

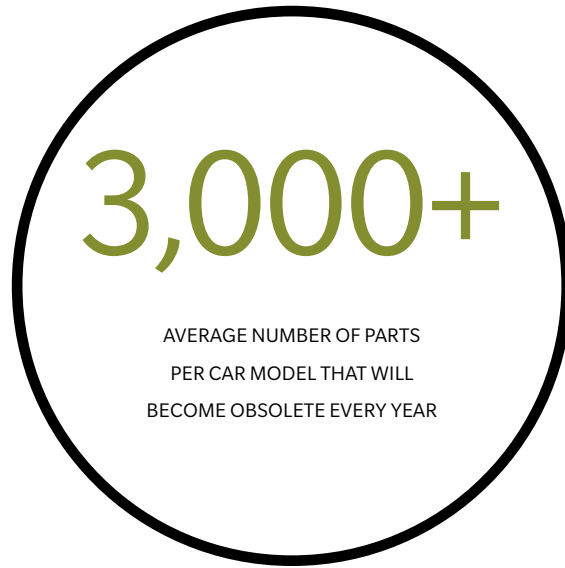


THE NEGLECTED CHALLENGE OF OBSOLETE PARTS

Since the early days of automotive manufacturing, the industry has had to deal with obsolete parts, which are the stepchildren of vehicle makers and suppliers alike. Mountains of these parts and their respective tools are aggregating at an alarming rate, tying up millions of dollars, clogging warehouses, and creating inefficiencies. Active management of obsolescence is paramount because without it, the problem will grow exponentially, especially for suppliers.

JOERN BUSS

TIM HOYLAND



Based on government regulations and automaker requirements, parts are “active” and guaranteed to be available for 10 to 15 years following the end of production of the last vehicle. That means parts for vehicles that have not been produced since 2000 – and not used in any other model after – would be considered obsolete. Assuming roughly 30,000 parts per car, with a full redesign every five to 10 years across 200-plus car models and you can imagine the glut of components that become obsolete every year even if many parts are transferred.

In a perfect world, a supplier should no longer be required to make or stock this obsolete part. Whatever is left in raw material, work-in-progress goods, and finished goods (including all tools, which typically are owned by the automaker), should be scrapped or reused. Oliver Wyman research has found that processes to manage obsolescence are rarely robust and are seldom properly embedded within the organization. This is especially true at suppliers. A contributing factor is that automakers often delay decision making on obsolete parts and their respective tools, which, along with leaving suppliers in limbo, creates a serious storage issue for all parties.

In one example, an interiors supplier uses a 120,000-square-foot building to warehouse more than 4,000 “obsolete” large injection-molding tools that date back to the 1950s. There are two reasons for this: 1) many of its automaker customers won’t make up their minds on whether the supplier is allowed to scrap the tools and 2) the supplier didn’t have a properly established process for managing the tools. For example, the supplier never threatened to ship tools back to the automaker. Instead, the supplier has paid for this “tool graveyard” and employed

two people to look after it. The supplier even debated whether to expand the warehouse.

In another example, an engine-components manufacturer, which also competes in the independent aftermarket, has millions of dollars’ worth of obsolete parts (finished and unfinished) in its warehouses. The supplier doesn’t know how long the parts have been on the shelf or whether they could have been sold because it is unclear if the parts were catalogued correctly.

STRAIGHT-FORWARD SOLUTIONS

The good news is that there are straight-forward solutions. While they require some initial effort, the end benefits include streamlined operations, reduced inventories, and, in some cases, enhanced customer satisfaction, as well as financial benefits. The starting point is answering the following two questions: How does one avoid accumulating so many obsolete parts? How does one best manage the obsolete parts one has?

