

# Sales Best Practices in the Global Automotive Supplier Industry

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## I. BACKGROUND: THE SUPPLIER CRISIS COMES TO A HEAD

The automotive industry today is faced with some of the most difficult and challenging circumstances in its history. Consumer confidence is at an all-time record low and the availability of financing and consumer credit has tightened significantly. Vehicle demand, particularly in North America and Europe, has declined significantly. Sales data for November 2008 revealed the biggest year-over-year monthly decline in 27 years, including drops of 41% for GM, 31% for Ford and 34% and 32% for Toyota and Honda respectively.

In response, OEMs throughout the world are scrambling to slash production and reduce manufacturing costs so that they can reduce vehicle prices to clear inventory. At the same time, they continue to offer consumers generous incentives and rebate programs, which only increase the pressure to wring additional cost savings from their manufacturing operations and supply chain.

While the OEMs' hardships tend to dominate the news, the implications for the supplier community – companies that collectively employ 10 times the number of employees as the OEMs – are potentially even more troubling and far-reaching. As they often are, the supplier community will be called on to share in the pain. Over the next several months Tier I, II, III suppliers, as well as raw materials producers, will be asked to agree to some of the most massive discounts, cost-downs and givebacks in history. Suppliers will be told that if they cannot, or will not, agree to the demands, their business will be at risk and purchasing will have no other choice but to turn to low cost suppliers in China, India, and Eastern Europe.

Moreover, current industry events pose additional threats to the supplier community. Bankruptcies are possible at several major OEMs. There is the potential for additional industry consolidation that will create additional pressure on the supplier community as the remaining larger players use their leverage to push for even steeper discounts.

### The Rise of Purchasing

OEMs have proven successful in one initiative over the past 15 years – convincing their suppliers that winning contracts is only a matter of lowering price. This era of extreme price pressure can be traced, in part, to Jose Ignacio Lopez taking over purchasing at GM in the early 1990's. Tearing up existing contracts, he demanded that suppliers agree to immediate price cuts of up to 20%. Suppliers protested, but many ultimately submitted to his demands. Lopez's early success set a new standard for purchasing operations – not only at the OEM level, but also at Tier I's and other large players in the supply chain.

Today, purchasing organizations play a critical role within every company, employing thousands of staff, whose principal responsibility is to convince suppliers that they must drop price in order to win the business. Purchasing now has a seat at the Executive Table and they are being counted on to deliver billions in annual savings.

Purchasing, as a discipline, is more professional and disciplined than it has ever been. Specialized software applications and systems have been developed to make purchasing agents more efficient and intelligent in their sourcing decisions. "Scorecards" are used to encourage suppliers to improve on certain performance dimensions without raising their prices. And many purchasing agents are paid a bonus for negotiating lower prices from suppliers.

As the purchasing function evolved, it began to define and dictate the rules of engagement between suppliers and buyers. What has evolved is a process that is designed to maximize purchasing's leverage and minimize suppliers'



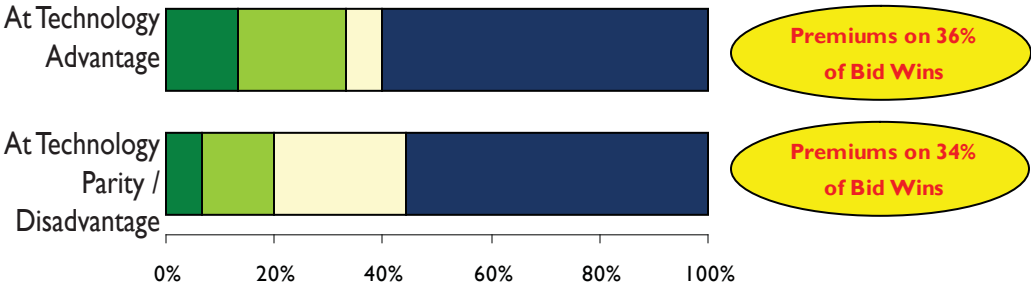
strengths. Over time, suppliers have been conditioned to believe that the “lowest price wins.”

In response, suppliers have spent decades working diligently to lower their costs. Investments have been made in Lean Manufacturing, process re-engineering, and similar efficiency initiatives. But even when suppliers are successful at taking costs out of their operations, buyers typically respond by demanding that any cost savings be passed on to them in the form of lower prices.

