

**Poor Relationships Costing US Automakers**

**US Suppliers Shifting Support, R&D and Investment to Japanese Automakers, says Annual Benchmark Study**

**BIRMINGHAM, Mich., Aug 2** — Findings of the annual OEM-Tier 1 Supplier Working Relations Study of automakers' relations with their suppliers suggest more trouble for US automakers' if they don't change the way they deal with their suppliers: The study shows that US suppliers are shifting their loyalties – and resources – to their Japanese customers at the expense of the domestic Big Three.

This trend began to show up in last year's study, but is picking up speed this year as US automakers continue hammering their suppliers for price reductions and multi-million dollar cash givebacks and suppliers are responding by giving them less support.

It is important to note, however, that this shift in loyalty is not driven by cost reduction pressures on suppliers, says the study's author, but rather on how the US automakers work with their suppliers across a wide range of business practices.

"The study shows, again this year, that the US automakers' primary orientation is toward cost reduction, they have little regard for their suppliers, they communicate very poorly and they generally treat suppliers as adversaries rather than trusted partners. In all the other industries we've studied such as aerospace, electronics, and computers, no one treats their suppliers as poorly as the US automakers do," said John W. Henke, Jr., Ph.D., whose Birmingham, Michigan-based firm, Planning Perspectives, Inc. conducts the annual study.

As a result of their respective handling of suppliers, there are some profound shifts going on in the industry that can't help but impact the US Big Three's ability to compete going forward, said Henke. These changes are summarized in the following points:

- Chrysler, Ford and GM supplier working relations are falling behind Honda and Toyota at an increasing rate
- Suppliers are shifting resources (capital and R&D expenditures, service and support) to Japanese Big Three, while reducing these for Domestic Big Three
- Suppliers are increasing product quality at a greater rate for the Japanese, while merely maintaining quality levels for US automakers

- Supplier trust of Ford and General Motors has never been lower; conversely, trust for the Japanese OEMs has never been higher
- Suppliers increasingly see the opportunity to make an acceptable return as being with the foreign domestics, not with the US automakers
- Suppliers overwhelmingly prefer working with Honda and Toyota

The difference in how the US Big Three handle their suppliers, compared to how the Japanese OEMs work with their suppliers, is driving this shift, said Henke.

The study shows that the domestic Big Three and Japanese Big Three have fundamentally different approaches to working with their suppliers and suggests that this difference might well be a major factor in the consistently high quality and competitive gains by the Japanese. In fact, according to the study, in the five key areas measured – Relationship, Communication, Help, Hindrance, and Profit Opportunity -- the US automakers are 180 degrees opposite their Japanese counterparts. (See Table 1)

<b>TABLE 1</b>		
<b>Criteria</b>	<b>US Big Three</b>	<b>Japanese Big Three</b>
Protect confidential info	Little regard for suppliers' proprietary information or intellectual property	High regard
Open, honest communication	Indifferent, late	High level, timely
Importance of cost vs. quality & technology	Primary focus is on cost	Seek low cost, but balanced with quality and technology
Supplier survival	Little regard	Concern for long-term success
Relationship orientation	Adversarial; focus is on OEMs short-term gain	Strategically integrate suppliers into partnership-like relations

It is also why US suppliers continue to prefer doing business with the Japanese, and in some cases would like to drop the US automakers if they could, according to the study.

The overall results of the annual study and the actions listed above are summarized by an annual ranking called the OEM-Supplier Working Relations Index (WRI).

The 2004 WRI shows the Japanese automakers continue to move up the scale toward even better relations with their suppliers, while the US automakers remain static at the bottom.

Again in 2004, the Index shows Toyota and Honda far ahead and ranked at 399 and 384 and respectively, while GM and Ford are at the bottom with a ranking of 144 and 160 (see Table 2). Nissan was ranked 294, and Chrysler was 183.

The 2004 WRI shows that each of the Japanese Big Three significantly improved their positions over 2003 and are well above the industry mean, while Ford and GM are below the industry mean and losing ground. Chrysler was also below the industry mean but improved slightly.

“It’s important to note as well that the industry mean rose 16.6 % over the three-year period driven by gains made by the Japanese Big Three,” said Henke. “In other words, the Japanese OEMs keep raising the bar in the area of supplier working relations and are increasing the gap between themselves and the domestic Big Three.

“What is apparent is that the Japanese OEMs are applying continuous improvement practices to their supplier working relations just as they have done to their manufacturing processes, and as a result they continue to win the cost-quality-technology race.”

**Table 2. Overall OEM – Supplier Working Relation Index for 2002 – 2004.**

OEM	YEAR			2003 - 2004 % Change	2002-2004 % Change
	2002	2003	2004		
<b>Toyota</b>	314	334	399	19.5%	27.1%
<b>Honda</b>	297	316	384	21.5%	29.3%
<b>Nissan</b>	227	259	294	13.5%	29.5%
<b>Industry Mean</b>	224	234	261	11.5%	16.6%
<b>Chrysler</b>	175	177	183	3.4%	4.6%
<b>Ford</b>	167	161	160	-0.6%	-4.2%
<b>GM</b>	161	156	144	-7.8%	-10.6%

The 2004 study involved analyzing OEM-supplier relations across 852 buying situations and ranked the OEMs in five areas that comprise 17 variables. Based on this analysis, the WRI for 2004 did not change for the domestic OEMs, but improved for each of the Japanese Big Three. Notably, the price reduction demands an OEM makes on suppliers has zero impact on the WRI. Rather, it is the *total*/working environment of the OEM that impacts the WRI.

“It’s clear from comparing our 2002 and 2003 studies with 2004, that the domestic OEMs have done virtually nothing to change their working relations with suppliers over the past four years, while the Japanese Big Three continue to improve. Both groups are seeing the results of their respective actions,” said Henke.

"The domestic OEMs have assumed that getting price reductions from their suppliers and having good supplier working relations are mutually exclusive. Nothing could be further from the truth. Honda, Toyota and Nissan, recognize that they can pressure their suppliers for considerable price reductions and quality improvements and still have good supplier working relations. It all comes down to how you work with people that determines whether or not you get the best performance from them."

The results of the survey also indicate why OEMs with good supplier working relations gain a competitive advantage. "Over the years, we have seen a consistent pattern that shows OEM working relations directly affects supplier behavior. Our studies show that the further up the Index an OEM moves, the more suppliers are willing to help the OEM. Suppliers will share more technology with the OEM, are more willing to invest in new technology in anticipation of new business, and will provide higher quality goods and higher levels of service to the OEM. The Japanese OEMs clearly understand this and it's helping them gain competitive advantage and market share," he said.

The 2004 supplier survey was conducted in July. This year, it involved responses from 223 Tier 1 suppliers including 36 of the Top 50 and was based on 852 buying situations. The participating suppliers' combined sales represent 48% of the OEM's annual purchase of components.

### **About PPI**

Since 1990, PPI has specialized in developing and implementing in-depth surveys of suppliers for the automotive OEMs and Tier 1 suppliers. In 2001, PPI initiated its syndicated Annual North American Automotive Tier 1 Supplier Study. These studies have become benchmarks for the industry and provide critical sales and financial planning information for suppliers and their sales, marketing, and financial staffs, as well as a means by which OEMs and their purchasing staffs can get a reality check on their working relationships with suppliers. PPI is based on Birmingham, Michigan and can be reached at +01.248.644.7690

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