

A young boy with dark hair, wearing a blue and green plaid shirt, is sitting in the back of a car. He is pointing his right hand towards the right side of the frame, looking out at a vast, hazy landscape under a bright sky. The car's interior and window frame are visible in the foreground.

A STEP CHANGE FOR SUPPLIERS

Automotive suppliers need to perform in an increasingly challenging business environment – customers demand lower costs and better quality, their share in value creation is growing, and supply chain complexity is rising. To sustainably realize performance enhancements, C-suite executives at suppliers need to rethink their purchasing strategies. This includes embedding procurement across the whole company and leveraging the entire supply system for both innovation and performance improvement.

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Challenges for automotive suppliers remain high. They face intense flexibility requirements from automakers because of volatile fluctuations in global demand, increasing portfolio variety and complexity, as well as shorter product cycles. As such, they need to realize a significant annual performance improvement just to balance imposed price downs from automakers. At the same time, supply chains are getting more complex.

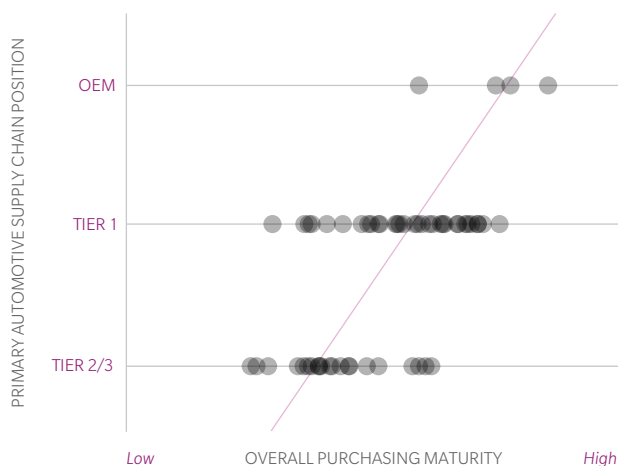
Both car manufacturers and their suppliers continue to globalize their production footprints: Value creation continues to migrate toward emerging markets, especially Asia. In addition, supplier integration into automakers' production processes continues, creating global, cross-linked supply-chain networks. Increased supply-chain complexity exposes component makers to significant risks, such as quality issues, production disruption, logistics breakdowns, and, in worst cases, financial default. To address these challenges and remain competitive, suppliers need to holistically manage costs, quality, and risks. They also should look for ways to trigger additional growth from their value chains.

THE DILEMMA

The automotive industry is at the forefront of developing robust sourcing benchmarks, but nearly all of the so-called "low-hanging fruit" has been harvested. That means new solutions are needed. Oliver Wyman has found sector-specific evidence that a company's purchasing performance is strongly driven by the maturity of its operating model, such as the purchasing strategy, organization, processes, people, and tools deployed.

ROOM FOR IMPROVEMENT

Automakers remain ahead of suppliers on purchasing maturity



Source: Oliver Wyman analysis



Companies that are more mature are generally able to optimize a larger amount of goods and services sourced and realize higher savings per commodity addressed. Oliver Wyman research has also unveiled that automakers consistently outperform suppliers in sourcing best practices. This is largely due to suppliers' less mature purchasing operating models, which prevent them from creating additional value for their customers and themselves. Suppliers need to ask themselves what other innovative approaches they should take to improve future competitiveness.

