

Supply Chain Group

Growing The Automotive Supply Chain

SMMT Open Forum 21st March 2013

D Allen

Chair – Automotive Council – Supply Chain Group

Today's Agenda

1. **Reminder & overall Group Update**
2. **Optimise Competitiveness of UK Supply Chain**
3. **Developing the UK Supply Chain Tier 1 to Tier “N”**
4. **Encouraging New Entrants**
5. **OEM demand survey**
6. **Access to Finance**
7. **Wrap up and next steps**

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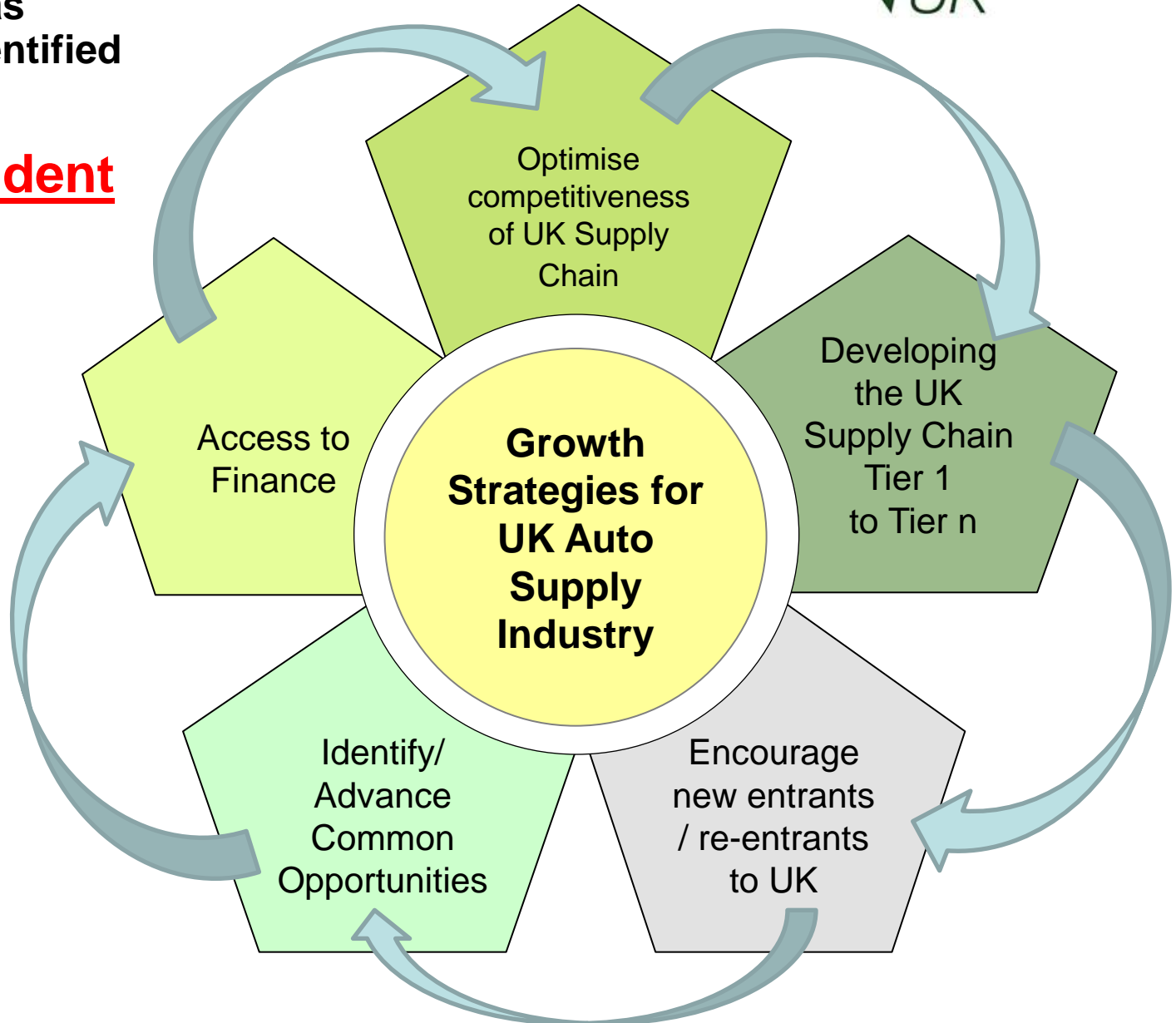
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Strategy Development – Proposed Workstreams

