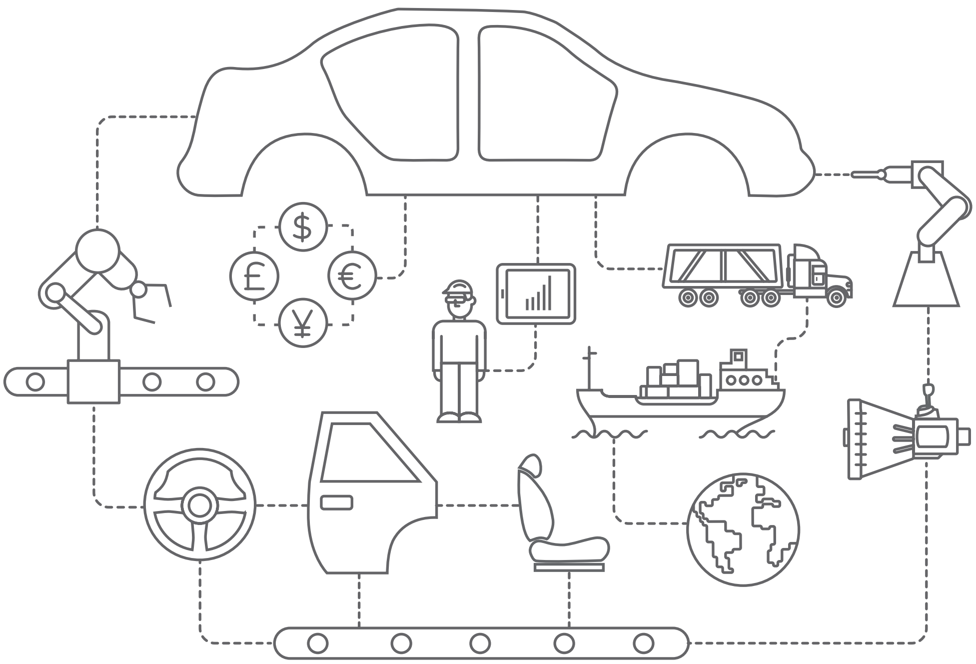
2016 AUTOMOTIVE

MONITOR

INSIGHTS INTO TRENDS AND CHANGES IN THE AUTOMOTIVE INDUSTRY



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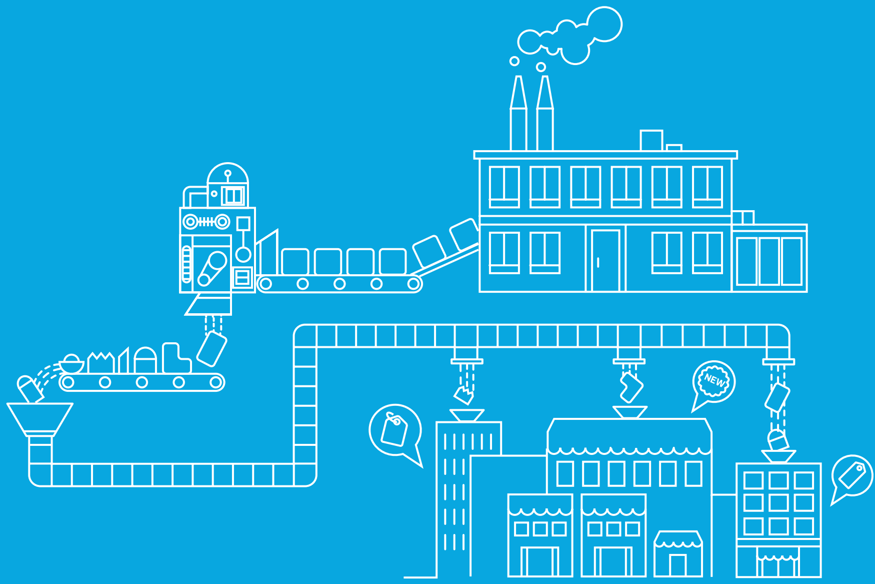
EXECUTIVE SUMMARY



After six consecutive years of sales growth—and anticipation of at least three more years of revenue increases—automotive suppliers for both original equipment manufacturers and the aftermarket have reasons to be optimistic. About one-third of suppliers report revenues increasing by 11 percent or more; the percentage of aftermarket suppliers reporting profitable years has only a slight edge over OEM suppliers.

Nearly half of the suppliers participating in the 2016 RSM Automotive Monitor survey are thriving; a significant majority expect not only revenues to increase in the coming months, but employment and profits as well. Many suppliers are planning to increase their investments in information technology, equipment and machinery, and research and development. A majority of those surveyed expect the entire auto industry to improve—some think substantially—over the next three years.

Yet there may be some reasons for concern that are worth watching. While the current interest rate environment does not appear to present substantial challenges, the potential for interest rate increases was a significant concern of Monitor participants, second only to weakening economies. Pressures from OEMs on pricing, changing requirements and erratic schedules are worrisome (if perennial) issues. Labor concerns—including rising employee costs and the shortage of engineers—may impair growth for some suppliers.

For auto suppliers to achieve their ambitious expectations, a number of areas should be considered:

- **Growth:** As suppliers make plans for growth, executives will have to accommodate Corporate Average Fuel Economy (CAFE) standards, fuel source and materials innovations, changing demographics, new regulatory standards and evolving consumer demands.
- **Global:** U.S. companies making strategic decisions to take advantage of international markets will need to keep in mind that many non-U.S. suppliers are planning to enter or expand their presence in the United States.
- **Technology:** The high level of change in technology—particularly in fuel sources and materials—will generate opportunities but also will challenge both OEM and aftermarket suppliers to prepare for the new service requirements to come.
- **Margins:** Auto suppliers are optimistic about profit growth in the coming months, and most are planning to increase profits through cost reductions, price increases or product discontinuations.
- **Risk:** Many OEM and aftermarket suppliers do not have secondary products. In a sector-driven economy, this can be a questionable strategy that makes their companies vulnerable to downturns.

