



OESA

Automotive Supplier Barometer

April 2007

OESA

1301 W. Long Lake Road, Suite 225

Troy, MI 48098

248-952-6401

www.oesa.org



April 2007 Summary

- In the April OESA Automotive Supplier Barometer, suppliers indicate a slight improvement in their 12 month business outlook. While this is only a single month data point, it is interesting to note that three respondents noted a stabilization – even increases – in production schedules.
- While there is still concern over vehicle sales and inventories, a rebound in production needs to start occurring in the second and third quarters to achieve the financial and consulting firms' 2007 NA production forecasts. The Barometer appears to be picking up this turn in schedules.
- Given the generally negative press over the past four weeks regarding the UAW's response to Delphi's and DaimlerChrysler's re-structuring, several respondents noted concern over possible labor disruptions. This is of particular concern going into the 2007 negotiations.
- Margin pressures will continue as suppliers continue to expect year-over-year production schedule declines and continued customer price-down requests in a period of rising energy, materials and labor costs. Generally, units and prices are expected to decline by up to 5 percent while other costs are expected to increase up to 5 percent. For individual suppliers, there is good news and bad news around these averages where revenues are expected to decline by over 10 percent and costs increase by a similar amount (see slides 8 through 12).

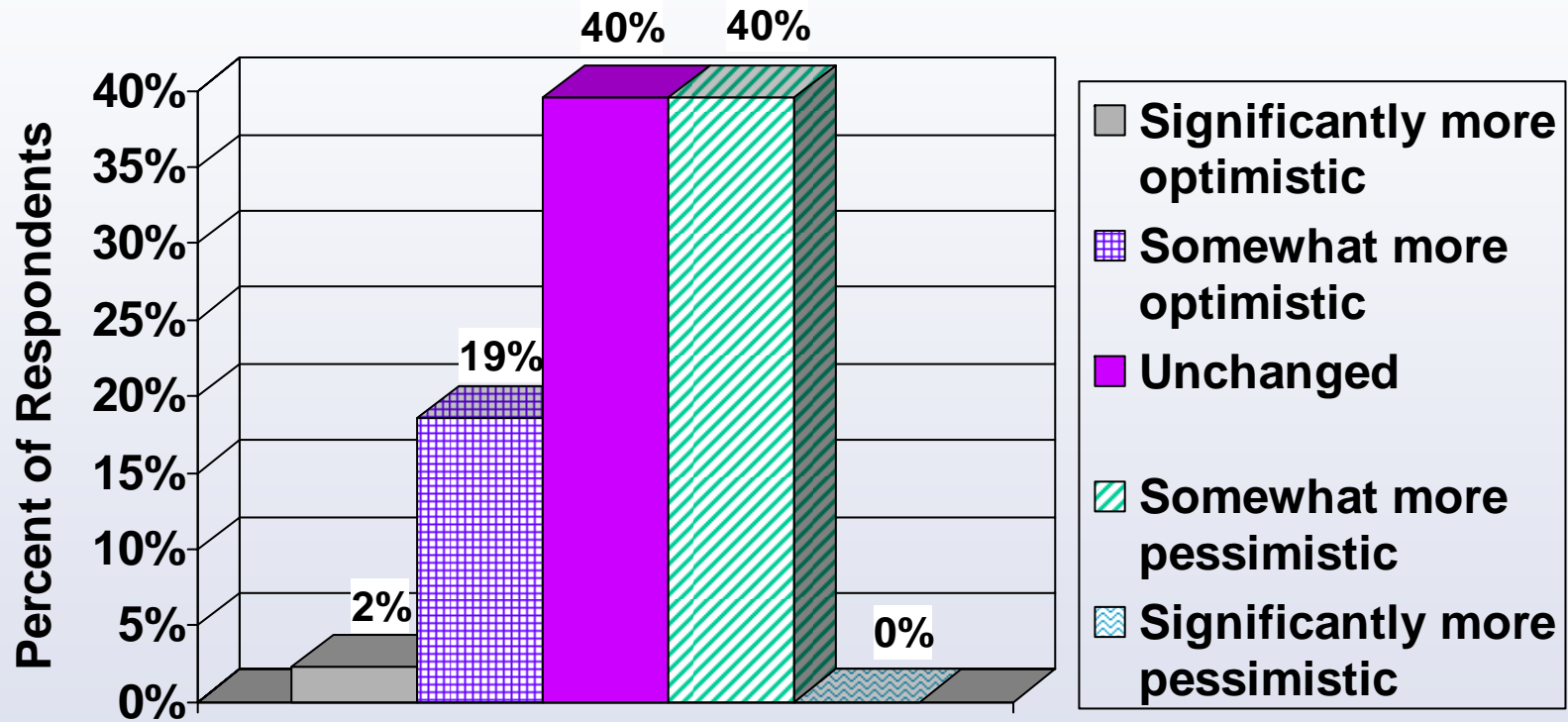


April 2007 Summary

- The Barometer defines several strategies suppliers are pursuing to improve their business outlook. Supply chain management is expected to be a significant competitive differentiator. It is interesting, organizational culture and personnel's individual characteristics define the procurement office of the future (slides 13 and 14).
- Regarding customer diversification, suppliers indicate breaking into existing supply base relationships is the hardest barrier to overcome (slide 16 and 17). Finally, regarding speeding up the commercialization of new technology, there is a significant perceived gap between the suppliers and their customers regarding risk, value and communication of requirements (slides 18 and 19). The Barometer identifies many interface issues limiting revenue creation.



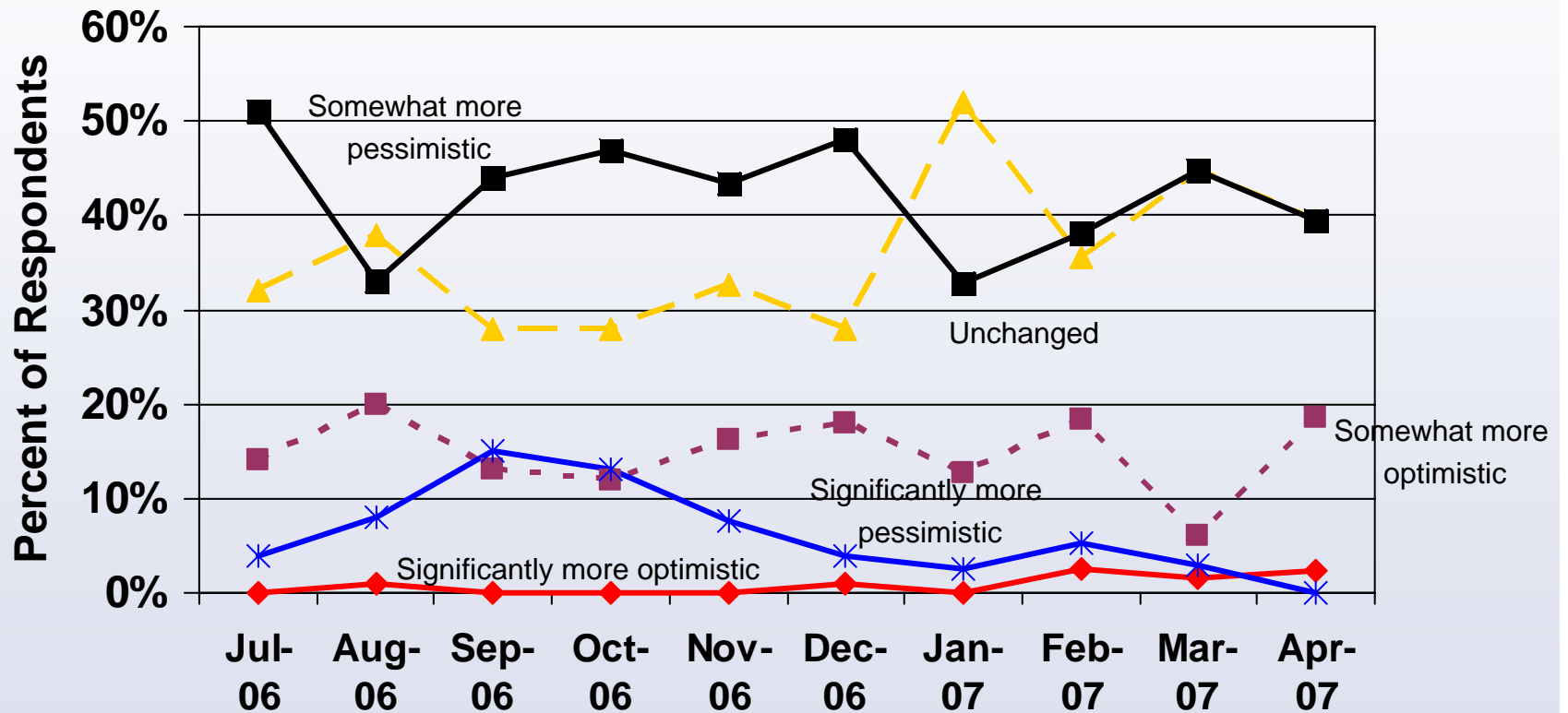
Question 1: Describe the general twelve month outlook for your business. Over the past month, has your opinion become:



