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THE GLOBALIZATION OF THE SUPPLY BASE:

CONCENTRATION, COMPETITION AND COMPETITIVE ADVANTAGE

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Prepared by CSM Worldwide
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AGENDA

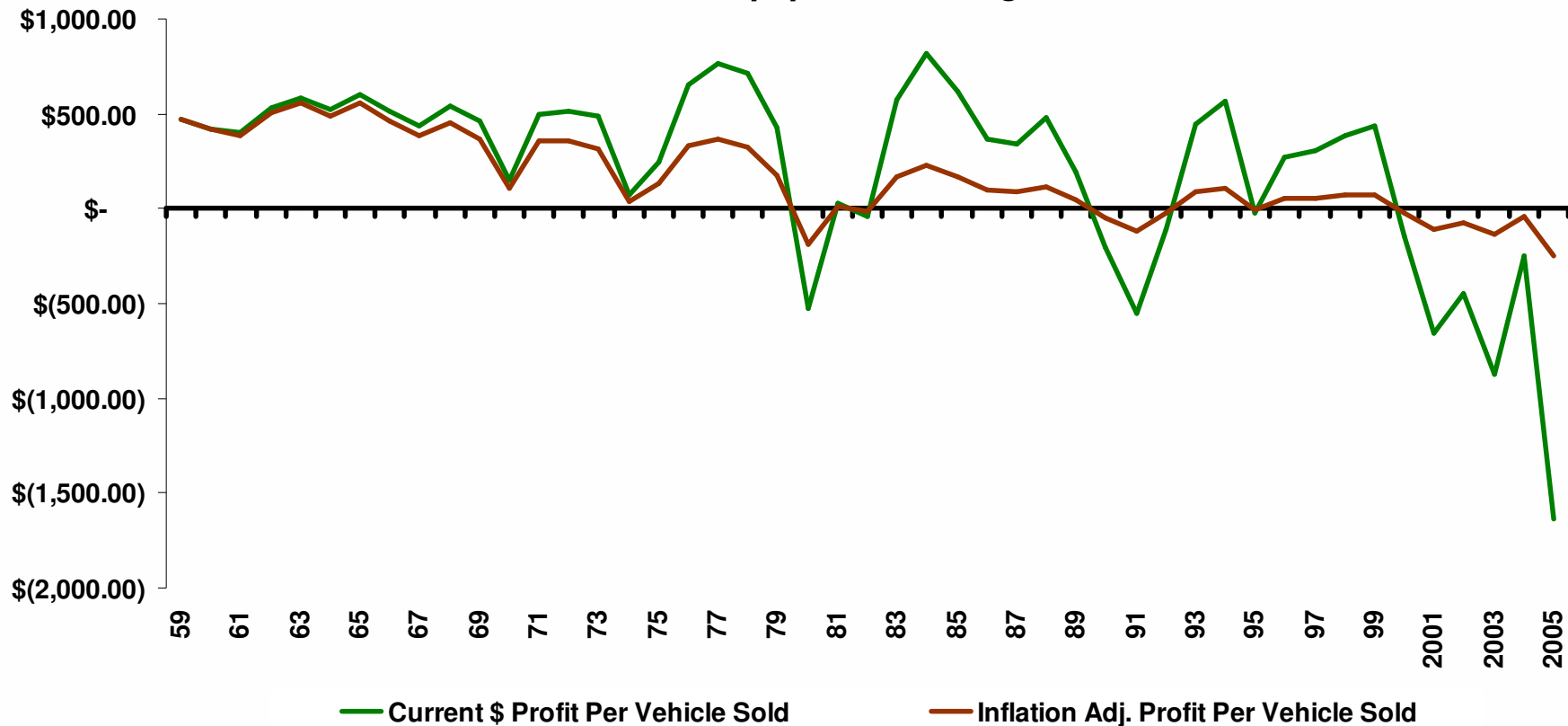


- Competition – Industry Globalization
- Concentration – How Industry Structure is Changing
- Competitive Advantage

