



Detroit – Washington D. C.

The Suppliers' Outlook- From Survive to Thrive

FEDERAL RESERVE BANK *of* CHICAGO

Automotive Outlook Symposium
June 1, 2012

Dave Andrea

Senior Vice President

OESA – Original Equipment Suppliers Association

How We Gain Our Perspective at OESA:

410 members, 55 council meetings with 560 executives, 30 events with 5,000 participants, 50 member surveys and 14 staff

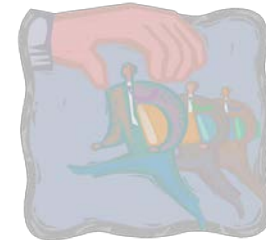


Outline

- A Changing Industry



- Today's Challenges to Survive



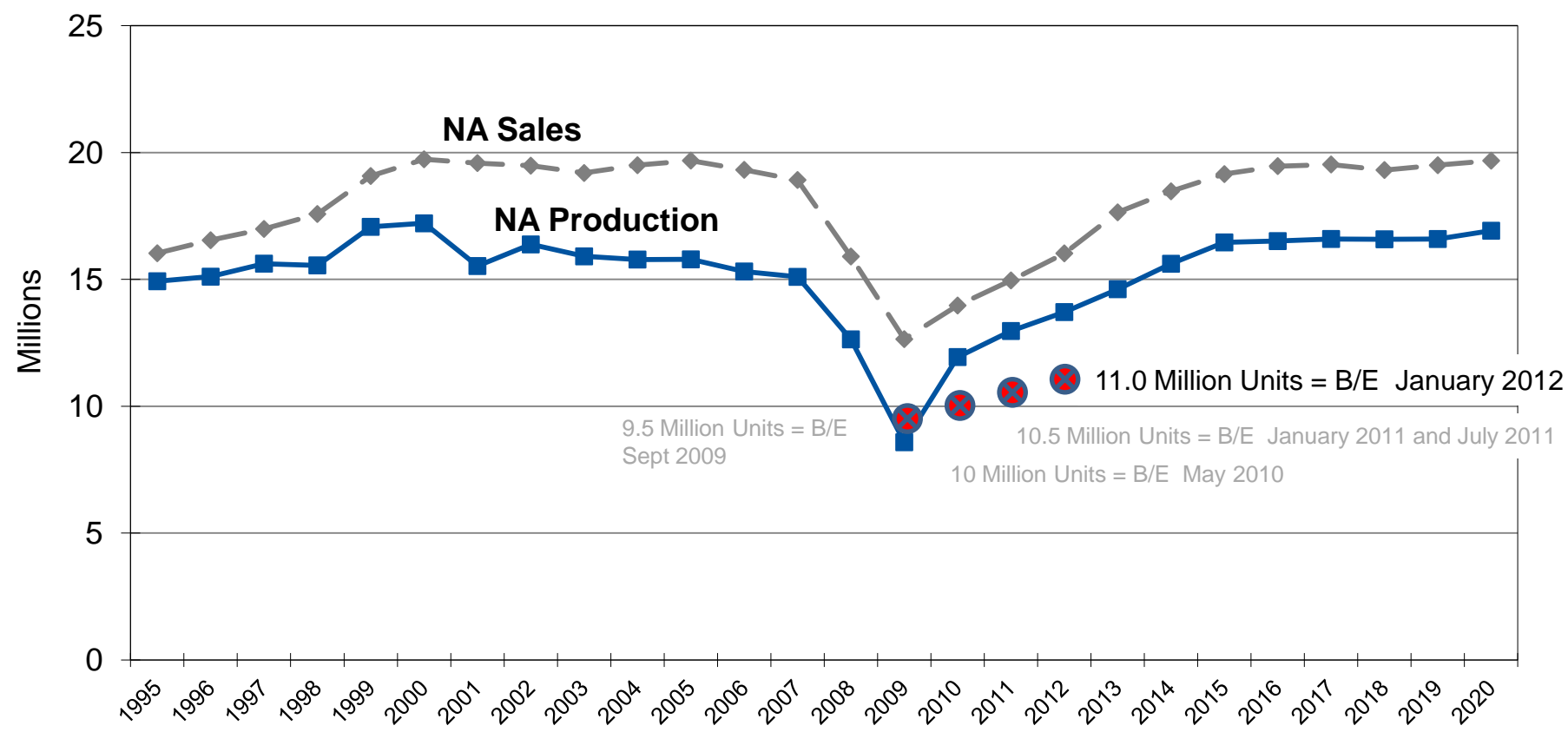
- Tomorrow's Opportunities to Thrive





Lesson Learned: Meeting Production Demands While Keeping the Cost Discipline of the Restructuring

