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INSIGHTS ON AUTOMOTIVE SUPPLIER EXCELLENCE

HR CHALLENGES IN THE AUTOMOTIVE SUPPLIER INDUSTRY



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HR CHALLENGES IN THE AUTOMOTIVE SUPPLIER INDUSTRY

The automotive industry is going through its greatest transformation since the early 1900s. This is having an enormous impact on automotive suppliers, who have to perform in an increasingly challenging business environment. On top of growing complexity, supply chain changes, and competitive pressure, customers' expectations about quality are also rising. To address this challenge and stay ahead of the game, suppliers need to manage costs, quality, and risks holistically and with a focus on their one crucial and sustainable advantage – their workforce.

This sector employs a significant number of people and has a global value creation of approximately €900 billion (see Oliver Wyman study “FAST 2025 – Future Automotive Industry Structure”). So what is the challenge for the Human Resources (HR) function of these businesses, and how can automotive suppliers succeed in overcoming it?

BUSINESS CONTEXT

In today's “VUCA” world (volatility, uncertainty, complexity and ambiguity), automotive supplier companies face a lot of challenges in their immediate business context.

Following the shift of car manufacturers to emerging markets, notably Asia, internationalization is greatly affecting the automotive supplier industry as its production footprint continues to globalize. Value creation is also migrating towards emerging markets while complexity in the supply chain is rising, especially as more and more upstream process steps are integrated with car manufacturers' processes. Furthermore, automotive suppliers face intense flexibility requirements due to volatile fluctuations in global demand, increasing portfolio variation, and complexity.

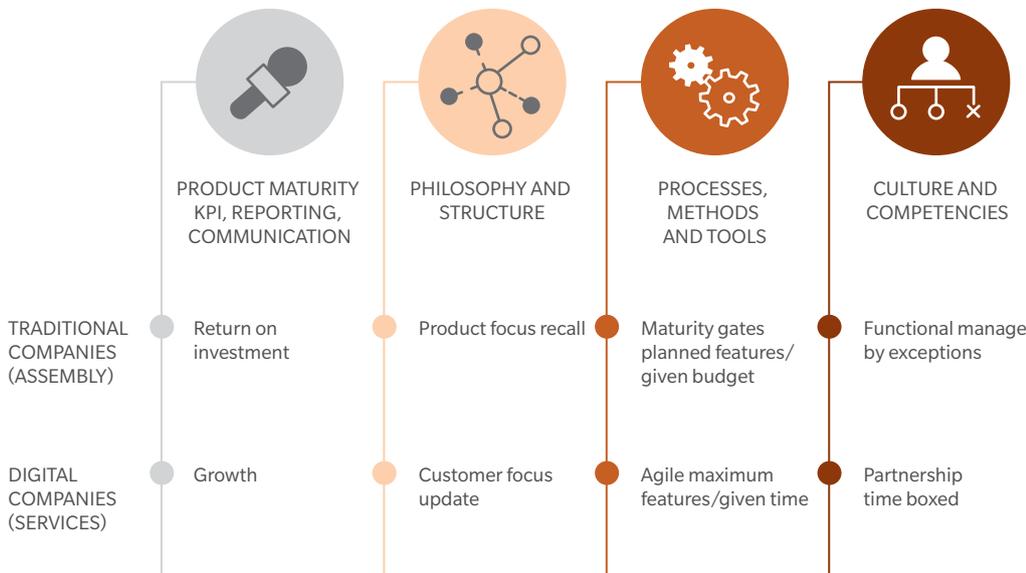
As the bargaining power of original equipment manufacturers (OEMs) strengthens, performance must improve significantly year on year merely to balance out imposed price cuts. Competition and cost pressure force automotive suppliers to innovate, making it even harder for them to bridge the gap between requirements for higher quality and lower costs.

As technology and digitization will not spare the automotive industry, car manufacturers are going through the greatest, mainly technology-driven, transformation since the early 1900s (see Exhibit 1). Traditional structures and processes, which have been improved incrementally for decades and focused on high-value products in multiyear life cycles, are being replaced by agile processes geared towards serving customer needs, and a digitally connected world with extremely shortened product life cycles.

