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## Who's next?

After the failures of two prominent minority-owned suppliers amid a shrinking North American auto industry, others are wondering.

By [Brent Snavely](#)

The demise of **Engineered Plastic Products Inc.** on June 30 stunned many in the minority-owned supplier community and underscored their own uncertainty about their future as the North American automotive industry continues to shrink.

Advertisement



For more than 15 years Engineered Plastic Products, owned and founded by Gerald Edwards, was a successful automotive supplier that was praised often by customers.

Before experiencing a \$2.5 million cost overrun on a new product launch last year that led to a Chapter 11 filing in March, Edwards had received five consecutive supplier of the year awards from 1999-2003 from **General Motors Corp.**

"He was the best of the best," said Glenda Gill, executive director of the automotive project for **RainbowPush Coalition** in Detroit. "And if it could happen to him, lots of minority suppliers are looking at that and asking what could happen to us."

Gill is an advocate for minority-owned automotive suppliers who seeks to preserve and expand minority automotive purchasing programs. RainbowPush, founded by the Rev. Jesse Jackson, seeks to protect and expand civil rights for ethnic groups.

What's troubling Gill is that in recent months many minority-owned suppliers long considered successful entrepreneurs have privately confided to her that they are in dire financial situations.

The problems facing minority suppliers to GM, **Ford Motor Co.** and **Chrysler Group** go to the heart of the way minority-owned companies are structured. Plus, the typical solutions that experts suggest — diversification into other customers, industries and product lines — are difficult even in the best of times.

"I think the minority supply base is probably in bigger trouble and peril than the regular supply base," said Dave Bing, CEO of Detroit-based **The Bing Group**. "I think we are at a crossroads."

Minority suppliers tend to produce commodities — or low-margin, high-volume parts — the very kind of parts that are under the most severe pricing pressures from global competition.

"The products and services that they are offering are typically the most expendable," said James Lowry, senior vice president and director of **Boston Consulting Group's** Chicago office.

Plus, minority-owned automotive suppliers tend to be highly leveraged from day they are formed and often depend heavily on one or two customers or are joint ventures with larger customers.

As a result, many minority-owned suppliers recognize that they need to either diversify or establish a presence abroad but lack the deep management teams, available cash reserves and access to capital to do so, Bing said.

Big Three purchasing executives interviewed by *Crain's* agree the minority supply base is under pressure, but affirmed their commitment to minority-purchasing programs.

"The supply base both for minority and non-minority mirror each other," said Armando Ojeda,

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Ford's director of supplier diversity development, global purchasing. "What affects the larger suppliers also affects the minority suppliers."

Still, Ojeda said: "You have some suppliers who are in very strong positions and will be able to grow."

Lowry, an expert on minority business issues, said there has been a lot of progress over the past 30 years for minority-owned businesses in all industries and credits the automotive industry for being a leader.

In a 2005 study of all industries, Lowry found that minority-owned businesses have seen revenue rise by 10 percent annually since the 1980s with overall growth rates three times that of traditional businesses.

Even so, Lowry concluded that minority-owned companies only account for 15 percent of all U.S. businesses even though minorities account for 28 percent of the U.S. population.

Lowry defines a minority-owned company as a company that is at least 51 percent owned and controlled by one or more members of the following minority groups: African-American, Hispanic-Americans, Asian-Americans and Native Americans.

#### **Supplier questions GM's commitment**

Edwards formed Engineered Plastic Products in 1987, and said he is still trying to come to grips with the loss of his company.

Engineered Plastic Products, which had 2005 sales of about \$63 million, ran into financial trouble when it was unable to pass along rapid resin price increases. Plus, Edwards said, hiring miscalculations led to cost overruns as a program was launched for GM at a plant in Lima, Ohio.

Still, Edwards said GM executives failed to live up to initial promises to support his restructuring efforts after Engineered Plastic Products filed for Chapter 11 bankruptcy March 9.

"I got a verbal commitment from Bo Andersson (GM's top purchasing executive)," Edwards said. "He sat across the table; he said he would support me."

Edwards claims that support did not come.

"I think that GM is so bottom-line driven that they will sacrifice anyone at the expense of showing off their bottom line," Edwards said. "I really don't believe that the minority program is much of a priority for GM right now."

GM has a different view. Jimmy McDonald, GM's executive director, global purchasing for powertrain components, raw materials and supplier diversity, said GM provided financial support to Edwards both before and after the company filed for Chapter 11 bankruptcy.

While McDonald declined to provide details about the pre-bankruptcy assistance he pointed to an accommodation agreement signed by both GM and **DaimlerChrysler Corp.** after Edwards filed for bankruptcy.

"We continued to support the bankruptcy even though he did not meet certain milestones through the bankruptcy process," McDonald said.

GM and Chrysler agreed, under certain performance requirements, to continue doing business with Engineered Plastic Products. That support led **Wells Fargo Bank N.A.** to provide \$10 million in bankruptcy financing. In response to Edwards' charge that GM isn't committed to its minority purchasing program McDonald points to a full-page advertisement that ran in *USA Today* on June 29, the day before Engineered Plastic Products closed.

The advertisement, paid for by 39 minority-owned automotive suppliers, urges people to purchase GM products because of GM support for minority-owned companies.

"This idea was originally started in a room with no GM people," said Frank Venegas, CEO of Detroit-based **The Ideal Group**. "GM didn't push anybody. When GM found out about the ad ... they were very humble and very appreciative."

Venegas, co-chairman of GM's Minority Supplier Council, said the idea was spurred by a similar ad placed a few weeks prior by a number of GM dealers and said all 39 suppliers paid willingly.

