

Automotive Suppliers

How to grow organically and sustainably

For automotive suppliers, growth is heavily dependent on external forces—sales to OEMs, structural changes in the value chain and changing industry dynamics. Yet more than 70 percent of suppliers' growth is due to improvements in existing strategies and business frameworks. An A. T. Kearney study finds that there are four keys to organic growth: eliminate barriers to growth, improve sales and marketing performance, develop a more attractive portfolio, and stretch the growth strategy.

When discussing missed growth opportunities, automotive suppliers often point to external forces. The complaints range from dependence on a few manufacturers (OEMs) and customers with tough purchasing policies that squeeze profit margins to general cost pressures and fresh competition from low-cost suppliers.

Yet a handful of auto-parts suppliers have managed to grow despite these forces. Continental and VDO, ElringKlinger, Leoni, and Mahle, to name a few, have achieved substantial growth in the past few years (see figure 1 on the next page).

What do these growers know that the others don't?

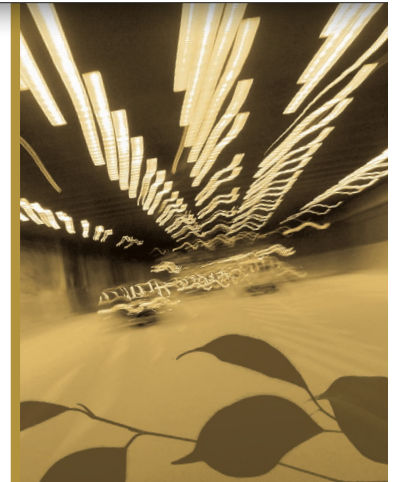
To find out, A.T. Kearney analyzed the relevant levers for short-term organic growth. Based on our global value-building growth database, an analysis of 180 growth projects performed for clients between 2002 and 2006, and interviews with 140 project managers (25 of whom

are with global automotive suppliers), we discovered that high-growth suppliers in the automotive industry are experts at implementing the following four measures (see figure 2 on the next page).

Remove Barriers to Growth

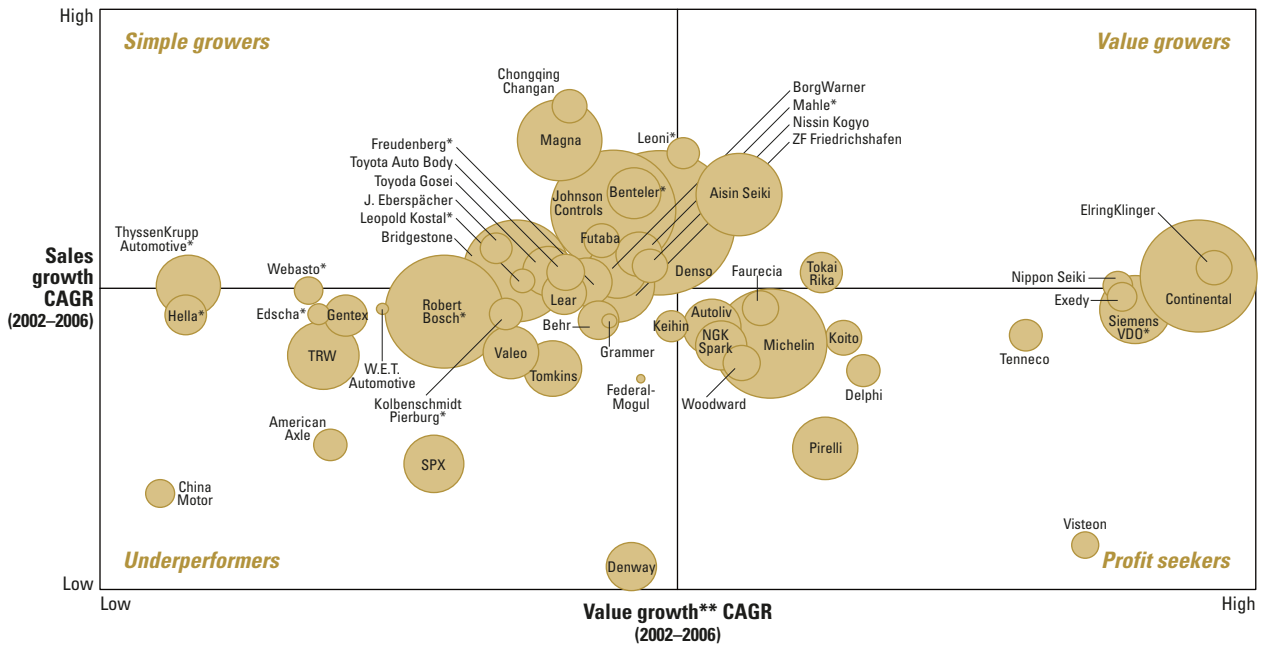
Successful growth depends not only on advancing new ideas, but also on removing all barriers to growth. Our findings demonstrate that many component suppliers are quality acts in the field of innovation, but they tend to fall down when it comes to strategic prioritization in business development. Indeed, auto suppliers that respond to every customer inquiry regardless of the probability of a successful bid are harming their ability to grow.

