



MASTERING END-TO-END INFLATION MANAGEMENT

Optimizing end-to-end processes to mitigate costs and maximize recovery in the automotive supply chain

EFESO
MANAGEMENT CONSULTANTS

SUPPLY CHAIN MANAGEMENT
INSIGHT

How to boost your inflation recovery by stepping-up to best-in class

Stop talking. Start acting. That's the short answer. But knowing how and what to do is the key to success: that's what will keep you a leading and competitive player in the market.

The influences of a world **gone off the rails** are increasingly being felt in various **business sectors** – especially in the **automotive industry**.

Global pandemics, unexpected wars of aggression, the apparently unstoppable tide of climate change, the permanent pressure of digitalization, and a technology transformation that is continuously pushing forward – all of these factors are combining to create new and unexpected challenges.

One of the key ones we need to tackle is the impact of **inflation**, which has rolled in like a tsunami upon the **industrial sector**.

Way too often, **claims** of **additional costs** to OEM's are based on **short-term reactions** without considering companies' **global effects** on their customer base. In addition, there is often a **lack** of a **strategic** and **structured approach** when it comes to identify **total costs** and, finally, the **claiming effect**.

Many companies are capable of identifying cost effects. But **consolidating** and **condensing** the insights gained, and subsequently transforming them into a **tactical negotiation strategy** to employ with OEMs, makes all the **difference**.

We deliver performance. At speed...

We create opportunity from complexity. **Comprehensive inflation management** and **OEM claiming** in particular are complicated. But there are opportunities to take **advantage** of the volatile **market situation**, to **minimize** the impact of **inflation-related** (additional) **costs** and to **optimize** the **recovery ratio**.

We use our extensive experience to help sales organizations understand **which levers** they need to focus on, to be as **effective** as possible. Having performed multiple inflation recovery projects in industries as diverse as automotive, transportation and defense, we have a **tried and tested formula** for **success**.

Injected with our long-term consulting experience, our '**End-to-End Inflation Management Approach**' focuses on identifying **unexploited** claiming **opportunities**. Fully transparent negotiation preparation, in combination with a data-driven cost evaluation, enables us to successfully and efficiently execute our approach with a wide variety of OEMs.

Trust in us and we will help you master this challenge, and apply out our best-in-class approach for all your strategic programs. And we'll make it stick!



Martin Kruschel
Partner
TSETINIS-EFESO



Dr. Felix Erhard
Principal
TSETINIS-EFESO

The ongoing crisis is causing division in the automotive industry: tier N suppliers are under increasing pressure while OEMs are generating record profits

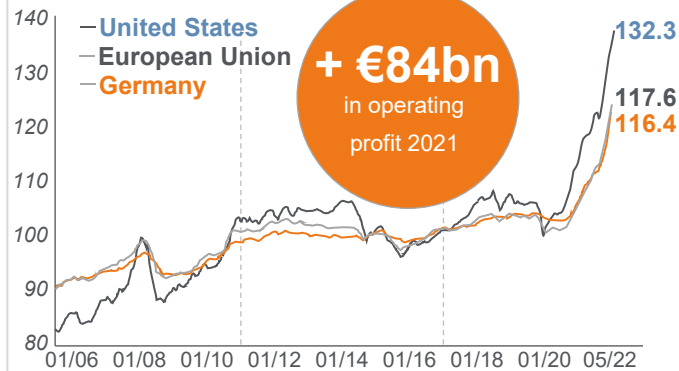


Key indices & market trends

OEMs

Producer price indices¹ (PPI)

[2015=100]



Top 16 global automotive manufacturers³

Full year 2021

- Sales +1.2%, turnover +11.6%
- Operating profits in 2021 rose 168% year-on-year, from €50bn to €134bn

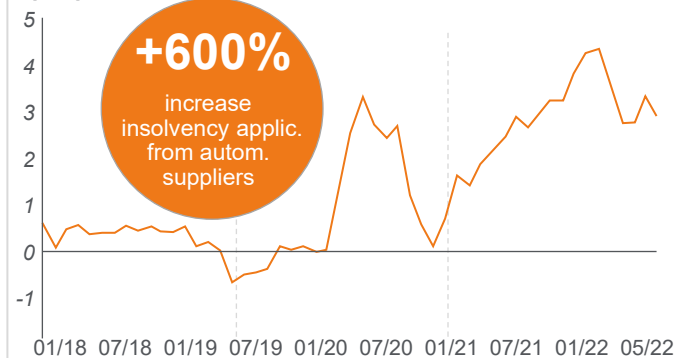
Q1/2022

- Sales -11%, turnover +7%
- Operating profits in Q1/2022 up 19% year-on-year, to new record levels

