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The May-June 2008 newsletter outlined the results from the customer benchmarks undertaken for SAABC member firms during 2007 by major market – domestic OEM, domestic AM, other domestic and international. The findings from the customer assessments undertaken in previous years were also considered. The findings noted that SAABC member firms find themselves in an extremely demanding sector, with challenges and demands to intensify going forward.

This newsletter article will consider the major findings that have emerged from the domestic and international supplier benchmarks undertaken for SAABC member firms during the course of 2007. Similar to the customer benchmark analysis, the responses from the exercises undertaken in previous years will be considered.

The purpose of the newsletter is to outline to the local auto component industry how suppliers are performing, both from the industry as well as the suppliers' perspective. The interface that exists between SAABC member firms and suppliers will also be considered.

Once again, "News from the regions" will briefly outline the SAABC's progress in July and August.

If there are any comments regarding any of the issues highlighted during the newsletter, please email the SAABC Project Co-ordinator, Cleopatra Ndlovu, on saabc@bmanalysts.com.

Focus article...

Analysing the South African auto component industry's suppliers

By Sean Ellis

Introduction

The previous newsletter article examined the customer benchmarks undertaken in 2007. In this focus article we will examine the opposite side of the value-chain by analyzing the supplier benchmarks completed for SAABC member firms during the course of 2007. The intention of this article will be to ascertain, based on the views of the SAABC member firms and thus the local auto component industry, how suppliers are performing? The article will also consider whether suppliers are aware of their relative performance levels (i.e. do they know how they are performing?) as well as how effectively the local industry is interfacing with its major suppliers, based on supplier responses.

Similar to the supplier assessments undertaken in previous newsletters, the analysis will comprise four sections. The first will examine the findings from the latest domestic supplier benchmarks with the second dealing with international suppliers. The third aspect of the article will then evaluate the general views of SAABC member firms as customers by the suppliers benchmarked, with the final component of the article providing a summary of the major findings as well as a brief conclusion, highlighting some of the key issues that emerge.

The structure of the analysis to be undertaken for the domestic and international suppliers contained in the first and second section of the article respectively will follow the format as the supplier benchmarks undertaken during SAABC member firm benchmarking reports. The analysis of each category will therefore comprise three initial components:

- SAABC member firm requirements in relation to their own assessment of supplier performance (i.e. how

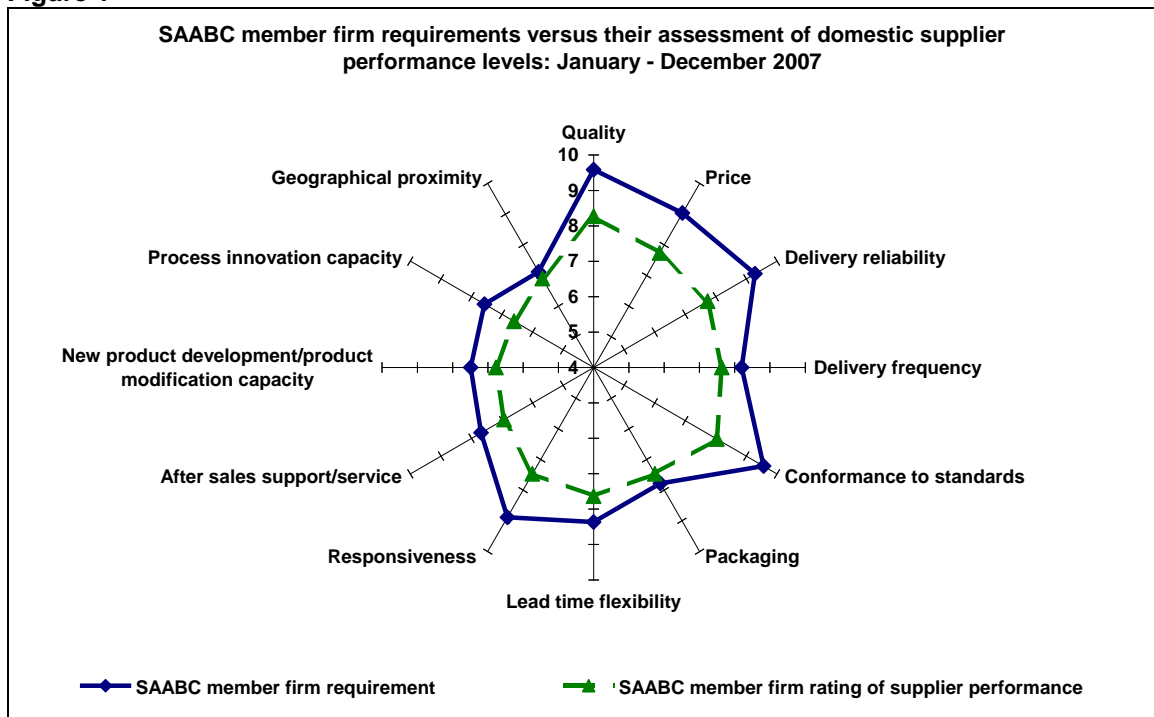
- does the local auto component industry rate suppliers relative to its own requirements?)
- Supplier self-assessment of own performance in relation to what they perceive SAABC member firm requirements to be (i.e. what do the suppliers to the local auto component industry believe the performance demands are and how do they think they are performing in relation to these?)
- The perception differences between SAABC member firms and suppliers (i.e. what is the level of alignment or misalignment that exists between the local auto industry and their suppliers?)

The analysis of the domestic and international suppliers will also attempt to ascertain whether the level of alignment between the SAABC member firms and their suppliers is changing by considering the findings from the benchmarks undertaken during the course of 2005 and 2006.

1. Domestic Supplier Findings

When analysing the SAABC member firm assessments of domestic suppliers in 2007, the top five major performance criteria, at an aggregated level and rated on a scale of 1 to 10 (where 1 = not important, 5 = moderately important and 10 = critically important), are quality (rated 9.58 out of 10), conformance to standards (rated 9.57), delivery frequency (rated 9.28), price (rated 9.03) and responsiveness to problems (rated 8.88). In terms of supplier performance, the SAABC member firms indicated that the largest areas of underperformance are evident for its top five major performance criteria. This is outlined in Figure 1 and Table 1 below.

