U.S. DEPARTMENT OF COMMERCE

MBDA

MINORITY BUSINESS DEVELOPMENT AGENCY

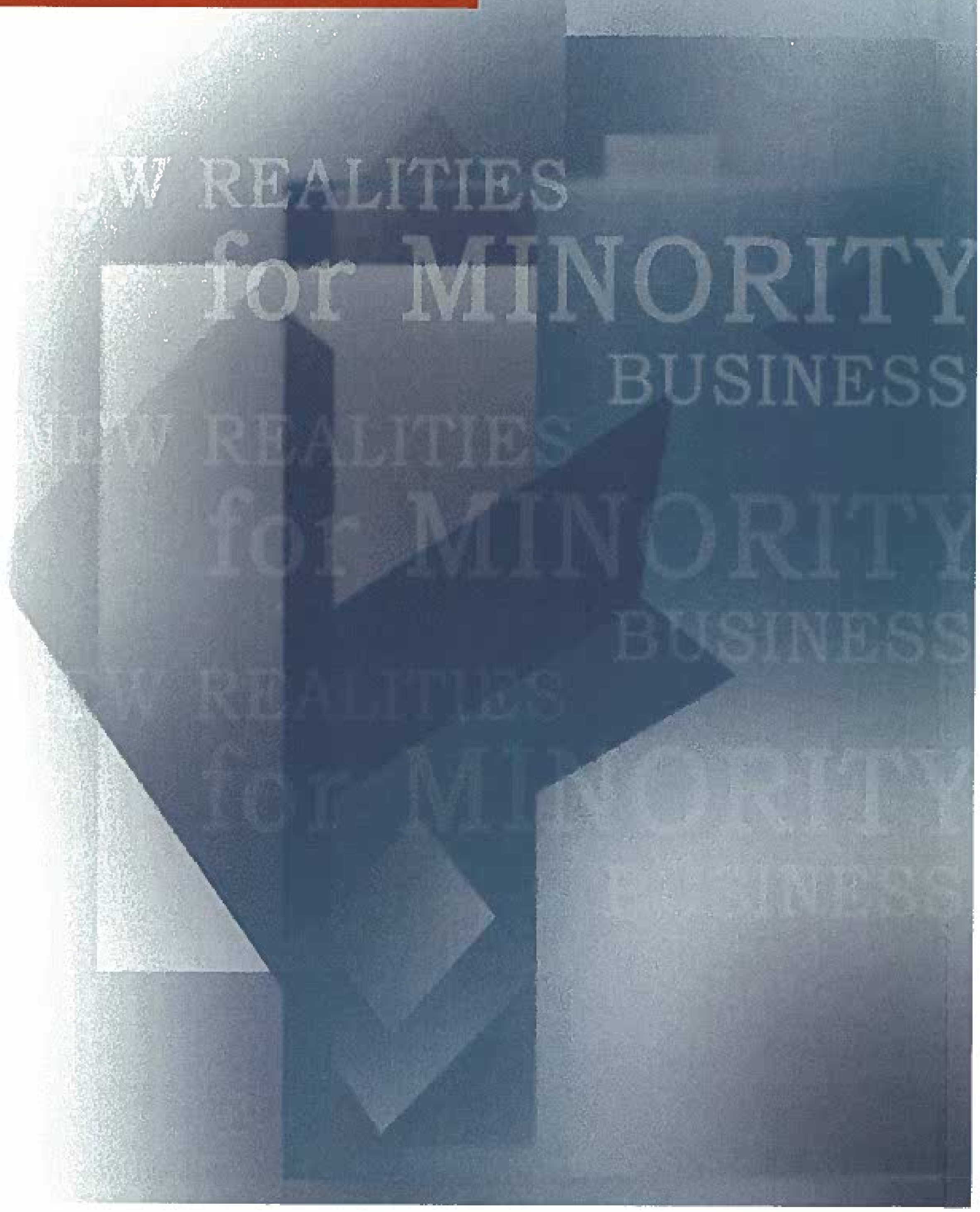
U.S. Department of Commerce
William M. Daley, Secretary
Robert L. Mallett, Deputy Secretary

Minority Business
Development Agency
Courtland Cox, Director

US Department of Commerce

Issued May 2000

New Realities for Minority Business: Automotive Industry



Project Definition

The Asaba Group was retained by the Minority Business Development Agency (MBDA)

GOAL:

Develop a white paper that highlights the growth opportunities for minority suppliers in the automotive industry to include:

- Growth trends and issues within the industry
- Specific growth opportunities for minority suppliers
- Critical success factors for minority suppliers
- Investment considerations for financial investors

Need private equity community to see minority suppliers as viable investment vehicles

Project Approach

Thought Process

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Market Pressures on Auto Manufacturers

Excess capacity in American and Western European market

- Particularly prevalent in Western Europe and North America[1]

Global demand for cars increasing

- Largely driven by developing nations and emerging markets

Increased competition in domestic markets

- U.S. market mature, but experiencing increased competition from foreign manufacturers

Consumer tastes and sophistication of the buying process increasing

- Auto manufacturers focusing on consumer total experience; building capabilities to ensure lifetime customer value
- Consumers are more informed than ever before

Changing demographics in U.S. market

- Profile of entry level car buyer evolving
- Minority population growing in size and income. Projected to represent significant share of entry level consumer

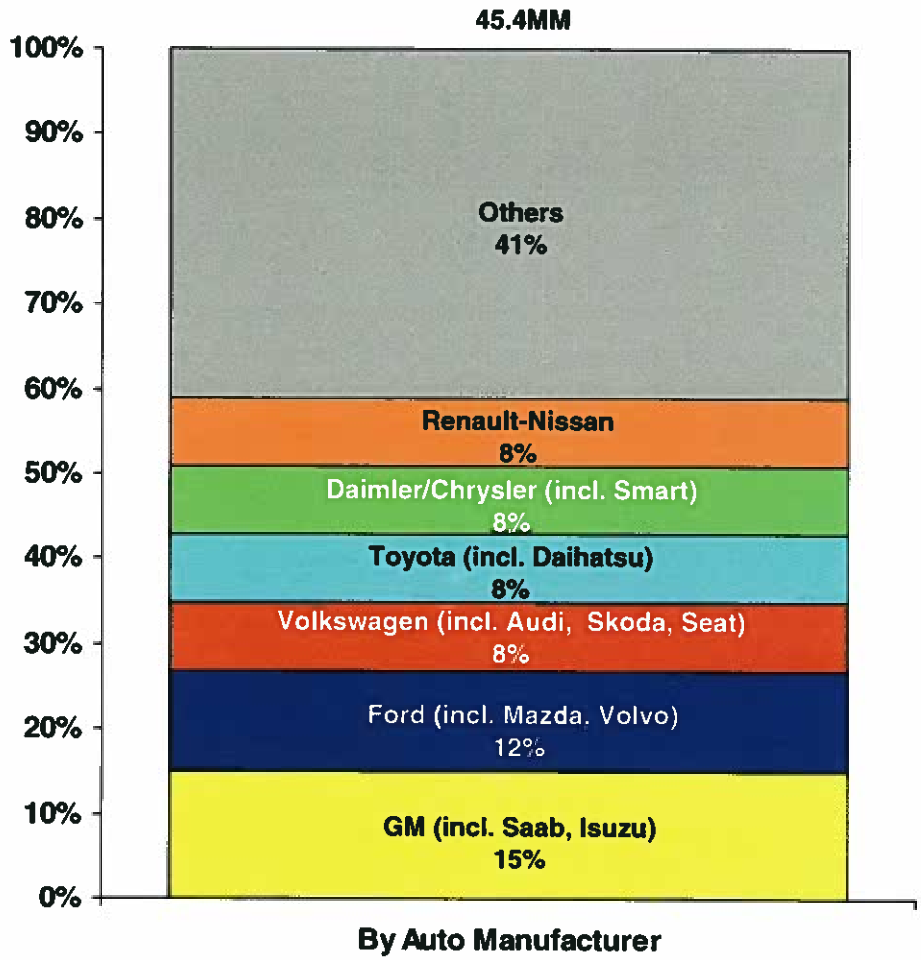
Internet revolution shifting power of purchase decisions to the consumer

- Blurring the role of dealerships and intermediaries in the purchase decision process

1 Autofacts International

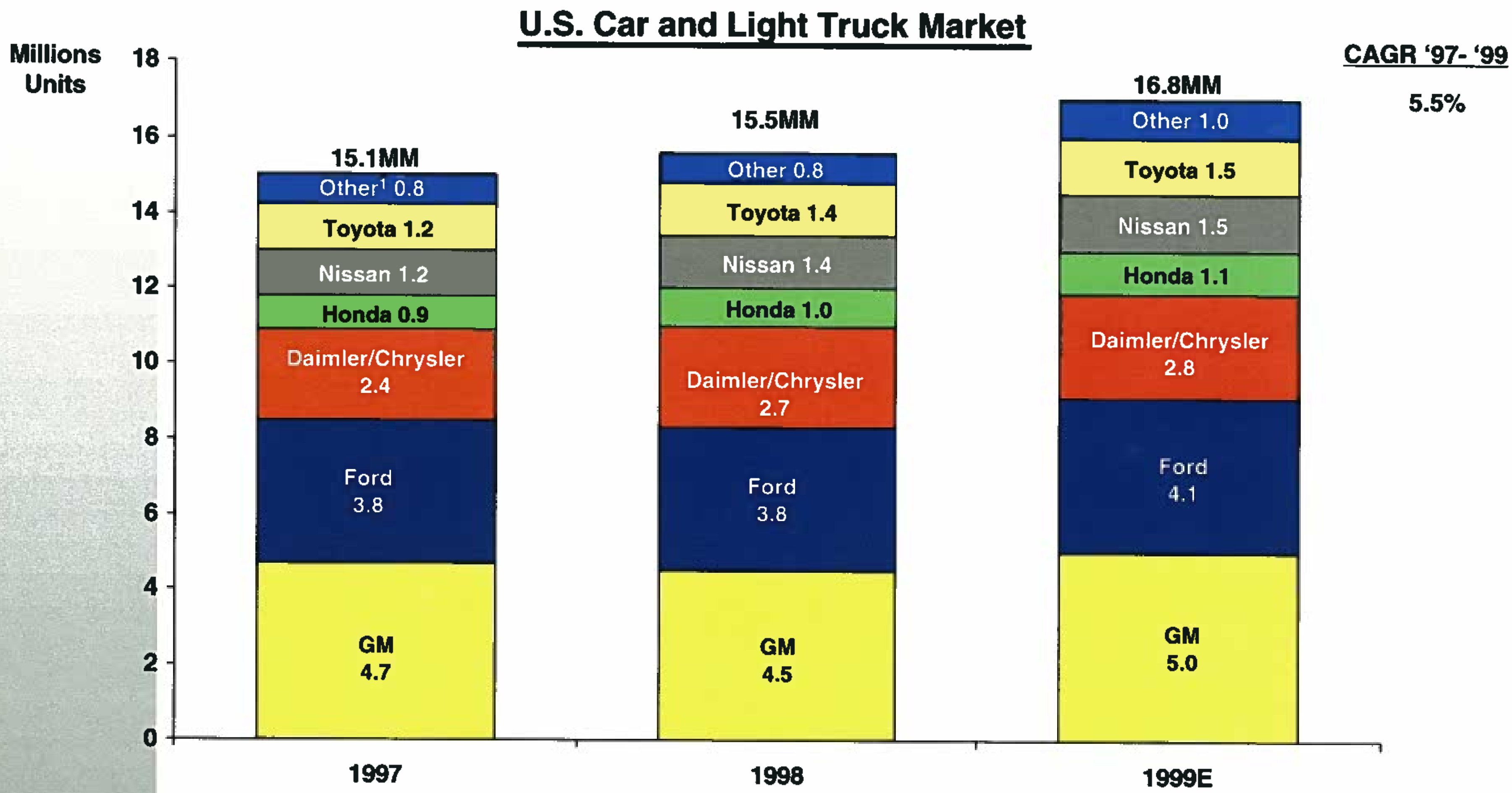
Global Automotive Industry Estimated At 45 Million Vehicles

Global Market for Cars and Light Trucks (1999)



SOURCE: Autopoles, The Economist
(1) Others includes Fiat, Honda, Peugeot, Hyundai, Mitsubishi

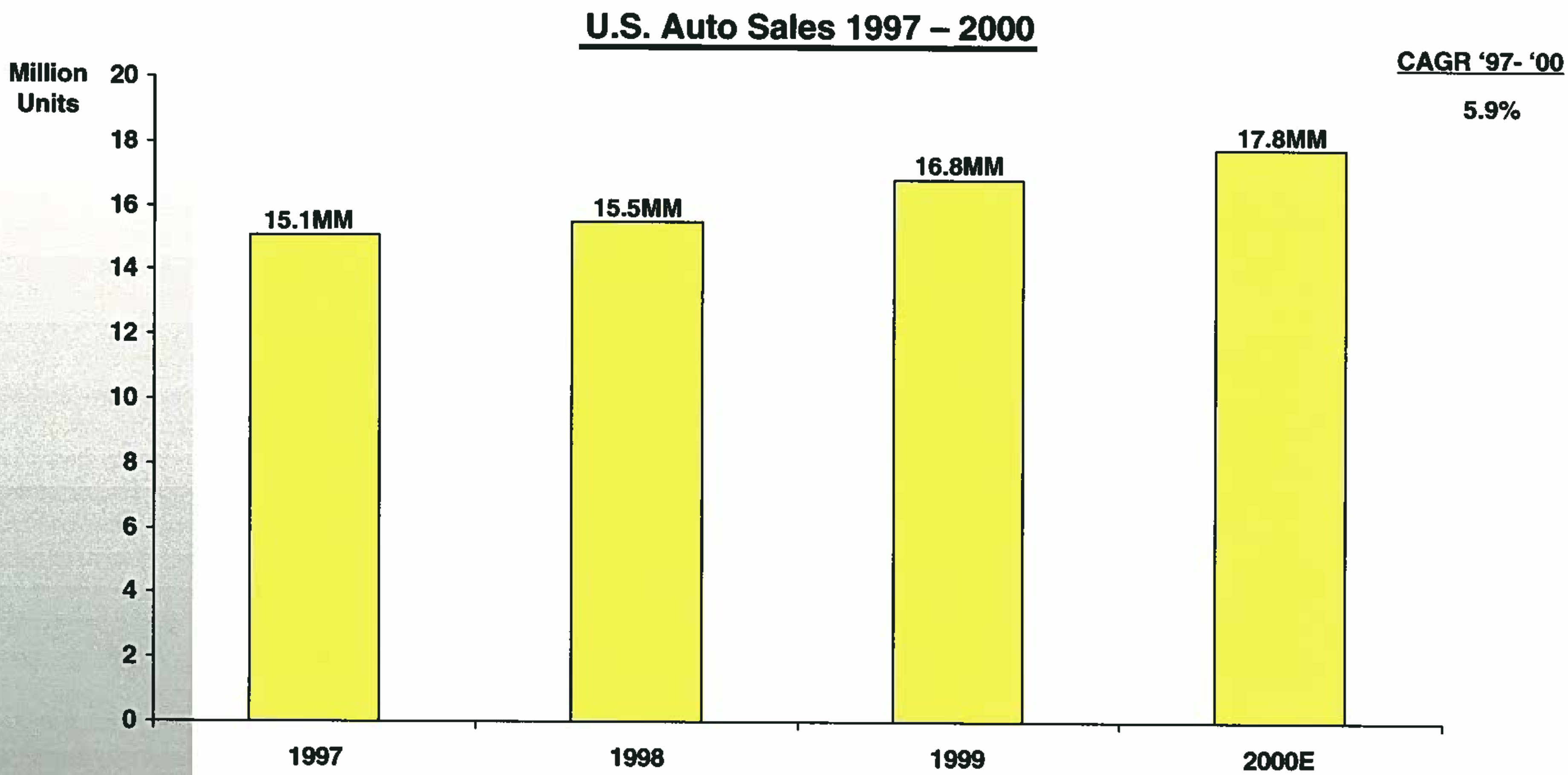
U.S. Market Has Witnessed Modest Growth



U.S. Automotive Market Increasingly Competitive

1 Volkswagen and other foreign manufacturers
SOURCE: Salomon Smith Barney

U.S. Automotive Sales Forecasted to Grow by 1 Million Vehicles in 2000



Growth in the U.S. Market Will Come From Niche Segments

SOURCE: Salomon Smith Barney

Key Trends Driving Change

Globalization

Internet

Excess Capacity

Demographic Shifts

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Globalization Growth Drivers

Rising incomes in developing countries enabling sectors of the population to afford owning a car for the first time

Increased exposure to western media and culture; helping create demand for vehicle ownership

Infrastructure development by developing nations driving increases in vehicle demand

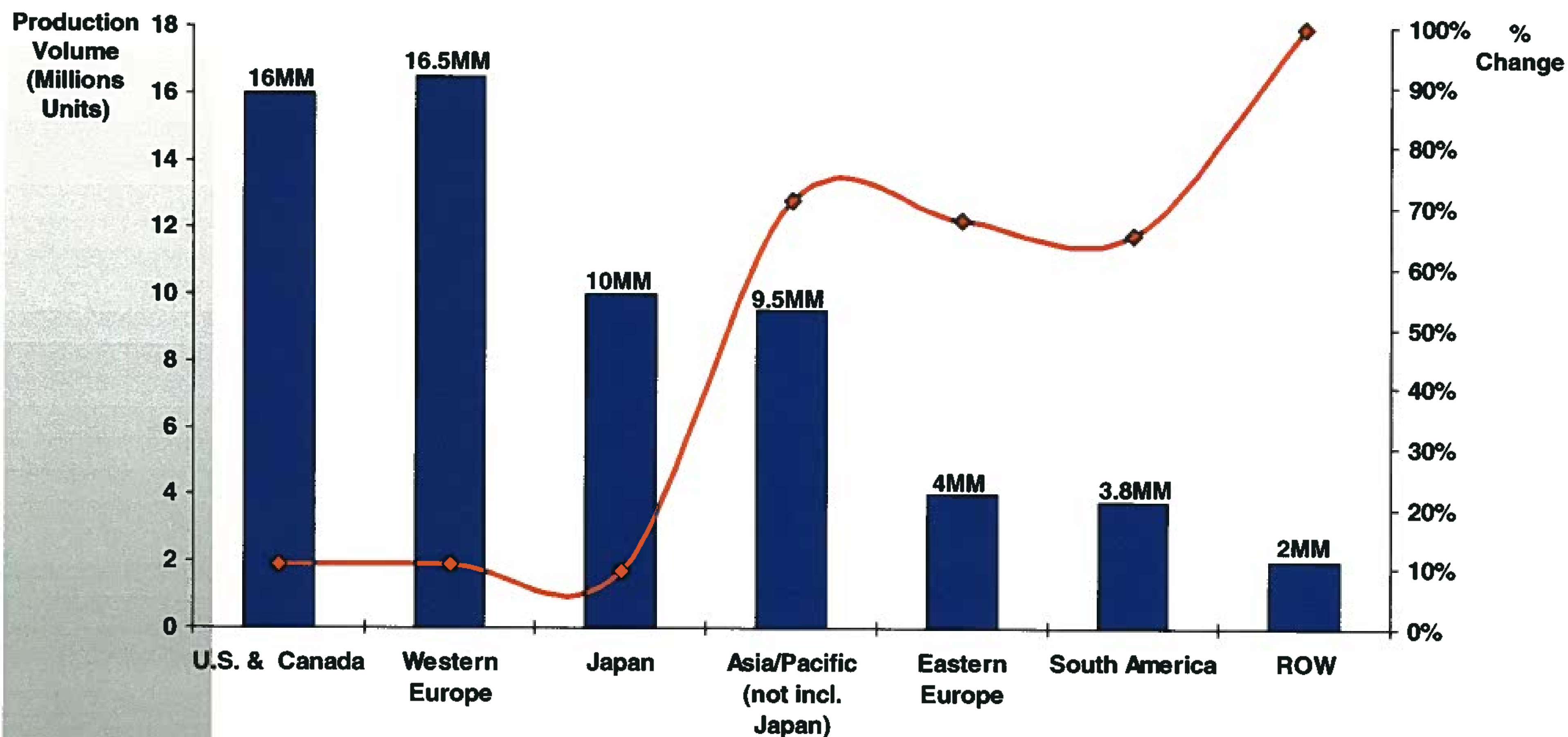
- For example: North-South Highway project across the Malaysian Peninsula

