

The Heavy Duty Manufacturers Association



**The Industry Voice of the
Commercial Vehicle Product Manufacturer**

2019 HDMA Supplier Terms and Conditions Survey Report

Richard Anderson

Director, Market Research and Analysis



Introduction

HDMA Supplier Terms & Conditions Survey Report

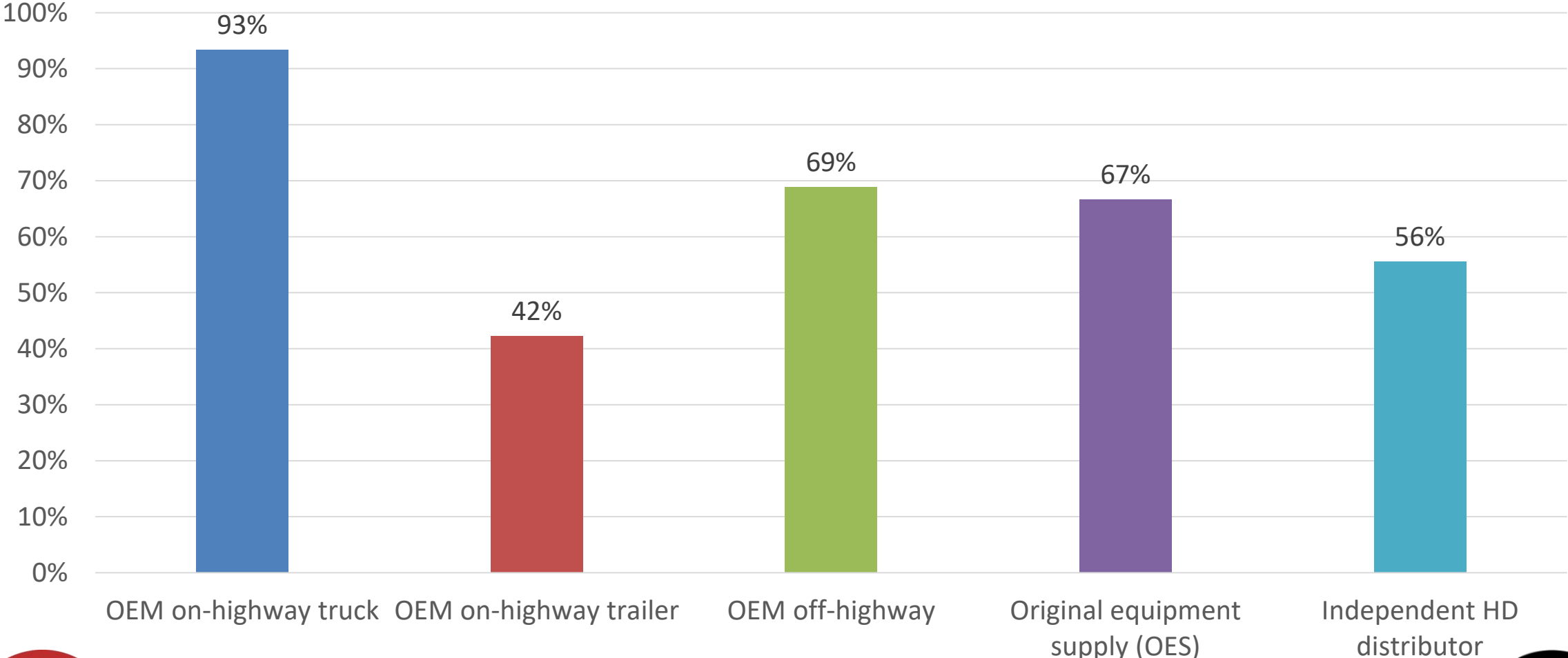
- The survey was conducted in April of 2019 among HDMA members.
- The data represents responses from 42 unique corporate entities.
- Due to Department of Justice guidelines, 2018 data is reported.
- Five-year, topline trend data is presented directly following select questions where trend data may be useful.





DEMOGRAPHICS

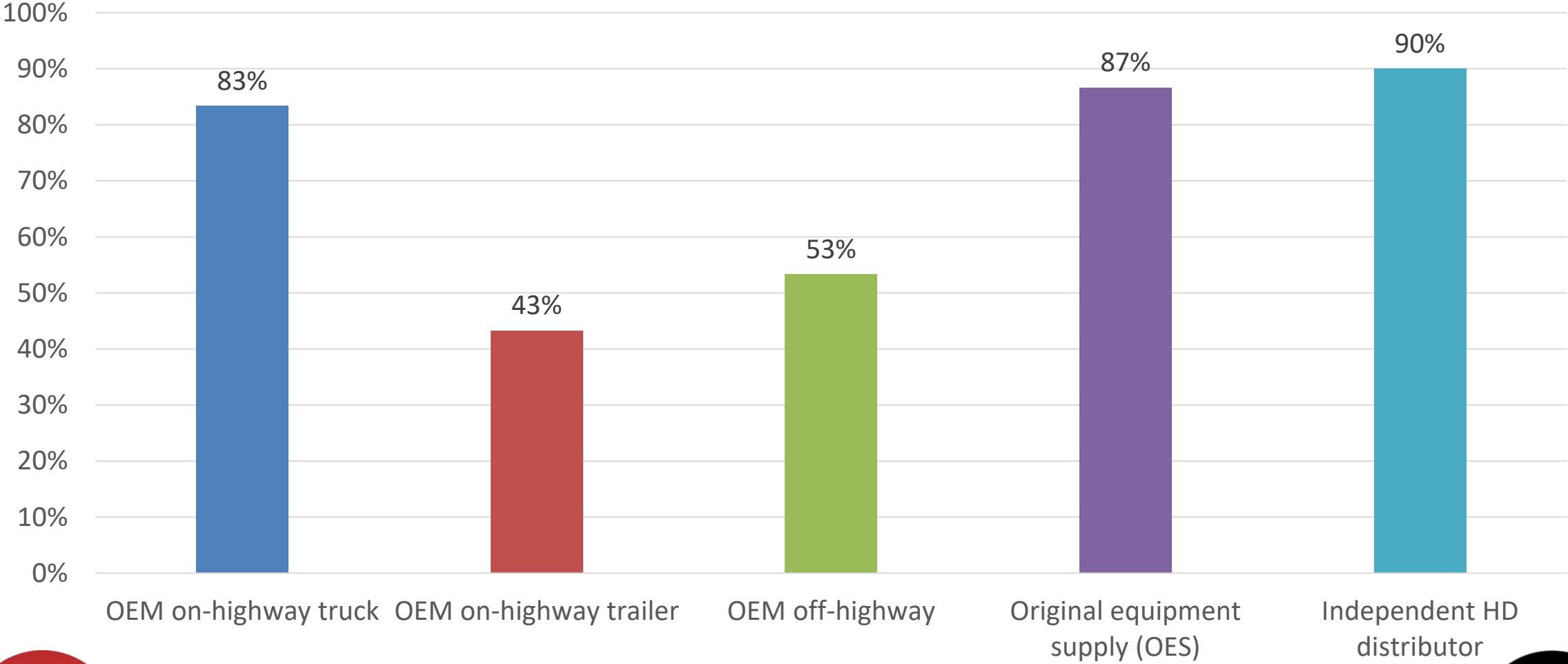
Which markets do your company supply?



Original Equipment Supply



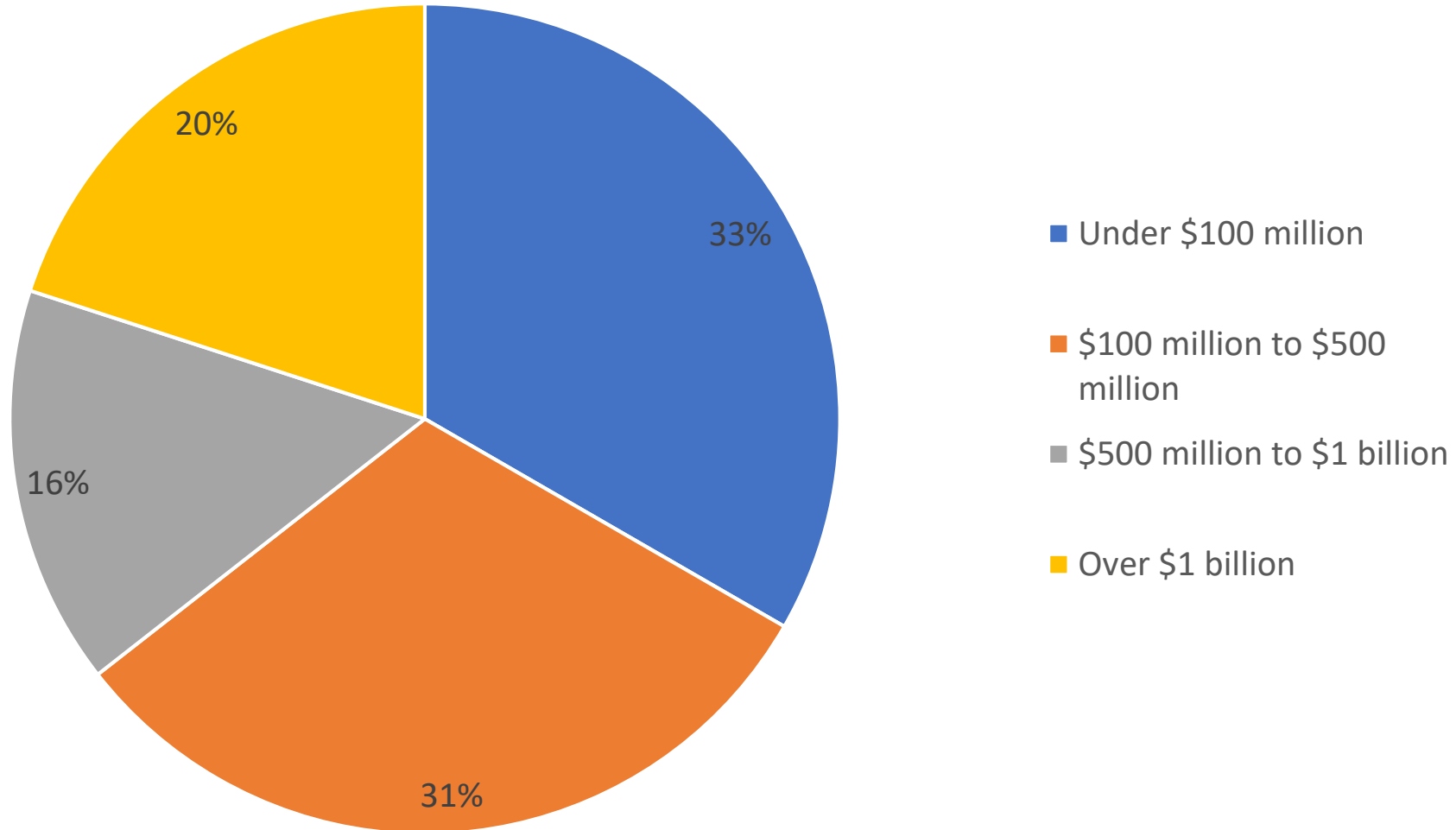
Which markets do your company supply?



Aftermarket & OES Supply



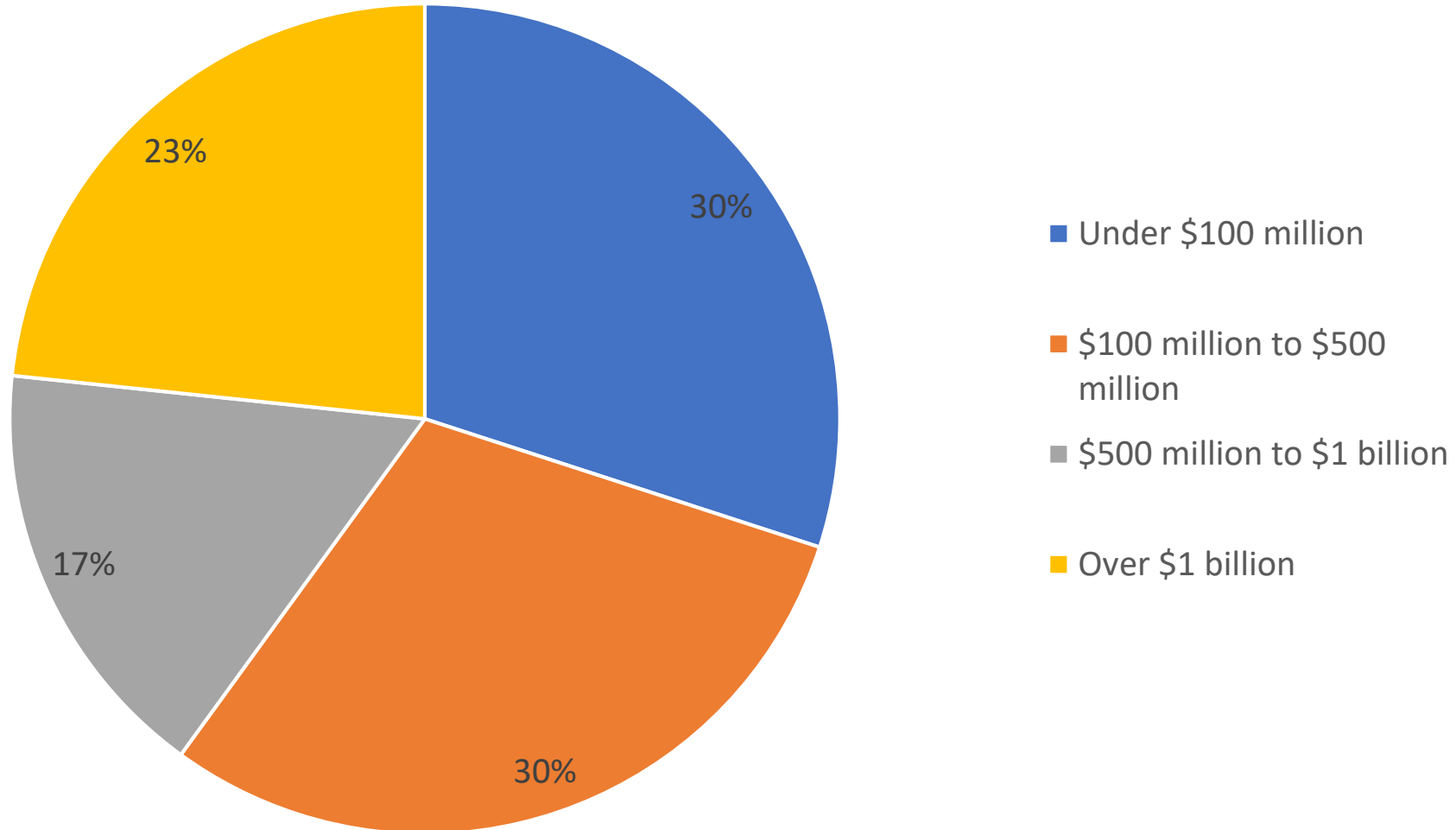
What is your company's annual commercial vehicle supply revenue?



Original Equipment Supply



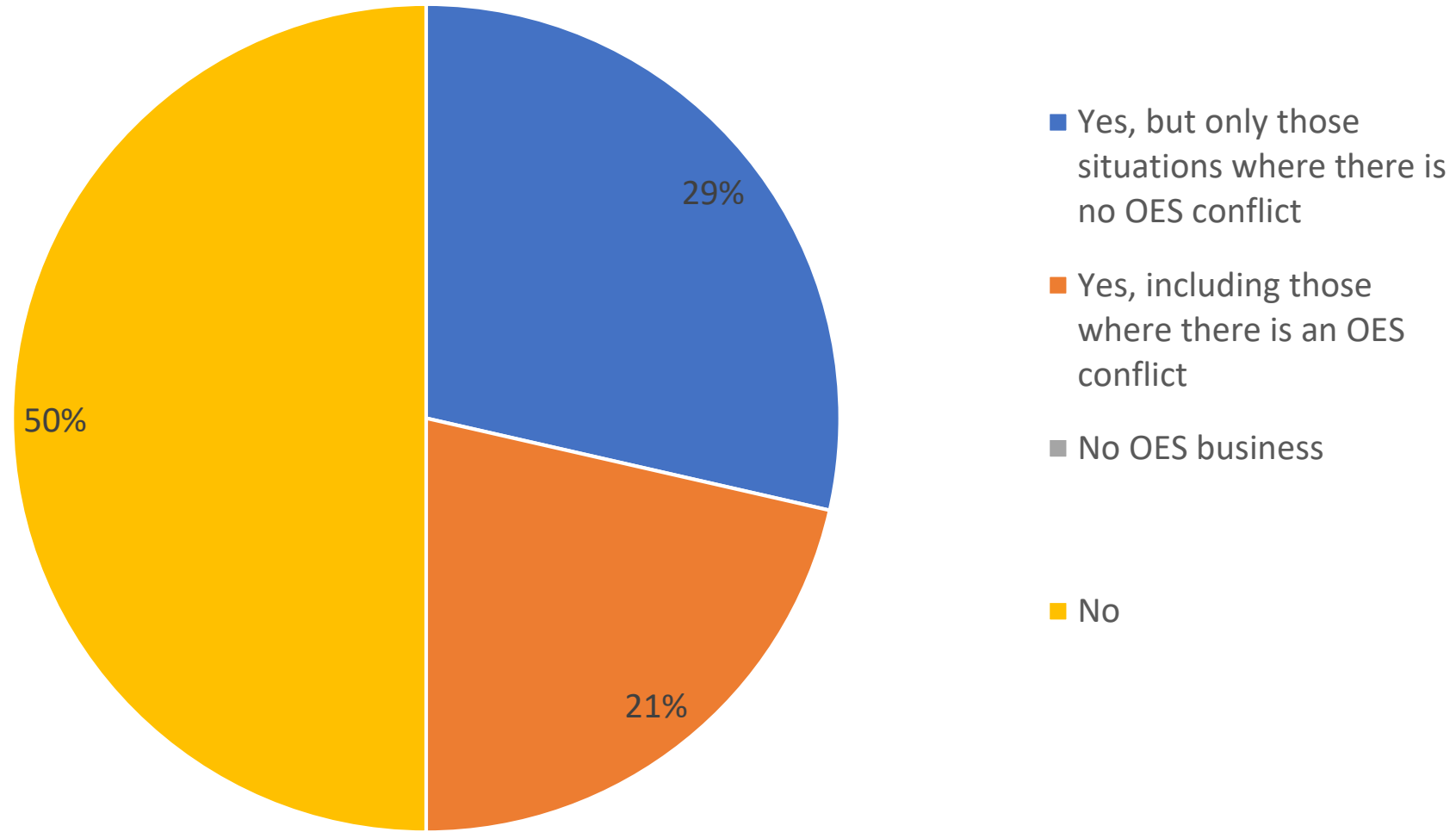
What is your company's annual commercial vehicle supply revenue?



Aftermarket & OES Supply



In 2018: did you bypass the OES and sell direct to dealers?



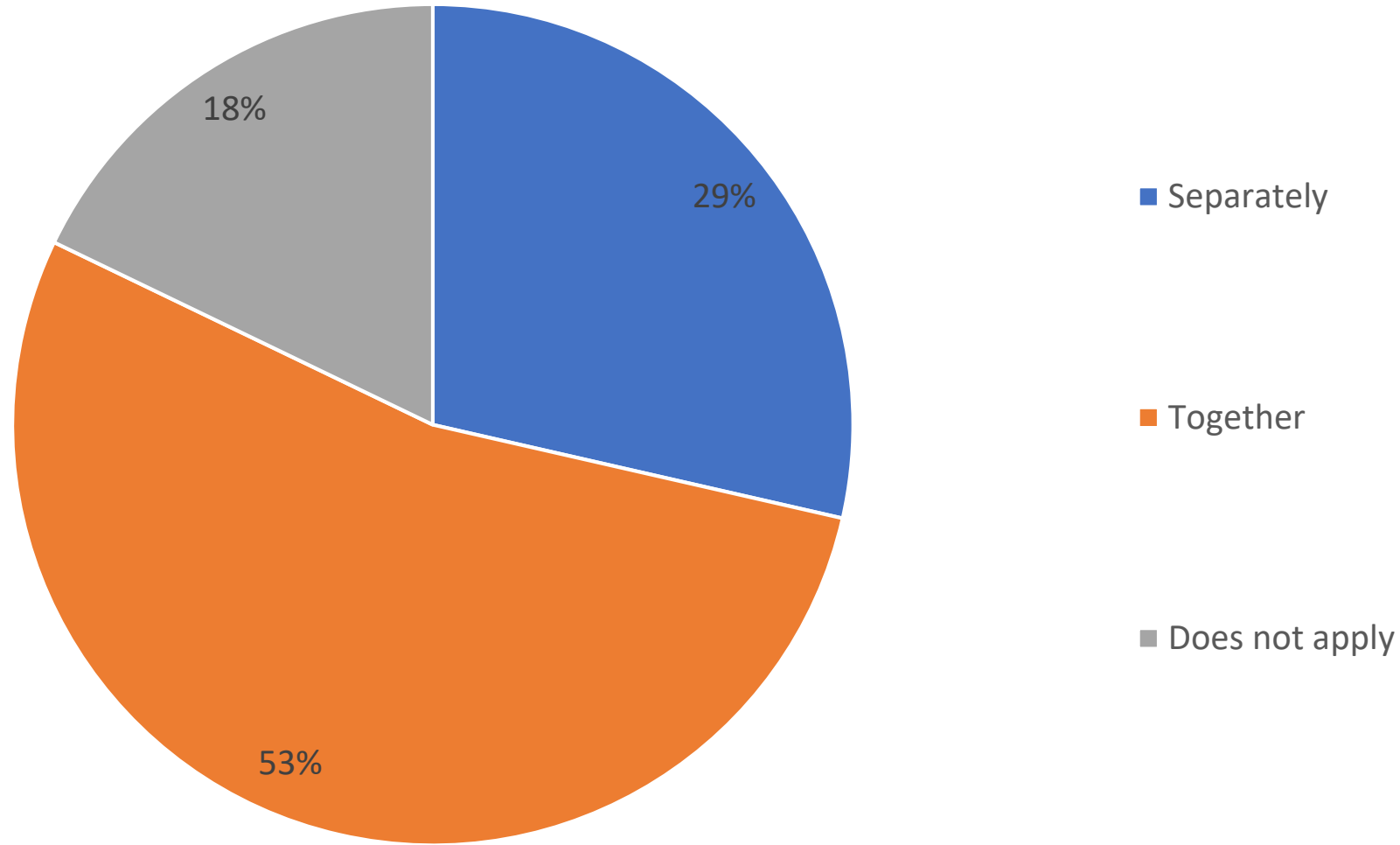
Aftermarket & OES Supply





LTA CONSOLIDATION

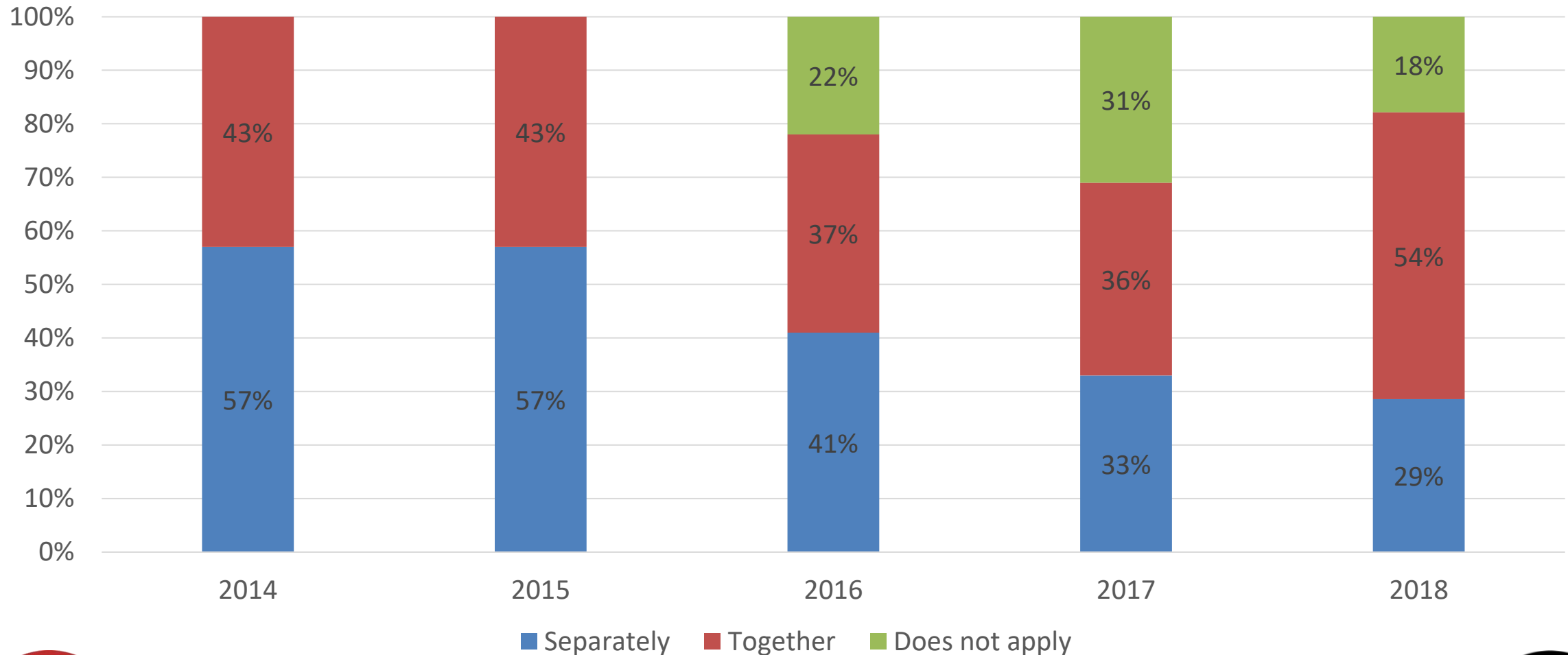
In 2018, for the same component, were OEM and OES contracts negotiated separately or together?



Aftermarket & OES Supply



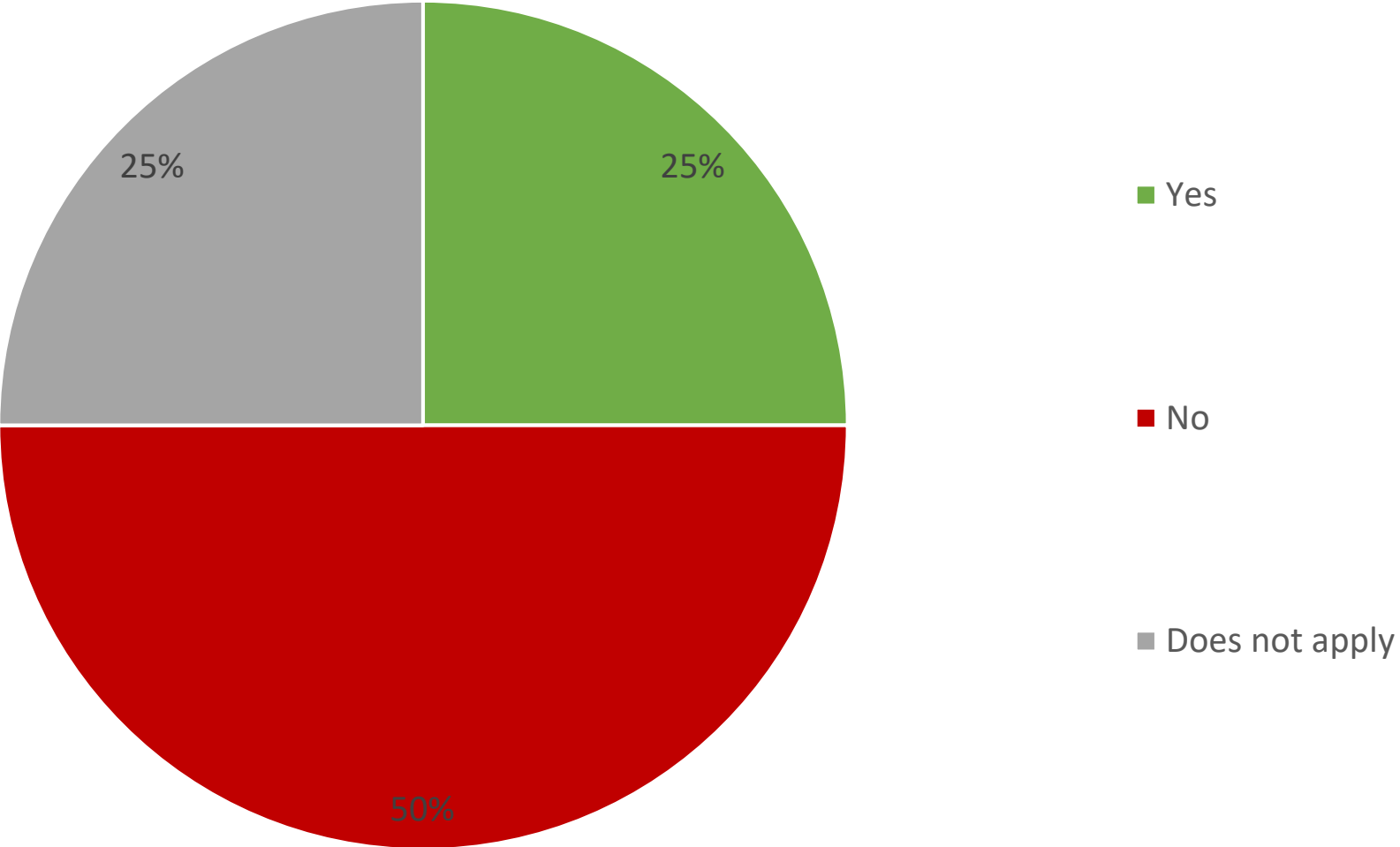
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Aftermarket & OES Supply



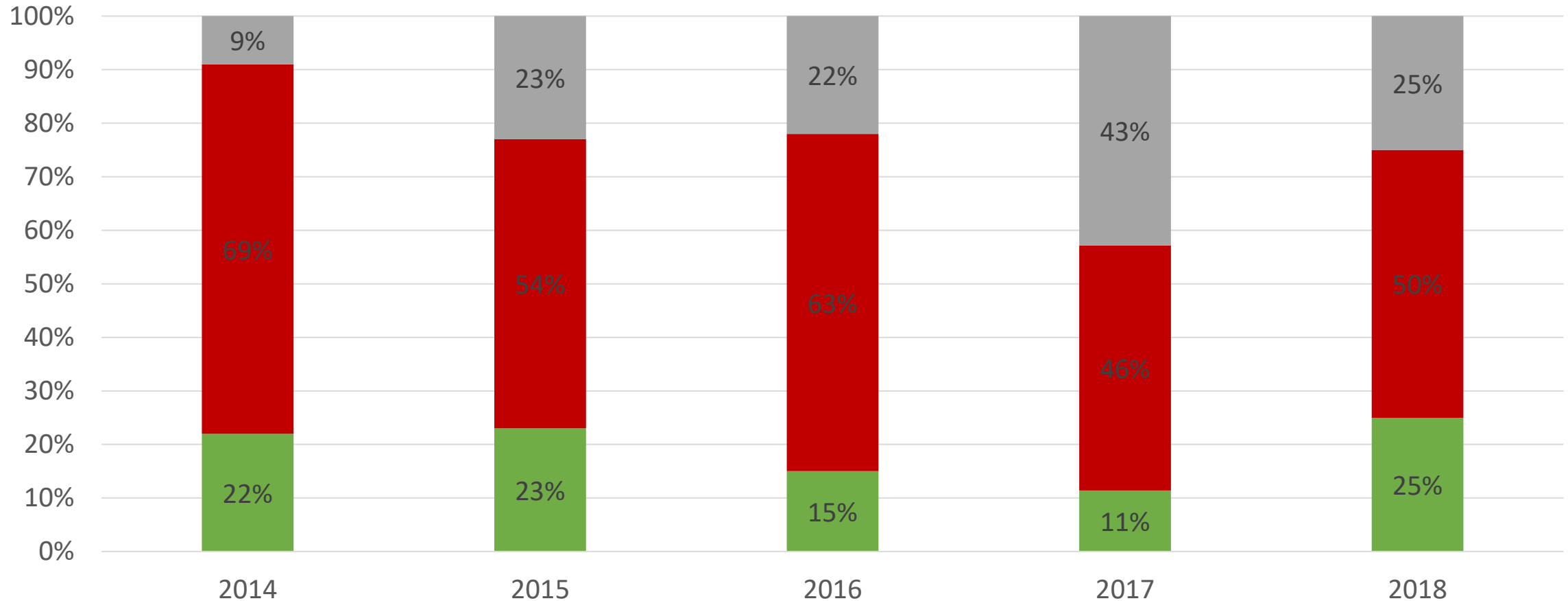
During 2018, did you receive requests to consolidate OEM and OES LTAs that were previously separate?



