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Volkswagen, BMW Feel Pinch as Suppliers Struggle to Keep Pace

By Chris Reiter and Andreas Cremer - Jan 27, 2011

Volkswagen AG, Porsche SE and Bayerische Motoren Werke AG are feeling the pinch of tight component supplies as parts-makers struggle to keep pace with resurgent vehicle demand.

Volkswagen, Europe's biggest automaker, will halt production at its main factory in Wolfsburg, Germany, on Jan. 31, because of a shortage of engines and other parts. BMW, the world's biggest luxury-car maker, Porsche and Daimler AG's Mercedes-Benz also said supply constraints leave them with little wiggle room.

"The problem we have is that other businesses we're dependent on closed capacity" during the recession, Lars Holmqvist, chief executive of European auto suppliers association Clepa, said in a telephone interview from Brussels. "Electronics are particularly tight. It's a real problem and it's growing."

Booming demand for German cars in China and the U.S., the world's two biggest auto markets, shows no signs of abating. Volkswagen aims to increase deliveries this year 5 percent after record sales of 7.14 million vehicles in 2010. BMW and Daimler are boosting 2011 capacity to keep up with demand, which in turn puts pressure on suppliers to invest scarce capital.

"Suppliers are under a lot of strain" because of the upfront financing required to increase production, said Christoph Stuermer, a Frankfurt-based analyst at IHS Automotive. "Some suppliers are getting to the point that they just can't produce parts" without help from carmakers.

Shares Advance

VW's preferred shares gained as much as 2.55 euros, or 2.2 percent, to 120.65 euros and were up 1.1 percent as of 10:17 a.m. in Frankfurt. Daimler traded 0.5 percent higher and BMW was up 1.3 percent. Supplier Continental AG gained 1.9 percent.

The relationship between suppliers such as Robert Bosch GmbH, Schaeffler Group and Pirelli & C SpA and the automakers has tightened as development times shorten and car companies insist components be delivered shortly before assembly to reduce inventory costs. At the same time, the gradual shift to battery- powered vehicles offers little incentive to invest in aging technologies.

“We have started the decline of the combustion engine and that will kill companies,” Holmqvist said. “The banks are still very cold” because of lingering impacts of the recession, concerns about the sustainability of the recovery and the advent of electric cars.

Critical Relationship

Component manufacturers are critical to the automotive industry, accounting for about 75 percent of the value of an average car, up from 65 percent 10 to 15 years ago, said Stefan Bratzel, director of the Center of Automotive Management at the University of Applied Sciences in Bergisch-Gladbach, Germany.

Porsche is considering shifting some production of its Cayman and Boxster models to a VW plant in Osnabrueck, Germany, David McAllister, Lower Saxony Prime Minister and a VW supervisory board member, said yesterday in Qatar. Porsche is grappling with record orders and weighing the addition of a compact sport-utility vehicle to its lineup.

“The supply situation is no doubt extremely strained at the moment,” Porsche spokesman Dirk Erat said by phone. “It’s very important that nothing goes wrong; the chain of logistics must be kept running.”

VW Shutdown

The three-shift shutdown at Volkswagen’s biggest factory, which followed a canceled shift on Jan. 22, is designed to help stabilize parts supplies after a shortened break over the Christmas holidays, spokesman Christoph Adomat said. The one-day closure affects the production of about 3,000 Golf hatchback, Tiguan SUV and Touran minivan models, he said.

The three-day weekend will be used to install equipment for the planned expansion of the body shop for the Tiguan, Adomat said, adding that lost production can be made up and won’t lengthen delivery times. Volkswagen aims to increase production of the Tiguan to 1,000 a day from 700.

BMW, which is forecasting record sales of more than 1.5 million BMW, Mini and Rolls-Royce models this year, completed an expansion of its U.S. factory late last year and will spend 400 million euros at a plant in Leipzig, Germany, to prepare for the production of an electric city car by 2013.

“Parts have been tight for us but we’ve found ways to keep the assembly lines rolling,” said Frank Wienstroth, a spokesman for BMW in Munich.

Mercedes Challenge

The same goes for Mercedes, which projects record sales as it rolls out new versions of the CLS luxury coupe and SLK hard- top roadster.

“Capacity is tight in the industry,” said Markus Mainka, a spokesman for Mercedes in Stuttgart. “Due to our flexibility and close dialogue with suppliers, we see no issues with our production.”

The demand, while putting a strain on factories, is also a boon to suppliers after the financial crisis forced them to rein in production.

Robert Bosch, the world’s biggest component maker, said yesterday sales rose 24 percent to 47.3 billion euros, the highest in the company’s 125-year history. It made a pretax profit of 7 percent to 8 percent of sales after a loss of 1.2 billion euros in 2009. Closely held Bosch is targeting sales of more than 50 billion euros this year, driven by growth in Asia and Latin America. Bosch is hiring 16,500 workers to keep up.

Overall Strain

“The supply situation is strained overall because we weren’t expecting demand to be this strong,” said Thomas Knoll, a spokesman for Stuttgart, Germany-based Bosch. “Since we kept the core of our production team together during the crisis, we’re managing to fulfill all requests.”

Schaeffler Group, the roller bearing maker that aims to merge with Continental, may add about 5,000 workers in 2011, Chief Executive Officer Juergen Geissinger said in an interview last night in Davos, Switzerland.

“We are feeling this demand,” Geissinger said. “The big management challenge was to change from crisis management to growth management.”

Pirelli, Europe’s third-largest tiremaker, plans to increase capacity to keep up with demand that has surpassed its pre-crisis levels, Chairman Marco Tronchetti Provera told reporters yesterday in Milan.

“We are stretched with orders,” said Tronchetti Provera. “All our plants are working at full speed.”

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