



## Supplier Development: Building and Maintaining the Automotive Supply

(hidden and not so hidden issues that impact supplier relationships)

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Member

Areas of Expertise:

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# Supplier Development: Building and Maintaining the Automotive Supply

- A Review of Market Perceptions and Market Reality
  - Robert Sartin, Frost Brown Todd
- An OEMs Perspective
  - Jim Holloway, Toyota Motor Engineering & Manufacturing North America, Inc.
- The Suppliers' Perspective
  - J. Scot Sharland, Automotive Industry Action Group

# Market Perceptions



## News Headlines

*Boom is on; enjoy the ride (Pundits see soaring sales, record output)*

Larry P. Vellequette, Automotive News, August 12, 2013

*A Revitalized Car Industry Cranks Up U.S. Exports*

Christina Rogers; Neal E. Boudette, Wall Street Journal Easter edition [New York, N.Y.]  
July 2, 2013

*Auto suppliers scramble to keep lines running as sales surge*

Alisa Priddle, Detroit Free Press, August 12, 2013

*Automakers add workers as sales recover*

Tom Krisher, Associated Press, The Commercial Appeal, Memphis, TN , June 12, 2013

*Is industry discipline slip-sliding away?*

Jesse Snyder, Automotive News, September 21, 2013

## *Boom is on; enjoy the ride* (Pundits see soaring sales, record output)

Larry P. Vellequette, Automotive News, August 12, 2013

“North America will have a spike in sales in 2015 thanks to a ‘scrappage balloon’ -- old vehicles biting the dust and sending those clunker owners streaming into showrooms.”

“Automakers are on track to exceed the North American production record of 17.2 million units in 2016. But with exports to growing markets elsewhere in the world ready to take off, production records are expected through at least 2020.”

“Enjoy the ride? How about tread carefully and not letting history repeat itself?” [Madlock](#)•4 upvotes ; 1<sup>ST</sup> Blogger

## *A Revitalized Car Industry Cranks Up U.S. Exports*

Christina Rogers; Neal E. Boudette, Wall Street Journal Easter edition  
[New York, N.Y.] July 2, 2013

“The U.S. auto industry, in tatters just four years ago, is emerging as an export powerhouse, driven by favorable exchange rates and labor costs in a trend experts say could affect business for many years.”

“More competitive labor costs and restructurings that closed unproductive factories have made American auto plants tougher competitors in the global market. Some are also looking at U.S. production as a way to serve booming emerging markets.”

## *Auto suppliers scramble to keep lines running as sales surge* Alisa Priddle, Detroit Free Press, August 12, 2013

“New car and truck sales are approaching an annual pace of 16 million, the highest since the financial crisis, and automakers next year will launch a huge wave of new vehicles.”

“These are positive trends worth celebrating. But some parts suppliers are battling with the faster pace that can be overwhelming.”

“Suppliers and automakers alike are scrambling.”

## *Automakers add workers as sales recover*

Tom Krisher, Associated Press, The Commercial Appeal, Memphis, TN,  
June 12, 2013

“The auto industry is about to go on a hiring spree. Car makers and parts suppliers are racing to find engineers, technicians and factory workers to build the next generation of vehicles.”

“Vehicle sales for 2013 could reach 15.5 million, the highest in six years, and forecasts call for higher sales over the next few years. That’s causing the industry to ramp up.”



## *Is industry discipline slip-sliding away?*

Jesse Snyder, Automotive News, September 21, 2013

“As auto sales head toward completing a fourth straight year of robust growth since the Great Recession, everybody is bracing for a breakdown in the collective virtue of balanced production and sales, the restrained sales incentives and lean inventories. It's natural to worry.”

“But this one is harder to dismiss. Who says pricing and incentive discipline is slipping? Two hundred industry executives do.”

# Summary of Analysts' Predictions

(Picked Up by the Press)

- U.S. and global demand increase volume predictions to 16+ million in next few years
  - Demand will be met by "On-Shoring"/ "Reshoring" to U.S. and Mexico production facilities
- Contributing Factors
  - Aging U.S. cars (pent-up consumer demand)
  - Housing market recovery/cheap credit
  - Opportunity to Export because of Exchanges Rates and shifts in cost of labor
- Eurozone crisis remains a factor (could be the wildcard)



# Current Market Reality

- OEMs are in demand of supply
- Suppliers face capacity restraints

“Federal Reserve Board data for June shows auto suppliers are operating at 79% capacity, so there is some room to further ramp up.

A May survey by Original Equipment Suppliers Association of its members found the median capacity use was 75%, said Dave Andrea, senior vice president for the supplier advocacy group. That means, in theory, the typical supplier could increase production by one-third without building a new factory.

The problem is that about 25% of suppliers are running close to 100% capacity, leaving no room for hiccups or error. They are the ones who need to expand, Andrea said.”

*Auto suppliers scramble to keep lines running as sales surge*  
Alisa Priddle, Detroit Free Press, August 12, 2013

# Capacity Challenges

(hidden or not so hidden issues that impact supplier relationships)

- At or near capacity with plant size and/or machinery and equipment
  - Lingering liquidity challenges delay plant expansions or maintenance/additions of m&e
- Labor
  - Must rebuild a skilled and educated workforce after Great Recession departures from the industry and to support new demand
- Maintaining Quality when at or near capacity

# First Order of Business: Protect Your Existing Supply Relationship!

- Deliver on time
- Meet all quality requirements
- It's the "no brainer" – if you don't do this, you won't get new business and ultimately you will lose business (even in a market where demand exceeds supply).



# Addressing the Challenges

## (Supply Chain Management)

- Know and understand your own supply chain
  - Be proactive not reactive
  - A relatively small investment now can save material dollars later (maybe even your business)
- Implement Best Practices and Protocols for Supply Chain Management and Distressed Suppliers
  - Centralize function with a dedicated group/team
  - Identify, classify and monitor risk points
  - Early stage contingency planning
- It actually starts with Terms & Conditions
  - Know your “upstream” obligations and your “downstream” rights
  - Review and revise (if necessary)
- WE ARE IN A NO SURPRISES ENVIRONMENT
  - Deal with the bad news; don't ignore it
  - Work cooperatively to create supply chain visibility

# Addressing the Challenges

## (Accessing Financial Resources)

- The Basics
  - Must have business modeling and cash forecasting
    - Perform “worst case” analysis or “stress tests”
    - Do your own “benchmarking” – objectively, do you measure up?
  - Improve information flow to increase visibility of liquidity
  - Create and maintain performance metrics
- More Advanced: Have a Capital Plan/Strategy
  - Looking for a mix of government incentives and direct loans
- Depending on Size and Capabilities Consider Advisors
  - A good advisory team will improve all of the above and provide credibility or “data integrity.”
  - Smaller investments with advisors now can reap large returns on investment

# Addressing the Challenges

(Accessing and Managing Human Capital)

- Adopt a talent management program.
- Have focused articulation of the organization's mission and vision.
- Leverage recruiting efforts using social media and internal referrals.
- Demonstrate that company invests in its people through merit based compensation system and training programs.

# Addressing the Challenges

(Beyond the Basics/Capitalizing on Opportunities )

- Assess your current capacity and develop a plan to balance demand while limiting risk
- Evaluate current locations relative to demand
  - If you are not geographically advantaged to take advantage of localization, what can you do to offset/overcome the “disadvantage”?
  - Proactively manage your own logistics for improved performance and costs savings
- Monitor and manage key metrics (exceed expectations)
  - E.g., delivery performance
- Manage tool and die capacity constraints



*“And from what we’ve been able to determine, this is the tweak that broke the paradigm’s back.”*