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OESA AUTOMOTIVE SUPPLIER BAROMETER™ Q3 2020

TALENT AND HUMAN RESOURCES

AUGUST 20, 2020

Executive Summary



Supplier Barometer Index™ (SBI) SBI Score = 53; up from Q2 level of 15

The index improved substantially with the reopening of the industry, rising 38 points from the lowest level in the history of the index to 53. The outlook is polarized however, as 36% of respondents indicate they became more pessimistic over the past three months, while 47% became more optimistic. On net, there is optimism across suppliers of all sizes, except for the largest suppliers with over \$1 bil. in revenue.



Continued issues related to the COVID-19 pandemic was identified as the biggest threat to the industry

Responses overwhelmingly point towards the pandemic as the biggest risk point to the industry itself, but its impact on the overall health of the economy and the vehicle sales of programs supplied is also of great concern. Risk ratings associated with the pandemic, economy and sales, did improve sequentially.

There is heightened concern over the ability to address internal labor constraints as suppliers struggle to get their entire labor force back into their plants, ultimately raising the risk of the inability to fulfill customer volumes



Automotive suppliers remain diversified

Median non-automotive revenue estimates grew slightly from Q4 2019. Results were mixed however, as agriculture and defense revenue increased in comparison to last year while furniture declined.

Revenue from the manufacturing of personal protection equipment is mostly marginal, about 3% of total on average.

Executive Summary



Skills and company cultural gaps closed and suppliers are more than willing to embrace the change needed to close the gaps further

Executive responses indicate that nearly 34% of suppliers have moderate to wide gaps between their current roles and responsibilities versus skills, down from 60% in Q4 2019.

Furthermore, 50% of responses indicate that suppliers face moderate to wide gaps between current and expected company culture, down from 60% in Q4 2019.

Firms are focusing on increasing internal skill development and reorganizing to offset skills gaps, while offering flexibility in work environments and schedules to offset cultural gaps.



On net, employment growth is not anticipated to keep up with sales growth in the U.S., Canada, Mexico, Europe, China, the Rest of Asia and South America



The pandemic has cooled regional voluntary turnover rates throughout North America

15% of suppliers report their turnover rates in the U.S. at above 7.5% for salaried workers while 32% of suppliers estimate their turnover rates for hourly workers at above 7.5%, down from 25% and 46%, respectively, in Q4 2019.

Canada and Mexico both had decreased turnover in their salaried and hourly workforce, by the same metrics.



Hourly workers have become the biggest hiring concern in North America

In a dramatic shift from the fourth quarter of 2019, when suppliers were most concerned with acquiring engineering talent, general hourly labor is the most critically short of all labor categories. Suppliers point to headwinds from unemployment subsidies as the cause of the shortage.



Developing employees internally, through training, mentorship and cross-functional job rotation, through a structured development plan are the key themes for career path and succession planning.



The pandemic has profoundly impacted how and where people work, with much more flexibility anticipated in future work schedules



Organizational leadership, communication and empowerment are the top HR priorities going into 2021, followed closely by training and employee development



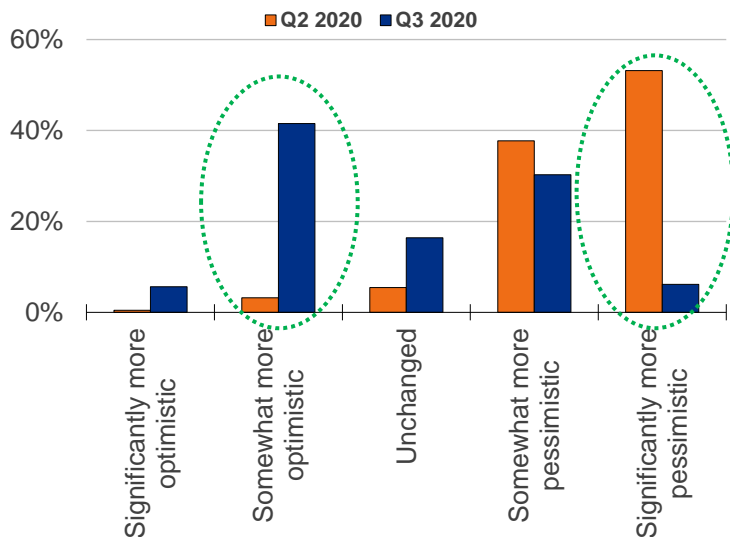
Executive leadership, finance, and sales and marketing have excelled in the remote work environment, while plant management is ineffective in a remote work format. Remote work will continue to be leveraged following the pandemic.

SUPPLIER OUTLOOK

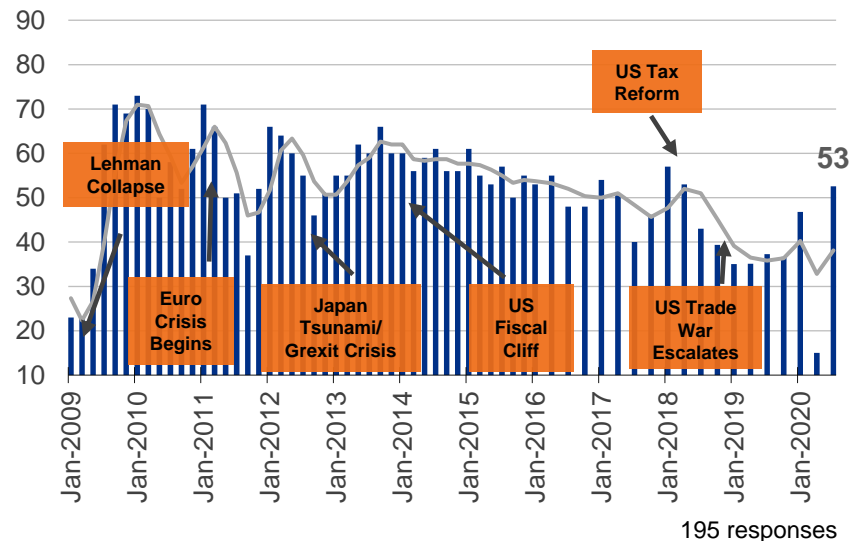
OESA Supplier Barometer: Q3 2020 Results

Describe the general twelve-month outlook for your business. Over the past three months, has your opinion become...?

Current Supplier Outlook (Share of Respondents)



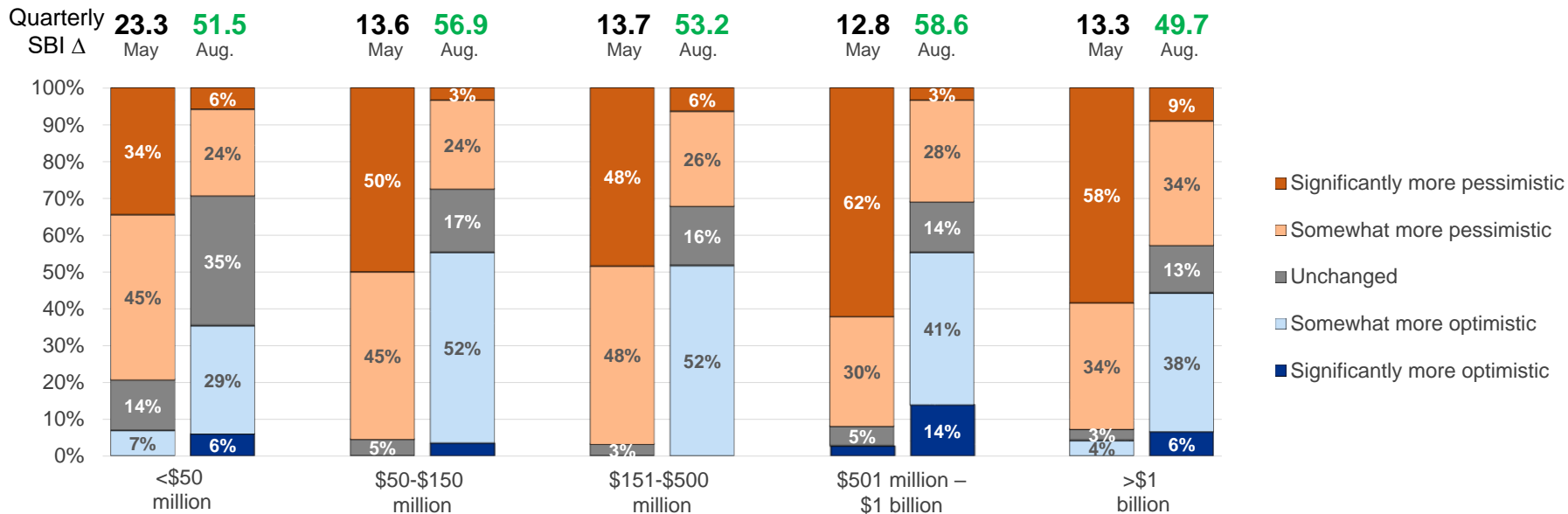
Supplier Barometer Index: (SBI and 6m Average)



The outlook for the third quarter is optimistic on net, with the SBI improving 38 points from Q2 to 53. Risks remain however, as 30% of responses indicate a more pessimistic outlook than 3 months ago.

