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PRODUCTION AND
PLANNING

OESA AUTOMOTIVE SUPPLIER BAROMETER

Q1 2018

Executive Summary



Supplier Barometer Index (SBI)

SBI Score = 57;

up from Q4 level of 46

Optimism has soared across all revenue groups due to US tax reform, a more positive tone on NAFTA and continued market strength.

The outlook for suppliers of all sizes reflect strong optimism and sharply lower pessimism overall.

Uncertainty remains due to ongoing volatility, elevating pessimism for the \$501M-\$1B revenue group.



Trade policy is identified as the greatest industry threat, followed closely by poor vehicle sales.

These two threats have alternated 1st and 2nd position over the last 6 months.



The median 'all-in' capacity utilization rate remains at 85% with the range of responses narrowing a bit compared to last year.

Over the past 6 years, there has been an estimated 10% rise in the median utilization rate.



Production Breakeven Level Rises To 15.0m Units:

Suppliers feel better positioned to weather market volatility over the near-term and appear to be sized correctly. However, ongoing OEM capacity expansion is pushing supplier breakeven levels higher in the face of decreasing demand.



Suppliers running over 90% utilization are taking the following actions to balance production requirements.

- Flexible Operations: Overtime, Relocation of production
- Expanding or investing in new facilities
- New equipment
- Subcontracting
- More proactive planning

Executive Summary



The primary internal production issue continues to be talent availability in the areas of engineering, skilled labor and hourly labor

Inventory carrying costs and manufacturing capacity constraints are improving compared to last year.



Suppliers are working to reduce inventory.

35% of suppliers have lower inventory levels while 32% have increased inventory levels (still down by 6% over last year).



Material cost premiums continue to be the primary sub-tier issue impacting suppliers' abilities to meet production requirements

...with additional significant (>25%) constraints in Transportation/logistics, inbound-expedited freight and raw material shortages.



44% of suppliers are confident that their customer releases are matching sales and inventory requirements.

Most pass-through releases to their suppliers.



R&D Spending is unchanged from last year; remaining at 4% of total sales.

From the R&D budget, approximately one-third goes to research while two-thirds is allocated to development. Advanced material technologies are a top priority for investments.



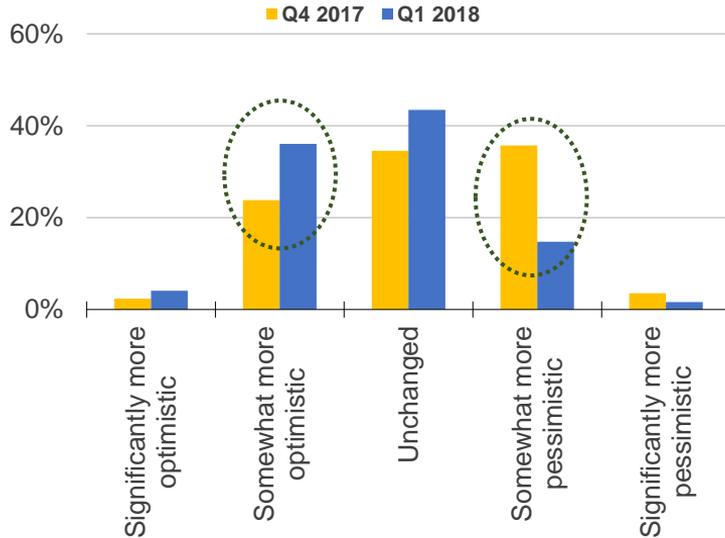
SUPPLIER OUTLOOK



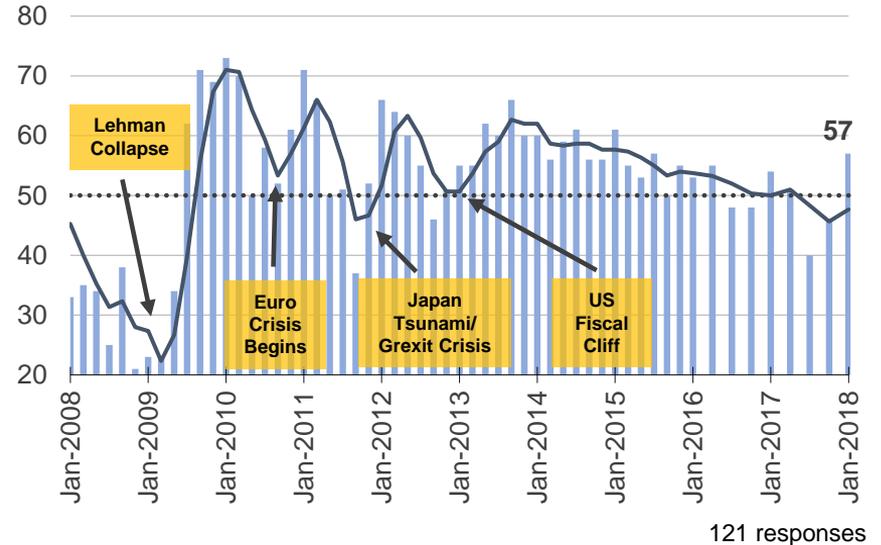
OESA Supplier Barometer: 1Q 2018 Results

