



OESA

Automotive Supplier Barometer

March 2007

OESA

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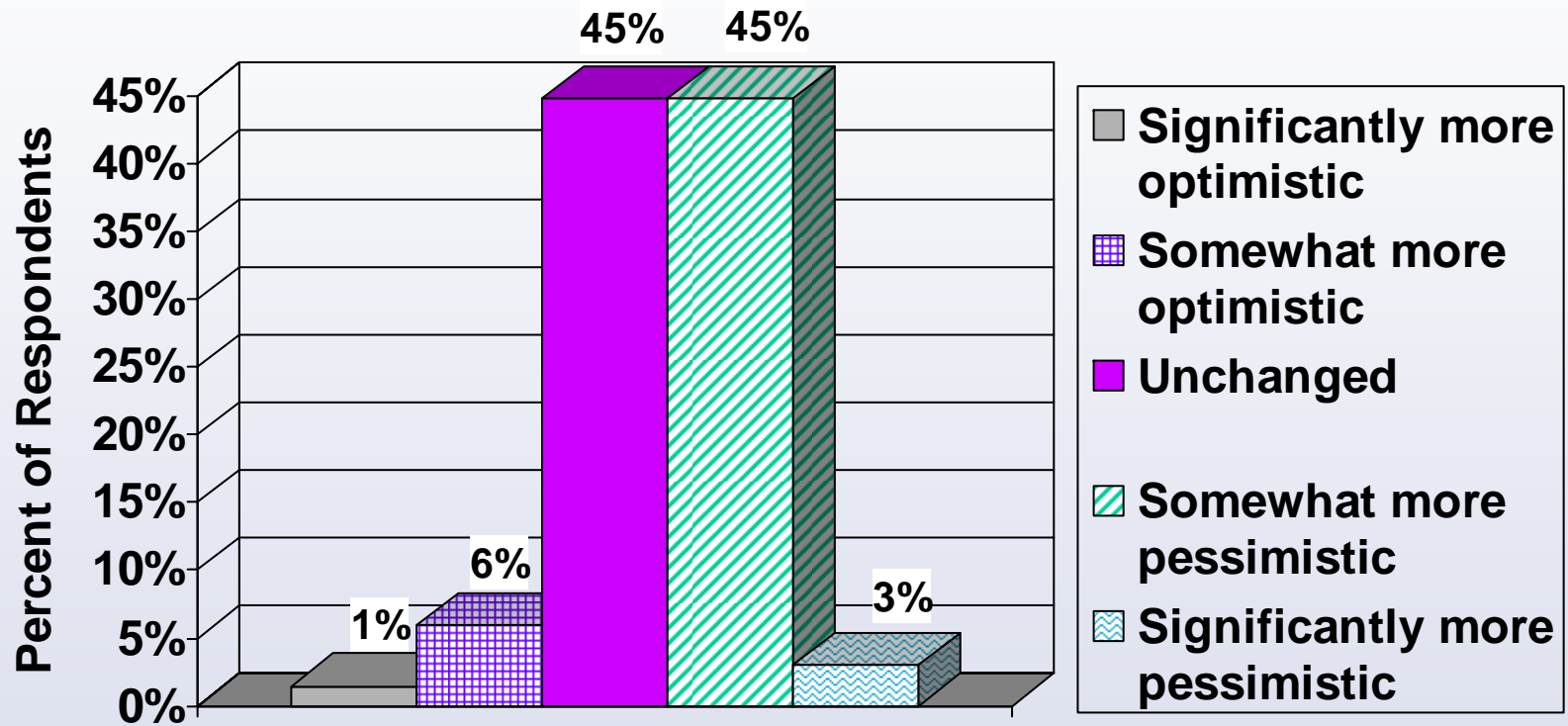


March 2007 Summary

- Suppliers' 12 month outlook trended towards increased pessimism in the current survey with the those reporting a "somewhat more optimistic" view reaching a Barometer survey low. Uncertainty surrounding a possible sale or additional restructuring at the Chrysler Group increased the perceived risk going forward as did recent remarks on the economy by former Fed Chairman Greenspan.
- Production schedules, material costs and the pricing environment remained the top three issues having the greatest perceived risk for suppliers' business plans. Increasing costs of inbound parts were also highlighted as a risk.
- Considering global expansion, except for China, suppliers reported relatively few specific capital funding barriers. Smaller companies replied "not applicable" as they are more focused on North America and Mexico within North America as a low cost country. Therefore, the issues reported are primarily the views of the medium and large company respondents. Clearly, suppliers need to be aware of the formal and informal Chinese barriers.
- Thirty one percent of the respondents have specific sourcing objectives from low cost countries. These targets generally range from 10 to 60 percent percent within 3 to 10 years. China, India and Mexico are the top three targets. However, suppliers noted a total of eighteen countries on their LCC list.
- Forty-one percent of suppliers noted they have specific supply base rationalization objectives. Those that do have objectives are looking at reducing their supply base by 35 percent. This is true for suppliers with large and small supply bases. Suppliers noting they did not have specific objectives currently have much smaller supply bases. However, the median responses still indicate a 24 percent anticipated reduction by 2012.



