

Automotive Industry Hungary

2019

Automotive CEO Survey

Report on the Hungarian
Automotive Industry





THE SURVEY WAS CONDUCTED BY
HIPA – Hungarian Investment Promotion Agency

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Content page

- 7** Foreword
- 9** Executive summary
- 10** Automotive industry: Fact and Figures
- 14** General information about the survey
- 16** Technology & Innovation
- 26** People
- 38** Suppliers
- 46** HIPA introduction
- 48** Investment incentives
- 52** Supplier services

Foreword



Róbert Ésik
President, HIPA

The Hungarian automotive industry has a history of nearly 120 years. Today the automotive industry is the flagship sector of the Hungarian economy, and is constantly growing in terms of sales, headcount and rate of investments. Between 2016 and 2018 the Hungarian Investment Promotion Agency (HIPA) was involved in 265 positive investment decisions in favour of Hungary, representing more than 51,000 new jobs and EUR 11 billion in investment volume. During the last three years the automotive sector in Hungary attracted over EUR 6 billion with the impact of more than 25,000 newly created jobs.

In the meantime, the industry is undergoing a major global transformation characterized by emerging new technologies, increasingly technology intensive production processes, new business models and changing customer behaviour as well as market uncertainties and regulatory challenges.

Considering the importance of the sector in respect to national economic development and from an FDI perspective, and in order to examine and outline the current trends and tendencies in the automotive industry in Hungary, HIPA has conducted the Automotive Industry Hungary 2019 Survey.

Our goal with the survey is to provide a comprehensive overview of the automotive sector in respect to industry trends, HR and supplier related matters. The report also provides some key insights into the expected strategies of industry players in the coming years. Compiling the responses of the automotive leaders is also important to allow us to prepare policy recommendations and proposals regarding improvements in the competitiveness and business environment of Hungary.

During April and May 2019, 49 automotive executives completed the Automotive Industry Hungary 2019 Survey. Subsequent interviews were focused on issues such as the Hungarian business environment, market and technology trends, investment opportunities, relationships between suppliers and OEMs, and HR related matters.

I would like to express our appreciation to the representatives of the companies involved in the Automotive Industry Hungary 2019 Survey for their support and contribution.



Executive Summary

The automotive industry has evolved significantly over the last decade. A developing business environment, digital technologies and complex changes in customer needs have played a significant role in this evolution. The industry is currently undergoing a significant transformation driven by changes in technology, rapid digitalisation, changing consumer habits and a growing focus on environmental and social responsibility.

Factors such as a decline in vehicle sales in China, uncertainties caused by Brexit, the United States-Mexico-Canada Agreement (USMCA) deal and the US – China trade war may significantly affect the industry. The companies are threatened by the new import tariffs and raw material cost increases. In parallel with these, strict emission reduction policies are being implemented, customer preferences are rapidly changing and the players in the automotive industry are called upon to make continuous technological innovations.

In the field of technology, Internet of Things (IoT) and Artificial Intelligence (AI) will continue to change the automotive sector, while the vehicles of the future will be electric, autonomous, connected and shared.

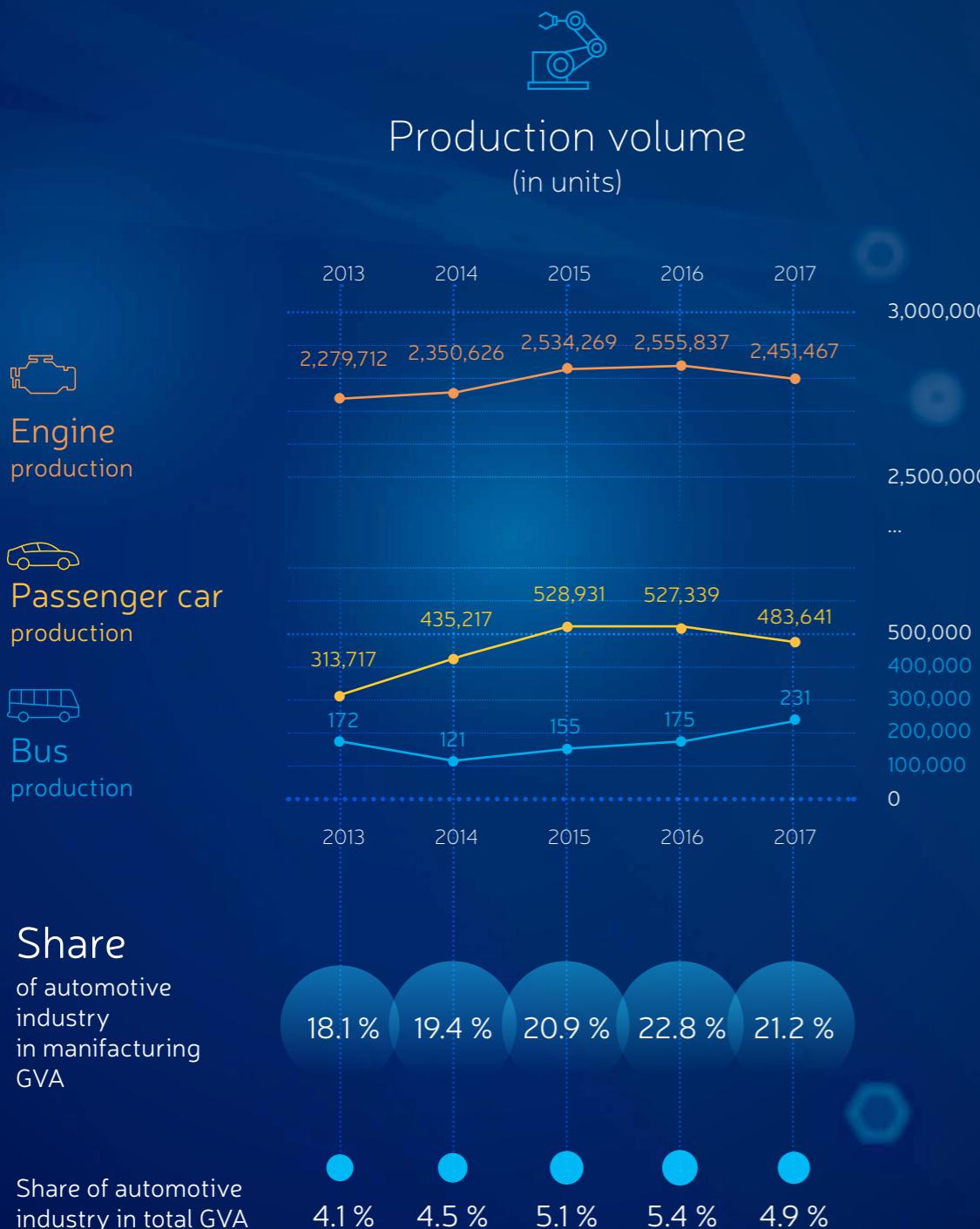
Suppliers are expected to face several challenges. Slowing growth will put pressure on their financial numbers and create a need to find new ways for their activities and growth. They will have to invest in new technologies and quickly build up new competencies and capabilities. In addition, integrator companies will demand that their suppliers take a bigger role in product development and innovation.

Despite the rapid technological changes, people will remain at the centre of the automotive production system. Employees need totally different skills, knowledge and training than ever before. There is a pressing need for the education system and industry to be closely aligned. The training, development, and education of employees provides benefits for the employer in terms of increased productivity, knowledge, loyalty and contribution from employees.

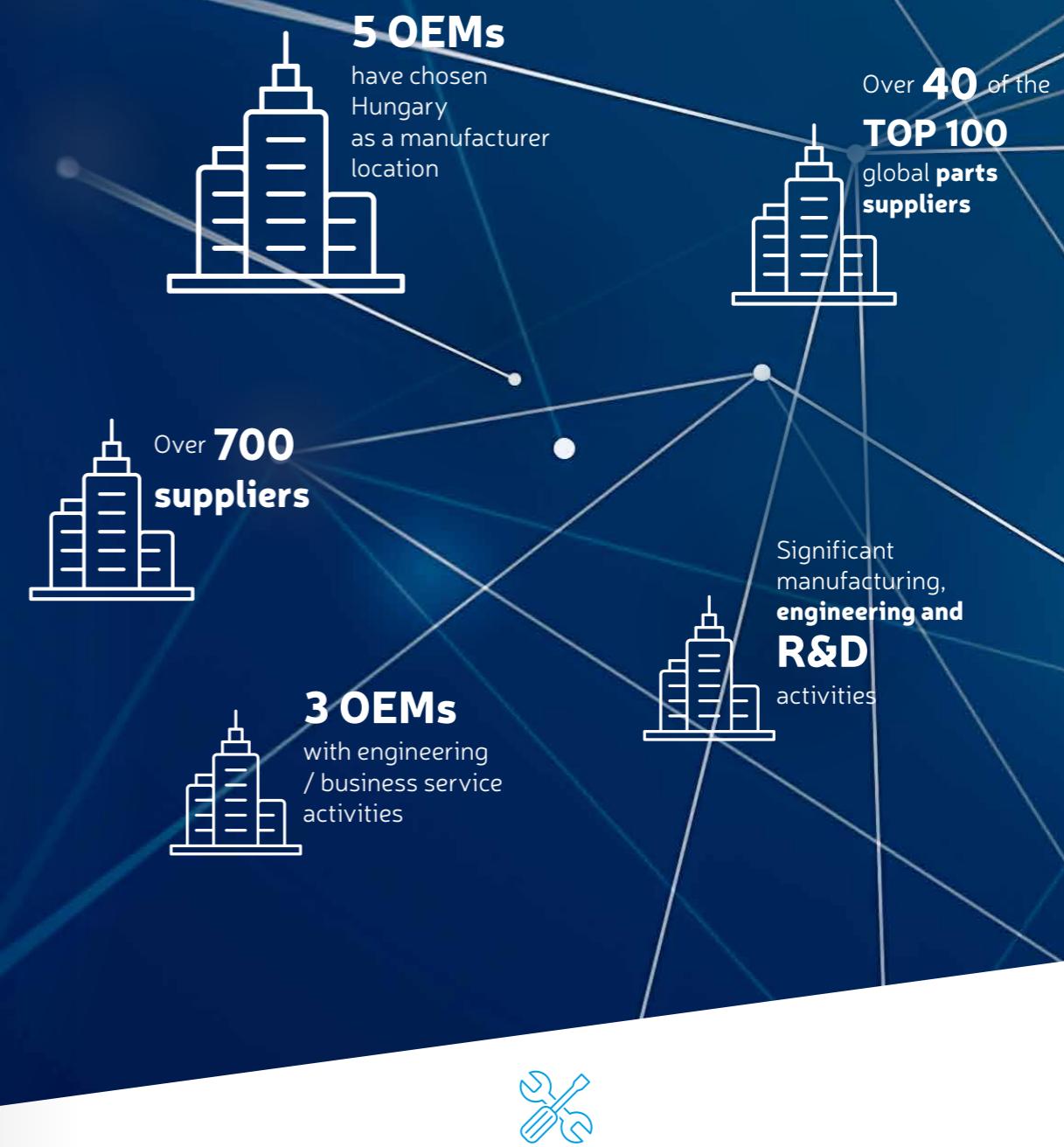
In summary, during recent decades the automotive industry and its market players have achieved great success and the sector has become one of the main drivers of the Hungarian economy. Hungary has also obtained key references in the area of electromobility and the development of autonomous vehicles, which will help us to ensure that the sector remains future proof in our country. Based on Hungarian expertise, productivity and creativity combined with the favourable location of the country, Hungary has gained a strong position among the best automotive locations in Europe where the industry players are planning for the long term and developing their strategies in line with the transformation of the sector.

Automotive industry

Facts & figures



Source: Hungarian Central Statistical Office (HCSO)



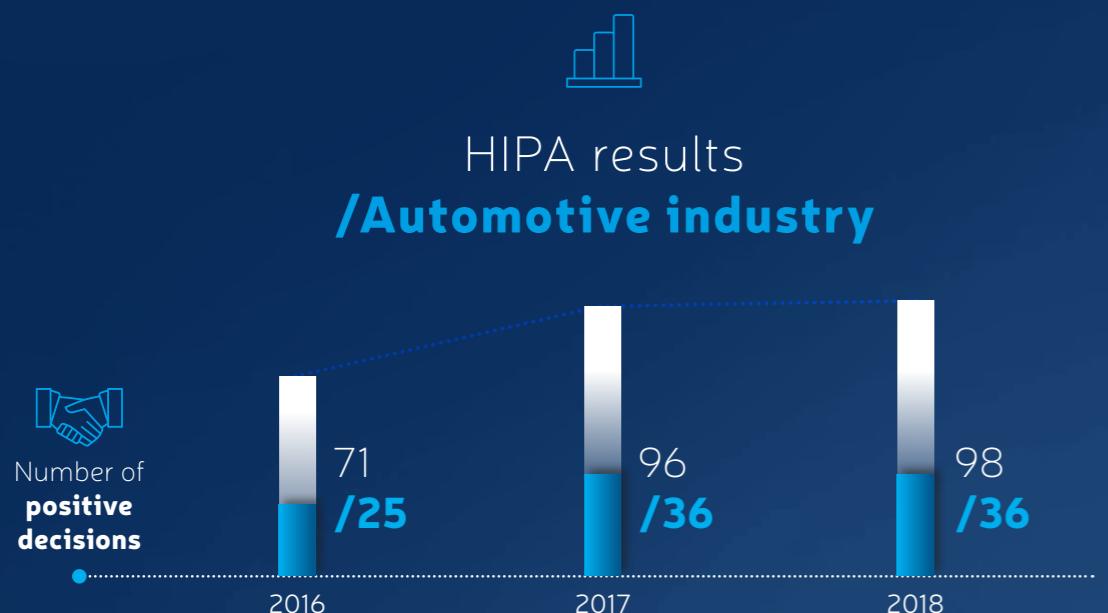
Hungary's automotive value added has been growing significantly. The sector's growing importance in Hungary is reflected by its increasing contribution to the total value added. The automotive sector accounts for a 4.9% share of total gross value added (GVA), and a 21.2% share of the manufacturing GVA in 2017. The production value of the automotive sector reached EUR 26.8 billion in 2018. The export sales of the automotive industry accounted for 34.8% of total export sales of the manufacturing sector in Hungary reaching EUR 24.1 billion. The share of exports in total sales in the automotive sector was around 90%.



