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**RSM**

# OESA AUTOMOTIVE SUPPLIER BAROMETER™ Q2 2020

## SUPPLY CHAIN AND GLOBALIZATION

JUNE 2, 2020

# Executive Summary



## Supplier Barometer Index™ (SBI) SBI Score = 15; down from Q1 level of 47

The outlook deteriorated drastically with the spread of the COVID-19 pandemic, dropping 32 points to the lowest level in the history of the series. Deep levels of pessimism are shown across firms of all sizes as they struggle to restart with the announced OEM shut-downs and stay-at-home mandates. Fears of how the pandemic will ultimately impact the economy and vehicle sales are the leading cause of the extraordinarily high levels of pessimism.



Continued issues related to the COVID-19 pandemic was identified as the biggest threat to the industry

Responses overwhelmingly point towards the pandemic as the biggest risk point to the industry itself, but its impact on the overall health of the economy and the vehicle sales of programs supplied is also of great concern.



Research and development outlays are estimated to be delayed by four months on average

Connected manufacturing and autonomous vehicle technologies will be delayed the most, as emphasis shifts to focus on alternative propulsion technologies.



Financially healthy firms are looking to capitalize on the consolidation in the supply base either through business conquest strategies, new product/technology offerings and diversification



Surveyed supplier import/export balance is skewed

As a median value, 10% of current U.S. production is exported outside of the U.S. while 20% of material (on a dollar basis) needed for production is purchased outside of the U.S.

The rate of exports is increasing to Mexico and Asia excluding China.

# Executive Summary



## Localization efforts continue with the passage of USMCA

Suppliers have witnessed a continued effort to localize production from their customers as they attempt to comply with the new standards in place from USMCA.

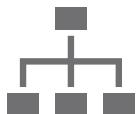
Consequently, suppliers themselves look to localize within their own supply base in order to provide compliance value to their customers.



## Increasing risk with direct suppliers

Sub-tier supplier distress is the top supply chain concern, with responses denoting a significant increase in supplier distress surging +600% within the past 3-months compared to levels over the past year.

The percentage of sub-tier suppliers added to the “watch-list” increased around 25% from last year, with deteriorating financial metrics identified as the root cause.



## Sourcing constraints for powertrain and electrical/electronics systems are identified as the highest risk components



## In a significant shift from last year, suppliers are more concerned with the health and the ability of their suppliers to produce than receiving late engineering and release changes from their customers

Respondents indicate that receiving short shipments and sub-tier supplier distress are not only the most likely scenarios that would disrupt their supply chains but would also have the most severe impact on their business.



## Risks associated with meeting customer production requirements include

Input shortages and sub-tier financial distress in the supply chain

Internal production risks due to labor issues and the health and safety of employees amidst the pandemic



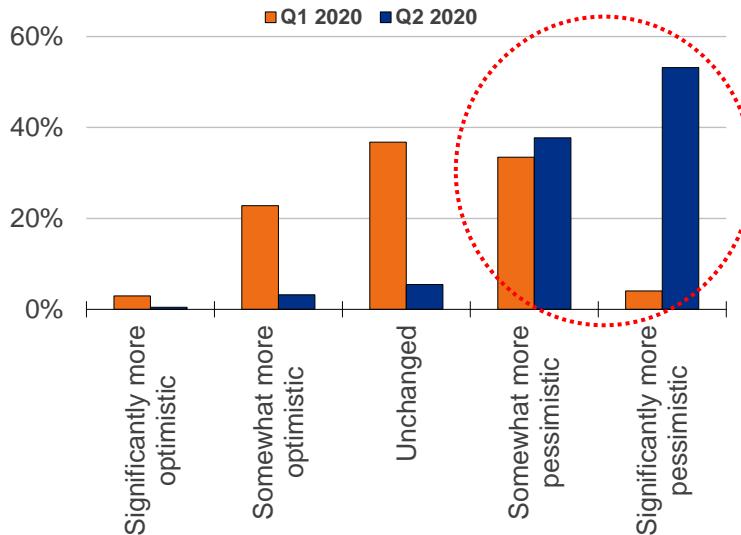
## On average, 13% of company suppliers are directed buy as required by customers, down from 17% last year

# SUPPLIER OUTLOOK

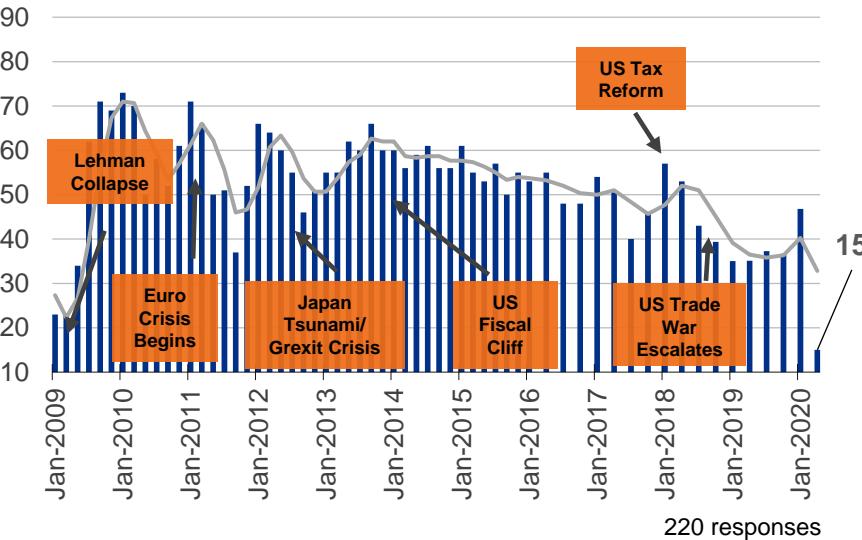
# OESA Supplier Barometer: Q2 2020 Results

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

Current Supplier Outlook (Share of Respondents)

