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OESA AUTOMOTIVE SUPPLIER BAROMETER™ Q3 2021

TALENT AND HUMAN RESOURCES

AUGUST 4, 2021

Executive Summary



Supplier Barometer Index™ (SBI)
SBI Score = 52;
up from Q2 level of 44

The index improved slightly from the prior quarter, rising 8 points to a marginally positive reading of 52. The outlook remains polarized however, as 31% of respondents indicate they became more pessimistic over the past three months, while 52% became more optimistic. The outlook is mixed based on revenue size, with the smallest and largest suppliers remaining pessimistic on net, while mid-size suppliers' outlook improved to optimistic territory.



Production shutdowns due to supply chain shortages and suppliers' ability to fulfill customer volumes remain the top threats to the 12-month outlook

Shortages of semiconductors and other components and materials continue to disrupt the automotive supply base but eased slightly compared to the second quarter.

Labor constraints and sales of vehicles in programs supplied are a growing concern.

However, suppliers are confident in the strength of the U.S. economy as issues related to the pandemic continue to be less threatening to the supply base and the overall economy.



Automotive suppliers' diversification remains consistent with last year

Median non-automotive revenue estimates remain consistent with last year. Revenue grew in the non-automotive industrial, agriculture and marine sectors.

Revenue from the manufacturing of personal protection equipment is mostly marginal, at about 5% of total on average and grew on net over the past year.

Executive Summary



Skills and company cultural gaps widened, as suppliers realize their workers expect a continuation of flexible work arrangements

Executive responses indicate that nearly 50% of suppliers have moderate to wide gaps between their current roles and responsibilities versus skills, up from 34% last year.

Furthermore, 62% of responses indicate that suppliers face moderate to wide gaps between current and expected company culture, up from 50% in Q3 2020.

Firms are focusing on increasing internal skill development and changing hiring practices to offset skills gaps, while offering flexibility in work environments and relying on leadership to drive cultural change.



Scarce labor availability and competition from other sectors accelerated hourly employee turnover to extremely high levels

50% of suppliers report their turnover rates for hourly employees in the U.S. at above 7.5% while noting that all positions at the plant level are extremely difficult to fill.

Suppliers are increasing wages and relying on contract employees to offset the shortage of production workers. However, signing and retention bonuses were the most successful incentive initiatives.

Hiring production workers in states that have ended federal unemployment subsidies has been easier on net, with 63% of responses indicating open requisitions are at least slightly easier to fill.



Developing high performing employees internally, through training, mentorship and cross-functional job rotation, through a structured development plan are the key themes for career path and succession planning.



Cost pressures are mounting as the supply base is budgeting for a 5.4% and 2.9% increase to hourly and salary employee wages, respectively. Additionally, suppliers expect pricing pressure across all other benefit offerings.



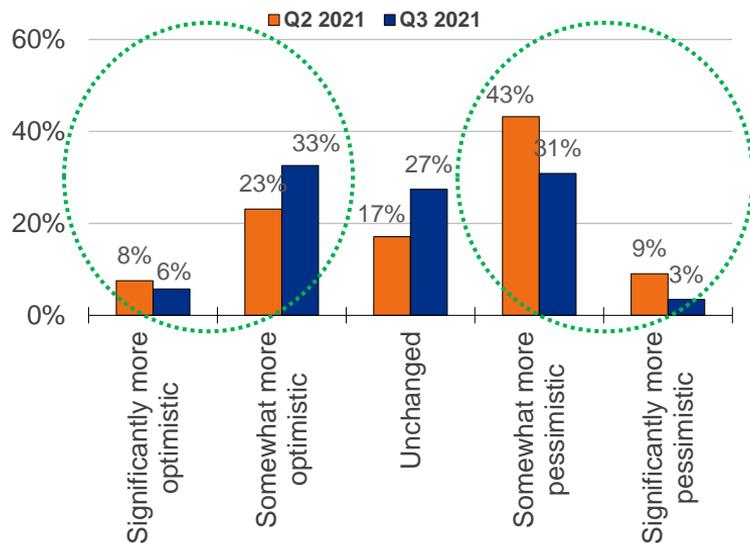
Suppliers expect to allow non-operational employees 2-3 days per week of remote work opportunities, not because of increased performance but because their employees desire the change. Consequently, firms are increasing the role of technology in the workforce.

SUPPLIER OUTLOOK

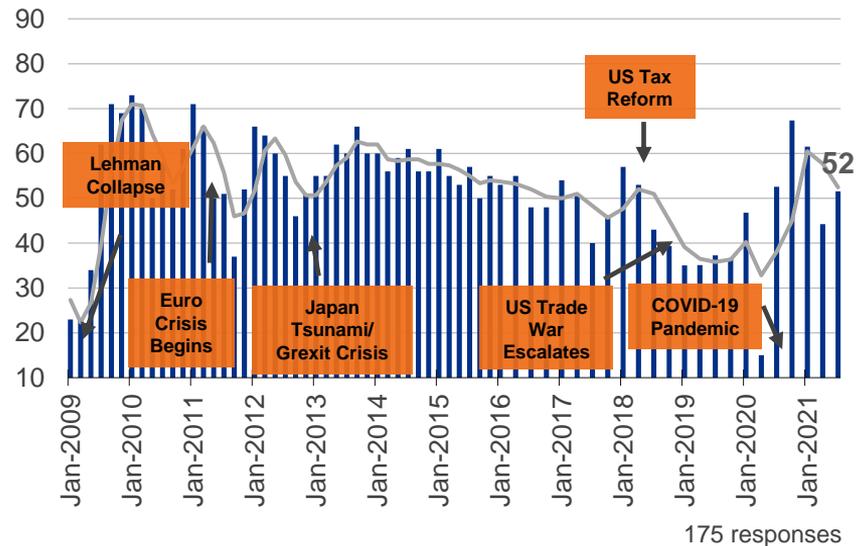
OESA Supplier Barometer: Q3 2021 Results

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

Current Supplier Outlook (Share of Respondents)



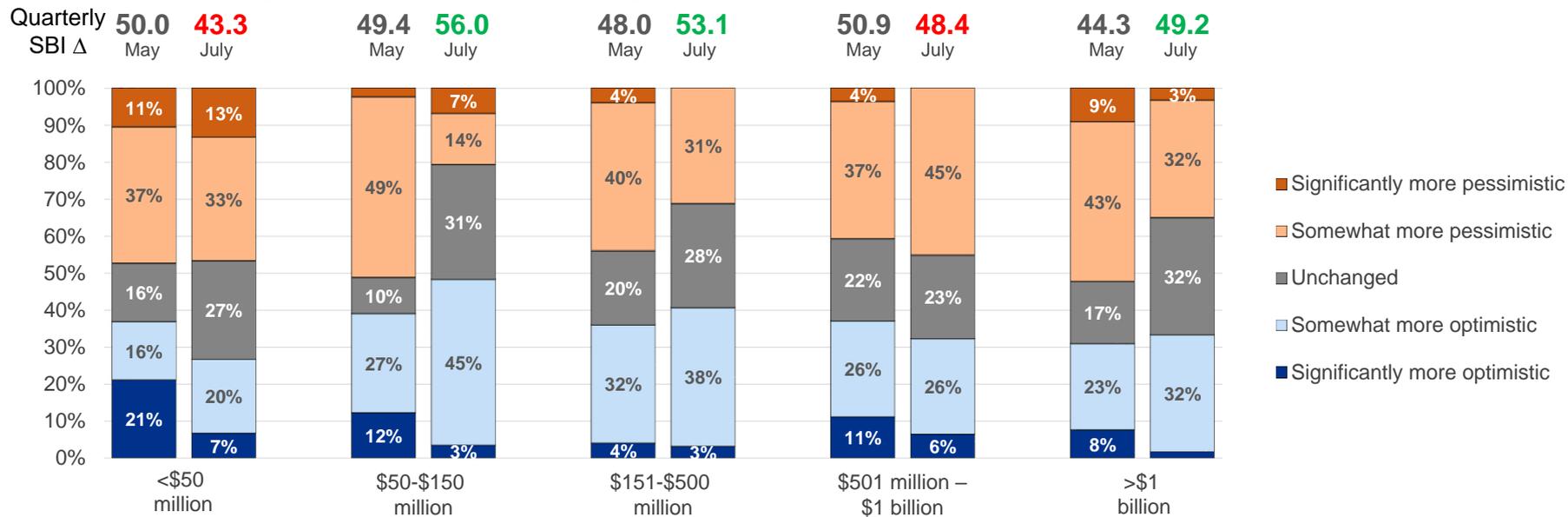
Supplier Barometer Index: (SBI and 6m Average)



The outlook for the third quarter rose into optimistic territory as production shutdowns due to supply chain shortages eased slightly, while sales performance of programs supplied deteriorated.

