Is consolidation killing competitiveness in the automotive industry?

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Vehicle manufacturers have been acquiring other vehicle manufacturers for decades and this trend has continued in the nineties and early naughties. Today, just five manufacturers account for almost half of the worldâ€™s light vehicle production. However, consolidation fever in the automotive industry hasnâ€™t been limited to just vehicle manufacturers. It seems to be happening further down the automotive supply chain and this has led to ever larger Tier 1 system suppliers.

Consolidation between system suppliers does bring many potential advantages to vehicle manufacturers; wider product ranges from a single source and the promise of reduced prices as suppliers reap the rewards of economies of scale. However, the potential disadvantages of industry consolidation are discussed less often and one of the biggest disadvantages is reduced competition in the marketplace. Less choice means that vehicle manufacturers could find themselves in a weakened position when trying to negotiate for better prices. For some systems, there may be only one or two companies that can supply high quality products at high enough volumes. IMS Research has recently published the 2008 edition of its report â€œAutomotive Systems Supplier Market Shares â€“ 2008â€•. It shows that the market for a numbe systems is already dominated by a relatively small group of large suppliers. One example is electronic stability control (ESC). Just three suppliers accounted for over 85% of all ESC systems sold worldwide in 2007.

Also, once competitiveness is reduced, it can be difficult to increase again. This is because there are substantial barriers to new entrants joining the market for many systems. Existing suppliers have invested vast amounts of money and engineering time in refining their systems. They have established a reputation for quality and have become trusted by their customers. It would probably take a long time and substantial resources for suppliers considering entering the market to achieve significant market share.

However, according to report author, Parmjit Bhangal, the force driving consolidation may actually be coming from the vehicle manufacturers themselves, â€œTo cut back on design and assembly costs, and to make suppliers bear more responsibility for quality, vehicle manufacturers are looking to bring in complete system solutions rather than just individual components from suppliers, but there is a lack of suppliers that are actually able to provide such solutions at the volumes demanded. In response, suppliers may try to expand their product portfolios and system expertise quickly, and one obvious way to achieve this is to merge or acquire another companyâ€•.

The future for automotive system suppliers seems to be one of greater consolidation. Just at the end of last year, two of the industryâ€™s largest players became a single entity when Continental acquired Siemens VDO. The global credit crunch might slow the consolidation trend but it is unlikely to stop it. Vehicle manufacturers must exert their influence and decide now just how consolidated they want their supply base to be.

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