The perspectives of C-level decision-makers in companies from countries around the world provide a unique insight into the automotive industry. The analysis provided here is designed to spark discussions that can help drive individual companies and the industry forward in the months and years to come.

PROFILE OF PARTICIPANTS

1,174 Total survey participants

41% Respondents' titles are chairman, CEO, president, managing director, partner or owner

65% Respondents between $10 and $1 billion in revenue

44% Respondent's company is a privately or closely held business

475 Median number of full-time employees per company

Growth

Manufacturers **increasing workforce** by 6% or more

- U.S. 41%
- Non-U.S. 50%

Business conditions of U.S. auto suppliers

Thriving	50%
Holding steady	46%
Declining	4%

U.S. auto suppliers **expanding presence**

58% domestic markets

37% international markets

Global

Good and materials sold domestically

U.S.	65%
Non-U.S.	45%

Top barriers to international business

- Currency fluctuations
- Global economy
- Financing in foreign markets
- Corruption and fraud

Technology

Top technology implementations for the coming year

67%	Enterprise networks
67%	Mobile technologies
65%	Design and R&D
64%	Production and process
64%	Enterprise resource planning

Top targets for **R&D credits**

1. New products
2. New tooling
3. New prototyping
4. New materials
5. New technologies

Margins

Operating profit before interest and taxes

- 10% Non-U.S.
- 16% U.S.

Anticipated cost increases in the next 12 months
(% of respondents)

74%	**Employee costs**
71%	**Equipment and machinery**
69%	**Information technology**

Risk

Top factors that could contribute to auto market decline

- **Weakening economies**
- **Rising auto prices**
- **Rising interest rates**
- **Changing demographics**
- **CAFE regulations**

GROWTH

NEW MARKETS, INVESTMENTS AND STRATEGIES FOR GROWTH

Only a few short years ago—when the Big Three automakers seemed on the verge of collapse—it would have seemed difficult, if not a little irrational—to imagine the success that the auto industry is enjoying today. Sales of 17.39 million cars and light trucks in 2015 set an all-time record in the United States and marked the industry's sixth consecutive year of sales growth, a trend not seen since the 1920s.[1] This is a world away from the post-recession low point in 2009 of 10.6 million U.S. vehicles sold.[2]

Just over half of OEM and aftermarket auto suppliers are thriving, compared to 37 percent of manufacturers, generally. Sales are at record levels for a slightly greater percentage of OEM suppliers than those in the aftermarket. Overall, nearly half are operating at capacity at 80 hours per week, and many expect to increase both hours and employment in the coming months. It should come as no surprise that a majority expect the entire auto industry to continue to improve over the next three years. To accommodate growth, many auto suppliers will increase staffing, particularly in operations and design engineering roles as well as in sales and marketing positions.

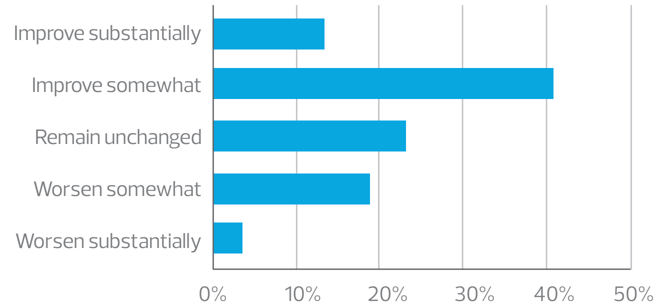
Opportunities

With the sector growing as it has, a wave of M&A activity has entered the market over the past few years, partially driven by private equity buyers looking to locate stable and growing cash flows. In particular, private equity has focused on the aftermarket sector due to its steady cash flow and because these businesses were not affected by the recession as dramatically were OEM suppliers.

M&A trends in the auto supplier sector indicate that this is a popular strategy for growth. Global automotive deal value and volume increased to historic highs in 2015, with North America leading the way in shares of deal value.[3]

Looking ahead, few of the OEM or aftermarket suppliers surveyed have growth plans to acquire or merge another company or business unit in the coming year. Just over 50 percent plan to expand their presence in existing domestic

FIGURE 1. Expectations for the entire auto industry 3 years from now



markets; fewer still plan to enter or expand their presence in international markets. Nearly half of OEM and aftermarket suppliers will introduce new products.

Market segmentation may need to evolve as consumer preferences, regulations and prices change. Sales opportunities may be dictated more by mobility behavior, population density, congestion and infrastructure factors. The needs of a highly populated city, for example, will be different from those of a more suburban or rural area. Identifying business opportunities will need to go to the local rather than the regional level.[4] Aftermarket suppliers, however, may find that China—with rising production and consumer spending—offers the best opportunities for growth in the near term.[5]

Millennials are less interested than baby boomers in buying cars, preferring the freedom of ridesharing over the hassle of ownership. This could mean the beginning of a trend towards specialized vehicles specifically built for these services—and the consequent reduction of private-use vehicles.[6] The rise in data connectivity will also provide opportunities for growth.

