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Supplying Jaguar Land Rover

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Jaguar Land Rover

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Contents

Executive Summary

Company Overview

Model line-up

- Jaguar
- Land Rover

Manufacturing Facilities

- UK
 - Solihull
 - Castle Bromwich
 - Halewood
 - Wolverhampton
- China
 - Changshu
- Brazil
 - Itaia
- India
 - Pune
- Turkey
 - Otokar
- Austria
 - Graz
- Other possible production locations

Purchasing Policy

- Introduction

Interviews with Jaguar Land Rover Executives

- Interview with Dave Allen, Purchasing Director, and Michael Mychajluk, Supply Chain & External Engagement Manager for Jaguar Land Rover

Jaguar Land Rover Suppliers

- JLR's top suppliers
- Supplier Finance
- Just-in-time, SILS delivery

A Supplier's View:

Interview with The Autins Group

- Interview with Jim Griffin, CEO, The Autins Group

4	Supplier Relationship Survey	39
	Introduction to the SuRe Index	40
7	Methodology	40
	Executive summary	40
10	Performance review – Jaguar Land Rover	41
11	2014 SuRe survey results	41
12	– Top of the ranking: Trust and future potential drive harmony	41
13	– Middle of the ranking: OEMs push cost reduction	41
14	– Bottom ranking: Cost overrules quality	42
15	Profit potential	43
15	– OEM level	43
16	Organization	43
16	– OEM level	43
16	Trust	43
16	– OEM level	43
16	Pursuit of excellence	43
16	– OEM level	44
16	Outlook	44
17	– OEM Level	44
17	SuRe by region	44
17	– North America	44
17	– Europe	44
17	– Asia	45
	SuRe by company size	45
19	Major Suppliers to Recent Models	46
20	Jaguar F-Type (2013; Birmingham, United Kingdom)	47
24	Jaguar XE (2014; Solihull, United Kingdom)	49
	Jaguar XF (2015; Castle Bromwich, United Kingdom)	52
	Land Rover Discovery 4 (2012; Solihull, United Kingdom)	54
	Land Rover Discovery Sport (2014; Halewood, United Kingdom)	57
32	Forward Model Program	61
33		
34		
34		
36		
37		

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Figures

Figure 1: Jaguar Land Rover sales share, by region	9	Figure 6: OEM Supplier Relations - North America	44
Figure 2: Jaguar Land Rover Supplier Awards winners	34	Figure 7: OEM Supplier Relations - Europe	45
Figure 3: OEM Supplier Relations - Top of the Ranking	41	Figure 8: OEM Supplier Relations - Asia	45
Figure 4: OEM Supplier Relations - Middle of the Ranking	42	Figure 9: Jaguar Land Rover Forward Model Program	62
Figure 5: OEM Supplier Relations - Bottom of the Ranking	43		

Tables

Table 1: Jaguar Land Rover's financial history	8	Table 9: Suppliers and Components supplied to the Jaguar F-Type (2013; Birmingham, England)	47
Table 2: Jaguar Land Rover sales by region	8	Table 10: Suppliers and Components supplied to the Jaguar XE (2014; Solihull, United Kingdom)	49
Table 3: Jaguar and Land Rover Light-vehicle Sales by Vehicle (2008–2014)	9	Table 11: Suppliers and Components supplied to the Jaguar XF (2015; Castle Bromwich, United Kingdom)	52
Table 4: Jaguar and Land Rover Light-vehicle Production Forecast by Vehicle (2008–2018)	11	Table 12: Suppliers and Components supplied to the Land Rover Discovery 4 (2012; Solihull, United Kingdom)	54
Table 5: Jaguar and Land Rover Light-vehicle Production Forecast by Country and Plant (2008–2018)	17	Table 13: Suppliers and Components supplied to the Land Rover Discovery Sport (2014; Halewood, United Kingdom)	57
Table 6: Jaguar and Land Rover Light-vehicle Production Forecast by Platform (2012–2018)	22		
Table 7: Jaguar Land Rover Supplier Awards winners 2015	33		
Table 8: Automotive sales of SuRe Index survey respondents	45		

CHAPTER ONE

Executive Summary

SAMPLE

Jaguar Land Rover (JLR), owned by Tata of India, is currently one of the fastest growing vehicle companies; it is now in the process of expanding beyond its traditional UK base. It has three vehicle factories and one engine plant in the UK, along with its R&D facilities at Gaydon and Whitley (near Coventry). It has also recently opened its first vehicle plant in China. A plant in Brazil is also now under construction, with the likelihood that further plants, possibly in North America, elsewhere in Europe and/or indeed expansion in the UK, will be announced in the near future. It also operates a CKD facility in India in association with its owner, Tata.