Figure 1



In terms of the domestic suppliers' assessment of their own performance in relation to what they perceive SAABC member firm requirements to be, they findings suggest that they are somewhat aware of the industry's requirements (i.e. the relative importance of quality, price, etc.), and that they believe they are basically meeting all of the industry's demands. This is illustrated in Figure 2. In other words, the local auto component industry's domestic suppliers

are under the impression that no notable areas of underperformance exist. Considering this, it can be stated that domestic suppliers are unaware of the relative performance levels in several areas.

Figure 2

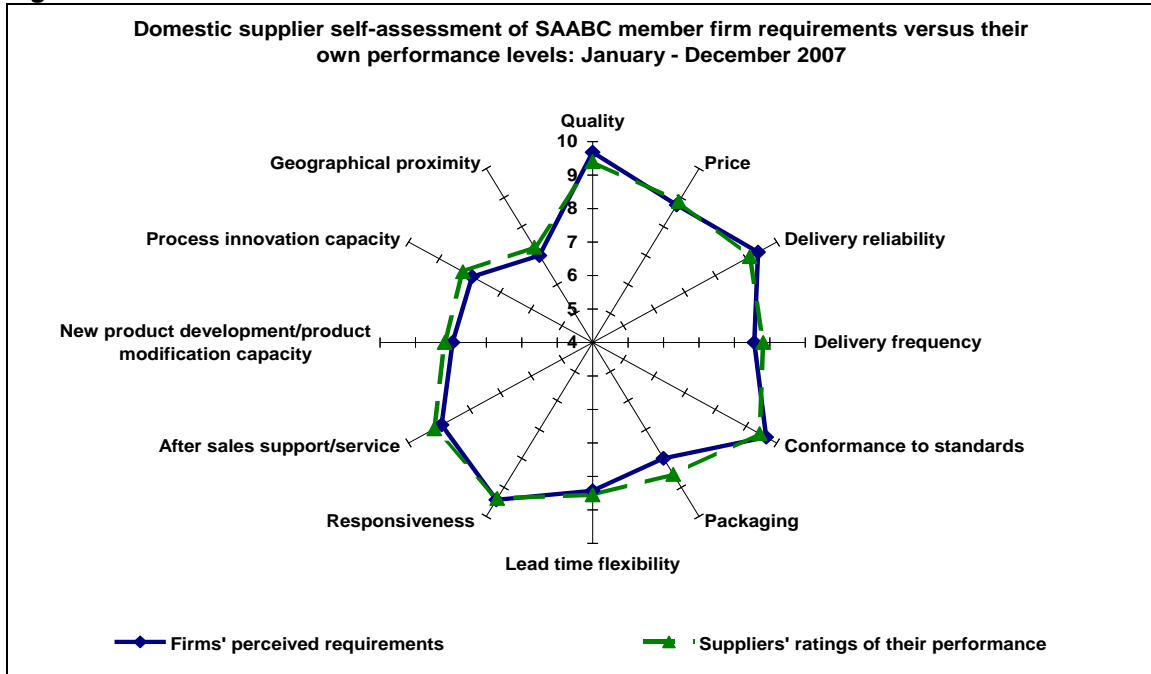


Table 1: Perception gap analysis – SAABC member firms and their domestic suppliers

Performance criteria	SAABC member firm assessment of supplier performance	Supplier perceptions of own performance	Perception gap*
Quality	-1.32	-0.28	1.04
Price	-1.30	0.12	1.42
Delivery reliability	-1.55	-0.27	1.28
Delivery frequency	-0.57	0.25	0.81
Conformance to standards	-1.53	-0.22	1.32
Packaging	-0.32	0.55	0.87
Lead time flexibility	-0.73	0.12	0.86
Responsiveness to problems	-1.42	-0.05	1.37
After sales support/service	-0.75	0.24	0.99
New product development	-0.72	0.22	0.94
Process innovation	-0.97	0.30	1.27
Geographical proximity	-0.22	0.30	0.51

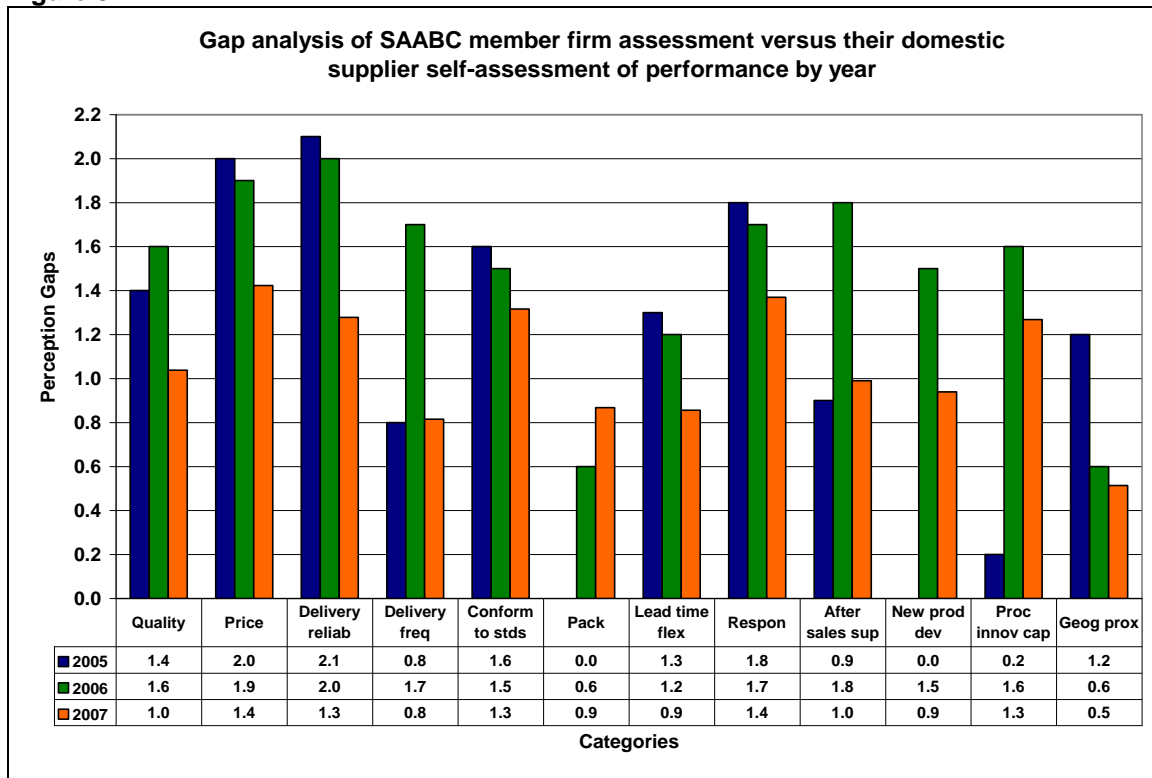
* Any perception gap above 1.0 is suggestive that suppliers are misreading their performance levels in relation to SAABC member firm requirements

Thus, based on the rating assessments by SAABC member firms (Figure 1) as well as their domestic suppliers (Figure 2), areas of misalignment are evident. This is outlined in Table 1. This is particularly the case for the industry’s top five criteria – price, responsiveness to problems, conformance to standards, delivery reliability and quality, which is an obvious concern, as has been noted, as well as for process innovation capacity.

