



Break Away from Status Quo

The Automotive Supplier Jam: A message from automotive industry professionals

In association with:





In March, 2007, 2000 professionals from 150 organizations in the Automotive Industry came together, online via the Internet, to address challenges facing the North American supplier industry and to collaboratively identify solution ideas.

Their message:

It is time to **Break Away** *from* **Status Quo**

Executive Summary

The resounding message from several thousand jammers in the automotive supplier jam is that it's clearly time to **Break Away from Status Quo** in the North American auto industry. If prosperity and even survival is the goal, the old way of doing things will no longer suffice. So what needs to change? Several key components that drive the way the industry operates. The industry – encompassing both supplier organizations and original equipment manufacturers (OEMs) – needs new business models, more collaboration, more standardization, re-branding and re-imaging, a rejuvenated culture, a more dynamic workforce, more participation from “adjuncts” like government and academia, and, not least (and certainly not last), to take advantage of the virtual world to better understand the needs and wants of consumers.

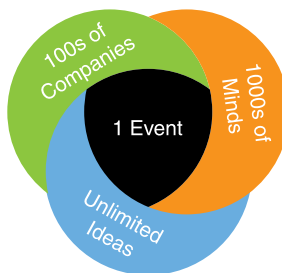
These ideas provided the impetus for five change concepts that have the potential to effect a significant transformation of the automotive industry. Upon their implementation, the stakeholders encompassing the supplier organizations, OEMs, and government will be able, with their combined intellectual capital, to set in motion a massive effort to rewire and reconfigure the industry – an effort that could change the way the industry operates and unleash a value creation mechanism for a new level of vibrancy and health.

What is a Jam?

A Jam, a concept invented and refined by IBM, is essentially an on-line conversation over a defined period of time – similar to a blog, though far more planned and structured – in which thousands of people can participate “virtually” from anywhere in the world. The premise is that through mass collaboration and conversation, guided by informed moderators and facilitators, the best ideas and suggestions will be expressed and honed. A Jam is a “hierarchy buster” that puts all participants on a common, and collaborative, playing field.

Automotive Supplier Jam

On March 7-10, 2007, IBM and the Original Equipment Suppliers Association (OESA) held the Automotive Supplier Jam, the first industry-wide virtual collaboration event to address the challenges facing the North American supplier industry. It attracted over 2,000 professionals from over 150 organizations. The participants ranged from CEOs, to line of business (LOB) executives, to functional VPs, middle managers, and engineers. The Automotive Supplier Jam congregated a group of people that would never have been possible in the purely physical world.



“Many young people want to contribute to solving the “big” problems of our world, or be part of a business that could have a significant impact. What’s ironic is that the auto industry is rich with such opportunities.”
 - *Jam Participant*

The Jam was guided and moderated by prominent leaders, from diverse realms, such as the Honorable Jennifer Granholm, Governor of Michigan; Gary Convis, of Toyota; Bo Andersson, of General Motors; Paul W. Smith, of 760 WJR; Jim McElya, of Cooper Standard Automotive; Neil De Koker, of OESA; Sanjay Rishi, of IBM; and Peter Brown, of Automotive News. These leaders set the stage for an informed and insightful discussion of the following issues:

Driving Growth: Transforming the way products are developed and businesses are operated to drive growth

Profitable Prosperity: Improving financial performance of products and businesses

Collaborating for more: Extending the enterprise by revitalizing traditional and exploring new relationships

Eye on the future: Moving to the future through our business, people, and sustainable development

These four areas of inquiry, each with two business challenges, supported 24 different forums, as shown in Figure 1, for participants to engage in online jam discussions.

Areas of Inquiry	Business Challenges	Discussion Topics
Driving Growth	Running the Business	<ul style="list-style-type: none"> Enabling an innovative culture and process Improving business flexibility New growth Horizons
	Developing Products	<ul style="list-style-type: none"> Maximizing R&D investments Transforming product development Enabling disruptive technologies
Profitable Prosperity	Across the Value Chain	<ul style="list-style-type: none"> Managing the supplier profit squeeze Transforming the value chain Reducing warranty costs
	Product ROI	<ul style="list-style-type: none"> Managing program lifecycle profitability Advanceing part commonality Reducing structural costs
Collaboration for More	Traditional Value Chain Relationships	<ul style="list-style-type: none"> Supplier-to-OEM Supplier-to-supplier Supplier-to-consumer
	Extended Value Chain Relationships	<ul style="list-style-type: none"> Cross industry (e.g. auto-to-electronics) Government Academia
Eye on the Future	Business & People Evolution	<ul style="list-style-type: none"> Supplier reconfiguration & evolution Discovering new business models Filling the skill gap
	Sustainability	<ul style="list-style-type: none"> Improving mobility Designing for a better planet Promoting corporate and social responsibility