Aftermarket & OES Supply



Did you receive requests to consolidate OEM and OES LTAs that were previously separate?



■ Yes ■ No ■ Not applicable



Aftermarket & OES Supply



During 2018, what types of costs were incurred by your OES product (boxing, shipping, inventory management, etc.) but not incurred by selling to the production line, that you needed to communicate to your customers during contract negotiations?

- All of the above plus handling smaller quantities result in much higher costs
- All the above
- Higher material costs, packaging costs, labor costs
- Logistics to a separate PDC facility, PDC costs and related aftermarket packaging and labeling
- Packaging, Freight, Handling
- Packaging, Inventory, cost-down activities



Aftermarket & OES Supply



During 2018, what types of costs were incurred by your OES product (boxing, shipping, inventory management, etc.) but not incurred by selling to the production line, that you needed to communicate to your customers during contract negotiations?

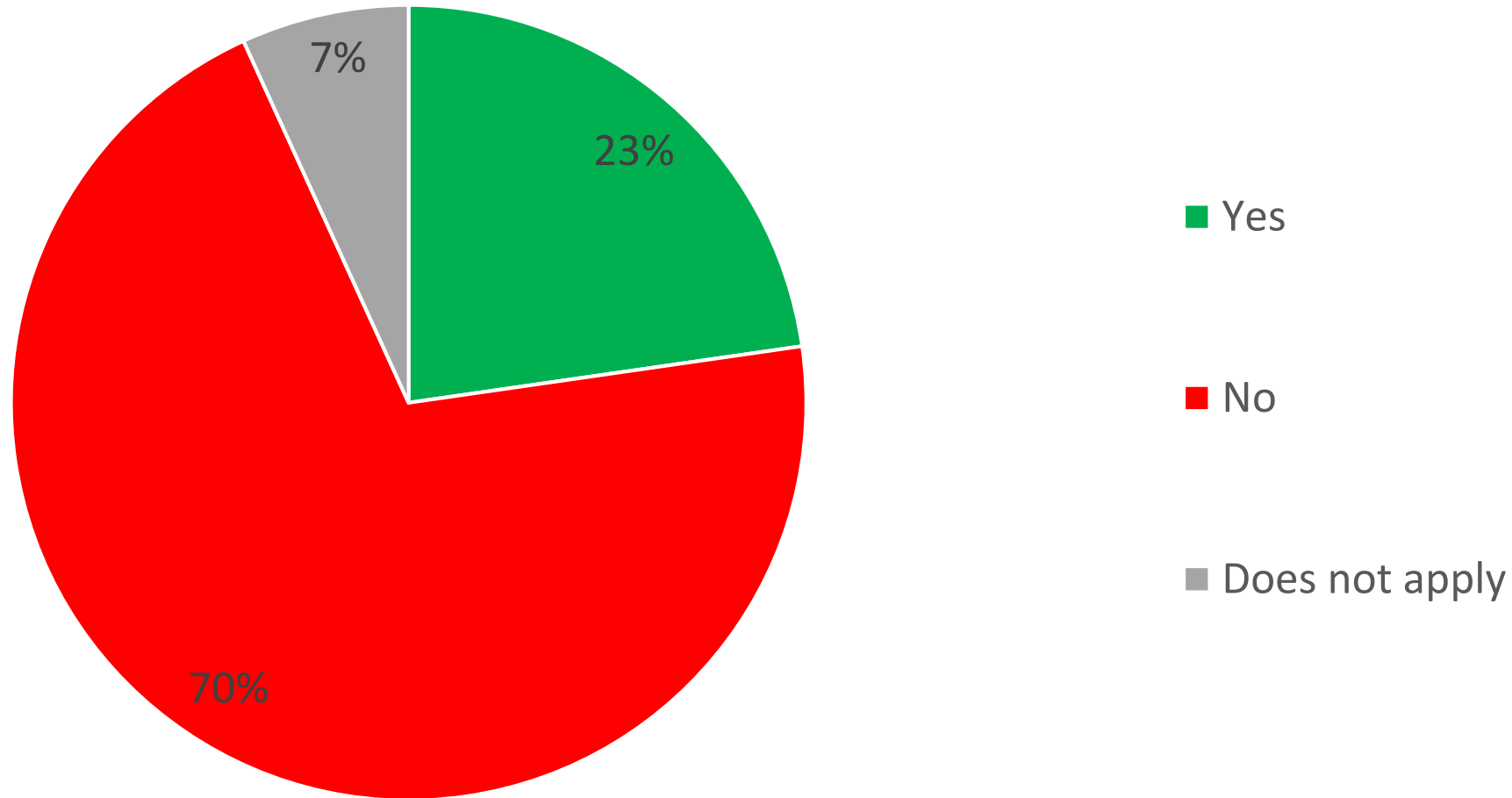
- All of the above
- Boxing, shipping, inventory
- Boxing, shipping, inventory management, dedicated facilities and facility support staff, separate sales force.
- Customer service (orders), boxing (additional handling), shipping, inventory
- Labeling, packaging, shipping
- Logistics to a separate PDC, PDC costs and aftermarket packaging and labeling costs.
- Packaging
- Packaging and smaller lot sizes.
- Packaging, sales/service support, batch size - setup costs
- Packaging, last-time buys, component obsolescence, short-run setups
- Packaging, special handling
- Packaging, warehouse costs, inventory carrying costs, direct ship freight
- Special packaging, kitting, minimum order quantities
- Special packaging, labeling and marking for service.
- There are additional costs involved in OES vs OE, but our primary argument to the OES groups is that we price based on channel, so aftermarket is not priced the same as OE.



Original Equipment Supply



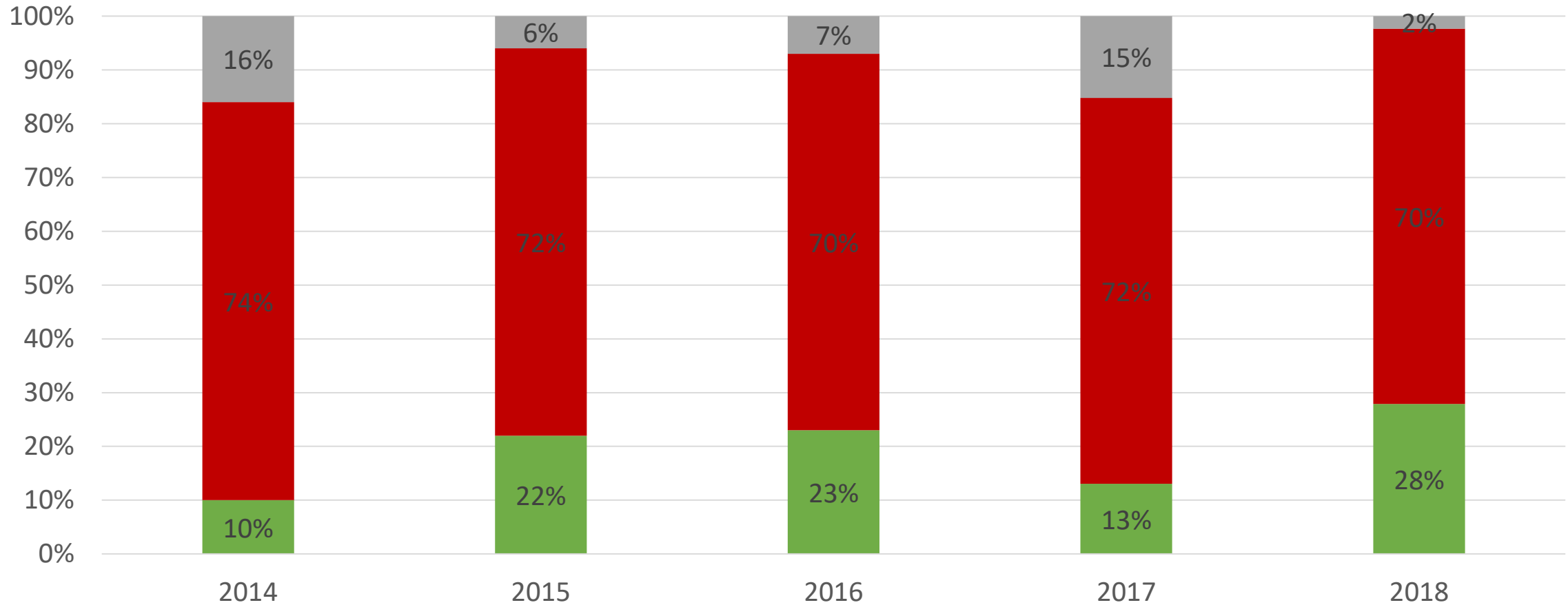
During 2018, did you receive requests to consolidate OEM LTAs for brands owned by the same parent that were previously separate?



Original Equipment Supply



Did you receive requests to consolidate OEM LTAs for brands owned by the same parent that were previously separate?



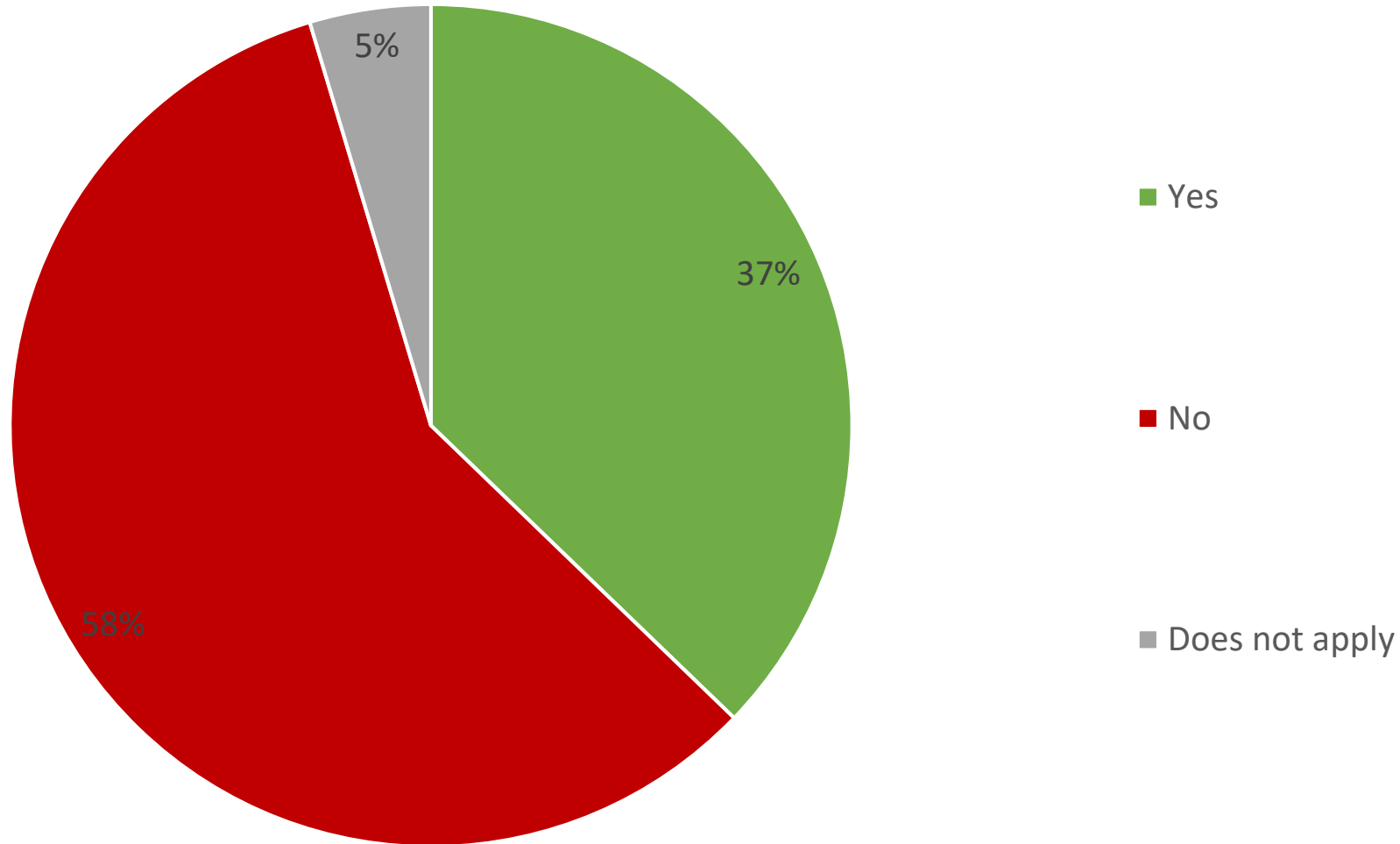
■ Yes ■ No ■ Not applicable



Original Equipment Supply



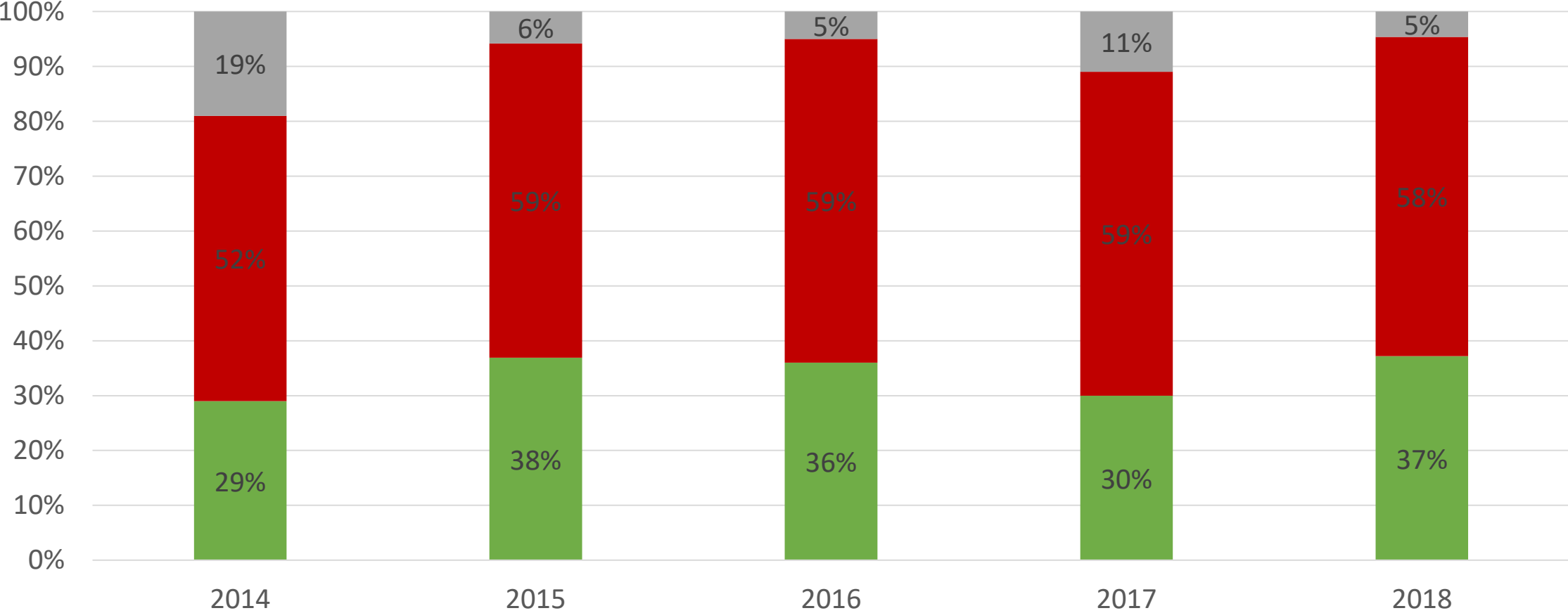
During 2018, did you receive from your OEM customers operating in different regions requests to consolidate OEM LTAs for different regions or countries that were previously separate?



Original Equipment Supply



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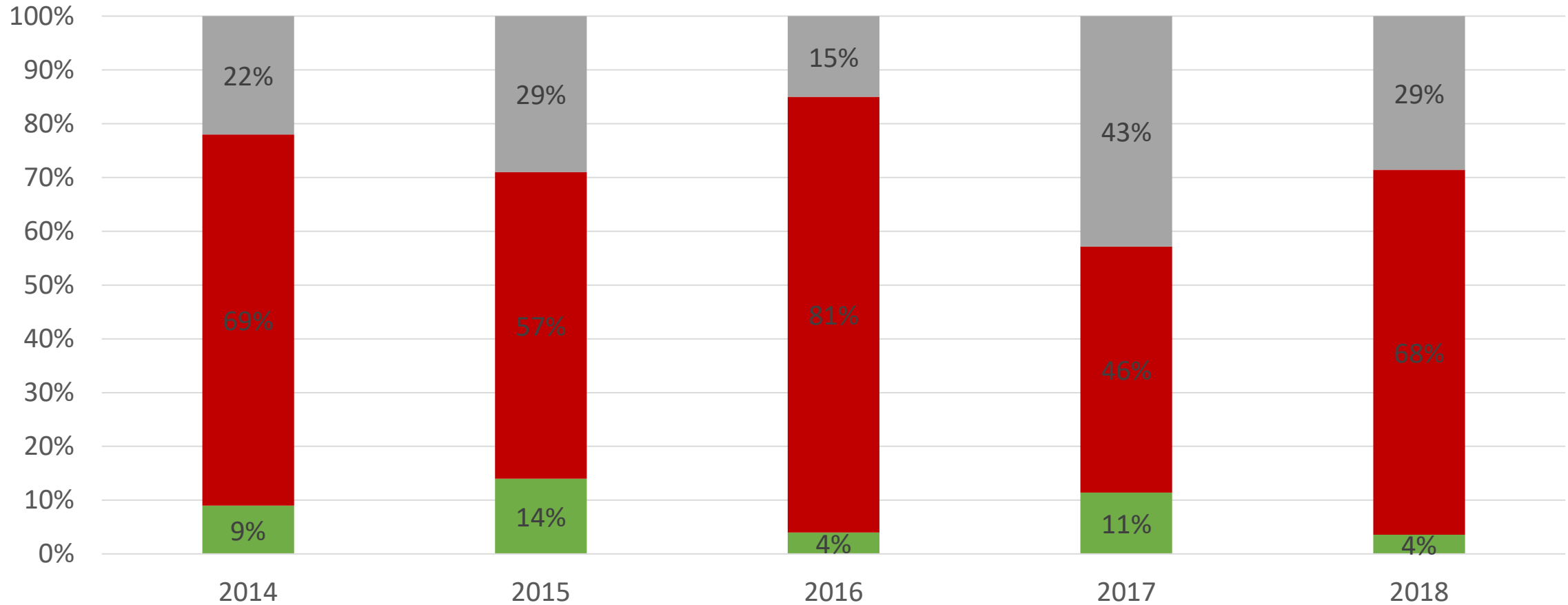
■ Yes ■ No ■ Not applicable



Original Equipment Supply



Did you receive requests to consolidate regional OES LTAs that were previously separate?



■ Yes ■ No ■ Not applicable



Aftermarket & OES Supply



Please enter any comments on types of LTA consolidation demands and/or negotiations you have experienced during 2018.

Original Equipment Supply

- Best price in any region is shared with other regions for same OEM
- Consolidating country or continent specific agreements into global agreements
- Demands for open book pricing and access to our financials which, as a private company, we do not grant.
- Increase focus on warranty language, quality requirements. Very high level approval required for LTAs with OEM.
- Leveraged one region LTA signing to correct commercial issue in other region.
- One truck OEM negotiates global agreements. Three others leverage regions to get agreements done in other regions.
- Operating to separate LTA agreements with parent and subsidiary locations (joint ventures)
- Price down demands but no guarantee from OEM of exclusive supply. OEMs want latitude to source from others but want guaranteed price downs.
- Requests to include regions that were previously on separate local contracts, into a global LTA.
- The focus was to commonize the T&C language. Payment terms and IP rights were able to vary depending on region and product.

Aftermarket & OES Supply

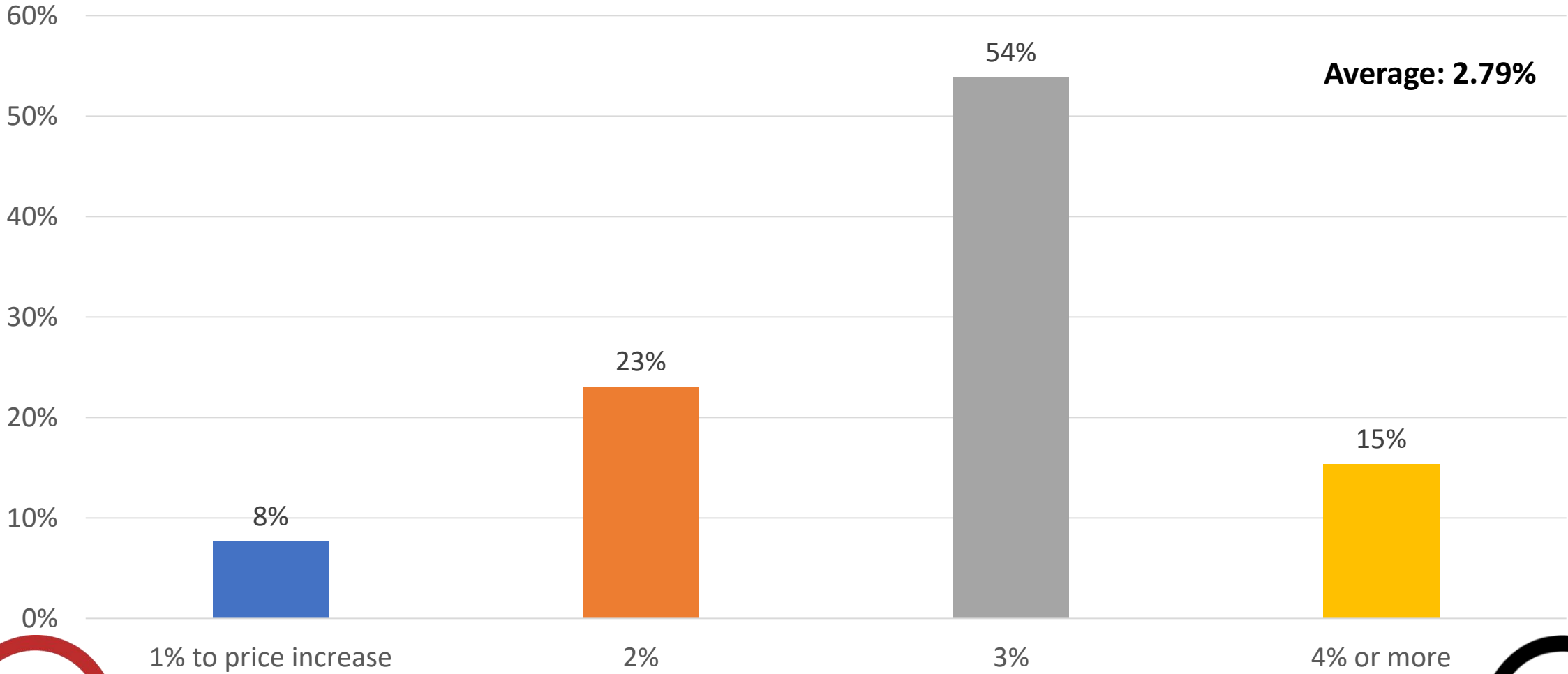
- OE and OES are negotiated together but OES pricing is not linked in any way to OE pricing.
- Our product going into the OES channel goes through a reliner. We do not sell dealers direct
- Price same as production plus packaging. Annual cost reductions. Improved / guaranteed fill rates. Dealer return policy. Cost transparency.
- Production pricing for aftermarket
- We experienced live bidding for the first time





OE PRICE DOWNS

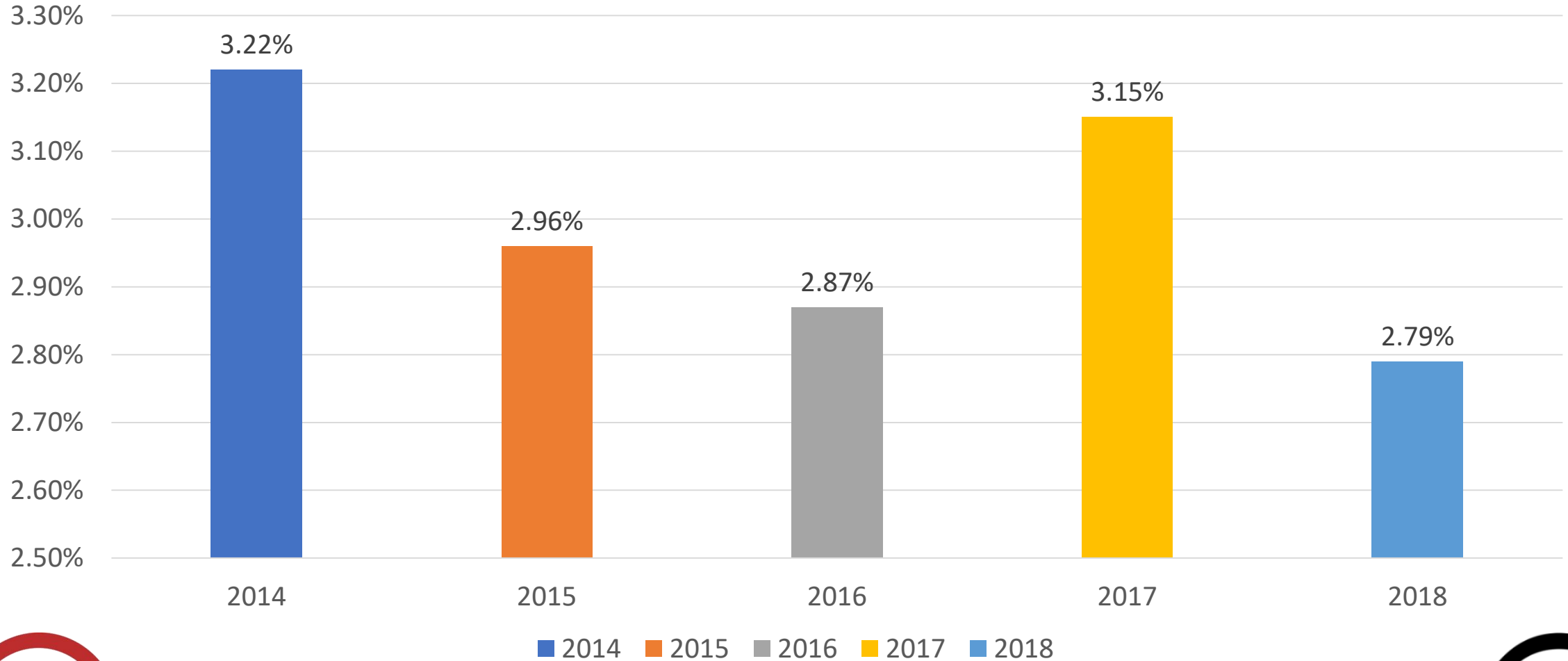
During 2018 what was the average amount of cost down/productivity price reductions requested?



