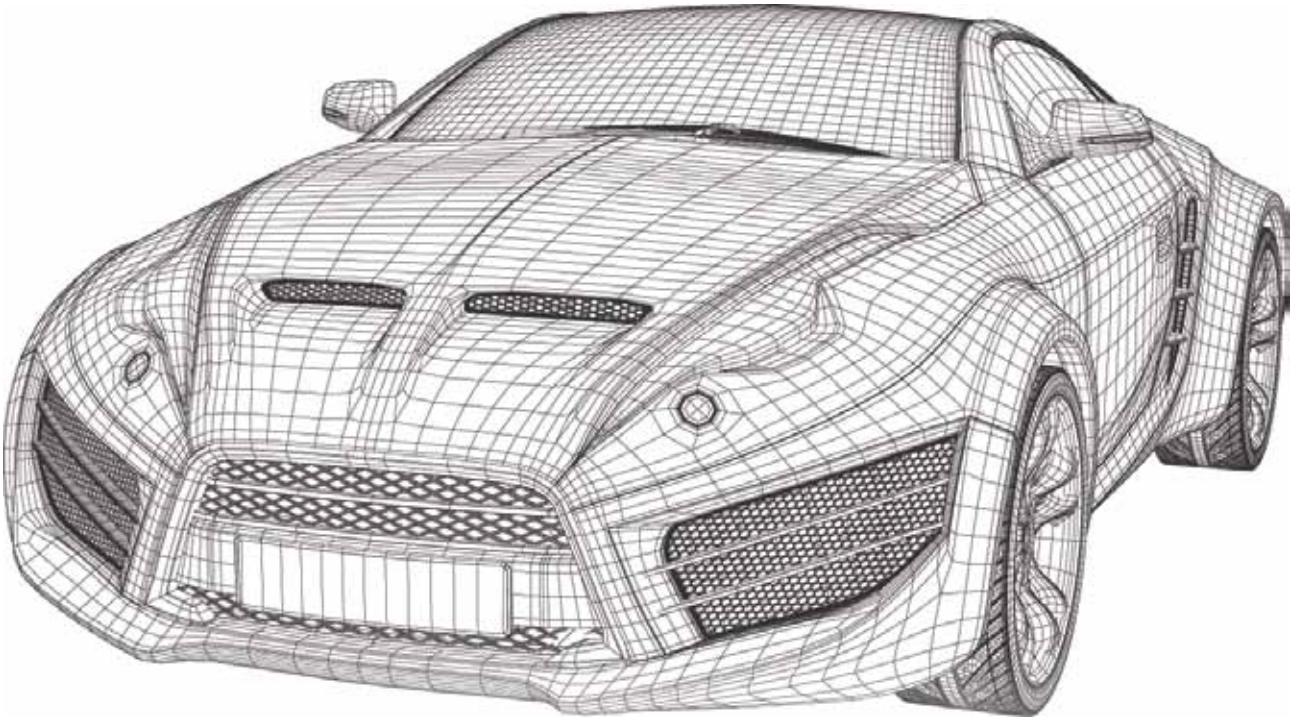
OLIVER WIGHTPAPER series

Gearing up for growth

Speed, agility and cost-efficiency; the future of the automotive supply chain



Inspiring
Business
Performance



Les Brookes
Oliver Wight CEO

Get up to speed

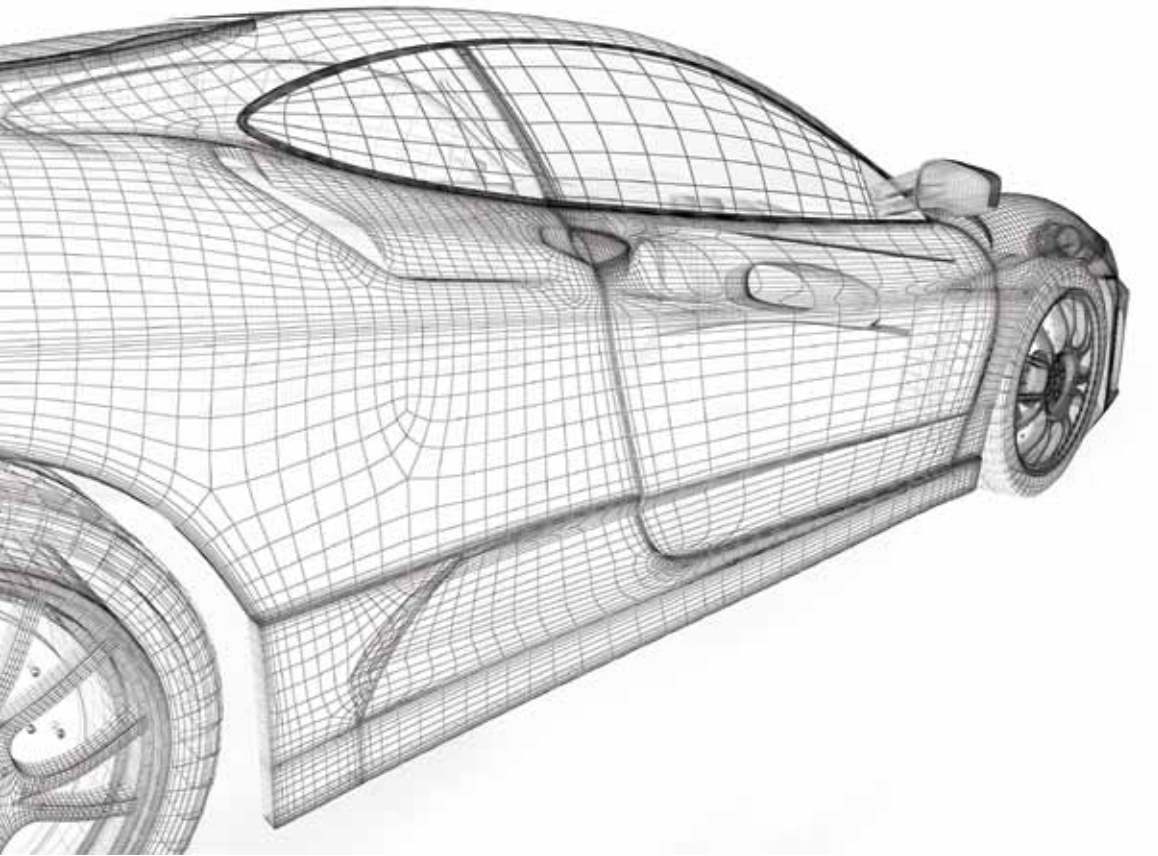
New UK car sales have accelerated to a ten-year high. Fuelled by PPI compensation windfalls, attractive finance deals and shorter buying cycles (due to perceived savings from the efficiency of new cars), the automotive market at last appears to be on the road to recovery following six years of decline. The rest of Europe looks equally promising. Demand is strong and on the increase; IHS Automotive predicts global auto sales will climb to 85 million this year and increase steadily through to 2018 when annual auto sales are forecast to top 100 million.



Andrew Walker
Oliver Wight Associate

The industry however, remains complex and highly competitive, compounded by the after-effects of the recession, rising energy costs and increasing globalisation. Despite its historical reputation for effective supply chain management, the automotive industry is yet to fully mature its processes to manage multi-tier supply chain operations and handle fluctuations in demand.

As the demand accelerates, it is crucial automotive companies balance growth, visibility, profitability, cycle times, demand and complexity to build strong, resilient organisations. Integrated Business Planning, coupled with mature demand management processes, not only gives suppliers the control they need over their own operations, but also provides the foundation for improved supply chain management and collaboration.



Integrating processes