It is thus clear that (a) domestic suppliers are generally not meeting the local auto component industry’s demands, and (b) they appear unaware of their relative performance levels, especially for the industry’s major performance demands. This is a clear challenge if the entire SA auto industry is to grow going forward, with value-adding and local content to increase. While the area concerns, it is worth considering whether the level of alignment has changed in recent years (i.e. is the perception gap getting bigger, smaller or staying the same?).

In order to attempt to answer this, we can review the perception gaps from supplier benchmarks undertaken in previous years. When analyzing the results from 2005 and 2006 compared to 2007, there does appear to have been an improvement in terms of the level of alignment that exists between SAABC member firms and their domestic suppliers. This is evident for the 2005-2007 period for quality, price, delivery reliability, conformance to standards, lead time flexibility, responsiveness to problems and proximity, and for the 2006-2007 timeframe for delivery frequency, after sales support and new product development. This is illustrated in Figure 3.

Figure 3



Thus, while definite areas of underperformance remain from the domestic suppliers of the local auto component industry, especially in those areas that would be considered crucial to the local auto component industry, there appears to be an improved level of alignment between the two groups. This suggests that they are ‘getting closer’ to one another, a key aspect of having a World Class Manufacturing.

2. International Supplier Findings

When reviewing SAABC member firms’ assessment of their major international suppliers, both similarities as well as notable differences are evident when compared against the domestic supplier assessment findings.

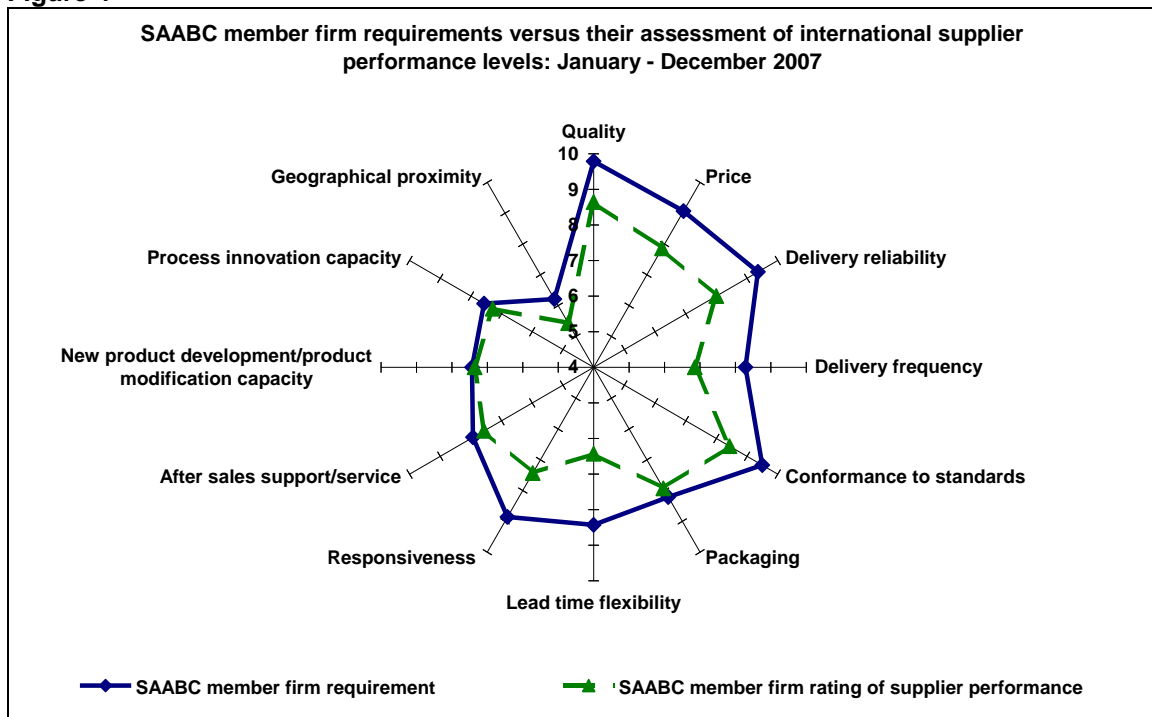
Firstly, in terms of similarities, the same five criteria are considered to be important by SAABC member firms when rating their international suppliers, in the same order of importance and with very similar assessment ratings provided. This is briefly outlined in Table 3 below.

Table 2: Overview of SAABC member firms’ five major performance criteria

Performance criterion	Domestic suppliers		International suppliers	
	Importance Ranking	Assessment (out of 10)	Importance Ranking	Assessment (out of 10)
Quality	1 st	9.58	1 st	9.79
Conformance to standards	2 nd	9.57	2 nd	9.50
Delivery frequency	3 rd	9.28	3 rd	9.36
Price	4 th	9.03	4 th	9.07
Responsiveness to problems	5 th	8.88	5 th	8.86

Secondly, a difference in the assessment of domestic versus international suppliers relates to the major areas of underperformance identified by SAABC member firms.