OESA Supplier Barometer: Q3 2021 Results By Revenue

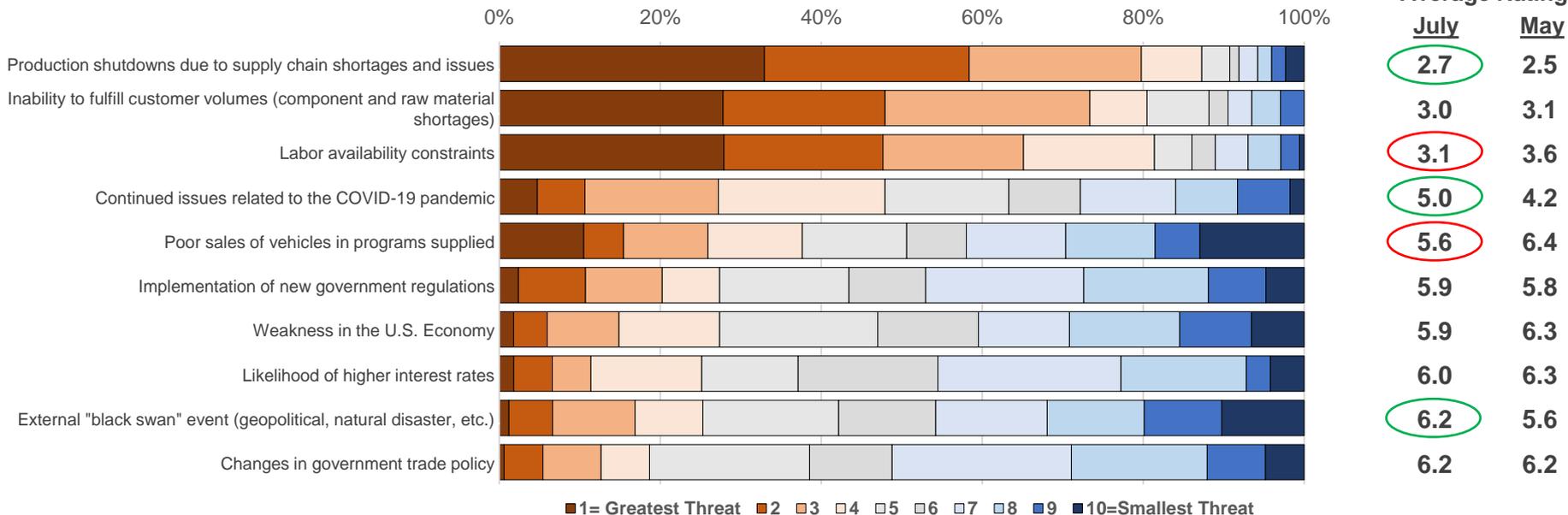
Describe the general twelve-month outlook for your business. Over the past three months, has your opinion become...?



The outlook is mixed based on revenue size. The smallest and largest suppliers remain pessimistic on net, while the outlook for mid-size suppliers improved to reach optimistic territory.

OESA Supplier Barometer: Industry Threats

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



Production shutdowns due to supply chain shortages, and suppliers' ability to fulfill volumes are the top threats to the 12-month outlook. Suppliers are becoming increasingly concerned over sales of programs supplied.

OESA Supplier Barometer: Industry Segmentation

N.A. Industries	Percent of total NA revenue in each Industry					Revenue change over the past year					
	Lower Quartile	Median	Upper Quartile	Range	Number of Responses	Declined Significantly	Declined Slightly	Unchanged	Increased Slightly	Increased Significantly	Net Change
Automotive	73%	95%	100%	10 - 100%	155	9%	20%	37%	22%	12%	4%
Defense	2%	5%	10%	1 - 30%	20	0%	11%	75%	8%	6%	3%
Non-automotive industrial	5%	10%	20%	1 - 65%	80	3%	4%	44%	35%	15%	44%
Agriculture	4%	5%	10%	0.5 - 40%	32	0%	3%	58%	33%	8%	38%
Marine	2%	5%	10%	1 - 15%	15	0%	0%	73%	23%	3%	27%
Furniture	2%	5%	25%	1 - 40%	7	7%	0%	86%	7%	0%	0%
Computers and Non-Automotive Electronics	4%	5%	21%	1 - 68%	6	0%	0%	84%	16%	0%	16%
Aerospace	2%	5%	10%	1 - 15%	12	0%	12%	81%	8%	0%	-4%
Personal Protection Equipment	3%	5%	13%	2 - 15%	4	0%	4%	79%	8%	8%	13%

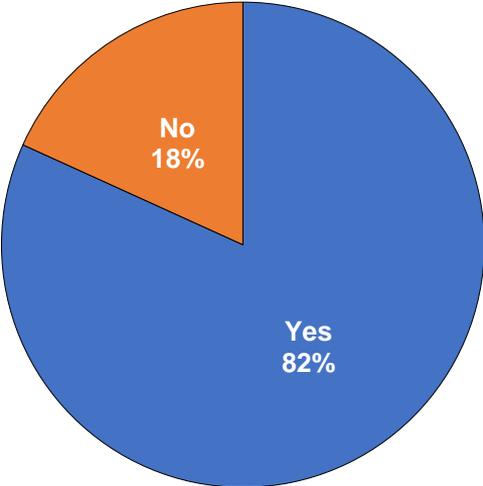
Automotive revenue as a percentage total remains consistent with last year.
Revenue grew in the non-automotive industrial, agriculture and marine sectors.

TALENT AND HUMAN RESOURCES

Roles/Responsibilities vs. Skills - Understanding the Gaps

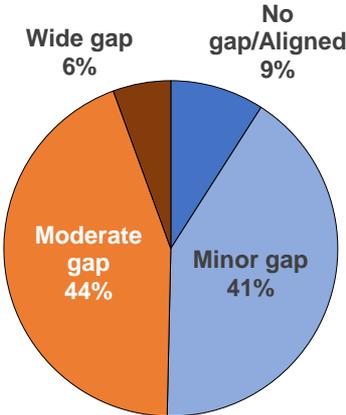
Given competitive hiring pressures and your effort to retain and capture new talent...

Are you evaluating the gaps between roles/responsibilities vs. skills in your organization?

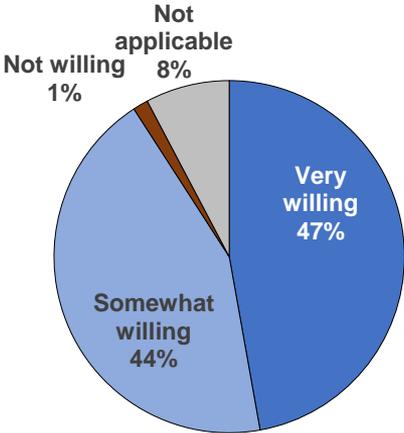


For those indicating 'yes'

What is the magnitude of each gap?



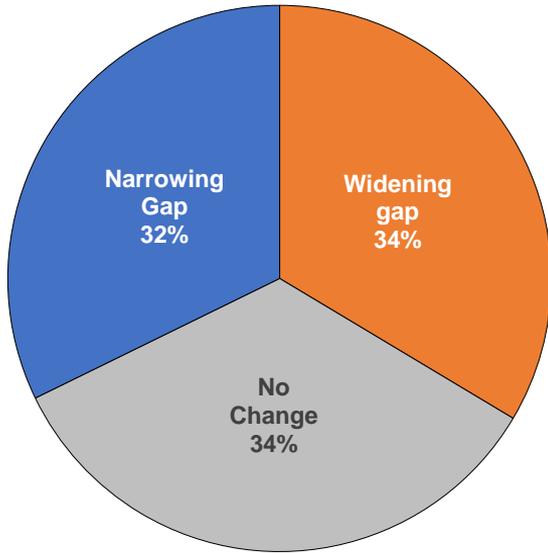
How willing are you to embrace the scope of change needed to close each gap?



Skill gaps are widening, with 50% of respondents indicating they have moderate to wide gaps, up substantially from 34% last year.

Roles/Responsibilities vs. Skills - Understanding the Gaps

How do you see this changing over the next 1 to 3 years?



What are you doing to adapt your organization to each of these changes?

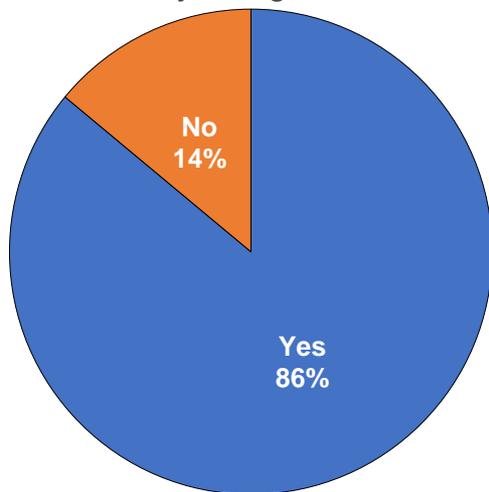


Suppliers are focused on developing talent internally through training or re-skilling, revamping hiring practices and increasing their flexibility.

Current Culture vs. Expected Culture - Understanding the Gaps

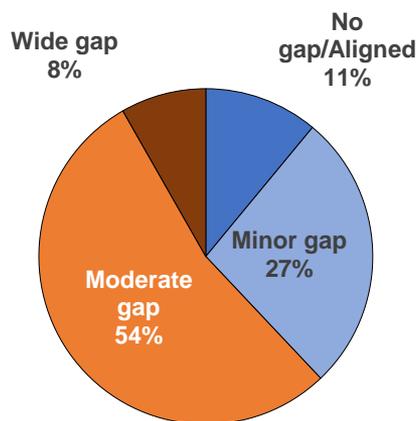
Given competitive hiring pressures and your effort to retain and capture new talent...

Are you evaluating the gaps between current vs. expected culture in your organization?

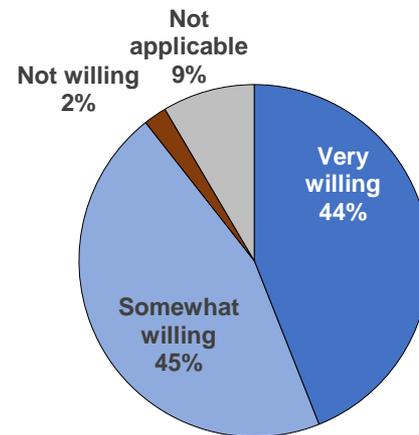


For those indicating 'yes'

What is the magnitude of each gap?