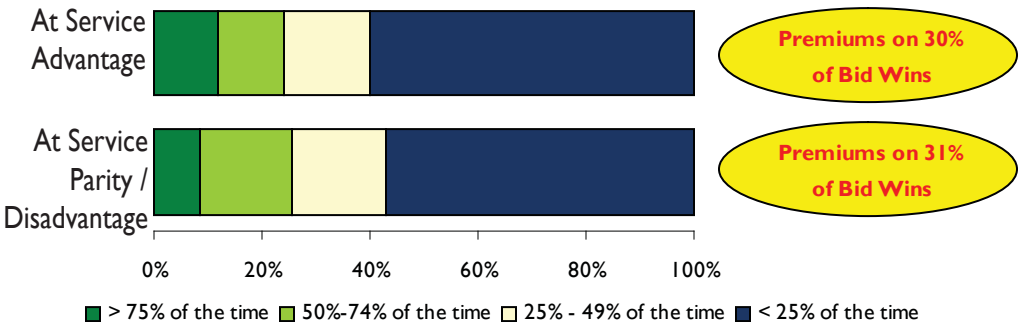
Similarly, the study found that for most suppliers, their investments in better technology or service capabilities have not been rewarded with premium prices in the marketplace:

- Nearly three-quarters (72%) of respondents describe their firm as having a competitive advantage based either on better technology, or better service and support;
- Yet most respondents report winning a price premium versus their competitors on less than 25% of the business they win.
- On average, those who claim a technology- or service-based advantage do not report winning price premiums any more often than other respondents (see Figure 1).

Figure 1: Most suppliers do not get rewarded for the advantages they believe they have in technology



...or in service capabilities...



Unfortunately, this becomes a vicious, downward cycle. Buyers' focus on price reductions prevents suppliers from negotiating a return sufficient to invest in R&D. Innovation and investment get systematically discouraged, leading to an even greater focus on price above all else. In a sign of how dysfunctional the situation has become, some suppliers instruct their sales people never to reveal anything innovative to certain OEMs, knowing they will not get paid for it, and might even be forced to give the innovation away as a condition for the OEM renewing their existing contracts. Over the long-run, this type of dynamic has undoubtedly contributed to the decline of innovation in the North American auto industry in particular.

## **A Way Forward**

However, as the left side of Figure 1 suggests, there is a segment of suppliers that are able to consistently get paid for the innovations and advantages that they offer to buyers, with some even winning price premiums 75% to 100% of the time. These suppliers have found ways to break out of the cost-focused, purchasing-driven, paradigm that dominates the industry.

How are these suppliers able to do this? Sections III through VI of this report examine the specific strategies and tactics these best-practice suppliers use. For now, the short answer is that they do not compete solely on price, and do not resign themselves to playing by the "rules" established by purchasing. After all, when OEMs or other buyers source from suppliers, the "piece price" is only one part of the total cost they incur. High quality parts, services and systems create value by enabling them to improve their own productivity, reduce costs, or even increase market share. The key for suppliers who offer such advantages to their customers is to earn credit for the value they deliver.

The study found that numerous suppliers – from all over the world, and providing a wide range of components – are successfully doing so. They are changing the rules of the game.



## PURCHASE INFORMATION

The full report, “Sales Best Practices in the Global Automotive Supplier Industry,” can be purchased online at:  
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For more information about the report, or to purchase by phone, call us at 1-800-331-9110 or 202-331-0555.

## ABOUT THE AUTHOR

Kotler Marketing Group is a consulting firm that specializes in marketing management and strategic marketing. Founded in 1988, our philosophy is based on the work of Dr. Philip Kotler, the world’s leading strategic marketer. Our mission is to help our clients engineer profitable growth.

Kotler Marketing Group’s Value-based Services Practice has built a track record of success at helping companies implement value-based sales and marketing strategies. Our consultants help clients to document and demonstrate the value of innovative products & services. Our Automotive industry practice has served many of the leading automotive suppliers.

Kotler Marketing Group developed the widely acclaimed “Defending Price™” sales training program. Hundreds of suppliers have sent 1000s of their employees through this program and we pride ourselves on our clients’ successes – generating incremental revenue and defending margins.

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