North American Light Duty Sales, Production and Breakeven

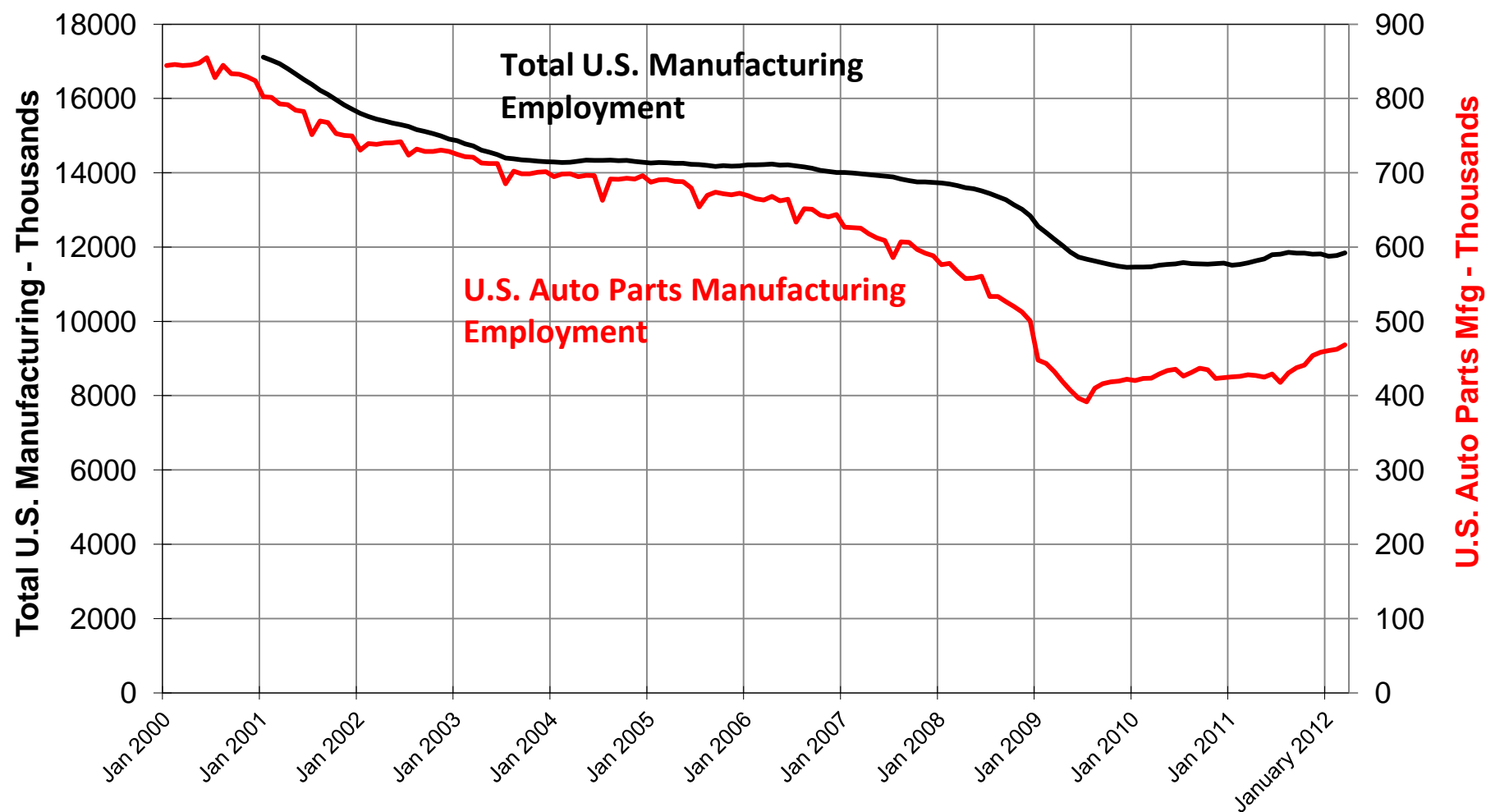


Sources: IHS Automotive (October 2011) and OESA Automotive Supplier Barometer



Headcount is Rising Slowly

Productivity Will Rise if the Workforce Does Not Burn-out



Updated to include 2012 February/March projected employment

Consolidation Continues at a Pragmatic Pace

2006



Consolidation and elimination of weaker players has led to attractive industry dynamics

Barriers to entry have increased including need for global scale and customer proximity

Industry capacity cut significantly and competition has been reduced

Remaining competitors operating more rationally

2010

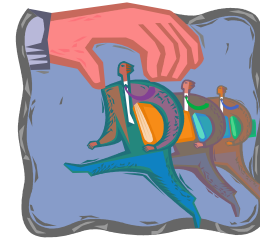


Outline

- A Changing Industry



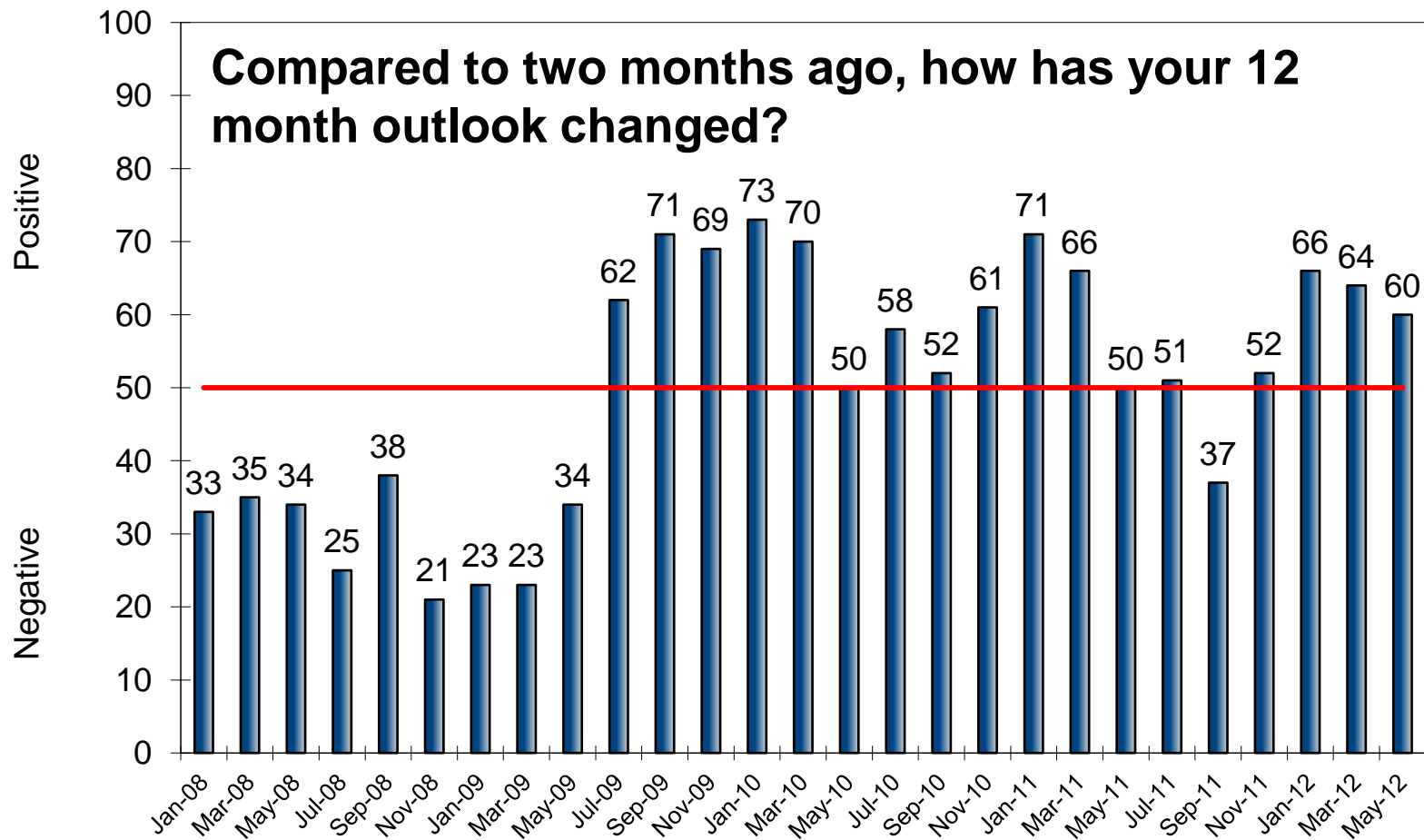
- Today's Challenges to Survive



- Tomorrow's Opportunities to Thrive



Supplier Sentiment: Digesting Good and Bad News Every Day



No. of Responses = 108

If Customer Demands Weren't Challenging Enough Natural and Industrial Disasters Stress Test the Entire Value Chain