In contrast, successful growth suppliers build close relationships with their customers and are therefore able to anticipate upcoming invitations to bid. They are fully aware of



Leading suppliers take a holistic approach to growth—focusing on sales and marketing performance as systematically as they assess resources and adjust product portfolios.

FIGURE 1: Analyzing growth in the automotive supplier industry



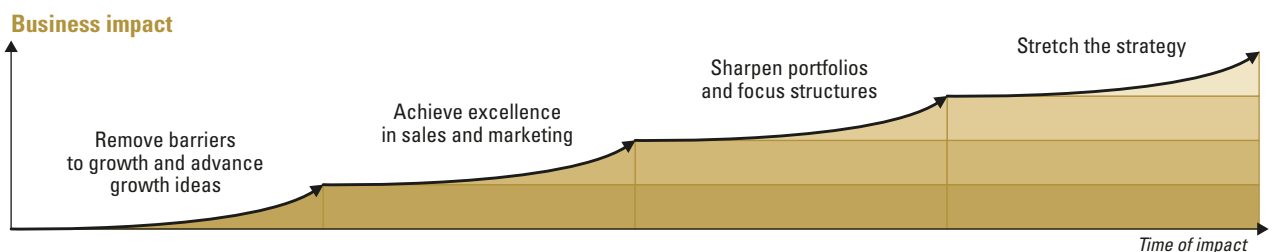
* Analyzed according to EBIT growth.

** Measured as adjusted market capitalization = market capitalization growth adjusted for change in equity.

Source: A.T. Kearney analysis

● Bubble size corresponds to market capitalization

FIGURE 2: Holistic approach for achieving organic growth



Examples of growth measures

<ul style="list-style-type: none"> • Improve organization and cost position • Optimize pricing • Reduce time-to-market and delivery costs • Build close relations with customers 	<ul style="list-style-type: none"> • Offer a consistent value proposition • Systematize key account management • Develop customer base • Share knowledge among sales and product development • Promote risk-sharing between OEMs and suppliers 	<ul style="list-style-type: none"> • Foster product innovations • Increase consolidation • Expand global orientation • Control complexity 	<ul style="list-style-type: none"> • Focus on profitable growth • Leverage industry changes, low-cost potential and partnerships
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Source: A.T. Kearney

the functional and quality requirements and expected price levels before bid invitations go out. Bosch, for example, is considered an innovation leader in the field of fuel injection systems precisely because of its high quality product and its networking abilities with customers. This is how Bosch differentiates its company from the competition.

Pricing is another area where smart auto component suppliers thwart their competitors. Many suppliers throw money away by following an ineffective pricing strategy, whether by granting credit periods that are too long, installing excessive quality and testing regimes, providing extra logistical and commissioning services, or because they do not invoice adequately for modified product specifications prior to and following the start of production. Growth suppliers, by comparison, make simple adjustments to pricing structures and systematically charge for costs incurred in making modifications. In this way, these suppliers increase both their sales and profitability.

Achieve Excellence in Sales and Marketing

The greatest growth potential comes from acquiring new customers, which usually means knowing customers' processes and requirements. Our analysis confirms that suppliers with the best key account management capabilities grow larger and more profitably than their competitors.

