When Scale Is Not Enough: The Automotive Industry's Recent Struggles

Introduction

The past year has been difficult for the global automotive industry. Profitability has fallen, share prices have weakened, and several leading manufacturers have struggled to meet expectations. In this article, we explore the factors that led to this downturn and the reasons why even large-scale, multi-brand groups have not been able to shield themselves from such challenges. Automotive manufacturers have historically pursued consolidation to gain stability and market share. Mergers, alliances, and shared platforms were meant to create efficiencies and secure competitiveness in a capital-intensive business. Despite these efforts, many of today's largest automotive groups have experienced significant losses in recent times. The industry now faces a costly shift toward electrification, stricter regulations, and growing competition from China's rising automakers.

Consolidation in the Automotive Industry

The automotive industry can be said to be an oligopolistic market; few firms that lead and high barriers to entry. But how did these large groups come to be and essentially dominate the industry? We've all heard of Toyota [NYSE: TM], Ford [NYSE: F], Volkswagen [FWB: VOW] - names that symbolize history, innovation and reliability. They didn't gain this reputation overnight, but with hard work and determination, with failures and, above all, strategic acquisitions.

What started the trend of consolidation in this industry? During the first half of the Twentieth Century, the industry was becoming more concentrated, with small, independent firms going out of business or being acquired by larger firms that had achieved large economies of scale and high brand loyalty. In fact, by the 1960s three firms produced half of the world's output: Ford, General Motors [NYSE: GM] and Chrysler, highlighting the global dominance of US producers. Up until the 1970s, the demand for cars was driven by the growing wage rates, which allowed for standardized products: mass production for mass consumption, leading to significant economies of scale. However, since then, the annual growth rate of the industry has remained quite stable, at just 2%, in large part thanks to the growth of demand in developing countries such as China, Korea and India. Consequently, production in industrialized countries was growing but demand became saturated, resulting in overcapacity. This, in addition to the fact that the industry was mature, favored concentration. Manufacturers merged or formed alliances in order to increase market share and break into new segments. The increase in competition in existing markets pushed producers to diversify their products and introduce new models, SUVs and MPVs, to stay relevant. The constant need for innovation meant higher R&D costs. Companies realized that M&A is a strategic tool and those who don't participate might struggle.

But is consolidation really necessary to survive the automotive industry? The expansion of two famous global brands question this statement: Ford and General Motors. In the 1980s and 1990s, Ford and General Motors aimed to create a multi-brand group through aggressive acquisitions. Ford bought European premium brands to break into the European market. Traditionally, Ford produced mass market cars. By acquiring such companies, it expanded into luxury segments. One of the first acquisitions was in 1989 of Jaguar, valued at $2.5bn. The rationale behind the deal was that Ford was now able to compete with European manufacturers, BMW and Mercedes, on luxury sedans and sport cars. It gained full control of Aston Martin [LSE: AML] in 1991, after buying a majority stake in 1987, allowing it to break into the more niche, luxury market. It strengthened its position in the SUV/off road segment by acquiring Land Rover in 2000 for $2.7bn. Its most expensive acquisition was Volvo [Nasdaq Stockholm: VOLV A], in 1999, valued at $6.45bn. It was the second bidding war for a Swedish carmaker after Saab was acquired by General Motors. Ford reduced its dependence on the domestically-oriented North American

car market, diversifying its product range. The expected synergies were straightforward: Ford aimed to reduce R&D costs, break into the European market and offer a full portfolio, from affordable cars to luxury cars. All brands became part of the Premier Automotive Group. Yet something didn't work. Eventually, all those brands were sold by 2010. Ford grouped large brands under one umbrella in order to achieve scale. But as everyone knows, luxury isn't based on uniformity, but on uniqueness. The PAG became too expensive to carry out, as luxury cars require heavy investment but didn't generate as much. Cultural clashes were bound to happen, as the work culture in the US and Europe are very different, leading to poor management.