OESA Supplier Barometer: Q3 2020 Results By Revenue

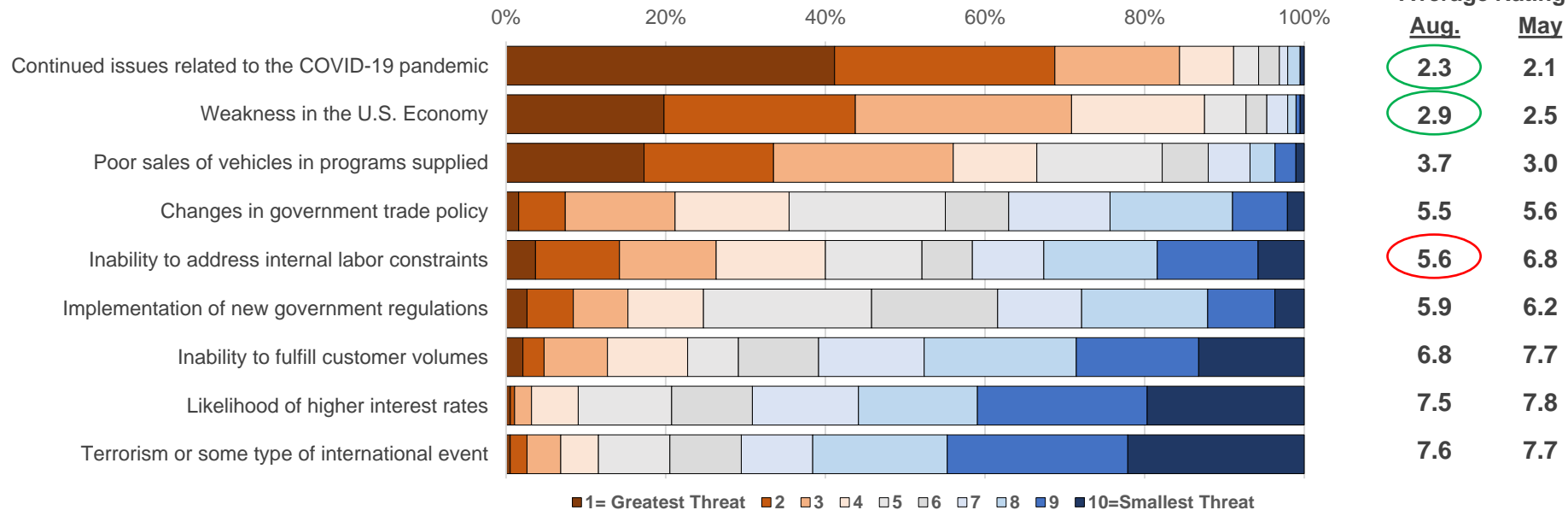
Describe the general twelve-month outlook for your business. Over the past three months, has your opinion become...?



Regardless of revenue size, responses indicate a much improved outlook in comparison to the second quarter. The largest firms have a polarized outlook, with nearly an equal amount becoming more and less optimistic.

OESA Supplier Barometer: Industry Threats

What are the greatest threats to the industry over the next 12 months?



The pandemic is unsurprisingly the greatest threat to the industry, but its effect on the U.S. economy and ultimately the sales of vehicles to which our members supply is also profound.

OESA Supplier Barometer: Industry Segmentation

N.A. Industries	Percent of total NA revenue in each Industry				
	Lower Quartile	Median	Upper Quartile	Range	Number of Responses
Automotive	80%	95%	100%	10-100%	183
Computers and Non-Auto Electronics	10%	15%	25%	2-20%	12
Agriculture	5%	10%	15%	1-60%	64
Defense	4%	8%	14%	1-50%	36
Aerospace	2%	5%	10%	1-20%	30
Marine	5%	5%	10%	1-10%	20
Personal Protection Equipment	1%	3%	5%	1-10%	7
Furniture	2%	3%	6%	1-10%	7
Other	1%	2%	5%	2-100%	66

Other Industries:

- Industrial (23)
- Construction (10)
- Consumer Goods (10)
- Appliances (7)
- Healthcare (7)
- Non-automotive transportation (7)
- Heavy duty (5)
- Energy/Mining (3)
- Aftermarket (2)
- Insurance (2)
- Entertainment
- Climatic related industries
- Chemicals
- Semiconductor

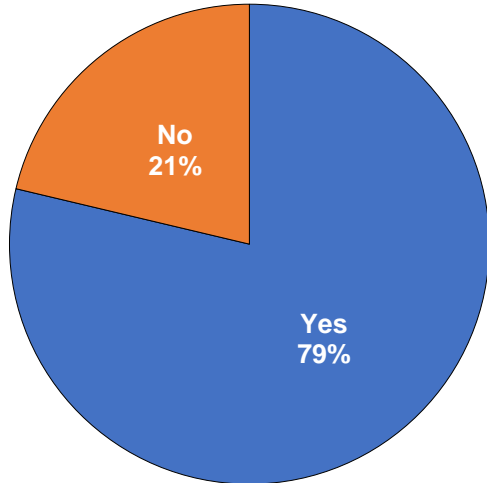
Automotive revenue as a percentage of total is in-line with 2019 results.
Agriculture and defense revenue increased in comparison to last year while furniture declined.

TALENT AND HUMAN RESOURCES

Roles/Responsibilities vs. Skills - Understanding the Gaps

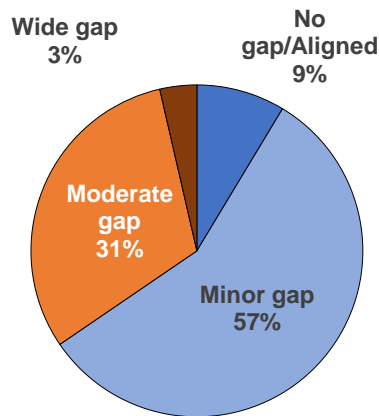
Given competitive hiring pressures and your effort to retain and capture new talent...

Are you evaluating the gaps between roles/responsibilities vs. skills in your organization?

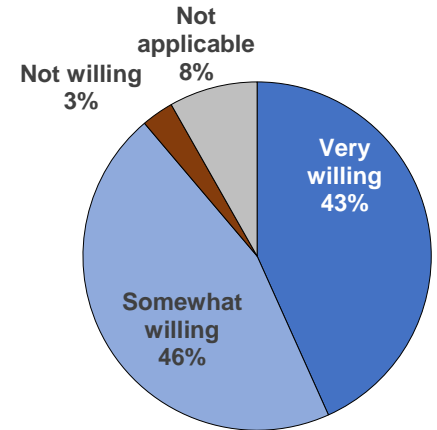


For those indicating 'yes'

What is the magnitude of each gap?



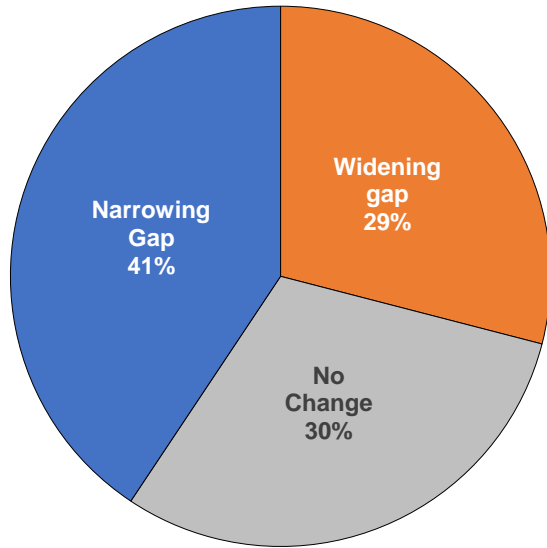
How willing are you to embrace the scope of change needed to close each gap?