Responses = 43



Question 1 Trend: 12 Month Business Outlook for Your Business

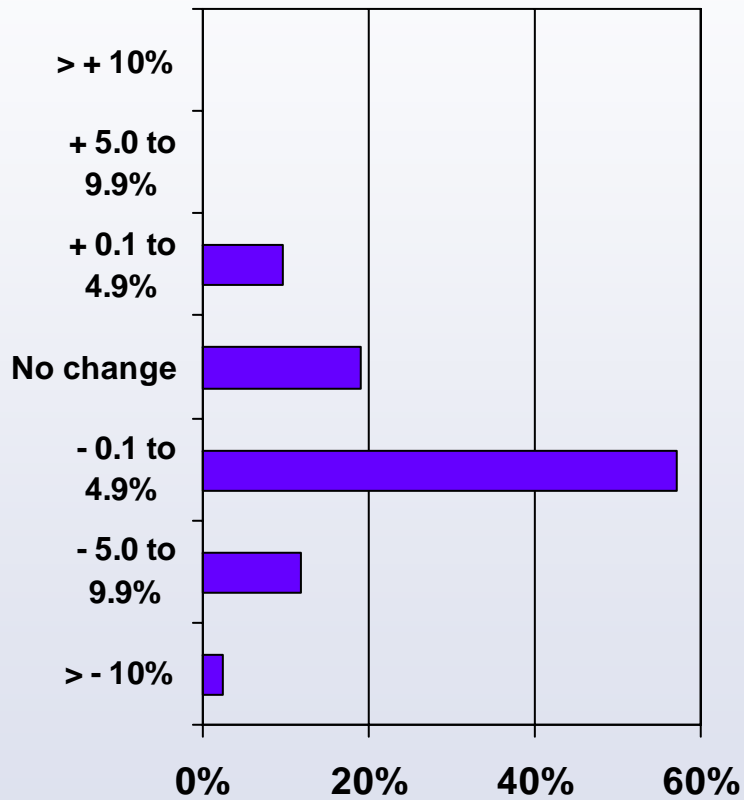


Note: Responses for July = 81; August = 88; September = 117; October = 107; November = 92
December = 92; January = 69; February = 76; March = 67; April = 43