Figure 1: Areas of inquiry, business challenges and their pertinent discussion topics



“The problem today is relationship with the OEM is at the procurement level and not done at the enterprise level”

- Jam participant

During the 3 days of Jamming, over 1,540 detailed comments were posted, covering a broad range of ideas, suggestions, and point of views. Thirty-nine percent (39%) of the posts are related to “Eye on the Future,” 24% to “Profitable Prosperity,” 19% to “Driving Growth,” and 18% to “Collaborating for More.” It is important to note that many of the discussions crossed these areas of inquiry – as was inevitable with topics that inherently overlap.

We used eClassifier, an IBM software, to find the most frequently occurring themes. The top 15 are shown in Figure 2. What was clear is that the top four – “culture,” “Toyota,” “collaboration,” and “chain” – are expressive of the key drivers of success that we see in the automotive industry today. The

next major grouping is about innovation and technology, and third major grouping is related to environment. This gives an indication of the key themes underlying the Jam discussion.

Automotive Supplier Jam Results

A team of analysts sifted through all the posts and created “abstracts” of the Jam insights. In consequence, 32 distinct themes were identified. Figure 3 details themes by the four areas of inquiry.

Each of the 32 themes has several ideas underneath it that provide a comprehensive view of it. It is interesting to note that these themes not only cover a broad range of topics, but widely vary in their maturity and feasibility.

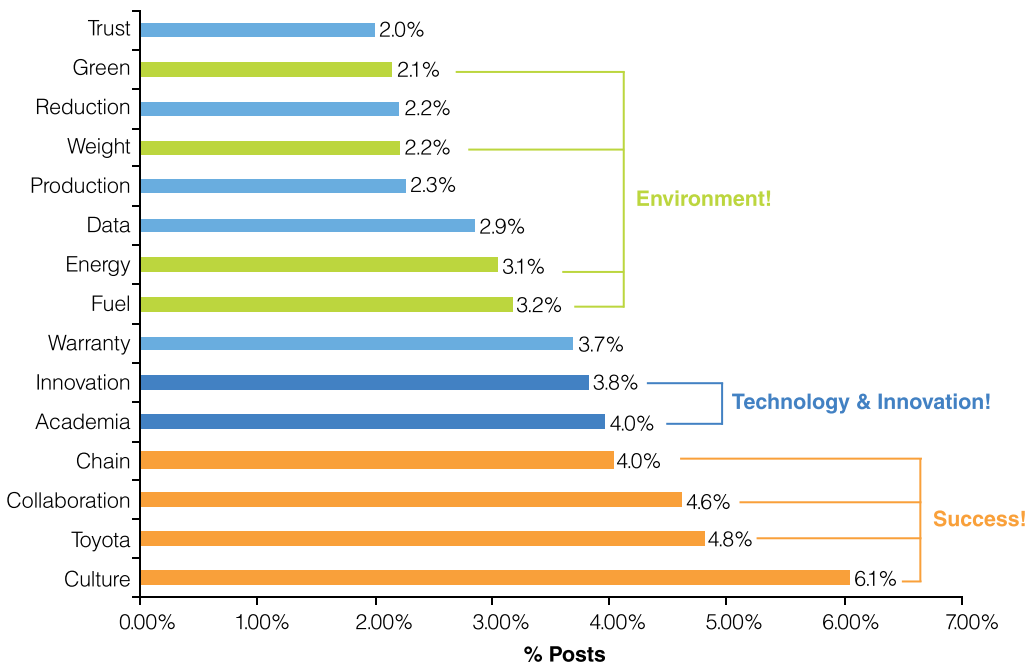


Figure 2: Most commonly used key words in the Jam

There were “breakthrough” themes such as “shifting relationship from OE procurement to OE enterprise” so that one can have “keiretsu”-like enterprise-level collaboration models, without equity stakes in suppliers.