Tier N suppliers

Global supply chain pressure² (GSCP)

[Index]



German companies with sales > €20m and > 100 employees⁴

Between 2016 and 2021

- The percentage of insolvency applications from automotive suppliers rose from 8% to 25%

Q4/2021

- The number of insolvency filings by companies in automotive supply industry increased 48%



Statements & forecast

*"At the end of the day, we're all interdependent It is not acceptable that the whole issue of cost increases should be left exclusively to the suppliers."*⁵

Dr. Holger Engelmann
Chairman Management Board Webasto SE

*"Not only car manufacturers, but also suppliers rely on passing on price increases"*⁶

Dr. Markus Forschner
Bosch Group CFO

- E-mobility transformation is pressurizing suppliers, due to the growing number of OEMs and increasing vertical integration
 - Market sustainability is being affected by current global events (e.g., wars, pandemics, shortages) in an unprecedented way
- **Continuously rising inflation puts strain upon automotive suppliers, making achieving profitability even more difficult**

Already financially stressed automotive supply chain faces record inflationary pressure worldwide, due to overall rising costs



Initial situation

The automotive industry is undergoing a fundamental transformation placing a heavy financial burden on all major players

In parallel, inflation is rising rapidly, putting additional pressure on the whole supply chain

The ongoing war in Ukraine, the adjustment of climate targets and post COVID-19 effects further aggravate the situation

From a supplier's perspective, the inflation-related cost increases in many areas of the value chain are threatening their very existence



Price development

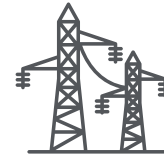
THE PRICE TRENDS...



RAW MATERIAL



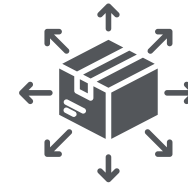
+ 38%¹



ENERGY



+ 500%²



LOGISTICS



+ 290%³

THE MAIN DRIVERS

- Reduced stock & diminished capacity, due to poor economic conditions
- Rise in demand due to unexpected economic upturn
- Protective tariffs being imposed upon cheap imports

- Ukraine conflict
- Decreased energy supply
- Introduction of CO₂ pricing
- Transformation to green energy
- Increased demand due to post COVID-19 recovery

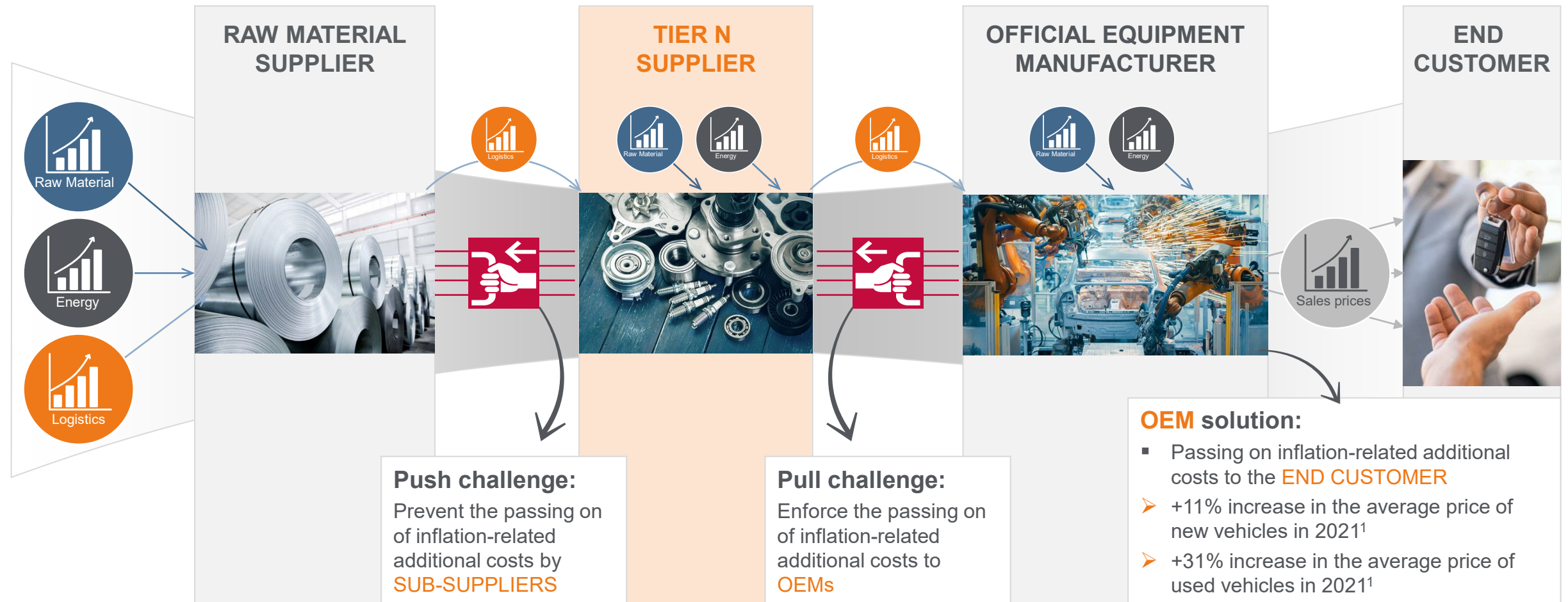
- Increasing e-commerce
- Shortage of packing materials
- Asymmetry of container availability
- Transformation to sustainable fleets