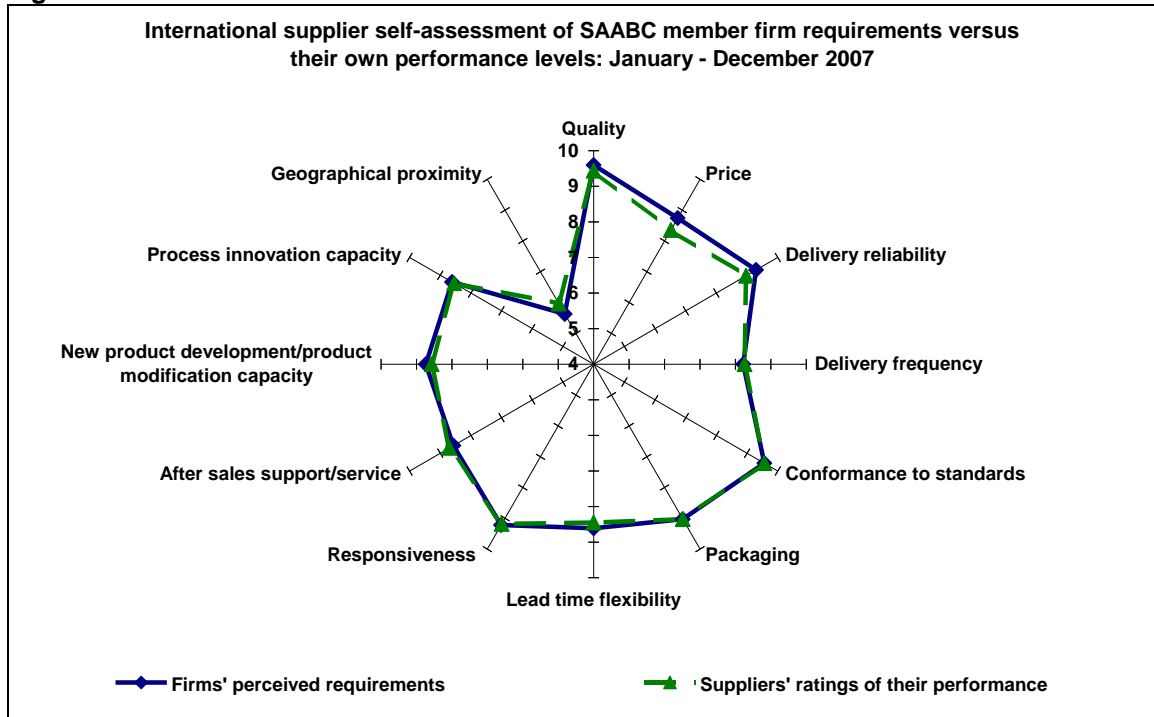
Figure 4



While responsiveness to problems, delivery reliability and price, three of the five major criteria, are noted by the local industry as areas of sub-optimal performance for its international suppliers, the two biggest gaps are evident for lead time flexibility and delivery frequency, the SAABC member firms’ sixth and seventh most important requirements respectively. These are key indicators when importing products. Quality and conformance to standards, the local industry’s top two criteria, while still areas of concern, are respectively the sixth and seventh biggest ‘weaknesses’ identified by SAABC member firms when assessing international suppliers. This is evident in Figure 5 and outlined in Table 3 below.

When analyzing the international suppliers' assessment of their own performance levels (i.e. their self-assessment), it is clear that they, similar to the domestic suppliers, believe that they are performing relatively well (see Figure 5). However, what is interesting to note is that they do identify price and delivery reliability, at an aggregated level, as the two 'biggest' areas of concern. And while the gaps, at 0.39 and 0.32, may be considered insignificant, they are the largest identified by either supplier category.

Figure 5



As a result of the respective ratings provided by the SAABC member firms and their international suppliers, Table 4 shows that misalignment is particularly apparent for lead time flexibility, delivery frequency and responsiveness to problems, as well as for proximity, conformance to standards and delivery reliability, with quality also requiring a mention.

Thus, as with the domestic suppliers, it can be stated that (a) international suppliers are also falling short of the local auto component industry's demands, and (b) they are unaware of their relative performance levels in several areas. However, the international suppliers are rated, overall and based purely on the SAABC member firm assessments, as having an advantage over the domestic suppliers, with a slightly better level of awareness also appearing to exist.

Table 3: Perception gap analysis – SAABC member firms and their international suppliers

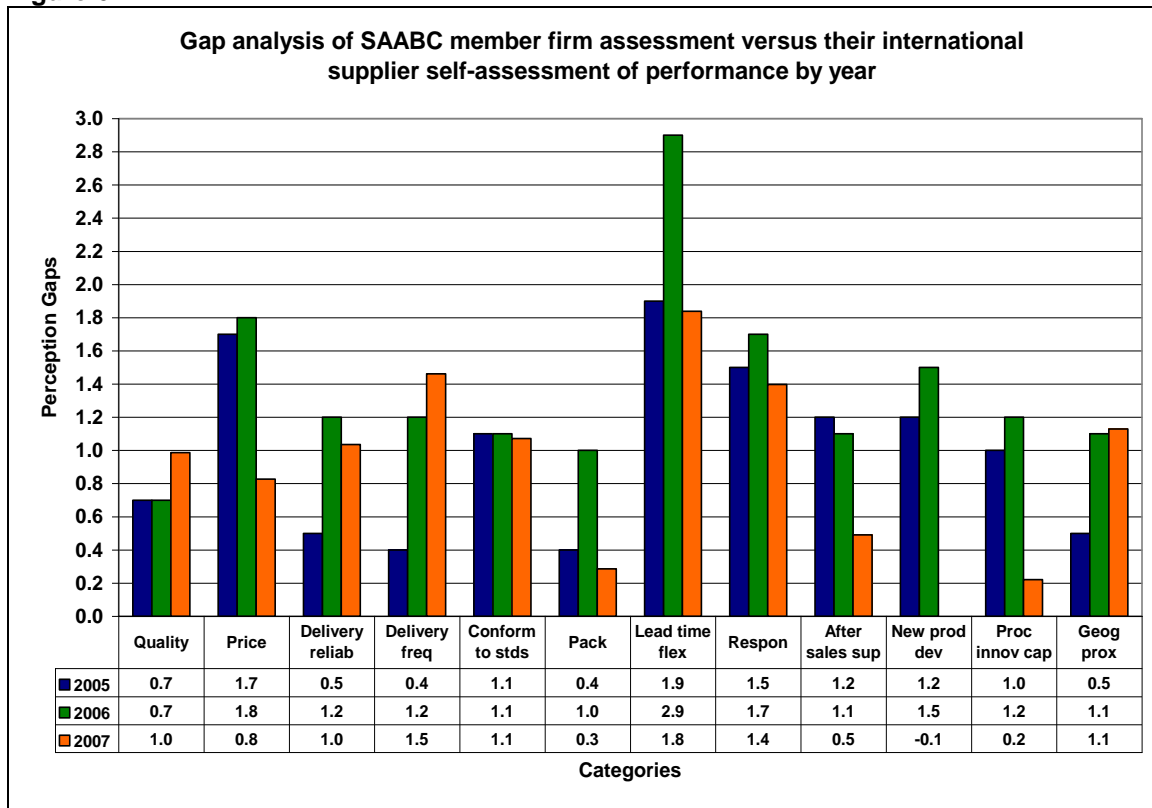
Performance criteria	SAABC member firm assessment of supplier performance	Supplier perceptions of own performance	Perception gap*
Quality	-1.14	-0.16	0.99
Price	-1.21	-0.39	0.83
Delivery reliability	-1.36	-0.32	1.04
Delivery frequency	-1.43	0.03	1.46
Conformance to standards	-1.07	0.00	1.07
Packaging	-0.29	0.00	0.29

