

Building cars with less capital

Andreas Behrendt, Malte Marwede, and Raymond Wittmann

New research suggests that Western players, especially those in Europe, have something to learn from their counterparts in Asia.

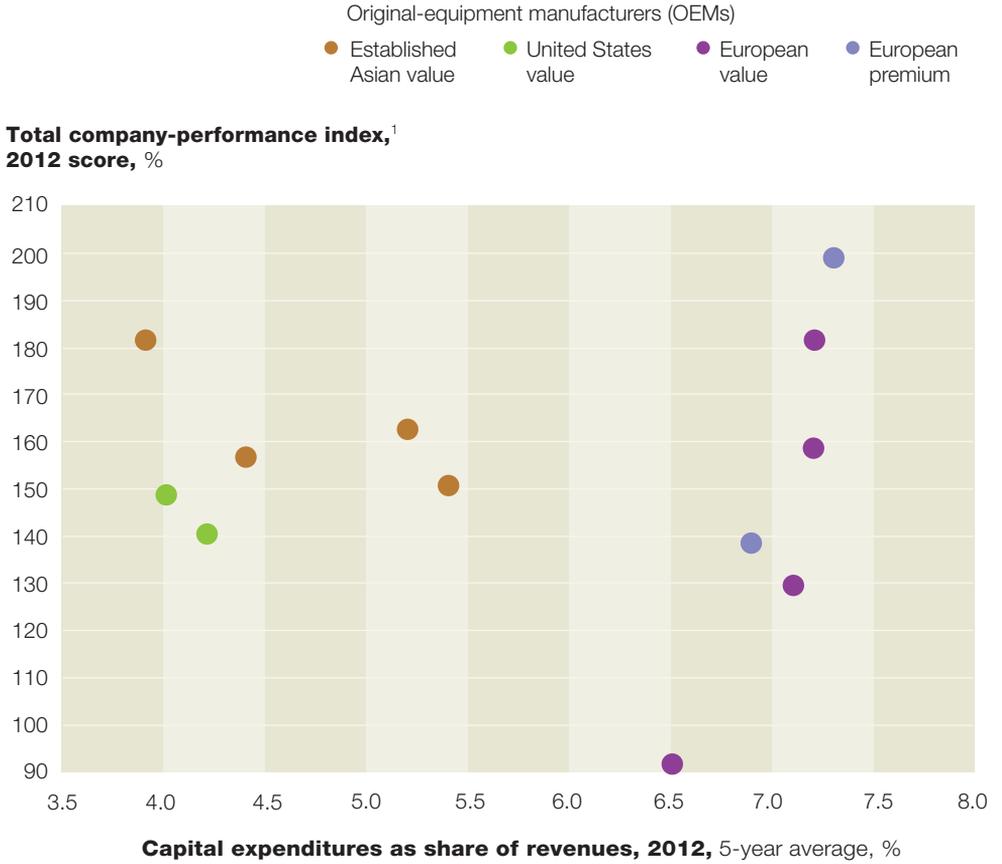
As the world's economic center of gravity shifts toward emerging markets, it will become increasingly common for Western companies to look east in search of innovative business approaches. A case in point is the global auto industry, where our research suggests that several Asian players are employing an intriguingly successful capital-light model: their average ratio of capital expenditures to revenues was 30 percent lower than that of their counterparts in Europe during the five-year period that ended in 2012 (exhibit). The European players' higher ratios left them less agile and more at the mercy of cash constraints that coincide with economic shocks—an important concern for all companies in cyclical industries.

This isn't just a case of successful European luxury players relying on more capital-intensive business models: value-oriented European OEMs also are less capital efficient than some of

their North American counterparts. Reasons for the advantage of Asian players include outsourcing more of their operations and maintaining simpler product portfolios. If value-oriented European OEMs followed suit, our analysis suggests, they could reduce their capital expenditures by roughly €30 billion over the next five years. ○

Andreas Behrendt is an associate principal in McKinsey's Cologne office, **Malte Marwede** is a consultant in the Hamburg office, and **Raymond Wittmann** is a principal in the Munich office.

Some carmakers achieve superior performance despite low capital expenditures.



¹ Based on total labor productivity and total capital productivity.
Source: McKinsey analysis