Mobility Quarterly

Analyst themes from earnings calls

November 2021

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The global economy is witnessing an accelerated pace of growth, and this is evident across all mobility and end-consumer segments. However, the supply chain disruptions, shortages of raw material and high raw material prices slowed the progress. Automotive original equipment manufacturers (OEMs) are optimistic about the demand outlook but are cautious that the supply chain disruption and inventory backlogs could dent financial performance. Suppliers are cautious about the outlook and are taking initiatives to explore alternative product strategies to insulate themselves from further supply chain disruptions. The prevalent situation has warranted the need for a transparent, flexible, agile digital supply chain to keep businesses running smoothly without a breakdown in supply chains.

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Mobility companies remain optimistic about the accelerated pace of growth but are cautious of the impact of supply chain disruptions and raw material shortages

Welcome to the *Mobility Quarterly*, a review of the top market forces and company responses discussed by leaders of 43 mobility sector companies, including passenger vehicles (PVs), commercial vehicles (CVs), automotive suppliers, retailers, airlines, logistics providers, shippers and railways, during public earnings calls with analysts between October and November 2021. This update tracks the movement of these themes from quarter to quarter to provide a perspective on shifts in the sector landscape.

Market forces and company responses that stood out include the following:

- **Demand patterns continue to remain the top market force for this quarter.** While the global automotive sector continues to recover and is witnessing a surge in demand, automotive OEMs are facing challenges to meet the orders (especially in the US) owing to supply chain constraints and production disruptions. The transportation sector is also witnessing an increase in e-commerce demand, and a change in consumer buying habits is supporting the growth of logistics providers from both a business-to-business (B2B) and business-to-consumer (B2C) perspective.
- **Competitive positioning is the top company response for this quarter.** On the back of recovery across end-consumer segments, mobility players are aiming to offer their customers a wide selection of cost-competitive, technology-advanced, green product portfolios. These players are also actively acquiring companies in areas such as battery cell manufacturing, vehicle-to-everything (V2X) software and autonomous driving, to maintain a competitive advantage over their peers. Transportation companies are adopting a surge in pricing, especially on large shippers, to manage the elevated demand that has led logistics companies to add more labor in their operations and secure capacity in different modes.

"More consumers than ever are now sold on the sustainability benefits of EV ownership and are ready to join the club. The winners will be those who can offer them membership on the most affordable, user-friendly and reassuring terms."

Randy Miller, EY Global Advanced Manufacturing & Mobility Leader

Top five market forces

	3Q21		2Q21	
↔	1.	Demand patterns	1.	Demand patterns
↑	2.	Value chain breakdown	2.	Consumption behavior
↓	3.	Consumption behavior	3.	Value chain breakdown
↑	4.	Operating costs	4.	Operating costs
New	5.	New entrants	5.	Investors

1 ↔ Demand patterns

Trends in key customer segments and regional demand for products and services

- Consumer demand continues to remain strong in 3Q21, across end market segments and geographies. However, this demand is met with the challenges of supply chain disruptions and shortages of materials and parts, causing order backlogs and inventory challenges.
- Demand for commercial vehicles, aftermarket parts and used vehicles has soared due to increased activity in end-market sectors such as transportation, construction and mining.
- Airlines continue to witness strong domestic activity, as well as international demand evidenced by sequential improvement in passenger bookings. The improvement in international travel is due to the removal of US entry restrictions on travelers from Europe, UK, India and other international locations.
- Logistics players are witnessing a continued rise in e-commerce demand and a change in consumer buying habits. Companies are witnessing a massive surge in package delivery volumes, resulting in increased revenue and profit margins.

2 ↑ Value chain breakdown

Supply chain constraints and supplier failure disrupting production schedules

- Pandemic-related shutdowns and a shortage of semiconductors and other raw materials are posing significant supply chain concerns for automakers. Thus, automakers have taken varied steps to ensure supply chain resiliency and mitigate the risks.
- In the transportation and logistics sector, rising consumer demand has led to unprecedented supply chain disruption across geographies. Shortages of truck drivers and warehouse labor and congestion at ports, coupled with elevated consumer demand, are resulting in delays in deliveries and straining supply chain logistics.
- The component supplier industry is witnessing a challenging environment, perpetuated by supply chain disruptions, semiconductor chip shortages and the consequential delays on its customers' production schedules. The industry is also hit with transportation bottlenecks and labor shortages slowing supplier production plans and subsequent customer deliveries.

