

“Luxury components can’t fill a factory”

Interview: The products of Stuttgart company Mahle are used both in luxury cars and in cheap Chinese vehicles.

The new CEO Arnd Franz explains how Mahle is positioning itself in the face of such diverse requirements.

The automotive supplier Mahle is looking for new business in e-mobility, but also sees further demand worldwide for traditional drives. “We will serve the demand for combustion engine components as long as the customers want them,” says Mahle CEO Arnd Franz. The new Chairman of the Group Management Board believes synthetic fuels could come on the market for “well under two Euros” per liter.

Mr. Franz, the combustion engine is still an important mainstay for Mahle. What does it mean for this technology that the EU will only allow it after 2035 if it runs on synthetic fuel?

We can see that there are a number of factors that make the ramp-up to pure e-mobility difficult. Among those are the availability of power and battery raw materials, the durability of batteries, and to what extent a circular economy can be established with the raw materials. Other points are the charging infrastructure and the battery costs. Therefore it is responsible and correct that the policy has left the door open for alternatives to purely battery-powered mobility.

Will synthetic fuels be available in the quantities required and at affordable prices?

I’m convinced that prices well under two Euros per liter are possible. Then there is the tax treatment. The German Federal Minister of Finance intends to differentiate between synthetic and fossil fuels.

E-fuels are needed for a climate-neutral fleet of combustion vehicles, but in large quantities. Can this volume even be produced?

We will have to look for low-cost and climate-neutral options for the manufacture of synthetic fuels. From our point of view, the Middle East is the cheapest location for their manufacture.

Car manufacturers, especially Mercedes and VW, are applying themselves entirely to battery electric mobility. As a supplier, how does it benefit you to be active in different technologies than your buyers?

Each manufacturer makes its own strategic decisions. However, we see that many of our customers aren’t putting everything in one basket. This includes not only BMW but also all of the Japanese and many of the Chinese and North American customers. We therefore assume that combustion engines will continue to play a significant role globally after 2035. It will even become larger in world regions like South America, Southeast Asia, and India. We will serve the demand for combustion engine components as long as the customers want them.

Is it wise for the EU to exit a market in which German industry is a global leader?

We are in favor of technological competition, including when it comes to decarbonization. Europe, on the other hand, is in the process of abandoning technology in which we were a global leader. Vehicle and engine manufacturers in China and elsewhere are already catching up quickly, and in some cases have already caught up with Europe. In ten years, there will still be parts of Europe, especially in Eastern Europe, where it will be difficult to cover mobility needs with battery electric vehicles.

China is also the largest market in the world for electric vehicles. What significance does combustion technology have there?

In perspective, China is an important market for combustion vehicles, but also for electric vehicles, fuel cells, and hydrogen motors. We have two large locations there which manufacture power electronics and drives for electric vehicles. China has massive locational advantages not only in wage costs but also when it comes to energy prices, which aren't even a fifth of what we pay in Europe.

Will the Chinese manufacturers establish themselves in Germany?

Yes, similar to how Japanese and Korean car manufacturers have done in past decades. But the Chinese revise their models and technologies significantly faster. With strong importers and a functional service network in Europe, market success could happen relatively quickly.

How much is Mahle involved in Chinese cars?

With Japanese car manufacturers, it took us 20 years to achieve 75% of the business volume that we have with German manufacturers. With the Chinese, it's going much faster. Electrification and thermal management are the key drivers, just like in other markets.

Is it good if German manufacturers flee from the cheap Chinese suppliers into the luxury segment? Don't they also have an obligation to offer mobility for everyone from Germany?

The German manufacturers have had a share of 80% or more in the premium segment of the global market for a long time. That's what the brands live on. It's their strategy.

What is the strategy at Mahle?

We supply everyone: Luxury, premium, volume, and niche. With electrification, thermal management, and engine components. But we can't fill a factory just with components for the luxury segment. For that, we need volume. Only then can we be competitive. At the same time, the orders from the premium and luxury sectors are important. That is where high-tech solutions that provide the necessary innovation push are called for.

That is the company's view. How do you see the development as a citizen? It's also about where the jobs are located...

As a German citizen, I say: We must stay at the top in technology and competitiveness. Only then can our locations here grow. For us, the following applies: We produce where the demand is. Of the 72,000 employees of Mahle, 10,000 work in Germany. Each and every employee is important to me, in Brazil and in China as well as in Stuttgart.

What can you say so far about the business figures for 2022?

We grew organically by 10% last year—the currency exchange rate effect has already been factored out. Our sales volume increased from 10.9 to 12.4 billion Euros. Operationally, we are in the black. Our return on sales exceeded 2011, our previous best year, by 7%. That indicates the direction in which we want to keep moving.

Person

Troubled Times The business graduate Arnd Franz, born in Stuttgart in 1965, is the fourth director of the automotive supplier Mahle in five years. He came in November 2022 from the spare parts supplier LKQ Europe in Switzerland, to which he had moved in 2019 after 18 years at Mahle. His predecessor, Matthias Arleth, who was perhaps too heavily focused on e-mobility, had to vacate the post after only four months due to “a difference of opinions” on the corporate strategy.

Figures

The Stuttgart-based foundation group Mahle will present its balance sheet for the 2022 business year on April 24. It is already known that the sales volume increased by more than 10% to 12.4 billion Euros. According to Arnd Franz, the operational business activity of the automotive supplier is therefore in the black. mas