There were surprising themes such as “re-engineer container returnables.” This particular theme generated big discussion during the Jam, indicating that it has failed to be adequately addressed and has cost the industry hundreds of millions of dollars.

Themes pertaining to collaboration models – such as “R&D innovation network” and “Auto patent portal” – also emerged. Participants were envisioning collaboration and open innovation among the peer group, and generally agreed that OEM-to-OEM collaboration is far ahead of supplier-to-supplier collaboration.

There was lot of discussion about “re-branding” and “re-imaging” of this industry. The outside world tends to think that the industry is still largely about mechanics and horsepower, and is “old school” in its outlook and management style. The reality is that it has become far most sophisticated in its thinking, its technologies, and its attitude on major social issues. It has, indeed, become a fountain of innovation (at least in parts). This re-branding – reflecting the reality is central to attracting next generation workforce and critical for the future of this industry.

There was a high level of interest in “green” issues – such as in developing “sustainable” product and process designs, and in specifying the green content of a vehicle so that consumers could factor it in when

Driving Growth	<ul style="list-style-type: none"> • Create R&D innovation network • Create flexible X-trained workforce • Grow non-OE auto business • Test car concept in virtual world first 	<ul style="list-style-type: none"> • Transform OE product development • Cultivate problem solvers • Embed heat recycling roofs 	
Profitable Prosperity	<ul style="list-style-type: none"> • Supplier focus value than cost • Supplier 2 supplier collaboration on fixed assets • Track vehicle production to delivery • Transparency in OE purchasing 	<ul style="list-style-type: none"> • Develop nextgen procurement staff • X-tier collaboration • Integrate service 2 supplier warranty value chain 	
Collaboration for More	<ul style="list-style-type: none"> • Supplier to integrate voice of end consumer • Shift relationship from OE procurement to OE enterprise • OEM-supplier value sharing model 	<ul style="list-style-type: none"> • Reengineer container returnables • Transform pricing & business performance agreement models • Trust 	<ul style="list-style-type: none"> • X-OEM testing standards • Standardize X-OEM data transfers • Wireless automotive data network
Eye on the Future	<ul style="list-style-type: none"> • Auto patent portal • OEM-supplier cohabitation model • Revitalize as a green state • Engage nextgen workforce now! 	<ul style="list-style-type: none"> • Rebranding the industry • Sustainable product & process design • Reinvent end of vehicle recycling 	<ul style="list-style-type: none"> • Build a commuter vehicle • New approach to dramatic weight reduction

Figure 3: Thirty-two themes by areas of inquiry

they purchase one. Some “extreme” ideas also emerged, such as making roofs capable of converting the heat they receive into energy for cars.

It was interesting to note that during a discussion between several CEOs of supplier organizations, a very simple linear equation arose to identify what makes a successful OEM. It starts with trust, which leads to collaboration, which creates competitive vehicles, which yield successful OEM (and in turn a healthy supplier base). It is a simple yet powerful message that every auto industry company and employee would do well to remember.

The 32 themes were aggregated into 8 “mega” themes, which led to one underlying message to the industry: **Break Away from Status Quo**. That is not just a supplier or an OEM statement, and it is not change in one part of the industry at the expense of, or contrary to the interests of, another part. It is a pan-industry statement, and it testifies – as the 1,540 posts showed – to the truth that no part of the industry can remain unchanged. This underlines the positive and constructive tone of the Jam – the belief that change is not only necessary but (as is not always the case) possible, and that it must be a collective effort for the collective good.

Trust ➡ Collaboration ➡ Competitive Vehicle ➡ Successful OEM

Simple linear equation extracted from a series of Jam discussions



“The best vehicle will come from the joint work of the OEM and supplier.”

