January 2023 Ref: 220-22-12.1

Start-up investments

OEMs are changing who and how they invest in

10-minute Insight

In their race to transform themselves and their businesses, major car makers have invested in, or acquired, almost 700 companies since 2016.

Looking ahead, while outright acquisitions are declining, the current volume of OEM-supported/led investment deals is likely to continue rising. Why? Because the capabilities required to remain competitive are becoming harder to develop exclusively in-house.

In this insight we explore the major trends OEMs are focusing their investments efforts around, and what they need to do in order to ensure these deals deliver a clear strategic gain.

Target audience

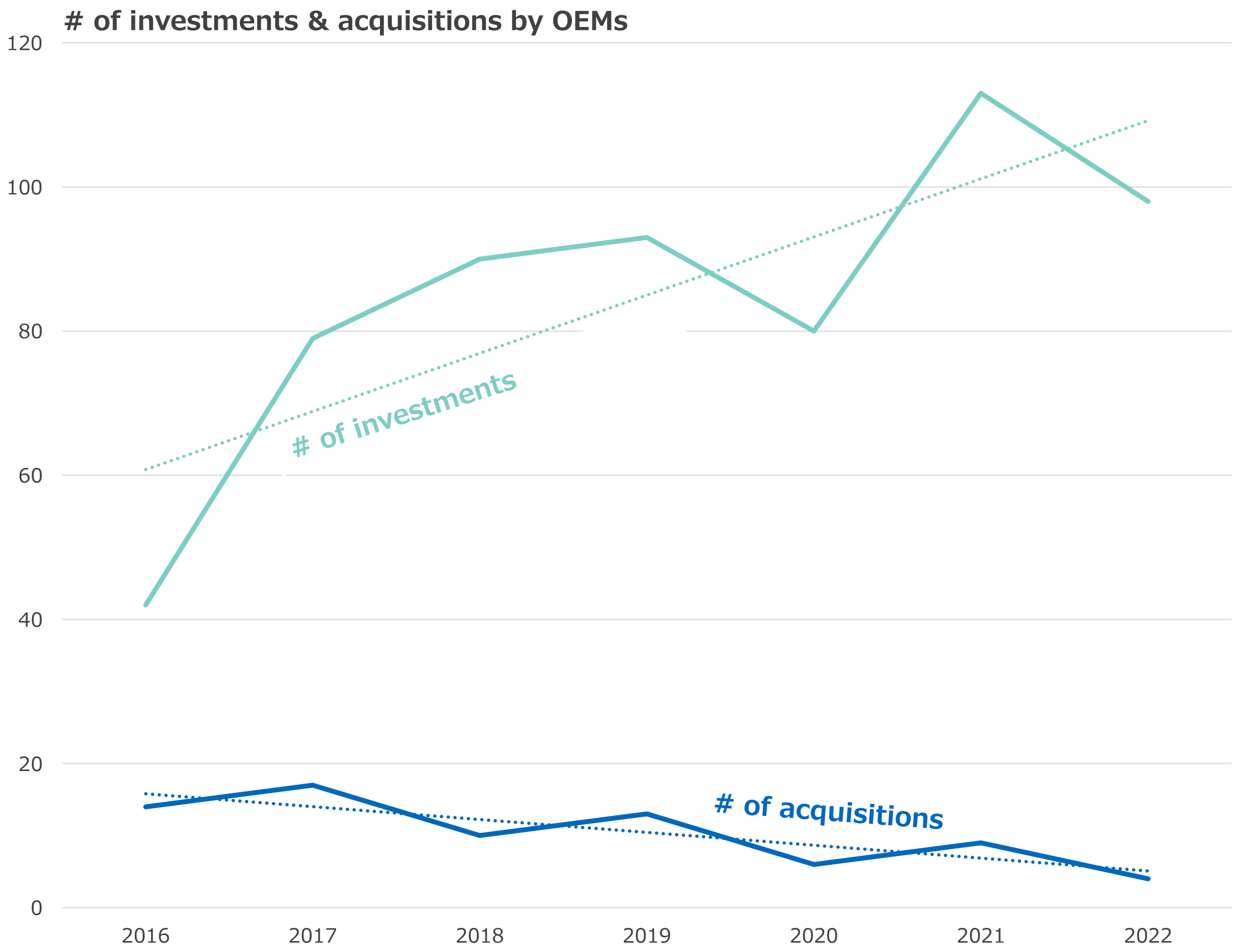
Engineering Strategy

Marketing Product Planning

Focus market(s)

Global

What is happening?



Key takeaway

While the number of outright acquisitions made by OEMs has declined over the last five years, OEMs are making more strategic investments than ever before.

- Most car makers have now set up Venture teams to invest in or acquire start-ups, and these teams have been busy. Despite a dip during the Pandemic, the last 2 years have seen a record number of investments.