Magna Fire



Japan Earthquake and Tsunami



Southeast U.S. Tornadoes



Autoneum PA flood



Thailand Floods

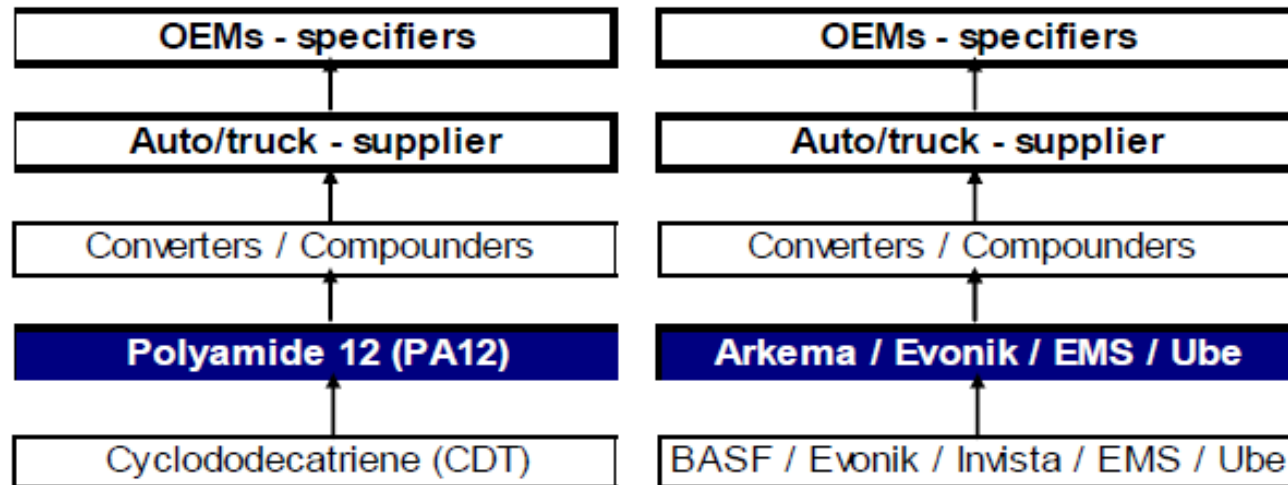


Evonik Plant Explosion



CDT Supply Chain Disruptions: Evonik controls ~25% of CDT production and ~40% of Nylon 12 production

Polyamide 12 value chain



Source: Company data, BofA Merrill Lynch Global Research estimates

- The industry was quick to identify the constituents and potential “work-arounds”
- OESA is supporting the workgroup charged with finding alternative sources of CDT
- OESA is supporting workgroups to identify methods to speed validation of alternative materials

Suppliers Are Taking On A Wide Range of Recovery Actions – A Sample of Actions with Customers

Alternate Materials:

- Design in new resins.
- Alternate material validation.
- Use alternative material.
- Working on expedited validation.
- Confirming use of alternative materials.
- Executing a material change.

Monitoring:

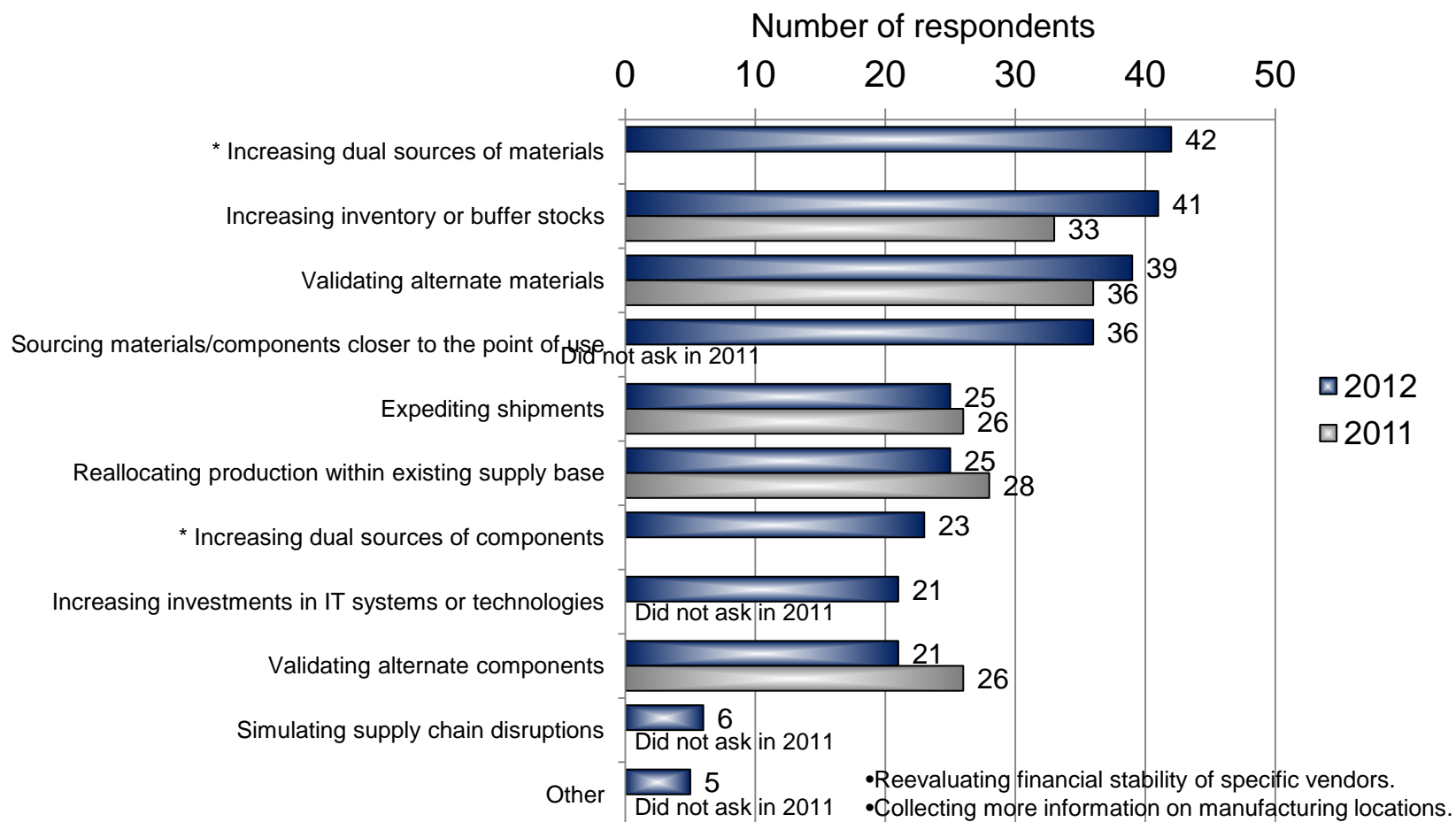
- Proactive schedule monitoring.
- Staying close to all production schedules.
- Watching releases from week to week.
- Closely monitoring releases in order to flex appropriately.

Communication:

- Keeping them in the information loop.
- Keep them informed of the status.
- Communicating / advising them of our information.
- Relaying information from our suppliers to our key customer.
- Working on quick approvals.
- Daily calls.
- We made phone calls to our customers that may be affected by this shortage and asked if they were ok and if we may see production shortages and all have said they are good. Some of our customers shut down for change over and we are getting informed that several companies and divisions are so busy that they will not be shutting down and are giving us the heads up so we can support their needs.
- Alerting when there is a risk. However, our investigations to date have shown limited risk for our components.