- Jam participant

The eight mega themes are described below and shown in Figure 4:

1. **Commonize & standardize** to reduce product complexity & introduce standardization in working across OEM's. Commonization and standardization of design and manufacturing processes and operating models can streamline the value creation within companies and the industry.
2. **Collective collaboration** for joint innovation and improved asset utilization. Collaboration at both the sourcing level and enterprise level can foster much-needed innovation in the industry.
3. **Culture & process shift** in trust, product development, procurement/supply chain, and focus on value instead of cost. This shift can effectively position the industry for greater success by tapping into synergies hidden in the various tier levels.
4. **Re-branding to green/innovation** for a sustainable industry with large social and environmental impact. Re-brand and re-image to attract new talent to foster innovation.
5. **Technology and business intersection** to solve operational issues such as returnables, warranty, and product tracking. This intersection will help industry become leaner.
6. **Next-generation workforce** – a cross-trained, flexible workforce that is given the chance to make difference. Recruit early and bring new culture into the companies and the industry.
7. **New business models** such as “cohabitation,” “virtual world,” and “value sharing” should be explored to address tough business challenges. These models will enable the bold changes that traditional models might not be able to.
8. **Government initiatives** – to revitalize the state/industry with tax breaks, challenges, and initiatives across several business issues. Government could not only facilitate much of this, but be an active partner as well.

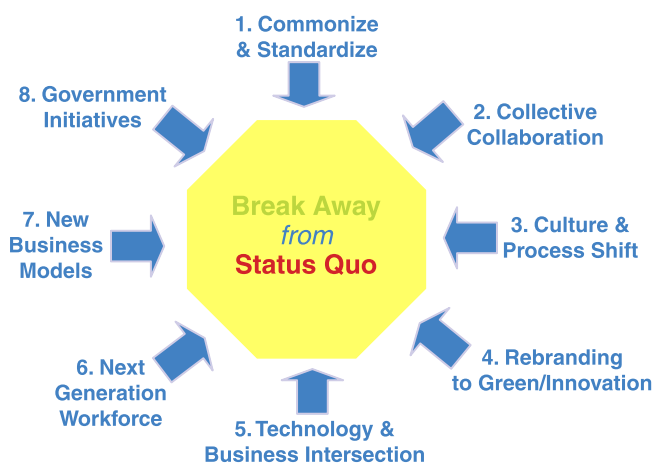


Figure 4: Eight mega themes and underlying message

Industry Change concepts

From the themes that emerged in the Jam, we were able to come up with what we call “industry change concepts” – five in all. These concepts – representing critical areas that, when turned into practicable plans, will be able to change the way the industry fundamentally operates – are:

1. Breaking the U.S. OEM-supplier gridlock
2. Convergence of virtual world and product development
3. Supplier to supplier coopetition
4. X-tier collaboration
5. Re-brand and re-image to engage the next generation workforce

Change concept one is breaking the U.S. OEM-supplier gridlock. Several paths were seen emerging from the Jam discussion. Building trust could help to “rewire” the next-generation procurement staff. A more-radical approach was also discussed: shifting the responsibility for supplier relationships from OE procurement to OE corporate, to enable enterprise-to-enterprise collaboration. One bold idea floated was for joint value (profit) sharing for specific vehicle programs to break the gridlock that exists today. Figure 5 illustrates change concept one.

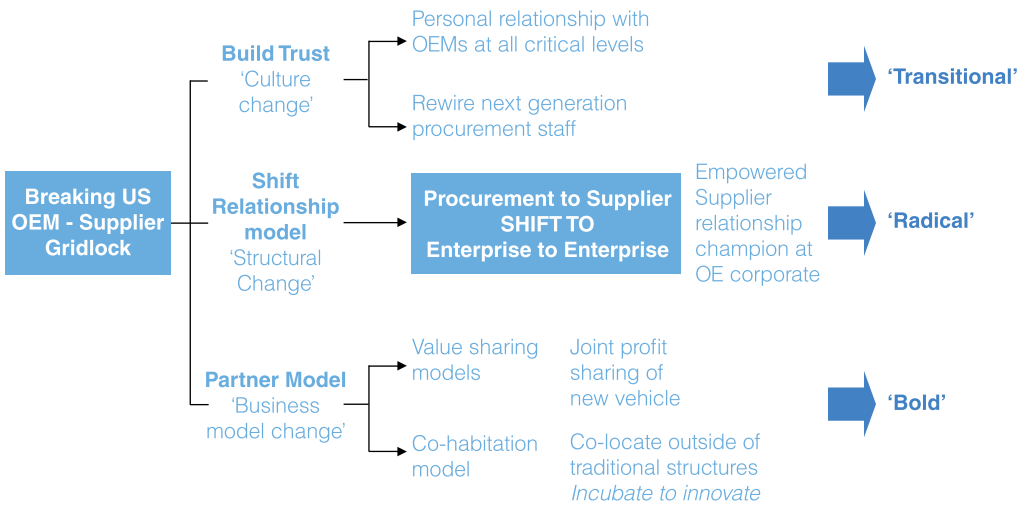


Figure 5: Change concept one - breaking the U.S. OEM-supplier gridlock



Change concept two is the convergence of the virtual world and product development to capitalize on the new and emerging virtual world, where the next generation of car buyers is residing and networking. The basic idea is to “co-create” product or options with customers and