Increased sophistication of consumers in developing nations, demanding car products on par in quality and design to western consumers

U.S. Automotive Manufacturers Expanding Operations to These Markets

Globalization: Growth Largely in Emerging Markets

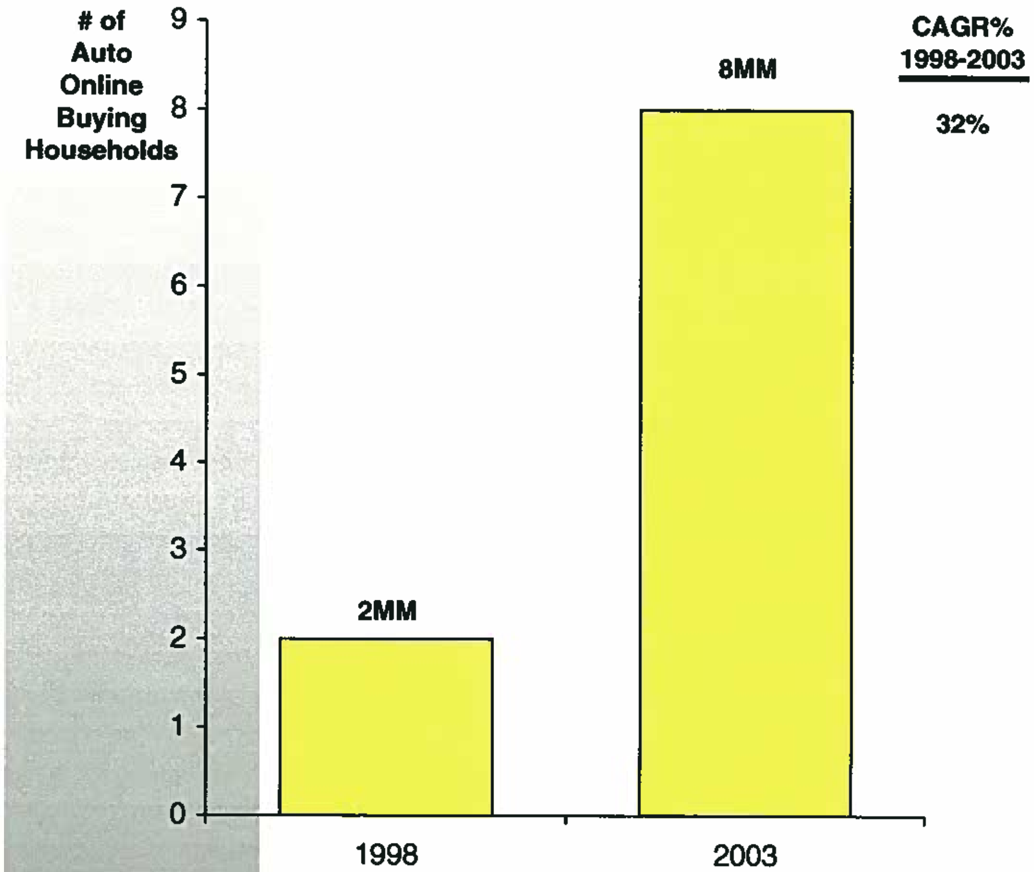
Estimated Production Volume in 2001 and % Change from 1995



SOURCE: Autofacts International

Internet: The Net Imperative

The Web Changes Customer's Expectations About Convenience, Speed, Price, Comparability and Service



50% of new car purchases in five years will be influenced by the web

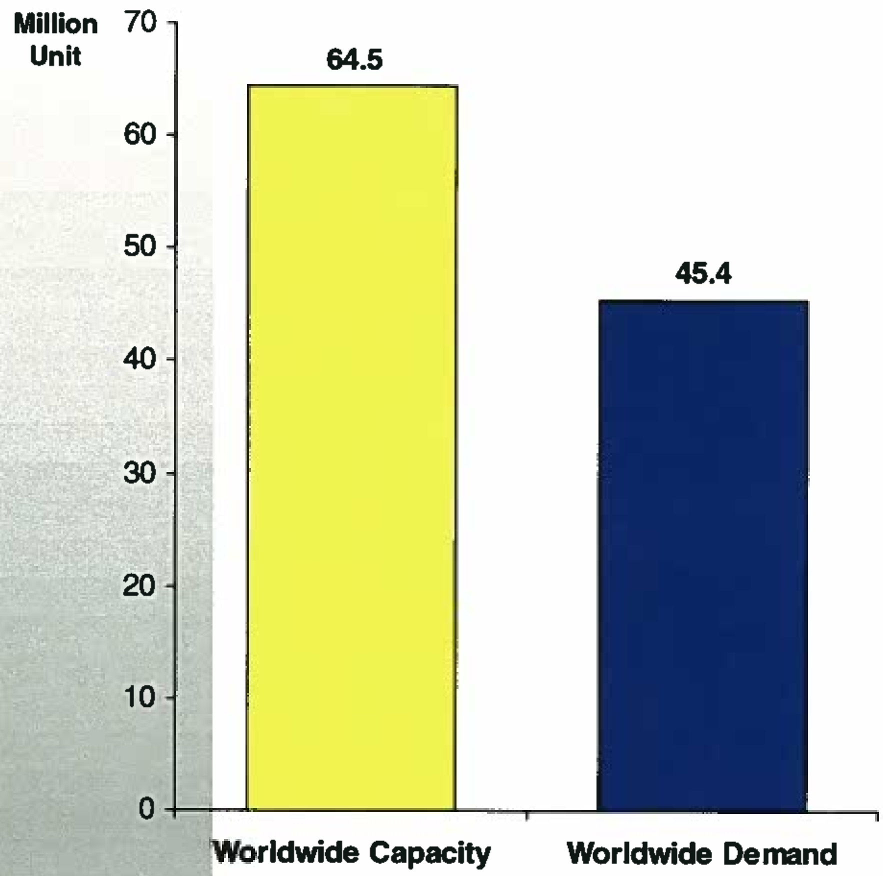
- Information
- Pricing
- Financing
- Trade-in
- Ordering

The Role of Vehicle Dealership Is Changing

SOURCE: Forrester Research, Fortune

Excess Capacity: Driver of Consolidation Among Manufacturers

Worldwide Capacity & Demand

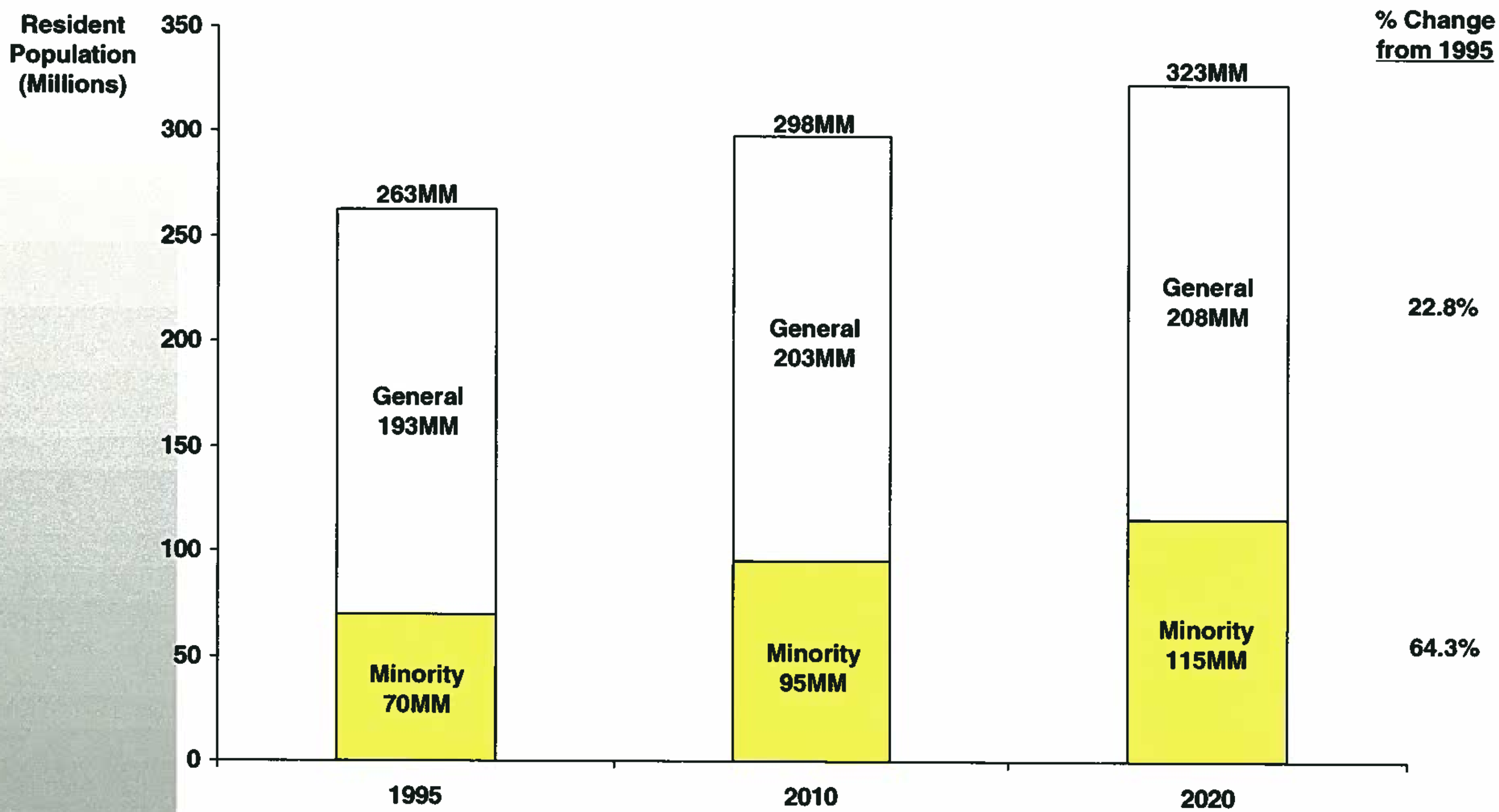


SOURCE: Autopole, The Economist, Asaba Group Estimates

Recent Acquisitions

- Daimler Chrysler and Mitsubishi
- GM and Subaru
- Volkswagen and Rolls Royce
- Daimler and Chrysler
- Nissan and Renault
- Ford and Volvo
- Volkswagen and Skoda
- Toyota and Daihatsu

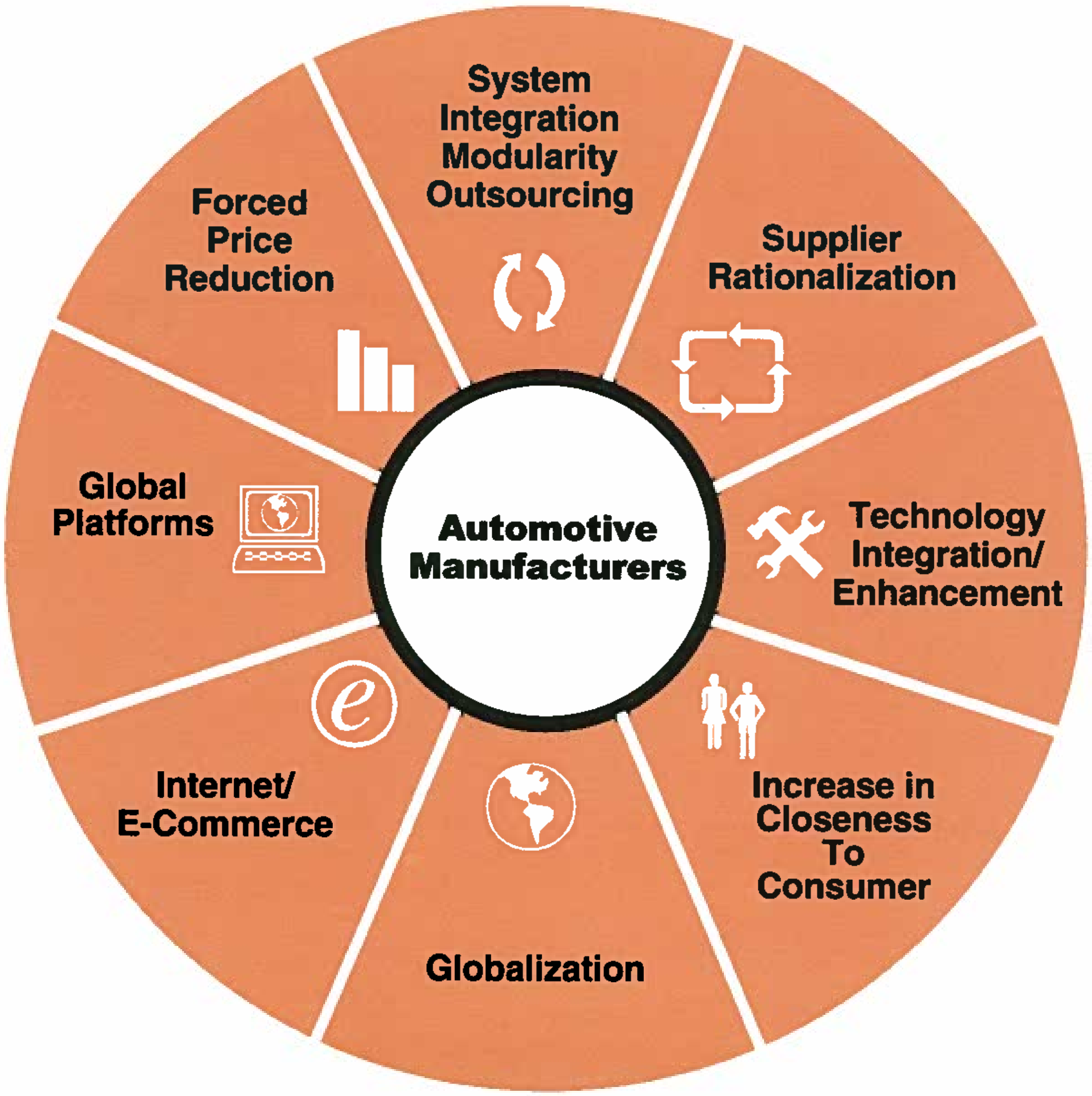
Demographic Shifts: Minorities Becoming Larger Share of Population



Auto Manufacturers Focusing on Minority Consumers As Next Entry Level Car Buyers

SOURCE: U.S. Census

Automotive Manufacturers Respond With These Competitive Initiatives

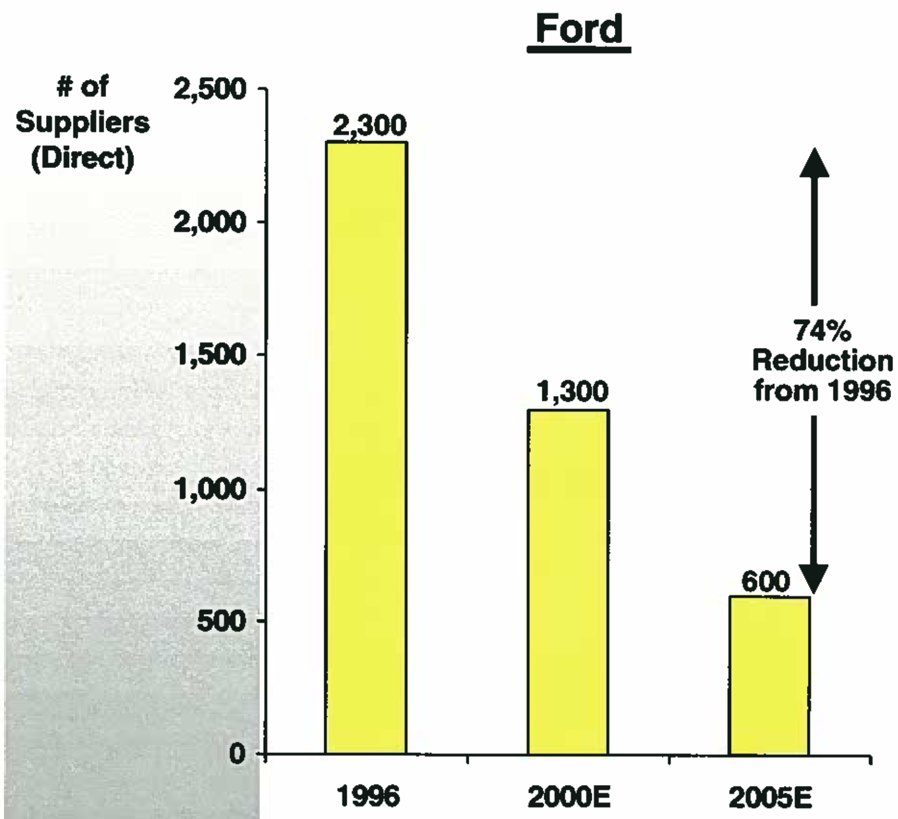


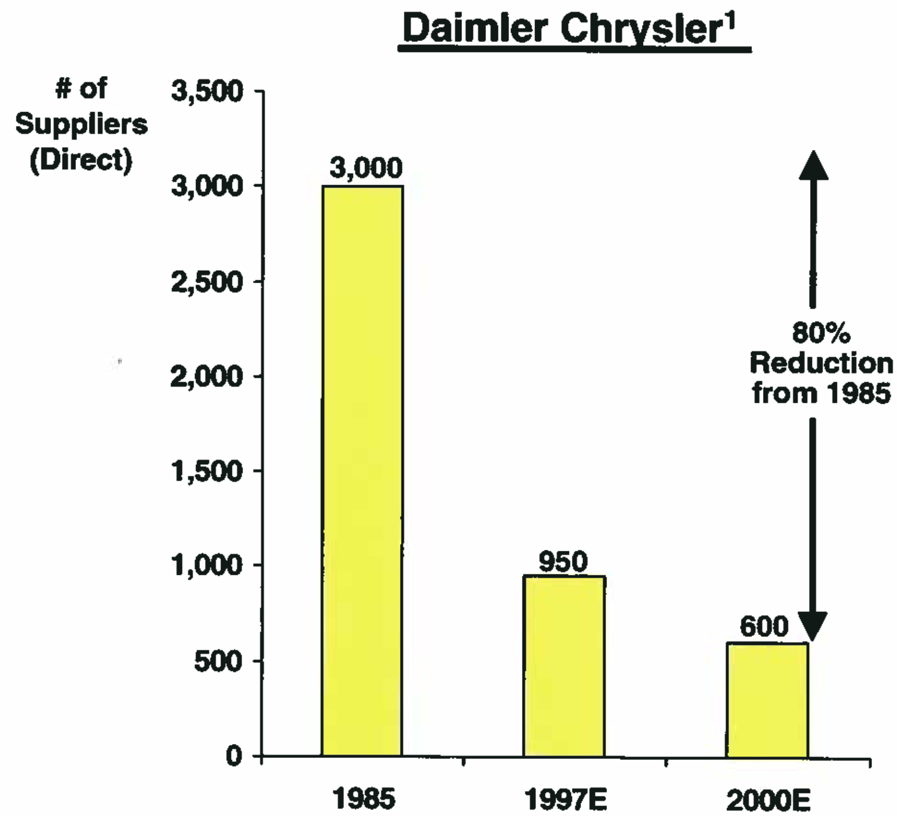
Some Recent Actions Around Competitive Initiatives