Lead time flexibility	-2.00	-0.16	1.84
Responsiveness to problems	-1.43	-0.03	1.40
After sales support/service	-0.36	0.13	0.49
New product development	-0.07	-0.17	-0.10
Process innovation	-0.29	-0.06	0.22
Geographical proximity	-0.79	0.34	1.13

* Any perception gap above 1.0 is suggestive that suppliers are misreading their performance levels in relation to Club member requirements

As with the domestic supplier assessment, it is important to consider whether or not the level of alignment has changed in recent years. This is outlined in Figure 6 below.

Figure 6



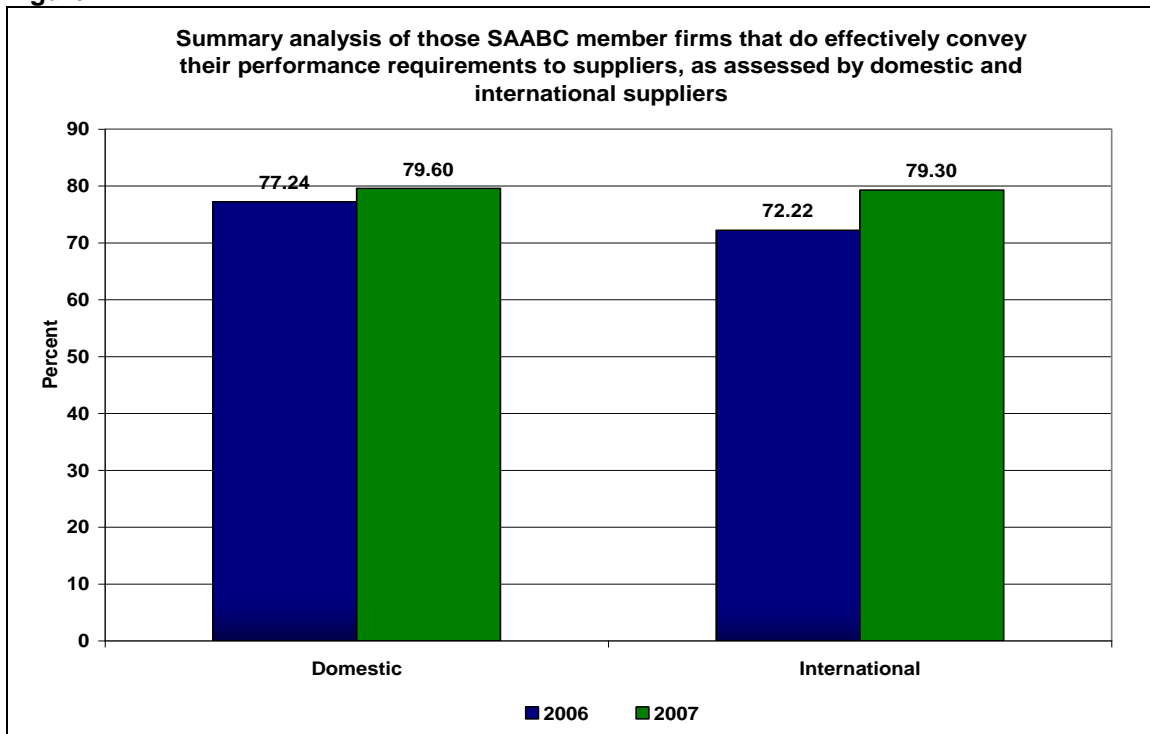
When reviewing the perception gaps from the international supplier benchmarks undertaken during 2005 and 2006 in relation to those completed in 2007, while there are areas where a notable improvement in alignment has occurred for the 2006-2007 period (i.e. for price, after sales support, new product development and process innovation capacity), there is generally less of a change than is noted in the domestic supplier assessment. However, it can be argued that the level of alignment was moderately better between international as opposed to domestic suppliers in the past.

Therefore, there are areas of underperformance in relation to international suppliers, although these are not evident for all the criteria rated as being crucial to the local auto component industry, as is the case for the domestic suppliers. In addition, based purely on the SAABC member firm ratings, international suppliers do appear to have an advantage over the local auto component industry's domestic suppliers.

3. Supplier Relationship and Interface Findings

While the previous sections of the newsletter have unpacked the domestic and international supplier benchmark assessments, this part will examine the relationship and interface that exists between SAABC member firms and their suppliers (i.e. how well is the local auto component industry engaging with its suppliers?).

Figure 7



Firstly, Figure 7 highlights whether SAABC member firms, in the opinion of suppliers, effectively convey their performance requirements. It must be stated that the results are somewhat contradictory to the misperceptions of performance evident in the domestic and international supplier findings outlined previously. In other words, if a significant majority of suppliers indicated that SAABC member firms do effectively convey their performance requirements to them, as is the case, why are suppliers seemingly unaware of their respective performance levels? This raises questions around the method of engagement that occurs and whether suppliers are being informed of customers' requirements. Nevertheless, as revealed, the majority (around 80%) of domestic and international suppliers do believe that SAABC member firms effectively communicate their performance requirements to them. It is also worth noting that the data does suggest a slight improvement since 2006.

When analysing suppliers' assessment of SAABC member firms in relation to other customers (i.e. how do suppliers rate the local auto component industry against their other customers), it is encouraging to note that for both the domestic and international suppliers, the findings do suggest that the local auto component industry is being viewed in a favourable light. This is outlined in the following figures – Figure 8, which consider SAABC member firms' overall support versus other customers, as well as in Figure 9, which analyse the SAABC member

firms' comparative order accuracy and reliability performance in relation to the suppliers' other customers.