THE NO-PROFIT ZONE: US AUTO INDUSTRY

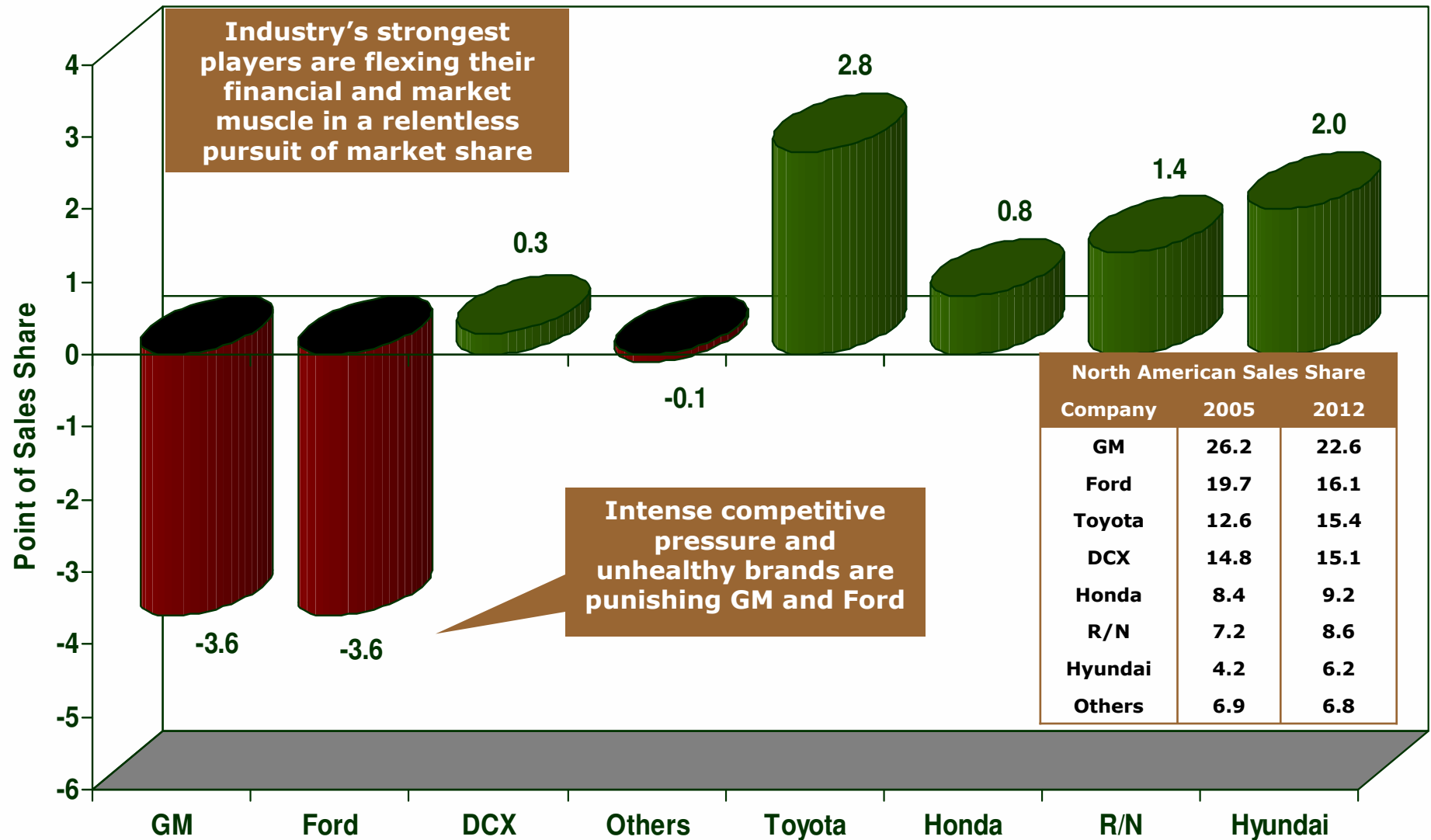


**US Corporate Profits:
Motor Vehicles and Equipment Per Light Vehicle Sold**



NA LIGHT VEHICLE SALES OUTLOOK

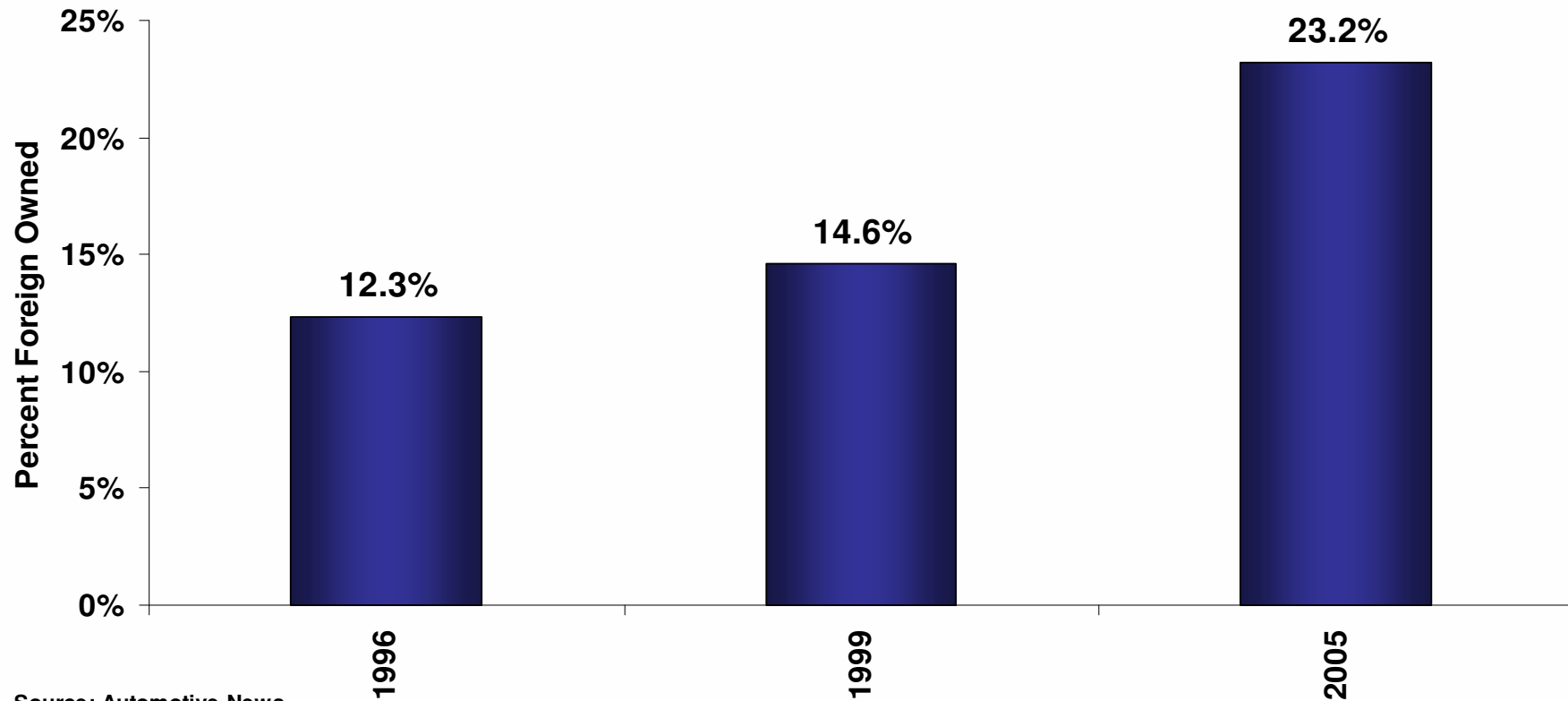
Competitive Pressure Squeezing GM and Ford



