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GM pushes its suppliers to tap China **Ailing automaker leans on parts firms to build lower-cost factories abroad.**



By Ed Garsten / The Detroit News

TROY -- General Motors Corp.'s top purchasing executive Wednesday urged the automaker's suppliers to consider building parts in China in order to remain competitive. The automaker also reinforced the need for suppliers to meet aggressive cost-cutting goals and help it dramatically reduce warranty costs.

The meeting in Troy between GM and 380 executives from suppliers comes as the automaker is under pressure to cut its \$85 billion global purchasing bill and other costs to help restore profits, particularly in North America.

GM expects to report an \$850 million first-quarter loss and has warned that 2005 earnings will be about 80 percent below earlier forecasts.

GM is consolidating its global automotive operations and has expanded the responsibilities of several top executives who oversee purchasing, product development and engineering worldwide.

On Wednesday, GM purchasing chief Bo Andersson and other executives explained the new management structure to parts makers and sought to calm worries about the automaker's financial problems.

"There's concern when you see headlines of organization changes and excess inventory, production volumes, program cancellations," said Neil DeKoker, head of the Original Equipment Suppliers Association, which represents parts suppliers and sponsored the meeting.

GM told suppliers it's not backing off a goal to cut material costs by 20 percent between 2003 and 2005, but did not demand further price cuts.

Andersson declined to comment to the media after the meeting at the Michigan State University management training center. Supplier executives also declined to speak on the record.

The Detroit News spoke to several people who attended the meeting and obtained a 13-page slide presentation Andersson gave to suppliers. GM spokesman Tom Wickham said the message GM's purchasing team delivered during the two-hour session was "we're a global company, we need a global supply base, a competitive supply base and we do need to work together."

To meet GM's global needs and remain competitive, suppliers should consider building plants closer to growth markets, in particular, China, GM officials said.

"Location is important for logistical reasons," said Wickham, "but it's really going to be the supplier call on what works better for them.

"It's not a matter of going to a particular country. It is a matter of finding the best suppliers."

While he didn't specifically demand that suppliers move production to China, Andersson's slide presentation made the message clear: "The footprint is shifting ...Will it be driven by the consumer, competition, or you?"

The presentation also quoted from news stories that discussed rival Toyota Motor Corp.'s move to source parts in China and asserted that American suppliers are missing out on growth opportunities in China.

A so-called global purchase price that GM and other companies seek is the lowest price available anywhere, said John Henke, president of Planning Perspectives Inc. and marketing professor at Oakland University.

Getting a global purchase price on labor intensive components often requires dealing with suppliers located outside the United States, he said.

"Simply because of wage structures around the world, you'll go to places like Mexico, China and India to get the best price on anything," Henke said.

The exodus of parts suppliers to countries where labor costs are cheaper is well underway and not likely to abate before the end of the decade.

North American auto suppliers will close plants and move as much as 20 percent of their production to lower-cost regions by 2010, according to a survey conducted last year by Roland Berger Strategy Consultants in Troy.

Some parts can be produced 20 to 40 percent cheaper in China and other low-cost regions than they can North America, experts say.

Troy-based Delphi Corp., GM's biggest supplier, has invested more than \$400 million to open 11 factories in China since 1991 and is building a \$15 million research and development center in Shanghai.

Still, GM imports only one-tenth of 1 percent of the parts used in its U.S. assembly plants from China (Michigan factories supply 14 percent).

But the company expects to increase its auto part purchases from China 20-fold in six years -- from \$200 million in 2003 to \$4 billion in 2009.

During Wednesday's meeting, company executives reiterated that only those suppliers who are competitive on quality, service, technology and price would win or retain GM's business.

Andersson told the suppliers they must continue to play an important role in reducing GM's warranty costs, which have dropped from \$35.56 per vehicle after six months in service, to \$24.90 in 2004.

GM's target for 2005 is \$22.05 per vehicle.

Another challenge that will require cooperation by both automakers and suppliers, said supplier representative DeKoker, is dealing with the high cost of raw materials.

"Suppliers have concerns about steel costs and how in the world can we survive if we can't pass those on," said DeKoker. "We've looked at every way possible to take costs out."

DeKoker acknowledged it's in the suppliers' best interest to play ball with GM as it struggles through a tough year.

"We want GM to be successful," he said, "because you can't sell parts to something that doesn't exist."

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