General Motors was in a similar situation as Ford. It acquired Opel Automobile and Vauxhall Motors in 1931 and Saab Automobile in 2000 to break into the European market. Opel and Vauxhall already had a strong presence; in 1920, Opel was Germany's biggest car manufacturer. However, post 2000s, there were high labor and production costs, with high competition and overcapacity. Opel and Vauxhall stopped making a profit, with losses adding up to $1bn leading up to the sale of it in 2017. When acquiring Saab in 2000 for $125m, the rationale was simple: Saab was seen to have distinctive engineering, some would say thinking outside the box or even forgetting box, which is what made them famous. General Motors would gain a further foothold in the European market that was booming at the time of the acquisition. However, under General Motors, Saab suffered an identity loss; General Motors was a mass manufacturer, prioritizing scale over specialization and pushed this philosophy onto Saab, trying to make it a rebranded Opel. After the financial crisis hit, General Motors had a restructuring plan that did not include Saab. Additionally, another of General Motor's famous acquisitions and longest entity was Holden. In 1931 GM purchased and merged with Holden, an Australian subsidiary, becoming a single entity. Holden was Australia's major domestic car manufacturer and operated General Motors's right-hand-drive platform. However, things started to take a turn after Holden started to incur large losses: between 2005 and 2006, it had a combined loss of $290m. It continued cutting its workforce and closing assembly lines. The 2008 financial crisis then hit General Motors particularly hard. Exports for General Motors in the US declined by 86% and in 2009 the four-cylinder factories were closed. The global consolidation of the automotive industry made it very hard to sustain a brand that was only operating in two markets, less than one percent of the global industry, leading to an 89 year entity coming to an end.

What both these companies show is that in the automotive sector scale doesn't necessarily imply value. Ford sold all luxury brands and General Motors exited Europe altogether. Without shared vision, a global empire is difficult to manage causing cultural and managerial complexities.

A different way to look at consolidation is through alliances. The first one of this kind is the Renault [ENX.PA: RNO] – Nissan [TYO: 7201] alliance involving a French and Japanese company. The alliance was created in 1999, when Renault purchased a major stake in Nissan for $5.4bn. It aims to increase competitiveness and profitability of each member by leveraging each company's strengths and complementing their strategies. Renault was known for a modern design, with strengths in Europe, while Nissan for its engineering, with strengths in Japan/USA. Choosing an alliance over a merger allowed each brand to keep its identity. The alliance was vital for each company: Nissan needed Renault's cash in order to reduce its debt problem, which reached $20bn, and Renault needed to gain international structure in order to expand. There were significant cost savings and shared infrastructure. The alliance focused on collaboration on electric vehicle projects, being among the firsts to manufacture them. By 2017 they sold over 10.6m vehicles globally. Of course there were certain conflicts as in any partnership: Renault had a larger voting stake than Nissan, creating some governance tension. There were still some cultural differences between the two. The arrest of Carlos Ghosn in 2018, the CEO of both firms put the alliance under extensive study and shook the firms. Yet the alliance endured by focusing on shared initiatives. This is a very good example for the sector that in some cases opting for an alliance might be more beneficial than a full-on merger. Neither one of the brands lost their image, specializing in what they were good at, and are now jointly the 4th biggest car seller.

Another successful story among the large automotive groups is the Volkswagen group. Following the same rationale as General Motors and Ford, it succeeded in all its acquisitions, making it the second largest car manufacturer in the world. Acquired Audi in 1966, after buying a 50% stake, and is valued at around $250-$300m dollars today. Lamborghini was acquired by Audi in 1998, for $111m and Porsche [FWB: P911] in 2012 for $5.66bn. These three brands allowed Volkswagen to have a more high-end sector. It had full ownership of SEAT in 1986, and full ownership of Skoda by 2000 for around $1.2-$1.8bn. It acquired 55.9% of MAN's voting rights for $4.8bn and in 2013 increased its stake to over 75%. In 2008 it bought 68.6% of the voting rights of Scania, and in 2014 had full ownership, valued at $9.3bn. The Volkswagen group gained market and geographic diversification: SEAT had access to younger demographics, Scania gave it access to the commercial vehicles and heavy transport sector, while Skoda had access to Eastern European markets at a lower cost. Brands still maintained their image, while sharing engineering and technology. What Volkswagen did differently than Ford or General Motors is that it concentrated on effective integration: it didn't focus on the number of brands that it acquired, but how they complemented each other in achieving a shared goal. It wasn't about market dominance, but long-term strategy.