For automotive suppliers today, focus is on profitable and sustainable growth, financial and operational flexibility and seizing opportunities in new markets.

Prior to the recession, automotive supply chains were fairly linear in terms of output; fluctuations in demand were typically coped with by having stock throughout the entire supply chain. Delivery to OEMs was just-in-time, but the supply chains behind them (tiers one and two) held stock to give some flexibility, albeit at a higher cost. Execution was with Kanbans, just-in-time techniques and lean methodology; real consumption demand visibility beyond three months was poor and amplification prevalent.

Gone are the days when significant buffer stock can be kept; nobody wants to get caught with stock if things take another turn for the worse.

But with leaner operations, will the industry be able to cope with fluctuations in demand if it doesn't have the high inventory to fall back on? Unless suppliers have a properly integrated management process in place, enabling them to identify future demands, it will be impossible to reach the level of performance required by automotive OEMs without over-stocking. Integrated Business Planning (advanced S&OP) plays a valuable role here.

A common-sense process for planning and managing the entire organisation, Integrated Business Planning integrates diverse processes and plans from individual business functions (see figure one) to form one cohesive company plan.

Delivering an integrated sales and marketing plan of the organisation's products (new and existing), over the next 36 months, Integrated Business Planning enables more effective long-term supply chain plans to be developed.