- In addition to filling gaps in IP or creating more supply chain certainty, OEMs have embraced a 'Try-before-you-buy' approach to investing in new companies.
- Despite a growth in overall activity, however, outright acquisitions are rarer today than five years ago. Why? Partly because cash is tightening, but also because of the limited success many have had in integrating teams and cultures from acquired companies.

Why does it matter?

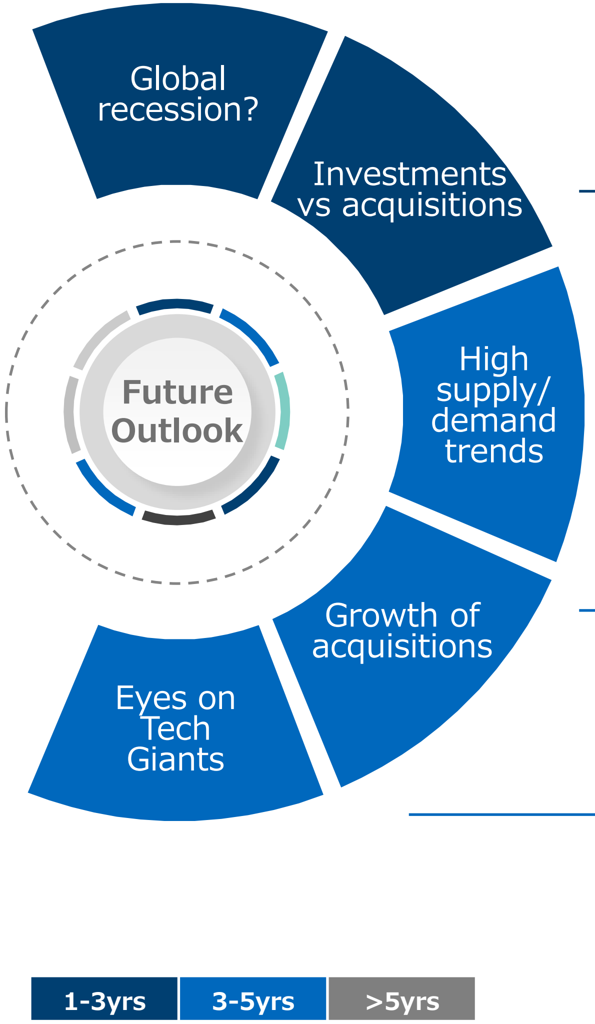
Momentum \ Investments per year	1-3	4-7	>7
Growing	VTOLs Satellite Tech Cyber Blockchain	Manufacturing 3D Printing Sustainability	EV Batteries FinTech
Steady	Micromobility Fleet mobility Maintenance & Parts Chipsets Adv. Materials Professional services Smart cities UX	Vehicle connectivity Data analytics Cloud services	Autonomous vehicles
Declining	Charging infrastructure Online retail	Shared Mobility Health & Wellbeing	

Key takeaway

SBD has analysed the underlying trends driving this growth in investments to understand where OEMs are focusing their efforts.

