

Four ways to better manage the auto supply chain

Michelle Fan From:Gasgoo.com September 24, 2009



Gasgoo.com: How should the automakers react to the supply chain challenge brought by the ups and downs in the automotive market?

Tao Lin: Supply chain is really tricky for automaker. When you only look at things from the consumer point of view, you walk to a 4S store and you make a purchase of a vehicle, and you drive it home. That's it. But for the car manufactures, they have to deal with many many people before the car is put together, some parts have the lead time of 2-3 weeks, but some parts may have 20-30 weeks before they are supplied. So a car manufacturer can deal with 5,000 to 10,000 different suppliers just for the different needs to put the vehicle together. And every automaker may have a different timeframe and different demand, and different way of working. That creates very much a logistic challenge to any automakers. So a lot of things have to happen especially after the financial crisis.

When there are ups and downs in the auto market, some manufactures have done an even better job than before and some are not doing so well. I think there are a couple of things people can look at in better managing the supply chain.

1. Benchmark with competitors and learn from certain manufactures that have done a great job in managing the supply chain. In a cost sensitive times like this, you need to look at what your competitors are doing, really looking at people who are doing better than you are, such as Toyota, other Japanese automakers, and some European automakers as well, in terms of efficiency, and how to manage different suppliers from different locations for different demands.

And among the American automakers, Chrysler in my opinion probably had done the best job prior to financial crisis in managing supply chains, especially in the U.S.A.

2. Listen to suppliers. A lot of suppliers these days are being squeezed from all different directions by different people, for example, raw materials prices, their logistics, their capabilities, the changes they have to make since the financial crisis. So I think listening to suppliers and their difficulties, flexibilities, and their willingness to work with carmakers, which would really be helpful for automakers these days in terms of making a decision, how to work better with different suppliers.

3. Try different programs, different ideas with suppliers. As I mentioned, people can have up to 10,000 different suppliers for different things. One thing a manufacture could think about may be to trim down, to limit the number to maybe 5,000 instead of 10,000, to have people supply more things if it is possible. Managing 5,000 suppliers is always easier than managing 10,000. And if could just have five suppliers, that would be even better, but that is certainly not possible. So evaluating your vendor list, and looking for ways to possibly trimming the whole management process of your suppliers would be really helpful as well.

Another example of this could be location. For a global manufacturer in China, instead of using a supplier from Mexico, maybe you can use some from Indonesia, and that always cuts down the logistics cost. The regional supplier can be more helpful than worldwide supplier. Certain very high quality components, you have to import from the U.S.A or the Europe, but a lot of other things can be put used and supplied regionally instead of in long distance.

4. Have a good relationship with suppliers, which is always very helpful. Although it requires a lot of effort to try to understand each other better instead of being passed on to each other, I think it's something they should manage as well.

Gasgoo.com: You mentioned regional supplier can be more helpful than worldwide supplier. Can you give us the reasons for this judgment?

Tao Lin: I think there are two reasons, one is that places like Mexico have been major hub for American manufacturers as an outsourcer of different parts, because it is so close to the U.S., and over the years they have developed very sophisticated facilities, technology and knowledge on how to make these parts and supply to them. So naturally there are a lot of new manufacturers such as those in China would think Mexico as one of their options. However the problem is that Mexico and etc are so far away from China. I think in the beginning you could cope with it by buying parts from all over the world just to make sure you have the parts to make the cars. But eventually you should develop your own suppliers within regional areas, in order to achieve more cost efficiency.

Gasgoo.com: Do you think regional sourcing would become a new trend instead of global sourcing?

Tao Lin: I don't know if it would become a new trend, but I think it should be a good practice in order to get the cost down. Let's say, if you are sitting in China, and you want to outsource to Indonesia instead of Mexico, but there is a switching cost, you have to make sure that you invest into Indonesia, and you build new relationships, and you even help people to develop their facilities before you can switch from one place to another.

Gasgoo.com: The Japanese, European and American automakers all have their own way in supply chain management. What's the best learning objective for the Chinese local automakers to improve supply chain management? Should it be the Japanese way?

Tao Lin: The Chinese automakers do have their advantage in choosing all the good things from all companies. There are strengths and weaknesses in every practice, Japanese, American or European. The Chinese can draw the advantages and strengths from these people. And managing and integrating these things to the Chinese culture, the Chinese mentality to develop a more Chinese way. I don't think they should become the Japanese, the American or the European. There should be a Chinese way of working and managing things as well. What exactly it should be, I don't know, but we should find it out in the few years.

Gasgoo.com: Many people regard the Japanese way as the best way.

Tao Lin: I think it is one of the most efficient ways.

Gasgoo.com: What might be the disadvantages of the Japanese supply chain management system?

