3 Things Every Auto Industry Executive Must Address in 2022

Including the chip shortage, vehicle shortage, and talent shortage

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2022 Auto Industry Outlook Overview

This report for the automotive industry presents and addresses 3 key topics every industry executive should have at the top of mind in 2022, as well as best practices for developing forecasting and planning strategies for the next year.

The market conditions in 2021 were challenging for the auto industry as a whole, with sales declining annually in 2020 and 2021 due to low inventory. At the beginning of 2022, this low inventory crisis will keep demand high as consumers were unable to fulfill their needs last year despite having above normal savings and preparation for buying a car.

While demand may remain high in the new year, supply chain issues will continue to disrupt the industry as the chip shortage limits the production of new cars and prices rise for the transportation of parts and finished vehicles around the world. On top of the supply challenges for new cars, there is a lack of used cars due to temporary changes in the car rental industry and slower consumer turnover of vehicles. Given these factors, prices are expected to remain high for both new and used cars throughout most of 2022. If the chip shortage begins to decline in time for the 2023 model year production, prices could begin to fall with the possibility of production rebounding and recovering.

#1 The Chip Shortage

The chip shortage has been plaguing automakers since 2020 and will continue into the new year. For the past two years, automakers have been stuck competing with other industries over a limited supply of chips. Given automakers' inability to obtain chips, the production of cars has been severely limited.

The complexity of producing chips makes it difficult for new suppliers to enter the market and relieve the constraints. In other words, diversifying the supply chain is difficult unless automakers directly invest in chipmakers themselves to incentivize and aid them to produce at higher levels.

As a result of the shortage, most automakers had to significantly cut their projections for production in the second half of 2021. This is unlikely to be made up for in 2022, especially if COVID continues to disrupt both production and global transportation.

How to Address the Chip Shortage

Depending on the impact of COVID variants, these constraints could persist for years to come. For now, the chip shortage is expected to limit production and drive automakers to reduce their projections for auto sales in the coming year.

Reshoring and making investments in new suppliers will be key to navigating the chip crisis. Some automakers are choosing to work with smaller companies and help them scale up production in exchange for a dedicated supply of chips. This will be beneficial to those automakers engaging in the commerce but could tighten the market for others if they get the chip manufacturer to sign exclusive contracts in exchange for more investment.

Until the chip shortage begins to alleviate, the supply of new cars is unlikely to meet demand.

#2 The Vehicle Shortage

Due to the chip shortage and supply chain challenges, there is simply not enough stock to meet the demand for either new or used vehicles. Both consumers and fleet buyers have had trouble meeting their needs and vehicle prices have increased significantly in response.

For manufacturers and sellers, not having adequate supply to meet demand leaves money on the table as they could have sold more products, increased their bottom lines, and improved business performance on the year if they'd had the supply.

Supply constraints create risk throughout the business planning process and make it hard to predict the amount of labor needed, especially on the sales side. If there isn't sufficient supply, having more workers doesn't help sell any additional units. At the same time, vehicle shortages, along with the rise in chip prices, will continue to drive up car prices. In the longer term, these increased prices can diminish demand, especially as any additional savings from pandemic funds or pandemic-related behavioral changes are used for other purposes or consumed by other inflationary impacts.

How to Address the Vehicle Shortage

Prolonged shortages in supply could impact buyer behavior and encourage consumers to wait longer before buying vehicles, which could potentially impact demand in the long run. However, that does not mean that automakers should default to promotions or cut prices.

Instead, auto companies should identify consumer segments that can afford to buy new cars at full price, primarily Americans with higher incomes that have held onto their disposable income as savings throughout the pandemic. The key is to identify the profit margin for that segment and sell directly to them while limiting incentives. As of now, there is enough demand for this strategy to be successful as Edmunds report of car sales in November 2021 had cars selling 3.8% over MSRP.

The other strategy is prioritizing the production of cars that are most popular with this segment of consumers and increasing the production of those models. Again, it's critical to focus on the profit margin, not just the overall sales.

#3 The Talent Shortage

While the labor shortage is not unique to the automotive industry, it is having a significant impact on auto companies. Employers across the country are increasing wage and benefit packages to attract workers who are concerned about the potential risks of COVID if they return to the workplace. Moreover, many industries are facing difficulties in attracting workers who want better compensation and treatment than their previous jobs.

The reality is that this labor shortage will increase costs to employers both in terms of attracting new talent and retaining current talent. Pay increases or enhanced benefits will need to be extended to current employees to prevent turnover.

All of this will cut into the bottom line, even if some costs can be passed onto consumers. Since commodity and supply chain driven inflation is already pushing prices up significantly, companies will be wary of passing increased labor costs onto consumers as well.

How to Address the Talent Shortage

While rising labor costs are inevitable to some degree, auto companies need to limit the increase as much as possible. Labor shortages tend to create churn in the labor market with workers taking advantage of the situation to move between employers and seek better offers for themselves. As manufacturing costs rise and production remains limited, automakers cannot afford major increases in labor costs.

Employers need to consider strategic ways to bring in new employees as well as retain their current employees. Onboarding and training new talent can be expensive and time-consuming and high levels of turnover can negatively impact quality, productivity, and team morale.

Moving forward, organizations need to carefully monitor turnover rates and get creative with employee incentives.

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Best Practices for Forecasting and Planning in 2022

Strategic planning for auto companies in 2022 starts with increasing the efficiency and diversity within a company's supply chain. Executives should work on creating more secure supply chain networks, and potentially invest in their company's suppliers to ensure future needs will be adequately met. Companies should also be careful not to over-commit on production in the new year.

When it comes to the labor issue, executives should carefully consider workforce needs and find innovative ways to improve long-term productivity. Additionally, the expanded use of technology could offset some of the increased costs in attracting and retaining employees.

Finally, auto companies should prepare for limited vehicle availability and continued shortages. Executives should identify areas of potential high-profit margins to account for lower sales and target consumers that are willing to pay for higher costing vehicles.

Bonus Insight

Electric Vehicles in 2022

Given recent legislation in Europe, every auto industry executive planning for the new year should be thinking about a shift to electric cars. For many automakers, this inevitable shift will bring significant challenges. For example, auto companies will need to invest in more effective batteries while keeping them inexpensive enough to make electric vehicles broadly available. Increased costs associated with labor, rare earth metals, and other commodities necessary for electric vehicle production will also factor into the pricing challenges auto companies will likely face in the coming years.

The shift to electric vehicles will create a major disruption for the industry and will require significant retooling of production capabilities, new approaches to automotive R&D, and a significant change for after-market dealers as they maintain more different types of products to meet demands in both conventional and electric vehicles.

As many manufacturers have yet to develop successful electric vehicles that generate enough interest to penetrate auto markets, 2022 is the year that executives need to identify their strategy for making these changes. Following the recent laws in Europe, potential government regulations in the U.S. are something to keep an eye on in the coming year. In particular, this may be led at the state level by California rather than the federal level.

Reevaluating the supply chain should be a priority in 2022 and executives should have the inevitable transition to electric vehicles in mind when considering any major changes.

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Auto companies planning in 2022 are in uncharted waters.

From increased inflation and labor market shortages to supply chain challenges and ongoing COVID, the question on every business leader's mind is, "how will we navigate these ongoing sources of uncertainty?"

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