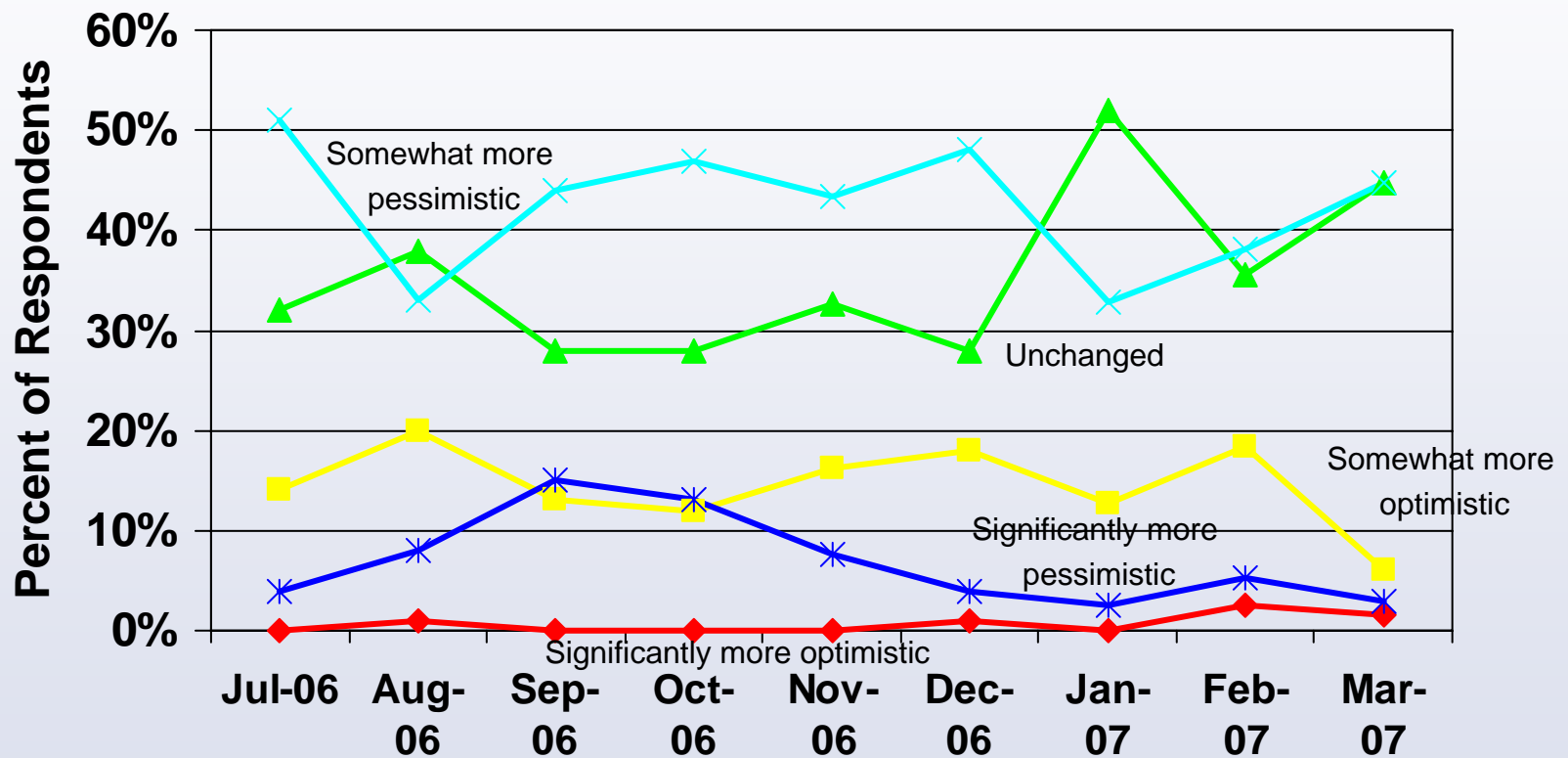
Question 1: Describe the general twelve month outlook for your business. Over the past month, has your opinion become:



Responses = 67



Question 1 Trend: 12 Month Business Outlook for Your Business

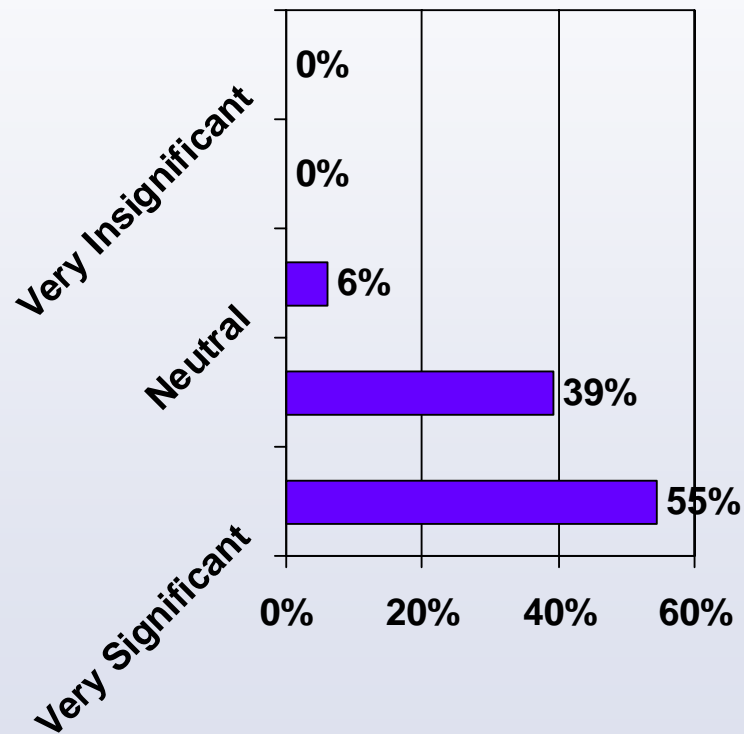


Note: Responses for July = 81; August = 88; September = 117; October = 107; November = 92
December = 92; January = 69; February = 76; March = 67