In addition, the process provides an effective forum to measure performance, highlight gaps and drive continuous improvement in the pursuit of delivering organisational strategy. But perhaps, above all, Integrated Business Planning brings the automotive industry the control it needs over demand management.



© Oliver Wight International

Figure 1: Integrated Business Planning model

Managing demand

Arguably, all successful business planning and supply chain optimisation begins with effective demand management, but in the automotive industry, understanding consumer demand is an essential prerequisite to gaining control of the supply chain.

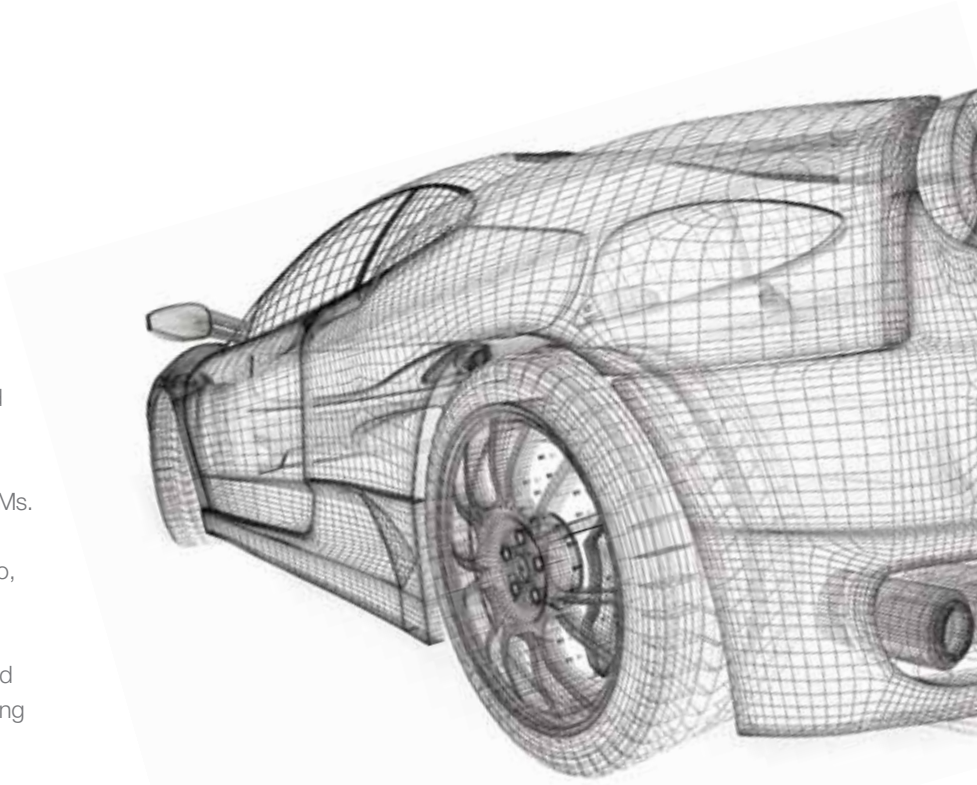
The industry, which has always been complex, with low margins and few players, has been left with even more complicated supply chains following the Global Financial Crisis. Many suppliers struggled to survive and some inevitably failed to do so. Considering a typical mass-volume European vehicle manufacturer deals with around 800 suppliers, procuring about €30 billion per year with them (according to IHS Global Insight), it is little surprise that the impact of losing suppliers ricocheted with devastating effect. Natural disasters have disrupted supply chains in recent years too. Fukushima, for example, saw the Japanese supply chain grind to a halt and forced OEMs to improvise - one OEM introduced a 'special edition range' with integrated satnav, compensating for the fact it couldn't actually fit the standard radio unit because it came from a Japanese supplier.

This increased complexity and volatility has highlighted the need for improved planning beyond the three-to-six-month execution period. While this short-term window can still be managed with Kanban and just-in-time systems, it is vital to align the medium-to-long-term volume plan to the supply chain, so suppliers can invest ahead of demand.

The closer an organisation works to the



Figure 2: The plan requires multiple inputs



demand signal, and the more accurately it is communicated, the less amplification there is further back in the supply chain. Suppliers need to take greater ownership of accurate demand management in order to see real consumption demand - as opposed to demand from the OEMs.

With its full integration of the product portfolio, Integrated Business Planning brings the opportunity for the automotive supply chain to begin to align around collaborative demand management, with the supplier and OEM using the same demand signal (outside the supply chain lead time). The process then becomes more efficient, producing less waste and generating more profit.