Causes for concern

Yet there are a number of signs indicating that management will need to address some issues as plans for growth are developed and implemented. Rising SUV sales stimulated by lower fuel costs have OEMs such as Mitsubishi[7] and General

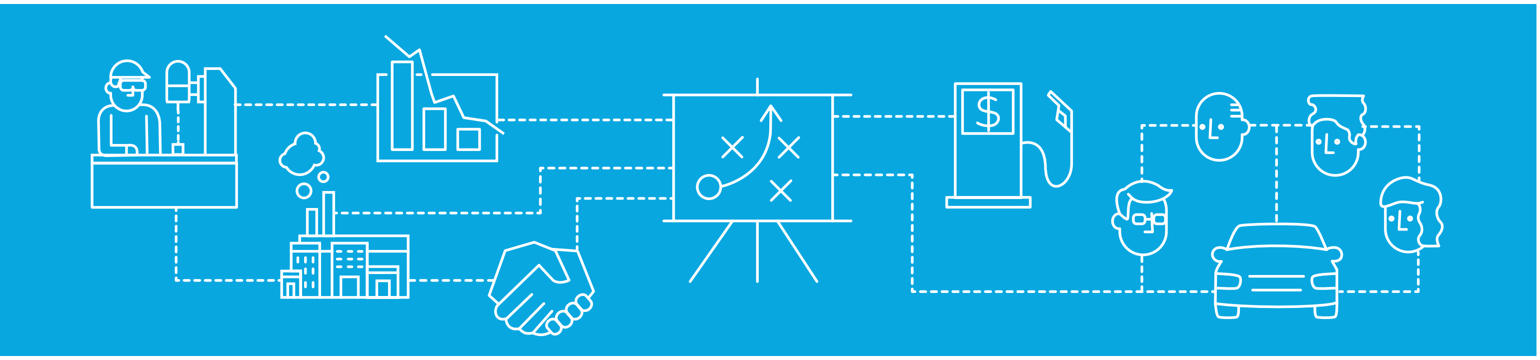
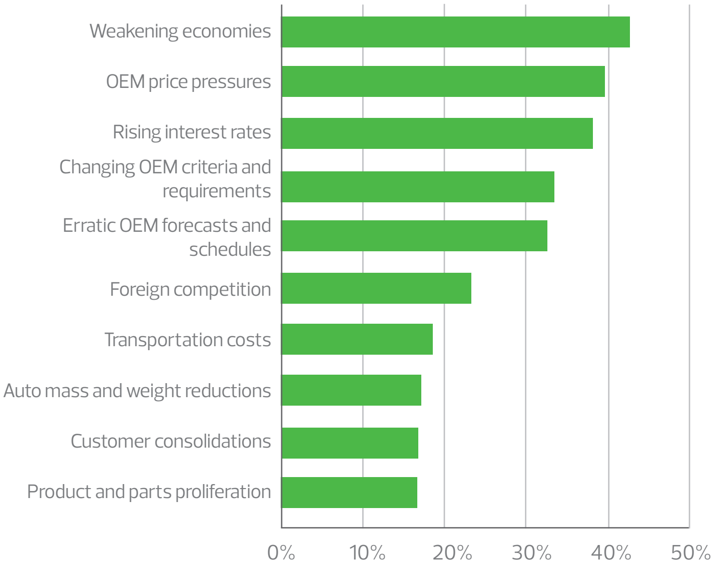


FIGURE 2. Top 10 issues that pose the most concern to auto suppliers



Motors[8] consolidating operations and closing plants built for making less popular sedans, forcing suppliers to change their focus. Stable oil prices provide support confidence in continued SUV sales, but any dramatic change could result in changes in buyer preferences.

Weakening economies and rising interest rates top the list of issues that concern auto suppliers the most. Changing consumer demographics and CAFE regulations—now more of an estimate than a mandate for the industry[9]—are factors that many suppliers feel could contribute to the decline of the automotive market.

Erratic forecasting and scheduling that OEMs impose are also among the challenges faced by suppliers. Skill shortages—particularly in engineering positions—threaten to impair growth. Alternative fuel sources, currently not a widespread concern, may become a more prominent issue in the years to come.

PLANNING FOR GROWTH —AND DECLINE

OEM and aftermarket suppliers will need to balance a positive outlook for growth with a realistic anticipation of a decline.

- **Develop strategic plans to capitalize on growth now**: The industry is flourishing, but companies may need help developing strategic plans that re-examine priorities and capitalize on new growth opportunities. Changes in the industry dictate that both OEM and aftermarket providers prepare now for the new service requirements preferred by consumers. Monitoring the progress of all of these shifting demographics and initiatives is imperative if aftermarket and OEM suppliers are to be properly positioned in the future.
- **Plan for contingencies and an eventual downturn:** Any number of indices and sales measurements suggest a positive outlook for the auto industry, at least for the time being. But all things must pass, and suppliers will have to be ready for the eventual downturn in demand—or, at the very least, a change in what is required. As technology becomes a greater component in the auto supply chain, suppliers will have to compete or work with new competitors—many of them from outside the auto industry. Auto industry executives will have to be nimble as they monitor industry trends, consider new business models and plan for long-term growth.

GLOBAL

THE OPPORTUNITIES AND CHALLENGES OF INTERNATIONAL ACTIVITY

Auto suppliers are on the march to new markets—whether by choice or by being strongly encouraged there by OEMs. Interestingly, most suppliers see global competition in a favorable light—and a majority see the global economy having a positive impact on their businesses.

As with manufacturers generally, non-U.S. auto suppliers are more active internationally than U.S.-based suppliers. A greater percentage of non-U.S. suppliers are planning to expand their presence in existing international markets—or enter new ones—than their counterparts in the United States. But more than half of U.S. suppliers are likely to have international expansion plans nonetheless.