5 priority areas
have been identified

All

Interdependent



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Optimise competitiveness – Workstream 1

Action plan

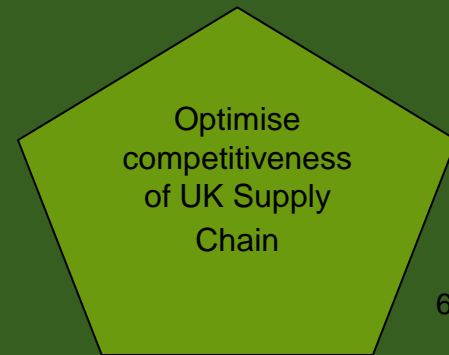
Short term

Secure funding from AMSCI Fund for SMMT IF led cluster bids

Long term

Narrow and deep solution to address Tier 2 to Tier N Supply Chain competitiveness

Link to work stream 2 activity (new sector entrants to fill supply chain gaps)



Key Issues identified from Government Reports why UK Suppliers have lost business:

- Unit price was not competitive
- Cascade of Management Capability from tier 1 into tier 2 & 3 suppliers
- The general lack of accredited suppliers
- Required processing capabilities not available
- Quality
- Logistics not competitive
- Financial aspects
- Situation mirrored by Tier “N” Suppliers

Initial Engagement

Are they interested in Automotive?

Is OEM/Tier 1 interested to change?

Key Requirements

Competitiveness

QS/ISO/TS certification

Financial Strength

(Development capability)

Barriers to Entry

Cashflow

Quality Systems

Current Productivity

No current plant

Investigation, Identification and Gap analysis required.

Key Action Themes From OEM Interviews

(within scope of this programme)

Long term automotive supply chain competitiveness programme

ACTION THEME 1

Developing technical capability.
Engineering, design, innovation,
NPI, Lean Manufacturing,
Quality.

ACTION THEME 2

Building leadership capability.
From Managing Director to Team
Leader.

ACTION THEME 3

Capability to develop and deploy
vision, strategy and business plans
and manage other manufacturers
to establish global footprint.

ACTION THEME 4

Reduce total delivered cost
(TDC) through an acute focus
on traditional QCD performance
using a narrow and deep
supplier cluster approach.

ACTION THEME 5

Increasing supply chain flexibility
and reducing supply chain costs
by sourcing from UK suppliers.

ACTION THEME 6

Building functional capabilities.
Purchasing, logistics, supply chain
planning and supply chain
execution, & quality management.

OEM's & collaborative partners

Long term automotive supply chain competitiveness



1st round discussions Original contributors



2nd round discussions Supportive of approach



Collaborations (to date)