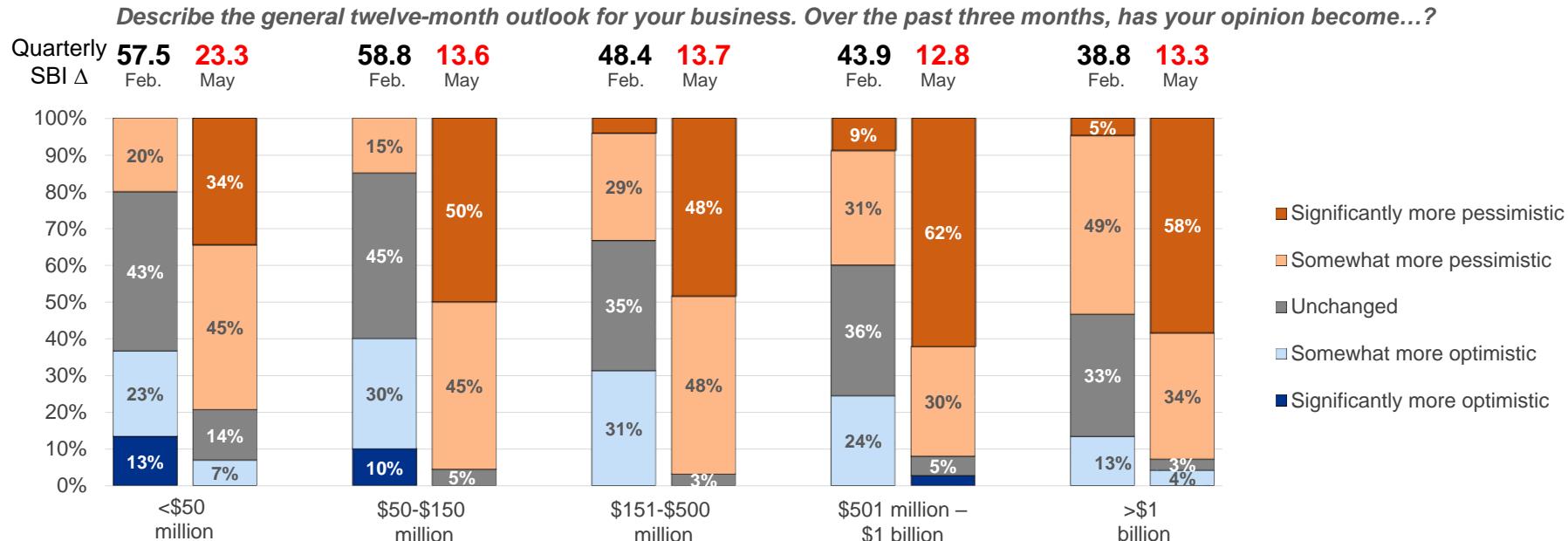


Supplier Barometer Index: (SBI and 6m Average)



The rapid onset and impact of the COVID-19 pandemic caused the Supplier Barometer Index to fall 32 points from the first quarter to its lowest level ever of 15.

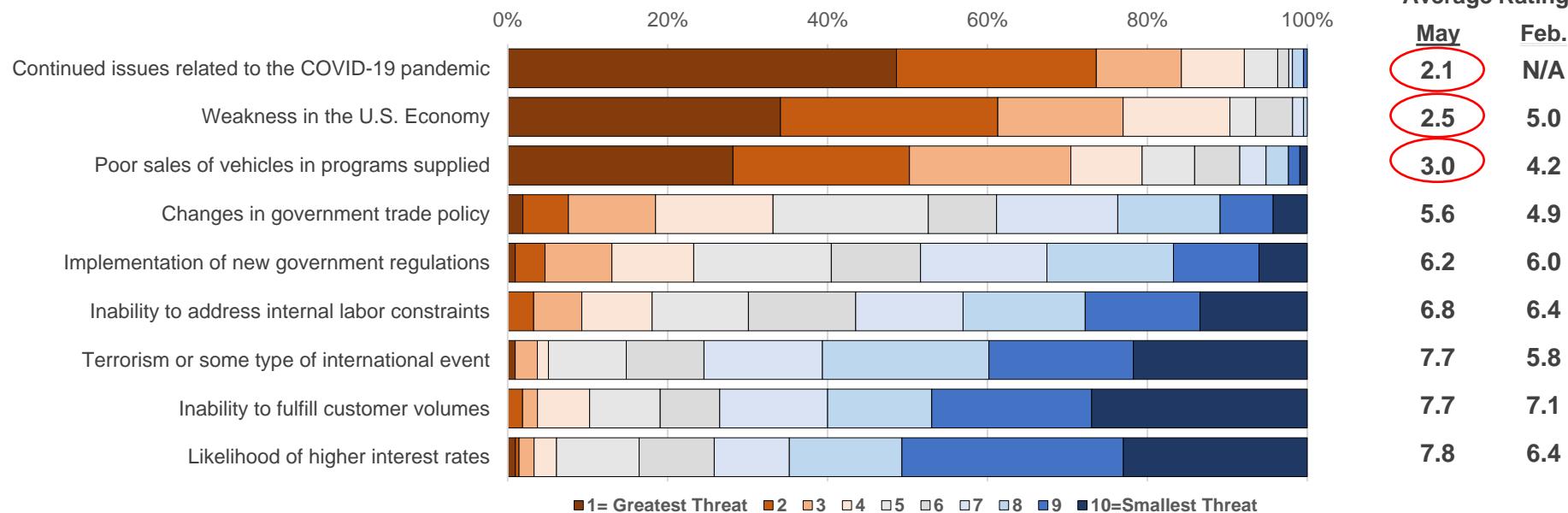
# OESA Supplier Barometer: Q2 2020 Results By Revenue



Regardless of revenue size, responses reflect a severe level of pessimism.  
The smallest firms are the least pessimistic but only to a minor degree.

# OESA Supplier Barometer: Industry Threats

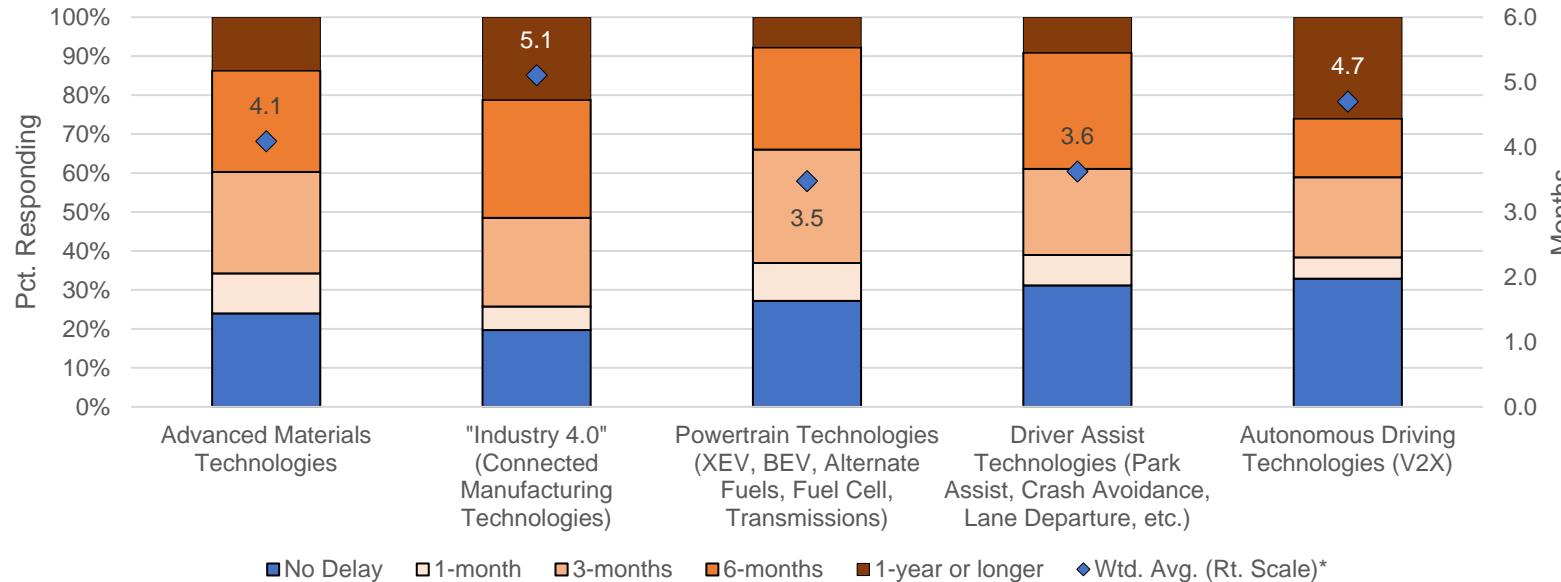
*What are the greatest threats to the industry over the next 12 months?*