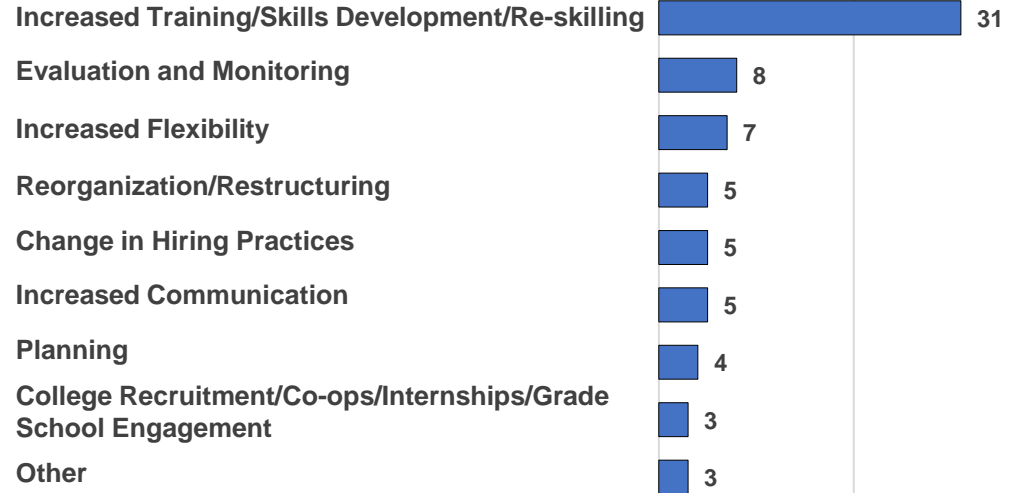
Skill gaps are closing, with only 34% of respondents indicating they have moderate to wide gaps, down substantially from 60% last year.

Roles/Responsibilities vs. Skills - Understanding the Gaps

How do you see this changing over the next 1 to 3 years?



What are you doing to adapt your organization to each of these changes?



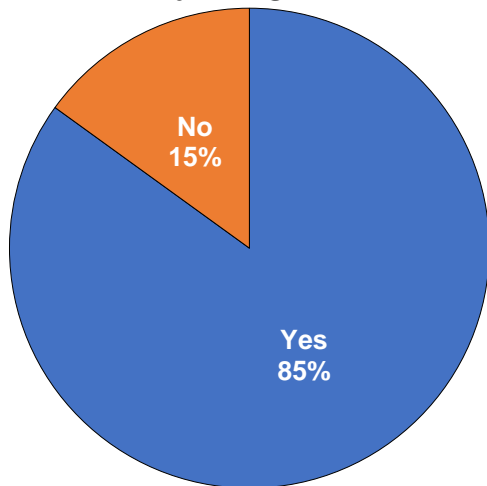
Number of Responses

Suppliers are focused on developing talent internally through training or re-skilling, continually monitoring improvement and increasing their flexibility

Current Culture vs. Expected Culture - Understanding the Gaps

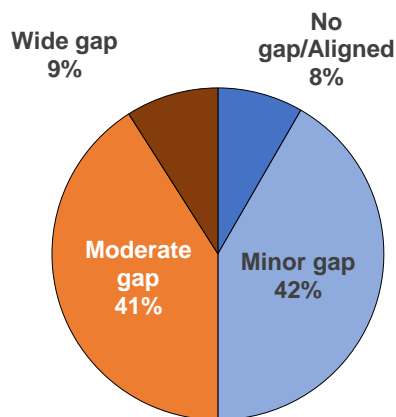
Given competitive hiring pressures and your effort to retain and capture new talent...

Are you evaluating the gaps between current vs. expected culture in your organization?

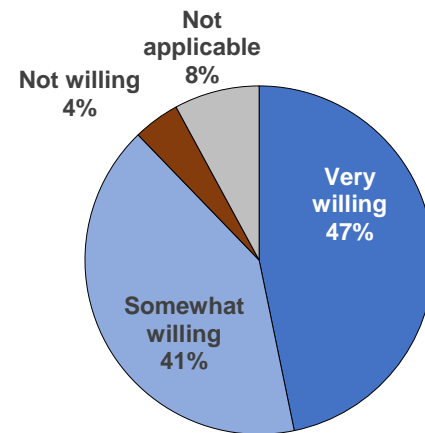


For those indicating 'yes'

What is the magnitude of each gap?



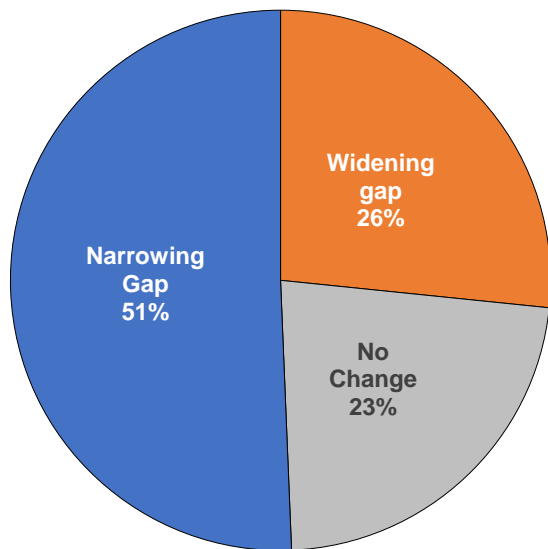
How willing are you to embrace the scope of change needed to close each gap?



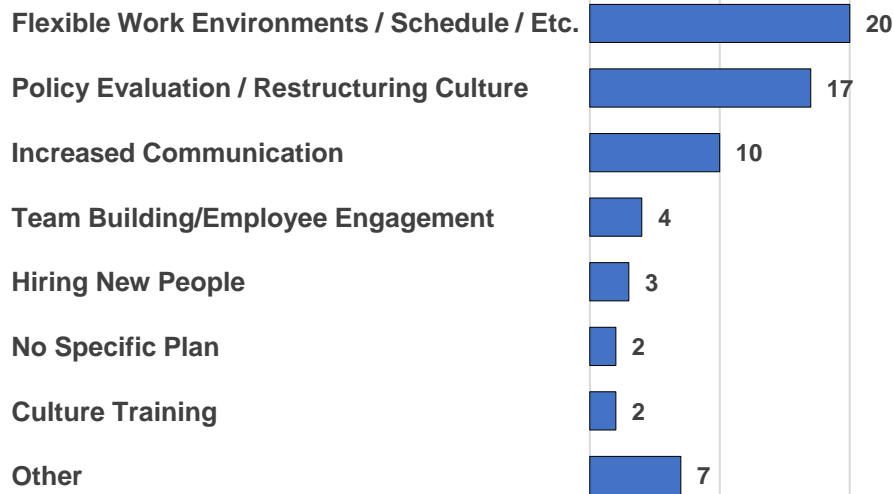
Cultural gaps improved in comparison to the end of 2019, but less so than skills gaps. Half of respondents indicate moderate to wide gaps in their culture, but most are willing to embrace the change needed to close.

Current Culture vs. Expected Culture - Understanding the Gaps

How do you see this changing over the next 1 to 3 years?



What are you doing to adapt your organization to each of these changes?