Two other companies that followed the statement above are Geely and Stellantis [NYSE: STLA]. They show how strategically executed M&As lead to desired outcomes, at least in terms of synergies realization. Stellantis was formed in 2021 by the merger of Fiat Chrysler and PSA group. The merger was valued at $38bn. While the motivations of the deal are quite general, mainly pursuit of operational synergies and economies of scale and scope, personal interests may have subtly influenced the deal. The leadership of both companies steered the deal that aligned with their corporate strategies. Combining PSA's strong European presence with Fiat Chrysler's presence in North America resulted in significant synergies.

Geely is one of China's largest privately-owned automotive groups, establishing itself as a mass market car producer. Geely achieved international expansion by acquiring western brands. Rationale is very similar to the brands above: break into western, luxury, younger markets and diversify into EVs, while leveraging China's large domestic market. All in all, gaining economies of scope. One of the first acquisitions was that of Volvo Car Group from Ford in 2010, valued at around $1.5bn. Geely was prepared to invest $900m in capital into Volvo in order to use the Swedish name to produce luxury car brands in China. Additionally, Geely acquired a majority stake in Lotus Cars in 2017, opening it up to more niche luxury markets. Smart is a joint venture of Mercedes-Benz [FWB: MBG] and Geely, with a registered capital of $5bn, in order to develop next-generation premium electric smart vehicles. Established in 2016, Lynk&Co was created as a joint venture between Volvo Cars, Geely Auto Group and Geely Holding. This brand focuses more on next-generation mobility and EVs. Geely has leaped from domestic to global reach by acquiring premium brands and using their technology for collaborating on EV platforms. Its focus is on future mobility, with new and modern designs. Geely used consolidation not only as a way to cut costs, but to get ahead of its competitors in the future.

All of the examples above show how consolidation can lead to profitable, new time highs for companies that carefully integrate with other brands. However, there are still leading companies that have decided to stay independent or acquire very few brands. BMW [FWB: BMW], Mercedes and Toyota are good examples that show that staying independent can lead to a beneficial outcome. The first two examples of Ford and General Motors show that combining multiple brands is not always a clear path to commercial success. When staying independent, the companies have full control on strategic decisions; there is no need to balance different work cultures and can make decisions much faster and potentially even better as management is knowledgeable about the area they are working in.

Independent brands can also achieve economies of scale through standardizing platforms, meaning using the same underlying vehicle architecture in order to reduce R&D costs, simplify manufacturing through the usage of the

same plants and same parts. For example, Toyota's TNGA platform is the foundation of most of its cars worldwide. The type of efficiencies that independent brands achieve however is a little bit different than the type multi-brands achieve. In large, independent companies achieve internal economies of scale while multi-brands achieve external economies of scale. Through fewer brands, there are simpler logistics, marketing and governance which lead to an efficient cost base for each car manufactured. Now, it can be seen that for firms with large enough production numbers staying independent in a consolidated industry doesn't necessarily mean more struggles. It may even be more advantageous than acquiring multiple brands just to increase volume of sales. Toyota is the world's largest automaker by volume and profit, and BMW had EBIT margins often above 10%, indicating that independent companies can be just as competitive as multi-brands.

Benefits of Business Combinations for Global Automakers

As explored before, the car manufacturing industry has long been a hub for Mergers and Acquisitions. One of the significant value creators in these types of acquisitions is the accompanying synergies that can be extracted when incorporating the different companies into one another.