Interestingly, we found that many suppliers do not fully understand their OEM customers' requirements despite having worked with them for years. Knowledge is not often shared between the sales force

and product development departments. Bids are often put together at the last minute, without highlighting any differentiating characteristic that the supplier might have—yet this is exactly what the OEM is looking for. As a result, many deals are lost.

Best-practice, high-growth suppliers operate in an entirely different realm. They systematize their customer or key account management—clearly defining processes and responsibilities, and supporting them

It is never enough simply to make systems available or introduce new processes. Growth must become a part of your DNA.

with tools to motivate employees. They interact closely with OEMs' development departments to gain knowledge and understanding of their customers' processes and demands. Through ardent networking, these suppliers not only acquire knowledge but also expand the business relationship over the long term. Almost all successful suppliers put their trust in providing local support and service to automotive OEMs.

How does the acquisition of new customers factor into suppliers' growth strategies? Honestly, for most

component suppliers, acquisitions have taken a back seat. Their sales structures are focused on just a small number of OEMs, and they either sell to premium brands such as BMW, Mercedes-Benz and Audi or to high-volume manufacturers such as Ford, Opel and Renault.

Growth, however, depends on customer diversification and acquisition strategies that target all automotive OEMs. In addition to established OEMs, suppliers have to direct their attention to automakers in Russia, India, China and other up-and-coming markets. Continental illustrates just how customer diversification is done, and done well.

Sharpen Portfolios and Focus Structures

A value-adding product and service portfolio is a key growth lever. It is particularly important for companies to reduce complexity and variants in the product range and to ensure a long-term technological lead, if necessary through external complementary purchases.

Our findings suggest that although many auto-parts firms have carried out several waves of initiatives to reduce complexity, most still have an extremely heterogeneous product portfolio.

This dilemma has all the earmarks of an identity crisis—with firms unable to decide whether they are suppliers of modules or components. The most successful suppliers have streamlined their product range to concentrate on products and services that can increase growth and profits. ElringKlinger, for example, is growing at around 9 percent a year and has become a market leader

thanks to its strict focus on cylinder-head and specialty gaskets and its innovation leadership in this segment. Outsourcing R&D work—when done properly—is another lever for achieving rapid and largely risk-free growth. Johnson Controls consistently buys up product innovations through targeted acquisitions of companies, and, as a result, has achieved above-average growth for more than 10 years now.

Finally, partnerships are a good way to gain access to innovations while limiting the risks involved. Partners are particularly attractive to small and medium-sized companies in young segments or in rapidly developing markets.

Authors

Jens Tischendorf is a principal in the firm's Frankfurt office, and can be reached at jens.tischendorf@atkearney.com.

Martin Handschuh is a principal in the firm's Stuttgart office, and can be reached at martin.handschuh@atkearney.com.

Armin Landgraf is a principal in the firm's Frankfurt office, and can be reached at armin.landgraf@atkearney.com.

Ramón Romero Pérez is a consultant in the firm's Berlin office, and can be reached at ramon.romero@atkearney.com.

Stretch the Strategy to Sustain Growth

When it comes to organic growth, best-practice companies leave nothing to chance. They focus all efforts and point all processes toward achieving growth. Rather than just following the initial steps of eliminating barriers and advancing short-term growth ideas, they take a holistic approach—concentrating on sales and marketing performance as systematically as they assess resources and make adjustments to the product portfolio. Standardization of processes is key. Management tools and information systems will generate transparency. Operational aids and instruments along the entire value-added chain—

be it for market intelligence, customer segmenting, account management, product development or logistics—will assist in the implementation and ensure efficiency.

Committed to Growth

In the end, growth requires a company's management team to become personally invested in promoting growth and the initiatives needed to achieve it. It is never enough for a company simply to make systems available or introduce new processes. Growth must become an active part of the company's philosophy and DNA. True, sustainable growth depends on it.

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A.T. Kearney, Inc.
Marketing & Communications
222 West Adams Street
Chicago, Illinois 60606 U.S.A.

1 312 648 0111
email: insight@atkearney.com
www.atkearney.com