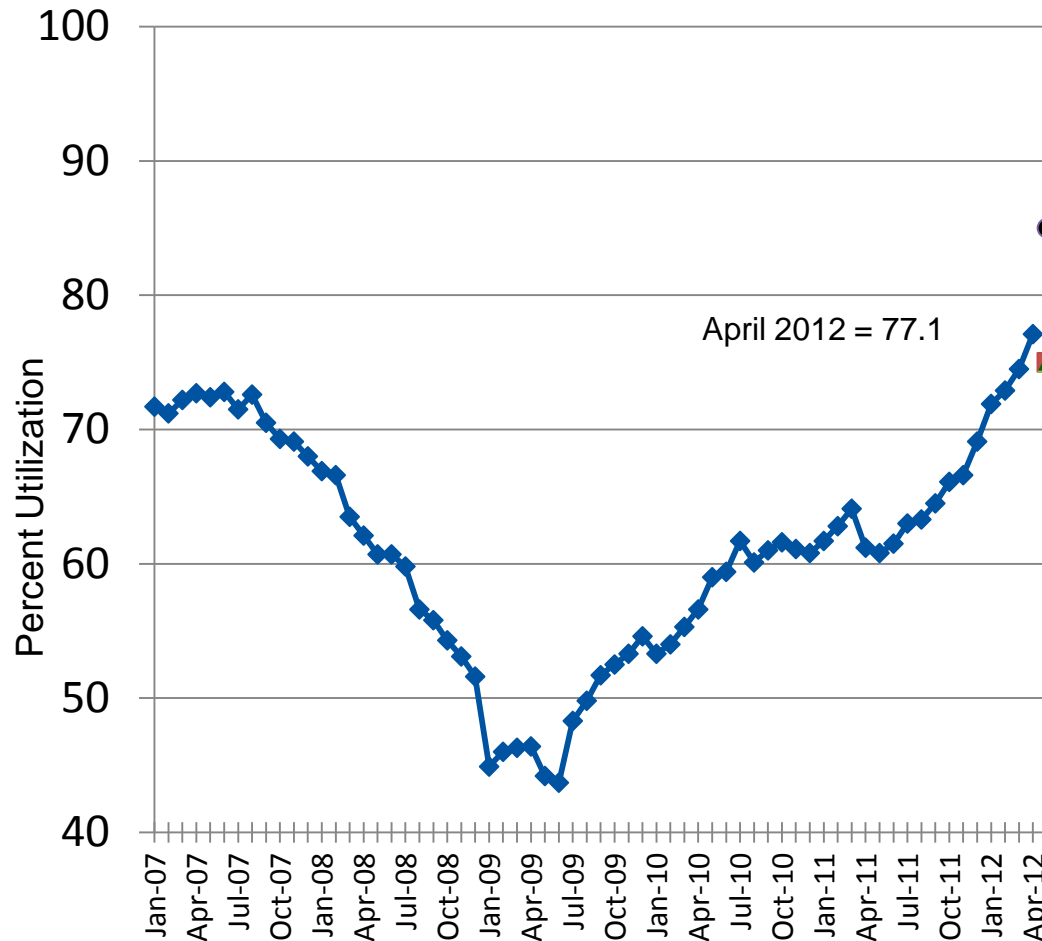
The Supply Chain's Stress Test Prescription

What actions and strategies are being taken within your company to mitigate supply chain risk?



* In 2011, Resourcing, adding new suppliers = 32 responses

The Supply Base Did Take a “Hair Cut” in 2009 and Bottlenecks Exist Throughout the Supply Chain



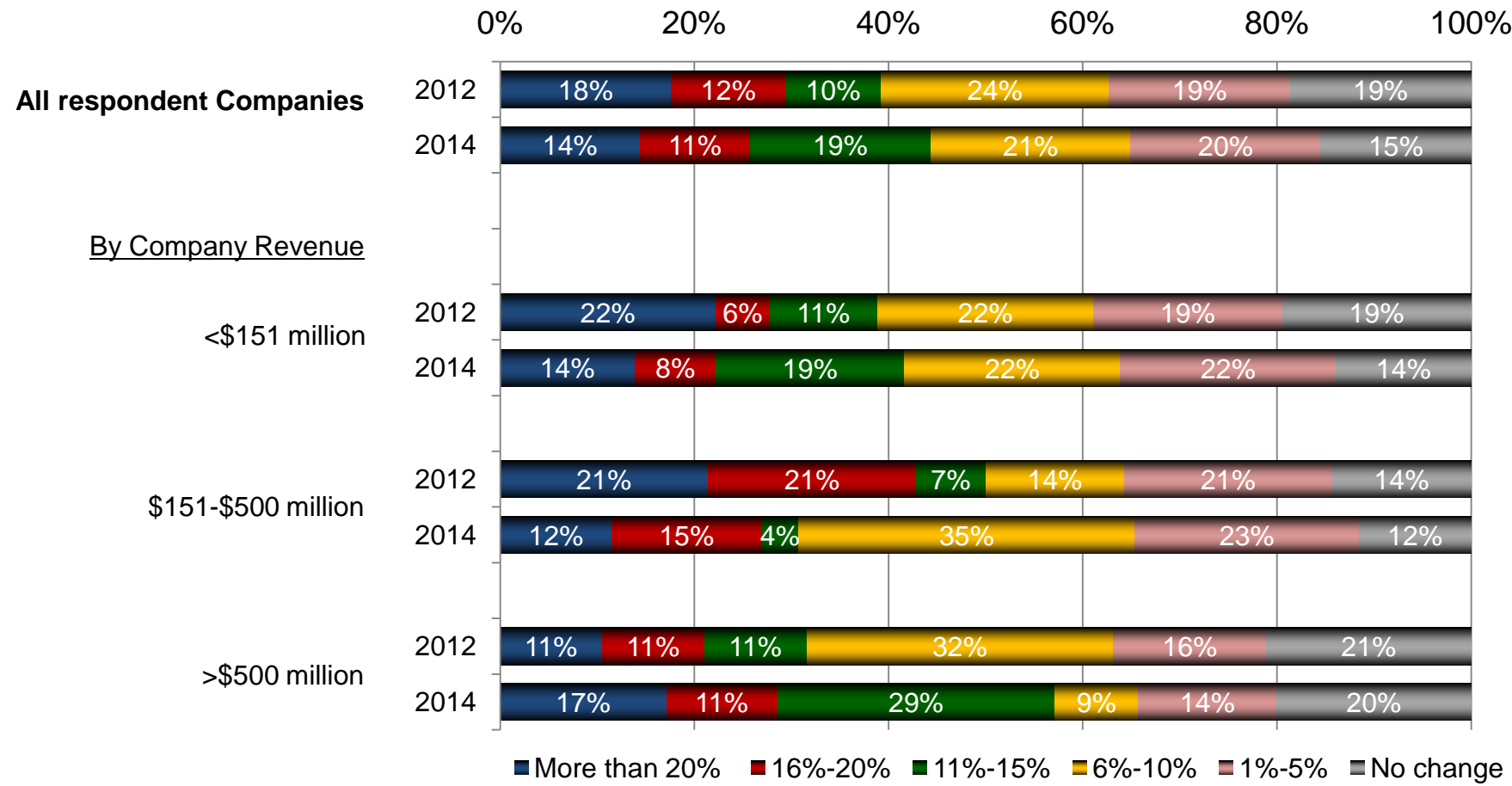
Capacity Utilization data from the OESA Automotive Supplier Barometer May 2012:

- Supplier Current Running Capacity (85%)
- Current + Warm-idled capacity (75%)
- Current + Warm + Cold-idled capacity (75%)

- When asked about utilization rates, the upper quartile of companies are running at 90%; 89% including their warm and cold-idled capacity– and this is at a 14.5 million unit level
- The lower quartile companies are operating at 70%; 55% including all available capacity

Record Number of Vehicle Launches and Volume Recovery is Driving CapEx Budgets Higher

Estimate the change in capital expenditures using 2011 as the base year.

