



# Why automakers could generate greater profits outside the auto industry

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When it comes to coherent ecosystems, automakers need to seek partnerships beyond their comfort zones, writes Nadja Peltomäki.

From Toyota and Ford teaming up with pizza delivery companies and ride-hailing firms to Volvo investing in LiDAR maker Luminar, there are dozens of examples of automakers looking beyond the automotive industry for new strategic partnerships, revenues and markets.

This is hardly surprising, given the speed at which consumer mobility needs and expectations are changing. On the one hand, growing urbanisation, combined with changes in living circumstances, is having a negative impact on the number of young drivers that automakers can sell to. On the other, technology shifts around automation, EVs and the Internet of Things are changing the way consumers think about the functionality of their cars—creating a heightened sense of urgency among car manufacturers about the need to form new alliances.

But while the general partnership principle is sound, the bad news is that car companies are taking a scattergun approach to forming non-traditional alliances. They are so busy trying to operate across every new and disruptive ecosystem that they risk missing out on the big opportunities. A case in point is Alibaba's recent contract to provide its City Brain traffic management system to Kuala Lumpur—arguably the kind of project for which a far-sighted car brand (or consortium) would also have been well-positioned to compete.

Car manufacturers will struggle to secure this level of win unless they develop a coherent ecosystem strategy built on their core strengths. Based on years of experience advising big automotive brands on their innovation strategy, here are six steps automakers need to take if they are to survive and thrive.

**1. Decide on an ecosystem:** As Alibaba's entry into traffic management demonstrates, car manufacturers can no longer expect to 'own' mobility—no single brand or company can. Tackling the logistics challenges of keeping growing urban populations on the move requires a partnership approach. But how can car companies decide which ecosystems they should be part of? Automakers must be clear on the role they will play in the new value creation ecosystem—are they a leader, a supplier or an orchestrator? What is their value exchange, what do they offer and what do they aim to get? What is their business model?

On top of this, automakers must understand which partners, competitors, communities or public organisations they will need in their ecosystem, and how much they are willing to share with them in terms of data, resources, learnings and revenues. How can car companies best leverage their digital business platforms such as open APIs, analytics and security capabilities, within an ecosystem context?

**2. Focus on consumers' unmet mobility needs:** Consumers, rather than shareholders or the media, need to be front and centre of automakers' ecosystem strategies. Just as Henry Ford famously designed a car rather than faster horses, automakers now need to anticipate and solve consumers' unmet mobility needs beyond the car without losing sight of the freedom that driving allows. How can automakers and their partners pool their strengths, USP and customer data to uncover insights that will allow them to profitably meet a customer's complex needs? How can they partner to extend their reach beyond their core target group of customers?

**3. Become rigorously data-centric:** With McKinsey forecasting that automotive data could be worth US\$750bn by 2030, and the advent of 5G networks allowing much faster transfer of data, automakers arguably stand to make more money from their data in the future than from their manufacturing expertise. That said, to have any value, raw data needs to be converted into insights and applied intelligently to support the car marque's goals. This requires car manufacturers to carry out due diligence on their data by investing time and money in making sure they have the right types of data, and that it is clean and properly stored.

**4. Ditch the silos:** Car manufacturers need to meticulously examine the organisational obstacles which prevent valuable data from being shared internally. Like many legacy businesses, automakers are stuck with highly-demarcated divisional silos that have grown up around their primary function—making cars. Together with concerns about data security, this prevents data from moving around the organisation. If the business is not sharing customer and partner insights, the chance of it seizing an opportunity to pivot or diversify, is minimal.

**5. Embrace informed partnerships:** Once a car company has decided which direction it's heading in and has cleaned up its data proposition, it should become more obvious which partners are a natural fit and could help achieve its goals. For example, car marques prioritising EVs could partner with energy and finance companies to solve customers' wider energy needs by helping to finance solar panels on their homes, generate their own electricity

for their EV and home and sell any excess back to the grid. Partnering a company with access to valuable data which car companies need but do not have, should be a cornerstone of an effective ecosystem strategy.

**6. Think big and be responsive:** Instead of forming dozens of small-scale partnerships, automakers need to back a big ambitious idea that enables them to really add value. For some, the opportunity may lie in a pivot towards brand-based activities, such as luxury; for others, it may be industrial, for example, battery technology; or services such as safety and security, or car sharing.

Alibaba's City Brain partnership with Kuala Lumpur sees the ecommerce giant blend data gathered from video footage, traffic bureaus, public transportation systems and mapping apps. In short, Alibaba effectively owns traffic data for the Malaysian capital, a huge advantage when it comes to developing insights about mobility services for which commuters might be prepared to pay.

Faced with an uncertain future and a wide variety of potential competitors, car manufacturers need a more streamlined strategic approach to the different ecosystems and partnerships on offer. On the plus side, they are sitting on a wealth of valuable data that ultimately could be worth more than their traditional expertise in building vehicles. Used in collaboration with the right partners, this data may ultimately prove to be the key to surviving a less car-centric future.



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