

IHS Commodity, Pricing & Cost Intelligence: Automotive



Sourcing and procurement insight enabling auto suppliers to succeed profitably in today's volatile market

Knowledge is Power — Suppliers to the automotive industry face a unique set of challenges when it comes to contract negotiations, risk mitigation, increasing labor costs, and end user demands. With a strong automotive solution and in-depth knowledge of the industry, IHS levels the playing field by providing objective information that fosters productivity, trust, and collaborative relationships of benefit to the auto supplier and its customers.

From economic insights to analytical tools to analyst input, IHS provides mission-critical solutions to help suppliers drive cost savings, negotiate competitively, and leverage new opportunities. These tools also help address some of the key industry challenges facing auto suppliers today, including:

With a global team of industry analysts and a database of 4,000+ detailed material prices and wages, IHS is the only company today with the global breadth and depth of sourcing and procurement insight critical to auto suppliers.

Critical Industry Challenges

- **Intense Competition for Global OEM Business.** Automotive OEMs attempt to dictate global material pricing and leverage global volumes without an agreed-upon reliable and unbiased source.
- **Slow Overall Growth with Opportunities Favoring The Prepared.** With slow growth projected for the industry, only those suppliers working in advance will be effectively positioned to capitalize on future growth opportunities.
- **Low-Cost-Country Sourcing Adds Risk and Material Volatility.** In an effort to maintain profitability and win future business, suppliers are frequently driven to fully-leverage low-cost country (LCC) sourcing. This forces them to manage not only global labor and wage availability, but also supplier and supply chain risk.
- **Contracts Aren't Always Equitable.** Suppliers need an industry-recognized source that helps them establish credibility for material cost adjustment requests. By leveraging this source, suppliers can negotiate the best, long-term contracts with global providers, gain credibility, and demonstrate transparency.
- **Growing Direct Material Costs.** The cost of doing business isn't getting any cheaper for suppliers, who spend hundreds of millions – if not billions – of dollars every year on direct material costs.

The IHS Commodity, Pricing & Cost Intelligence Solution Solves Key Issues for Auto Suppliers:

- **Supply Chain Management – Global Sourcing**

- **Problem:** To compete globally, suppliers must assess multiple worldwide locations. Effective global expansion requires consistent price and wage intelligence across countries and regions.
- **Solution:** IHS' global forecast coverage evaluates the total cost of investment around the world.

- **Purchasing – Timing and Negotiating Buys**

- **Problem:** In today's extremely volatile market, knowing when to buy is a decision fraught with risk. Prices often show double-digit percent changes from quarter to quarter, making purchase decisions extremely difficult. To build up their own margins, sellers pass along price increases in excess of cost increases.
- **Solution:** To help you achieve significant savings, IHS offers price forecasts and buying strategies based on our accurate and dependable forecasts.

- **Contracting – Link Your Buys to Industry Standard Price Benchmarks**

- **Problem:** Negotiations can break down when both parties aren't on the same page with respect to which price to follow. One-sided sources can offer a disadvantage when establishing transparent price contracts.
- **Solution:** As a third-party source, IHS removes the guesswork from contracting. You gain peace of mind that the numbers are accurate and that you are using matching concepts in your internal projections.

- **Benchmarking – Measuring Buying Performance**

- **Problem:** Many companies deal in materials with no clear market price or in markets with few suppliers. It is difficult to measure purchasing performance without a transparent price to benchmark against.
- **Solution:** IHS brings clarity to difficult markets by measuring prices and escalation rates industry-wide, so you see where you fit in.

- **Budget Planning – Insight into Next Year's Costs**

- **Problem:** Assembling cost projections for each part of a category spend is a struggle and using last year's escalation rate can be a mistake in volatile markets. Broad measures like the Consumer Price Index fail to capture the individual components that make up the category spend.
- **Solution:** To make sure your entire spend is covered, IHS offers comprehensive forecast coverage that takes the headaches out of budget planning.

"We buy a lot of steel sheet and we needed to lock in prices for the coming year before those costs increased. Working with IHS analyst, John Anton, we found that a recent weather disruption and several other factors had resulted in an artificial price spike for steel sheet. John advised us to buy on the spot (not on contract) and we wound up saving over \$10 million."

– Automotive manufacturer



What IHS Does for Auto Suppliers

IHS supports supplier relationships built on trust and transparency and based on common, agreed-upon cost and price indices.

