AAG/WR 100
Day Post-Merger Integration Plan
11/10/01

Prepared by:
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- Arnaud Despierre
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- Graham Goodrich
- Daryl Leach

Confidential
The purpose of today’s meeting is to secure GAI’s commitment to the proposed AAG/WR integration initiative.

- Where Are We Today?
- Where Do We Want To Go?
- How & When Will We Get There?
# AAG Must Position Itself For Future Success

## 6 Factors Shaping Future Success In The Automobile Industry

<table>
<thead>
<tr>
<th>Factor</th>
<th>AAG Current State</th>
<th>Enhanced via WR?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-divisional integration to capture economies of scale &amp; scope</td>
<td>Independent, highly fragmented organizations</td>
<td>✓</td>
</tr>
<tr>
<td>Value-added suppliers / manufacturing partners</td>
<td>Brands slowly migrating to larger shared supplier base</td>
<td>✓</td>
</tr>
<tr>
<td>Improved quality while decreasing manufacturing costs</td>
<td>Some quality concerns, compared to best-in-class</td>
<td>✓</td>
</tr>
<tr>
<td>Customer-centric brand portfolio management</td>
<td>Balanced portfolio of well regarded, premium brands</td>
<td>✓</td>
</tr>
<tr>
<td>Frequent model introductions</td>
<td>Time-to-market generally on pace with competition</td>
<td>✓</td>
</tr>
<tr>
<td>Increased sales &amp; distribution channels, CRM strategies</td>
<td>Limited presence in EM’s, initial CRM efforts positive</td>
<td>✓</td>
</tr>
</tbody>
</table>

AAG’s competitive position relative to emerging success factors:

- Weak
- Average
- Strong

Source: True Blue Consulting
AAG’s Challenge: Unlock $1.2B (NPV) In Synergies

True Blue identified dozens of revenue enhancement and cost savings opportunities, of which $1.2 billion are readily quantifiable.

100 Day Focus
- Focus will be on achieving “quick-hits” (purchasing, cash mgmt, headcount reduction identification)
- Create formal structure to unlock long-term benefits

Source: True Blue Consulting
Acquisition Will Require Risk Mitigation

Market Risks
- Loss of customer focus
- SUV market growth
- Dealer resistance
- WR brand dilution

Operational Risks
- Outdated WR capabilities
- Suppliers contract management
- Capacity issues

Strategic Risks
- Analyst acceptance of AAG vision
- AAG/WR vision not embraced
- Strength of WR leadership

Organizational / Cultural
- Retention of key management
- Labor union resistance
- Resistance to change

Source: True Blue Consulting
**AAG Enterprise Integration Model**

**Objectives of Integration Model**

1. Create cross-organizational hierarchy and clear lines of accountability by function
2. Enable dedicated teams of SMEs to execute critical integration activities
3. Ensure organizational focus on realizing AAG/WR synergies
4. Create structure that transcends AAG/WR deal as a platform for AAG-wide change

**How do we get there?**

Source: True Blue Consulting
AAG Enterprise Integration Model

Value Realization

Market-Based Synergies

Enterprise Integration Steering Committee

Operation Synergies

Integration Change Management

COMMUNICATION

ORGANIZATION

CULTURE

How do we get there?

Consultant Oversight

Ken Pope, CEO

CEO, WR

Stanley, Strategy

Amy Lau, COO

WR, COO

Chief of Staff, AAG

HR Director, WR

Responsible for vision, direction and prioritization of all integration efforts

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How do we get there?
Change Management Initiatives

<table>
<thead>
<tr>
<th>COMMUNICATION</th>
<th>ORGANIZATION</th>
<th>CULTURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilitate integration effectiveness with clear &amp; continuous communication</td>
<td>Align organization to increase efficiencies and realize synergies</td>
<td>Minimize integration risks due to cultural differences</td>
</tr>
</tbody>
</table>

**GOAL:**

**COMMUNICATION**

- Facilitate integration effectiveness with clear & continuous communication

**ORGANIZATION**

- Align organization to increase efficiencies and realize synergies

**CULTURE**

- Minimize integration risks due to cultural differences

**ACTIONS:**

**COMMUNICATION**

1. Organize all stakeholders ASAP to announce details of integration strategy & plan
2. Establish 2-way feedback protocol & mechanisms
3. Launch communication campaign to minimize misinformation and misunderstanding