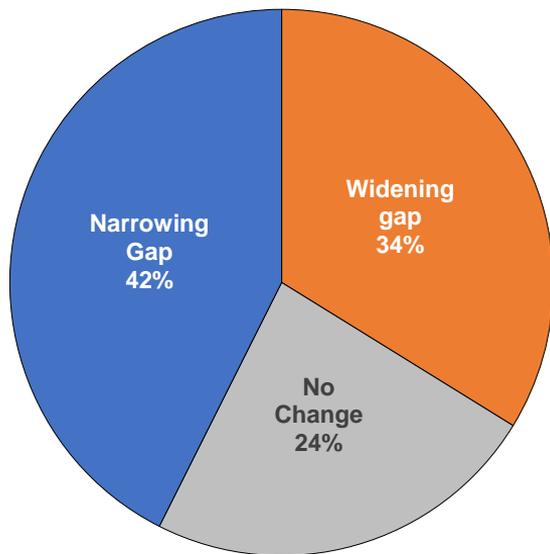
How willing are you to embrace the scope of change needed to close each gap?



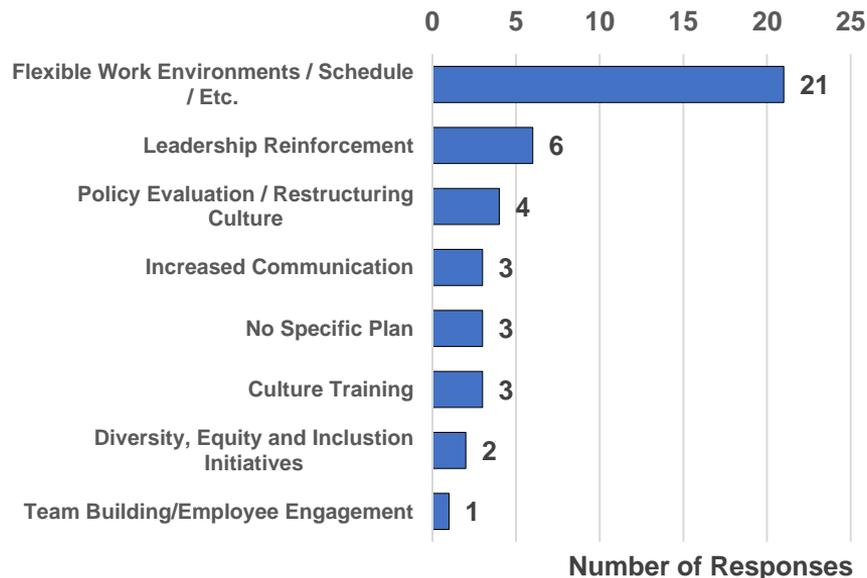
Cultural gaps increased in comparison to 2020.
62% of respondents indicate moderate to wide gaps between their current and expected culture.

Current Culture vs. Expected Culture - Understanding the Gaps

How do you see this changing over the next 1 to 3 years?



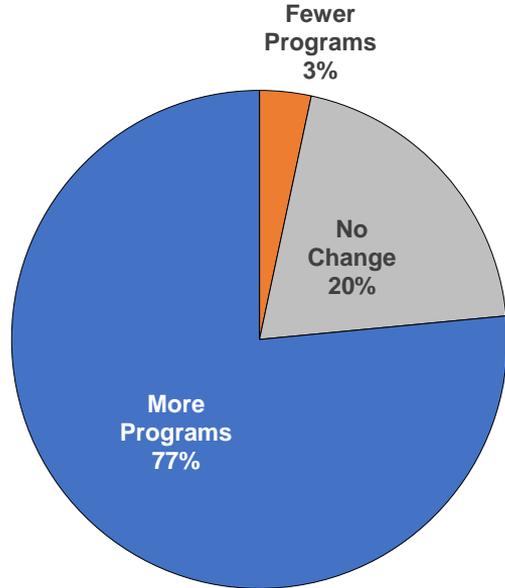
What are you doing to adapt your organization to each of these changes?



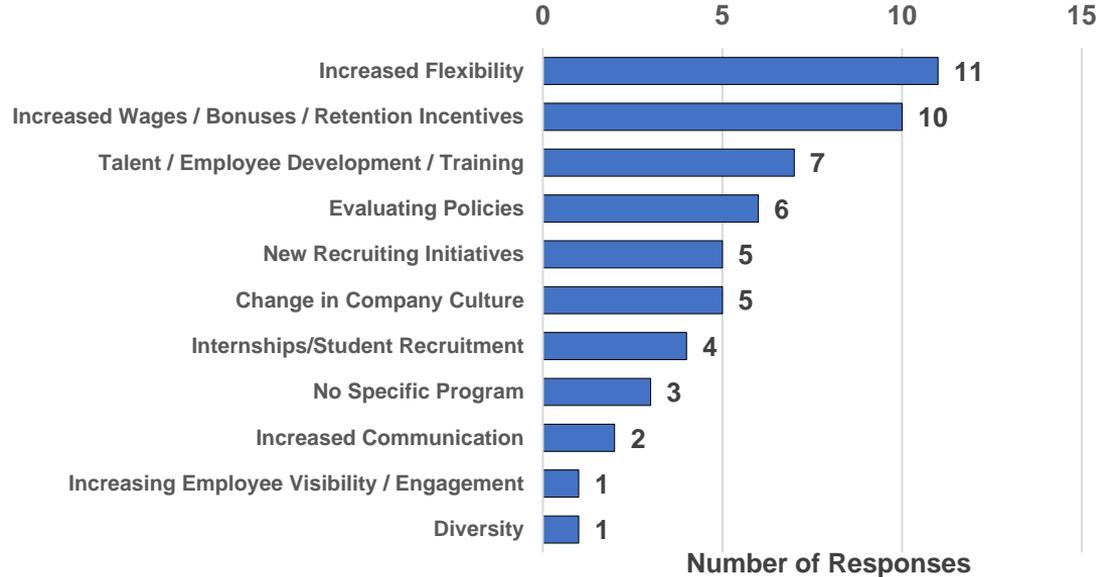
Most suppliers expect their cultural gaps to narrow over the next few years. Many will continue to offer flexible work environments and rely on leadership to drive changes in company culture.

Programs to Attract and Retain Talent

How do you see this changing over the next 1 to 3 years?



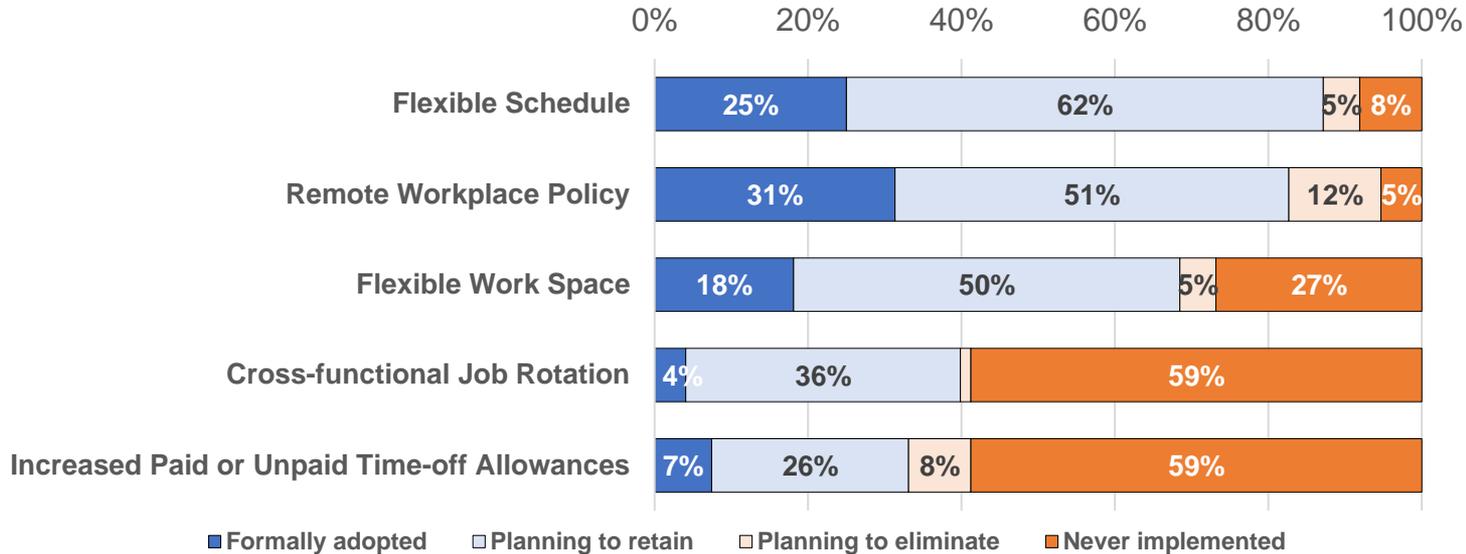
What are you doing to adapt your organization to each of these changes?



Suppliers will continue to leverage their flexible work environments as a means of attracting and retaining talent. Increased wages, signing bonuses and retention incentives are being used to attract hourly labor.

