

High-Impact Customer Negotiations in Times of Huge Cost Increases

Illustration of Proven Approach

March 2023



Summary

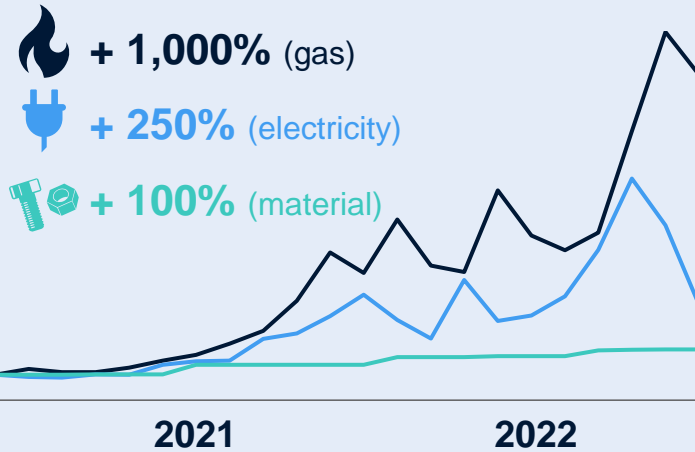


- **Tough times for automotive suppliers**
 - **Overcapacities**/ demand still clearly lower than before start of covid-19
 - **Supply chain disruptions** and high call-off volatility
 - **Huge cost increases**, esp. materials, energy, labor
- Suppliers **forced to take tough cost reduction measures**, e.g. material cost reduction programs, capacity reduction, production transfer, site consolidation
- In addition, suppliers need to **negotiate with their customers**
 - **Compensation** for cost increases and low volumes in the past
 - **Better price points** and dynamic **price models** for the future
 - Improved **terms & conditions**
- Negotiation success varies a lot
 - Some suppliers can only transfer 15-40% of cost increases to customers
 - The **best suppliers transfer nearly all cost increases to their customers**
- **Right approach** key driver for negotiation success

Automotive suppliers are facing huge cost increases and substantial volume reductions/volatilities



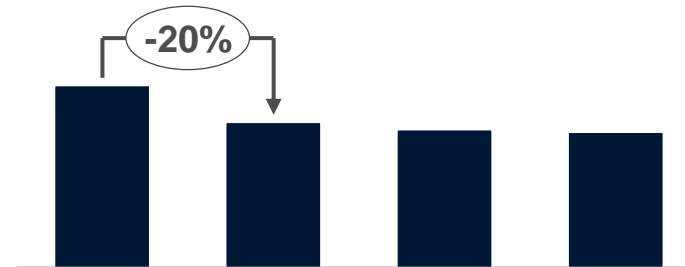
Cost increases



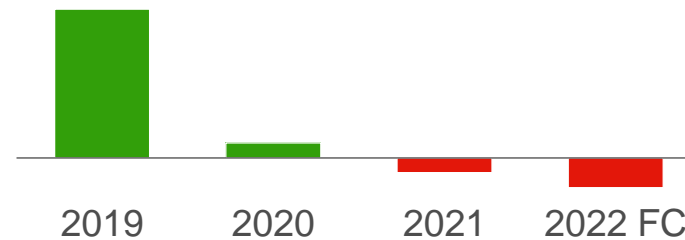
- Huge cost increases in last two years (raw materials, energy, labor)
- Suppliers' P&L and liquidity heavily affected
- OEMs keep/ improve profitability via price increases and product mix shifts

Supplier financial performance (illustrative)