Original Equipment Supply



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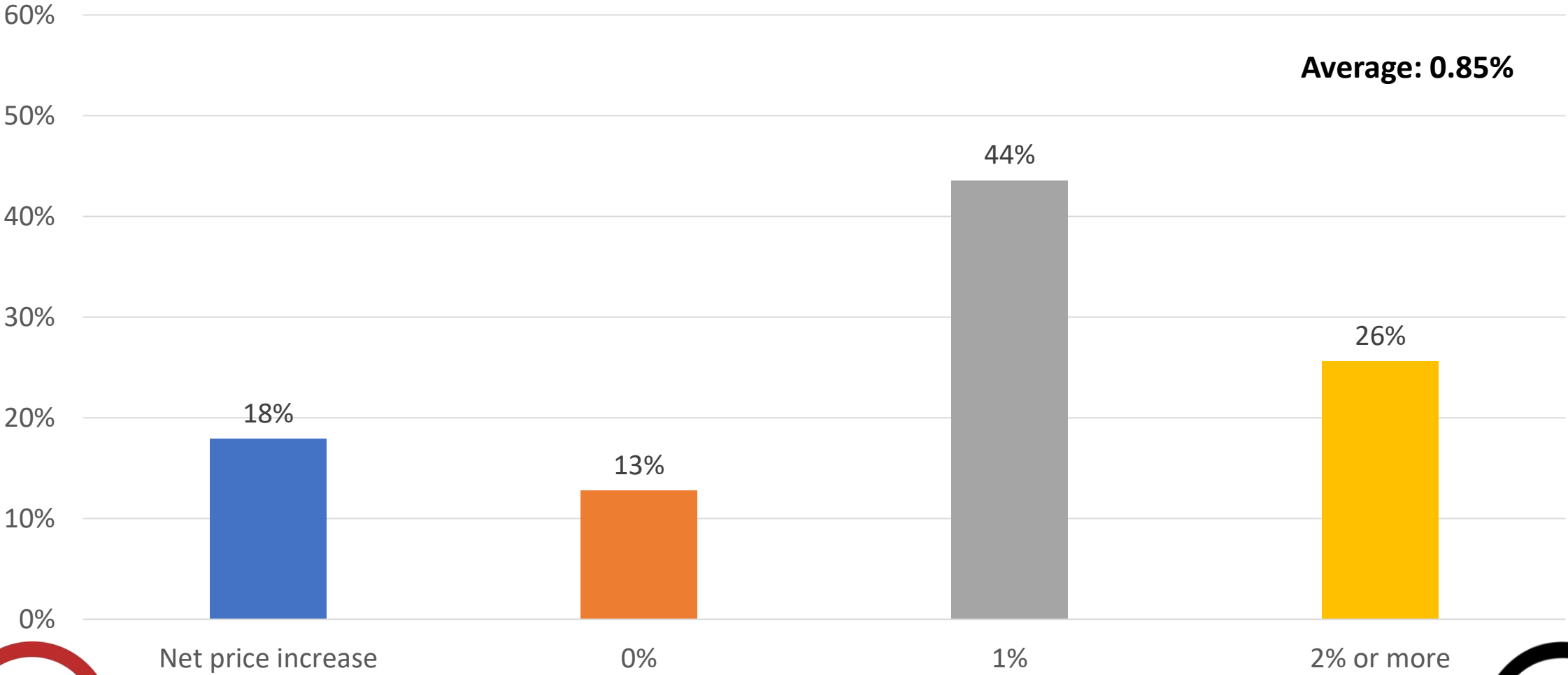


■ 2014 ■ 2015 ■ 2016 ■ 2017 ■ 2018

Original Equipment Supply



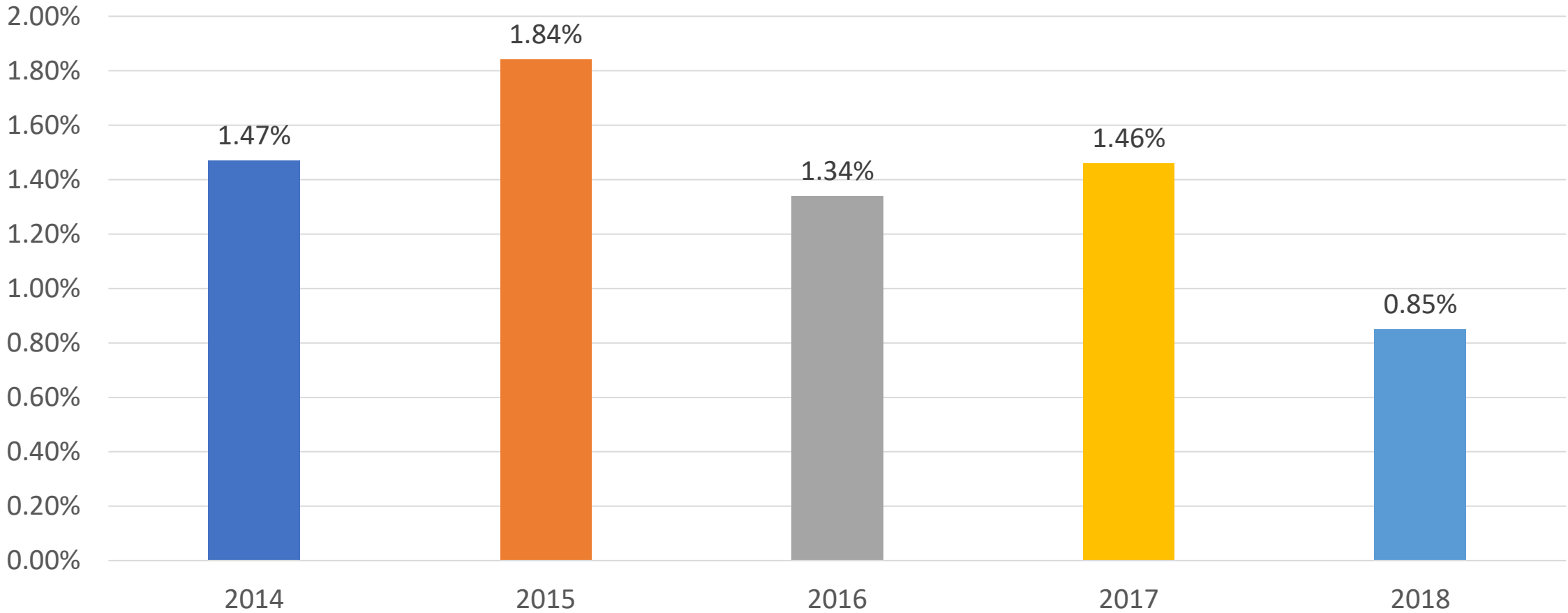
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Original Equipment Supply



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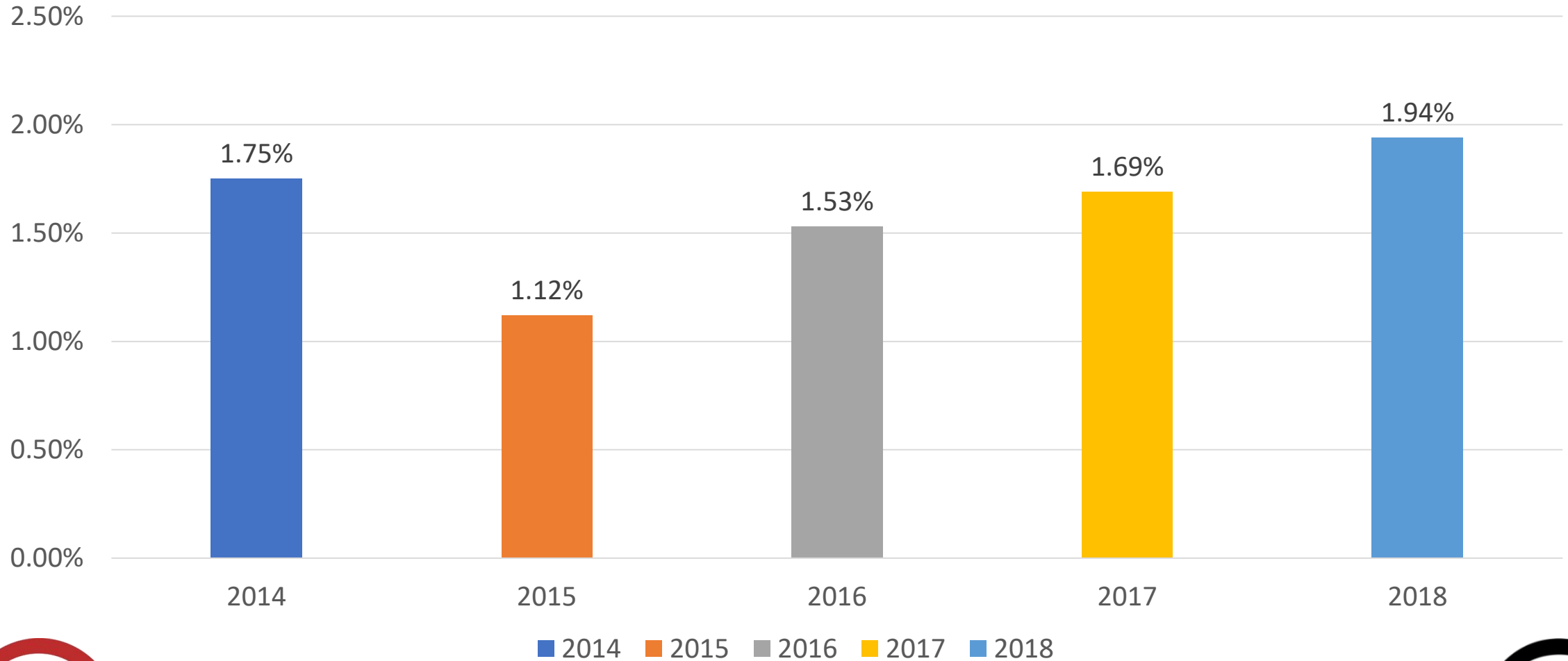
■ 2014 ■ 2015 ■ 2016 ■ 2017 ■ 2018



Original Equipment Supply



Cost down/productivity price reductions: Requested vs. Negotiated annual differential



Original Equipment Supply



Please enter any comments on types of productivity/price down demands and/or negotiations you have experienced during 2018.

- Demands higher and more frequent in Europe.
- OEM's ask for price downs in a period of raw material escalation. What planet are these beings from?
- OEMs baited us with more business/exclusive supply in exchange for price downs. When we came back and offered price downs, they then responded with multi-supplier strategies as a must but still want the price downs.
- Price competitiveness: the customer claimed that he had a better price from other source.
Contract extensions: the customer said that they would only extend The LTA if there is some productivity attached.
- Productivity was given in conjunction with new program awards.
- Removing material cost and raw material surcharges from calculations. Limited to new part numbers released for production.
- Some value add and some full value.
- Wide range of requests for price downs.



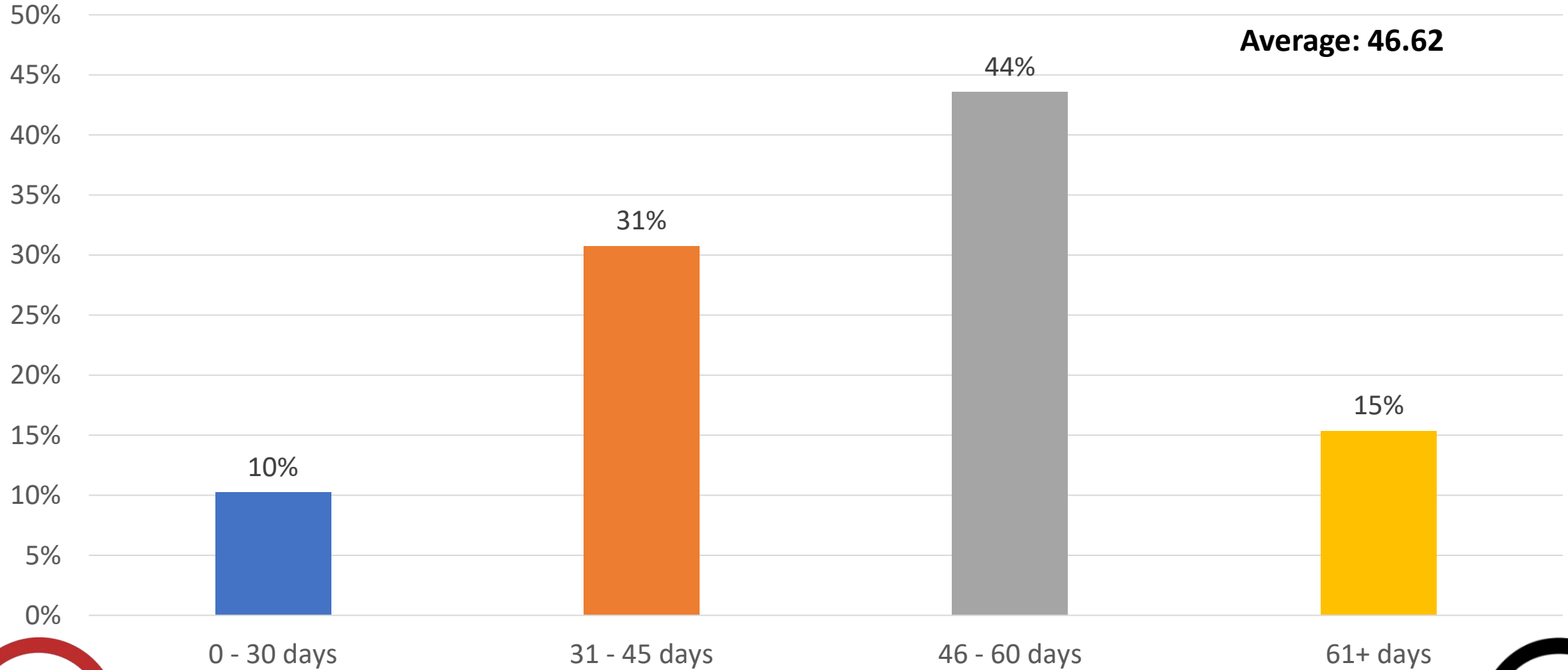
Original Equipment Supply





PAYMENT TERMS

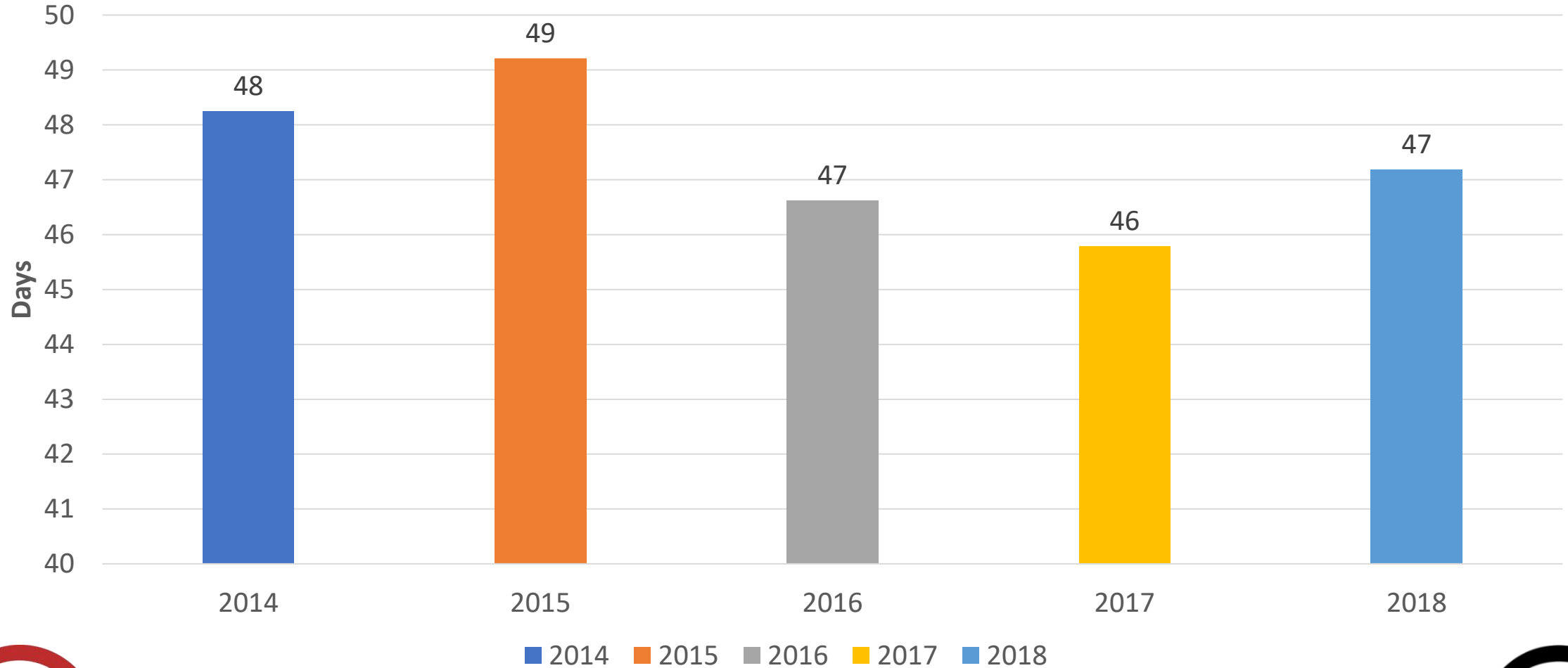
What was the average length of contracted payment terms during 2018 for your OEM USMCA (NAFTA) LTAs?



Original Equipment Supply



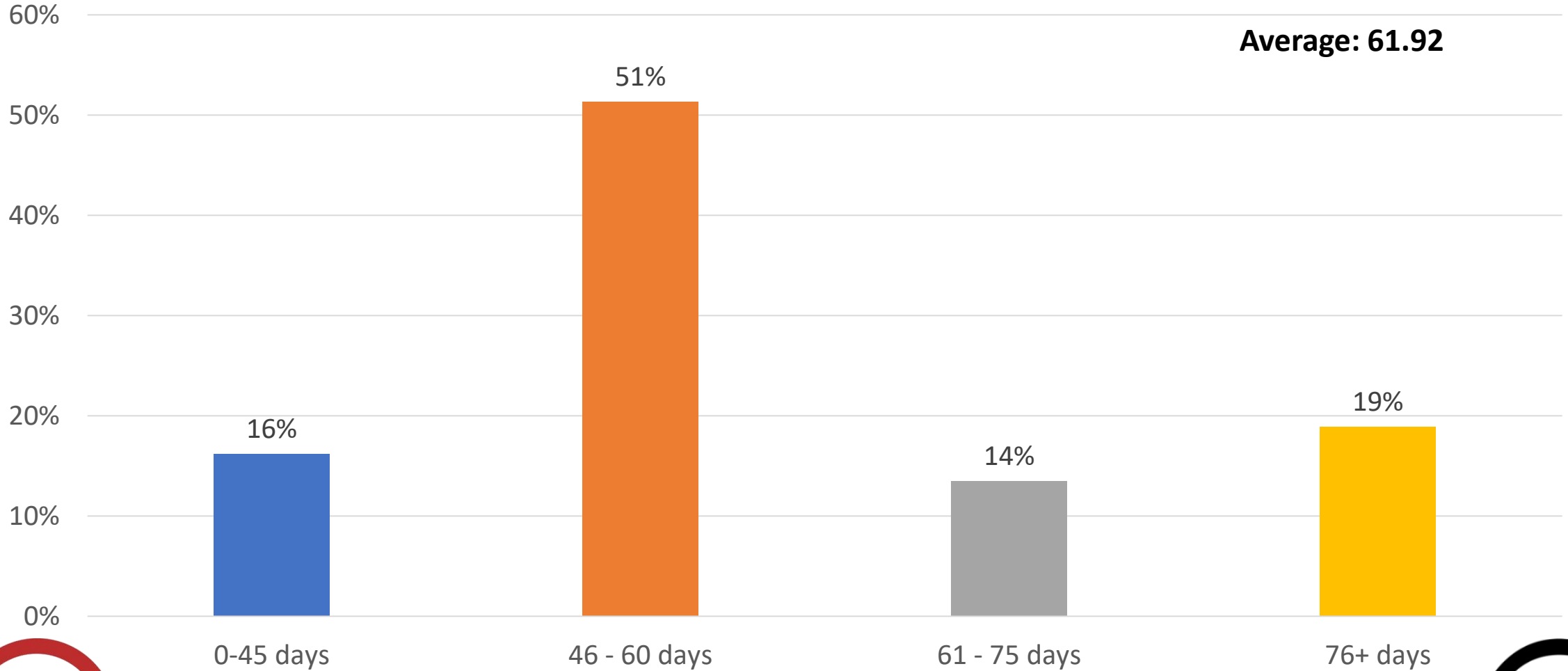
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Original Equipment Supply



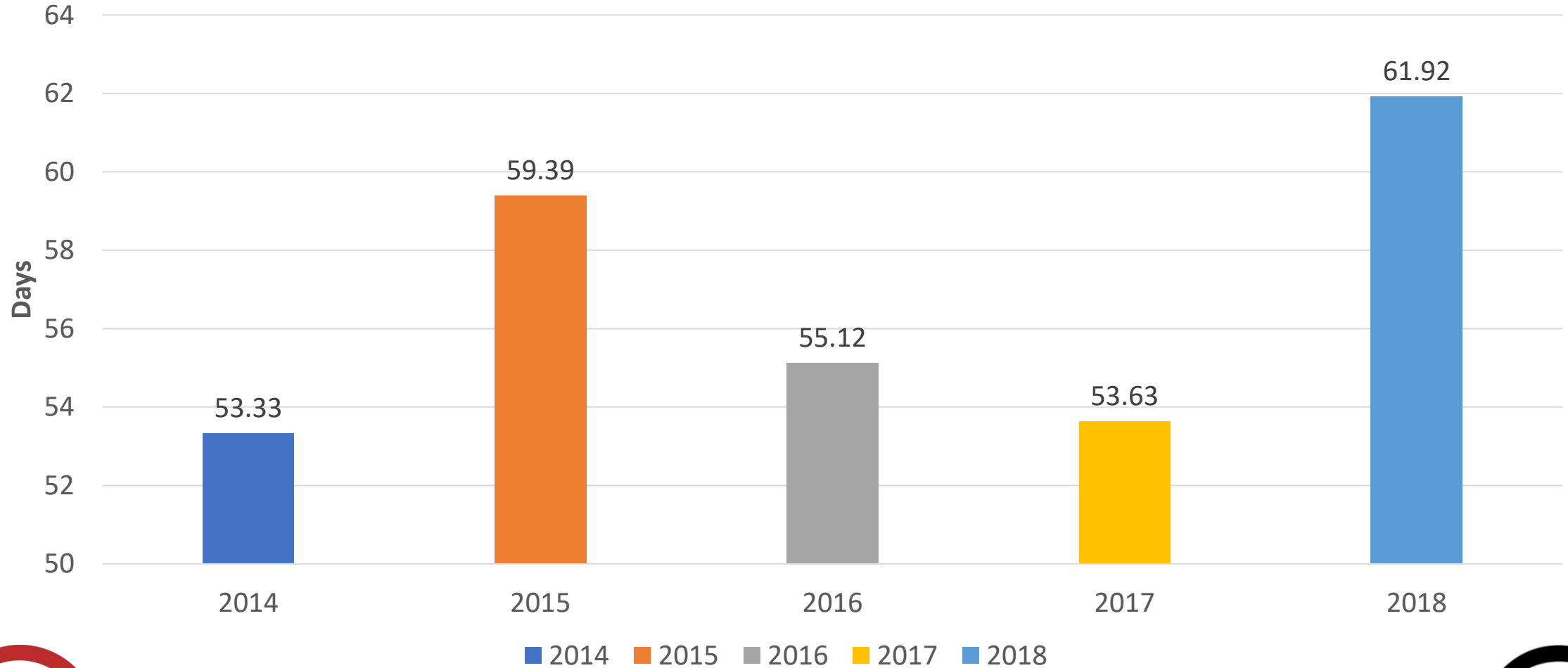
What was the average length of contracted payment terms during 2018 for your OEM global LTAs?



Original Equipment Supply



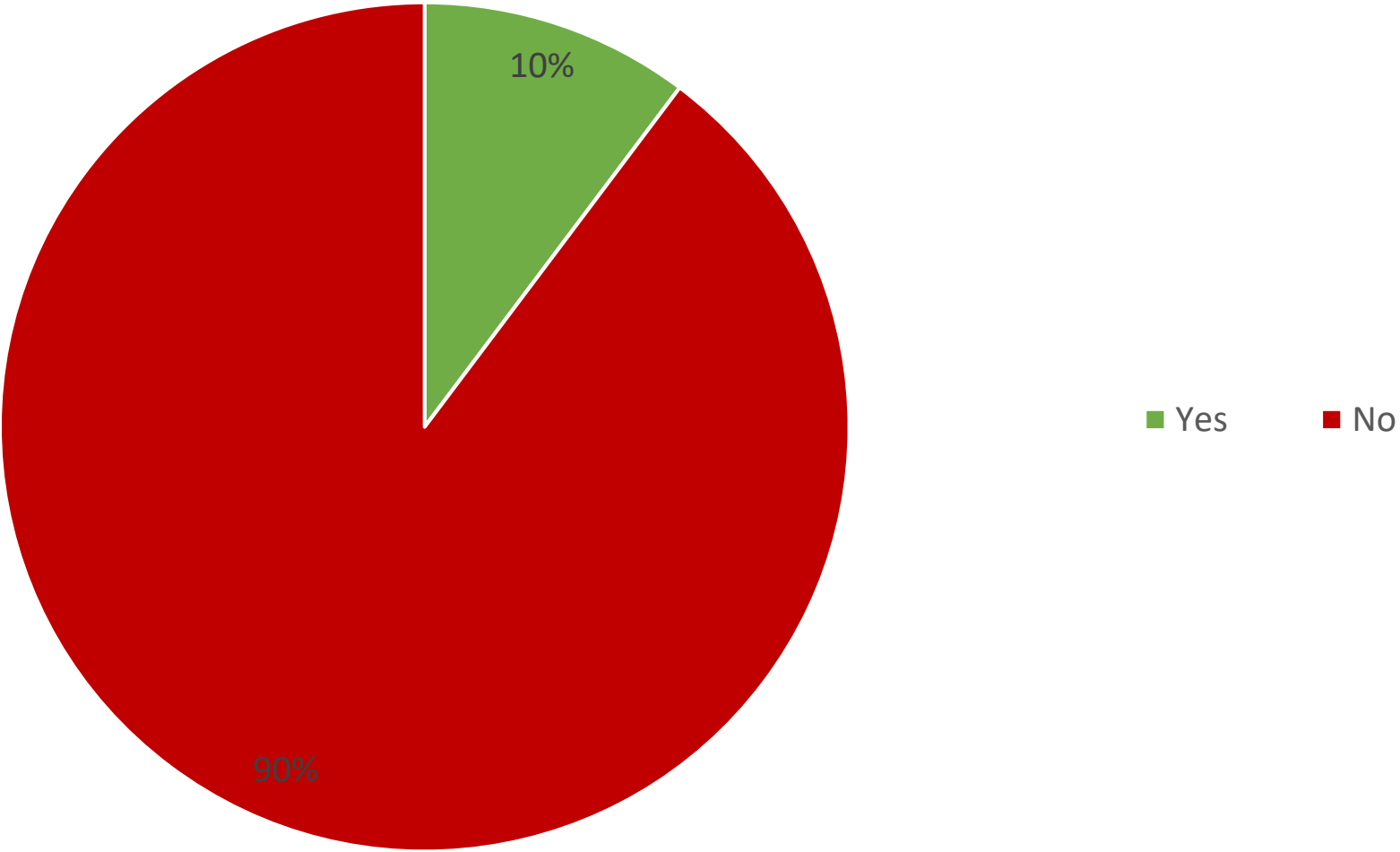
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Original Equipment Supply



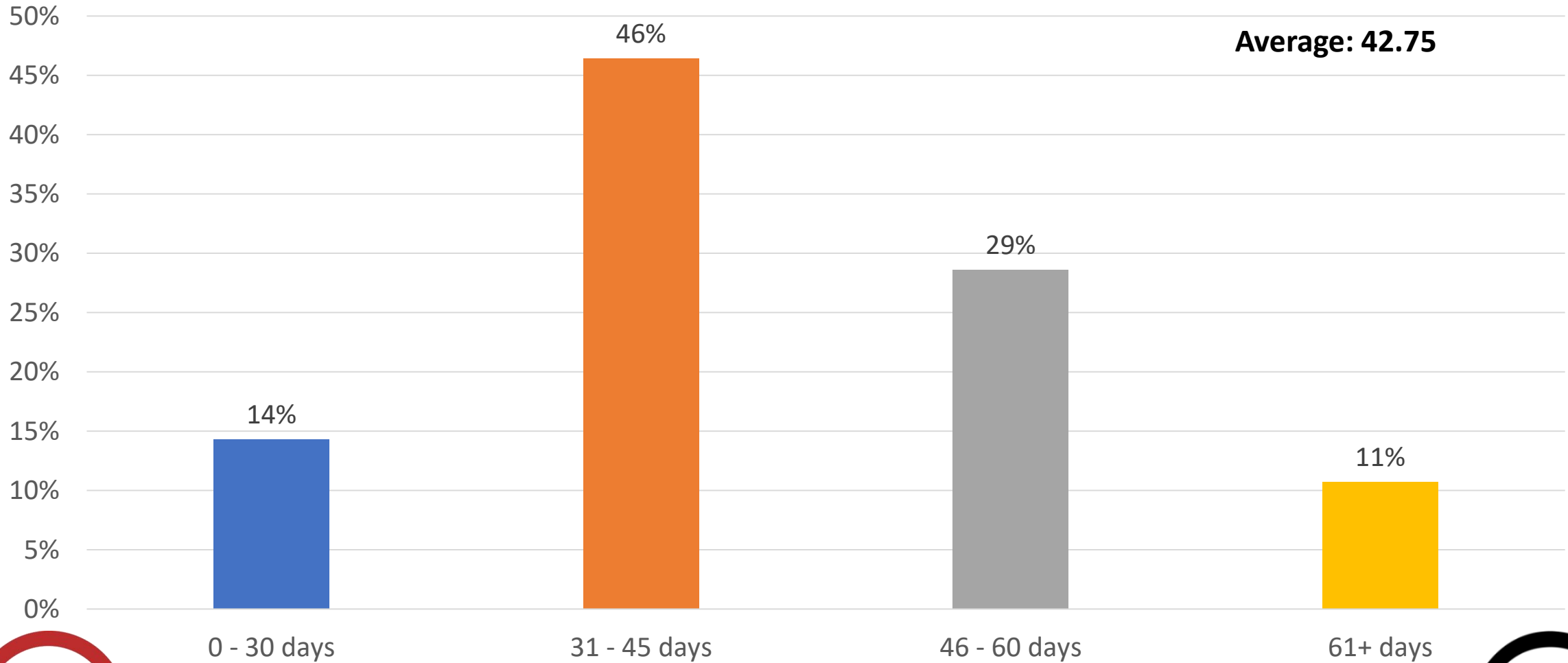
Were you able to negotiate reductions in the length of payment terms for 2018?



