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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



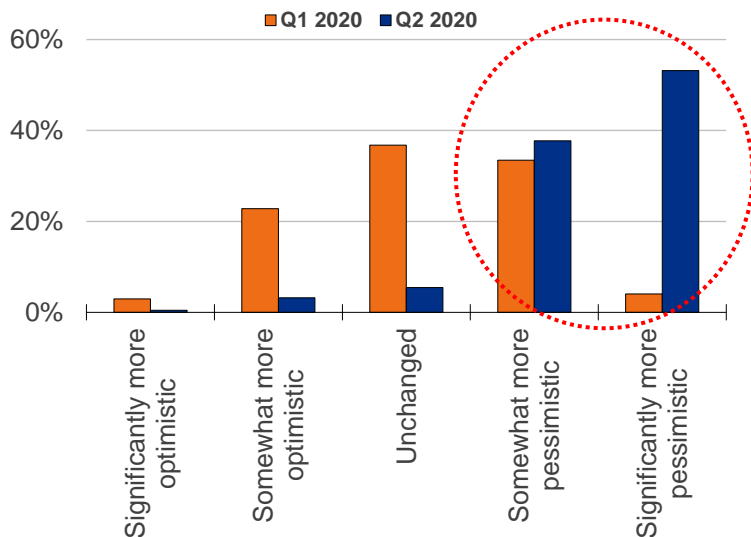
On average, 13% of company suppliers are directed buy as required by customers, down from 17% last year

SUPPLIER OUTLOOK

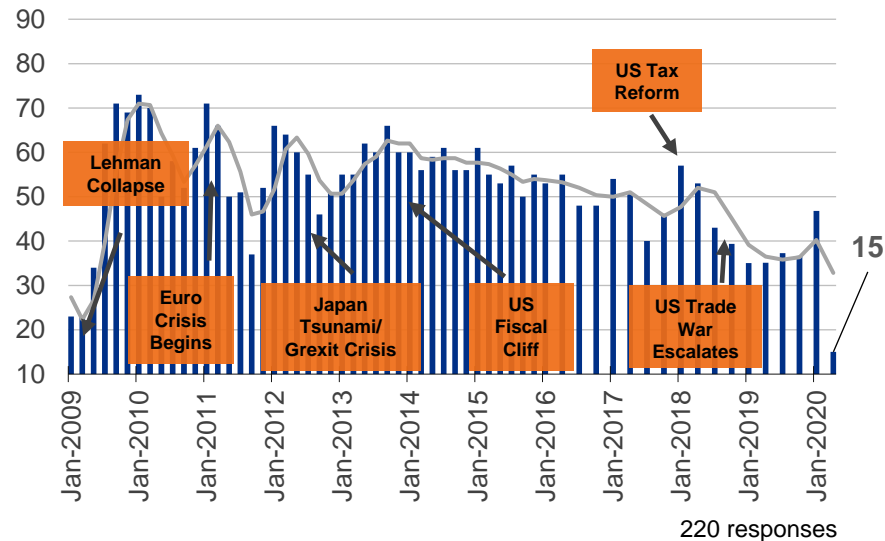
OESA Supplier Barometer: Q2 2020 Results

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

Current Supplier Outlook (Share of Respondents)



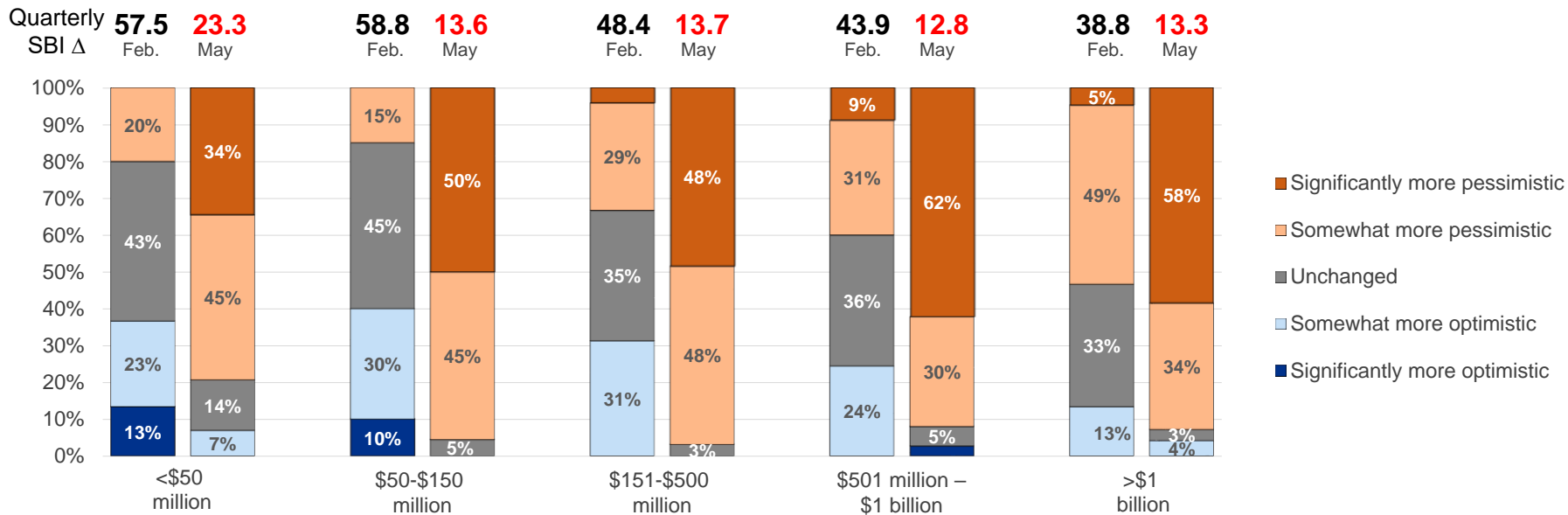
Supplier Barometer Index: (SBI and 6m Average)



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

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



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?

