

Delivering exceptional shareholder value: Analyzing leading edge performance within the automotive supply base

Introduction

Over the last 10 years, the global automotive industry has arguably been the most volatile and dynamic since the early days of Henry Ford and other automotive innovators and entrepreneurs. Regardless, automotive executives have had to remain steadfast in their obligations to deliver value to their company shareholders. And while it's easy to say shareholder value (SHV) is important, it is something entirely different, and infinitely more difficult, to understand what the strategic and operational levers are that help create and deliver exceptional shareholder value.

Has your organization achieved or exceeded its enterprise value creation goals over the last decade? If so, what factors have helped generate superior returns? And, are there common themes that consistently correlate to exceptional performance?

Today, automotive suppliers focused on delivering superior performance need to understand their own strengths and weaknesses, and have an understanding of what leading organizations within the industry or their competitive set have done to achieve superior value creation. Furthermore, it is important to understand if there are other external factors that also impact their company's shareholder value.

Exploring the drivers of exceptional shareholder return for automotive suppliers

To explore what actions have resulted in superior performance and enterprise value creation, Deloitte Consulting LLP (Deloitte) has collaborated with IHS Global Insight (IHS) to conduct an industry study that investigates a series of questions, including:

- Who are the top performers that created superior total shareholder return?
- Who are the top performers within a product segment and regional basis?
- How did the winners perform across financial and operational metrics versus the rest of the suppliers?
- For the top performers, are there winning themes that emerge relative to what they have done to drive SHV?
- What are the strategic and operational levers used to execute the winning themes and deliver exceptional shareholder value?

About the analysis

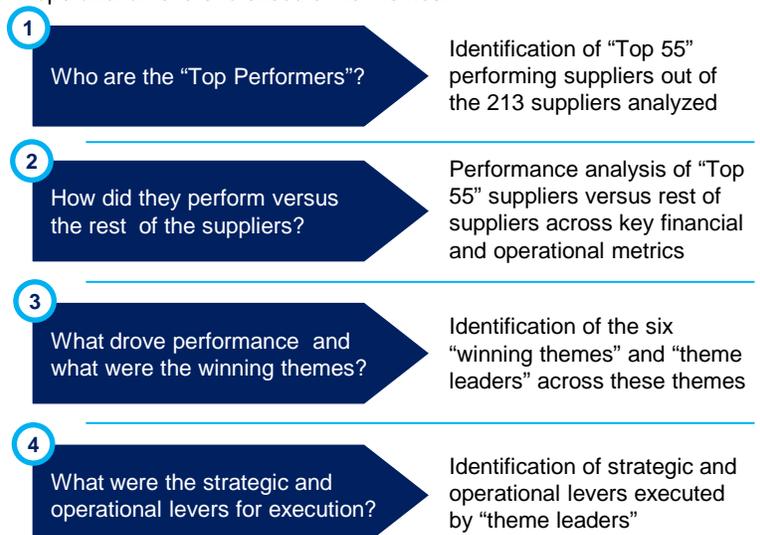
The objective of the study was to identify drivers of superior shareholder value creation among global automotive suppliers. Special emphasis was given to identifying themes that have helped generate superior SHV over the last decade, as well as strategic and operational levers deployed by top performers.

More than 200 Tier 1 global automotive suppliers with annual revenue of \$500M or more were included in the analysis. The team focused on identifying top performers overall, as well as top performers by region and segment to understand drivers of shareholder value over a 10-year period (2002-2012).

Regions	Total Suppliers Analyzed	Segments	Total Suppliers Analyzed
North America	43	Electronics/ Electrical	31
Japan	91	Powertrain	75
Europe	47	Chassis	61
China/ India	18	Exteriors	49
Rest of World	14	Interiors/ HVAC	41

Approach and methodology

We used a systematic approach to analyze SHV performance to identify top performers, the winning themes, and the strategic and operational levers to execute the themes.



1 Who are the “Top Performers”?

Our analysis revealed that a significant value creation gap exists across the performance spectrum. While in aggregate the suppliers generated over \$160 billion in SHV over the last decade, there is a stark difference in performance when digging deeper and investigating the top, middle and bottom thirds of the portfolio.