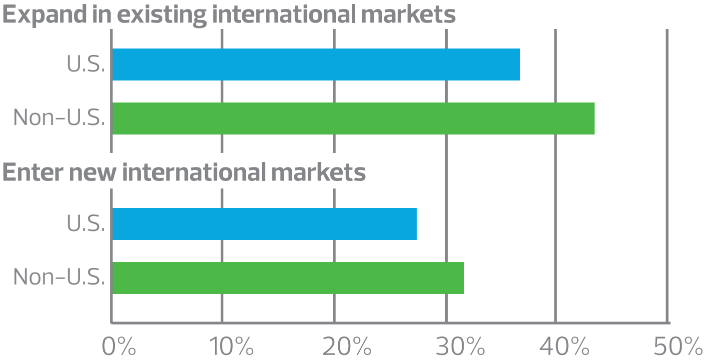
Global advantages

An increasing amount of North American automotive parts production is taking place in Mexico, where many suppliers are either planning to bring production facilities or have already set up operations to take advantage of that country's low labor costs and its close proximity to the U.S. market. But many suppliers are also in Mexico because the OEMs have already opened or will be opening assembly plants there.

With many already operating at or near capacity domestically, some suppliers—particularly those in the United States—are finding the operations capacity in some foreign markets attractive. The quality of distribution channels and the talent in these markets are also seen as a benefit to establishing operations offshore. While there has been a lowering of total U.S. manufacturing costs, certain products and suppliers in offshore locations still provide an attractive market even when final production is done in the United States.

MULTINATIONAL COMPANIES IN THE AUTOMOTIVE INDUSTRY SHOULD EXPECT **INCREASED COMPLIANCE REQUIREMENTS IN MOST JURISDICTIONS.**

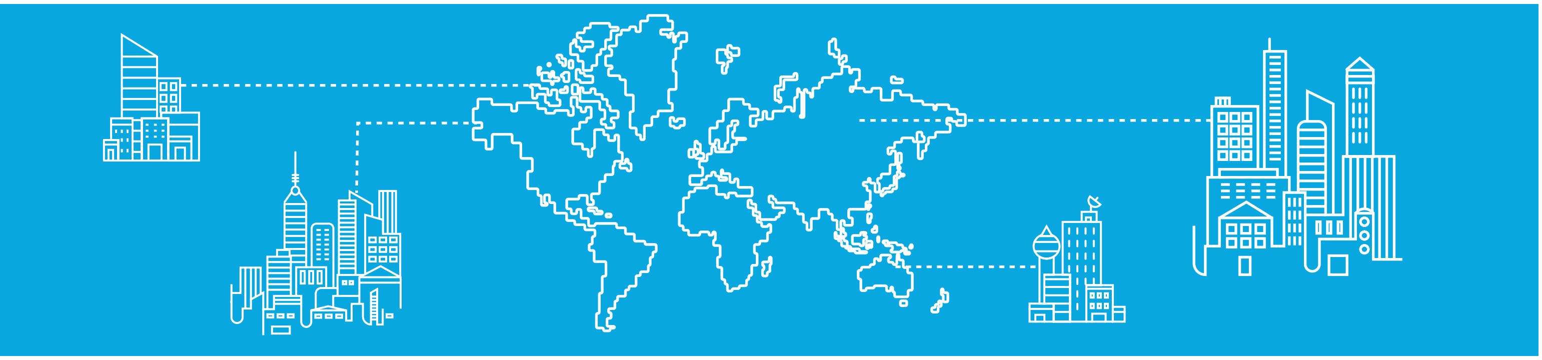
FIGURE 3. Plans for expanding or entering in international markets in the next 12 months



Global challenges

For automotive suppliers, the attraction of going global may differ depending on whether they serve OEMs or the aftermarket. There are, however, a variety of challenges that companies face when going global: currency fluctuations, worldwide demand, logistics, personnel considerations, economic concerns, financing and political issues, to name a few. This may in part explain why most suppliers prioritize expanding in domestic rather than offshore markets.

The decision by U.K. voters to end their 43-year-old membership in the European Union could have an impact on the auto industry in the United States, but it is too early to tell with a great deal of certainty. A sharp appreciation of the U.S. dollar could create competitiveness pressures for firms with large global exposure. Some analysts are forecasting



that global automakers' and suppliers' earnings could drop a few percentage points. But because the United Kingdom is a relatively small market, it is likely that few suppliers will feel the effects of the Brexit vote.[10]

In addition, governments around the world are seeking to adapt their tax code to address a falling tax base in the face of the changing global economy. International tax planning has received constant media attention as a result of perceived abusive practices by many of the largest corporations.

As a consequence, transfer pricing between parent companies and their subsidiaries continues to be one of the most significant tax risk areas faced by multinational companies in the automotive industry. This has resulted in, among other initiatives, heightened scrutiny through the Base Erosion and Profit Shifting Action Plan (or BEPS). Going forward, multinational companies in the automotive industry should expect increased compliance requirements in most jurisdictions. It would be prudent for these companies to gather information and update support documentation on a regular basis.

The automotive industry has a long-term investment cycle. Decisions made today to expand capacity will take some time to be completed and require a long-range view for the return on investment. Investments are flowing into the United States and Mexico at record paces by foreign and U.S. OEMs, with the goal of primarily serving the North American market. Given the current length of the cycle, expanded capacity and overall global economic conditions, industry executives who are evaluating expansion should move forward with caution.

ALL THE **WORLD'S A STAGE**

The U.S. economy is outperforming its global peers. For middle-market companies, this is a double-edged sword: It makes U.S. exports more expensive, but it also drives down the cost of offshore sourcing options and can create international acquisition opportunities.

