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Why Time-to-Market is More Critical Than Ever for Today's Automotive Supplier

Executive Overview

After years of slumping sales, the auto industry is rebounding at an unprecedented pace. Auto parts and components suppliers, who were equally battered, now face the challenge of quickly retooling and re-staffing to regain status with OEMs. An enterprise project portfolio management solution can help suppliers get back on the fast track.

Introduction: On the Road to Recovery

Over the last several years, a contraction in the auto industry due to the economy and slumping sales resulted in consolidation of suppliers through mergers & acquisitions. From 2008 to 2011, bankruptcies at GM and Chrysler resulted in the auto parts and components supply industry losing an estimated 57 parts-makers and 20 percent of its work force, or 100,000 people, according to a report by Bank of America/Merrill Lynch.[1]

But today the industry is undergoing a recovery, and demand for new autos has quickly risen at historical averages to roughly 15 million new cars or more per year. With this resurgence, there were worries earlier this year that parts suppliers would not be able to retool and restart idled plants fast enough to meet the rising demand, but Bank of America's view of the industry is that suppliers have met the first wave of the ramp-up, primarily because the rise has been steady rather than spiked.

Now another concern has risen: A record 500 global vehicle launches are forecasted between 2012-2016, according to IHS Automotive Consulting, or about 135 a year compared with 100 a year in the past and only 85 a year in 2010 and 2011.[2] How will suppliers meet the demands of the wave of new auto models expected to be introduced within the next four years?

"There's a lot of pressure on a supply base that's already strained," said Michael Robinet, managing director for IHS Automotive Consulting, in a June Detroit Free Press interview. "If suppliers can't handle the pace, launches could start slipping."

A project portfolio management solution can help suppliers navigate these shifts and uncertainties.

Roadblocks and Traffic Jams

Today there are fewer suppliers and locations globally, not to mention fewer resources to be able to supply the industry with the products needed in the timetables they need moving forward.

According to Deloitte LLP, some suppliers experienced the impact from deteriorating macroeconomic conditions such as the U.S. mortgage crisis, increasing fuel prices, unsustainable business costs like union demands, and unpredictable natural events, such as Japan's earthquake and tsunami in 2011.3 Also, the prevalence of global supply chains in all industries combined with customer demands for affordable products have pressured companies to keep prices low, leading to razor-thin margins and increased the vulnerability to business climate disturbances.

Moving toward supplier networks in low-cost centers

Consolidation is well underway, according to Deloitte LLP6, and soon the landscape will be dominated by global OEMs and suppliers based in six major markets: Western Europe, Japan, the United States, Korea, China and India.

As OEMs and suppliers move to regional models for both low-cost production and design, they will need to examine production quality and maturity in the low-cost regions, and then choose from the following supplier strategies:

1. Move existing suppliers, along with the OEM, to set up regional low-cost facilities.

2. Identify companies in the local marketplace to replace existing suppliers (but only when local markets display sufficient maturity).

3. Encourage established suppliers to partner with local companies (through joint ventures or other mechanisms) to combine technology know-how with local, low-cost manufacturing.

Developing these supplier networks will be one of the greatest challenges OEMs will face over the next ten years. Existing suppliers are strained and often lack the financial muscle to add new manufacturing capacity in new markets. Suppliers are also sensitive to technology transfer to local third parties, rightly fearing the creation of new, lower-cost competitors. Because of this, and the need to move quickly to capture growing markets, Ravi Sud, CFO of Hero Group, told Deloitte that he believes increased collaboration among suppliers is inevitable. "Manufacturers need to be able to cater to ever-changing customer demands in the shortest possible time. They need to gain access to technology faster and ensure the technology is launched faster."

Replenishing Talent

Resources are also constrained within the supplier market after the market crash forced layoffs and bankruptcies. Today, finding the right talent in the right regions has become a challenge. In fact, GM recently recalled dozens of white-collar retirees to help with two 2014 product launches. Some key quality leaders and even plant managers have been stationed at supplier manufacturing sites or with growing suppliers.4

Since fall 2012, GM has hired more than 100 employees to help improve relationships with suppliers. Partnering with suppliers, GM says, has helped to remove roadblocks and resolve issues faster.

Any lasting transformation in the automotive industry will involve the issues of skills and workforce flexibility, according to Deloitte. Both OEMs and suppliers will have to plan for a future that requires ever more skilled workers from design to production. In the developed world, an aging population is intensifying the competition for young, talented employees. Successful companies will embrace new and comprehensive approaches to talent management.

