The Customer-activated Enterprise

Automotive industry insights from the Global C-suite Study

Figure 1

Automotive impact: The top three aligns with other industries, then automotive companies feel the im-pact of other external forces differently

External forces impacting the enterprise (3–5 Years)

Other Industries		Automotive
Market factors	1	Market factors
Technology factors	2	Technology factors
Macro-economic factors	3	Macro-economic factors
Regulatory concerns	4	Environmental issues
People skills	5	Globalization
Socio-economic factors	6	People Skills
Globalization	7	Regulatory concerns
Environmental issues	8	Socio-economic factors
Geopolitical factors	9	Geopolitical factors

Ten years, 22 studies and 23,000 face-to-face interviews have given us rich insights into how the various members of the C-suite (CxOs) think. In 2013, we spoke with 4,183 CxOs for our Global C-suite Study. Discussions with our customers and our own deep industry experience help us develop valuable insights for the automotive industry. In the past five years, we have conducted over 2,000 hours of interviews with OEMs, suppliers and other industry participants in 19 countries.

In this report, we present the automotive industry perspective on the Global C-suite Study based on 201 in-person conversations with automotive Chief Executive Officers (CEOs), Chief Information Officers (CIOs), Chief Financial Officers (CFOs), Chief Marketing Officers (CMOs), Chief Human Resource Officers (CHROs) and Chief Supply Chain Officers (CSCOs) in 22 countries. Forty-nine percent of these executives are in OEM organizations and 51 percent are suppliers.

So how do CxOs view the world? We asked which external forces they think will most affect their enterprise in the next three to five years, and compared the results with our findings from earlier studies.

One of the most notable trends has been the steady rise in the importance attributed to technology. CEOs put it first, as they did in 2012. For them, technology is not just part of the infrastructure needed to execute a business strategy. It's what makes entirely new strategies possible. This clearly includes technologies that are becoming increasingly important to automotive leaders: 3D printing in digital manufacturing; virtual showrooms for digital retail; social listening and analysis for digital marketing; and electrification and nanotechnology for product innovation.

Compared to the full global CxO interview sample, automotive CxOs named the same top three forces: Market factors, then technology factors, then macro-economic factors (see Figure 1). Environmental issues and globalization are higher on the list for automotive CxOs than for the full sample. People skills remain important while all industries struggle to find the right people with the right skills to meet future demands.

So how are automotive C-suite executives preparing for the future? We identified three key themes for this industry:

• Open up to customer influence
• Pioneer digital-physical innovation
• Transform product and service ecosystems.

Open up to customer influence

"We will digitize the enterprise to interact seamlessly with customers across all touch points, and use customer analytics to gain deeper customer insight and to respond more rapidly to changing customer needs."

Chief Information Officer, OEM, United Kingdom

In an era of abundant connectivity and information, and ubiquitous digitization, the new economic equation favors transparency. In search of innovation, more than half of CxOs in the full study sample expect to open up their enterprises — bringing down barriers to extend collaboration inside and outside. Their most radical shift may be a new view on what it means to collaborate with customers.
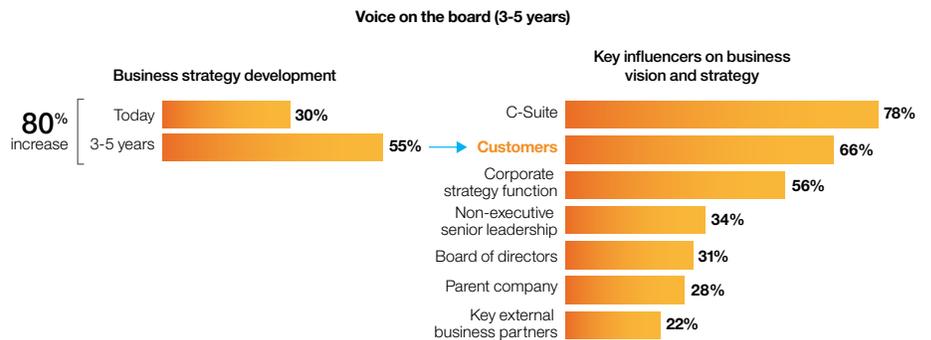
A growing number of CEOs believe customer influence shouldn't be confined to activities in which customers have traditionally participated, such as developing new products or services. Instead, CEOs stand ready to relinquish absolute control of what is typically considered their domain — developing business strategy.

Of automotive CxOs who were interviewed, 66 percent cited customers as key influencers on business strategy, which is more than all but the C-suite itself (see Figure 2). The biggest shift they foresee in customer involvement is an 80 percent increase in influencing business strategy development.

