



PRESS RELEASE

W&P Industry Study: Automotive Suppliers at a Crossroads

[25 July 2013] Munich – Paradox industry – while the global car market is set to grow by 2 percent to 70.2 M units in 2013, the situation in Western Europe will become difficult. Manufacturers and suppliers with main sales markets in Southern Europe cannot participate in the growth in China and the USA. In addition to this, the new global capacities will turn into competition for the local sites in the medium and long term: If this critical market situation hits stiff internal cost structures, most automotive suppliers will quickly be endangered by a liquidity gap. The "Finances" resource therefore becomes a central key value in the future market structures. The consequence for automotive suppliers is that they can only prevail under changed market conditions if their business model is completely overhauled with a view to aspects such as the value-added chain and financing structure. How so? Answers are provided by the current industry study "Automotive suppliers at a crossroads" by Dr. Wieselhuber & Partner (W&P).

From April 2013 to May 2013, 112 renovation and financing experts from the German bank and savings bank landscape, most of which support between 5 and 10 companies of the automotive supplier industry with turnovers of 50 M € to 500 M € per year, participated in the survey. The share of crisis cases among the respondents was at about 85 percent.

In the light of this high crisis rate, experts agree that the challenges for suppliers are enormous – particularly the stagnation on the European markets is considered a primary cause of crisis by 85 percent. Established markets, restless financial markets, increasing raw materials prices, as well as the trend towards a higher product diversity, which may lead to increased development costs, are additional



negative influences on business development. Even though only little influence is expected from trends such as electromobility and new mobility concepts, they will definitely contribute to further industry consolidation in the medium term.

"The best protection from changing market situations is a supportive, robust and future-capable business model. Particularly medium-sized suppliers who have not taken the path of globalisation early on and therefore are not able to participate in global growth have to revise their business model starting at the very basics," Volker Riedel, partner and initiator of the survey at W&P, says. Experts also believe that the innovation performance of suppliers is decisive for successful market processing. Since sustainable innovations usually require a specific technology and competence mixture, suppliers should force alliances and networks with strategic partners to meet the demands to new materials and technologies: *"In addition to a lack of differentiation by smart products and services, in particular a focus on one or a few OEMs is an essential facilitator of crisis – those who are unilaterally dependent will quickly find themselves in a downwards spiral,"* Riedel therefore warns.

Another factor of success from the experts' point of view is early identification of customer wishes. After all, they determine the offer of the OEMs, which pass on the service requirements to their suppliers. Riedel says: *"Suppliers keeping up with the spirit of the time are one decisive step ahead of competition. They quite simply acquire a development head start."*

The decisive "To Do" for successful industry players is optimisation of their supply chain processes. Increased internal potentials, reduced throughput times and shorter times to reaction permit differentiation from competition particularly in price. The respondents agree with this without fail. However, they also consider global sourcing and a consistent working capital management on the value generation level to be essential.

On the financing architecture level, advance financing in the value-added chain must be designed for one's own benefit. On the other hand, suppliers have to get a grip on the challenges from the parts number risks. Riedel: *"The decision-makers have to*



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implement a sustainable and precisely matching financing structure and trigger necessary measures to increase future financing willingness of the banks. After all, financial stability and entrepreneurial freedom are directly connected“.

We will gladly send you the study results if you are interested in them.