Original Equipment Supply



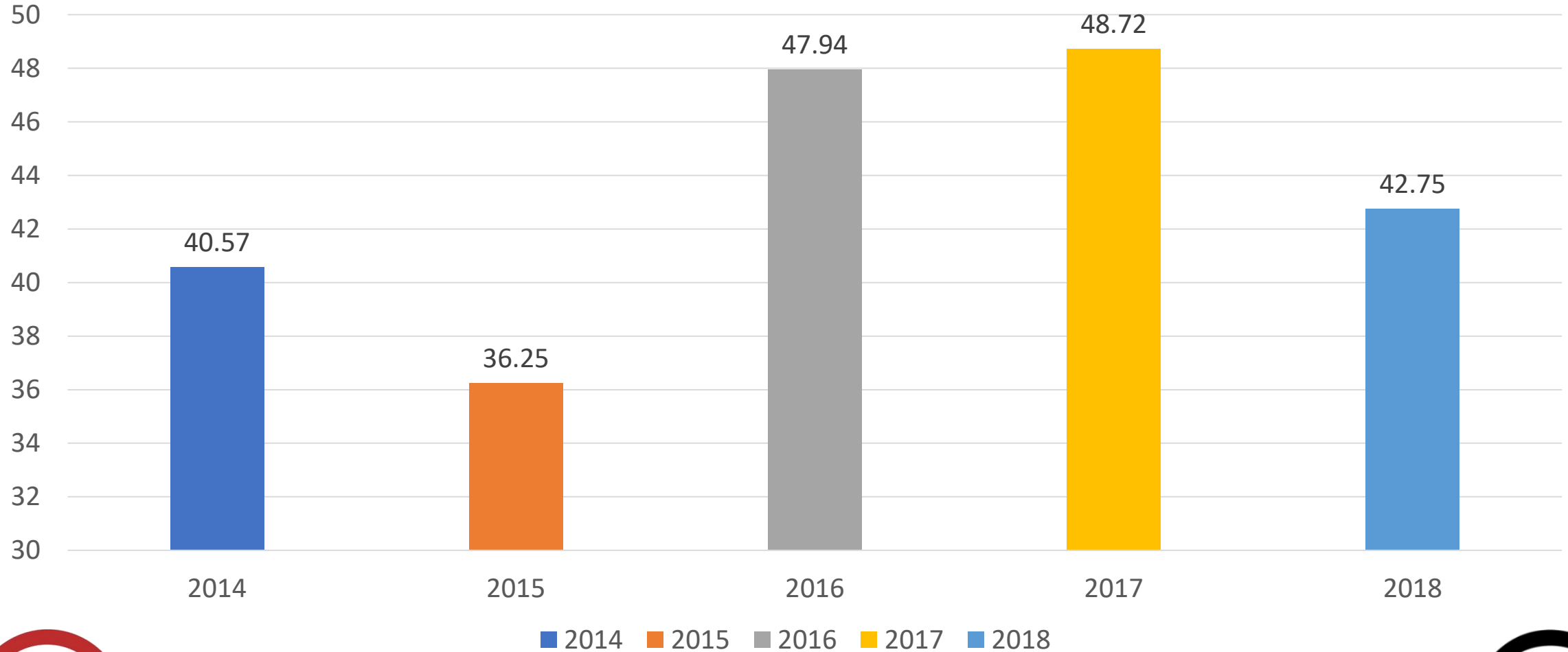
What was the average length of contracted payment terms for your OES customers during 2018?



Aftermarket & OES Supply



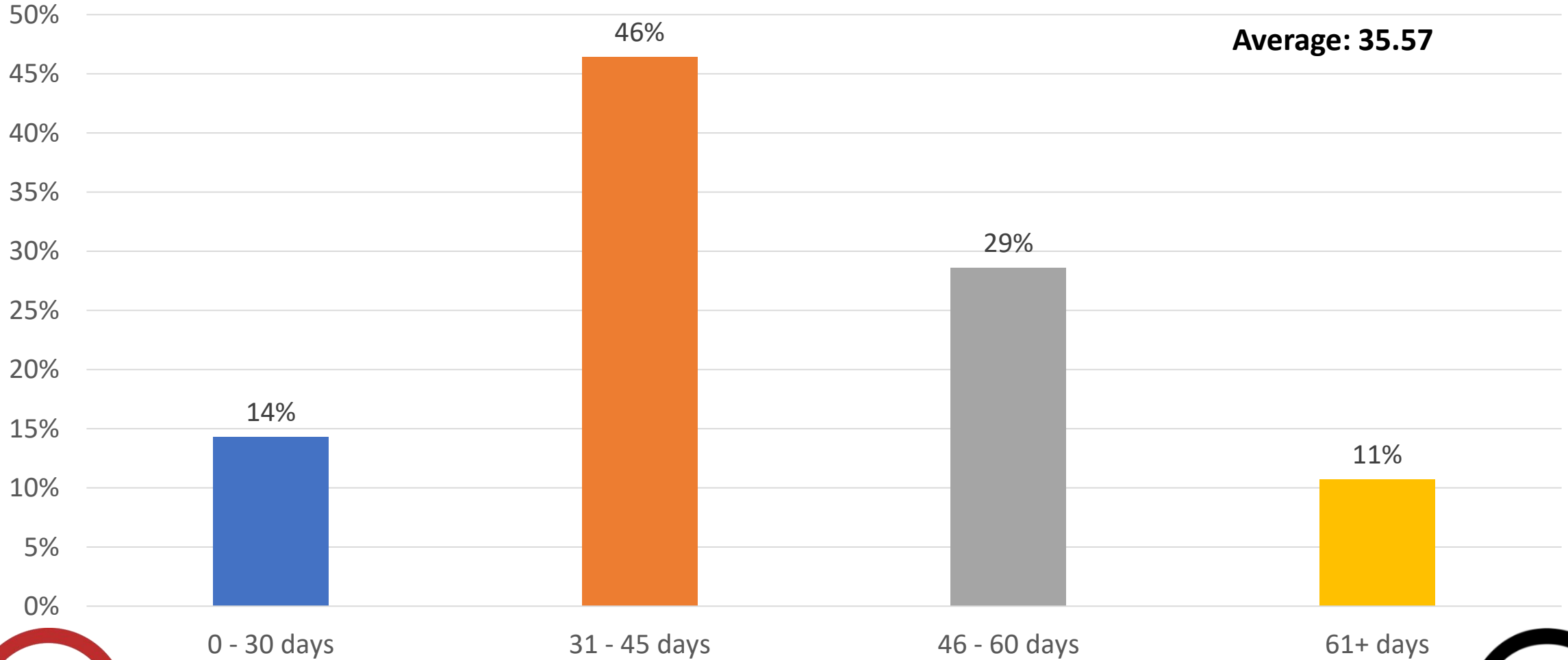
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Aftermarket & OES Supply



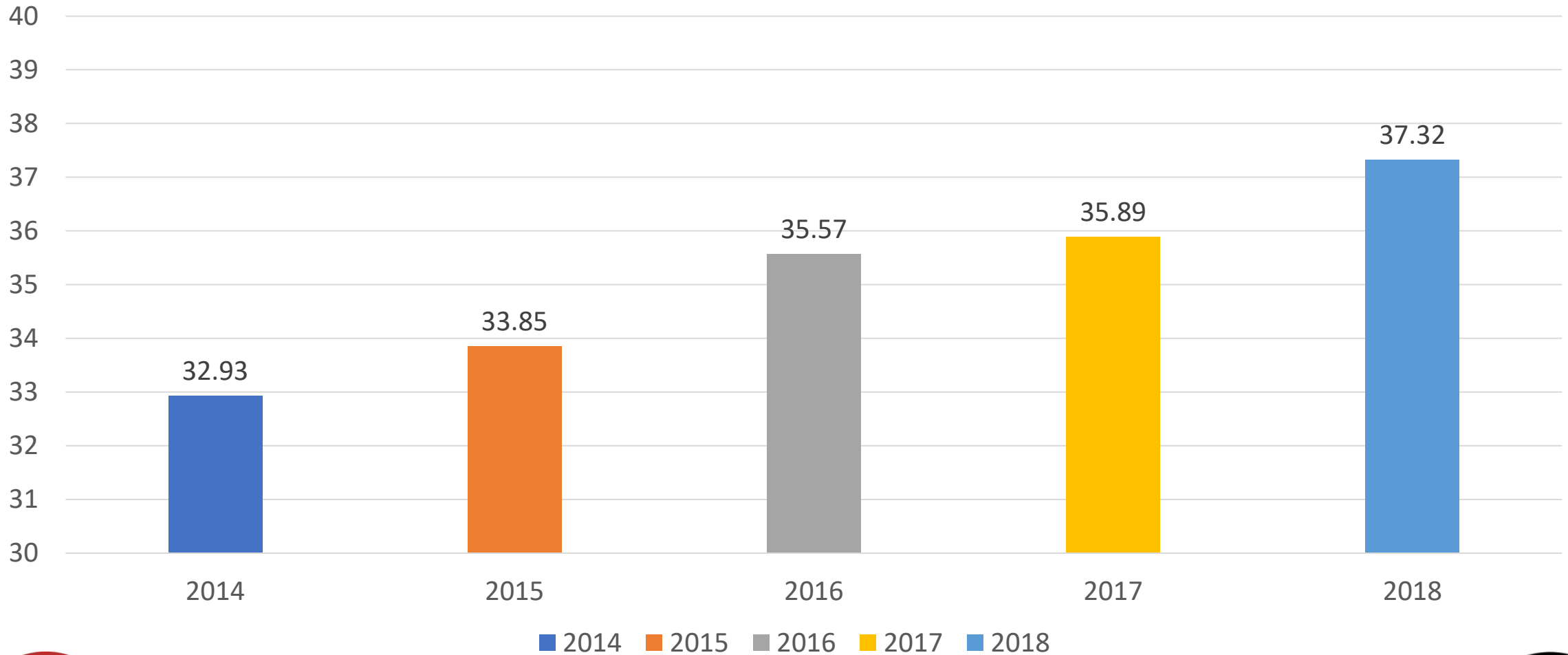
What was the average length of contracted payment terms for your major independent aftermarket customers during 2018?



Aftermarket & OES Supply



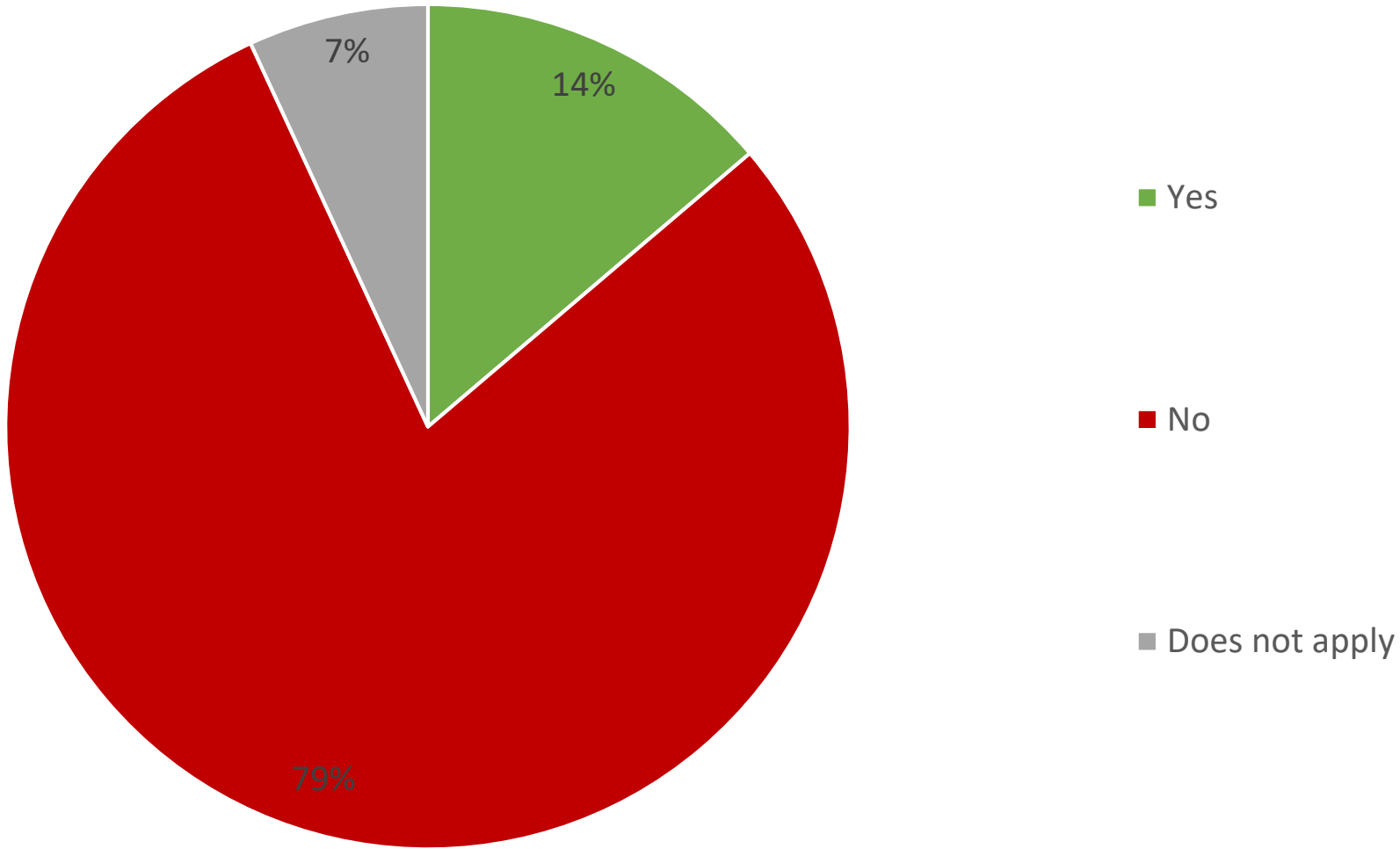
What was the average length of contracted payment terms for your major independent aftermarket customers?



Aftermarket & OES Supply



Were you able to negotiate reductions in the length of payment terms for 2018?



Aftermarket & OES Supply



Please enter any comments on types of payment terms demands and/or negotiations you have experienced during 2018.

Original Equipment Supply

- Changes to raw material formulas to force more sharing.
- Every OEM is asking for longer terms
- LTA expired and have not agreed to new LTA.
- Mexican and Non-USA American customers extended payments SIGNIFICANTLY in 2018.

Aftermarket & OES Supply

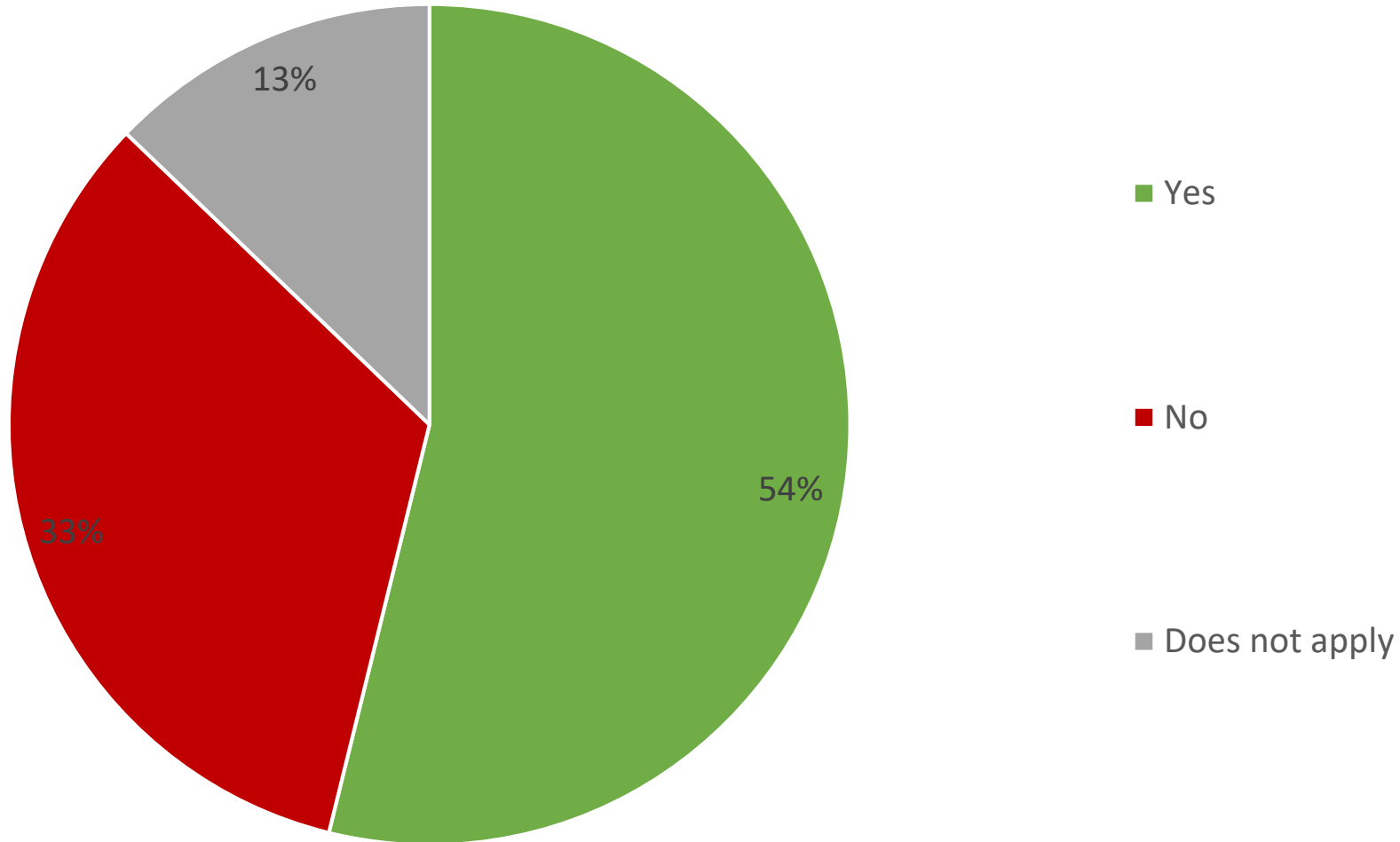
- OEM/OES customers asking for extended terms of up to 180 days.





TARIFF COST RECOVERY

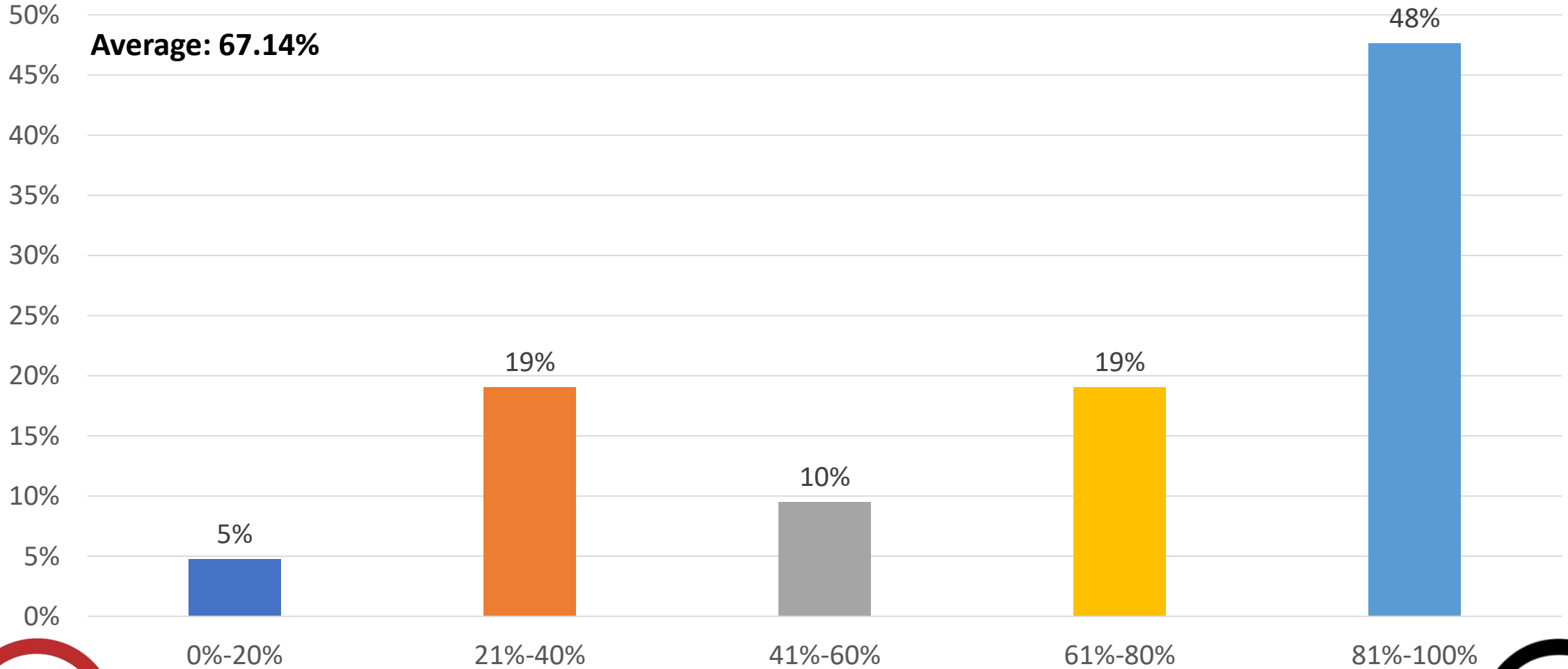
During 2018, were you able to negotiate tariff cost recovery with your customers?



Original Equipment Supply



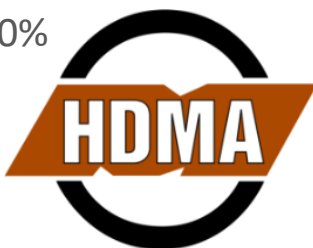
During 2018, approximately what percentage of total tariff costs incurred by your company were you able to successfully recover from your customers?



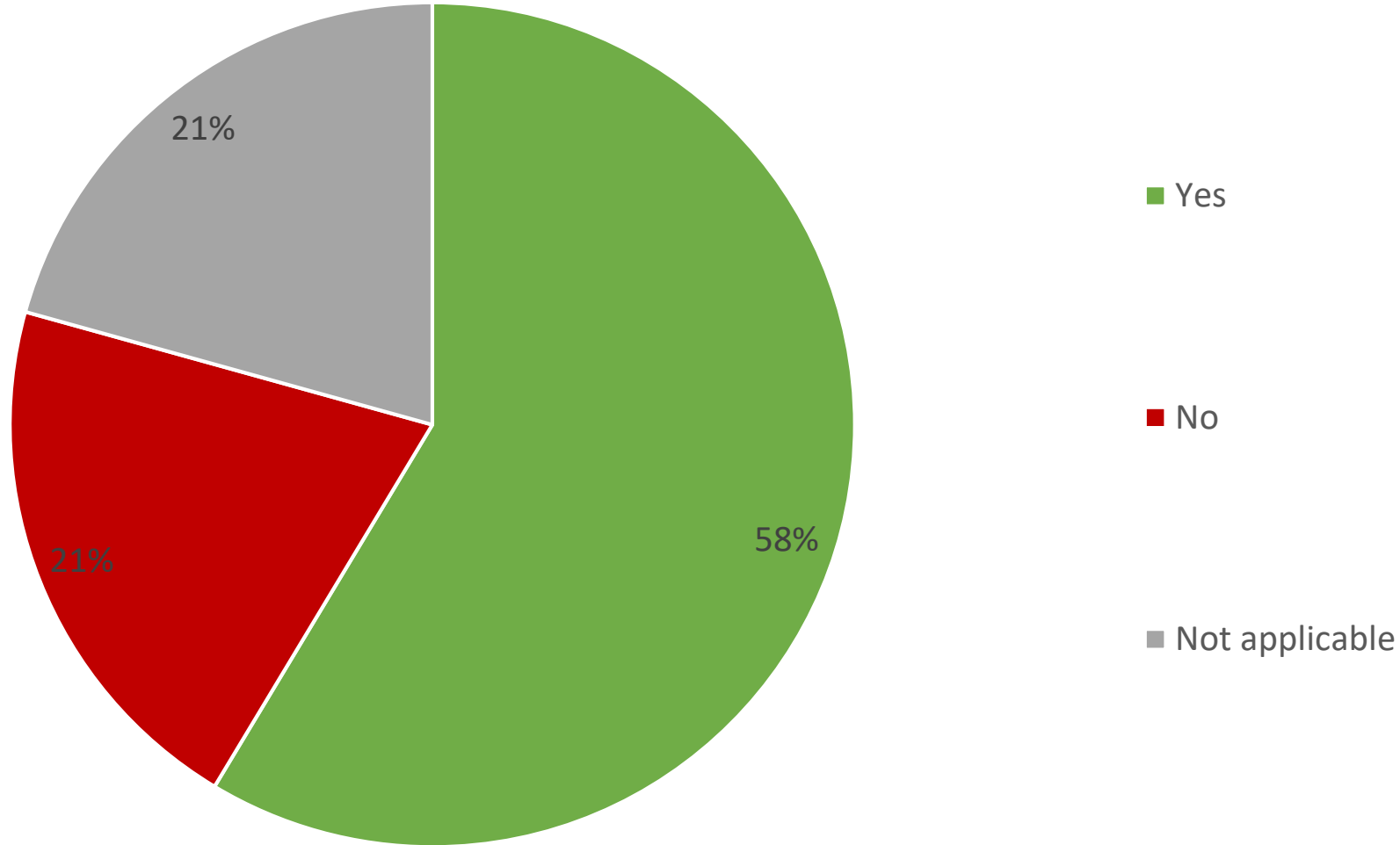
Average: 67.14%



Original Equipment Supply



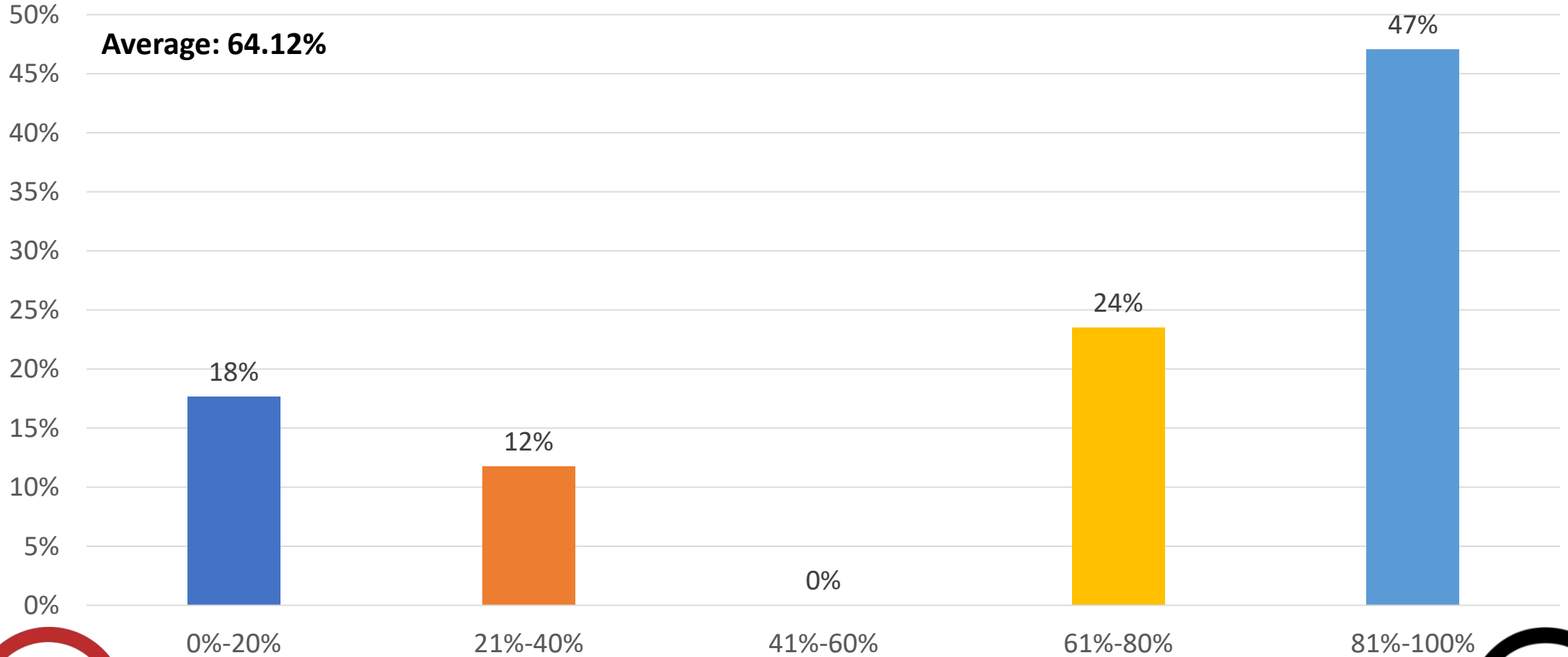
During 2018, were you able to negotiate tariff cost recovery with your OES customers?