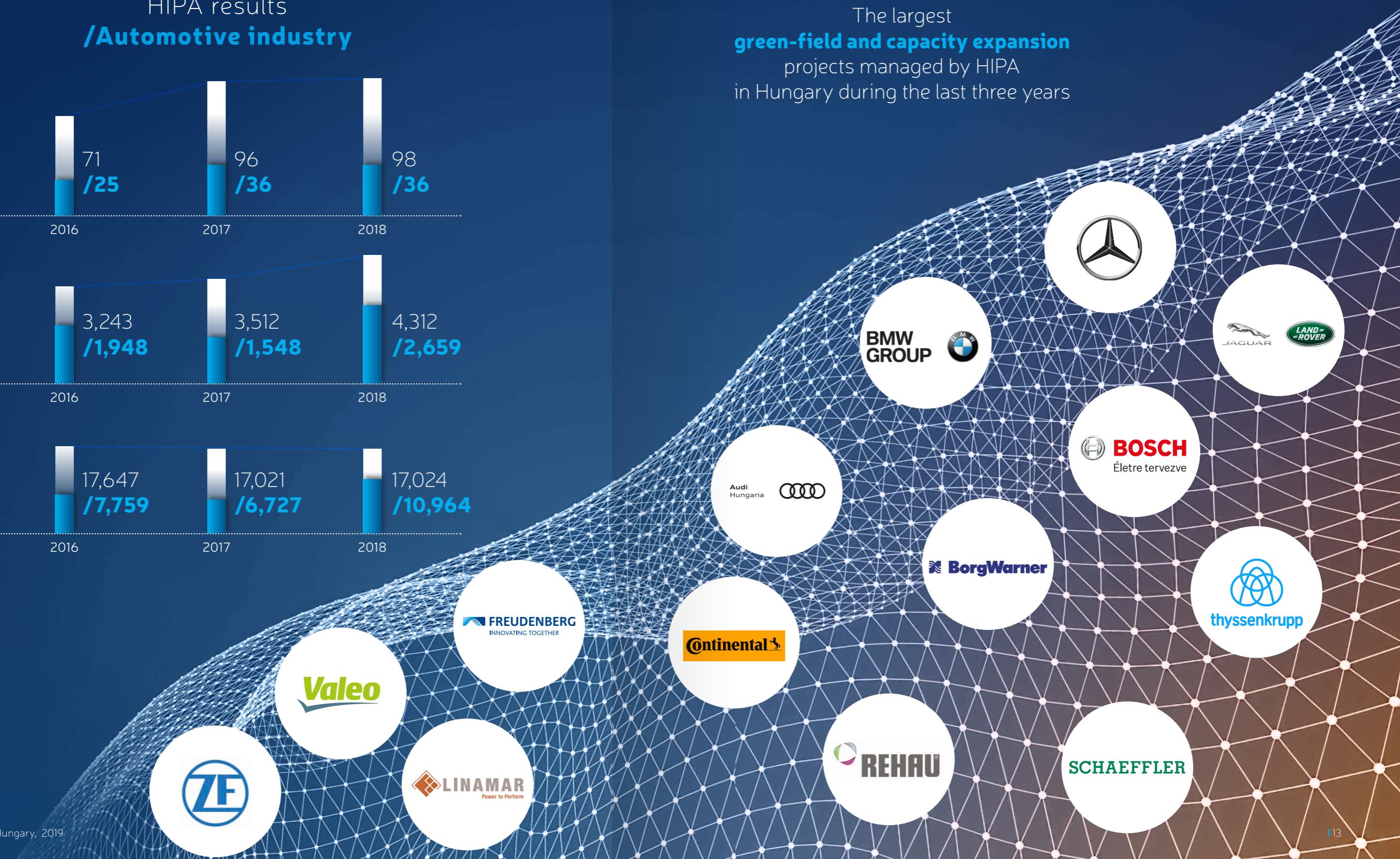
Annual car production is around half a million passenger cars, while engine production exceeds two million engines per year in Hungary. Production of automotive parts is especially important for the country. Hungary is a regional leader in the production of engines, but significant production bases have been established in the fields of tyre, battery, auto glass, steering systems, power train systems, and automotive electronics, etc. The automotive sector provides 3.9% of total employment. The number of employed persons in the sector amounted to more than 172,500 employees.

Automotive industry

Investment trends



The largest
green-field and capacity expansion
projects managed by HIPA
in Hungary during the last three years



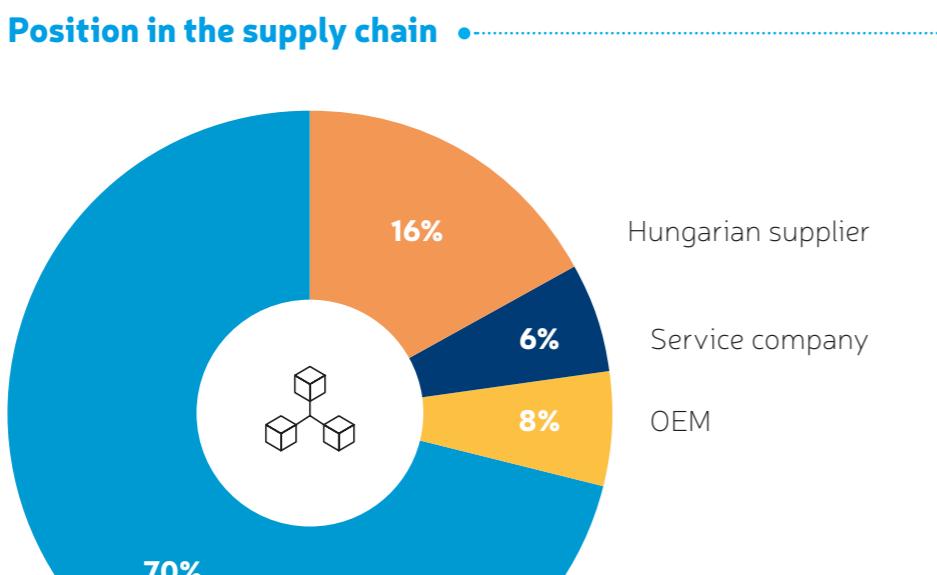


General information about the survey

The survey was conducted during April and May 2019. Participants were asked to complete a comprehensive questionnaire. In addition, in order to gain more valuable insights into the industry, personal interviews were conducted with top-level executives of the majority of the participants.

In total, 49 companies operating in the Hungarian automotive industry participated in the survey, including OEMs, Hungarian and international suppliers as well as engineering companies in Hungary. The total number of employees employed by the respondents reached almost 100,000 people at the end of 2018. The participants in the survey represent every segment of the Hungarian automotive industry and every region in Hungary.

Composition of survey participants



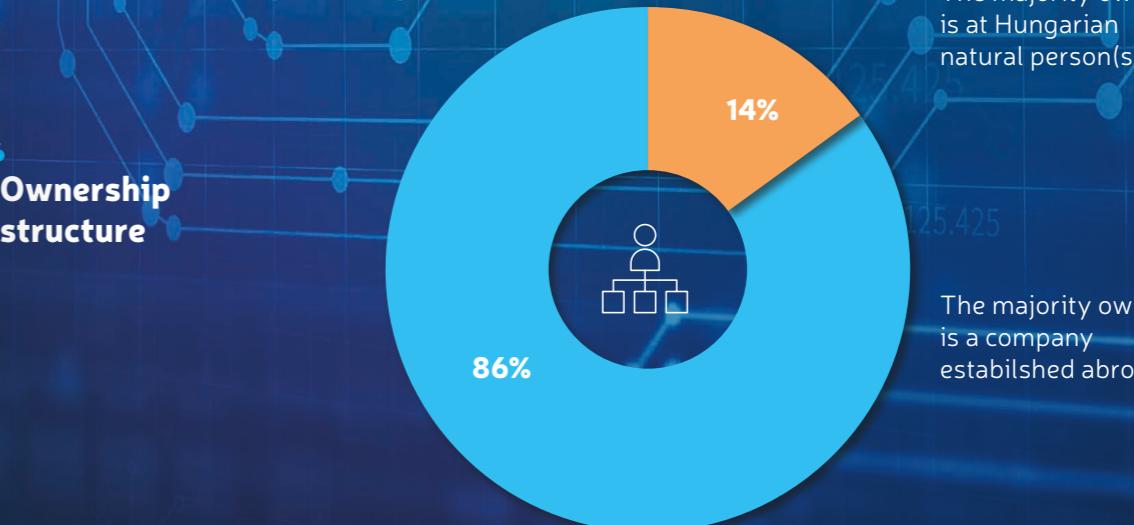
Annual turnover (based on financial year 2017)



Number of employees (at the end of 2018)



Ownership structure





Technology & Innovation

Key trends

The vehicles of the future will be electric, autonomous, connected and shared.



Electric. The development around e-mobility is driven by OEMs, as well as by the continuously changing demands of the consumers and industry strategies of the countries. Sustainable mobility and reduced emissions are at the focus of attention. The speed of transformation to fully electrified vehicle drivelines depends on several factors, out of which the cost element and total cost of ownership are critical.



Autonomous. OEMs and technology companies invest significant amounts in the development of autonomous vehicle technology. Based on this there are major changes in the automotive value chain with a greater pressure on technology providers.



Connected. In the near future nearly every car will be connected. From powertrains and advanced driver assistance systems to connected services, cars are becoming more connected both internally and externally. Along with connected cars, new digital services and consumer offers will emerge.



Shared. Shared mobility will grow significantly based on changing consumer needs, urbanisation and new technology solutions.

In the survey we placed special emphasis on understanding how the players of the Hungarian automotive sector see the key technological and innovation trends of the automotive industry. Based on the experiences of the personal discussions, there is a high level of uncertainty about how the automotive industry will evolve in the coming years, and how the individual companies should adapt to the changing conditions. The mid-term and long-term role of traditional, hybrid and electrical vehicles is difficult to foresee, and this makes it rather difficult for the industry players to select the right paths for their technology and innovation related investments.

Subsequent to the 2008 crisis, the automotive industry went through a tremendous evolution, which could be observed in respect to the multinational companies operating in the country as well as to their Hungarian suppliers.

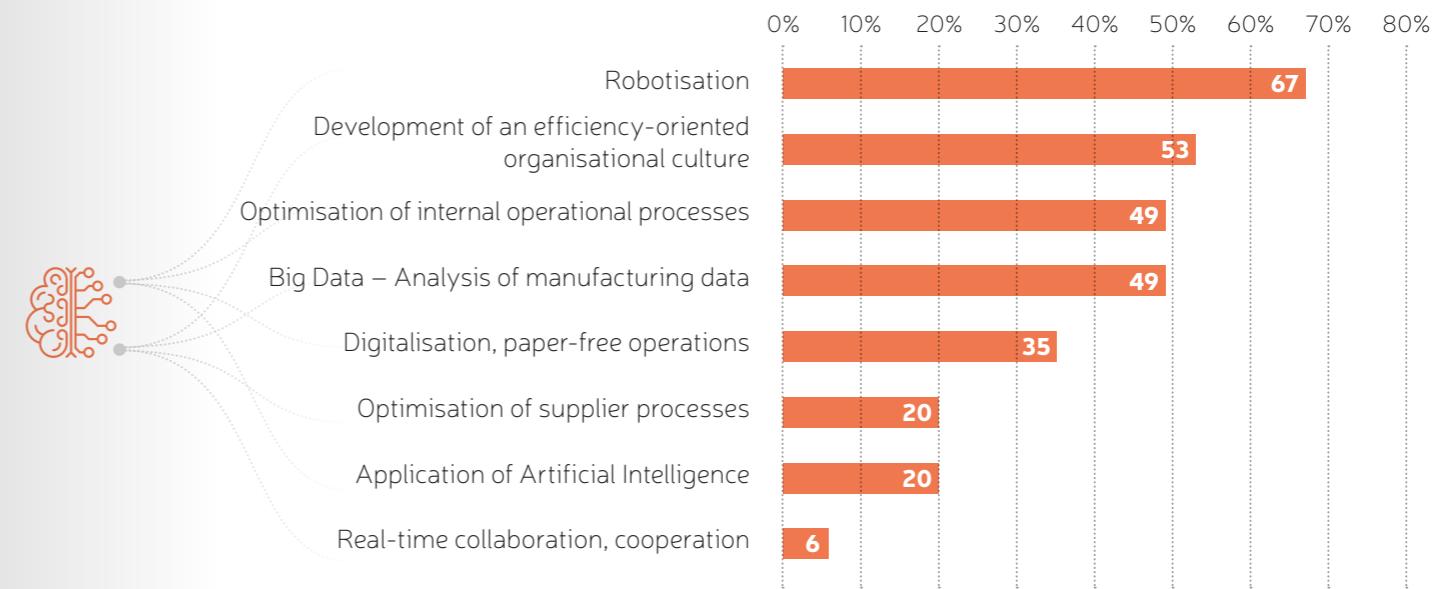
67%
of survey respondents stated
that robotisation will influence
their operation in Hungary

Changes in the industry are mostly generated by the global market, regulatory framework and the sector trends. The most well-known trends are the expansion of electric and hybrid vehicles, and the potential inherent in self-driving technology, and in addition, it is also significantly influenced by the tendencies in respect to car sharing and connectivity. On the one hand, the new trends provide growth potential but on the other hand, related technology shifts are challenging the industry and indicating uncertainty. Further risks are also generated by the global trends having both a direct and indirect impact on Hungarian operations.

Despite this uncertainty, there are several technological and innovation trends that the participants of the survey seem to focus on. Key trends that are considered to influence the operations of the participants are robotisation, the development of efficiency-oriented organizational cultures, the optimisation of internal processes and manufacturing data analysis.

Key Technological & Innovation Trends

Which are the technological and innovation trends that will influence the company's operations in Hungary the most in the coming years?