To operate efficiently, auto suppliers require content that spans across IHS. To build a car, you need:

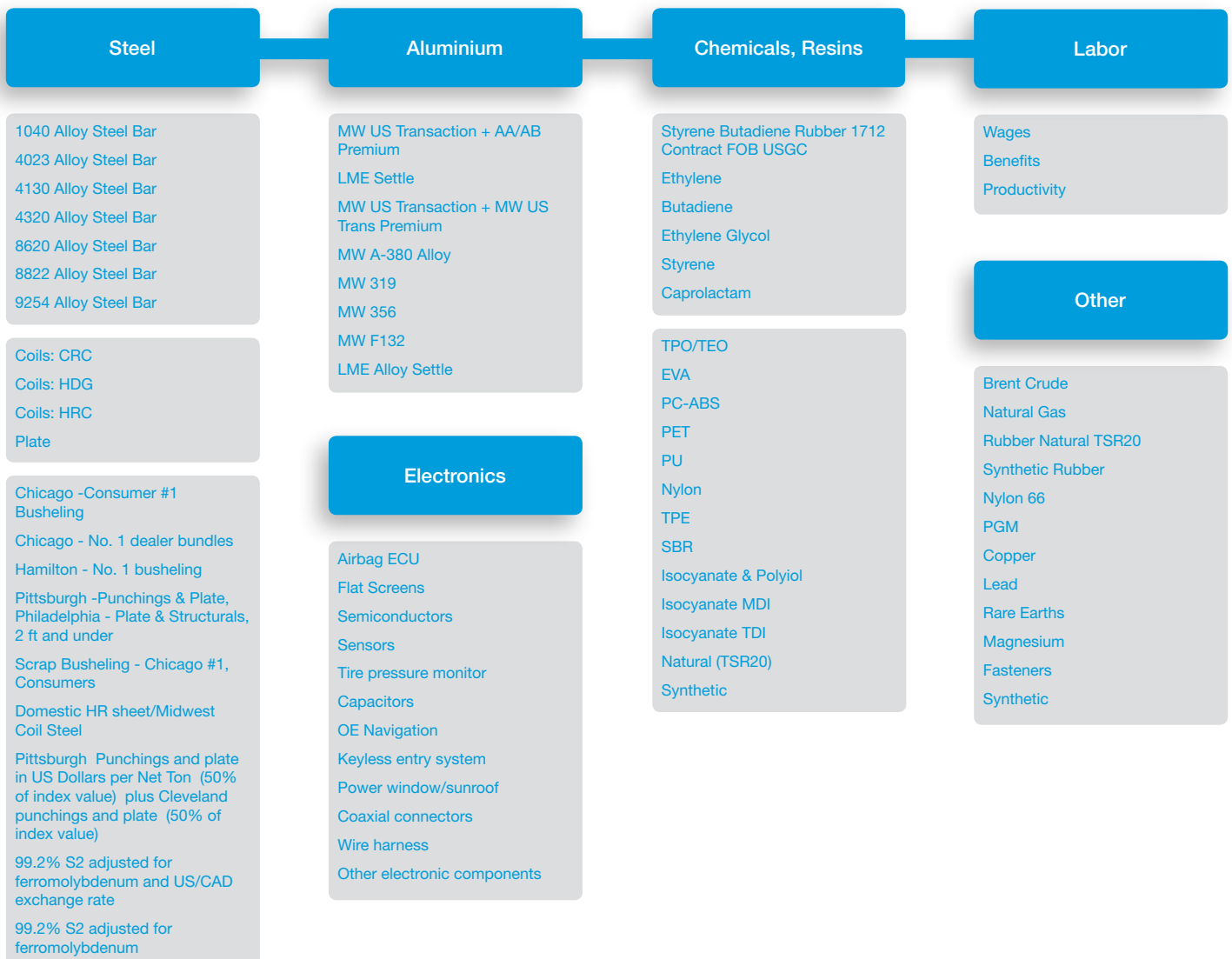
- Metals & Rare Earth Materials
- Chemicals
- Electronics
- Equipment
- Labor & Wages

IHS is the only company that can provide detailed expertise on ALL of the above inputs to the supply chain, and IHS Pricing and Purchasing delivers it in a single package, with consistent analysis, data, and forecast assumptions.