Describe the general twelve month outlook for your business. Over the past three months, has your opinion become...?

Current Supplier Outlook (Share of Respondents)



Supplier Barometer Index: (SBI and 6m Average)

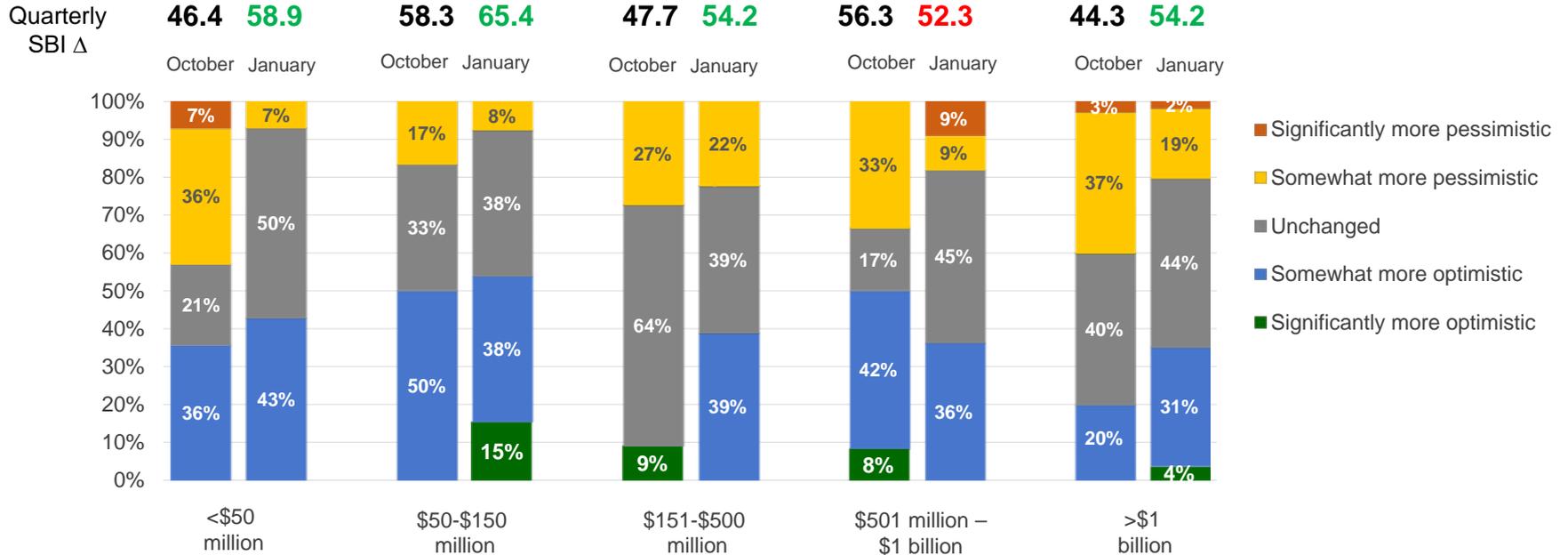


SBI Score = 57; soars 11 points from Q4 level of 46
Tax Reform, a more hopeful view on NAFTA and continued Market Strength all Drive Optimism



OESA Supplier Barometer: 1Q 2018 Results By Revenue Size

Describe the general twelve month outlook for your business. Over the past three months, has your opinion become...?

