

The Suppliers Dilemma

By Steven Susser

Life is rough for an automotive supplier these days. Once you get your part before an OEM or Tier 1, it is assumed that you can meet quality, timing, and delivery requirements. The only question is how cheaply you can supply your part. Inevitably, there is someone else out there who can supply it for less money. If you don't have a foreign production source - especially for a simple component - - you are in trouble. It will do little good to establish a good relationship with the buyer or to tout your years of loyalty and competent supply. Relationships matter for little and, anyway, the buyers rotate so frequently that a relationship with one means little to his successor.

There are currently two distinct "tectonic plates" that appear to be on a collision course in the world of automotive supply. One is the persistent push by purchasers for lower costs and lower prices, which is then pushed down to each level of the supply chain. The counter-push is technology, as new consumer demand for high-technology solutions (hybrids, e.g.) puts enormous pressure on automotive manufacturers to offer the next best device. Unfortunately for suppliers, these goals appear to be at odds. Technological innovation generally requires a heavy investment in research and development, not to mention the price tag of attracting top talent.

The answer is value. If you are able to propose a part that is lighter, stronger, more effective or more creative than what was requested, you might establish some leverage to negotiate a reasonable return for your parts. To do this, the supplier must protect its technology, either through a patent or a contract.

Yet even intellectual property will not always be enough to provide safety. The purchasing community, realizing the power that intellectual property gives to its supply base, has been fighting back. It will propose terms and conditions that nullify or limit patent protection or that transfer ownership of all the suppliers' intellectual property to the purchaser. Whether these terms can be modified depends on the particular relationship between the supplier and purchaser, but a canny supplier with intellectual property to offer stands a far better chance of being listened to than a commodity supplier who competes on price alone.

But it is not only the terms and conditions that a supplier must fear. Some purchasers, in their desperation to obtain technology at a low cost, will appropriate a supplier's intellectual property regardless of the cost. In one case that I recently handled, Faurecia, a Tier 1 supplier to Chrysler issued a purchase order to Canadian Tier 2 supplier Multimatic for the design and development of a cross car beam to be placed in the instrument panel of a Chrysler line. After Multimatic had submitted an innovative design that increased the strength and reduced the weight of the beam, Faurecia began demanding price concessions. As Multimatic had a confidentiality agreement signed by Faurecia that prevented Faurecia from sharing its beam design with Multimatic's competitors, Multimatic refused to accede to Faurecia's price demands. At this point, Faurecia secretly sent out Multimatic's design to other manufacturers so as to obtain a lower price. Faurecia then replaced Multimatic with another supplier, and Multimatic sued. The dispute culminated in a seven-day trial before a federal jury. At the close of the trial, the jury awarded Multimatic \$10 million - everything that it asked for on lost profits - and even asked if it could award more money to Multimatic.

This case demonstrates that a determined supplier that focuses on innovation rather than price can succeed in obtaining a fair return for its investment, even in the brutal market that the automotive industry has become. And even in the absence of a patent.