Such disruptive development forces car manufacturers to build a product that fits into the digital world – innovation around the vehicle itself is slowing, turning what was once the core product into a commodity. Key changes are electric mobility, active and passive safety features, advanced driver assistance systems, and the increasing significance of

electronics and IT. Across the rather cumbersome automotive sector, these changes are affecting industry fundamentals and shaking up conventional thinking. Especially automotive suppliers should prepare themselves, because it is their businesses in particular that will be attacked by diverse new digital players.

Exhibit 1: Traditional Assembly vs. Digital Companies



Source: Oliver Wyman analysis

WHAT IS THE CHALLENGE FOR HR?

In times of demographic change and talent shortage, the workforce is the key to sustainable competitive advantage. Having served as a support function in classic organizational design, HR is becoming ever more crucial with responsibility for the attraction, retention, and development of motivated and highly skilled staff.

Even so, in Mercer’s “2016 Global Talent Trends Study”, only five percent of HR leaders report that HR is perceived as a strategic partner in their organization. To increase the perception of its value and to contribute positively to business outcomes, HR must understand the specific business-related people challenges that the organization faces.

Automotive suppliers are frequently overshadowed by well-known automotive manufacturers when it comes to the popularity of their HR work. Although large-scale takeovers consistently attract cross-sectoral attention, conclusions about the currency of their HR work are often drawn from the fact that they sometimes operate from family-run headquarters far from large cities. Yet the industry is highly relevant from an economic and an HR manager’s perspective. For example, it has a turnover of more than €75 billion and employs 301,000 people in Germany alone.

Based on industry studies, our HR maturity assessments of automotive suppliers as well as our project work with companies, we have identified four topics that are particularly relevant for HR managers of today and the future (see Exhibit 2):

- Technological change and the pressure to innovate
- Changing lifestyle and job trends as the employer's market becomes the employee's market
- Continual cost pressure plus intense competition in automotive markets
- Internationalization of production and markets

Exhibit 2: The HR Challenge for Automotive Suppliers



Source: Oliver Wyman and Mercer analysis

TECHNOLOGICAL CHANGE

Technological development and digitization are simplifying a lot of processes while also making the world spin faster and in a more dynamic way. The automotive industry is characterized by relentless pressure to change and innovate. However, tackling this challenge through constant revision of methods, technologies, and tools requires new structures and skills and, crucially, employees who have the coveted technical expertise to tackle the changes and challenges mentioned above. Especially in an industry striving to keep up with progress in a volatile environment, HR is compelled to ensure a filled pipeline of technical and engineering talent while fostering an innovation-friendly culture. Success becomes a matter of how companies deal with particular talent shortages.

But suppliers face more competitors than ever when it comes to finding, hiring, and retaining highly talented workers. So they have to adapt to pivotal developments within the talent market, such as the new expectations of high-performing, high-potential talent or the growing need for cutting-edge technological skills. In the war for talent, increased competition comes not only from car manufacturers but also well-funded, well-known rivals like Apple and Google.

CHANGING LIFESTYLE AND JOB TRENDS

Preparing for the future by digitizing core processes along the entire value chain – from concept to production, including overarching operations and services – affects not only job descriptions and the types of staff a company seeks. It entails a fundamental change in company culture, decision-making processes, leadership systems, and employees’ capabilities and skills.

Job profiles need to change, and so does each single requirement for every position. These requirements are, generally speaking, increasing in number and growing in demand. The competence profile of a leader in 2020 will be very sophisticated and challenging in many ways (see Exhibit 3). It comprises highly developed interpersonal competence, change competence and willingness, entrepreneurial competence and the classic mix of strategic, social, and personal competence. Thus, the entire workforce is affected by both a shift and an enhancement of required competencies: Resilience, time management, handling ambiguity, coordination, flexibility, and mobility are vital in dealing with the volatile environment.

Exhibit 3: Competence Model of the 2020 Leader

KNOWLEDGE, CAPABILITIES AND QUALIFICATIONS

Allocated level of importance of specific competencies:
1 = not relevant; 5 = very important



Source: Leadership study (“Lohnt sich Führung?”), Mercer, 2016

These changes are hitting HR from two sides: On the one hand, HR's task is to develop leaders and equip them with tools to navigate a VUCA world. On the other hand, HR must build special capabilities for itself in this respect, too. Suppliers are affected by megatrends in society, like the increasing individualism of lifestyles, accelerating social change, and faster pace of life. Expectations about employment are changing, especially among younger job seekers who demand a better work-life balance and more development opportunities than their longer-serving colleagues. Soft rewards, such as appreciation from the company, play an increasingly important role in a young employee's engagement. The formidable task for HR is to bridge the gap between the growing job and personality requirements and the expectations of a new generation of economically active young professionals.

