The Coming Reveal
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As we conduct the seventh biennial IRN survey on price reduction requests this fall, we have been reflecting on how the context has changed since our last survey of the supply base in 2007. North American light vehicle production that year was 15 million units. US light vehicle sales were 16.1 million. Price negotiations for components seemed to be reaching some level of stability, since the 2007 survey indicated that the average percentage pricedown requested by customers had declined significantly to 4.6%, and component suppliers were coalescing around an average figure of 2% as a doable giveback. What will the 2009 survey show?

In 2009…well, you all know what happened this year with the economy as a whole and the auto industry in particular. We are looking at NA production of 8.4 million units and US sales around 10 million, in rough numbers. The breathtaking year-over-year decline in vehicle production has certainly been the primary issue keeping suppliers awake at night this year.

Cash flow and cost-cutting have been Job #1, and we will be interested to learn more from the IRN survey about the measures suppliers have been taking, and what degree of cost improvement they expect to retain as production volumes go back up. The Original Equipment Suppliers Association asked its members this summer what their current breakeven point was, as measured in NA vehicle production. Over half of those who responded said they could now make money at 10 million units or less. This is an amazing improvement in a short period of time, given that most suppliers had a hard time breaking even at anything lower than 14 million units not too long ago. As the industry starts to really recover in 2010, this indicates that the majority of the supply base will return to profitability.

The heart of the IRN survey, and the reason for its creation in 1997, has always been the issue of customer demands for lower prices on everything from the job you are quoting on today to the programs you have already been running for months. New questions in this year's IRN survey have been added to help illuminate the latest dynamics, based on what we have been seeing in 2009. They include the following:

- How have suppliers been dealing with long-term agreements, given the volatility in the industry? An LTA has historically assumed a stable external environment, so it is hard to see how it can be negotiated without knowing what is ahead for the industry on a very fundamental level.
- Have suppliers been successful getting price increases on existing business in light of the extremely low production volumes? We have started with the premise that pricedowns are the norm, but some suppliers have suggested that this may be an incorrect assumption.

- Has the cost to serve customers risen in different ways? We are seeing indications that, while price reduction requests may be less stringent, customers are introducing other requirements that work to their financial favor.
- Are suppliers getting engineering, tooling, and capital funding in different ways than previously? For example, some suppliers have apparently been successful in getting separate payments for engineering and tooling in the current environment, vs. piece price only.
- What changes are suppliers seeing in the competitive landscape? Instances of liquidation have been reported in the press. Companies that have experienced growth through takeover business can speak to the degree of consolidation happening in their product areas. Whether there will be as much downsizing of the supply base as some have predicted remains to be seen.

We look forward to reporting on the results of these and other concerns facing the supply base. For more information, or to participate in the survey, please visit our website, www.think-irn.com.

Contrary to the way the media makes it sound, the automotive industry is not just an environment of losers, but one of winners **and** losers. There are supplier companies that are carving relative success out of these difficult times, and who will benefit as we make our way back up out of the trough of this cycle. While the survey results are not in, we are comfortable saying that they will show that supplier success will continue to require a) an intense commitment to continuous improvement, and b) the flexibility to deal with yet another round of creative behavior and expectations from customers.