

Automotive News

Automakers steer clear of shaky suppliers Fear of shutdowns speeds shakeout, creates a world of fewer, bigger players

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DETROIT — Frightened by the ailing health of their supply base, the Detroit 3 are culling the herd by yanking business from the sick and weak and giving it to bigger, stronger rivals.

That points to a long-term future of fewer, stronger suppliers when the industry turns up — and, in the meantime, a grim landscape of layoffs, plant closings and liquidations for the vendors left behind.

"This is happening every single day," Dan Sharkey, a partner with consulting firm Brooks Wilkins Sharkey & Turco of suburban Detroit, says of the redistribution of business. "The automakers are much more eager to prevent the risk of a troubled supplier threatening to disrupt parts shipments or hurting auto production and forcing plant closures."

The summer assembly plant shutdowns — lengthened for General Motors and Chrysler by Chapter 11 proceedings — provided a prime opportunity for the Detroit 3 to yank contracts. Automakers could more easily pull tooling from one supplier and send it to another without disrupting vehicle production.

Winners and losers

Here are some companies that have won and lost contracts as automakers shift business to more stable suppliers in an effort to prevent disruptions in production.

| Contract | Winner | Loser |
|---------------------------------------|----------------------|----------------------------|
| Seats in Europe | Johnson Controls | |
| Roof racks | Jac Products | Advanced Accessory Systems |
| Acoustic insulation | CTA Acoustics | BBI |
| Transmission oil-coolant lines | Hutchings Automotive | Noble International |

Some winners, losers

Companies such as Johnson Controls Inc., for example, have taken tens of millions of dollars worth of parts business from struggling competitors.

The Costa Rican operation of Florida parts maker Hutchings Automotive Products Inc. was a big winner after the collapse of Noble International Inc. this year, a Hutchings spokesman says. Ford Motor Co. moved part of its heating, ventilation and cooling business to Hutchings earlier this year.

Chrysler LLC sent transmission oil coolant line contracts to Hutchings, and General Motors Co. sent transmission parts business.

The flight to stable suppliers is shuffling overseas, too. Last week, Johnson Controls said it would take over two European seating and interiors programs currently supplied by competitors. Johnson Controls did not identify the competitors, but analyst David Leiker of Robert W. Baird & Co., in a research note, named bankrupt Lear Corp. as the losing supplier.

Asked for comment last week, Lou Salvatore, president of Lear's global seating operations, said: "We have not lost a single piece of business anywhere in the world based on a lack of competitiveness."

A Lear spokesman declined to state categorically that the company had not lost any business for other reasons, adding that it was impossible to know whether Lear's July 7 Chapter 11 filing had turned away customers.

In another shift in business, Jac Products Inc. obtained tens of millions of dollars in roof rack contracts from five automakers in April. The loser was Advanced Accessories Systems Inc. of suburban Detroit. Alan Johnson, CEO of the now-defunct company, did not return calls.

"This was a good solution for an automaker with a troubled supplier," says Stephen Morrey, CEO of Jac Products. "We can fill the hole where a troubled supplier once stood."

Another winner, sources say, was suburban Detroit parts maker CTA Acoustics Inc., which is owned by Cerberus Capital Management. It was awarded contracts from both Chrysler LLC and General Motors for acoustic materials to insulate engine compartments.

The former supplier was BBi Enterprises Inc. of suburban Detroit, which began shutting down its operations last month, those sources say.

BBi was hurt by the summer shutdowns of Chrysler and GM. BBi also had the misfortune of supplying the slow-selling Chrysler Sebring.

CTA CEO James Pike and former BBi CEO Steven Brown, who left the company in June, did not return phone calls seeking comment.

Hair trigger

The Detroit 3 long have pumped money into critical suppliers facing collapse. But they are operating on a hair trigger since the Plastech Engineered Products Inc. filed for Chapter 11 reorganization in February.

Investment banker Scott Eisenberg, a managing partner with the suburban Detroit firm Amherst Partners, says the Chrysler and GM shutdowns have caused acute cash-flow problems for suppliers. Typically, suppliers are paid 45 days after shipments, he says, so the drought will continue even when output resumes.

The Obama administration is unlikely to extend additional credit to auto suppliers. One exception: Government money is still expected to back a private-equity firm's plan to buy Delphi Corp., GM's largest supplier.

"The federal government has assisted the automakers," says John Groustra, a turnaround expert and partner with the suburban Detroit firm Conway MacKenzie Inc. "But suppliers have been left to Darwin and Adam Smith."