COST PRESSURE AND INTENSE COMPETITION

External elements such as powerful and demanding OEMs, strong competition, or essential R&D investments to stay up to date can only be influenced to a limited extent. Automotive suppliers must, therefore, focus on internal ways of reducing costs and contributing to business growth. In doing so, HR faces the challenge of optimizing personnel costs while creating sustainable added value. When considerable investments have to be made in information technology for HR, and talent is hard to find, focusing on business-relevant tasks to outperform competitors is difficult.

HR has to become a strategic and trusted partner, involved in early discussions and meetings while providing a leading-edge service, for example handling requests quickly or running payroll processes smoothly. This is a balancing act, preceded by a thorough trade-off analysis that considers both costs and benefits.

INTERNATIONALIZATION

Because automotive suppliers are following OEMs to global markets, HR needs to enable this process through organizational structures and programs that support internationalization.

Lower costs and growing markets, primarily in China and Eastern Europe, are constantly putting local production sites under pressure. Today, HR managers' tasks often arise from the parallel development of new locations, accompanied by the restructuring or closure of other production sites. The HR function, therefore, requires new skills, such as country-specific expertise, business acumen, or the ability to develop international leadership talent to manage growth and change.

We know from Mercer's "Talent Barometer Survey" that 79 percent of manufacturing companies report a shortage of highly qualified employees – engineers, IT specialists and similar professional profiles. For this reason, companies are urging their HR function to look increasingly for long-term availability and employee training at potential new locations.

In one project, Mercer supported a client in identifying a site for difficult technological tasks investigating whether sufficient employees with IT qualifications could be recruited from Eastern European countries on the supplier's shortlist. Meanwhile, a preliminary analysis examined whether local training institutions were available to cooperate in order to compensate for deficits in employee qualifications through the company-own training facilities. Apart from recruiting local talent, a significant task remains in identifying and motivating employees who take on international responsibility as expatriates.

CASE STUDY

In the light of external megatrends, our client, a provider of vehicle roof systems, was introducing a new business strategy, coming along with massive growth and internationalization in terms of expanding the global footprint to meet customers' requirements. So our client was facing the challenge of combining both growth and continuous improvement at the same time. In this course they wanted to assess and evaluate the performance of various organizational functions. Therefore, we were asked to conduct a pragmatic, yet thorough review of their HR function to set up a program to improve HR maturity and increase performance. This was done by conducting an HR resource allocation assessment, HR effectiveness survey and interviews, an HR function benchmarking as well as an HR maturity assessment.

Focus areas of improvement based on the results of the maturity assessments were a lack of focus and prioritization of strategic initiatives, strategic resourcing as a key driver to ensure business growth, organizational design and development as well as HR systems and tools. The latter was mainly driven by a low level of process automation, lagging globally defined employee data and reporting and a globally inconsistent HR information system landscape. HR was rather reactive and supported organizational design and development instead of being an initiator and gatekeeper in this respect.



FOUR WAYS TO ACHIEVE SUCCESS

The HR challenges we have described lead to greater complexity, momentum, and insecurity in the environment in which HR is expected to deliver reliable services. To address and overcome them, and stay ahead of the competition, automotive suppliers need to adopt a holistic approach to managing costs, quality, and risks in HR. For this, we suggest they focus on four key activities:

- Sharpen the employer brand and acquire the right talent
- Develop and enable existing talent
- Use data analytics to inform decisions
- Realign and redefine HR

SHARPEN THE EMPLOYER BRAND AND ACQUIRE THE RIGHT TALENT

Digitization of an industry significantly changes organizations in general, and the qualifications of their employees in particular. New roles emerge and a significant number of traditional positions disappear. Companies are facing this challenge at a time when low unemployment, an aging population, plus the growth of megacities have shrunk the available talent pool. In this context, employer branding and a professional talent acquisition set-up are vital to long-term success.