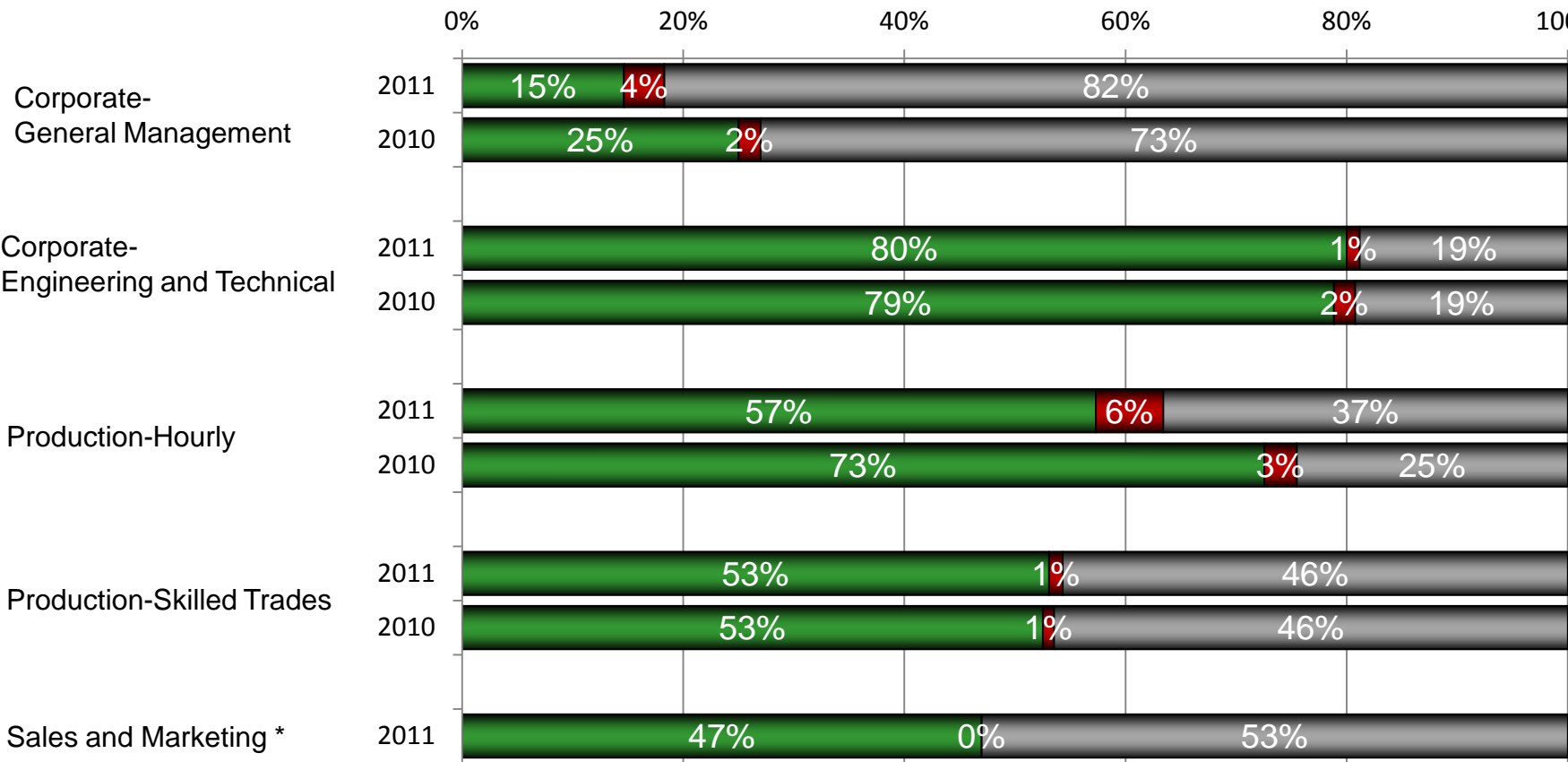


Estimate of Percent Increase over 2011 Base



Suppliers Have Been In the Labor Market

Within the next six months, is your company planning to add or cut staff in each of the following areas?



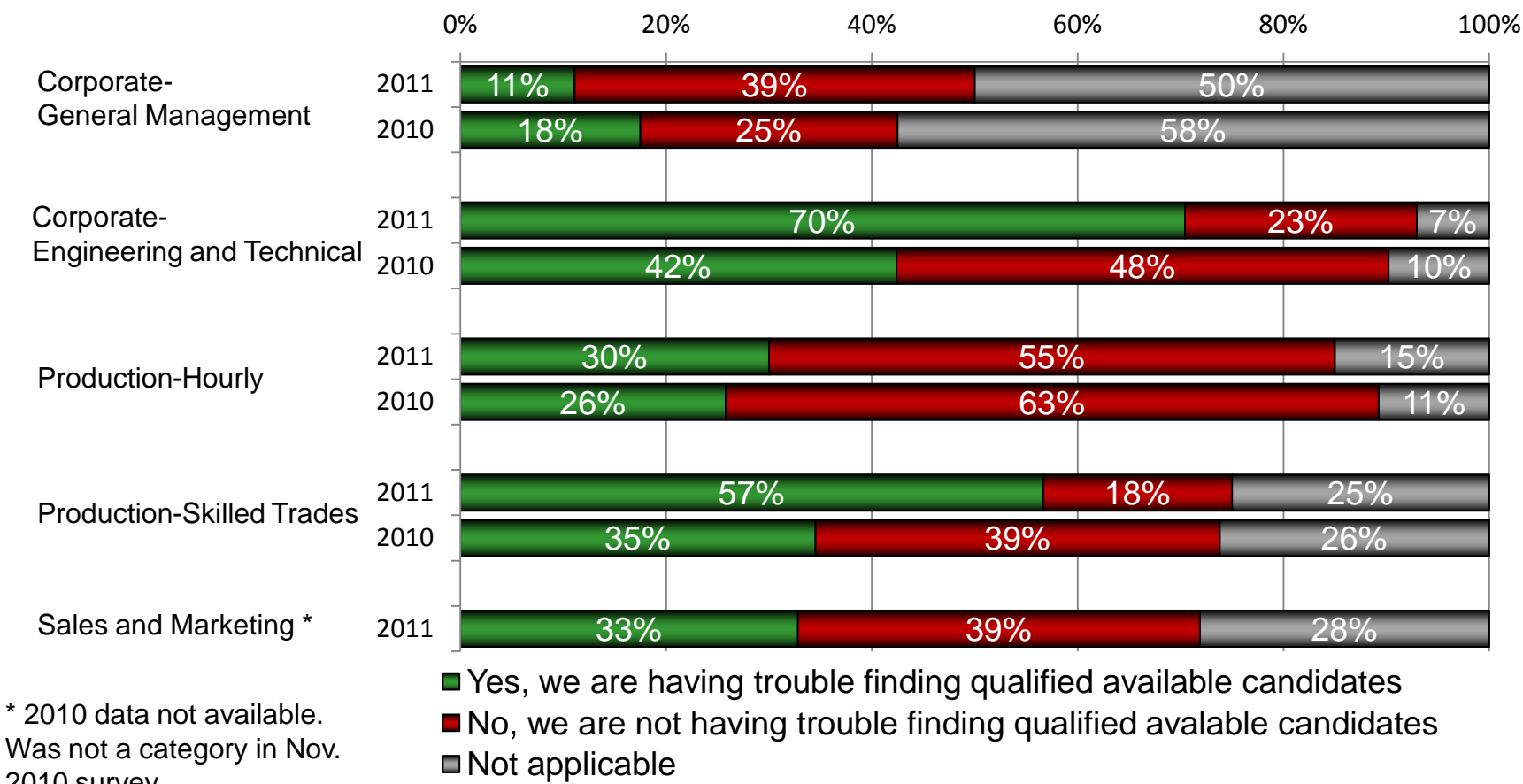
* 2010 data not available.
Was not a category in Nov. 2010 survey