- **Understand that competition is coming:** Non-U.S. auto suppliers are likely to continue the trend of manufacturers to expand beyond their borders. Given the health of its economy relative to the rest of the world, the United States is the primary target. Expect new products to be on the market, backed by well-supported marketing, sales and operational strategies.
- **Identify the opportunities:** If expanding through acquisition in new global markets is part of a company's corporate strategy, the sturdy U.S. economy could mean a better deal. Take advantage of the strong dollar to find offshore sourcing options. Be sure to research potential tax credits and incentives.
- **Address the barriers:** Before establishing offshore production, suppliers should understand the total costs associated with manufacturing overseas. In their zeal to lower labor costs, many manufacturers may overlook the rising costs in transportation, logistics, longer cycle times and product quality that come with nondomestic production, among other issues. A deep understanding of regulatory issues such as BEPS is critical.

TECHNOLOGY

IMPROVING PERFORMANCE THROUGH STRATEGIC INVESTMENTS

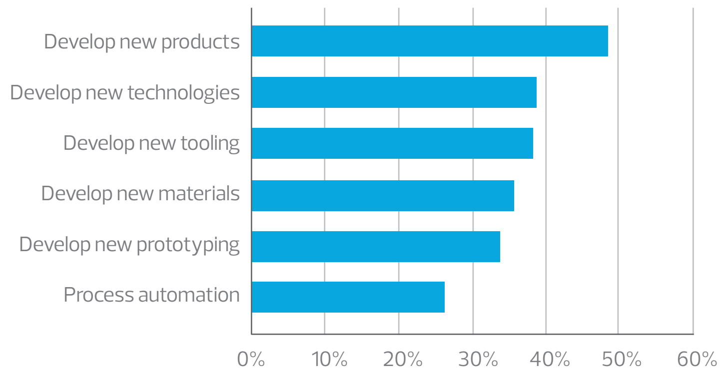
Emerging fuel sources such as electricity, hydrogen fuel cells and biodiesel are among the primary drivers of technology development expected to increase in the automotive industry over the next five years. By contrast, production of gasoline-fueled vehicles is expected to decrease.

There will be significant growth of other electrically driven components as well, including turbo chargers, air conditioning compressors, start-stop systems and steering gears that require sensors, and electric drive for the new lane departure and autonomous control technologies. These high-level changes will generate opportunities for component suppliers and aftermarket service providers that are investing in the new technology.

New investments

All of this activity challenges both OEM suppliers and auto aftermarket service providers to prepare now for the new service requirements to come. Not surprisingly, development of new products and new technologies are top targets for R&D tax credits.

FIGURE 4. Top areas auto suppliers have sought R&D tax credits



Auto suppliers have implemented or plan to implement a range of technologies, including supply chain tracking and monitoring, enterprise resource planning and the internet of things (IoT) technologies. The importance of communicating at the transaction level is compelling OEM and aftermarket suppliers to invest a median 10 percent of sales in information technology development—an investment rate much higher than the manufacturing industry overall.

Sensors and software are where many of the most significant technological opportunities will occur in the future. While fewer than half of the U.S. manufacturers generally appear to be leveraging big data and business analytics, a significant majority of U.S. auto suppliers have already invested in big data technologies in the past year or more, surpassing even their non-U.S. counterparts. A higher percentage of U.S. auto suppliers than non-U.S. suppliers have invested in mobile technologies. This investment level is likely driven by the introduction of new technologies by OEMs to meet customer demands and by increased pressure on the supply chain to reduce costs, inventory and delivery schedules.

Investment drivers

The changes in automotive technology will affect the component fit rates and service requirements in the auto aftermarket in the years ahead.

The collective data from millions of cars will make big data a driving force in the servicing of vehicles in the future. This makes data analysis an essential part of the automotive component suppliers and aftermarket service providers' go-to-market strategy. It holds the power to revolutionize inventory management and component longevity going forward.

Advances in alternative fuels, electric drive systems and fuel cells will add new powertrain options. OEMs are introducing increasingly sophisticated software and vehicle controls. According to a recent study, after overcoming the challenges of pricing and consumer understanding, among other issues, fully autonomous vehicles could account for up to 15 percent of passenger vehicles worldwide by 2030.[11]

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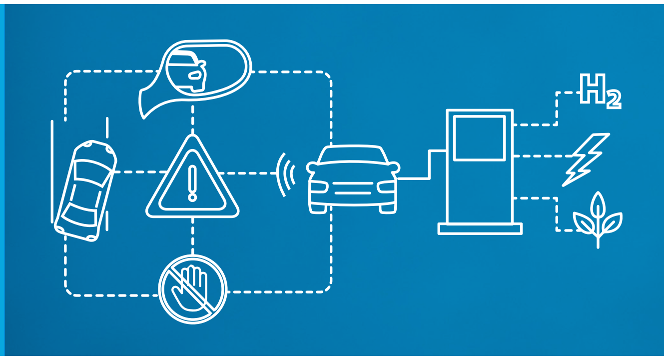
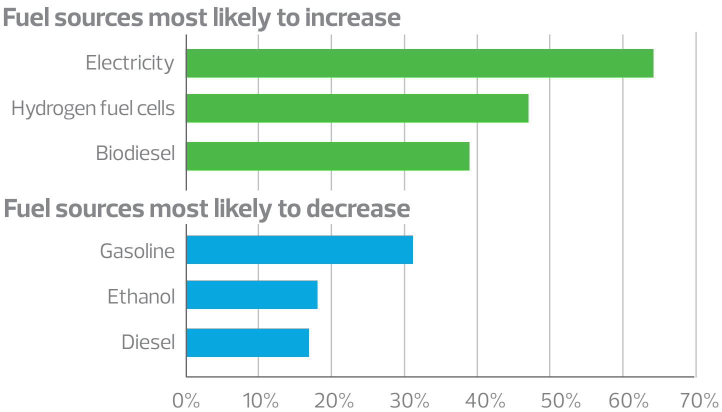


FIGURE 5. Shift in fuel sources coming to auto industry over the next five years



The automotive industry can expect the federal government to establish requirements for rising technologies. Regulations mandating fuel efficiency standards, carbon dioxide emissions monitoring, vehicle-to-vehicle communications and safety-oriented technologies, among other programs, are being implemented or considered.