Detailed objectives

Long term automotive supply chain competitiveness programme

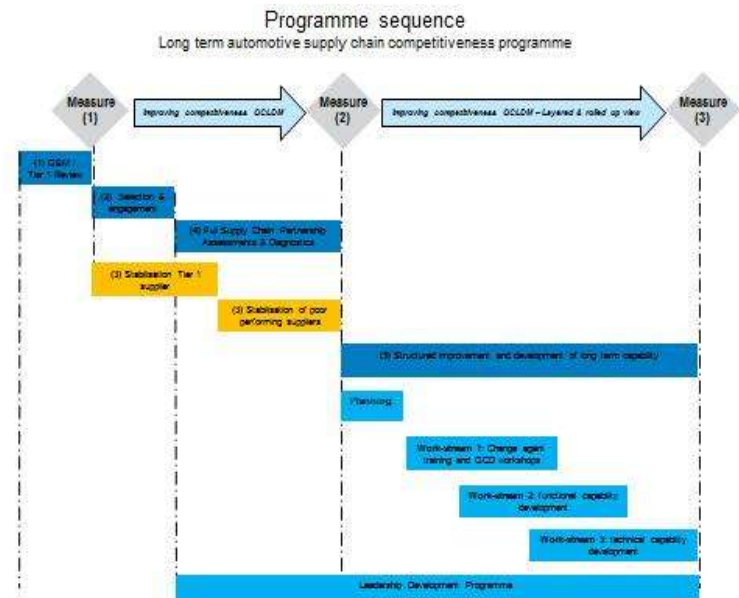
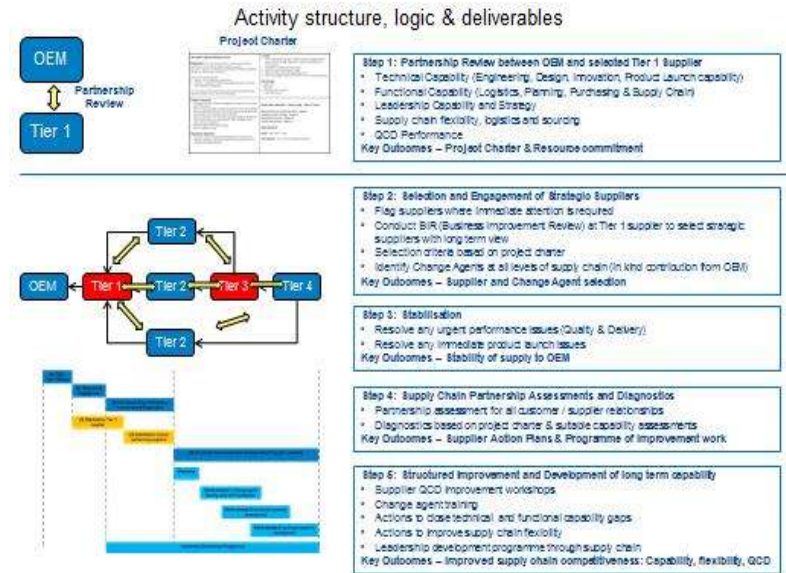
- Improve the **long term** competitiveness of **targeted** UK based manufacturers at tier-one, two, three, n as the primary vehicle for;
 - Increasing the amount of spend placed with current UK suppliers by OEM's and their tier-ones
 - Increasing and safe-guarding UK employment opportunities within the manufacturing sector
 - Retaining current manufacturing capability in the UK before we lose more – negating amplified repatriation costs and barriers in the future
 - Increasing the capabilities of '**targeted**' suppliers as the platform for future self sustaining profitable growth
 - Reducing the complexity and risk of supply chains serving UK based OEM's making the UK a more attractive location for OEM's

Next Steps – Pilot programmes

Long term automotive supply chain competitiveness programme

PURPOSE OF THE PILOTS

1. Flagship case for “Investment in UK Automotive Supply Chain”
2. Demonstrate and publicise measurable results.
3. Links L&D with tangible results. Joined up approach. Supply chain growth through employer ownership.
4. Case study Return on Investment (ROI) as the justification for OEM & Tier-one investment.
5. Encourage suppliers & OEM’s to recognise the approach as a sustainable solution.
6. Refine and improve approach for Rounds 1, 2 & 3 out to 2016.



Proposal roadmap

Long term automotive supply chain competitiveness programme

Engage OEM's scope the problem, solicit input

Consolidate & use current body of knowledge

Refine input – set scope & objectives

Identify Tier 1 Commodities & suppliers

Strategic Alignment

Industrial Strategy – Automotive Sector Industrial Strategy – Automotive council

OEM “buy-in” in principle

Programme design

PILOT Formal Proposal

PILOT funding model agreed in principal

Automotive Council Review & Endorsement 20th Feb

OEM/supplier commitment to sponsor a PILOT

Formal PILOT launches

are

August 2012

End October 2012

End December 2012

January 2013

Mid Feb 2013

Q2 2013

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Developing the UK Supply Chain Tier 1 to Tier “n”



Workstream 2

How to identify, engage and develop a competitive Tier N supply Chain for the Automotive Industry in the UK to support the Tier 1s (thus OEMs).

Supplier Forums (survey)

3 Tier N forums have been conducted in Midlands, North East and Wales (total 44 suppliers).

Key Issues :

Poor engagement

- *Finding / getting to the customer*
- *Willingness of OEM/T1/T2 to look for and develop new suppliers*

Finance

- Tooling funding; Cash flow demands; Getting indemnity cover

Credibility and visibility of the opportunity

- How does the £3bn opportunity relate to me?

Activities:

Translate the £3bn opportunity into meaningful data for a UK Tier N supply chain

- *Includes processes currently absent from the UK*

Identify capacity demand for existing UK capabilities

- *Analyse survey data with more granularity - on-going with individual OEMs*
- *Enrol significant sample of Tier 1 suppliers to cascade survey through their tiers*

Engage with UKTI with plan for tier 1 suppliers to return with absent technologies

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December 3rd - 4th Automotive Supply Chain Event



Ease of Doing Business



- The UK is ranked as an easier place to do business than many other major European economies - the table on the right provides a comparative sample of major European economies.

