



# TRANSFORMING PROFITABILITY IN THE AUTOMOTIVE SUPPLY CHAIN

Optimizing end-to-end claim management for sustainable growth and competitiveness in Tier-1 suppliers

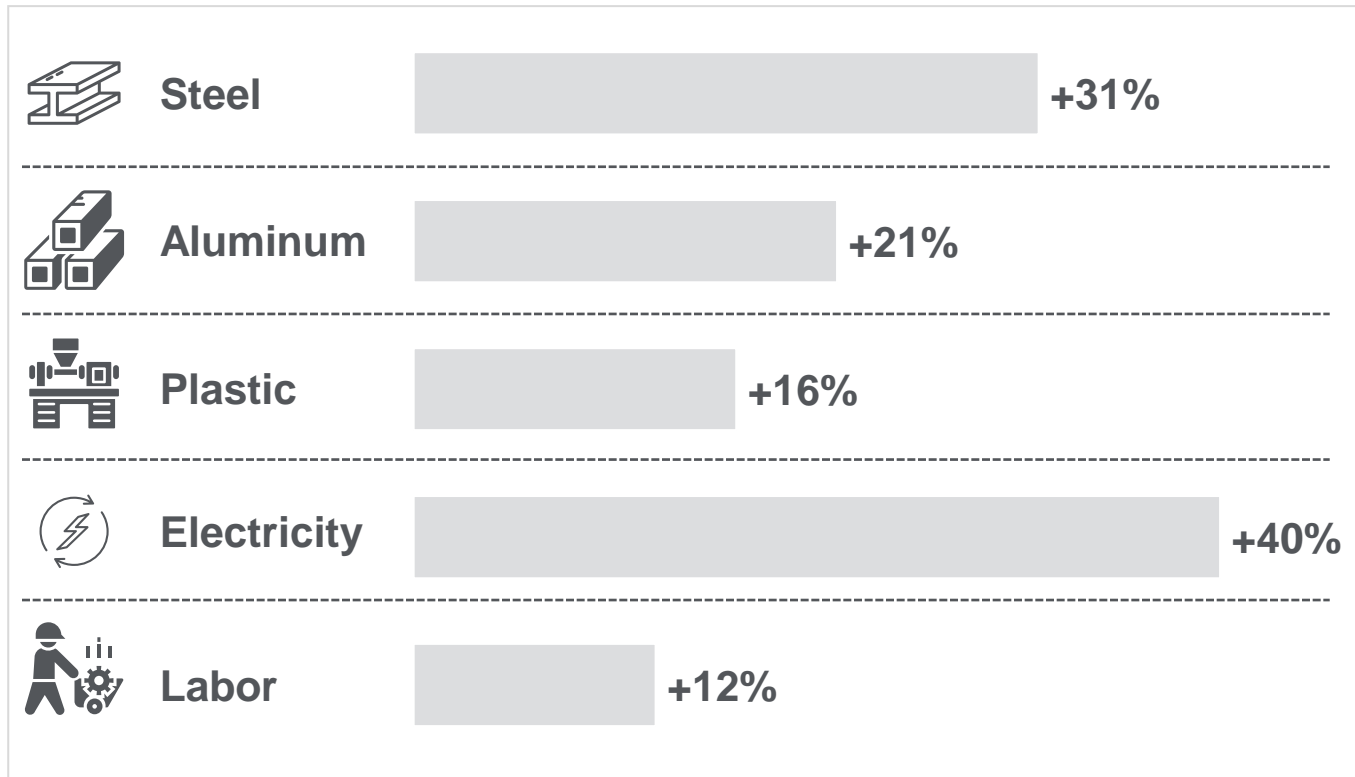
 **EFESO**  
MANAGEMENT CONSULTANTS

SALES

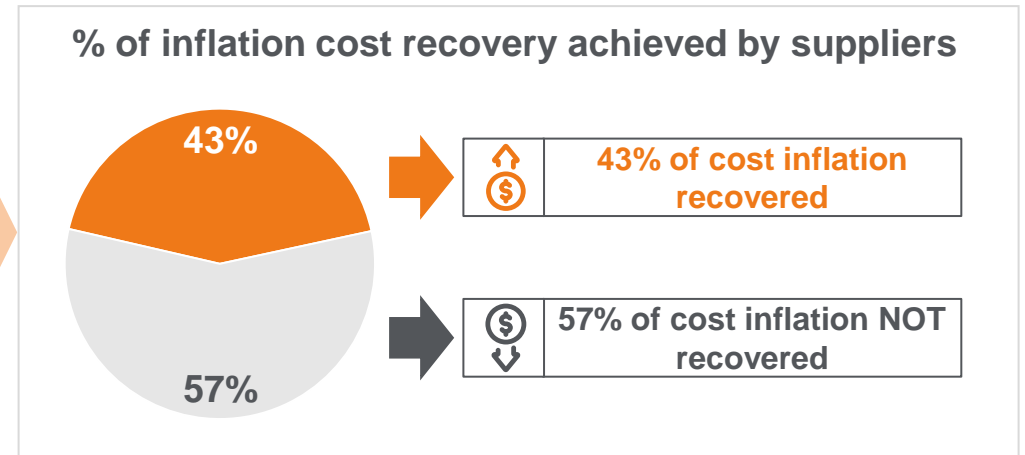
**INSIGHT**

Since 2018, automotive suppliers have faced cost inflation across multiple areas, recovering only 43% on average


### Cost inflation 2018-2023<sup>1</sup>



### Extent of cost recovery



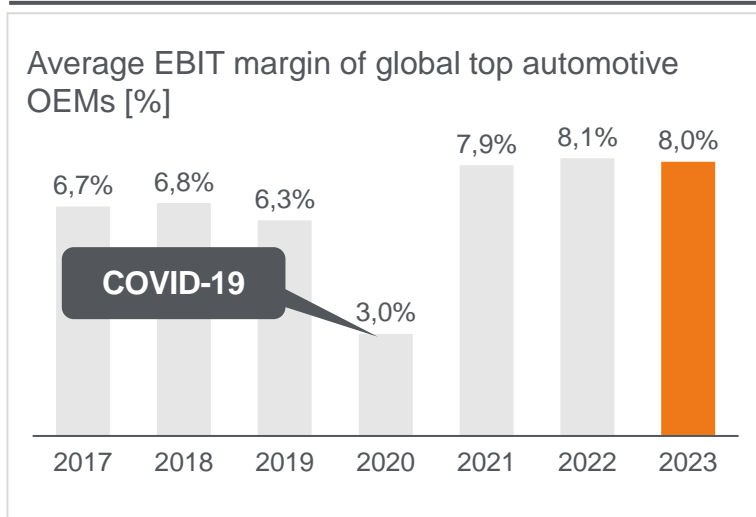
- **Long-term supply contracts** with fixed prices and **tight contractual framework conditions** make recoveries difficult