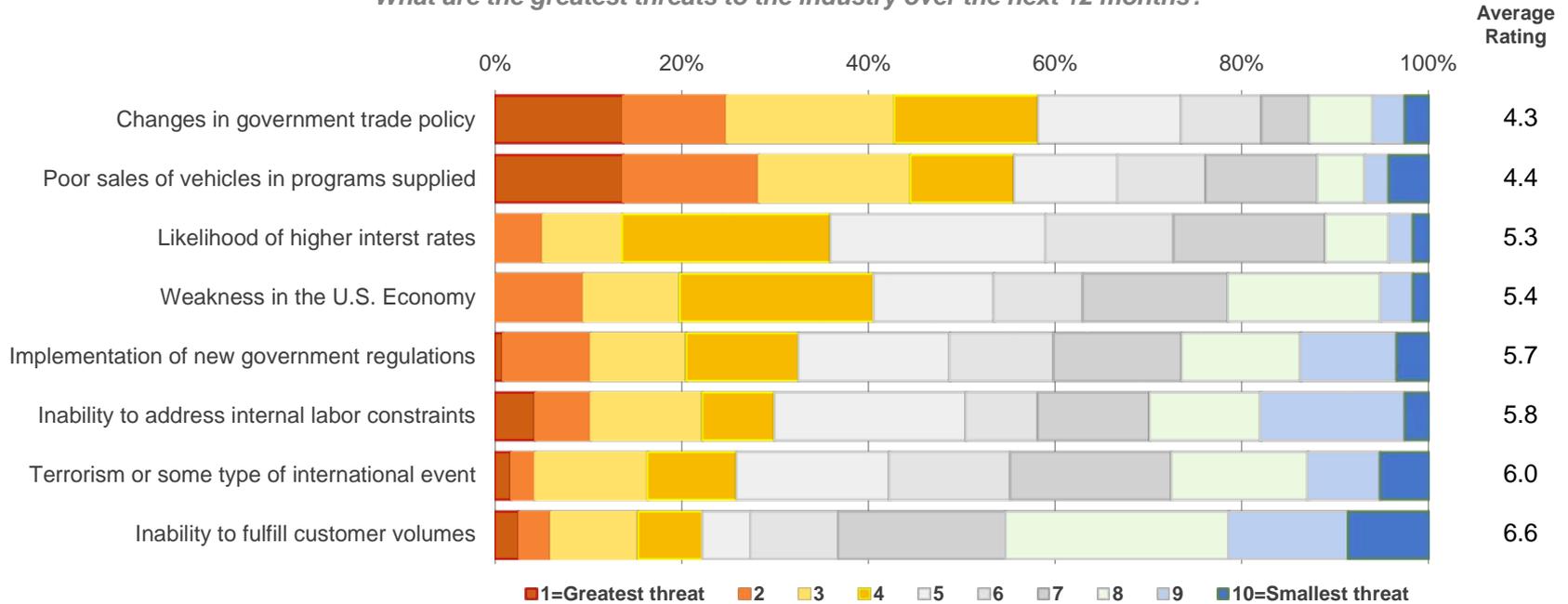


There is strong optimism and sharply lower pessimism across all revenue groups. Uncertainty remains due to ongoing volatility, elevating pessimism for the \$501M-\$1B revenue group.



OESA Supplier Barometer: Industry Threats

What are the greatest threats to the industry over the next 12 months?



Trade policy is identified as the greatest industry threat, followed closely by poor vehicle sales. These two threats have alternated 1st and 2nd position over the last 6 months.