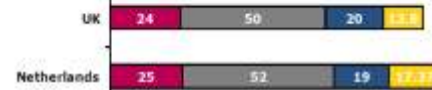
Ease of Doing Business Rank

Country	Global Rank 2012
UK 	7
Germany 	10
France 	29
Netherlands 	31
Spain 	41
Italy 	67

Source: Doing Business 2012, The World Bank, International Finance Corporation

18

European Tax Comparison



Notes

Corporate Tax

- Germany - the effective corporate rate (including the solidarity surcharge and trade tax) typically ranges between 30% and 33%.
- Italy - the corporate tax rate is 27.5%, plus the regional tax on productive activities (IRAP), generally 3.9%.
- UK - the rate is to be reduced from 24% to 22% by April 2014.
- The UK higher rate personal tax is to be reduced from 50% to 45% in April 2013.

140 160

al Costs

19



Automotive supply chain event

AGENDA

3rd December – Lancaster House Hotel

- 2.00pm: Opening address by Michael Fallon, Minister for Business
- 2.15pm: The UK proposition for automotive supply chain companies
- 3.15pm: The industry perspective, from Richard Parry-Jones
- 4.00pm: Support offered by UK Trade & Investment to locate and grow your business in the UK
- 7.30pm: Gala dinner at [venue tbc] hosted by Vince Cable, Secretary of State for the Department of Business, Innovation and Skills

4th December – Chelsea FC (Stamford Bridge)

- 9.00am – 5.00pm: 1 to 1 Meetings with UK OEMs



Attendees

64 out of 250 Tier 1 suppliers invited

OEMs: Nissan, GM, Ford, JLR, Honda, Toyota, Aston Martin, Bentley & Perkins

Michael Fallon, Minister of State Business & Enterprise

Nick Baird, Chief of UKTI

Initial Feedback

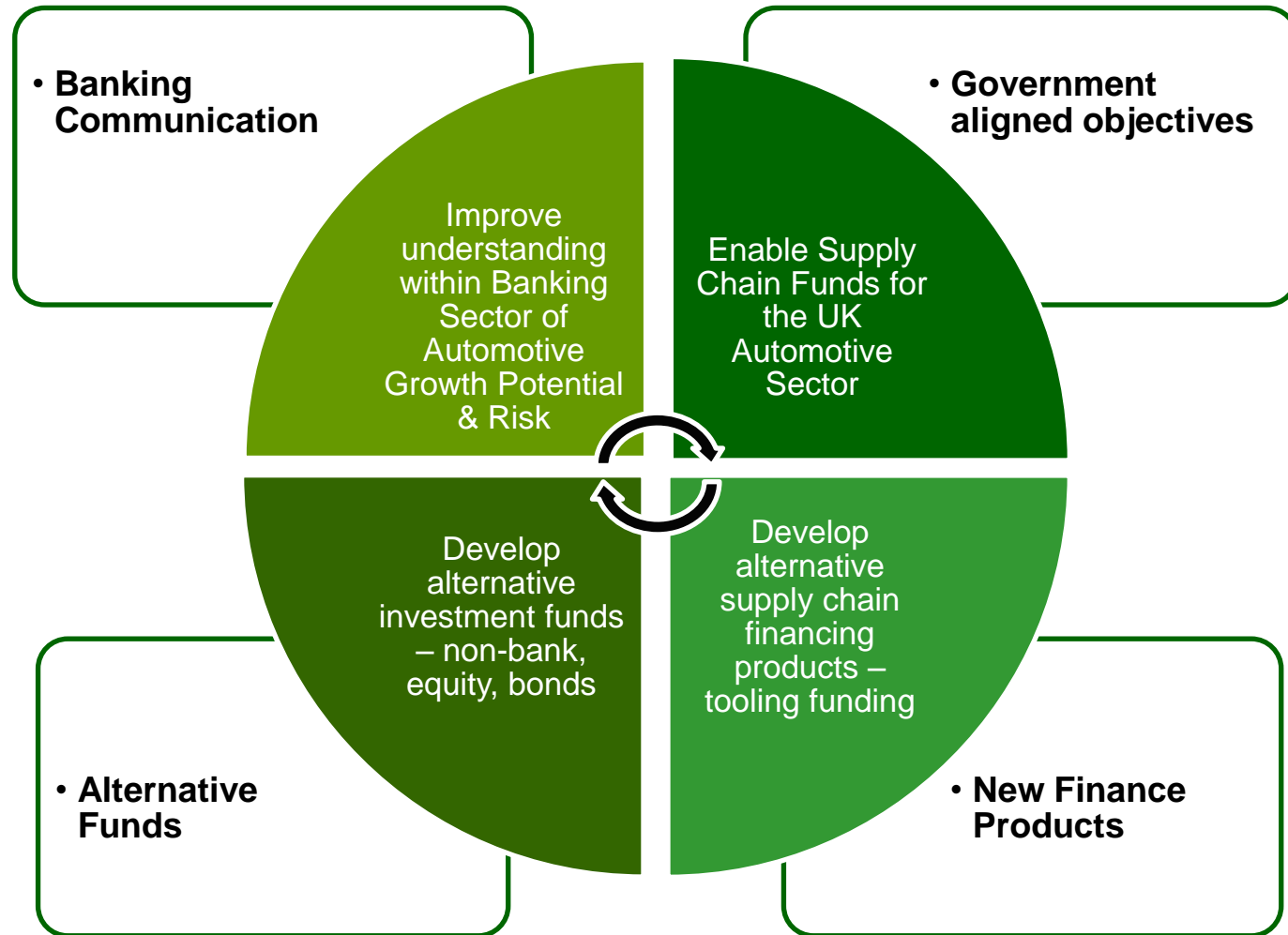
- **111 meetings held with 18 investment leads identified to date**
- **Overall Manufacturers and suppliers gave positive feedback on the event**
- **Attendees left well informed about supply chain opportunities in the UK Automotive sector**