Cost synergies cover all available cuts of expenses that become redundant once a new company's systems are implemented and benefit the group as a whole. Especially in a manufacturing and R&D heavy industry like the automotive one, the idea of cost synergies can be a key investment criterion when deciding whether to acquire a company or not. Automotive manufacturers rely heavily on R&D to constantly improve their car design, car technology, and come up with new, groundbreaking innovations that can improve the brand's public perception. Through an acquisition, already researched technology can be shared and leads to a faster creation. The R&D process can become more cost-effective, and the teams can streamline their research efforts and specialize in their expertise. Further adding onto the idea of shared knowledge, through an acquisition, both companies gain from the already existing production resources and mechanisms. The pooling of this will, once more, if implemented correctly, lead to more efficient processes, leading to less waste and improved production. This also ties with the idea of economies of scale, as the greater group is presented with a stronger bargaining power, they can jointly negotiate supplier contracts and try to improve the terms in favor of the newly joint company. A third key focus of cost synergies, in fact, lies in the supply chain optimization and ties with the supply networks of the larger firm. As one now has access to a wider range of suppliers and market power, the idea is to enhance the company's overall inventory management through streamlined processes and to become more resilient to market disruptions. As many final products use similar materials and products in assembling the final product, already existing supplier connections can be leveraged to bolster the production processes. For example, the US, currently due to trade tariffs and blocks, experiences shortages in the supply of certain products needed to produce the final car; a partner with existing inventory could in theory provide the missing materials and enable smoother production. Further, as different entities might possess a different geographical footprint, the local relationships to producers and suppliers can help with political bargaining power trying to push certain beneficial policies for the overall market and region. Becoming overall more efficient and less dependent on single players can help drive down the costs of the combined entity.

The other synergy driver can be identified on the revenue side of the business. The leading idea here is that the combined entity controls a greater market share. Further, as the business combination encompasses two different entities, it is likely that these companies span different markets or products. It hence allows for cross-selling of products and, in general, the opening of new geographies for either company, leading to greater turnover within the group. By combining with an established player in the industries, the entities forgo the efforts to establish themselves and excessive marketing spend as you are implicitly endorsed through your partnership. It hence presents the most straightforward method to break into a new market and geographic regions. An increase in

geographic presence can also be felt through an increase in dealer availability. Already existing car dealers of one brand can extend their existing product offerings as well as services provided. This grants customers new and improved access to the product and can lead to a long-term increase in brand perception and brand loyalty.

A merger, however, is accompanied by risks and potential drawbacks. All the potential synergies are driven by the successful integration of each entity into the new overarching entity. Hence, as seen by the 1998 merger of Daimler-Chrysler, if the integration fails to be executed as anticipated, value will not be generated and each brand will be hurt. As analyzed by KPMG, the leading pain points driven by lack of execution are customer confusion, plant-level disruption, organizational confusion as well as employee turnover. Key clients might not get properly informed about the new corporate guidelines, such as payment or delivery systems, and feel left out in their relationship. This of course, can also happen internally, where plant workers and managers are not informed about new guidelines, and manufacturing processes are producing more waste instead of operating more effectively. It therefore becomes clear the importance of creating a clear plan before the acquisition on how to extract value within the company, as well as avoiding alienating customers with new processes or brands. In the case of automotive manufacturers this can happen with the implementation of single platform or technology processes, as seen in the cases of Volkswagen and Stellantis. These processes might differ starkly from the previous ones and requires management to put emphasis on training staff on new standards and implementation. Further, management might introduce the production of new models into the established plants, leading to more complex processes. Overall, while the final product remains similar, cars can differ starkly in final production and delivery processes and it's important that plant workers are in the loop of company standards and customer expectations to deliver a satisfactory final product.

Another potential risk arising in automotive mergers is market cannibalization, which can arise when to similar companies with overlapping products merge. If your products are competing in similar segments and now you produce the products with the same technology, systems, and research with a shared R&D department, this could lead to customers favoring one product over another, and overall market share can get diluted as new competitors might arise.