5 New New entrants

The threat new competitors pose to existing competitors in an industry

- The mobility space both for PVs and CVs is witnessing a rapid increase in the number of new entrants in the mobility ecosystem. As mobility players aim to offer customers a wide selection of technologically-advanced, green product portfolios, automakers are actively acquiring new companies in areas such as battery cell manufacturing, V2X software and autonomous driving.
- The automotive supplier ecosystem is witnessing rapid growth in the number of suppliers in the connected, autonomous, shared green space, while there is significant decline in the number of suppliers in the traditional automotive value chain designed for vehicles with internal combustion engines (ICE).
- New-age players are emerging in the transportation and logistics space, offering solutions to remove operational inefficiencies and provide greater supply chain visibility. These players have begun to operate across the transportation value chain, acting as digital marketplaces, digital freight forwarders and entities that enable digital payments.
- In the airlines sector, new loyalty programs, combined with redesigned websites and mobile apps, along with other technological enhancements, are helping airlines to play a meaningful role in leisure travel, including third-party distribution of hotels, rental cars, and even sports and entertainment events.

3 ↓ Consumption behavior

Disruption in consumption patterns, attitude toward green products and digital technology adoption

- As consumer behavior and attitude toward digitalization improve rapidly, mobility players are now looking to take greater control of the digitalized services that will be provided to customers, rather than ceding those revenue opportunities to a third-party player.
- In transforming from manufacturers to mobility service providers, automakers have actively launched or have planned new business modes and revenue streams toward customer service, as customers embrace digital technologies faster.
- Airlines are witnessing strong consumer demand backed by a steady increase in passenger bookings and a rapid uptick in business demand — both domestic and international.
- Logistics providers continue to invest in technology and expand their digital platforms to further reduce inefficiencies, improve overall supply chain visibility and better collaborate with customers. Moreover, companies are increasingly focusing on automation and warehouse robotics to increase productivity and reduce labor costs.

4 ↑ Operating cost

Gains or losses related to operating costs, including raw materials, currency, energy and talent

- Raw materials inflation and fuel price increases continue to be a significant headwind for automakers. Prices of semiconductors, aluminum, plastic, paint coating, platinum group metals and steel have been increasing this year, leading to a heightened cost of vehicle and parts manufacturing.
- Suppliers are facing strong headwinds from rising raw material prices and a worsening energy crisis in Europe and China. The transportation and maritime challenges have also increased the logistics costs for suppliers in the quarter.
- The airlines sector continues to battle the steep increases in fuel prices. Some carriers are still hedging to offset these increases and are cognizant that this may only be a temporary measure. Moreover, as certain airlines ramp up their operations, they are witnessing a surge in the cost of hiring new employees and training existing crews.

Top five company responses

3Q21			2Q21	
↔	1.	Competitive positioning	1.	Competitive positioning
↑	2.	Customer acquisition and connectivity	2.	Product design and innovation
↑	3.	Business restructuring	3.	Customer acquisition and connectivity
↑	4.	Change in financial outlook	4.	Business restructuring
↓	5.	Product design and innovation	5.	Change in financial outlook

1 ↔ Competitive positioning

New product or service launch, pricing strategy, market expansion and speed to market

- OEMs contend with technological advancements in electrification, automation and connectivity by leveraging in-house capabilities, as well as partnerships to launch innovative products. In response to price increases, OEMs are passing on increased costs to customers amid increasing competition.
- Suppliers are re-evaluating their product pricing strategies to mitigate inflationary pressures from an increase in raw material and transportation costs. Peers are launching new products and services, primarily EV-based solutions, connected solutions, telematics and light detection and ranging (LiDAR) systems, to name a few.
- In the transportation sector, companies accelerate their expansion of coverage by acquisitions and partnerships to address the e-commerce demand. As competition in e-commerce intensifies, logistics peers deploy differential pricing strategies and look to manage capacity constraints.
- Airlines remain flexible and match future capacity with observed booking trends. Despite the competitiveness in the domestic market, airlines remain confident about the expansion of their network, enhancement in customer service, creation of sustainable improved revenue and financial performance.