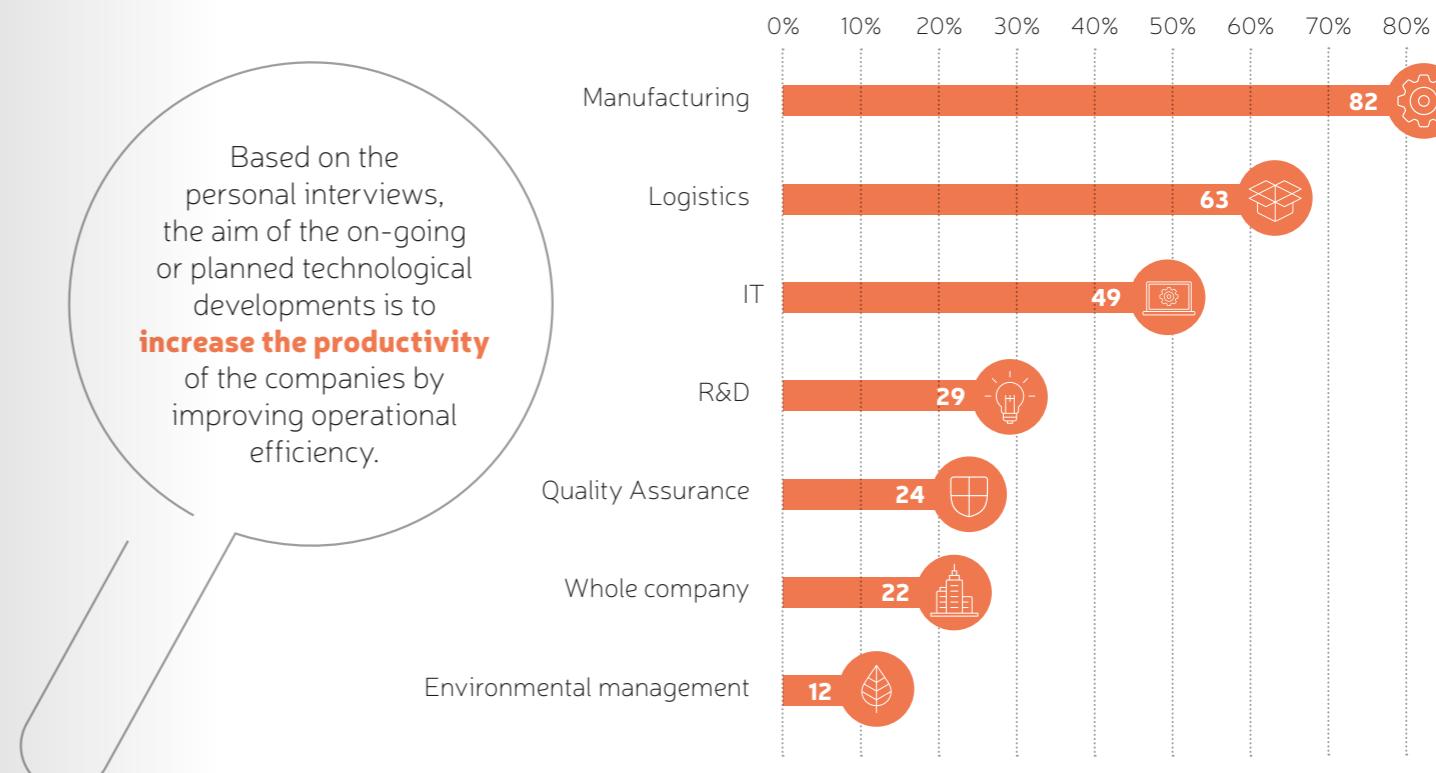


In order to keep up with the trends, companies are already implementing or planning technological developments mainly in manufacturing, logistics and IT. In manufacturing, the focus is on robotisation, process optimisation and automation.

In logistics, there are initiatives related to lean supply chain and warehouse automation. In IT, the developments are mainly focused on process digitalisation and IT security.

Focus Areas in Technological Developments

In which fields does the company plan to make technological developments within the next 24 months in order to make its operations competitive in Hungary?



In the case of robotisation and automation, the key driver is the increasing level of employment costs. However, due to the high-level one-off investment requirements of robotisation, companies tend to apply a step-by-step approach, and implement pilot solutions first. Optimisation and digitalisation could be adaptable not only in production, but also in reducing scrap and waste, as well as in the reduction of administrative paper work. Automation of production lines and opportunities to use robot technologies are limited,

since not each and every process can be optimised by using machines. In addition to automation, significant investment would be required, which would not be reasonable for certain products, and might not fit in with the strategy of the company. However, process optimisation is a valuable opportunity, which could be carried out with minor capital investment and in tandem with Hungarian creativity, and, moreover, could result in a significant shift in efficiency.

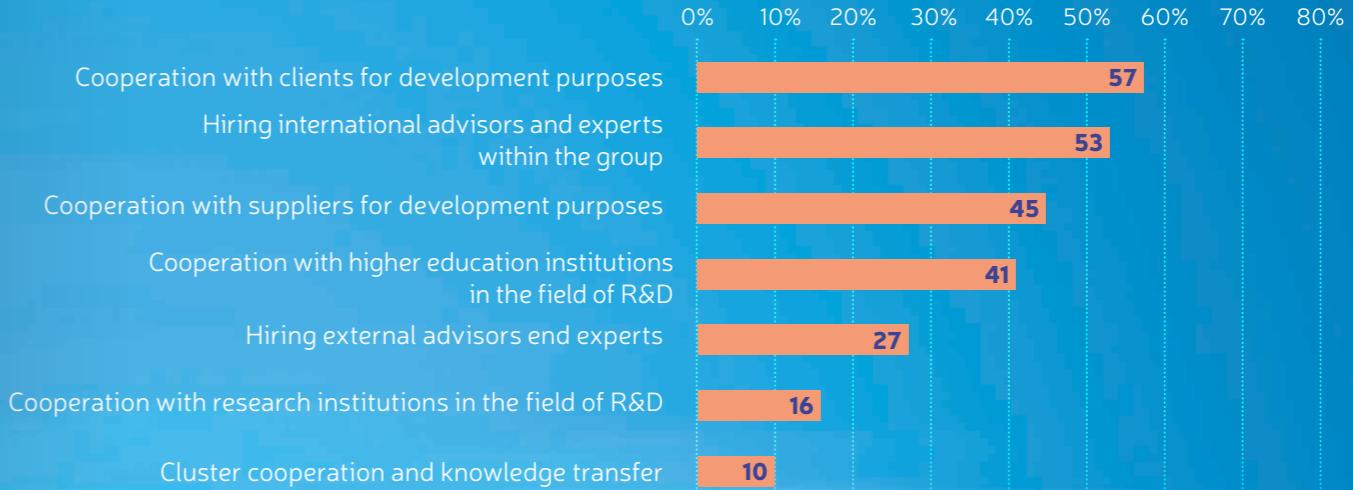
Key Sources of Information on Innovation

What sources of information does the company plan to rely on within the next 24 months in order to identify opportunities for technological developments and innovation?



External Cooperation

In respect to the company's future competitiveness, which types of external cooperation do you wish to place the main emphasis on for the sake of business operations and in order to improve the applied technological solutions as well as to introduce new ones?



Research & Development



In the survey we placed special emphasis on understanding the trends in the field of innovation and R&D activities in Hungary.

The dedicated R&D expenditures of the survey participants increased from 2016 to 2018 by 42.2 %. Most of the automotive companies operating in the country with a multinational background have manufacturing facilities with the focus on mass production, value chain management and process optimisation.

More and more companies are establishing their independent R&D business units or engineering service centres in Hungary creating high value added activities.

Hungarian innovation and creative problem solving skills are recognised worldwide. Talented, innovative, open minded and highly qualified experts, technicians, engineers and IT specialist are available in the country, which is a significant decision making factor attracting value added activities to Hungary.



R&D Expenditures

Total amount of R&D expenditure according to survey participants



HUF
71
billion
(2016)

HUF
89
billion
(2017)

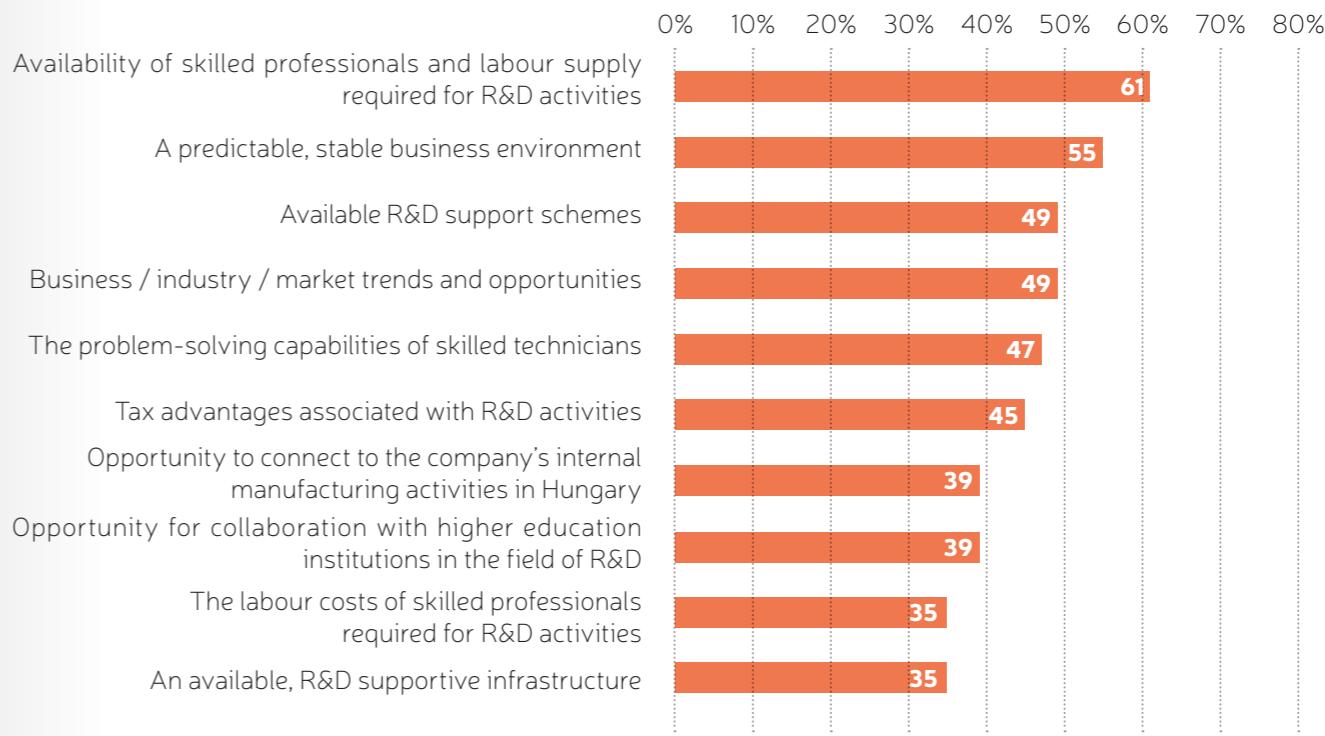
HUF
101
billion
(2018)

Based on the opinion of the survey participants, the most critical factors that they consider, when they make their decision on the extension of the company's R&D activities (or on the launch of R&D activities) are the availability of a skilled workforce, and the availability of R&D support schemes and tax incentives. In addition, they also take into account the stability of the business environment and the general market conditions.

Critical Decision Factors

in Additional R&D Investments

Which are the factors that you consider to be critical when making a decision on the extension of the company's R&D activities (or on the launch of R&D activities if the company is currently not engaged in such activities)?



At the end of 2018, approximately 4,200 employees worked in various R&D positions at the companies who participated in the survey. According to the participants of the survey, in order to ensure the continuous supply of R&D staff and to increase the available talent pool for further R&D investments,

it would be essential to develop the technical orientation of children already attending secondary schools. In addition, the number of state scholarships for technical studies should be increased, and the R&D infrastructure of the higher education institutions should be further developed.

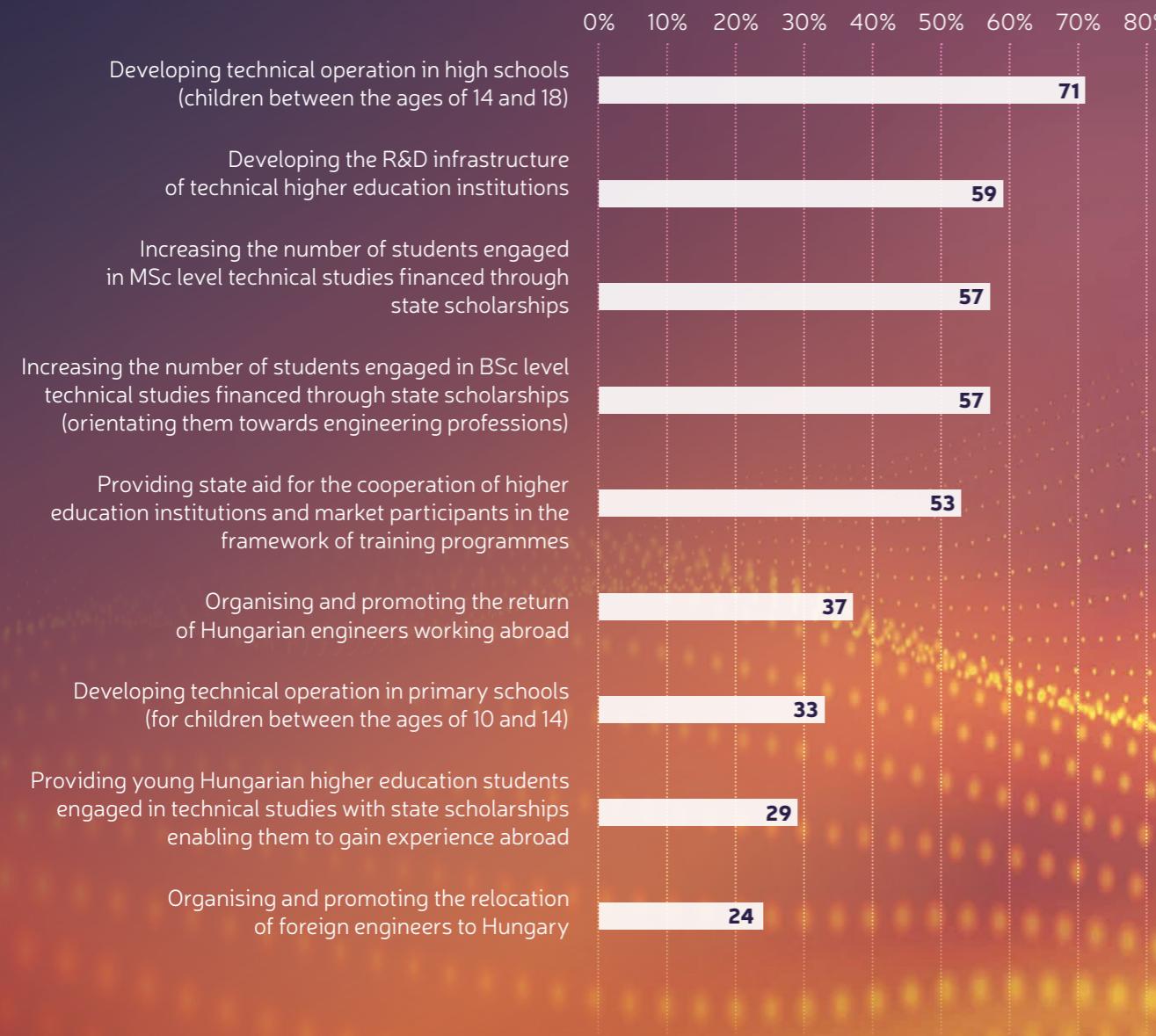




External Measures

to Ensure Availability of Skilled R&D Staff

Which are the potential measures the company considers to be important when it comes to the provision of a sufficient number of staff with the right qualifications and attitude in the field of R&D?