Sales

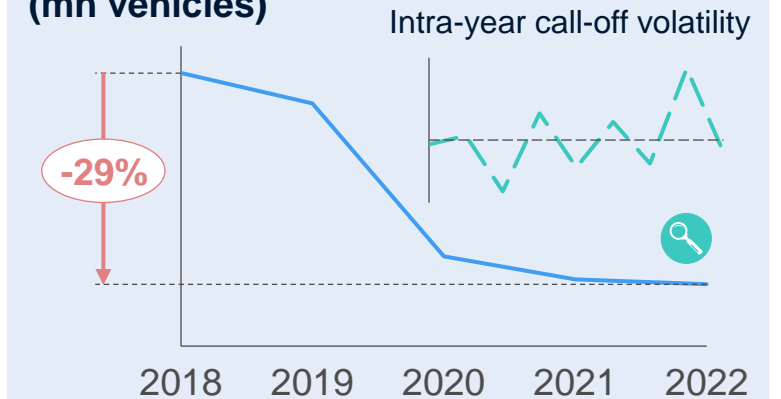


EBIT



Volume reduction/volatility

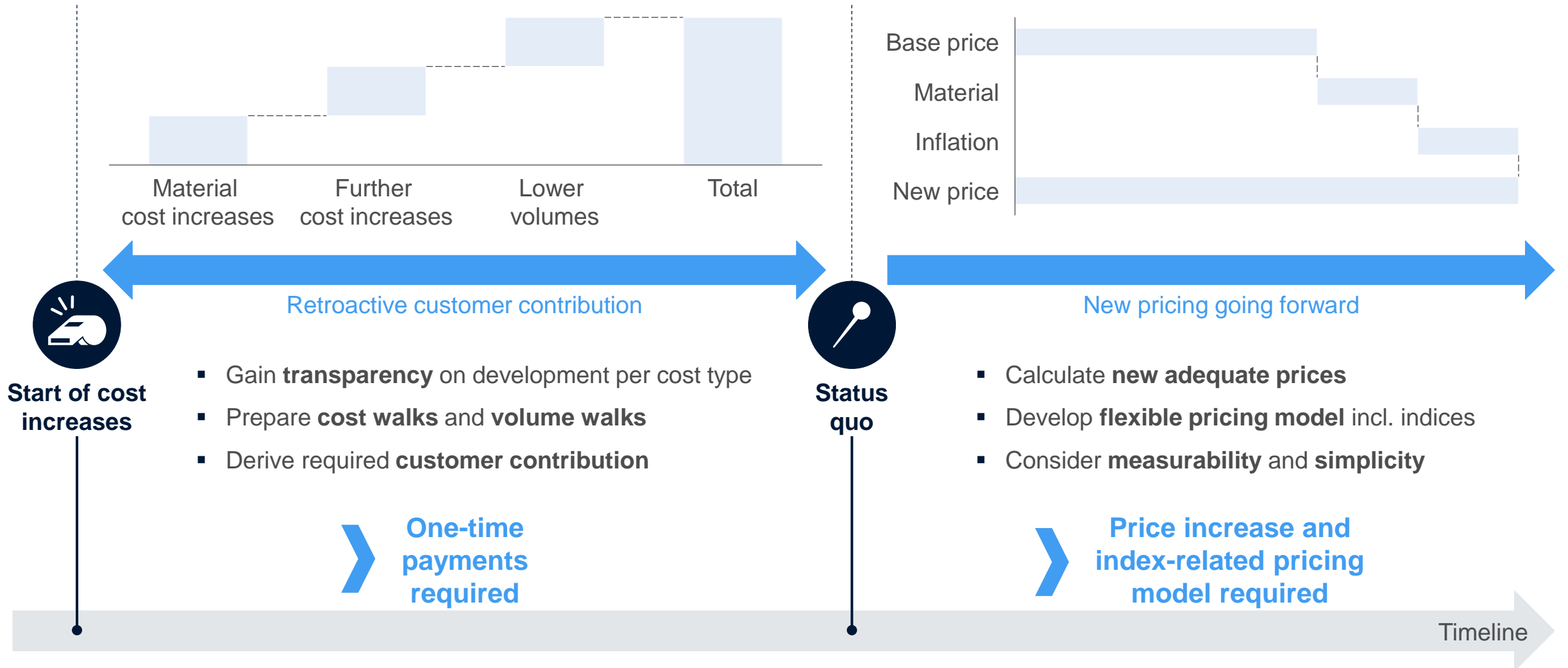
European LV production⁽¹⁾ (mn vehicles)



- Volumes in 2022 still much lower than before start of covid-19
- Many suppliers suffer from overcapacities
- Still ongoing supply chain disruptions lead to high call-off volatility

(1) LV = Light Vehicle (vehicles < 3.5 tonnes registered weight)
Source: FTI-Andersch

To compensate for cost increases, retroactive customer contribution and new pricing model are essential



- Gain **transparency** on development per cost type
- Prepare **cost walks** and **volume walks**
- Derive required **customer contribution**

