Middle market auto suppliers in the United States were already facing margin pressures and declining U.S. and global auto sales before the coronavirus pandemic hit. Now they must contend with even more daunting supply chain challenges in the economic crisis triggered by the pandemic.

Along with the lingering impacts from the yearslong tariff conflict between the United States and China, middle market auto suppliers currently have to navigate survival while also determining what their role will be in the future of automobiles (especially related to the electrification of drivetrain components). Companies will need to continue innovating even while dealing with tighter margins and lower profits.

Organizations need to embrace technology and focus on building resilience through alternative sourcing plans. More than ever, it is crucial for companies to understand all the players in their supply network and be prepared to adapt their supply tiers as needed.

Digital agility

Middle market auto suppliers tend to be behind the curve when it comes to investing in technology. Now, dealing with the fallout of COVID-19, companies are being forced to implement—in a matter of months—innovative processes and procedures that typically would have taken years.

Suppliers no longer have the option of sitting back and waiting for this storm to pass.

Rather, the pandemic has made it even more apparent that organizations must have an agile strategy and be proactive about implementing and evolving that strategy. It is important to find ways to build additional resiliency into global supply and value chains, and management will need to be quick to adapt to new technologies.

Along with technological solutions, business leaders now need to think about just-in-case inventory in a way they did not need to before, as a way to minimize shocks in their supply chain.

Key takeaway: The pandemic has elevated the importance and compressed the timeline for focusing on advanced industrial technologies and digital transformation strategies.

Alternative sourcing to minimize risk

Because the industry was already headed for a downturn before the pandemic, many suppliers that are not financially stable and don’t have the necessary liquidity face even more risk in the current situation. In the next three to five years, auto suppliers can expect to see major shifts in the industry, including consolidations, bankruptcies and general signs of continued distress in the auto supply chain. Second- and third-tier suppliers may be especially vulnerable in the next few years.

Original equipment manufacturers need to quickly start planning for the future by assessing their dependence on various parts of their supply chains and setting up alternative sourcing plans to manage and minimize risk on a global basis.

Here are some key reasons for developing alternative sourcing backup plans:

• Maintaining access to essential supplies to avoid potential disruption
• Creating synergies to make the overall cost structure more efficient
• Assessing risks in a supply chain where there is a reliance on specific suppliers
• Potentially accessing alternative technologies relating to business intelligence and other innovative technology

In planning for the next two to three years, companies need to evaluate where they will need to source outside of their normal supply chain. For instance, OEMs and first-tier suppliers are already looking for suppliers that can evolve with them in the future on new technologies especially in the electric vehicle space.

Key takeaway: In the past, alternative sourcing plans may have been backburner projects for some companies. These days, finding alternative sources needs to be a priority.

Supply chain visibility

OEMs are generally focused on first-tier suppliers, which can result in a lack of transparency into what is occurring at the second- and third-tier levels. Getting greater visibility into the overall supply chain related to supplier disruptions that affect delivery schedules and quality will be crucial for OEMs as they look to the future. Greater visibility into every part of the supply chain is vital for identifying any areas of disruption as early as possible in order to meet consumer demand and preferences.

Once suppliers have that data, it is important to use it to make better informed decisions; organizations are now seeing the need to move toward using advanced analytics to forecast demand more accurately. While that may seem obvious, collecting and getting the most out of such data can be a challenge for middle market companies because many use legacy systems that do not allow for much interconnectedness. As a result, many organizations will need to increase their investments in this area, as improving business processes, finding operational efficiencies and transforming business models all rely on effective data collection.

Key takeaway: OEMs and suppliers need to have greater visibility across their entire supply chains and proactively implement technologies to increase supply chain transparency.

The bottom line

Auto suppliers must find ways to build additional resiliency into their global supply and value chains. Any previous notions that organizations could hold off on these efforts are no longer relevant in the current economic climate as the pandemic forces organizations to move and innovate at a much faster pace.

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