- Some of the trends are self-explanatory: The pressure to deploy **EVs** is leading to more investments in battery start-ups, as well as companies in the broader **sustainability** eco-system.
- Other growth trends point to less obvious focus areas for OEMs: **FinTech** to help modernise how vehicle purchases are made; **satellite technology** to help scale up localization or **OTA** strategies; **3D printing** to help modernise how car parts are manufactured.
- On the other end of the spectrum, OEMs are investing less of their VC funds in areas they've struggled to scale (e.g. **shared mobility**) or areas that are becoming commoditised (e.g. **charging infrastructure**)

Where next?



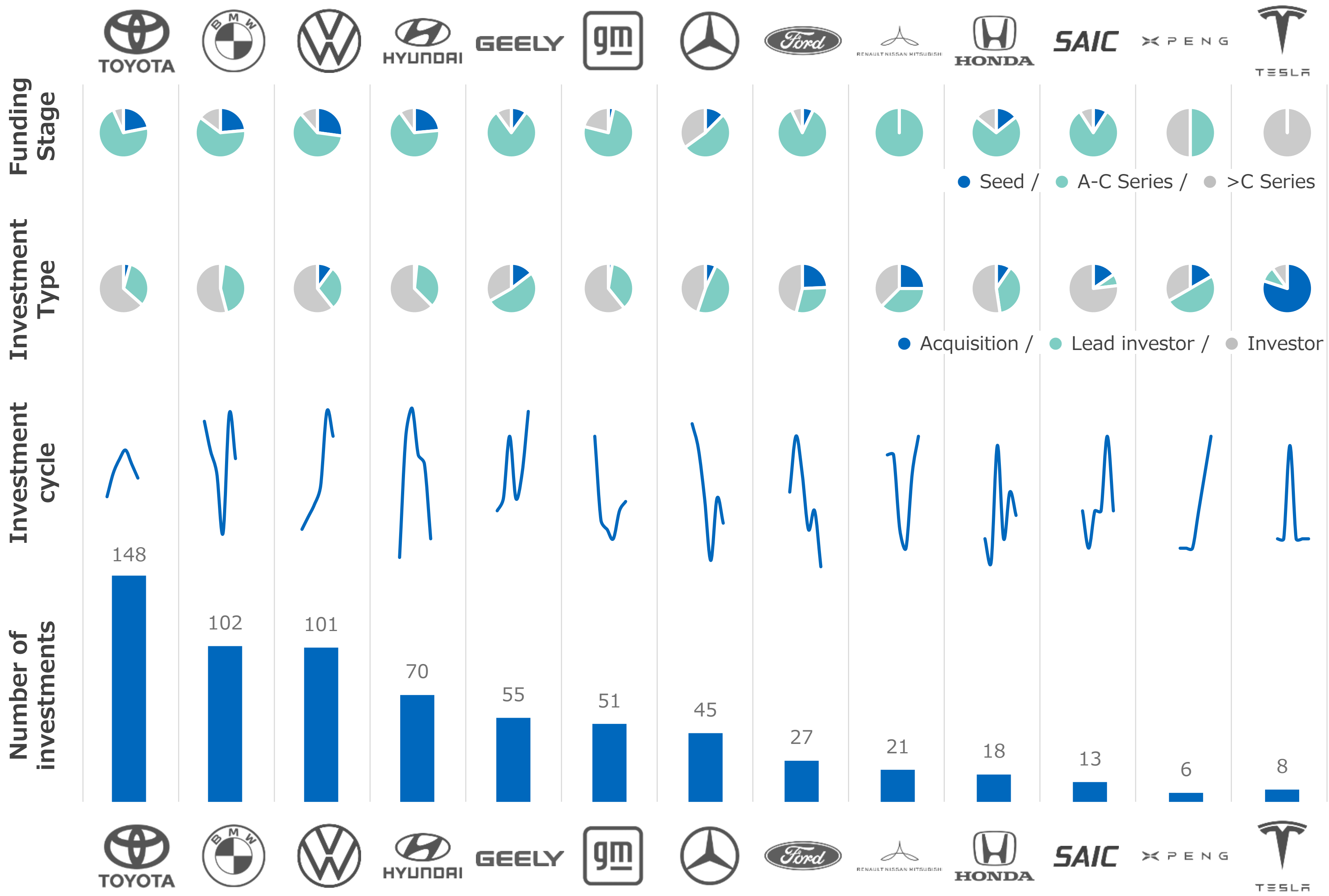
1. Risk of global recessions reduces appetite for investments & acquisitions
2. OEMs continue to focus on investments, rather than acquisitions, reflecting their cautiousness
3. Certain areas like AVs attract more attention as smaller start-ups struggle to keep up with larger players
4. OEMs will continue relying heavily on investments (and increasingly on acquisitions) to keep up with breadth of technological innovation
5. All eyes will be on disruptors like Tech giants, who will play an increasingly pivotal role and have a proven track record of acquiring talent/technology.

