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Study Shows Suppliers Still Prefer Toyota, Honda, but Ford and General Motors are Improving Chrysler shows most improvement of domestic OEMs

BIRMINGHAM, Mich., June 12, 2006 – While Toyota and Honda still have a commanding lead in good relations with their suppliers and are the preferred automakers in the U.S. to do business with, efforts by Ford and General Motors to improve relations with their suppliers may be starting to work, according to results of a comprehensive annual study OEM-Tier 1 supplier working relations.

“This is good news for Ford and General Motors. It appears they have bottomed out and the programs they announced last year to improve their relations with suppliers are starting to have the desired effect,” says John W. Henke, Jr., president and CEO, of Planning Perspectives, Inc., which conducts the annual study.

“The principle reason for the improved supplier working relations at Ford and General Motors is that both OEMs are providing more timely and adequate information to suppliers than had been done in previous years. The improved communication leads to greater trust, both of which are important components of strong working relations,” he said.

In addition, this year’s study shows that overall, with the exception of Honda, the OEMs are working harder to improve their relations with their largest suppliers than with their smaller suppliers. Honda tends to treat all of its suppliers the same.

For instance, Ford’s and GM’s largest suppliers scored the two automakers higher than their smaller suppliers in several important areas including the amount of help the OEM provided them, the level of timely and adequate communication of important data which also positively impacts trust, the suppliers’ ability to recover some costs, and the best suppliers being rewarded with new business.

“This emphasis on larger suppliers – particularly by GM and Ford -- would seem to be in keeping with their previously announced plans to reduce the overall number of their suppliers in favor fewer larger, more capable global suppliers,” said Henke.

The annual study rates the three domestic automakers --- GM, Ford and Chrysler Group, and the Big Three Japanese OEMs, Toyota, Honda and Nissan – on their working relations with their suppliers.

Of the six automakers, the U.S. OEMs have been on the bottom half of the scale with GM the lowest, since the WRI's inception in 2002, and the Japanese automakers on the top half with Toyota having the best rating.

In 2006, GM still ranks at the bottom of the scale with a ranking of 131 which is a 17 point gain over last year, and Ford is next at 174, also a 17 point gain. Chrysler, with a ranking of 218 – a 22 point gain over 2005 – continues its five-year trend of small, but steady annual improvements and leads the US automakers.

OEM	YEAR					2005 - 2006 % Change	2002 – 2006 % Change
	2002	2003	2004	2005	2006		
Toyota	314	334	399	415	407	-1.9	29.6
Honda	292	307	384	375	368	-1.8	26.0
Nissan	225	262	294	298	300	0.6	33.3
Industry Mean	223	234	263	259	266		
Chrysler	176	180	186	196	218	11.2	23.8
Ford	166	161	163	157	174	10.8	4.8
GM	164	157	150	114	131	14.9	-20.1

Table 1. Overall OEM – Supplier Working Relation Index for 2002 – 2006
The Index ranks OEMs based on 17 criteria across 5 broad areas – Relationship, OEM Communication, OEM Help, OEM Hindrance, and Supplier Profit Opportunity. WRI scores can range from zero to 500, with 500 the best. A ranking of zero to 249 is considered poor; 250-349 is adequate; and 350-500 is considered good to very good.

The Japanese, however, remain well ahead and have by far the best working relations with their suppliers. Toyota ranked 407, Honda 368 and Nissan 300. All three are at virtually the same ranking they were last year.

"This is surprising, particularly for Honda and Toyota, both of whom place considerable emphasis on strong supplier working relations. It appears as if they have reached the best relations they can achieve given current efforts," Henke said.

The supplier Working Relations Index (WRI) is based on suppliers rating the US automakers across 17 business practices which form the basis of Planning Perspectives' WRI.

The WRI includes such factors as:

- Supplier trust of the automaker
- OEM’s open and honest communication with suppliers
- OEM providing timely information to suppliers
- Degree of help the OEM provides the supplier to reduce cost and improve quality
- Level of excessive and late engineering changes by OEMs
- How early suppliers are involved in the automakers’ product development process
- Whether an automaker gives the supplier some means to recover costs on cancelled or delayed programs
- Suppliers’ perceived ability to make an acceptable return over the long term on the OEM's business

Noteworthy, too, is that the supplier working relations indices of the various purchasing areas within each automaker can vary considerably from their company average (see Table 2). At GM, for instance, which has an overall WRI ranking of 131, the Powertrain area is ranked at 156, while the Body-in-White group is at a very low 74. All other GM Purchasing groups fall in between.