Companies need to provide high accessibility, speed, simplicity, and, above all, a personal touch during recruiting to create a superior level of engagement with candidates, especially for business-critical profiles and high-caliber personnel. It is also important that organizations are cautious about their environment and flexible enough to adopt new trends, keeping their fingers on the pulse of the talent market.

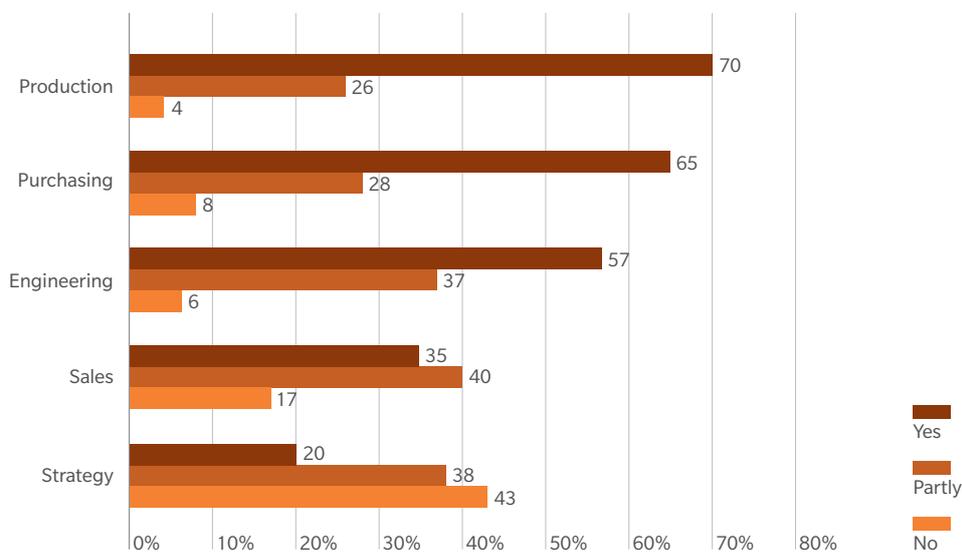
For many HR managers in the industry, work starts with their company's attractiveness as an employer. An honest and unique employee value proposition is crucial for attracting the right candidates who match the organization, its culture, and its values. In most cases, the employer brand needs to become more visible and tangible to recruit the requisite skilled employees, not only in Europe but even more so in China, India, or Brazil. Further, to cope with this international environment, HR needs to develop expertise for key employee groups plus countries and regions. To ensure a systematic talent management approach, further development should continue the efforts begun in HR marketing.

Many automotive suppliers focus on tools like career frameworks, expert careers, or talent reviews to stay attractive in the labor market, despite reservations about the relatively complex implementation of these tools. Talented people should be identified and approached early, ideally when leaving school. Companies can also influence the size of the future talent pool by making engineering and technical jobs attractive or making placements available during the first terms or semesters of university. Apprentice positions for blue collar workers should also be addressed at an early stage.

Companies like the German car parts maker ZF, for example, run cooperation projects with universities in China to identify interns and graduates who have, on top of their academic attainment, the requisite soft skills. Attention is increasingly targeted on professionals who have three to five years of experience although, generally, this profile is considerably more difficult to recruit. The French automotive supplier Valeo practices highly systematic retention risk management. It records and assesses the impact and probability of employees leaving the company, and the difficulty of filling their positions from internal and external sources. If the overall retention risk level exceeds a certain threshold, the company draws up succession plans or identifies possible candidates.

Exhibit 4: Skills and Competencies Matrix

DO YOU HAVE A COMPREHENSIVE SKILLS AND COMPETENCIES MATRIX?
IN %



Source: Oliver Wyman analysis

Some HR managers also address the topic of strategic workforce planning. There are two reasons for this: First, aggressive growth targets urgently require a plan to be made and measures to be taken. Second, a relatively mature HR function needs to take the next step from quantitative to qualitative planning using newly available IT capabilities.

Speaking of capabilities, it is essential for automotive suppliers to have a comprehensive skills and competencies matrix (see Exhibit 4) to know which skills fit which job profile and need to be sourced from within or outside the organization. Automotive suppliers approach this topic in different ways across functions. For example, we found that two-thirds of companies use a comprehensive skills and competencies matrix for their production, engineering, and purchasing departments, but sales and strategy areas are lagging behind.