**ORGANIZATION**

1. Maximize stakeholder buy-in and involvement
2. Set cross-organizational hierarchy between WR and AAG divisions
3. Identify and develop retention strategy for key WR and AAG players

**CULTURE**

1. Develop cultural transition strategy to manage and mitigate the culture shock
2. Create compelling reasons for employees to embrace change
3. Start AAG and WR team building right away to create “one firm” culture

**METRICS:**

- Reports on the completion status to Enterprise Integration Steering Committee

  **COMMUNICATION**
  - Track stakeholder awareness of integration progress
  - Track and categorize employee complaints
  - Track stakeholder satisfaction

  **ORGANIZATION**
  - Monitor retention rates
  - Benchmark actual and forecasted WR and AAG organization rationalization

  **CULTURE**
  - Deploy cultural progress surveys
  - Revalidate survey results with focus group workshops
  - Put extra emphasis on gathering informal feedback

**WR Due Diligence Summary**

Source: True Blue Consulting
## Extracting AAG/WR Operational Synergies

<table>
<thead>
<tr>
<th>OPERATIONAL SYNERGY TASK FORCE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GOAL:</strong></td>
</tr>
<tr>
<td>- Leverage AAG/GAI Economies of Scale ($168MM NPV)</td>
</tr>
<tr>
<td>- Adopt AAG Cash Cycle Best Practices ($236MM NPV)</td>
</tr>
<tr>
<td>- Reduce Carrying Cost of Inventory ($127MM NPV)</td>
</tr>
<tr>
<td>- Exploit Cross Brand R&amp;D Synergies ($200MM NPV)</td>
</tr>
<tr>
<td><strong>ACTIONS:</strong></td>
</tr>
<tr>
<td>1. Rapidly consolidate WR’s commodity purchases with AAG’s</td>
</tr>
<tr>
<td>2. Optimize sales rep. territories, eliminate redundancies</td>
</tr>
<tr>
<td>3. Research alternatives to current high-cost WR supplier contracts</td>
</tr>
<tr>
<td>4. Develop WR-to-AAG supplier network integration plans.</td>
</tr>
<tr>
<td><strong>METRICS:</strong></td>
</tr>
<tr>
<td>- Track reduction in purchase orders and in average unit prices</td>
</tr>
<tr>
<td>- Pursue decrease in overall number of suppliers</td>
</tr>
<tr>
<td>- Monitor checkpoint hits on integration plan</td>
</tr>
</tbody>
</table>

Reports on the completion status to Enterprise Integration Steering Committee

How do we get there?

**Source:** True Blue Consulting
## Extracting AAG/WR Market Synergies

### MARKET-BASED SYNERGY TASK FORCE

<table>
<thead>
<tr>
<th>GOAL: Maintain permanent Customer Focus</th>
<th>ACTIONS:</th>
<th>METRICS:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiate PR campaign to existing WR customers confirming commitment to WR</td>
<td>Leverage WR and AAG combined dealer networks ($90MM NPV)</td>
<td>Reports on the completion status to Enterprise Integration Steering Committee</td>
</tr>
<tr>
<td>Identify and communicate company customer satisfaction metrics</td>
<td>Integrate and reposition WR brand into AAG portfolio ($85MM NPV)</td>
<td></td>
</tr>
<tr>
<td>Set up dealer incentive program tied to customer satisfaction</td>
<td>Leverage WR product quality into increased sales ($209MM NPV)</td>
<td></td>
</tr>
</tbody>
</table>

1. Survey existing N.A. AAG dealers to gauge potential in cross selling brands
2. Identify unexploited markets and develop action plans to attack
3. Focus initial effort on must-win territories
4. Survey AAG/WR customers to pinpoint brand synergies

1. Refine brand mapping profiles to confirm AAG brands position
2. Understand current WR customers value drivers
3. Develop road map for focused WR brand repositioning
4. Support marketing drive for technological improvement of WR products

1. Survey customers to understand root-cause of “perceived” quality issues
2. Scrutinize and challenge WR quality control techniques
3. Survey AAG/GAI quality control tools & techniques and deploy to WR
4. Set up reward incentive program linked to achieving quality metrics

