

McTevia analyzes Chrysler's savings initiatives for Free Press

Chrysler has ways to save
Document shows plan to delay some payments

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Chrysler expects to save \$100 million over the next 12 months because of the 5% cost-reduction initiative introduced June 1 on indirect supplier contracts, according to a company document obtained by the Free Press.

The Auburn Hills automaker also plans to delay payments to certain non-production suppliers, the document marked "confidential" said. It included "draft talking points" regarding the cost-reduction initiative and 60-day payment term.

The company has about 2,045 indirect suppliers that will be affected by the cost-reduction initiative, the records said.

As previously reported, Chrysler is trying to reduce costs on non-production contracts, including contract agencies.

Indirect purchasing accounts for \$5 billion of Chrysler's \$40-billion annual purchasing budget, the records said. Payment terms are being changed from 45 days to 60 days.

"While payment terms vary by company, Net 60 is a commonly used payment term when purchasing indirect materials and services," the document said. "This change is expected to allow the company to more accurately forecast cash flow and plan future business strategy. The payment term for production suppliers will remain Net 45."

Jim Gillette, CSM Worldwide's director of supplier analysis, said stretching out payments allows an automaker to improve its cash flow.

"They just finance their own company on the backs of their own suppliers," he said. "It's a very common strategy that businesses will employ, especially when times are tough."

Jim McTevia, managing member of McTevia & Associates, called such a move "a game everybody plays" and the "cheapest source of working capital in the world."

"They're picking up millions of dollars in cash flow by doing that," he said.

Chrysler declined to confirm the document.

"The type of information described would be considered confidential. ... We do not discuss confidential information on a public basis," said Kevin Frazier, a Chrysler spokesman.

Chrysler issued a statement: "Our recent decision to enact a 5% cost reduction on certain nonproduction materials and services is a part of Chrysler's ongoing efforts to reduce its cost footprint in a highly competitive marketplace. This initiative, like any cost-reduction effort, is a difficult decision. However, it is facing the reality of our economic environment and a step forward on our path toward financial health."

The company added: "The initiative does not affect the entire spectrum of indirect materials and service suppliers, nor does it affect production suppliers."

In April, Steven Landry, Chrysler executive vice president for North American sales, told a group of Northwood University students and alumni that the automaker was adjusting how it made its payments to suppliers to help manage its cash flow since being acquired by a private-equity company.

"When we were a public company we paid our suppliers every month on the same day. So at the end of the month, we would sell all of these cars to dealers and our cash in the bank would go up. ... Then eight or nine days later we'd pay all of the suppliers in one day and we would have a cash drain that would go all of the way down here," he said, motioning toward the ground.

Now, he said, Chrysler pays suppliers differently on different days. "Our goal on that is to have our cash be as steady as possible," he said.

Gillette said Chrysler's moves would be hard on many suppliers, in particular for smaller players that do not have purchasing power.

"Given the margins are so thin in any kind of product you're offering, it's extremely tough," he said. "I don't know anybody that's making a fortune out there in any industry right now."

The Chrysler document touches on the possibility that suppliers will be unhappy with the change.

One hypothetical question asks: "It seems that this action is in direct conflict with Chrysler's desire to rebuild relations with suppliers. How will this initiative affect its relationships with suppliers?"

The talking-point answer: "Chrysler is committed to improving its relationships with suppliers through open, honest communication -- no matter how difficult the subject."