Suppliers need to implement data-driven solutions to find the most effective sources for hiring and the most efficient methods for selection. Doing so will help them proactively to identify highly talented candidates from inside and outside the organization.

DEVELOP AND ENABLE EXISTING TALENT

It is always good to have a healthy mix of “make” and “buy” to maintain both company knowledge and tradition while adding a breath of fresh air (see Exhibit 5). But in times of skilled labor scarcity, exploiting internal talent potential to the full is very important.

Making instead of buying talent is a worthy investment, although, compared to hiring managers and senior executives externally, a comparably minor one. This is especially true when development, coaching, and enablement are accompanied by engagement and motivation. Drawing leaders from an internal succession pipeline also means they will have assimilated the company’s culture and vision and can identify with its values.

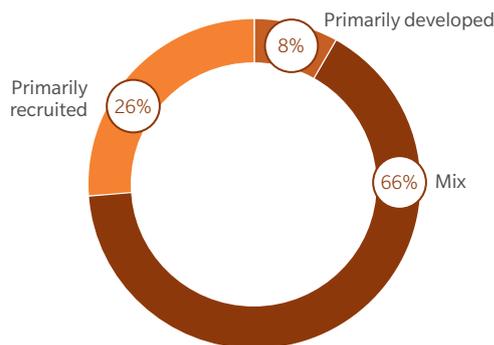
So it is not surprising that many automotive suppliers are in the process of establishing or refining their development programs. Global technology company Johnson Controls, for example, focuses on its own manufacturing leadership program. Its challenge is to take the initial steps pragmatically and quickly but not to operate with yesterday’s learning tools in today’s world. Modern leadership development combines program content with business realities and priorities, and develops the individual’s management skills alongside problem-solving skills for the organization.

Automotive suppliers need to create a digital leadership development system that encourages a customer-centric approach, promotes a test-and-learn environment, and demands rapid decision-making to enable future leaders to manage internationalization, growth, and change.

Besides technical leadership training, HR should facilitate training that enhances managers’ ability to develop and maintain networks and lead situation-specific teams in multicultural contexts. It is crucial to raise awareness about diversity and inclusion and the different expectations, lifestyle concepts, and attitudes of Generations Y and Z, and to enable managers to adapt their leadership style accordingly.

Exhibit 5: Make or buy HR leadership

HR MATURITY STAGE MODEL



Source: Oliver Wyman analysis

USE DATA ANALYTICS TO INFORM DECISIONS

Achieving cost excellence is not only about the continuous realization of savings in material and indirect costs, but also about managing quality and risks and making carefully weighed decisions. Translated into an HR world, this means that, next to optimizing personnel costs, companies should make value-adding investments that are chosen according to their cost-benefit ratio. Data analytics is key to accomplishing the difficult task of making educated decisions by assessing both the efficiency of processes and the effectiveness of strategic activities that have a pay-off in business growth.

Standardization, process automation, and modularity can be effective in cutting costs not just in engineering but also in personnel. Switching to a standardization strategy and aligning the HR organization with the business helps free up resources for more strategic work that adds more value and contributes to business targets. Furthermore, there is still a significant need for action in outsourcing. Only 15 percent of automotive suppliers have a clearly defined outsourcing strategy that is aligned with the corporate strategy. Key performance indicators for processes (such as the average time spent on a task) are helpful in identifying processes that are easier to buy than make. Moreover, if data-based systems are implemented accordingly, personnel costs can be controlled more effectively.

By gathering and analyzing data, a company can also assess the level of its functional excellence and effectiveness. Instead of investing money randomly in different recruiting channels, investments can be limited to channels with an excellent cost-response rate, be it an online platform for job profile posting or recruiting events within the scope of a university contract, for example. It is all about the deliberate handling of costs and the target-oriented increase of quality and added value.

Most innovation projects are expensive and create complexity, and competitive remuneration for qualified employees pushes up costs likewise. Thus, the bigger automotive suppliers have already begun to establish grading structures. Others are following suit. Job grades that are consistent at a global level create transparency and comparability and, therefore, enable HR costs to be managed. In addition, a supplier from the United States, for example, uses its grading system along with salary benchmarking to link it to strategic HR planning and workforce analytics.