There are three rules to follow:

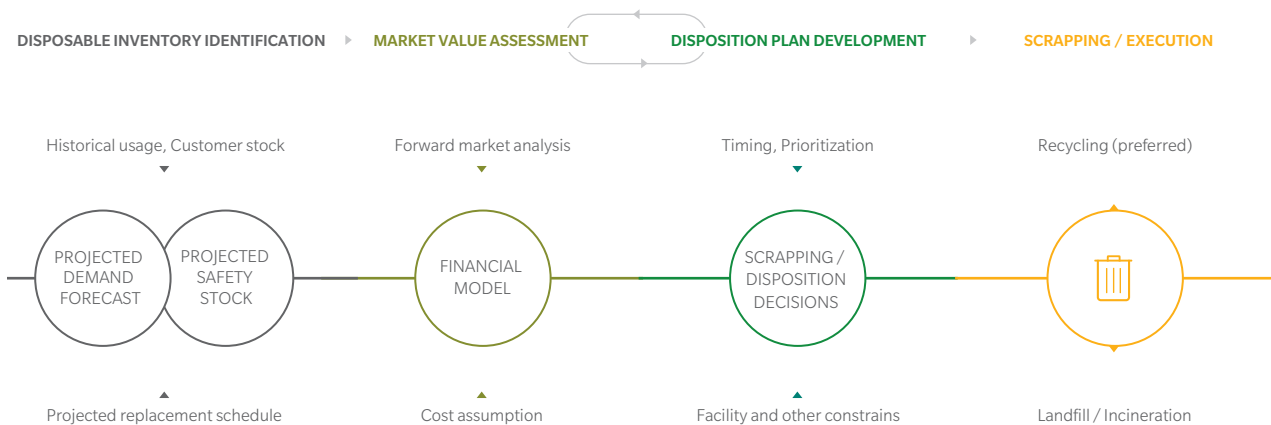
1. Know your parts
2. Follow a process
3. Maximize the value

KNOW YOUR PARTS

This sounds simple, but it requires truly comprehending what your parts are used for, where they are used, and when as well as what parts are in your enterprise, where they are located, their date of production, their shelf life, and any other critical information.

EFFECTIVE MANAGEMENT OF OBSOLETE PARTS

Having a disposition/scraping strategy will help to maximize the value of aging components



Source: Oliver Wyman analysis

The main problem faced by the above-mentioned interiors supplier was that the company didn't properly track the true end-of-production date of the parts it was making. That made it impossible to ascertain exactly when the parts and tools became obsolete. Meanwhile, the engine-parts manufacturer lacked data on which vehicles the components were installed during production, so it couldn't know how many vehicles fitted with the parts were still on the road. This is particularly risky for parts that have a shelf life, such as rubber components.

FOLLOW A PROCESS

This rule often distinguishes the winners from the losers in the management of obsolete parts. One example of a best-in-class process is a disposition/scraping strategy. This helps a company track/monitor a part from cradle to grave (know your parts), making sure that someone is always responsible for the part. In typical best-case examples, the order management unit "owns" the part and respective tool throughout its life cycle and decides when to declare a part or tool to be obsolete. At this point a final disposition strategy needs to be formulated. There are a number of items that need to be considered.

DISPOSITION OPTIONS

- Variety of dispositions: action relative to safety/minimal stock and current population
- Strategic decision to hold or dispose of excess/obsolete inventory (quantity & timeline)

NETWORK/WAREHOUSE REQUIREMENTS

- Safety/minimal stock management across own company and supplier (Tier 2 and 3) network – and even better for your customers

OWNERSHIP STRUCTURE

- Clear documentation on consigned, own, and customer owned (e.g. tooling ownership)

SCRAP EXECUTION PRIORITIZATION

- Appropriate priorities with which to categorize the disposition/obsolete parts pool
- Relative importance of each dimension and the general order in which to scrap

MAXIMIZE THE VALUE

While high-volume, low-value parts (especially those with aging components) and their tools should be scrapped immediately, some parts have the potential to even increase in value. For low-volume, high-value parts, which usually are fitted on limited-edition vehicles, it becomes crucial to "know your parts," otherwise the company will miss out on a final opportunity to benefit financially.

Suppliers should approach the automaker or, in the case of aftermarket sales, prior customers to gauge their interest in these parts. This tactic has proved to strengthen customer relations and to provide added value. For instance, the engine component manufacturer has kept producing some pistons for low-volume, high-performance models because being the only source for the parts has resulted in high-margin sales and strong brand recognition.

In a nutshell, managed well, obsolete parts don't have to be a burden on the organization, as they are the representation of one's history, laid to rest effectively. ●