

An aerial photograph of a red hatchback car on the left and a vertical line of five white hatchback cars on the right, set against a grey background with abstract white geometric shapes.

berylls

BERYLLS STRATEGY ADVISORS

SUPPLIER SELECTION IN UNSTABLE TIMES

IN UNSTABLE TIMES, CHOOSING THE RIGHT SUPPLIER GIVES CERTAINTY AND CUTS COSTS.

FACT-BASED APPROACH TO SUPPLIER SELECTION HELPS OEMS AVOID DELAYS AND COST OVERRUNS AS THEY RAMP UP EV PRODUCTION AND WORK WITH LESS EXPERIENCED SUPPLIERS.

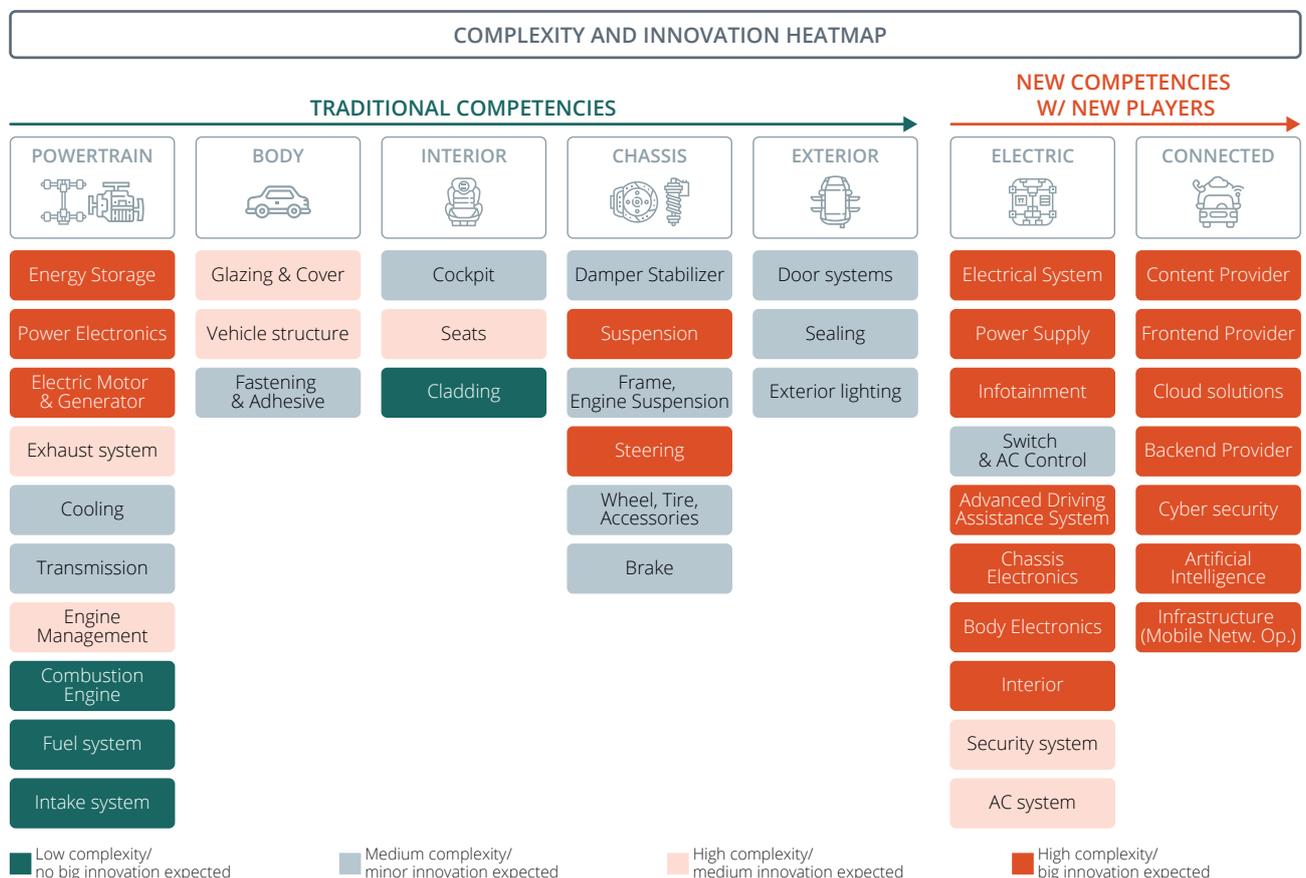
Carmakers have never faced more uncertainty – recovering from the economic hit and shutdowns brought about by Covid-19, plus short-term problems such as computer chip shortages, combined with the long-term transformation of the market as connected, autonomous, shared and electric (CASE) vehicles take over as the drivers of growth.