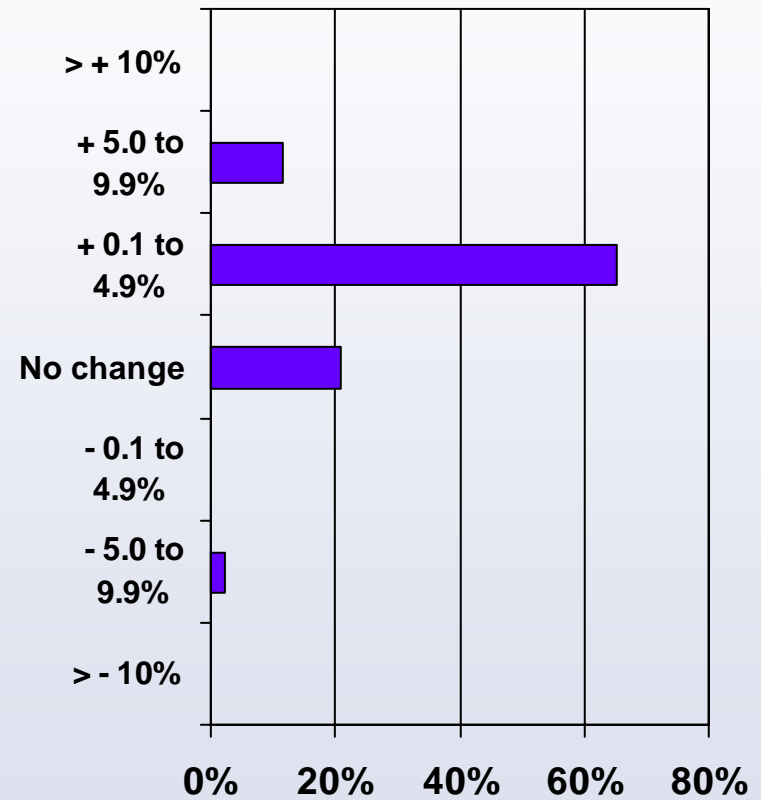


Question 2: Rate the change in these variables that you expect over the next 12 months versus the prior 12 months.