Globalization	• Announced new operations in: – South America, Brazil and Argentina – Eastern Europe – India, China and Southeast Asia
Internet/E-commerce	• Big Three launched a business-to-business integrated supplier exchange
Global Platforms	• Reducing global platforms – In 2002 global platforms are predicted to be reduced to 57 from 117 in 1997
Forced Price Reductions	• With increased consolidation, auto manufacturers' are eliminating pricing discrepancies among suppliers • Using increased volumes to force price reductions
Modularity / System Integration	• Integrating suppliers in the product development process • Outsourcing module and systems assembly to co-located suppliers

SOURCE: Bain Insights, McKinsey Quarterly, Price Waterhouse Coopers, Ernst & Young

Supply Base Rationalization Key Focus With Automotive Manufacturers





- 250 Tier I suppliers have 80% of $50 billion parts purchase
- 150 Tier I supplier with 90% of material purchase

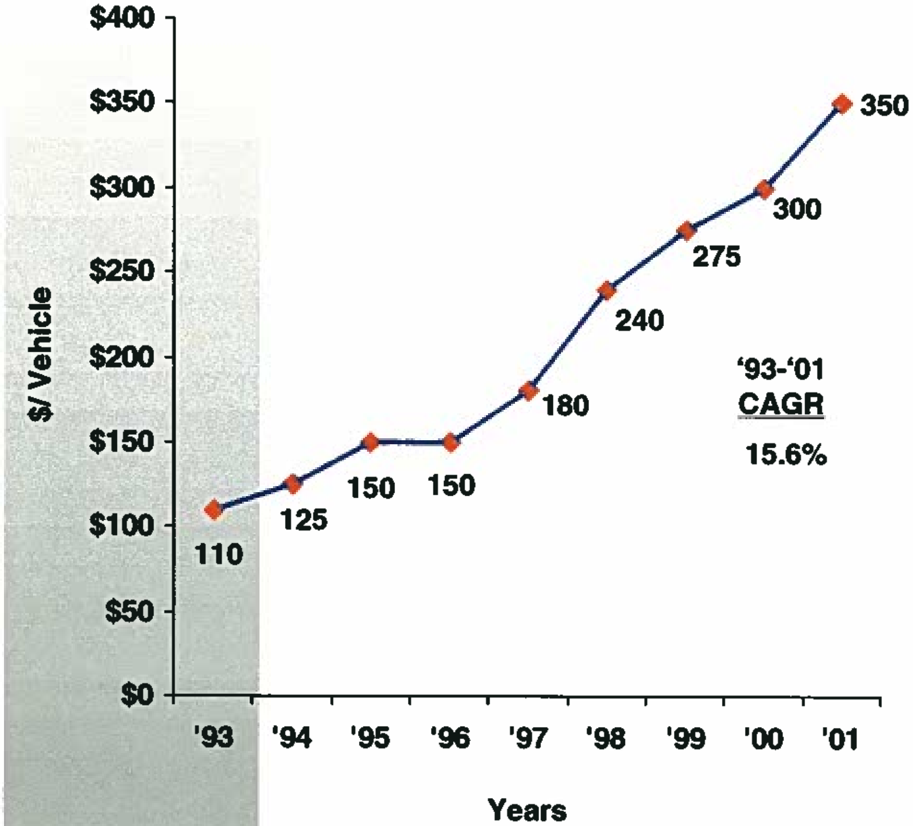
Fewer Suppliers Now Responsible for Large Share of OEM Purchases

- Number before merger with Daimler-Benz

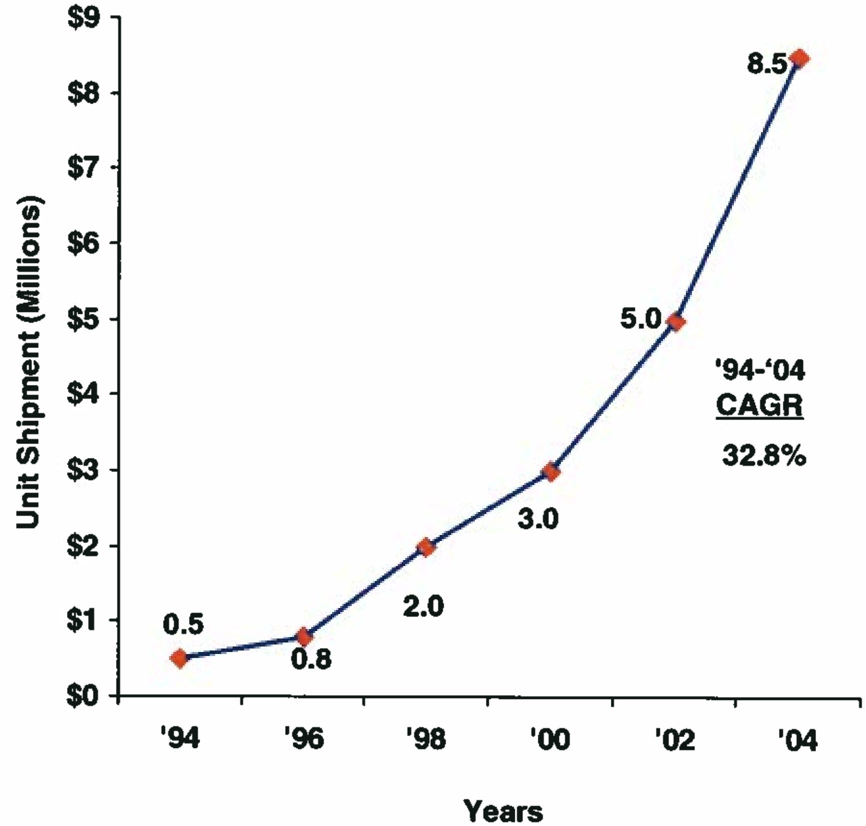
SOURCE: Merrill Lynch, Company Reports

Technology Integration and Enhancement Key To Product Differentiation

Actual and Projected Average Semiconductor Content per Light Vehicle 1993-2001 (U.S.)(1)



Actual and Projected In-Vehicle Computing Systems Market (1994-2004-Global)(2)



Opportunities for Automotive Suppliers Expected To Drive Technology Integration

SOURCE (1) Motorola, The Hansen Report, McKinsey Quarterly (2) Frost & Sullivan, Auto & Transportation Interiors, McKinsey Quarterly

Closeness To Consumers More Important Today Then In The Past

Automotive manufacturers are redefining themselves into consumer products companies

Example

Ford Motor Company

VOLVO mazda LINCOLN Ford Mercury JAGUAR ASTON MARTIN

The world's leading consumer company for automotive products and services.

"I would absolutely love to get into the mind of the consumer. I mean not what the consumer is telling us through focus groups or market research. But to really absolutely understand – viscerally understand, intuitively understand – what is happening in terms of the future requirements of customers all over the world. That to me is just an incredible competitive advantage. How can I do that?"

Mr. Jacques Nasser, CEO
Ford Motor Company
USA Today, 9/26/98

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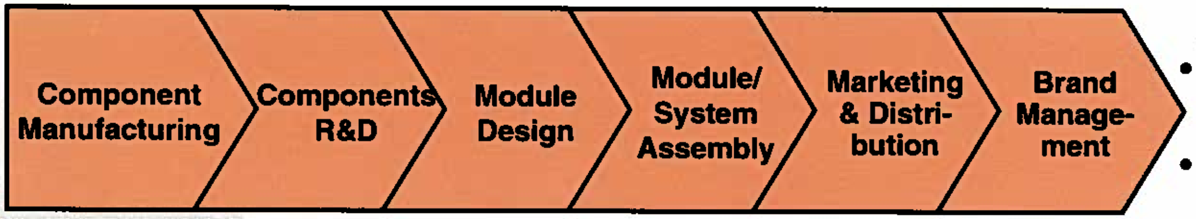
Automotive Manufacturers Reshaping Their Value Proposition

Focusing on marketing, distribution, vehicle design and integration

Yesterday



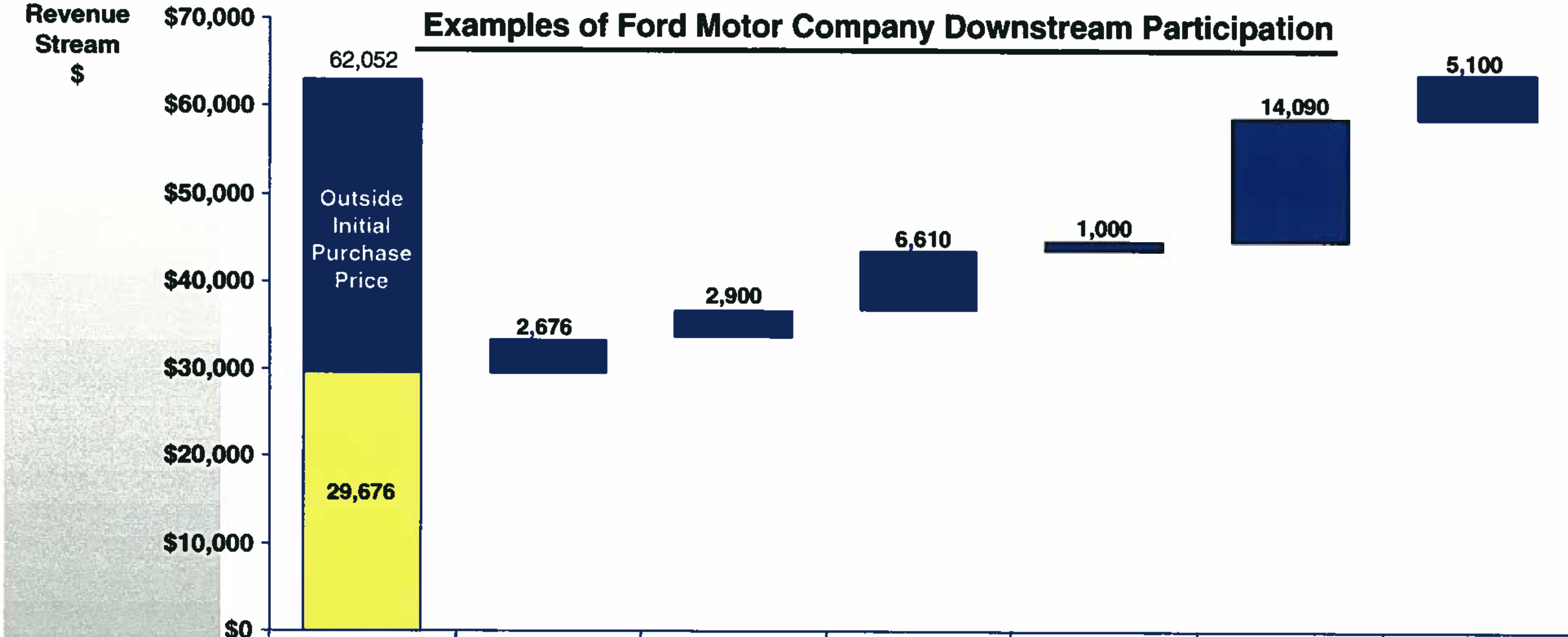
- Value proposition developed around product specific strategies
- Suppliers role was "Build to Print"

Future

- Value proposition lies in brand management and control of customer life time value
- Increasing reliance on automotive suppliers to design, engineer and manufacture systems
- Brand management developed around consumer segments and lifestyles
- Leveraging consumer insights and participating in downstream profit pools

Control of End-Consumer Automotive Experience Is a Strategic Imperative
– Also adapting to changing demographics

Downstream Participation Is Key To Future Growth



	Purchase Price	First Finance	Second Finance	Insurance	Aftermarket	Maintenance Repair Service Tires	Telematics
Participation Approach:	• Manufacture • Dealer	• Ford Motor credit	• Ford Motor credit	• Co-branded Insurance - The Hartford - Insurance Holding of America	• Ford Motorcraft	• Dealerships	• Cell Phone • Radio

Successful Downstream Participation Requires Building Customer Loyalty to Brand

1 Mid-size passenger cars
SOURCE: McKinsey Quarterly, Asaba Group estimates

Two Key Segments are Strategically Important In Building Brand Loyalty

These segments account for a larger share of vehicle sales compared to population share

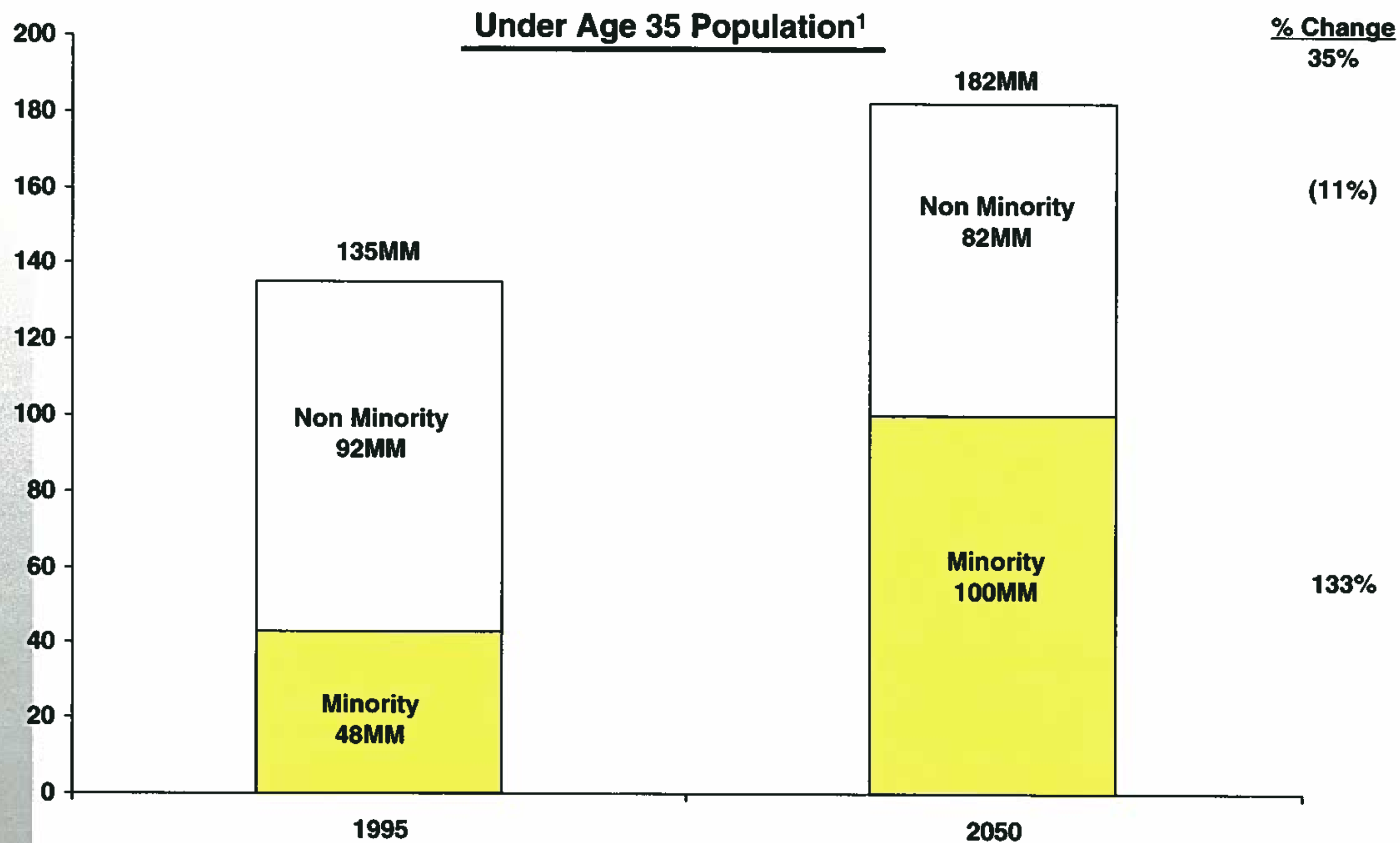
- Vehicle buyers with incomes over $75,000
  - Represents 34% of new car buying populations
  - Buys more expensive and profitable vehicle
  - Most profitable customer set

- Vehicle buyers under 35 years old
  - Represents 21% of new car buying populations
  - Typically the entry-level buyers
  - Loyal customers likely to stay with brand when making next vehicle purchase
  - Segment represents the future car buyers and important for revenue growth

Ability to Capture Entry-level Buyer Necessary to Build Brand Loyalty

Entry-Level Buyer Demographics Is Changing

Minorities account for 90% of growth in this segment



Entry-level Buyer Will Be More Multicultural Than in the Past

1 Proxy for entry-level car buyer.
SOURCE: U.S. Census, MBDA documentation

Auto Manufacturers Leveraging Minority Sourcing Programs

Building Customer Loyalty with Minority Consumers

Added benefits derived from minority sourcing

- Build corporate links with minority communities
  - Necessary in building brand awareness with minority consumers
- Develop understanding of cultural differences
  - Enhances internal corporate diversity efforts
- Contribute to the economic growth of minority communities
- Provide an environment for corporate manager to learn the art of bridging cultural divides
  - A critical skill for success in emerging markets

Minority Sourcing Becoming a Strategic Imperative

Minority Sourcing Is A Key Strategic Initiative

" Minority procurement is no longer an issue of social conscience. Our very future depends on capturing and retaining the loyalty of a growing consumer market audience."

– *Thomas Sidlik*
EVP Procurement &
Supply General Motors
Small Car Operations

" The economic strength of the minority community continues to climb, those that embrace corporate citizenship and diversity within their companies will have a competitive edge over those that do not."– *Jacques A. Nasser*
President and CEO
Ford Motor Company

" Our commitment to minority business development is having a supply base which closely reflects the diversity of our customers."

– *Teruyuki Mihoura*
President and CEO
Toyota Motor
Manufacturing

" We believe a long-term purchasing strategy which reflects the diversity of our customer base makes sense." – *Honda, USA*

SOURCE: Company reports, *Fortune Magazine*

Automotive Manufacturers Making Commitments To Minority Sourcing

And encouraging Tier I suppliers to source from minority businesses

Automotive Manufacturer	Estimated U.S. Purchasing Spend	1999 Minority Purchases	Tier II	Comments
Ford	$50B	$3.3 Billion	$1.1 Billion	• Committed to $3.5 B by 2004
General Motors	$70B	$2.2 Billion	$1.1 Billion	• Tier II program is 5% of GM business • 2000 target at 5.5% of total purchases
Daimler Chrysler	$40B	$2.1 Billion	N/A	• Committed to $2.7 B by 2000
Toyota	$8B	$350 Million	N/A	• 2002 target for Tier • Target 5% of Toyota's business for Tier II
Mitsubishi		$60 Million	N/A	• Currently at 3.7% → Goal is 5% • Actively encourages Tier II participation
Honda		N/A	N/A	•
Nissan		N/A	N/A	•
Mercedes-Benz		N/A	N/A	•

SOURCE: Asaba Group estimates

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Automotive Suppliers Face Continuous Challenges Responding to OEM Requirements

- OEMs consolidating and increasing pricing pressures.
- Suppliers competitive for fewer customers.