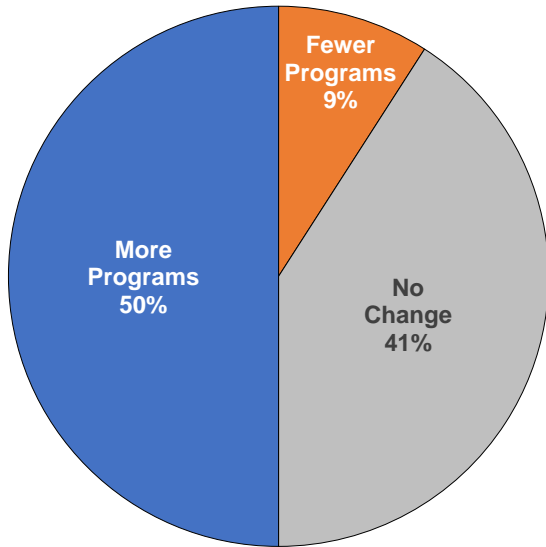


Number of Responses

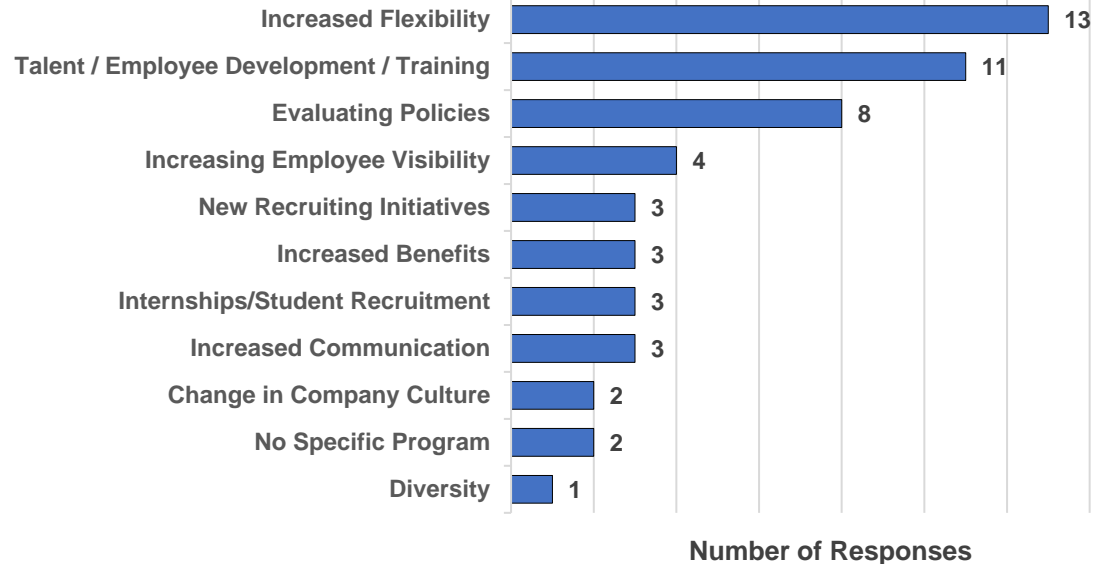
Most suppliers expect their cultural gaps to narrow over the next few years. Many will continue to offer the flexible work environment brought on by the pandemic and continue to re-evaluate their existing culture.

Programs to Attract and Retain Talent

How do you see this changing over the next 1 to 3 years?



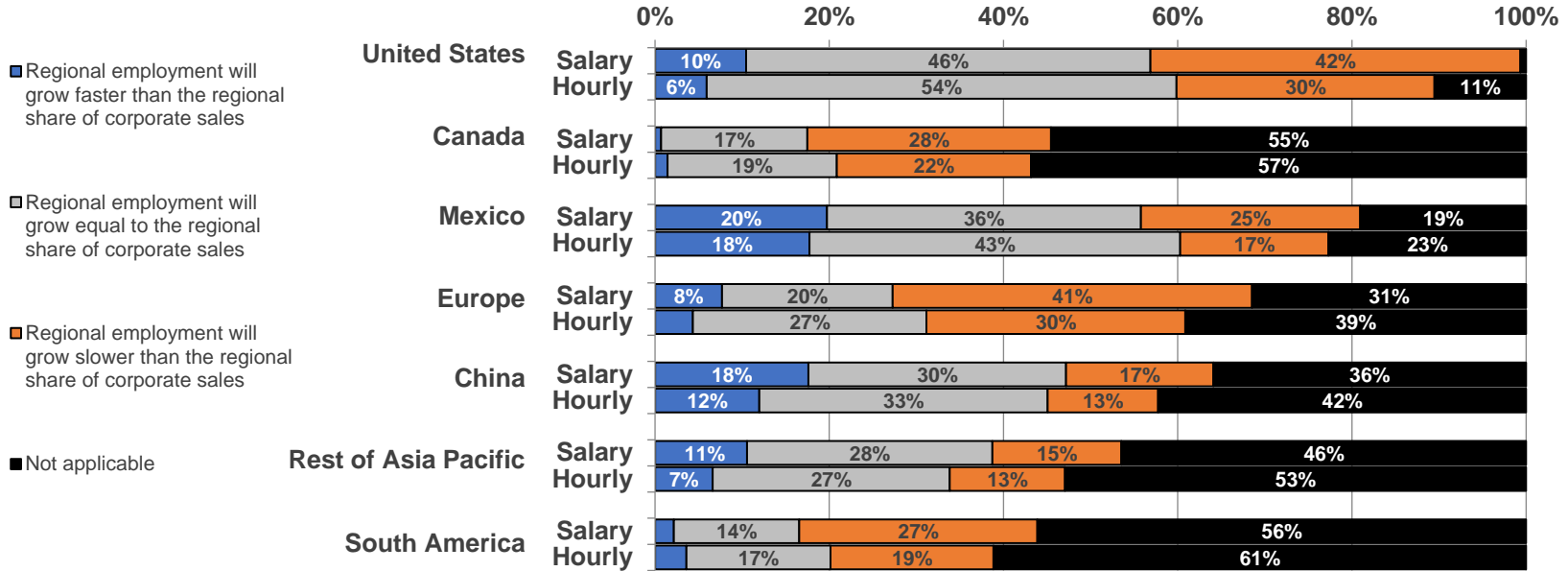
What are you doing to adapt your organization to each of these changes?



Suppliers will continue to leverage their flexible work environments as a means of attracting and retaining talent. Internal development and increasing employee visibility are other key themes.

Employment Issues: Regional Growth Expectations

Looking at your current global footprint, how do you anticipate regional employment levels shifting over the next five years?



Employment growth in all regions will face headwinds relative to the pace of regional sales growth

Employment Issues: Shift Operation

Are you running alternate schedules to increase productivity or flexibility to meet customer demands (i.e. 4-10 hour shifts, 3 crews/2 shifts, etc.)?

If yes, what percent of your production are you running on alternate schedules (i.e. 4-10 hour shifts, 3 crews/2 shifts, etc.)?

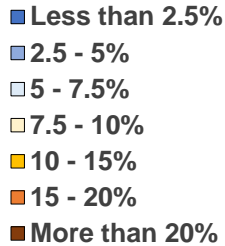
	Yes *	No		1-25%	26-50%	51-75%	76-90%	91% or more
U.S.	49%	51%		36%	24%	19%	4%	16%
Canada	20%	80%		15%	23%	38%	15%	8%
Mexico	45%	55%		24%	19%	24%	19%	14%

Alternate shift scheduling has continued, with slightly higher rates across Canada and Mexico

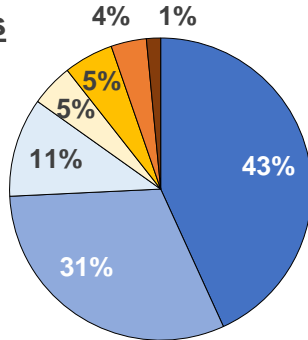
Employment Issues: Regional Voluntary Turnover

Estimate your year-to-date 2020 voluntary turnover rate for salary and hourly personnel

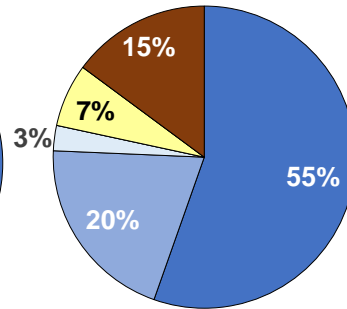
Salaried Workers



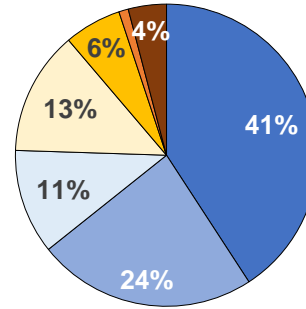
United States



Canada



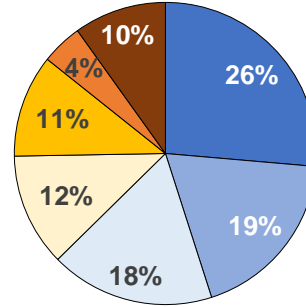
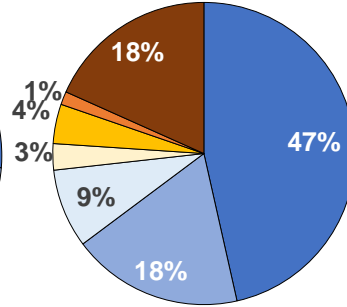
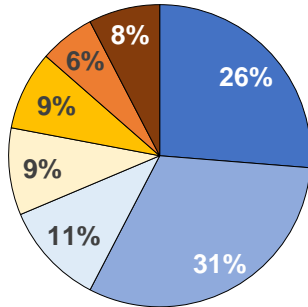
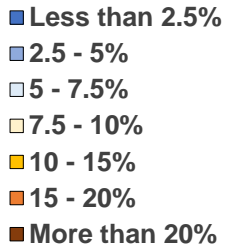
Mexico



Comments for Salary Personnel:

- Many retirees which will be replaced mostly
- No personnel in Canada or Mexico.
- Nothing out of the ordinary.
- Due to handling of COVID19 - furloughs, permanent layoffs....then quick bounce back of sales many people are feeling a sense of disloyalty from the company and exploring other options.
- Voluntary reductions in US dropped to just above 0% in Q2.
- In a COVID-19 environment, very few employees seem to be leaving for new positions. Employment changes are more involuntary than voluntary.

