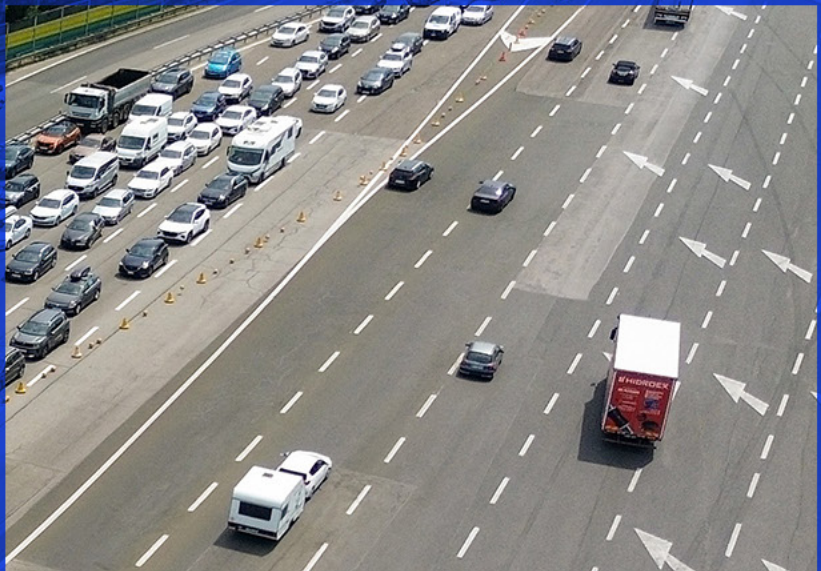




# Passenger car suppliers can drive growth in a different lane

Unlocking Tier 1 growth in commercial and off-highway markets



# Contents



▶ Opportunities for suppliers



▶ Challenges to entry into CV OH market



▶ M&A transactions:  
An effective approach



▶ How KPMG can help

# Introduction

Faced with a mature market, today's Tier 1 suppliers for passenger vehicles (PVs) are looking for growth in new areas. The PV market is highly commoditized and efficient, resulting in low profit margins and minimal expansion. LMC predicts a 2025–2029 compound annual growth rate (CAGR) in North America and Europe of only 0.7 percent.<sup>1</sup> The traditional playbook—innovation and cost reduction—is no longer enough.

The need for transformation is not news to Tier 1 PV suppliers. What's missing is a clear, actionable roadmap for where and how to diversify. We believe that Tier 1 PV suppliers should consider the commercial/off-highway (CV OH) market as a key opportunity. Over the next five years, the CV OH market in North America and Europe is expected to grow at 4.3 percent CAGR.<sup>2</sup> By segments, heavy-duty commercial trucks are forecast to grow fastest, followed by medium-duty trucks, agriculture, and then construction.

This paper discusses new opportunities in the CV OH market; challenges for market entry; and tested, strategic approaches for market entry that can help support new and sustainable growth for Tier 1 suppliers.

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<sup>1</sup> LMC Automotive, KPMG analysis

<sup>2</sup> Power System Research



# Opportunities for suppliers

The CV OH market offers Tier 1 suppliers several advantages. Beyond steady overall growth, it provides higher price points and margins for trucks, trailers, agricultural vehicles, and construction equipment.<sup>3</sup>

Annual maintenance costs for commercial vehicles are also substantially higher than those for PVs, due to greater mileage, more expensive parts, and costly maintenance for heavy-duty usage in rugged environments.<sup>4</sup> This helps ensure a strong aftermarket with continued revenue for suppliers.

In addition, the CV OH market offers business cycles that are different from PV markets. This can provide earnings stability for suppliers. Some companies like Volkswagen and Tata operate across both passenger and commercial segments, thereby offering suppliers the opportunity to leverage synergies.<sup>5</sup>

Another benefit is that CV OH vehicles have and will remain at lower levels of electrification than passenger vehicles, according to International Energy Agency (IEA) data.<sup>6</sup> This makes the market less vulnerable to shrinking market opportunities faced by traditional PV suppliers that don't support electrification.

## EV Penetration by segment in North America and Europe

Type	2025	2030F
Passenger vehicles	13%	29%
Commercial	6%	21%

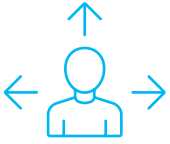
Finally, many raw materials such as metals, rubber, resins, etc., and fabrication processes are similar across PVs and CVs. Tier 1 and 2 suppliers can support both markets with incremental changes in specifications and equipment.

<sup>3</sup> KPMG research

<sup>4</sup> KPMG research

<sup>5</sup> KPMG research

<sup>6</sup> Report, IEA, <https://www.iea.org/reports/global-ev-outlook-2023/prospects-for-electric-vehicle-deployment>



# Challenges to entry into CV OH market

Tier 1 PV suppliers face a few challenges entering the CV OH market, ranging from product requirements to long-term support and service.