Toyota, with an overall WRI score of 407, has its electrical and electronics group scoring a very high 461, while its body-in-white group is at 381.

Table 2	Highest Scoring Purchasing Area	WRI	Lowest Scoring Purchasing Area	WRI
General Motors	Powertrain	156	Body In White	74
Ford	Chassis	194	Electric & Electronics	154
Chrysler	Electrical & Electronics	263	Exterior	167
Nissan	Chassis	316	Body in White	245
Honda	Exterior	401	Powertrain	328
Toyota	Electrical & Electronics	461	Body in White	381

Among the six automakers, Toyota’s electrical and electronics group has the best working relations in the industry of any OEM buying group, and GM’s body-in-white group by far the worst.

“Supplier working relations within each OEM vary among the various Purchasing areas, indicating that it is the OEM personnel who have the day-to-day responsibility of working with suppliers that are the primary determinants of the overall supplier relations. This indicates the importance of having performance metrics in place to drive the desired behavior of these individuals,” said Henke.

“While Ford and GM have shown some small gains overall, they have a long way to go to reach the level of Honda and Toyota and it’s going to take a real corporate commitment on the part of each companies’ management team to keep things going in the right direction and continue improving. Part of this commitment must include having the performance metrics in place that will continue to drive the behavior that brought about the change suppliers experienced during the past year.”

Where an automaker falls on the Working Relations Index can have a significant impact on their business going forward in both product development, innovation and access to new technology, says Henke.

For instance, large or small, suppliers are still shifting more resources to the Japanese automakers at the expense of the U.S. domestics. “This year’s study shows that suppliers are continuing to shift capital investment and research and development expenditures to their Japanese customers and decreasing somewhat their investments in the U.S. automakers.”

“Suppliers are also providing more year-over-year improvements in product quality to Honda, Toyota, and Nissan, than they are to Chrysler, Ford, and GM, primarily in response to the greater price reduction pressures they are receiving from the Domestic OEMs.”

The shift in resources and investment to the Japanese automakers is not a new phenomenon. It began to show up in the 2003 study, continued in 2004, accelerated in 2005 and continues this year.

In fact, according to one aspect of the study which compares OEMs’ emphasis on cost vs. quality, suppliers say that GM is five times more focused on cost than quality, Ford and Chrysler four times, while Nissan is 2.5 times, and Honda and Toyota only 1.7 times when selecting suppliers. The lower the number, the more the OEM balances quality with cost.

It is important to note, however, that this shift in loyalty and resources is not driven by cost reduction pressure on suppliers, says Henke, because both the U.S. and Japanese automakers are putting considerable pressure on their suppliers to reduce costs. Rather, it’s driven by the factors that go into the WRI; in other words, how each automaker conducts itself and works with its suppliers.

According to the study, 60% of GM suppliers and 34% of Ford suppliers would “prefer not to do business” with the automaker or are “ambivalent” about it, compared to only 3% of Honda’s and 2% of Toyota’s suppliers.

Conversely, 72% of Toyota’s suppliers and 55% of Honda’s rate those OEMs as “very preferred” or “most preferred” to do business with, compared to only 5% of GM and 10% of Ford’s suppliers rating them as preferred.

The 2006 study involved analyzing OEM-supplier relations across 1,105 buying situations and ranked the OEMs in five areas that comprise 17 variables. Based on this analysis, the U.S. automakers are well below the industry mean, with GM and Ford coming in far worse than the Japanese Big Three who are well above the industry mean. .

Copies of the overall study, as well as more specific in-depth reports on each OEM and purchasing group, may be ordered by contacting Planning Perspectives, Inc., in Birmingham, MI. For information, phone +1.248.644.7690.

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About PPI

Since 1990, PPI has specialized in developing and implementing in-depth surveys of suppliers for the automotive OEMs and Tier 1 suppliers and companies in numerous other industries including, aircraft engines, computers, construction tools, electronics, and food. In 2001, PPI initiated its syndicated Annual North American Automotive OEM - Tier 1 Supplier Working Relations Study. These studies have become benchmarks for the industry and provide critical sales and financial planning information for suppliers and their sales, marketing, and financial staffs, as well as a means by which OEMs and their purchasing staffs can get a reality check on their working relationships with suppliers. John W. Henke, Jr., Ph.D. is president of Planning Perspectives, Inc., and is a marketing professor at Oakland University in Rochester, MI. PPI is based on Birmingham, Michigan and can be reached at +1.248.644.7690

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