As a result of these transformative trends, software is an increasingly important component of all cars. This has made the vital relationship between OEMs and their suppliers more complicated and more challenging, because the technologies are in many cases less mature and not yet sufficiently tested at

scale. Some suppliers are in uncharted territory: tech companies with limited experience in the automotive space, or long-term auto suppliers moving into new technologies, for example.

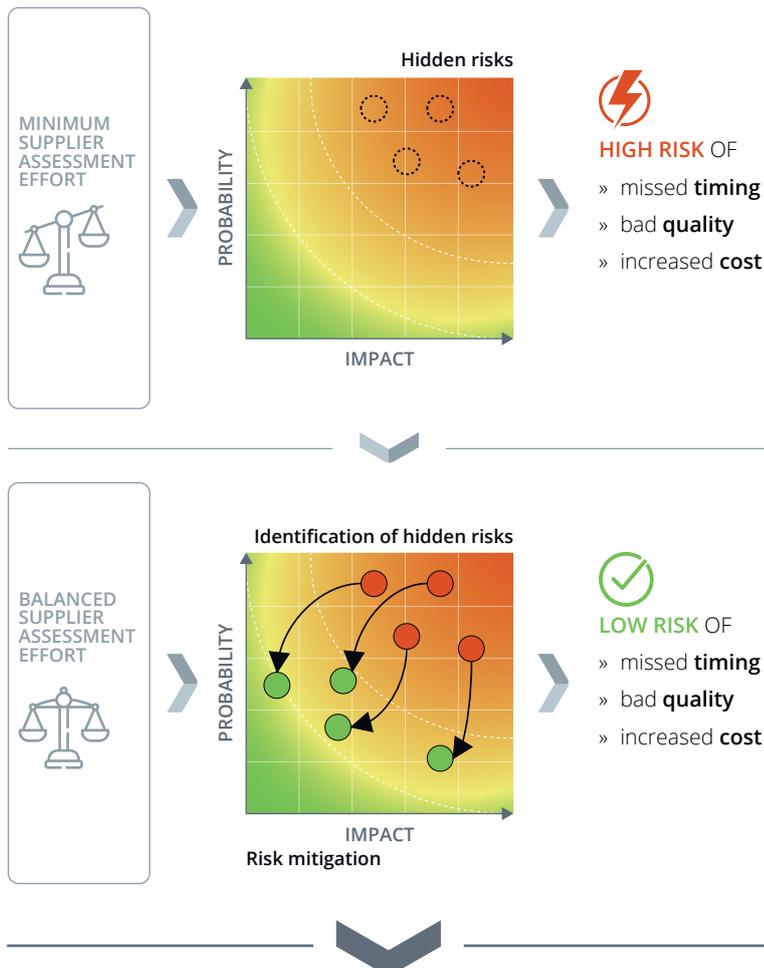
Because of the high cost of developing and rolling out new technologies, when problems occur, the bills quickly mount up – issues with the quality of battery electric vehicle (BEV) components cost one global OEM \$140 million. However, problems are not limited to these new supply relationships – another OEM suffered quality issues with the stamping and casting of vehicle body parts, which cost the carmaker \$225 million.

CHALLENGES CAUSED BY INNOVATIVE AND COMPLEX PRODUCTS.



Undeniably, the current state of flux all along the automotive supply chain makes assessing and choosing the right suppliers extremely difficult. However, we believe that by making a relatively small upfront investment to spend time assessing and understanding potential suppliers, OEMs can substantially reduce the financial and reputational risk posed by substandard quality or delayed product launches.