Accepting customers as stakeholders in determining an enterprise's future has huge cultural and organizational implications. These businesses can't just be customer-centric. They must be customer-activated. That requires creating fully reciprocal relationships with customers. It means being ready — and willing — to change course to pursue those paths that create mutual value. And it requires finding ways to include customers in key decisions.
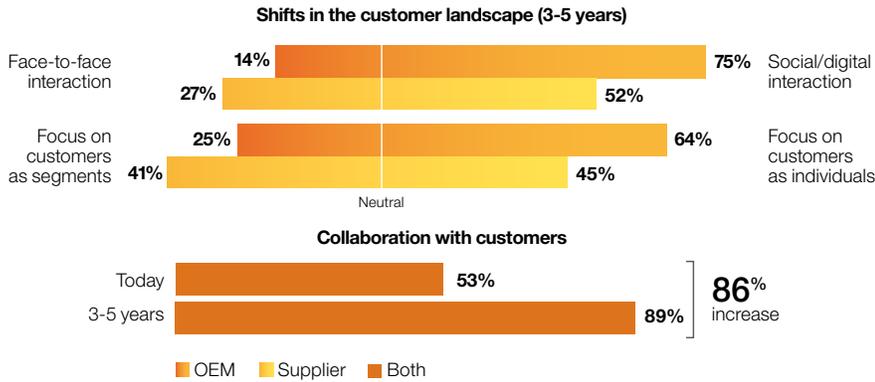
Figure 2

Voice on the board: Automotive CxOs say customers come second only to the C-suite in terms of the strategic influence they wield

Voice on the board (3-5 years)

Business strategy development

- **80%** increase
- Today — 30%
- 3-5 years — 55%

Key influencers on business vision and strategy

- C-Suite — 78%
- Customers — 66%
- Corporate strategy function — 56%
- Non-executive senior leadership — 34%
- Board of directors — 31%
- Parent company — 28%
- Key external business partners — 22%

In order for customers to have greater influence on the business, automotive CxOs also plan a shift in how they engage customers in the future (see Figure 3). In the next three to five years, social and digital interaction will occur far more than face-to-face interaction. And, shifting from "customers as segments" to "customers as individuals" will require greater understanding and personalization.

Notably, the OEM focus is on the end customer while the supplier focus remains on OEMs. However, as they build their brands, suppliers are also beginning to connect more with end customers. Eighty-nine percent of interviewed automotive OEMs and suppliers say their future collaboration with customers will include product development, environmental concerns and new mobility solutions in addition to business strategy.

Shifts in the customer landscape (3-5 years)

Face-to-face interaction	14%		75%	Social/digital interaction
	27%		52%	
Focus on customers as segments	25%		64%	Focus on customers as individuals
	41%		45%	

Neutral

Collaboration with customers

| Today | 53% |
| 3-5 years | 89% |

86% increase

■ OEM ■ Supplier ■ Both

Figure 3
Shifting landscape: Automotive CxOs anticipate more collaboration with customers, increasingly via social/digital channels and with an individual focus

Questions to consider about opening up to customer influence:

- Are you ready to "get personal" with your customers? How can you gain the insights to make sure each interaction is personal?
- How will you bring the customer influence into your enterprise and make it heard among all the other chatter?
- Do customers seek you out to offer insights and suggestions to make your products and services better? How will you establish and maintain trust with them so they are willing to share?

Pioneer digital-physical innovation

> *"There are two very significant transformations that will impact our future: (1) digital transformation and (2) technology transformation (leveraging the data that comes from machines)."*
>
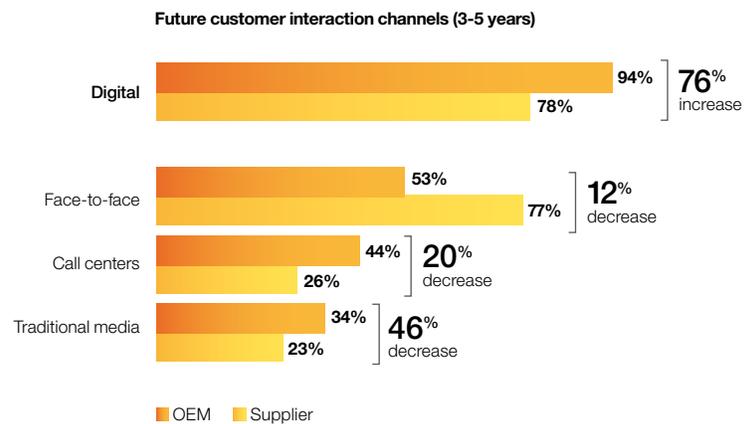> **Chief Executive Officer**, OEM, United States

The emergence of social, mobile and digital networks has played a big part in democratizing the relationship between organizations and their customers. It's also forcing them to rethink how they work.