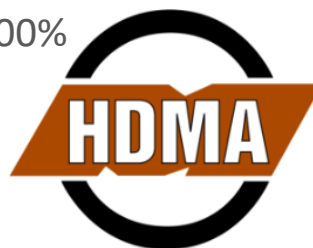
Aftermarket & OES Supply



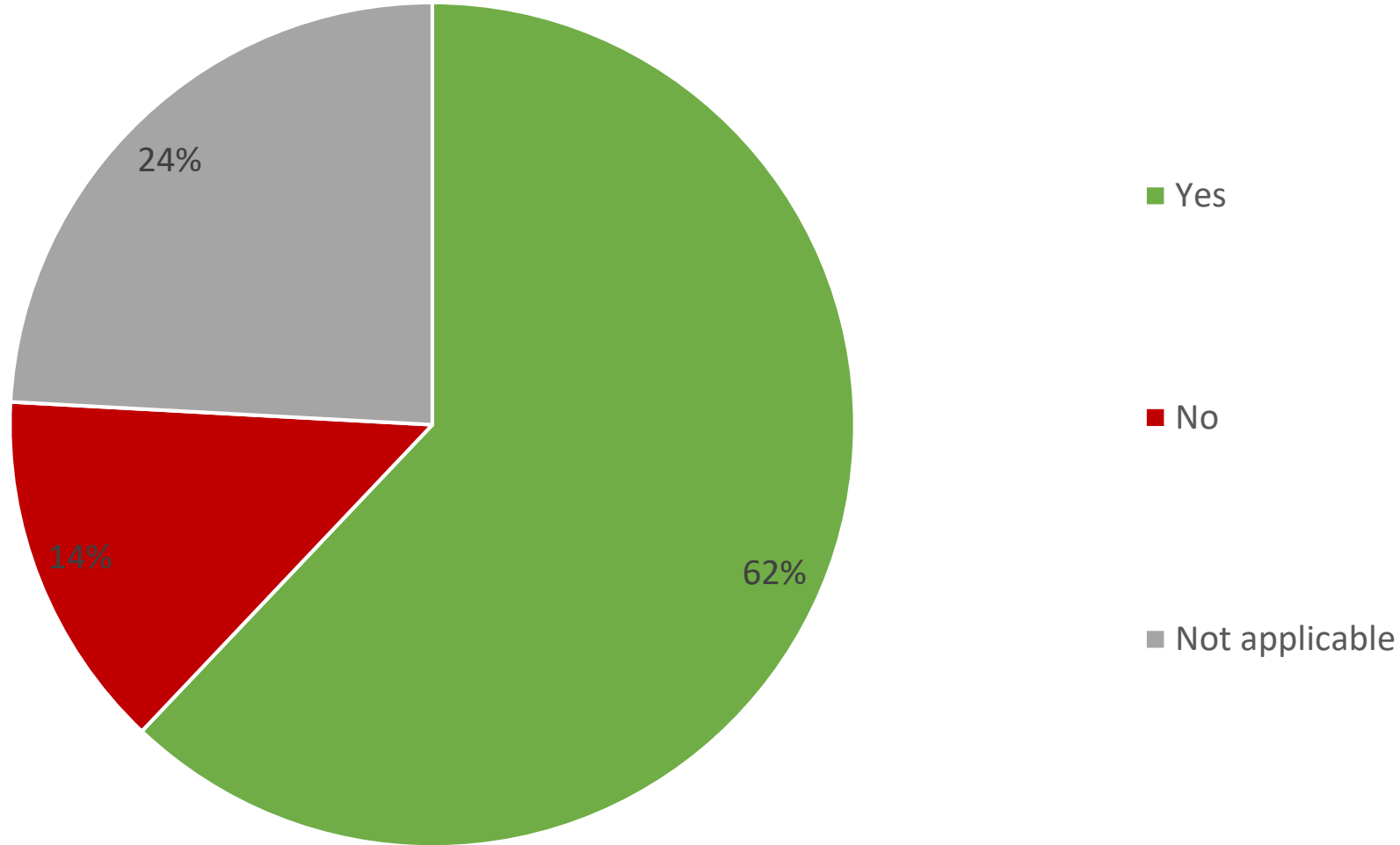
During 2018, approximately what percentage of total tariff costs incurred by your company were you able to successfully recover from your OES customers?



Aftermarket & OES Supply



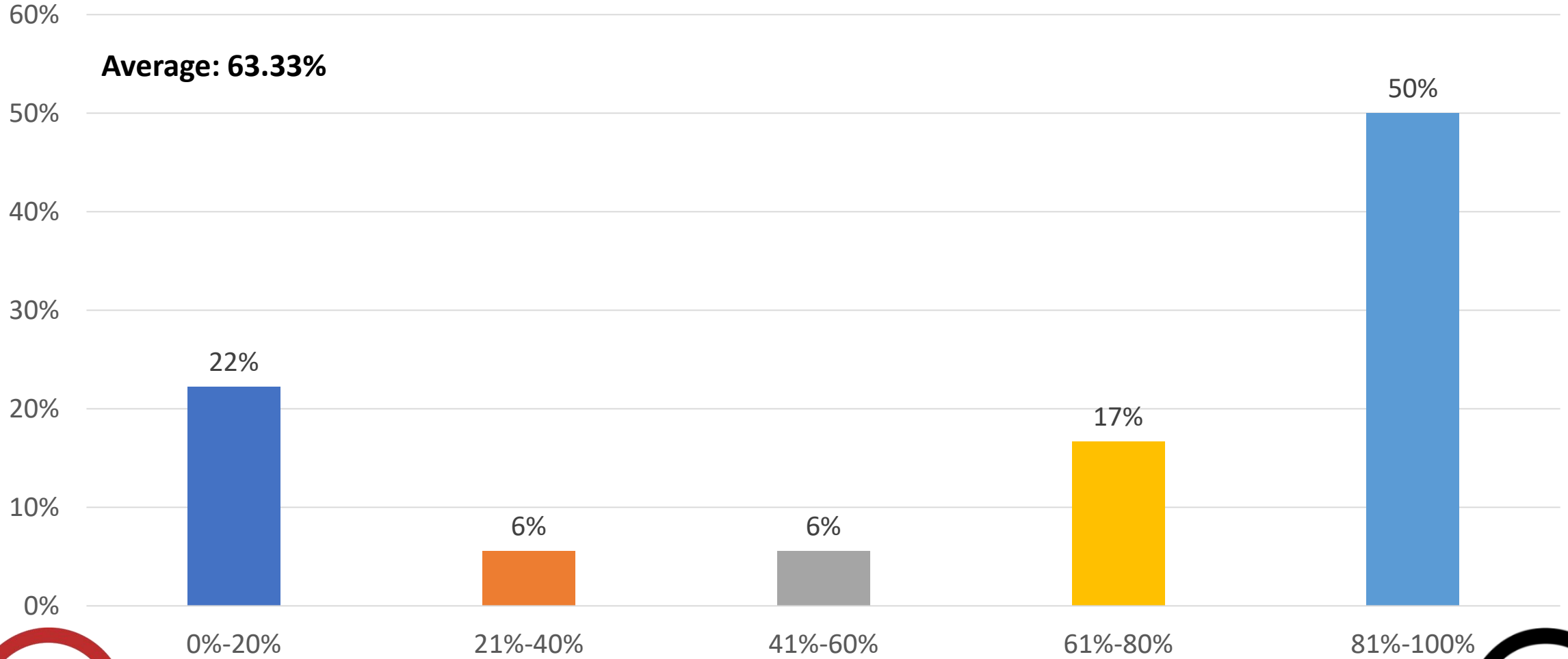
During 2018, were you able to negotiate tariff cost recovery with your independent aftermarket customers?



Aftermarket & OES Supply



During 2018, approximately what percentage of total tariff costs incurred by your company were you able to successfully recover from your independent aftermarket customers?



Average: 63.33%



Aftermarket & OES Supply



Please add comments on tariff cost recovery during negotiations in 2018.

Original Equipment Supply

- Just starting discussions in 2018 for recovery in 2019
- Negotiations with the larger customers typically spilled into 2019.
- Our raw material adjustments clauses protected us on tariff costs but on a delayed basis.
- Very difficult negotiations

Aftermarket & OES Supply

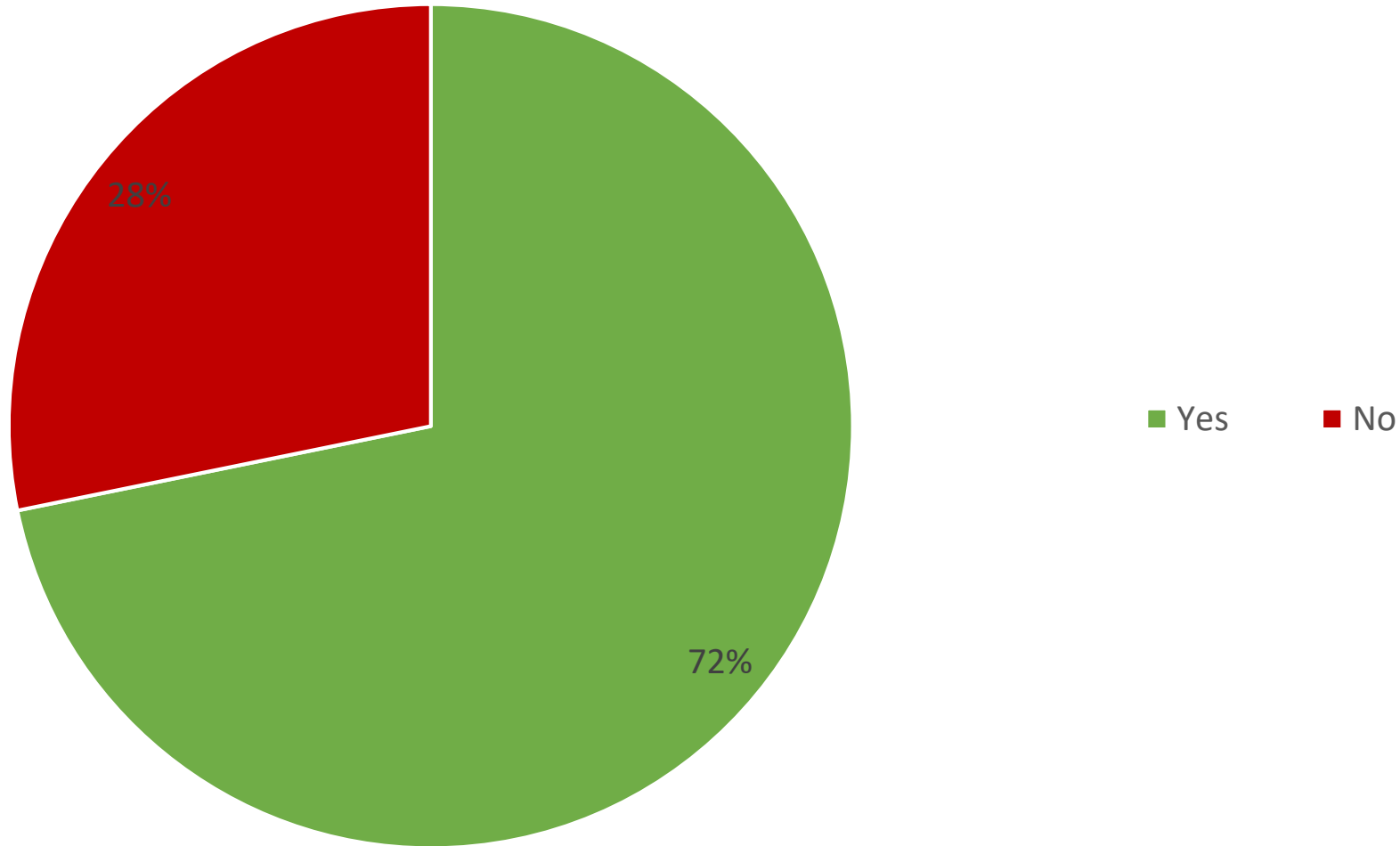
- Competitive price pressures forced us to absorb tariff costs
- It took us 3 months to understand the affect of the tariffs to us before we were able to pass it along
- Less than 100% recovery only because we did not look to recover sales in arrears. Once implemented - recovered on entire tariff costs
- Tariffs added into pricing for independent
- We have minimal tariff costs
- We passed on 100% of our tariff related costs





SUPPLIER SCORECARDS

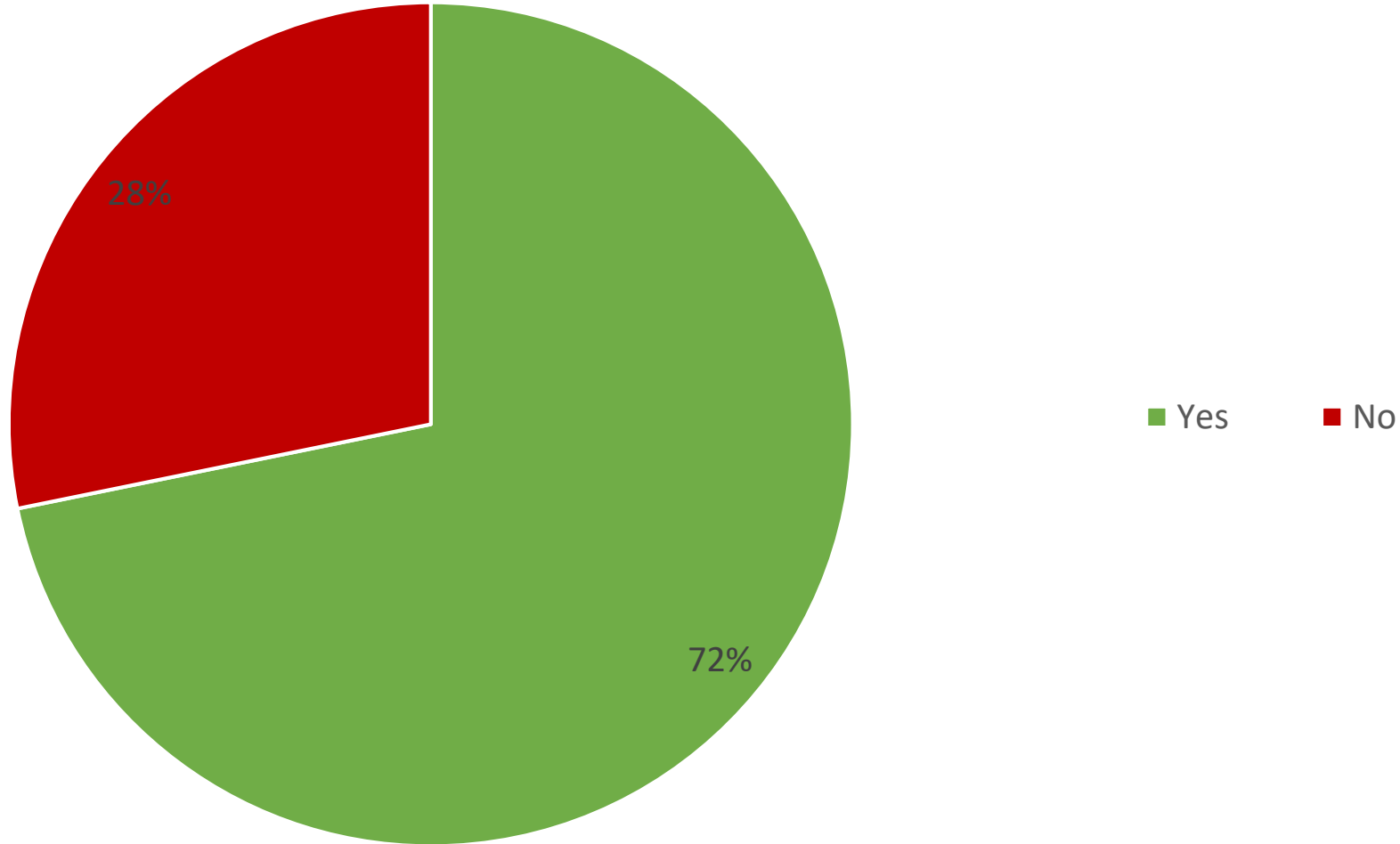
Did any of your 2018 contract negotiations include a supplier scorecard?



Original Equipment Supply



Were you able to negotiate which elements were included in the supplier scorecard during 2018?

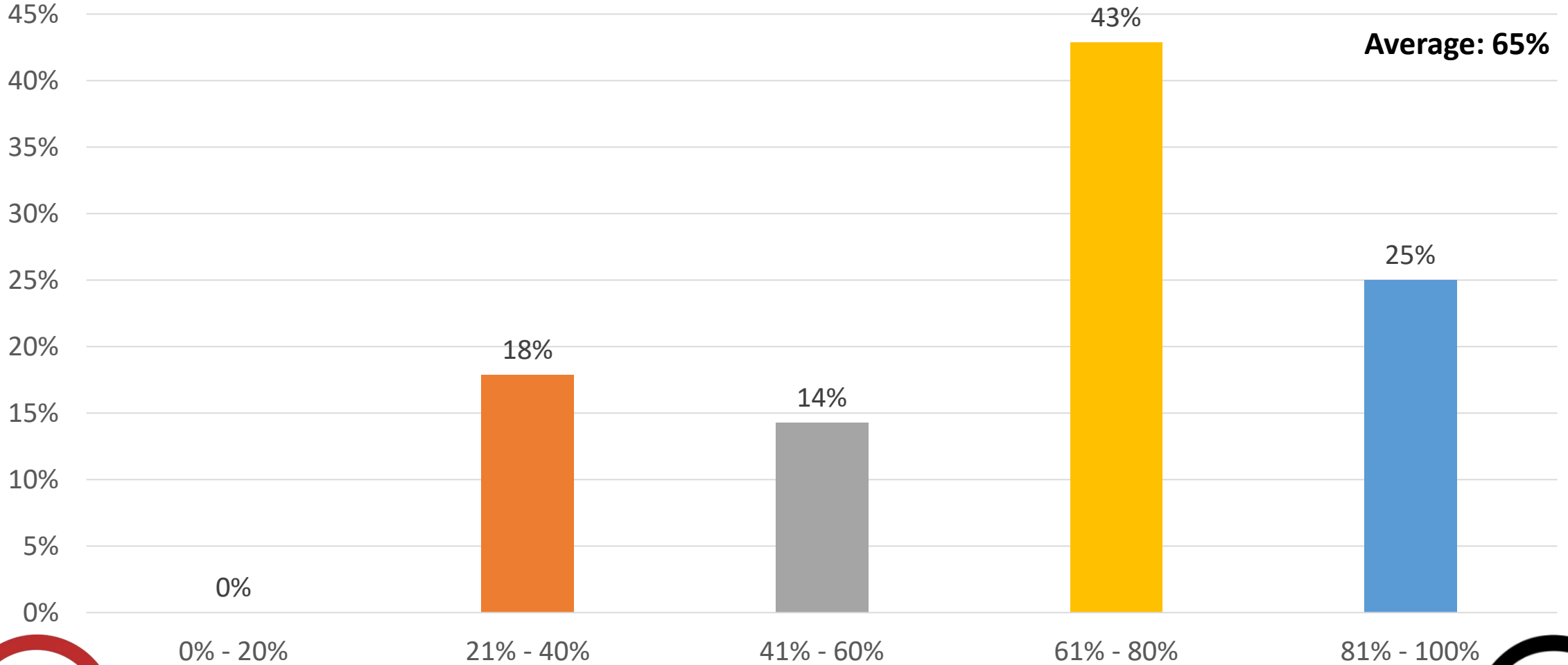


Original Equipment Supply

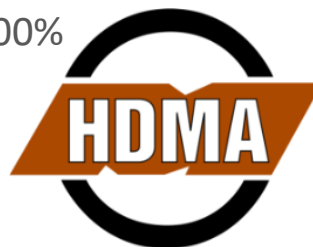


During 2018, approximately what percentage of the supplier scorecards were based on hard data?

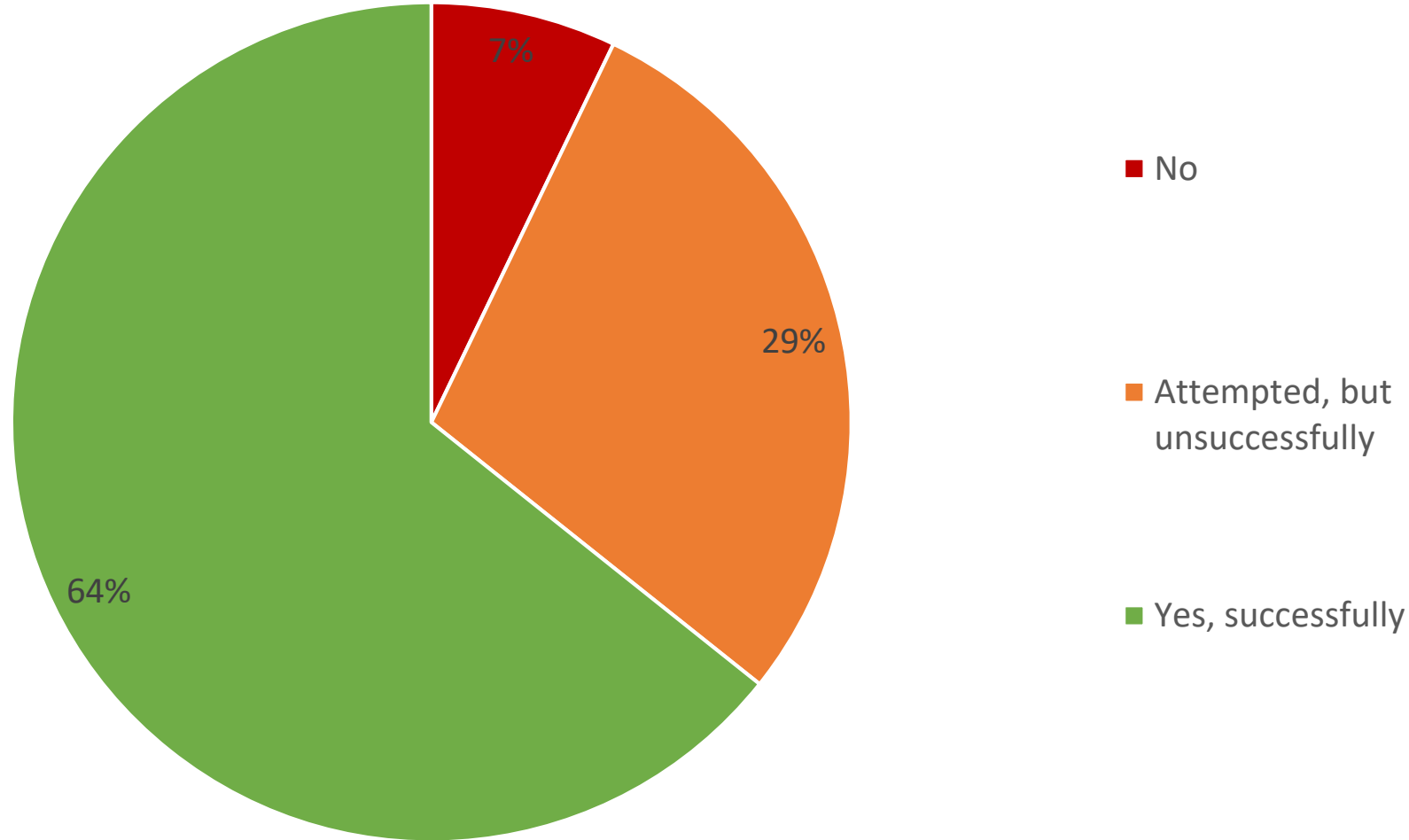
Hard data includes, but is not limited to, on-time delivery percentage, defect rates, and other quantifiable elements of an LTA.



Original Equipment Supply



Were you able to negotiate which elements were included in the supplier scorecard during 2018?



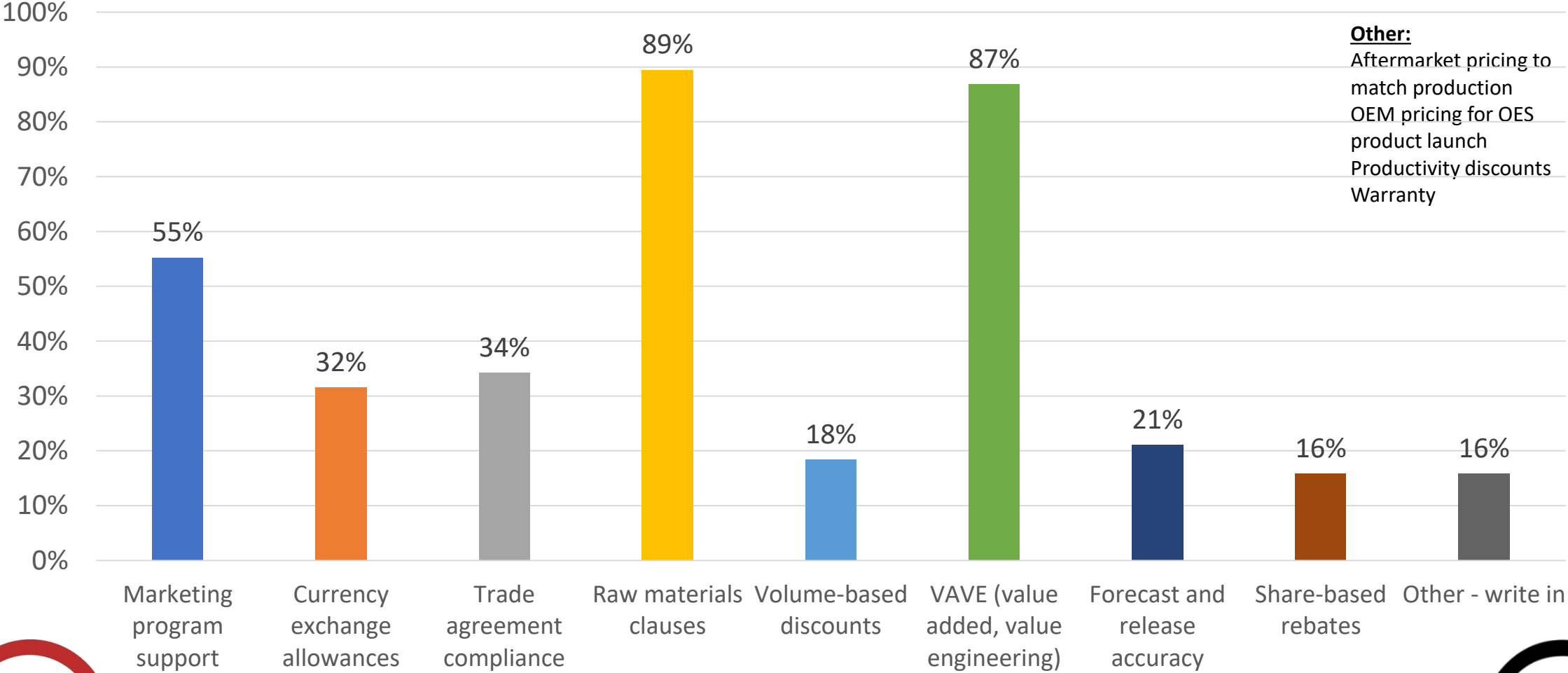
Original Equipment Supply





OTHER TERMS - OE

Which elements were included in LTAs in effect in December 2018:

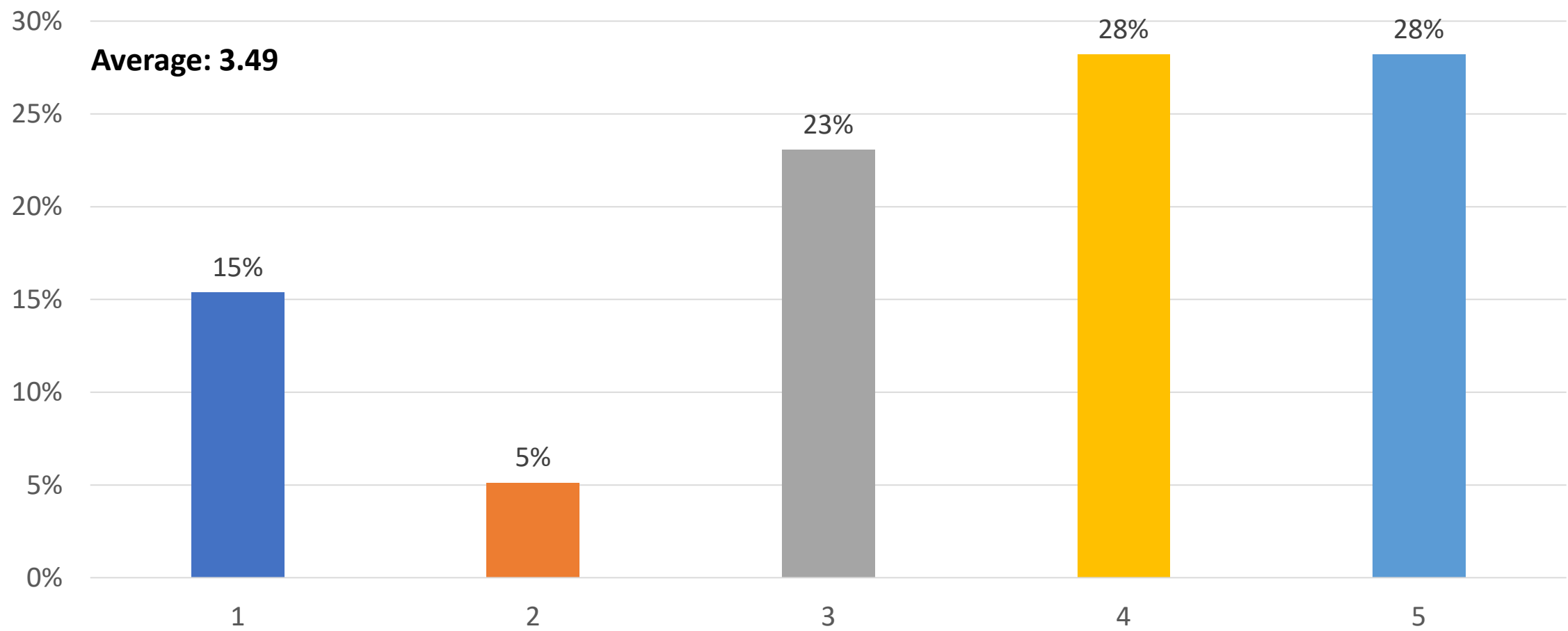


Original Equipment Supply



How important were non-tariff related materials consideration change clauses in contract negotiation during 2018?