RELEVANCE OF THE RIGHT SUPPLIER SELECTION APPROACH.



Objectives

- » In many cases the **effort** for supplier assessment, selection and nomination is **minimized** resulting in high costs, quality issues and risking an on-time product launch
- » With the **right effort** already during **supplier selection** following our Berylls methodology, we safeguard all targets
 - **In time**, e.g. ensuring to meet critical milestone and Q-gates through early testing
 - **In quality**, by e.g. understanding supplier capabilities to ensure desired quality is met
 - **In cost**, e.g. by proactive risk management and mitigation



USING A FACT-BASED APPROACH.

We set out in detail below the benefits of a fact-based approach, which starts by ensuring that suppliers have a clear understanding of the OEM's specifications from the outset, by reviewing request for quotation (RfQ) documents and holding first concept competitions. Securing better specifications from the OEM side, through cross-functional workshops and external review, is also important at this stage.

Working in this way, OEMs can identify the suppliers with the best overall cost-to-performance ratio by factoring in experience and capability gaps, avoiding snap judgements based only on initial costs.

The next step is to carry out on-site assessments of production and R&D facilities to gain a deep understanding of the supplier's capabilities, and to tailor enablement programs to ensure development and production can start on time.

DIMENSIONS FOR SUPPLIER ASSESSMENT.



WHAT OUR APPROACH LOOKS AT.

WE INVESTIGATE MULTIPLE CRITERIA ACROSS SIX DIMENSIONS TO CARRY OUT A DATA ANALYTICS-DRIVEN SUPPLIER ASSESSMENT THAT GOES FURTHER IN DEPTH THAN THE APPROACH TAKEN BY MOST PURCHASING MANAGERS.

When it comes to **technical concept and product characteristics**, we go beyond counting how many of the OEM's requirements each potential supplier says they can meet, and instead facilitate a detailed comparison of product performance.

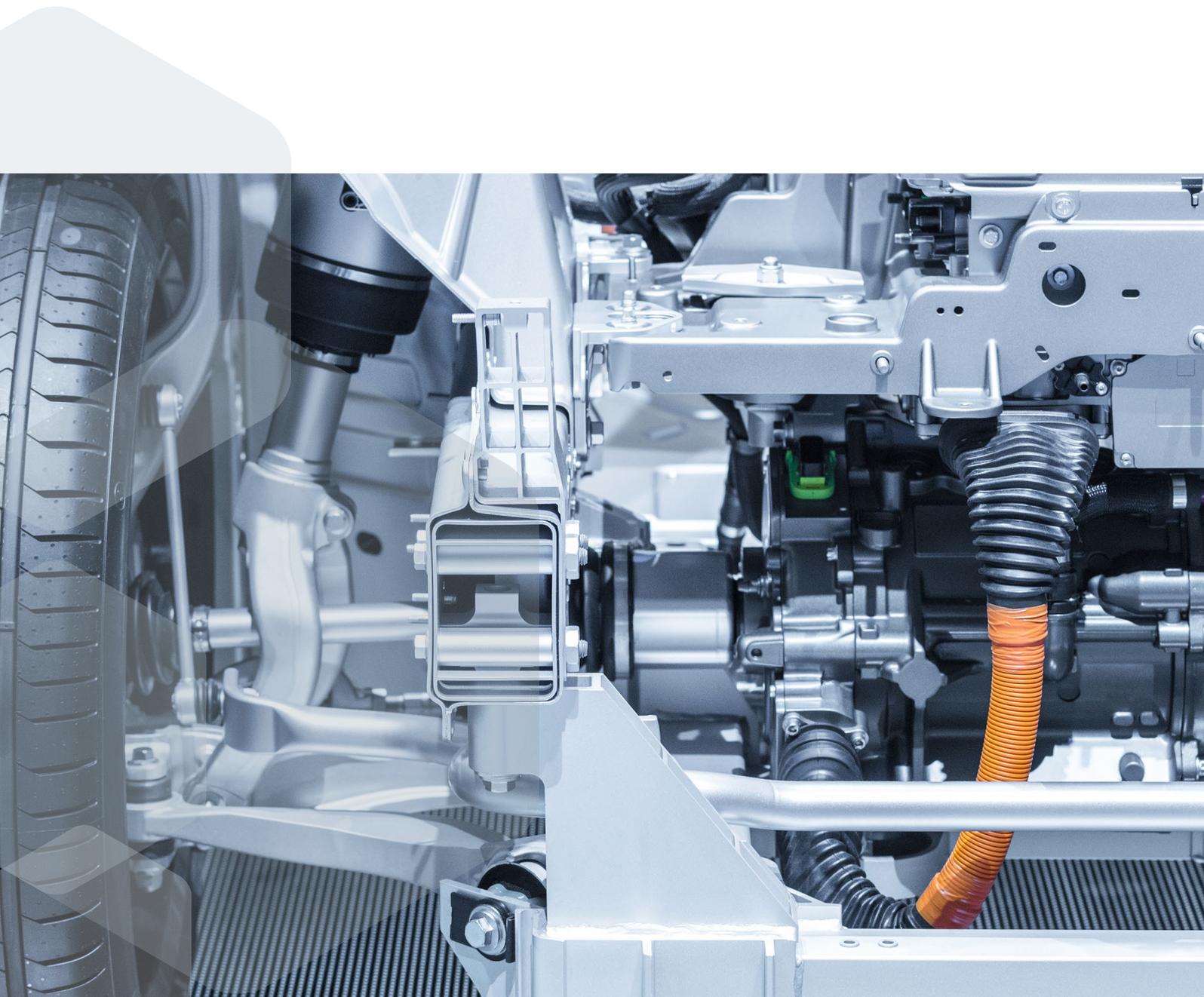
On **project approach and team capabilities** we don't rely on gut feeling but instead conduct a comprehensive evaluation of the key players on the supplier side.