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

Average Rating

May Feb.

2.1 N/A

2.5 5.0

3.0 4.2

5.6 4.9

6.2 6.0

6.8 6.4

7.7 5.8

7.7 7.1

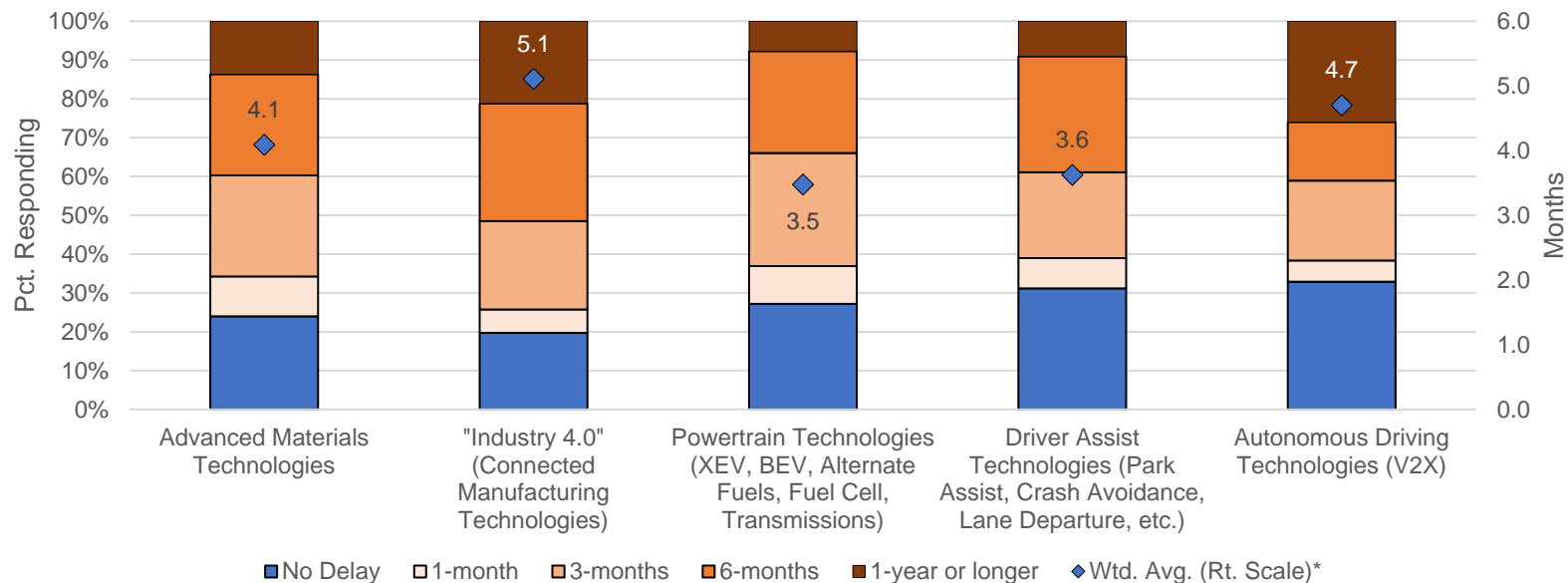
7.8 6.4

1= Greatest Threat 2 3 4 5 6 7 8 9 10=Smallest Threat

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

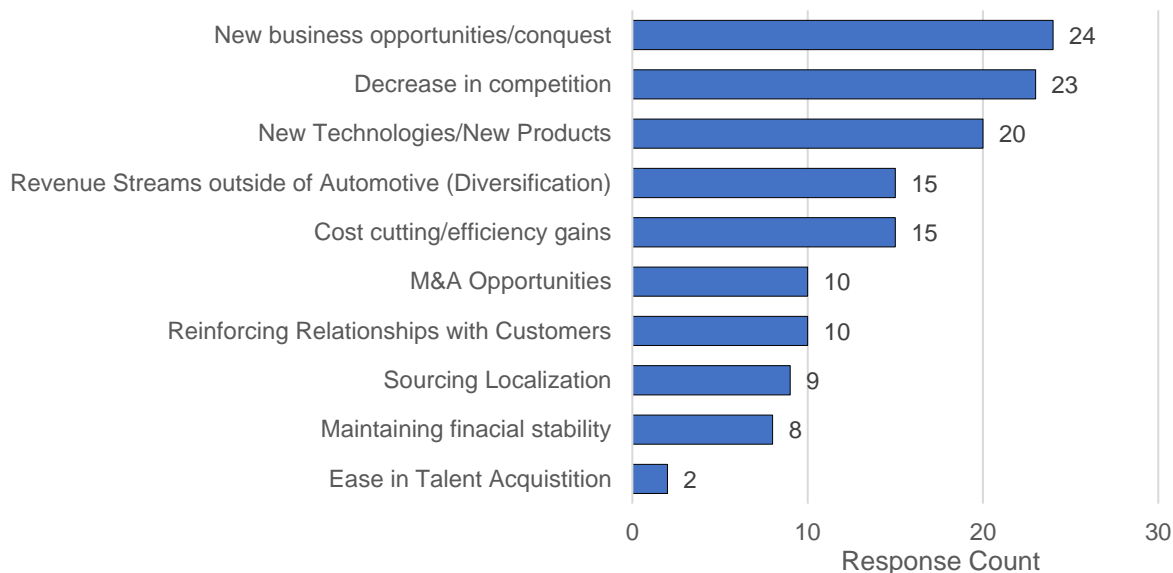
For your budgeted 2020 R&D plan, please indicate the estimated delay associated with R&D investments for the following system areas