NA SUPPLY BASE INCREASINGLY GLOBAL



**Automotive News Top 20 Suppliers to North America:
Percent of Sales from Foreign Domiciled**

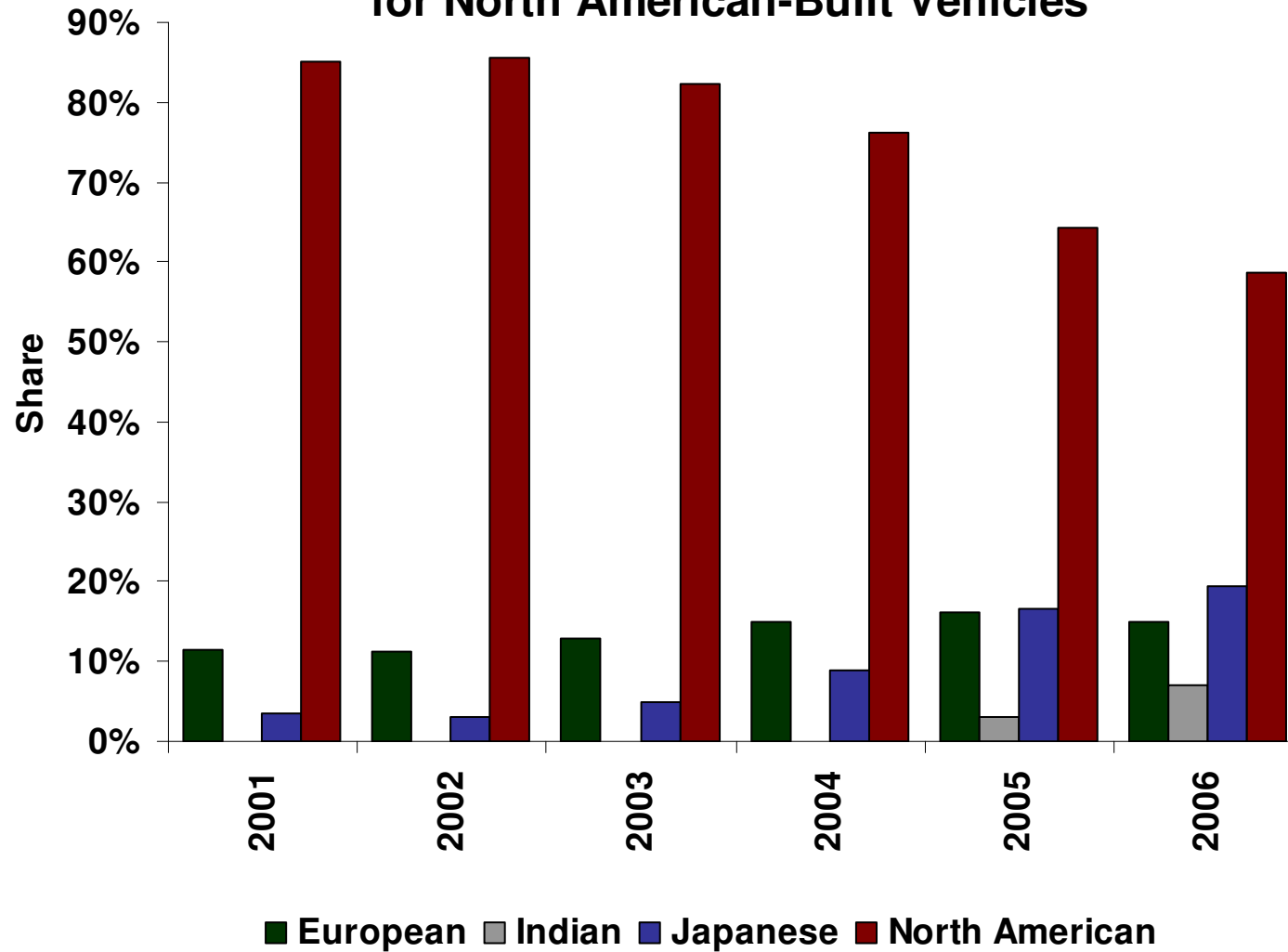


Source: Automotive News

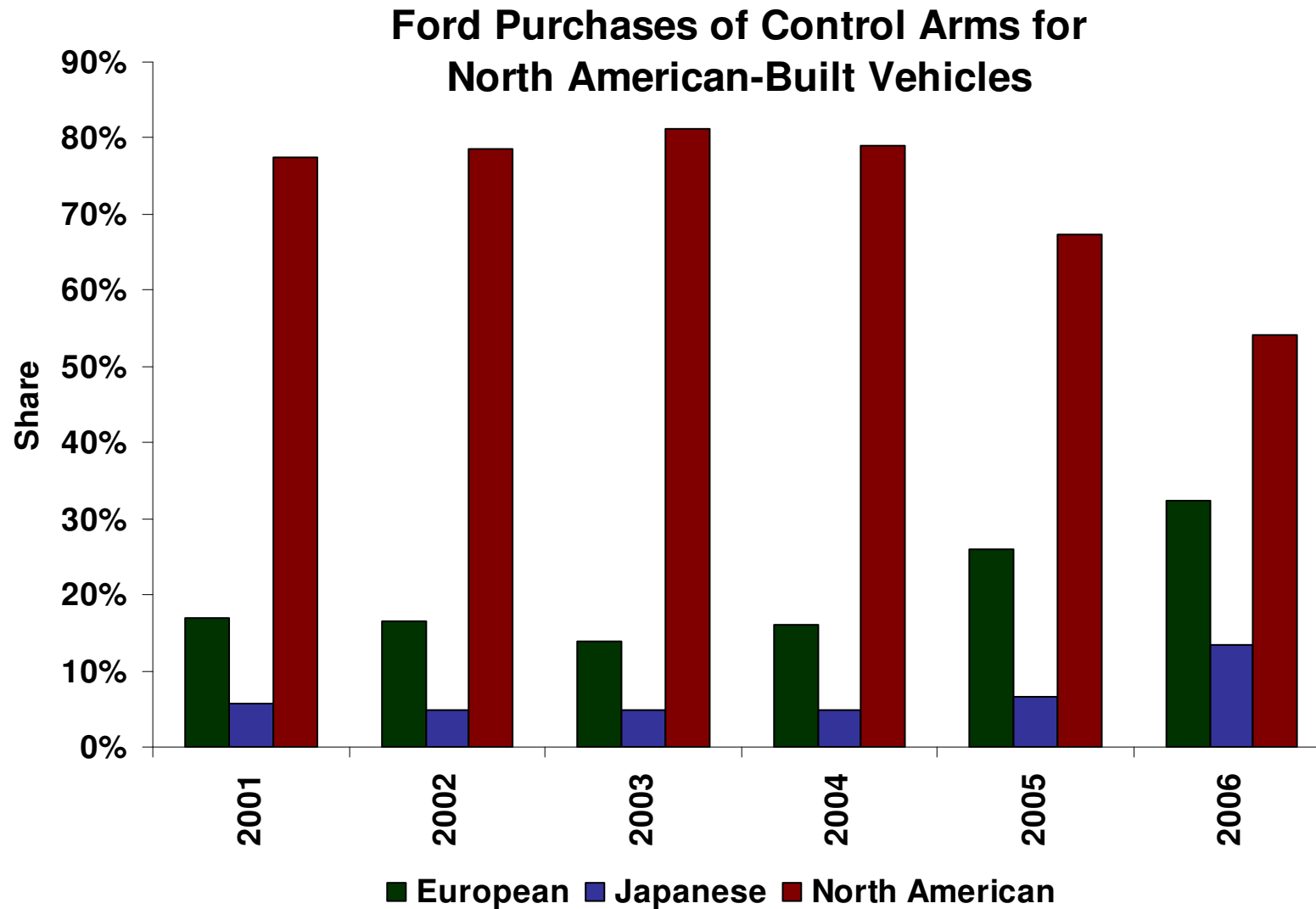
OE'S GLOBAL PURCHASING SCOPE



General Motors Purchases of Control Arms for North American-Built Vehicles



OE'S GLOBAL PURCHASING SCOPE



WHAT ARE THE ISSUES?