Hourly Workers



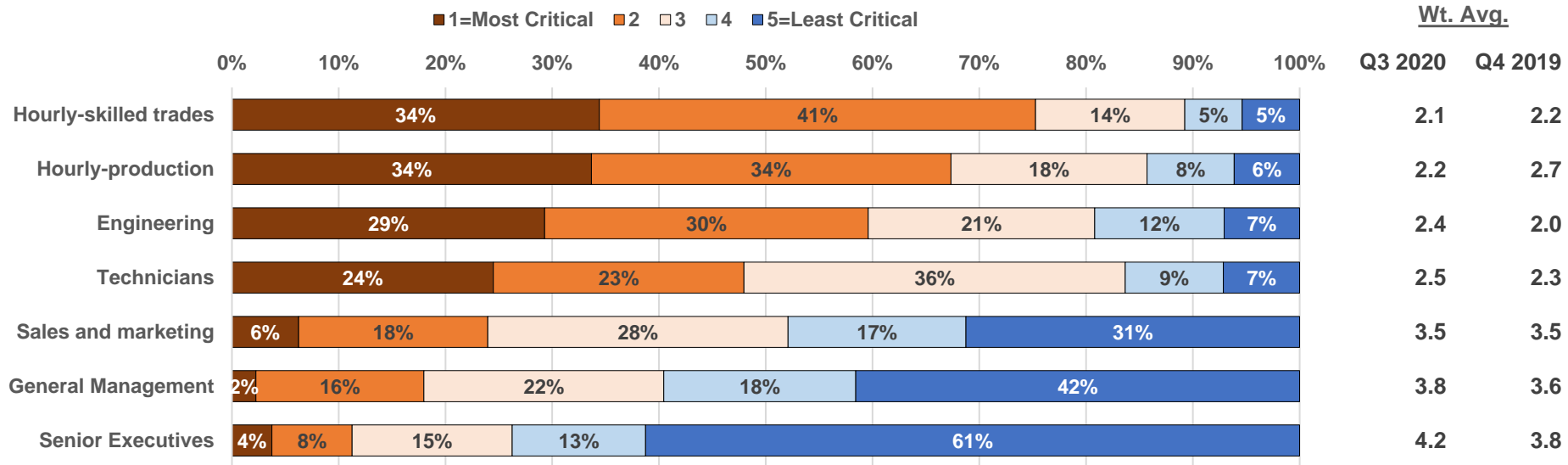
Comments for Hourly Personnel:

- Closed a plant and production to another
- Hourly turnover ranges from 3-10 percent in US locations but has stabilized during the pandemic. Absenteeism has almost doubled in the US. We are unable to find temp workers in our US locations to fill labor shortages.
- Nothing out the ordinary.
- Due to handling of COVID19 - furloughs, permanent layoffs....then quick bounce back of sales many people are feeling a sense of disloyalty from the company and exploring other options.
- Hard to find dedicated workforce that want stable employment
- Not returning from COVID shutdowns

Employment Issues: Labor Acquisition in the U.S.

Based on current open requisitions, rate each of the following job classification and positions (most critical to least critical) where you have HR shortages

■ 1=Most Critical ■ 2 ■ 3 ■ 4 ■ 5=Least Critical



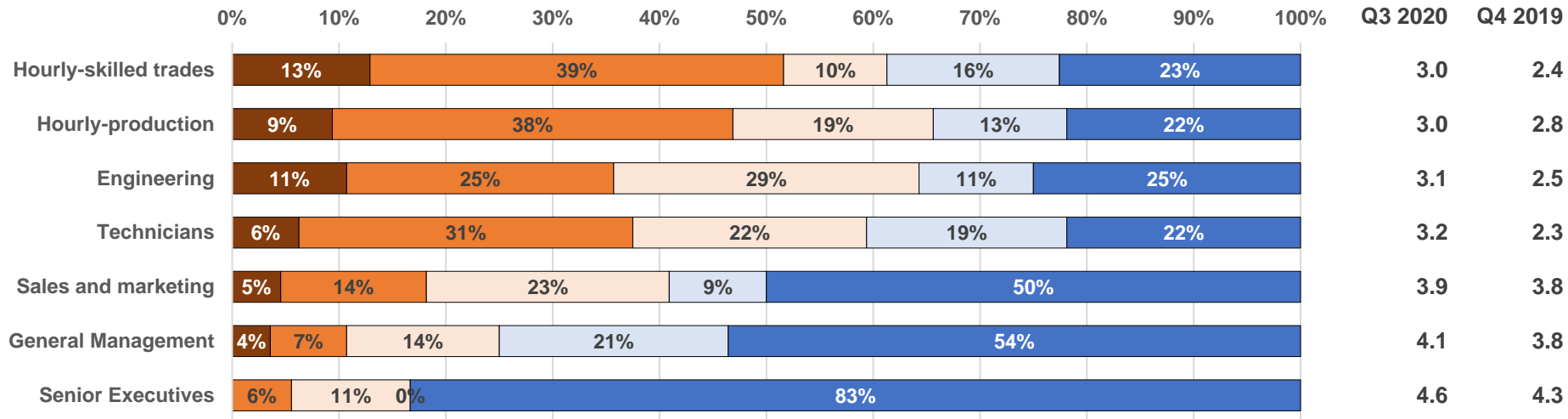
Respondents indicate that hourly workers are incredibly hard to come by due to the pandemic. Engineering shortages remain an issue, but less so in comparison to 2019.

Employment Issues: Labor Acquisition in Canada

Based on current open requisitions, rate each of the following job classification and positions (most critical to least critical) where you have HR shortages

■ 1=Most Critical ■ 2 ■ 3 ■ 4 ■ 5=Least Critical

Wt. Avg.



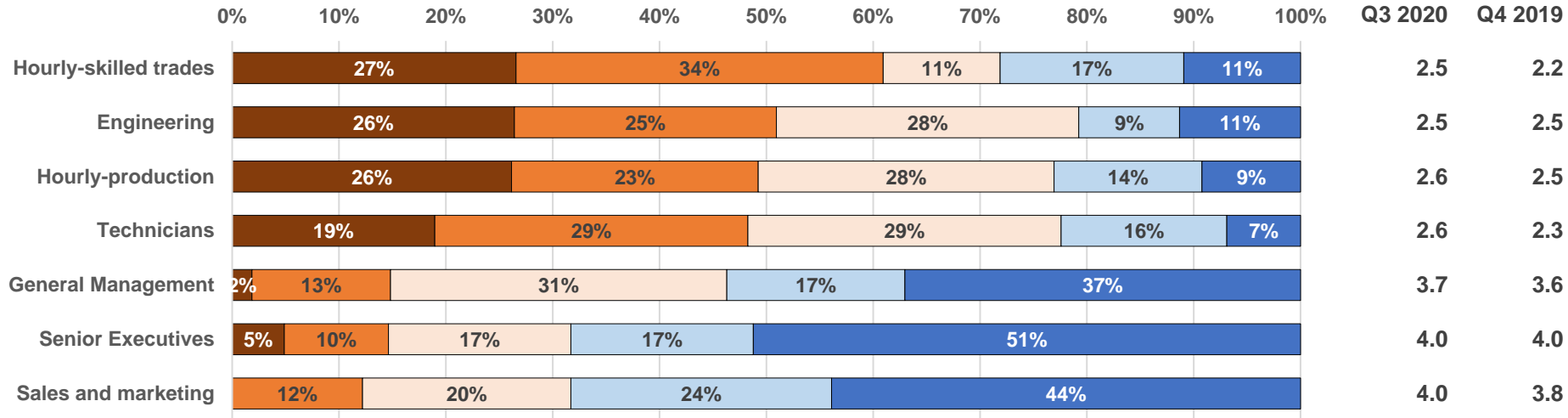
Hourly worker shortages are spread throughout Canada as well, however less severely in comparison to the U.S.