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?



Comments (Selected):

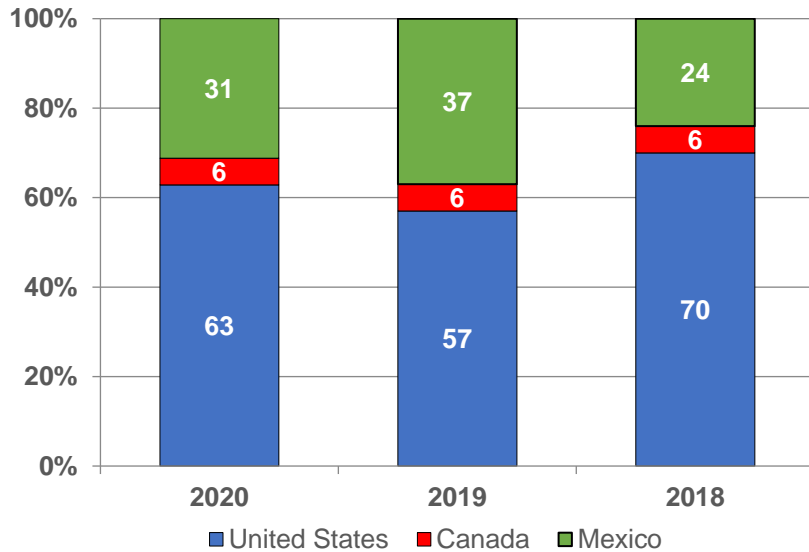
- Immediately: Keep everyone safe to re-organize for lower volumes and come out stronger when volumes return. Over 6 months: Market test opportunities as OEM's look to reduce costs. Potential acquisition of struggling/cash strapped suppliers/competitors.
- Better internal collaboration as there has been exponentially more direct communication inside our entire organization. This will pay dividends more than we realize once out of the crisis.
- Advancing our state of the art for new technologies while competitors idle R&D.
- Provide continuity through COVID-19 crisis, in order to participate in recovery and grow market position after.

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.

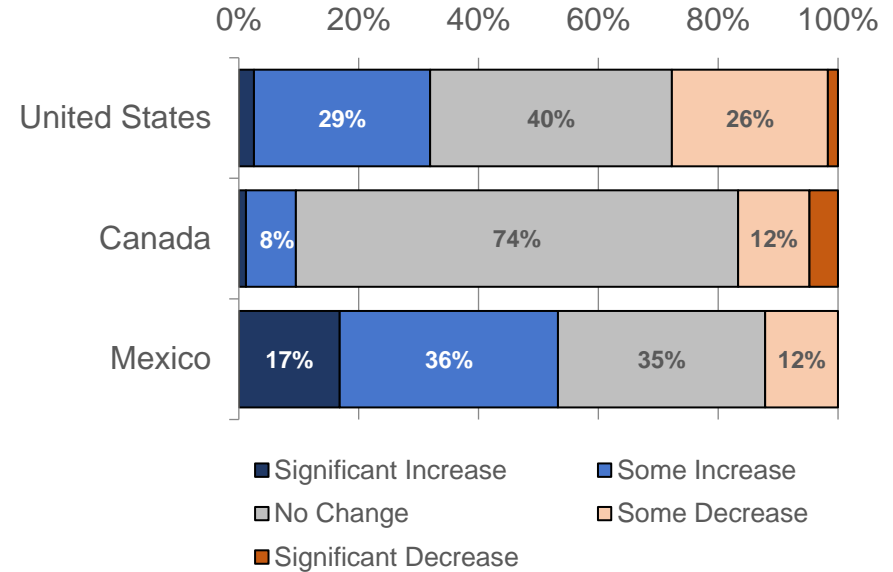
GLOBALIZATION

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?