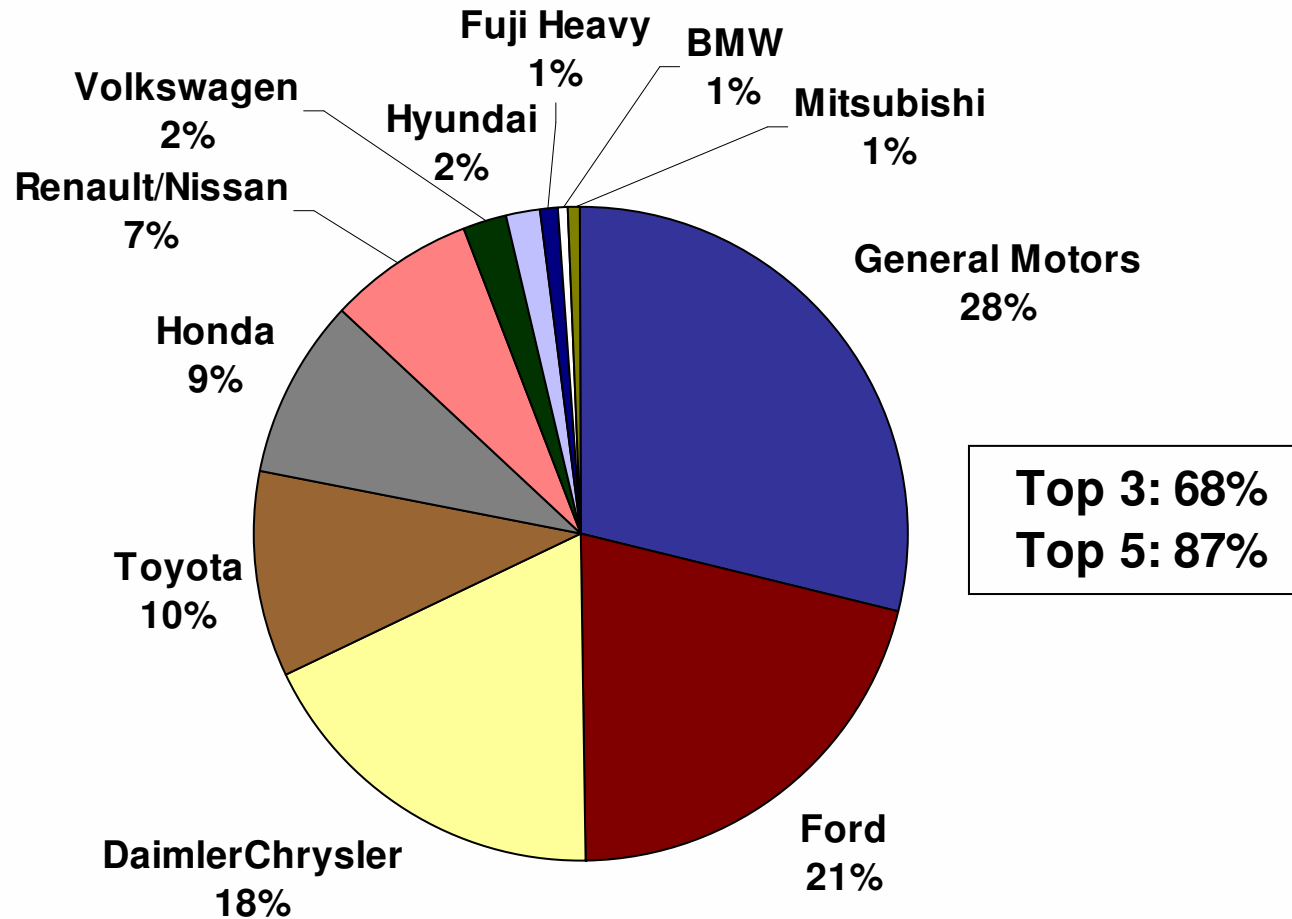


- Will structure changes now occurring because of financial distress have a positive effect on industry profits? (i.e. Will the formation of oligopolies matter?)
- Are some component segments more susceptible to further concentration than others?
- What determines an “optimal structure” for different segments?
- Are some segments “doomed” to low or non-existent profitability?

