How Incumbents Can Win the EV War

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Rather than following the playbook of Chinese EV companies, incumbents should adopt a more strategic approach tailored to their unique strengths.

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China’s electric vehicle (EV) scene has experienced **marked growth** in recent years. Brands including BYD and Geely have grabbed significant global market share and put **pressure** on EV pioneer Tesla, alongside traditional automakers. This is largely due to their advanced battery technologies, price advantage courtesy of a competitive domestic market and willingness to invest in on-the-ground infrastructure.

In response to strong competition, most incumbents have focused on shoring up their existing internal combustion engine vehicle market share and preserving residual value. Unfortunately, this may not be enough to save them. Volkswagen plans to **close several plants**, while Stellantis CEO Carlos Tavares recently **resigned** two years before the end of his term.

What can traditional automakers in the United States, European Union, Asia and beyond do to catch up? Here are four lessons they can apply to their EV journeys.

1. **Differentiate through premium offerings**

A dangerous knee-jerk response to the entry of lower-priced Chinese EVs would be to adopt a similar low-cost strategy. If not done well, this approach can lead to eroding margins, fewer innovations and potentially deteriorating quality. Indeed, the aviation industry offers a cautionary tale of the long-term consequences of a race to the bottom – the **dramatic fall of Boeing** is partly due to the company chasing cost savings and higher margins.

Still, challenges for incumbent automakers abound. Their **battery technologies** are far behind that of Chinese EV firms. Additionally, their design and digital cockpit are generally less appealing. Prices would therefore have to be set below Chinese offerings to lure consumers, which could mean selling at a loss.

A potential solution would be to go premium and focus on value creation when it comes to the customer experience, especially in terms of mid- to high-end products. Many traditional automakers – think Mercedes-Benz and BMW – have built strong brands over their long history. By maintaining the high quality, rich customer experience and stable life-cycle value they are known for, they continue to differentiate themselves by defending their premium segments, which will take time for Chinese EV firms to build up.

This strategy has worked in other industries. To counteract competition from fast-fashion labels and contract manufacturers, long-standing haute couture and luxury brands like Louis Vuitton and Hermès have focused on quality, design and the total customer experience to add value beyond the functionality of their products. In the tech world, Apple has managed to retain its premium position amid the rise of Samsung and Xiaomi by making the brand synonymous with constant innovation.

At this critical juncture, avoiding a direct price war with Chinese EV companies may be effective, but also risky. It calls for courage, as it may require a trade-off between a short-term loss in market share and long-term success.

Some incumbents have already begun developing advanced technologies for their luxury product lines. For example, Mercedes-Benz has enriched the in-car experienceby introducing an immersive audio system from Dolby Atomos. It has also embarked on a partnership with battery maker CATL to create the EQS luxury sedan. Meanwhile, Volkswagen has worked with software company Cerence to integrate ChatGPT into its vehicles to enhance the user experience.

2. **Forge the right partnerships**

Speed is key in an era of rapid technological evolution. Although developing core technologies in-house provides full control and can yield long-term competitive advantage, progress can be slow. Collaborating with EV battery makers or even Chinese EV automakers themselves can be a viable alternative.

The right partnerships leverage the strengths of both parties. Incumbent automakers have the brand recognition, market access, distribution channels and connections with local institutions and communities, while battery makers and Chinese EV manufacturers bring advance technologies and low production costs. This combination can accelerate incumbents' time to market and potentially result in a superior product. Both sides stand to gain from teaming up.

Such a strategy has worked well in other industries. A recent example comes from the world of GenAI (generative AI), where the partnership between Microsoft and OpenAI combines the market power and corporate access of Microsoft with the rapid technological development of OpenAI. This approach requires carefully negotiated partnership contracts. Mistrust or suspicion could eliminate potential benefits.

Encouragingly, many such collaborations have sprouted in recent years. For example, Stellantis has partnered with Chinese automaker Leapmotor **to produce EVs** in Poland for the European market. Volkswagen has also entered into an agreement with Chinese EV maker XPENG on **platform and software collaborations** to "drive its e-offensive in China". The partnership between **BMW and Zapata AI** has boosted the former's operational efficiency by reducing idle time and optimising the achievement of production targets.