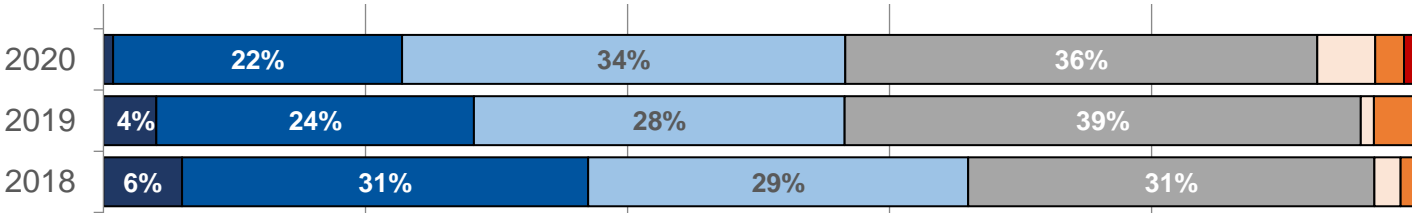


Localization Efforts

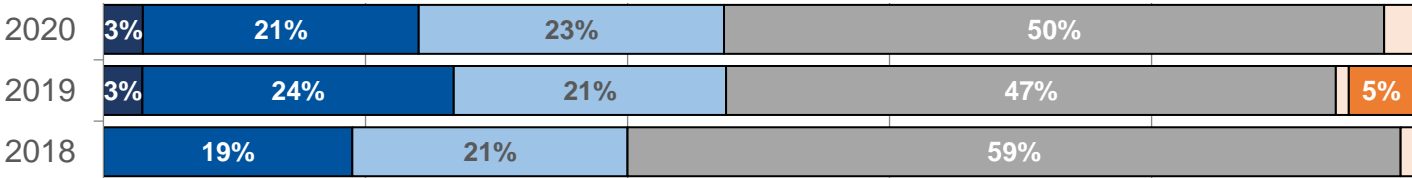
Over the past year, what level of manufacturing localization activity/effort did you...

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

... see from your customers?



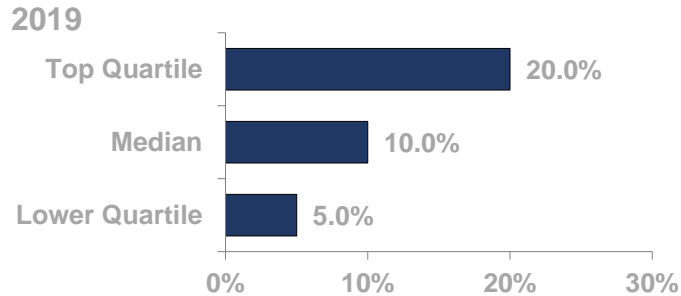
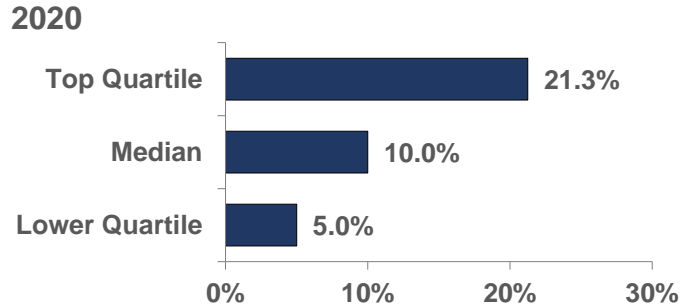
... pursue with your suppliers?



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.



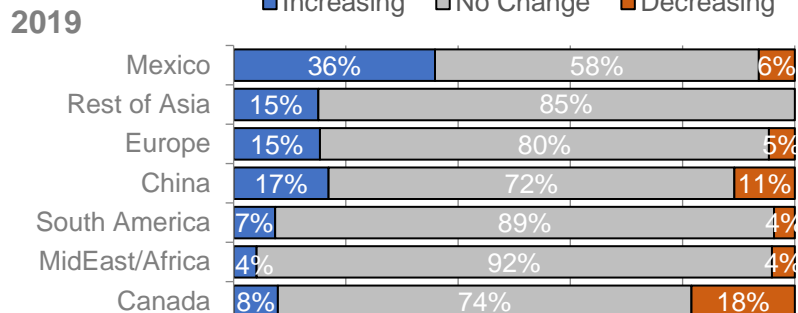
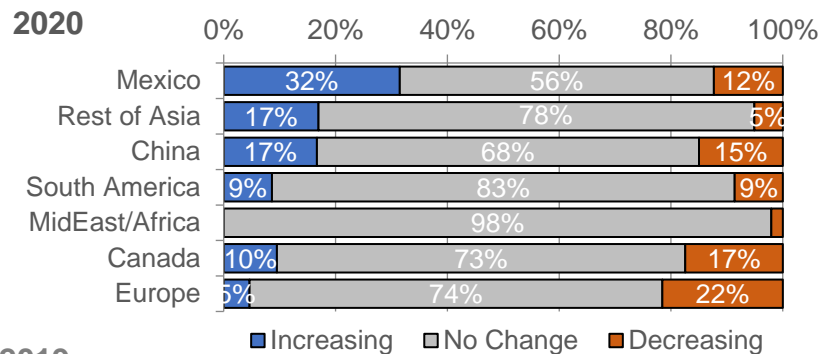
What is the estimated split of these exports (in percent) to each of the following regions?

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.

