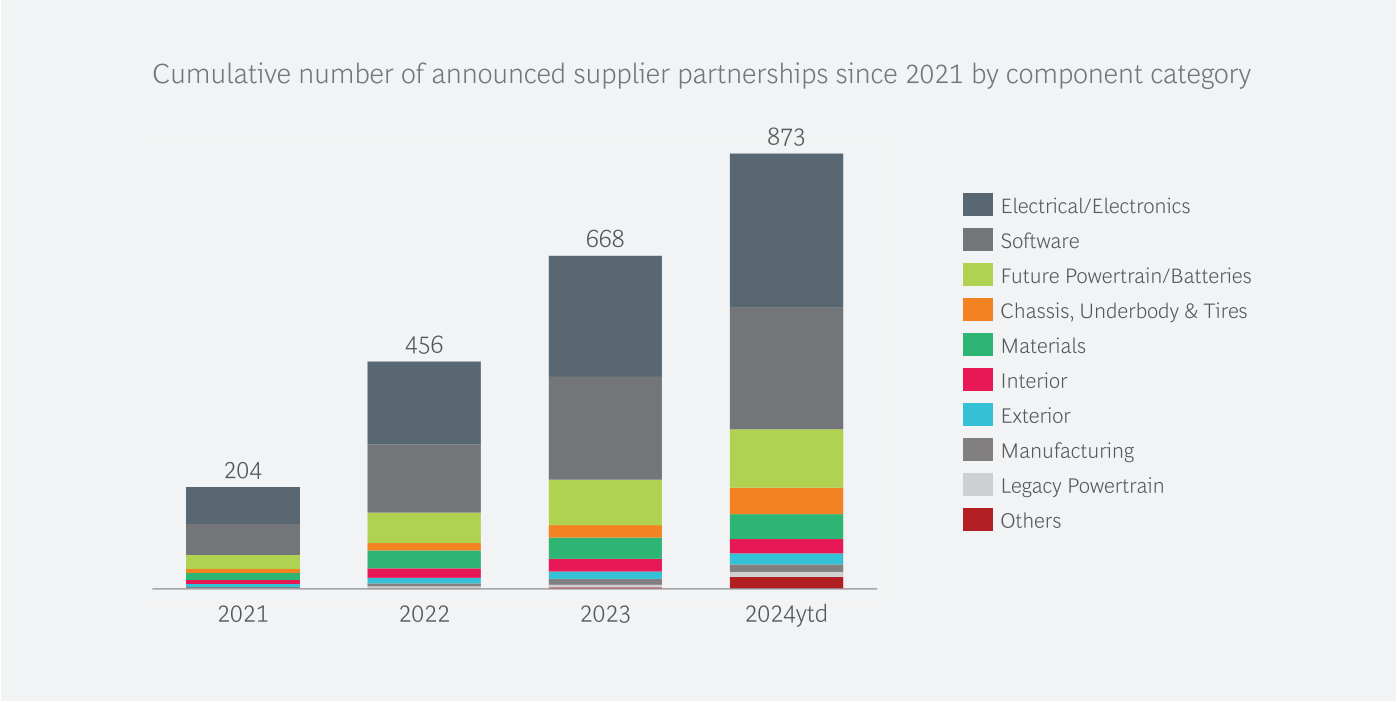


Exhibit 11 - Partnerships | Suppliers are forging partnerships to secure access to technologies, mainly in electrical/electronic components and software