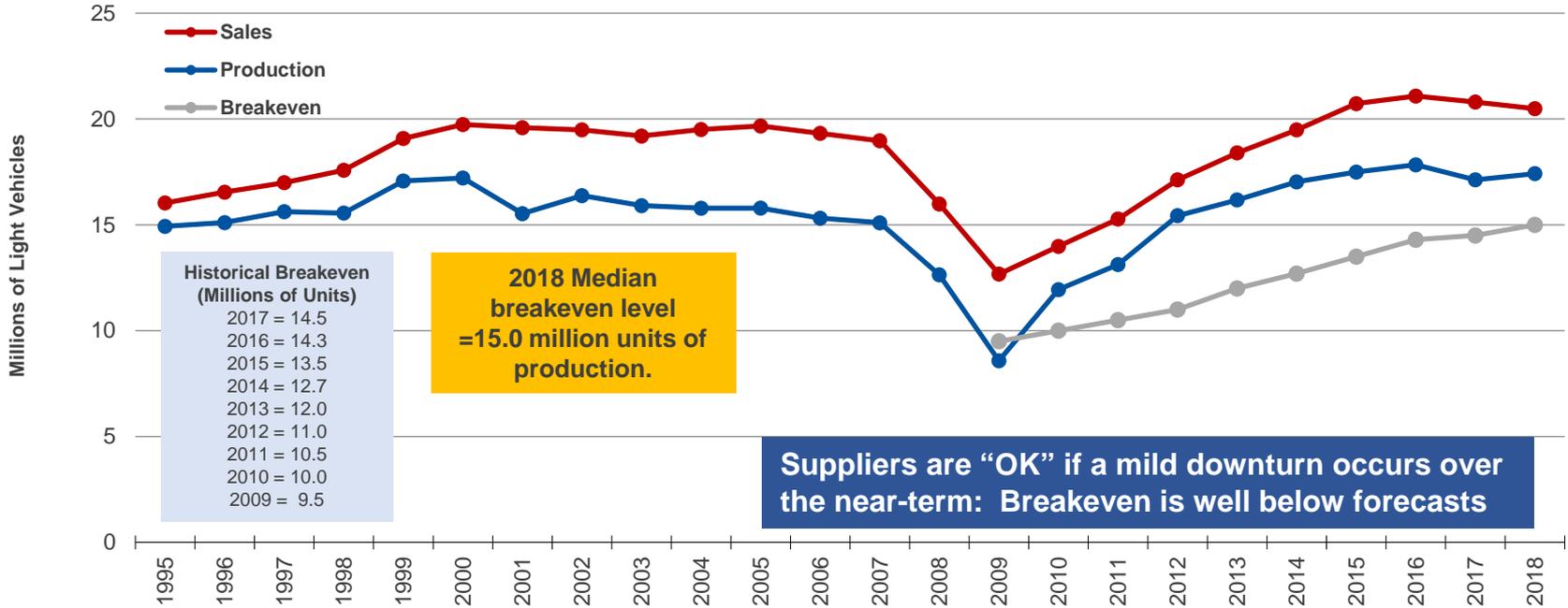


PRODUCTION AND PLANNING



Production Planning: Breakeven and Year-End Estimates

Considering North America light duty vehicle production, estimate the required 2018 industry volume needed to achieve breakeven in your North American operations?



Source For Sales & Production Volumes: IHS Markit forecast (January 2018)



Production Planning: Capacity Utilization

Please estimate your 'all-in' capacity utilization levels (in percent)

'All-in' capacity is the total of your current capacity utilization (current workforce levels and operating plant and equipment assuming 270 working days and 3 shifts) plus warm-idled capacity (idled capacity but being able to ramp up production within 3 months with minor capital needed) plus cold-idled capacity (idled but being able to ramp up production after 3 months with moderate levels of capital required).

January 2018		
Lower Quartile Value	Median Value	Upper Quartile Value
75%	85%	87%

The median 'all-in' capacity utilization rate remains at 85% with the range of responses narrowing a bit compared to last year.

Supplier efforts if over 90% capacity utilization...
(multiple supplier responses for each)

- Flexible Operations: Overtime, Relocation of production
- Expanding or investing in new facilities
- New equipment
- Subcontracting
- More proactive planning

January 2017			January 2016			January 2015		
Lower Quartile Value	Median Value	Upper Quartile Value	Lower Quartile Value	Median Value	Upper Quartile Value	Lower Quartile Value	Median Value	Upper Quartile Value
74%	85%	90%	75%	85%	90%	66%	80%	86%

May 2014			May 2013			May 2012		
Lower Quartile Value	Median Value	Upper Quartile Value	Lower Quartile Value	Median Value	Upper Quartile Value	Lower Quartile Value	Median Value	Upper Quartile Value
70%	80%	90%	65%	75%	85%	55%	75%	85%

What Steps are you Taking at your firm to Address the Issues Identified?

(multiple supplier responses for each)

Engineering Talent/Availability

- 
- Increasing recruiting efforts
 - Expanding of internships
 - Increasing salaries
 - Implementing or increasing bonuses
 - Balancing work-life
 - Training and mentoring

Skilled Labor Shortages

- Reaching out to community colleges
- Initiating apprenticeship programs
- Increasing recruiting efforts
- Developing training programs
- Increasing salaries and benefits

Production Overtime Premiums

- Planning budgets for higher costs
- Adding capacity
- Hiring
- Changing shifts
- Improving efficiencies
- Relocating production

Hourly Labor Shortages

- 
- Recruiting
 - Increasing marketing efforts
 - Increasing wages and benefits
 - Developing automation
 - Improving work environments
 - Cross-training

What Steps are you Taking at your firm to Address the Issues Identified?