Employment Issues: Flexibility

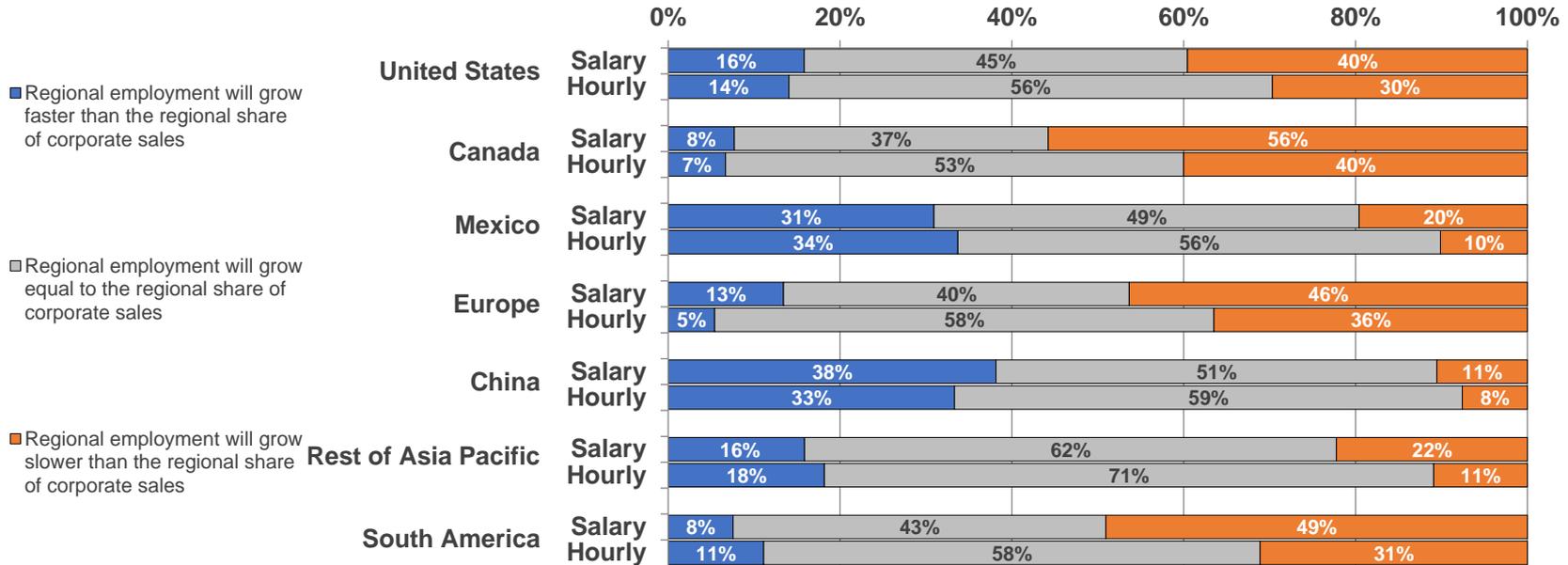
Over the past year, high flexibility in both location and schedule has been required to operate amid the COVID-19 pandemic.
Which of the following programs does your company expect to retain post-pandemic?



The pandemic has profoundly impacted how and where people work, with the majority of suppliers planning to retain a flexible work environment post-pandemic.

Employment Issues: Regional Growth Expectations

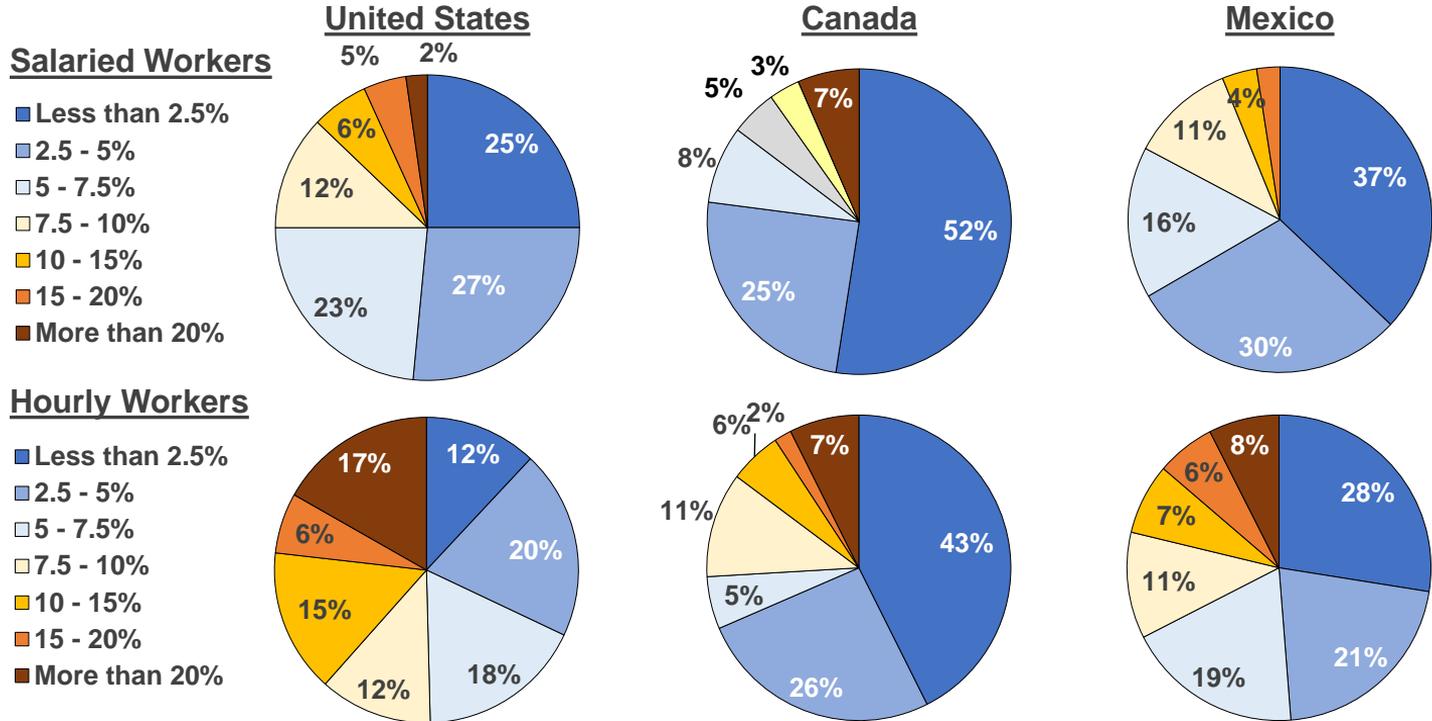
Looking at your current global footprint, how do you anticipate regional employment levels shifting over the next five years?



Employment growth is expected to outpace the growth in revenue in Mexico and China, while revenue will grow faster than employment in the rest of the world.

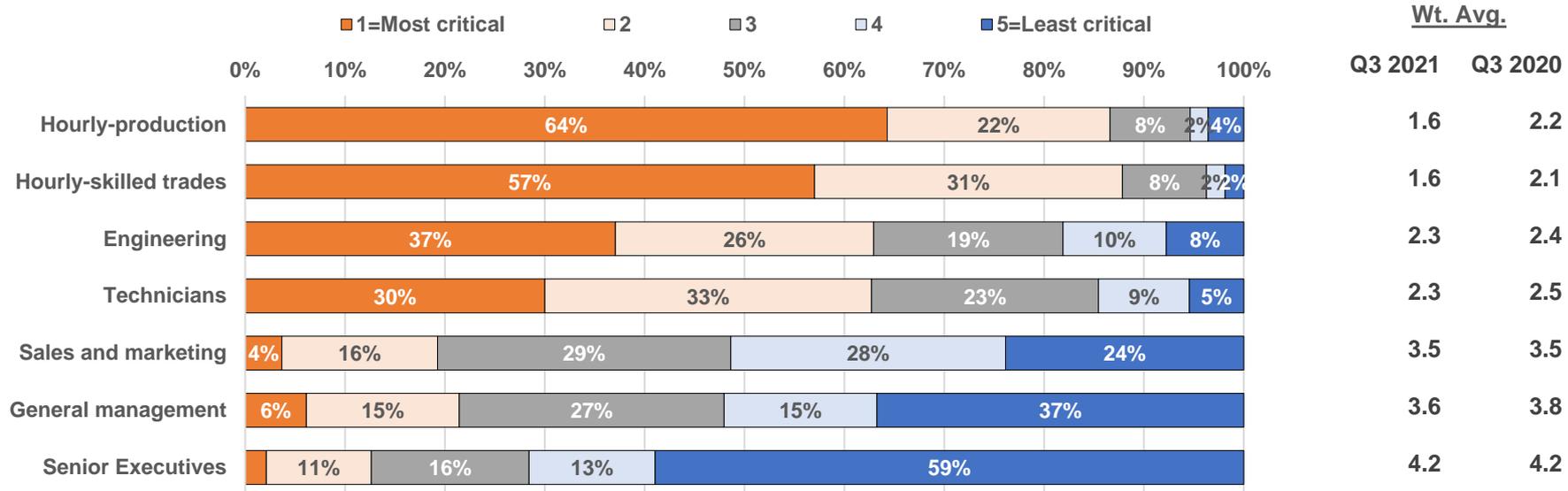
Employment Issues: Regional Voluntary Turnover

Estimate your year-to-date 2021 voluntary turnover rate for salary and hourly personnel



Employment Issues: Labor Acquisition in the U.S.