- OEMs will employ various strategies to keep suppliers from dictating price and technical specifications.

- Delphi and Visteon growing non-parent sales
- Each developing systems integration capabilities.
- Each has global reach.

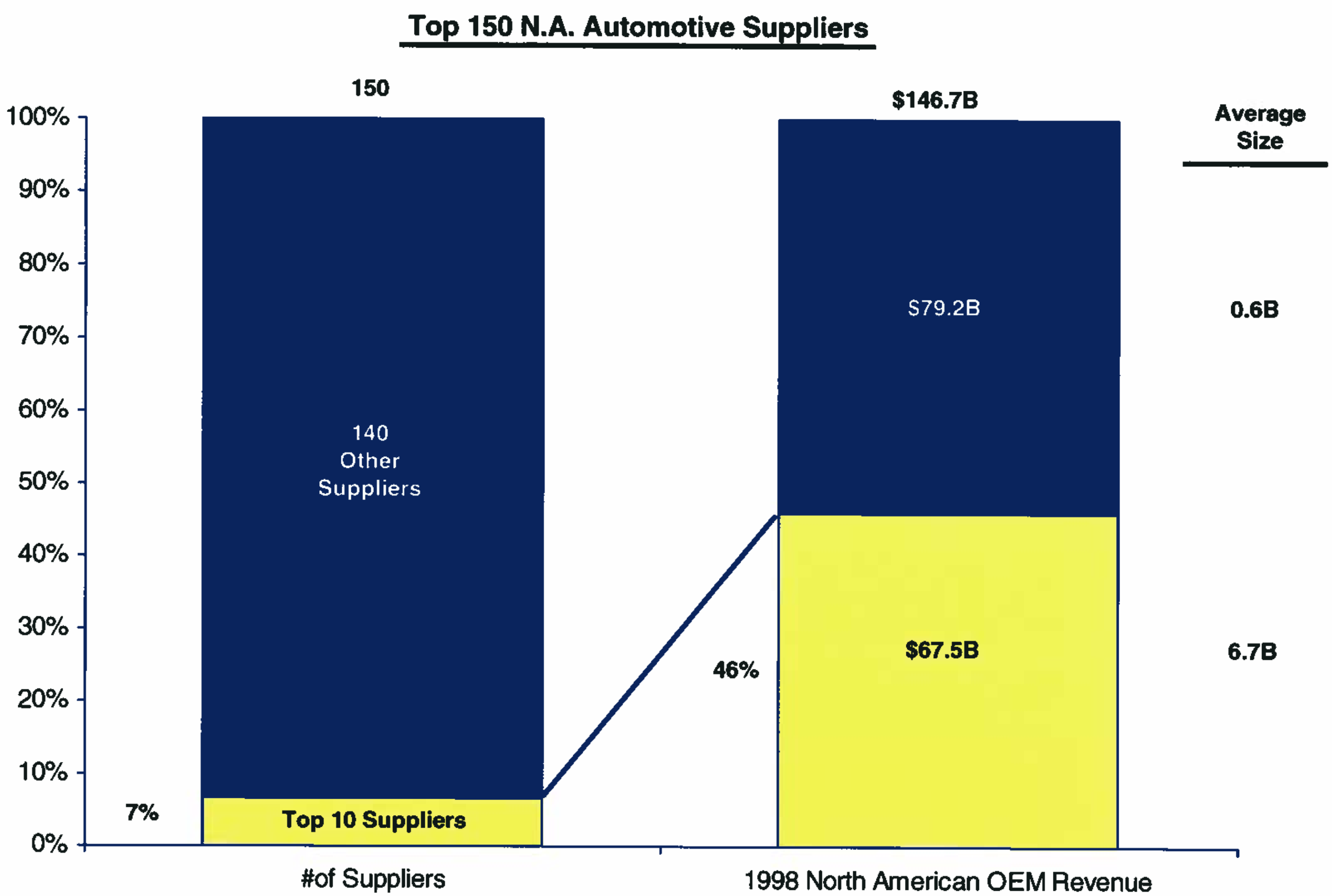
- OEMs demand that suppliers deliver defect-free parts and systems
- Failure to do so will jeopardize present and future business.

- OEMs demand annual price costs.
- Suppliers share warranty risks

- Shortage of skilled workers.
- UAW works to unionize more suppliers.
- Suppliers pay higher wages, but cannot charge higher prices.

Automotive Suppliers Are Fragmented And Undergoing Consolidation

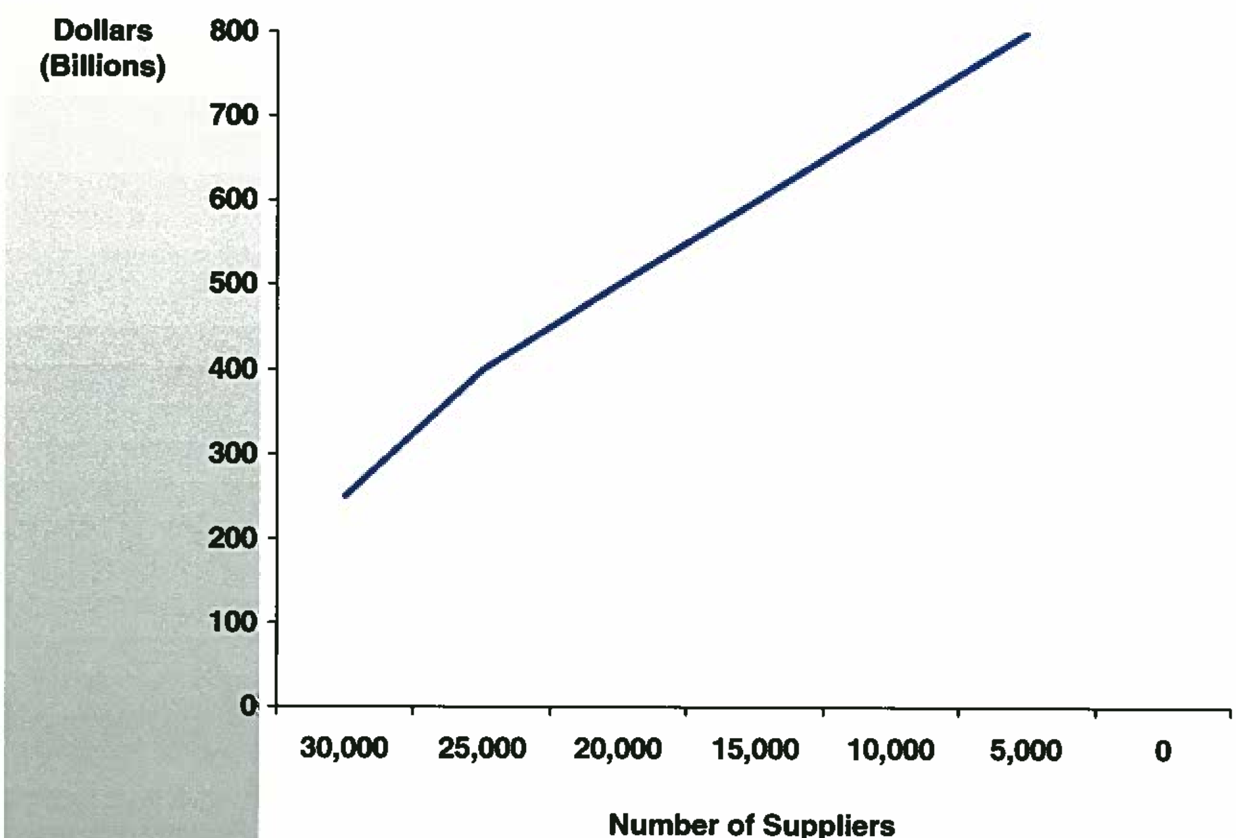
Top 10 Suppliers Are Driving the Consolidation



SOURCE: Asaba Group Analysis

Suppliers Consolidating at a Rapid Pace

In 1986; 30,000 suppliers in a $250 billion industry; by 2003, 5,000 suppliers in a $800 billion industry



Consolidation Drivers

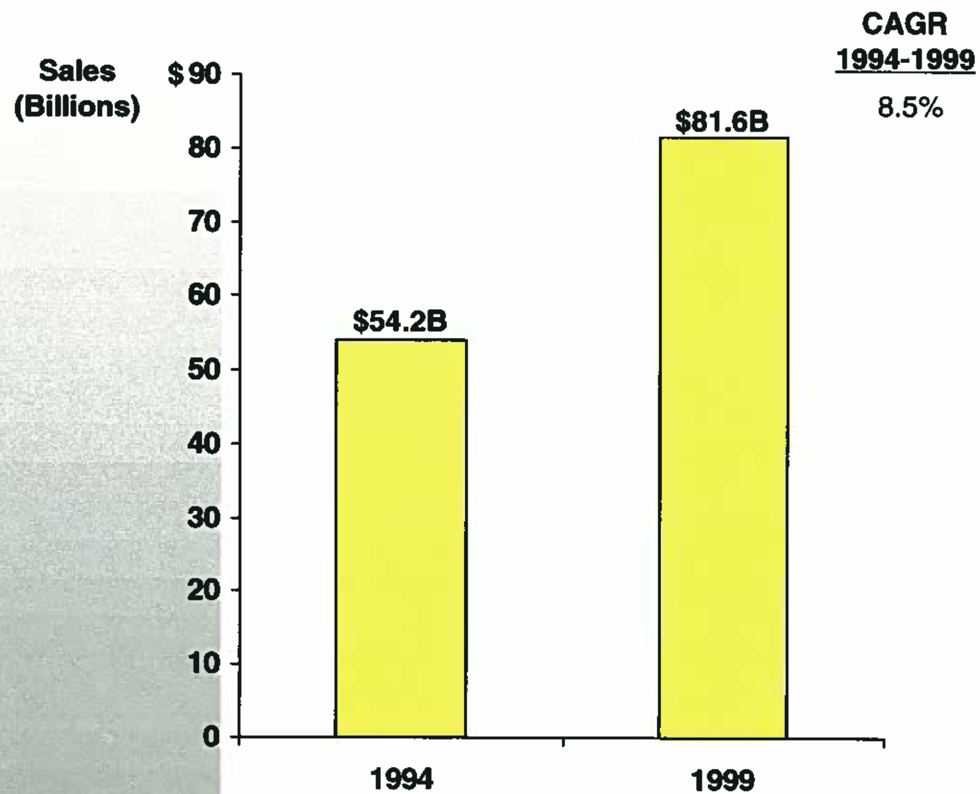
- The race to become system integrators
- Acquiring key capabilities
  - Technology
  - Manufacturing
  - Geographic reach
- Divestitures of non-core businesses
- Quest to achieve optimal economies of scale/critical mass

SOURCE: Economist Intelligence Unit

Top 10 Suppliers Have Grown Annually By 8.5% Since 1994

Largely driven by acquisitions

Top 10 Supplier Sales



Top 10 Auto Supplier 1999

1. Delphi Automotive
2. Visteon
3. Dana
4. Lear
5. Johnson Controls
6. Magna
7. Bosch
8. TRW
9. Denso
10. Eaton

The Big Suppliers Are Getting Bigger!

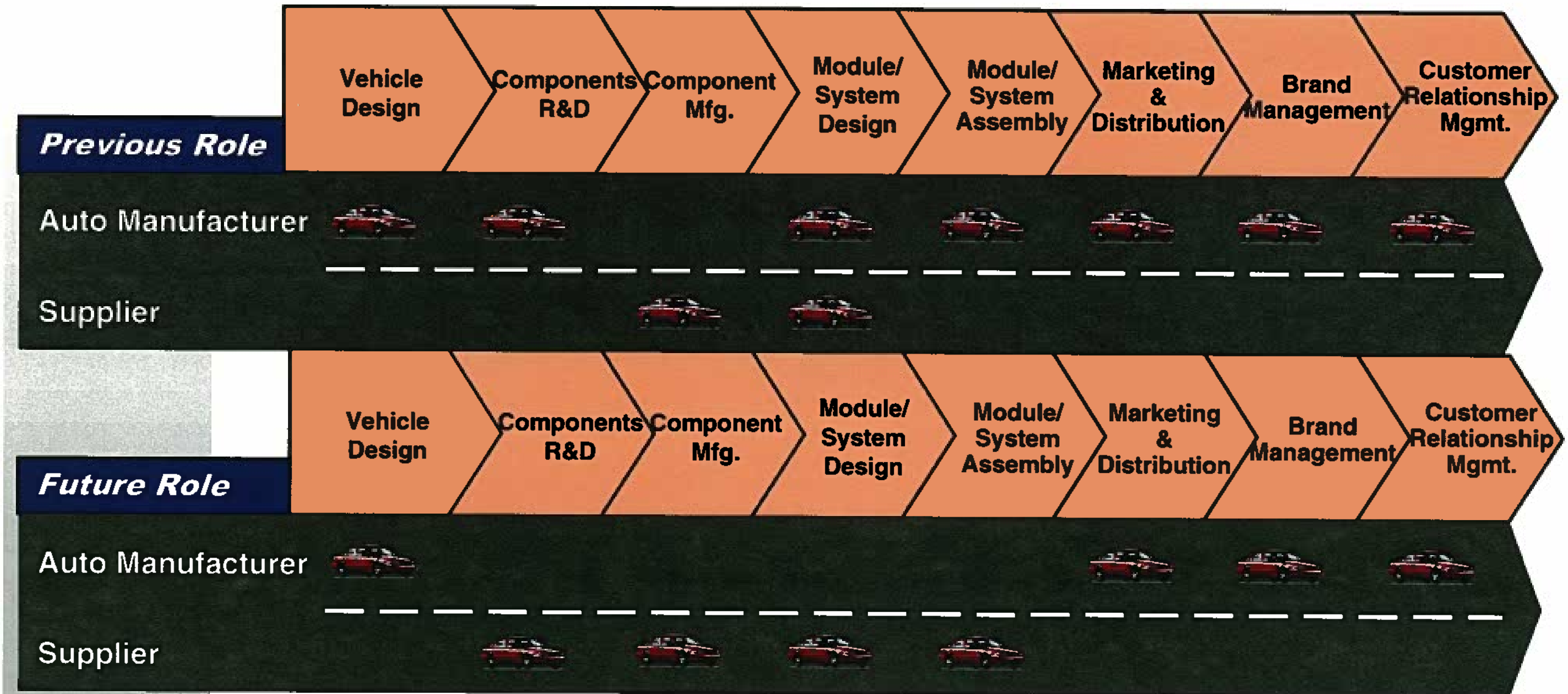
SOURCE: Automotive News

Recent Mergers and Acquisition Deals

Year	Acquirer	Target	Deal Size	Activities
1999	TRW Inc.	Lucas Varity PLC	$6.53 Billion	• Brakes, Electrical and Injection Systems
1999	Lear Corp.	UT Automotive	$2.3 Billion	• Interior, Electrical, Electronics and Motors
1999	Eaton	Aeroquip	$1.7 Billion	• Hydrators
1999	Goodyear	Sumitomo Rubber	$0.9 Billion	• Tires
1999	Hayes-Lemmerz	CMI	$0.6 BIllion	• Wheels
1999	TI Group	Walboro	$0.6 Billion	• Fuel Systems
1999	Visteon	Plastic Ominium	$0.5 Billion	• Interior Components
1999	Dura Automotive	Excel	$0.5 Billion	• Window Systems
1999	Dura Automotive	Advest	$0.3 Billion	• Control Cables and Mechanism

SOURCE: Price Waterhouse Coopers, The Economist

Suppliers Taking On Past Roles of Automotive Manufacturers



Suppliers Must Build New Capabilities

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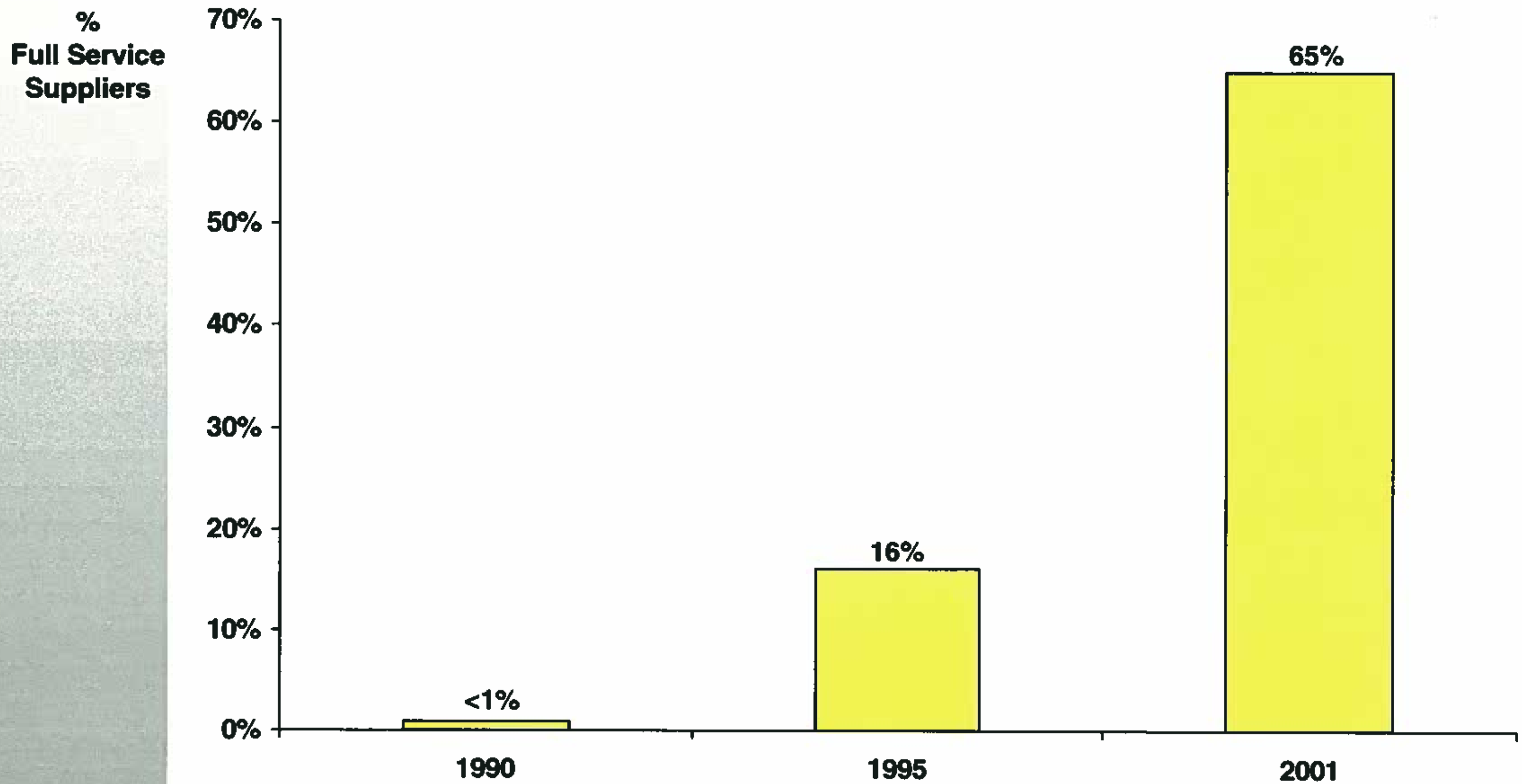
Full Service Capabilities Involves the Ability To:

- Translate end-consumer needs to product requirements
- Manage product development across the supply chain
- Take responsibility for product design, engineering, quality, and manufacturing
- Share the risks and cost of product defects
- Drive technology development and integration into new products
- Process discipline and execution excellence
- Have relentless focus on cost containment and reduction

Suppliers Must Build R&D, Engineering, and Manufacturing Capabilities

Manufacturers Want Suppliers With Full Service Capabilities

Percentage of Suppliers with Full Service Capabilities
Sport Utility Vehicle (U.S. OEM)



SOURCE: Asaba Group Estimates

Tier I Suppliers Have Begun Supplier Base Consolidation Programs

Delphi Automotive plan to cut more than 2,000 of 4,500 North American suppliers

"We've asked our purchasing teams to reduce our supply base by 50%."

