

THE AUTOMOTIVE INDUSTRY AND THE LOWEST COST PRODUCER: AN EVOLVING GLOBAL CONCEPT

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Industrialists in selecting a rubber as raw material do so largely on the basis of cost and performance, so that to be able to compete with Synthetic Rubber (SR), Natural Rubber (NR) too has to be price competitive, hence, necessary to cut down the cost of production. It is not only the tyre industry which is now trying to cut its costs of production. There are evidence to show that everyone who supplies to the automotive industry is under great pressure to cut all possible costs associated with their business enterprises.

In a market system the producers try to sell their products at the highest possible price whereas the consumers attempt to pay the lowest possible price. The demand from customers for cheap quality products has developed into a passionate drive among the automotive industrialists to become the lowest cost producers. This drive has caused a revolution in the way tyre firms are managed and operated. It is now causing a similar revolution in the non-tyre sector. Thus, the potential suppliers to the market must be fully aware of the depth of concern in worldwide factories to be the lowest cost producer.

Automotive firms try to achieve this target in many ways viz. improving automation in the factories and thereby reducing labour forces, becoming much more careful about their business partners – particularly their suppliers and changing management structures to respond more quickly to their customers' demands.

The concept of achieving the lowest cost is not simply about buying for the lowest price. It can be argued that the chances of selling tyre or non-tyre products to a automotive firm will be strengthen significantly if the supplier can demonstrate the customer (automotive firm) that his supply mechanism can contribute to reduce the cost of manufacture. This means obtaining a better price for both supplier and customer. Theoretically this can be achieved in many ways. If the customer trusts the supplier enough, the customer can stop inspecting the quantity and quality of the goods when they are received. Similarly, if the customer can rely on the supplier to deliver a particular quantity at a particular time, the customer may not have to tie capital in keeping large inventories. On the other hand through the suppliers technical wizardry, if it is possible to use a cheaper rubber to provide the same technical performance, the customer can pass this benefit on to his customer. This sort of

cohesive and complementary working attitude will help the supplier to capture the market.

Another way the automotive firms can curtail their own costs is to devolve responsibility of product development to their suppliers and thereby spreading the development effort across many suppliers. Let's examine the implications of this particular strategy. The suppliers have to invest more time and money on Research and Development (R & D). Hence, the automobile industrialists can reduce both cost and time on R & D than before. For instance in Europe it usually takes about 4 years to develop a new car model. The Japanese achieve the same result in about 18 months. The aim, therefore is to cut product development time drastically, to a minimum. To achieve this objective, the car manufacturing firms need to rely on their main suppliers to develop significant parts of the overall car design simultaneously. The task of the car manufacturer would be to coordinate the activities of its suppliers and to ensure that all the parts work in harmony, once brought together in the assembled vehicle.

Recent evidence suggests that a new class of automotive supplier is therefore emerging in the automotive industry with the above characteristics. These suppliers develop sub-systems *i.e.* braking system, door panels, suspension system and so forth directly with the automobile designers. Such suppliers can further enhance their credibility by giving sub contracts to smaller firms to produce certain parts of a particular sub system at a cheaper rate. This would also provide an opportunity for small, specialist firms to deliver high technology components quickly and reliably and to enter into the overall supply process via a main supplier. The above system therefore suggests that the automotive industry is transforming into a vertically integrated market where the large, ambitious suppliers to the automotive sector are linked backwards with the sub contractors and forwards with the car designers in the process of bringing R & D activities under a single roof.