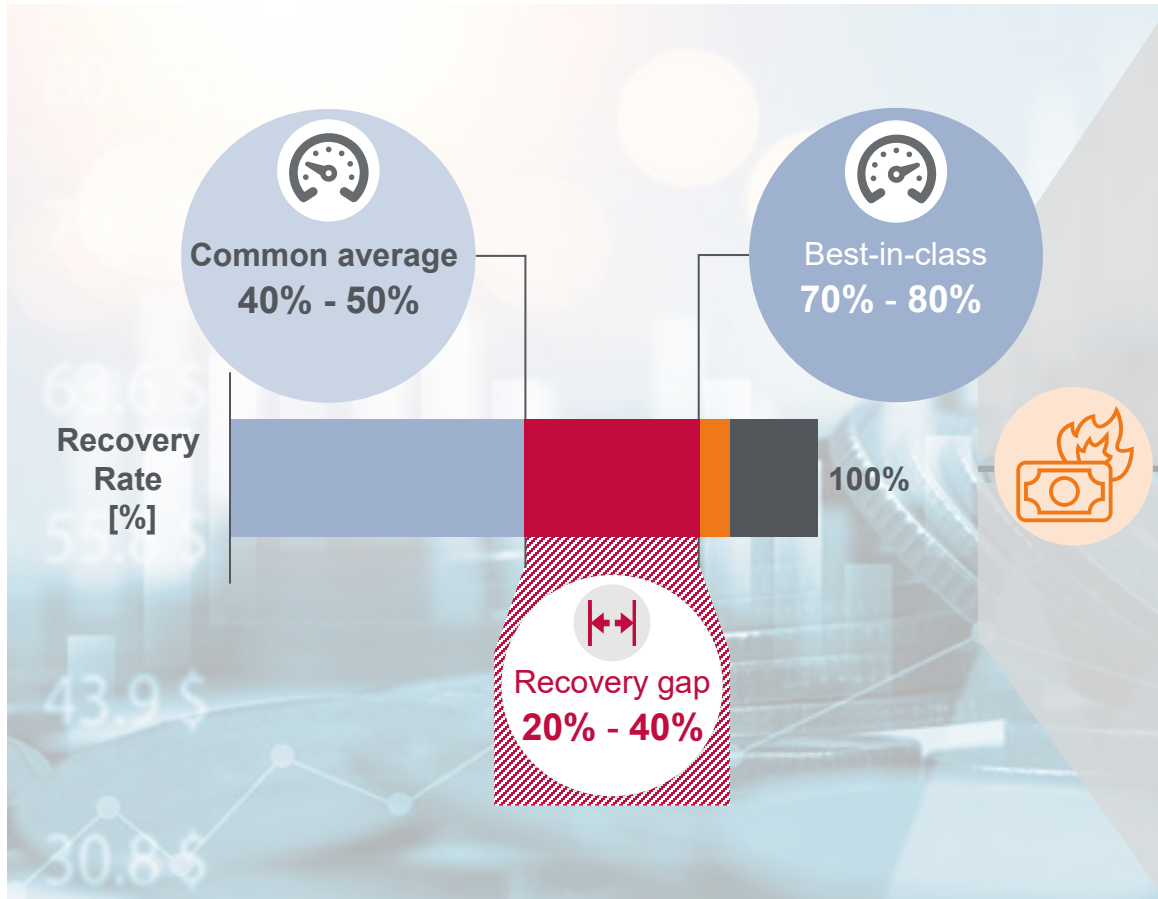
Due to high-cost levels (+10 to 15% on product costs), suppliers themselves cannot sufficiently mitigate inflation-related additional costs.