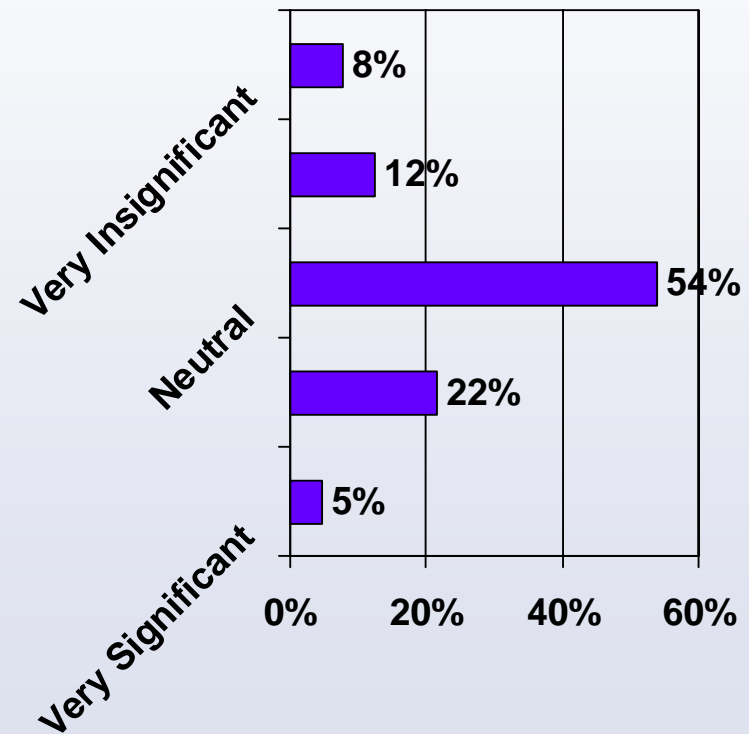


Question 2: Rate your assessment of the underlying uncertainty each of these variables presents to your company in achieving its current business plan.

NA Production Schedules



Non- NA Production Schedules

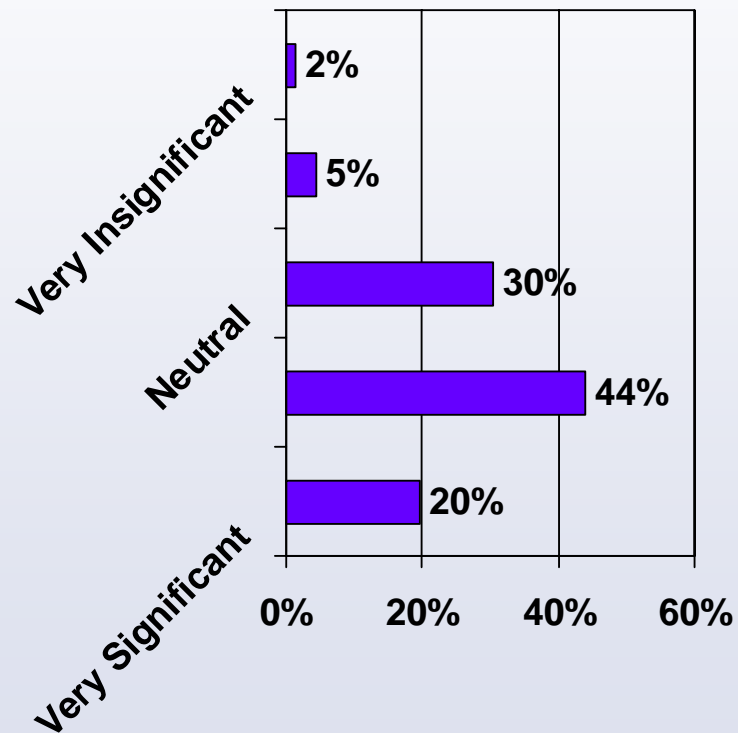


Responses = 66

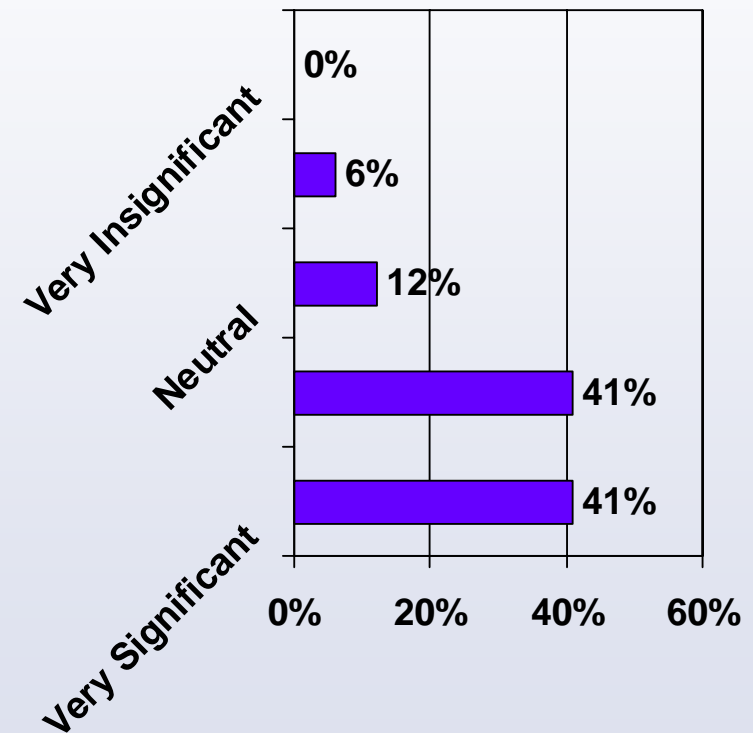


Question 2: Rate your assessment of the underlying uncertainty each of these variables presents to your company in achieving its current business plan.

