

## Annual Supplier Rankings of Automakers by Suppliers Shows Toyota and Nissan Slipping, Ford Gaining and Chrysler Tanking

**BIRMINGHAM, Mich., August 11, 2008** – The turmoil in the U.S. auto industry is reflected in the 2008 rankings of the six major North American automakers by their suppliers, with Toyota and Nissan dropping significantly and Honda virtually tying Toyota for the best working relations among the automakers. Chrysler is in free-fall, continuing its decline from 2006 and is now in last place – slightly below General Motors -- but Ford improved dramatically and jumped two ranks to fourth place. The rankings are part of the annual Working Relations Study conducted by Planning Perspectives, Inc., Birmingham, MI.

Overall, supplier relations at Chrysler, Nissan and Toyota have dropped to their lowest levels in five years, with Chrysler dropping 26% in just the last two years.

Honda could have easily surpassed Toyota this year had it not been for a very low ranking of its chassis and electrical-related parts groups. Ford improved 18% this year by making steady gains in several important areas including supplier trust, which is at a five-year high for the automaker.

According to the study, Ford has become the most preferred domestic automaker to do business and GM the least preferred. In spite of Ford's gains, however, the company is still far behind Toyota and Honda, both of whom are ranked equally as the most preferred N.A. automaker (Table 1).

	<b>Table 1: 2008 Working Relations Index Data – Consequence or Benefit to OEMs</b>					
<b>Supplier</b>	<b>Chrysler</b>	<b>GM</b>	<b>Ford</b>	<b>Nissan</b>	<b>Honda</b>	<b>Toyota</b>
<b>Willing to Share New Tech w/o PO</b>	2.2	2.3	2.5	2.9	3.3	3.5
<b>Willingness to Invest in New Tech</b>	2.7	2.8	3.0	3.3	3.9	4.0
<b>Trust of OEM</b>	2.2	2.3	2.6	2.9	3.7	3.7
<b>Preferred Customer</b>	2.7	2.8	3.3	3.7	4.9	4.8

“In the years we’ve been conducting this study, we’ve never seen such dramatic year-over-year shifts in the rankings of the six domestic and foreign domestic automakers,” says John W.

Henke, Jr., Ph.D., president and CEO, of Planning Perspectives and professor of marketing at Oakland University (Rochester, MI). “This could signal a new chapter in OEM supplier relations going forward.

“Chrysler’s showing is especially unfortunate. Fifteen years ago, Chrysler was clearly ranked No. 1 by suppliers, but today has fallen rather dramatically to last place since being taken over by Cerberus.”

In spite of Toyota having the most dramatic overall decrease in the study’s eight year history – 48 points – the two top-ranked Japanese automakers still have a commanding lead in good working relations with their suppliers and are by far the automakers suppliers prefer to do business with.

This comes as no surprise. In four critical areas that directly impact suppliers’ financial viability – OEM concern for supplier profit margins, suppliers’ perceived ability to make a fair profit, OEM fairness in allocating charge-backs, and supplier ability to recover material costs – Toyota and Honda are ranked far higher than GM, Ford and Chrysler (see Table 2).

	<b>Table 2: 2008 Working Relations Index Data – Financial Impact</b>					
<b>Supplier Perception</b>	<b>Chrysler</b>	<b>GM</b>	<b>Ford</b>	<b>Nissan</b>	<b>Honda</b>	<b>Toyota</b>
<b>Fair ROI</b>	2.4	2.5	2.6	2.9	3.4	3.3
<b>Ability to Make Profit</b>	1.3	1.4	1.6	2.0	2.9	2.9
<b>Ability to Recover Material Cost</b>	1.6	1.7	2.1	2.3	2.9	2.8
<b>Fairness in Charge-Backs</b>	2.4	2.3	2.6	2.5	3.2	3.0

### **Consequences of Poor Relations: Continuing Disinvestment in Domestic OEMs**

According to Henke, the WRI rankings mean much more to the OEMs than winning or losing a

popularity contest. Poor supplier relations can have serious long-term consequences at a time when the U.S. automakers can least afford any more bad news (see Table 1).

