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## **Auto Supplier Study Shows Honda #1, Toyota Slipping to #2, Ford Gaining on Nissan, and Chrysler Still Last in 'Working Relations'**

**DETROIT, May 25, 2009** – The turmoil in the automotive industry is reflected in the results of this year's annual study of the automakers' supplier working relations, with the most significant shift in the suppliers' ratings of the auto manufacturers since the study was launched eight years ago. The annual North American OEM – Tier 1 Supplier Working Relations Study tracks the supplier relations of the top 3 US and top 3 Japanese automakers.

Honda has taken over the top spot held by Toyota since 2002, though both companies are ranked somewhat lower this year. Toyota, which has had the best supplier working relations of any company, in any industry, for years, has dropped steadily for the past two years.

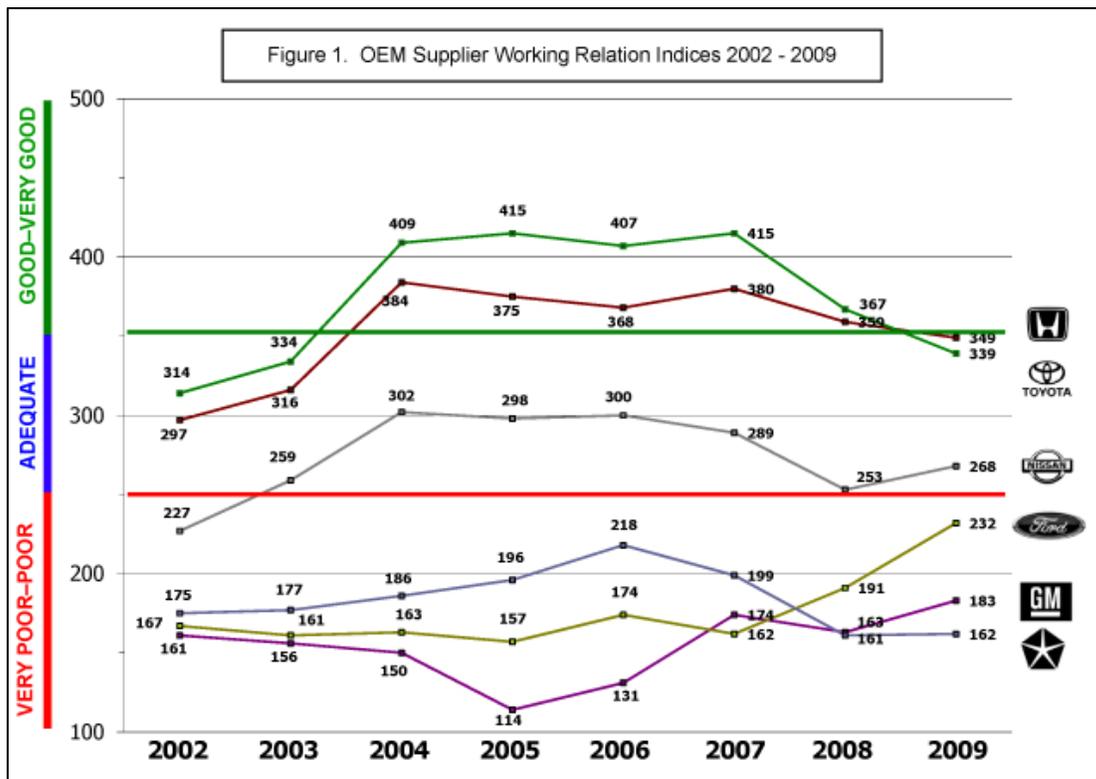
At the same time Ford, which only two years ago was rated as having the worst working relations with suppliers, has made dramatic and steady gains for the past two years. This year, Ford has the highest rating ever achieved by a U.S. automaker in the Study and is closing in on Nissan, which is in third place. Among the Japanese automakers, Honda is the most preferred foreign domestic customer, while Ford is the most preferred domestic automaker customer.

General Motors shows some improvement after a slight downturn last year, but remains well behind Ford.

Chrysler is last in supplier working relations, virtually the same position it was in last year – a dramatic decline since it was the top rated U.S. automaker in 2006.

"We have been tracking supplier relations since 1992, during which time Toyota has been clearly the industry leader in supplier relations," says John W. Henke, Jr., Ph.D., president and CEO, of Planning Perspectives, whose firm conducts the annual Study.

"Toyota supplier relations have lost significant ground in the last two years and it has slipped out of first place in our Study – a position it held since we started measuring the supplier working relations of the six automakers in 2002 with our Working Relations Index. Suppliers suggest a potential reason for this drop is a younger, less experienced staff in Toyota's purchasing group for whom the 'Toyota Way' is not yet the way of doing things."



