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How to climb the automotive value chain

The global automotive supply chain is one of the largest, most complex, challenging and yet sensitive market networks. In this article we view this supply chain through the eyes of original equipment manufacturers (OEMs) and their suppliers. We highlight external forces impacting the market, suggest approaches for those looking to move up the value chain and give insight into the future of the industry.

The automotive industry can be brutal in the tightness of its margins and balance of power, with suppliers often super-reliant on a small number of high-value contracts on whose continuation the business depends. The industry, like many others, is also sensitive in its exposure to technological disruption, shifting economic forces and the political winds of change.

This is nothing new. The global vigour of the industry suggests that the market for automotives will always be with us, in one shape or form, for as long as people want to get from one place to another in relative comfort and privacy.

The global automotive market has an outstanding record for adapting to change and successfully responding to the stresses and pressures upon it. But there's equally no doubt that right now is an exceptionally testing and challenging moment for automotive suppliers as they face an unprecedented fusion of political, technological, commercial and strategic issues.



The global forces of change

First and foremost, the US administration's "America First" approach to foreign policy and its impacts on trading alliances—from NAFTA and the Trans-Pacific Partnership to the Korean Free Trade Agreement—are unsettling the market. Over the Atlantic, Brexit is having a similar (if not so widespread) impact.

Environmental and automation technologies are revolutionizing vehicle design, manufacturing and marketing to such an extent that even the concept of what a vehicle could and should be is increasingly uncertain. This changing landscape is putting OEMs in the spotlight. As the name suggests, OEMs make auto parts which are then used in the assembly and installation of a new vehicle. So, when the definition of a vehicle itself is under question, the whole supply chain feels the impact.

Manufacturers are consolidating their models onto fewer and fewer platforms, exposing suppliers working on older models and platforms to significant risk.

And, as OEM strategic planning becomes increasingly global, suppliers are finding it harder to predict, adapt to and influence the decisions that will shape their future.



Time for more guidance for suppliers

A quick Google search will reveal academic and business papers on all these trends, the political ones in particular. But what seems to be broadly lacking is any guidance on what suppliers should be doing to protect and grow their business with OEMs.

We think that the time for that to change is here—so here goes.

First and foremost, it's vital that suppliers take a little time to step back and consider the state of their OEM relationships. How much life is left in the model or models you're working on? Is the platform you supply there for the long term? If not, are there alternatives for you to target?

Then look at your own organization. Are you in good shape to offer the pricing and quality that OEMs will be looking for? How can you simplify your business and strip out unnecessary areas of cost?



Scenarios for future success

Next, focus on reading the future. Follow this four-point action plan:

- 1 Consider what future strategic direction the OEMs are most likely to take. (While you cannot necessarily influence their decision making, you should try hard to understand the issues and influences that OEMs are most likely to consider.)
- 2 Next, use that insight to predict and consider a range of possible future scenarios. (We recommend you aim for a five-year window.)
- 3 Develop a series of action plans based on every scenario, so you're well-placed to adapt to changing circumstances as they emerge.
- 4 Then, in an environment of changing taxes and tariffs, undertake a granular analysis of the costs of doing business and how these are likely to change over the months and years ahead.

That will give you the insight needed to maximize your price competitiveness while protecting the margins needed for growth and investment.



Climbing the value chain

In our experience of working with automotive clients, once you've done all this work, you're in a position to move up the OEM value chain.

You can see examples of this happening in markets across the world. For example, suppliers in Mexico are gaining a global



reputation for their research and development (R&D) work on environmental technologies. This is additionally stimulated by their government's focus on green automotive tech, which is also driving strong sales of hybrid and electric vehicles.

But you might need some help on the way. If the right direction to take involves working across multiple jurisdictions, for example, you might wish to seek partnerships with other suppliers.

Working with a consultant can also help you mitigate risk, take the pain out of contract negotiations and ultimately maximize your margins. This applies as much to working with supply partners as with OEMs.

Critically, consultants with experience of the global automotive industry often have access to levels of seniority—where the decisions get made—that are closed to many suppliers.

Above all, though, take that time out to consider your position, both today and in the years to come. It's in these moments, when the industry finds itself in a complex and uncertain place, that the value of properly thinking through the options for creating a more certain future truly comes into its own.

If you would like to discuss any of the points raised in this article or discuss your specific requirements further, please contact our Grant Thornton specialists:

Jonathan Krieger
E jonathan.krieger@ca.gt.com

Dan Wootton
E dan.wotton@ca.gt.com

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