No. of Responses = 81-85



Matching Labor Supply and Demand is Difficult

For those areas where your company is planning to add staff, indicate if you are having trouble finding qualified, available candidates.

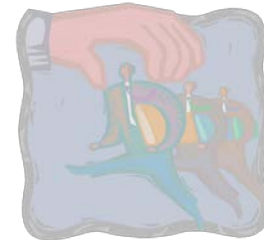


Outline

- A Changing Industry



- Today's Challenges to Survive

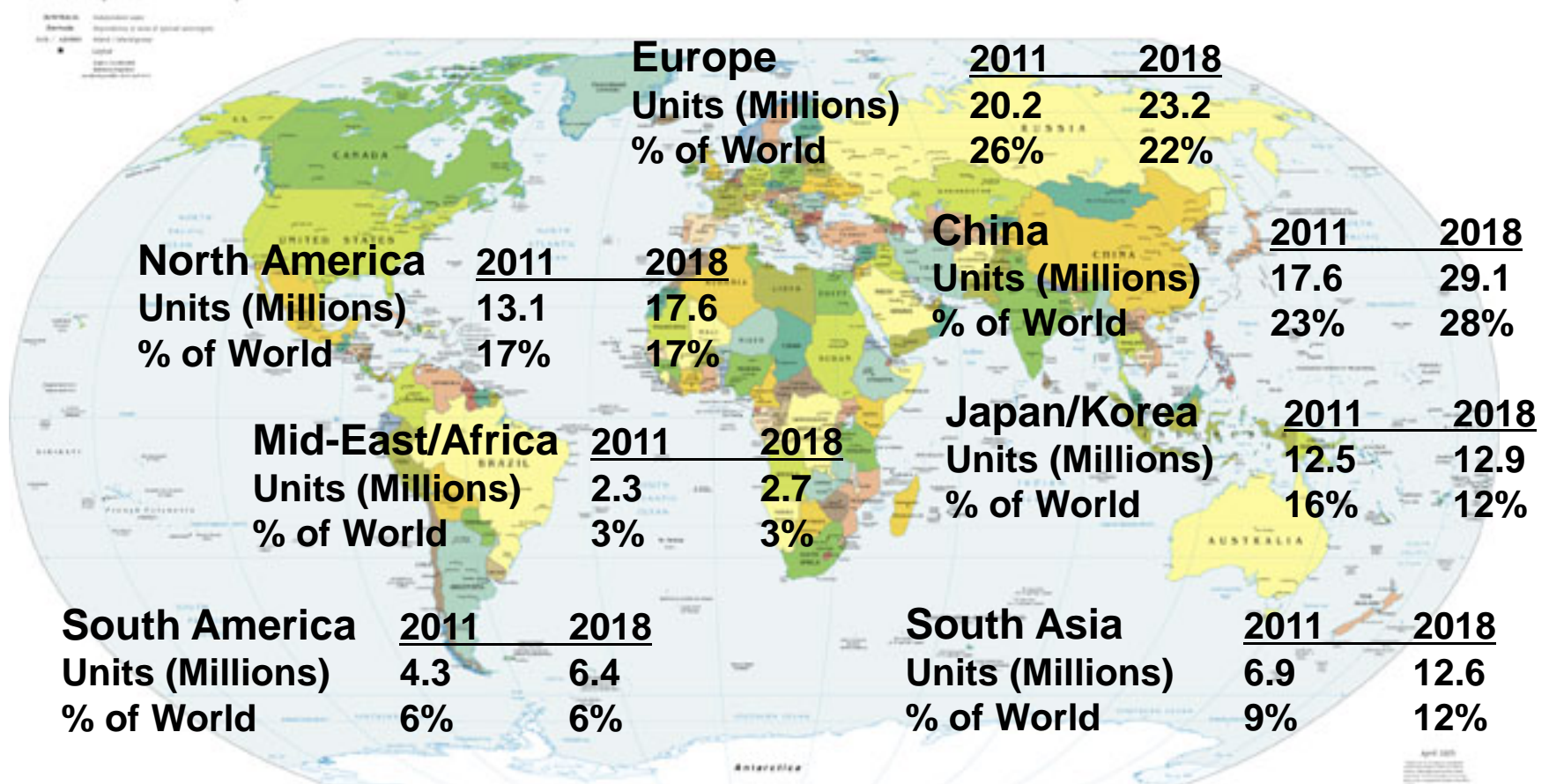


- Tomorrow's Opportunities to Thrive



The Vehicle Manufacturers' Global Footprint Supported by FTA's Will Drive The Suppliers' Footprint

Political Map of the World, April 2005

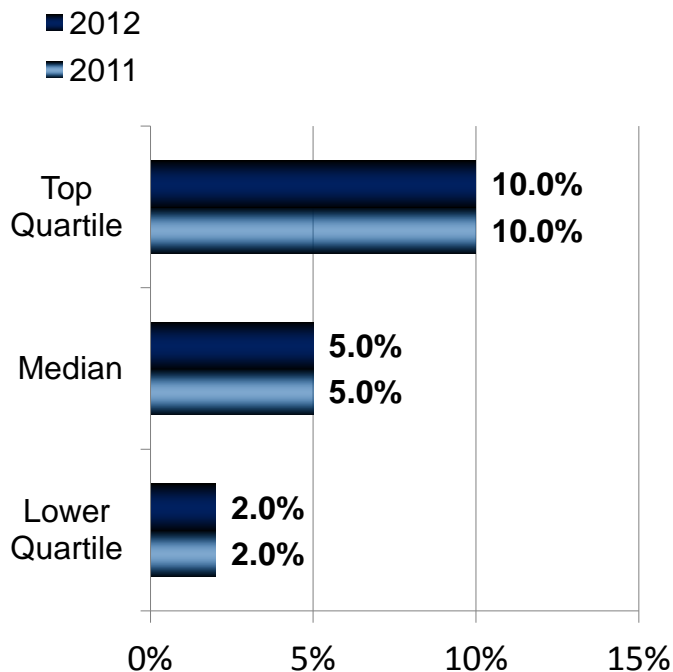


2011 volume = 76.9 million units

2018 volume = 104.5 million units

As Global Vehicle Architecture Commonality and Volumes Grow – Suppliers have Opportunities to Restructure their Footprints for Swing Capacity on the Export Side

Estimate the percent of your current North American production that is exported outside of the NAFTA region (percent of dollar value).