- Index-driven price adjustment mechanisms **do not reflect the full price increases** and could not cover the entire gaps
- **OEMs** impose their power in the business relationship by significantly **delaying agreed price adjustments**

 Limited ability to recover increased cost inflation is putting heavy pressure on margins since 2018.

 1) "Kostensteigerungen betreffen vor allem Automobil-Zulieferer, Kantar Survey, October 4<sup>th</sup>, 2023

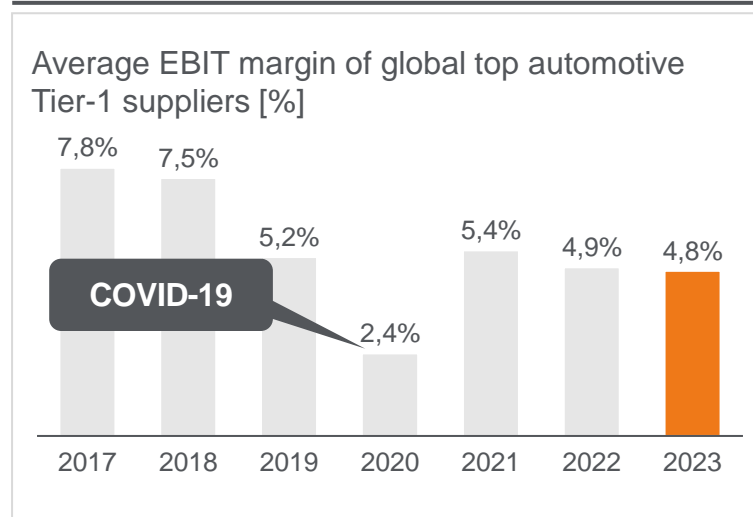
# The growing volatility in the automotive industry has disrupted the traditional profit margin dynamics, negatively impacting Tier-1 suppliers