- Closely monitor customer perception survey data
- Follow-up on sales targets
- Track efficiency of dealer programs
- Quantify dealers buy-in and levels of dealer cross-brand integration
- Gather, quantify, and publish customer feedback
- Survey data collected, summarized, and published
- Monitor stages of WR brand redeployment
- Track luxury SUV market drivers
- Compile, summarize and disseminate quality control data
- Identify and exploit “Quick Hits”
- Track reduction in average PPV
85% of Quantified Synergies Realized within 5 years
100 Day Priorities

1. Communicate vision, strategy and plan for WR within AAG management structure
2. Retain key management talent
3. Establish formal integration management structure and organized key participants
4. Identify areas for immediate value contribution (e.g. headcount, consolidations, etc.)
5. Create measurement system to monitor current and future results from task force initiatives
6. Establish foundation for smooth cultural transition
The Integration Timeline

The Integration Plan will progress over the course of five years.

<table>
<thead>
<tr>
<th>Integration Enterprise Team</th>
<th>Change Management Team</th>
<th>Operational Synergy Team</th>
<th>Market-Based Synergy Team</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Create Synergy Teams</td>
<td>- Establish organizational focus teams</td>
<td>- Exploit Economies of Scale</td>
<td>- Develop PR campaign for WR Customers</td>
</tr>
<tr>
<td>- Monitor legal and valuation teams</td>
<td>- Develop communication and strategy plan</td>
<td>- Sales Territory Consolidation</td>
<td>- Communicate customer satisfaction metrics</td>
</tr>
<tr>
<td>- Clearly communicate vision to key stakeholders</td>
<td>- Develop cultural transitional strategy</td>
<td>- Supplier Integration</td>
<td>- Set up reward incentive program</td>
</tr>
<tr>
<td>- Establish new operational models</td>
<td>- Identify cultural hazards and mitigate</td>
<td>- Cash management system migration</td>
<td>- Quantify cross selling potential</td>
</tr>
<tr>
<td>- Monitor overall integration</td>
<td>- Public relations campaign</td>
<td>- Adoption of AAG/GAI best practices</td>
<td>- Launch CRM and internet campaigns</td>
</tr>
<tr>
<td></td>
<td>- Set organizational reduction goals</td>
<td>- Implementation of Lean Manufacturing</td>
<td>- Integrate distribution capabilities</td>
</tr>
<tr>
<td></td>
<td>- Organizational consolidation</td>
<td>- Total Platform Reduction</td>
<td>- Expand in N. America</td>
</tr>
<tr>
<td></td>
<td>- Conduct overall integration assessment</td>
<td>- Technology Audit and Prioritization</td>
<td>- Launch luxury program/reposition WR Brands</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- New market initiatives</td>
</tr>
</tbody>
</table>

Year 1 | Year 2 | Year 3 | Year 4 | Year 5
Q1 Q2 Q3 Q4 | Q1 Q2 Q3 Q4 | Q1 Q2 Q3 Q4 | Q1 Q2 Q3 Q4 | Q1 Q2 Q3 Q4

Source: True Blue Consulting
Takeaways

Where Are We Today?
• Risk losing ground as market repositions around new KSFs

Where Do We Want To Go?
• Transform business to meet the demands of industry
• Leverage WR acquisition as a catalyst for change
• Realize AA/WR synergies to achieve market advantage

How and When Do We Get There?
• Deploy joint enterprise integration management model & measurement system
• Integration effort achieves break-even within year 1, 50% of total synergies in year 3, 85% in year 5
QUESTIONS?
Back-up Charts
World Roamer Fair Market Valuation

The valuation model includes the estimated investment requirements related to WR’s acquisition and integration.

World Roamer Statement of Cash Flows (US$MM)