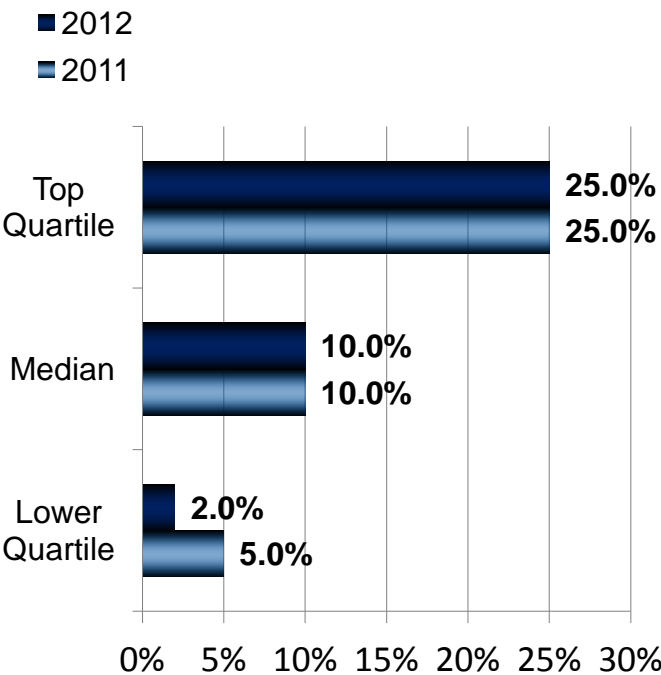
Of the export value you've provided above, what is the regional split of your exports?

	Lower Quartile	Median	Upper Quartile	Sample Size
Europe	8%	38%	81%	72
S. America	2%	5%	20%	51
Japan/Korea	2%	10%	30%	49
China	1%	10%	32%	47
Rest of World	2%	10%	23%	39

Note: No change in Y-o-Y results

And Improve Cost Structures Through the Import Side

Estimate the percent of your current material costs for North American production that is purchased outside of the NAFTA region (percent of dollar value).



Of the purchase value you've provided, what is the regional split of your purchases?

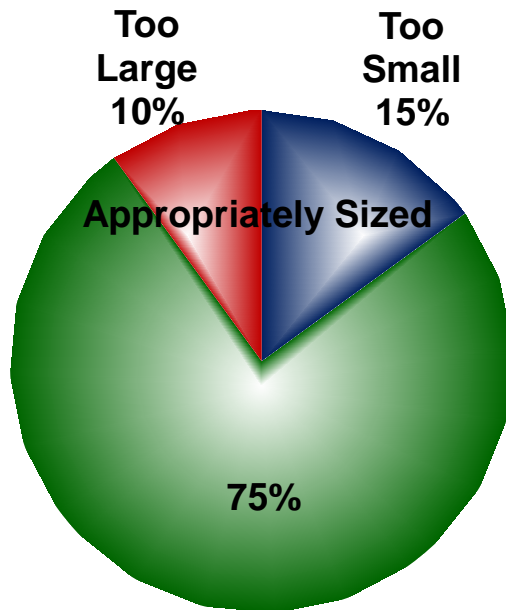
	Lower Quartile	Median	Top Quartile	Sample Size
Europe	10%	22%	53%	55
S. America	0%	0%	6%	20
Japan/Korea	10%	25%	60%	51
China	10%	23%	50%	51
Rest of World	0%	10%	15%	33



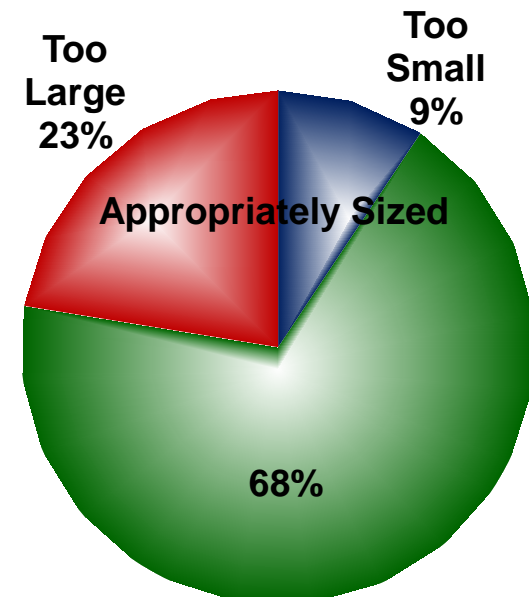
Consolidation Will Continue – The Strong Will Likely Get Stronger

Considering your 2012-2013 North American Production planning volumes expectation, in terms of the number of your NA suppliers, select the relative size of your current supply base.