NA Production Schedules



Cost of Energy

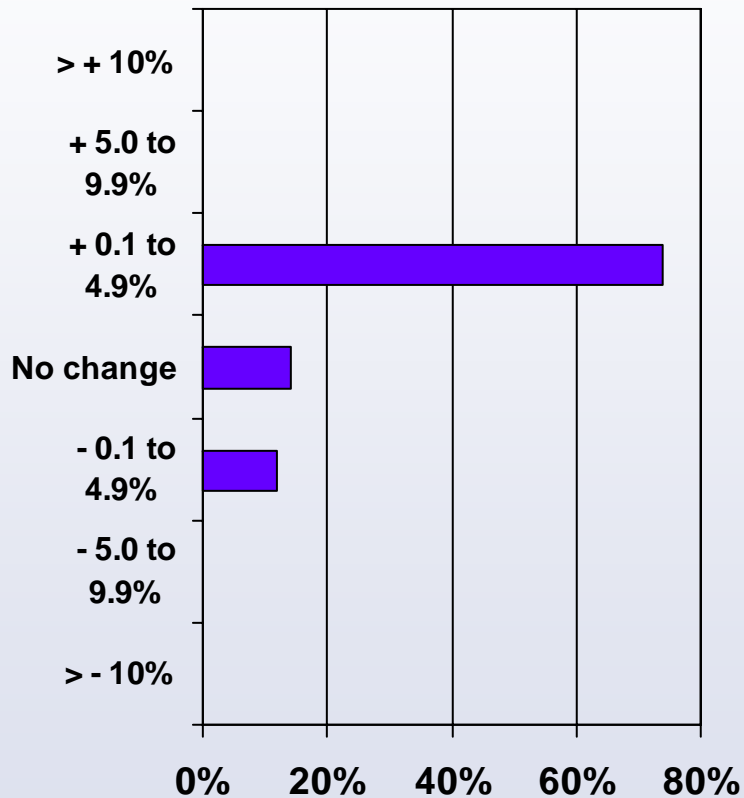


Responses = 41 to 43

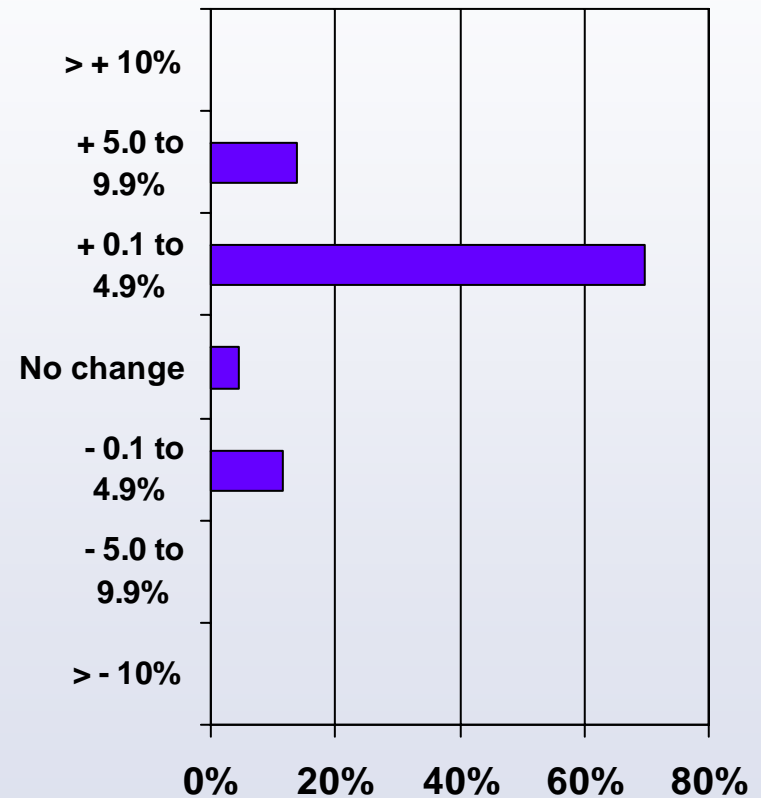


Question 2: Rate the change in these variables that you expect over the next 12 months versus the prior 12 months.