“Last year GM's largest suppliers indicated that they were sharing new technology without the assurance of a purchase order and investing in new technology in anticipation of future business to the greatest extent in many years because of improved relations with GM. This year Chrysler's suppliers tell us that they have significantly pulled back in both of these areas because of worsening relations with Chrysler.”

“The two-year drop of worsening supplier relations at Chrysler has resulted in suppliers treating Chrysler as Chrysler has been treating them. In today's poor economy and intense competitive environment, such behavior toward suppliers by Chrysler just doesn't make sense,” says Henke. “Now is not the time to take an adversarial approach to working with suppliers. Every automaker should be striving to work in a more trusting way with its suppliers so that it can take full advantage of the benefits they offer and strengthen its marketplace advantage. Suppliers simply respond in kind, and Chrysler is paying the price.”

Since 2002 when Planning Perspectives started tracking supplier investments, the study shows suppliers have continually decreased investment in the domestic OEMs in terms of R&D expenditures, as well as in service and support. The poorer working relations at Nissan have also resulted in suppliers cutting back in both of these areas for the automaker. Suppliers to Honda and Toyota continue to invest more this year than last year, although at a somewhat lower level.

### **Overall Ranking: Working Relations Index**

The WRI rates these six major North American OEMs in 17 key areas that impact their supplier working relations. These include such things as degree of trust, open and honest

communication, amount of help given to suppliers to reduce costs and the supplier's profit opportunity at the OEM.

Of the six automakers, the domestic OEMs have been on the bottom half of the scale and the foreign domestic automakers have continually been on the top half with Toyota and Honda continually having the highest ratings.

<b>Table 3: 2008 Overall OEM Supplier Working Relations Index</b>									
<b>OEM</b>	<b>Year</b>							<b>2007-2008 %Change</b>	<b>2006-2008 % Change</b>
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>		
Toyota	314	334	409	415	407	415	367	-11.6%	-9.8%
Honda	297	316	384	375	368	380	359	-5.5%	-2.4%
Nissan	227	259	302	298	300	289	253	-12.5%	-15.7%
<b>Industry Mean</b>	<b>224</b>	<b>234</b>	<b>266</b>	<b>259</b>	<b>266</b>	<b>270</b>	<b>249</b>	<b>-7.8%</b>	<b>-6.4%</b>
Ford	167	161	163	157	174	162	191	17.9%	9.8%
GM	161	156	150	114	131	174	163	-6.3%	24.4%
Chrysler	175	177	186	196	218	199	161	-19.1%	-26.1%

The Working Relations Index (WRI) ranks OEMs' supplier working relations based on 17 criteria across five (5) areas: OEM-Supplier Relationship, OEM Communication, OEM Help, OEM Hindrance, and Supplier Profit Opportunity. WRI scores can range from zero to 500, with 500 indicating the best supplier relations. A WRI ranking of zero to 249 indicates very poor to poor supplier working relations; 250-349 indicates adequate relations; and 350-500 indicates good to very good supplier working relations.

This year Chrysler ranks at the bottom of the six North American OEMs with a ranking of 161, a 38 point drop from last year (Table 3). After a 43 point gain last year that moved GM out of last place, the company has slipped from a ranking of 174 to 163 this year, principally because of a dramatic 43 point drop in the working relations ratings of its powertrain suppliers. Ford climbed out of last place to fourth place, moving from 162 last year up to 191 this year.

Nissan remains in third place, while continuing its two-year drop from 300 to 253. Honda and Toyota both fell. Toyota dropped from an all-time high of 415 to 367 – a 48 point decline which

is the largest drop by an automaker in the history of the study. Honda dropped from 380 to 359, caused largely by a very poor rating by suppliers of electric & electronics and chassis-related parts. Had it not been for these declines, Honda could easily have taken the top spot this year.