Tao Lin: It can give people the impression that their cars are cheaply made, especially in the eyes of Americans and some Europeans. Japanese cars are cheap and efficient, but at the same time, it's true to certain degree, the materials they've used are lighter and cheaper, and they focus a lot on cost efficiency, and that sort of gives people the impression that their cars are cheap to buy and their cars are a cheap version. But on the other hand, if you look at the American cars, most people know that the American cars are not of the highest quality, but they can be most robust, because they can be big, they are heavy, they use a lot of very enduring material on the cars, and some people may prefer that.

Gasgoo.com: How has the American supply chain management system changed after they've been learning from the Japanese way?

Tao Lin: To a certain degree, the traditional American way is still very much imbedded into their practice and way of thinking, although they have tried and are still trying to make a lot of changes. And they've realized that they have to make the changes, but that's not really an overnight thing.

Gasgoo.com: There are too many things in the field of supply chain management that the China homegrown automakers should learn, such as inventory management, supply chain risk aversion. Can you give them some suggestion on what should they learn first?

Tao Lin: I think a few things they have been learning from the Japanese and Americans in their early stages in their early days of managing suppliers. Logistics is definitely one of them, supplier relationship a lot of things can be based on.

I think supplier relationship can be an interesting topic in China, because there is always under table deal, kick backs and things like that. But it should be a very transparent and clear relationship between the two. I think one thing that Chinese manufacturers probably need to work a lot is just to become more professional, more modern, and to certain degree, Westernized.

The Chinese manufactures need to develop the best relationship and the most cost efficient as well.

Gasgoo.com: Have the major automakers' supply chain management strategy changed after the financial crisis?

Tao Lin: I think in China, certain things have changed, but not so significantly compared to the U.S. market. Most people are still doing well, for example, people like Volkswagen. Even GM is doing quite well in China. If it is going well, why you want to make dramatic changes and see what happens? I don't think there have been that many changes.

There have been ups and downs in the industry, but everybody in the industry knows that China is still a very attractive place. No matter what ups and downs we are seeing right now, it can still be going very well in the long run. So people are not really panicky like those in the U.S. or Europe.

I'm sure there will be turbulences as we have seen in the past few months. I don't really anticipate any major ups and downs, just small turbulences.

Gasgoo.com: Recently some Tier 2 and Tier 3 suppliers in China complains that their customers are asking far more quick R&D, production and delivery time, and some even require only one week's lead time, so they have to work extremely hard to follow up. And they think the automakers and Tier 1 suppliers should have shared more information with them before. What's your suggestion to this problem?

Tao Lin: It's the OEMs' responsibility to manage make the supplier follow the step. And they have to listen to these people, such as what difficulties they might have and what kind of flexibilities they have. In the process building the relationship, the OEMs should really talk to these people and listen to them if certain weeks of lead time enough for them to make the parts. Every automaker has the secrecy that they need to keep for such a long time before they are open publicly, while keeping that, the manufacturers also need to think about the right time frame for their suppliers to turn around.

I think the Chinese automakers have the tendency of squeezing the suppliers. Telling them putting two weeks a work into one, for example, and that obviously is not a healthy way to do it. And when that kind of behavior has actually impacted quality of the cars, they will realize that they need to make changes, in order to better managing the relationship. And again it's really a learning process.

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Synovate business consulting is a function focuses on B2B applications in different industries. Almost all of our functions in business consulting work with automotive related industries, except for health care industry.

Synovate business consulting works with different car manufacturers in a lot of fields, such as market assessment, market opportunity development, market entry, growth and expansion, and competitive intelligence. We also have dealt with manufacturers of tires, paints, coating, and many different materials, even GPS, and other parts used on automotive vehicles.

About Tao Lin

Tao has served a large number of clients in different industries including energy, public sector, automotive, IT, high-tech, agriculture and pharmaceutical in N. America, Europe and Asia in the past ten years. His client list includes Merck, AstraZeneca, Pfizer, nPower, Royal Mail, GE, Philips and BP. Tao spent his time in the consulting world with Accenture

and Deloitte Consulting prior to joining Synovate.

Tao's expertise has a focus in Customer Relationship Management, Change Management, Financial Modeling, Merger & Acquisition (M&A) activities, Post-Merger Integration (PMI) and Sales Force Effectiveness. He worked, in earlier years, as a CRM specialist in the U.S. and Great Britain, utilizing IT tools and change management methodologies to carry out Sales Force Automation (SFA) studies for clients in a wide range of industries. Tao started to be involved in M&A and PMI activities following his studies for his MBA degree. He has personally been involved in more than 10 M&A deals in the past 4 years and through these experiences Tao has become a seasoned consultant in providing professional help to the clients in these areas.

Tao graduated from the Illinois State University, U.S.A., majoring in Chemistry and Biology. He has also obtained his MBA degree from INSEAD in France and Singapore.

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