Cost of Purchased Components



Cost of Raw Material

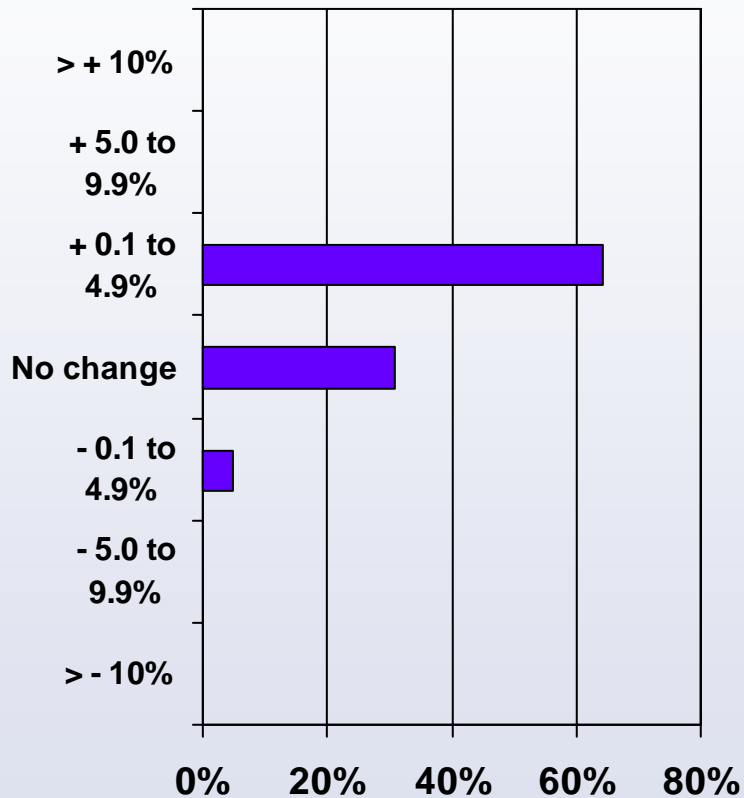


Responses = 41 to 43

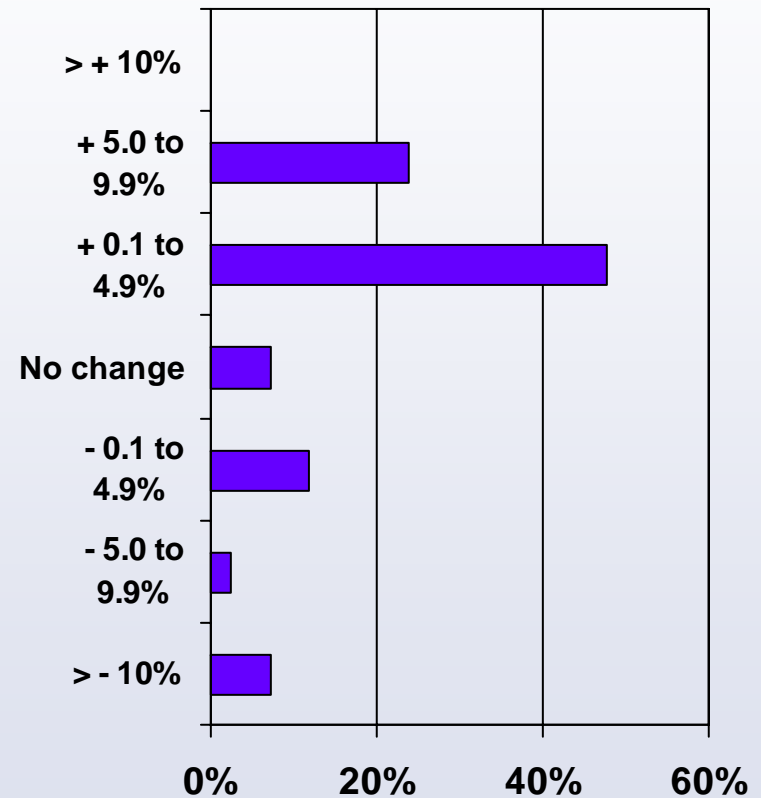


Question 2: Rate the change in these variables that you expect over the next 12 months versus the prior 12 months.