The intersection between the digital and physical is the leading edge of innovation. Indeed, with technologies such as 3-D printing, the very distinction between the virtual and material is evaporating.

The channels through which automotive companies engage with customers in the future will change significantly (see Figure 4). For the combined group of OEMs and suppliers, digital interaction is expected to go up by 76 percent while other traditional channels will all decrease. However, a comparison of customer interaction channels between OEMs and suppliers shows that suppliers will continue to strongly emphasize face-to-face interactions with their OEM customers.
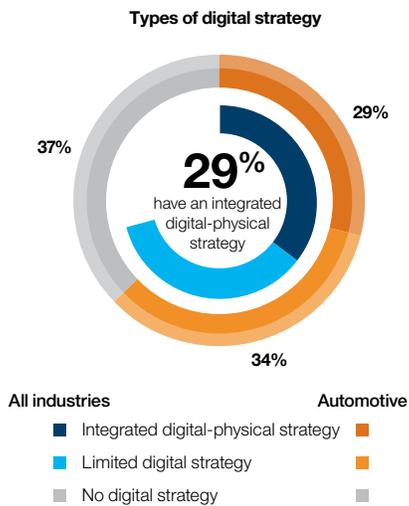
The problem? Even though digital ambitions are strong, the realities are that almost three-quarters of the automotive CxOs we interviewed do not have an integrated digital strategy today (see Figure 5). While this seems quite high, two-thirds of the full sample of executives in our study said they have a weak digital-physical strategy — or none at all.

Figure 4
Changing channels: Automotive CxOs generally expect declining use of traditional channels, except for OEMs who plan to interact more face-to-face with suppliers

Future customer interaction channels (3-5 years)

Channel	OEM	Supplier	Change
Digital	94%	78%	76% increase
Face-to-face	53%	77%	12% decrease
Call centers	44%	26%	20% decrease
Traditional media	34%	23%	46% decrease

■ OEM   ■ Supplier

So what's preventing automotive CxOs from doing more to unite their business and digital strategy? The biggest hurdle is how social media fits into the mix. When Watson analyzed more than 10,000 natural language responses, it uncovered the fact that CxOs simply don't know how to strike the right balance between the social, digital and physical worlds.

Easily said, but social is one place where many executives find themselves standing on the sidelines — if not well behind the lines — as enfranchised employees channel enthusiasm and energy to test the waters.

Types of digital strategy

29%
have an integrated digital-physical strategy

29%

37%

34%

All industries   **Automotive**
■ Integrated digital-physical strategy ■
■ Limited digital strategy   ■
■ No digital strategy   ■

Figure 5
Missing integration: Nearly three-quarters of automotive companies lack an integrated digital-physical strategy versus two-thirds of the full study sample

Questions to answer about pioneering digital/ physical integration:

- How are you making the most of your digital channels to connect customers to your employees in an engaging way?
- Is your company developing its digital strategy and are you involved? How are all parts of the organization being integrated?
- What type of oversight and governance model will you use to execute and optimize your digital strategy?

Transform product and service ecosystems

"The challenge is getting outside the traditional boundaries we have played in over the years. The connections between the different ecosystem players are clunky today."

Chief Marketing Officer, OEM, United States

As the need to innovate continues, CxOs anticipate a changing ecosystem landscape. Innovation is not new to automotive companies; however, where innovation comes from is changing.

Automotive CxOs are split in their perspective on innovation within the enterprise versus innovation from the outside (see Figure 6). Both OEMs and suppliers agree their partner base will get bigger – what's different is the expectations they have of their partners.

In the past, much of the emphasis was placed on lower cost and greater efficiencies, but now CxOs are looking for even greater value from their partners. As automotive companies look for ways to satisfy the customer's mobility requirements, new technology, products, services and business models are now open to innovation.

New innovation will also bring new competition. While half of the automotive CxOs agree new competition will appear from within the industry, another one-third anticipate new competition from other industries and even new, emerging industries. For example, the electronics and telecommunication industries are impacting mobility in terms of the features and capabilities within the vehicle and how they compare to smart devices.