The **company's profile and product history** is scored and integrated into the sourcing recommendation, along with a comprehensive supplier risk assessments.

To assess **manufacturing capabilities and supply chain**, we go beyond ISO and VDA requirements and carry out extensive site assessments to create a detailed project-specific picture.

We assess **development, testing and industrialization plans** in detail and review them early on for quality and whether they match what is possible in reality.

Finally, we link the **commercial offer** to the insights we glean from the other dimensions and check it for plausibility and negotiation potential.



CASE STUDY.

USING OUR THREE-PHASE APPROACH TO SOURCE EV COMPONENTS.

We worked with an OEM experiencing issues during the development and industrialization phase with its suppliers. Their own supplier evaluation was based mainly on a lowest-cost approach, and there was a lack of collaboration between functions on what was required from the parts being supplied. In a project to source an EV component with both hardware and software elements, we supported our client by applying a new holistic and quantifiable assessment methodology:

The **first phase** was to prepare the request for quotation (RfQ) by reviewing and sharpening up existing RfQ documents and defining the assessment criteria across the six dimensions described above, based on internal interviews and workshops with the OEM. We then compared each potential supplier's first concept, conducting two-day workshops with each supplier. *The first phase typically takes around two to four weeks.*

The **second phase** of our approach is based on site visits, to make a 360° assessment. In this case, we conducted a two-day visit to assess potential suppliers' capabilities in terms of staff, as well as in development and production. We then carried out a 10-day visit to development and potential production sites (five days at each) to understand how the work for our client would be carried out, and to start designing enablement programs to ensure work would start smoothly.