Tier N suppliers are the most affected by additional inflation-related costs, due to their particular position in the value chain

Our insights



Our research shows that average recovery rates of additional, inflation-related costs for automotive suppliers are between 40 to 50%



Our inflation recovery task force insights



End-to-end cost and price transparency is vital as insufficient, or missing data transparency leads to serious financial losses



Standardized contracts with suppliers and customers (contractual fit) aid timely and agile contract management



Ineffective communication between purchasing and sales (no end-to-end process) slows down handling processes and negatively influences the recovery potential



Without **full data transparency** it's difficult to review supplier claims or formulate claims to the customer...





... which also means that **target-driven negotiation preparation** is virtually impossible

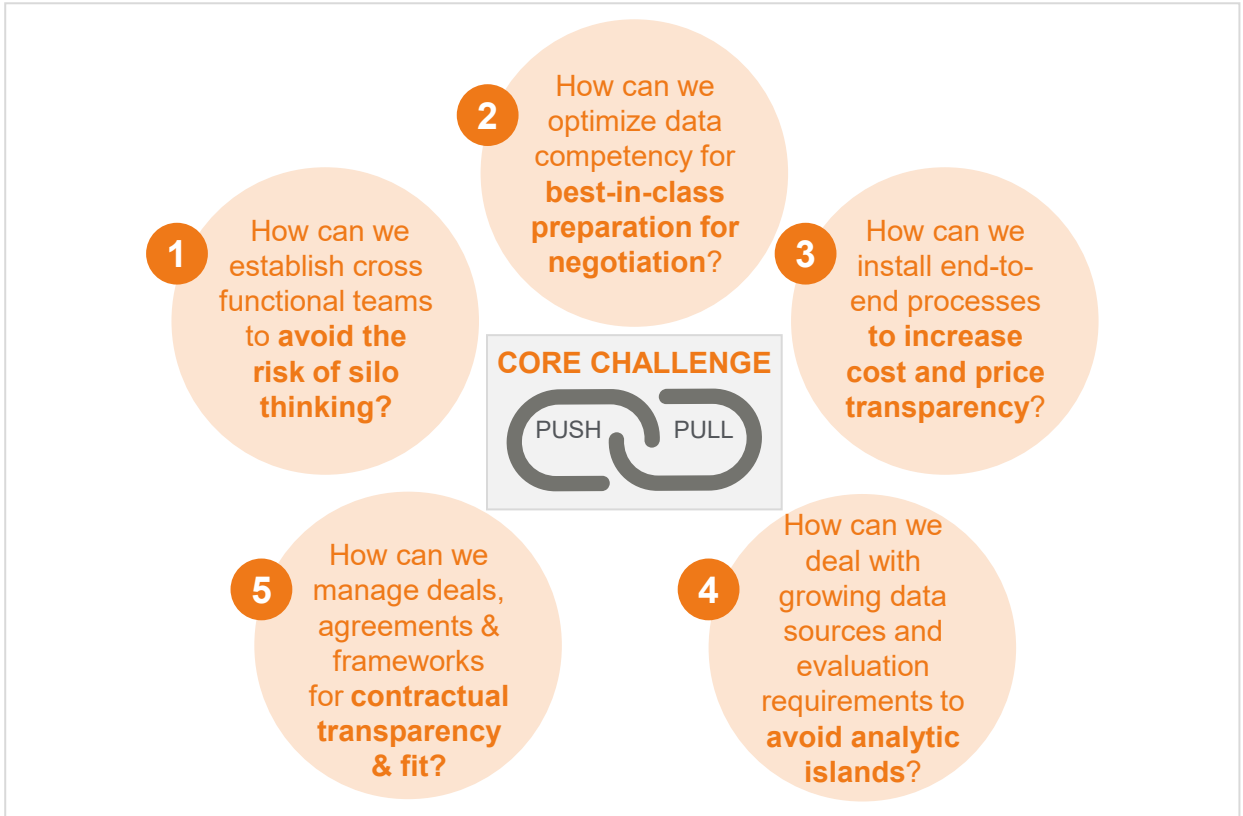



Unstructured data, poor data transparency, and a lack of standardized approaches prevent organizations from performing successful recovery management and can lead to a profit gap of up to 40%.

A proper understanding of the ‘push & pull’ relationship is crucial to successfully addressing core challenges




Our insights

PUSH CHALLENGE	<div>RAW MATERIAL SUPPLIER</div> <div></div> <div>TIER N SUPPLIER</div>
Situation	Utilization of current market situation by sub-suppliers in order to enforce general conditions for improvement of their commercial position
Major task	VALIDATION OF INCOMING CLAIMS
PULL CHALLENGE	<div>TIER N SUPPLIER</div> <div></div> <div>OFFIC. EQUIPMENT MANUFACTURER</div>
Situation	Categorical rejection of all types of additional price demands from suppliers by OEMs with reference to the current market conditions
Major task	REALIZATION OF CLAIMING POTENTIALS