The pandemic is unsurprisingly the greatest threat to the industry, but its effect on the U.S. economy and ultimately the sales of vehicles to which our members supply is also profound.

# OESA Supplier Barometer: R&D Investment Delays

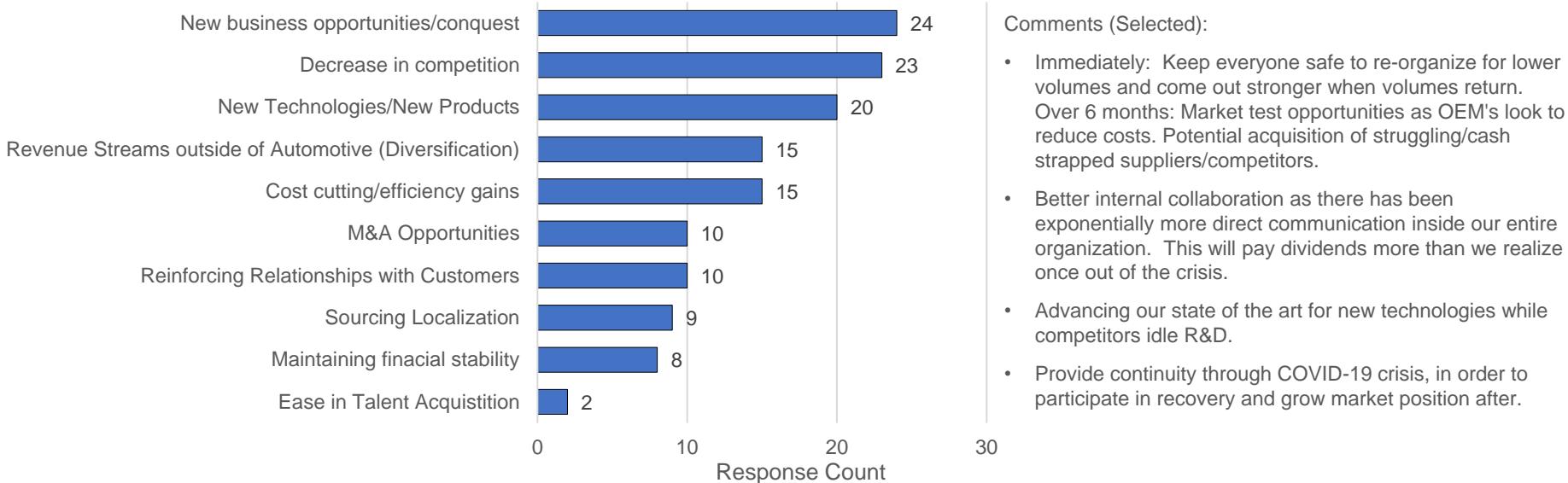
For your budgeted 2020 R&D plan, please indicate the estimated delay associated with R&D investments for the following system areas



The COVID-19 pandemic has delayed R&D investments by just over 4 months, with connected manufacturing and autonomous vehicle technologies being delayed the most.

# OESA Supplier Barometer: Current Opportunities

*Based on the current business environment, what do you believe your biggest opportunities are at the moment?*

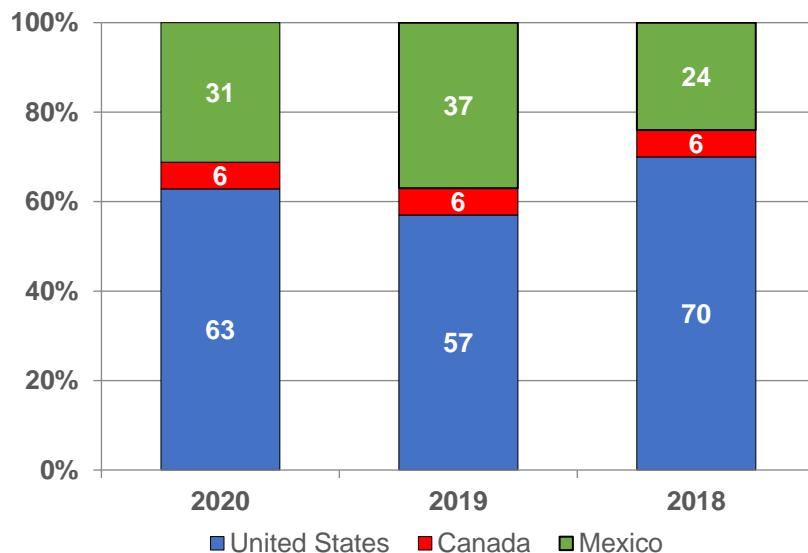


Suppliers are looking to gain market share through business conquest initiatives, M&A, or leveraging new technological development. Responses also show high levels of diversification efforts.