Purchased Component Costs



Raw Material Costs

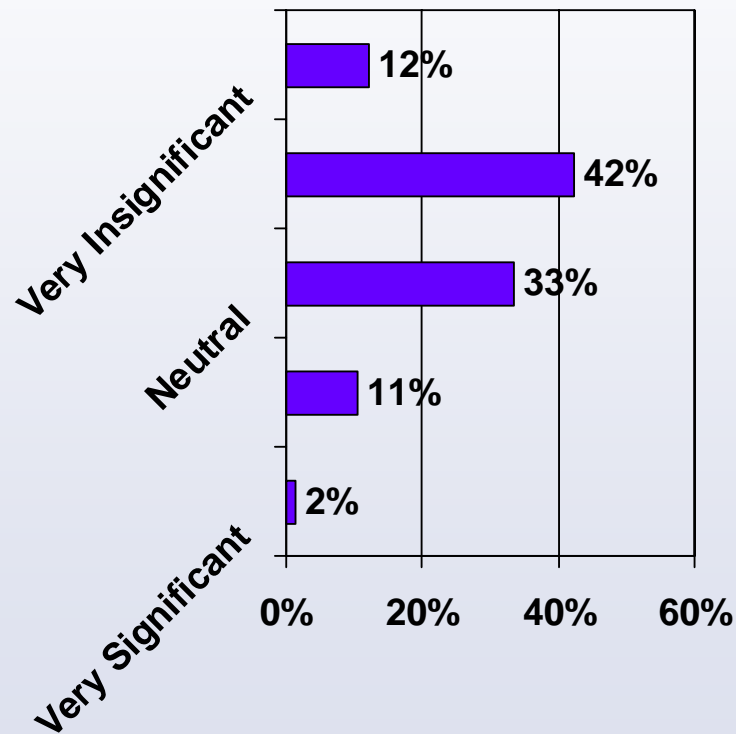


Responses = 66

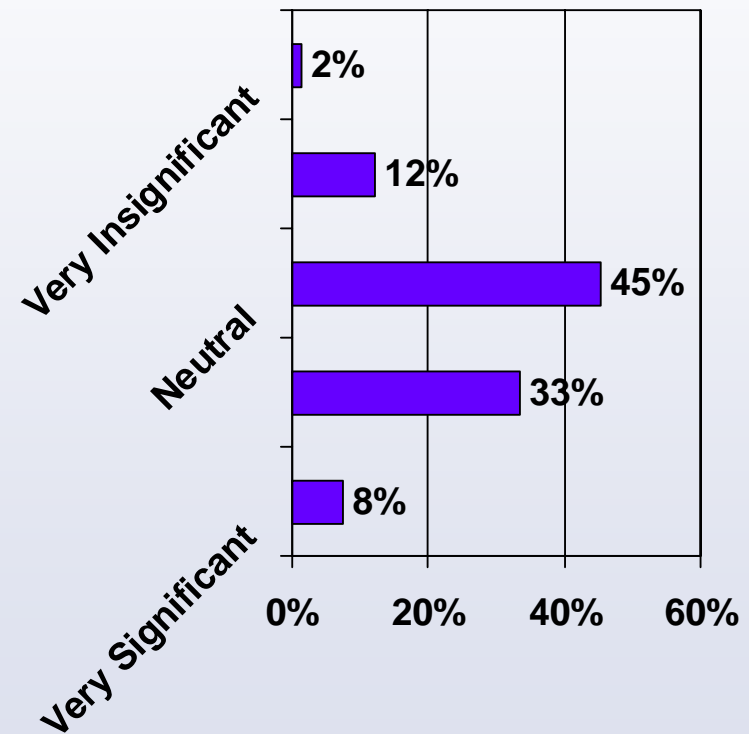


Question 2: Rate your assessment of the underlying uncertainty each of these variables presents to your company in achieving its current business plan.