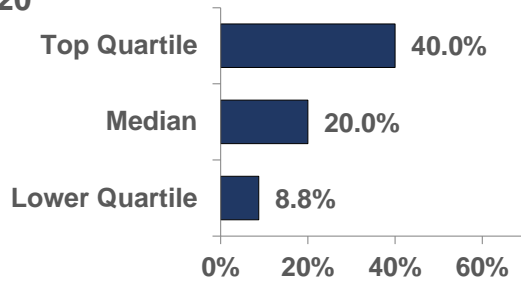


	What major factors drive this regional export plan?
Canada	<ul style="list-style-type: none"> • New business awarded (6) • Economy
Mexico	<ul style="list-style-type: none"> • New business awarded (4) • Ramping up local capacity to fill the higher demand • Labor Rates • Moving work to our Mexican facility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

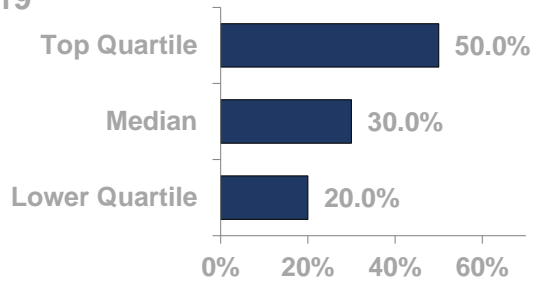
U.S. Imports

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



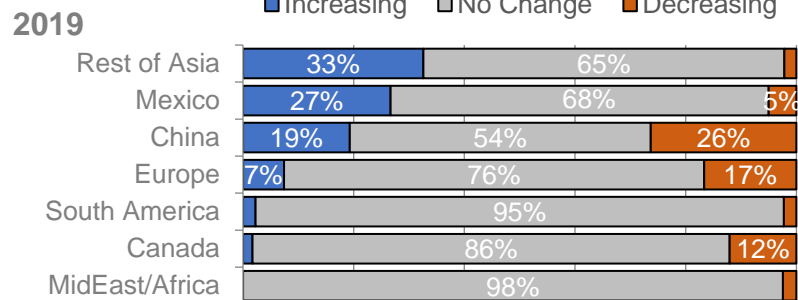
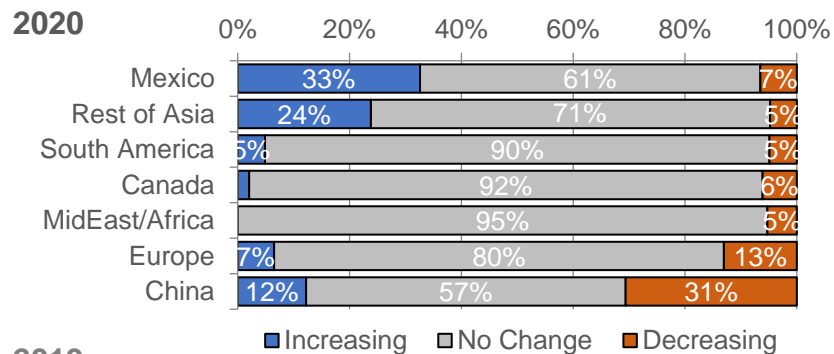
What is the regional split of your total (by dollar value) of materials/components purchased for U.S. production?

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.

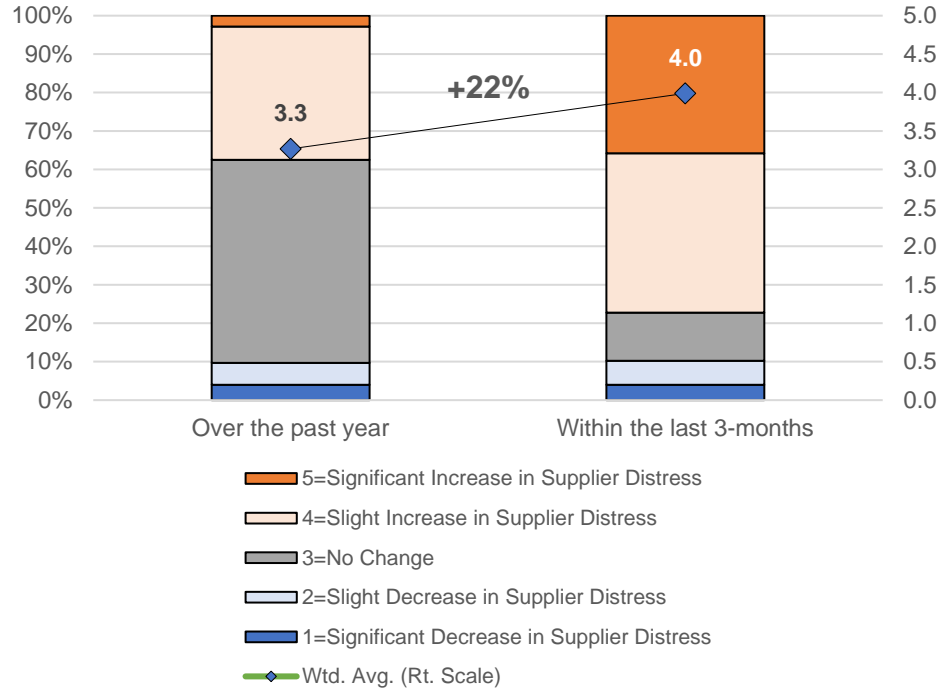


	What major factors drive this regional import plan?
Canada	<ul style="list-style-type: none"> Existing footprint and cost structure as well as expertise
Mexico	<ul style="list-style-type: none"> Price Improved quality at Mexico supply base Desire to maximize localization efforts
Europe	<ul style="list-style-type: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