(multiple supplier responses for each)

Inventory Carrying Costs

- Delivering as Just-in-Time
- Improving planning
- Adjusting payment terms
- Reducing carried inventory

Re-allocation of Resources - Quality/Production

- Adding quality and process engineers
- Using outside resources
- Emphasizing supplier quality management

Set-up and Change-Over Costs

- Developing lean manufacturing
- Hedging capacity requirements
- Planning for and limiting change-overs

Internal Manufacturing Capacity Constraints

- Adding or expanding facilities
- Adding equipment
- Increasing out-sourcing
- Moving existing production

Outbound-Expedited Freight

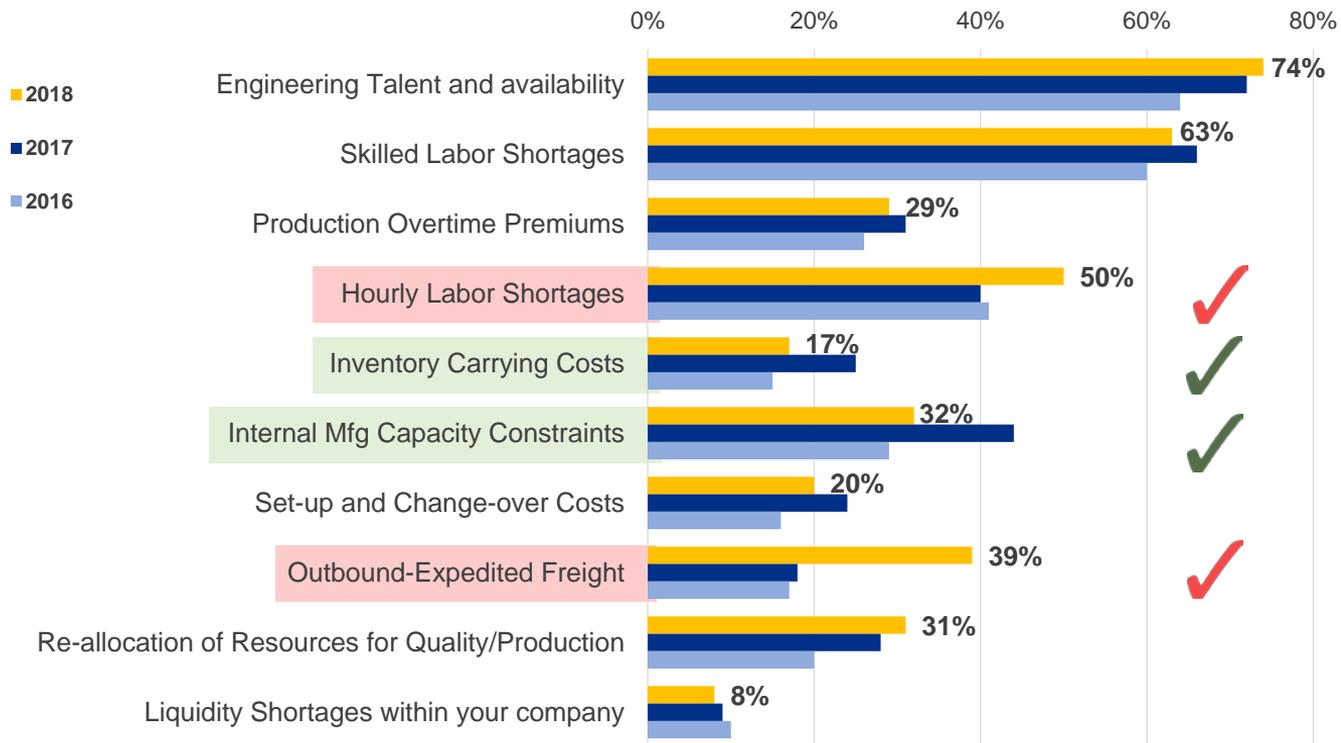
- Improving communication-customers & suppliers
- Substituting components where possible
- Carrying more inventory

Liquidity Shortages Within Your Own Company

- Cutting costs

Production Planning: Internal Issues

Over the next 12 months, identify which of the following internal issues you will face as you meet required levels of production?