Labor - Availability



Labor - Compensation/Benefits

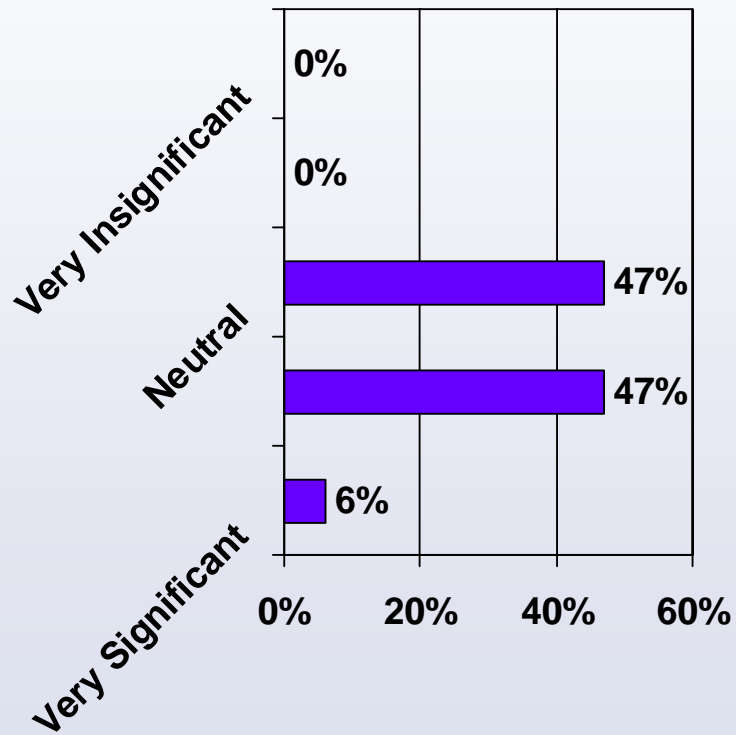


Responses = 66

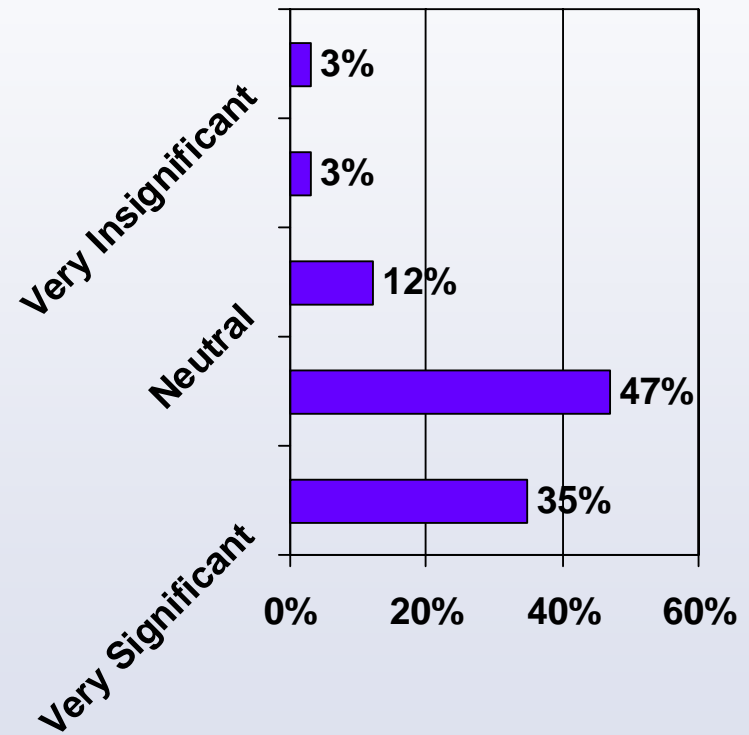


Question 2: Rate your assessment of the underlying uncertainty each of these variables presents to your company in achieving its current business plan.

Energy Costs



Sales (Customer) Pricing



Responses = 66



Question 3: Suppliers have been expanding their global manufacturing and engineering footprint. This, of course, increases working capital and capital expenditure requirements. What barriers have you faced in financing your global expansion?

➤ No barriers experienced

- "No barriers, but just must recognize investment will precede benefits."
- "No real barriers to-date. Resources being considered for China and locations in Asia."
- "We are always balancing our global production needs. No new barriers have arisen."
- "No problems. Already a global manufacturer."
- "Not applicable; financed from our global parent."
- "None. Our actions have been well planned. My opinion to this question is that it is the result of companies taking actions without good planning. Think back to the 1990's and the head-long rush to Mexico. The companies that planned well had successful results. The same is true today - in China, India, Eastern Europe, etc."
- "No real barriers in financing, the real issue is closure costs, selling the real estate, training the new workforce, and coordinating the process with the OEMs."
- "None really. We always look at the return on capital. Customers, however, are trying to push more back on us."
- "We have not experienced any issues thus far in any country."
- "None, self-financed."
- "No barriers at present due to limited expansion."
- "To date our efforts have been through JVs in China, Japan, and India with few financial barriers."



Question 3 (continued): Suppliers have been expanding their global manufacturing and engineering footprint. This, of course, increases working capital and capital expenditure requirements. What barriers have you faced in financing your global expansion?

➤ China

- “Difficulty getting capital expenditure funding for manufacturing in China.”
- “Our major expansion has been in China. The only barrier is that expansion is so quick, which is quite good, but total profit and depreciation are not adequate to finance expansion.”
- “The biggest barrier is in creating a value chain for an LCC type of investment. At the moment it is difficult to gain much improvement in expanding into an LCC like China with the amount of risks and failures seen at other suppliers.”
- “China- banking within China.”
- “We expect political instability in China in the next 5 to 10 years. Human rights, slavery, land confiscation and 10 men to 1 woman are still issues in China.”
- “We are currently expanding into China, and it is difficult to borrow money in China that is secured solely by assets in China.”
- “In China you must be very careful how and how much you capitalize your business . Getting cash out is not easy and partners are having a stronger say !”
- “Getting paid from China and Southeast Asia where they extend payables has been difficult.”
- “China – profit repatriation.”
- “‘Bank rolling’ of Asian expansion on the profitability of North America. Identification of qualified sources of capital; protection of intellectual capital. Expansion decreases cash; increases capital and AR.”

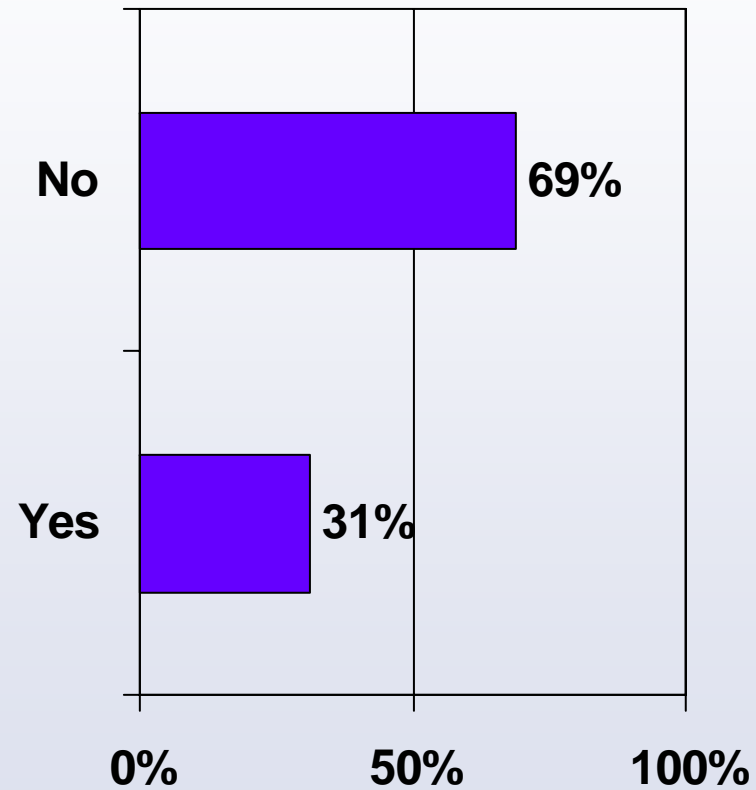


Question 3 (continued): Suppliers have been expanding their global manufacturing and engineering footprint. This, of course, increases working capital and capital expenditure requirements. What barriers have you faced in financing your global expansion?

