Tens of thousands of auto supply jobs under threat in Germany

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Workers in the auto industry supply chain must prepare to defend their jobs, wages and working conditions. The pressure exercised by auto manufacturers on small and medium-sized suppliers to cut costs is increasing continuously.

In the last few weeks, the media have reported several studies on the situation in Germany. A study by the business consultants Boston Consulting anticipates a massive loss of jobs in the next five years. The firm estimates that 35,000 jobs will be destroyed in Germany—that is, 15 percent of the jobs in the supply industry.

In a press release, Boston Consulting states, "Worldwide, 42 auto supply chain businesses were questioned—including 25 of the 100 largest suppliers as well as a number of medium-sized businesses." The study covers firms responsible for more than 60 percent of the supplier turnover in the German market, amounting to around €40 billion.

Eighty-six percent of the supply chain companies that were interviewed reported mounting cost pressures from auto producers seeking to lower their annual expenditure. "If two to three percent was usual in the previous years, in the future it should be four to six percent. This corresponds to savings of up to $6 billion." In order to realise these savings, suppliers are following the manufacturers, who are building more and more plants in or around the remaining growing markets, above all in China or Mexico. These plants are being used to supply cars for the US market.

In this regard, as a low-wage country in competition with China, Mexico plays an increasingly important role as a production site. Mexico enjoys free trade agreements with more than 40 countries, including the US and most of the European countries. This means that cars produced in Mexico tax-free can be exported to other countries. Wages in Mexico are only about $7 to $10 an hour.

In three years, Mexico will export more cars than Germany, according to an analysis by business consultant company Deloitte. VW, Honda and Nissan have already established plants there, and General Motors, Audi, BMW and Daimler are moving into Mexico as well, along with their suppliers.

According to the study, in 2009 some 66 percent of the assembly plants of the businesses questioned were found in the so-called triad regions of Western Europe, the US and Japan. "Today this is only 58 percent—and by 2019 will probably sink to 47 percent."

Manfred Beck, an auto supply chain expert at Boston Consulting, told *Spiegel Online*, "The current pressure has reached a new quality." According to the study, the number of main plants in Germany will fall from 46 to 39. The number of plants in China alone will rise from 15 to 25 during this time.

The study by Boston Consulting did not interview any smaller businesses. The depth of production in auto manufacture has continued to decrease in the last two to three decades. Through outsourcing, considerable elements of production have been transferred to the suppliers, who have made themselves completely dependent on individual manufacturers.

This has led to a situation where only about 18 percent of the value of a car is created by the auto manufacturer. In 1985, the share of value created by suppliers was 56 percent. That means that the role of the auto supply chain in reducing the costs of manufacturers has become increasingly significant.

The majority of the suppliers for the large auto manufacturers are small and medium-sized businesses with up to 500 employees. Auto expert Professor Dr. Stefan Bratzel of the Centre of Automotive

Management says these companies find themselves in a "structural sandwich position". "On the one hand, the revenue base is worsening, since auto production in Germany and Europe will no longer grow in the medium and long term."

On the other hand, medium-sized suppliers cannot keep up with the large players on the world market like Magna, Bosch or Mahle, since they simply do not have the resources. For a global supplier it is simpler to transfer a portion of its production to a low-wage country than for a business with 500 workers.

Among smaller suppliers in the auto industry with between 10 and 500 workers, 34 percent are active overseas, while for businesses with between 500 and 1,000 workers, the proportion is already 75 percent.

The cost pressure from auto manufacturers means that it is more and more difficult for smaller suppliers to maintain their position in the market. According to Stefan Bratzel, a survey showed that 59 percent of the suppliers confirmed that their main customers, the auto manufacturers, were almost exclusively concerned with price.

He writes, "That is an enormous threat, especially for small and medium-sized suppliers. Their competitive advantages lie less in low unit costs than in areas of quality, speed and flexible problem solving."

In the new book, *Auto Manufacture in Transition*, Bratzel writes, "In the next years, if it is not massively combatted, over 1,000 medium-sized suppliers in the auto industry are threatened. And with that, 100,000 to 150,000 jobs".