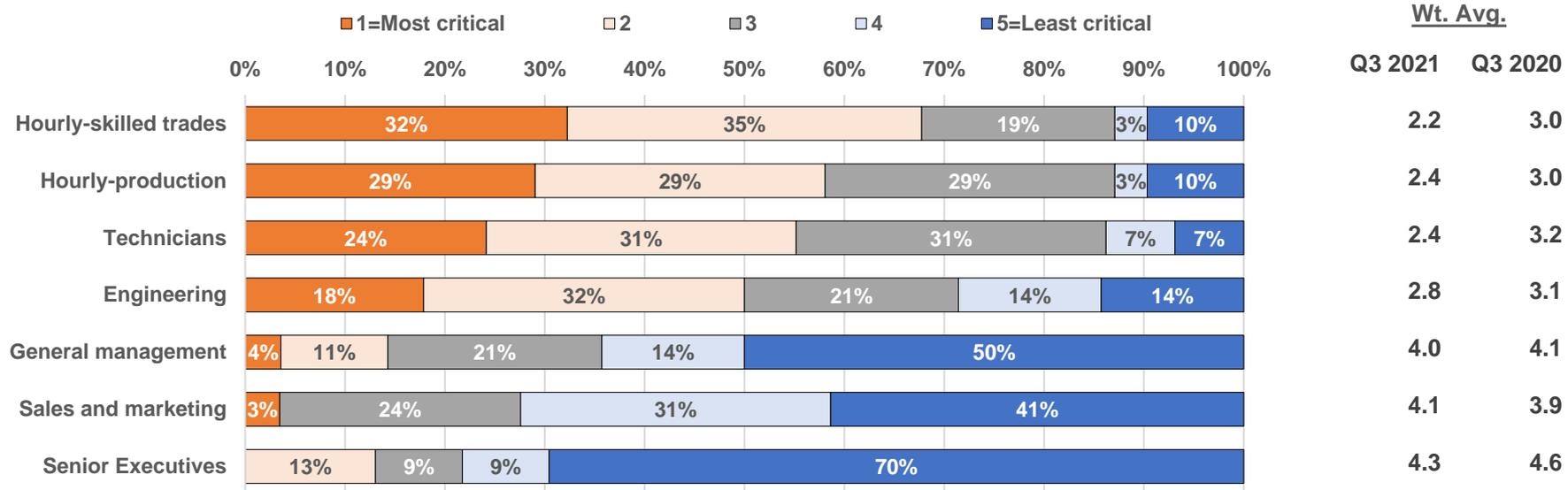
Based on current open requisitions, rate each of the following job classification and positions (most critical to least critical) where you have HR shortages



The supply base continues to struggle to attract and retain employees, yet this is most acute for hourly production workers and skilled trades.

Employment Issues: Labor Acquisition in Canada

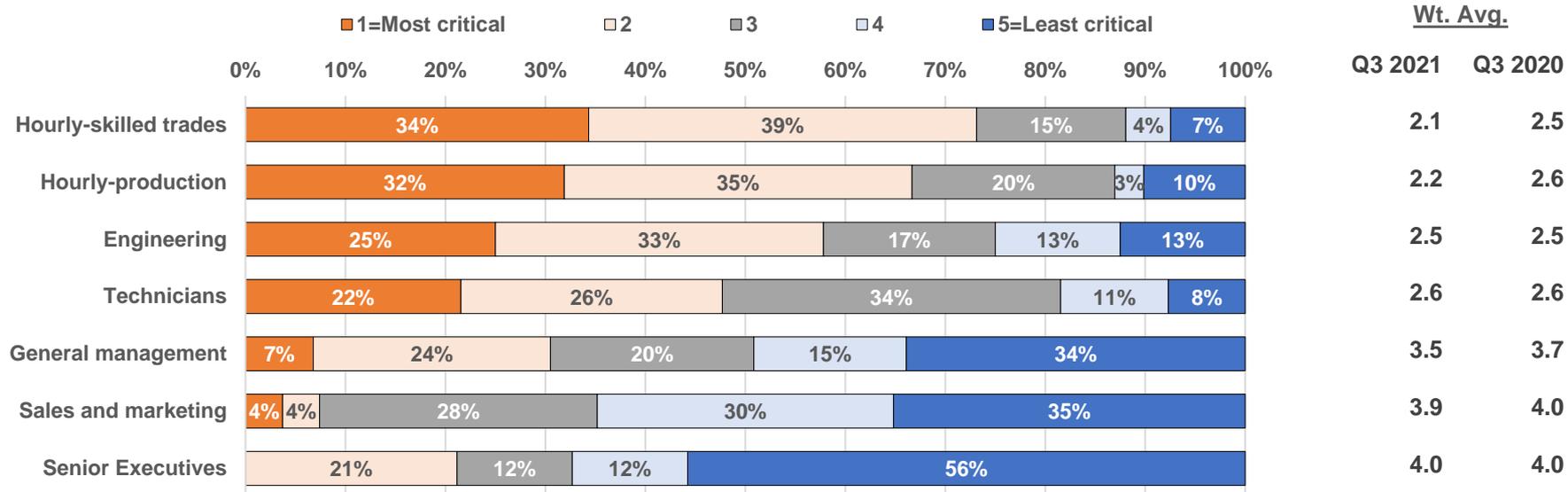
Based on current open requisitions, rate each of the following job classification and positions (most critical to least critical) where you have HR shortages



Hourly worker shortages are spread throughout Canada as well, and worsened in comparison to last year.

Employment Issues: Labor Acquisition in Mexico

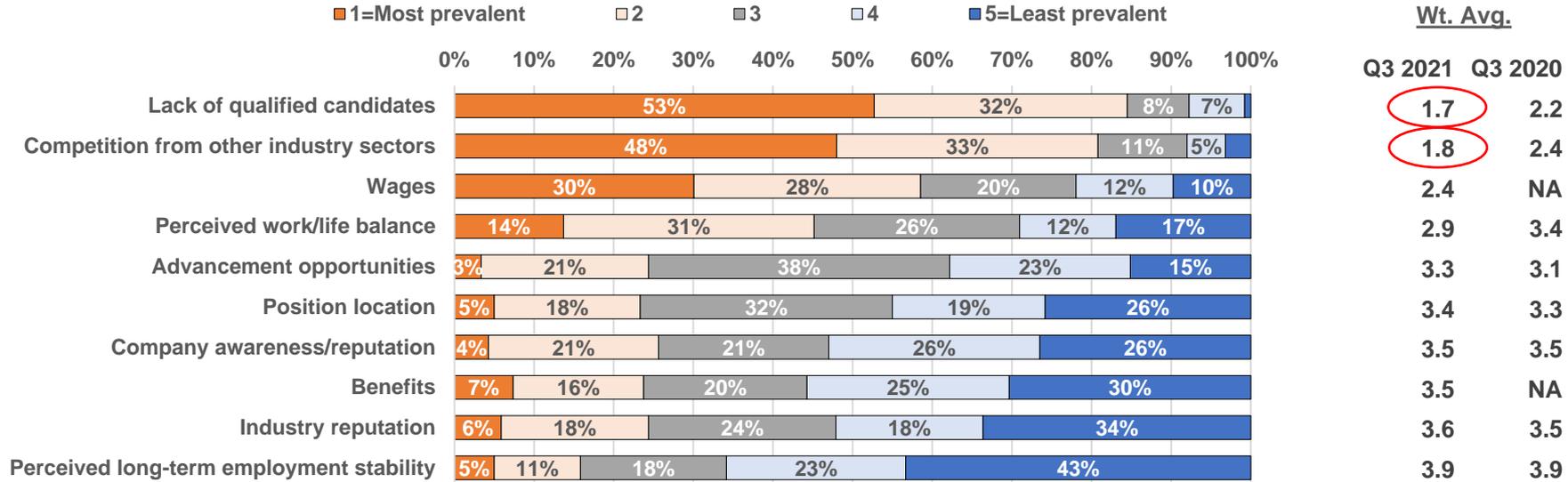
Based on current open requisitions, rate each of the following job classification and positions (most critical to least critical) where you have HR shortages



Shortages of technical workers are abundant in Mexico as are shortages of hourly production workers; the severity of shortages for hourly workers increased in comparison to last year.

Employment Issues: Filling Open Positions

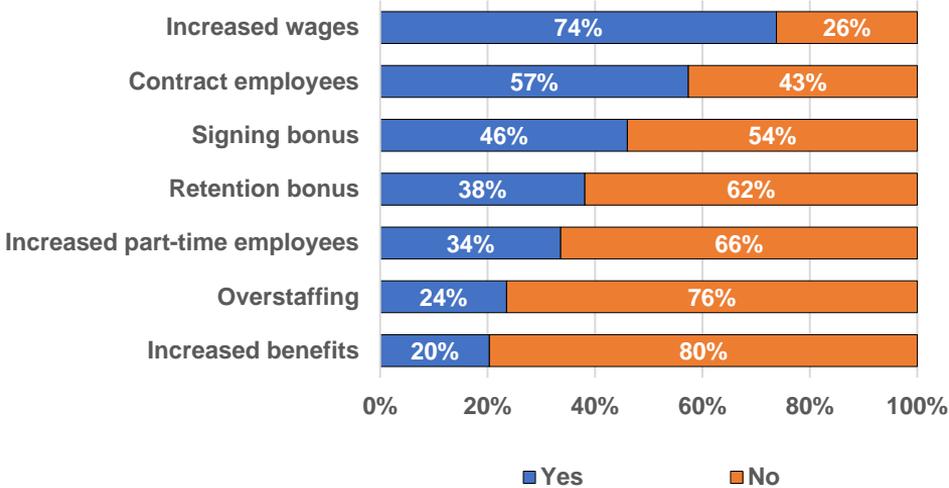
Rate each of the following reasons that you believe prevent you from filling the majority of your open requisitions.