– *Ray Campbell*
Delphi VP Global Purchasing

Meritor Automotive Inc. has begun a massive reduction of suppliers

"Plans to cut down from 2,000 direct suppliers to between 600 and 800 over next 3 years"

– *Carl Soderstrom*
Sr. VP Engineering Quality
& Procurement

American Axle and Manufacturing plan to cut 100 to 150 suppliers from a base of 300

"Once the large Tier One suppliers make the cuts, they'd like to negotiate longer contracts."

– *David Demos*
VP Procurement

Tier II and III Suppliers Must Compete on Price, Quality, Engineering and Geographic Reach or Risk Being Slashed

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Future Growth Will Come From Three Key Areas

New Products

Technology Integration & Enhancement

New Channels

After Market Products

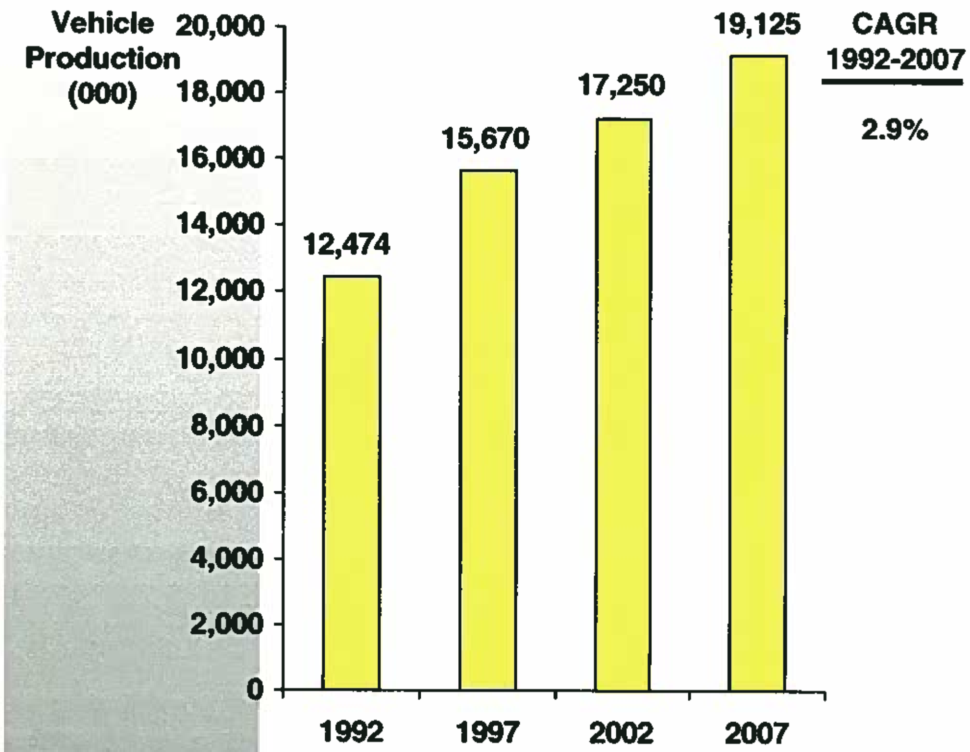
Organic Growth

Consistent Performance

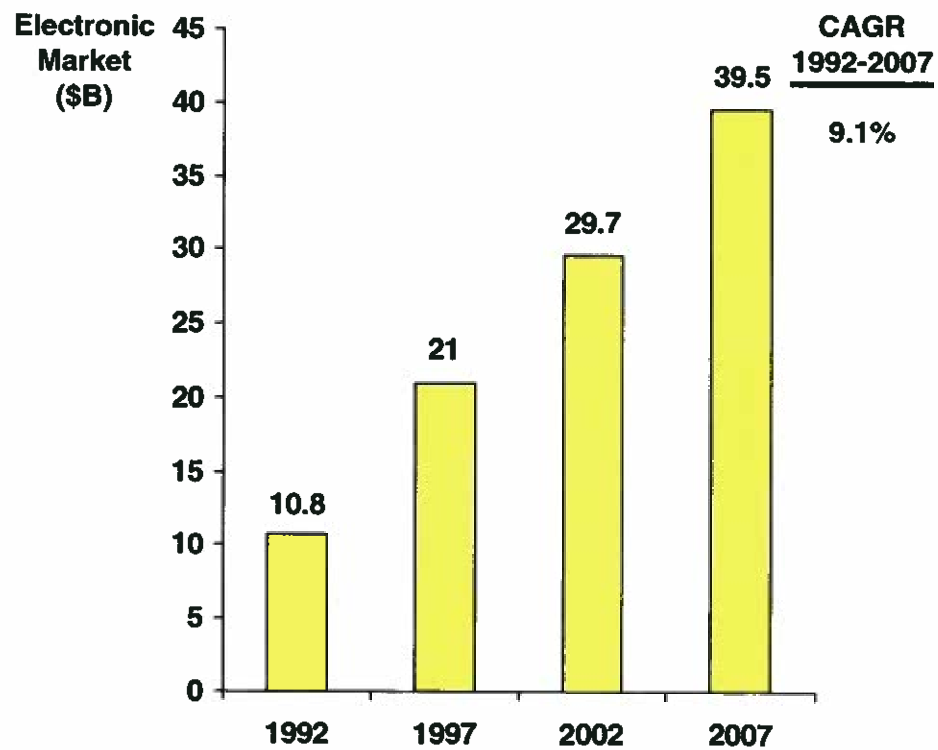
Minority Sourcing

New Products: Automotive Electronics Growing Faster Than Vehicle Sales

North American Production Forecast



OEM Automotive Electronic Market



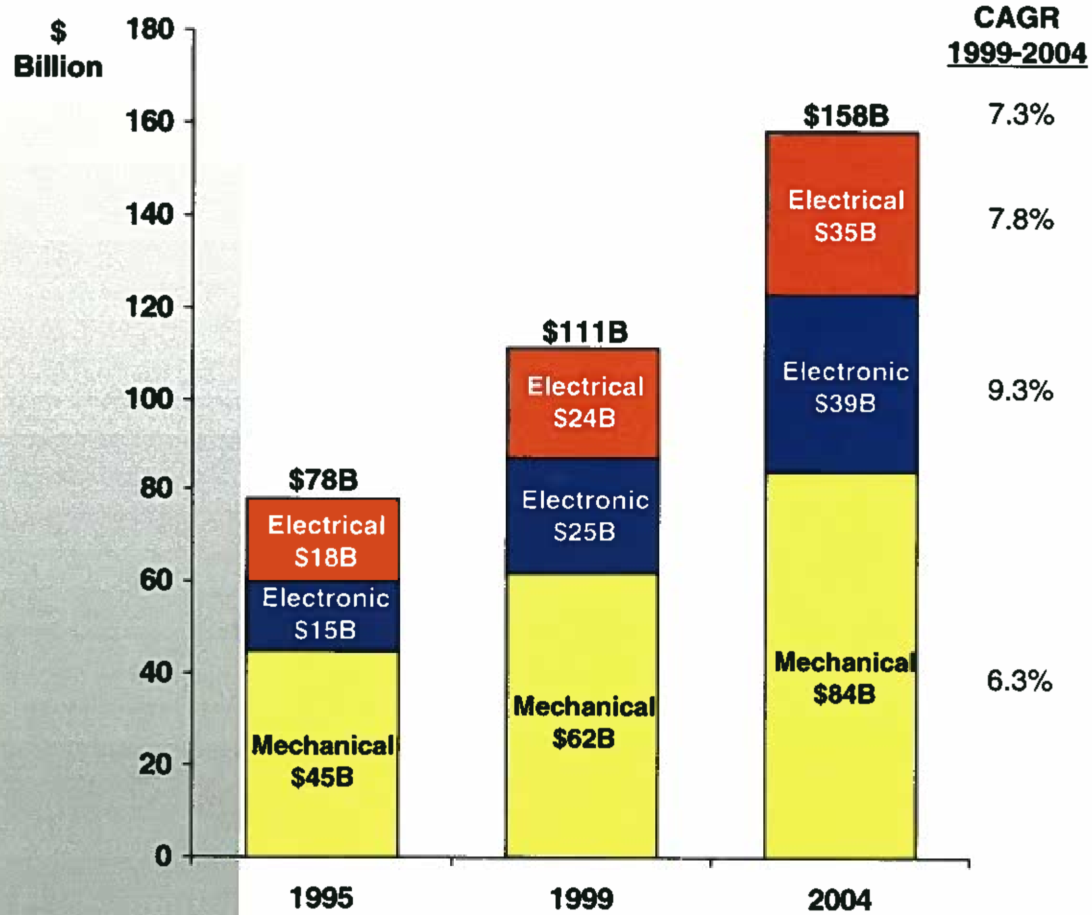
Technology Integration and Enhancement Provides Growth Opportunities

SOURCES: (1) Motorola, The Hansen Report, McKinsey Quarterly (2) Frost & Sullivan, Auto & Transportation Interiors, McKinsey Quarterly

New Channels: Aftermarket Presents Significant Growth Opportunity

Electronic and Electrical products are the high-growth segment

Worldwide Auto Aftermarket Growth
1995–2005



SOURCE: Freedonia Group, Packaged Facts

Favorable Trends

- Strong growth rate due to increase in average automobile life
- 100 million cars between 3 and 7 years old
  - Period when most repairs are performed
- Provides diversification from OEM business
- Provides ability to build customer connection and branding
- Demographic shifts to minorities with the prime Do-It-Yourself (DIY) segment
  - Median age younger than general population
  - Minority population forecasted to be a dominant share

Organic Growth: Suppliers Understand That Minority Sourcing Is Strategic To OEM's

Tier I suppliers view minority sourcing as key in growing business

Johnson Controls sourced $235MM in 1999 from minority suppliers. Expected to grow to $317MM in 2000

"Our company is committed to providing diversity, building strong partnerships with minority firms, and expanding minority supplier development efforts in the years to come."

– *Johnson Controls*

"…Our customers [OEMs] are asking for it. The minority population is growing and automakers want them as customers."

– *Foamex Automotive*

3M Automotive has begun a minority sourcing program with a 5% goal by 2002

"The industry has recognized the demographics of their customer base." – *3M Automotive*

SOURCE: Company reports, *Fortune Magazine*, Automotive Industries

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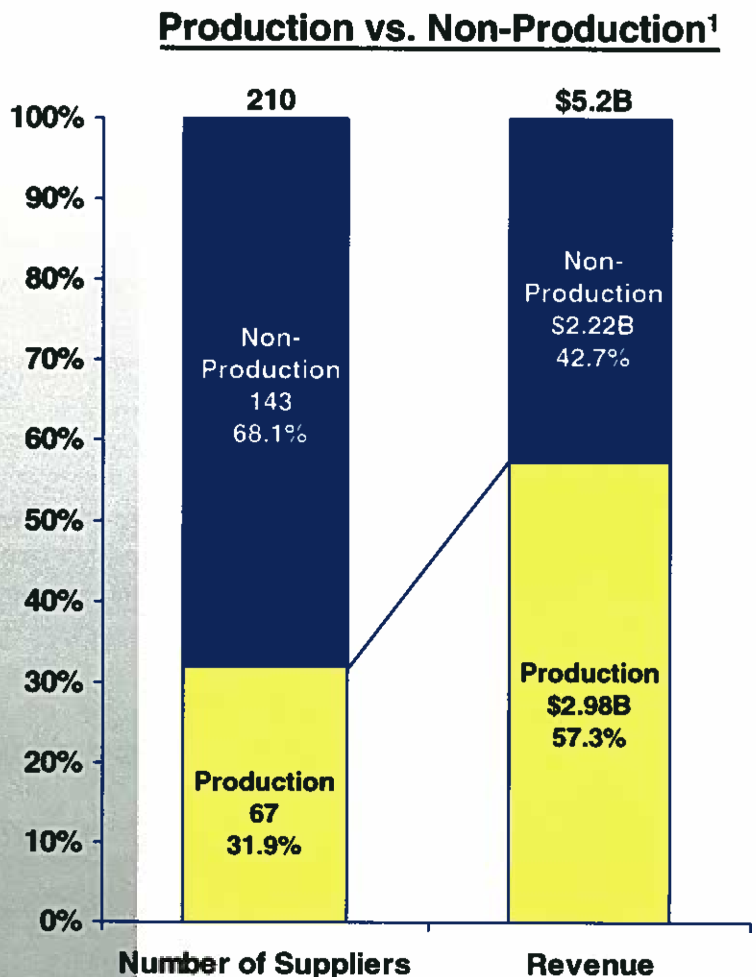
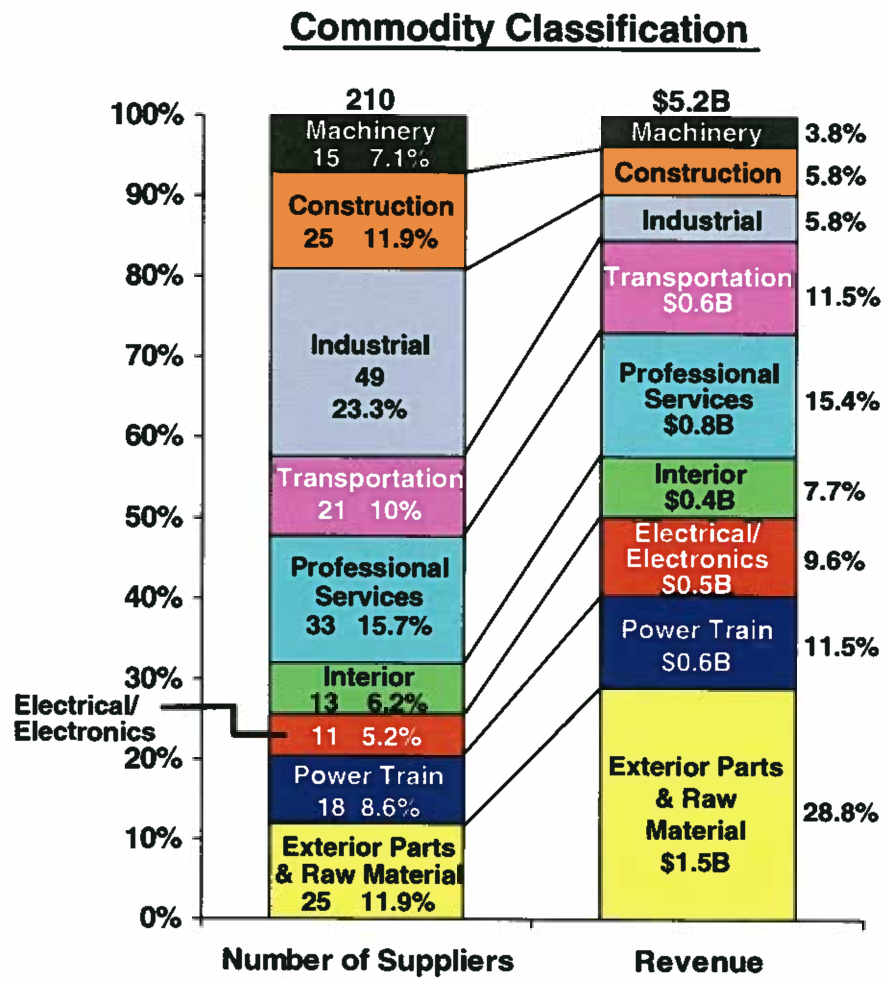
Competitive Profile of Minority Suppliers

Most minority suppliers in non-production commodities





What are the Implications with e-Procurement?