With the average vehicle driving on U.S. roads for more than a decade, the ability to diagnose and service it for a long period of time will be challenged as the sophistication of technology increases. Studying and adapting to the changes in that technology will be central to the strategy of OEM suppliers that make the parts and the aftermarket companies that service them.

LEVERAGING **TECHNOLOGY**

Monitoring the progress of technology development is imperative if aftermarket and OEM supply companies are to be properly positioned in the future.

- **Identify the company's goals:** Management will need to assess the company's current state, and determine how technology can help reach its goals. Develop a structured methodology to better understand the use of technology within the company and its associated risks, including areas such as data access and security.
- **Establish a data strategy:** The various components of the IoT—loosely defined as a network of interconnected devices—are simply data-capture mechanisms. What is important is identifying what data is needed, how it can be captured and, most critically, what is done with it. Armed with a data collection and usage strategy, management can take advantage of IoT technologies to anticipate and address issues before they become problems for operational efficiency, product maintenance or customer service.
- **Take advantage of R&D tax credits and incentives:** For process improvements and automation, auto supply manufacturers can help lower the costs and risks associated with R&D by leveraging available federal, state and local tax incentives and credits. Initiatives that may be eligible for tax credits extend to activities beyond new product development. The IRS also enhanced the ability for taxpayers to amend prior year tax returns by permitting them to calculate the R&D tax credit.
- **Prepare for changes in production:** Automotive manufacturers are likely performing a significant amount of R&D activities to meet CAFE standards, changing consumer demand and evolving technologies. Those who can develop a process for capitalizing on technology from a wide range of sources—by leveraging innovation, R&D and the right partnerships—will be ensuring their long-term success. Areas that have seen auto suppliers understate their R&D credit include process improvements on the shop floor and tooling costs due to some recent rulings. The IRS eased the ability of taxpayers to amend prior year tax returns by permitting them to use certain alternative simplified methods.

MARGINS

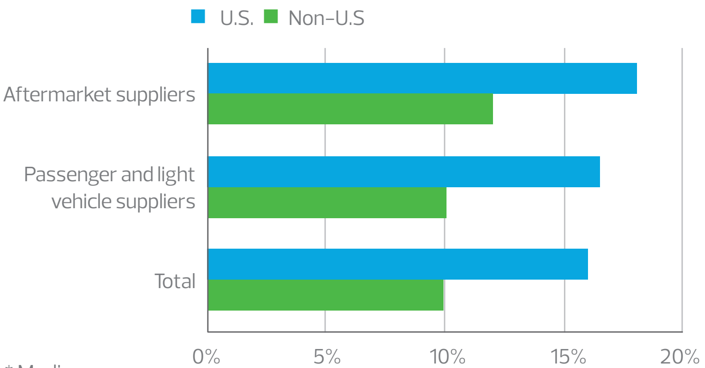
MANAGING AND MEASURING OPERATIONS TO IMPROVE PROFITS

Nearly half of both U.S. and non-U.S. auto suppliers self-identify as thriving, so it is not surprising to learn that many are at or near record sales levels. Non-U.S. suppliers report higher gross revenues in the past year than U.S. suppliers. But at 16 percent, the median operating profit level for U.S. suppliers outpaces the 10 percent profits of non-U.S. suppliers.

Aftermarket suppliers in the United States lead with an operating profit margin of 18 percent (before interest and taxes, as a percentage of revenues), slightly more than U.S. passenger and light vehicle suppliers—and comfortably ahead of the non-U.S. aftermarket suppliers' average margin of 12 percent.

Overall, a significant majority of auto suppliers are optimistic about profit growth in the coming months. But some clouds on the horizon could dampen their enthusiasm.

FIGURE 6. Operating profit before interest and taxes (as a % of revenues)*



* Median

Investments and rising costs may affect profits

Some three-quarters of suppliers are expecting employee costs to rise. Training and workforce development initiatives account for some of these costs, particularly for U.S. companies. But competition for engineers could be driving costs up as well.

At a median of 10 percent, warranty costs (as a percentage of sales) for non-U.S. suppliers are twice that of the costs for U.S. suppliers. This may explain, at least in part, why the margins are so much higher for U.S. suppliers—particularly for aftermarket suppliers, who generally have higher warranties. There have been too many stories about recalls and their enormous costs. All companies must focus on managing these risks without having a significant impact on margins.

Nevertheless, in their efforts to increase profitability, most suppliers are anticipating investment increases in research and development, equipment and machinery, information technology, and facilities.

Controlling costs

Almost half of the auto suppliers surveyed focus on operational improvements to increase profitability. But reviewing how they manage suppliers and inventories might prove more valuable. U.S. auto suppliers lead their non-U.S. counterparts in enhancing supplier relationships through shared intellectual property, resources and information.