- **Europe**
 - “Sources of capital at reasonable rates in EEU.”
 - “We have minimized the cost of our global expansion by entering into an alliance with two other automotive suppliers--one from the U.S. and the other from Germany. Together we have operations in Mexico, China and Brazil.”
 - “We are building a new plant in Czech Republic.....no barriers.”
- **General Comments**
 - “ROEC too low.”
 - “We have only turned down one significant opportunity, but the reason wasn't so much the availability of capital as it was our expectation of a lower than desired return on that capital.”
 - “Manufacturing restructuring in concert with R&D.”
 - “Working capital and capital requirement costs being minimized through JV's.”
 - “Cost of servicing overseas accounts is higher; terms and credit worthiness issues.”
 - “Expansion has only been limited by capital availability which has been pressured by the dismal NA market.”
 - “Cultural differences; legal differences”



Question 4: Does your company have a specific target buy from low cost countries?



Responses = 67



Question 4 (continued): If yes, please identify the objective.

- 60 percent by 2011
- Greater than 50 percent within 3 years
- 50 percent in 3 years
- 50 percent in 5 years
- 50 percent of material that is not customer directed by 2010 (this does not count past model service suppliers)
- 25 -50 percent by 2010
- 40 percent in 3 years
- 40 percent by 2011
- 40 percent design in 2007; 15 percent components in 2007 to 40 percent in 2010
- 75 percent of tooling. 25 percent of purchased components. Steel is questionable, depends on tariffs
- 25 percent in 5 years

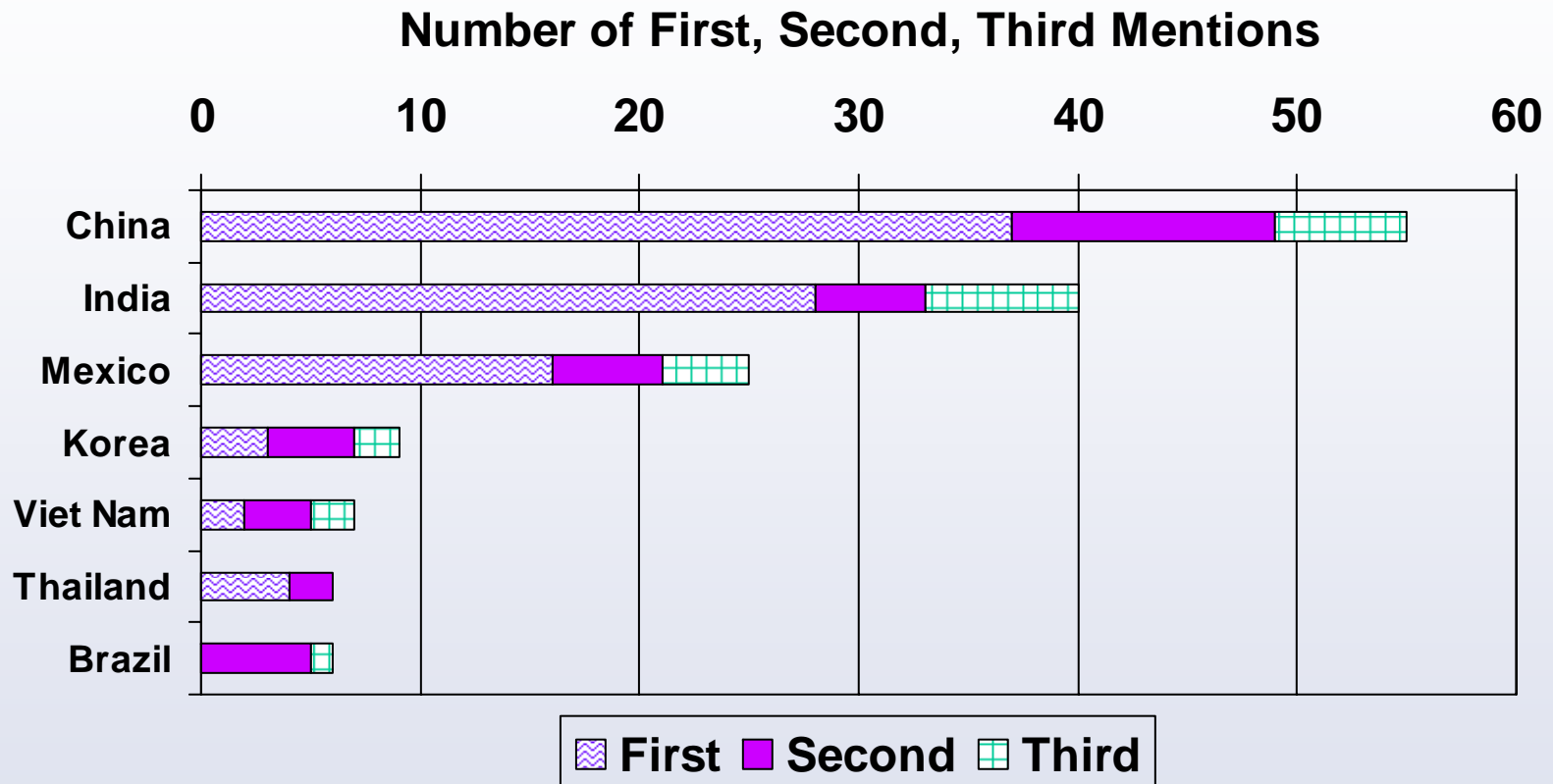


Question 4 (continued): If yes, please identify the objective.