- Sample of 210 minority supplier in major OEM, 1997 sales data

SOURCE: Asaba Group analysis

e-Procurement Exchanges Focus on Reducing Cost in Non-Production and Commodity Purchases

Average % Savings

	Commodity Materials	Non-Production Materials	e-Procurement Value Proposition
Product Cost	10%	12%	**Commodity Type Purchases**
Transaction Cost Savings	10%	60%	**Non-production Related Purchases**
Inventory Cost Savings	7.5%	12.5%	

Commodity Type Purchases

- Very little product uniqueness
- Focus on lowest cost producers
- Transaction orientation toward suppliers

⇨ ***Lower product costing from auctions***

Non-production Related Purchases

- Frequent transactions
- Disparate users
- Low transaction size

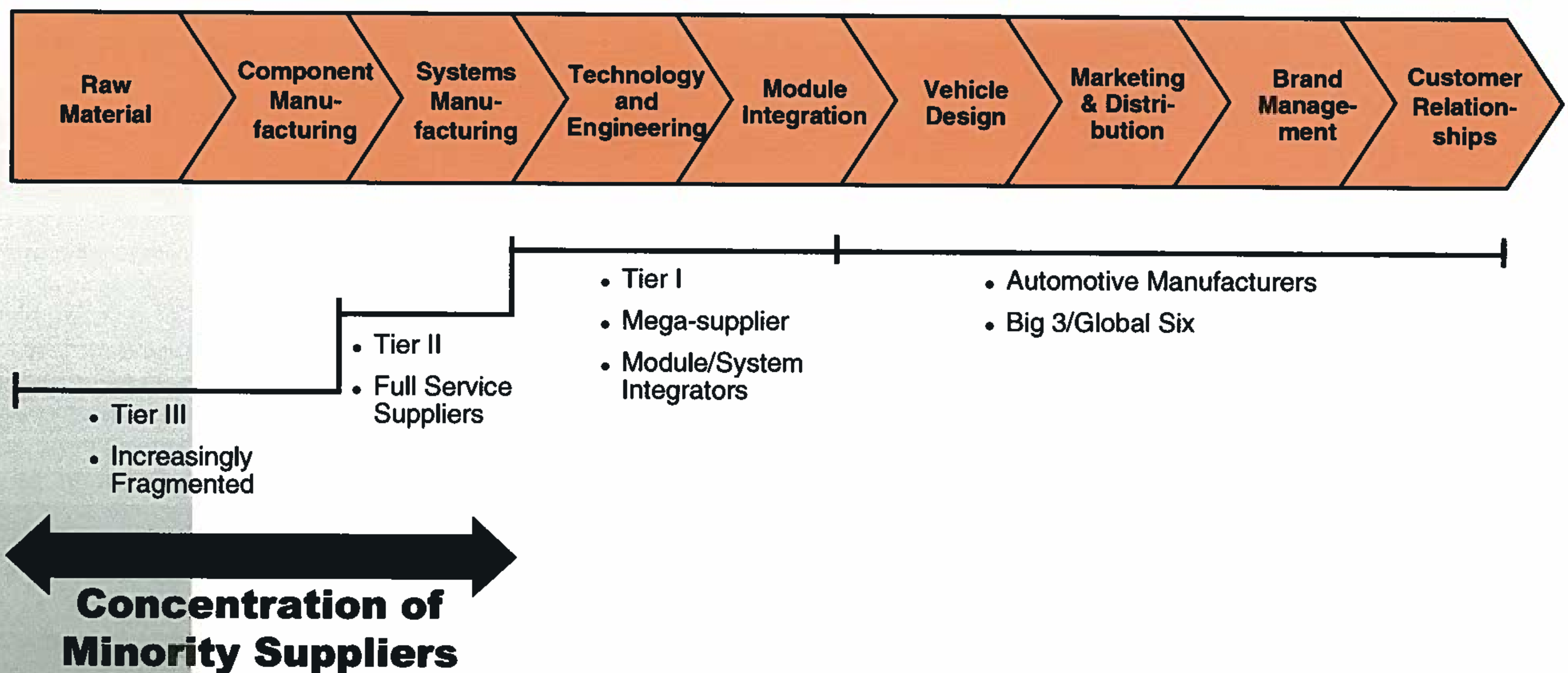
⇨ ***Forces compliance to preferred vendors or vendors with e-Commerce capabilities***

Non-Production Minority Supplier Must Be Cost Competitive to Survive in the e-Procurement World

SOURCE: Aberdeen Group, B2B Market Reports, Merrill Lynch & Co, Asaba Group Analysis

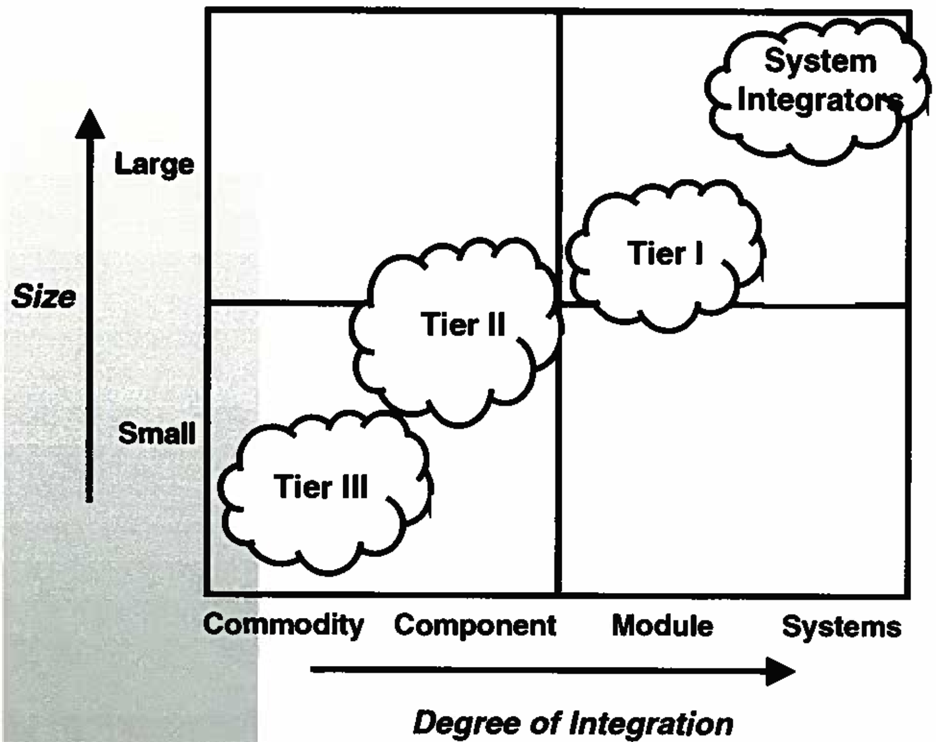
Production Suppliers Must View Growth by Strategic Role in the Supply Chain

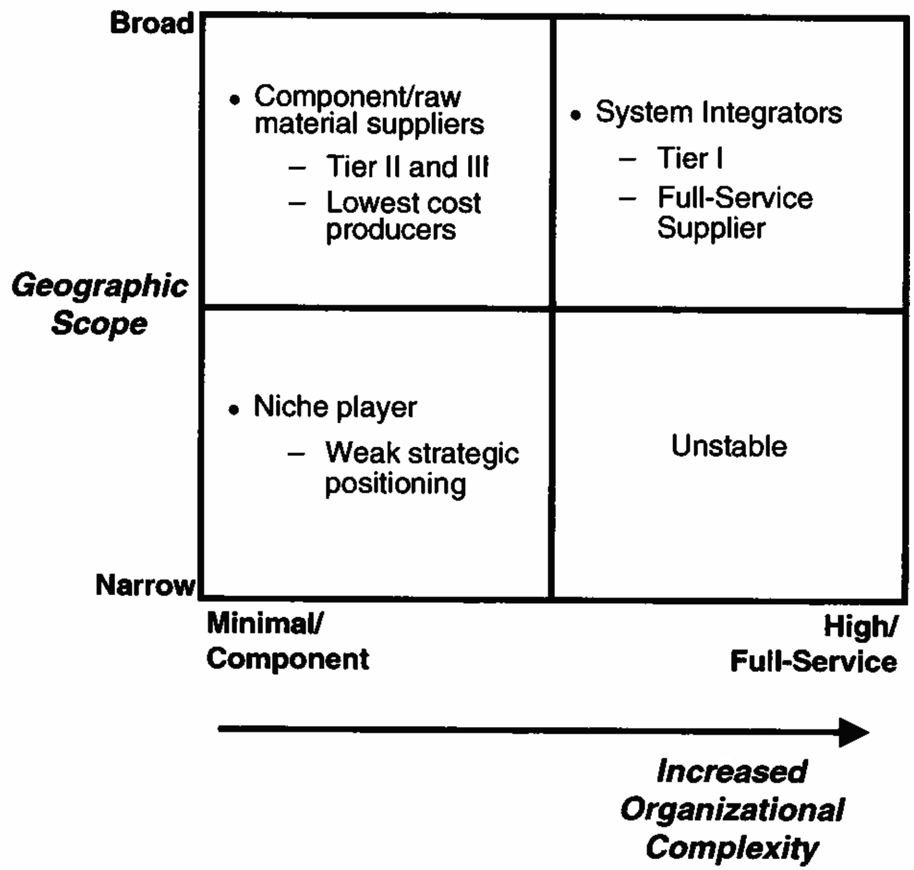
The New Extended Enterprise



How Should Minority Suppliers Think About Growth?

Limited Strategic Growth Options for Small Commodity Players





Minority Suppliers Must Grow to Ensure Long-term Viability

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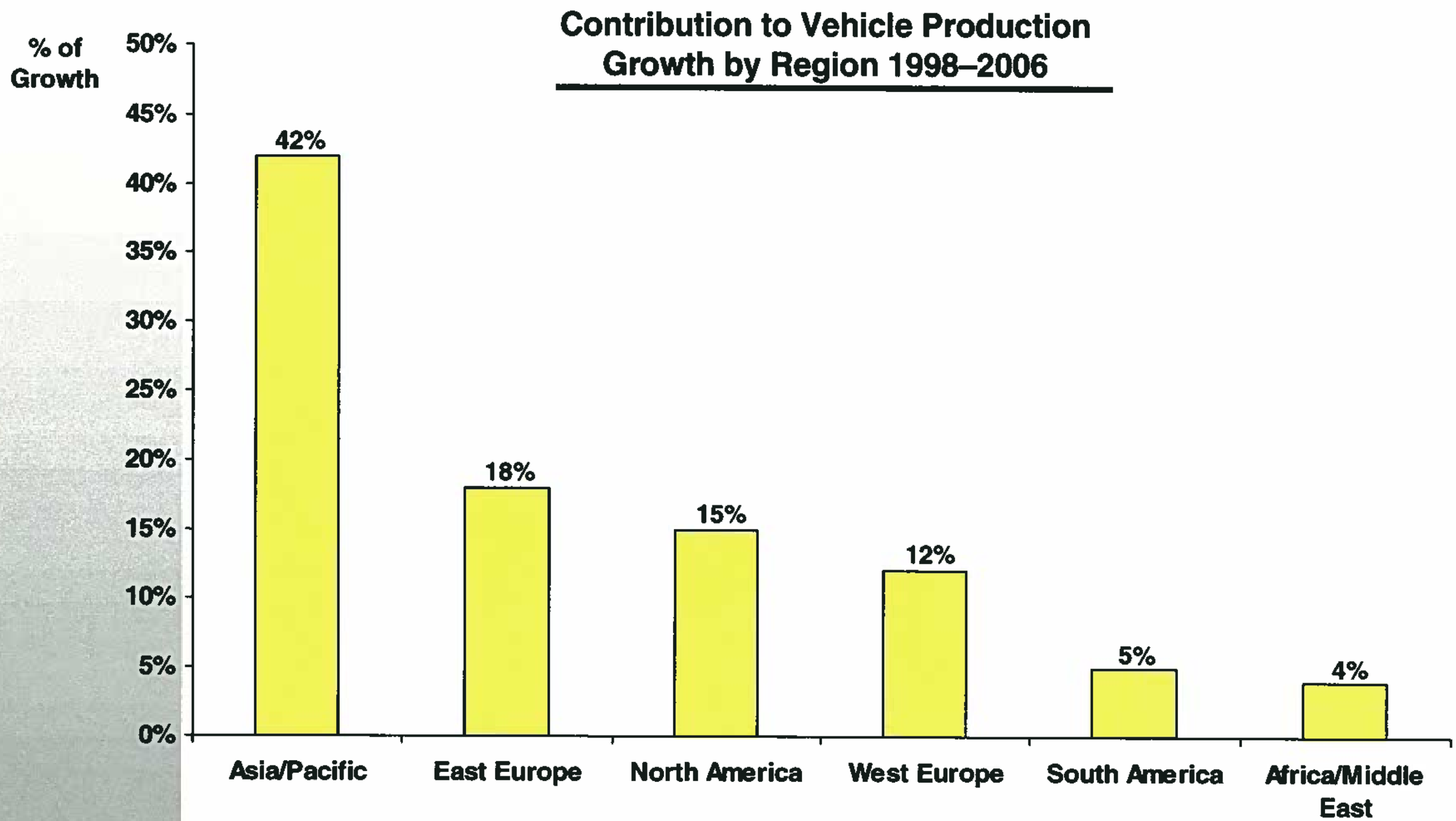
Growth Options For Minority Suppliers

Geographic Expansion	Consolidation/ Rollup	New Commodity Categories	Forward Integration

Geographic Expansion: Emerging Markets Will Provide the Long-term Growth

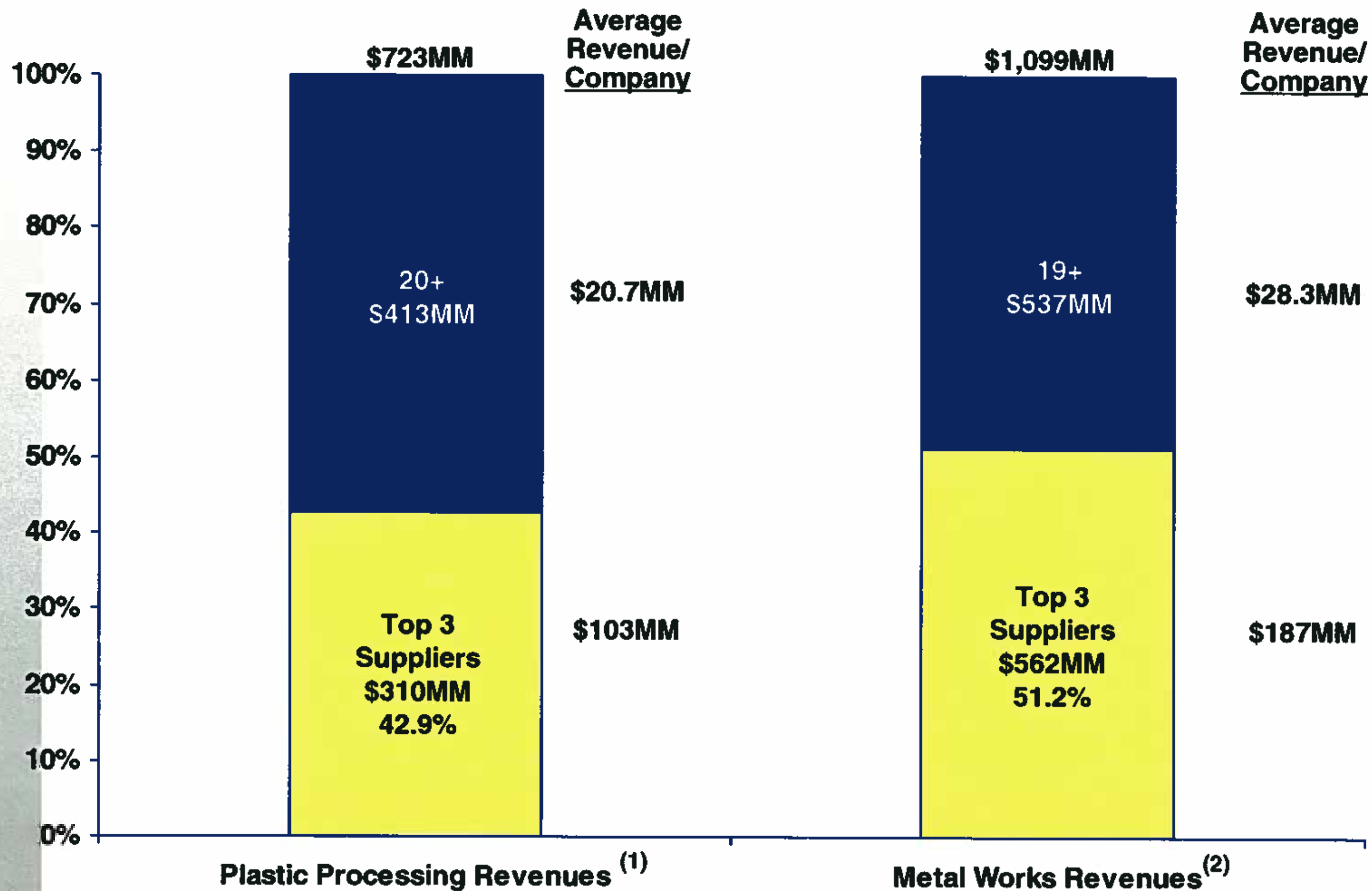


Minority suppliers must go global to grow

SOURCE: PriceWaterhouseCoopers

Consolidation/Rollups: Opportunity in Commodity Groups with High Degree of Fragmentation

Plastics and metal processing highly fragmented and captive to auto industry

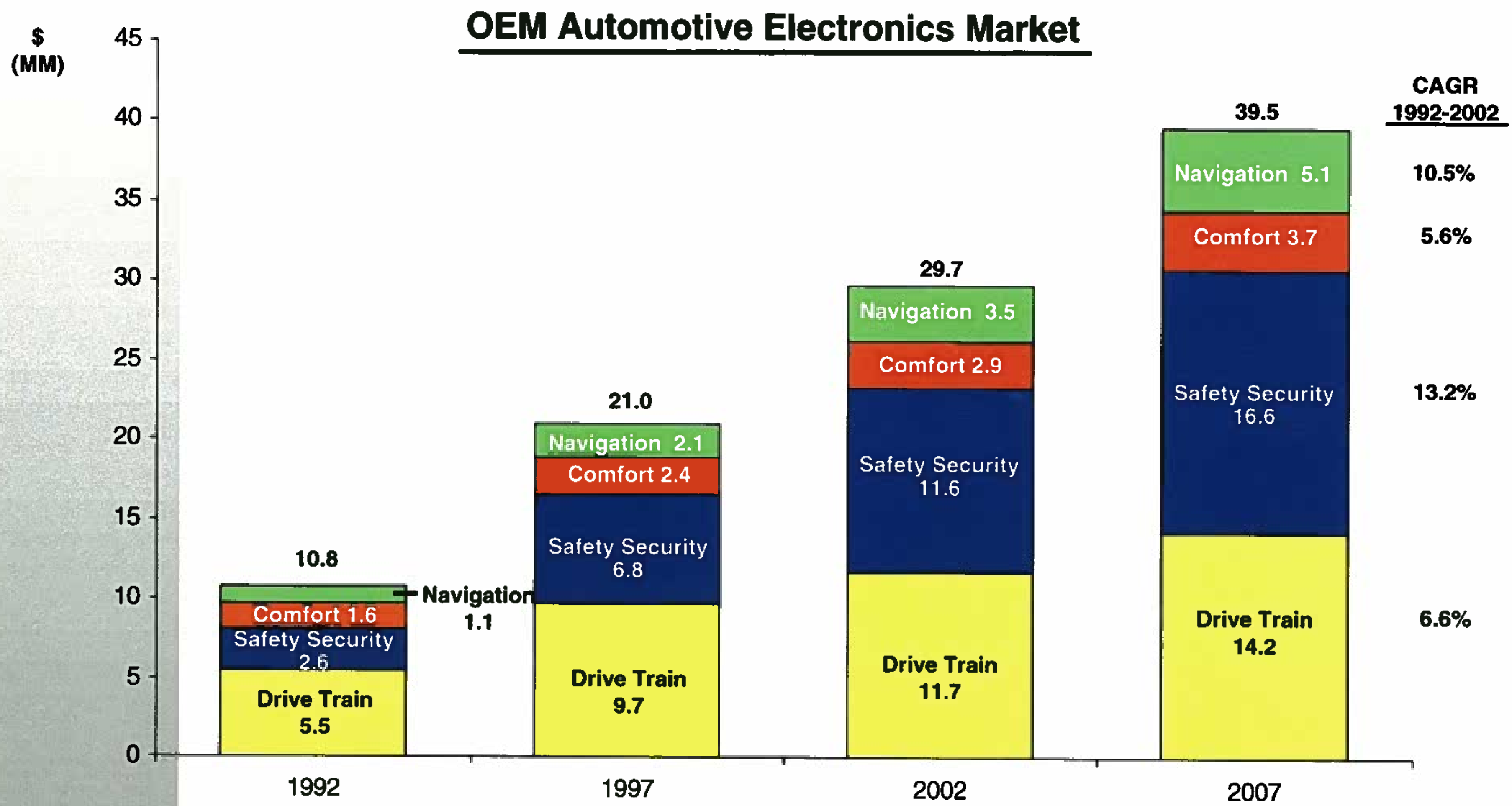


Consolidation/Rollup Opportunity to Attain Required Critical Mass for Cost Competitiveness

- Includes Injection, Extrusion and Blow Molding Suppliers (2) Includes Machinery, Welding and Stamping Suppliers