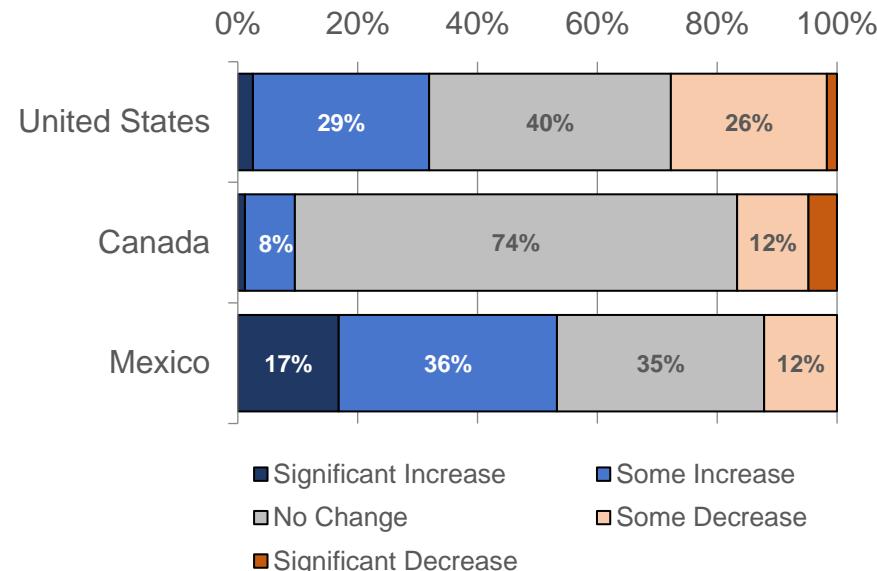
# GLOBALIZATION

# North American Production

For your products produced in North America, identify the percent manufactured in each of the following countries



How do you expect that these percentages will change over the next 5 years?



# Localization Efforts

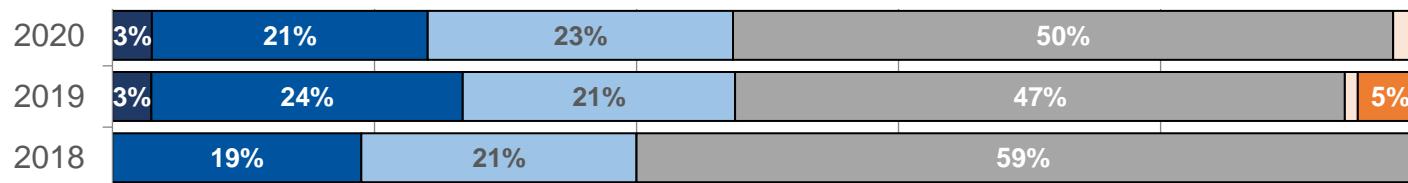
*Over the past year, what level of manufacturing localization activity/effort did you...*

0% 20% 40% 60% 80% 100%

*... see from your customers?*



*... pursue with your suppliers?*

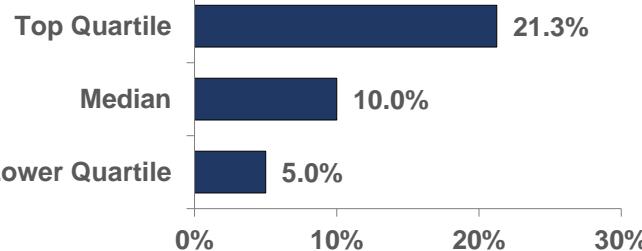


■ Extensive Increase   ■ Moderate Increase   ■ Minimal Increase   ■ No Change  
□ Minimal Decrease   ■ Moderate Decrease   ■ Extensive Decrease

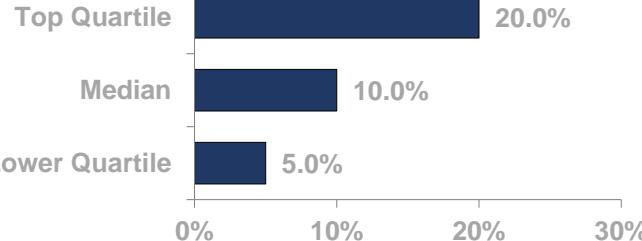
# U.S. Exports

Estimate the percent of your current U.S. production that is exported outside of the United States.

2020



2019



What is the estimated split of these exports (in percent) to each of the following regions?

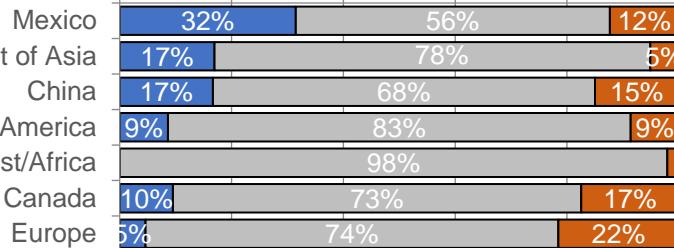
| 2020            | Lower Quartile | Median | Upper Quartile | Number of respondent companies exporting to each region |
|-----------------|----------------|--------|----------------|---|
| Canada          | 0%             | 5%     | 16%            | 54  |
| Mexico          | 2%             | 20%    | 46%            | 61  |
| Europe          | 1%             | 8%     | 20%            | 54  |
| China           | 0%             | 5%     | 15%            | 46  |
| Rest of Asia    | 0%             | 0%     | 5%             | 28  |
| S. America      | 0%             | 0%     | 5%             | 31  |
| Mid-East/Africa | 0%             | 0%     | 1%             | 16  |

| 2019            | Lower Quartile | Median | Upper Quartile | Number of respondent companies exporting to each region |
|-----------------|----------------|--------|----------------|---|
| Canada          | 5%             | 10%    | 20%            | 56  |
| Mexico          | 5%             | 20%    | 50%            | 66  |
| Europe          | 5%             | 10%    | 20%            | 47  |
| China           | 4%             | 8%     | 20%            | 46  |
| Rest of Asia    | 5%             | 5%     | 10%            | 24  |
| S. America      | 1%             | 4%     | 7%             | 20  |
| Mid-East/Africa | 1%             | 5%     | 8%             | 5   |

# U.S. Exports

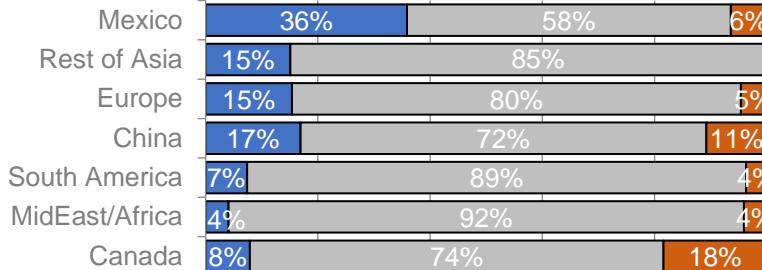
**For each region, please describe the direction of your export plan over the next 5 years.**