Employment Issues: Labor Acquisition in Mexico

Based on current open requisitions, rate each of the following job classification and positions (most critical to least critical) where you have HR shortages

■ 1=Most Critical ■ 2 ■ 3 ■ 4 ■ 5=Least Critical

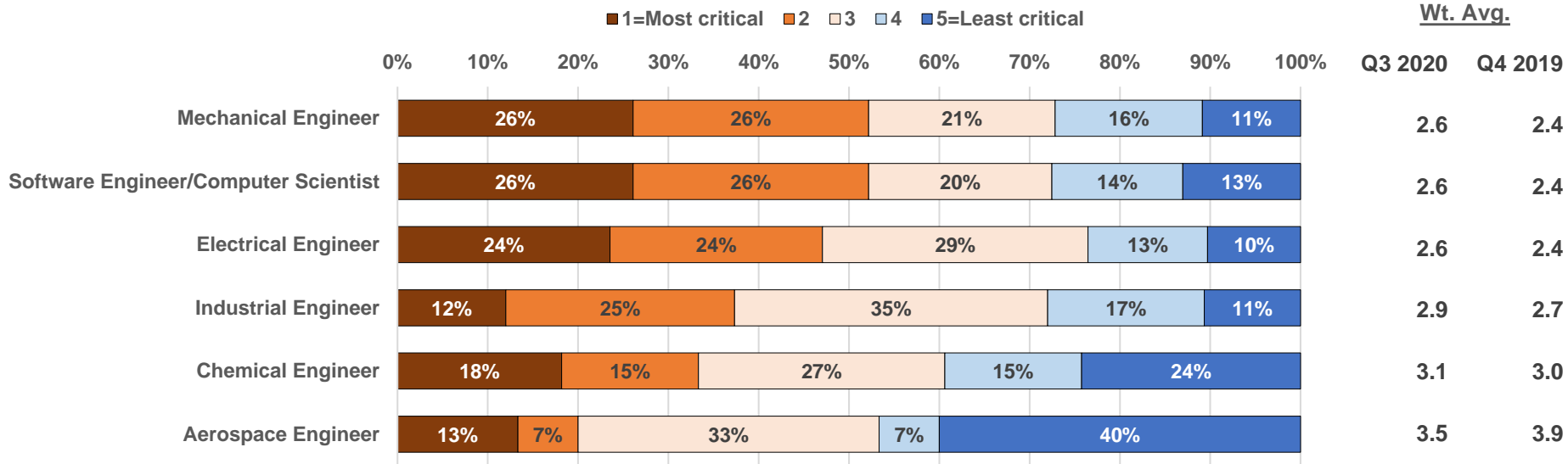
Wt. Avg.



Technical knowledge shortages are abundant in Mexico as are shortages of hourly production workers, yet the severity of the shortage eased in comparison to last year.

Employment Issues: Engineer Shortages

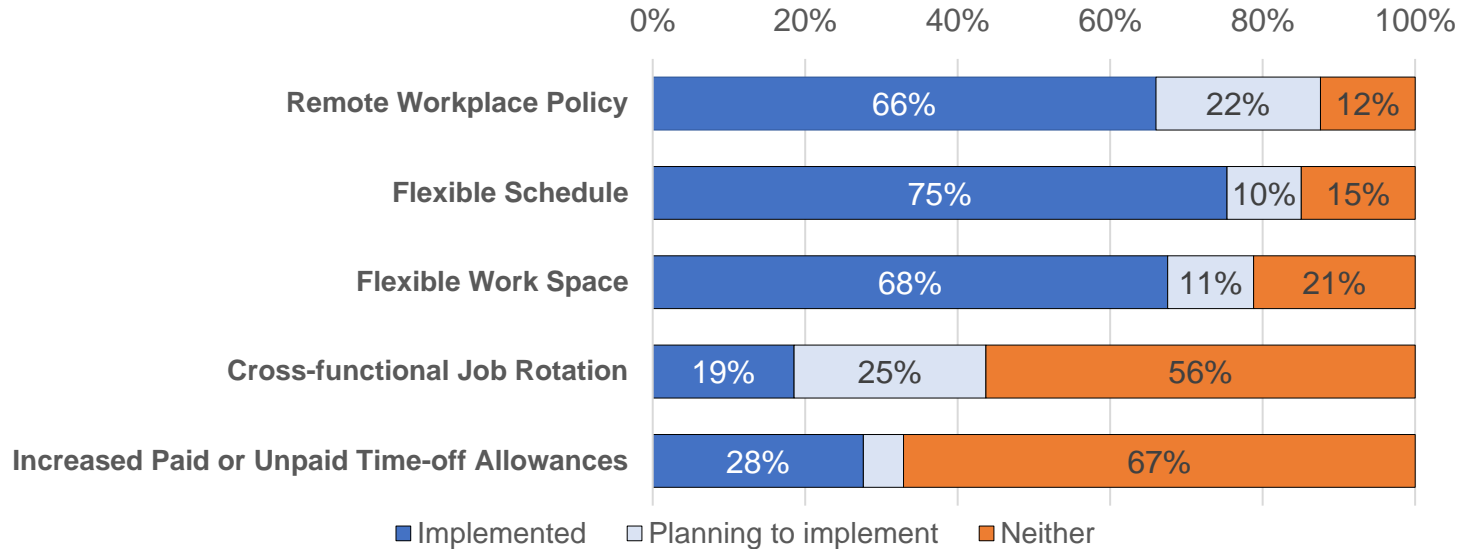
Based on current open requisitions, please rate the type of engineering positions that your organization is having difficulty filling



Mechanical, software and electrical engineers face shortages amid strong demand across all engineering disciplines, however less severely than last year.

Employment Issues: Flexibility

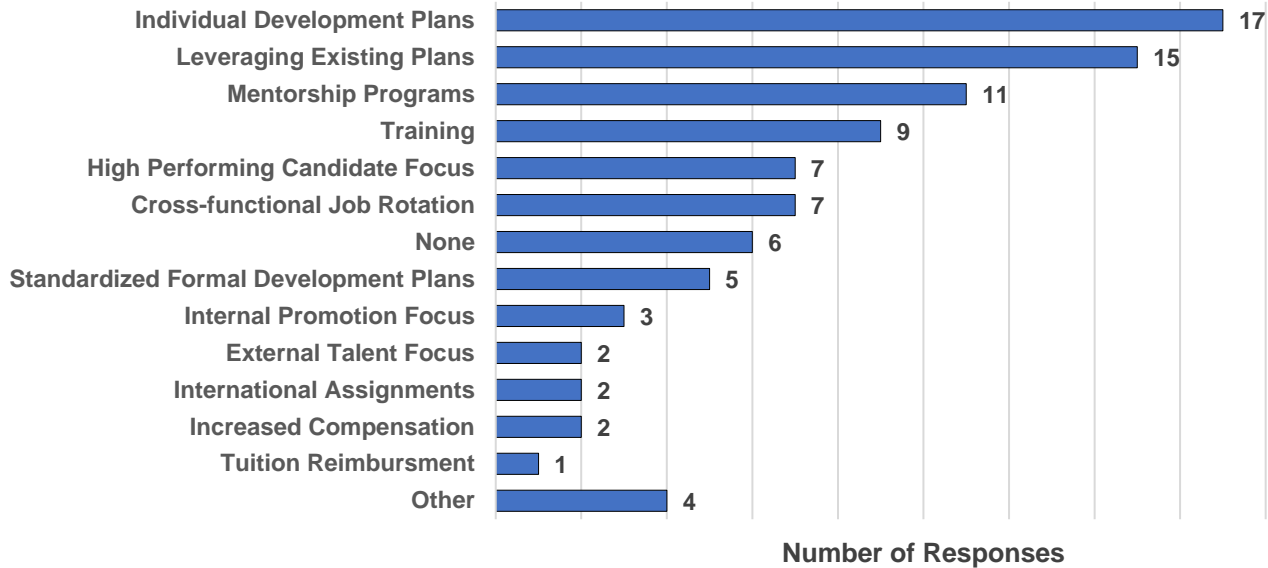
In the 2019 Talent and HR Barometer it was indicated that companies need to offer a more flexible work environment to attract and retain talent. High flexibility has been required to operate amid the COVID-19 pandemic. Has your company adopted the following programs?