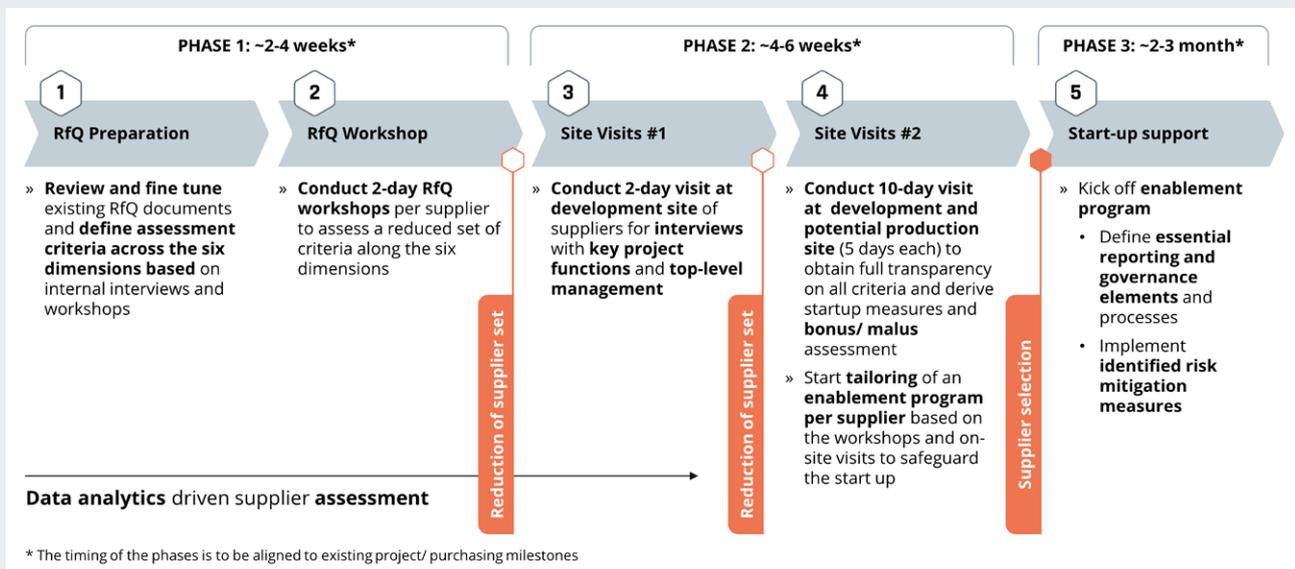
The enablement program is a key element of our methodology because it mitigates risk in the start-up phase: for example, if the OEM chooses a supplier knowing that they lack certain production capabilities, the enablement program ensures those will be built up from the start.

We then translated the assessment results into a bonus-malus rating to identify the suppliers with the best overall cost-to-performance ratio. *The second phase typically takes around four to six weeks.*

In **the third phase**, after the company had chosen its preferred supplier, we offered start-up support for development, production and supply, by kicking off the enablement program. The program was accompanied by stringent reporting and governance. From the beginning on, the risk mitigation measures identified in phases one and two were implemented. *The third phase typically takes around two to three months.*

As a result of our work together, the OEM was able to make an objective and fact-based decision on the EV component, selecting a supplier with competitive pricing but also the necessary capabilities to start production smoothly and on time. Using the tailored enablement program, all identified risks were addressed at an early stage during the ramp-up of production, avoiding cost overruns and quality issues.

OUR APPROACH: FIVE STEPS TO SELECTION EXCELLENCE.