Nearly half of aftermarket suppliers are planning new corporate strategies such as entering new markets or new locations—as well as new financial strategies—in their efforts to boost profitability; a somewhat smaller percentage of OEM suppliers are pursuing similar efforts. Otherwise, OEM and aftermarket suppliers plan on increasing profits to a similar degree by reducing costs, increasing pricing or discontinuing underperforming products.

Notably, business conditions were a factor in the strategic efforts to increase profits. Thriving suppliers are more likely than declining companies to implement new financial and corporate strategies as well as to leverage technology and supplier relationships. Declining companies are more likely than others to look for ways to reduce costs in operations, the supply chain and underperforming products, although other companies are doing this to some degree as well.

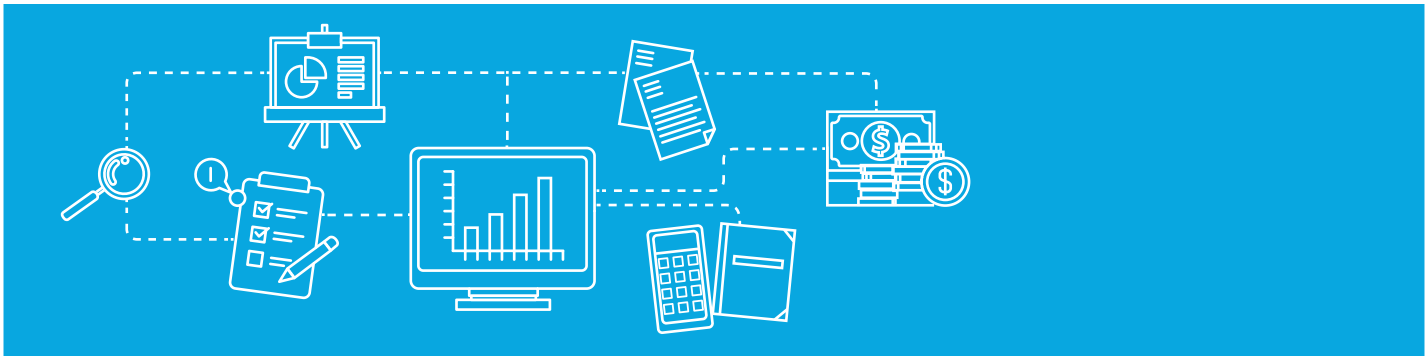
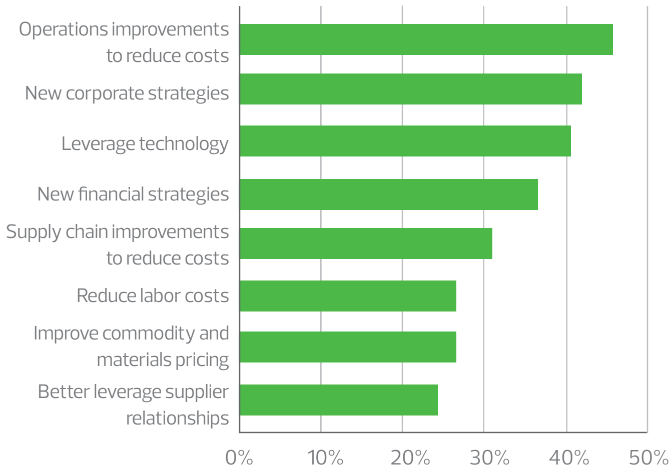


FIGURE 7. Top areas of focus to increase profitability



Some Tier 1 and Tier 2 suppliers are experiencing supply chain constraints, particularly in powertrain and electrical components.[12] It may be worth evaluating vendors in the supply chain and diversifying sourcing in order to be less dependent on a limited number of vendors: Global economic conditions are uneven and weaker economic conditions in other markets may present purchasing opportunities. In addition, nearly one-third of auto suppliers are reducing material and component inventories to brace for the potential (read: eventual) decline in the auto market.

MANAGING **MARGINS**

Controlling and properly scaling costs—in operations, supply chains and labor—is critical to profitability.

- **Enhance management of direct variable overhead costs:** Identify high-cost inputs to production processes such as gas, power or supplies that are not able to be tracked on a bill of material. Develop regression analysis tools and processes to monitor these costs; define comparative benchmarks and collaborate internally on various approaches to reduce them.
- **Collaborate with OEMs:** Automakers look to suppliers to help manage their own profit margins. Studies have tied profits, operating costs and healthy cash conversion cycles to the relationships OEMs have with their suppliers.[13] Creating and improving interactions in critical areas such as product design and production forecasting can have incredible benefits for all parties. Although these relationships can be strained, there is a financial incentive for change.
- **Review how receivables are managed:** Improving collections efforts on the front end through supplier agreements tied to OEM or next-level customer payments can help reduce overall costs and improve cash flow.
- **Evaluate inventory:** The portfolio should be assessed and plans developed to liquidate slow-moving inventory. Develop processes to rapidly link a change or discontinuation of a product to its effect on inventory. This has the potential to have a significant impact on working capital.
- **Examine products:** Divesting or discontinuing secondary products enables management to focus resources on core products, increase working capital and decrease expenditures. Assess current components and create ongoing processes to help identify noncore items that can be considered for production externally. This may help reduce costs and support scalability during times of growth.