All of these factors cause pressure on the supply chain – even effecting areas such as safety, regulatory compliance, understanding the impact on budgets, and scheduling. Suppliers are left asking themselves, 'do we have the right resources to follow OEMS into new areas of manufacturing so we can be right there with them for a just-in-time environment?'

A project portfolio management system can bring together the supplier network and identify the necessary talent and leaders in the right location at the right times to deliver quality products on schedule and within budget.

Getting on the Fast Track

Suppliers must position themselves to help OEMS meet their new model goals. At the same time, suppliers must become lean, mean, fighting machines – able to respond quickly to demand and rising product volumes – all while staying profitable. Robinet advised suppliers to look at their portfolios and drop the products that are not doing well. Ken Kaiser, vice president of engineering for global electronics at TRW, said his company is taking on new programs in line with its resources to keep up without too much investment.

Many automotive executives believe that suppliers should expand their value chain and diversify, according to KPMG's Global Automotive Executive Report 2013.5 Such a strategy is understandable, as suppliers have traditionally concentrated on very specific areas. The broadening of technologies in the industry, along with growing connectivity, creates a need to diversify and widen their global footprint to keep pace with OEMs. In the emerging markets, 61 percent of suppliers say that mergers and acquisitions will play a central role in their future strategies, which reflects the speed of growth in these regions.

At a more granular level, some OEMS push the design responsibility to the supplier. Therefore, suppliers must be able to integrate into the design process – seamlessly adding a small cog to a bigger wheel, and everything has to work together, which requires visibility and collaboration.

Suppliers must also be able to tap appropriate resources at the right time. In addition to skilled resources lost in mergers and acquisitions, OEMS are also experiencing a shortage of skills to launch new products due to consolidation and tight cash flow and credit. For some suppliers, those factors resulted in bankruptcy.

How do suppliers decide which of these strategies is best for them? Superior enterprise project portfolio management tools can model risks, anticipate needs and align the business to meet OEM demands. What's more, project portfolio management tools can help suppliers bring parts to OEM's faster by anticipating glitches along the road and analyzing the impact of problems, changes and updates that the OEMs might drive down to the supplier. It also helps suppliers understand gaps in resources, identify what geographic areas are in need, and determine what tools are needed for each particular development in the launch process.

A Powerful Supply Tool

The automotive suppliers need a tool to help manage OEM demands and the time-to-market cycle.

- An enterprise project portfolio management solution (EPPM) provides visibility and collaboration across the enterprise to bring heavy vertically positioned groups together to share project status, information and updates in a timely manner – thereby minimizing delays. To effectively leverage resources, such as personnel, equipment and materials, the utilization view must extend to more than just one project, and cross utilization must be appropriately coordinated. An EPPM solution keeps Operations apprised of project status in each area, anticipates schedules delays and helps plan for the next phase of the launch
- An EPPM solution enables organizations to align the right resources to the right projects at the right time. As technologies evolve, suppliers will endeavor to distinguish and develop talent pools with traditional and non-traditional workers by technology and region, according to Deloitte. Workforce requirements for each region will be determined by function and scale. An EPPM solution ensures that these resources are fully leveraged, and resource requirements are clearly understood.
- An EPPM solution gives all appropriate participants access to vital project and portfolio information. Participation is also enhanced with integration to mobile devices. By connecting everyone involved in the project process both information velocity and decision-making are faster and more accurate.
- EPPM can also help suppliers pick the right products to take to market. Risk Analysis provides a comprehensive means of determining confidence levels for product success and easy techniques for determining contingency and risk response plans. It provides a view of required contingency to

account for cost and schedule uncertainty, as well as analyze the cost effectiveness of risk response plans.

- EPPM ensures return on investment. Financial goals are met, providing increased revenue, stakeholder satisfaction and increased market share.

Summary

In a few years, we're still going to see strong auto sales, so the time to capture market share is now. The survivors will have a plan to mitigate risk of geopolitical and economic issues, so they can make a decision quickly and make a change so that it doesn't impact the schedule and budget as much as it could've been.

For suppliers, innovation and time to market are keys to capturing the business of OEMs. Suppliers must have cutting-edge processes and technology to help OEMs march forward and improve market share, meet shareholders demands and exceed customer expectations. Enterprise project portfolio management solutions can help achieve these goals.

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