CV OH original equipment manufacturers (OEMs) prioritize durability, customization, and long lifecycle support over the cost-efficiency and volume orientation typical in the PV market. CV OH machinery demand components designed to withstand harsh conditions such as dust, vibration, extreme temperatures, and heavy loads. Tier 1 and 2 suppliers may have to re-engineer systems like hydraulics, drivetrains, and electronics to meet these rugged standards.

Suppliers must also adapt to longer development cycles and more collaborative engineering relationships. CV OH segments are highly fragmented, with smaller production volumes and niche applications. Add to this the cost of larger dies and equipment to handle larger parts. This limits economies of scale and requires tailored solutions, which can be cost-prohibitive for suppliers used to high-volume PV production.

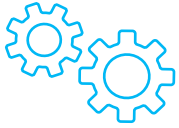
In addition, sales and marketing approaches can differ significantly between the two markets because CV OH OEMs have a different buying process and require a dedicated sales force that understands their industry and customers. Limited brand recognition in CV OH and trust can be a barrier to market entry, and PV suppliers may lack credibility where OEMs demand proven reliability for products operating in harsh environments.

Tier 1 suppliers must also navigate standards like Environmental Protection Agency (EPA) Tier 4<sup>7</sup> or EU Stage V for OH engines,<sup>8</sup> which are different from PV norms. Finally, CV OH OEMs often demand field service capabilities, so suppliers must invest in aftermarket infrastructures and logistics tailored to remote or industrial settings.



<sup>7</sup> "Final Rule for Control of Emissions of Air Pollution From Nonroad Diesel Engines and Fuel," EPA, June 29, 2004

<sup>8</sup> EUR-Lex, European Union, <https://eur-lex.europa.eu/eli/reg/2016/1628/oj/eng>



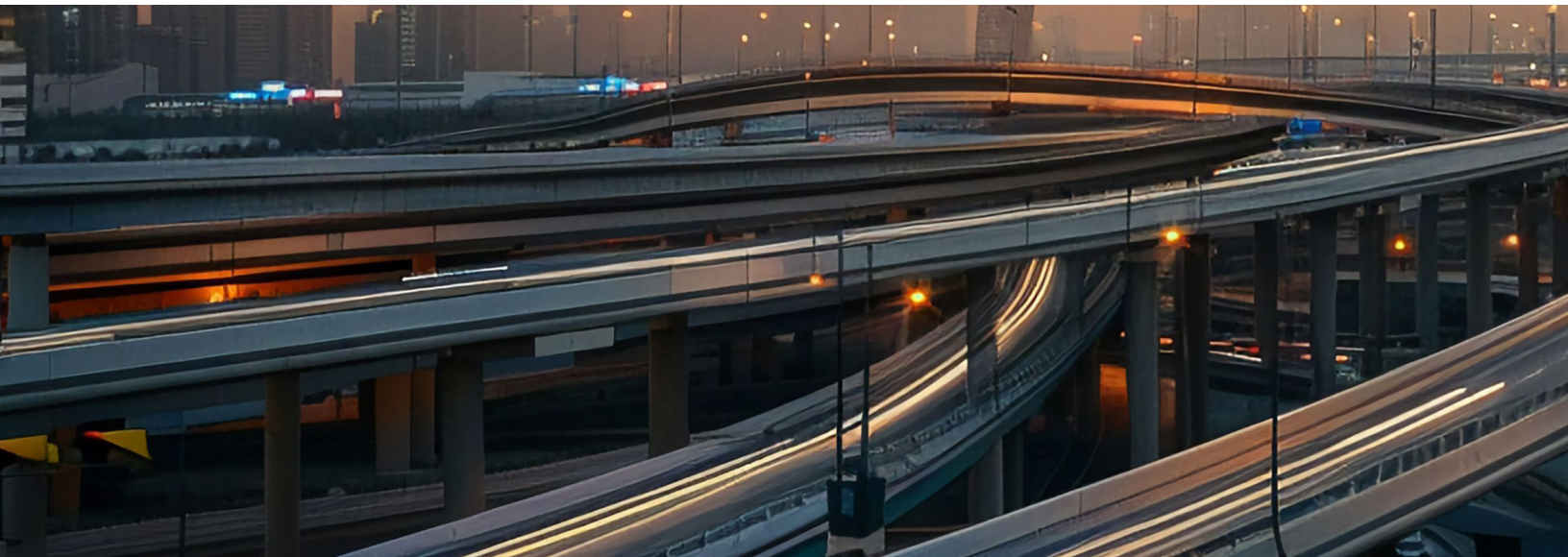
# M&A transactions: An effective approach

Despite market differences, the CV OH market is a “cousin” to the PV market, sharing several operational requirements, technologies, and business models. Entering this market through organic growth might take 10 to 20 years. However, current market conditions, including a potential market upturn, suggest that Tier 1 PV suppliers should consider merger and acquisition (M&A) transactions as a more effective way to establish market presence.

Tier 1 PV suppliers can begin by acquiring niche assets and expanding into stable revenue streams. M&A transactions allow Tier 1 PV suppliers to bypass long research and development cycles and gain immediate access to proven technologies tailored for harsh environments.