It is only in recent years that Jaguar and Land Rover have become one company; they first came together as part of a single entity in 2000, when Ford acquired Land Rover from BMW. It had earlier acquired Jaguar in 1989. For eight years, Jaguar and Land Rover were part of Ford's Premier Automotive Group which also included Volvo and Ford's up-market American brand Lincoln. However, PAG was never a great success and was actually a major cash drain on Ford for much of its existence. In 2008, Jaguar and Land Rover were sold to Tata of India, and a couple of years later, in 2010, Volvo was sold to Geely of China.

Tata paid US\$2.3bn for Jaguar and Land Rover, although Ford also injected \$600m into their pension funds and agreed to supply stampings, powertrains and other technologies for several years. A crucial part of this agreement was the right granted to the new JLR organisation to develop vehicles based on Ford's EUCD platform which at this point underpinned only the Land Rover Freelander. Significantly, this platform was also the engineering base for the Range Rover Evoque, the vehicle whose success has underpinned – and whose profits have largely indeed financed – much of the recent growth in the company's business.

Although JLR is one of the most successful and dynamic vehicle companies at the present time, in the early days of the Tata acquisition it faced a very uncertain future. In the depths of the 2009 recession, there were regular reports in the automotive press that JLR was considering closing one of its factories, either Solihull or Castle Bromwich, and consolidating production at the remaining plants. There were also some suggestions that Tata was considering selling a 20% stake in the company, possibly to Hitachi of Japan. In the event neither possibility came to pass and, aided by the unexpected and unparalleled success of the Evoque, the company recovered and has since gone from strength to strength. Originally it is believed that the business case for Evoque was based on a peak volume of around 60,000 units per year; in practice, Evoque volumes have been consistently over 100,000 a year, with most of

these being of the higher specification variants.

With 2009 vehicle production at just over 160,000 vehicles, the uncertainty surrounding JLR was understandable. Such a volume was not viable as the two brands also supplied to different segments. However, since this nadir, production has almost trebled and is well on the way to more than half a million vehicles a year in the UK alone; this volume should be reached in 2015, with the potential for significant further increases in production on the near term horizon, especially as new models based on the Jaguar XE are introduced. Undoubtedly the success of the Evoque – and the profits which it has produced – has given Tata the confidence to allow the company to continue to invest and grow.

There has been significant investment at its three UK vehicle plants, in an all-new engine plant in the UK and in a vehicle plant in China which has been developed in a joint-venture with Chery. As noticed earlier, a vehicle plant is under construction in Brazil and CKD operations have been under way in India since 2011. Further details on these plants and other possible plant locations are provided in the main body of this report.

The company is also now very profitable indeed, with the results for the last financial year, to March 31, 2015 confirming this. Retail volumes, at just over 462,000 units were up nearly 6.5%; moreover group revenues, at nearly £21.9bn, were up nearly 12.8% while pre-tax profits, at £2.6bn were up 4.5%. With cash and financial resources of £4.3bn, plus undrawn credit facilities of around £1.5bn, the company is able to fund its long-term plans without relying on support from its owner Tata. In fact, JLR declared a dividend to Tata of £150m, paid in June 2015. Further details on JLR's finances are provided in the main body of the report

JLR's financial strength has allowed it to expand its product range far beyond traditional segments for both the Jaguar and Land Rover brands. Jaguar, for example, will launch its first SUV-crossover, the F-PACE, in early 2016. It is also expected that further Jaguar crossover models, larger and smaller than this model, will also follow. Land Rover too is expanding, with the Range Rover name now a brand its own right; there are currently three Range Rover models, with at least two further models, and possibly more, on the way; a parallel Discovery range is now being developed, with the Freelander replacement, the Discovery Sport, joining the larger Discovery model. In its 2013/14 annual report, the company talked of the Discovery family, with the inference being that in the long term there will be three Discovery branded models. A third Land Rover range, using the Defender name, is also expected to be developed,

although the timing for this is not yet clear. Production of the current Defender will stop at the end of 2015, but it may not be until 2017 or later before the first new Defender appears. Similarly, Jaguar is expanding, with the XE and F-PACE giving it long-awaited competitors to the BMW 3-series/X3 and parallel models from Audi and Mercedes.

The recent development of JLR's model line-up has involved significant investment in its UK manufacturing facilities in particular, with the three vehicle plants at Halewood, Castle Bromwich and Solihull all subject of major expenditure in recent times; an engine plant at Wolverhampton has recently come on stream following

investment of over £500m, and in China a new vehicle plant is also in operation following investment of over £1bn in a joint investment with Chery. As well as investing heavily in its manufacturing operations in the UK especially, JLR has made significant commitments to UK suppliers, with each recent model launch accompanied by news of supplier contracts worth several billion pounds. The Discovery Sport and Jaguar XE for example have involved lifetime contracts for UK suppliers worth over £7bn between the two models, with the XE suppliers especially in line to benefit from contracts on other models made on the same platform as XE.

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