Automotive CxOs are starting to recognize the importance of people and companies that may not be actual business partners or competitors, but instead are influencers recognized by many. These influencers can play a powerful role, especially in social networks where they affect key buying decisions, brand perception and the like. Of automotive CxOs we talked to, 51 percent plan to identify and collaborate with this important group.
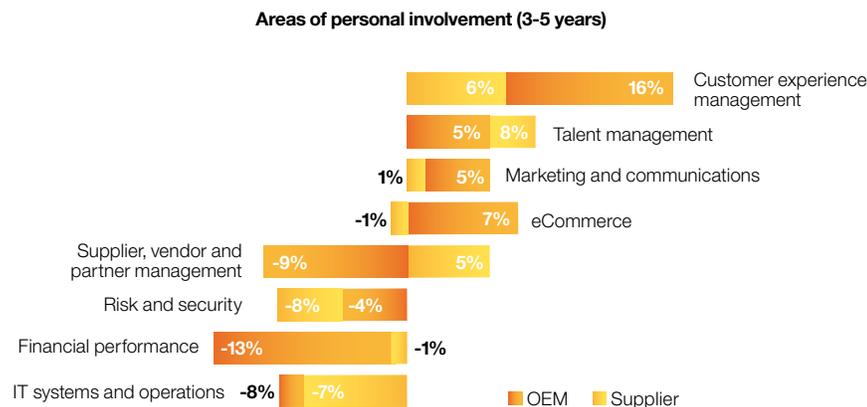
Figure 6
Shifting ecosystem: Automotive CxOs recognize that their product and service ecosystems will require even more partnerships and open business models

Shifts in the customer landscape (3-5 years)

Innovation
Outside the enterprise — 40% / 39% ... 46% / 42% — Inside the enterprise

Partner base
Smaller — 14% / 18% ... 56% / 66% — Bigger

Partnering
Increase efficiency — 22% / 22% ... 54% / 66% — Increase value

Neutral

■ OEM   ■ Supplier
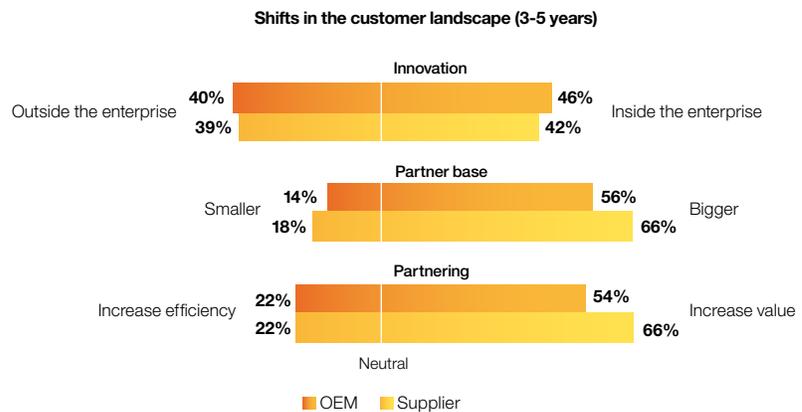
Finally, how do CxOs plan to personally allocate their time to address these changes in the customer, business and ecosystem landscapes (see Figure 7)? The left side of Figure 7 consists mostly of cost drivers; the right side mostly revenue drivers. This fits with how we have seen the CEO agenda change over the years as emphasis on the customer grows: automotive CxOs are increasingly shifting from an internal cost focus to an external revenue focus.

Both OEM and supplier CxOs will increase their involvement in activities involving the customer experience, with OEM CxOs expecting to spend more time in Marketing and Communications. Both OEMs and suppliers will also increase their involvement in talent management as the need for people with the right skills continues to challenge the industry.

One interesting difference of opinion between OEM and supplier CxOs is in the management of suppliers, vendors and partners. As suppliers, CxOs put more emphasis on a larger partner network and realizing more value from partners. The CxOs' level of involvement in financial performance is another area of significant difference between OEMs and suppliers.

Areas of personal involvement (3-5 years)

	OEM	Supplier
Customer experience management	16%	6%
Talent management	8%	5%
Marketing and communications	5%	1%
eCommerce	7%	-1%
Supplier, vendor and partner management	-9%	5%
Risk and security	-4%	-8%
Financial performance	-13%	-1%
IT systems and operations	-8%	-7%

Figure 7
Getting personal: Automotive CxOs plan to cut back on other activities so they can focus on improving the customer experience and managing talent

Questions to answer about transforming the product and service ecosystem:

- How are you moving outside your traditional boundaries to find new partners to bring digital innovation?
- In what ways are you making it easy for partners to collaborate with your employees on new ideas?
- What is your strategy to engage with key influencers and how do you gain their trust to promote your brand?
- In what areas are you personally engaging to drive revenue and growth through digital technologies?

Successful automotive companies will figure out how to make these connections seamless and collaboration effortless. To read the full Global C-suite Study, visit **ibm.com**/csuitestudy.

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Study demographics, automotive industry

In 2013, 4,183 C-suite executives in more than 20 industries were interviewed for the Global C-suite Study. Of that 4,183, 201 are automotive industry executives in 22 countries: 19 in Asia Pacific; 2 in Central and Eastern Europe; 65 in Japan; 3 in Middle East and Africa; 24 in North America; 26 in South America; and 62 in Western Europe. Our 201 interviews with automotive executives engaged a cross-section of C-suite roles, 49 percent of which were OEMs and 51 percent were suppliers.

Role distribution