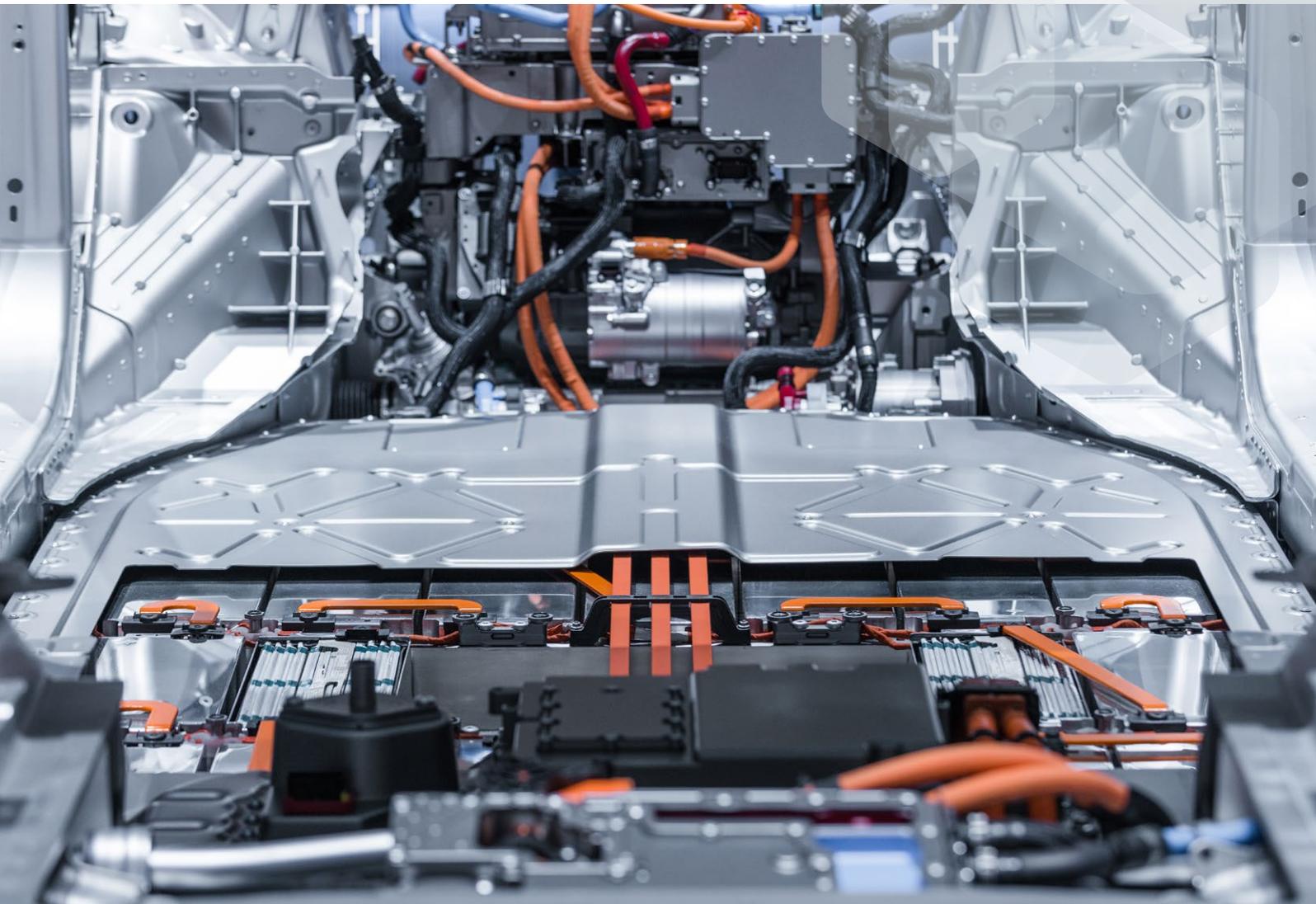


CONCLUSION.

DE-RISKING SUPPLIER SELECTION IN UNCERTAIN TIMES.

Our aim is to offer our clients a unique service by considering aspects of supplier selection that are usually left out, going deeper in our analyses and connecting the dots that are often neglected.

The benefits of this fact-based approach, as opposed to decisions made on gut feeling or long-standing relationships, are reduced risk (whether that is additional cost, bad product quality or a delay in delivery), a better product at a better price, and improved long-term relationships with suppliers.



BERYLLS STRATEGY ADVISORS.

The **Berylls Group's** services are fully dedicated to the automotive industry. Our experts in Germany, China, Great Britain, South Korea, North America and Switzerland understand the industry's key challenges and are developing ways to achieve sustainable success in the automobility eco system. They use advanced digital strategies and other innovative approaches. Our professionals are networking across our four specialised units to offer our clients end-to-end support, from strategy development to the implementation. We call this network our Berylls Quartet.

Berylls Strategy Advisors – The expertise of our top management consultants extends across the complete value chain of automobility – from long-term strategic planning to operational performance improvements. Based on our automobility thought leadership Berylls Strategy Advisors stand out with their broad experience, their profound industry knowledge, their innovative problem-solving competence and, last but not least, their entrepreneurial thinking.

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