**2020** 0% 20% 40% 60% 80% 100%



■ Increasing ■ No Change ■ Decreasing

**2019**

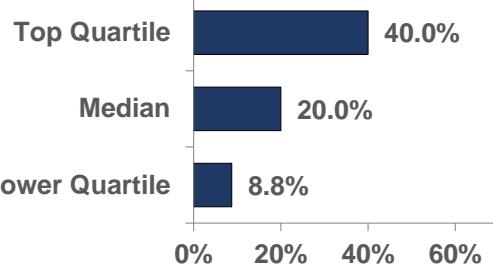


|                  | <b>What major factors drive this regional export plan?</b>   |
|------------------|--|
| Canada           | <ul style="list-style-type: none"> <li>• New business awarded (6)</li> <li>• Economy</li> </ul>  |
| Mexico           | <ul style="list-style-type: none"> <li>• New business awarded (4)</li> <li>• Ramping up local capacity to fill the higher demand</li> <li>• Labor Rates</li> <li>• Moving work to our Mexican facility</li> <li>• Our Tier 1 customers moving production from US to Mexico</li> <li>• Desire to maximize localization efforts</li> </ul> |
| Europe           | <ul style="list-style-type: none"> <li>• Localizing more production in Europe</li> <li>• Improved global alignment.</li> <li>• Purely capacity / business case driven</li> <li>• Honda closure in UK</li> <li>• Weakness of the Euro currency</li> </ul>   |
| China            | <ul style="list-style-type: none"> <li>• Technology</li> <li>• OEM sourcing China Tier 1's</li> <li>• Improved global alignment.</li> </ul>  |
| Rest of Asia     | <ul style="list-style-type: none"> <li>• No comments provided</li> </ul>   |
| S. America       | <ul style="list-style-type: none"> <li>• New business (2)</li> </ul>   |
| Mid-East/ Africa | <ul style="list-style-type: none"> <li>• No comments provided</li> </ul>   |

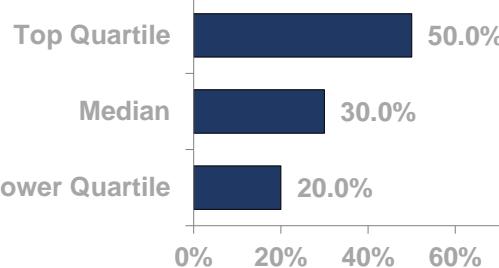
# U.S. Imports

*Estimate the percent of your current material costs for U.S. production (by dollar value) that is purchased outside of the United States.*

2020



2019



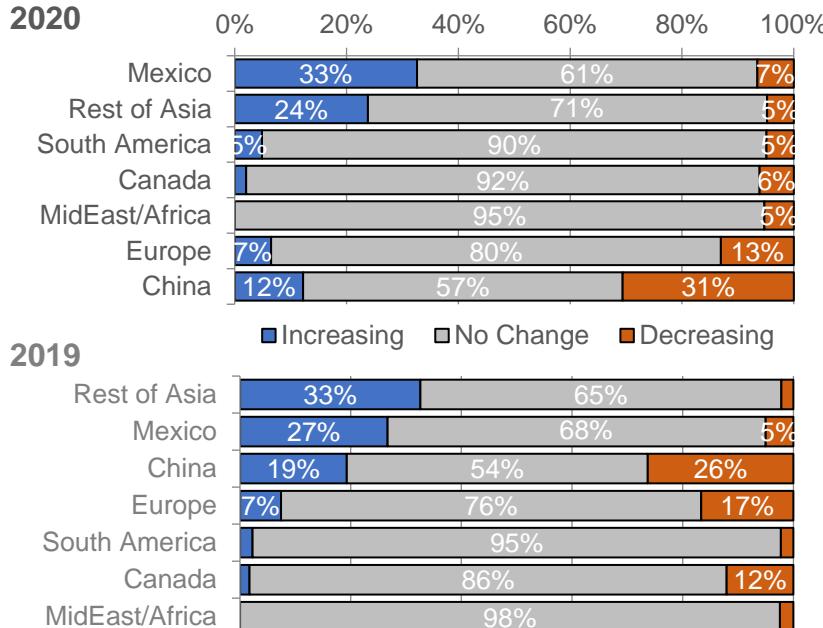
*What is the regional split of your total (by dollar value) of materials/components purchased for U.S. production?*

| 2020            | Lower Quartile | Median | Upper Quartile | Number of respondent companies exporting to each region |
|-----------------|----------------|--------|----------------|---|
| Canada          | 0%             | 5%     | 10%            | 39  |
| Mexico          | 2%             | 15%    | 30%            | 46  |
| Europe          | 0%             | 10%    | 20%            | 40  |
| China           | 5%             | 18%    | 31%            | 54  |
| Rest of Asia    | 0%             | 5%     | 18%            | 36  |
| S. America      | 0%             | 0%     | 0%             | 8   |
| Mid-East/Africa | 0%             | 0%     | 0%             | 2   |

| 2019            | Lower Quartile | Median | Upper Quartile | Number of respondent companies exporting to each region |
|-----------------|----------------|--------|----------------|---|
| Canada          | 5%             | 10%    | 25%            | 33  |
| Mexico          | 10%            | 25%    | 40%            | 33  |
| Europe          | 5%             | 7%     | 20%            | 35  |
| Asia            | 14%            | 35%    | 60%            | 48  |
| S. America      | 9%             | 10%    | 15%            | 4   |
| Mid-East/Africa | 13%            | 23%    | 44%            | 4   |

# U.S. Imports

*For each region, please describe the direction of your purchase plan over the next 5 years.*