Key takeaway

An uncertain global economy and growing interest rates are likely to slow down investments and acquisitions across the automotive industry over the next 1-2 years.

- OEM-led acquisitions in particular are likely to dwindle, as OEMs continue to opt towards casting a wide net for smaller catch rather targeting bigger fish. Certain trends like AVs may still see a growth in acquisitions as smaller players struggle to raise investment funds and OEMs look to fill holes in their capabilities.
- In the mid-term, however, the continued breadth of emerging trends (e.g. **Blockchain**, **Quantum computing**, **Smart materials**) makes it difficult for OEMs to remain competitive without investments and acquisitions.
- Beyond OEMs, tracking investments and acquisitions among incoming disruptors like **Tech Giants** will also become more important.

Who to watch out for?



Key takeaway

Over 50% of investments and acquisitions across all OEMs have been made by three players: Toyota, BMW and Volkswagen.

- Toyota in particular has been highly active among OEMs, with 148 investments and acquisitions made since 2016.
- OEMs strategies differ by **investment cycles** (OEMs like Toyota, Hyundai and Ford are on a downward trend), **investment types** (disruptor OEMs are more likely to focus on outright acquisitions) and the **funding stage** of start-ups (Mercedes-Benz is the most likely among established OEMs to focus on >C Series funding rounds)
- One important reminder: **More does not equal better** – the large number of investments made by certain OEMs sometimes reflects disjointed decision-making across a large number of subsidiaries, rather than a coordinated effort to ‘own’ large parts of the eco-system.

How should you react?

1

Capitalizing

An uncertain economic outlook creates both challenges and opportunities – OEMs with sufficient cash will be in a great position to hunt for strategic deals as start-ups struggle to raise new funds from increasingly cautious investors (although many investors continue to be flush with cash that needs investing).

2

Consolidating

Decentralised decision-making for investments among many OEMs is driving inefficiency. OEMs that focus their VC budgets into a smaller number of strategic investments are more likely to succeed, but this will require investment decisions to become more heavily centralised globally and across subsidiaries.

3

Engaging

Whether investing or acquiring start-ups, OEMs still have work to do to improve engagement and alignment with their new partners. Measurable KPIs beyond IRR are required to ensure the 'strategic' part of any deal is delivered (e.g. % of deals that result in new tech launches among OEMs within X years)

Authors

Andrew Hart
CEO

Related SBD Reports

Ref:202
Start-up Tracker

Ref:201
Innovation Guide

Related SBD Consultancy

- Due Diligence
- Market Forecasting
- IP Analysis
- Innovation Planning
- Partner Strategies

Interested in finding out more?

Most of our work is helping clients go deeper into new challenges and opportunities through custom projects. If you would like to discuss recent projects we've completed relating to **Due Diligence**, please contact us.