The latter starts with the simple collection of data and – in the best cases – reporting with concentrated metrics, workforce analytics entered the benchmarking age in the late 2000s as competition became stronger and companies wanted to compare themselves with peers. Meanwhile, companies started focusing on descriptive solutions (asking why something has happened). This set the scene for predictive analytics (modeling the future based on assumptions about key predictors). In the future, prescriptive solutions (asking what actions should be taken to improve things) will gain ground and provide meaningful support for management decision-making.

Workforce analytics helps companies better understand their organization, which is crucial in enabling them to survive. To gain meaningful insights and reach decisions based on key figures, it is essential for interfaces to be aligned and HR systems to be integrated. Only 21 percent of automotive suppliers make good use of these opportunities by operating holistic and integrated HR tools; a further 21 percent do not use integrated HR tools at all.

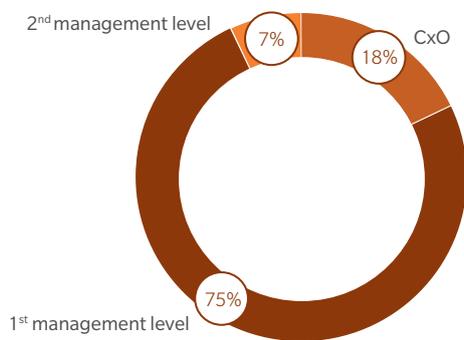
REALIGN AND REDEFINE HR

To grasp internationalization with all its consequences, we believe it is necessary to transform the HR function by realigning its organizational design towards a business-oriented model.

Only 18 percent of surveyed automotive suppliers have a Chief Human Resources Officer (CHRO) as the head of HR. The remainders have a head of HR at the first management level (75 percent) or the second management level (7 percent), showing the lack of significance being attached to the role (see Exhibit 6). To transform HR successfully, organizations need to redesign the way HR delivers its services – changing first and foremost its own mindset and perception of itself, followed by its structure and processes.

Exhibit 6: At which management level is your head of HR?

HOW ARE HR LEADERSHIP POSITIONS STAFFED?



Source: Oliver Wyman analysis

In moving away from a function centered on the country of origin towards a function operating internationally, thinking “glocal” becomes more and more important – with a global mindset and standards but sensitive to local specifics. While many large companies have gained extensive experience of operating with an HR set-up that is international, business-oriented, and efficient, the idea of glocal is relatively new for some suppliers. Many HR departments are not yet positioned with a consistent international set-up in terms of workforce, thematic focus, and of course organization. When choosing the optimal operating model for global delivery of state-of-the-art HR services, organizations should start with company specifics and business strategy. The model should put business first, be customer-centric, cost-efficient, and scalable with agile HR processes. Business acumen will become the key skill for HR employees if they are to successfully meet future requirements.

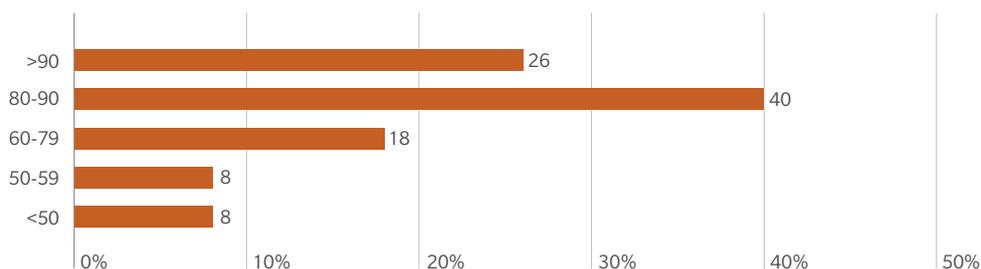
In our project work, we have observed a pattern of establishing HR all-rounders (or business partners) who are put in place to support business areas that have been operating internationally for some time and to support top-level managers on issues of strategic organization and talent. Another trend is the development and amalgamation of specialized competencies and skills on a global or regional level, from establishing a recruitment center in India or China to setting up a leadership and organizational development team.