## Key questions to ask yourself

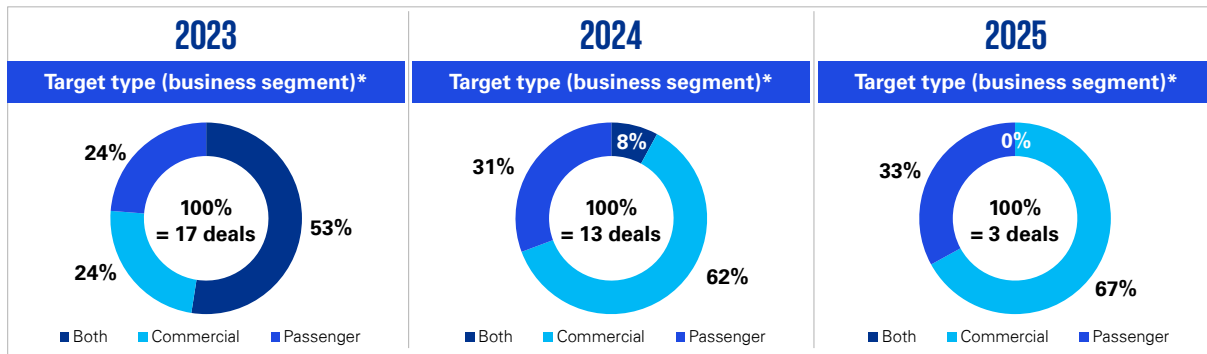
- Has your company maxed out its ability to grow in the passenger car market?
- Is your manufacturing process flexible enough to be able to operate at the lower volumes of the CV OH industry (or run both in parallel)?
- Are your design, sales, service, and management systems able to operate in the more bespoke and customized approach that is required for the CV OH market?



Acquiring CV OH suppliers can open doors to new OEM relationships and geographic markets, especially in infrastructure-heavy regions like Europe, Southeast Asia, and Latin America.<sup>9</sup> Many CV OH suppliers are mid-sized and family-owned, making them attractive targets for strategic acquisition.<sup>10</sup> These firms often seek capital, digital capabilities, or succession solutions—creating benefits for both parties in the deal.

Companies are starting down this path (KPMG has advised several in 2025). This is the time for considering expansion to this adjacent market due to the rising cycle of the CV OH industry and the macroeconomic trend of countries reindustrializing. Data below shows CV Tier 1 suppliers are increasingly the focus of M&A activity since 2023 (growing from 24 percent of all targets in 2023 to 67 percent of all targets in 2025):

### Analysis of M&A activity between Tier 1 suppliers



<sup>9</sup> "Global Automotive Industry M&A and Investment Opportunities," GlobalAutoIndustry.com, <https://globalautoindustry.com/global-automotive-mergers-acquisitions/>

<sup>10</sup> "Automotive M&A: Challenges and Opportunities for Mid-Market Suppliers," BRG, August 2025



# How KPMG can help

Automotive suppliers know the market is changing. The real question is how to respond—how to move beyond awareness to action, and how to capture sustainable growth in the CV OH market. KPMG has a differentiated approach that provides the roadmap: practical, data-driven, and focused on operational excellence.

KPMG provides automotive Tier 1 suppliers, OEMs, and investors with a holistic approach that combines deep industry experience, strategic foresight, and leading technology. The KPMG point of view stands apart from its peers in several key ways:

01

**Multidisciplinary, wide-ranging support:** KPMG brings together Advisory, Tax, and operational specialists to support clients from opportunity assessment through integration and ongoing performance improvement.

02

**Commercial strategy:** KPMG leverages deep automotive industry experience to guide clients through every stage of growth. This includes conducting preapproach market studies to identify the right segment, performing commercial due diligence once a target is selected, assessing and capturing revenue synergies, and finally designing and integrating sales and marketing operations to help ensure the combined company achieves its strategic objectives.

03

**Data-driven synergy identification:** KPMG leverages proprietary deal data and industry benchmarks to identify and quantify synergies throughout the integration process, helping ensure that value is captured at every stage.



04 ▶

**Integrated value delivery:** KPMG goes beyond traditional due diligence with a framework that combines opportunity assessment, operational planning, and synergy realization. Practical, data-driven, and tailored to CV OH demands, this approach helps ensure value capture at every stage.

05 ▶

**Operational transformation and execution focus:** Unlike peers who emphasize strategic positioning, KPMG helps clients design and implement new operating models, supply chain processes, and digital control towers. The focus is on sustainable, margin-accretive growth, not just theoretical opportunity.

06 ▶

**Environmental, social, and governance and resilience embedded in strategy:** KPMG integrates sustainability and risk management into every aspect of transformation, helping clients build future-ready businesses.

We encourage automotive Tier 1 suppliers, OEMs, and investors to talk with us and learn more about new market developments, key economic insights, and tested strategies. For today's industry leaders, the goal is not only about finding new lanes for growth but also about driving transformation with confidence, resilience, and lasting value.

## Authors:

**Bala Lakshman**

*Principal*

**E:** blakshman@kpmg.com

**Lawrence Walmsley**

*Director*

**E:** lawrencewalmsley@kpmg.com

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