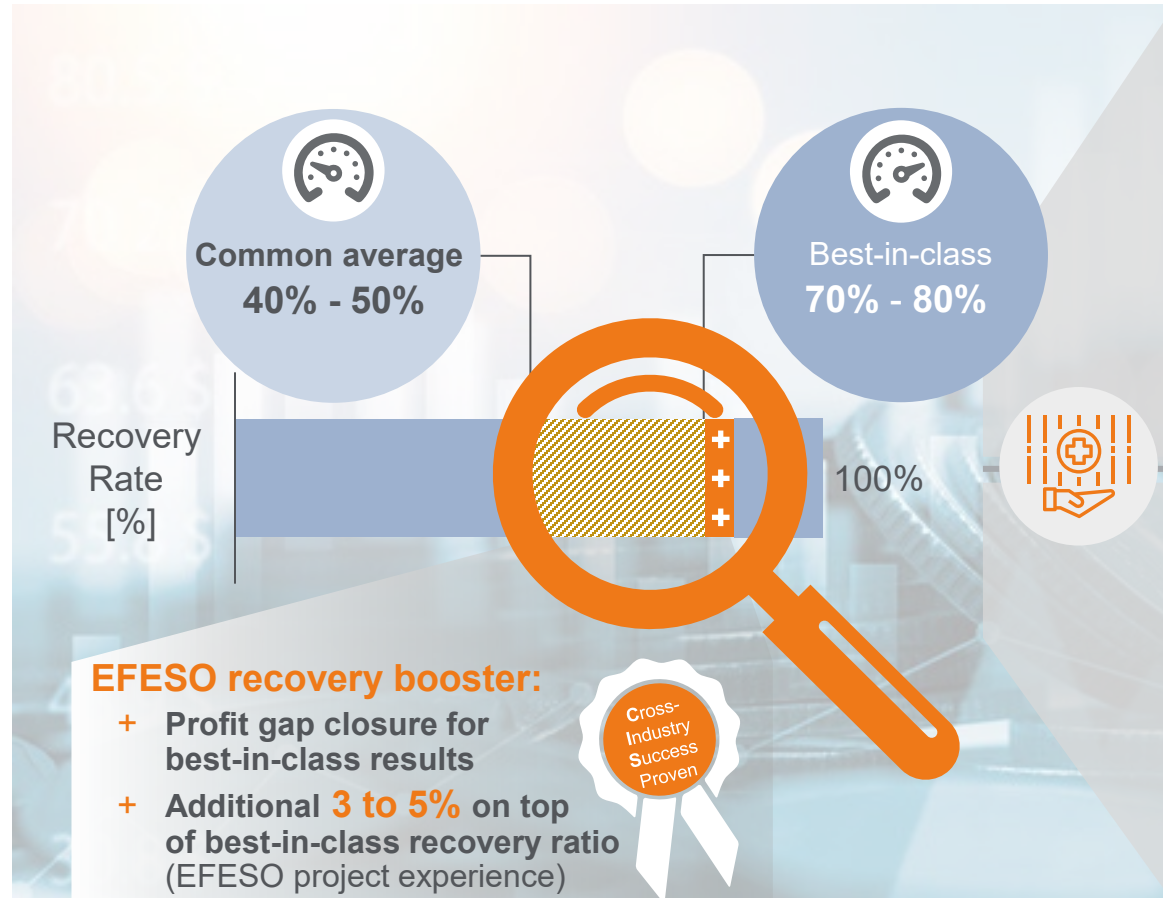


 A holistic, cross-functional approach, taking into account the five key questions, is the key to minimizing inflation risks and optimizing recovery.

Our end-to-end inflation management approach will improve recovery management, all the way from procurement to sales

Phase	 I. UNDERSTAND	 II. PERFORM	 III. OPTIMIZE
Approach	<ul style="list-style-type: none"> ▪ Define the core team and meeting cadence ▪ Undertake a 'kick-off' to align the team with goal setting ▪ Gather all relevant data for identifying the current 'as-is' landscape 	<ul style="list-style-type: none"> ▪ Set the scene to work off pre-defined work packages <ul style="list-style-type: none"> › Contractual framework analysis › Customer cost allocation › 'White spot' detection › Etc. ▪ Define and elaborate rejective arguments to counter overcharge claims by subcontractors ▪ Derive tailored, individual claiming strategies per customer 	<ul style="list-style-type: none"> ▪ Implement end-to-end processes for best-in class inflation management ▪ Enable an <i>ad hoc</i> claim defense, based on numbers, data and facts ▪ Establish competitive leading processes to prepare and successfully carry out customer negotiations
How	<ul style="list-style-type: none"> ▪ Interviews, and 'deep dives' into existing tools & methods ▪ Cross-site data-gathering ▪ Etc. 	<ul style="list-style-type: none"> ▪ Department-specific workshop series ▪ Cross-functional 'deep dive' sessions with dedicated experts ▪ Etc. 	<ul style="list-style-type: none"> ▪ Increase data transparency ▪ Improve forecasting ▪ Execute future-oriented restructuring ▪ Etc.

Using EFESO's end-to-end inflation management is a game-changer for successful inflation recovery



EFESO's end-to-end inflation management



Establishing **cross-functional data transparency** by using our holistic PMO **delivers significant benefits in multiple respects**



EFESO's long experience managing future-oriented tasks enables us **to define up-to-date and agile processes** in order to **increase performance**