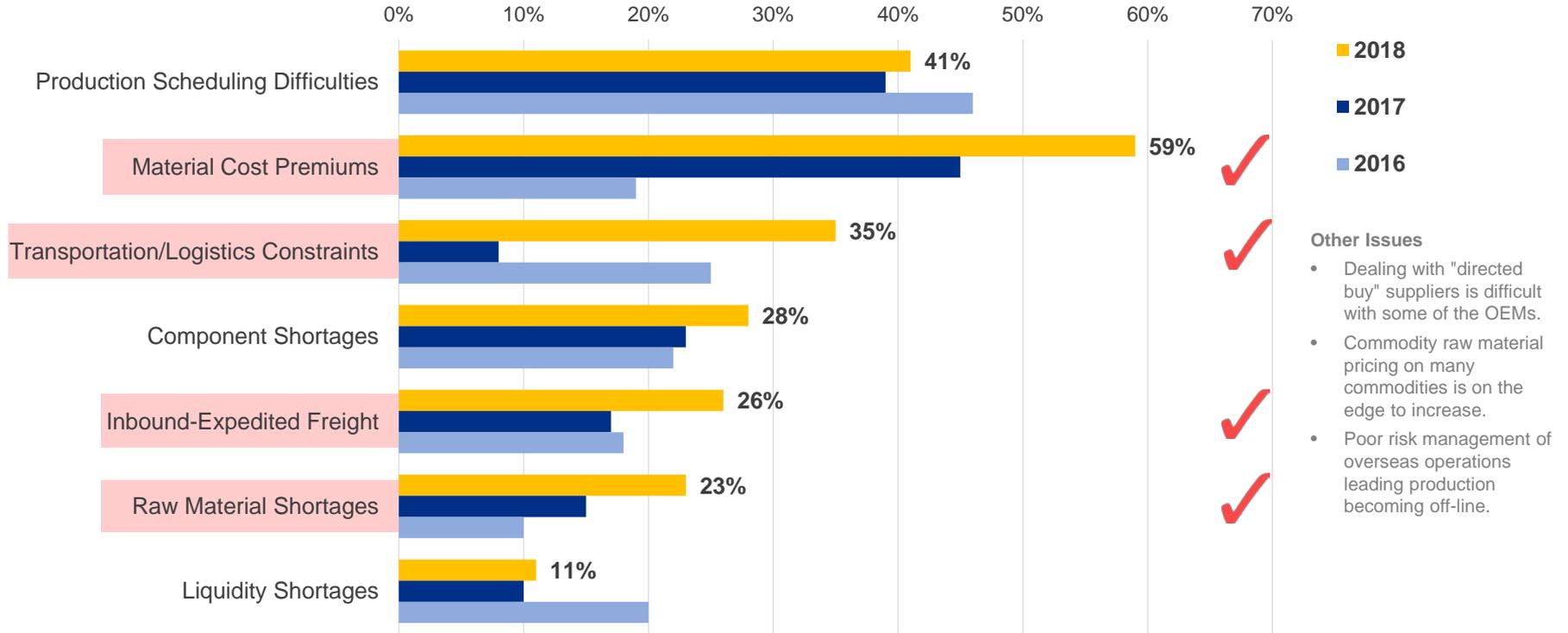
Other Issues

- Launching new products that are unique/patented, often requiring new manufacturing processes.
- Transportation costs rising, new legislation.
- Capacity issues within supply base, especially within electronics.
- Balancing success rate of business acquisition against resources.
- Securing new business and diversification with the auto sector.
- Investment funds to manage new part launches expected to be awarded by customers in the next 6-12 months.
- Component shortages on electronic components (resistors, diodes, connectors)



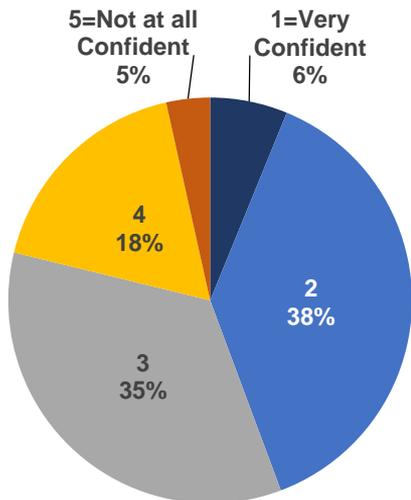
Production Planning: Sub-Tier Issues

Over the next 12 months, identify which of the following internal issues you will face as you meet required levels of production?