A final drawback that can arise is brand dilution, taking Ferrari [BIT: RACE] and Fiat, for example. The two brands did not match, one known for its luxury and exclusivity and the other for cheaper models and mass production. Inevitably leading to the separation of the two entities to ensure customer loyalty and build a clear brand identity for each and focus on the respective manufacturing processes.

While some mergers, such as Daimler-Chrysler or Ferrari-Fiat, don't pan out, there are successful mergers that lead to the realization of significant value creation for the company, primarily driven by synergies. One prominent case is Stellantis, which was formed in 2021 by a merger of Fiat Chrysler Automobiles and the PSA group. The group extensively leverages its manufacturing expertise to produce cars for multiple brands such as Peugeot, Opel, Citroen etc. The platforms incorporate their STLA Small, Medium, Large, and Frame platforms as well as producing platforms for smart cars and light commercial vehicles. The practice of shared platforms leads to rapid product deployment of models as well as decreasing R&D needs, as the group can research for multiple products as they leverage the technology in an interconnected way. When looking at the numbers published by Stellantis, we can see a disclosure of €4bn in synergies in 2024 and the goal of €25bn in total lifetime value from the merger, showing that the group is putting significant efforts into streamlining R&D, common purchasing, and platform sharing. Stellantis is currently focusing on building and acquiring a global network of collaborative projects to further increase UI and further accelerate R&D. To conclude the significant integration efforts by Stellantis, the company announced realized substantial supply chain improvements. Since the merger, the entity was able to increase inventory turnover by 22,7%, generate a decrease in lead times of 17,4% and also decrease procurement

costs per vehicle by 12,5%. In its first 2 years of existence, Stellantis provided a very successful recent example of realized synergies and implementation into combined processes.

Another illustrative example of this is the of Volkswagen Group. Its success with the MQB and MEB, modular platforms, showcases some clear benefits of consolidation. These modular platform architectures allowed VW to produce over 30m vehicles on its shared platforms while simultaneously reducing the component costs per vehicle by 20%. However, not everything worked out as envisioned when trying to implement this expansion across its software division, Cariad. Due to organizational complexities of large-scale integration, Cariad has so far experienced multi-million-dollar losses, and its launch of hardware components has consistently been delayed.

The Automotive Industry Recent Struggles

The first half of 2025 highlighted the tough market conditions that are impacting the global automotive industry. Worldwide car registrations rose by 5% to 37.4m units, but this growth concealed a strong divergence across regions. China, pushed by scrappage incentives and generous subsidies for new electric vehicles, expanded by 12%, while North America managed a modest 2.5% increase. Europe, by contrast, saw registrations decline by 2.4%, with the market down 1.9% in sales figures. Europe's car manufacturer are in fact struggling to adapt to a rapidly changing competitive landscape. For decades, European automakers dominated the global automotive market. In 2019, the region hosted ten of the twenty largest suppliers and four of the top ten OEMs by revenue. Today, however, that position of leadership is under strain. Together, EU-based manufacturers still supply roughly three-quarters of the domestic market, but their global competitiveness has steadily eroded. Since 2017, European carmakers have lost more than 13% in market share. Behind this decline there are numerous structural challenges: higher costs linked to electrification, complex regulation, and the slowdown in consumer demand, particularly for EVs. Factory closures and job cuts have followed.