Location of R&D Activities

within Hungary

according to the Survey Participants



Various sizes of R&D operations in the automotive sector have been established by the survey participants all around Hungary.

Although many of the company executives characterized the talented and well trained Hungarian labour force as a clear advantage, because of the constantly changing industrial challenges, the continuous improvement and adaptation of the educational system to the industry needs is also essential at a vocational and higher level. The introduction of dual education laid the foundation of a practice oriented training system based on real industry demands, which must be extended with the involvement of more and more industrial partners.



People Key trends

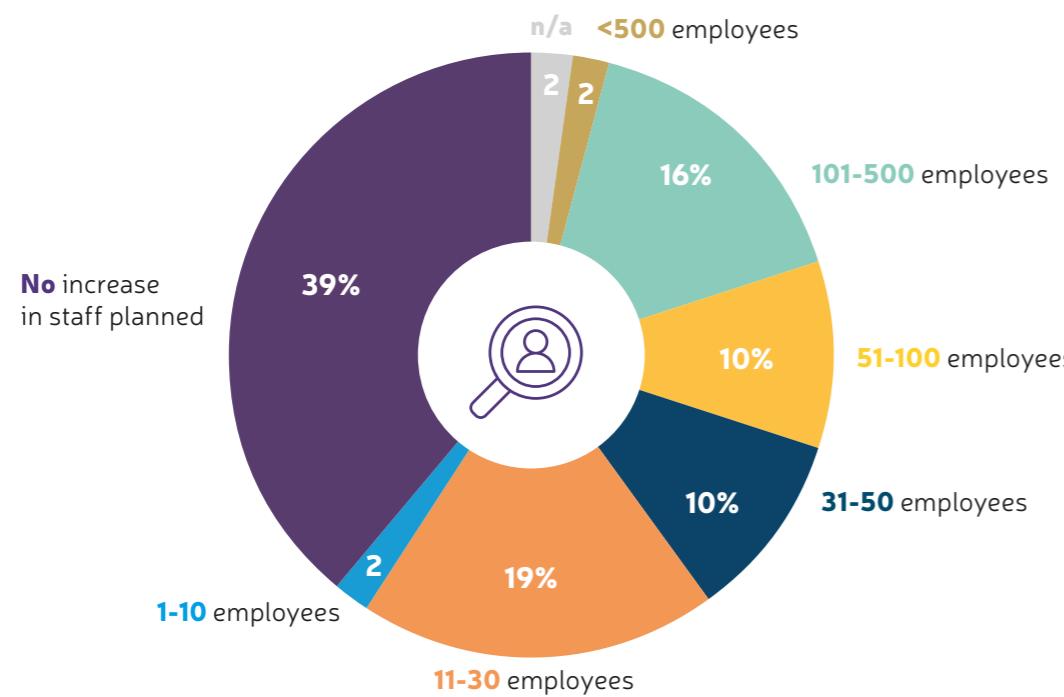
In the survey we examined the general trends affecting the labour market of automotive industry players.

Between 2016 and 2018, the statistical staff number of the survey participants increased by around 12%, and has reached almost 100,000 employees. However, the increase in employment seems limited due to the uncertainties in the market conditions. According to the survey results, 59% of the survey participants plan to increase their staff levels in the next 12 months. Based on the received responses, the mid-term investment plans may be reconsidered or modified. The planned increase in staff levels varies from company to company, but there are 8 companies which would like to expand by 101-500 employees, and one company with an expansion plan of more than 500 employees.



Plans for Staff Increase

Does your company plan to extend its staff within the next 12 months?
If yes, what would be the extent of the increase?



Based on the latest automotive trends, tendencies and the Industry 4.0 approach, companies are willing to implement new and emerging technologies to achieve higher levels of efficiency in production and to expand into new markets.

More and more companies are seeking new skills and competences to expand their productivity. Based on the responses, technological changes will reduce a

certain number of workers required to perform certain work tasks, but companies indicate that automation will lead to the creation of new roles within the organisation. Automation will help remove the repetitive type of work and enable employees to focus on solving more complex issues with the emphasis on high value-added activities. The companies stated that their employees will require significant retraining.

The following key skill demands were listed by the automotive leaders during the interview



Leadership



Complex problem-solving



Analytical thinking



System analysis and evaluation

Over 70% of the survey participants employ temporary agency workers in order to increase the flexibility of their delivery capacities. The number of external employees varied year-by-year between 2016 and 2018. At the end of 2018, the number of temporary agency workers was approximately 15,000.

The rate of Hungarian and foreign nationals varies significantly amongst the survey participants. The employment of foreign employees is common in all kinds of positions from management level to blue-collar workers. In the case of management and white-

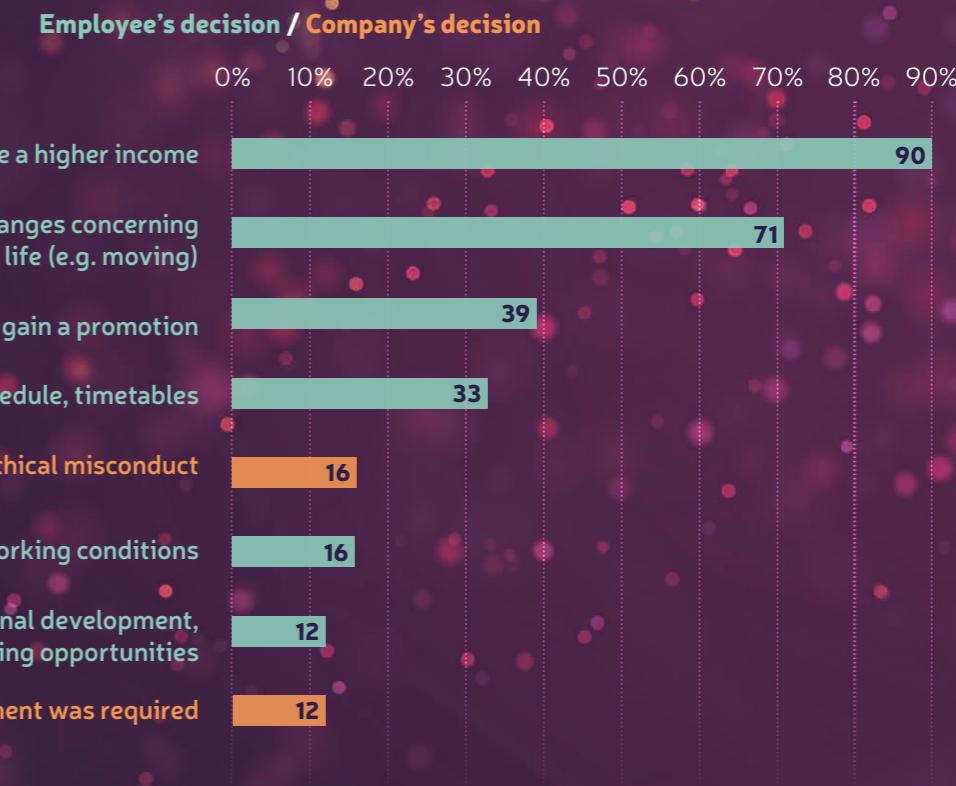
collar positions, the multinational background of the company significantly affects the mix of nationals working at the given company. In the case of blue-collar positions, the traditional sources of foreign employees working in Hungary (i.e. Slovakia, Romania, Serbia, and Ukraine) have been expanded with countries such as Russia, Pakistan, India, Egypt, Malaysia and Mongolia.

A significant number of responses highlighted that the higher salary expectations and resident changes are the main reasons of employee turnover.



Main Reasons for Employee Turnover

What were the major reasons for employees leaving the company?



The availability of qualified labour-force and labour costs were among the top location criteria during the location decision process. However, during the last 2-3 years these issues have become the most urgent matters for the automotive leaders in Hungary.

Based on the results of the survey, companies make and plan significant efforts to retain and attract employees.

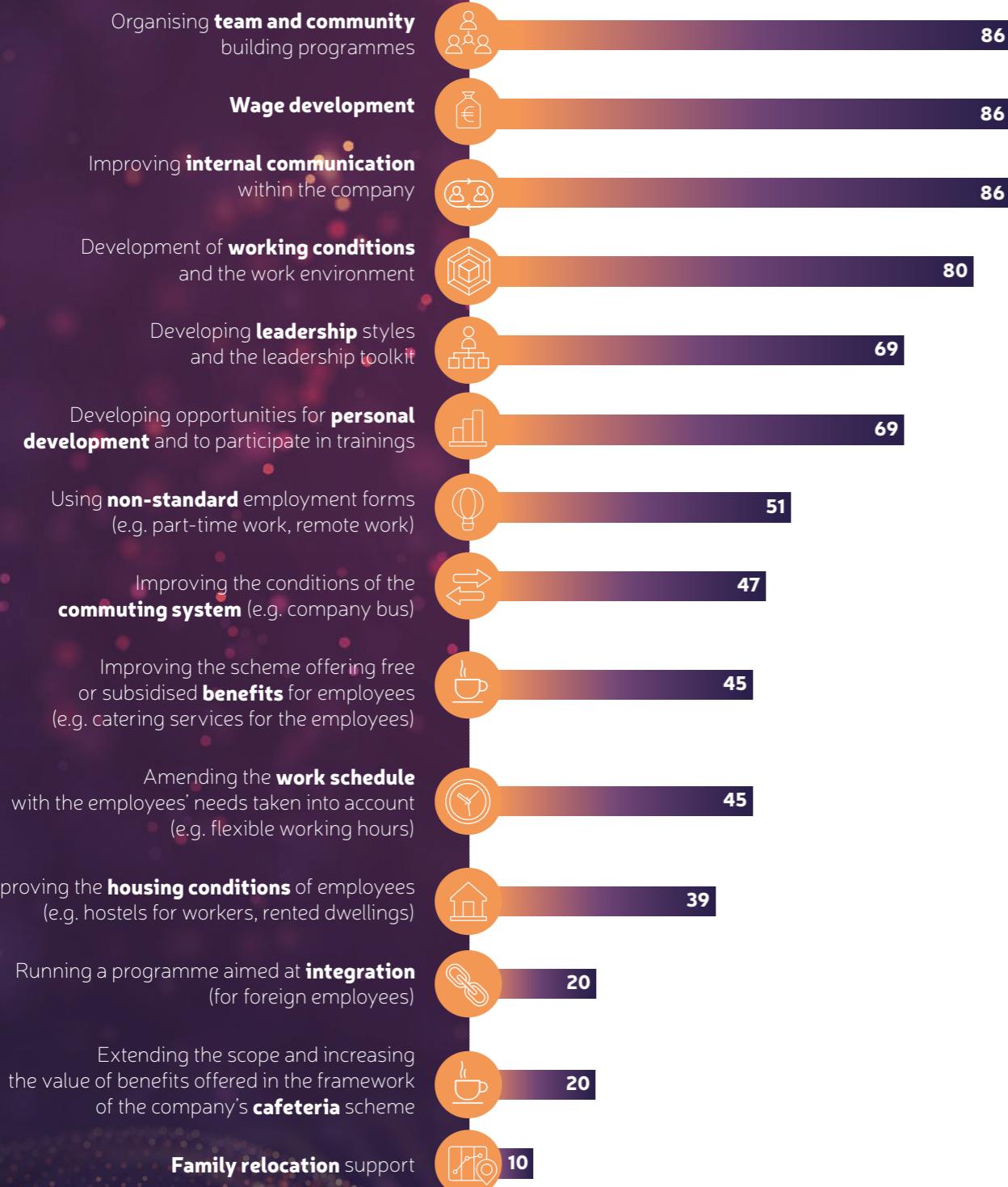
These efforts include wage development, improvement of internal communication, development of working conditions and organizing team and community building programmes.

The development of applied leadership styles and providing opportunities for personal development are also frequently used measures. In addition, the application of non-standard employment forms (e.g. part-time, remote work) also seems to find its place amongst the employee retention tools within the automotive industry.

Planned Measures to Retain and Attract Employees

In what areas do you plan to introduce measures in the next 12 months in order to enhance the labour market attractiveness of the company?

10% 20% 30% 40% 50% 60% 70% 80% 90%



Employer branding & recruitment

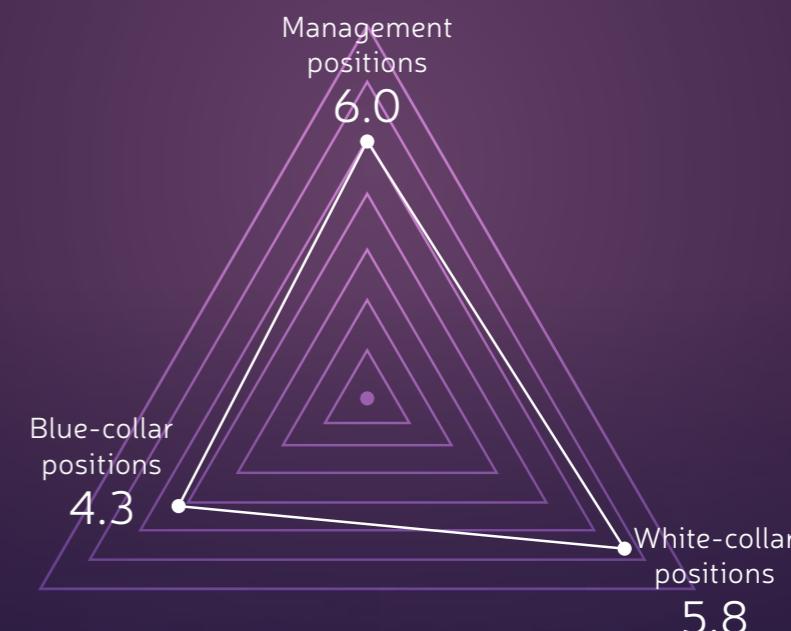
Automotive industry players voice issues regarding the availability of workers in the Hungarian labour market. According to the responses, they are satisfied with the number of candidates in the case of management and white-collar positions, but have concerns about the number of candidates in the case of blue-collar positions. Small- and medium-size companies seem to have more difficulties attracting candidates.

