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HEADLINE: Car Makers Set To Squeeze Suppliers

BYLINE: Tim Treadgold

BODY:

What is wrong with this picture? Ion and Pacifica Group, makers of motor vehicle components, are two of the best performing shares on the Australian Stock Exchange, while Mitsubishi, Holden, Ford and Toyota struggle to make profits, or simply survive, as car makers in Australia.

If a supplier is making fat profits while the customer struggles, eventually the supplier will

be asked to share some of the customer's pain. That is the message from a new study of the global vehicle industry by PwC Consulting, a unit of the accounting firm PricewaterhouseCoopers. The report predicts big change for the vehicle component-supply industry. "The consolidation among auto makers pales in comparison to the impending consolidation of suppliers," says PwC. "By 2010, there will be no more than 20 to 30 major systems suppliers globally."

Australia's Federation of Automotive Products Manufacturers has 200 members, mainly in South Australia and Victoria. Ion and Pacifica are leaders in the business. Both have been stockmarket favorites over the past year, with Ion's share price rising from 72cents to \$2.73. Pacifica, a specialist braking system firm, is up from \$2.55 to \$3.91.

The Australian-based co-author of the report, PwC partner Ted Van Riel, says the vehicle industry (and its suppliers) must adapt to changing market conditions that are being felt far beyond Australia.

The industry is in trouble around the world. Excess capacity is killing profits. Five years of consolidation has left the world with nine makers producing 95% of light vehicles. The top six companies account for more than 80% of production.

The rush to merge by manufacturers such as General Motors (GM), DaimlerChrysler, Ford and Renault has produced a new name for car makers, which are now called "vehicle brand enterprises", but failed to provide any increase in returns for shareholders.

PwC says that the concept of the mass market for vehicle production may be dead, and manufacturers are being forced to adopt a new marketing strategy that satisfies consumer demand for something different. "The consumer, demanding more individual attention, is pressuring the new product development process on a global scale," PwC reports Van Riel says: "Where the [Australian] industry is struggling to find some direction is, where does it go in a relatively small

market ... and increasingly [it is] losing its domestic market to well-priced, fully featured, foreign imports."

One of the answers is for suppliers to work much more closely to give greater value to the vehicle company. Van Riel says Australia is seeing the start of supplier-customer collaboration, but much more must happen. "Manufacturers are looking to source a complete package."

Van Riel says such change is happening and Australia is leading the world with some of its collaborative relationships. GM has been successful in selling Monaro cars in the United States, he says, because it saw "new business processes emerging in Australia which it hadn't been able to create in North America".

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