stakeholders in the virtual world before investing billions of dollars for design and development. While this is largely new thinking to the auto industry, some industries are well along in adapting this model. Figure 6 illustrates change concept two.

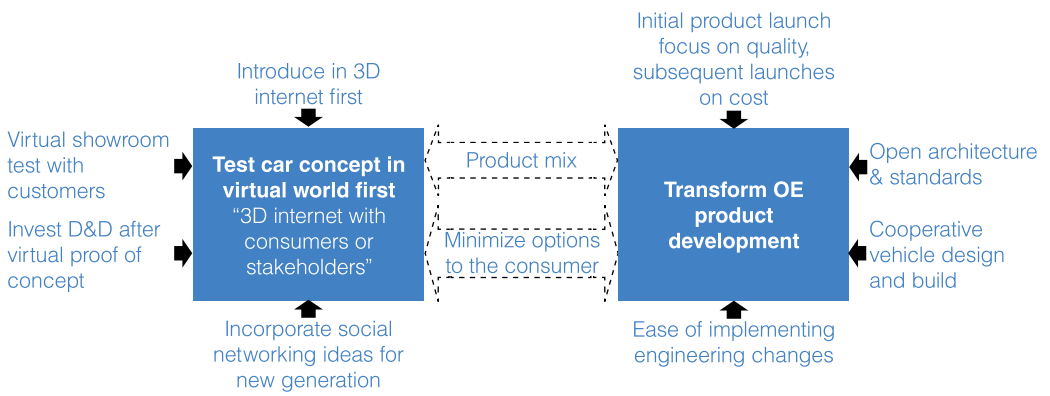


Figure 6: Change concept two - convergence of virtual world and product development

Change concept three is supplier-to-supplier cooperation– to tap the collective intellectual capital and assets of the automotive suppliers to create value for all of the stakeholders. Things that were once considered proprietary are now up for collaboration. Creating virtual R&D innovation network or labs, for example, or licensing unused patents to create scale and efficiency for the entire industry.

There was also discussion about how to better utilize fixed assets, and about the sharing of unused capacity at plants not only by automotive industry companies, but also by other kinds of companies that have needs similar to the auto industry. Participants even envisaged shared services for some non-core functions – such as A/R. Figure 7 illustrates change concept three.