- 20 percent by 2010
- 20 percent in 2008 assuming they can meet industry quality and delivery standards
- 10 percent in two years
- 10 to 20 percent
- 10 percent in 5 year
- 10 percent in 5 years
- Our LCC strategy is to align component procurement/production with our manufacturing sites, not to source to LCCs and then ship parts.
- We objectives on tooling not parts
- This question again raises the problem with lack of planning. A simple percentage of what: total spend? Cost of goods sold? Percent of current North American manufactured items? Percent of new programs as part of OE award? The goals we have are currently based on specific commodities and intended to apply strategic advantages; e.g., technical



Identify your top three LCC targets



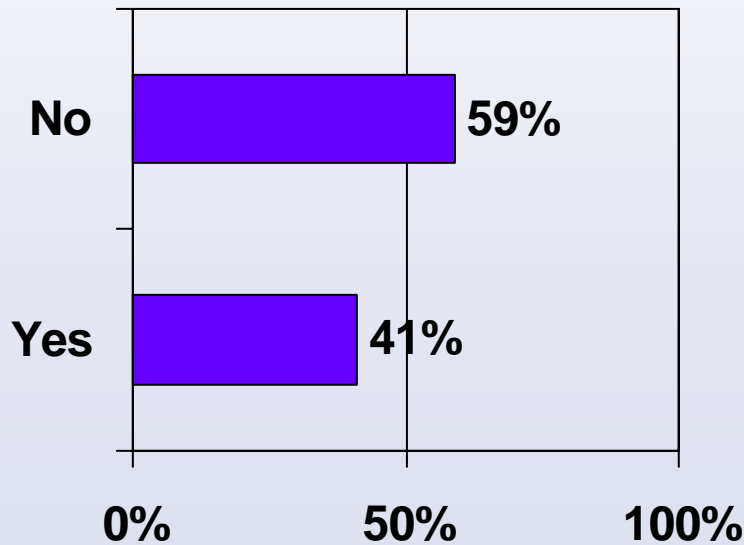
Other countries receiving top three votes = Poland, Russia, Czechoslovakia, Hungary, Slovakia, Indonesia, South Africa, Turkey, Estonia, Pakistan, Egypt

Responses = 66



Question 5: Supply Chain Rationalization

Does your company have an explicit supply chain rationalization goal?



Responses = 66

Note: the current size of the supply base ran from 10 to 8,000 suppliers; the percentage reductions are similar throughout the entire range by size.

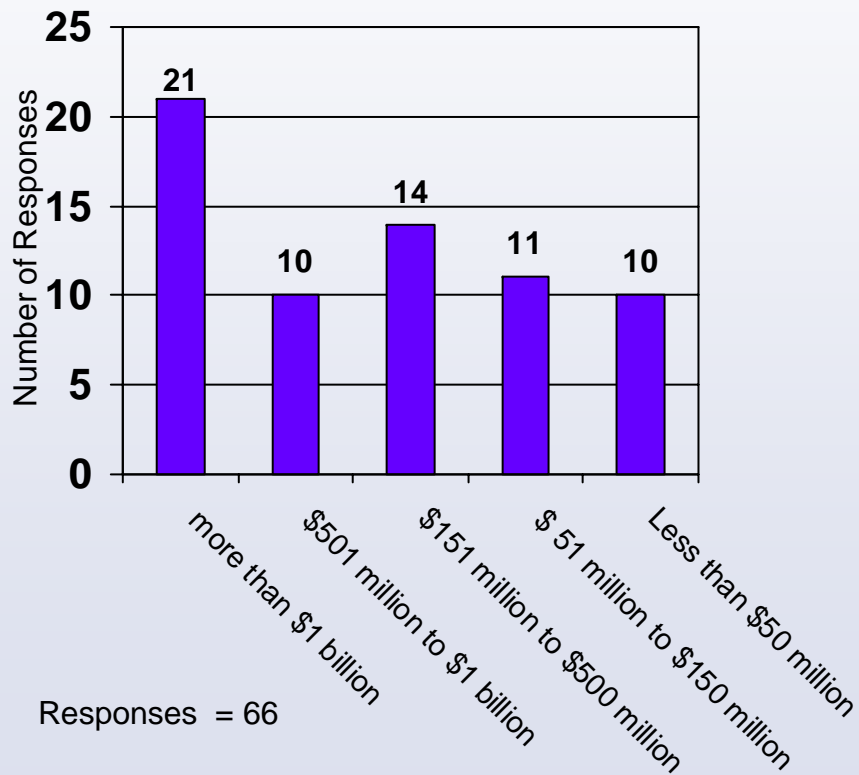
Rationalization Goal	Estimate the number of direct material suppliers that will support your NA operations Median Response	
	Direct Suppliers 2007	Direct Suppliers 2012
Yes n = 25	154	100
No n = 31	50	38