<table>
<thead>
<tr>
<th></th>
<th>HISTORICAL</th>
<th>PROJECTED</th>
<th>Terminal Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1998</td>
<td>1999</td>
<td>2000</td>
</tr>
<tr>
<td>Sales Revenue</td>
<td>$5,003</td>
<td>$5,012</td>
<td>$4,611</td>
</tr>
<tr>
<td>- Cost of Good Sold</td>
<td>$4,132</td>
<td>$4,146</td>
<td>$3,811</td>
</tr>
<tr>
<td>- Depreciation</td>
<td>$140</td>
<td>$144</td>
<td>$131</td>
</tr>
<tr>
<td>- Oper. Expense &amp; Overhead</td>
<td>$334</td>
<td>$326</td>
<td>$304</td>
</tr>
<tr>
<td>= Operating Income (EBIT)</td>
<td>$397</td>
<td>$396</td>
<td>$365</td>
</tr>
<tr>
<td>- Income Tax (@33%)</td>
<td>$131</td>
<td>$131</td>
<td>$120</td>
</tr>
<tr>
<td>= Net Oper. Income After Tax</td>
<td>$266</td>
<td>$265</td>
<td>$245</td>
</tr>
<tr>
<td>+ Depreciation</td>
<td>$140</td>
<td>$144</td>
<td>$131</td>
</tr>
<tr>
<td>- Capital Expenditures</td>
<td>$156</td>
<td></td>
<td>$144</td>
</tr>
<tr>
<td>- Increase in Working Capital</td>
<td>$69</td>
<td></td>
<td>$103</td>
</tr>
<tr>
<td>= Free Cash Flow</td>
<td>$184</td>
<td></td>
<td>$334</td>
</tr>
</tbody>
</table>

Discounted Free Cash Flows (@ WACC = 12.6%)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Present Value</td>
<td>$297</td>
<td>$213</td>
<td>$175</td>
<td>$134</td>
<td>$119</td>
<td>$959</td>
</tr>
</tbody>
</table>

WR Company Fair Market Value $1,897 million (dollars)

Estimated Value of WR/AAG Synergies* $1,200 million (dollars)

*Assumes 'most likely' scenario

Weighted Average Cost of Capital (WACC)

\[ \omega_e \times R_e + \omega_d \times R_d \times (1 - t) \]

= \omega_e \times (Risk Free + \beta_e \times Market Risk Premium) + \omega_d \times R_d \times (1 - t) = 12.6%
World Roamer Acquisition Valuation

Valuation of WR, With Respect To
Alternative Synergy Realization Scenarios

- Fair Market Value: $1,897MM
- Valuation: $2,000
- Valuation: $2,475MM
- Valuation: $3,097MM
- Valuation: $3,602MM

Platform Sharing
A.P. Management
A.R. Management
Inventory Management
Purchasing
G&A Consolidation
Quality Improvements
Increased WR access to US
WR Brand repositioning

Source: True Blue Consulting
**Cost Savings – The Cash Conversion Cycle**

**Cash Conversion Cycle Management**

<table>
<thead>
<tr>
<th></th>
<th>AAG</th>
<th>World Roamer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days Payable Outstanding</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td>Days Sales In Inventory</td>
<td>40</td>
<td>87</td>
</tr>
<tr>
<td>Days Sales Outstanding</td>
<td>17</td>
<td>44</td>
</tr>
</tbody>
</table>

Potential for significant improvement in WR Cash Conversion Cycle by leveraging GAI/AAG best practices and buying power.
Post-Merger Integration Costing

To be able to realize the promised WR synergies, GAI has to be prepared to invest on three fronts

- **External Consulting Support**
  - First 100-days
    - $8MM for hands-on consulting support and strategic guidance on synergies extraction

- **Internal Resources Refocusing**
  - First 100-days
    - $5MM for dedicated internal teams of top executives, middle management and Subject Matter Experts (SMEs)
  - Mid-Term
    - Additional $5MM over initial 100-days costs

- **Systems Implementation**
  - First 100-days
    - $60MM
  - Mid-Term
    - Additional $160MM over 100-days initial outlay
  - Long-Term
    - Expect an increase of 0.5% to 1% in COGS to support investment in improved systems

Mid-Term: Beyond 1st 100 days, but within 2 years
Long-Term: Beyond first 2 years
Acquisition Will Require Risk Mitigation

**Pre Risk Mitigation**
(# of risks identified in each category)

<table>
<thead>
<tr>
<th>Impact</th>
<th>LOW</th>
<th>MEDIUM</th>
<th>HIGH</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOW</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>4</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>HIGH</td>
<td>4</td>
<td>6</td>
<td>1</td>
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</table>

**Post Risk Mitigation**
(# of risks identified in each category)

<table>
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<tbody>
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<td>LOW</td>
<td>6</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>6</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>HIGH</td>
<td>6</td>
<td>3</td>
<td>0</td>
</tr>
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</table>

