Who Benefits Most from Supplier Parks?
Lessons from Europe and Japan

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Are supplier parks the future of automaker-supplier relationships or likely to become a failed experiment?
Supplier parks began in a rather experimental way, with Ford’s Amazon project and GM’s Blue Macau project, both for Brazil. But now, there are at least 35 automotive supplier parks in Europe alone, many more are planned particularly in Central and Eastern Europe, and they are spreading even to the U.S., with Ford’s Chicago site as well as by German and Japanese OEMs. I believe that this phenomenon is not a reversion back to the Rouge model of a highly integrated factory. Instead, it signifies a new experiment not just in production and logistics, but also in the management of capital assets and human resources. Whether the experiment will succeed or fail depends on how tensions that arise from competing demands by automakers and suppliers are managed.

What are the advantages and disadvantages of supplier parks for automakers? For suppliers?
Supplier parks are a manifestation of automakers’ desire to outsource various responsibilities to suppliers. A key advantage for automakers lies in reducing the amount of investment in fixed assets. This is why the creation of supplier parks is associated with greenfield sites and with new model projects. Outsourcing anything other than the core makes automakers flexible and agile. This, in turn, gives suppliers a great opportunity to become responsible for high value-added business in the design, manufacture, and assembly of modules and systems.

In reality, some suppliers experience erosion in their profit margin as they buy into such business initially by merely sequencing and assembling modules on the park, without an early involvement in design.

Moreover, automakers debate the pros and cons of how much to outsource. For low-volume, specialty models, why not outsource the whole final assembly to a contract auto assembler like Magna Steyr? Then automakers are just brand owners and there is no need for them to manage supplier parks. For high-volume models, is it really more cost-effective to outsource module assembly in the long run, if narrow wage differential is the only source of cost advantage?
Why have some companies committed to supplier parks while others have not?
Automakers whose strategy is driven by the outsourcing of modules are keener on supplier parks than those with a more integrationist strategy. Here, for example, we see Toyota and Honda being much more cautious about supplier parks than Nissan (with its Canton, Mississippi, operation in the U.S.) Even among the automakers with supplier parks, different philosophies prevail, with some being much more ambitious in relying on suppliers to be part of an integrated production system — such as SMART’s modular consortium — than others that rely on only a handful of suppliers to cope with product variety. This minimalist approach to supplier parks is evident in some parks where the only outsourced parts are those with high product variety, such as the cockpit and wiring harnesses.

Does increased modular production eliminate the value of supplier parks?
The value of supplier parks lies in the synergy that results from the proximity of suppliers right next to the final assembly line. In theory, modular design and production should enable a more geographically dispersed global supply chain, as each chunk of the product is designed and made without the need for close coordination with the other chunks. Look at what’s happened to the production of PCs and electronic assembly in general. What’s different about cars is two things. First, cars are not ever going to be as modular as PCs in their product architecture. Second, even if they were, there is just so much within-module product variety — say a million theoretical variants in a cockpit — that makes just-in-sequence delivery an important part of logistics. Proximity helps in coping with the short order-to-delivery lead time.

What were your research priorities as a 2003 Visiting Fellow at Japan’s Research Institute of Economy, Trade, and Industry (RIETI)?
I was based at RIETI in Tokyo to complete a book on unions and corporate restructuring. So, much of my time was spent visiting companies and unions in the electronics and automobile sectors. As part of this research, I also studied the Japanese telecoms company, NTT, comparing it with Deutsche Telekom. I was particularly interested in the way the so-called enterprise unions in Japan were negotiating with management over the redeployment of excess workers within the NTT Group. There has been a fundamental change in the notion of an income guarantee inherent in the lifetime employment norm, as NTT workers took up to a 30 percent pay cut to remain employed in subsidiary companies.

What accounts for the increase in temporary workers employed in the Japanese auto industry?
This is a really interesting question, something that I picked up as a matter worth investigating further during our September visit to Toyota, Honda, and Nissan. Temporary workers are on the rise in Japanese manufacturing generally. This appears to be the consequence of the prolonged recession in Japan, which made companies reluctant to increase their core regular workforce in the face of uncertain growth projection. Apart from a general need to reduce labor costs to meet international competition, this uncertain growth prospect also increased companies’ desire to reduce fixed costs, so that they can be better prepared for volume fluctuations. So, in the Toyota Takaoka and Nissan Oppama plants we visited, we were told that around 20-30 percent of direct workers on the shop floor were temporaries, placed by sub-contract agencies. Temporaries, however, are not part of the multi-skilled training program, and I wonder to what extent the reliance on numerical flexibility — by increasing temporaries — has to occur at the expense of functional flexibility that results from multi-skilling.