

WHY THE AUTO INDUSTRY NEEDS TO RETHINK ITS FUTURE



John Auldridge

The past two years have been a major challenge to the very survival of many vehicle manufacturers and suppliers. But as the auto industry begins to recover, what are companies doing to ensure their long-term health? Many aren't being creative enough, asserts John Auldridge II, Ernst & Young EMEA's Managing Partner and Automotive Industry Leader for 87 countries in Europe, the Middle East, India and Africa. He explains why the industry must take a fresh look at its operations.

What more should the industry do now?

We have entered a period of major transformation for the vehicle manufacturers. They must answer fundamental questions about flexible production, dealership operations, assumptions about market size and the returns their investors are expecting. Most companies haven't transformed the way they do business.

For suppliers, it's more complicated. They face similar questions, but there are also many other factors to consider. What will they do if vehicle production drops again? How should they position themselves with their customers to contribute content to their customers' vehicles so the value they are adding is more difficult to replace in the future? Even longer term, what should they begin doing now to prepare for shifts in demand caused by such alternatives as fuel cells or electric vehicles?

These are factors that any company in the auto industry should be considering to avoid a crisis situation five or 10 years from now. It's truly a global business, and things that happen in one country or region will impact the market in another.

Don't companies already view the industry from a global perspective?

Not necessarily. They still wrestle with balanced production. There are many instances of scheduling two weeks of overtime, then a month of short time, then back to overtime. Companies should be able to shift production within a region to balance output or reduce complexity in the assembly process. But many of them remain focused on local production and not the company as a whole. Some companies are good at balancing, but it's not the norm.

What should OEMs be doing?

Flexible manufacturing will be the key to success in the industry, and vehicle manufacturers should first determine how to define that term. Does it mean kitted components and *kanban*? What do you mean by "just in time" delivery? What is an appropriate inventory? How well is vehicle production forecasting linked to supplier shipments?

Much of the industry has been carrying excess capacity for years. The question is how to manage it. How easy is it to turn a plant on and off? What is the capability to shift produc-

tion regionally to balance plants? Should you build 60% of a car and ship it somewhere else for final assembly, as many do in eastern Europe? How complex is your global platform array? Maybe you need to be able to assemble 80% of the vehicle to one specification and allow 20% to be modified to fit local market demands.

Everybody started with the right idea: a few global platforms. The challenge is to execute that strategy and keep it simple. How many organizations are truly lean? Not many. The need for a return to the entrepreneurial spirit is urgent.

What is your advice for suppliers?

Suppliers need to have someone within the organization who thinks strategically about these things, even if it's just one person or group. You may not have to turn your entire business on its ear, but you do need to be thinking about where you'll be in 5 or 10 years. If you don't understand the road map, you can't invest effectively, and you risk becoming a commodity. The value-add perspective is important. What capabilities will you need, and how will you get them?

Another issue is that telematics and in-car technology are shifting the focus away from traditional automotive competence (powertrain, suspension, steering, etc.) to software, electronics and telecom. Existing suppliers may find their relationships with OEMs deteriorating as they are viewed as less and less strategic. How do you balance your product portfolio?

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What is Ernst & Young's role?

We help companies encourage creative thinking among employees. We support them in turning those ideas into concrete, actionable change. We also support implementation by driving the change process with our in-depth, hands-on industry knowledge and change management capability. We can evaluate whether they are getting the maximum value out of every asset. Then we help them implement improvements or changes to the business quickly. These changes must be measured in months, not years. The focus has to be on speed, because projects that take longer than a year almost always fail. People just can't stay motivated and focused that long.

We also encourage companies to look for examples and lessons outside the auto industry. "Best practices" can happen anywhere, but the auto industry traditionally has looked only within itself for inspiration.

Our most important advice is this: Do it now. Yes, there are hard choices to make. But if you keep saying you'll wait until times get better, will they? Or will it be too late?

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