OLIGOPSONY-THE BUYER SIDE

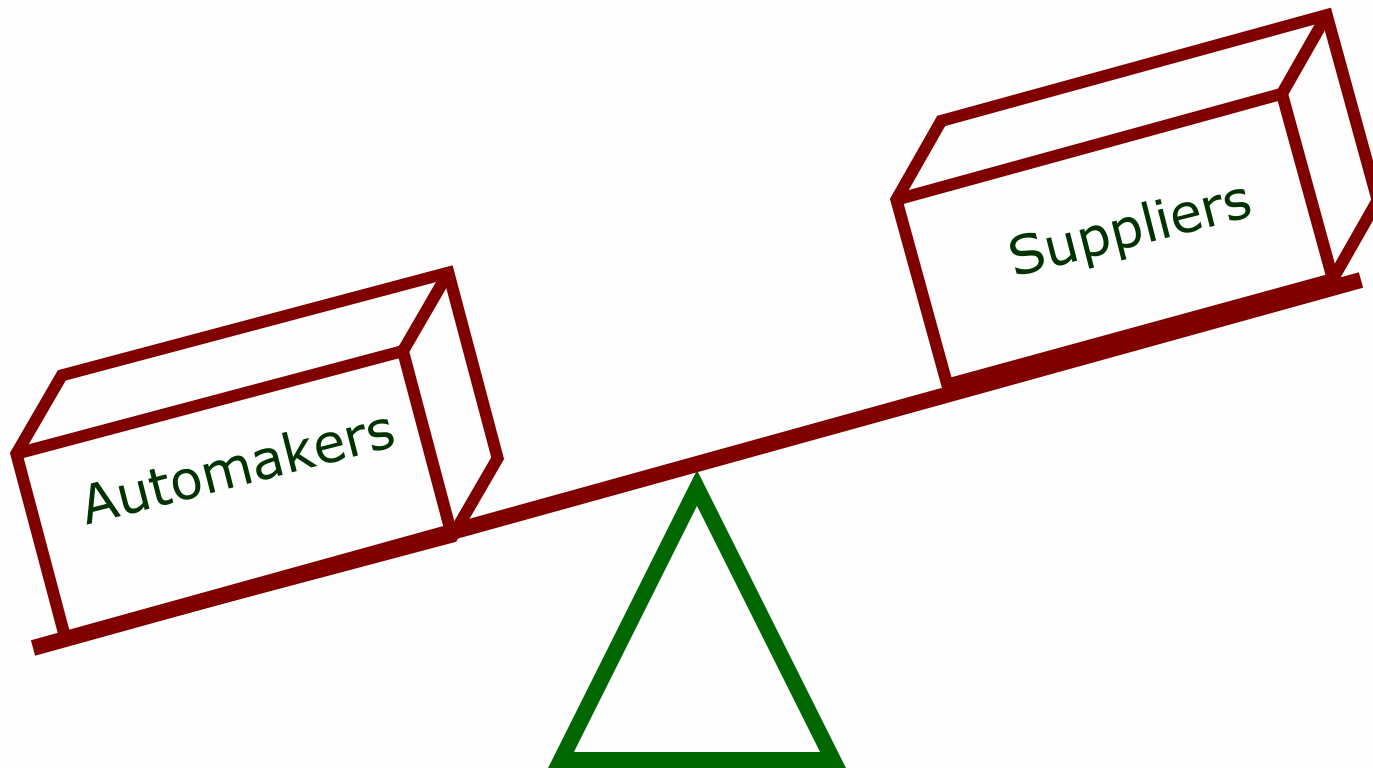


North American Light Vehicle Manufacture by OE 2006



SUPPLIERS' IMMEDIATE PROBLEM:

Power Relationships in the Supply Chain



Oligopsony vs. Oligopoly



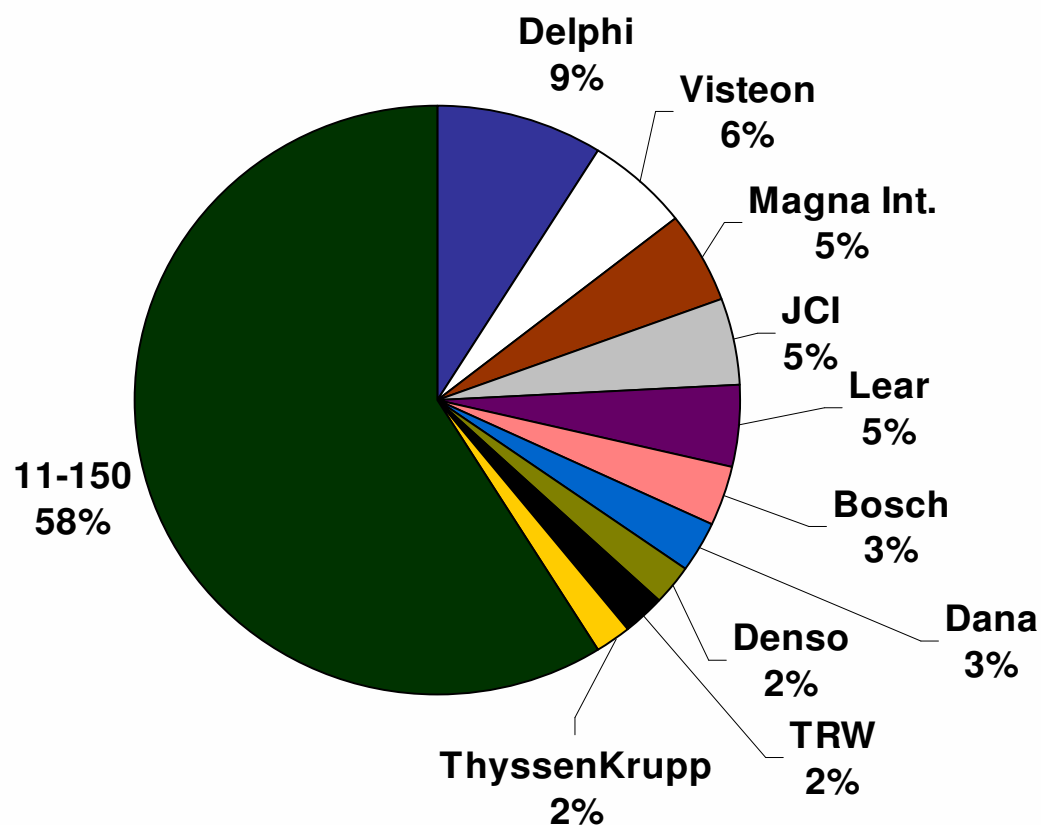
A BROAD DEFINITION OF THE MARKET YIELDS A LOW CONCENTRATION READING

Top 150 North American OE Suppliers: 2005

Top 150 total OEM North
American Revenues 2005 =
\$202.4 Billion

HHI: 240

Out of 10,000:
Very
Fragmented



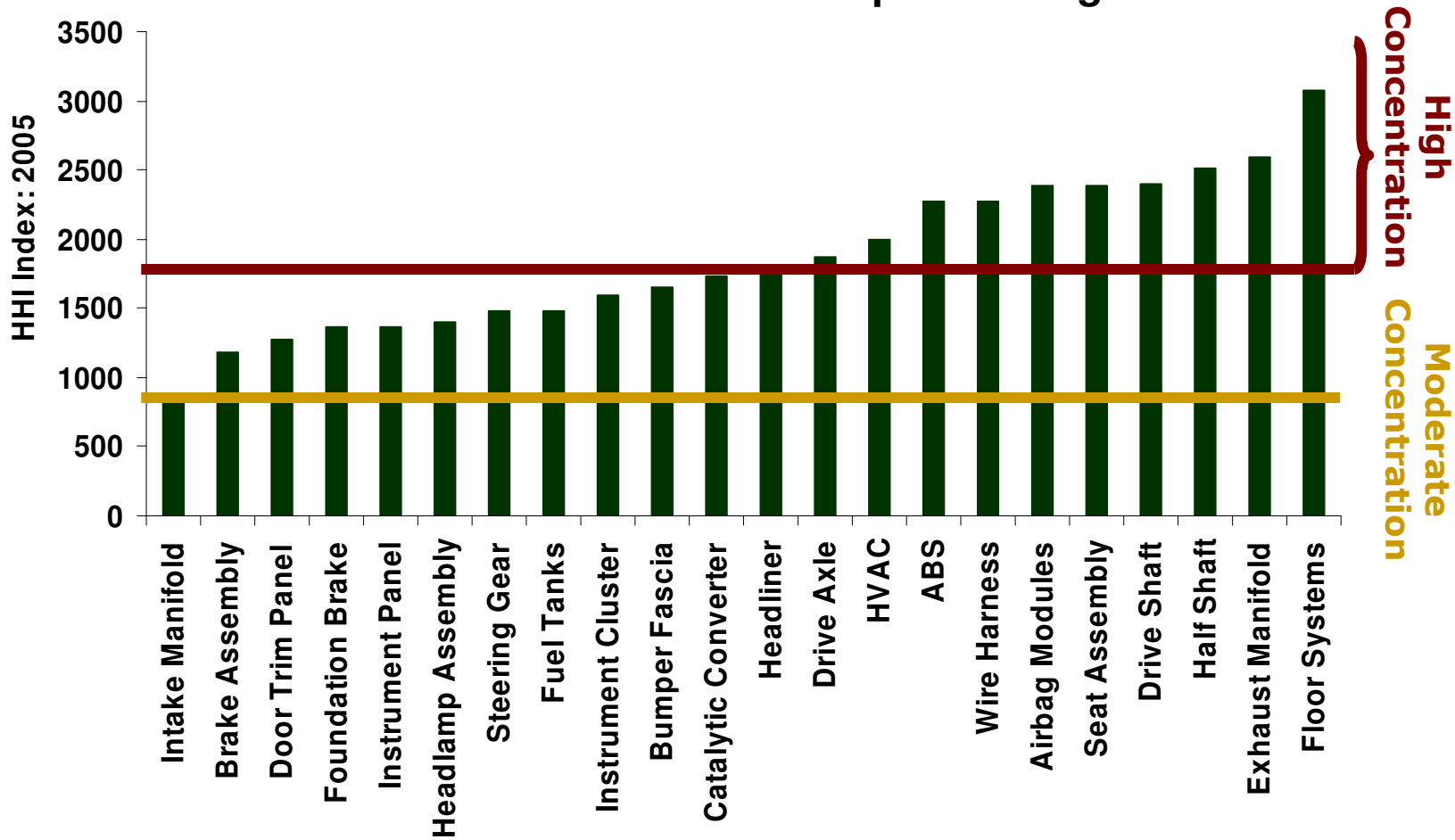
Source: Automotive News

SELECTED NA COMPONENT SEGMENTS

Degree of Current Market Concentration