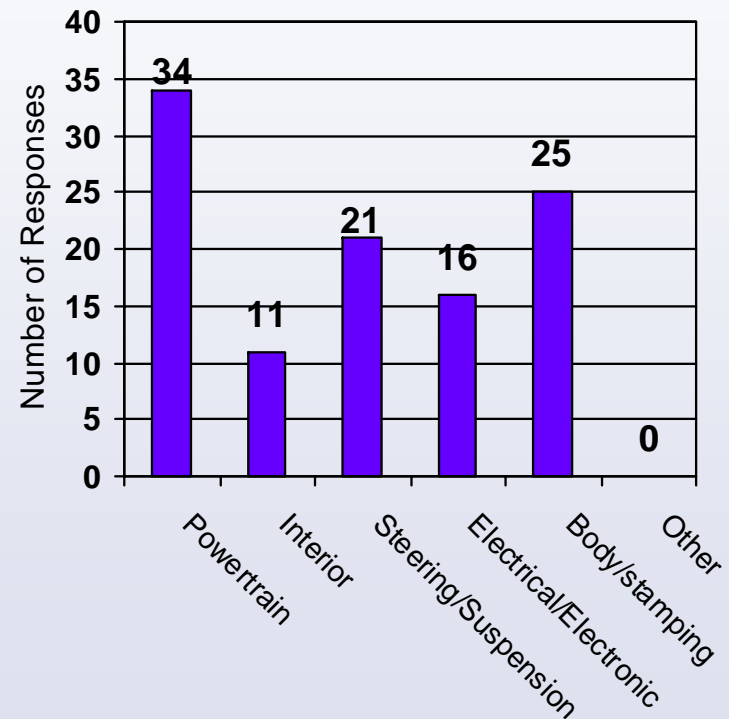
Respondent Profile

- There were 68 individual respondents from 63 companies. The March 2007 OESA Automotive Supplier Barometer was conducted between March 5 – 7, 2007.

**Global Automotive Revenue
Number of Respondents**

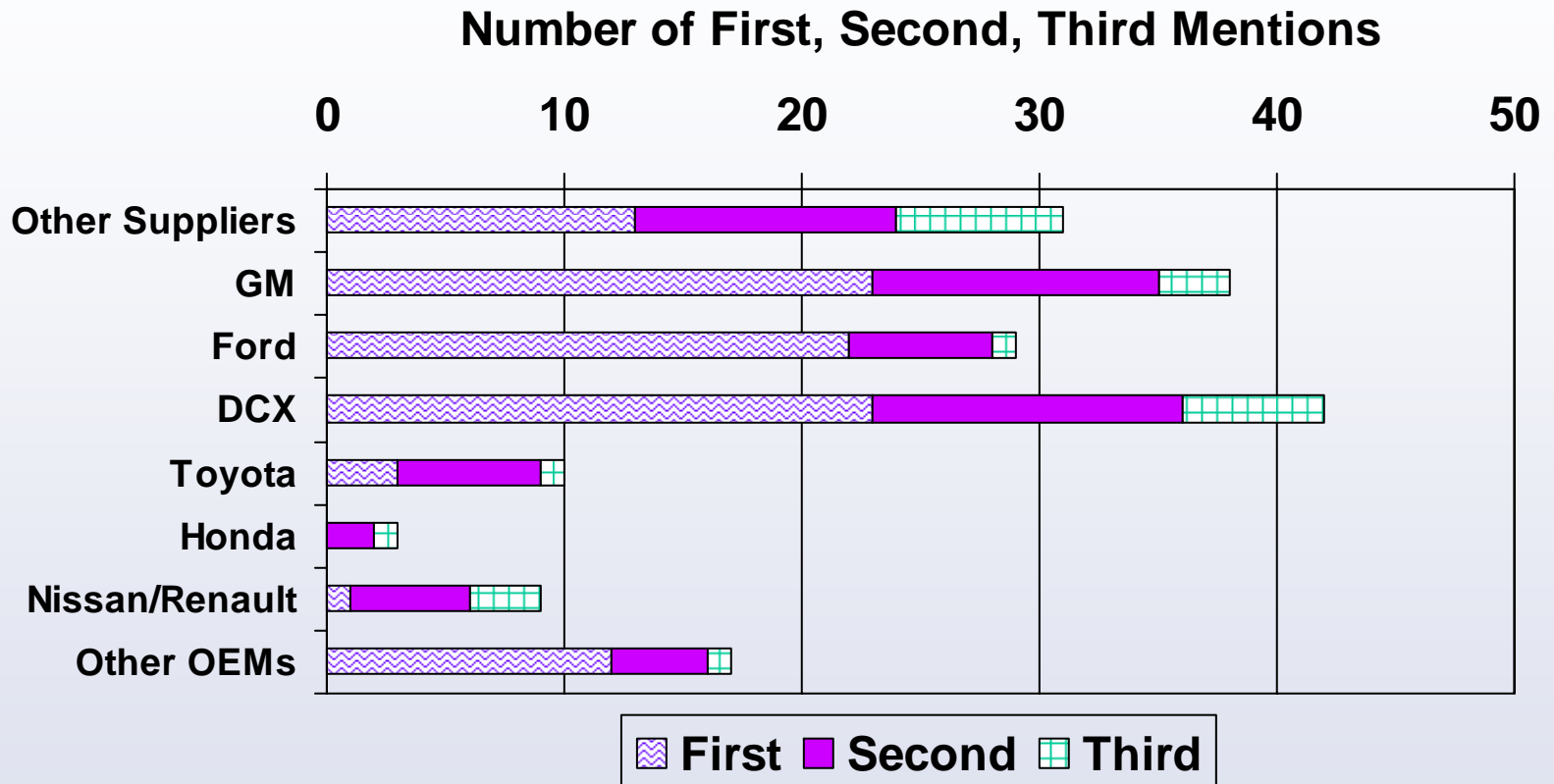


**Automotive Systems
Number of Mentions**





By revenue, identify your top three customers



Responses = 59



THANK YOU FOR YOUR PARTICIPATION

The April 2007 OESA Automotive Supplier Barometer survey will be launched on Monday, April 2nd and will be released, Friday, April 6th.

For comments and suggestions for future Barometer surveys, contact:

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