The individual responses of participants varied significantly based on their size, background and location within Hungary.

Satisfaction

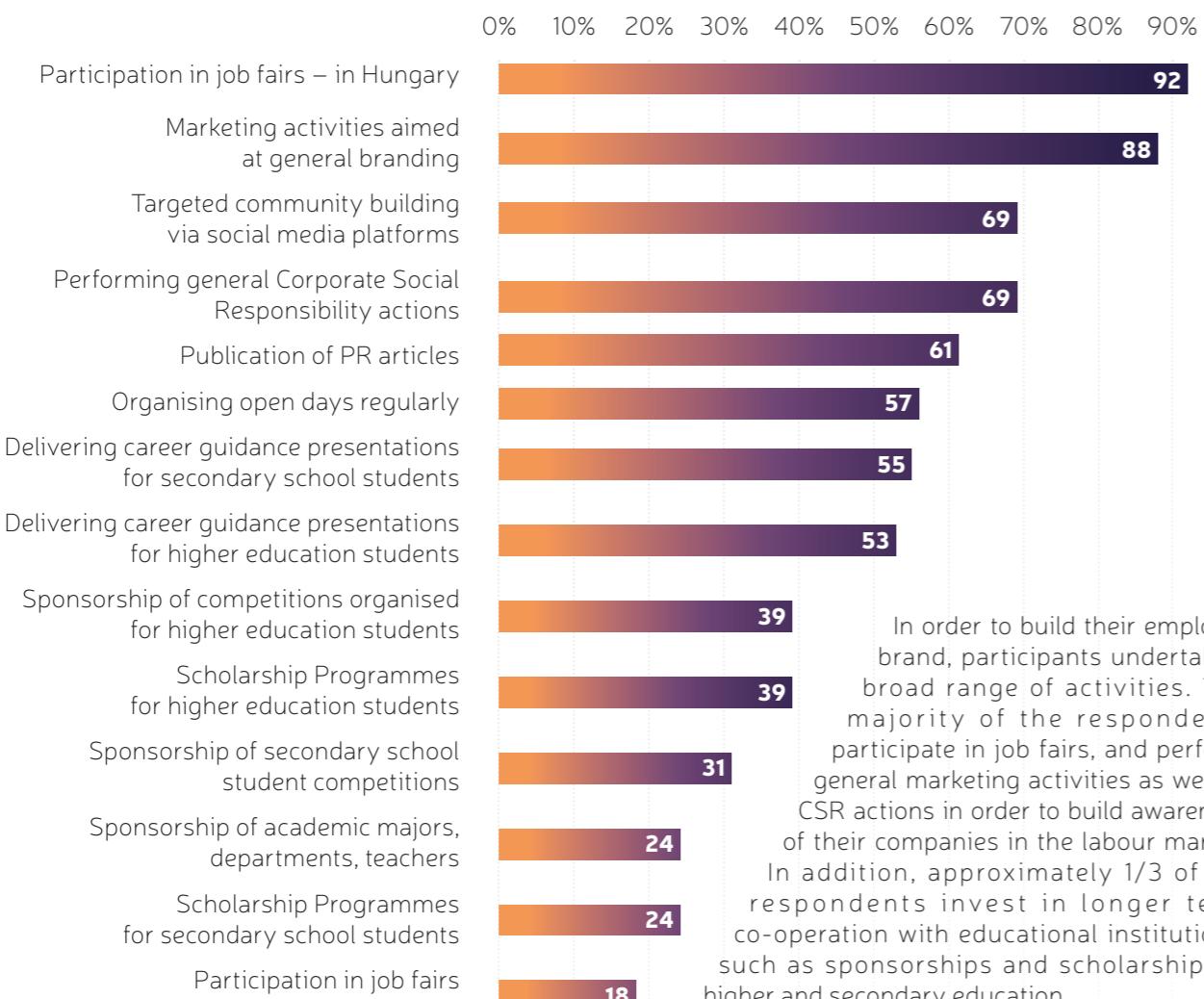
with the Number of Candidates

To what extent is the company satisfied with the number of candidates applying for advertised, open positions?
(1 = Not satisfied at all, 10 = Completely satisfied)



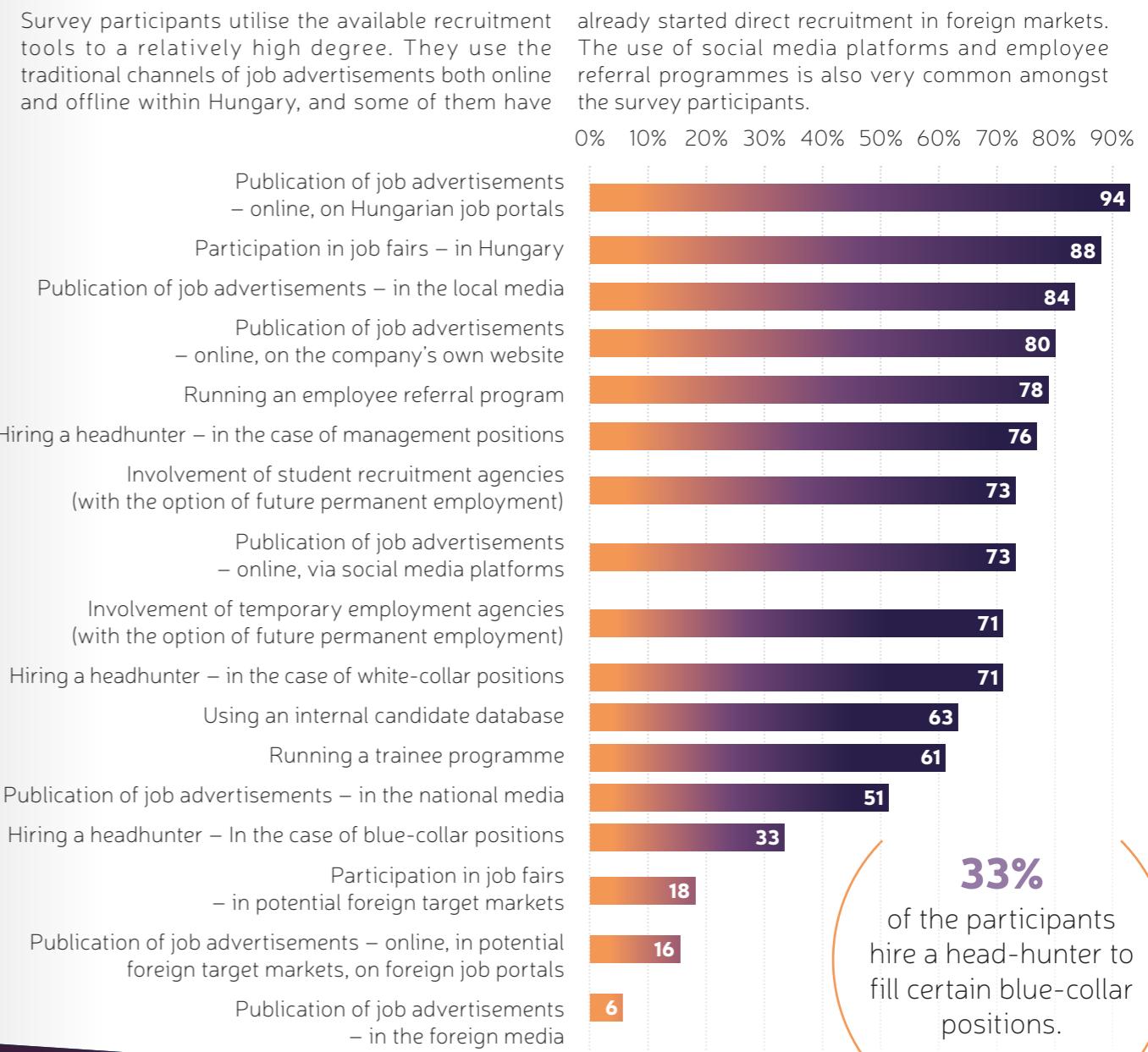
Employer Branding Activities

What kind of employer branding activities do you carry out in order to make the company known to potential employees on the labour market?



Recruitment Activities

What actions does the company take in order to find the potential employees for open positions on the labour market?



Measuring Employer Attractiveness

What tools do you use for tracking the company's level of attractiveness on the labour market?

Almost all survey participants regularly measure employee satisfaction, and collect information on the issues related to attractiveness of the company through exit interviews. External benchmarking is also commonly used to assess the company's competitiveness on the labour market.

92%

Regular measurement of employee satisfaction

90%

Conducting exit interviews

76%

Gathering information via indirect conversations with co-workers

73%

Conducting an interview with new employees at the end of their probation period regarding the satisfaction of the expectations

63%

Regular participation in compensation benchmarking surveys

51%

Monitoring the employees' posts about the company published on social media platforms

27%

Taking part in competitions for employers (e.g. Best Workplace survey)



Competence development

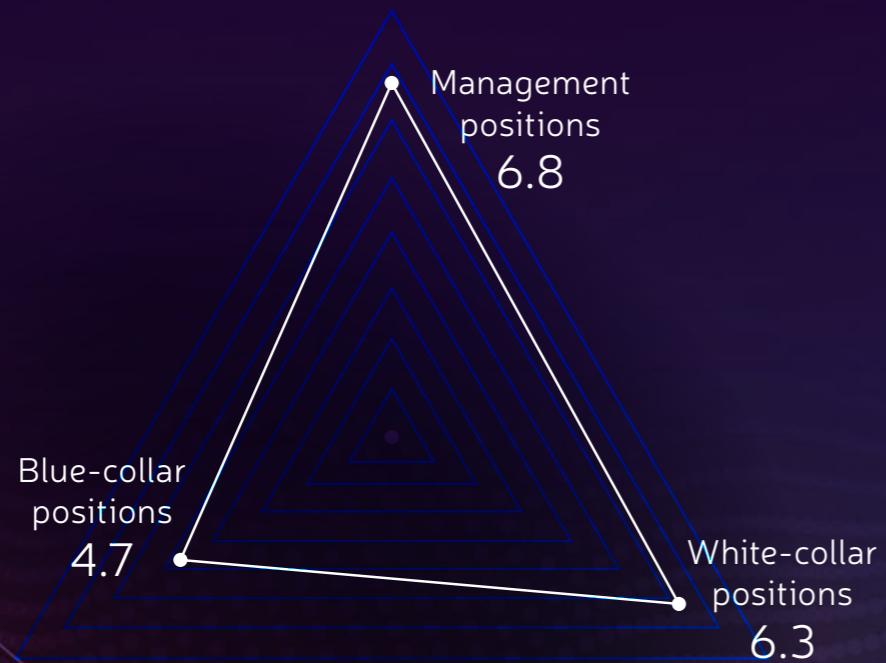
The survey results demonstrated that the satisfaction with the professional competence of candidates applying for different positions significantly varies amongst the respondents. In general, in the case of management positions the satisfaction level regarding professional competences is higher for the companies.

During the personal interviews, many participants mentioned the challenge finding new employees with strong leadership skills (or at least with leadership potential). In the case of blue-collar workers, the most problematic competence areas are work discipline and quality orientation.

Satisfaction with the Professional Competence of Candidates

To what extent is the company satisfied with the number of candidates applying for advertised, open positions?

(1 = Not satisfied at all, 10 = Completely satisfied)

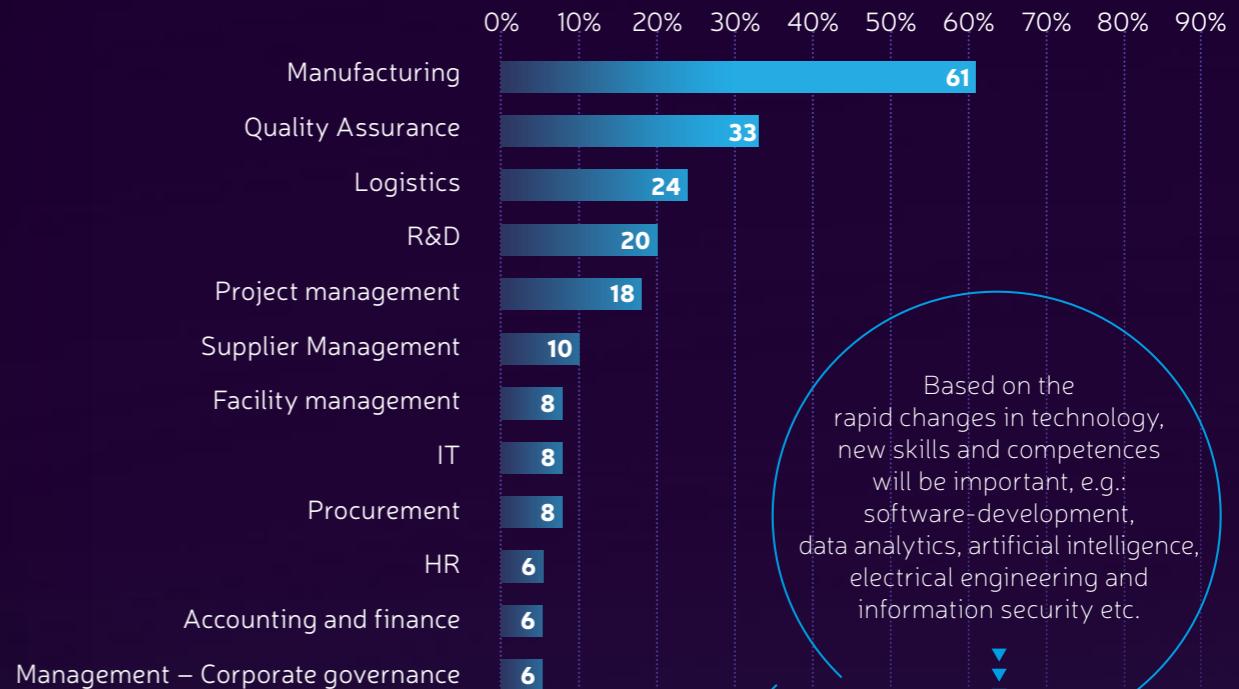


Based on the survey results, permanently unfilled vacancies exist in manufacturing in the case of 62% of the survey participants, while approximately 30% of the respondents emphasise that more effort is needed to fill vacancies in quality assurance and logistics. In parallel, only a few survey participants have difficulties finding new employees in the field of support functions e.g. IT, HR, procurement, accounting and finance.