## Winners – OEMs



OEMs navigated **pandemic challenges** and their **aftereffects** by prioritizing **high-margin models**, **increasing prices**, and **passing increased costs** onto the **supply base**.

## Losers – Tier-1 suppliers



Before COVID-19, Tier-1's EBIT margins **outperformed** OEMs by 1-2%, but times have changed. Post-pandemic, they're **now 40% below their previous level**.

## Reasoning

### Automotive Tier-1 suppliers...

1. ...continue to experience considerable **margin pressures** due to significant **cost inflation** across the **entire supply chain**
2. ...are **facing challenges** in maintaining their **traditional sources of profitability** and are experiencing a lack of ability to **recover and pass on additional cost increases**
3. ...are confronted with a fundamental **shift in revenue and profit pools** because of the **market transformation & corresponding volume deviations**

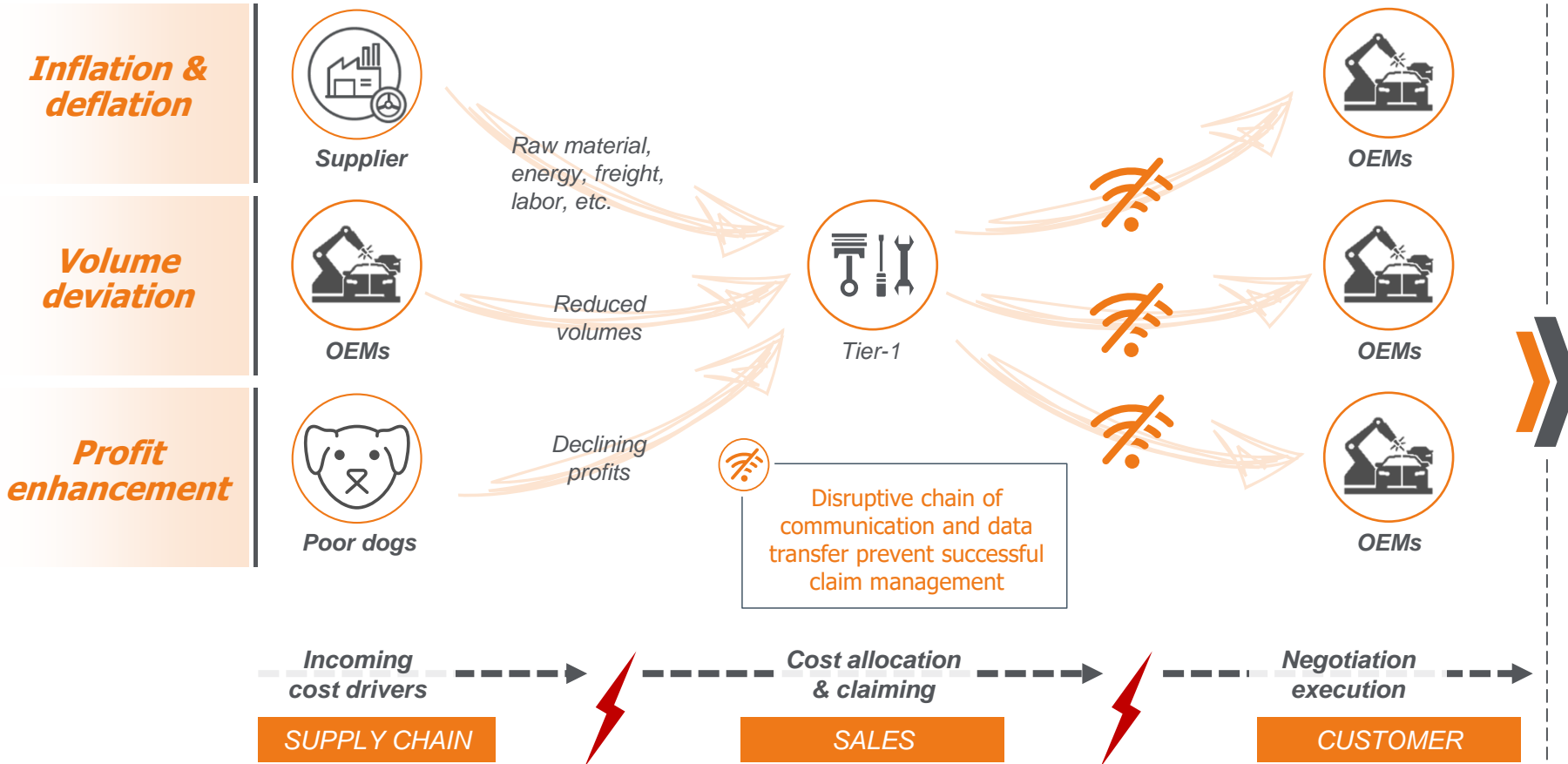


Tier-1 suppliers must resort profitability & protect their competitiveness in the face of current challenges.



# Cost inflation, volume fluctuations, and declining profits in ongoing projects negatively impact suppliers' margins, primarily due to inefficient processes