Crucially, the demand plan is only as good as the inputs it receives; it has to be supported by documented assumptions, risks, issues, opportunities and metrics. Figure two shows the multiple inputs required from internal and external stakeholders to support a robust 36-month volume, value and margin demand plan, including customer insights, sales activities and statistical analysis projections. The resulting demand plan recognises the inevitability of uncertainty and takes conscious steps to manage it. This can then be used to drive and optimise the supply chain and enable the sales and marketing teams to ensure their plans and activities will deliver the strategy.

Bringing the future forwards

The horizon is a fundamental part of Integrated Business Planning. In the past, many tier one and tier two suppliers have concentrated efforts on sales and inventory planning - that is to say, simply balancing supply and demand, rather than establishing a fundamental business planning process. Many still don't look beyond the end of the financial year, or, in some cases, the next three or four months. A successful Integrated Business Planning process provides a rolling horizon, so the 36-month forward view is continually updated, avoiding the year-end mentality, which typically drives short-term behaviours.

One of the truly defining features of Integrated Business Planning is the integrated reconciliation review. This process operates throughout the monthly cycle, picking up the highlighted issues and gaps from each of the individual product, demand and supply reviews. In so doing, it supports decision-making by the senior leadership team at the subsequent management business review. How information from the reconciliation review is presented is absolutely critical in enabling effective decision-making - the gaps must be clearly visible and the integrity of the data, beyond question.

Any issues heading towards the business and financial gaps emerging can then be identified to make real decisions 'now' to affect that position, effectively bringing the future forwards.

People steer the way

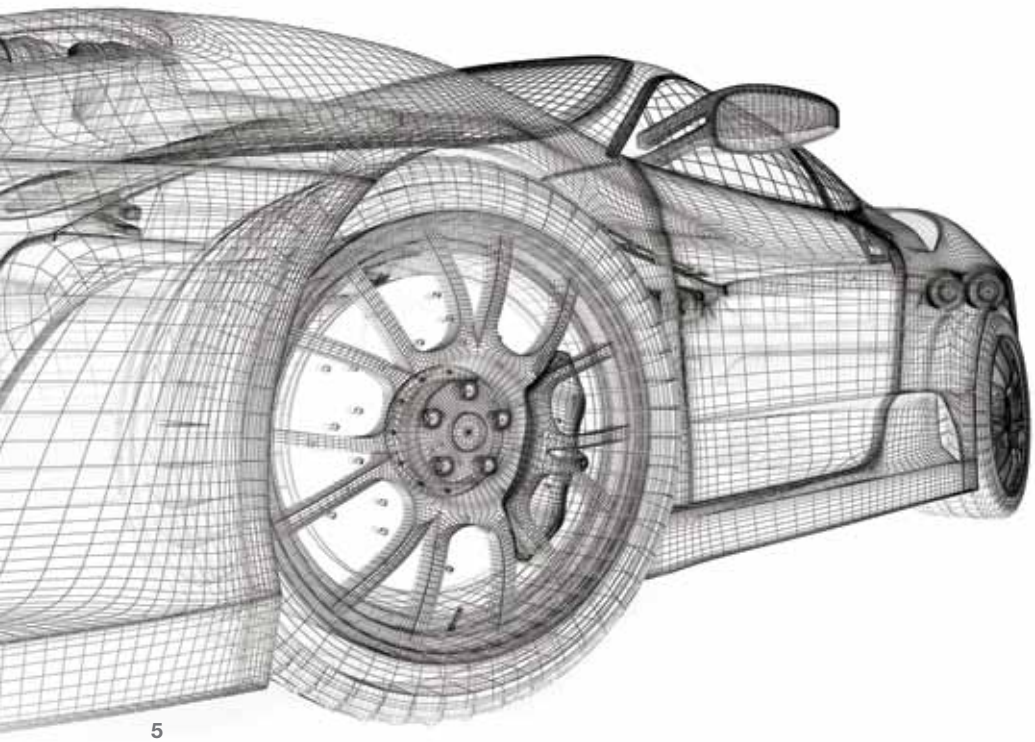
To make this work, it's essential the leadership team take ownership of the process and people, and that behaviours, processes and tools are all aligned. Old behaviours and functional silos must be booted out. Without change, people will start second-guessing the forward plan, leading to the 'million set of wrong numbers' syndrome. Integrated Business Planning is about communicating and discussing the truth 'as we know it'. Behaviour change comes from involving the right people at the right time in the right processes, designed to do the right things. Without it, failure is assured.