Labor - Compensation



Labor - Benefits

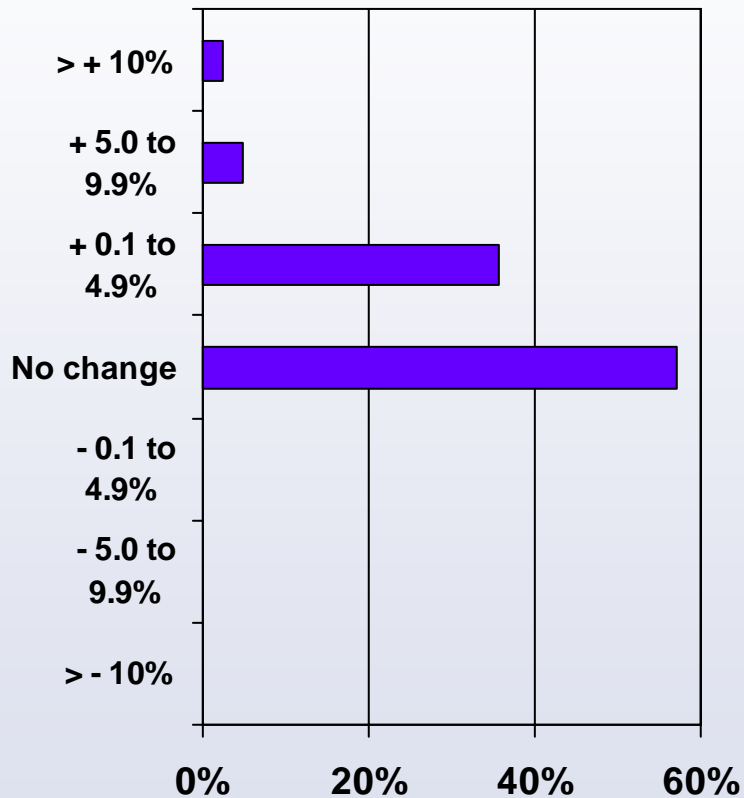


Responses = 41 to 43

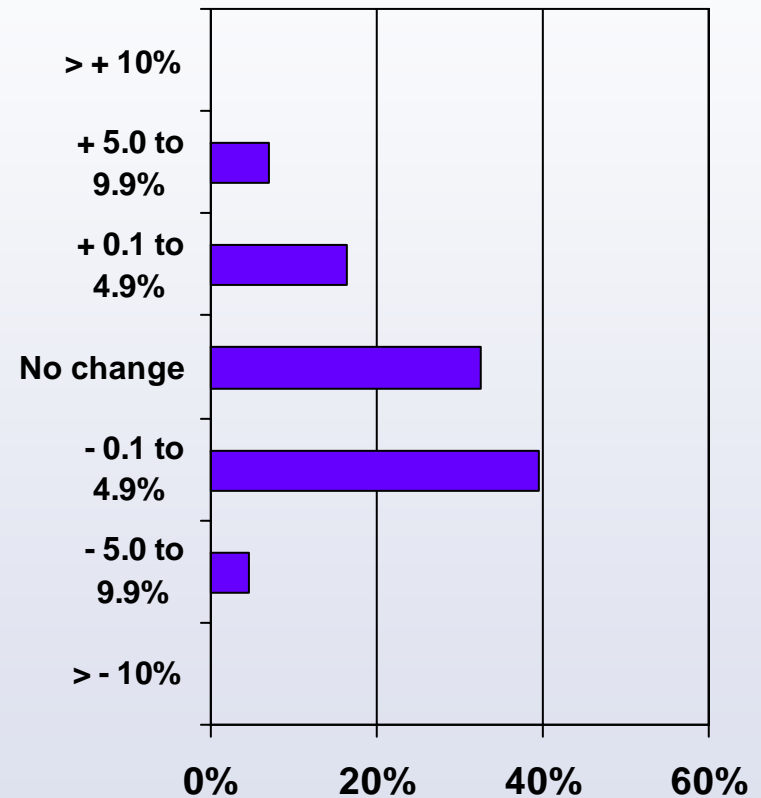


Question 2: Rate the change in these variables that you expect over the next 12 months versus the prior 12 months.

Cost of Capital – Total Cost Percentage



Customer Price Down Requests



Responses = 41 to 43



Question 3: What organizational requirements and individual skill sets would you look for in your own purchasing activity to position your company as a "customer of choice?"

- **Organizational Requirements**
 - **A Partnering Culture** (18 mentions including a win-win culture, flexibility yet consistent working expectations, integrity, ethical)
 - **Data-Driven Objectivity** (17 mentions including clear definitions of requirements and expectations, fact-based, clearly linked to corporate strategy)
 - **Reinforcing Personnel Practices** (15 mentions including clear and fair reward system, reward for best overall supply base metrics, reward cost reduction)
 - **Reinforcing Financial Practices** (10 mentions including financially healthy, consistent payment terms, market leadership, growth opportunities)



Question 3: What organizational requirements and individual skill sets would you look for in your own purchasing activity to position your company as a "customer of choice?"

➤ **Individual Skill Set**

- **Personal character** (25 mentions including integrity, honesty, work ethic, interpersonal communications)
- **Ability to source strategically versus “buying”** (17 mentions including understand the value chain, industry knowledge, global understanding, total value perspective)
- **Technical and product knowledge** (9 mentions including understands product and process, commodity applications and markets)
- **Analytical and business acumen** (8 mentions including cost modeling, forecasting, financial and data driven)
- **Negotiation skills** (5 mentions)



Question 4: Customer diversification is often identified as a top five supplier strategic initiative. What barriers (internal and with customers) has your company faced in its process to balance its customer portfolio?

