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Tooling study: Capacity won't support projected auto launch demand

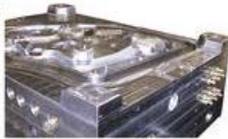
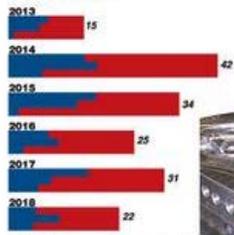
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STAFF REPORTER

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PLANNED VEHICLE LAUNCHES



% of tooling sourced by OEM group (in order):
Detroit 3 Asian 4 European 3
Source: LMC Automotive and Harbour Results Inc. estimates.

NOVI, MICH. — The North American tool and die industry supporting the auto industry is made up of about 750 individual shops, mostly in the U.S. and Canada, which produced a combined \$9.25 billion worth of tooling in 2012.

But with the North American auto industry ramping up for new products and more vehicles, those shops will soon have to support an estimated \$15.2 billion worth of tooling demands, according to a new 10-month study by Harbour Results Inc.

That means increased pressure on tooling firms, suppliers and automakers alike.

"That's a huge gap," Laurie Harbour said during an Oct. 31 press briefing in Novi on the results of the study. "You're looking at a \$6 billion capacity gap, and that's serious for everyone."

Concerns about tooling capacity have prompted automakers and suppliers to take a closer look

at the industry, said Harbour, who also called the \$15.2 billion estimate "conservative."

The Original Equipment Suppliers Association, based in Troy, Mich., launched a tooling group last year, and that group conducted the study with Harbour Results, Troy-based auto industry forecasters LMC Automotive US Inc. and Clinton Aluminum & Stainless Steel of Clinton, Ohio, to arrive at a clearer view of the region's vendor tooling business.

The study focused on molds and dies made for both plastic and metal production by suppliers and excluded tooling used by carmakers' in-house die stamping and molding.

Seven automakers participated fully in the study and another three provided partial data. The study also surveyed major Tier 1 suppliers and 50 tooling suppliers.

The typical car uses up to 3,000 tools for production and those tools can range from \$5,000 for small components to more than \$1 million for a complex mold for parts such as a front fascias. A complete fascia itself can include not only the main plastic part but also fog lamps, grilles and other components, requiring as many as 35 additional tools, said Harbour, CEO of Harbour Results.

The survey focused on toolmakers that supply the auto industry directly, and excluded support businesses such as texture or heat-treating specialists. It identified about 125 shops in Canada — primarily near Windsor with a few near Toronto — and 625 in the U.S.

Mexico has about 100 toolmakers, most of which are not dedicated to the auto industry. Those working in automotive, however, mainly do tool maintenance rather than new mold production, she said.

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The average automotive tool shop has annual revenue of \$15 million and about 100 employees. Only 15-20 percent of auto tool shops make more than \$50 million in sales a year.

"So you have these large, publicly owned automakers worth billions of dollars, and their Tier 1 suppliers — many of them publicly owned and worth billions of dollars — and at the bottom, you have 750 shops worth an average of \$15 million," Harbour said. "That's the food chain. [Toolmakers] are at the bottom of it, but you can't make a car without them."

If all North American toolmakers were operating at 100 percent capacity, they could produce \$11.2 billion worth of molds and dies, she said. But the reality is that production peaks when new models are prepared for launch, then drops off during other parts of the year, so a healthy tooling industry is more likely to run closer to 80 percent capacity, Harbour said.

And it is capacity that has companies concerned.

The auto industry as a whole in North America is on a rapid growth curve coming out of the recession. Production that dipped below 9 million vehicles during the slowdown is now expected to pass 15 million vehicles this year — and is on its way to a predicted 18 million vehicles annually, said Jeff Schuster, senior vice president of forecasting for LMC.

In addition to sheer production volume, automakers are turning out a wider variety of models, both new vehicles and refreshed platforms. Tooling is in demand for each of those models.

In 2010, the North American industry launched 16 new products. In 2014, carmakers will introduce 42 new products, followed by at least 30 new products expected in both 2015 and 2017.

Toolmaking ramps up well in advance of new vehicle launches, with automakers currently selecting suppliers for 2015 and 2016 models.

In addition to traditional domestic auto production, European and Asian carmakers — which previously sourced the bulk of their tools from their home-country suppliers — increasingly are turning to the North American supply base.

Honda Motor Co. Ltd., for instance, has already committed to creating the next-generation Honda Civic, for the 2016 model year, designed, engineered and developed in North America rather than Japan, noted Dave Andrea, senior vice president of industry analysis and economics for OESA.

"New product will be coming out of North American that was previously led from Japan," he said.

The bulk of European and Asian production in North America is centered in the southern U.S., and Harbour said she encourages toolmakers now focused on the Detroit region to look seriously at quickly setting up shop in the South to take advantage of new production.

New auto plants also are under construction in Mexico, and automakers need experienced mold makers there as well, so they may continue to push their prime suppliers to explore that area, she said.

Capacity shortages for 2014 production may have led to an increase in buying tools from low-cost countries, Harbour noted.

In 2002, North American automakers sourced 5 percent of their simple tools from low-cost regions. In 2012 — when the industry was gearing up for 2014 — it sourced 20 percent of its simple tools and 7 percent of its complex tools from low-cost regions.

Sourcing that percentage of simple tooling from low-cost countries is not unusual, Harbour said, but complex tooling has tended to favor North American locations. Because of potential engineering and communication issues, automakers prefer to have complex-tool production close to home.

Some firms experienced difficulties with those tools in 2012, leading them to rethink their purchasing strategies, she said. The survey notes that automakers said they expect to source no more than 5 percent of complex tools from low-cost countries in 2020, although those regions are likely to retain 20 percent of simple tooling production.

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