Collecting, structuring, and preparing data to further establish action fields and benefits is a core element of our way of working and the key to success in terms of recovery



Organizing and synchronizing the departments and individuals involved is **another core element for the joint achievement of the predefined goals**



In our experience, the **ability to handle large amounts of data** has played a major role in the past and will be **even more necessary in the future to achieve recovery goals**



EFESO will put you in the driving seat for a successful & efficient opportunity realization. Step up to best-in-class and beyond with our Inflation Management approach, which includes all the key elements for your optimized recovery.



Case study: optimization of customer's inflation management through a holistic approach, and the implementation of targeted tools and methods

Situation

- As a leading supplier of integrated systems, our customer was strongly affected by the structural change and the mobility revolution in the automotive industry that was, and still is, progressing at high speed.
- In these challenging economic conditions, our customer faced record inflationary pressures, due to the general increase in costs.

Project scope

- Cross-functional data transparency
- 'White Spot' analyses
- Target-claiming determination: top down & bottom up
- Action field identification (raw mat., freight, energy, etc.)
- Detailed negotiation preparation
- Advice & assistance in final negotiations
- Sales support
- Strong PMO (project management office) created
- Measure tracking & reporting

Result

- The recovery ratio was significantly boosted
- Substantial short-term claiming realization established for current fiscal year, and additional long-term claiming potential identified and fixed for subsequent years
- Strong PMO ensured target fulfillment across all divisions and customer units



> €450m

Short-term claiming potential generated

> 40%

Recovery ratio improvement compared to previous year