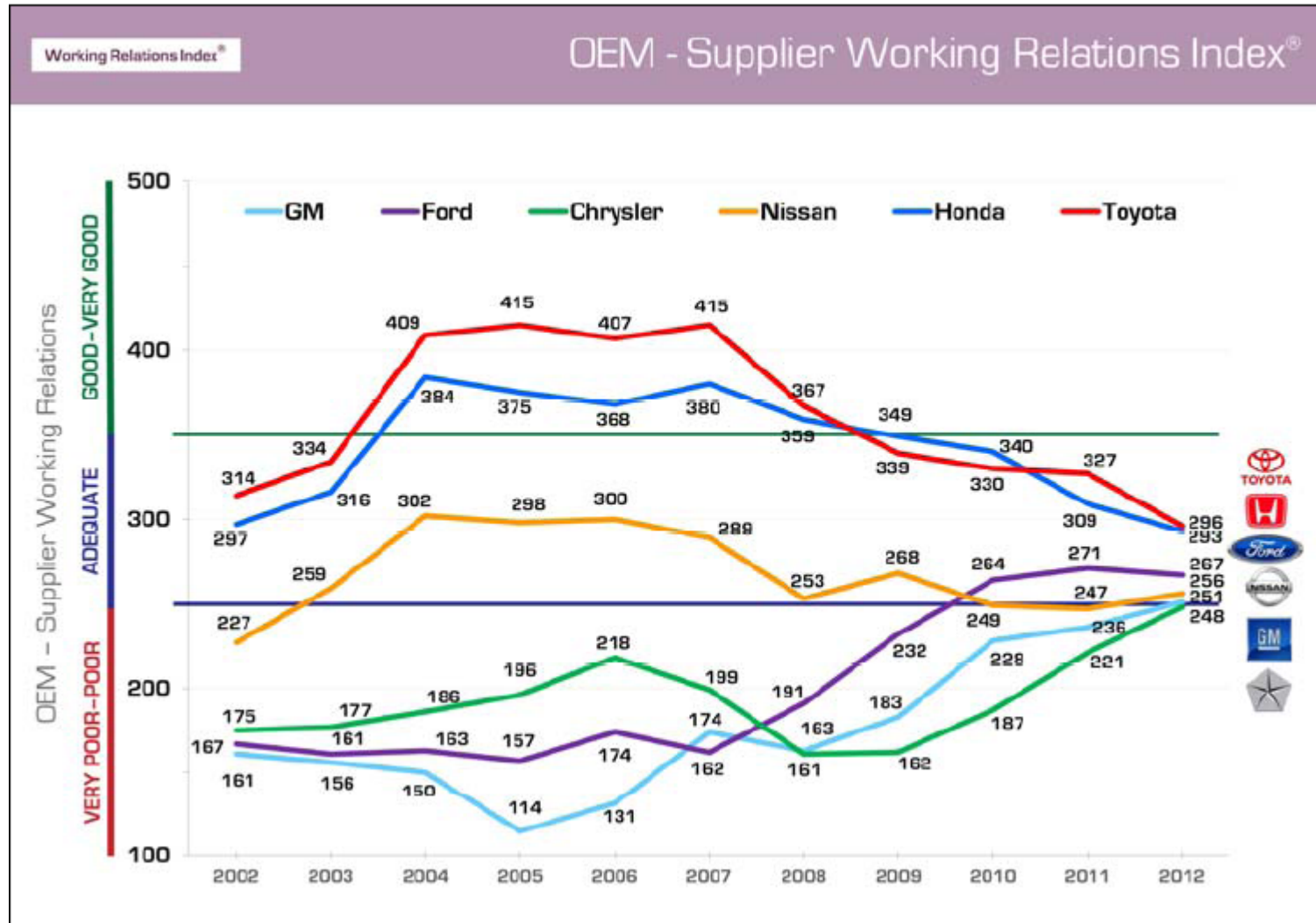
Direct Suppliers



Indirect Suppliers



2012 Planning Perspectives WRI – Converging or Forming a New Foundation to Grow From?

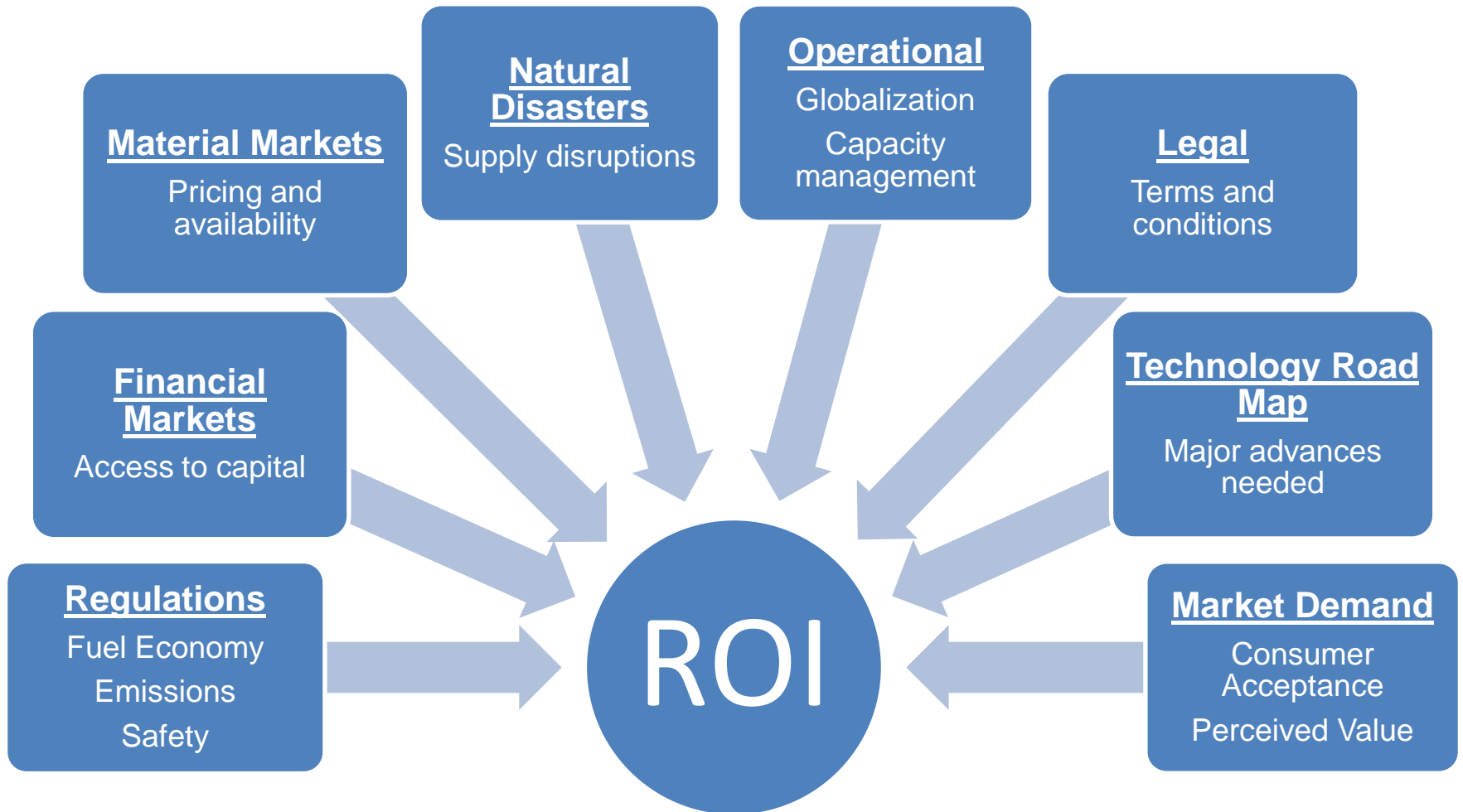


Source: Planning Perspectives, April 2012

Why Has the Industry Converged? Where are the Opportunities to Move Forward?

- The churn of purchasing, engineering and plant personnel has slowed post recession – and although low tenure is prevalent in critical positions, the industry is rebuilding its personnel ranks in a better cultural environment than we have seen in several decades.
- OEMs are acknowledging this public survey and commissioning internal, proprietary work to address specific issues.
- OEMs are rebalancing global management structures. The Japanese are shifting decision making to the regions where product launches and product differentiation has proliferated. Meanwhile, the Detroit 3 are shifting to more central control to regain control on costs, engineering and design that they had lost to the regions.
- In a perverse way, the natural disasters and industrial accidents have forced tighter working relationships. While managing under a crisis does create tension, it does expose the non-value added activity and allows for the implementation of more streamlined processes post crisis.

The Opportunities and the Risks are Greater than Ever – And No One Is Looking Back to the Good Old Days of 2009



Thank You

Dave Andrea

Senior Vice President

OESA – Original Equipment Suppliers Association

1301 West Long Lake Road

Suite 225

Troy, Michigan 48098

248-952-6401

dandrea@oesa.org