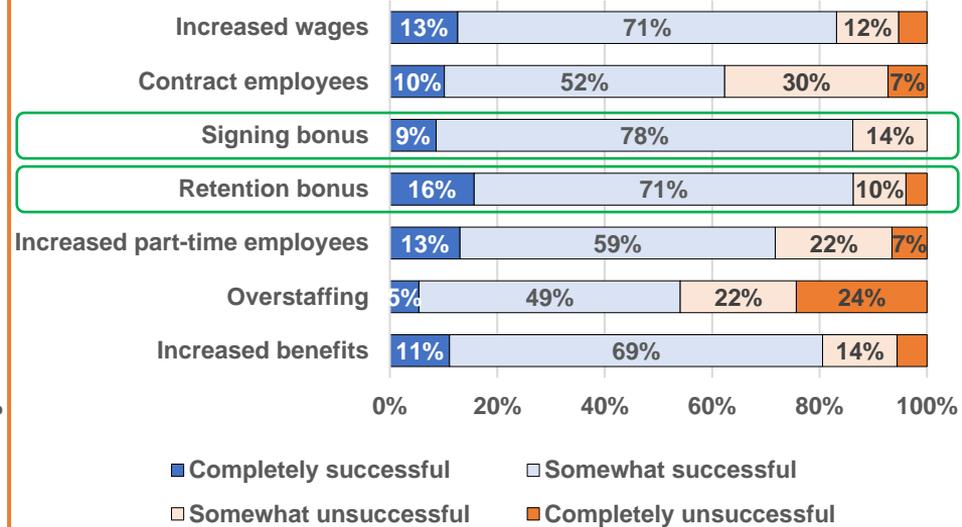
Lack of qualified candidates remains the top hiring constraint as quality labor remains scarce. Competition for other industries and wage demands remain prevalent.

Employment Issues: Filling Open Positions

Has your company implemented any of the following initiatives in order to offset the shortage of production workers?



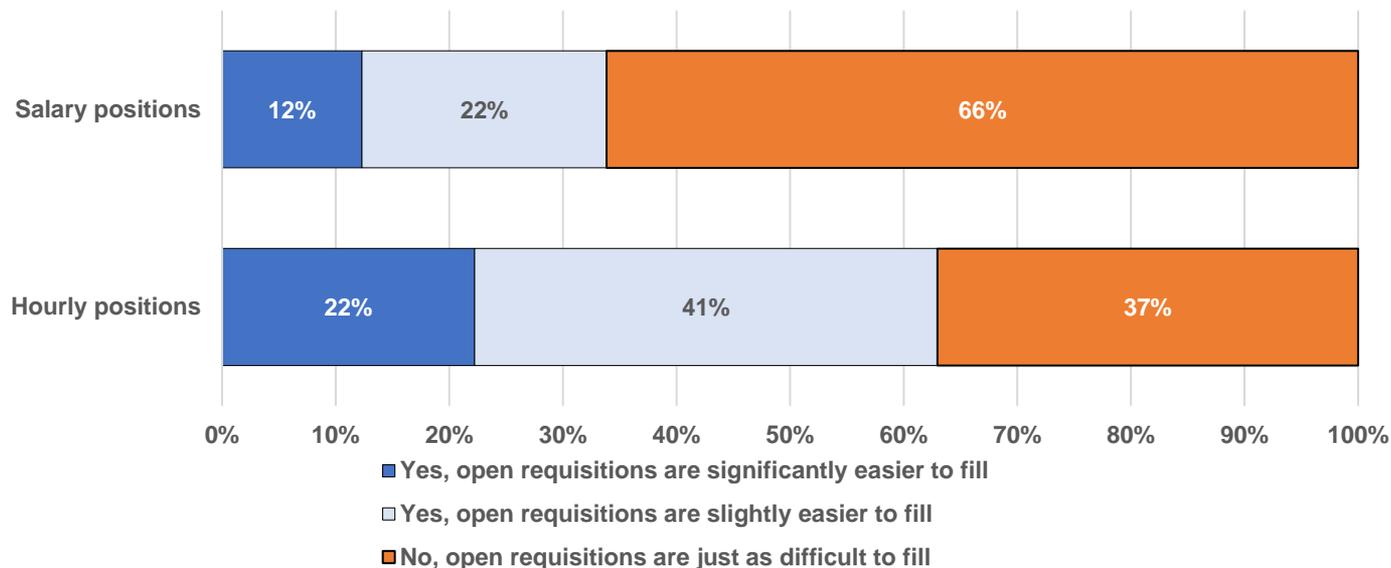
How successful were the initiatives?



Offering retention and signing bonuses have been the most successful programs in offsetting the shortage of production employees

Employment Issues: Filling Open Positions

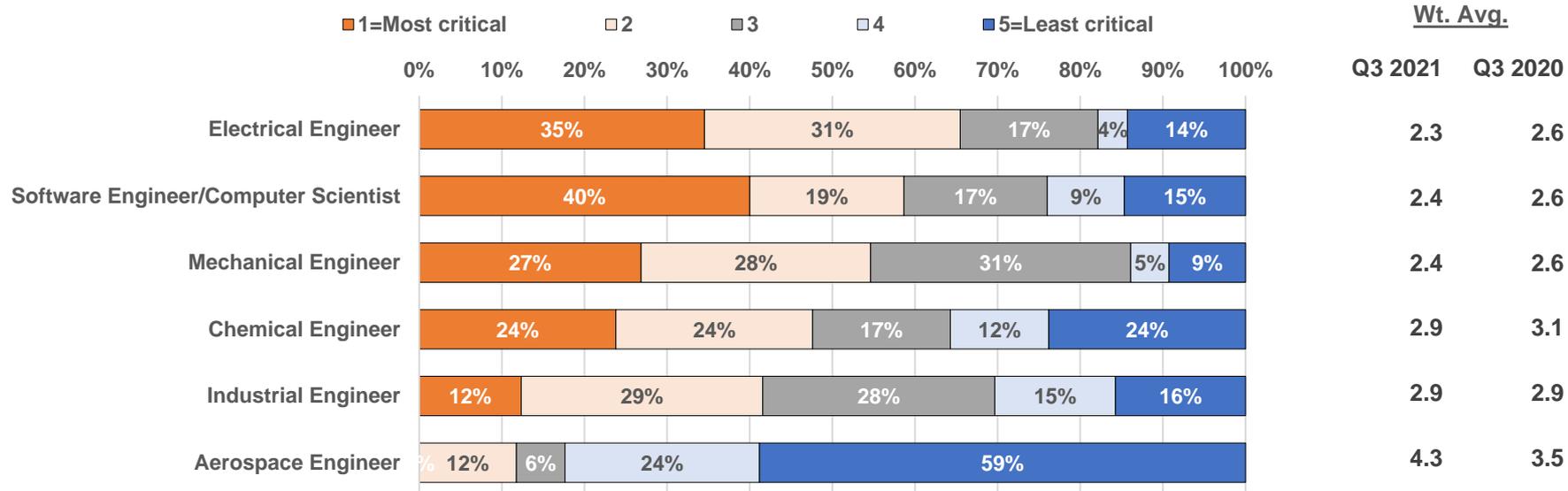
Has your company found it easier to fill open requisitions in states that have discontinued federal unemployment subsidies?



Suppliers have witnessed slightly easier hiring conditions in states that have discontinued federal unemployment subsidies for hourly positions while there is less impact on salary positions.

Employment Issues: Engineer Shortages

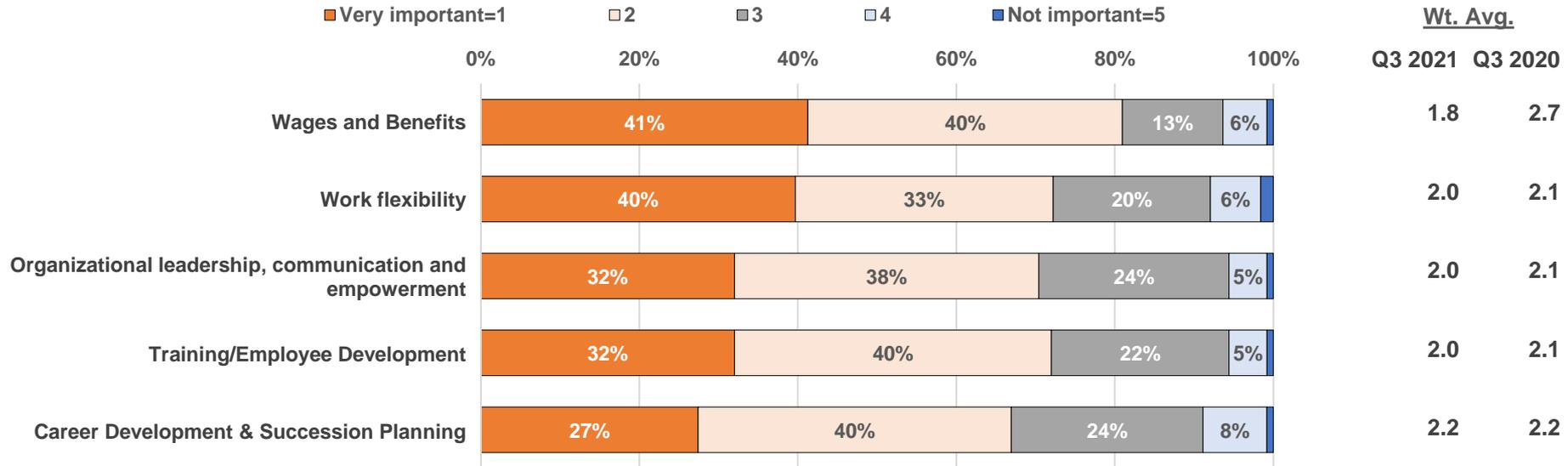
Based on current open requisitions, please rate the type of engineering positions that your organization is having difficulty filling



Electrical, software and mechanical engineers face shortages amid strong demand. Hiring became increasingly difficult in comparison to last year.