Recent earnings reports from leading European manufacturers have confirmed this picture. The Volkswagen Group, Europe's largest carmaker, reported a $1.5bn loss in the third quarter, hit by US tariffs and restructuring costs from abandoning an all-electric strategy at Porsche. The group now expects total tariff-related expenses of €5bn this year, while Porsche itself recorded a €966m operating loss, compared to a €974m profit in 2024. Porsche's market capitalization, down nearly 50% since its 2022 IPO, reflects this. Stellantis, often cited as a model of post-merger synergies in the automotive industry, has also incurred significant losses. After reporting €5.6bn in profit in the first half of 2024, the group now expects a €2.3bn net loss for the same period this year. This figure was mainly due to restructuring charges of €3.3bn, which however reflects the company's answer to its recent poor performance, while tariffs contributed a further €300m to costs as shipments in North America fell by a quarter. Volvo Cars, part of China's Geely Group, posted its first operating loss since listing in 2021, with a $1bn operating loss driven by increased tariffs and weaker sales in both Europe and China. Premium stand-alone German brands instead showed diverging results: Mercedes-Benz saw its quarterly EBIT collapse by 70% to €750m, citing restructuring expenses and diminished Chinese demand, while BMW beat operating margin forecasts in Q3 at 5.2%, but earlier in the year had revised its full-year outlook downward.

For US manufacturers the situation appears to be more stable. Despite Ford CEO describing the industry as "a lot of cost and a lot of chaos" the market is seeing resilience. S&P Global recently revised its forecast for US light vehicle sales upward to 16.1m units in 2025, supported by steady consumer spending and relatively stable production. Ford's Q3 profit more than doubled year-on-year to $2.4bn, thanks to strong demand for trucks and SUVs, even though its EV division reported a loss of $1.4bn. Other US automakers, while facing margin compression, also remain profitable.

Looking at the automotive industry as a whole, still, there are clear signs of factors threatening its profitability. These include the transition to electrification, the fragmentation of regulatory regimes, and intensifying global competition particularly from China. What is becoming increasingly clear is that simply having a large scale, including large multi-brand groups, is not sufficient to guarantee protection against such factors and elevated profitability. Groups like Volkswagen and Stellantis are showing that even vast synergies cannot fully offset the combined pressures of policy shifts, technological changes, and geopolitical disruption. A closer look at the drivers behind the sector's recent weak performance reveals how a combination of external pressures and internal inefficiencies in large groups have eroded profitability, even among the industry's biggest players.

The first of these is the capital intensity of the electric transition. The European Union's plan to ban the sale of new combustion-engine cars by 2035, which is however pending review in 2026 after various complaints, has pushed automakers to sustain significant investments in electrification and automotive software. Global electric-vehicle sales continue to expand, expected by McKinsey to account for up to 42% of total global car sales by 2030, but the pace of consumer adoption has lagged behind industry expectations. The result is a wave of write-downs and compressed margins. The cost of batteries remains a particular burden for European producers, who mostly rely on imported components. On top of that, emission and safety standards differ sharply across major markets, undermining global economies of scale and complicating platform sharing. Increasingly stringent safety and digital regulations have driven up vehicle weight and complexity, which in turns have raised production costs and retail prices. For multi-brand groups that once relied on modular platforms to contain expenses, such as Volkswagen's MQB architecture or Stellantis' shared powertrain systems, diverging standards across continents have limited the efficiencies of those shared systems.

At the same time, the rise of Chinese manufacturers is increasing competition among automakers. Domestic players such as BYD, Geely, SAIC (through MG), and NIO are now expanding aggressively into western markets. China has also become the world's leading exporter of passenger cars, surpassing both South Korea and Germany, supported by significant overcapacity and a 30% cost advantage in battery and component production. Despite new protectionist measures, tariffs of up to 45% in Europe and 100% in the United States, Chinese models continue to gain traction among cost-conscious consumers.

Lastly, tariffs introduced between the United States, China, and other key partners have disrupted supply chains and raised input costs, particularly for components sourced from Asia or assembled in Mexico and Canada.

Conclusion

The recent downturn has shown that large automotive groups, despite their broad portfolios and shared platforms, are not immune to structural shocks. Managing multiple brands has delivered cost synergies but also added layers of complexity that often limit flexibility. Integration challenges, divergent market positions, and conflicting brand strategies have eroded some of the benefits once associated with consolidation. As the industry faces rising costs and new competition, success will depend not on how many brands a company controls, but on how effectively it can align them toward a coherent strategy in an increasingly demanding market.

TAGS: M&A, Consolidation, Automotive, Manufacturing