Permanent vacancies in white-collar positions often connected with the significant need for higher education degrees with a specialization in mechanical or electrical engineering. More recruitment efforts are needed to find employees for blue-collar positions, i.e. candidates with a vocational school background and specific vocational background (e.g. welder, warehouseman).

Areas with Unfilled Vacancies

Which are the areas of the company that have permanently unfilled vacancies due to the lack of appropriate applicants?



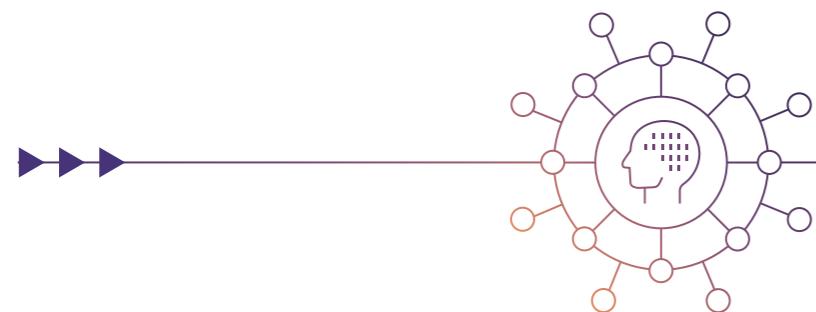
Based on the rapid changes in technology, new skills and competences will be important, e.g.: software-development, data analytics, artificial intelligence, electrical engineering and information security etc.

All of the companies that were surveyed emphasise the importance of the education and knowledge of the employees to ensure a skilled labour force. Core competences required for remaining successful are changing very quickly. The supply of skilled labour is tightening in Hungary. There is a significant level and number of cooperation with educational institutions but mainly with higher education. Expectations and focus regarding vocational institutions will become stronger, and more intensive cooperation will be needed in the future. In this respect the difference between the multinational automotive players and Hungarian SMEs is significant. Large corporates are more active in different cooperation fields with educational institutions, while SMEs have

limited resources to support training activities; therefore, they have limited availability for a talent pool. Electronics and software will play a major part and form a significant value of the car, therefore, it will require new competences of the automotive engineering. The industry will experience a significant shift with the focus on software and electronics engineering skills. Technical universities, the dual-education system and apprenticeships provided by automotive companies have excellent results in the industry: the highly qualified workforce and world-class engineering stimulate the technical level and capability of the automotive industry in Hungary.

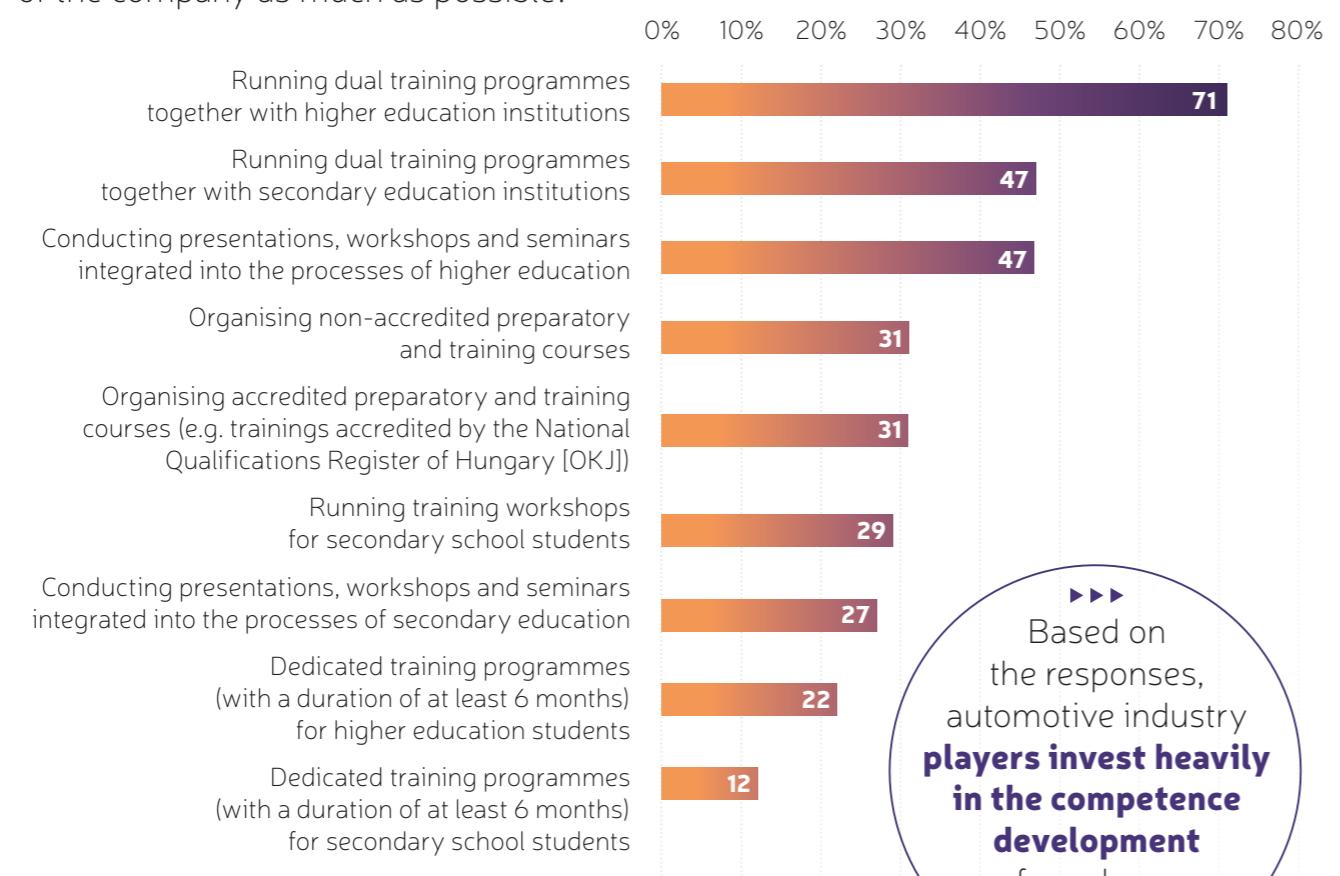
Participants in the survey have already started initiatives to engage in the competence development of potential candidates before employment. Approximately 2/3 of the participants run dual training programmes with higher education institutions. However, in order to put the level of co-operation into perspective, the total number of academic students

participating in dual training programmes sponsored by survey participants during the academic year of 2018-2019 has not reached 400 students. In the case of secondary education, the number of secondary school students participating in the dual training programmes during the academic year of 2018-2019 has exceeded 1,100 students.



Competency Development (Before Hiring)

What preliminary actions does the company take to bring the competence of future candidates applying for a certain position closer to the expectations of the company as much as possible?



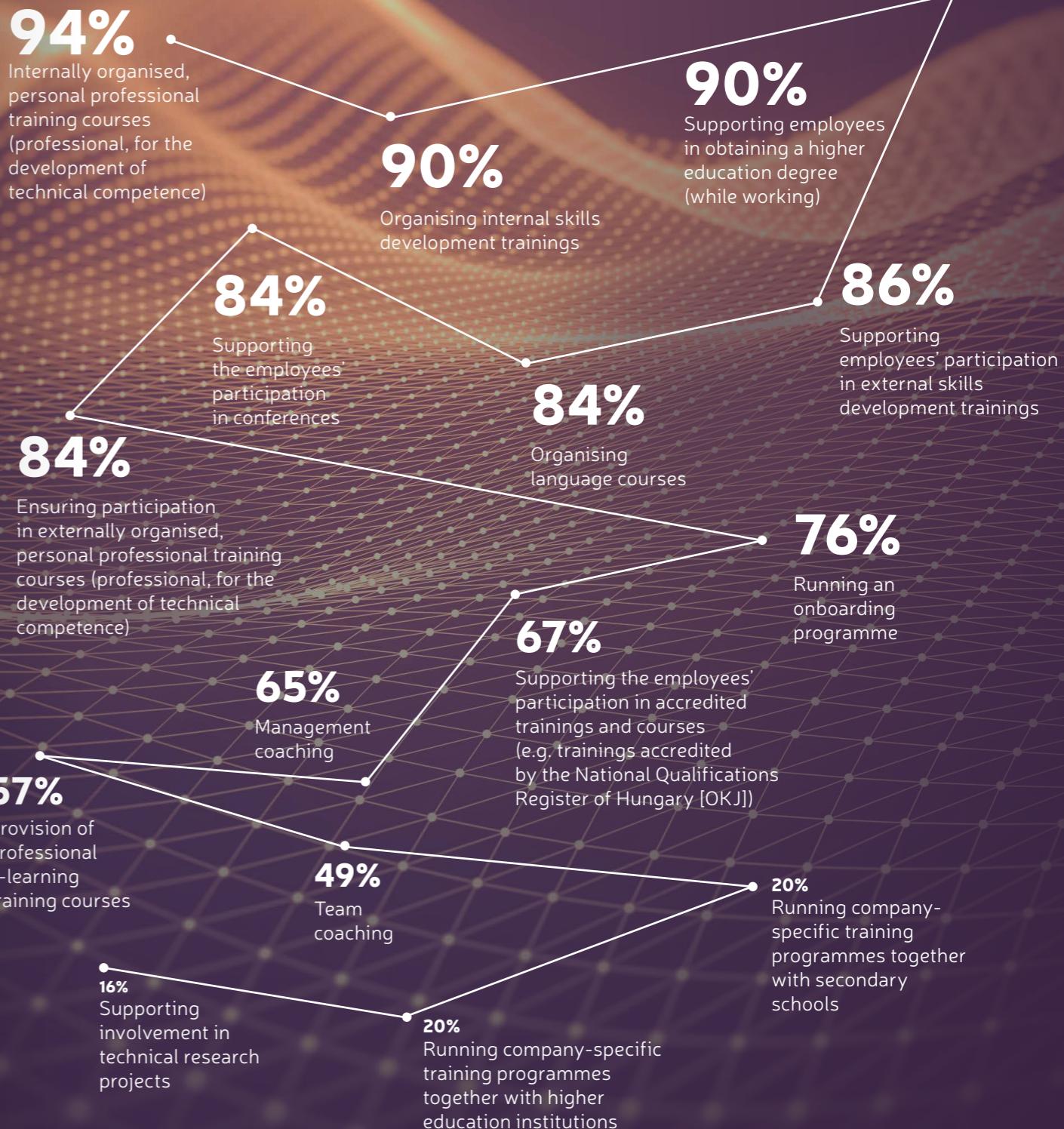
Almost every kind of training and development method is commonly used, including onboarding, as well internal and external training. Even management coaching and team coaching is widely applied.

Based on the responses, automotive industry players invest heavily in the competence development of employees hired.



Competency Development (Employees)

What actions does the company take in order to make the professional competence of existing employees meet the current and emerging expectations of the company?





Suppliers Competitiveness

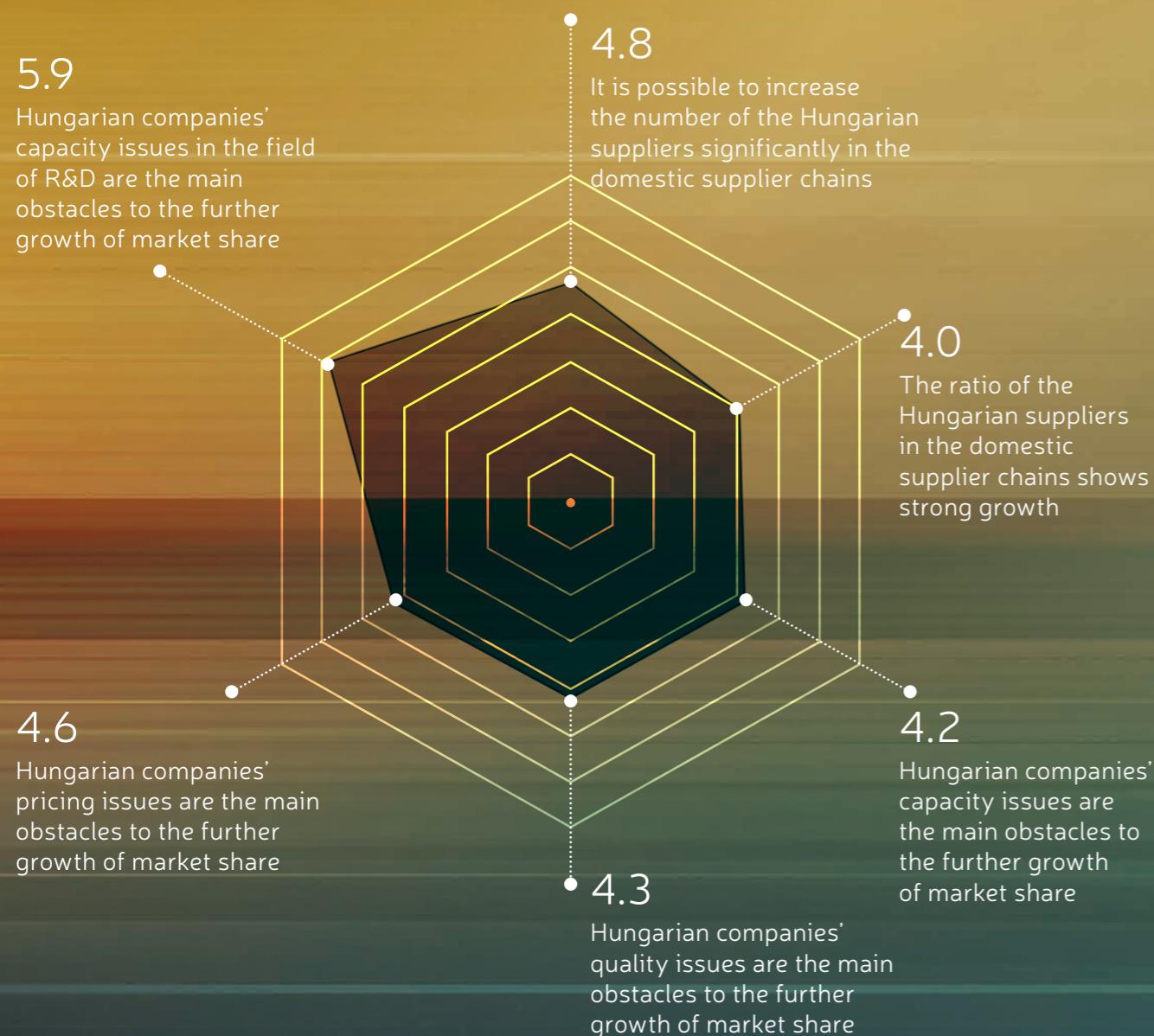
Hungarian suppliers play an increasing role in the automotive ecosystem in Hungary. However, according to the participants of the survey, the opportunities to significantly increase the level of involvement of the Hungarian suppliers in the automotive supply chain have several limitations.



