

## On the necessity of “prioritising” clients or how to last by forcing through change

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**W**hat motor vehicle manufacturers would you like to do business with? Toyota and BMW, replied a significant majority among the 84 major suppliers in the automotive sector recently polled by an American professional journal. But how many of those same suppliers had already decided to put their sales, engineering, production and R&D at the service of a highly select number of clients? It would be a slight exaggeration to say that for motor vehicle equipment manufacturers choosing their client has become common practice. But effective management now demands such decisions to be made.

The notion of client segmentation, let alone equipment manufacturers “prioritising” clients, does not come easily to the automotive world. Firstly, with only fifteen or so major manufacturers (OEMs) in operation, choosing between 15 clients does not appear at first sight to be a particularly useful exercise. Secondly, the tense relations between OEMs and their category 1 suppliers and between these latter and their own suppliers (pressure on prices, tighter deadlines, ceaseless competitiveness programmes, constant quality improvement, etc.) makes for highly charged client/supplier power relations.

Lastly, choosing one involves refusing another: by cherry-picking clients, equipment manufacturers often feel they are closing down future options and not seizing every opportunity. Particularly when production is rarely used to capacity. OEEs (Overall Equipment Effectiveness) of 90% are a rare breed! Hence, choosing a sale almost equates to refusing a sale.

“With which motor vehicle manufacturers would you like to increase your turnover?”, Extract from the Automotive News 2005 poll.

Understandably therefore, choosing one’s clients often raises a cultural barrier that is not easily overcome. However, over and beyond this perceived risk, “prioritising” clients helps hone strategy, target sales better and secure turnover. It is therefore essential. And it is essential for at least two solid reasons:

### **I**f the client is king, some are emperors and others tyrants

Firstly, clients are not naturally in step with a company’s strategy nor with the market openings it seeks. Indeed, two clients are never alike. How they deal with the company can therefore vary. Some clients are loyal. Others only when it suits them, blaming equipment manufacturers for each new programme and even for each new product within that program. Some clients provide a quicker return on investment (ROI) than others. Lastly, some offer good terms of payment, while others seek to apply pressure, for example through the highly controversial reversed auctions.

Secondly, equipment manufacturers’ investment capacity cannot be extended indefinitely. While contract sizes are constantly on the increase, the number of equipment manufacturers is in unchecked decline. The investment demands made upon them and the degree of associated risk-taking which that involves are consequently higher. Given that their financial resources, their research and development capacity as well as the number of engineers assigned to a particular operation are not infinite, equipment manufacturers have something to gain from focusing on clients who secure the highest profits and remain the most loyal over the long term.

## Key, prioritise, but how?

Dividing one's client base into segments requires an in-depth look into three variables: market opportunity, the quality of the equipment manufacturer/motor vehicle manufacturer's relationship and the ability to set up a lasting and profitable partnership with the client.

- The first variable to consider is the potential turnover to be gained from working with the client. This can be gauged using the OEMs' expected production (new models) – up to the maximum market share an OEM will entrust to a supplier – minus its outsourcing rate. Indeed, motor vehicle manufacturers frequently refuse to entrust more than 40% of their "going concern" to a single supplier, and themselves refuse to account for more than 30% of a supplier's turnover. By looking at this long-term potential, the immediate potential that can be accessed without factory investment, additional human resources skills or major changes to in-house processes can be gauged. This potential corresponds to the maximum turnover that can be achieved with a client without investment.

**A qualitative study of the motor vehicle manufacturer/equipment manufacturer's relationship** would make it possible to gauge the level of client satisfaction in the main key variables for success: product quality, innovation, competitive prices, programme management and market impact. This can be established via interviews with members of the client's production, engineering and purchasing departments, or by running an internal study designed to find an answer to the following question: "How does our client perceive our performance?". This simple approach makes it possible to identify, with the highest degree of objectivity, the starting point of the relationship with the client. The way the OEM manages suppliers must also be taken into consideration in order to provide answers to the following questions: Is this a loyal client, does he set acceptable payment deadlines and operate a "win-win" rationale over gains, one which enables him to improve competitiveness without spoiling his margins?

- Lastly, it is necessary to **accurately evaluate the ability to set up a lasting partnership** with one's client. This can be achieved by answering the following questions: are the client's finances sound? Is the financial exposure justified in the light of the equipment manufacturer's results? Above all, is the supplier investing in a client who tomorrow could be going through a difficult period? Because – as if one needed to be reminded – in the event of bankruptcy, suppliers are the last to be paid; employees and banks come first! The case of Delphi is illuminating in this respect. In addition to accounting irregularities, this equipment manufacturer's high dependency on a single order placer, in this case GM (with more than 50% of sales in 2004), is responsible for its troubles.

The ability to set up a partnership is also determined by the presence of a relational network. Hence the need to think about the following questions: do the sales, engineering and production teams encompass all the client's key decision-makers? Are visits regular enough? Is the relationship sound? Above all, does the equipment manufacturer have anything innovative to offer the target client? Because it is not just a question of carefully targeting one's client base. Building a lasting relationship with the client also requires the ability to surprise him.

Clearly, then, "prioritising" clients does not simply involve selling to a select group of clients. It means being proactive with such clients and reactive with others. An opportunistic turnover will always offer immediate value, provided there is also profitability. However, in the medium term, "prioritising" clients involves setting targets, getting those targets across clearly (in-house and to clients) and bringing all the company's strength to bear in order to meet them. Experience irrefutably shows, on a daily basis, that the greatest risk lies in not "prioritising" any client at all, since no client will be satisfied with even-handedness which, in the final analysis, produces meagre results. A good manager will always have to come down in favour of one thing to the detriment of another.