## Cost drivers



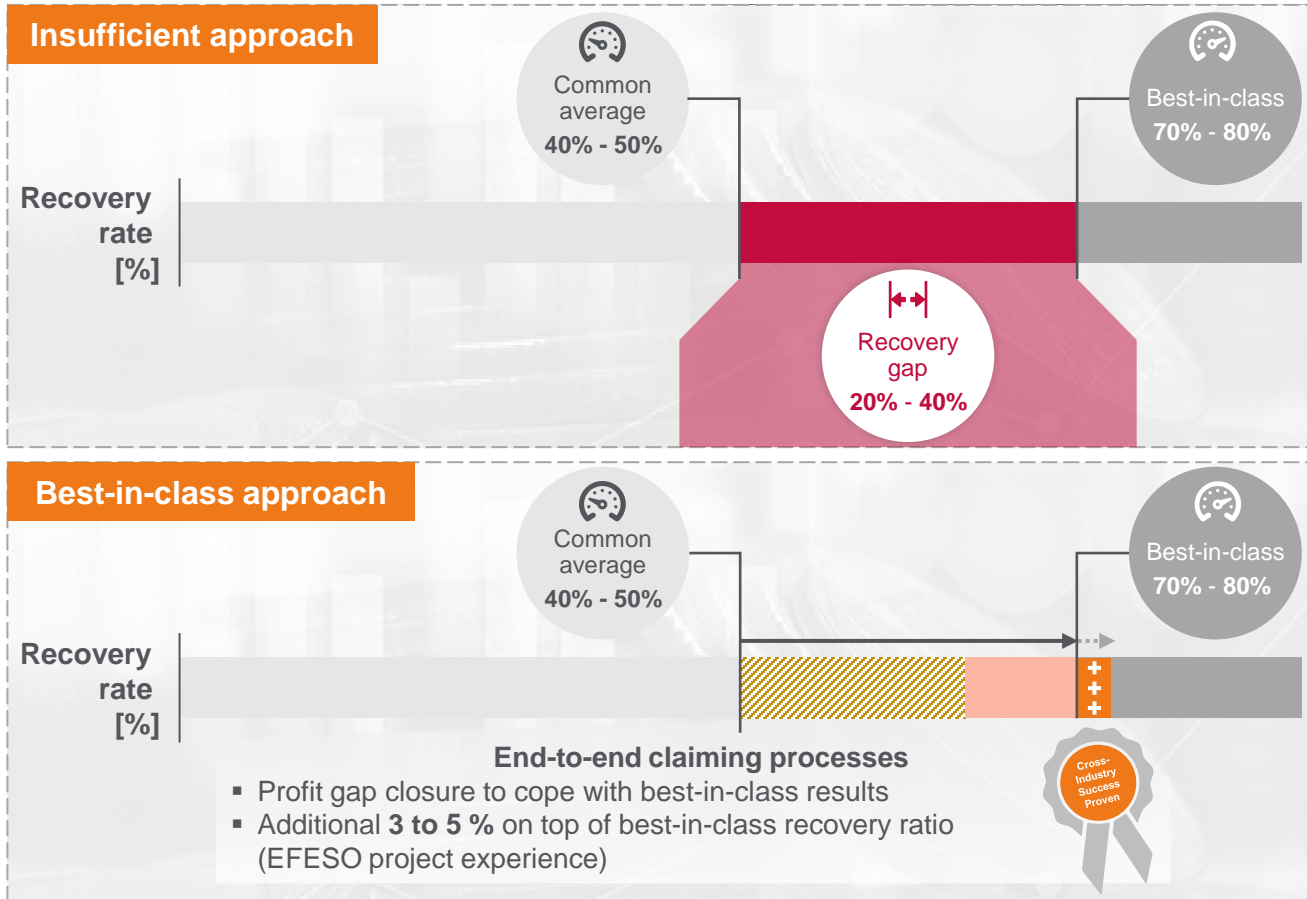
## Consequences

- **Changes** in market environment & assumed preconditions put **pressure on project margin**
- **Limited ability to break down cost increases** from different sources on product level
- **Disrupted communications** to OEM due to lack of detail in submitted claims
- **Multiple negotiation loops** caused by **insufficient details** leading to time delays
- **Missing details** drive loss of opportunities and **low recovery rates**

Many suppliers continue to operate with poor claiming processes, including weak data management, poorly structured claim preparation, and execution.



# Most Tier-1 suppliers continuously struggle to address these challenges, missing opportunities to achieve excellence



## What others do

- No processes defined , working in **task force** mode
- **Silo thinking** without cross-functional alignment
- **High manual effort** in data allocation & preparation