The analysis shows that over the 10-year period, and relative to their own baseline, the top third have cumulatively generated 438 percent in shareholder value. In contrast, the middle third generated 106 percent in shareholder value, and the bottom third actually *destroyed* 18 percent of the total shareholder value over the same period.



2 How did they perform versus the rest of the suppliers?

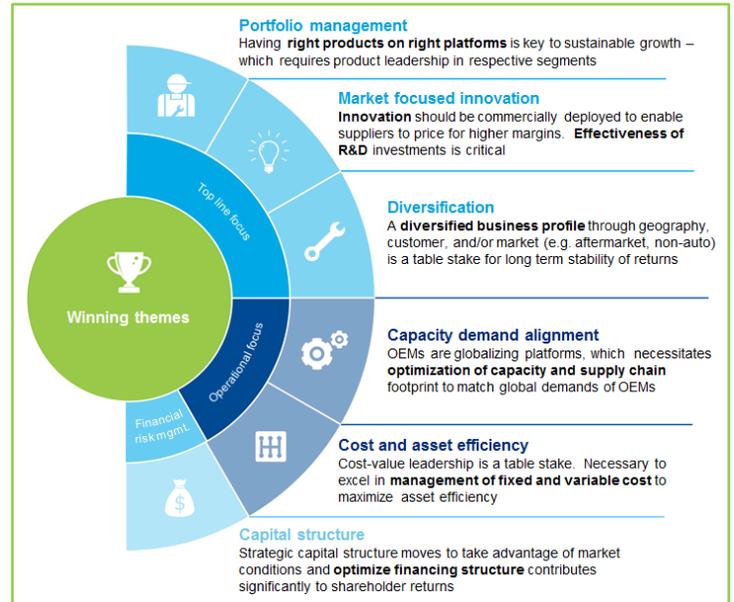
Further analysis reveals that the “Top 55” suppliers have consistently outperformed the remaining suppliers on key financial and operational metrics, such as revenue growth, profitability and return on assets (ROA). In fact, the growth gap between the “Top 55” versus the remaining suppliers in the portfolio has actually widened over the last 10 years, resulting in more than 1.5x more top-line growth for the “Top 55” relative to the other suppliers in the analysis.

Moreover, the “Top 55” have consistently generated 20-30 percent higher ROA than the remaining suppliers. Better EBIT margins also indicate that the “Top 55” have higher pricing power and better control of direct cost management, operating expenses, and overhead.

3 What drove performance and what were the winning themes?

To explore what drove performance within the portfolio of “Top 55” suppliers, Deloitte and IHS identified six winning themes that drove superior shareholder value creation, and analyzed the portfolio in an effort to identify those truly exceptional suppliers that had successfully executed across one or more of the winning themes.

Coined “theme leaders,” our analysis revealed that this small set of global suppliers had not only created significant SHV, but had done so by executing against a set of the six winning themes. The winning themes, which are categorized by top line focus, operational focus, and financial risk management, are illustrated below.



4 What were the strategic and operational levers for execution?

In this phase, the Deloitte and IHS team dove into understanding the levers used by the theme leaders to execute on the winning themes. Since the winning themes can be executed by deploying different strategies and actions, the team also focused on developing examples of how different theme leaders had executed the same winning theme.

Following the analysis phase, the team also conducted a survey of automotive supplier executives, primarily in North America, to understand their perspectives on how they have executed against the themes, and how they are likely to execute in the next five years.

As a result of the study, we now have a rich set of data, as well as perspectives and insights around the winning themes and strategic and operational levers used by theme leaders. Our teams can meet with supplier executives to review a more detailed version of the study, and provide an “outside-in” comparison of automotive suppliers against their defined peer set (or against the top performers) to highlight strengths and improvement areas. Our teams can also discuss the operational and strategic levers that top performers have deployed to create superior returns, and help suppliers identify and implement those levers that can help them realize their business growth objectives.

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