

SERVING WESTERN MICHIGAN BUSINESS SINCE 1988

AUTOMOTIVE SUPPLIER ROUNDTABLE

West Michigan automotive suppliers stay steady, despite uncertainties

By **JOE BOOMGAARD & JESSICA YOUNG** | MiBiz

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A decade into the economic recovery, the region's automotive suppliers continue to ride the wave of vehicle sales volume in the North American and global auto market. Yet, many are bracing for an impending downturn, which analysts predict will occur somewhere in the early 2020s. Primarily, suppliers are planning on weathering any upcoming downturn by banking on investments in new technologies, including electric vehicles and automation, whether through increased R&D spending or through acquisitions.

However, though electric vehicles will create new opportunities for a variety of suppliers, many are struggling with committing to the capital investment necessary to participate in the electric vehicle space when current sales are relatively low. In particular, automotive suppliers must balance the investment in electric vehicles and other new technologies with maintaining their current volumes of production, particularly in the light truck and SUV segments. That, coupled with a tumultuous political climate, pending trade agreements, and declining forecasts for light vehicle sales continues to perpetuate a cloud of uncertainty across the industry.

To talk about the state of the industry, as well as the challenges facing it, *MiBiz* gathered a number of West Michigan-based suppliers and consultants to participate in a roundtable discussion. Joining *MiBiz* Managing Editor Joe Boomgaard and Staff Writer Jessica Young were:

- Jeff Ackerman, chief business development officer of Grand Rapids-based supplier **ADAC Automotive**, a tier-one manufacturer of automotive door handles and exterior mirrors
- Pat Greene, president of Grand Rapids-based **Cascade Die Casting Group Inc.**, a metals casting operation



Jeff Ackerman, ADAC Automotive



Pat Greene, Cascade Die Casting Group Inc.



Scott Hill, Varum LLP



Mike Wall, IHS Markit

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serving the automotive sector and other industries.

- Scott Hill, partner at the Grand Rapids-based law firm **Varum LLP**
- Mike Wall, director of automotive analysis at **IHS Markit**.

Here are some highlights of the conversation:

What is the state of the automotive industry right now from where you all sit?

GREENE: Business has been steady I would

say, and we expect it to be stable the rest of the year. I think we're flat to slightly declining from what I see in the indicators. I see both positive and negative indicators, but at least at this point in time, I think that we should expect business as usual.

ACKERMAN: From our sales perspective, we've been going crazy since the bad days in '08. We're a little flattened out this year, but we've got a real good mix right now with the platforms around trucks and SUVs. We're having a very solid year. Next year might be a little down just from our mix for individual

customers, but we've got a lot of things in the hopper right now, so I'd say we're pretty pleased. I don't see anything disastrous on the horizon. Of course, you never see them until it's too late.

WALL: The US market and the North American production market is actually still shaping up pretty strongly. Now, we have the market down somewhat this year versus last year. So 17 million units were in production last year, with 16.6 million units this year. If you look at that, we lost 400,000 units. Suppliers in general may have had a more challenging market environment in passenger cars because they've been battered volume wise and knocked down in terms of price downs. I think where the volatility is really reigning right now is China (and) Europe. There's some real challenges in some of those international markets.

HILL: What I'm seeing is a reflection on the steady nature of the environment in 2019. We're also seeing more and more clients asking the unique question from overseas. Tariff questions are obviously very common. It's volatile right now overseas, whereas balanced I would say on the US side, as the supply chain has narrowed since our big recession.

Last year during this roundtable, suppliers talked a lot about uncertainty. Has that changed?

ACKERMAN: I would say no, mostly because some of our bigger customers aren't quite sure where they're going yet with their new products, and how they're going to deal with autonomous and EV (technologies). They have a lot of uncertainty. More than they had a couple years ago, in my opinion. At least at a visceral level, face-to-face with these guys, they are really struggling to figure out how to do these kind of things. More traditional guys — Ford and GM — are working super hard on that. They have tons of smart people, but there's a lot out there they're trying to sort out.