2 ↑ Customer acquisition and connectivity

New orders, customization, distribution management and omnichannel experience

- OEMs are managing distribution channels to maintain an undisrupted supply of vehicles amid an unexpected demand upsurge.
- Logistics providers are collaborating with customers to help them redesign their supply chain and improve the overall customer journey. Continued focus on providing the omnichannel experience by leveraging AI and robotics is also emerging as one of the priorities for logistics companies.
- Digitalization of product life cycle from purchase to after-market remains high on the agenda for automakers as consumers are increasingly adopting digital technology. Auto retailers are focusing on executing omnichannel strategy to deliver a seamless customer experience.
- Airlines are receiving an upsurge in bookings as pandemic restrictions decrease and are dynamically adjusting capacity to operate at more capacity in the second half of the year.

3 ↑ Business restructuring

Transforming company structures to meet strategic goals and market demands

- OEMs are effectively managing capital allocations to enable new revenue streams from shared mobility services and connected mobility offerings (such as infotainment, usage-based insurance and predictive maintenance services).
- Automotive retailers are making strategic acquisitions to expand revenue streams and add new business models into their portfolio. Due to their cost-saving strategies, retailers are now able to deploy additional capital for their network expansion.
- Logistics companies are strengthening their product and service capabilities through acquisitions and partnerships while looking to reduce costs and last-mile inefficiencies given the surge in residential deliveries.
- Shipping companies are undertaking acquisitions to strengthen offerings in the onshore logistics segment and tap synergies from ocean segment customers.

4 ↑ Change in financial outlook

Projected revenues, margin, and overall demand outlook

- Mobility peers continue to raise their guidance for the full year and are confident of leading recovery in the coming quarters. However, they remain cautious of the impact of supply chain disruption and raw material shortages.
- Automotive suppliers have lowered their guidance in the near term owing to intense supply chain disruptions, high operating costs and the impact of COVID-19 in certain regions. However, suppliers remain optimistic in recovering their volumes and achieving profit margins in the long term on the back of electrification trends, cost management programs and strategic partnerships.
- Airline companies have raised their guidance for the full year on the back of demand recovery but maintain that any delay in corporate travel could dent their outlook and future guidance.
- Transportation and logistics companies remain optimistic about the demand outlook, driven by a surge in e-commerce demand, which is likely to drive growth for most logistics players.

5 Product design and innovation

Expanding and transforming offerings through focused investments

- The automotive industry is accelerating alternative fuel vehicles as a response to the sustainability agenda and climate concerns. This is evidenced by incumbents, as well as new entrants, making investments in the alternative fuel vehicle ecosystems.
- Automotive suppliers are engaging in product redesign activities and identifying alternatives so that they do not become vulnerable to a supplier disruption caused by a concentration of suppliers. At the same time, investing in high-performance automotive hardware and software to capitalize on the growing trend of digitalization.
- Transportation and logistics companies are investing in technologies to bring price transparency to shippers and compare them with market averages. Rail operators are moving to digital platforms for maintenance and repair and are working with customers to deliver additional value through sustainability.
- Automotive retailers are witnessing increased adoption of digital platforms, and a large percentage of total sales are being converted through online channels. Triggering retailer investment in digitalizing components in the consumer buying journey, such as credit application, financing, scheduling appointments, options to sort vehicles by distance and digitalizing the in-dealership experience.

Companies included in the analysis

The identification of the top 10 themes is based on an examination of earnings calls held during October and November 2021.

- A.P. Møller-Mærsk A/S
- AB Volvo
- Air Canada
- Alaska Air Group
- Allegiant Travel
- American Airlines Group Inc.
- Aptiv PLC
- Asbury Automotive Group, Inc.
- AutoNation, Inc.
- Bridgestone Corporation
- Canadian National
- Caterpillar Inc.
- CH Robinson
- Continental AG
- Daimler AG
- Delta Air Lines, Inc.
- Deutsche Post AG
- FedEx Corporation
- Ford Motor Company
- General Motors Company
- Group 1 Automotive, Inc.
- Honda Motor Co., Ltd.
- Komatsu Ltd.
- Kuehne + Nagel International AG
- Lear Corporation
- Lithia Motors, Inc.
- Magna International Inc.
- Michelin SCA
- Nissan Motor Co., Ltd.
- Norfolk Southern
- Paccar
- Penske Automotive Group, Inc.
- Ryder System Inc.
- Sonic Automotive, Inc.
- Stellantis
- Tenneco
- Tesla, Inc.
- The Goodyear Tire & Rubber Company
- United Airlines Holdings, Inc.
- United Parcel Service, Inc.
- Volkswagen AG
- XPO Logistics, Inc.

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