Competitiveness

In your opinion, to what extent do national suppliers participate, and how competitive are they in the supply chain of large companies in Hungary?

(1 = Strongly disagree, 10 = Strongly agree)



Based on the results of the survey, there are several risks associated with Hungarian suppliers that limit the level of potential cooperation within the automotive supply chain in Hungary.

The main risks that are to be considered by multinational players are related to the labour force, manufacturing capacity and product development capabilities. In addition, there are still risks to be taken into account related to product and service quality. Meanwhile, the financing risk on the part of Hungarian suppliers seems to have a lower relevance.



Key Risks

to be considered in respect to the Hungarian supply chain

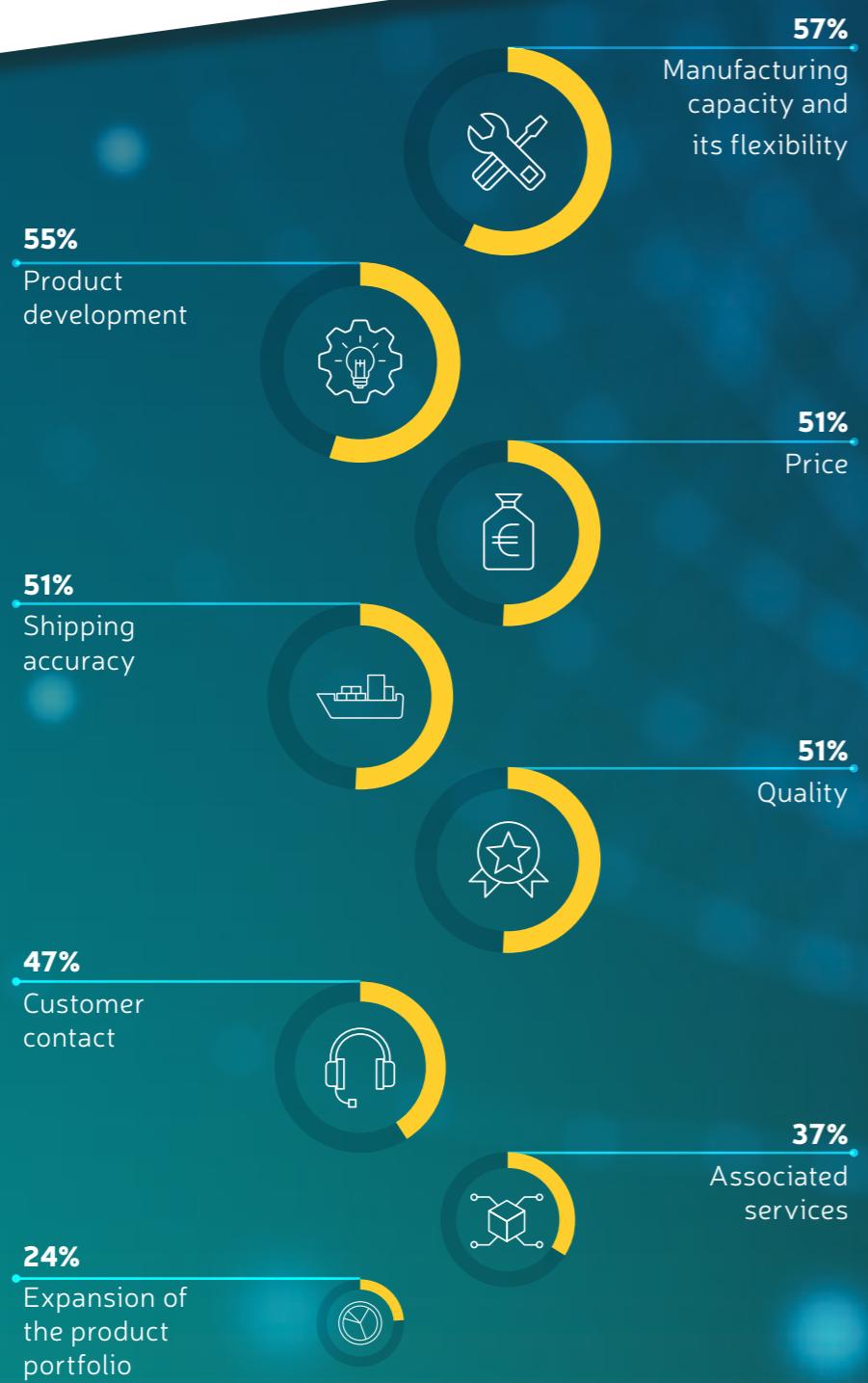




Areas for Development

Areas where the Hungarian supply chain should be developed to increase competitiveness

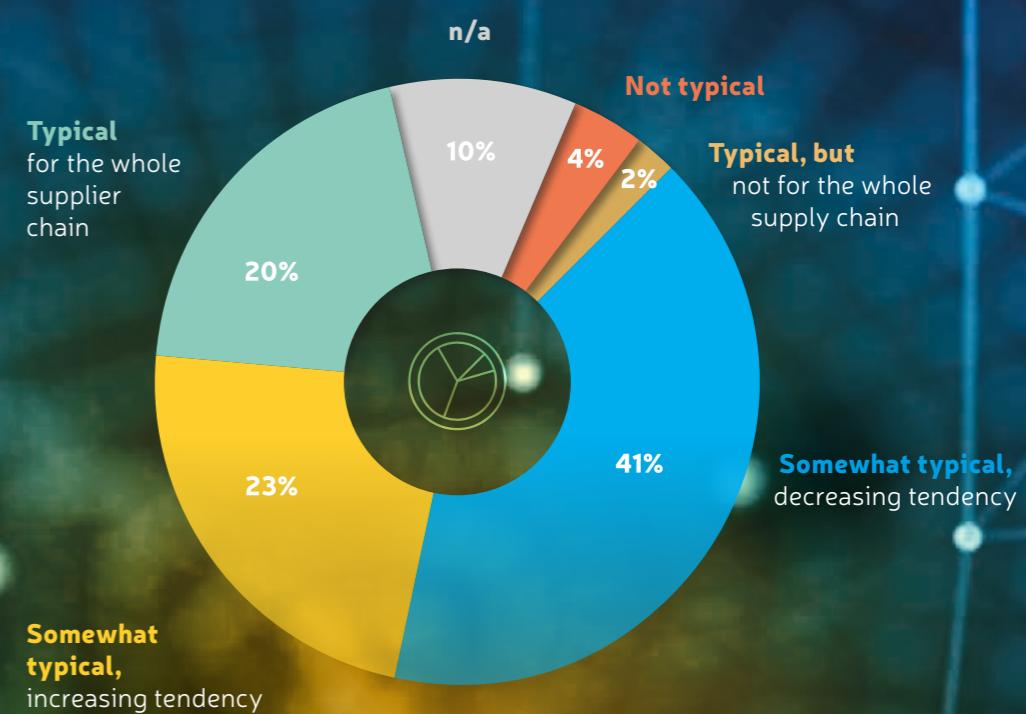
The main areas where the Hungarian suppliers should be developed in order to increase their competitiveness are manufacturing capacity, product development, quality, price and shipping accuracy. In addition, Hungarian suppliers have room for improvement in their customer relationship management practices. Based on feedbacks received during the personal interviews, management and negotiation skills need to be further developed.



Customer Portfolio

How typical is it among Hungarian suppliers that they have a small number of customers, or only one single customer?

Those Hungarian suppliers who manage to gain a position within the supply chain of a multinational automotive player, are often heavily exposed to the buying power of their clients, as they usually supply only to one or a few customers.



Due to the dependence on one or a few customers, Hungarian suppliers are also significantly exposed to any negative economic trends affecting the automotive industry. As a result, if the current negative expectations about the economic trends in the automotive industry become real, it will affect the Hungarian suppliers to a higher extent.

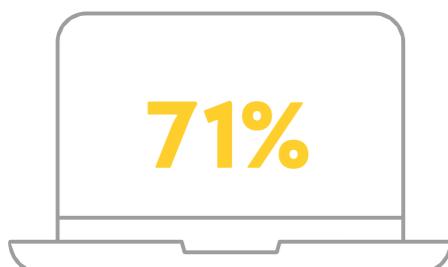
Suppliers Developments

Based on the results of the survey, during the last years the majority of the Hungarian suppliers have made limited efforts to increase their competitiveness by implementing various IT systems to support their operations. As a result, these companies are lagging far behind in the latest technology and digitalisation trends. According to the survey participants, even the enterprise resource planning systems (ERP) or the production planning systems (PPS) are not commonly used amongst the Hungarian suppliers. Based on the personal interviews, Hungarian suppliers often minimize their investment in the field of IT, as they would like to minimize the associated one-off financial investments (mainly due to bad experience with similar investments during the economic crisis in 2008-2009).



IT Systems

Most commonly used IT systems by Hungarian automotive suppliers



ERP
Enterprise Resource Planning



PPS
Production Planning System



MES
Manufacturing Execution System



PLM
Product Lifecycle Management

According to the survey participants, Hungarian suppliers have already realized the importance of the new technology trends (like digitalisation, robotisation, big data analysis) shaping the future of the automotive industry.

However, they are lacking the necessary level of information on the trends, and they have not started to formulate their own business strategy to adapt to the forthcoming changes.

A few pilot projects have already been implemented mainly in the area of robotisation (in order to replace the more expensive labour force with robots), but these projects are relatively rare compared to the intensity of similar developments in the case of multinational counterparts.

Adaptation to Key Industry Trends

Use of digitalisation, robotisation and big data analysis by Hungarian automotive suppliers

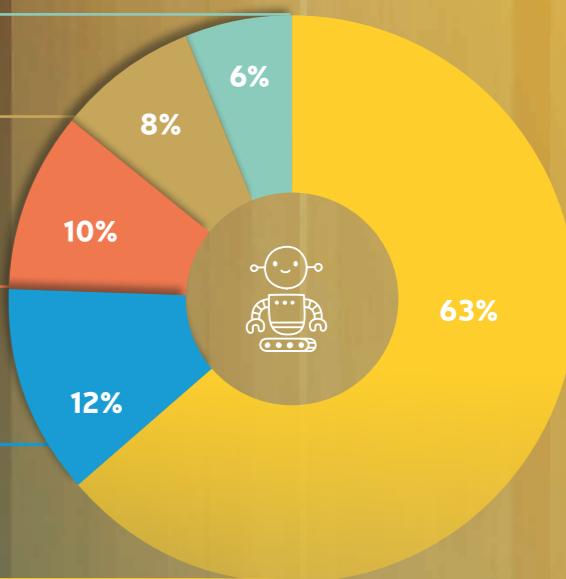
6% These techniques are not known at all in the supplier chains

8% The company has a well-developed strategy for implementing these techniques, but no actions taken

10% The company already has the required resources and the support of the management at its disposal

12% There is no interest in these topics from the suppliers' side

63% There is interest, but there is not enough information for preparing a strategy



Based on the personal interviews, the intention to cooperate with universities and research institutes in the area of R&D and innovation is limited (mainly at an interest level), therefore it has not been incorporated into the business strategy of the Hungarian suppliers. A key challenge affecting the Hungarian suppliers is the issue of generation change. Many companies

were established in the 1990's, and the owners – key management members – have already reached a senior age. The process of generation change, however, is not easy, and a very limited number of successful handovers can be seen as a good practice. More than half of the survey participants have already encountered business issues originating from generation change.

Visibility of Obstacles to Generation Change

Can you detect any obstacles related to generational change in the case of Hungarian suppliers?

51%
yes

6%
n/a



There is an increasing level of need for external support in generation change for Hungarian suppliers, based on the personal discussions with survey participants.

43%
no

Management coaching, sharing of best practices and facilitation of discussions between business owners in similar situations seem to be the most expected external support.

HIPA Introduction

How do we support
your **AUTOMOTIVE** project?



Hungarian Investment Promotion Agency (HIPA) is the national investment promotion organisation of Hungary governed by the Ministry of Foreign Affairs and Trade.

We contribute to the economic development of the country by promoting Hungary as an ideal location for investments and by providing management consultancy services to investors and prospective investors. In the framework of our policy advisory activities we mediate between business and government and collect company feedback in order to prepare policy proposals to further improve the business environment.

We are also responsible for the government incentives for investments and work as the managing body of the VIP cash subsidy system based on individual government decisions. We provide management consultancy services in the fields of location selection, supplier development and mergers and acquisitions in a one-stop-shop service model on a free of charge basis.

AFTER

YOU HAVE CHOSEN
HUNGARY

We are open to your feedback and offer mediation between government and business based on your inputs.

We support your further expansion and plans.