Figure 8: Summary analysis of SAABC member firms' overall support versus other customers

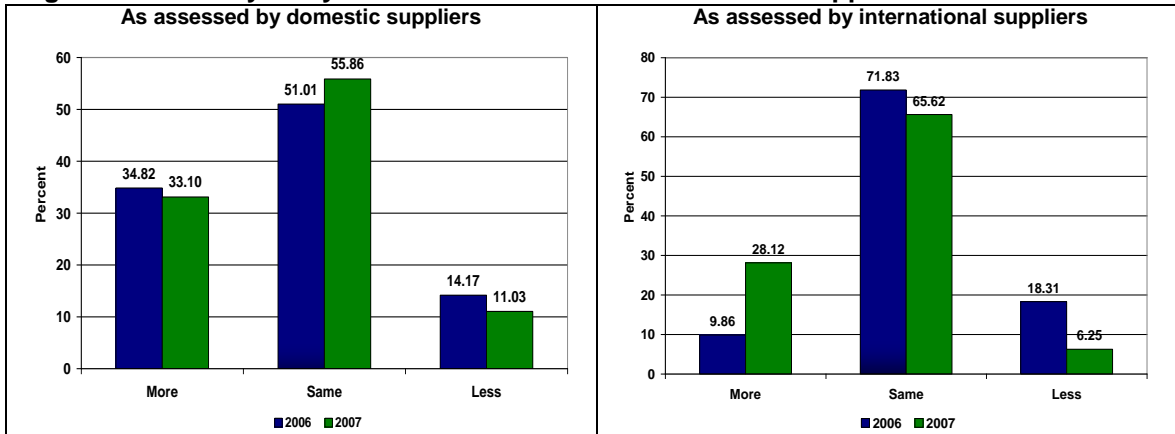
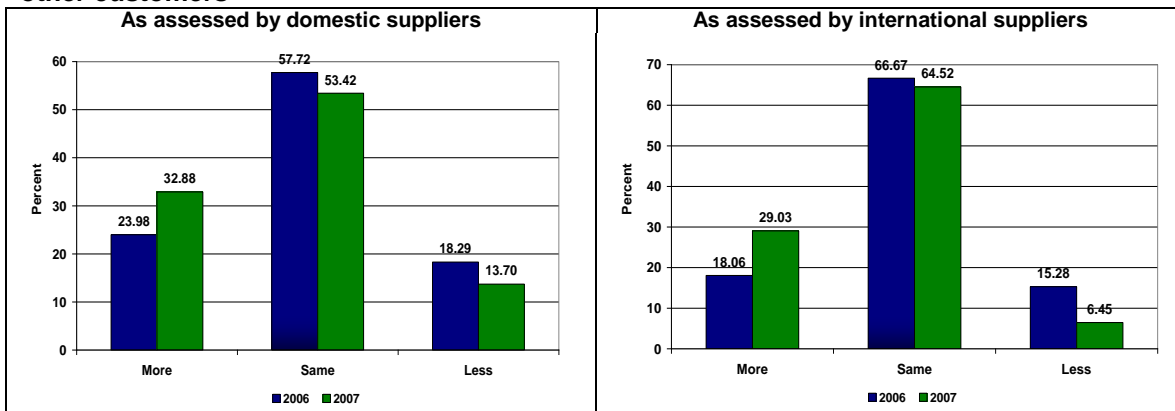
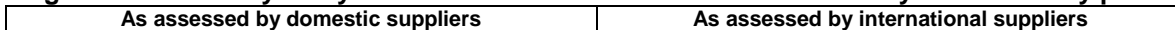


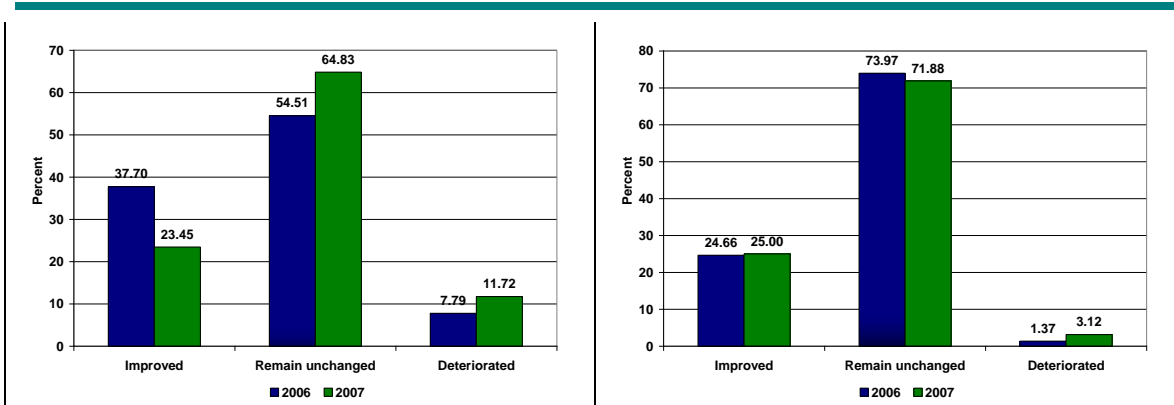
Figure 9: Summary analysis of SAABC member firms' order accuracy and reliability relative to other customers



When suppliers were asked whether SAABC member firms' actual order accuracy and reliability has changed over the past 12 months (see Figure 10), the 2007 findings reveal that a large portion of domestic (23.5%) and international (25.0%) suppliers indicated that it had improved. Only a minority of the domestic (11.7%) and international (3.1%) suppliers stated that it had deteriorated. It is however worth noting the 2006 findings with the percentage that indicated performance had deteriorated requiring some consideration as a slight worsening is evident for both categories.

Figure 10: Summary analysis of SAABC member firms' order accuracy and reliability performance





In an attempt to further evaluate the local auto component industry’s order accuracy, the suppliers were asked to rate SAABC member firm performance on a scale of 1 to 10. As is clearly outlined in Table 4 and Table 5 which deal with the domestic and international supplier responses respectively, the findings do suggest an improvement with better ratings obtained during 2007 as compared to 2006.