HHI Index: North American Component Segments

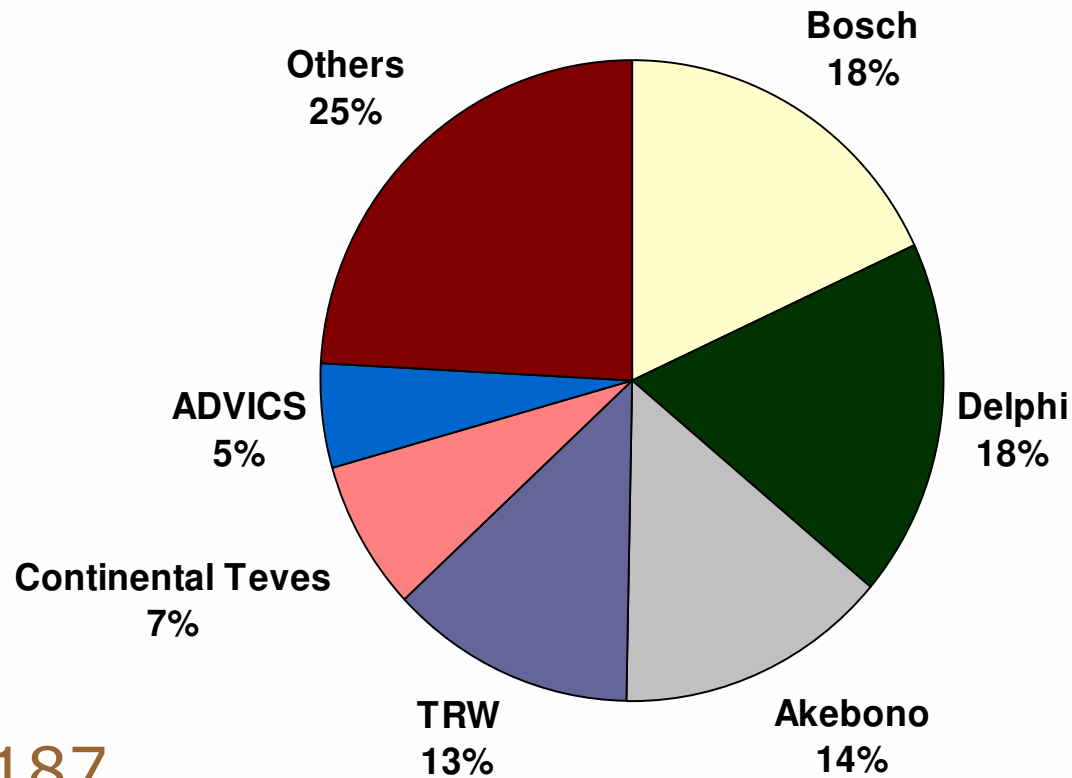


NORTH AMERICAN BRAKE ASSEMBLY

Remains Relatively Fragmented



North American Brake Assembly Production Share by Units: 2005



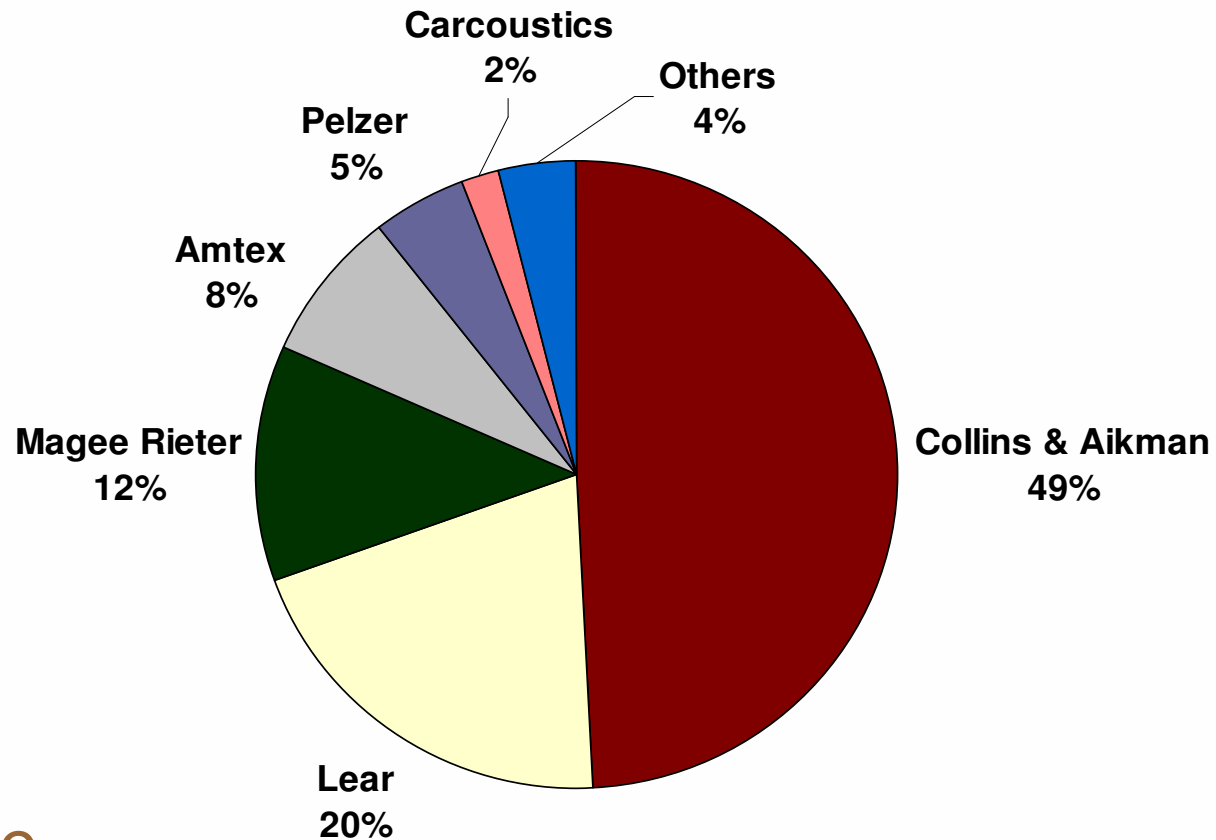
HHI: 1187

NORTH AMERICAN FLOOR SYSTEMS MARKET



Highly Concentrated

North American Floor Systems Market by Units: 2005



HHI: 3079



WHAT DRIVES AN “OPTIMAL MARKET STRUCTURE”?