WALL: It's almost like we're in this gap period where we see on the horizon eventually we'll all have electric vehicles, and maybe they'll self-drive us even further down the horizon. But, between now and then there's a gulf we have to cross, and the bridge is still driven by pickup trucks and utility vehicles. I can tell you the number of EVs that are going to be hitting the market over the next 5-6 years are almost innumerable. Literally, it's every automaker, 25-30 in the US alone, and we'll see upwards of 250 by 2026. From a supplier looking at it going, I guess I got to plan for volume, and yet last year I think it's 1.3 percent of US vehicle sales were full battery electric.

GREENE: The electric vehicle market alone, we look at that and say, 'Okay, there's not

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ADAC AUTOMOTIVE**



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going to be a lot in the next few years,' but then go out 10 years, or 20 years. Right now, it's regulation that's been driving some of it, some of the credits on that. Pretty soon, it's going to be a cost solution that drives this. It is a more efficient powertrain. Unfortunately, there's a lot of die castings that go into (electric) engines and transmissions. That's the reality. Now, we have to figure out how to deal with that. The biggest thing we have to do is be nimble and always be looking forward to what that next curve in the road is, because that's the real challenge.

How are cost pressures from automakers manifesting throughout the supply chain?

WALL: If you're looking at an auto maker, trying to launch an autonomous strategy, a mobility strategy, an EV strategy — with a limited bucket of money. Where do they go? Well, you start going down the supply chain. Now that never went away, but boy I'm hearing a lot more chatter around it now. The difference is the more innovative suppliers have the ability to deal with it maybe a little better than pre-crash. Maybe there's a little bit more negotiating power because of that innovation. If you want innovation, it's tough to play hardball with the supply chain.

ACKERMAN: You can cut a much better deal than you could eight years ago or more, for sure. Having innovation is super important, that's something we're emphasizing. We've kind of got our core, our little niche, and we are working our tails off to get outside that niche and bring technology out, not just in our space but the adjacent spaces.

GREENE: We're seeing that in order to meet

(automaker) requirements, we've got to come up with some innovative solutions for automation. If they're not going to do things differently than in the past, well, when you're quoting the program, you don't necessarily have that ability to say let's do this, this, this, and this. You don't even know whether you've got the work, but then once you get into it is when we can really shine with ideas in automation. We have content on the heavy-duty pickup truck in all three of our divisions, and it's really something that we've got to drive that automation now, because when it's launching is the time to put that in place. Otherwise you're not going to be able to catch up.

Where do you see capital expenditures going over the next year?

ACKERMAN: We run programs and we're going to spend capital. It's almost a given. I would say where we are going to focus spending on is getting our quality system to the next level, so it's internet-based, not Excel-based.

GREENE: For us, it's really automation and infrastructure. Automation because it is a huge part of us continuing to drive improvement. In today's environment, that's more important than ever, and makes the job easier for our employees. Infrastructure is interesting too, because as we've grown, that growth goes towards equipment, customer programs, and other things. The thing that never keeps up entirely is the crane system and the air compressor and the water system and the electrical. Those are the things that are issues that have to be addressed. We've got to make sure we keep that infrastructure strong.

WALL: From talking to commercial banks, I think the West Michigan supply chain has done a really good job preparing for that. I think in terms of vehicle launches, we're going to have a pretty healthy clip over the next two to three years.

With talent continuing to be a pinch point for manufacturers, what are you all doing and seeing companies do to continue to feed new talent into their organizations?

WALL: I've found my clients who are trying to acquire that talent base through acquisition (have met) resistance. Those talented individuals that might have their small shops and believe they have the next best thing for the EV space are staying on their own. We'll contract with you, that's fine, but no, I don't want to be bought.

HILL: They're saying, 'I'm just going to stay on my own.' I think that's a generational thing, that they want that autonomy.

GREENE: Where I think we've had some success is with Grand Valley and Ferris. They are two good universities, because they're both very applications based — that really makes a difference. The other place that we're really having some success is in the high schools. Our plant down in North Carolina just got an apprenticeship program that is really first class. The same thing here in Michigan, trying to find those high schools that are willing to partner and don't just say every student has to go to college. Instead say, 'What's the right answer for the student?'

Has the push toward more automation, robotics, IOT and other technology helped suppliers attract and court young talent in these emerging fields?

GREENE: One of the things we find keeps this younger generation engaged and fired up is the technology. If you put automation on a floor, they think that's the coolest thing. It makes their job easier, and it changes the manufacturing environment from previous generations to be something that really they're the ones programming. They're the ones that are really figuring out how to make us smarter or faster. It's those investments we're making in the business that I think are a huge motivator.