Estimated 1997 data

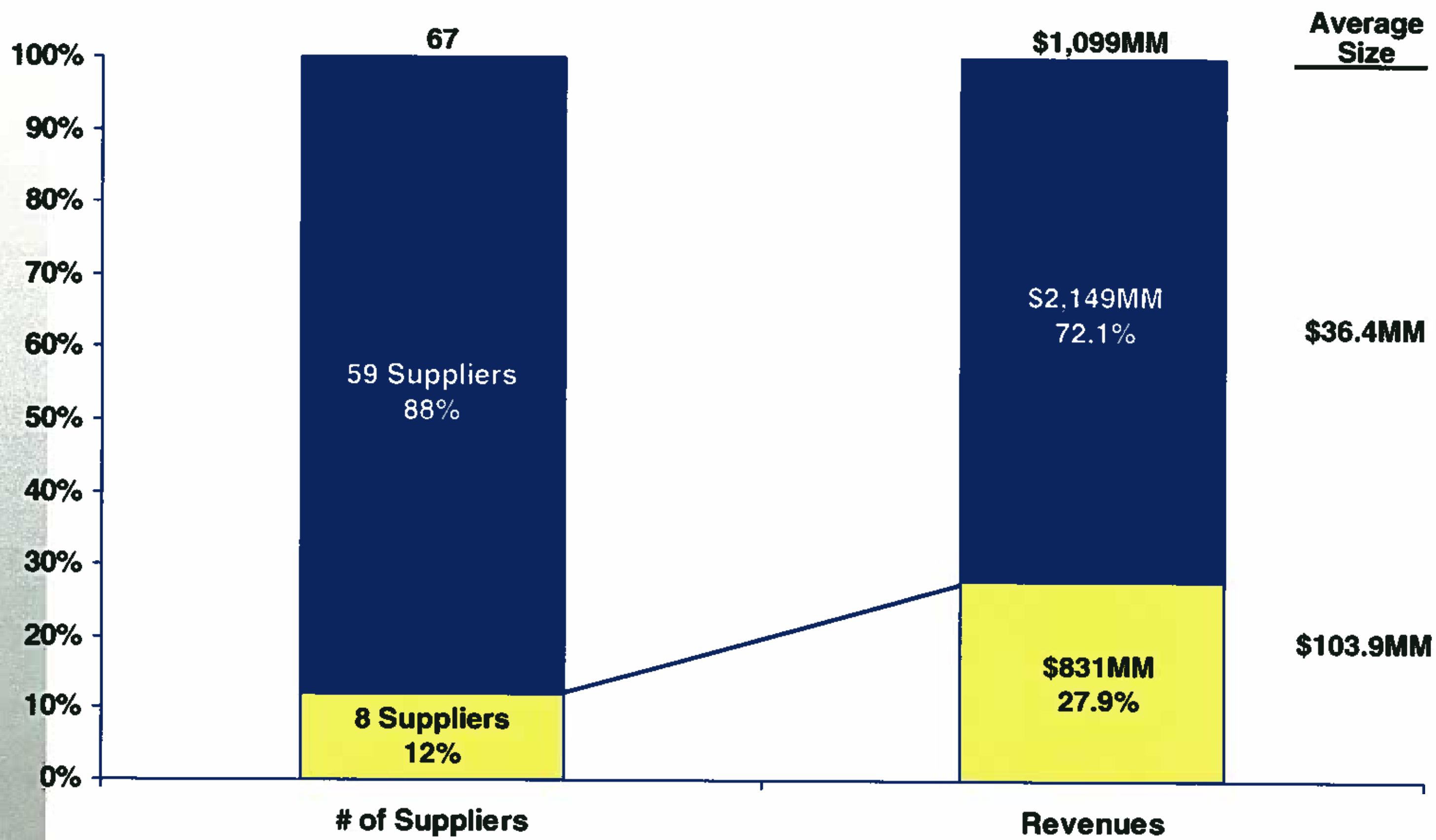
New Commodity Categories: Electrical and Electronic Segments Are Attractive



Forward Integration: Developing Full Service Capabilities Required For Module/System Suppliers

Analysis reveals that size is a key element in building required capabilities

Suppliers With Design/R&D Capability[1]



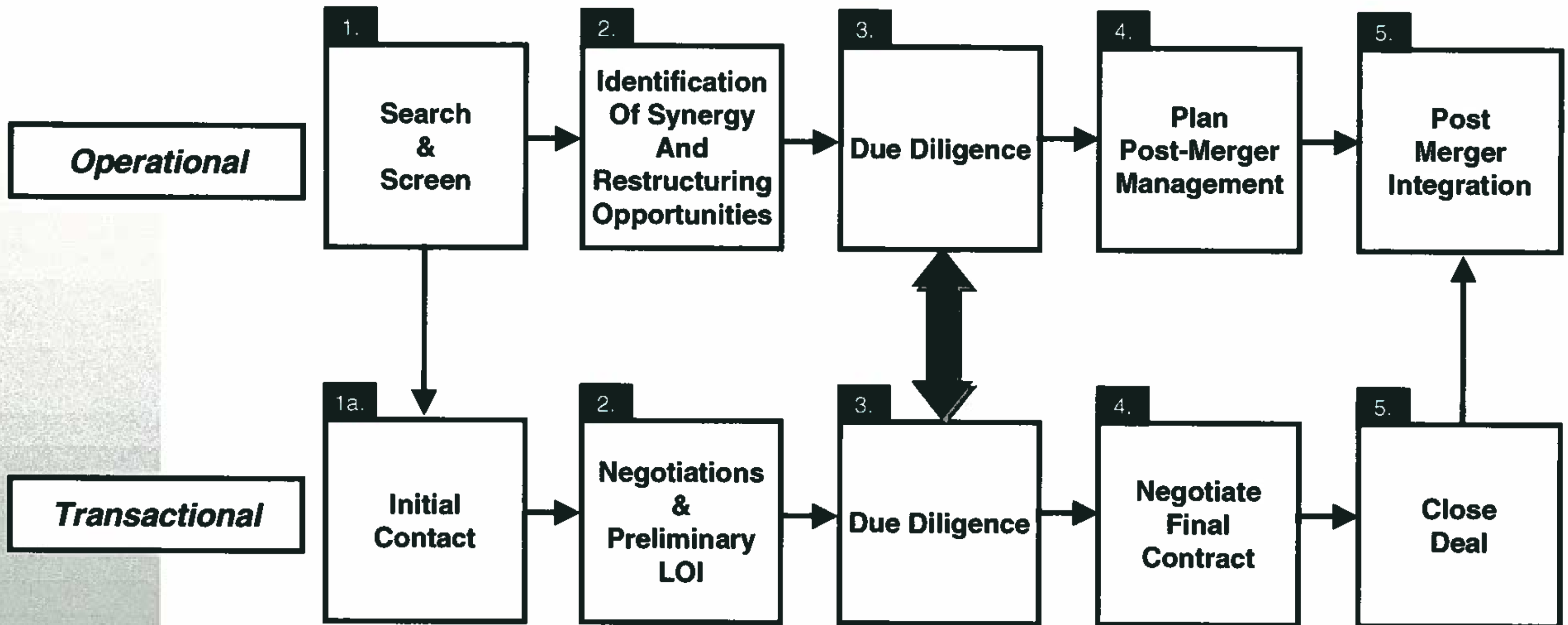
With Shorter Product Development Cycles, Alliances or Acquisitions Are Quicker Ways to Build Capabilities

1 Identified with "Cradle to Grave" development capability, Asaba Group Analysis

Required Capabilities Will Depend on Strategic Focus

	COMPONENT	FULL SERVICE
Value Proposition To Customer	• Low Cost • Highest Quality • Build to Specification • Regional Operations	• Innovate Constantly to Raise Switching Barriers • Take on R&D, Design, Engineering • Anticipate/lead Customer • Build Capacity Globally
Required Strategic Capabilities	• Geographic Scope • Cost Reduction • Operational Excellence • Working Capital Management • Total Cost Management (TCM) • Activity Based Costing (ABC)	• Supply Chain Integration and Management • Product Development • Complexity Management / Reduction • Globalization • Portfolio Strategy • Module Integration • Post Merger Integration

Excellence in Acquisitions and Post-Merger Integration Will Become Critical



Need to Build the Right Capabilities or Pick Experienced Partners

Keys to Success for Minority Suppliers

- Focused development of products with superior market potential
  - Safety-enhancing products, products
  - Lightweight advanced materials
  - Electronic/electrical components and systems
- Excellent inventory management
- Continuous productivity improvement
- Activity-Based-Costing will be critical for suppliers below the module integrator level
  - These suppliers are driven more to commodity-type products; pricing and margin pressure will intensify
- Excellence in acquisition and especially in post-merger integration

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Minority Businesses - Investment Highlights

Minority consumer market is growing faster than the general population

- Minority businesses know these markets and also are among the lowest cost suppliers

Entry level vehicle buyer demographics becoming more minority

With growth in emerging global markets, minority businesses can provide valuable knowledge and skills

- Key allies in developing products for these new markets and building sales and marketing infrastructures/alliances
- Provide key social and business connections - particular knowledge about foreign cultures
- Prepare OEM managers in developing skills to bridge cultural divides

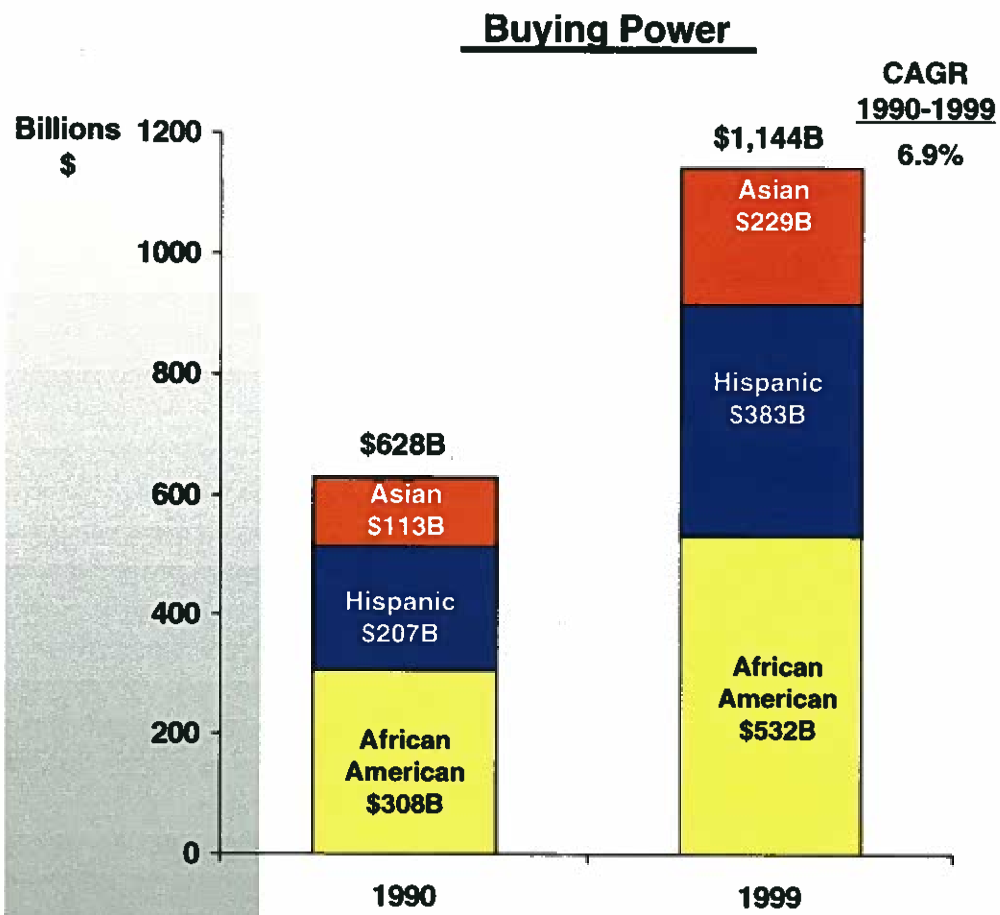
America's minority community provides a less-risky 'emerging market' environment

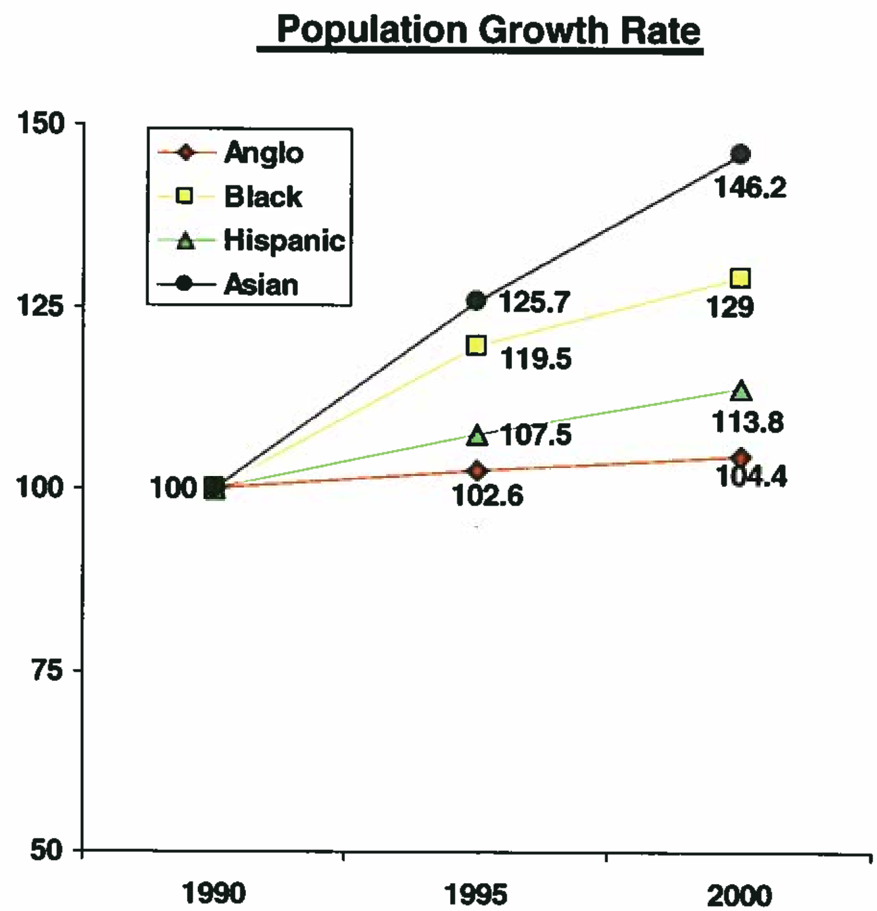
- Gaining valuable experiences in learning what works in emerging markets

Automotive suppliers leveraging minority sourcing to improve bargaining power with OEMs

Minority Businesses Provide Unique Value Propositions to OEMs and Automotive Suppliers

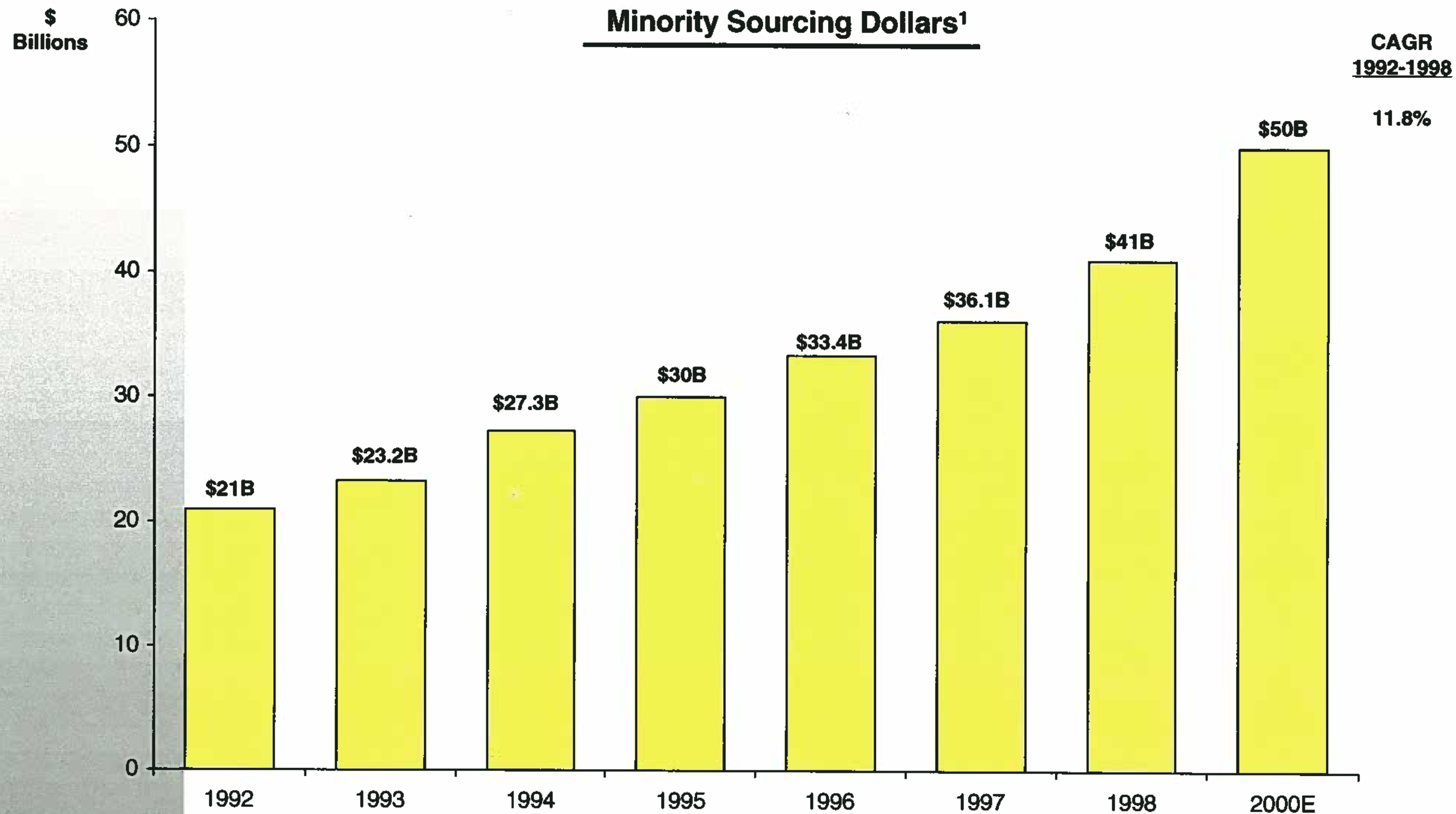
Minority Populations Growing Faster with Increasing Purchase Power





Minority Suppliers Provide Investors an Avenue To Profit from Favorable Demographic Trends