### Working Relations Variations Within and Across OEM Purchasing Groups

In addition to ranking supplier working relations on an overall basis, the study measures how suppliers rank working relations for six major purchasing areas within each OEM. What is significant is that the WRI for each purchasing area varies considerably within and across each OEM (see Table 4).

<b>Table 4: 2008 High-Low Purchasing Area WRIs for Each OEM</b>				
<b>OEM</b>	<b>Highest Ranked</b>		<b>Lowest Ranked</b>	
	<b>Purchasing Area</b>	<b>WRI</b>	<b>Purchasing Area</b>	<b>WRI</b>
<b>Chrysler</b>	Electrical & Electronics	199	Body-in-White	108
<b>GM</b>	Body-in-White	187	Powertrain	150
<b>Ford</b>	Body-in-White	290	Interior	156
<b>Nissan</b>	Electrical & Electronics	273	Interior	238
<b>Honda</b>	Electrical & Electronics	372	Interior	351
<b>Toyota</b>	Electrical & Electronics	423	Interior	329

At GM, for instance, which has an overall WRI ranking of 163, working relations in the powertrain area – its best group last year at 193 – fell to its worst this year at 150, while the body-in-white area ranked at a low 131 last year climbed to the top group at GM this year at 187. All other GM purchasing groups fall in between.

Toyota, with an overall WRI of 367, all purchasing groups fell dramatically in their rankings in 2008. Toyota’s best group last year – electrical & electronics at 523 – fell 100 points to 423 this year but still ranks as the area with the best supplier working relations in Toyota. However, its

interior group fell from second place last year at 427 to last place in Toyota this year with a ranking of only 329.

Among the six automakers, Toyota's electrical & electronics group has the best supplier working relations in the industry of any OEM purchasing area, and Chrysler's body-in-white group has the worst relations.

"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 who are the primary determinants of the company's supplier relations. This indicates the importance of having performance metrics in place to drive the desired behavior of these individuals," said Henke.

"The challenges of rampant increases in material costs, poor economic conditions, and increasingly intensive competition require that each OEM works more closely than ever with its suppliers to maximize its chances for success.

"The turmoil in supplier relations among all of the OEM implies that purchasing VPs who know better have forgotten this fundamental premise of supplier relations. It is time for each OEM to go back to the basics of human behavior to ensure that they develop the kind of supplier relations they need to survive.

"By putting in place performance metrics that drive the behaviors of the personnel who interface with suppliers, the needed supplier relations will occur. With the right performance metrics every OEM can improve its supplier relations to the benefit of both itself and its suppliers."

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.

### **About The Study**

Now in its 8<sup>th</sup> year, the annual study determines the supplier working conditions in numerous areas at the North American domestic OEMs (GM, Ford and DaimlerChrysler) and the foreign domestic OEMs (Toyota, Honda and Nissan). This year, 284 Tier 1 suppliers – representing 54% of the OEMs' annual buy – responded to the survey. Demographically, the supplier-respondents represent 23 of the Top 50 North American suppliers, 46 of the Top 100 and 71 of the Top 150 North American suppliers. The study culminates in the Working Relations Index (WRI) which is a quantitative ranking by suppliers of their working relations with each of the six OEMs.

The supplier Working Relations Index (WRI) is based on suppliers' rating each automaker across 17 characteristics which form the basis of Planning Perspectives' proprietary WRI. The WRI includes such factors as:

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

## **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 service and manufacturing industries worldwide, including, aircraft engine, computer, construction tools, electronics, energy, and food industries. In 2001, PPI initiated its syndicated Annual North American Automotive OEM - Tier 1 Supplier Working Relations Study. This annual Study has been recognized as the benchmark of supplier working relations for the automotive industry in the *Harvard Business Review* and several books. The Studies 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.