Next to managing the HR function, HR's importance as a designer and developer of the whole organization is increasing steadily but its role in this area is still limited. In 53 percent of firms in Mercer's Leadership study ("Lohnt sich Führung?") HR had solely a supporting role; only 6 percent were initiators and gate keepers. To stay ahead of the competition, companies will have to involve HR in organizational design from the early stages, while also focusing on making the most of any opportunities that arise for developmental and behavioral change. This is against a background where new organizational formats are becoming established, internally and externally, such as networks or different ways of managing teams.

Zappos, an online shoe and clothing shop owned by Amazon, for example, adopted the new concept of "holacracy" to scale the company, decrease bureaucracy, and increase agility. In contrast to both traditional hierarchies and flat management structures, holacracy is a peer-to-peer model that distributes clear roles, allowing for flexibility and faster adaptability. It enables the company to act like a city where people and businesses are self-organizing and behave like entrepreneurs. In another example, Valve, an American software company, introduced "adhocracy", where employees are encouraged to initiate new projects and choose which of them to work on autonomously and without managers. Self-selected teams emerge spontaneously and leaders are elected through a consensus, allowing great dynamics and a high level of democracy.

Exhibit 7: Fulfillment of HR criteria set

ON AVERAGE, WHAT PERCENTAGE OF THE CURRENT HR STAFF FULFILLS THE SET CRITERIA IN YOUR ORGANIZATION?
IN %



Source: Oliver Wyman analysis

When it comes to HR maturity in the automotive supplier industry, especially regarding the HR department's organizational set-up, we believe there is still a lot to be done. The people dimension – employee experience and expertise, training and qualification as well as employee performance management – presents a similar although slightly better picture. Notably, only 26 percent of HR staff fulfills companies' self-defined criteria for employees working in the HR function by more than 90%, according to their own statements (see Exhibit 7).

Both the definition of an HR strategy and the use and approach to systems and tools are naturally more advanced in larger than in smaller companies. The quality of the process landscape is very mixed, and scattered across all five maturity dimensions with almost no differences between large, medium, and small businesses (see Exhibit 8).

Exhibit 8: HR Maturity Assessment

HR MATURITY STAGE MODEL

ASSESSES THE MATURITY OF HR...



...ALONG THE 5 KEY DIMENSIONS OF HR:

CATEGORIES	HR strategy and vision	HR organization and governance	HR processes and effectiveness	HR people and capabilities	HR systems and tools
KEY QUESTIONS	Does the people strategy cater for current and future demands that are mentioned in the business strategy?	Which HR decision bodies are installed? What activities are done by HR (central, regional, local), by line mgmt. and 3 rd party?	How are resources allocated to HR activities, processes, functions, and HR roles? What is the level of maturity of our HR processes?	Do we have the right capabilities to deliver our HR services? How does the role of an HR generalist and specialist look like in the future?	Where are areas to improve the current level of HR process or analytics support (quick wins, and long-term perspective)?

Source: Mercer analysis

CONCLUSION

Among all these functional, structural, and process issues, there are three areas where action is required: leadership, organization, and the HR function itself. HR needs to develop tomorrow’s leaders from within, be more proactive in organizational design and development, align itself with the business, and develop its capabilities so it can act as a strategic partner and enabler.

Automotive suppliers tackle challenges differently but we can identify overarching patterns and trends. Many HR departments focus too often on their home country and are unable to support internationalization in the best way. This is surprising considering the prominence of globalization as a topic for many years. There is still a need for greater professionalism in organizational development and qualitative and quantitative HR planning, but also in basic areas like remuneration and HR cost management. However, almost all automotive suppliers are intensifying their efforts to attract, retain, and develop qualified employees, particularly in technology and science. On closer inspection, vast differences are evident in the level of company resources used for HR and in the willingness to invest in talent. Whereas some companies are focusing on basic HR activities, others are advanced in developing more strategic HR capabilities.

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Oliver Wyman’s Automotive Supplier Team is the sole consultancy dedicated to total supplier excellence. Our team consists of experts in strategy development and implementation, sales, development, purchasing, supply chain management, production as well as EBITDA improvement, restructuring and M&A in the automotive supplier industry.

To highlight key trends, strategies and implications, Oliver Wyman is publishing a series of articles focused on major functional areas that are facing a strong necessity for fundamental change, including footprint, engineering, organizational excellence, restructuring, and purchasing.