1 - Low importance, 3 - Moderate importance, 5 - High Importance

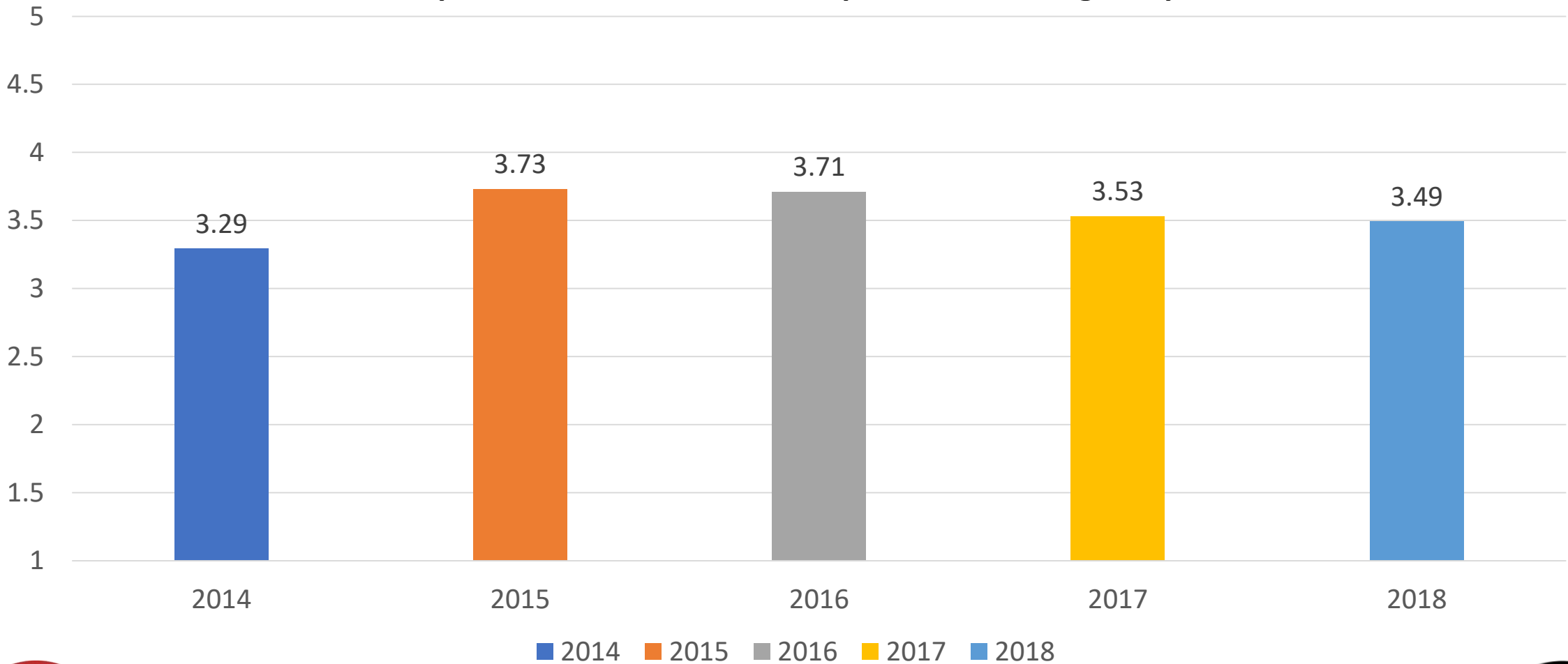


Original Equipment Supply



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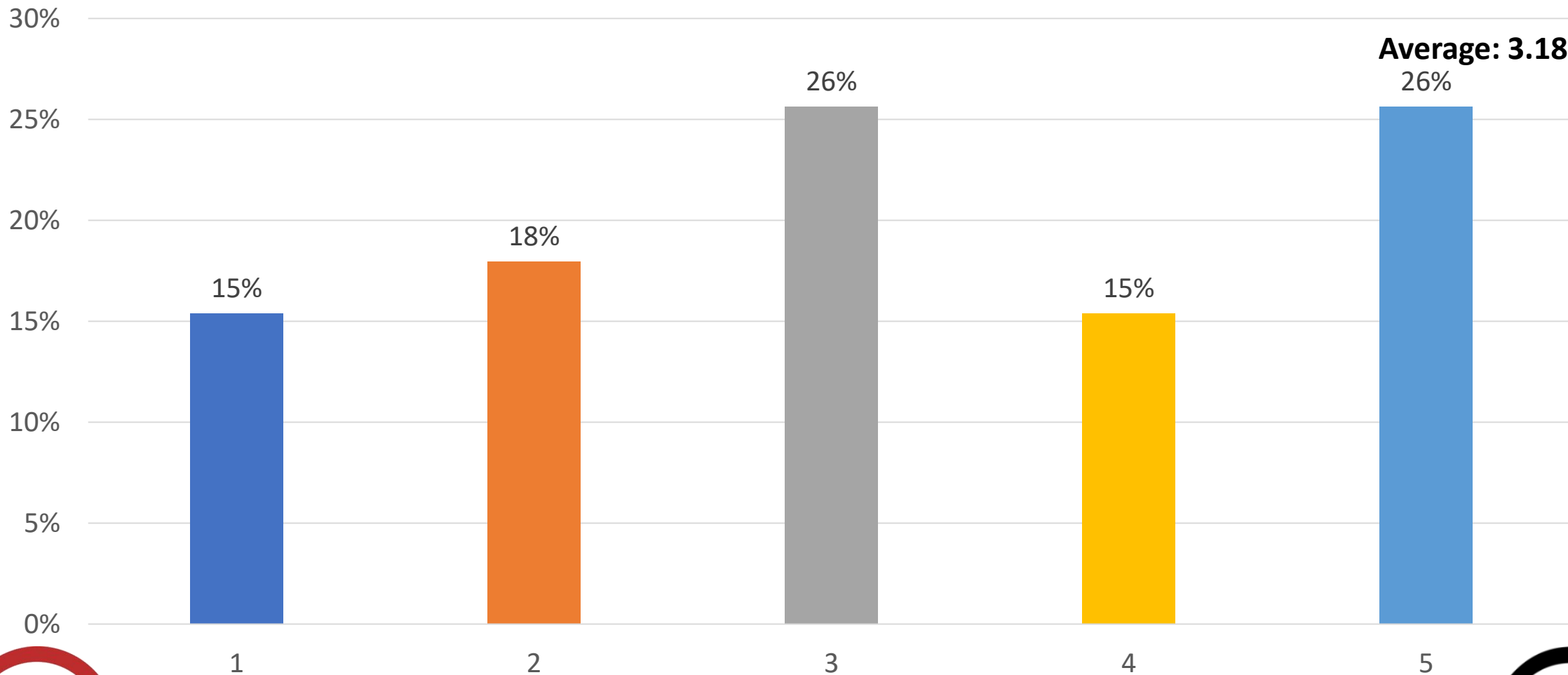


Original Equipment Supply



How important were product and design intellectual property (IP) rights clauses in contract negotiation during 2018?

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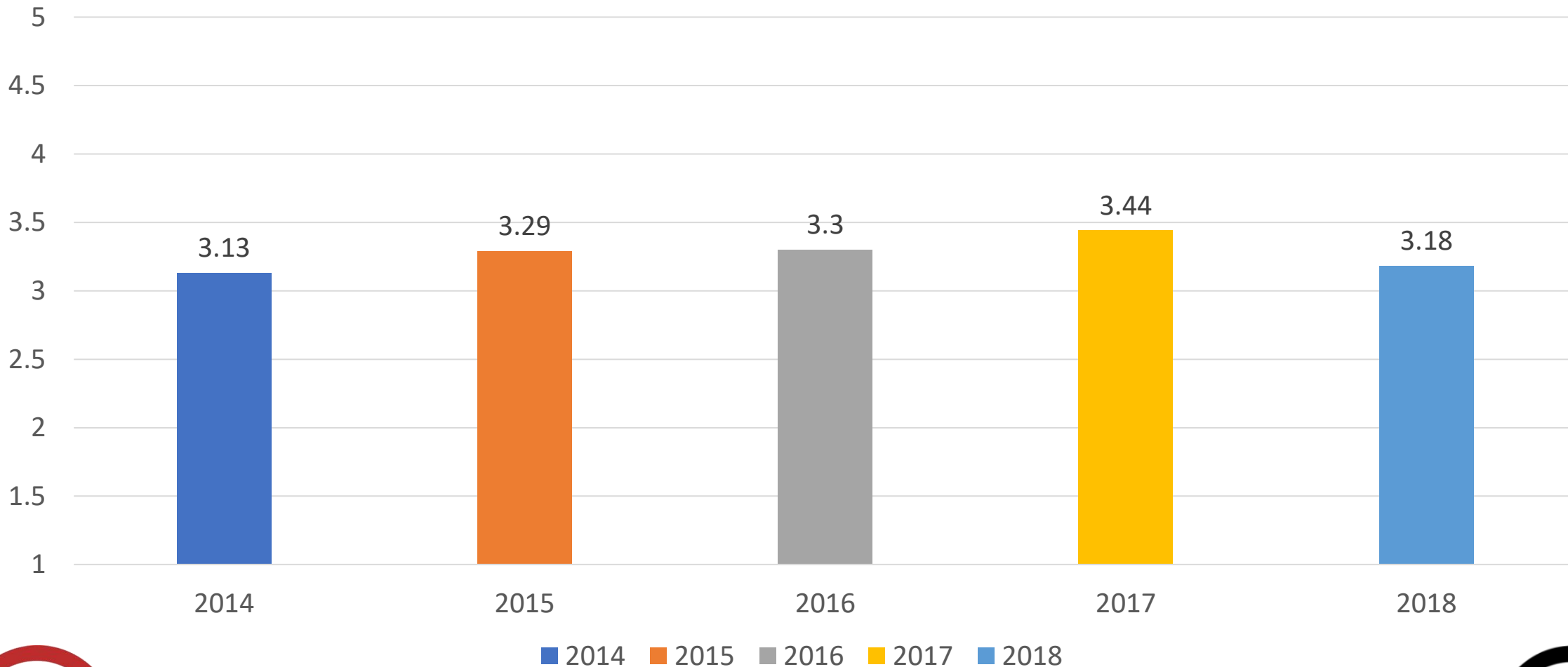


Original Equipment Supply



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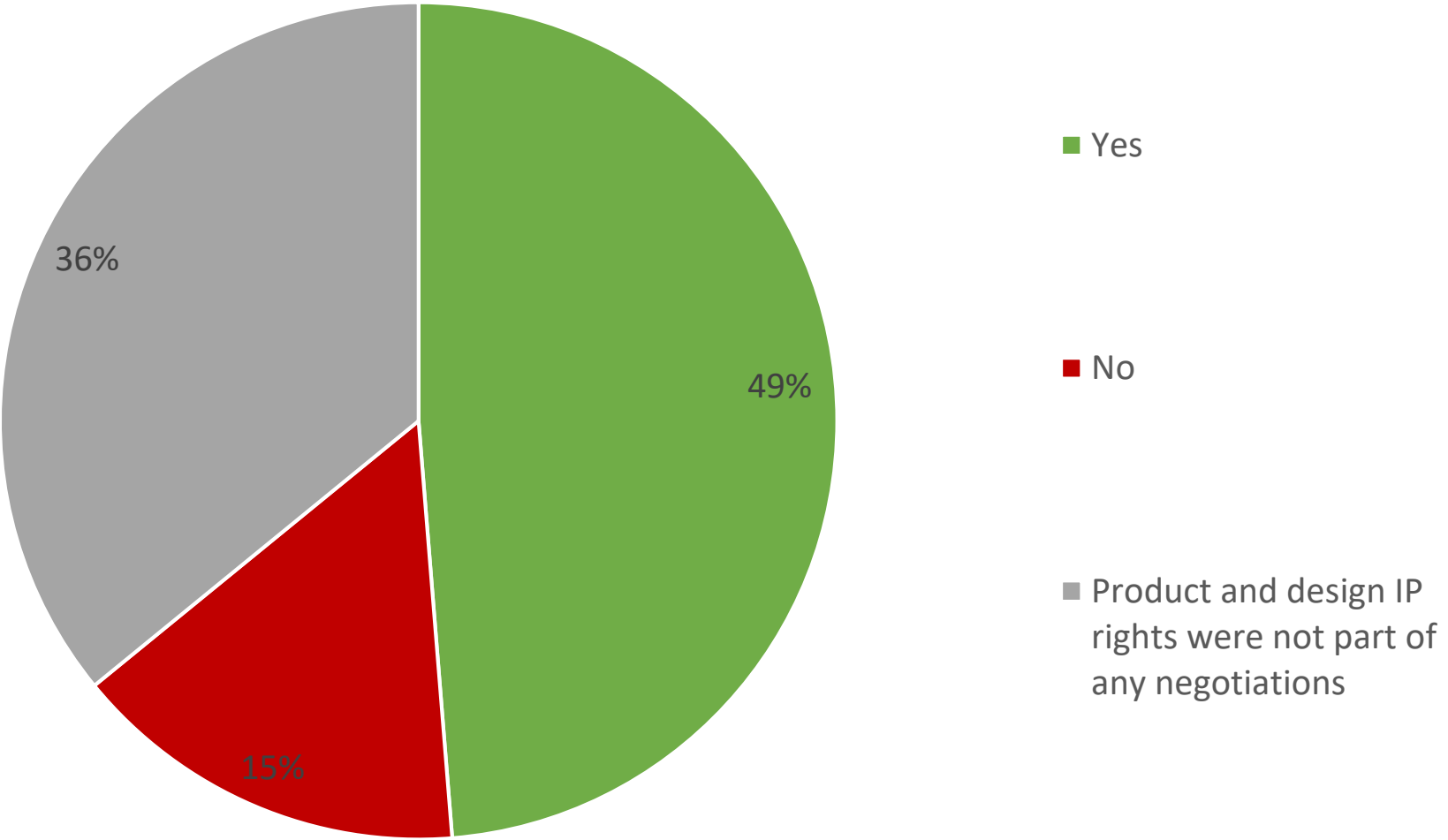


■ 2014 ■ 2015 ■ 2016 ■ 2017 ■ 2018

Original Equipment Supply



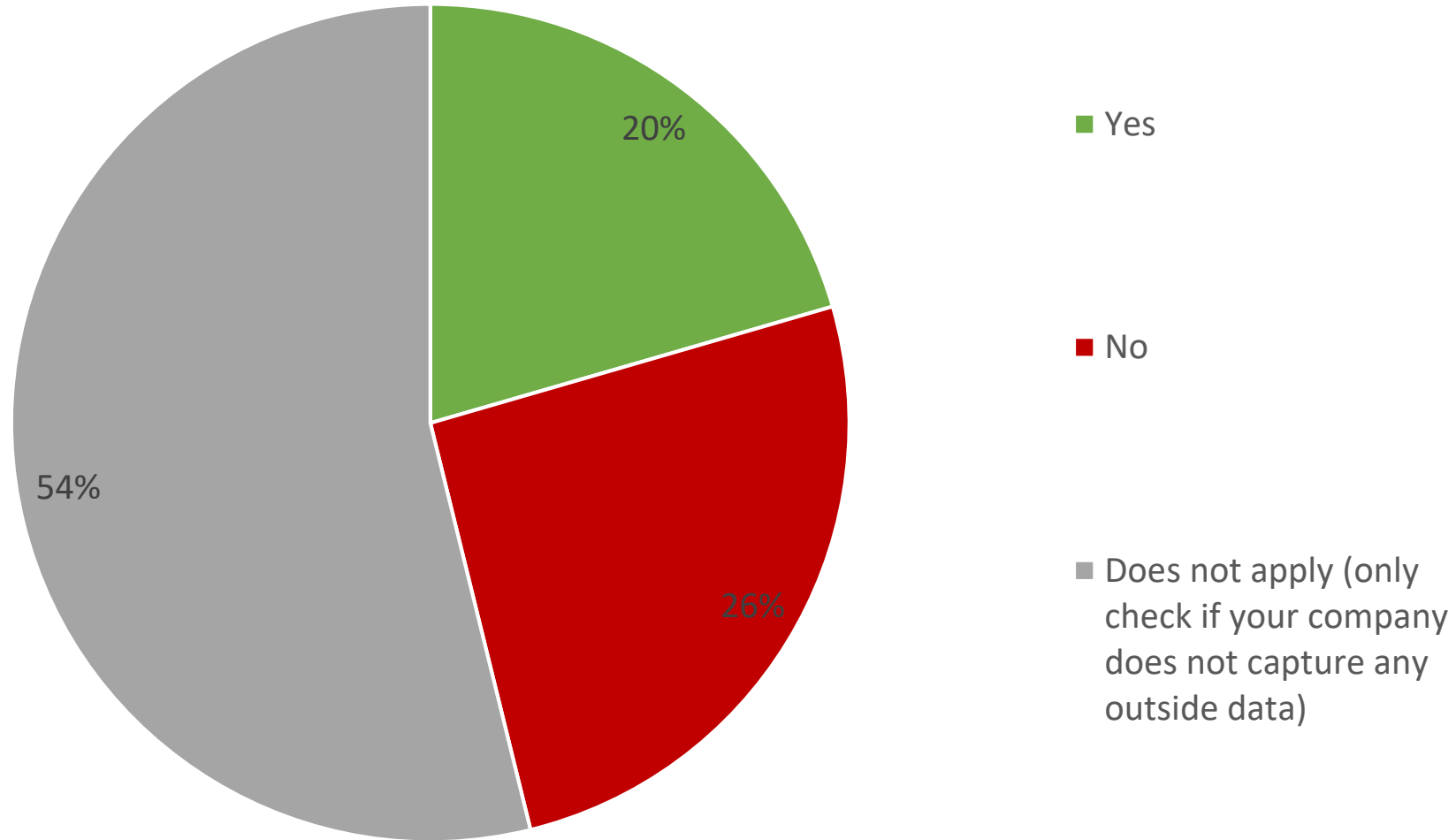
In 2018, were you able to successfully negotiate product and design IP rights?



Original Equipment Supply



In 2018, were data capture rights and other non-product intellectual property considerations part of negotiations?



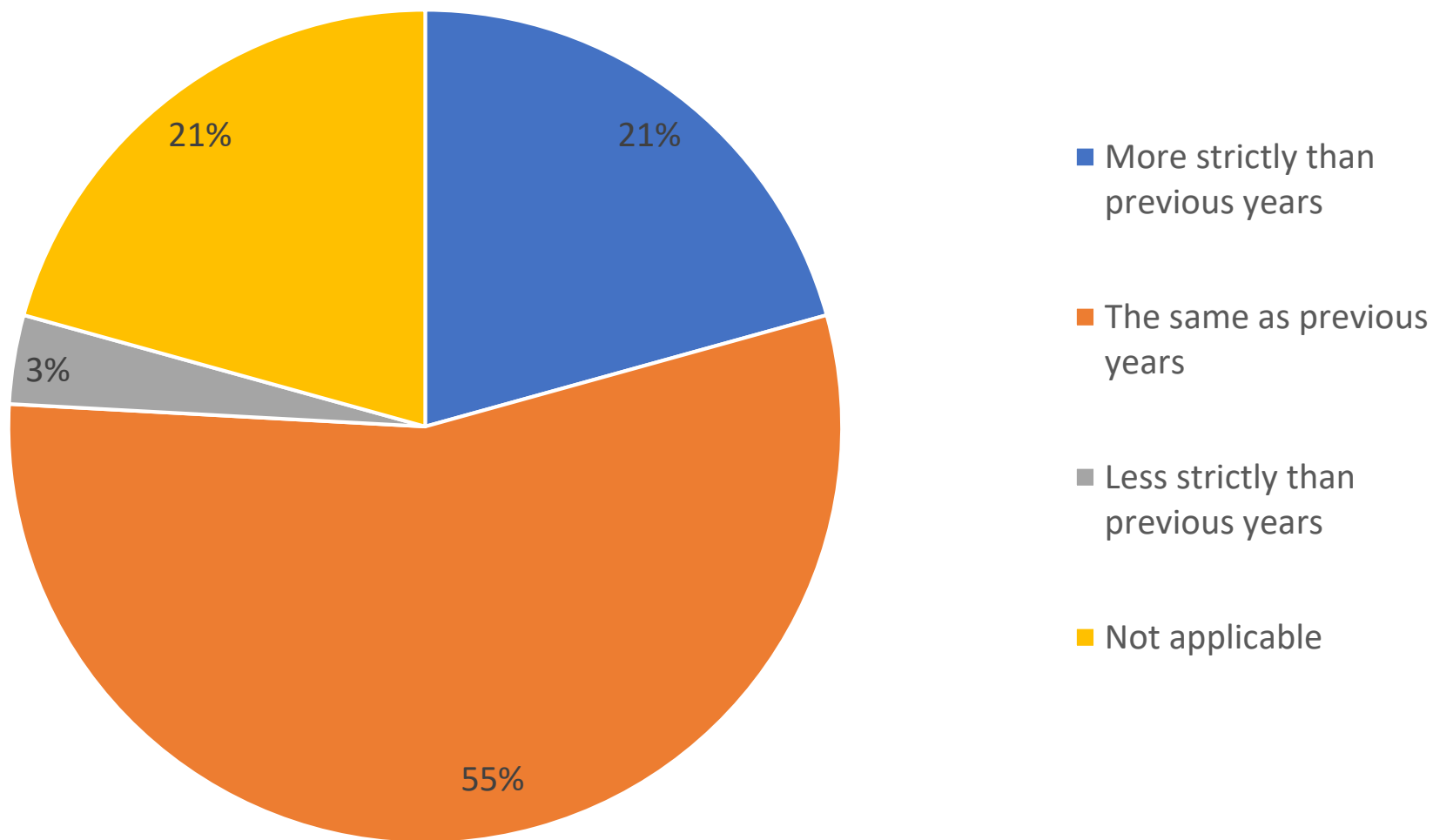
Original Equipment Supply





OTHER TERMS – AFTERMARKET & OES

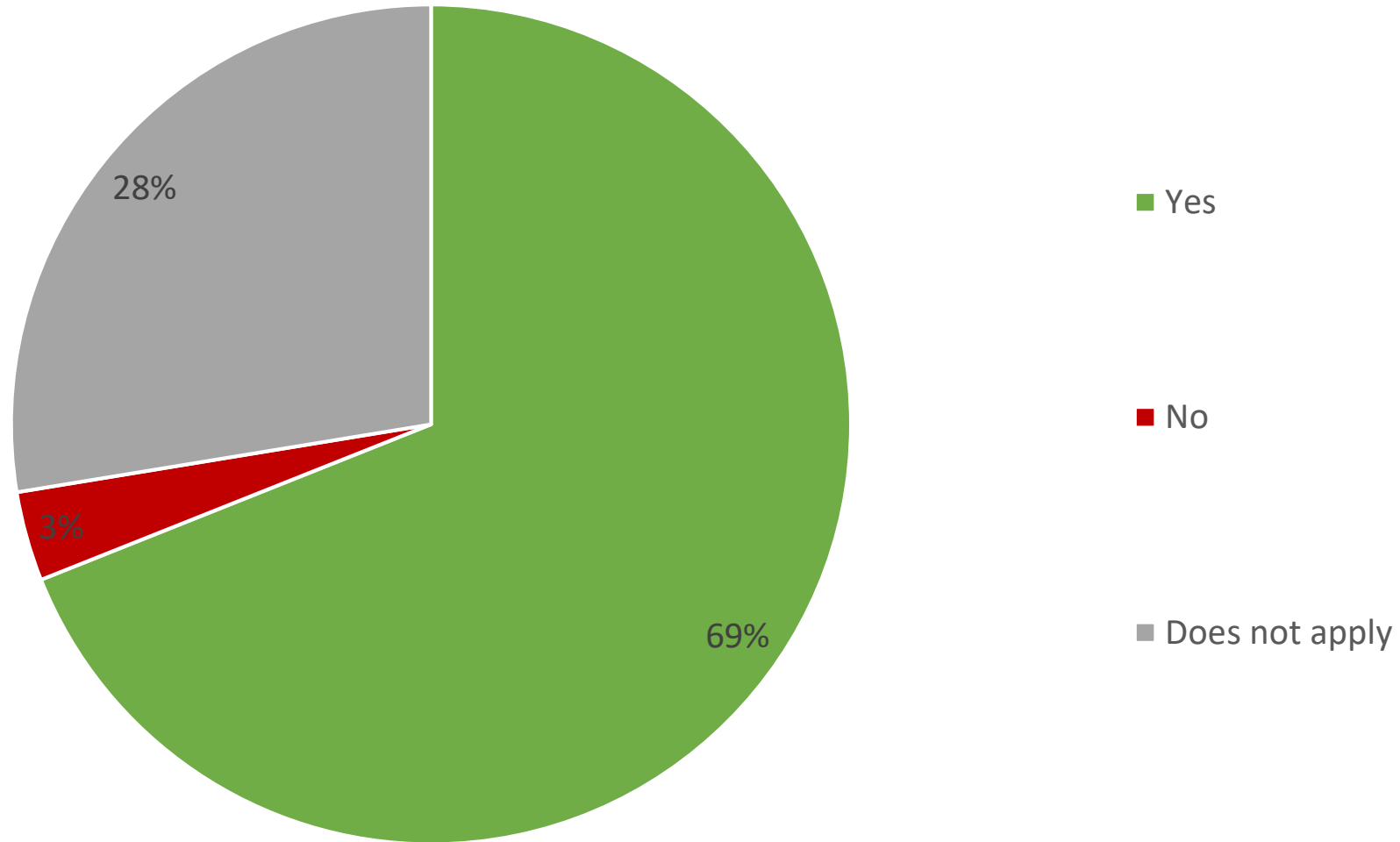
Did you: for 2018, enforce your minimum order amount?