SUPPLY CHAIN

Sub-tier Supplier Distress

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

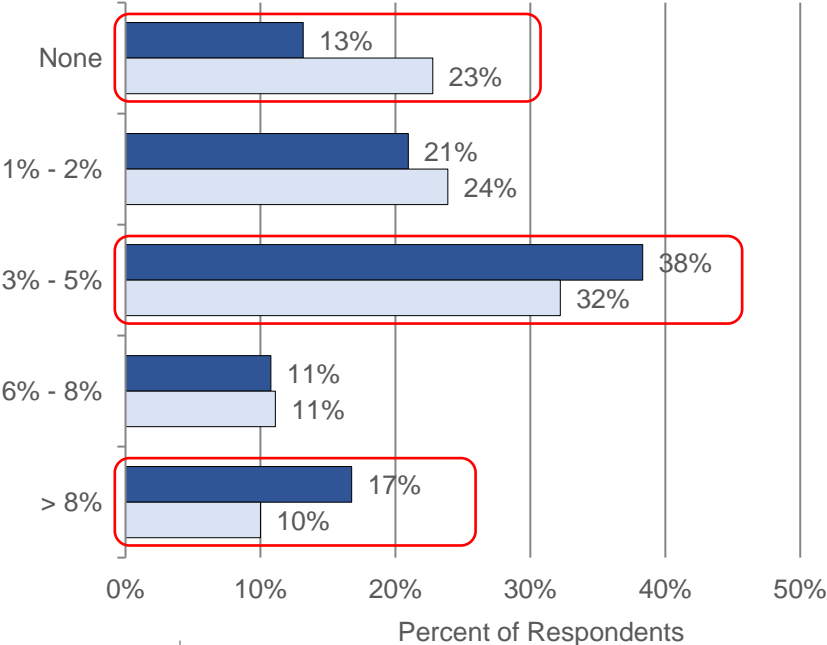


Comments:

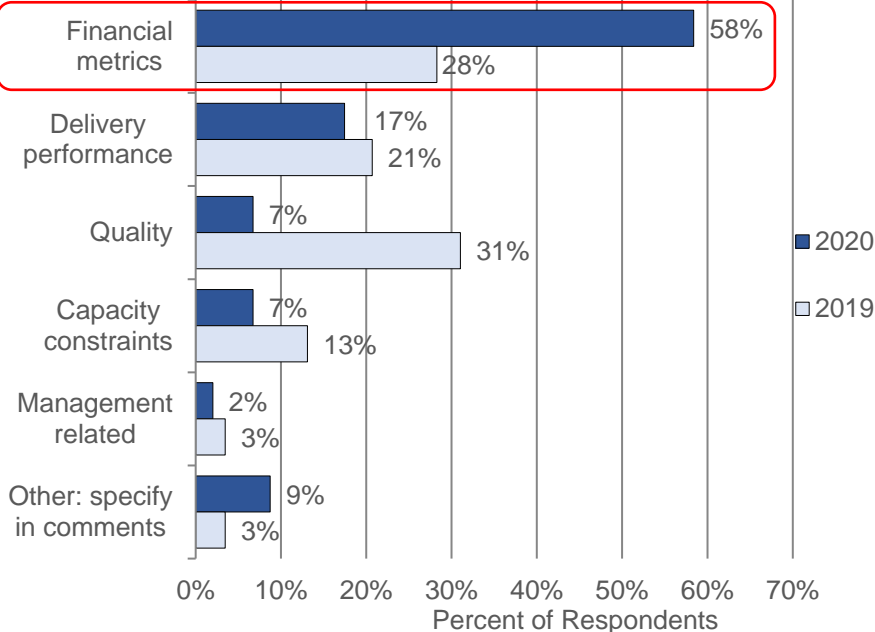
- COVID-19 Related (17)
- The worse is ahead of us with the supply base
- Everyone has some level of distress with the complete shutdown of most industries for the past 6 weeks.
- Only one concern- The [supplier] plant in Seneca South Carolina hit by a tornado. One of our big shipping locations..
- No 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?”