IT'S NOT JUST A CHIEF PURCHASING OFFICER PROBLEM

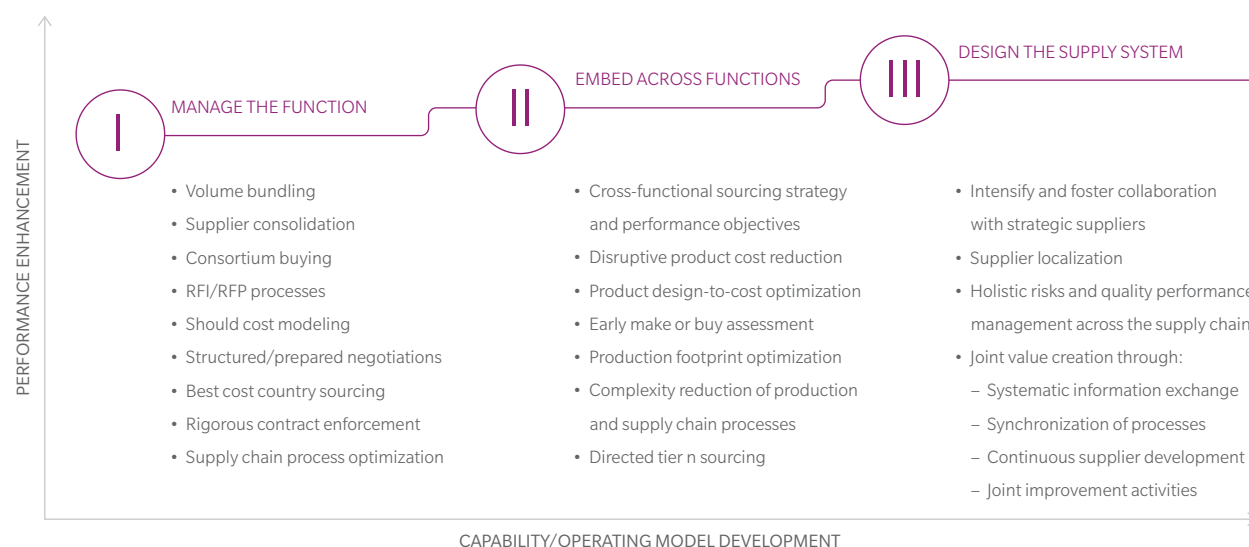
Requiring the chief purchasing officer (CPO) to fix these shortfalls by properly executing his tasks is unlikely to result in the desired performance effects. Tapping into new products or markets obviously affects the sourcing strategy. Costs and supply-chain risks are driven by R&D decisions in the early stages of a product's life cycle. Supply-chain issues that could arise during launch, production or after-sales limit the potential supplier pool. The bottom line is that to best leverage material cost and risk-related improvements, the company's top executives must think well beyond just the purchasing function.

HOLISTIC VALUE SOURCING

Managing the procurement function right – achieving excellence in each sourcing category and establishing synergies across purchasing commodities – is the basic requirement of a holistic transformation process. Over and above, the aim is to embed purchasing across the company and within the supply's ecosystem. Typical improvement levers arise during each step of this transformation.

HOLISTIC VALUE SOURCING

Stepping stones and improvement levers



Source: Oliver Wyman

It is critical to fully align the purchasing system with the company's strategic decisions and value creation model. Key levers include having a cross-functional sourcing approach to link the purchasing strategy with the company's overall strategy: sharing cross-functional performance objectives; enabling talent rotation to ensure collaboration and knowledge transfer; deploying processes that systematically leverage the group power; and implementing integrated systems and tools. Fostering such collaboration between departments allows the company to tap into additional value by unlocking more sophisticated improvement levers, such as product cost reduction in early stages of the design cycle, complexity reduction of production and supply-chain processes, or early make-or-buy assessment.

Designing the optimal supply system goes beyond identifying quality and cost opportunities at suppliers. Reaching substantial performance improvements requires a total view of the supply chains and understanding interconnections between them to create competitive advantages. This includes important strategic parameters, such as:

- Identifying those strategic suppliers with which to strategically collaborate and co-innovate
- Optimizing supplier footprint and leveraging best cost country sourcing opportunities
- Managing risks and quality performance holistically across the supply chain
- Improving costs and reducing risks jointly with the supplier

Focusing on the entire supply system provides more than just savings and risk reduction. It can boost growth via open

innovation, getting products to market faster, helping support international expansion, and sparking development of new products and services.

A supplier's top management needs to rethink its sourcing approach, ideally by establishing dedicated innovation teams and encouraging regular exchanges between all stakeholders to identify and deploy new ideas. An open innovation culture needs to be built, while also aligning incentives and the organization's structure. New forms of collaboration need to be established that go beyond suppliers and learning institutions to leverage digital platforms, such as:

- Data-driven, automated operational purchasing
- Real-time inventory and lead-time monitoring
- Broader supply base through easy exchange of digitalized models and new quality systems
- More flexible outsourcing to third party manufacturers, for example via capacity brokers

It is a common mistake to think of purchasing as a single functional division when it can be extended to include so much more. Cross-functional levers need to be pulled and performance needs to be driven by all stakeholders. This will happen when the entire purchasing ecosystem is brought to the table, synchronized in a digital environment, and leveraged to create and implement joint improvement opportunities, reduce risk, and enable mutual growth. Suppliers need to start this transformational journey today to make sure they are ready to create even more value for their customers tomorrow. ●