- **Slow execution** in claiming preparation & execution
- **Inability to mitigate** deflation claims from customers

## Low recovery rates and declining profits

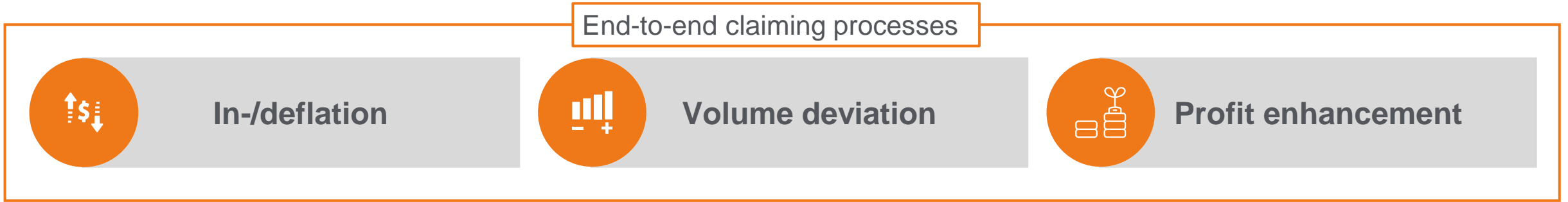
## What best-in-class do

- Defined & implemented **end-to-end processes**
- **Clear responsibilities**, tasks, and timing across processes
- **Highly reduced effort** with automated cost allocation tool
- **Increased speed** in execution through processes and tools
- **Holistic process** definition fully capable for claim mitigation

## Best-in-class recovery with end-to-end processes

How can Tier-1 suppliers optimize their claiming processes to achieve higher recovery rates and secure profitability?

To sustainably address emerging challenges, relevant end-to-end processes must be defined and implemented, supported by digital data





Well-defined end-to-end processes and an optimized data allocation tool significantly reduce effort and establish a strong foundation for the future

