Point of view: Why Apple should build a car

By Arjen Bongard

Amid all the talk of new players in the automotive space, there’s one company that’s clearly best positioned for such a move: Apple.

The California computer maker has proven that it has the power and creativity to pull a mature market into new directions. It has the support and admiration of millions – if not billions – of customers worldwide. Its profits are soaring. And, with 60 billion dollars in cash and marketable securities, Apple has the money to enter a new industry in a big way.

An iCar is a compelling idea. Its design would appeal to millions of owners of iPods, iPhones and iPads. It would generate new buying interest among younger people, whose automotive appetite is currently in question. Given its pedigree, Apple would, no doubt, equip an iCar with stylish and innovative information and communication technology. And the company would have no historical baggage to shed when it brings to market an all-electric vehicle.

What’s in it for Apple? The computer and mobile phone market is a crowded space. Apple’s innovation – as with the iPad – is quickly copied. Margins are high initially, but they taper off quickly. A new market would help Apple maintain its strong growth rate of recent years. It would also give it a product with a much higher sticker price than the average computer or smartphone. That could automatically generate higher profits. And Apple gets an opportunity to lead a global rapprochement between the automotive and consumer-entertainment industries.

It is in this area that a computer company can arguably make the biggest difference. After years of skepticism in the auto industry, the car is now well on its way to becoming, in Microsoft’s words “a mobile node in a network.” The connected car is accepted as the standard for new mobility. And in-car IT has become so important that this month’s huge Las Vegas Consumer Electronics Show (CES) featured not one, but two keynote addresses by auto company CEOs: Ford’s Alan Mulally and Audi’s Rupert Stadler.

It’s also the right time for an Apple move because it’s never been easier to enter the huge automotive market. Established structures are rapidly disappearing. Old automotive players are on a steep learning curve to deal with the decline of the combustion engine and the coming of the electric era. This game is open to entrants from all industries.

There’s another reason non-automotive companies can join the party. They don’t need as much expertise and experience as was required to build a car, say, 20 or 30 years ago.
Carmakers don’t build many of the components themselves. Instead, they put together cars from modules bought from other companies. Computer companies operate the same way. And they do it very well.

Technology can be purchased from suppliers and from other carmakers. For example, battery technology, a crucial component of the new car, comes from independent suppliers. When it comes to powertrains, premium carmaker BMW is selling engines to Saab. In the mass market, competitors Toyota and Peugeot happily build a small car together in the Czech Republic. Car companies put their brands on cars built by competitors. Any aspiring carmaker, including a company like Apple, can buy what it doesn’t have in-house.

Possibly the most compelling reason for Apple to enter the car market is that electric vehicles make old competitive structures obsolete. Market researchers Frost & Sullivan noted, in a recent study, that so-called “mobility integrators” may well steal a march on traditional car companies. The analysts said utilities, mobile-phone operators, battery makers, telematics services providers and others all have a chance to enter the electric-vehicle market.

In some ways, the new car market is like the old market 100 years ago, when there were hundreds of brands worldwide, compared with just a few handfuls today.

Munich’s eCarTec electric-mobility fair last year is a prime example. Half the floor space was filled with companies showing how relatively easy it is to build an electric vehicle. Many of them are small and too poorly financed to make a large-scale commercial success of their vehicles. But Apple could.

There is one potential hurdle Apple would have to cross and that’s manufacturing. Whereas most car companies build the final product themselves, Apple uses contract manufacturers all the way through.

But in-house production is not a must for a carmaker. Most auto companies used contract manufacturers for some of their models for years. A few years ago, most brought production back in-house to fill idle plant capacity. But they didn’t do so because contract manufacturing didn’t work. It did – and it can work again. Apple can prove it.

An Apple iCar would be new and original. And it would most likely move the auto business in yet another new direction. That could be just what the car industry needs as it enter the electric-car era.

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