- **Customer Relationship Issues** (41 mentions)
 - Existing supplier relationships/entrenchment (13 mentions)
 - Customer-driven time to build relationships (8 mentions)
 - Decision makers in foreign country, language (7 mentions)
 - Internal commitment to build relationships (6 mentions)
 - Customer decision making timing (3 mentions)
- **Engineering/Design Requirements** (15 mentions including material approvals, unique testing requirements, global capability requirements, unique technologies)
- **Financial Returns** (13 mentions including initial program margins, marketing and product development investment, payoff probabilities)
- **Global Requirements** (9 mentions including logistics requirements and costs, understanding market channels, required resources near off-shore engineering/design)



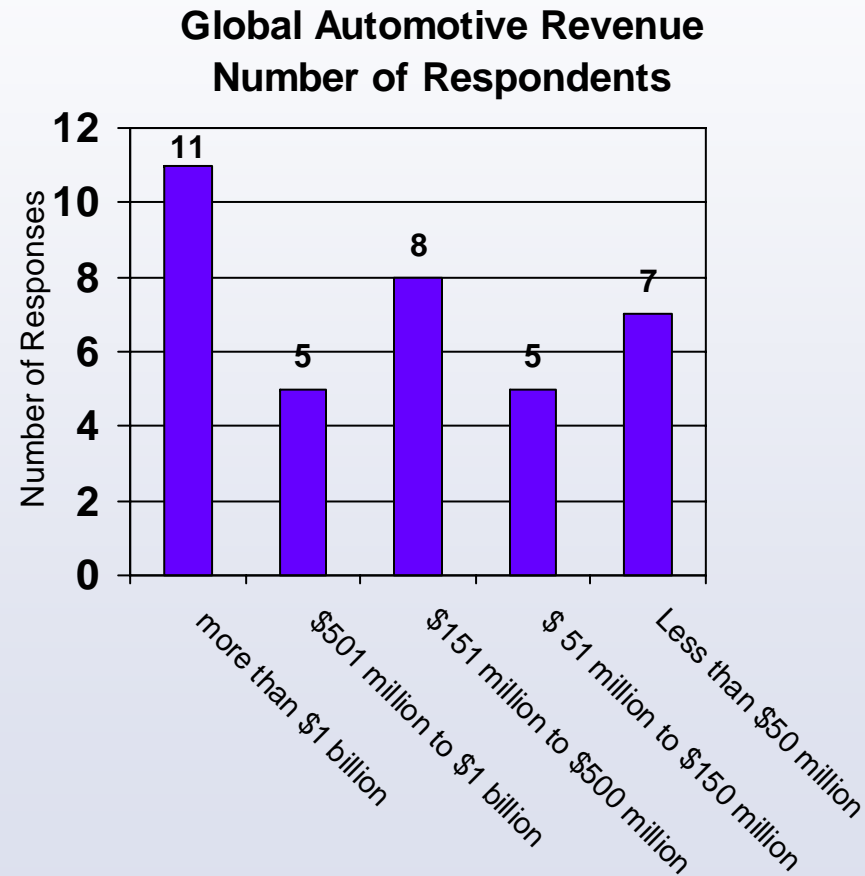
Question 5 Comments: Speeding up the commercialization of product innovation is identified as a critical success factor for suppliers. What barriers (internal and with customers) has your company faced in its effort to improve its product development process and the ultimate commercialization of new technology?

- **Customer-Related Issues** (33 mentions including aversion to risk, valuation and pricing, definition of needs, supplier interface, testing requirements)
- **Financial Constraints** (16 mentions including overall budgets, uncertain costs, uncertain returns)
- **General Resource Constraints** (14 mentions including allocation between production requirements and innovation, global requirements, other priorities including productivity improvements)
- **Human Resource-Specific Constraints** (7 mentions including required skill sets, interface between lab and field, global consensus)
- **Accurate Market Information** (4 mentions including understanding of technology paths that map to component implications, market needs, customer value)



Respondent Profile

- There were 43 individual respondents from 42 companies. The April 2007 OESA Automotive Supplier Barometer was conducted between April 3 – 5, 2007.





THANK YOU FOR YOUR PARTICIPATION

The May 2007 OESA Automotive Supplier Barometer survey will be launched on Monday, May 7th and will be released, Friday, May 11th.

For comments and suggestions for future Barometer surveys, contact:

Dave Andrea, Vice President
Industry Analysis and Economics
OESA
1301 W. Long Lake Road, Suite 225
Troy, MI 48098

248-952-6401 x 228
dandrea@oesa.org
www.oesa.org