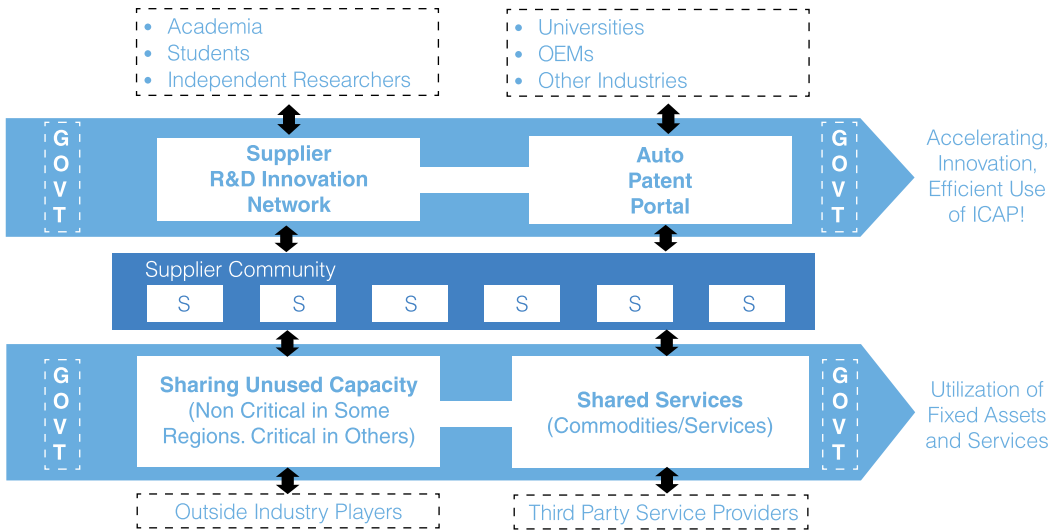


Figure 7: Change concept three- supplier to supplier cooperation

Change concept four is cross-tier collaboration— to foster and enhance collaboration among suppliers at all tier levels in order to capitalize on synergies. This concept includes joint planning sessions with OEMs across all tiers, faster engineering, and cost reduction ideas across tiers – in other words, the flattening of the tiered hierarchy.

Though there might be some resistance to this flattening on the part of the top-tier suppliers, suppliers across the board need to represent the interests of end consumers in their discussion with OEMs, talking less of cost and price and more about consumer value. With the advent of the Internet, blogs, and other discussion forums, suppliers have many challenges to understand the needs and wants of consumers (as do OEMs, for that matter). Figure 8 illustrates change concept four.