© Oliver Wight International

Managing working capital

With Integrated Business Planning, finance must have a role throughout the entire process. Within the reviews, as well as supporting processes, finance has to ensure everybody understands the financial implications of the bottom-up plans and the overall health of the business. In the demand review, what is going to be sold to customers in terms of revenue and margin? For supply, what is the cost of fulfilling demand? And in the management review, finance must be able to make a full assessment of business health over the rolling 36-month horizon, identifying gaps compared to the financial plan, the business plan and the strategy. This should include P&L projections, revenue margin, and the cost implications of plans, cash flow and income. An important side benefit is that when there is credibility in demand, supply, price, and cost data, finance is free to do value-added financial analysis instead of just forecasting.



Collaborating with the supply chain

Some automotive OEMs realise that having the most effective and efficient supply chain is good value for money, but some still need to be made aware. Supply chain collaboration can have an enormous impact on an organisation's ability to service customers effectively and profitably, as improved communication and integration inevitably allows organisations to more effectively meet demand. In fact, supply chain collaboration reduces operating costs by up to 50 per cent, at the same time as improving customer service levels.

Getting in gear

So, what does the automotive sector need to do?

The industry has changed and will continue to do so. It is essential organisations adapt to fit the dynamically evolving market. Future success boils down to the health of your business and its core processes, not just demand and product management, but out in to the extended supply chain too.

The journey to excellence is tough and uncompromising, but knowing where you stand now will allow you to prioritise improvement activity and set out a series of bite-size projects with short timescales, ultimately delivering significant business benefits.

To understand where to start driving improvement, many organisations undertake a business diagnostic, such as the Oliver Wight Business Health Check, to pinpoint the failure modes within the core business processes and identify the opportunities for gap closure.

The Business Health Check deploys Oliver Wight's international supply chain benchmarking tool and renowned Class A standard for Business Excellence, to provide automotive companies a true understanding of their business maturity. It also provides an assessment of how well their people behave and interact with both processes and tools. Combining this with the experience gathered from 45 years of working with some of the world's best known brands, the Oliver Wight Health Check provides organisations with a pragmatic view of how to optimise this integration to deliver benefits on an on-going basis.

Driving long term profitability

So, as the automotive sector emerges from the depths of recession, organisations must equip themselves with the right processes, tools and people to gear up for growth.

For those unsure of the challenges that lie ahead, a business health check can help to not only establish the organisation's current position relative to its peers, but also provide potential gap closing solutions, helping the business successfully navigate its improvement journey.

Integrated Business Planning, with its decision-making imperative, demand management process, and ability to lay the foundations for supply chain collaboration, is the business process of the post-recession era. It provides a holistic view of demand and a clear view of future, so automotive companies can extract more profitable value from complex supply chains as their market recovers. It's time for automotive suppliers to get fit for the future.

About Oliver Wight

At Oliver Wight, we believe sustainable business improvement can only be delivered by your own people; so, unlike other consultancy firms, we transfer our knowledge to you. Pioneers of Sales and Operations Planning and originators of the fundamentals behind supply chain planning, Oliver Wight professionals are the acknowledged industry thought leaders for Integrated Business Planning (IBP).

Integrated Business Planning allows your senior executives to plan and manage the entire organization over a 24-month horizon, while Oliver Wight's extended Supply Chain Planning and Optimization ensures your supply chain is designed and structured to deliver best-in-class customer service with minimal costs. Using the Oliver Wight Maturity Model to pursue our globally recognized Class A standard for best practice will determine a tailored improvement journey for you to develop your organization's processes, and reach and sustain excellent business performance. With a track record of more than 40 years of helping some of the world's best-known organizations, Oliver Wight will help you define your company's vision for the future and deliver performance and financial results that last.

OLIVER WIGHT

Oliver Wight EAME
The Willows, The Steadings Business Centre
Maisemore, Gloucester, GL2 8EY, UK
T: +44 (0)1452 397200

Oliver Wight Asia/Pacific
131 Martin Street, Brighton
Victoria 3186, AU
T: +61 (0)3 9596-5830

Oliver Wight Americas, Inc.
PO Box 368, 292 Main Street
New London, NH 03257, USA
T: +1 (603)-526-5800

www.oliverwight-eame.com

The information contained is proprietary to Oliver Wight International and may not be modified, reproduced, distributed or utilized in any manner in whole or in part, without the express prior written permission of Oliver Wight International.

Inspiring Business Performance