3. **Orchestrate the mobility ecosystem**

One subtle yet profound shift in the automotive industry has been the shake-up of the industry value chain. When it comes to the adoption of new technologies, channels, services and infrastructure all become critical to attract early adopters and convert consumers.

As an example, direct-to-consumer (D2C) stores by EV brands including Tesla and Xiaomi have disrupted traditional dealership networks. The D2C model allows for a direct feedback loop from the consumer back to the manufacturer. Take Tesla CEO Elon Musk, who famously hosts periodic meetings with early Tesla customers to obtain their input. This shortens the consumer feedback cycle.

As younger generations and urban dwellers reconsider the automotive ownership model, automakers old and new are experimenting with mobility solutions such as digital platforms, mobile interfaces and real-time asset management. Incumbents must try to shape the entire EV ecosystem around their core product with partners from adjacent industries. This includes everything from understanding mobility patterns and constructing charging stations to redesigning electric grids and influencing policy.

The good news is they have several advantages over newcomers. First, their deep understanding of the local context can help them build viable solutions without stepping into obvious traps. For example, strategically placing charging stations in and around the city centre in Paris requires tacit knowledge of the local context, which Chinese EV makers may not possess.

Second, incumbents are likely already embedded within their local communities. They often represent national, regional or local pride, provide employment, directly or indirectly support local economies and sponsor local activities and events. In Germany, automakers have long been the backbone of the economy and attract international conferences like the International Motor Show Germany and incubators like Startup Autobahn.

Third, incumbents can be better positioned to shape regulations and policies. For example, reconfiguring electricity grids in a country to support EV charging goes beyond laying new cables. The decision is likely to affect various political and economic parties and must be tied back to the national energy security plan. A domestic brand can be much more informed and influential on this front than foreign newcomers.

Successful examples can be found in retail. In the US, Walmart managed to leverage its scale, technology and supply chain advantage to reconfigure its systems around e-commerce and fend off Amazon’s aggressive challenge. It converted many of its larger stores into warehouses, which won support from its employees and the communities it operates in. Similarly, in China, JD.com extended its original brick-and-mortar network and built new ecosystems around e-commerce logistics including last-mile deliveries. Today, the company stands strong against digital natives like Alibaba and PinDuoDuo.

4. **Explore alternative technologies**

The Chinese EV industry got a headstart on battery technologies in the domestic market. Building on its dominance in current lithium-based batteries, China has already moved on to **developing solid-state batteries** for EVs. It will be challenging for incumbent automakers to level the playing field in a short period of time. They should therefore explore other pathways for technological advancement. For instance, in addition to establishing itself as a pioneer in solid-state battery **research and production**, Toyota has gone against the grain by exploring an alternative battery technology – the hydrogen cell.

Similar lessons can be drawn from the tech industry. After Microsoft, Google and Alibaba successfully moved into cloud technologies, fencing off cloud natives such as Salesforce, they invested heavily in GenAI to strengthen their dominance. Today, they continue to bet on quantum computing– the next battleground in the coming decades.

As large incumbents attempt to catch up to Chinese EV brands, they often struggle to break with the past and overcome operational and cultural barriers to speedily roll out new inventions. Putting their energy into what they anticipate will be the next wave of disruptive technologies could be a more effective way to leapfrog the newcomers.

Making the leap

The EV war has only just begun. When facing the new challengers from China, the pressure to put up good performance figures may influence incumbents to focus on direct competition in the immediate term, which can lead to panic, fear and chaos.

In fact, incumbents have much more to offer from their brand power and market influence, as well as their knowledge of and relationships with local communities. To regain their footing and take a step forward, established automakers should explore strategic options such as premiumisation, alliances and partnerships, end-to-end ecosystem orchestration and alternative technologies. This could help them re-establish themselves as pioneers in the long run.

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