**Overall Project Risk Factor**
- **Before Mitigation**: 3.03
- **After Mitigation**: 2.44

On a scale of 5 (high risk) to 1 (low risk)

**Risk Mitigation Reduction ~ 20%**
# Risk Assessment Process

<table>
<thead>
<tr>
<th>Risk Description</th>
<th>Pre-Mitigation</th>
<th>Post-Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market Risks</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greater-than-expected internal cannibalization</td>
<td>M</td>
<td>M</td>
</tr>
<tr>
<td>Sales growth in the SUV segment will not be achieved</td>
<td>M</td>
<td>M</td>
</tr>
<tr>
<td>Recent WR quality problems have severely damaged brand equity</td>
<td>M</td>
<td>M</td>
</tr>
<tr>
<td>CRM initiative does not live up to expectations</td>
<td>L</td>
<td>L</td>
</tr>
<tr>
<td>Current WR sales volume not fully transferable to AAG</td>
<td>L</td>
<td>L</td>
</tr>
<tr>
<td>WR dealer network deserting following acquisition</td>
<td>M</td>
<td>H</td>
</tr>
<tr>
<td>The Block Exemption rule may change</td>
<td>H</td>
<td>M</td>
</tr>
<tr>
<td>Loss of focus on WR customers due to internal focus</td>
<td>M</td>
<td>H</td>
</tr>
<tr>
<td>Dilution of the WR brand due to mismanagement</td>
<td>L</td>
<td>M</td>
</tr>
<tr>
<td>Unable to leverage cross-selling potential</td>
<td>M</td>
<td>M</td>
</tr>
<tr>
<td>Quality improvements don’t lift sales</td>
<td>L</td>
<td>H</td>
</tr>
<tr>
<td>Unable to reposition WR as luxury brand</td>
<td>L</td>
<td>L</td>
</tr>
<tr>
<td><strong>Operational Issues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Platform sharing will not be realizable between WR and AAG product lines</td>
<td>M</td>
<td>H</td>
</tr>
<tr>
<td>AAG’s product development capabilities will not fit the WR model</td>
<td>L</td>
<td>M</td>
</tr>
<tr>
<td>WR technological and innovation capabilities are outdated</td>
<td>H</td>
<td>M</td>
</tr>
<tr>
<td>Current WR contract with local suppliers cannot be renegotiated</td>
<td>L</td>
<td>H</td>
</tr>
<tr>
<td>Unable to increase WR product quality</td>
<td>M</td>
<td>M</td>
</tr>
<tr>
<td>No supply chain synergies</td>
<td>L</td>
<td>M</td>
</tr>
<tr>
<td>No R&amp;D synergies</td>
<td>L</td>
<td>L</td>
</tr>
<tr>
<td>Higher-than-expected capital investment required</td>
<td>H</td>
<td>M</td>
</tr>
<tr>
<td>Insufficient long-term WR plant capacity</td>
<td>H</td>
<td>L</td>
</tr>
<tr>
<td>Inability to meet increase WR demand with other AAG’s plants</td>
<td>M</td>
<td>H</td>
</tr>
<tr>
<td>Unable to leverage economies of scale in purchasing</td>
<td>L</td>
<td>H</td>
</tr>
<tr>
<td>Unable to implement lean manufacturing / Inventory management</td>
<td>M</td>
<td>H</td>
</tr>
<tr>
<td><strong>Organizational/Culture</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WR and AAG differences in company/national culture will be an issue</td>
<td>M</td>
<td>H</td>
</tr>
<tr>
<td>Old-fashioned management practices at WR will slow the change process</td>
<td>M</td>
<td>L</td>
</tr>
<tr>
<td>Unions will slow change process</td>
<td>H</td>
<td>M</td>
</tr>
<tr>
<td>Strategy not properly communicated to, or accepted, by employees</td>
<td>H</td>
<td>M</td>
</tr>
<tr>
<td>Loss of key human capital to competitors</td>
<td>H</td>
<td>H</td>
</tr>
<tr>
<td>Lack of leadership during the integration phase</td>
<td>M</td>
<td>M</td>
</tr>
<tr>
<td>Inability to consolidate functional areas</td>
<td>L</td>
<td>M</td>
</tr>
</tbody>
</table>

**Source:** True Blue Consulting
Risk Assessment/Mitigation Process

The main risk identified as being High Likelihood / High Impact is

**Loss of Key Human Capital to Competitors**

This risk falls under the broader issue of integration of company cultures and organizational control.

