



## EV transformation and the risk of stranded capital

### Deloitte Commentary: Q2 2024 MEMA OE Automotive Supplier Barometer

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The transition to electric vehicles was not expected to be easy. There were probably always going to be bumps along the way, but the slowing of EV momentum<sup>1</sup> is hitting some suppliers hard. Companies have been investing to keep pace with ambitious all-battery electric vehicle (BEV) production targets just to have those plans pushed out in favor of internal combustion engine (ICE) and hybrid models.<sup>2</sup>

One third of suppliers responding to the [MEMA OE Suppliers 2024 Q2 Barometer](#) survey indicated that the risk of stranded capital connected, in part, to large EV investments represents a significant concern over the coming 12 months. Many companies are either delaying capital expenditures, redeploying capacity to other programs, or attempting to negotiate with their original equipment manufacturer (OEM) customers in the hope of extracting some relief in their contracts.<sup>3</sup> Overall, these cost

containment efforts are likely being employed to help keep EV investments profitable while volumes remain below expectations.

Survey respondents also pointed to potential weakness in the U.S. economy as the greatest threat to the industry over the next 12 months, overshadowing their concern over poor sales volumes in the vehicle programs they supply. Changes in government trade policy as a potential outcome of the U.S. presidential election in November is likely also a top concern for auto suppliers.<sup>4</sup>

Suppliers may be feeling the impact of ongoing localization efforts as their customers rethink their global manufacturing footprints. International trade tensions, domestic sourcing requirements set out in the USMCA agreement, and more recent incentive structures in the Inflation Reduction Act have all contributed to

this growing trend.<sup>5</sup> In fact, 1 in 4 MEMA members responding to the Q2 survey indicated a moderate or extensive increase in the level of North American manufacturing localization among their OEM customers. Mexico has emerged as a big beneficiary of these efforts<sup>6</sup> and 68% of surveyed suppliers expect the trend to continue over the next five years.

Even as efforts to reshore global supply chains are resulting in opportunities for suppliers, MEMA survey respondents also point to significant challenges to overcome. For example, some OEM customers may be reluctant to pay a price premium for the value created by shorter lead times and a reduced risk profile inherent in a localized sourcing strategy. Some manufacturers may also be resisting any adjustment to established pricing structures even as input costs for labor and materials may have changed significantly in the onshoring process.

At the same time, vehicle manufacturers are under mounting regulatory pressure to improve their performance regarding sustainability reporting standards.<sup>7</sup> However, lingering uncertainty in some areas of the regulations could represent a compliance challenge for many companies.

Consumers are also adding sustainability to their list of choice criteria when purchasing a vehicle. Survey results from the [2024 Deloitte Global Automotive Consumer Study](#) suggest 42% of U.S. respondents feel it is important/very important for a vehicle brand to have a strong commitment to sustainable practices, including a low carbon manufacturing footprint.

Suppliers could also be feeling the pressure to comply with this growing trend, but respondents to the most recent MEMA member survey point to a variety of concerns when trying to implement sustainability initiatives. These range from the unforeseen costs involved and dealing with multiple, often conflicting requirements to

a lack of clarity and resources to execute against a growing list of customer expectations. Many suppliers surveyed also feel that their sustainability program has had no impact on either their existing business (79%) or their ability to win new business (68%).

MEMA survey results also indicate that suppliers are reporting fewer companies on their “watch list” over the last three-year period. In 2022, as the industry faced the effects of the semiconductor crisis and other global supply chain disruptions, nearly 4 in 10 MEMA members said the number of their sub-tier suppliers on their watch list was greater than 8%. Last year, only 13% of suppliers said the same with the number further decreasing to 10% in the Q2 survey.

However, the number one supply chain risk seems to be inaccurate OEM production volume forecasts. More than half of the respondents to the most recent MEMA survey cited this long-standing issue with some pointing to unprecedented levels of volatility in OEM release schedules.

As the industry continues to feel its way through the transition to electrified mobility, increased collaboration between OEMs and suppliers could go a long way toward addressing the challenges they face as an integrated value chain. Addressing the long-standing ‘tech debt’ entrenched in aging IT infrastructure and the application of digital tools including artificial intelligence (AI) represents a unique opportunity to help enhance the flow of actionable data insights to improve visibility and decision making. OEMs can also continue to push forward with investments aimed to reduce product and manufacturing complexity which may also help suppliers to control costs, improve their capacity to scale, and increase their ability to quickly pivot as OEM customer needs continue to evolve.

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## Endnotes

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<sup>1</sup> Joann Muller, [Understanding the slow and messy switch to electric cars](#), Axios, April 3, 2024.

<sup>2</sup> Michael Wayland, [Why automakers are turning to hybrids in the middle of the industry's EV transition](#), CNBC, December 8, 2023.

<sup>3</sup> [MEMA OE Vehicle Supplier Barometer Studies – Q2 2024](#), June 2024.

<sup>4</sup> Frank Holmes, [How Biden's new tariffs on China could impact the U.S. auto industry](#), Forbes, May 20, 2024.

<sup>5</sup> Jason Coffman, [2023 Automotive Supplier Study](#), Deloitte, 2023.

<sup>6</sup> Chris Rogers, [Mexico as a supply chain reshoring leader](#), S&P Global Mobility, August 14, 2023.

<sup>7</sup> Simon Jessop and Huw Jones, [Focus: For investors, green companies still hard to find with new emission reporting rules](#), Reuters, August 3, 2023.

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