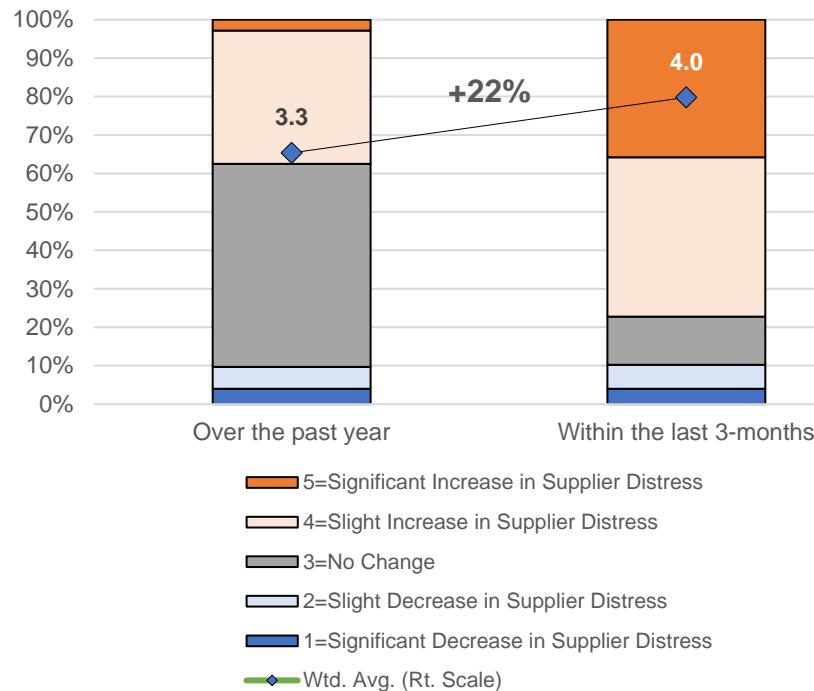


|                 | What major factors drive this regional import plan?   |
|-----------------|---|
| Canada          | <ul style="list-style-type: none"> <li>Existing footprint and cost structure as well as expertise</li> </ul>  |
| Mexico          | <ul style="list-style-type: none"> <li>Price</li> <li>Improved quality at Mexico supply base</li> <li>Desire to maximize localization efforts</li> </ul>  |
| Europe          | <ul style="list-style-type: none"> <li>USMCA</li> </ul>   |
| China           | <ul style="list-style-type: none"> <li>USMCA</li> <li>Price</li> <li>Tariff impact</li> <li>Tariffs on China components will force component relocation to other countries.</li> <li>Desire to maximize localization efforts</li> </ul> |
| Rest of Asia    | <ul style="list-style-type: none"> <li>Improved global sourcing plan</li> <li>Desire to move from China to stable lower cost structure countries.</li> </ul>  |
| S. America      | <ul style="list-style-type: none"> <li>No comments provided</li> </ul>  |
| Mid-East/Africa | <ul style="list-style-type: none"> <li>No comments provided</li> </ul>  |

# SUPPLY CHAIN

# Sub-tier Supplier Distress

*Over the following periods, have you witnessed an increase in distress within your supply base?*

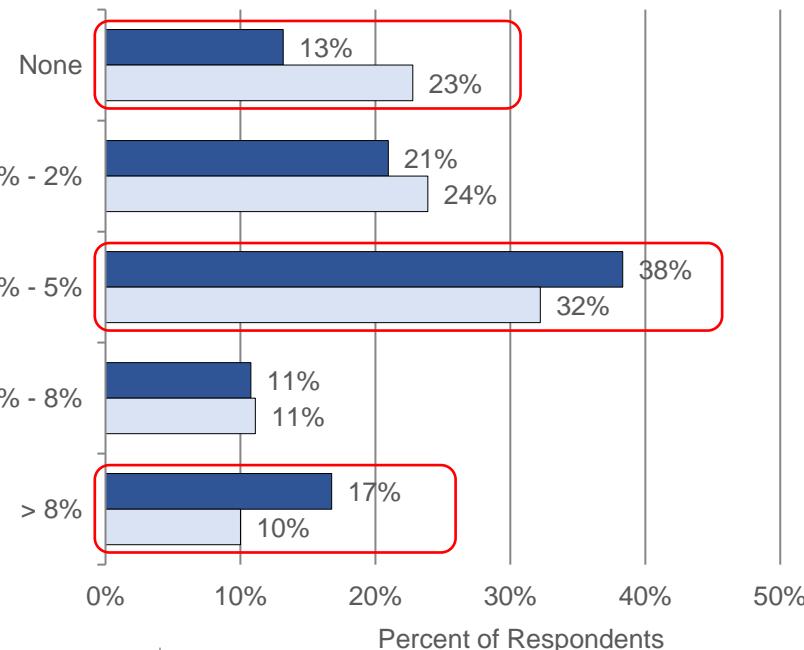


## Comments:

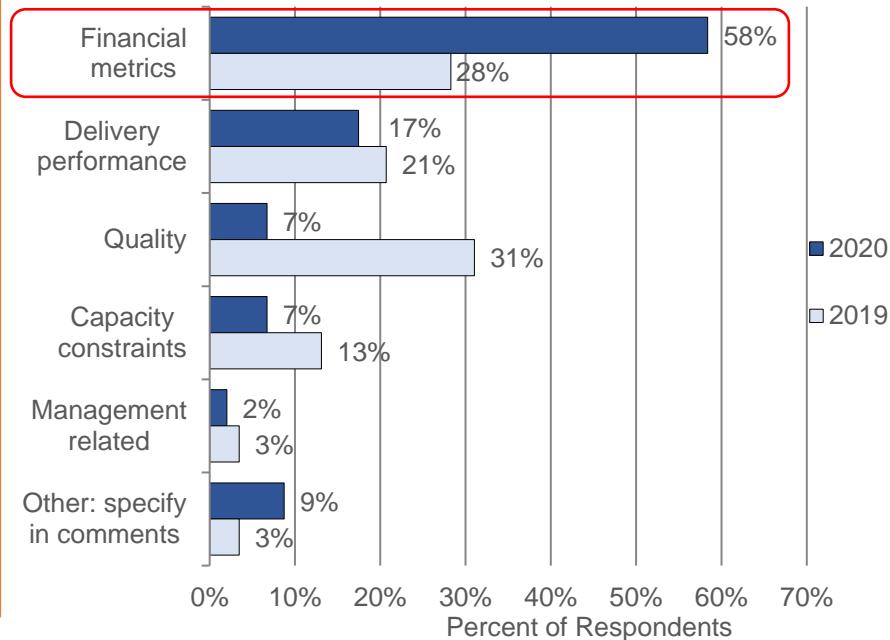
- COVID-19 Related (17)
- The worse is ahead of us with the supply base
- Everyone has some level of distress with the complete shutdown of most industries for the past 6 weeks.
- Only one concern- The [supplier] plant in Seneca South Carolina hit by a tornado. One of our big shipping locations.
- No financial distress detected outside of tighter cash flow attention and some extended shutdowns to date. Distress expected to increase. Likely push for reduced payment terms.
- Suppliers with a focus on the wrong platforms are struggling. we have no serious supplier issues that we have found at this time.
- Many suppliers were already under significant cost pressures from OEM's. OEM's needed to maximize profits in order to fund R&D for future transportation technologies.
- Not sure we will see the stress until after everyone comes back and cash is extremely tight - many suppliers will need more cash to cover day to day. Credit lines are used up to cover downtime costs
- global deceleration, and potential supply constraint.
- more recent concerns due to halted automaker plants and financial strain on suppliers
- Many suppliers on watch list
- Many suppliers are supported in part by the Chinese auto industry
- Cash flow and profitability have created great risks down and throughout the supply chain
- Cash is king...suppliers are stressed with no volume.
- Smaller companies going out of business
- As production ramps up in NA, the at-risk suppliers will become more apparent.