Unbiased data from IHS enables favorable supplier-OEM discussions and provides a level of insight that is not available from any other resource.

IHS supports the OEM-supplier relationships built on trust and transparency through the use of common, agreed-upon cost and price indices.

IHS Commodity Price Coverage for Automotive Buyers



An Easy Decision for Sourcing & Procurement Professionals

IHS understands the *critical role* that sourcing, procurement, and other supply chain professionals play in managing winning supplier relationships, driving cost savings, and contributing to the competitiveness of today's automotive supplier.

The choice is simple. Peers agree that pricing and purchasing intelligence plays a vital role in preparing, negotiating, and justifying favorable supplier negotiation outcomes. Credible third-party price intelligence also offers the objectivity needed to hold more productive, collaborative, and mutually beneficial supplier conversations. This ultimately fosters better and more profitable supplier relationships.

IHS price history, forecasts, and outlooks have played a proven role in more than \$1 billion dollars of cost savings for our clients. Not only has this helped expand their business margins, but IHS information, expertise, and analytics play a key role in helping sourcing and procurement organizations achieve – and exceed – department goals and objectives. IHS arms professionals with the information and confidence needed to increase total cost savings, realize cost savings targets, attain negotiated price targets, achieve material forecast objectives, and more.

A Results-Oriented Approach to Key Automotive Issues

By leveraging IHS expertise, industry experience, and analyst insights, auto suppliers can expect these results:

- **Cost savings.** The U.S. auto market trillions on materials annually. IHS price history, forecasts, and outlooks have played a proven role in more than \$1 billion dollars of cost savings for our clients. Key savings that IHS clients are already reporting include:
 - \$10 million on a single steel purchase
 - Over \$2 million in overall cost savings
 - 10-15% cost reductions on aluminum and other commodity metals
 - Over \$1 million annual savings from buying “now” rather than later
 - \$60 million in annual procurement savings
 - The list goes on...
- **Process improvements.** Key process improvements that auto suppliers can expect include:
 - More streamlined supply chain management
 - Better budget planning
 - Improved purchasing processes
 - More lucrative, transparent contracting
 - More effective benchmarking

IHS price history, forecasts, and outlooks have played a proven role in more than \$1 billion dollars of cost savings for our clients.

Consider these facts

Nearly 9 out of every 10 industry peers (86%) participate in 5 or more supplier negotiations and over half (51%) of them participate in 15 or more each year

97% say that input cost, productivity, and supply-demand information are important to achieving favorable outcomes in supplier negotiations

89% say that their ability to use objective, 3rd party information in justifying their negotiating position to suppliers is of great or critical importance

Truck Manufacturer Saves over \$2 Million

Customer Situation:

The client, a truck manufacturer, used the Cost Analyzer to help negotiate a long-term contract with a supplier valued at \$2.5 million.

What IHS Did:

The key point of negotiation was the long-term escalator clause. The supplier wished to use an index that posted a 2.5% long-term escalation rate. Using the Analyzer, the client identified a commodity index that matched the material buy but showed a long-term escalation rate of just 1.4%. When confronted with this [more appropriate] escalator, the supplier conceded the lower escalation rate, saving the truck manufacturer an estimated \$2.2 million over the life of the contract. The savings realized were garnered over three separate delivery dates, with the savings estimated for each phase of the contract being \$1,057,000, \$436,000, and \$741,000.

Result:

The client **saved over \$2 million** by identifying the right series for their escalator clause!

Manufacturer Saves \$2.2 Million on Contract Negotiation

Customer Situation:

A manufacturer of recreational boats and other water sport equipment, this client buys engines from automobile manufacturers, using the engines as power plants for their inboard and outboard motors.

What IHS Did:

IHS data showed that the price of motors, as measured by PPI3714201NS, had been declining fairly continuously since 1992. Further, IHS analysts forecasted the decline to continue for the next several years. The client confronted its supplier with this information, along with the IHS forecast of flat or declining prices for engine components, to document a lack of underlying cost pressure. The bottom line: the client won a [grudging] break in contract price for engines, resulting in a \$2.2-million savings.