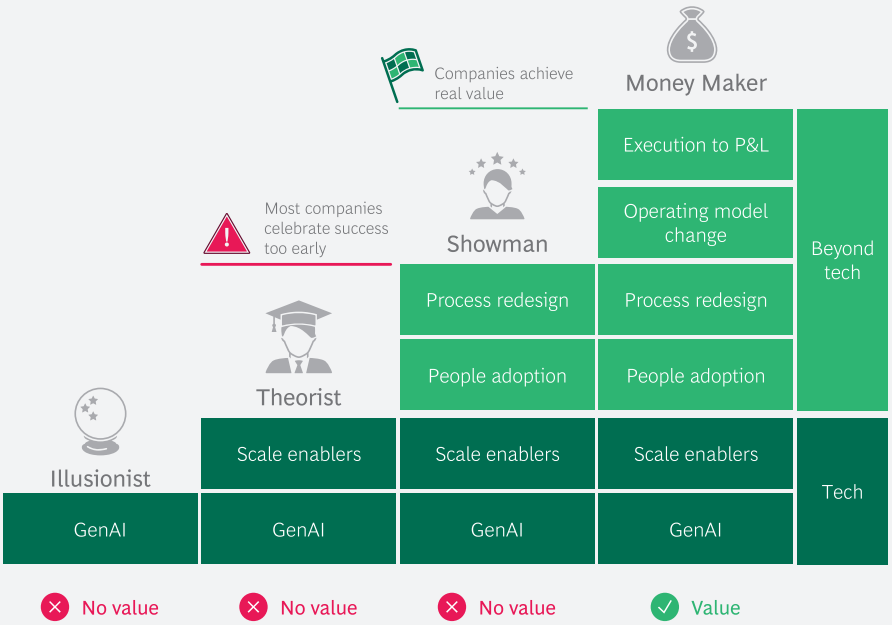
Source: Press Research; S&P Global Mobility; BCG Partnership Tracker

Note: Partnerships and Joint Ventures included

3. **Pursue Strategic M&A and Tech Partnerships**
   Suppliers should proactively identify M&A opportunities, prepare early for potential carve-outs, and consider alliances with other suppliers. These arrangements allow suppliers to share financial burdens and investment risks or to consolidate market positions. Additionally, partnerships with technology companies offer a way to bridge capability gaps, accelerating access to advanced technologies and fostering innovation in an increasingly competitive landscape. Partnerships are clearly catching on, with numbers for 2024 well surpassing 2023 (see exhibit 11). And suppliers cooperate particularly to drive progress in critical areas such as E/E systems (e.g. ADAS/AD sensors), software, and next-generation powertrain solutions including advanced batteries

4. **Lead the Transformation towards Software-Defined and Electrified Vehicles**
   The shift to battery electric and software-defined vehicles demands new competencies. Suppliers should focus on integrating software and digital technologies into their offerings, positioning themselves to support OEMs in this critical transition and remain relevant in the evolving vehicle ecosystem. The strategic priority for suppliers is to align R&D and capital investments with BEV growth areas, emphasizing semiconductors, batteries, and electronics. The necessary investment for suppliers will require a transition to new supplier-OEM collaboration models focusing on co-innovation and shared risk-taking.

Exhibit 12 - GenAI | Automotive suppliers must steadily climb the GenAI Stairway to achieve lasting economic impact



Source: BCG analysis

5. **Build Advanced AI Capabilities for Lasting Advantage**
   Artificial intelligence is a key driver of operational efficiency, cost effectiveness and innovation in automotive. Suppliers should invest in AI to streamline processes, optimize supply chains, and enhance product development while drastically improving their cost-base. Excelling in AI will provide a lasting competitive edge, setting leaders apart in a data-driven industry. We expect GenAI to impact the full value chain. The potential exists to improve revenue, reduce spending and boost productivity. But the adoption of GenAI will need to be managed carefully. Companies should consider creating a GenAI transformation office to set targets, facilitate implementation, track progress and enforce accountability, while following a stringent GenAI stairway to success (see exhibit 12).

Time for a course correction and get ahead in the race

The automotive supplier industry stands at a pivotal crossroads, facing a tough business environment and profound transformations as we move toward a software-defined, electric vehicle future. These concurrent challenges demand that suppliers stabilize revenues and profitability while simultaneously reshaping their portfolios and capabilities to align with the future of mobility.

Currently, the ICE-to-BEV transition appears to have slowed, posing challenges for suppliers who made decisive early moves into EV components. However, this pause also provides a valuable breathing space for those still reliant on ICE-related revenues to recalibrate and strengthen their position.

Automotive suppliers have consistently demonstrated their resilience and capacity for innovation, reinventing themselves time and again over decades. We remain confident in their ability to navigate this transition successfully. Achieving this will require bold strategic repositioning, systematic cost optimization, and a clear roadmap for innovation to seize the opportunities of tomorrow's automotive industry.