Employment Issues: HR Priorities

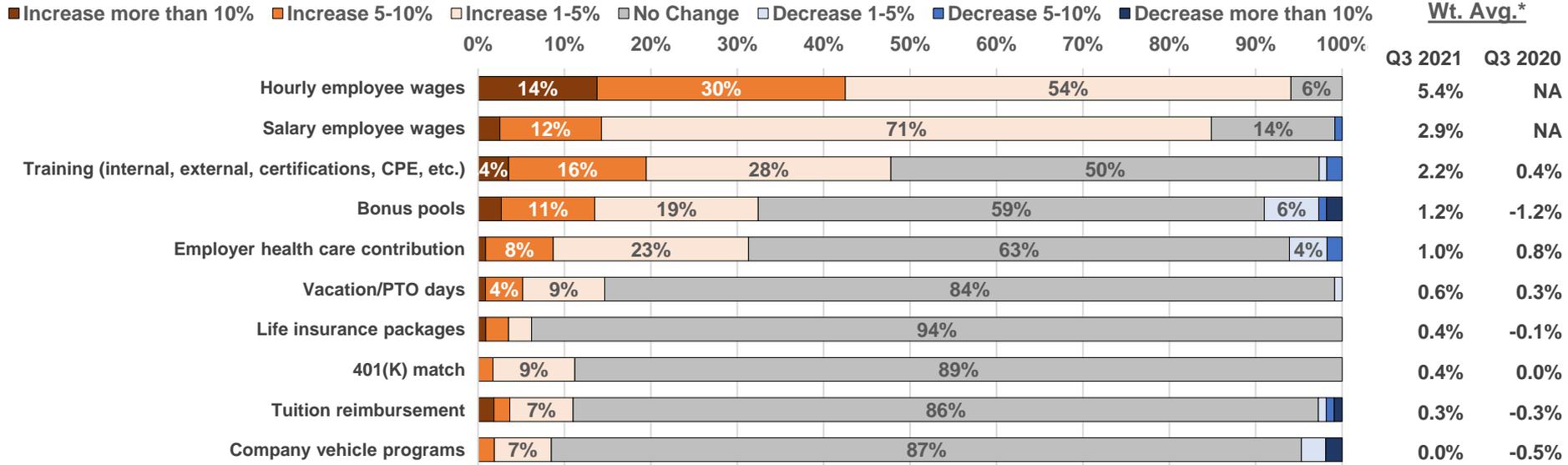
As you plan for 2022, please indicate the level of importance for each of the following priority areas that your organization's HR function will focus on to support business strategies and growth objectives.



Wages and benefits, and work flexibility are the top HR priorities coming out of the pandemic. Aside from Wages and benefits, other categories are in-line with last year's level of prioritization.

Employment Issues: Benefits Package Changes

For next year, in the United States identify how your benefit packages are expected to change compared to this year.

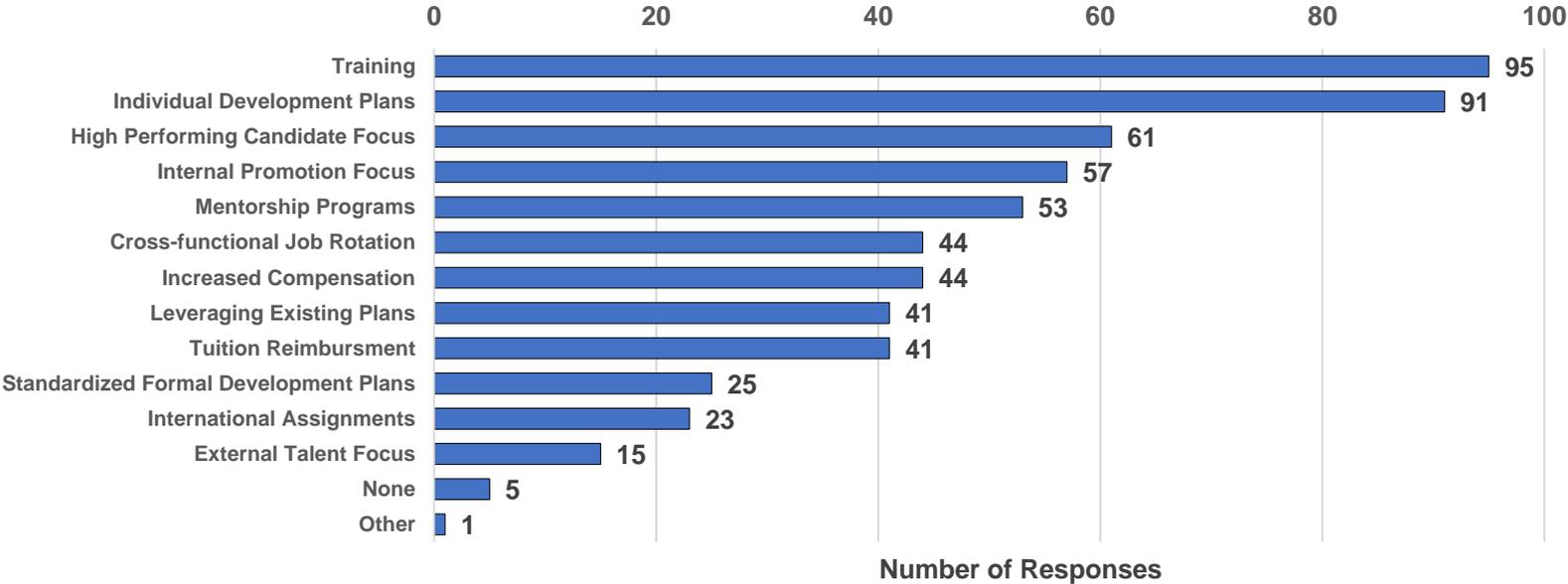


* Calculated as increase/decrease >10% as 12.5%, mid-point of all other ranges

On average, suppliers are budgeting for a 5.4% increase to hourly employee wages next year. Additionally, suppliers expect pricing pressure across all other benefit offerings.

Employment Issues: Career Path and Succession Planning

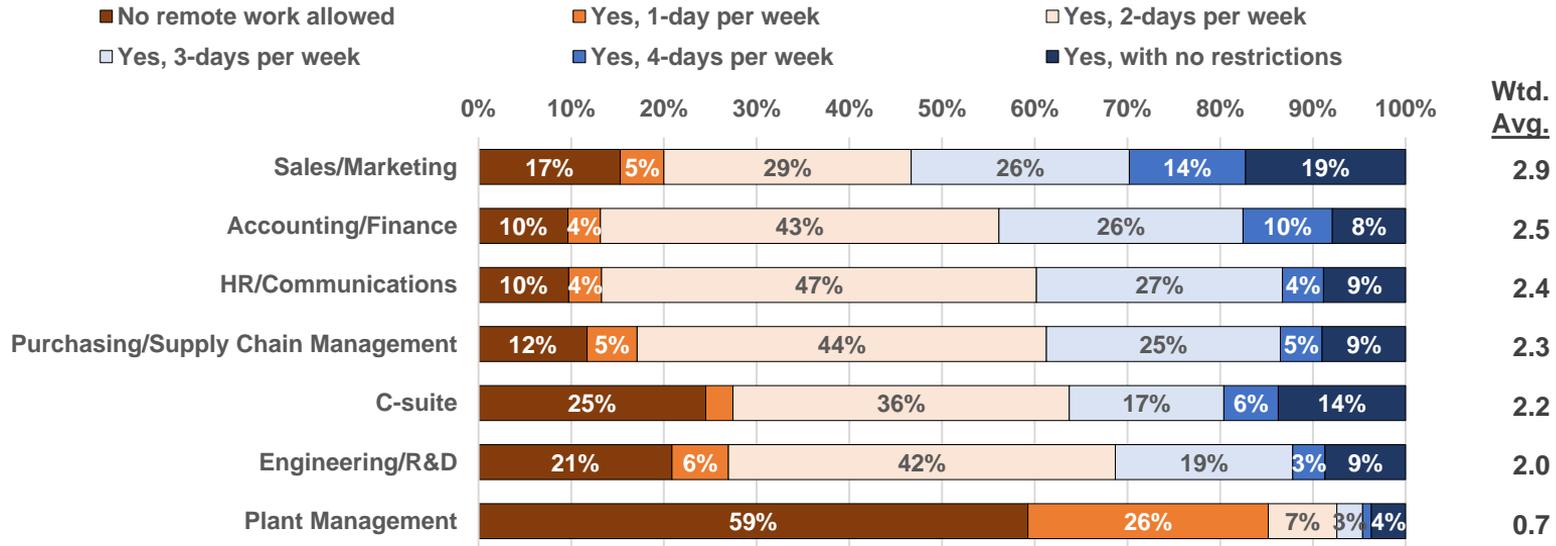
What types of programs have you implemented or are planning to implement for career path and succession planning amongst your workforce?