Aftermarket & OES Supply



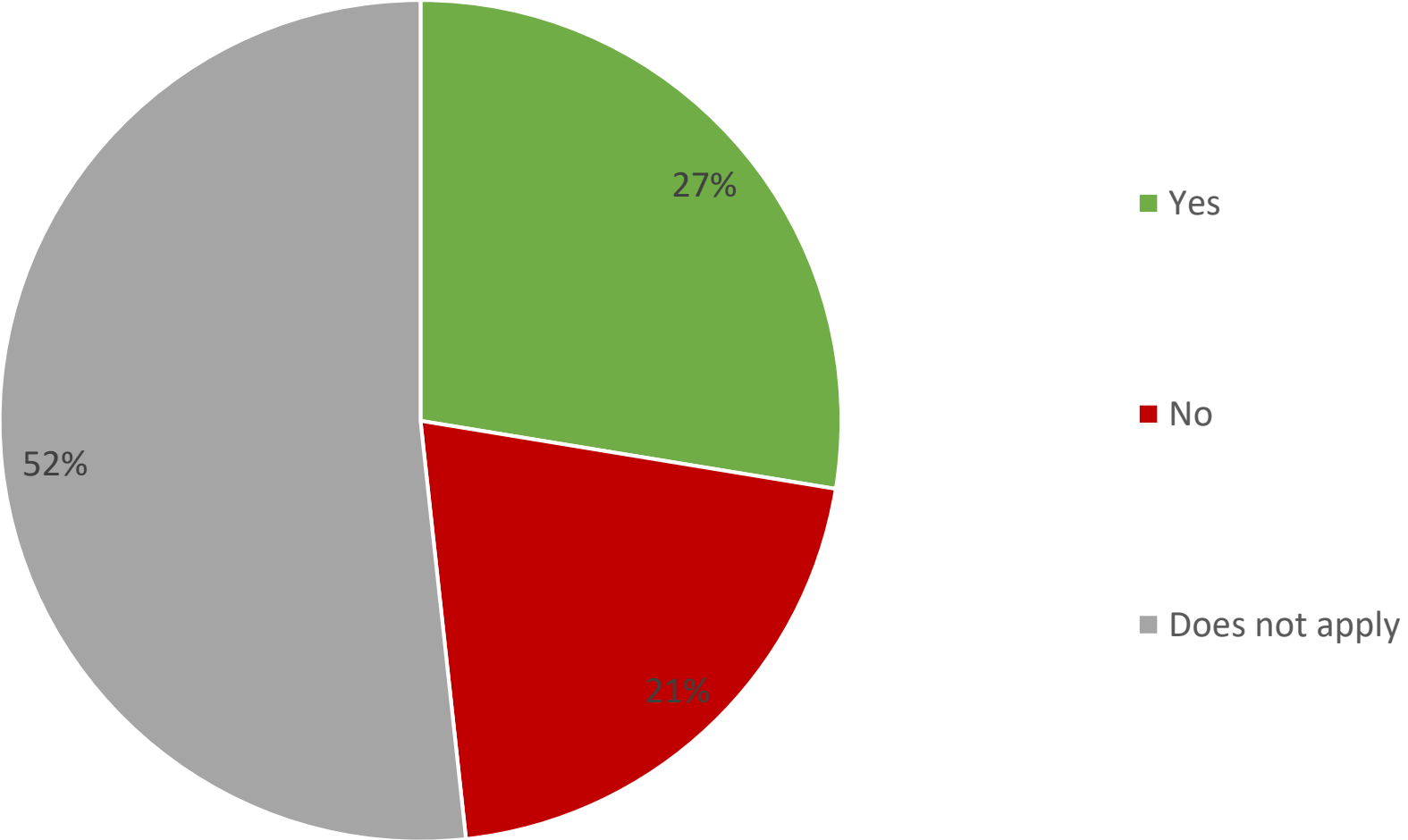
Did you: for 2018, enforce a minimum order amount for freight prepaid?



Aftermarket & OES Supply



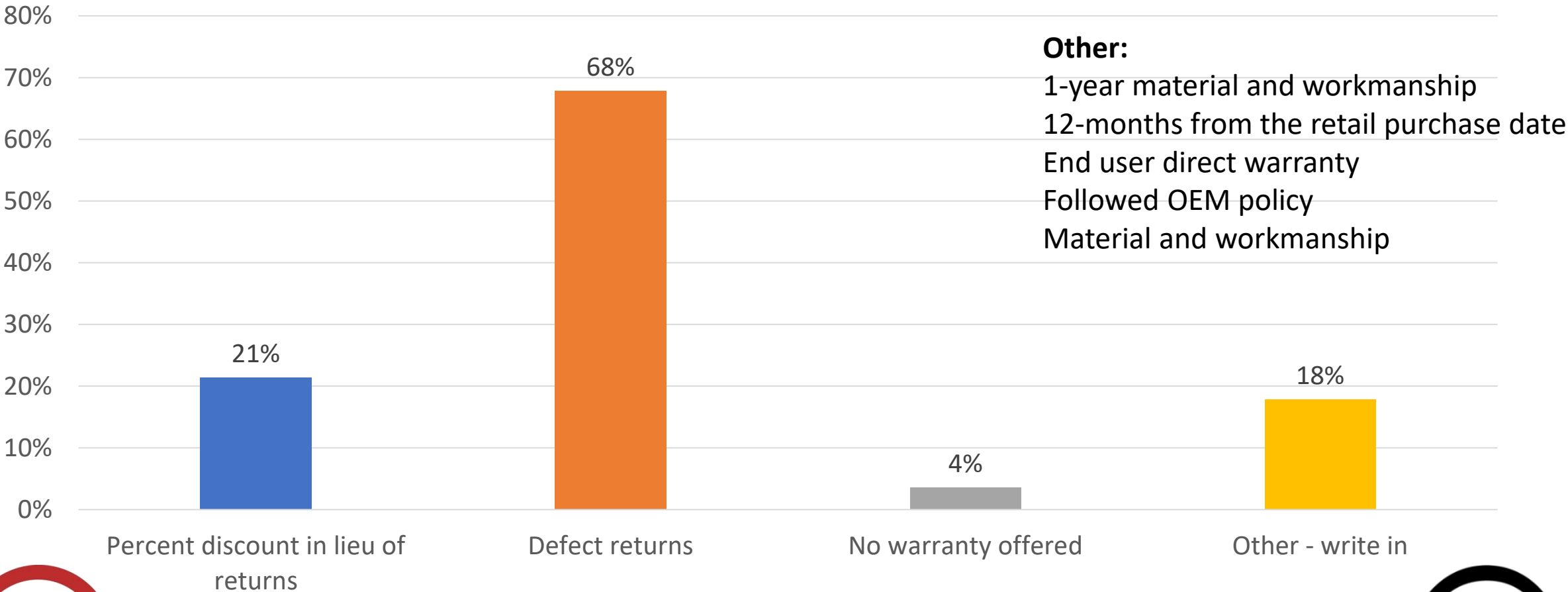
During 2018, were you able to negotiate the order fill-rate or order time guarantees?



Aftermarket & OES Supply



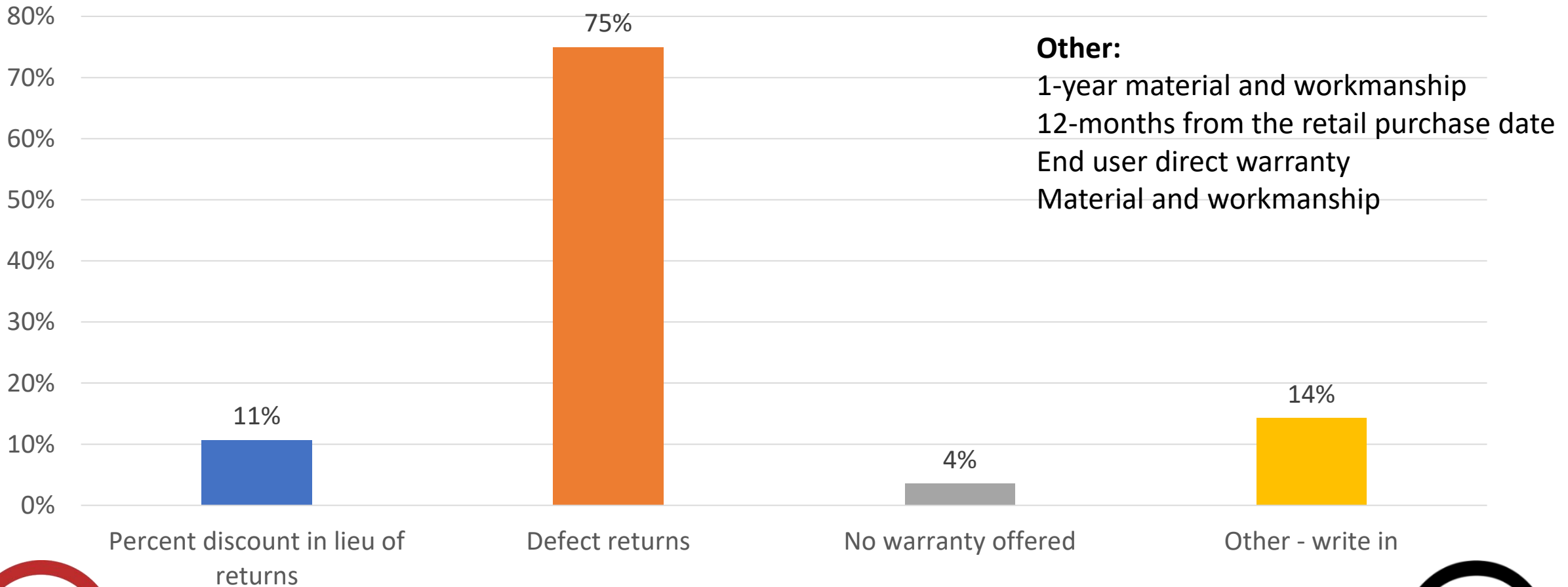
Did you: for 2018, have a warranty policy for your OES customers? *(select all that apply)*



Aftermarket & OES Supply



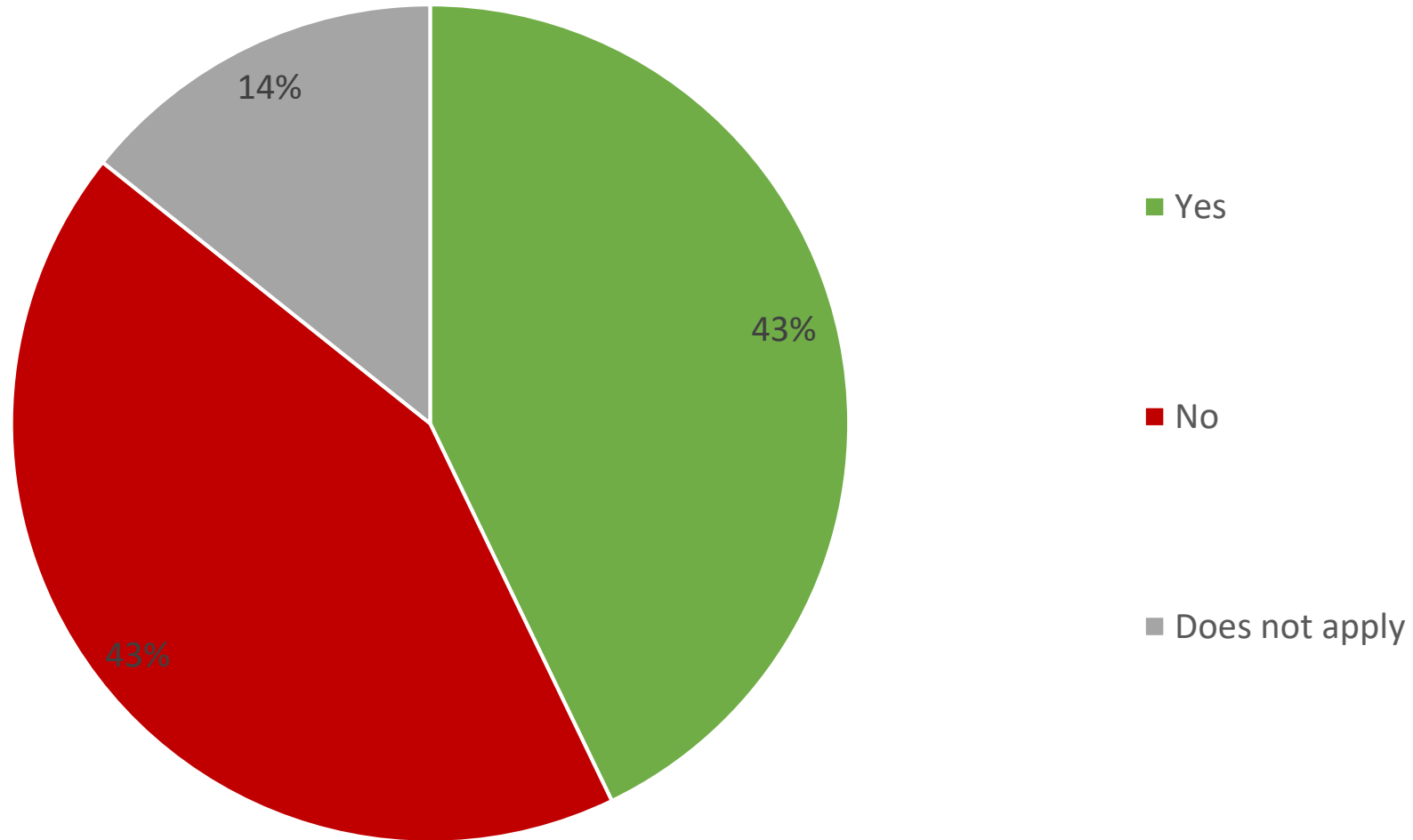
Did you: for 2018, have a warranty policy for your independent aftermarket customers? *(select all that apply)*



Aftermarket & OES Supply



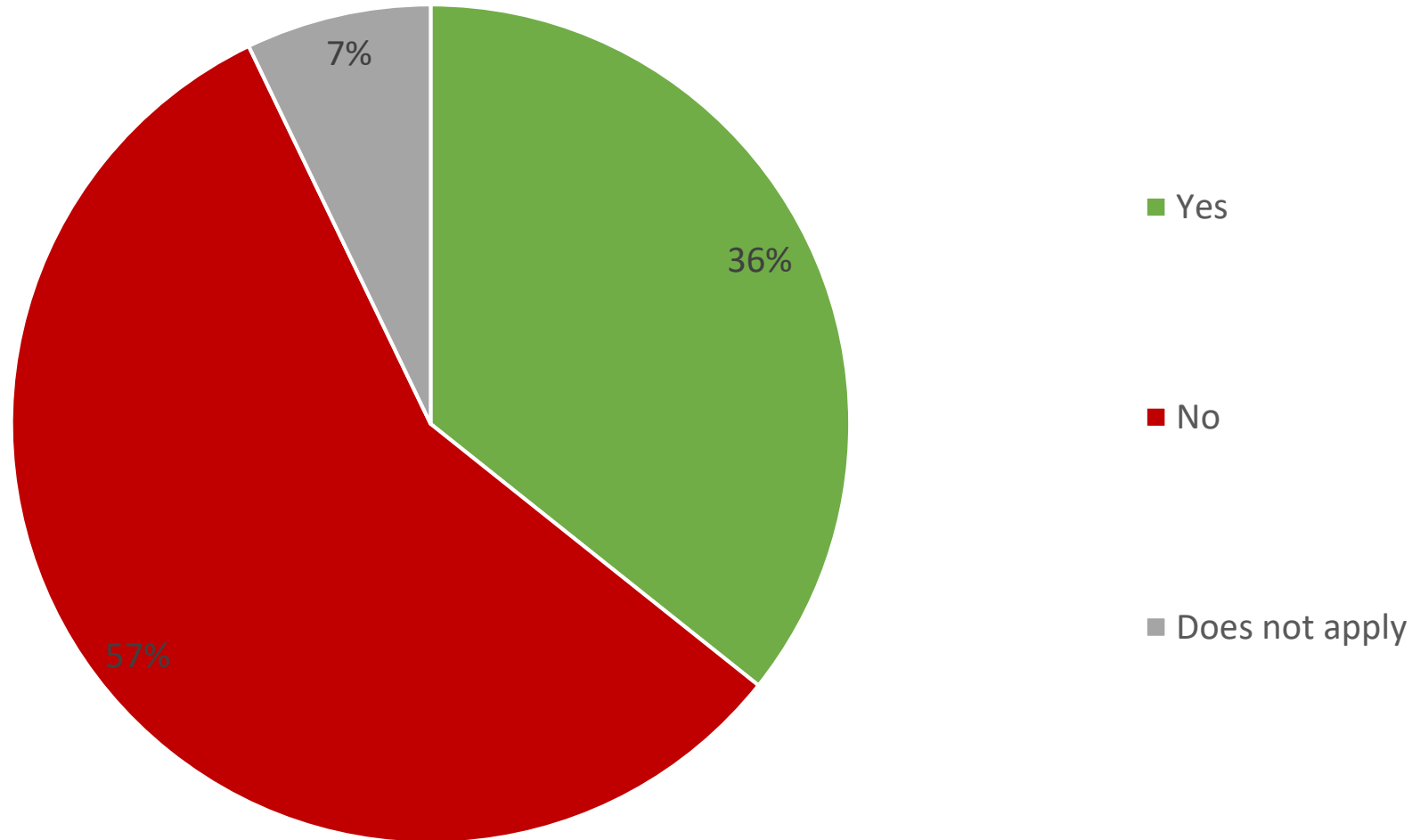
Did you: for 2018, allow for labor claims in addition to the warranty policy for your OES customers?



Aftermarket & OES Supply



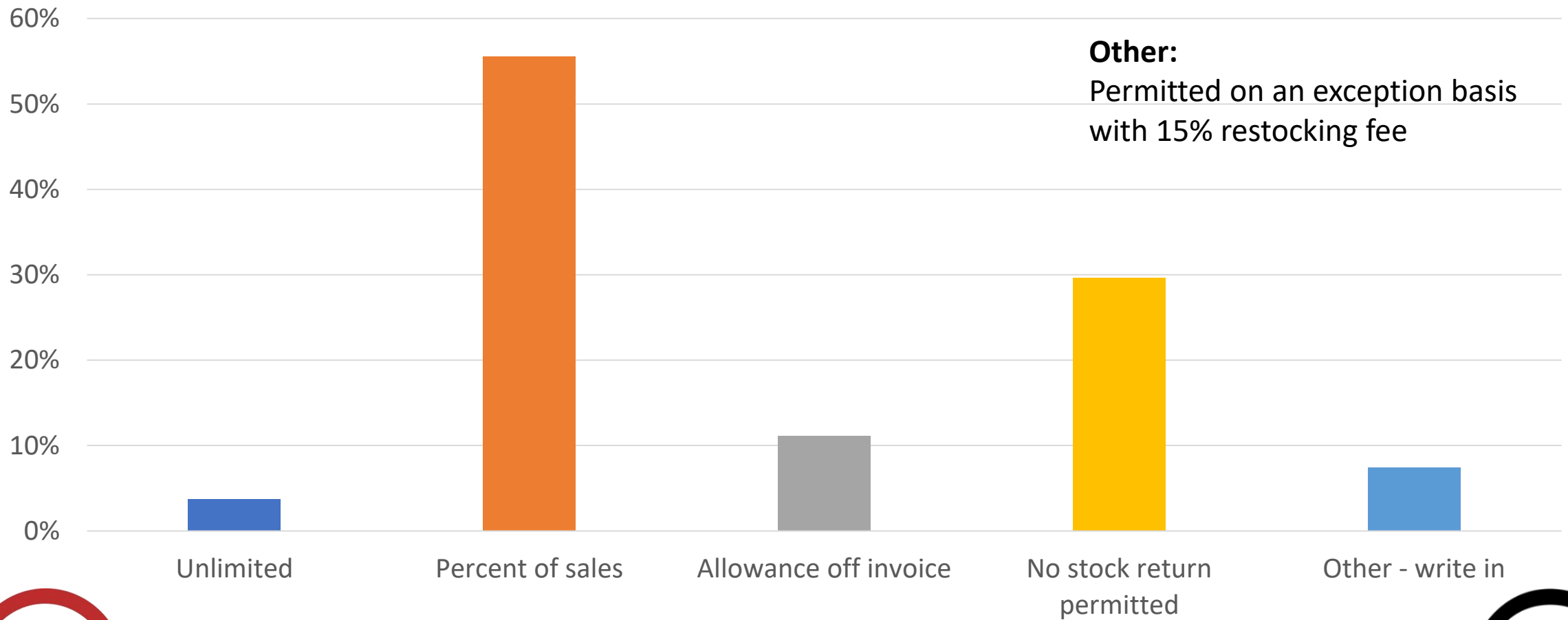
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Aftermarket & OES Supply



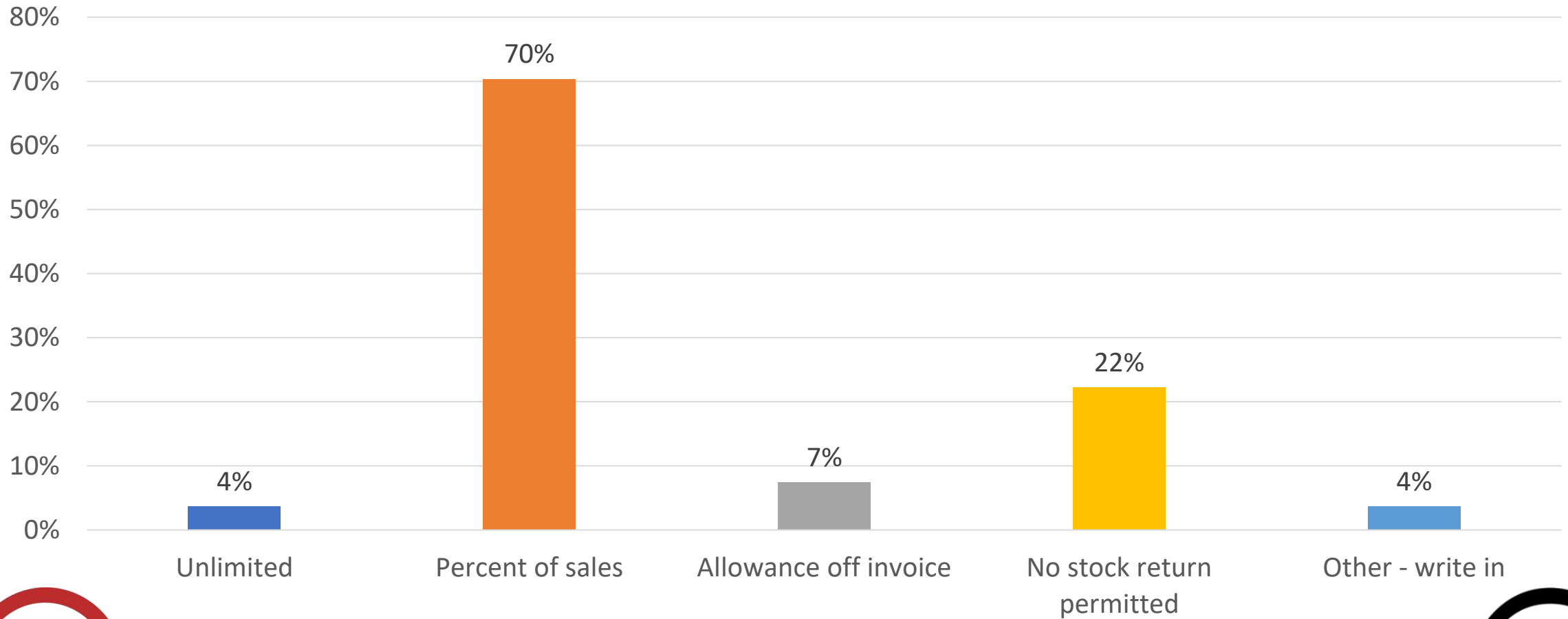
During 2018, how did you handle stock returns for your OES customers? *(select all that apply)*



Aftermarket & OES Supply



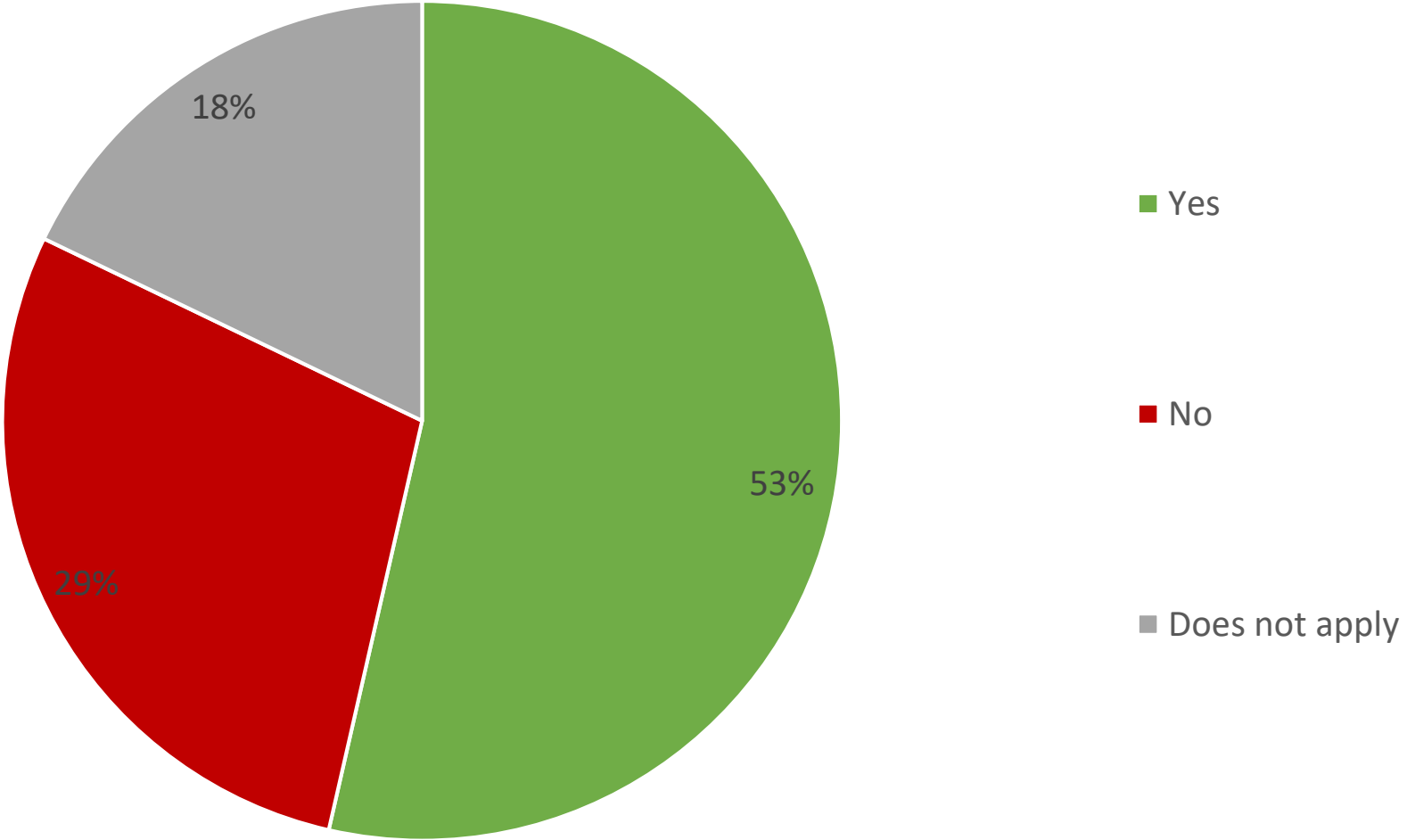
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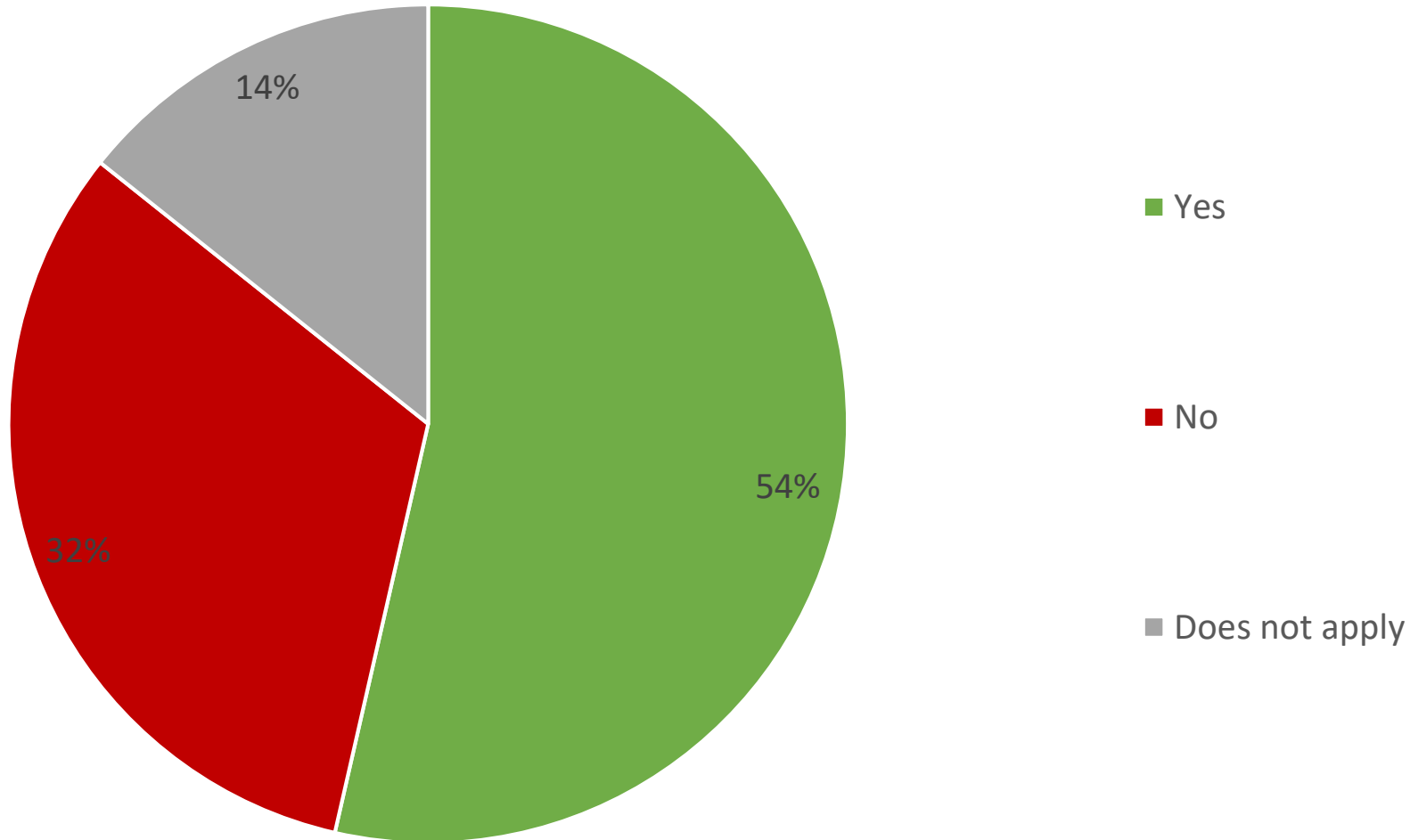
During 2018, did you charge fees for returned product from your OES customers?