# Direct Supplier Risk

*What percent of your North American direct material suppliers are currently on your “watch list?”*

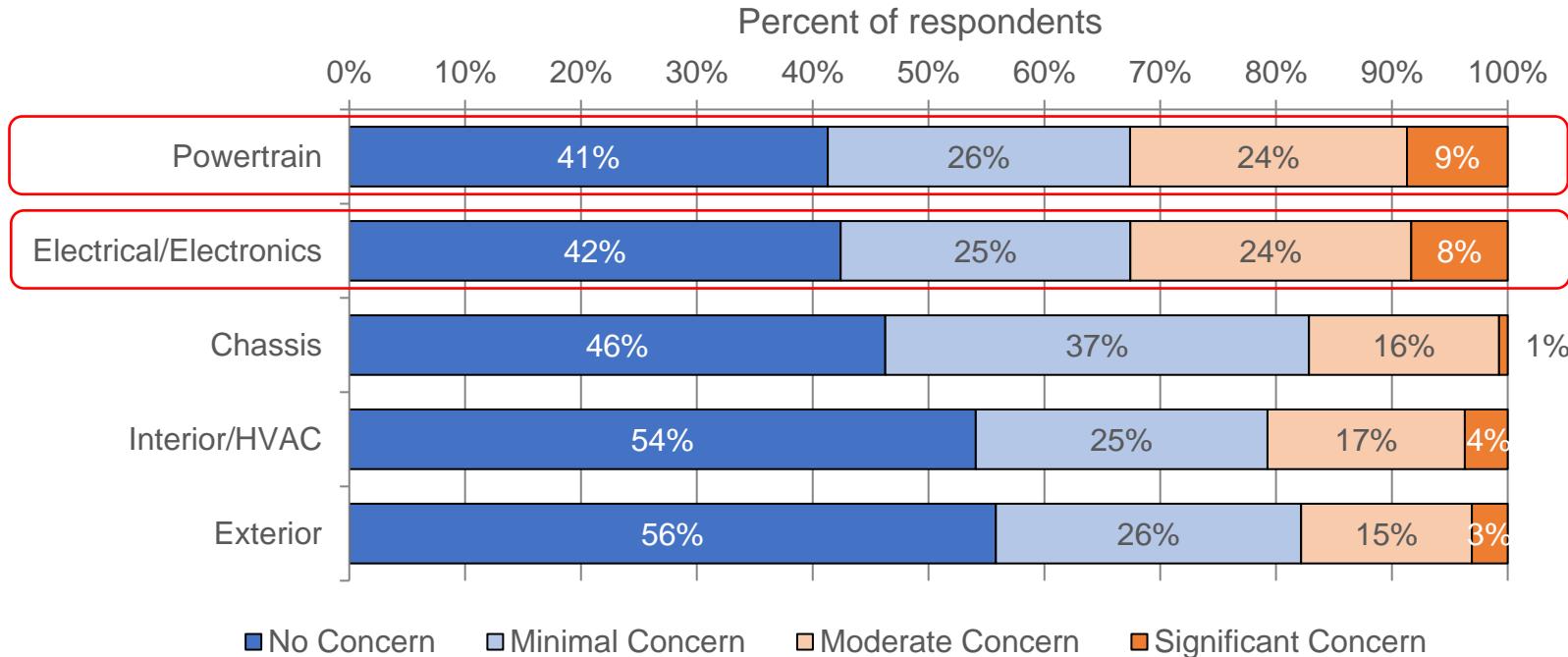


*What is the primary reason companies are being added to or continuing on the supplier “watch list?”*



# Sourcing Constraints

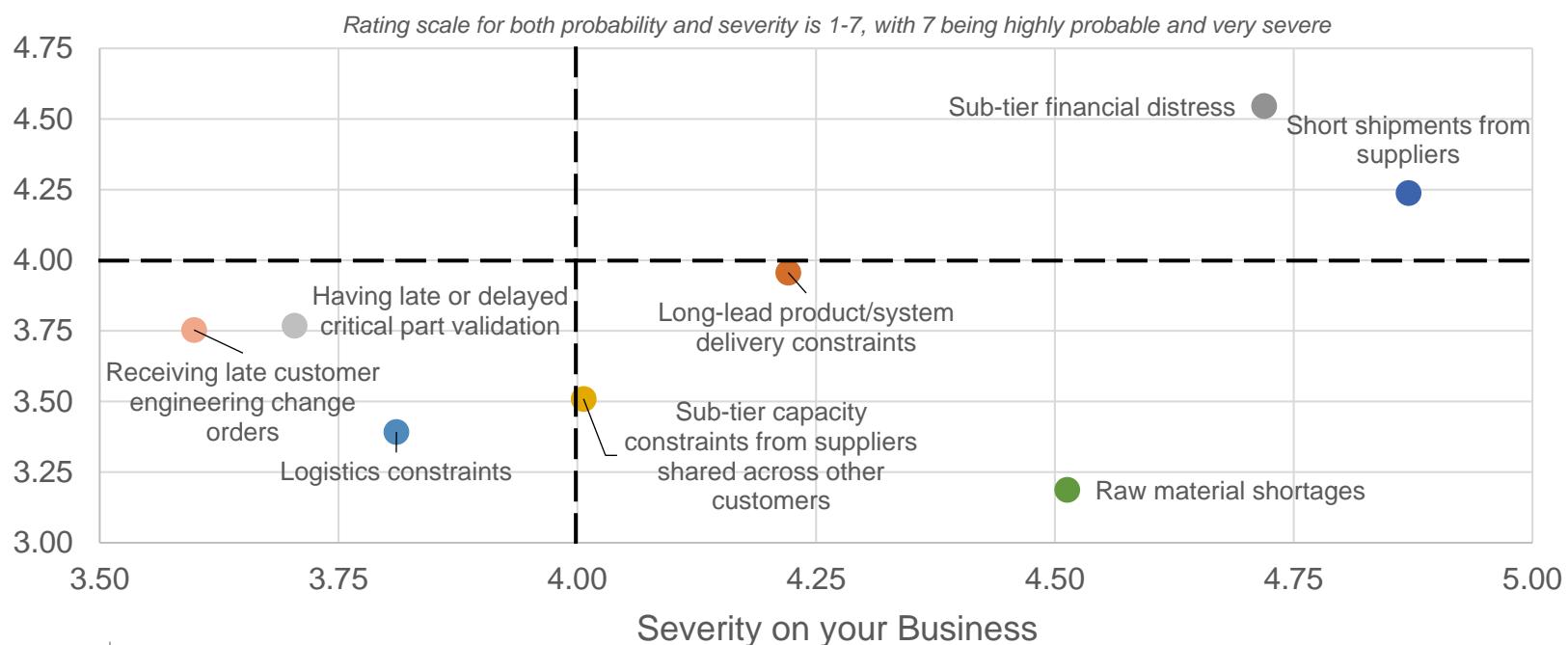
*For each of the following system areas, select your level of concern in having future sourcing constraints*