“With respect to Ford, two years ago the company transferred the head of European Purchasing to the U.S. to be head of Ford North America Purchasing. The results have been a dramatic improvement in supplier working relations last year and this year,” says Henke.

“In fact, Ford’s working relations with suppliers are the highest they have been since 2001 now ranking just below Nissan. While Ford still has a lot of work to do, what they’re doing with their suppliers is working. The number of suppliers that say they have ‘good to very good’ relations with Ford increased by 50% this year, while the number of suppliers indicating they have ‘poor to very poor’ working relations with Ford is down by 25 percent. Ford is clearly headed in the right direction.”

**Overall Ranking: Working Relations Index**

The WRI represents the suppliers' rating of their working relations with each of the six major North American automotive OEMs. The WRI consists of 17 variables comprising five components that are the principal drivers of supplier working relations. The components include OEM communication with suppliers, OEM 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 since 2002 when the WRI was first used, while the Foreign Domestic automakers have continually been on the top half with Toyota and Honda having the highest WRI ratings of the automakers (Fig. 1).

For the second year Chrysler ranks at the bottom of the six North American OEMs with a WRI of 162, virtually the same position as last year (Table 1). After dropping 11 points last year, GM advanced 20 points this year to 183.

In terms of percentage change, the Toyota and Chrysler WRIs dropped 18 percent in the last two years, while Ford's WRI gained 43 percent.

Nissan remains in third place, while improving 15 points this year, after a drop of 36 points in 2008. Ford is close behind Nissan and could, at the rate it is improving, pass Nissan next year.

**TABLE 1. 2002 – 2009 Overall OEM – Supplier Working Relation Index**

OEM	YEAR								2008 - 2009 % Change	2007 - 2009 % Change
	2002	2003	2004	2005	2006	2007	2008	2009		
Honda	297	316	384	375	368	380	359	349	-2.8%	-8.2%
Toyota	314	334	409	415	407	415	367	339	-7.6%	-18.3%
Nissan	227	259	302	298	300	289	253	268	5.9%	-7.3%
<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>255</b>	<b>2.4%</b>	<b>-5.6%</b>
Ford	167	161	163	157	174	162	191	232	21.5%	43.2%
GM	161	156	150	114	131	174	163	183	12.3%	5.2%
Chrysler	175	177	186	196	218	199	161	162	0.6%	-18.6%

The Working Relations Index (WRI) ranks OEMs' supplier working relations based on 17 variables across five (5) components: 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 strongest 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.

### Why the OEMs Need to be Concerned

Favorable supplier rankings of the automakers have a very real impact on the OEMs' future fortunes. For many years, the study has consistently shown that automakers with the best rankings, specifically Toyota and Honda, receive the greatest benefit from their suppliers in a variety of areas including lower costs, higher quality, and innovation.

As the WRI increases, the OEM becomes a more preferred customer, and their suppliers reciprocate with equivalent behaviors, which results in greater benefits for the OEM. As can be seen in Table 2, suppliers are much more willing to share new technology with Honda and Toyota than with the other OEMs. In addition, suppliers are more willing to invest in more new technology that benefits Ford and Nissan than they are willing to do for Chrysler or GM.

Interestingly, as supplier working relations increased at Ford during the past two years “supplier willingness to invest in new technology” for Ford increased from 2.8 in 2007 to 3.2 this year, while the same measure for Chrysler dropped from 3.1 in 2007 to 2.4 this year as its WRI dropped. In other words, suppliers’ future investments in the OEM track the Working Relations Index.

Supplier	TABLE 2: 2009 Consequence or Benefit to OEMs					
	Chrysler	GM	Ford	Nissan	Toyota	Honda
Willing to Share New Tech w/o PO <sup>1</sup>	2.2	2.5	2.7	2.8	3.2	3.3
Willingness to Invest in New Tech <sup>1</sup>	2.4	2.8	3.2	3.1	3.7	3.8
Working Relations Index (WRI)	162	183	232	268	339	349
Preferred Customer <sup>2</sup>	2.6	2.9	3.8	3.8	4.5	4.7

1 Five point scale; 2 Six point scale

“The Working Relation Index is not a popularity measure,” says Henke. “It is a measure of how suppliers perceive their customer works with them. The OEMs need to be concerned about how their suppliers perceive working with them, because suppliers act toward their customers as they perceive their customers act toward them. As working relations get better for the supplier, the supplier reciprocates with greater benefits for the customer. This is an undeniable ‘cause-effect’ impact that we have seen time and again across multiple companies in numerous industries throughout the world.”