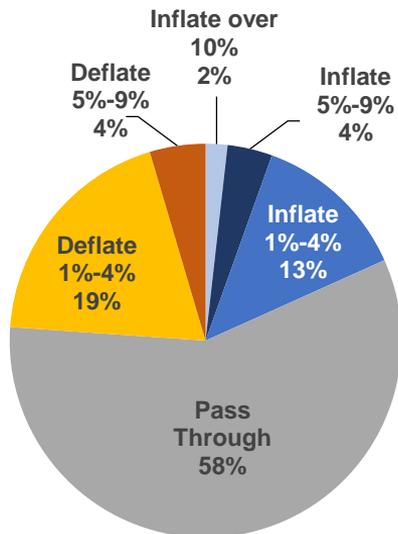


Production Planning: Confidence in Customer Releases

How confident are you that your customers' production releases are matching their current sales and inventory requirements?



Generally, across customers and programs, are you currently tending to inflate or deflate your releases down through your supply chain?



Average
2018=2.8

Average
2017=2.8
2016=2.9
2015=2.8
2012=2.6
2011=2.5
2010=2.6

44% of suppliers are confident that their customer releases are matching sales and inventory requirements.

Most pass-through releases to their suppliers.

Mixed Supplier Sentiment on customer accuracy:

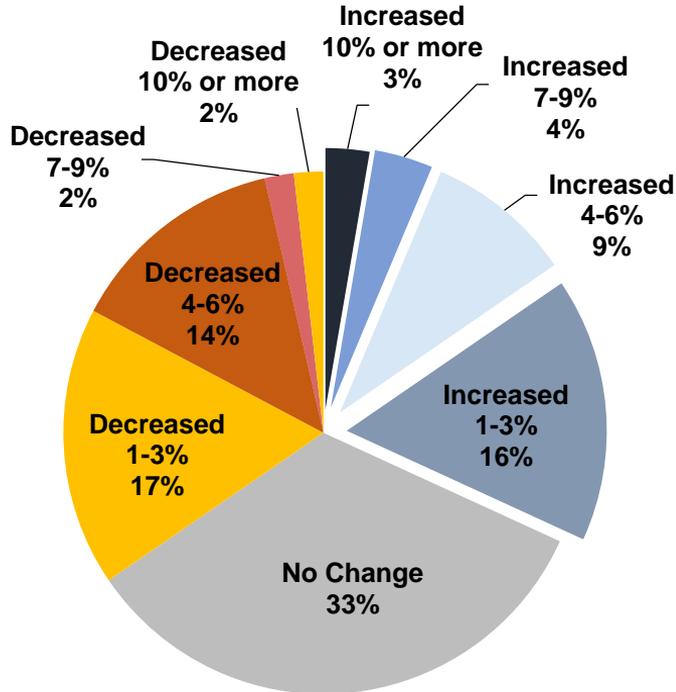
“For the most part, the OEMs are doing a good job keeping supply and demand aligned. They worked on it in 2017 and appear to be in much better shape.”

“OEMs do a poor job of forecasting actual releases outside of 2-3 week window.”



Production Planning: Finished Goods Inventory

Compared to average 2016 levels, how did your average 2017 finished goods inventory levels change?



Suppliers are working to reduce inventory. 35% of suppliers have lower inventory levels while 32% have increased inventory levels (still down by 6% over last year).

Percent of suppliers with increased inventory...

Through CY:
2017 = 32%
2016 = 38%
2015 = 34%
2013 = 51%

Drivers of Finished Goods Inventory...

(multiple supplier responses for each)

- Forecasting and Demand Changes
- Material and Component Availability
- Available Cashflow
- Capacity

Production Planning: Research & Development Spending

For 2017, estimate your R&D spending as a percent of total sales.

	Lower Quartile	Median Value	Upper Quartile
R&D Share of Total Sales			
2018	3%	4%	5%
2017	2%	4%	6%
2015	2%	3%	5%
2014	2%	3%	5%
2012	2%	3%	5%

R&D Spending is unchanged from last year; remaining at 4% of total sales. From the R&D budget, approximately one-third goes to research while two-thirds are allocated to development.