Access the full analysis:
Please scan the QR code
or click here

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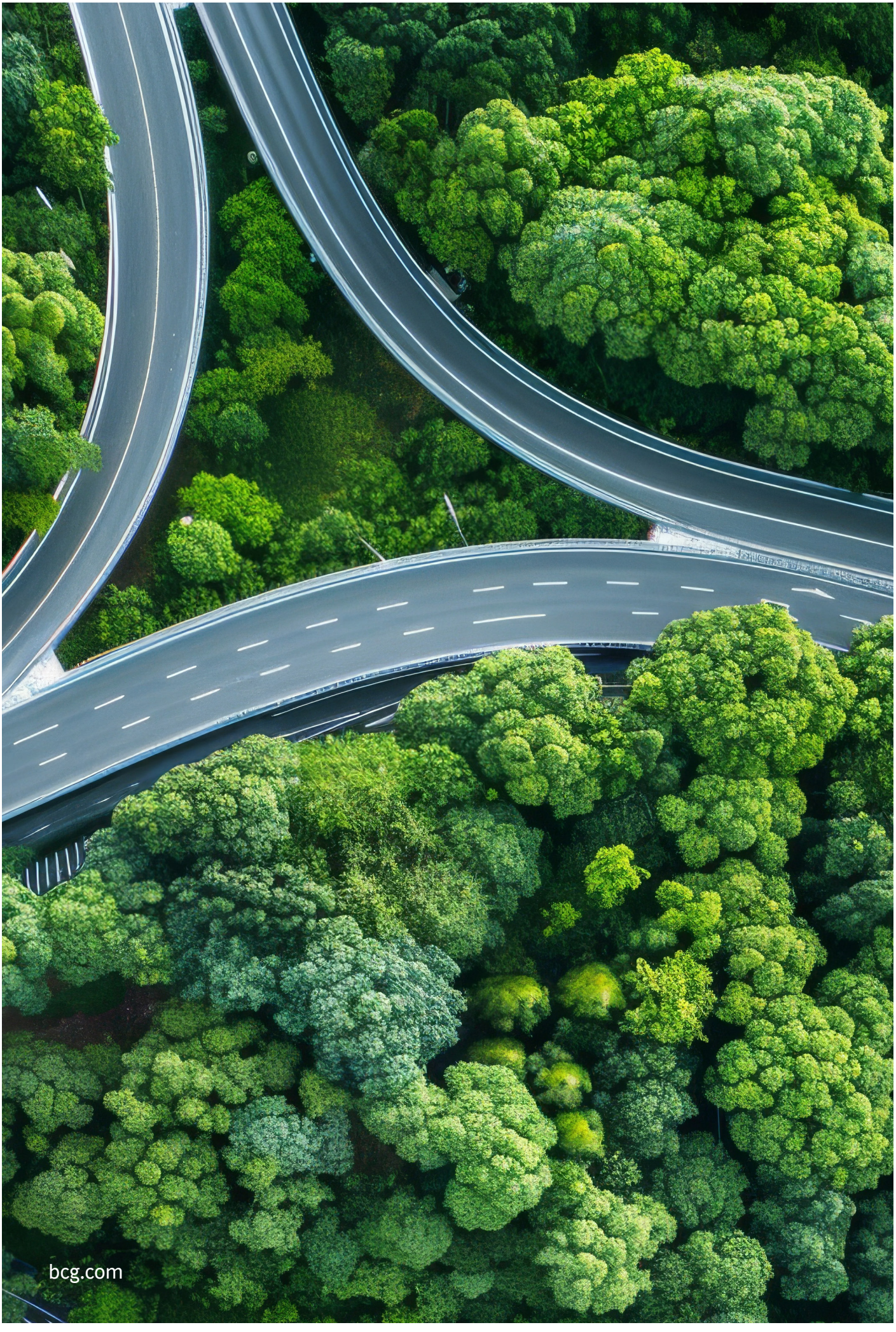
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