Table 4: Domestic supplier ratings* of SAABC member firms’ order accuracy (%)

	2006	2007
Average	7.45	7.72
Upper quartile	9.00	9.00
Lower quartile	6.00	7.00

* 1 = not accurate, 5 = moderately accurate, 10 = Very accurate

Table 5: International supplier ratings* of SAABC member firms’ order accuracy (%)

	2006	2007
Average	7.62	8.20
Upper quartile	9.00	10.00
Lower quartile	7.00	7.75

* 1 = not accurate, 5 = moderately accurate, 10 = Very accurate

An important aspect of the supplier benchmark assessments undertaken for firms is to ascertain whether ‘Supplier Support Measures’ are (or are not) in place at SAABC member firms, as well as the relative effectiveness of these where they do exist. As is outlined in Table 6 below, which considers the domestic suppliers’ responses, a majority of them noted the existence of several of the best-practice support measures at SAABC member firms in 2007. ‘Communication and feedback’, ‘technical/quality assistance’, ‘rating’ and ‘regular audits’ are rated as being in place by what would be viewed as a notable majority (i.e. over 70%) of the suppliers. The 2006 and 2007 findings for the supplier measures in place (or not in place) are largely similar, suggesting that the local auto component industry has not made any real progress in terms of the implementation of new systems over the last year.

Table 6: Domestic supplier ratings of support measures in place at firms

Support measure	Measures in place		Average effectiveness	
	2006	2007	2006	2007
Supply chain management programme	61%	61%	71%	72%
Technical/quality assistance	83%	81%	76%	76%
Regular supplier audits	70%	70%	70%	70%
Supplier rating	75%	73%	80%	72%
Supplier communication & feedback	89%	86%	78%	76%
Supplier recognition programme	55%	58%	69%	67%

In terms of the effectiveness ratings of the various support measures, the respective 2006 and 2007 ratings for each measure provided by the domestic suppliers are similar with the single exception of 'supplier rating' which received a score of 72% in 2007 compared to 80% in 2006. This measure went from being rated as the most effective measure in 2006 to the third most effective measure in 2007, behind 'technical/quality assistance' and 'communication and feedback'.

For the international suppliers, as outlined in Table 7, the comparative findings are less positive to those obtained for the domestic suppliers in terms of measures in place. Only 'communication and feedback' is viewed as being in place by a notable majority. While, as with the domestic suppliers, the 2006 and 2007 findings for the supplier measures in place are similar for certain of the measures, this is not the case for 'supply chain management' and 'communication and feedback' where less suppliers indicated them as being in place in 2007 compared to 2006.

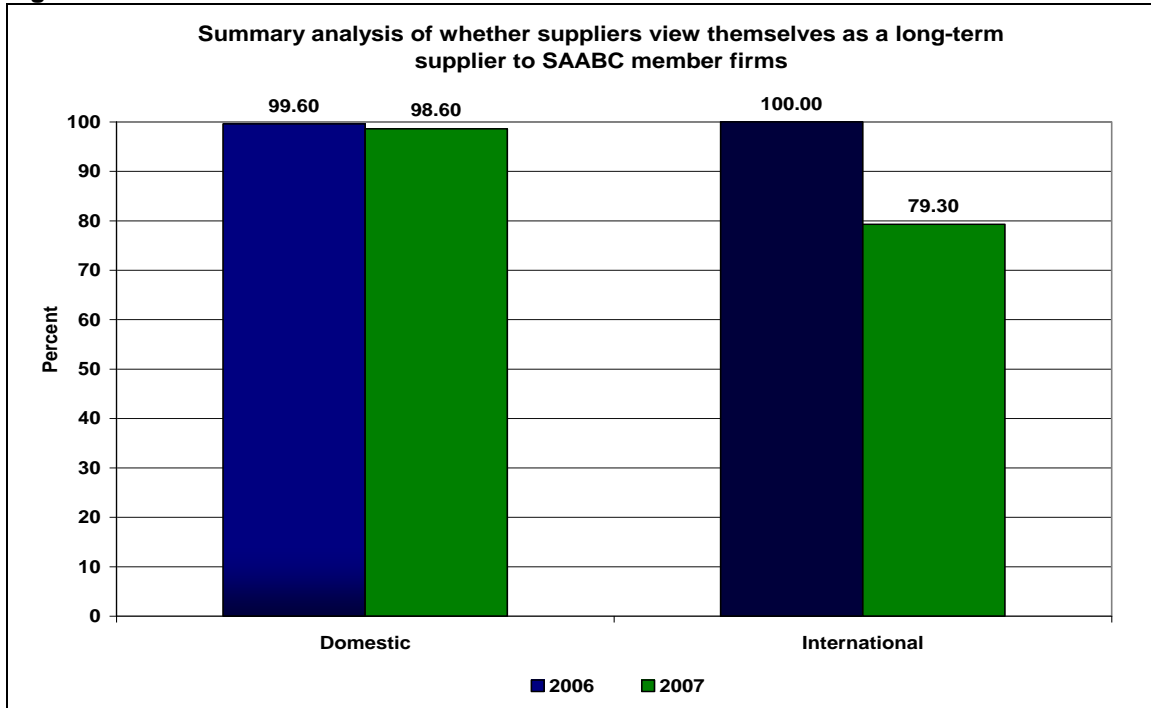
Table 7: International supplier ratings of support measures in place at firms

Support measure	Measures in place		Average effectiveness	
	2006	2007	2006	2007
Supply chain management programme	50%	41%	70%	79%
Technical/quality assistance	64%	63%	73%	73%
Regular supplier audits	47%	47%	71%	73%
Supplier rating	54%	53%	70%	84%
Supplier communication & feedback	84%	75%	73%	84%
Supplier recognition programme	41%	38%	69%	87%

When reviewing the international suppliers' effectiveness ratings of the measures, a key finding that emerges is that for all but one of them, namely, 'technical/quality assistance', the 2007 rating is notably better than those obtained in 2006. This implies that there has been a bolstering of the effectiveness of supplier support measures between SAABC member firms and their international suppliers. This is a positive find as while it can be argued that having these 'systems' in place is complex when dealing with international suppliers, this is necessary if the industry is to attain WCM levels. In this regard there does appear to be an improvement in their effectiveness, as rated by the international suppliers.

Finally, Figure 11 outlines the suppliers' views in regards to SAABC member firms being viewed as a long-term customer. In this regard there is a notable difference between the domestic and international supplier responses for 2007. While almost all (98.6%) of domestic suppliers did indicate that they do view SAABC member firms as being long-term customers, with this similar to the 2006 findings (99.6%), a notable 20% of the international suppliers indicated that this is not the case. This is also significantly different from the 2006 result where 100% of the participants responded in the affirmative (i.e. that SAABC member firms are viewed as being long-term customers).