WALL: I tour a lot of supplier shops. You see these new expansions go up at 10, 15, 20,000 square feet. We're not adding a bunch of additional jobs but the ones that we do add are very much focused on it. They're running machines, they're running equipment, running robotics. We're slowly but surely turning the battleship on the Rust Belt mystique into a lot more tech, a lot more development and a lot more automation.

From an ADAC perspective, are you looking to potentially add technologies or talent through acquisitions?

ACKERMAN: We're definitely focused on getting where we need to be, from a technology perspective. It has to fit with our overall strategy of where we want to go product wise. We're really in the throes of some of that as we speak. It's definitely something we're focused on, maybe more so than we have in the past. We've always been an organic grower. We need to be in the technology space right away. It has to be scaled right for us and it has to make sense to our customers. We're not so much looking to quickly bolt something on so to speak, but we're definitely looking to get ourselves positioned in some technologies. It's a heck of a challenge, to say the least.

How will the upcoming USMCA trade deal affect your strategic planning and West Michigan automotive supply base in general?

GREENE: We ship parts from North Carolina to Mexico that end up in Toledo, Ohio. They go across the border, they go back across the border, they go to Canada, they come back. I think that USMCA is just going to be critical, because the whole automotive industry is based on the ability to fly across these three regions.

WALL: If you're a supplier to the industry, an automator, or folks that support these guys, we know how inextricably tied this trading bloc (is). It's been a trading bloc for 20-plus years, so it's a fantasy to think you're going to be able to change your complete sourcing structure on a dime like that. We have examples of these parts crossing the border two, three, four, five, six, seven times.

We have this wave of baby boomers that still need to retire at some point and transition their companies. Where do you see deals heading in the next few years?

HILL: From my standpoint, I'm seeing a steady stream of private equity in the marketplace. I do see we're in the early stages of the baby boomers who are getting out. Now we're talking about, especially in West Michigan, family-owned businesses that have to think about what they're going to do. We've seen an increase in the early calls and wanting to talk about a strategy for the next three, four, five years. Can we time the market better? Can we get ahead of the two- to three-year dip that everyone seems to be saying that's going to happen? I can see us staying relatively flat from an M&A market for the balance of this quarter and next, and then next year it increasing slowly.

WALL: We're seeing very similar to that. The only other thing I want to add to that

is that with some of the bigger suppliers, we're continuing to see carve-outs and acquisitions going on just because they're trying to get a semblance of their own strategy. They see that limited pile of money. I'm struck by how rapidly those decisions are being made these days. They're not sitting on their laurels, like cut it, sell it, let's focus on then bolting on something else.

Along with those pending transitions, we've also seen suppliers like JCI carve out a lot of their business units. They used to be the largest automotive supplier in West Michigan. Now, it's pieces and parts in different places. How does that change the dynamic or how does that change just supply chain relationships even?

GREENE: It keeps you on your toes because literally, what you know today is going to change tomorrow. We've seen turnover. We always joke about the average life span of some of our buyers is a year and a half. You get used to having new faces. Now, you've got not only a new face, but an entirely new corporate culture that you've got to learn. That does create a challenge.

What are some challenges on the horizon keeping you up at night?

GREENE: For me, it's people. It's not only attracting and retaining the talent, it's the succession planning. Figuring out where you're going to go with the folks, making sure that we're developing that next generation. Making sure we're giving them a path. You're replacing very talented people when you're doing succession planning, and you're going to have a new person, and it's not going to look exactly the same.

WALL: We're big at advanced-scenario planning. You have to have a point-in-time forecast because we want to know about it, but at the same time as being able to create some scenarios around what if. What if this happens? It's not just where did the numbers go, but is the technology deployment an option too. Just trying to wrap our minds around that, just watching for anything that might be an accelerator to it or maybe even a decelerator to it.

ACKERMAN: People are getting that next generation lined up and ready to take the reigns for sure. I would say the other thing is just really preparing. The way I see us preparing for the next recession is by getting our product area broadened, getting the right technologies, be positioned. It's going to happen, I have no idea when. If I knew, I wouldn't be here. **MiBiz**



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