# Automotive News: Suppliers To Get Ax

Delphi suppliers to get the ax; Miller says suffering will be small

By David Barkholz
• November 07, 2005

Related Links
Delphi Ch. 11 may cost 12,500 jobs, $390m tax hit

Delphi Corp. could cut up to 30 percent of its 2,200 U.S. parts suppliers as CEO Steve Miller sells and closes plants during Chapter 11 reorganization.

But Miller said late last month that many, if not most, of those suppliers should expect business as usual because they likely will continue to supply the companies that buy Delphi operations.

“The fact that I shrink makes no difference to the requirement of the tier-two supply community,” Miller said. “They’ll just be routing what they do through whoever’s name is on the door of the activity that is supplying the car-makers.”

Other analysts aren’t so optimistic. Delphi’s U.S. supply base probably will fall to 1,800 companies by the time the Troy-based company emerges from Chapter 11 protection in 2007, says James McTevia, managing member of consultant McTevia & Associates of Bingham Farms.

And as Delphi sells and closes operations, the number could shrink by half, McTevia said. “There’s going to be turmoil,” he said.

Delphi’s supply base is intensely important to the auto industry. The company supplies about $14 billion annually in parts just to former parent General Motors Corp. — about 16 percent of the automaker’s $86 billion annual global parts purchases. GM spun off Delphi in 1999.

Craig Fitzgerald, a consultant in Southfield, says many small, privately held suppliers are hurting because Delphi’s Chapter 11 filing on Oct. 8 froze millions of dollars of debts Delphi owed for parts already delivered.

Many won’t survive until the reorganization if they can’t convince lenders to renegotiate loan covenants that fell out of compliance when Delphi tied up money the suppliers were owed, said Fitzgerald, a partner in the strategy and global services group at accounting firm Plante & Moran P.L.L.C. The firm has about 400 supplier clients.

“If Delphi suppliers close, it’s going to lead to parts shortages and maybe production shutdowns at Delphi and its customers,” Fitzgerald said.

Miller says Delphi intends to shrink from annual revenue of about $28 billion to $20 billion. He has said the company would shrink by about 20 percent, or about $5 billion.

Company officials have been unavailable to answer questions about where the additional shrinkage is coming from.

Most of the reduction is likely to come in the United States, where operating losses are concentrated.

Delphi, which has 45 U.S. factories and support sites, sought Chapter 11 reorganization after posting net losses of about $741 million in the first half.

A smooth transition is possible for suppliers affected by changes in factory ownership, said David Ladd, director of North American communications for Siemens VDO Automotive Corp. in Auburn Hills.

After Siemens VDO bought the Chrysler Group’s electronics operation in Huntsville, Ala., in 2004, Siemens was able to retain about 95 percent of the existing suppliers to Huntsville, Ladd said. That operation, which makes engine control modules and printed circuit boards, generates about $1 billion in annual sales.

“So many of the suppliers were already suppliers to us, that most stayed,” he said.

The plant gave Siemens VDO a U.S. manufacturing presence for the products that it was already making in Mexico, Germany and elsewhere, Ladd said.

Even Delphi operations that make what the company considers core products may not be spared from cuts. Citing an internal Delphi document, The Detroit News last week reported that Delphi is studying whether to divest five U.S. plants and another in the United Kingdom and Japan in its core electronics and safety division.

Among the products considered for termination at U.S. factories are ignition systems, antilock brakes, steering controllers and instrumentation products, the newspaper said.

Delphi declined comment.

Delphi’s restructuring, under the most optimistic scenario, is expected to cost suppliers and their investors and employees about $3.3 billion in lost earnings, according to a study released last week by the Anderson Economic Group L.L.C. in East Lansing

Harry Stoffer contributed to this report.

From Automotive News