➤ **One-time payments required**

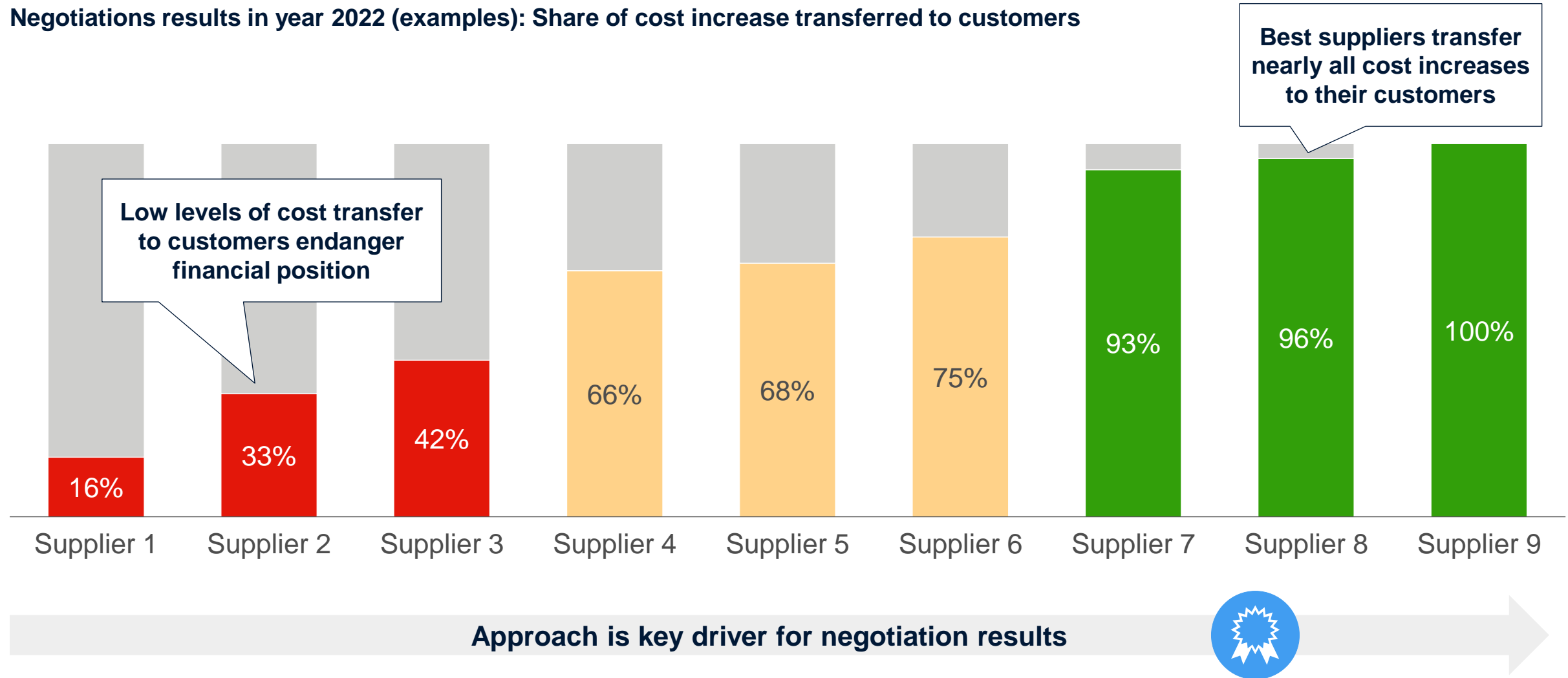
- Calculate **new adequate prices**
- Develop **flexible pricing model** incl. indices
- Consider **measurability** and **simplicity**

➤ **Price increase and index-related pricing model required**

Negotiation results vary a lot – some automotive suppliers are able to transfer cost increases nearly completely to customers



Negotiations results in year 2022 (examples): Share of cost increase transferred to customers



For maximum results the right approach needs to be taken



Success factors

7 | Rigorous implementation

6 | Tight but realistic timeline

Definition and communication of timeline

5 | Involvement of new people

incl. higher ranks on both sides and top management commitment

4 | Convincing storyline

based on facts and key messages
“times have changed” and “now or never”

3 | Comprehensive approach

considering all key data, events, developments

2 | Fact pack

detailed to-the point analyses as ammunition

1 | Aim high

Key target: Major improvements to be realized fast




Within 5-6 project weeks we support the preparation of high-impact negotiations with your top customers