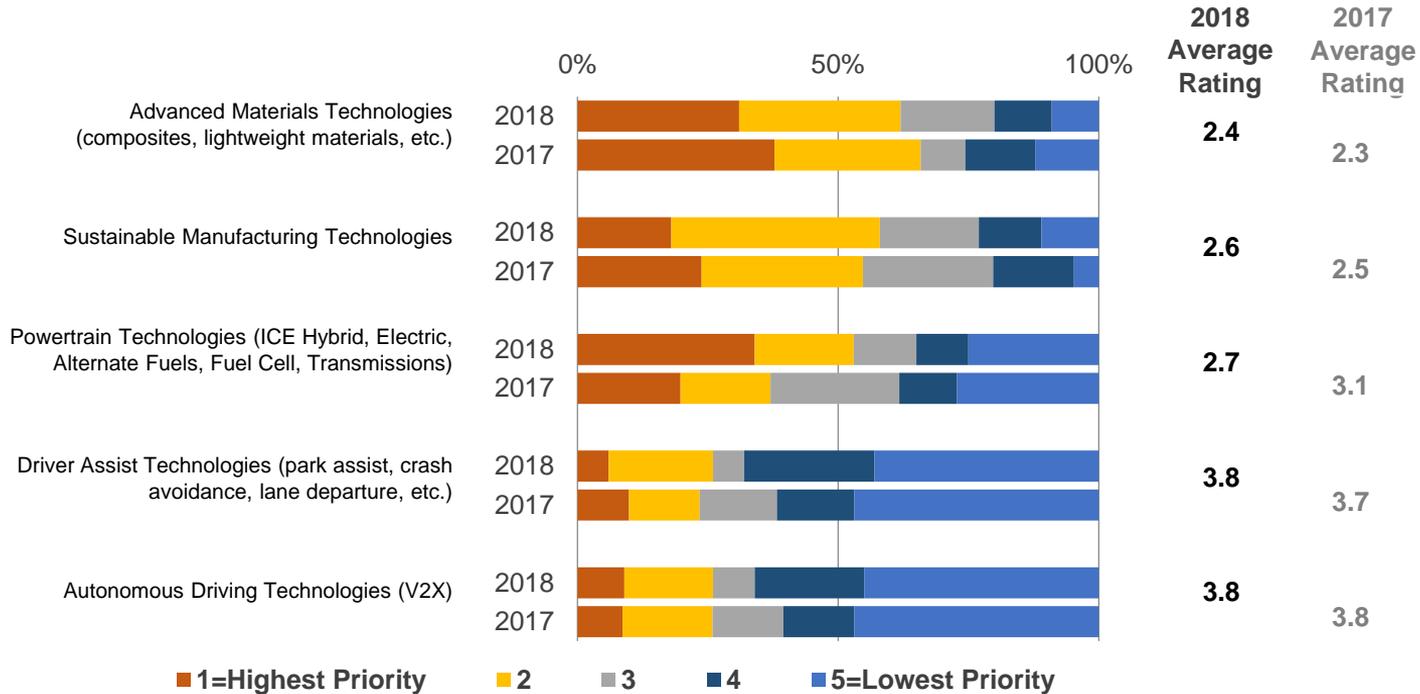
For 2017 R&D budget, estimate the percent allocated to research and percent allocated to development.

	Lower Quartile	Median Value	Upper Quartile
Research budget (for future technologies)			
2018	20%	32%	44%
2017	10%	20%	40%
2015	20%	30%	50%
2014	16%	30%	50%
2012	20%	30%	50%

	Lower Quartile	Median Value	Upper Quartile
Development budget (for specific programs)			
2018	50%	67%	80%
2017	58%	75%	85%
2015	35%	67%	80%
2014	50%	70%	84%
2012	50%	70%	80%

Research & Development Technology Investments

If you had additional dollars for R&D investment, rating in terms of importance, how would you allocate it across the following technology areas?



The order of top supplier R&D priorities remains consistent with last year.





OESA Automotive Supplier Barometer is a survey of the top executives of OESA regular member companies. The OESA Automotive Supplier Barometer takes the pulse of the suppliers' twelve month business sentiment. In addition, it provides a snapshot of the industry commercial issues, business environment and business strategies that influence the supplier industry. www.oesa.org.

Survey Methodology

- Data collected the week of January 22 via invitation to online survey.
- Executives of OESA supplier companies.
- 121 survey responses were received.

The information and opinions contained in this report are for general information purposes. Comments are edited only for spelling and may contain grammatical errors due to their verbatim nature. Responses to this survey are confidential. Therefore, only aggregated results will be reported and individual responses will not be released or shared.

Antitrust Statement:

Respondents/participants should not contact competitors to discuss responses, or to discuss the issues dealt with in the survey. It is an absolute imperative to consult legal counsel about any contacts with competitors. All pricing and other terms of sale decisions and negotiating strategies should be handled on an individual company basis.



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