Key themes for career path and succession planning prioritize developing employees internally through training, mentoring, cross-functional job rotation and individual development plans.

Employment Issues: Remote Work

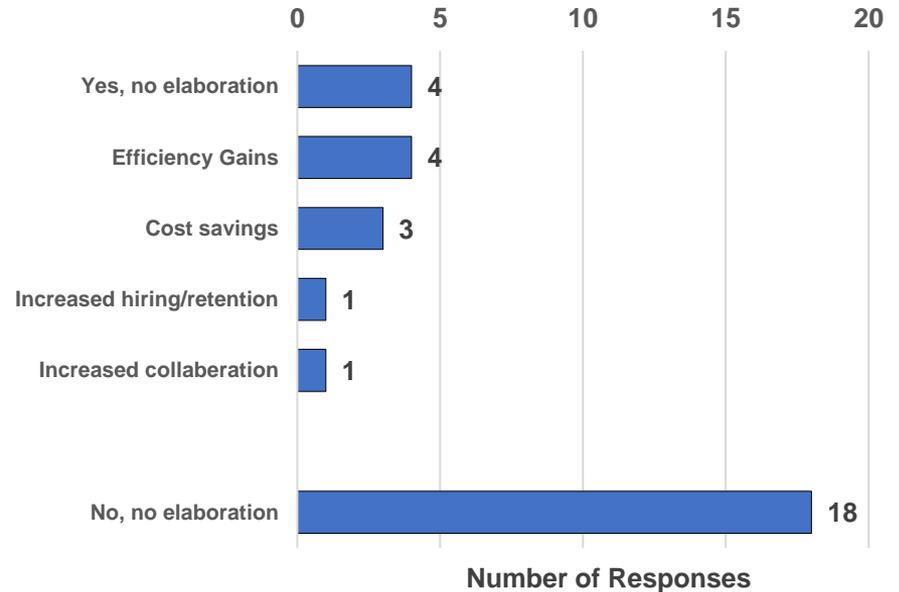
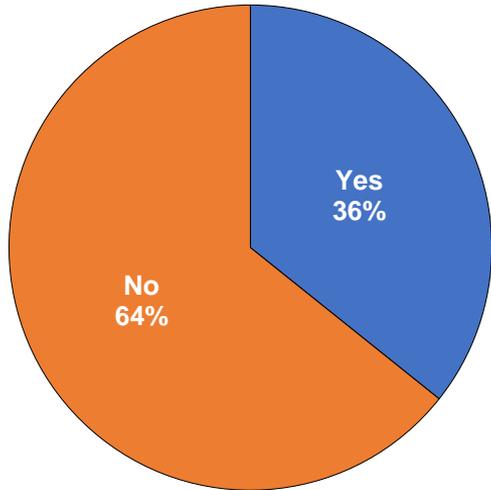
Which of the following skill teams will your company allow to work remotely post pandemic?



Sales and marketing employees will be given the most flexible remote work environment post pandemic. Plant managers and engineers will need to work in-person more than their colleagues.

Employment Issues: Remote Work

Has the remote work environment fostered any new distributed teams or workflows that you see as a net-benefit to your organization?

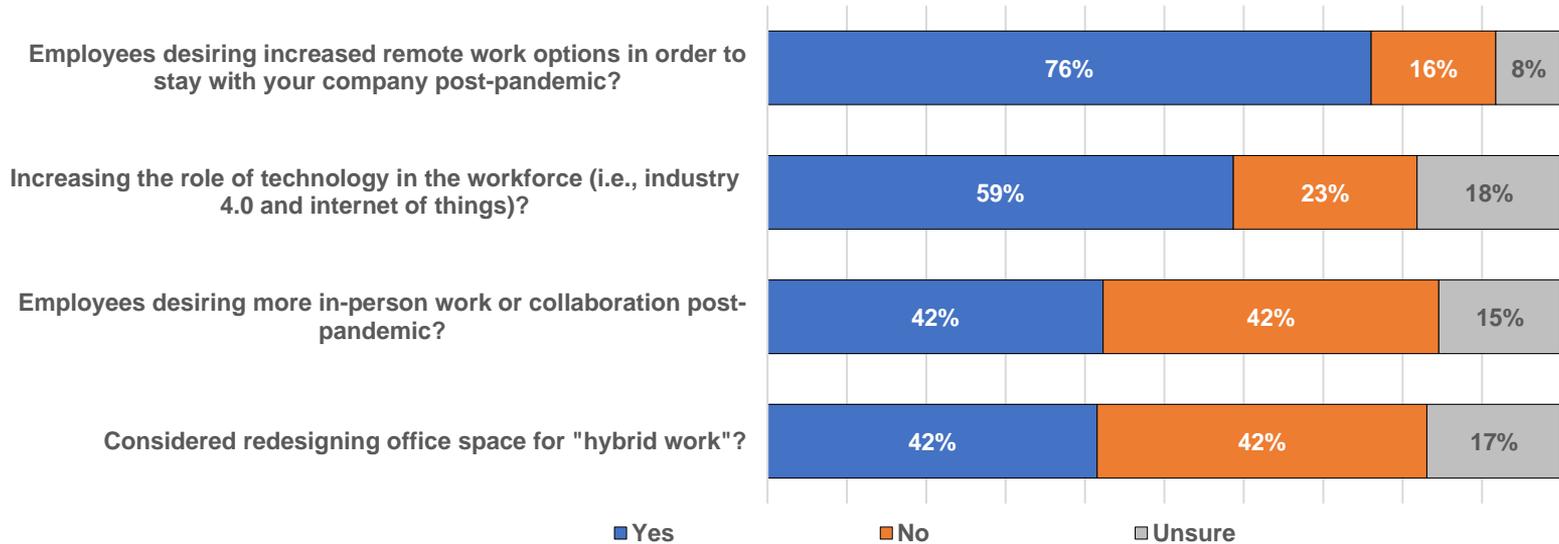


On net, supplier responses indicate no material gains to their organization. Those that indicated a net-benefit pointed to increased efficiency and cost reduction.

Employment Issues: Remote Work

Has your company planned on or witnessed any of the following?

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

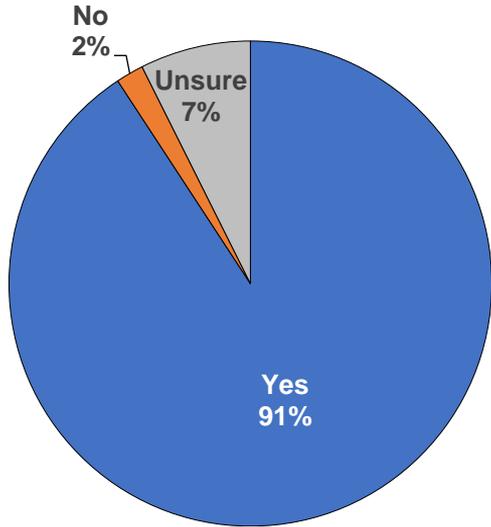


Employees desire increased remote work options in order to stay with their company post-pandemic. Suppliers are responding by planning to increase the role of technology in the workforce.

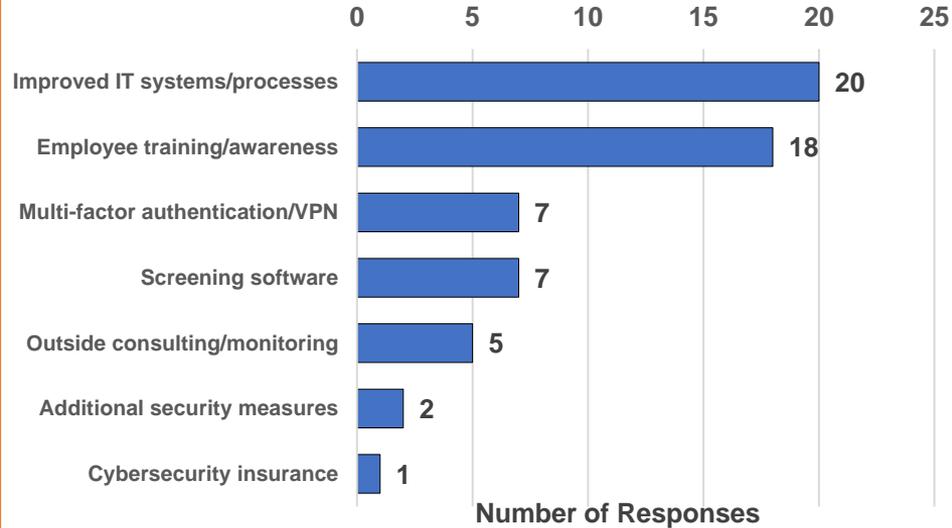
Employment Issues: Cyber-Security

Given the remote work environment and the increasing rate of cyber-attacks...

Has your company taken actions to mitigate the risk of a cyber-attack?



What actions specifically?



Suppliers are well aware of the rising rates of cyber-attacks, and have improved their IT systems and processes while increasing employee training and awareness.

OESA Human Resources Council

OESA Human Resources Council meetings focus on Talent Management, Succession Planning and other topics included in this quarter's barometer.

If you are interested in learning more about the council, please contact:

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Appendix



Join. Engage. Advance.

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.

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Survey Methodology

- Data collected June 29 – July 14 via invitation to online survey.
- Executives of OESA supplier companies.
- 138 complete survey responses were received, with 175 responses total.

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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