Aftermarket & OES Supply



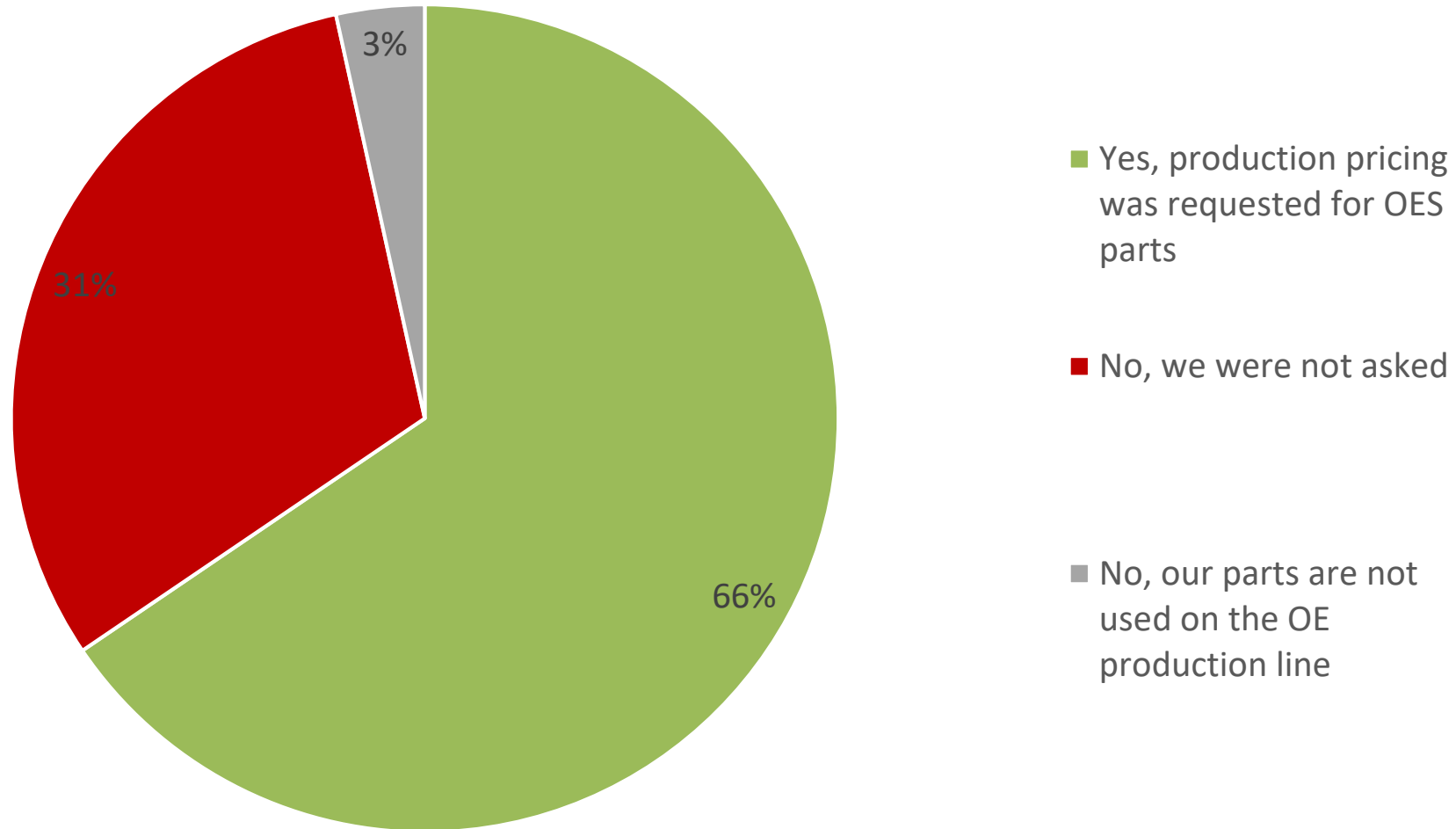
During 2018, did you charge fees for returned product from your independent aftermarket customers?



Aftermarket & OES Supply



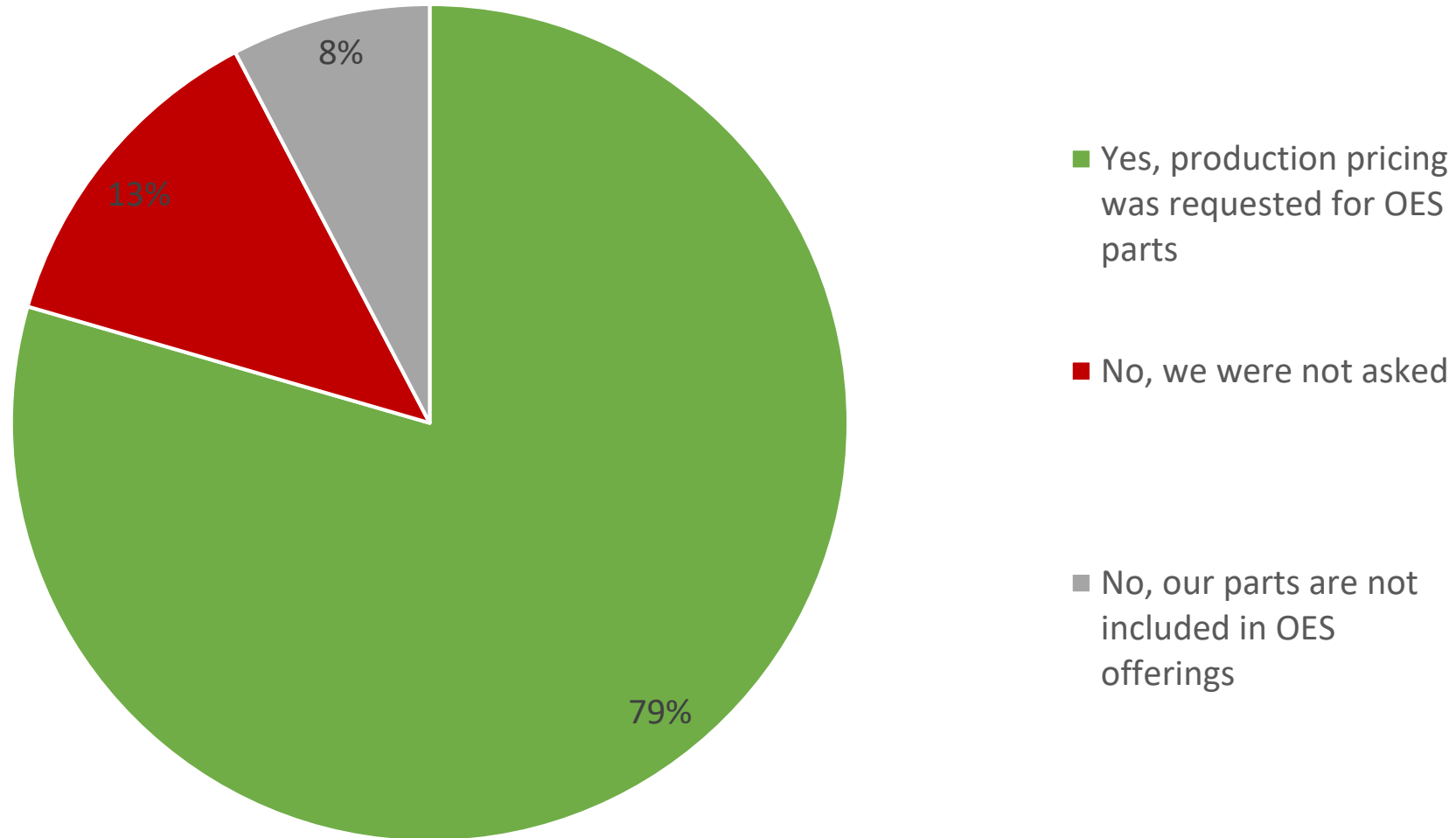
During your 2018 contract negotiations, were you asked to provide OES parts at production line pricing?



Aftermarket & OES Supply



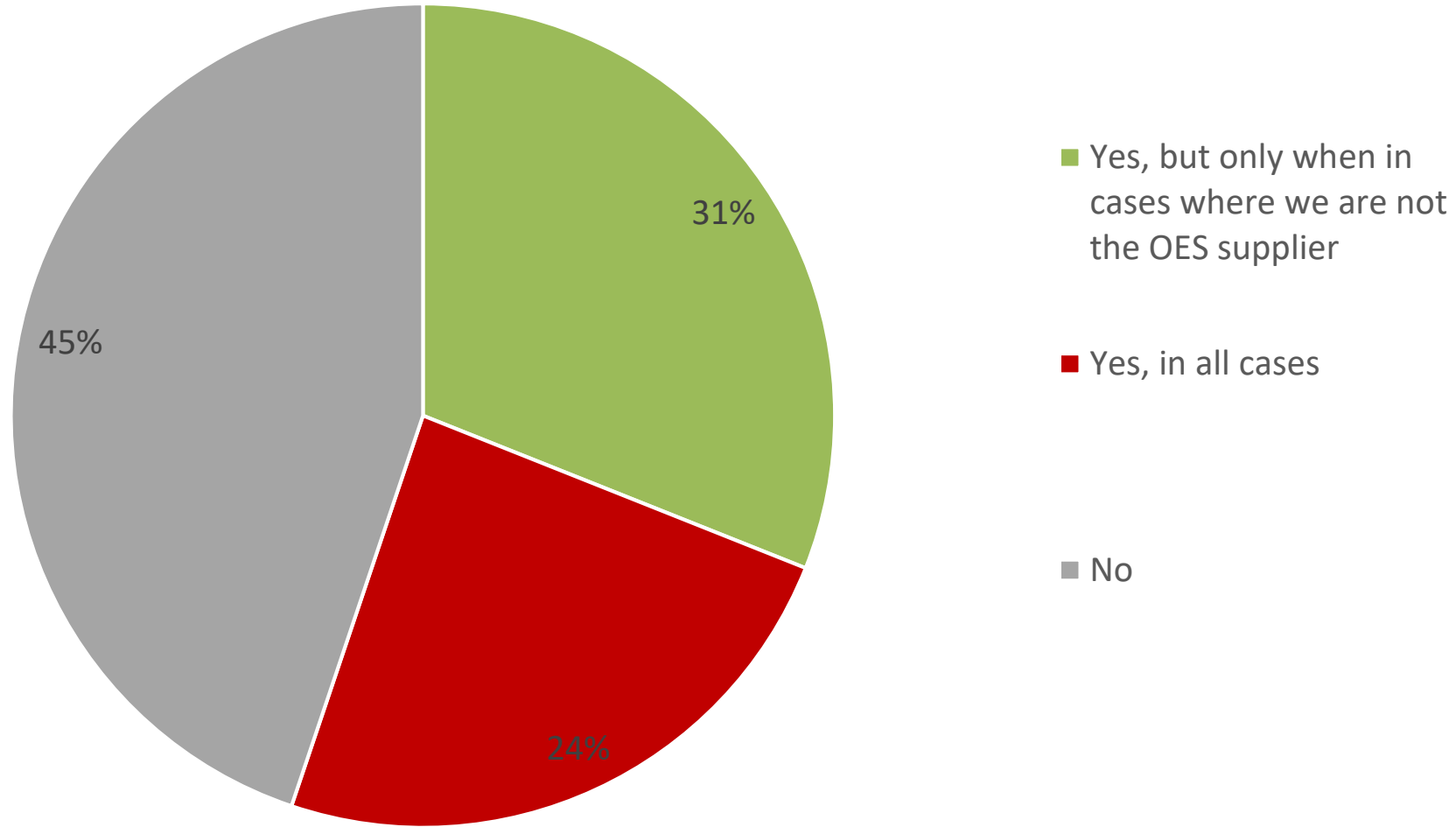
During your 2018 contract negotiations, were you asked to provide OES parts at production line pricing?



Original Equipment Supply



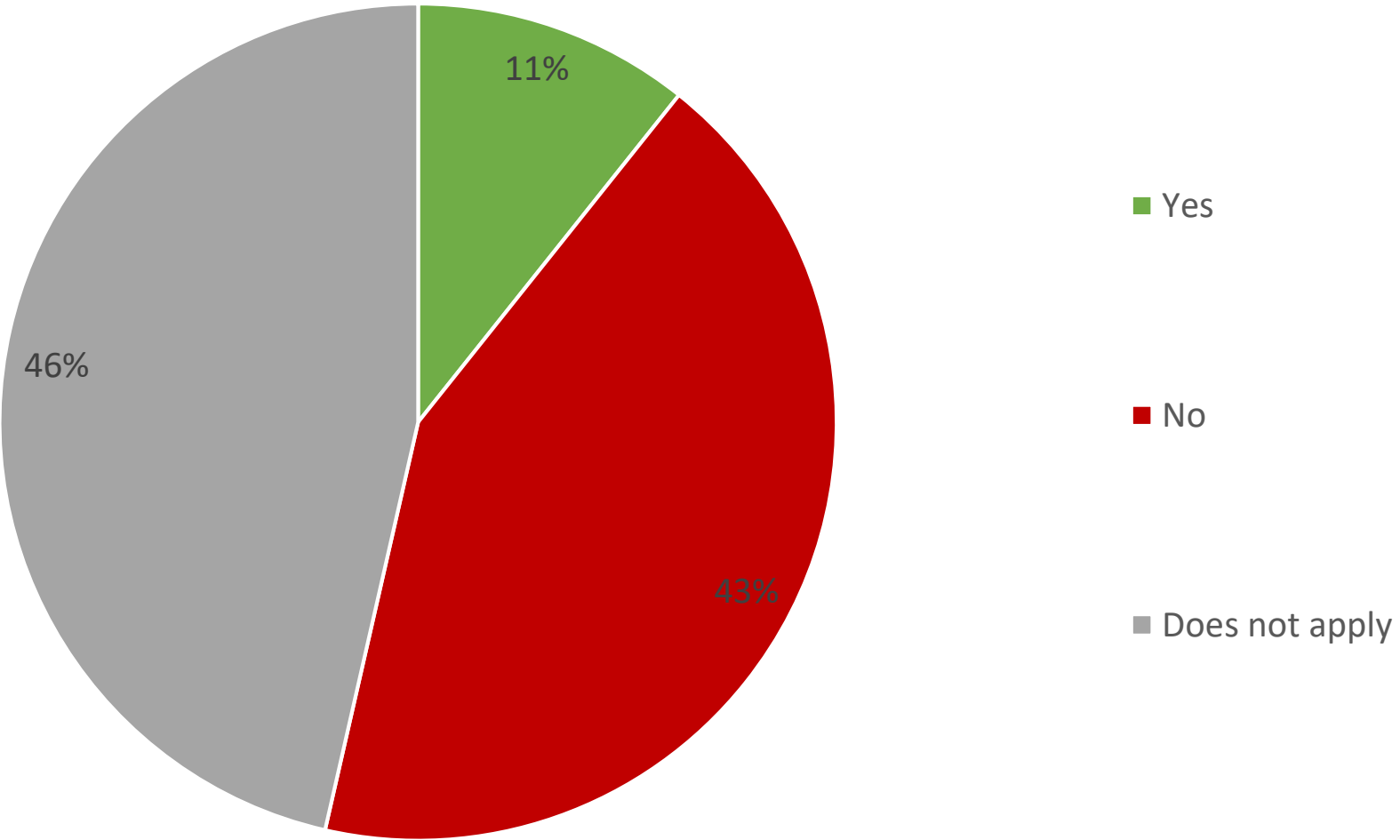
During 2018, did you sell to dealer owned independent warehouses?



Aftermarket & OES Supply



If yes, did you extend OES prices and supply terms and conditions to the independent portion of the business in 2018?



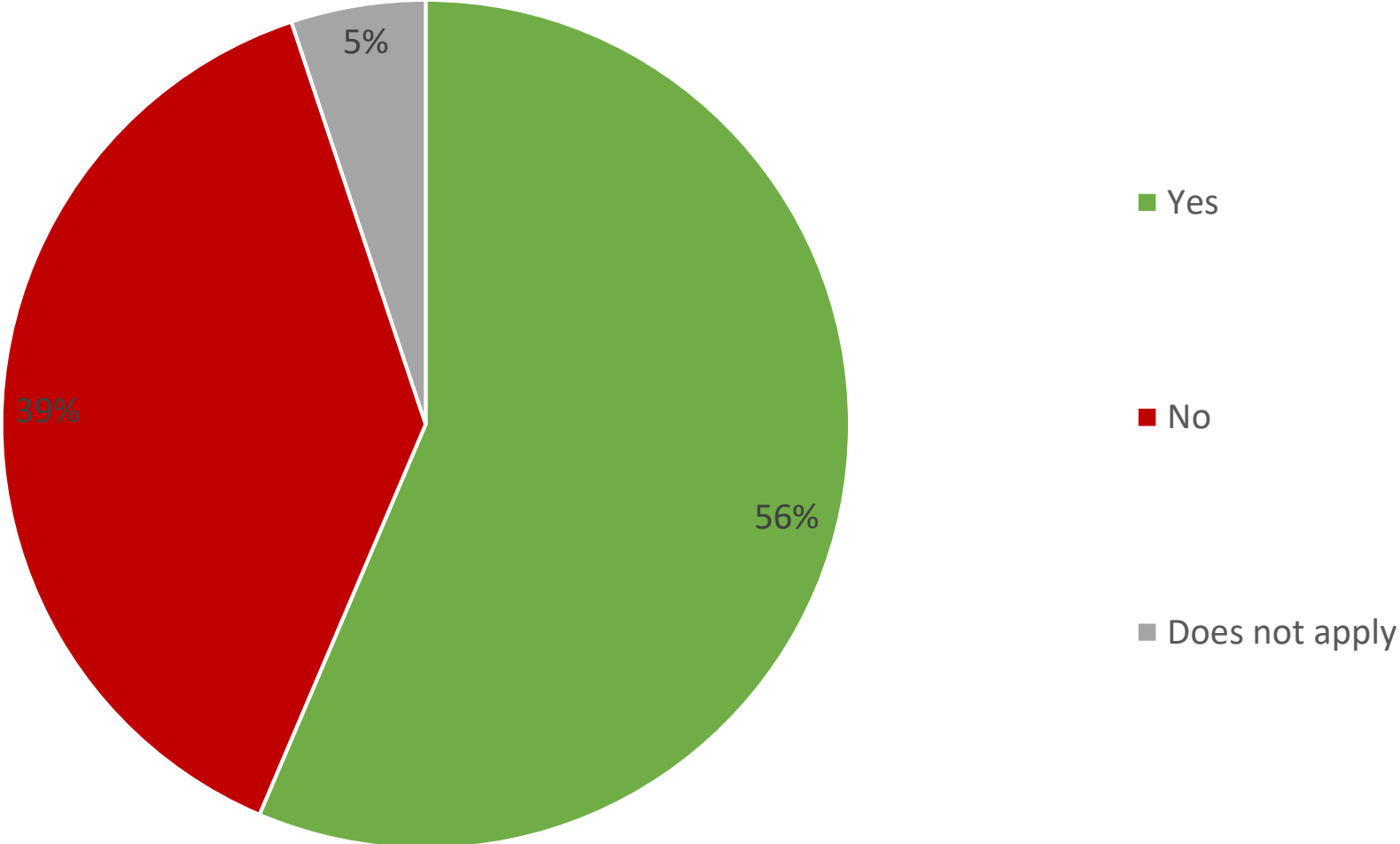
Aftermarket & OES Supply





FUTURE BUSINESS & LOOKING FORWARD

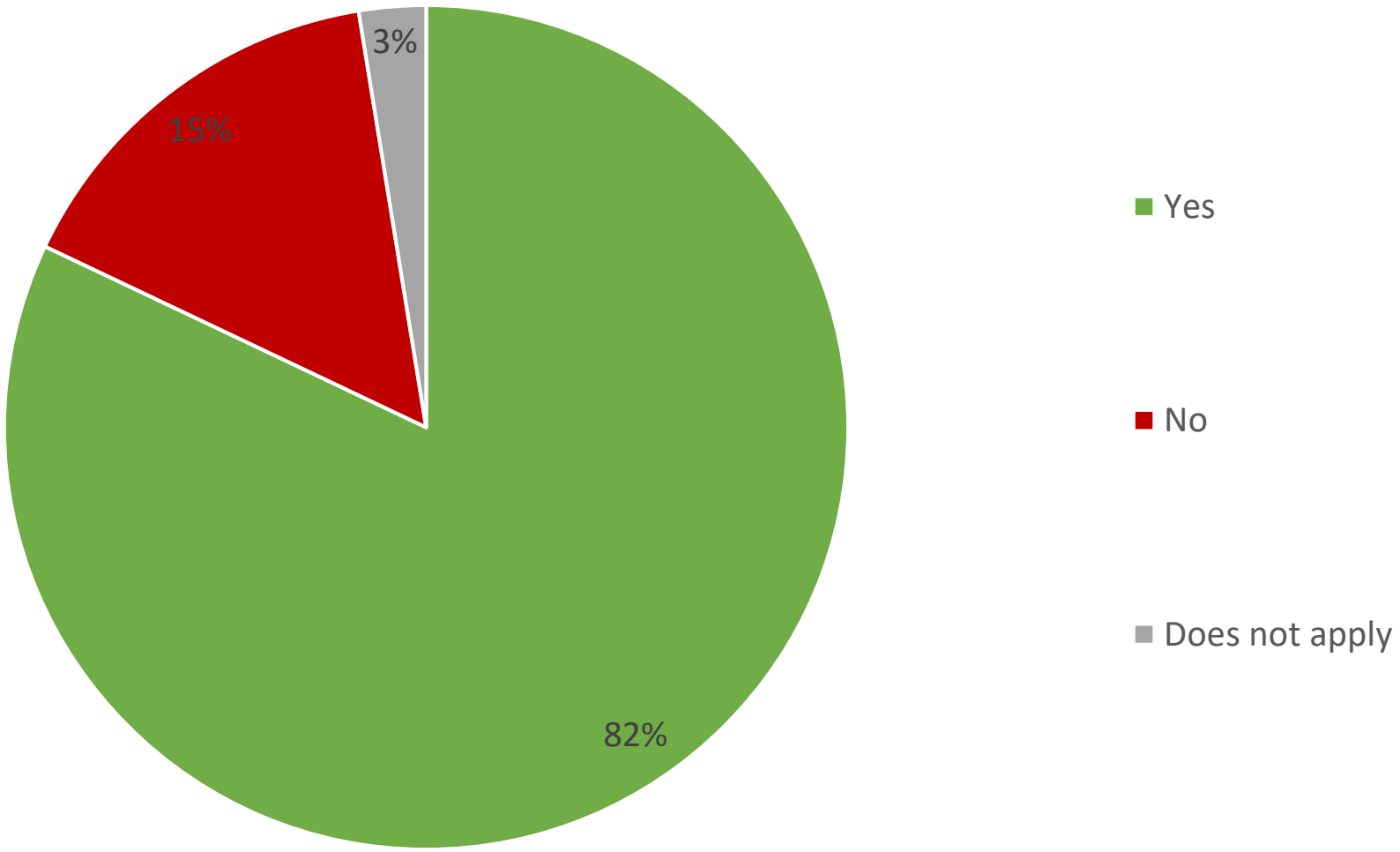
During your 2018 negotiations or contract review, did you receive an unusual or an unexpected amount of pressure from some major OEMs for price downs?



Original Equipment Supply



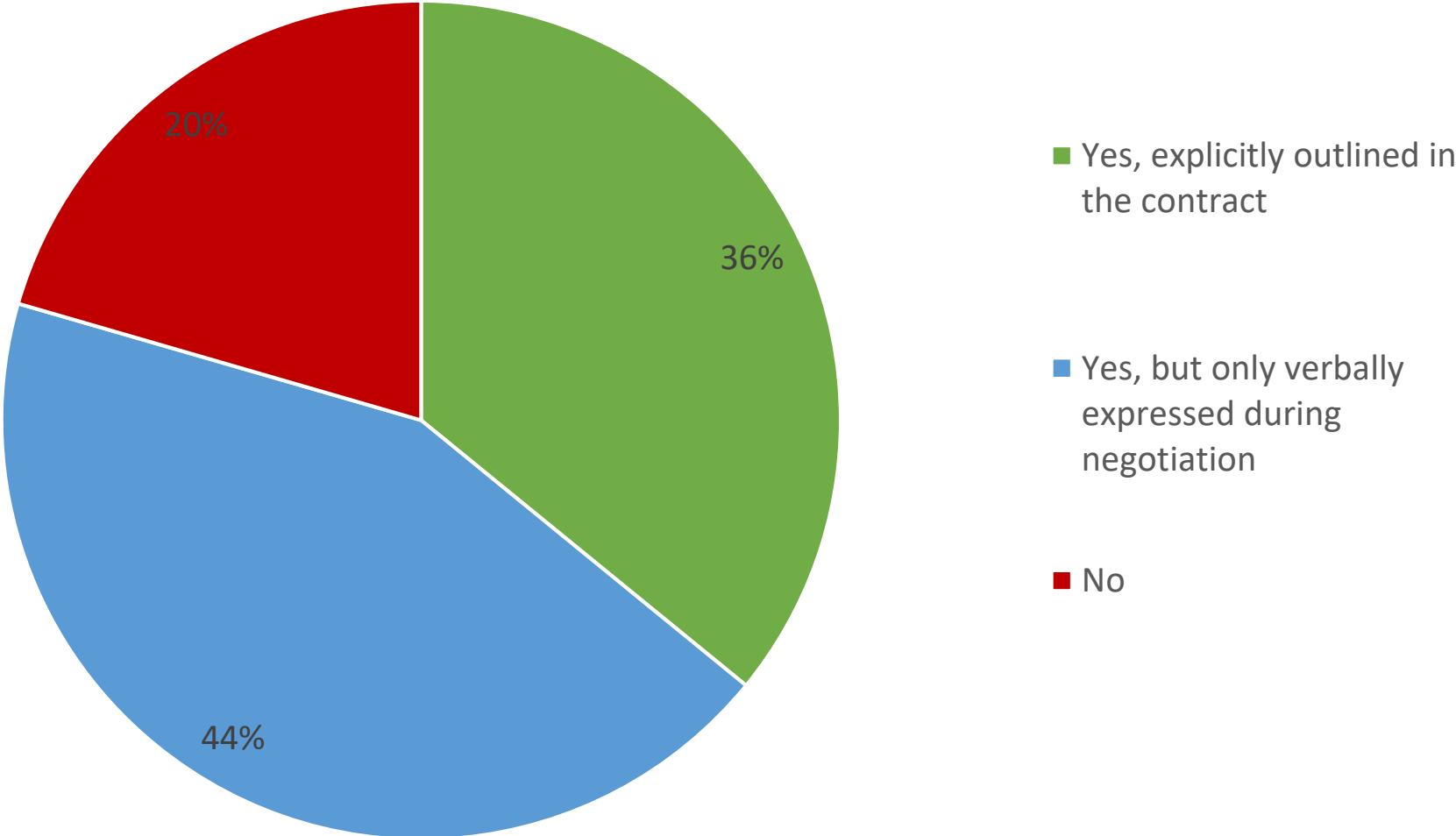
During 2018, was your contracted business being shopped around by any major customers?



Original Equipment Supply



Were new business awards contingent upon signing an LTA in your 2018 contract negotiations? *(select all that apply)*



Original Equipment Supply



What is the single largest change in terms and conditions that you can foresee in the next two years?

- Once the market slows down and there is open capacity in the supply chain, OEMs will likely be aggressive in pushing for price downs. Currently they do not have that leverage.
- Potential changes to tariff and trade restrictions.
- Requests for open book pricing and financials, which as a private company, we do not grant. Extended dating up to 180 days being requested.
- Specific language on tariff pass-throughs
- Tariff protection clauses and agreements in contracts (x4)
- Trying to pass unlimited liability for field actions and related impacts
- Warranty, Quality/Delivery performance, IP, exclusivity (North America)



Original Equipment Supply



What is the single largest change in terms and conditions that you can foresee in the next two years?

- Exclusivity (North America only)
- Extended dating like the automotive aftermarket (x2)
- For OEs, changing to production plus pricing for aftermarket
- Handling charge on small orders and manually entered orders. Shorter terms.
- Increased freight prepaid levels
- OEMs restricting sales by suppliers to non-OE channels
- Raw material price adjustment that include tariff recovery/pass through
- Same price as production longer payment terms Price transparency
Production productivity reductions carried to aftermarket as well
- The entire E commerce shipment policies



Thank You

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