RISK

MITIGATING THE POTENTIAL FOR DAMAGE AND LOSS

After experiencing a banner year in sales and profits—and anticipating more of the same in the months and years to come—auto executives may be forgiven for not focusing on business risks. Yet experience dictates that the industry is cyclical and the rise in demand, sooner or later, is followed by a fall. Indeed, S&P Global Ratings cut its estimate for U.S. auto sales for 2016 and noted that sales in used cars were "soft."[14]

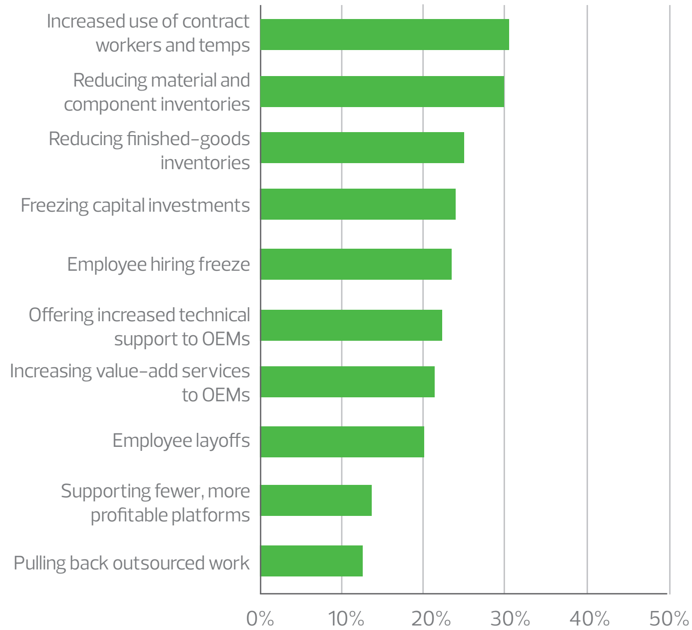
Some OEM and aftermarket suppliers are, in fact, already experiencing flat or declining revenues, employment and profits. Weakening economies, growing interest rates and rising OEM pricing pressures are among the issues of concern for executives that could precipitate a market decline. While about half of auto suppliers for OEMs and the aftermarket are thriving, about one-quarter of them report operating profit margins of 7 percent or less. One in five anticipate flat or declining profit margins in the coming months.

Preparing for lower demand

To brace for a potential decline, one-third of U.S. auto suppliers are turning to contract and temporary workers to cover short-term labor shortages. The substantial expansion of facilities built to meet increased demand has caused the break-even level of many suppliers to rise, which could be problematic when the demand for automobiles decline. With ridesharing giants such as Uber and Lyft threatening vehicle sales, this could serve as a significant warning to the industry, as automakers and suppliers run the risk of overbuilding inventories. A significant number of cars are coming off their leases in the coming years, but it is not clear that these cars will be replaced by contracts for new vehicles—or what will become of those existing cars when they are back on dealer lots.

To offset a potential decline, customer service and support is a priority among most suppliers. Many are offering increased technical support and other value-added services to OEMs and, ultimately, to end users.

FIGURE 8. Steps being taken to brace for a potential decline in the auto market



Self-described thriving suppliers are highly likely to engage in a number of major initiatives in higher percentages than those suppliers who are holding steady. In addition to strategic marketing programs, they are planning for the application of operations technologies, human resources and talent management, and process innovation in order to maintain growth for the long term.

Risking the future

But a number of auto suppliers are managing their companies in ways that may actually increase corporate risk by not investing in common strategic initiatives that include regulatory compliance, cybersecurity and other risk mitigation activities.

In addition, many OEM and aftermarket suppliers do not have secondary products. In a sector-driven economy, this can be a questionable strategy that makes their companies vulnerable to downturns. These companies would do well to find ways to leverage existing production processes in new products or sectors—such as building materials, metal fabrication and machinery—to prevent over-reliance on any single area.

Notably, 42 percent of suppliers surveyed have had a security breach—or don't know if they have had one or not; a higher percentage than manufacturers overall. The risks to intellectual property as well as to corporate financial data and personally identifiable information are clear. Suppliers across the board have updated or enhanced security protocols and purchased new or upgraded software. Nearly half of the thriving auto suppliers are engaging data security consultants and taking on staff to address the issue. Breaches are inevitable and what is not so clear is why, year after year, a stubborn few do nothing.

MITIGATING **RISK**

While many auto suppliers are bracing for a market decline, others may need help to prepare for an inevitable downturn.

- **Identify, quantify and minimize risk:** A complete enterprise risk management approach helps suppliers shift their risk focus from strict compliance to a more strategic and operational vantage point. Management should have explicit discussions about risk, and create formal measurement and understanding of risk throughout the entire organization. Such a program can imbed a new culture of risk management that creates an ongoing discussion and a shared buy-in across the business.
- **Establish or enhance a comprehensive data security plan:** To prepare for cyberattacks, companies should have three layers of cybersecurity controls—preventative controls that make the company a hard target; detective controls for timely identification of any breach; and corrective controls that enable management to respond quickly and appropriately to intrusions.
- **Diversify the supply chain:** Manage the company's reliance on suppliers by evaluating alternatives or diversifying the suppliers being used. Do not become overly reliant on a key supplier to avoid any disruption in operations if that supplier encounters service, timeliness of delivery or quality issues.
- **Control third-party risks:** Management should know where contracts are located and if they are stored electronically. Contracts should be updated as necessary and tracked to make sure obligations are being fulfilled. Maintain insurance to cover potential losses through data breaches or lack of contractual compliance.

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Survey methodology

The RSM Automotive Monitor survey was conducted by an independent research firm, The MPI Group, Inc., on behalf of RSM US LLP and its affiliated international firms. The information provided is confidential and accessible only by RSM and The MPI Group. Monitor data will be shared with third parties only in aggregate form, through RSM articles, white papers and presentations.

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