Next event proposed for Wed 10th July to coincide with Goodwood festival of Speed

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Access to Finance Supply Chain Group Objectives



- Aligned to the Automotive Council Supply Chain Group
- Work cross industry with the banking sector
- Focus on key industry issues developing empowered solutions.

Access to Finance – Workstream 5

Developing Solutions

Latest Developments:

- 2012 established a joint industry roundtable forum with the BBA
- Tooling Finance Gap was selected as a first scalable issue
- Auto Council UK/ BBA Framework:
 - Agree cross industry issues for presentation
 - Analysis and discussion of potential solutions
 - Implementation of solutions outside of roundtable remit
 - Discretion of private parties to report back

Next steps:

Agreement to continue the joint industry approach into 2013



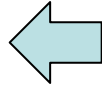
Supply Chain Group Industry Engagement with FSS

UK Suppliers have identified the ability to fund **OEM Tooling at 100% PSW** as the most important factor restricting liquidity and ultimately plans to fund growth especially during :

1. Rapid UK OEM Growth
2. Low Capitalisation in the Supply Chain
3. Reduced Lending Levels from the FSS

Both industries need to recognise post recession issues.

• Access to Finance



Coordinated Assistance for Supply Chain Access to Finance

Ensure consistent terms and high code of conduct

• Industry Standards

Articulate the value proposition at National & Local levels

Map the supply chain for financial health & product investment opportunities

• Promote the Automotive Sector

Supply Chain Visibility

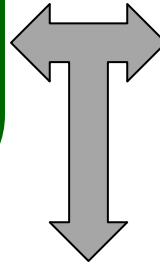


Product Proposition Collaborative Approach



Automotive Industry Ideal

1. Pre shipment finance term to cover full period of the funding gap of up to 2 years
2. No formal guarantees beyond the tooling order and application of current GT&Cs
3. Risk of delivery sits with Tier 1
4. Cost of credit to reflect low risk & a valuable automotive asset



Financial Services Sector View

1. Acceptable post shipment finance of up to 180 days
2. Formal guarantee or letter of credit should be provided by the OEM
3. Risk of cancellation perceived as high
4. Cost of credit will reflect low resale value of the tooling asset

Collaborative Finance Proposition Principles:

1. Staged or Conditional payment contract, set between OEM & Tier 1 (Tri-Party with Bank)
2. Contract is acceptable by a bank to provide the Tier 1 with Tooling Finance Credit – this will require additional OEM commitments beyond current order and invoice but not guarantees
3. Extended Credit terms between OEM & Bank for total contract cash neutrality
4. Affordable Cost of Credit to reflect OEM credit rating and value of the asset to the OEM, < 5%

Automotive Council to develop wording for proposed tri-party agreements
Business Bank could play a role to facilitate agreement

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