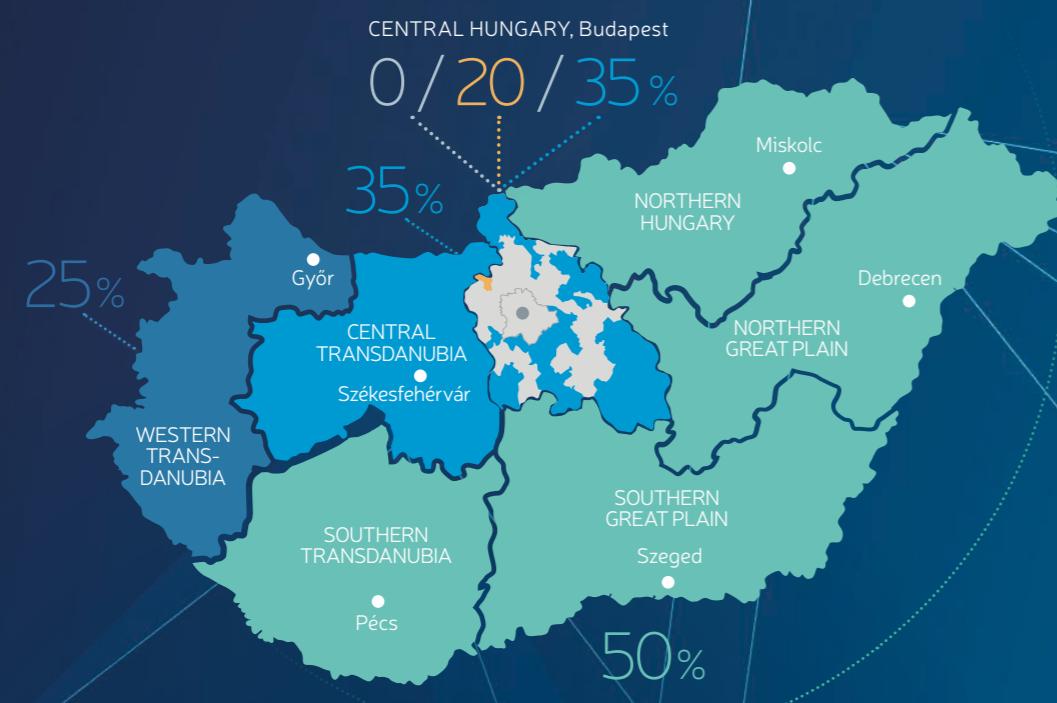
PLEASE CONTACT US

Address: H-1055 Budapest, Honvéd utca 20.
Customer service: investment@hipa.hu
Telephone: +36 1 872 6520
Web: www.hipa.hu

Investment Incentives



VIP cash subsidy is a non-refundable, post-financed regional investment aid, based on the individual decision of the Hungarian Government. The amount of subsidy – influenced by the number of jobs created by the implementation of the investment, and the development of the region where the project will be implemented – combined with development tax allowance and further regional investment aids is up to the maximum aid intensity threshold, depending on the location of the investment:



Legal background, application

VIP cash subsidy is regulated by Gov. Decree No. 210 of 2014 (VIII. 27). The incentive procedure – managed within the framework of the one-stop-shop service system of HIPA – commences with the submission of an application form (request list) describing the investment to be subsidized.

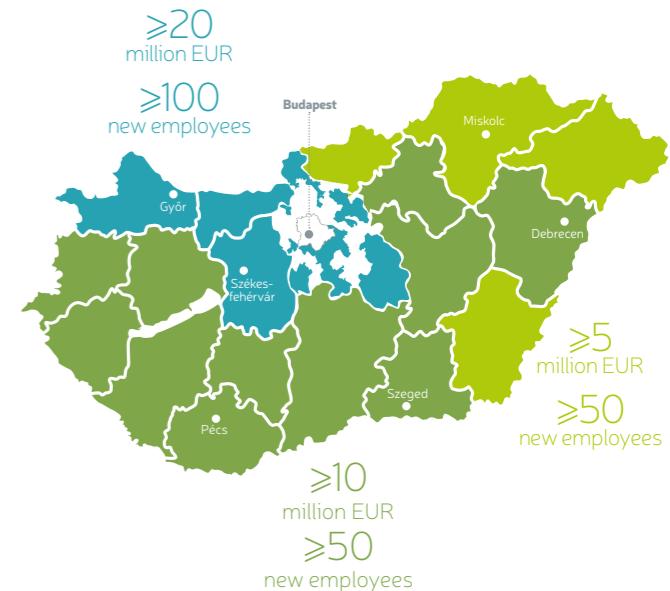
Forms of investment, conditions and eligible costs

The VIP cash subsidy system is designed to enhance multiple investment aims; the subsidy could be provided for asset investments, job creation investments, investments aimed at the creation or expansion of a regional shared service centre, technology-intensive investment and R&D projects. The aim of the investment to be subsidized determines those indicators (activity, number of new jobs, investment volume, and effect of the investment on net sales revenue or wages), which shall be met for eligibility in respect to the subsidy, depending on the location of the project.



Asset investment

Asset investment: eligible costs for an asset investment include the purchase of the plot, construction costs or building rental fee (during the implementation period), infrastructural costs, the purchase of new equipment and machines, intangible assets, etc.



Technology-intensive investment

The aim of the subsidy for technology- intensive investments is to support high value-added investments without creating new jobs. Those companies who already have 100 employees in Hungary and are considering technology- intensive investment have the opportunity to benefit from VIP cash subsidy up to 3/4 of the

maximum regional aid intensity of the region (20%/25%/35%/50%) selected as the location of the investment. The eligibility criteria for a VIP cash subsidy for technology-intensive investment is to invest at least EUR 20 million and to achieve a 30% increase in revenue and/or wage costs within a four-year period.

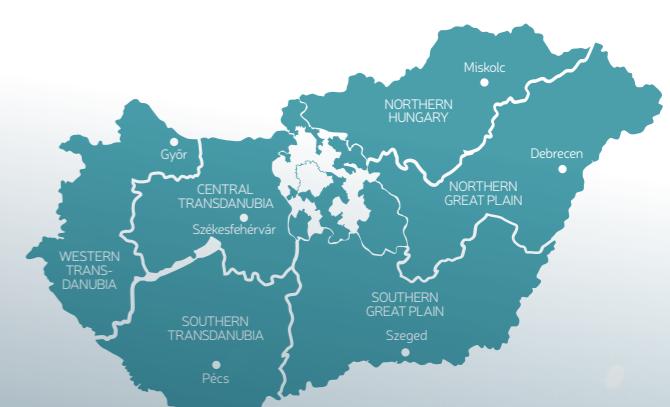


Job creation investment

The eligible costs are 24 months of salary and contribution towards the newly hired employees within a three-year-period.

Investments targeting the creation or expansion of a regional service centre

The activities to be performed by the investor company as a result of the subsidized investment – creating at least 50 new jobs – shall comply with the activities listed in Annex 1 of Gov. Decree No. 210 of 2014 (VIII. 27.). Asset or personnel related costs could be considered as eligible in the case of regional service centres.



WE CAN OFFER VIP Cash Subsidy FOR R&D

The newly-introduced objective of the post-financed cash incentive system effective from 1 January 2017 is to promote the R&D activity of large enterprises and the creation of R&D competence centres in Hungary. The incentive scheme provides the opportunity to grant aid for R&D projects implemented in Budapest and in other parts of Hungary.

The level of the cash incentive is based on several factors in relation to the R&D projects, namely, the location of the project, cooperation of the company with research partners, ownership of industrial property protection, etc. The amount of the incentive is also influenced by the level of commitments to be made by the company as a result of the realization of the R&D project.



25%



Within the framework of the VIP cash incentive scheme, the aided R&D project shall include exclusively industrial research and/or experimental development activity. The content of the project in respect to the type of the R&D activity shall be supported with an R&D qualification. In order to be eligible for the incentive, the eligible project cost – costs in connection with the R&D project to the extent and for the period of the project, namely, the depreciation of assets, rental fee, material and contract research costs (up to 25-25% of the total costs), personnel related expenditures, – shall reach the threshold of EUR 3 million, within a period of 1-3 years. The realization of the project shall result in the increase in the R&D headcount of the company by 25 persons and the ratio of higher-educated employees within this new R&D headcount shall come to at least 50%. The headcount related commitments shall also be maintained for a minimum period of two years after the completion of the project.

Supplier Services

We experienced that the quantity, quality and geographical location of suppliers play an increasingly important role when choosing the location of an investment project. It is also common in the automotive sector, that the added value by suppliers in the final product is growing increasingly.

Therefore, at HIPA, we pay special attention to the supplier-related demands of our investing partners so that Hungarian enterprises can be present in as many numbers as possible in the added value chains of the multinational corporations.

We are ready to provide our partners with a complete picture about Hungarian suppliers in a given sector at the earliest stage of the investment project. Later, we support the expansion of the added-value chain of the investor by presenting actual supplier's profiles in Hungary.

Our task is to effectively connect corporate partners with possible Hungarian suppliers. To facilitate this we create deal opportunities at Business to Business negotiations and foreign exhibitions, both in Hungary and abroad.

We think it is important that the skillset of the Hungarian suppliers meet the demands of our investing partners who wish to cooperate with them, therefore, our supplier development programme is an on-going one. We organize our training courses in close cooperation with our investor partners in order to locate the top-priority topics that are the most significant for the supplier chain.

We believe that our work would help both sides of the automotive industry in Hungary and that closer cooperation would result in mutual enrichment for our corporate- and supplier clients as well.

“

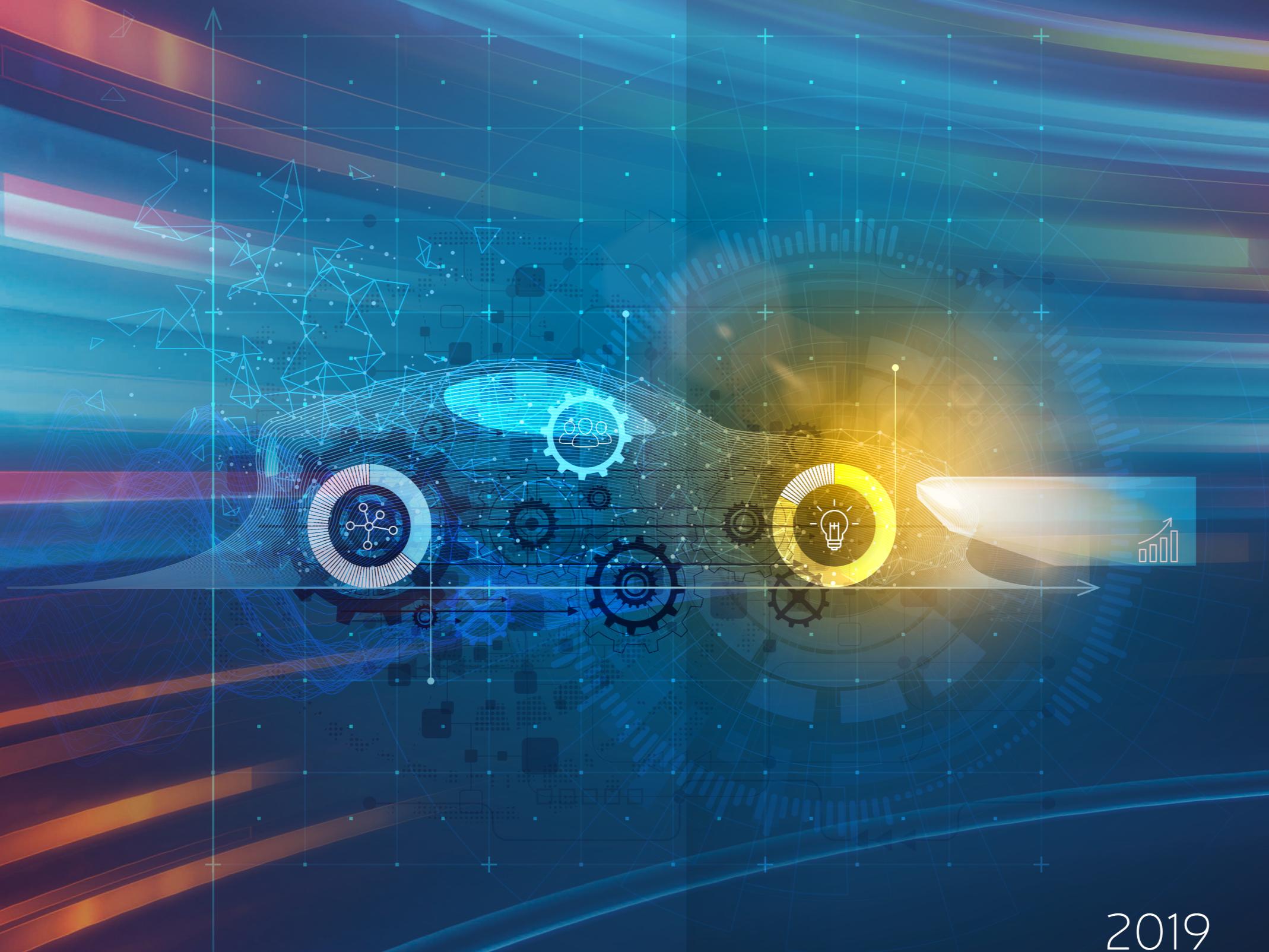
It was already the fourth time within the framework of the cooperation with HIPA that we organized training courses for Suzuki suppliers who were chosen beforehand. Forty Hungarian suppliers were involved in training related to quality assurance, innovation management, and environmental protection, attended by more than 400 employees. The part realized so far of our educational

programme proved its efficiency: according to the feedback of our suppliers who participated in the training, the improvement in efficiency and quality and the boosting of innovative activity can be measured with them, so their management and effectiveness also improved.

”

(László Urbán, Deputy CEO of the Magyar Suzuki Zrt.)





2019

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Survey Respondents

Thank you for your co-operation



Audi
Hungaria



BOSCH
Életre tervezve

CASCADE
engineering
automotive europe

commsignia

Continental



DENSO
Crafting the Core

ECKERLE
GRUPPE
MINDIG MEGOLDÁS

EDAG

Eissmann
Group Automotive

EMERSON

flex

FREUDENBERG
INNOVATING TOGETHER

Hajdu Autotechnika

HANKOOK
driving emotion

HARMAN
A SAMSUNG COMPANY | Expect Brilliance



IBIDEN

KIRCHHOFF
AUTOMOTIVE

LEONI

LINAMAR
Power to Perform



Nemak
Innovative Lightweighting



REHAU

Rosenberger

SCHAFFLER



GRUPO segura

shinwa

SMR
Samvardhana莫特森反射器



TDK

thyssenkrupp

Valeo

VIDEOTON

