
DCX mandate: 'World prices'

132 suppliers told to cut - or get cut

By Robert Sherefkin
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DETROIT The Chrysler group is getting tough on parts makers that fail to deliver the world's lowest prices.

Chrysler has targeted suppliers that have a gap between their price to Chrysler and the lowest price that can be found anywhere in the world - prices that suppliers say come from low-wage Asian nations.

The automaker told 132 suppliers to cut prices by today, June 16. Chrysler also has demanded that the price cuts be made retroactive to Jan. 1, according to letters from Chrysler to the suppliers. *Automotive News* obtained a copy of one letter sent this month.

The new deadline is the latest move in Chrysler's campaign to establish the lowest possible "world price" for each component. Typically, world prices include the cost of transporting components to the assembly plant.

This effort has gained a new sense of urgency in the wake of Chrysler's warning that it will lose nearly \$1.2 billion in the second quarter.

In recent weeks, Chrysler has delayed merit pay raises, reduced health care benefits for white-collar employees, limited overtime pay and canceled plans for a new assembly plant in Ontario.

Chrysler's letter to suppliers is part of a three-year effort to cut annual purchasing costs by \$4.4 billion. In 2001, the company announced across-the-board price cuts of 5 percent, then made those cuts retroactive.

Next the automaker told of plans to save an additional 10 percent by the end of 2003. To achieve that goal, Chrysler is redesigning components. The company also has asked many suppliers to match prices set by factories in low-wage nations such as China.

Chrysler says most of its top 850 suppliers have responded with substantial price cuts. The recent letter targets 132 suppliers that Chrysler says have failed to match its world price.

Those who fail to respond could lose contracts. Over the past three years, Chrysler has re-sourced \$5 billion in contracts.

Not happy

Suppliers were not pleased to receive Chrysler's warning. "It's just an effort to use Chinese prices against us," says one supplier.

But a senior Chrysler executive insists that the automaker is not arbitrarily slashing prices.

"We tell them there is a (price) gap, and we ask them to come up with cost reductions," says Peter Rosenfeld, who was named Chrysler group's executive vice president of procurement and supply,

effective Dec. 16.

Rosenfeld says he sent letters to the 132 suppliers because they have not responded. "We are saying, 'You have to fix this. If you don't, here are the consequences.'"

Keeping score

Rosenfeld also notes that pricing is not Chrysler's sole measure of performance. Chrysler keeps scorecards for 850 major suppliers. Those suppliers are graded according to cost, quality, delivery and technology.

Chrysler characterizes its scorecards as a scientific way to measure each supplier's performance.

But one supplier's president complains that Chrysler's world prices sometimes exclude engineering costs. The president, who asked not to be named, says he lost a contract after Chrysler gave his blueprints to a rival company.

He says the bid was unfair because the rival did not have to pay any engineering costs. The executive says Chrysler told him: "We don't pay engineering costs."

Rosenfeld says Chrysler does pay engineering costs: "Any supplier with an issue should see me."