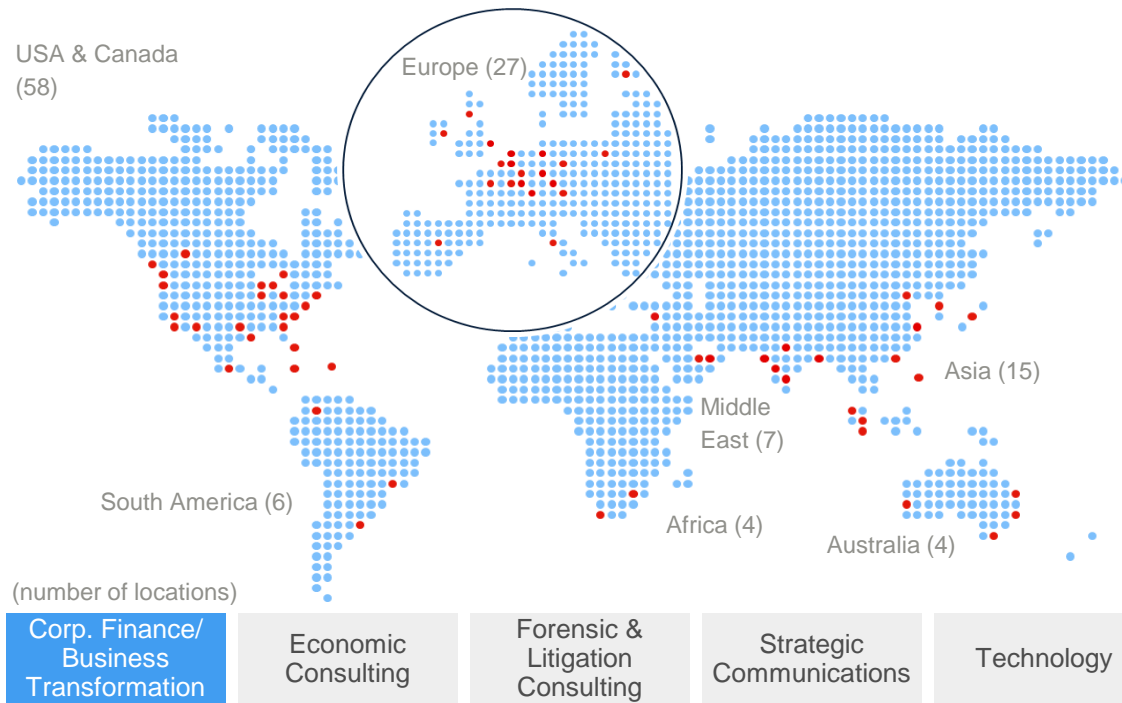
| | | |
|----------|--|--|
| A | Transparency on point-of-departure and strategic positioning per customer | <ol style="list-style-type: none"> 1 Current customer negotiation status 2 Financial situation comprising of relevant cost drivers/indices and major effects (profit/loss, liquidity), where needed broken down by contract/product/vehicle model/plant 3 Operations performance (quality, delivery, service) 4 Quality of collaboration incl. customer induced issues 5 Legal situation (contracts, claims) 6 Short-term customer dependence 7 Strategic importance of customer and vice versa 8 Current/near-term biddings |
| B | Review of market and cost trends | <ol style="list-style-type: none"> 1 Approaches of other major players (sanitized) 2 Best practices, do's and don'ts 3 Relevant cost trends 4 Implications |
| C | Development of negotiation concept | <ol style="list-style-type: none"> 1 Key messages 2 Negotiation fact pack 3 Solutions/options including BATNA (best alternative to a negotiated agreement) 4 Evaluation of solutions/options 5 Implementation planning |
| D | Top management approval | <ol style="list-style-type: none"> 1 Transparent and fact based decision papers for top management 2 Balanced decisions regarding negotiation targets & BATNA |
| E | Implementation | <ol style="list-style-type: none"> 1 Briefing & coaching of negotiation team (sales, finance/controlling, top management) 2 Negotiation support (e.g. special analyses, communication), start of BATNA if needed |

Project setup (modules A-C)

- Focus on top customers 
- 5-6 project weeks (depending on quality of information provided and customer complexity)
- 2-3 FTE consulting capacity

We are part of a global group with deep automotive expertise

FTI Consulting at a glance



Office
locations in
Germany



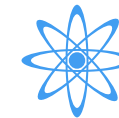
Foundation
1982



121 Locations
88 Cities
30 Countries



+7,500 Employees, of
which **125** at **FTI-Andersch**
in Germany



+700 Partner &
(Industry) experts



Market capitalization
USD bn 5.0



Revenue **USD bn 3.0**
(+9% vs. 2021)



7,800 customers
worldwide



Specialized, globally
organized **automotive team**

Service
portfolio



Transformation



Transaction



















Turnaround

We support clients in challenging situations

Our service offerings



|  Business Transformation |  Transaction |  Turnaround |
|--|---|---|
|  Strategy and Growth |  Sell Side Report |  Quick Check, Independent Business Review and Restructuring Concepts |
|  Performance Improvement |  Financial Due Diligence (FDD) |  Business Planning and Validation |
|  Digital Transformation |  Commercial Due Diligence (CDD) |  Advice on (Re-)financing Negotiations |
|  Finance Transformation |  Operational Due Diligence (ODD) |  Option Analyses |
|  Transformation Management | | |



Support in communication and negotiations with success critical stakeholders.

Your contact

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