Figure 11



While beyond the scope of this newsletter, this raises some key strategic questions with regards to SAABC member firms and thus the local auto component industry in regards to international suppliers (and thus importing). Some of these include:

- Are there questions around the long-term future of the local auto industry and thus international suppliers not viewing it as being strategic in the long-term?
- Will the local auto component industry be required to undertake an increased level of value adding, resulting in a change of the profile of international suppliers?
- Will there possibly be an increase in local content with dependence in international suppliers thus reducing?

4. Summary and conclusion

In summary, some of the key findings that emerge during the newsletter article include:

- As may be expected, similar performance demands are being placed on domestic and international suppliers by the local auto component industry. This thus highlights that irrespective of whether a product is being sourced locally or from overseas, the demands and pressures are very similar
- While several areas of underperformance exist for both supplier categories, for the domestic suppliers it is concerning that these are mainly evident for the local auto component industry's major performance demands
- The international suppliers' biggest weaknesses are evident for lead time flexibility and delivery frequency. This is an area that locally based suppliers should have a definite advantage, and ensuring that this is the case and that it is achieved cost effectively is crucial
- The international suppliers are, overall, slightly more critical of their performance levels. Also, a better level of alignment exists between them and the local auto component industry than with domestic suppliers

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- There does appear to have been an improvement in awareness between SAABC member firms and the domestic suppliers in terms of their respective performance levels in recent years
 - Overall, SAABC member firms are rated favourably in relation to other customers by their suppliers
 - The local auto component industry's order accuracy and reliability performance is assessed mostly positively with actual performance in this area also appearing to have improved in recent years
 - The local auto component industry is rated by its domestic suppliers as having several effective support measures in place, although this is not the case in relation to 'Supply Chain Management' and 'Supplier Recognition Programme', two key measures. The international supplier findings are far less positive
 - A notable number (20%) of international suppliers do not view the local auto component industry as being long-term customers

In conclusion, the SAABC supplier benchmark findings are illuminating. They highlight that there remains performance gaps in relation to both domestic and international supplier performance. A 'closing' of these is vital to the local industry going forward. An additional concern, as noted, is that the largest 'gaps' are evident for the domestic suppliers for their major customer demands. However, while international suppliers do appear to have an advantage over the domestic suppliers, the findings from previous benchmarks suggest that the awareness levels of domestic suppliers are improving.

The findings also suggest that the local auto component industry needs to bolster its supplier support systems, both with domestic and especially with international suppliers. This is particularly the case when it comes to 'Supply Chain Management' and having a 'Recognition Programme' in place. A bolstering of these is important in terms of ensuring that suppliers are continuously aware of their relative performance levels. This is crucial in respect of the suppliers ultimately focusing attention on the areas of 'weakness' that exist and thus improving their overall performance levels. The local auto component industry will struggle to improve its overall competitiveness unless incoming supplier performance improves, with the adoption of the necessary systems key in achieving this objective. Accurate monitoring and the feedback of information are also crucial in this regard.

News from the regions...

By Sean Ellis, Chief Facilitator: SAABC

The Past

- During July and August a number of firm-level activities occurred around the country for SAABC member firms. Eleven **process benchmarks** were undertaken with eight **benchmark reports** also finalised. In addition, ten benchmark **presentations/ feedback sessions** occurred.
- In addition to these, three **World Class Manufacturing** sessions took place. They all focused on **Total Quality Management (TQM)** and were hosted by **Bel-Essex Engineering** in Port Elizabeth and **Pi Shurlok** in KwaZulu-Natal, as well as by the **East London Industrial Development Zone** and **Feltex Automotive Trim** in East London. Once again, a special '**Thank You**' is extended to all those from the firms and organisations that assisted in making the various sessions a success. The success of the sessions is outlined in the

following table which summarises the attendees' assessments of the five TQM sessions that have now been held.

SAABC WCM Best Practice Workshop Programme TQM Workshop Assessment Ratings (2008)					
Chapter	Gauteng	Port Elizabeth	KwaZulu-Natal	Western Cape	East London
Host firm	ZF Lemforder	Bel-Essex Engineering	Pi Shurlok	Senior Automotive	Feltex Auto Tim
Workshop date	21 st May	8 th July	16 th July	30 th July	26 th August
Presentation skills	95.4%	82.8%	97.5%	77.50%	92.6%
Quality & layout of presentation and / or handout material	86.2%	85.8%	92.5%	85.88%	92.6%
Content of the training / workshop material	84.6%	84.2%	93.7%	83.53%	91.2%
Validity or workshop	90.8%	87.2%	96.0%	80.00%	95.0%
Benefit of workshop	90.8%	85.8%	93.3%	83.53%	90.0%

The Present & the Future:

- With the SAABC entering the final phase of 2008, there is an increased focus on finalising all SAABC activities, both at a firm-specific as well as at a cluster level
- In this regard, member firms are being contacted to ensure that they receive their 2008 service. In terms of the cluster activities, the Continuous Improvement (CI) sessions, that form part of the SAABC WCM best practice programme, are being undertaken. The full SAABC WCM programme for 2008 is outlined below

SAABC WCM Best Practice Workshop Programme - 2008			
Chapter	JIT	TQM	CI
KwaZulu-Natal	Feltex Automotive Trim (22 nd April)	Pi Shurlok (16 th July)	Ramsay Engineering (17 th September)
Port Elizabeth	Faurecia Interior (17 th June)	Bel-Essex Engineering (8 th July)	Dorbyl Auto System (29 th October)
Gauteng	Inergy Automotive (6 th May 2008)	ZF Lemforder (21 st May)	Shatter. GaRankuwa (4 th September)
East London	Faurecia Interior (12 th May)	Feltex Automotive Trim (26 th August)	Mercedes-Benz SA (10 th September)
Western Cape	EMCON Technologies (26 th February)	Senior Automotive (30 th July 2008)	TBA*

* To be confirmed

- For more information on any of the SAABC activities outlined in “**News from the regions...**”, please contact the Project Co-ordinator, Cleopatra Ndlovu, telephonically (+27 31 765 3870) or via email (saabc@bmanalysts.com)