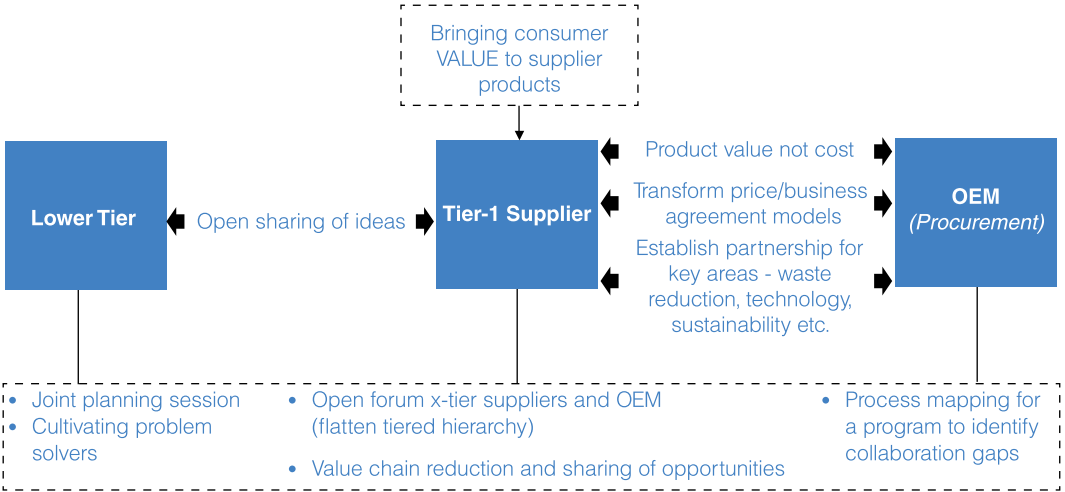


Figure 8: Change concept 4 - X-Tier collaboration



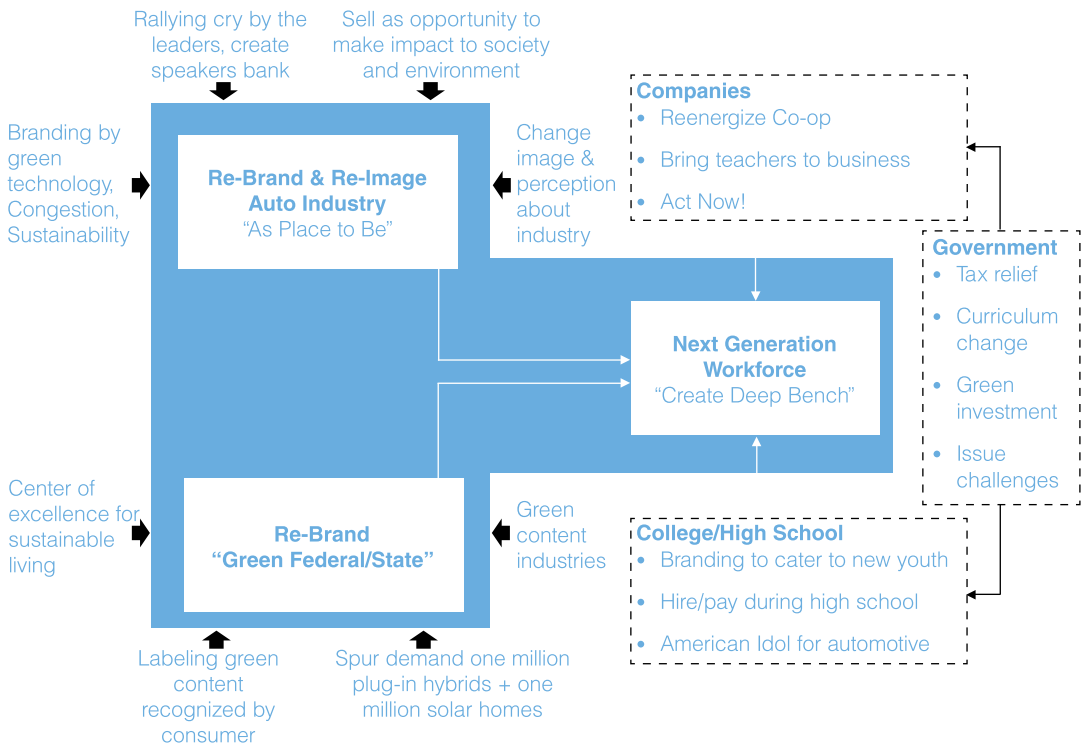


Figure 9: Re-brand and Re-image to engage the next generation workforce

Change concept five is to re-brand and re-image the industry to engage the next generation workforce. The industry is widely undersold in terms of investments and innovations it makes in the environment, technology, and energy conservation. Jammers discussed the idea of creating a bank of speakers who can talk publicly on behalf of the industry. As well, they felt that the government's support was necessary to help recast the industry.

There was concern about the industry's perceived inattentiveness to high school and college graduates. Several interesting ideas were ventured, such as recruiting "NBA" style and doing American Idol for the industry to draw new employees. These and like actions were felt to be urgent, but most important, it was felt that these employees should be given the opportunity to make a fundamental difference in the world – a major aspiration for the next generation workforce and an opportunity unique to the auto industry by virtue of its environmental impact. Figure 9 illustrates change concept five.

Creating the CEO Agenda

Suppliers and OEMs have to create an agenda from themes derived from this Jam. They have to extract the full benefit from open collaboration and the ideas generated by the 2,000 automotive professionals across different enterprises, hierarchies, and functions. As CEOs prepare the agenda, they should be asking themselves and their organizations the following questions:

OEM CEOs should be asking:

- How can I break the OEM-supplier gridlock?
- How can I dramatically change the trust factor?
- Should I experiment with new OEM-supplier business model (e.g. joint profit sharing for a new vehicle program)?
- How do I enable an enterprise-to-enterprise level dialogue with suppliers?
- How can I use the virtual world to improve product planning and development
- How can I improve my container returnables management?
- How can I promote supplier-to-supplier cooperation?
- What role I can play in re-branding the company and the industry?
- How can I work with government to spur demand for green technologies?
- How can I create a sustainable product and process design?
- What X-OEM testing standards can I create to bring costs down?

Supplier CEO should be asking:

- How do I bring consumer value into my product, and change the nature of discussion with OEMs from cost and price to consumer value?
- What can I do to build a better relationship with my OEM customers?
- How can I facilitate joint planning sessions with suppliers in other tiers, and OEMs?
- In which areas can I collaborate with my peer group for better use of capacity?
- What shared services can I create with my peer group?
- Can I get my peer group to create common standards in certain areas of products and process?
- How can I use or create an R&D innovation network to accelerate my innovation?
- What green technologies should I be investing in?
- How can I contribute to the sustainability of the overall product and process design?
- How can I engage the next-generation workforce starting in high school?



Next Steps:

Driving Change in the Industry

“Break away,” a phrase commonly used in ice hockey, is fruitful only if a goal is ultimately scored. Similarly, it will matter in the auto industry only if massive, and immediate, change is the end result. Thus the real fruits of the Jam will be realized only if the change concepts are instituted. Several executives from the industry will convene to discuss actionable plans for the five change concepts, and discuss implementation priorities for the betterment of individual companies, the industry, and the region at large.

For more information, please visit ibm.com/automotive



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