The pandemic has profoundly impacted how and where people work, with much more flexibility anticipated regarding workspace and schedule in the future

Employment Issues: Career Path and Succession Planning

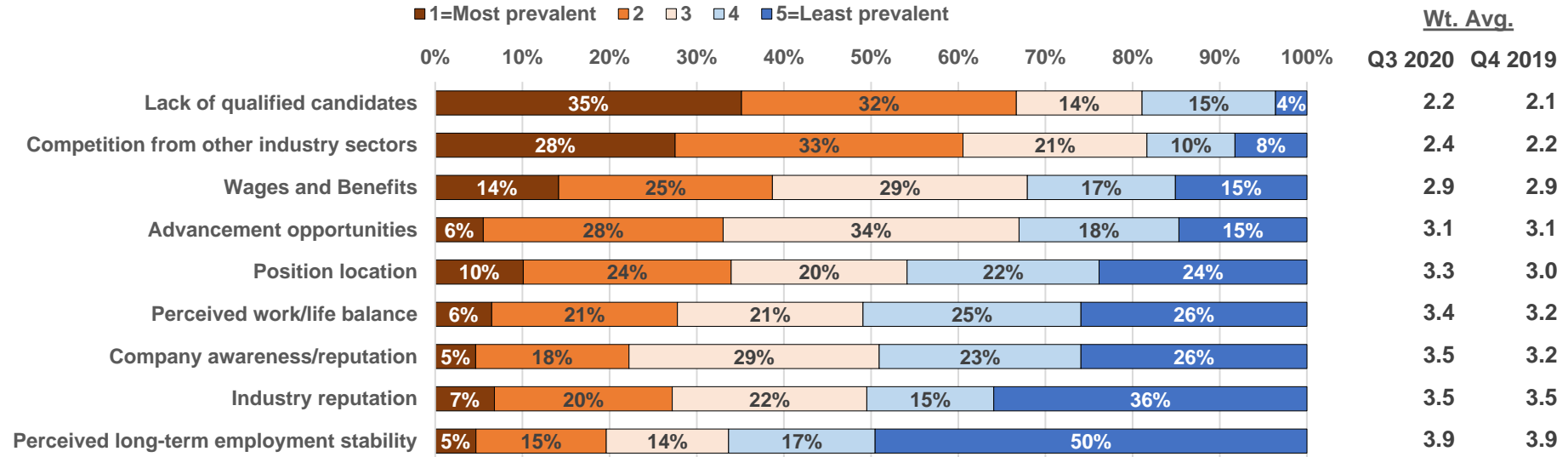
What types of programs have you implemented or are planning to implement for career path and succession planning amongst your workforce?



Developing employees internally, through training, mentorship and cross-functional job rotation, through a structured development plan are the key themes for career path and succession planning.

Employment Issues: Filling Open Positions

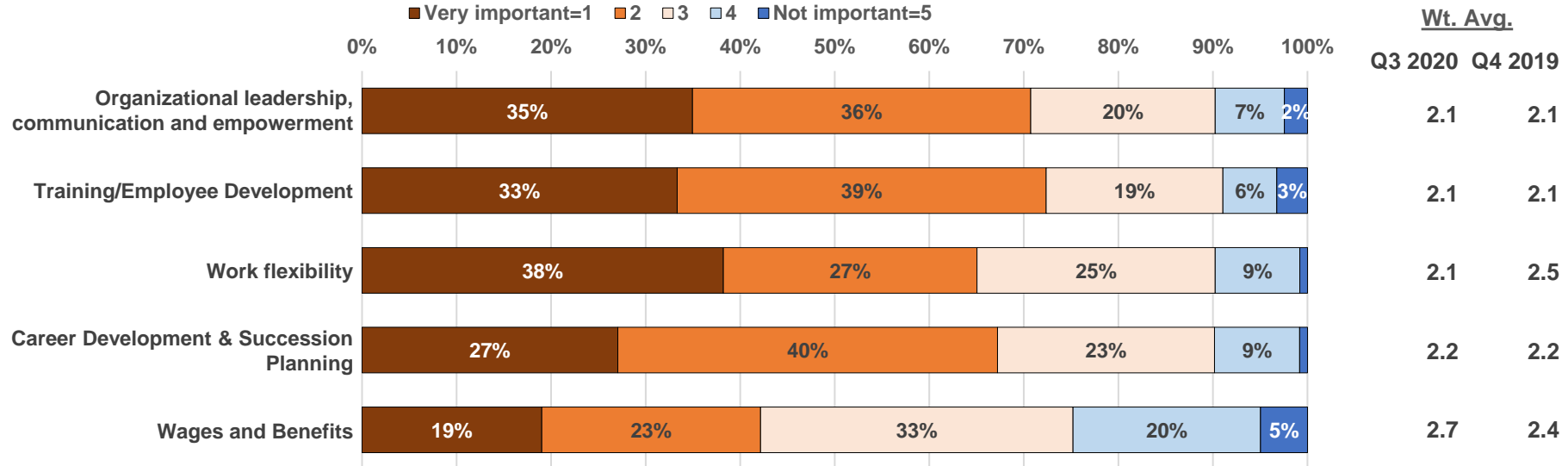
Rate each of the following reasons that you believe prevent you from filling the majority of your open requisitions.



Even with the highest unemployment rate since the Great Recession, the lack of qualified candidates remains the top hiring constraint. Competition for other industries and wage demands remain prevalent.

Employment Issues: HR Priorities

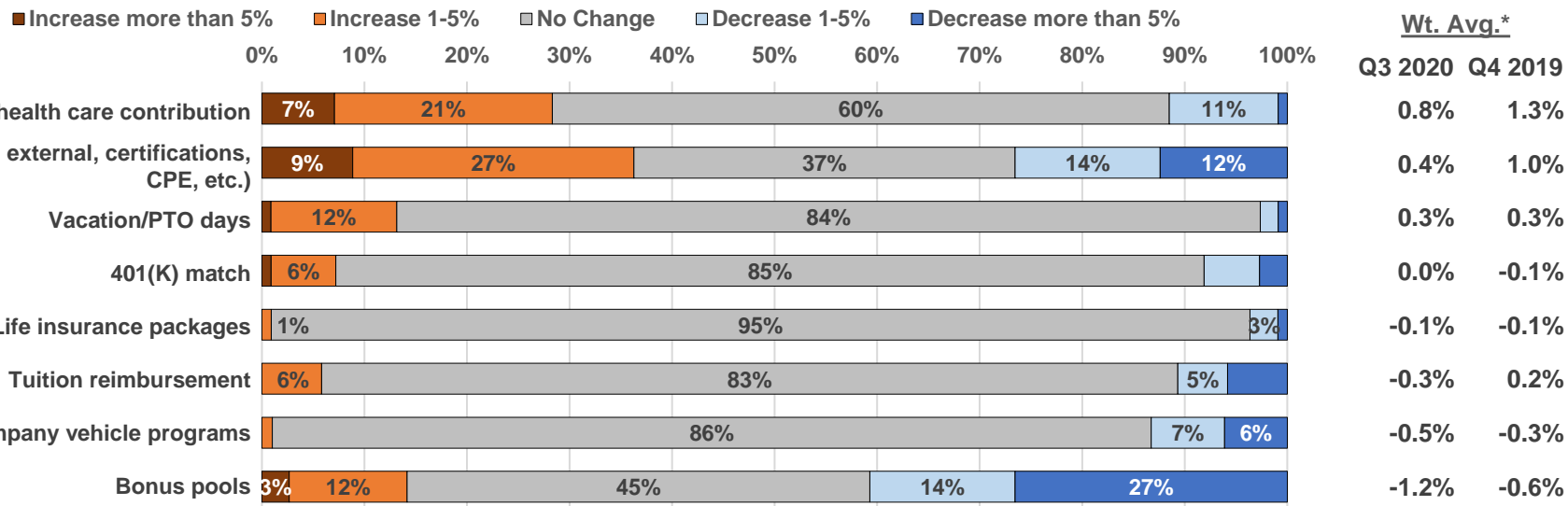
As you plan for 2021, please indicate the level of importance for each of the following priority areas that your organization's HR function will focus on to support business strategies and growth objectives.



Organizational leadership, communication and empowerment remain the strategic business priority, followed closely by training/employee development, with greater emphasis on work flexibility.

Employment Issues: Benefits Package Changes

For next year, in the United States identify how your benefit packages are expected to change compared to this year.

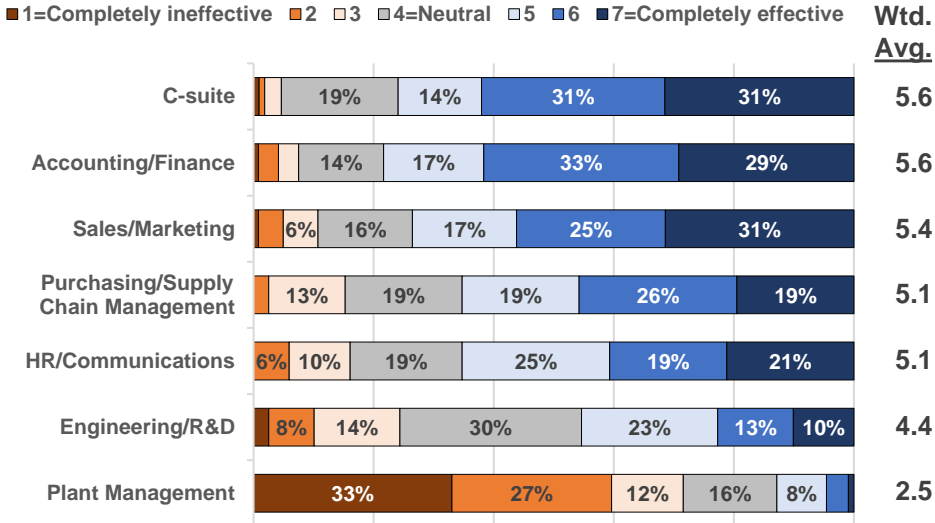


* Calculated as increase/decrease >5% as 7.5% and increase/decrease 1-5% as 2.5%

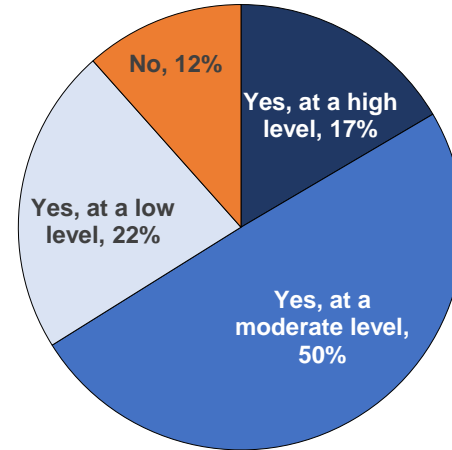
Health care contributions and training packages are expected to increase the most, as employers take steps to take care of and empower employees. Bonus pools are being cut the most as the outlook for 2020 remains grim.