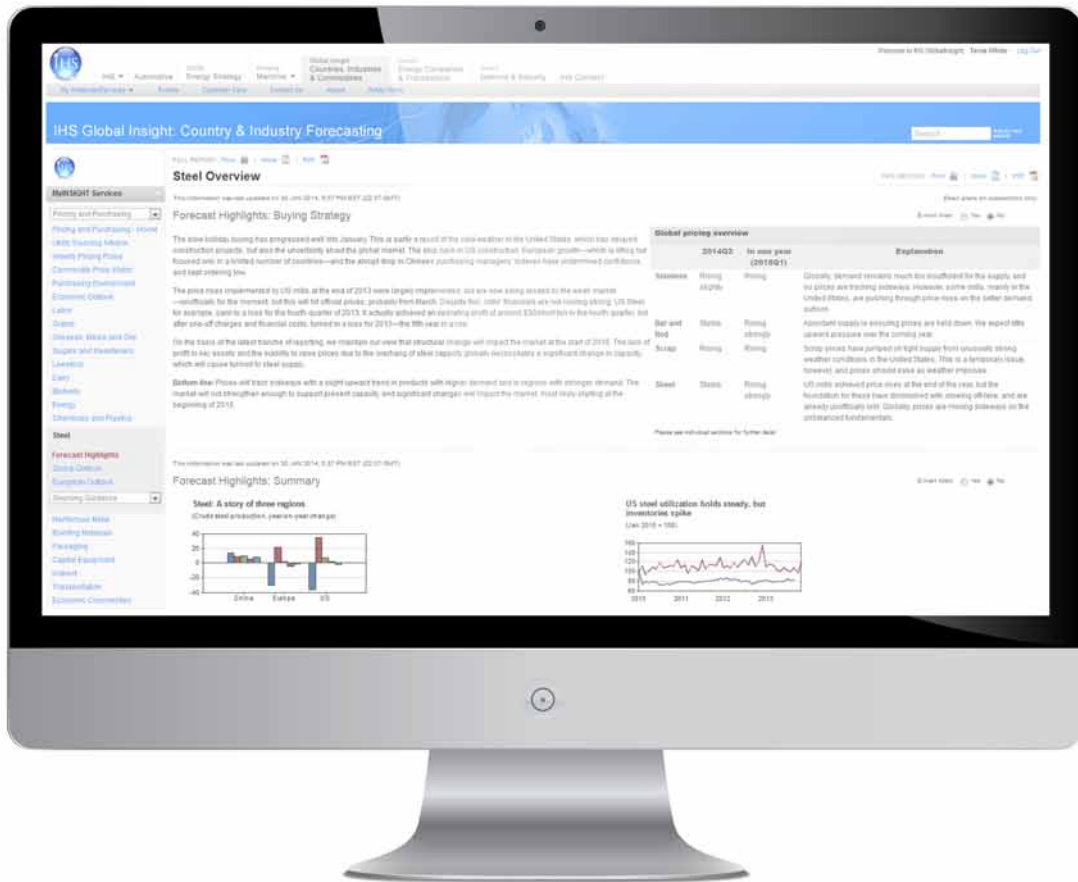
Result:

The client **saved \$2.2 million** on one equipment contract negotiation.



Critical insight for Auto Suppliers

Hands-on Web-based data wizards allow clients to analyze a single buy or evaluate the performance of an entire supply chain