# Supplier Concern Scenarios

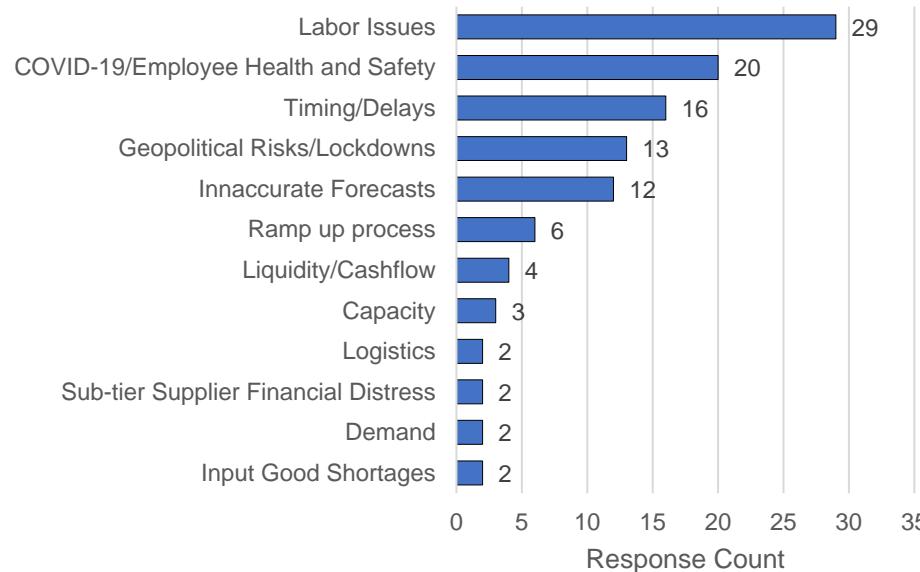
*Within your supply chain, over the next 12 months, rate the likelihood of occurrence and the severity that each of the following possible scenarios would have on your business.*

Probability of Occurrence

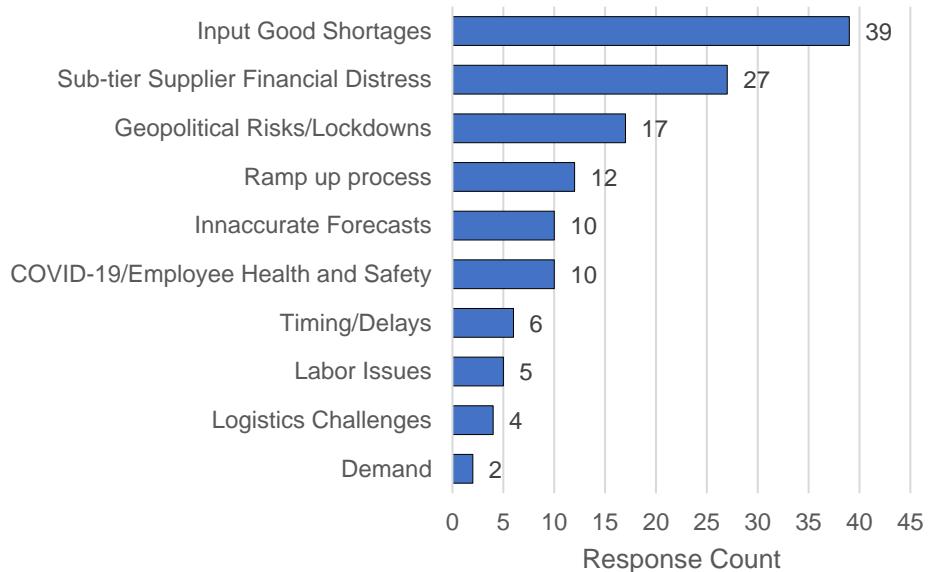


# Production Risk

***What is your greatest internal risk in meeting customer production requirements?***

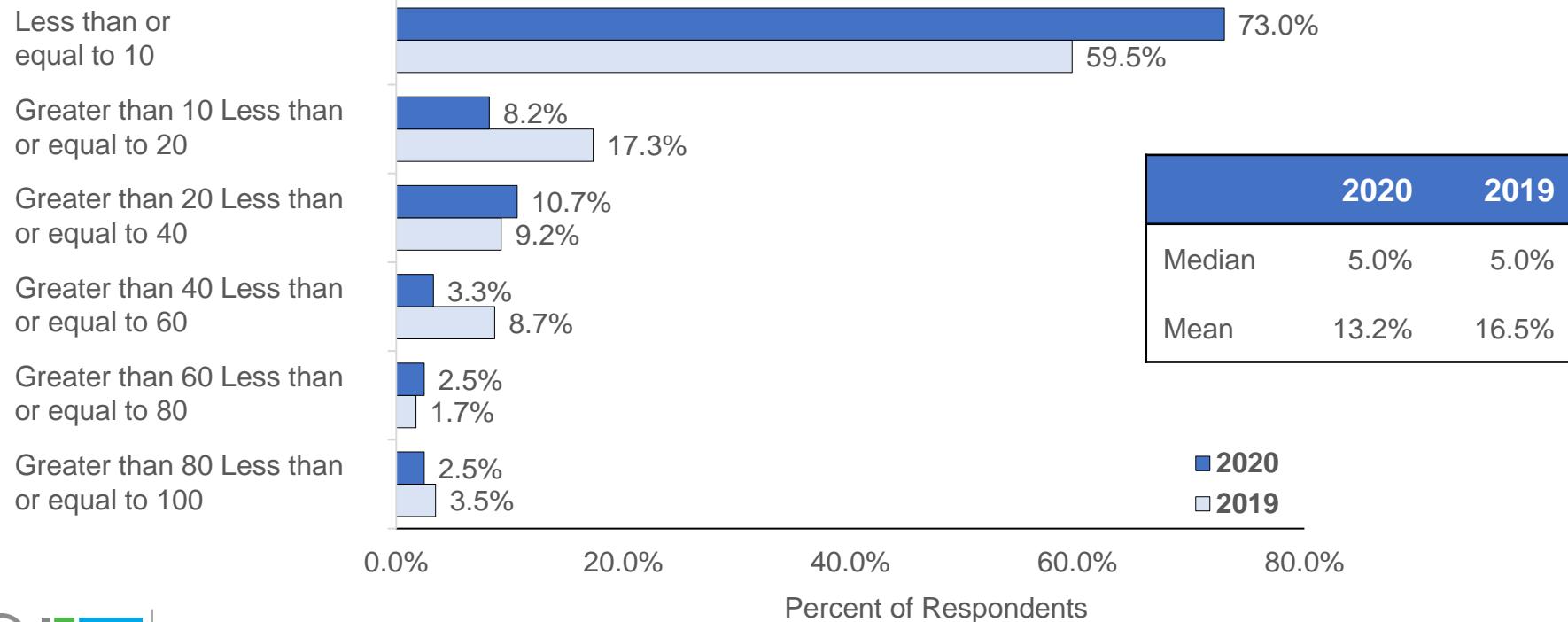


***What is your greatest supply chain risk in meeting customer production requirements?***



# Directed Buy

*What percent of your suppliers are customer required directed buy arrangements?*



# Appendix



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## Survey Methodology

- Data collected Apr. 27 – May 8 via invitation to online survey.
- Executives of OESA supplier companies.
- 156 complete survey responses were received, with 220 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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