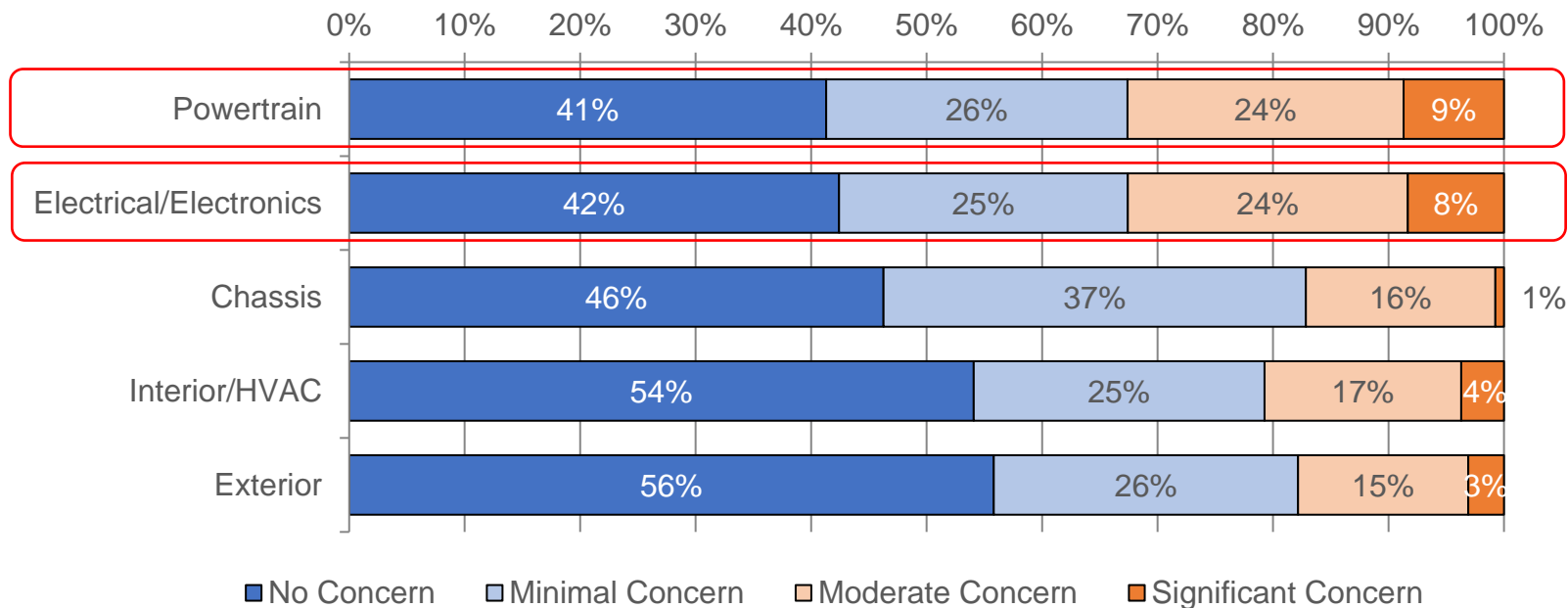
What is the primary reason companies are being added to or continuing on the supplier “watch list?”



