

Auto Supplier Aid: Why Not Loan Guarantees, Mr. Bloom?

A Position Paper on Where The Auto Industry Should Be Going
by Jim Gray, Partner, KPN Advisors & Former Auto Industry CEO

Recently at the Traverse City Automotive Management Briefing, Ron Bloom, Auto Industry Task Force Czar, reiterated the administration's position of refusing to provide financial aid for the US auto suppliers. Mr. Bloom said "We're keeping a very close watch on the supply base." He added later, "If we felt it necessary, we might consider something." Such a lack of support for such an important segment of the US auto industry is inconceivable.

For years the car companies have stated that outside suppliers contribute 65% of the vehicle input material content. With such a considerable portion of the vehicle being dependent upon this "at risk" supplier segment, why would our auto czar take such a passive role as "watchful waiting?" A possibility is that Mr. Bloom has reservations about going back to the US Treasury for additional financial aid for the car industry, even in loan guarantees, especially when it could detract attention from the administration's healthcare campaign. And just for the record, the auto supplier population is diversified among as many as 4,000 N.A. parts manufacturers, and could be considered a far safer credit risk than either GM or Chrysler.

The Original Equipment Suppliers Association (OESA) estimates that \$8 to \$10 Billion is required to secure the supply base which could be in private bank loan guarantees. Neil DeKoker, president of OESA, recently warned that a cash crisis for suppliers may be "as close as 60 to 90 days" away. Putting this all into perspective, since so many billions have already been sunk in GM and Chrysler, being able to secure the entire supply base for loan guarantees seems like a no-brainer decision by comparison.

The Michigan Economic Development Corp. (MEDC) is being proactive having recently presented a plan to the Auto Task Force, including Ron Bloom and Larry Summers, estimating that of Michigan's 2,500 suppliers, "40 to 50% of automotive suppliers face bankruptcy in the coming months." The MEDC plan calls for \$1 to \$2 Billion in funds, which according to MEDC "would qualify under the Troubled Asset Relief Program (TARP)." Mr. Bloom was subsequently quoted, saying that "the administration hasn't changed its view that no additional aid for suppliers is warranted."

The callous attitude that the administration and Mr. Bloom in particular are taking toward the automotive supplier segment demonstrates their lack of understanding of the symbiotic relationship between the car companies and their suppliers. The interaction is so precise in many cases that shortages of hours or even minutes in some instances, can stop an entire assembly line. Parts are single sourced in the majority of cases, with unique tooling often dedicated to particular production equipment. When a company goes down, it is extremely difficult to transfer the production of that company's parts to a different supplier. In an epidemic of failures, occurring simultaneously, the car

companies would find it difficult to exercise the legal access orders to take charge of the companies, let alone to dispatch enough technicians to transfer the parts. The potential result is an epidemic of production line shortages that could have been averted with the financial backing for the supply base. One additional comment, “watchful waiting” is certainly a decision. But once this potential disaster happens, by then it’s too late to go back to fix the problem.

Returning to Mr. Bloom’s comments regarding financial aid to the supply base, “We’re keeping a very close watch on the supply base. If we felt it necessary, we might consider something. At the moment, we don’t see that happening.”

Remember, Mr. Bloom, the supply base contributes 65% of the vehicle content...and only a few of the 4,000 suppliers need to go down to cause catastrophic havoc. It is difficult to imagine the 40-50% failure rate that MEDC is estimating for Michigan suppliers. But, who knows, do you? Of course the car companies have dealt with bankruptcy in companies before, but never in this magnitude.

My advice, Mr. Bloom, is to contact OESA, set up to meet a few of the suppliers, visit their facilities, and see the considerable design, production, and logistical contributions that the auto suppliers make to the car manufacturers. I think that you will be amazed at the value that they contribute to the industry. And, incidentally, when you visit the supplier industry in Detroit, please fly commercial, we are a frugal industry, and this is our industry policy.

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