Employment Issues: Remote Work

Please rate the effectiveness of each of your company's skill teams to work remotely



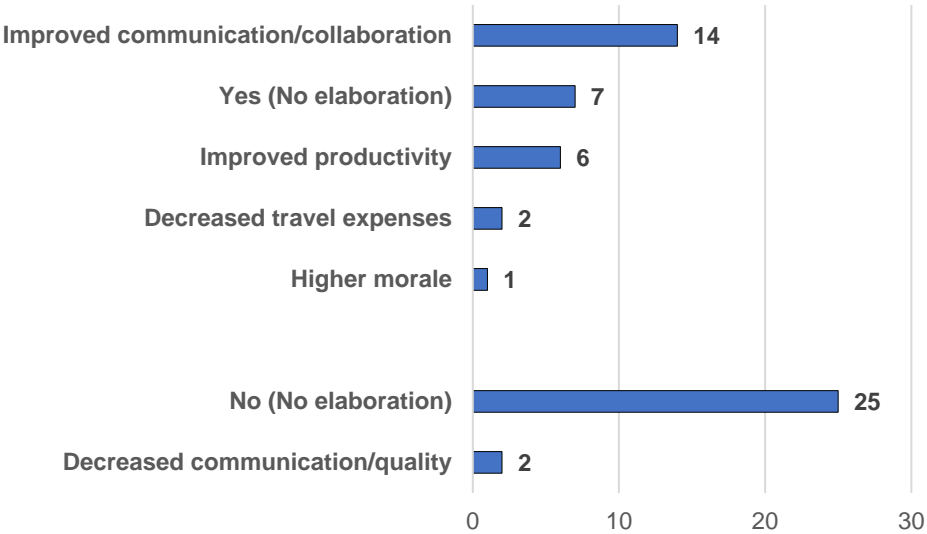
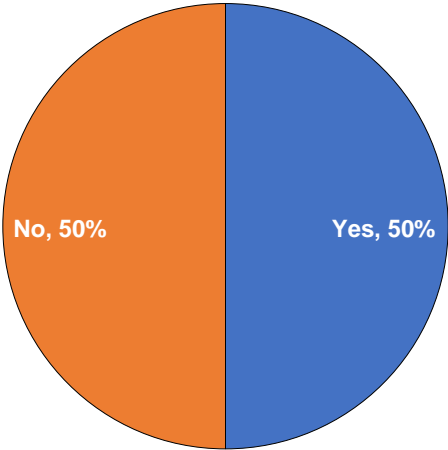
For your teams that have maintained effectiveness while working remotely, will you continue to allow them to work remotely after the COVID crisis has subsided?



Executive leadership, finance, and sales and marketing have excelled in the remote work environment, while plant management is ineffective due to the nature of the role. Remote work will continue following the pandemic.

Employment Issues: Remote Work

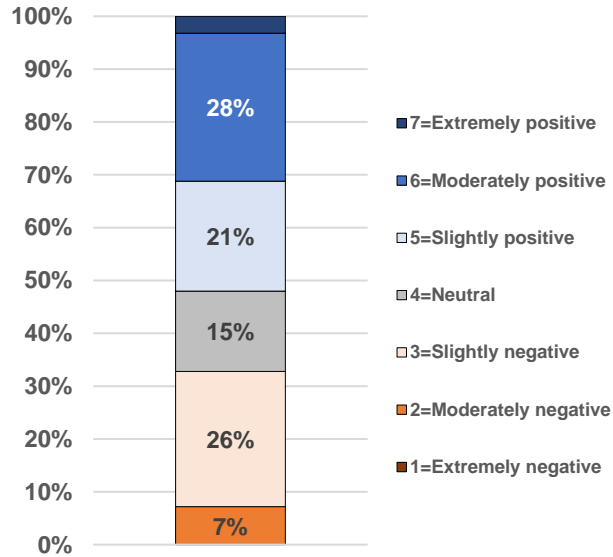
Has the remote work environment fostered any new distributed teams or workflows that you see as a net-benefit to your organization?



Supplier responses are split on whether or not working from home has a net benefit to their organization. Those that indicated a net-benefit pointed to increased collaboration and communication.

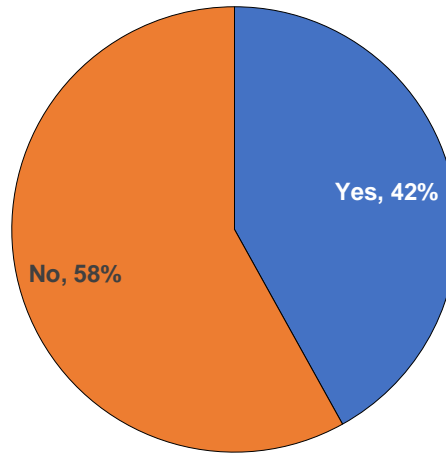
Employment Issues: Employee Morale

Using your best estimate, please rate your current employee morale.

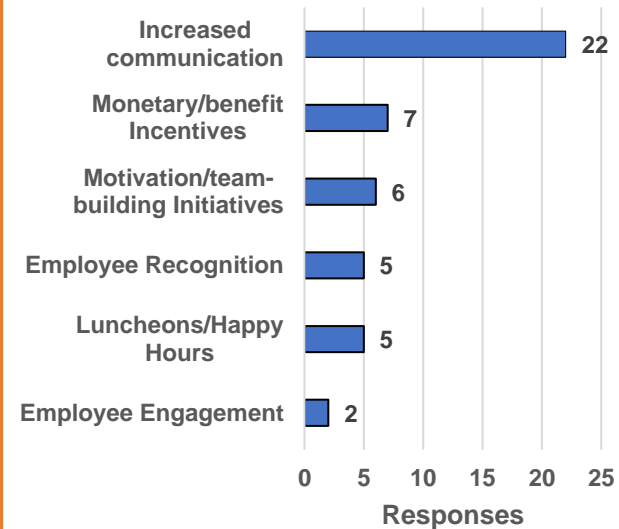


Wtd. Avg. = 4.5

Have you initiated any programs in order to boost employee morale?



Please describe any initiatives to boost morale



Employee morale is positive on average, however there is a substantial proportion that indicates a negative morale. A significant number of programs have been initiated in order to boost morale.

OESA Human Resources Council

OESA Human Resources Council meetings focus on Talent Management, Succession Planning and other topics included in this quarter's barometer.

If you are interested in learning more about the council, please contact:

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Appendix



Join. Engage. Advance.

OESA Automotive Supplier Barometer is a survey of the top executives of OESA regular member companies. The OESA Automotive Supplier Barometer takes the pulse of the suppliers' twelve-month business sentiment. In addition, it provides a snapshot of the industry commercial issues, business environment and business strategies that influence the supplier industry. www.oesa.org.

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Survey Methodology

- Data collected July 20 – 31 via invitation to online survey.
- Executives of OESA supplier companies.
- 134 complete survey responses were received, with 195 responses total.

The information and opinions contained in this report are for general information purposes. Comments are edited only for spelling and may contain grammatical errors due to their verbatim nature. Responses to this survey are confidential. Therefore, only aggregated results will be reported and individual responses will not be released or shared.

Antitrust Statement:

Respondents/participants should not contact competitors to discuss responses, or to discuss the issues dealt with in the survey. It is an absolute imperative to consult legal counsel about any contacts with competitors. All pricing and other terms of sale decisions and negotiating strategies should be handled on an individual company basis.

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