“If Chrysler doesn’t change its ways, it is going to be in big trouble, regardless of how it comes out of bankruptcy. Chrysler needs its suppliers more than ever; it cannot survive without them. Right now, Chrysler's suppliers are not doing anything to support the company because of the treatment they’ve been getting for the past two years,” says Henke. “With its relatively new VP of Purchasing in place and as the bankruptcy settles down Chrysler will hopefully return to improving the way it works with its suppliers as it was doing in 2004 - 2006.

“However, it seems that Ford and GM are finally starting to understand the impact of good supplier relations,” says Henke. “They’re beginning to appreciate the fact that their future depends in large part on their suppliers, so they’re beginning to work much better with their suppliers – especially their larger suppliers.”

“Overall, however, the automotive industry has not fully realized what good working relations can mean to a company, which is common in many of the industries in which we work. Toyota and Honda used to have the best supplier working relations of any industry we’ve surveyed, but now they, too, are slipping. There is no easy answer to good supplier relations, they take hard work, and as the WRI indicates, it’s a complex process and requires focusing on a broad range of supplier-interfacing activities. But it clearly pays off.”

## Profit Opportunities for Suppliers

An important concern of suppliers and the industry in today's economic climate is the profitability of suppliers. Supplier Profit Opportunity has been found to be an important component of the Working Relation Index. Providing suppliers an opportunity to make a profit is also a critical concern for the OEMs, because it is a reflection of their concern for the financial stability of their supply base.

Table 3 shows how suppliers rank the automakers in the various Profit Opportunity measures this year. The ratings show that Honda and Toyota are clearly ahead of their competitors in this area.

While the domestic OEMs lag Honda and Toyota rather significantly, Ford in particular has improved considerably in these areas in the past two years, but as can be seen it has a good way to go to be comparable to Honda and Toyota.

	<b>TABLE 3.</b>					
	<b>2009 Supplier Profit Opportunity Ratings of the OEMs</b>					
	<b>Chrysler</b>	<b>GM</b>	<b>Ford</b>	<b>Nissan</b>	<b>Toyota</b>	<b>Honda</b>
<b>Acceptable return</b>	2.4	2.5	2.9	2.9	3.2	3.4
<b>OEM concern for supplier profit margins</b>	1.4	1.4	1.6	1.9	2.6	2.5
<b>Ability to recover material costs</b>	1.9	1.9	2.4	2.4	2.8	2.8
<b>OEM fairness in charge-backs</b>	2.3	2.5	2.6	2.5	3.1	3.1

## 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 (Table 4).

This year, for instance, Chrysler, which has the lowest overall WRI ranking of 162, has a WRI of 182 rating of its Powertrain group, while its Body-in-White group almost fell off the chart at 89 – by far the worst supplier working relations ranking of any purchasing area within any of the six automakers.

Honda, with an overall ranking of 349, scored even higher with its Electrical and Electronics purchasing area at 373 – which is also the highest WRI in this year's study.

The highest WRI for a purchasing area in recent years was Toyota's Electrical and Electronics area in 2007, which had a WRI rating of 523, but it slipped to 423 in 2008 and this year is ranked even lower at 319. GM's best area is Exterior at 202, while its worst are ranking is Electrical and Electronics at 192. All other GM purchasing groups fall in between.

<b>TABLE 4. 2009 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>	Powertrain	182	Body-in-White	89
<b>General Motors</b>	Exterior	202	Electrical & Electronics	146
<b>Ford</b>	Powertrain	255	Electrical & Electronics	192
<b>Nissan</b>	Powertrain	280	Body-in-White	237
<b>Honda</b>	Electrical & Electronics	373	Interior	317
<b>Toyota</b>	Body-in-White	360	Interior	319

Among the six automakers, Honda's Electrical and 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 if you hope to improve your supplier working relations," said Henke. "It also gives the OEM an easy way to identify which areas are performing well in terms of supplier working relations, and which are not.

"By putting in place performance metrics that drive the behaviors of their 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.

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## **About The Study**

Now in its 9<sup>th</sup> year, the annual study determines the supplier working conditions in numerous areas at the North American domestic OEMs (GM, Ford and Chrysler) and the foreign domestic OEMs (Toyota, Honda and Nissan). This year, 231 Tier 1 suppliers – representing 52% of the OEMs' annual buy – responded to the survey. Demographically, the supplier-respondents represent 28 of the Top 50 North American suppliers, 43 of the Top 100 and 58 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.

## **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 the aircraft engines, 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 a marketing professor at Oakland University in Rochester, MI. PPI is based in Birmingham, Michigan USA and can be reached at +1.248.644.7690.