U.S. Corporations Increasing Purchases With Minority Suppliers

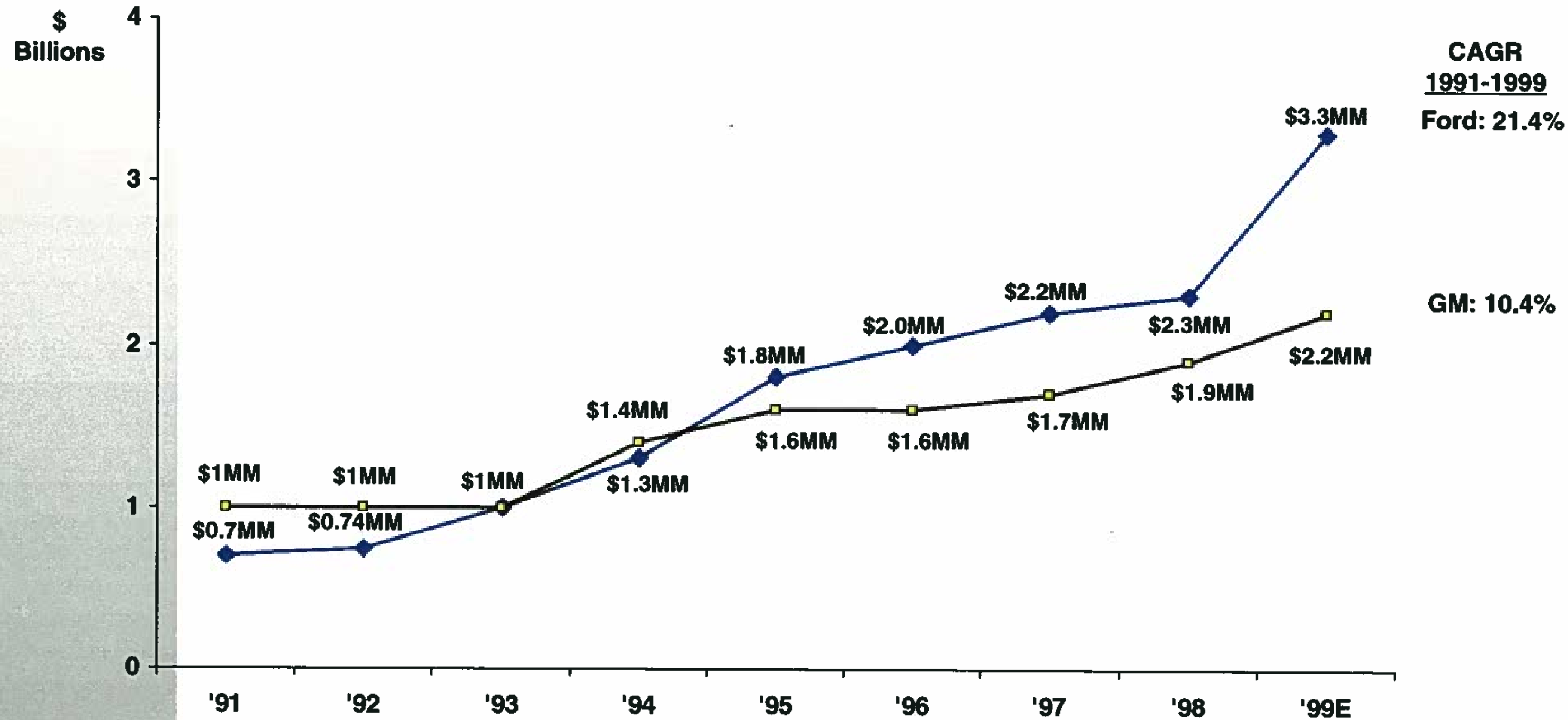


1 NMSDC Corporate Members Only
2 Year 2000 Asaba Group estimates
SOURCE: NMSDC

History Shows Automotive Manufacturers Committed to Minority Sourcing

Minority Purchasing Growing Year-Over-Year Since 1991

GM & Ford Minority Supplier Purchases (1991-1999)



Minority Sourcing is a Strategic Imperative

Minority Sourcing Programs are Strategic, With Senior Management Commitment

"[We are] determined to build strong long-term relationships with [minority] suppliers to form a 'partnership'."
– *Thomas J. Stalkamp*
Daimler Chrysler

"They [OEMs] are doing it because when the population shifts only those who have committed themselves to including minorities are going to get loyalty."
– *Minority Supplier*

"GM is committed to supplier diversity because it not only makes good business sense, the more we spend, the better we enable [minorities] to purchase our products."
– *Harold R. Kutner*
Group Vice President
General Motors

"24% of our cars were purchased by minorities. Minority supplier development is a key strategic initiative."
– *Mitsubishi Motor Manufacturing*

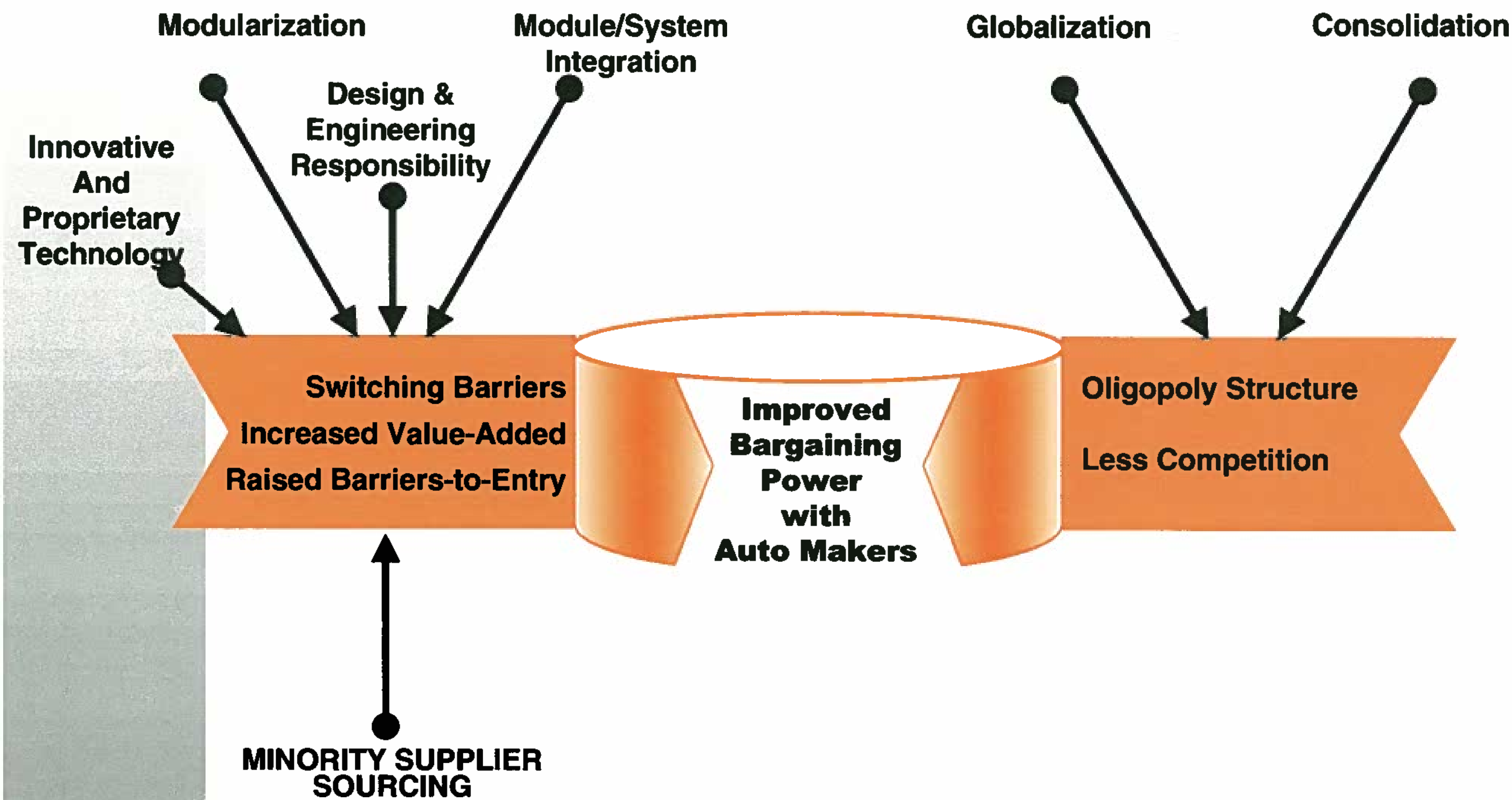
"In 1999 about 30% of our vehicles customers were minorities. The minority consumer is very important to our success in the U.S."
– *Nissan USA*

OEMs Encouraging Partnerships Between Minority Suppliers and Tier I Suppliers

Automotive Manufacturer	Joint Venture	Contract Size	Comments
General Motors	• Bridgewater Interiors	• Six-year • $900MM	• Joint venture with Johnson Controls • Cadillac Seville seats • Minority led investor group
	• VITEC	• Five-year • $680MM	• Joint venture with Walboro • Plastic fuel tanks • Minority supplier: – Regal Plastics
	• Dos Manos	• $250MM	• Joint venture with Cambridge Industries • Minority supplier: – Mexican Industries
	• ACAP	• $300MM	• Joint venture with Collins & Aikmans • Instrument panel assembly • Minority supplier: – Mexican Industries
Ford	• Saturn Electronic	• $70MM	• Joint venture with UTA • Battery Cables • Minority supplier: – Saturn Electronics
	• Detroit Automotive Interiors	•	• Joint venture with Lear • Minority supplier: – Bing Manufacturing
	• Jupiter Transportation	• 5 year • $500MM	• $60MM acquisitions • Minority supplier: – Active Transportation

Bargaining Power of Automotive Suppliers Improving

Minority Sourcing is a Key Component



Investment Capital In Minority Suppliers Will Largely Fund M&A Activities

	Strategic Focus	Investment Rationale	Business Intentions
Growth	▪ New capabilities	▪ Stable revenue and switching barriers	▪ Technologies ▪ Round out full service capabilities
	▪ Full Product Portfolio	▪ Minimize revenue risk	▪ Fill in product gaps for modularity/system integration
	▪ Geographic Diversification	▪ High growth opportunities	▪ Emerging markets - S.E. Asia - Brazil
	▪ New Product Segments	▪ Financial arbitrage ▪ Acquire new revenues	▪ Electronic ▪ Electrical ▪ Safety ▪ Materials
Consolidation/ Rollup	▪ Consolidation	▪ New Category	▪ Acquire smaller companies to achieve critical mass cost position
Disposal/ Divestiture	▪ Exiting the Industry		▪ Acquire non-minority businesses ▪ e.g.: - Allied Signal divesting ABS to Bosch - ITT Electrical Systems to Valeo

Minority Supplier Status Reduces Revenue Risks

Examples of Recent Transactions Involving Financial Investors

Financial Investor*	Company	Activities
Venture Holding Trust	Peguform	Bumper and Interior Trim
UBS Capital	Valfond	Castings and Precision
TSG Capital	Obrseal	Automotive sealants and adhesives
Palladium Equity Partners	Delphi - Automotive Systems Division	Lighting business
Investor Group	Aeroquip - Vicker Inc.	Hoses and Hydraulic Systems
Investor Group	Enviro Service Inc.	Automotive Parts
Little John & Levy	Hayes Lemmerz	Wheels
Aurora Capital	Auto Cam	Precisioned Machined Parts

*Majority Investor

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Key Elements For High Level Strategic Plan

A Development Plan Must Contain These Strategic Elements

Strategic Elements

Growth

- Market Growth
- Product Share Penetration
- Geographic Expansion

Profitability

- Supply Chain Integration
- Cost and Cash Flow Management
- Operational Performance

Corporate Structures

- Ownership Structure
- Management/Employee Incentives
- Capital Structure

Growth Plan

- Technology
- Consolidation
- Acquisitions

Operating Plan

- Activity Based Costing
- Sourcing
- Warranty Risk Management

Transaction Structures

- Joint Ventures
- Partnerships
- Alliances

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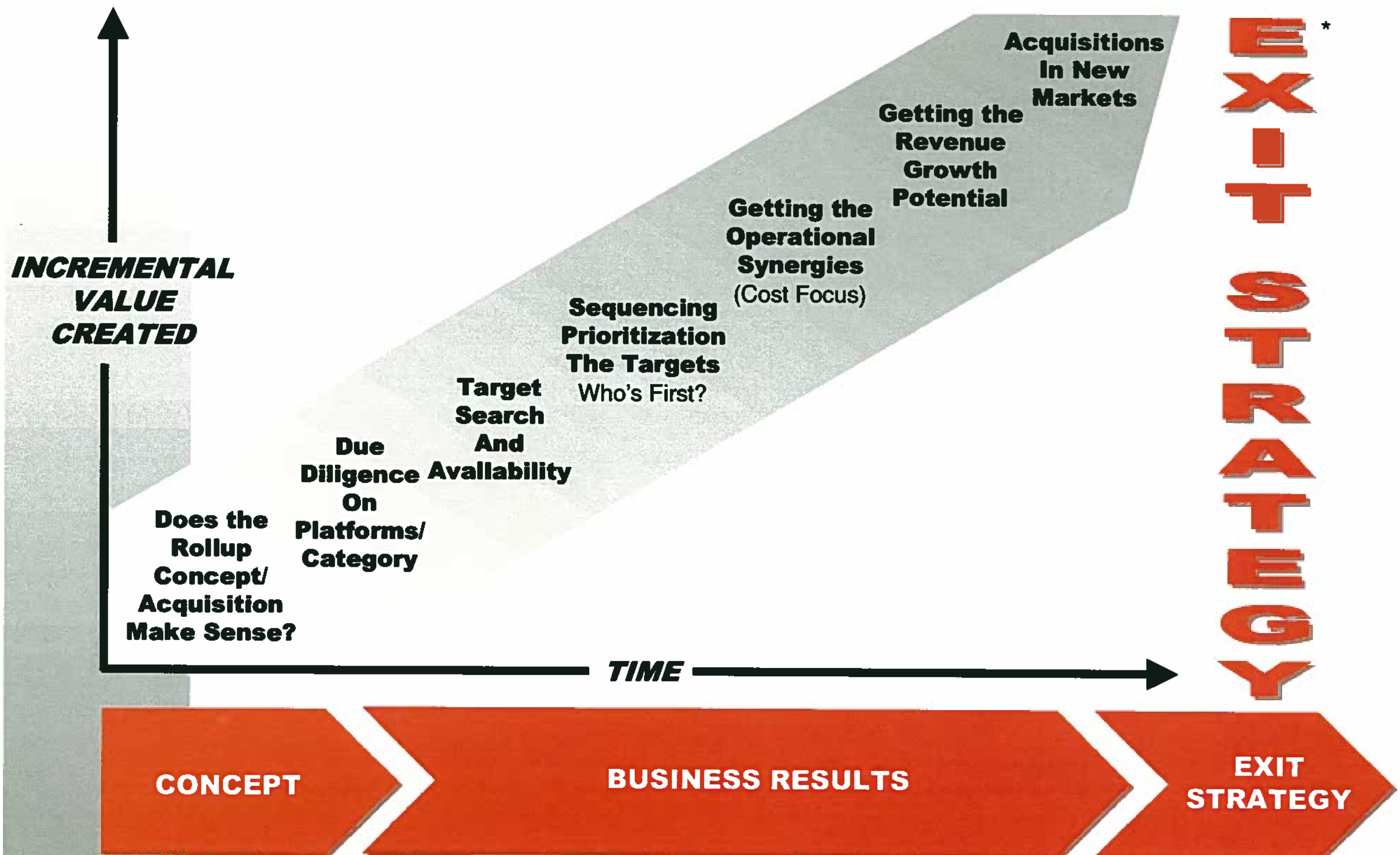
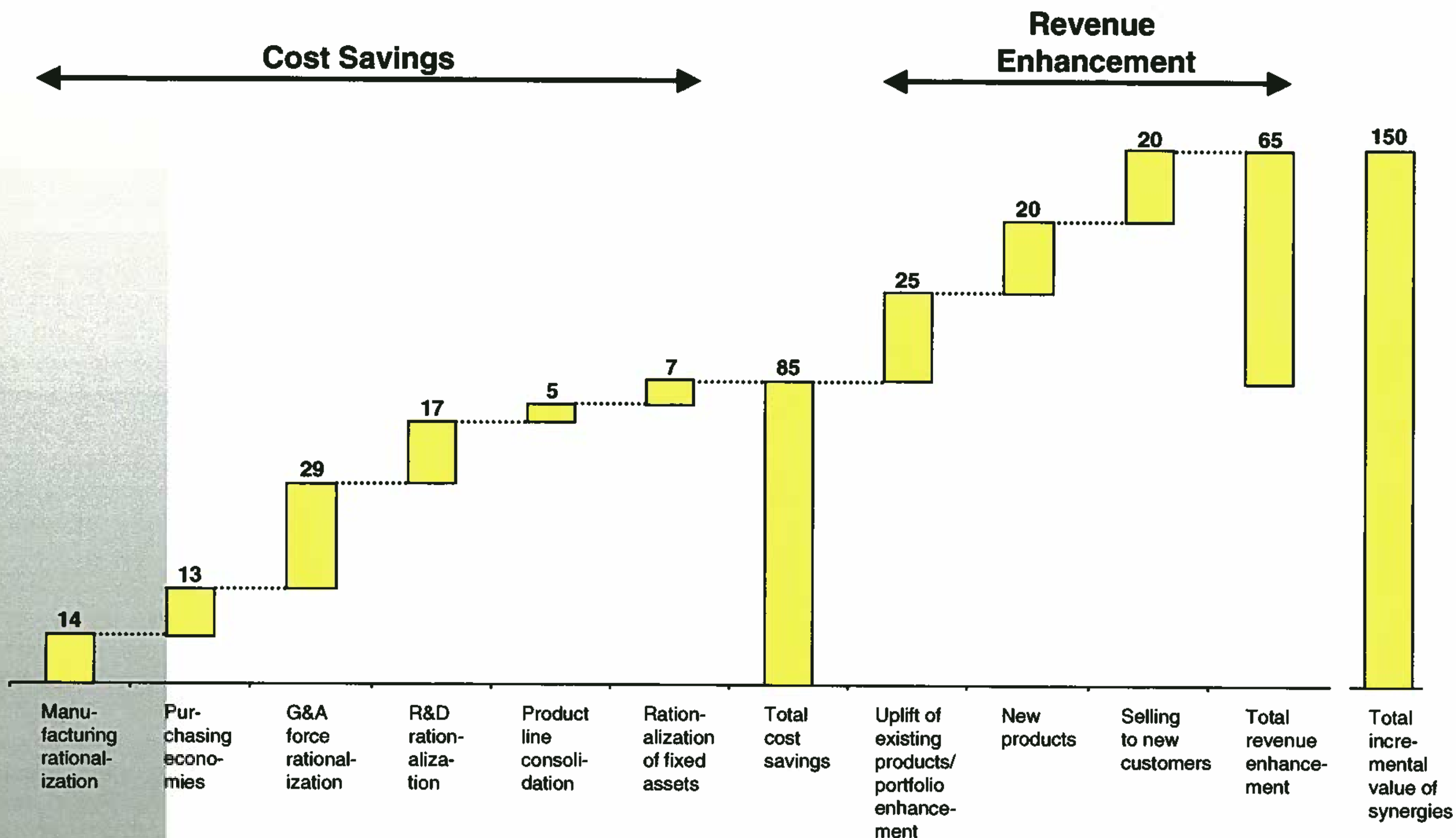
Acquisition Planning Must Include These Steps



* For financial investors

Incremental Value Created Is Linked To Potential Synergies And Operating Leverage

Illustrative Example



Must Understand the Supplier Base Rationalization Process

Illustrative Example

Starting Point	Phase One	Phase Two	Phase Three
330 Suppliers	**80 Suppliers Removed**	**130 Suppliers Removed**	**120 Suppliers Remain**
• Noted for low quality • Geographically depressed • Multiple suppliers per part family • Decreasing volumes of parts	Eliminate companies with: • Poor quality • Lack engineering/ design capability • Not financially sound to take on warranty risks • Lack Just-In-Time (JIT) capabilities	• Quality certification – ISO/QS • Full service capability screening – Engineering – Technology – Consumer insights • Sharing warranty risks • JIT/global scope – Deliveries – Inventory management	• Long-term agreement • Global reach • Modularity/system integration • Continuous quality improvement targets • Pushing new technology envelop • Integration with extended enterprise

CONTACT

This report was prepared by the ASABA Group funded by the Minority Business Development Agency, U.S. Department of Commerce.

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