# The modular effect: What will change?

Modularity is changing the structure of the industry at a surprising pace.

The potential for cost savings is making modular capability, or the ability to supply complete modules to the OEMs, a serious priority for both large and small suppliers. As the OEMs demand more complete modules, suppliers have been buying each other up at an alarming rate (see "Consolidating to Survive," March '99, Page 24). Most recently, Lear Corp., Southfield, Mich., bought UT Automotive, which Lear says will allow it to offer instrument panels, among other products, to its customers.

## Tier disappear

Consolidation to gain more modular capability puts pressure on many suppliers, says Sandy Munro, president of Munro & Associates Inc., a Troy, Mich., manufacturing and design consulting firm. "We've been contacted by many suppliers who are currently Tier One suppliers, but they also know that they're going to turn into Tier Two suppliers shortly.

"That's one of the big fears," Munro says. "They can see now that their customer base has shifted away from the Fords and Toyotas and moved toward the Lears and the Johnson Controls."

Right now, Munro says, there are about 3,000 Tier Ones. Within 10 years, he believes, there will be 10 or fewer. "We have a saying around here: 'First Tier, Second Tier and Disa Tier,'" he says.

William "Greg" Jones, a consultant with Munro & Associates, says he's trying to give Tier Twos advice on how to weather the storm. "We're working with companies that are typically a Tier Two or Tier Three with sort of off-the-shelf components. We're looking to help them create a modular strategy for their company," he says. "It's important to remember that these companies are not technically incompetent."

However, Munro says, the more you get into the modular business, the less you need commodities. "Most of the Tier One suppliers that are going to disappear are commodity suppliers — suppliers of motors, regulators, seat tracks, even IP clusters," he says. "These things are turning into commodities because that's how the Tier Ones are looking at them.

"They figure, 'I can buy that gauge anywhere; I can buy that little motor anywhere; I can buy those electronics anywhere,' and they can."

As suppliers consolidate to supply modules, and the OEMs continue to push research and development and design onto the suppliers, the few large Tier Ones remaining will have new influence, Jones says.

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"In the not too distant future, the OEMs may turn out to be a little bit nervous about their Tier One suppliers," Munro says. "In fact, they may be very nervous when they find out the profound knowledge that they need to build a car isn't in their hands anymore."

Jones agrees. "They attempt to retain core competencies in a lot of things, in structures or styling and design. But even some of those core competencies are being transferred, too," he says.

And as the Tier Ones get bigger, Munro sees them strangely resembling their OEM customers.

"We're hearing plenty about the Tier One suppliers squeezing the Tier Twos, and if they can't squeeze, they acquire, and if they can't acquire, they go into that business," he says. "The OEMs are saying, 'We've got to get out of vertical integration,' but all the supply community is saying, 'We've got to be vertically integrated!' It's amazing how much more money you can make if you manufacture all the bits and pieces that go into whatever it is that you're selling."

The Tier Ones are more vertically integrated than they've ever been, agrees Jim Masters, president of the technical division of Lear Corp., Southfield, Mich. For instance, he says, Lear is now buying cloth and leather, both commodities that were once controlled by the OEMs. "But at the same time, there's aggressive work that continues to go on here to make sure that our vertical integration isn't a liability to us, that we're not forced to use our manufacturing plants and our parts unless they are very cost competitive and state of the art," Masters says.

## Joint ventures

Other than consolidation, suppliers are joining in extraordinary joint ventures to provide products that otherwise would be beyond their traditional expertise. Modularity through joint ventures is a better strategy, some say, than trying to absorb smaller companies.

Faurecia, for instance, which is itself the product of a large merger (French suppliers Bertrand Faure and Ecia), thinks it's probably a bad idea to acquire companies that have nothing to do with its core business, according to Armand Batteux, Faurecia's chief operating officer.

"We do front ends, but why would we want to acquire a headlight capability or a radiator capability?" he asks. "We want our core products like IP, like door panels, but headlights are more complicated. They're not just front end [components]."

Instead, Faurecia has an agreement with Trèves to supply a complete cockpit, Batteux says. "We do doors; they do carpet. We do IP; they do headliners. It works well," he says.

Rodney O'Neal, president of Delphi Interior Systems, agrees, "We'd like to provide an arsenal of solutions [for our customers], but it would be hard for one company to have every capability. We look at acquisitions and joint ventures on a project-by-project basis." ♦

— *Walter Woods*