Mitigation of these risks will require executive management to

• Maximize *stakeholder buy-in* and involvement
• Identify and develop *retention strategy* for key players in both WR & AAG
• Have a clear and consistent *communication strategy* throughout the integration process
• Develop and implement of a *cultural transition strategy* to manage and mitigate the culture shock
Production Capacity Rationalization

One of the key mid-term issues following the Post-Merger Integration process will be to address rationalization of the production capacity.

- Current capacity utilization for most of AAG’s products is sub-optimal
  - **Revolver** plants well optimized but operating too far from optimum capacity levels
  - **Lion** plants not well-optimized but already operating at ideal capacity levels
  - **Panther** plants not well-optimized and operating far below ideal capacity levels
- The unique **World Roamer** plant is not well-optimized, and already operates close to ideal capacity level

- Potential for rationalization of AAG’s production capacity following acquisition of WR
  - Adding WR production lines to Revolver plants to pick-up forecasted increase in WR sales
  - Possible rationalization of Panther plants, to be weighed against forecasted market prospects for Panther products
Integration - Culture

AAG can integrate WR by leveraging WR’s key enablers (trust and teamwork) and by integrating the most desirable cultural features of both worlds.
AAG’s Future Challenge...Business Transformation

Current Organizational Structure

Panther
- CEO
- HR Director
- CTO
- VP Sales & Marketing
- VP Purchasing
- VP Manufactured
- VP Prod. Develop.

Revolver
- CEO
- HR Director
- CTO
- VP Sales & Marketing
- VP Purchasing
- VP Manufactured
- VP Prod. Develop.

Cobra
- CEO
- HR Director
- CTO
- VP Sales & Marketing
- VP Purchasing
- VP Manufactured
- VP Prod. Develop.

Lion
- CEO
- HR Director
- CTO
- VP Sales & Marketing
- VP Purchasing
- VP Manufactured
- VP Prod. Develop.

Director Strategy & Planning
AAG’s Future Challenge...Business Transformation
## Key Success Factors in Automotive Industry

*Success in the mature automotive industry will require leverage of economies of scale and product differentiation leadership*

### State of the industry
- Maturing industry
- Globalization
- Consolidation
- Intense competition
- Overcapacity
- Increasing efficiency of production process
- Strict environmental legislation
- Need for cost reduction
- New ways to increase profit margins
- Decrease time-to-market

### Trends
- More frequent model introductions
  - Platform consolidation
  - Modules & systems (design, mfg and supply rolled over to big suppliers)
  - Increasing complexity and technology content of modules & systems
- Revised models of vertical integration
  - Supplier consolidation
- Competition based on product differentiation
  - Greater focus on customer through multi-branding
- Increased sales distribution options
- Move into service areas
  - Finance, after-sales
  - Internet (B2B, B2C)
Industry trends – Modules & Systems

Significant cost savings

- Suppliers have lower labor costs & greater expertise at managing assembly processes in their specialist component area
- Responsibility shift – Tier 1 suppliers manage lower Tier suppliers → lower OEM capital requirements & no capital investment required for module/system assembly
- Reduce & simplify vehicle assembly process → more transparent plant processes

Modules & Systems

Reduced time-to-market, increased innovation and quality

- Customized modules manufactured by suppliers → shorter lead time
- Smaller direct supplier base → increased product quality, decreased costs
- Suppliers design modules & systems and are adding additional functional features (i.e. electronics) → increased innovation

Source: Schroder Salomon Smith Barney, True Blue Consulting
Internet Implications for the Automotive Industry

**Business-to-business**
- Cost driver
- Supply chain efficiencies driver (instant message with suppliers)
- OEMs are moving towards an internet-based platform for their supplier relationships (i.e. Covisint, GM Supply Power...)

**Internal company processes**
- Input order fill rates and accuracy improvement
- Quicker expense reports filing
- Increased innovation - employee ideas sharing
- Insurance claims processing

**Business-to-consumer**
- Way to interact with customers
- Distribution method (increased speed, lower inventories, digital supply chain)
- Service centers (customer relationship management)

Source: Proquest, True Blue Consulting