

EDITORIAL Series – GM’s new purchasing programme heralds increasing co-operation between OEMs and suppliers

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OEMs are increasingly looking into suppliers' costs, technologies and ability follow-source ahead of bids

GM's new purchasing programme is one of a growing number of schemes created by manufacturers as a means of fostering co-operation between OEMs and suppliers. The programmes will provide a way for OEMs and suppliers to manage their new technology developments together, as recent years have seen the burden for R&D drift away from OEMs into the hands of suppliers.



GM's new parts-buying programme, reported last week by *Automotive News*, is said to forgo conventional supplier bidding and focus more on an analysis of the suppliers' facilities and costs. Suppliers who agree to be part of a new programme, called the One Cost Model, will receive long-term contracts from the automaker for periods ranging up to the life of a vehicle. In return for these lengthy contracts, the automaker will not seek bids from other suppliers.

Under the programme, suppliers looking for business from GM allow a team of the automaker's engineers and purchasing executives to evaluate its factories and costs data. The evaluation, which GM calls activity-based costing, assesses material costs, labour, scrappage, production cycle times and other costs. GM then meets with the supplier to discuss the evaluation and a potential agreement. If both parties agree on terms, then GM awards the contract to the supplier. The entire process can take up to 20 weeks. The One Cost Model programme further requires suppliers to identify fresh cost-cutting opportunities from time to time. GM will update its cost analysis every year to see if the supplier can reduce costs by using more efficient production, the report adds.

The thinking within the industry is that by locking suppliers into longer-term contracts and getting them involved in the vehicle design process earlier, automakers can expect suppliers to share more technology and better processes that help save money. The US automaker has already started signing long-term contracts with some of its key suppliers.

OEMs are increasingly looking to introduce suppliers into development process and the strategic process at a much earlier stage than they currently do. For OEMs, it's also a way of trying to change the traditional adversarial relations between manufacturers and their suppliers that, despite periodic improvement, has been a hallmark of the automotive OEM-supplier industry for decades now. The latest way that OEMs are reaching out to suppliers is by creating programs or 'clubs' that bring suppliers into the process at an earlier stage. One of the earliest examples has been Ford with its aligned business framework. The idea of the programme is to involve suppliers at an early stage, provide them with access to long-term forecasts and long-term technology roadmaps, while at the same time saying that they have preferential access to Ford's business. Suppliers that match an OEM's investments in a certain region by following with a plant of their own have a stronger chance of getting business from that OEM in that region.

Being inside these frameworks can be a real advantage to suppliers. Around two-thirds of Ford's purchasing is made through the 110 suppliers in the aligned business framework. VW has recently initiated a similar programme, FAST (Future Automotive Supply Tracks), that goes in exactly the same direction, trying to include suppliers earlier in the development of the process and making sure that they can leverage the innovation push that comes from the supply base. In return, FAST partners will also contribute their ideas to the pre-series development of vehicles at an earlier stage.

For suppliers on the scheme, it's an effective way of securing business and undoubtedly a sign that OEMs are increasingly prepared to offer better terms. GM's Steven Keifer's previous experience with Delphi means that he is acutely aware of life as a supplier. During the Automotive News World Congress in January, he was quoted as saying, "Having been a supplier, I know how hard it is making money in this industry."

However, there is still some risk for suppliers. For OEMs these supplier frameworks are a way of mitigating the risk that has been created as the development of crucial new technologies has been handed over to suppliers. By bringing them on board, they can cherry-pick the best new technology and retain a degree of exclusivity on some projects. Because of this, suppliers will have to choose their projects carefully. It's also a way of spreading the pressure to create new innovations for shorter product development times over a preferential supply base. Suppliers may also find themselves in a situation where competitors are part of the same club, creating some synergies of information access. Suppliers have a right to be cynical about automakers motives, but these developments could mark an improvement in OEM-supplier relationships that might this time be sustained.

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