Auto Material Cost Index

Weight	Units	Concept	2008 Q1	2009 Q1	2010 Q1	2011 Q1	2012 Q1	2013 Q1	2014 Q1	2015 Q1
100.0%	2014:1=1.0	Auto Material Cost Index	1.03	0.80	0.95	1.22	1.15	1.04	1.00	1.02
Weight	Units	Steel	2008 Q1	2009 Q1	2010 Q1	2011 Q1	2012 Q1	2013 Q1	2014 Q1	2015 Q1
13.4%	US\$/Short Ton	Cold Rolled Sheet	737	576	707	916	810	735	740	780
13.4%	US\$/Short Ton	Galvanized Sheet	800	664	734	982	845	792	798	838
13.4%	US\$/Short Ton	Special Quality Bar	956	822	759	1,158	1,358	1,171	1,071	976
13.4%	US\$/Short Ton	Merchant Bar	730	876	751	924	905	773	745	789
6.1%	1980:12=100	Iron Foundries	197	219	213	233	246	248	251	253
0.8%	1982:6=100	Aggregate Steel Prices	176	153	165	191	197	178	177	182
1.9%	US\$/Short Ton	Stainless Steel	4,489	2,172	2,571	3,396	3,040	2,460	2,597	2,906
Weight	Units	Nonferrous Metals	2008 Q1	2009 Q1	2010 Q1	2011 Q1	2012 Q1	2013 Q1	2014 Q1	2015 Q1
8.8%	\$/Metric Ton	Aluminum	2,742	1,359	2,163	2,500	2,177	2,001	1,804	2,092
0.3%	2001:1=1.0	Magnesium	2.86	2.73	2.28	2.29	1.94	1.94	1.98	2.09
1.7%	\$/Metric Ton	Copper	7,795	3,428	7,232	9,651	8,307	7,927	7,060	6,540
1.0%	\$/Metric Ton	Lead	2,898	1,156	2,221	2,603	2,094	2,300	2,094	2,085
0.2%	\$/Metric Ton	Zinc	2,429	1,172	2,288	2,395	2,024	2,032	1,885	2,090
1.2%	1982=100	Aggregate Metal Prices	202	184	202	223	225	216	214	218
Weight	Units	Chemicals and Plastics	2008 Q1	2009 Q1	2010 Q1	2011 Q1	2012 Q1	2013 Q1	2014 Q1	2015 Q1
2.4%	Cents/Pound	Polypropylene	87	52	88	101	94	101	104	96
1.1%	Cents/Pound	Nylon Resin	131	101	123	146	162	155	148	152
0.6%	Cents/Pound	Polyvinyl Chloride (PVC)	56	48	68	73	62	65	70	72
0.6%	Cents/Pound	Acrylonitrile Butadiene Styrene (ABS)	97	65	99	126	113	109	104	107
0.5%	Cents/Pound	Polycarbonate Resins	170	161	156	178	152	161	163	161
0.5%	Cents/Pound	High Density Polyethylene (HDPE)	81	56	79	84	88	88	94	92
0.7%	1976:6=100	Plastic Products	250	222	247	259	280	287	293	296
Weight	Units	Other Materials	2008 Q1	2009 Q1	2010 Q1	2011 Q1	2012 Q1	2013 Q1	2014 Q1	2015 Q1
5.1%	cents/kg	Rubber	273	145	318	567	389	318	237	231
1.4%	1982=1.0	Textile Products	127	130	130	138	142	143	144	144
2.4%	1980:12=100	Flat Glass	97	98	94	91	87	91	91	93
9.0%	1982=1.0	Other Crude Materials	282	153	256	314	335	311	311	305

Source: IHS

The IHS Advantage

- Consistent, reliable, and accurate insights from a proven and trusted industry leader.
- Serving the purchasing community for over 40 years with actionable insight.
- One-Stop-Shop for cost and pricing analysis and forecasts across a wide breadth and depth of commodity and wage costs.
- No other organization knows the macroeconomic influences of all industries and the macro automotive demand and cost drivers.
- Ability to quantify price change across the entire supply chain.
- Proven team of pricing experts who will serve as an extension of your staff.

Bottom Line Benefits:

- Tremendous commodity price volatility has created a pressing need for reliable and timely pricing information.
- We know you don't want to pay too much! IHS offers the solution:
 - Pricing analysis and insight for more effective supplier negotiations
 - More than 40 years of pricing experience and expertise
 - Established reputation as one of the most accurate economic forecasters
 - Web-based Cost Analyzer tool minimizes the risk of overspending in a supplier negotiation
- You'll realize an average cost savings of 1-15% of your material spend...that's real bottom-line cost savings!

About IHS Pricing & Purchasing

On the leading edge of economic modeling, IHS allows suppliers to quantify sources of price change using a database of 4,000+ detailed material prices and wages. We provide auto suppliers with actionable insights that quantify where prices are headed and effectively navigate the highly pressurized environment that they're operating in.

About IHS

IHS (NYSE: IHS) is the leading source of information, insight and analytics in critical areas that shape today's business landscape. Businesses and governments in more than 165 countries around the globe rely on the comprehensive content, expert independent analysis and flexible delivery methods of IHS to make high-impact decisions and develop strategies with speed and confidence. IHS has been in business since 1959 and became a publicly traded company on the New York Stock Exchange in 2005. Headquartered in Englewood, Colorado, USA, IHS is committed to sustainable, profitable growth and employs approximately 8,000 people in 31 countries around the world.

For more information

To learn more about the IHS Pricing & Purchasing product suite, visit www.ihs.com/pricingpurchasing

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