Revived auto sales in North America have boosted profits for carmakers and suppliers. But growing production needs—coupled with complexities introduced by an unprecedented surge in new-model launches—are generating enormous pressure to better manage supply chain capacity, says Jeff Henning, EY’s Global Automotive Markets Leader.

Henning notes that suppliers are unlikely to abandon their desire for strategic and sustainable expansion. At the same time, he says, carmakers are turning to more sophisticated modeling techniques to identify and monitor potential supply bottlenecks.

**What is the industry’s growth philosophy in the aftermath of the global recession?**

The mantra we’ve heard from carmakers and suppliers alike is that growth for growth’s sake is not a winning business proposition. The real goal is profitable growth involving sustainable product sets.

There’s increasing recognition on both sides that collaboration is in the best interest of everyone. That means carmakers are being more specific about their needs, and engaging suppliers more strategically in their sourcing process. Suppliers are becoming more transparent about their capabilities and expectations for capacity investments. Capacity management and overall supply chain management are more closely intertwined than ever.

**What is driving the industry’s focus on capacity management?**

First, the region’s suppliers are very reluctant to shoulder any more production capacity than they know they’ll need. The days of speculative capacity investment are over. Suppliers are looking at investments and asking, what’s the return, what are the risks and are they acceptable? If they can’t find a solid business case for expansion, they won’t make the investment.

That alone makes it more difficult to manage the supply chain. But the task is complicated by hyper competition that is driving a huge wave of new-model introductions over the next few years. This presents the industry with two challenges: It needs to build more vehicles to satisfy growing market demand. But the higher volume is being spread across a broader range of models, many of which contain new or redesigned components, and that introduces additional stress. There’s no margin for error.

That’s why carmakers want to gain a much clearer sense of exactly how much capacity is out there and how much of it is available. They need to know which components could constrain their production and determine what to do about it. This issue is very top-of-mind among EY’s automotive clients these days. Everyone wants more sophisticated tools with which to manage capacity and the supply chain in general.

**How are carmakers responding?**

Carmakers recognize that inefficiencies and risks in the supply chain are a drag on their profitability. They need to be able to identify weak points and problem areas and avoid a hiccup before it hurts the next new-product launch.

There are powerful planning tools out there, but by nature, they cross many functions within the company and are very difficult to implement. The challenge is to integrate demand levels, trim levels, features and packages through the entire supply chain—and do it in an environment where everything changes constantly. Linking the front and back end of the carmaking process is extremely difficult.

**Is there anything carmakers can do about forecasting demand?**

Carmakers have always had a tough time anticipating future sales. In the past, the supply base could absorb fluctuations, but that degree of flexibility doesn’t exist today because there is virtually no “just-in-case” capacity left in North America.

Predicting consumer buying swings is always difficult, and it’s unlikely that a magic solution will come anytime soon. But carmakers can minimize the impact of market uncertainty. It starts with capacity modeling that identifies hinge points within the supply chain. Carmakers and suppliers alike are also trying to use data more effectively. Often the data elements are there, but it is unstructured and isn’t being shared well. Greater transparency within an organization would help.

In addition, manufacturers could reduce variability in the build cycle by trimming the number of configuration options. There are configuration management tools that predict demand for likely configurations.

**Are suppliers gaining leverage?**

Supply chain capacity constraints definitely give suppliers more power. But both sides recognize this isn’t a game of winners and losers. They can see that mutual cooperation produces better results all around.

Ultimately, everyone understands that greater efficiency leads to better profitability. Reaching that goal means better communications and more transparency on both sides. Probably the biggest hurdle for the industry over the next several years will be to resist slipping back into old ways of doing things.

To learn more about how EY’s helps companies capitalize on the North American auto industry’s emerging approach to capacity management, contact the Global Automotive Center: www.ey.com/automotive; @EY_Automotive; or Automotive Insights from EY on LinkedIn.

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