Dependent upon:

- Cost drivers – scale economies
- Asset intensity
- Investment in technology (R&D and engineering requirements)
 - Relates to degree of product differentiation
- Structure of customer group
 - Includes OE preference for alternative designs, processes and materials for components of similar function



WHAT DRIVES AN “OPTIMAL MARKET STRUCTURE”?

Consolidation route of industry segments will differ:

- Degree of excess capacity
- Relative inherent profitability
- Existing competitive pressure
- Existence of an “accepted” product/process standard

WHAT ARE THE IMPLICATIONS?



- Affects the attractiveness of distressed supplier operations, e.g. Delphi, former Visteon plants, Collins & Aikman, etc.
- Affects the relative attractiveness to foreign vs. domestic buyers; existing players vs. financial buyers

DEGREE OF CONSOLIDATION: WHO CARES?



Besides the Federal Trade Commission

The automakers as customers:

- Interested in avoiding oligopolies as suppliers
- Want to avoid limitation on innovation

In other words, it is in the interest of the automakers to encourage contestable markets for all the components they purchase.

SEEKING COMPETITIVE ADVANTAGE



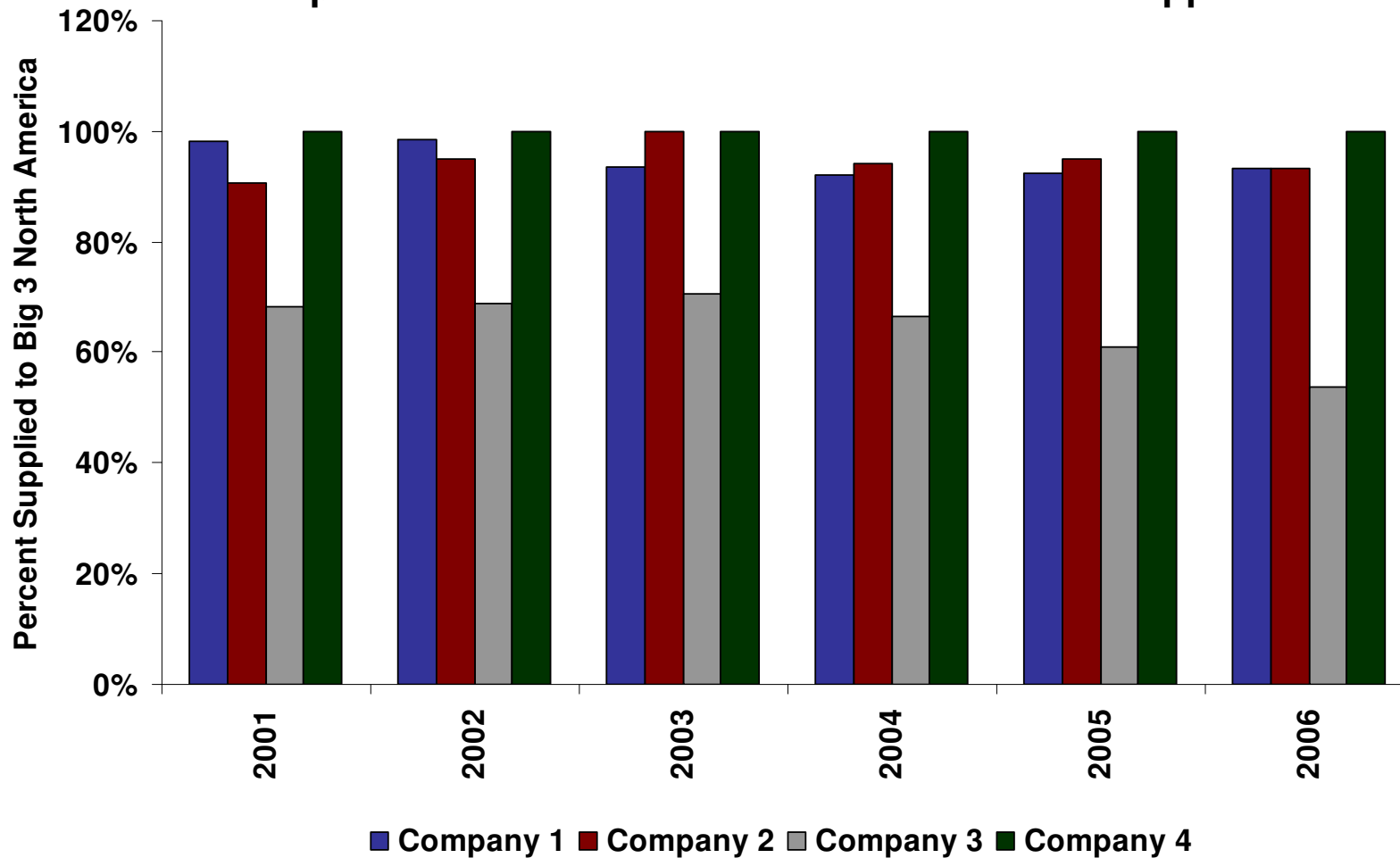
Strategies that might keep you in business:

- Customer Mix

CUSTOMER DIVERSIFICATION DISAPPOINTING



Top 4 North American-Based Door Trim Panel Suppliers





Strategies that might keep you in business:

- Customer Mix
- Financial Leverage
- Operational Efficiency
- Product Focus that is not Hyper-Competitive



Strategies that might lead to success:

- Solve the Problem: Safety, Emissions, Fuel Economy, Convenience, Entertainment, Comfort, Manufacturability
- Please the end consumer

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