The ad urges people to buy GM products because GM has "purchased more than \$57 billion in

goods and services from minority suppliers," and "because America needs GM to be successful," because of the company's employment of U.S. workers and U.S. investment.

McDonald also explained that GM's \$1 billion decline in minority purchasing occurred mostly because GM's North American production volume declined more than its worldwide production.

Plus, GM has made a commitment to source parts globally and many minority suppliers lack a global network of plants, so as GM shifts more purchasing overseas it has fewer minority-supplier purchasing options.

Detroit-based **Lorro Inc.**, a maker of energy-absorbing foam used in automotive bumpers, had 2005 sales of \$56 million and 2004 sales of \$89.9 million, according to a statement of financial affairs filed with **U.S. Bankruptcy Court** in Detroit shortly after it filed for Chapter 7 liquidation in April.

Lorro, which billed itself as one of the world's largest suppliers of energy-absorbing foam for bumpers, sold nearly all of its manufacturing assets and a large ownership stake to Allen Park-based **Meridian Automotive Systems Inc.** in 1998. In April 2005 Meridian filed for Chapter 11 bankruptcy in Delaware.

Lorro received four supplier-of-the-year awards from General Motors as well as supplier awards from Ford Motor Co. and DaimlerChrysler AG, according to its Web site.

Numerous calls to Lorro co-founder and CEO Robert Llorens after the company filed for bankruptcy were not returned and efforts to locate Llorens since the company was liquidated were also unsuccessful.

#### **Quality over quantity**

Carl Camden, president and CEO of Troy-based **Kelly Services Inc.**, one of the world's largest staffing companies, has concluded that the structure of many supplier purchasing programs that successfully kick-started minority-owned supplier growth several decades ago has become outdated in today's economy.

Camden said the minority-purchasing programs used by many large companies are ill-equipped to foster a healthy minority-supplier base.

"Most of those organizations give rewards (to purchasing employees) based on the quantity of spend rather than the quality of spend," Camden said. "I think the incentive structure is fatally flawed."

Ojeda said Ford is shifting its focus and wants to work with fewer, healthier suppliers both in its minority-owned supply base and in its overall base.

"We are looking to build up our best suppliers because they are already in the game," Ojeda said. "Our focus is to help improve the performance of our suppliers to help be competitive."

Ojeda also acknowledges that a number of minority-owned suppliers are likely to fall by the wayside as Ford restructures. Ford announced plans to reduce its number of suppliers last fall and vowed to accelerate that program in January in announcing its Way Forward restructuring program.

#### **Minority suppliers not alone**

Minority-owned suppliers are hardly the only troubled suppliers in North America. Some of the largest and historically most successful companies have filed for Chapter 11 bankruptcy in the past 18 months and many others are going through restructuring programs outside of bankruptcy court.

Large suppliers that have filed Chapter 11 include **Delphi Corp.**, **Tower Automotive**, **Meridian Automotive**, **Dana Corp.** and **Collins & Aikman Corp.**

So why should there be extra concern about minority suppliers?

"The benefit for us is we would like to have a supplier base reflective of our customer base and also of the population base," said Jethro Joseph, senior manager-diversity supplier development for Chrysler Group.

About 30 percent of the U.S. population is part of a minority group, and that percentage is growing, Joseph said.

"That will be the customer market that we will be going after. We think that presents an advantage if we are buying from those communities that have the potential of buying our products," Joseph said.

#### **Solutions may lie elsewhere**

Gary Gonzalez, president of **Gonzalez Design Group**, and others say survival for minority-owned automotive suppliers may hinge on gaining contracts with foreign automakers, breaking into other industries, or establishing a presence overseas. But none of those paths are easy.

Bing has been trying without success for years to get a contract with Japanese automakers. On the other hand, Bing provides steel to Zeeland-based office furniture manufacturer **Herman Miller Inc.** and says he is close to landing a contract with another furniture manufacturer.

As far as opening a plant overseas, Bing said, "Most of us are so small, it's almost impossible to put all of those things in place to move offshore."

Only three local minority-owned automotive suppliers had 2005 sales that exceed \$500 million, according to *Crain's* research. They are Bing Group, **Plastech Engineered Products Inc.** and **Bridgewater Interiors L.L.C.**, a joint venture with **Johnson Controls Inc.** Based on 2004 OEM sales, there were 48 locally owned or headquartered suppliers with more than \$500 million in sales and 33 of those were \$1 billion or more.

Almost by definition, a minority-owned company cannot go public because that would dilute its ownership structure and disqualify it as a minority-owned company.

Louis Green, who became president and CEO of the **Michigan Minority Business Development Council** in January, said his mission is to develop programs to help minority-owned companies diversify.

Green said the MMBDC is working to help minority-owned companies find adequate financing, expose companies to growing business sectors and to help companies establish a presence overseas through trade missions.

"Some minority auto suppliers, with just a little bit of retooling, can, be successful," in other industries, Green said.

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#### **Two that failed**

##### **Engineered Plastic Products**

**CEO:** Gerald Edwards.

**2005 revenue:** \$63 million.

**In better times:** Received five consecutive supplier of the year awards from General Motors Corp.

**What happened:** Closed June 30 after filing for Chapter 11 in March. A \$2.5 million cost overrun on a product launch helped do the company in.

##### **Lorro Inc.**

**CEO:** Robert Llorens.

**2005 revenue:** \$56 million.

**In better times:** Billed itself as one of the world's largest suppliers of energy-absorbing foam for bumpers.

**What happened:** Filed for Chapter 7 liquidation in April.

**Success Stories**

Diversification, technology help fuel successful suppliers. **Page 21.**

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