

White Paper Compact



Supply Chain Management Strategic and operational turnaround for automotive suppliers

Whitepaper compact
Miebach Consulting GmbH
February 2020
Authors:



Dirk Friebe,
friebe@miebach.com



Christian Wibbe
wibbe@miebach.com

Automotive supply chain improvements in three steps

Step 1: Getting full transparency

Almost all OEM and international automotive suppliers (tier1, tier2 and tier3) are faced with a significant drop in sales and profitability. Increasing costs for R&D for shortened product-life-cycles (from 7 to 5 years) calls for shorter amortisation periods. This goes hand in hand with dropping scale effects due to increased niche productions (number of derivatives with declining number of cars sold per derivat). This comes along with a dramatic loss of trust (emissions scandal and cartel agreements).

What we observe as a possible reason is a significant disruption in this industry - boosted by the current move of the OEMs towards electric cars/e-mobility and changes in customer perception of mobility.

When this crisis levels out a bit and we look back, we can observe both fallen automotive tier1-3 suppliers and exciting "self-re-invented" tier1 to tier3s.

This much is certain: before this crisis, many of the automotive world tier1 to tier3 suppliers slept away the need for a technological change in product development, physical structures and processes of manufacturing/value-added processes and organizational set-ups. Profits unfortunately were not invested in technologies and processes which today are urgently needed.

And this much is also certain: this crisis is inevitable. From our Miebach point of view, three steps for automotive supply chain improvements are necessary. As a first step, these companies should start getting a crystal clear picture of their company - regarding the status-quo and the next 5 years considering the change of demand volume per product and technology. Maybe the economical situation will worsen in the next 5 years.

Miebach Consulting can help to develop realistic views on the situation and the economical consequences.



Your Company



Initial Supplier



Supplier



Your Company



Customer



Final Customer

“THE CRISIS IS INEVITABLE“

- Decreasing net sales due to recession and technology changes (e-mobility) in the past 12 months
- Current fixed cost-structure no longer covered
- Dissolving economy-of-scale effect (e.g. procurement)
- Declining profit margins
- Threatening cash-burn-rate
- Breach of covenant leading to problems with financing partners

ROOT CAUSE: THE SUPPLY CHAIN/VALUE CHAIN IS “INFLEXIBLE“ TO CURRENT MARKET CHANGES

- Supplier network is oftenly far too complex
- Breach of frame contracts leads to price increase
- Production capacities under-utilized - no scale effects possible
- Risk in customer structure (declined sales up to debt default)
- Under-utilization of distribution network leads to freight increase
- Performance of spare-part-networks also affected on mid-term

**MIEBACH ENSURES FULL TRANSPARENCY FOR
A STRATEGIC SELF-ASSESSMENT**

Automotive supply chain improvements in three steps

Step 2: Streamlining the set-up

As a second step, it is important to streamline the set-up. Miebach helps establishing and evaluating different business case scenarios reflecting reliable sales forecasts.

As specialists for supply chain network in the automotive industry, Miebach plans, evaluates and implements (on request) the downsizing of the manufacturing/value-added and contract framework under specific consideration of the supplier's core competences.

Global, regional or local production capacities will be restructu-

red/downsized if possible and feasible (considering high closure costs), and distribution networks will be streamlined too. Total costs and costs per unit in a re-designed supply chain will be re-calculated.

These results, together with (always needed) internal cost saving programs will „feed“ a target P&L and balance sheet to be developed (by the automotive supplier or by Miebach). This will also result in full transparency regarding the financing needs for the turnaround subsequently to be discussed with the current or new financing partners.



Your Company



Initial Supplier



Supplier



Your Company



Customer



Final Customer

“CAN WE SURVIVE BY STREAMLINING OUR STRUCTURE – OR DO WE HAVE TO DO MORE?”

- Realistic plans needed – real net sales per current product/-line and customer/OEM
- Consideration of recession and technology changes (e.g. e-mobility)
- Worst case or realistic/best case scenarios with resulting P&L/balance sheet effects
- Company cost reduction initiatives
- Calculation of resulting financing needs
- Evaluation of all possible financing options (e.g. PE, mezzanine capital, ...)
- Evaluations of the “real” level of crisis and “sense of urgency”
- Basis for negotiations with financing partners or M&A of the company

REDUCE THE SUPPLY CHAIN/VALUE CHAIN FIXED COST STRUCTURE

- Supplier network to be reduced step-by-step
- Recalculated frame contracts considering a realistic price increase
- Preliminary reduction/ramp-down of production capacities (if possible)
- Concentration on core competencies (make-or-buy)
- Re-evaluation of volume/margin risks per customer/OEM
- Re-calculation of distribution/ freight costs
- Industry cooperation approaches (e.g. R&D)

MIEBACH STREAMLINES THE CURRENT SET-UP FOR THE FIRST TURNAROUND STEPS

Automotive supply chain improvements in three steps

Step 3: Planning the new blueprint

The third optimization step is to plan the new blueprint. New partnerships and cooperation models will be established (power supply infrastructure, adapters, payment systems, etc.). Therefore very likely new standards regarding transparency and networking will be implemented (collaborative planning).

Based on these parameters, a set of business scenarios (some of them to be quite revolutionary due to really new products or services) have to be developed. Missing products, competencies and knowledge have to be developed or acquired by M&A activities, buying licences, patents and hiring specialists.

Miebach can support to develop and calculate the ideal value-add/manufacturing blueprint and supply chain per scenario with optimal value-added level/make-or-buy decision including all operational costs and all one-off costs, giving the basis for the tier1 to tier3 suppliers internal calculation of the resulting P&L and balance sheet effects.

With the resulting (hopefully positive) ROI, capital costs and financing needs, the companies can start their negotiations with the financing partners.



Your Company

„SURVIVE & GROWTH“ SCENARIOS – HOW TO RE-INVENT THE COMPANY'S FUTURE

- Identification of potential new products with realistic sales/price predictions – development of a set of feasible future scenarios:
 - development of own R&D/value chain
 - M&A opportunities
 - Buying licences/patents
 - Hiring specialists/people/teams
- Calculation of transformation of R&D/supply chain/ value chain: timing, costs (one-offs, future operating costs) and risks (failure, competition, staff, etc.)
- Calculation of HR transformation: training, hiring and cutback costs
- New business plans: P&L and balance sheet
- Calculation of financing needs, capital costs, ROI
- Basis for negotiations with financing partners or M&A of the company



Initial Supplier



Supplier



Your Company



Customer



Final Customer

CALCULATION & SIMULATION OF SUPPLY CHAIN/VALUE CHAIN BLUEPRINTS

- Support or build-up and negotiate the future supplier network (organic growth or post-M&A) with new frame contracts with realistic price decrease driven by realistic growing purchase volumes
- Calculation of the new production blueprint balancing one-off costs vs. operating costs
- Supporting the strategic decision of the optimal value-added level by simulation of different scenarios (digital twins)
- Calculation of all one-off costs (investment in own sites, training, hiring, cut-offs, etc.)
- Calculation of distribution/ freight costs
- Reliable input for P&L planning

MIEBACH PLANS A RELIABLE AND REALISTIC FUTURE BLUEPRINT

Miebach Consultants have been successfully designing automotive supply chains for 47 years. We have extensive experience with operational issues in the automotive industry. **Get in touch with us if you want to discuss how to manage your current challenges.**