Sourcing Constraints

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

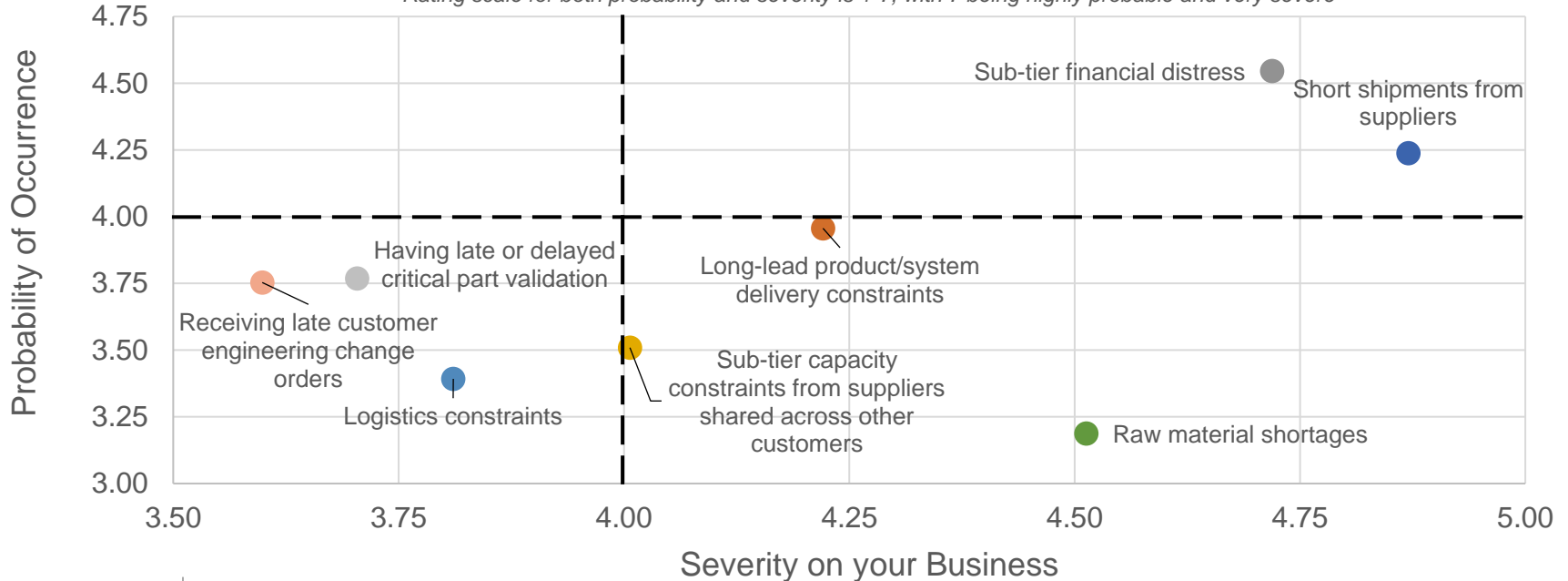
Percent of respondents



Supplier Concern Scenarios

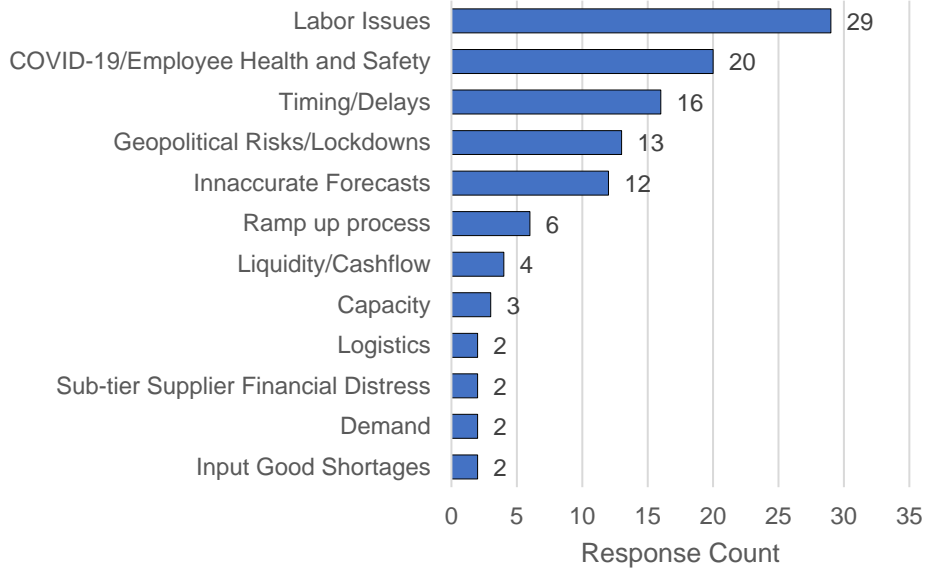
Within your supply chain, over the next 12 months, rate the likelihood of occurrence and the severity that each of the following possible scenarios would have on your business.

Rating scale for both probability and severity is 1-7, with 7 being highly probable and very severe



Production Risk

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

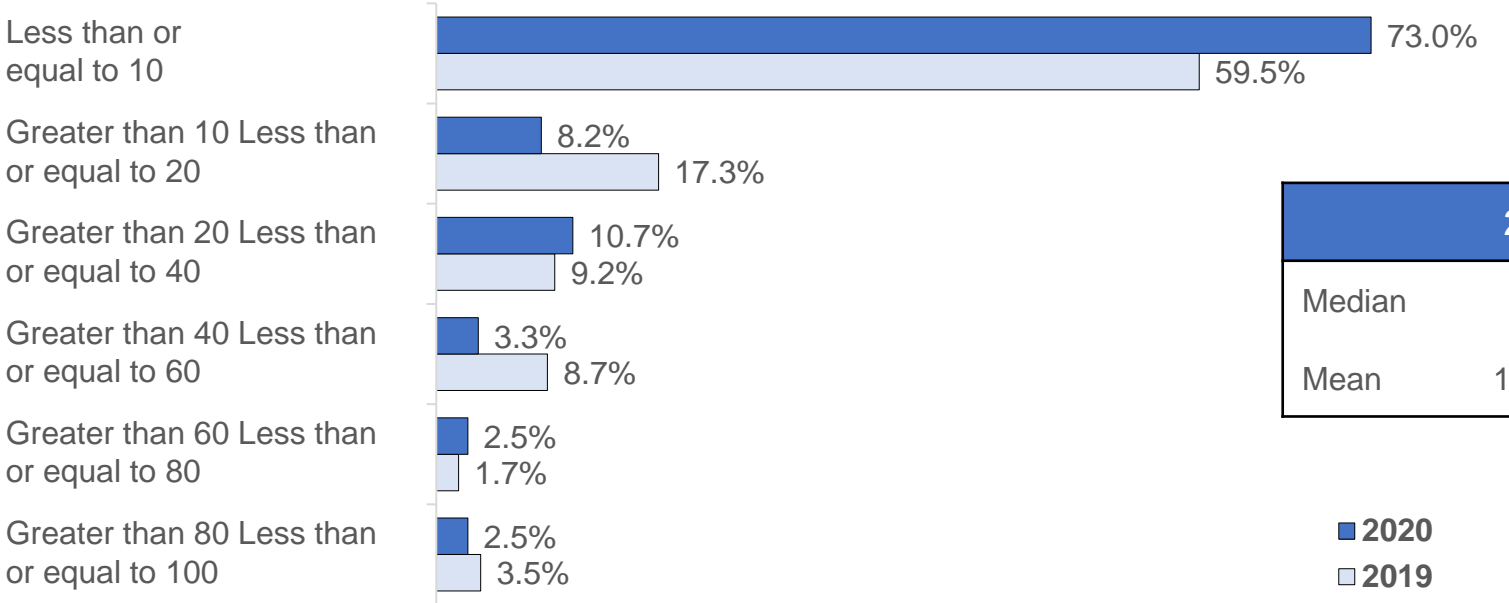


What is your greatest supply chain risk in meeting customer production requirements?



Directed Buy

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



	2020	2019
Median	5.0%	5.0%
Mean	13.2%	16.5%

■ 2020
□ 2019

Percent of Respondents

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 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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