



This article was published in the *automotivemanager* 2/2008.
http://www.oliverwyman.com/ow/pdf_files/automotivemanager_2009_en.pdf

Get to know our Automotive Team.

Oliver Wyman's automotive experts have broad industry experience and a commanding track record of successful consulting projects for leading automotive OEMs and suppliers in Europe, America and Asia. We offer consulting services along the entire value chain of the auto industry: R&D, purchasing, manufacturing, sales and channel management, after sales and financial services. Oliver Wyman's global Automotive Practice supports clients with strategic topics like brand management, customer orientation, corporate and business strategies, market, competitive, and technology analyses, product development, innovation management, sales strategies and after sales programs. Operational optimization includes purchasing, production optimization, efficiency improvement programs, reengineering, turnaround management and restructuring. In addition, Oliver Wyman offers the whole range of mergers & acquisitions consulting services, from partner search to evaluation, transaction support, and post-merger integration.

© 2008 Oliver Wyman. All rights reserved.





› Customer › R&D › **Procurement** › Production › Sales › Services

Cost-Cutting After a Vehicle Series Starts

Cost pressures are being brought to bear on automotive suppliers even for current vehicle series. Approaches that factor in not just procurement, but also development and production, are proving to be the most successful. But companies must move fast to integrate these approaches into business processes.

Lars Stolz,
Christian Heiss

Saturated markets and overcapacity are putting intense cost pressure on automakers and suppliers. The markets can cope with only a limited number of additional vehicles. Recent forecasts for Western Europe and North America assume that following the dramatic drop in volume experienced in recent months, the recovery will take several years. Growth will move on a long-term basis only around one percent per year. Even Asia and other emerging markets are not growing as fast as manufacturers' capacities, leading to further price pressures across all segments, intensified by the lack of differentiation among products, and, in turn, cost pressures.

Savings potential in procurement and production

The industry can counter such pressures by scrutinizing its largest group of costs: raw

materials, purchased parts, and in-house production and assembly. These tend to rise because of high raw material prices and the addition of vehicle features. Lowering prices without taking a hit on profit margins requires continuous optimization of product costs even after the start of a series production. By that point, the key parameters have been set, specifications defined, and tools procured, and the remaining term and thus amortization time often prevent changes related to large investments.

Nonetheless, companies can still reap significant cost savings once the series has been launched, with a direct effect on profitability. Mid-sized suppliers in Germany, for instance, have been able to save up to ten percent of product costs across a broad product range after production had begun.

These companies generally make use of comprehensive approaches that help reduce both material and technical product costs. In their regular procurement waves for key groups of components, auto suppliers now draw on subcontractors from low-cost countries. Yet, even in higher-cost regions such as Germany, savings can be achieved by rigorously exploiting the competitive situation.

Reducing technical product costs involves optimizing current production, assembly, and logistics, as well as reaching into engineering. This requires comprehensive analyses prepared by cross-functional teams from product development, procurement, production, quality, logistics, and the research department. The analyses range from comparisons with competitors' products and other production processes through cost, value, or specification analyses, to factor cost simulations, to adaptation of the design for manufacturing or assembly requirements.

Best-practice companies use incentive systems to activate the expert know-how throughout their supply chain, and together with their suppliers hold intensively prepared workshops to develop options to lower their cost base. Companies then can generate their cost reduction opportunities, evaluate their potential, and implement them. Top management must actively support these programs to ensure that the identified savings potential is not diluted by weak implementation.

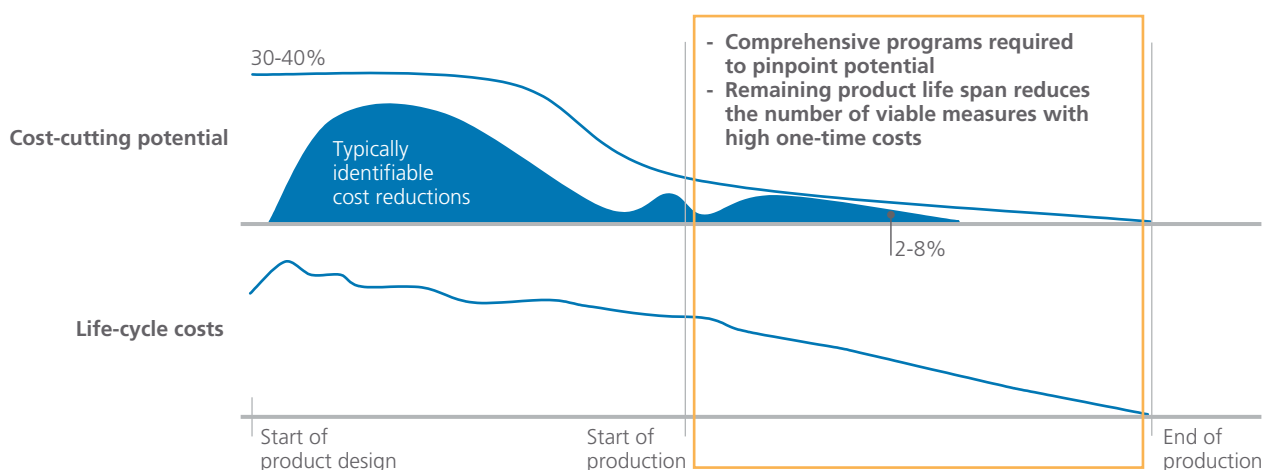
Fast and sustained action needed

In our work with OEMs and suppliers, we have found a key success factor to be the balance between fast action and sustainability. After all, delays in identifying savings and implementing programs will reduce the time during which such a measure can pay off. Hasty individual measures will prevent the structural integration of cost reductions into the suppliers' organizations. A proper balance will ensure lower operating costs over the long term, allowing companies to counter persistent cost pressures.

Five success factors to lower product costs in series production

- 1 Rigorous integration of all areas, from procurement through product development and production.
- 2 Establishment of cross-functional teams with shared responsibilities.
- 3 Integration of expert know-how from the entire value chain, including existing and new suppliers.
- 4 Comprehensive analytical preparation, through product-specific methods such as product and process benchmarking as well as cost analyses.
- 5 Rigorous implementation to maximize cost-cutting benefits during the remaining term.

Continuous and massive product cost cutting needed in series production



Source: Oliver Wyman