

Parts suppliers wary of carmakers

Bernard Simon in Traverse City, Michigan

Motor parts makers are becoming more cautious in their dealings with General Motors, Ford Motor and Chrysler, fearing they could be hit by the three Detroit carmakers' financial woes.

Suppliers have resorted to various ways to protect themselves. "They have to be more selective about what they supply," said Michael Robinet, a vice-president at CSM Worldwide, a US-based consultancy. "Volume for volume's sake is not what it used to be."

The chief executive of one manufacturer of welded assemblies said he had had "numerous conversations" with Chrysler about the financial risk of future business. He added that his company would no longer take on long-term business with Chrysler without credit insurance.

The heightened wariness reflects the unusually close relationship between automotive suppliers and their customers. Parts makers are often required to invest heavily in research and development for new vehicles, and to commit to long-term contracts. Carmakers typically own much of the equipment in suppliers' factories.

Dozens of parts makers were caught off guard when Delphi, General Motors' biggest supplier, filed for bankruptcy protection three years ago shortly after placing unusually large component orders.

Many suppliers have been unnerved by huge losses reported recently by GM and Ford, and by speculation that one or more of the Detroit companies might file for bankruptcy protection.

The suppliers are already squeezed by a sudden slide in production volumes and rising raw material costs. In addition, US car buyers' flight from pick-up trucks and 4x4s to smaller cars and crossovers has meant abrupt changes in carmakers' requirements.

Referring to a surge in popularity of four-cylinder engines, Bob Carter, head of the Toyota brand in the US, said yesterday that "that sort of shift rattles every auto company and it means we're looking for our supply partners to be quick-footed in helping us make the needed changes".

Tom LaSorda, Chrysler's vice-chairman, said: "Every week it seems there's another supplier in some form of financial stress."

The pressures were underlined this week when Inter-met, a medium-sized US maker of cast-metal components, filed for court protection for the second time in four years.

Grant Thornton, a consultancy, said last week that as many as one in three North American automotive suppliers were at risk of bankruptcy.

Mr LaSorda said Chrysler was relieving the stress on suppliers through cash advances and by paying them more often than the traditional once a month. "We're trying to help them out if we can," said Mr LaSorda.

According to Himanshu Patel, an analyst at JP Morgan, suppliers have also been more successful in recouping raw material price increases from customers. However, he cautioned that industry conditions were unlikely to rebound before 2010.