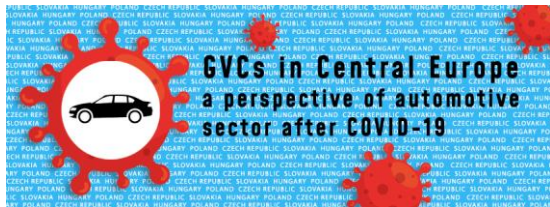


# CONTINENTAL AUTOMOTIVE HUNGARY

A case study by Gabor Túry

The case was developed with support of the Centre of Economic and Regional studies (CERS), Budapest, Hungary and by the Visegrad Fund in 2021. It is intended to be used as a base for discussion in courses focusing on Global Value Chains, International Business and Marketing.

*The project is co-financed by the Governments of Czechia, Hungary, Poland and Slovakia through Visegrad Grants from International Visegrad Fund. The mission of the fund is to advance ideas for sustainable regional cooperation in Central Europe.*



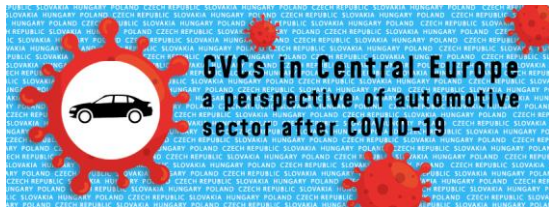
The disruption of supply chains took place not only during the pandemic, but it is still present and causes a large-scale problem. Shortage of electronic chips (from Asia) is the main problem, but the transportation of plastic parts is also a 'challenge'. This is because most of the products consist a lot of components, so if a delivery does not arrive, the given production line will stop/be suspended. There is a product that consists of 3 thousand parts, so the supplier system is quite fragile. This has serious financial consequences, because the stock or deliveries come in the Just In Time (JIT) system only the day before, so if there are no parts the workers have to stop, they are not working but they are getting paid the same way.

Despite the problems of supply chain disruptions, finding another supplier is not a short-term issue. Most supplier contracts are 10-15 years long and include joint product development. An alternative supplier is sought only if there is a longer-term supply difficulty, otherwise suppliers have no alternative. Where certain components allow and can be provided by multiple manufacturers, the company relies on multiple sources of supply anyway

The supply and demand shock caused a downturn at Continental Automotive Hungary between February and August 2020. Subsequently, orders from OEMs gradually increased to previous levels. The company's goal was to avoid layoffs and retained his workers thanks to emergency state government assistance. In both 2020 and 2021, Continental received the so-called state aid for employment in reduced working time for retaining jobs for both blue collar (assembly line workers) and white collar (R&D) employees.

The Hungarian subsidiary does not take loans. Through its relationship / supplier network, the company thinks that in responding to the Covid situation, large companies have taken over SMEs, both in terms of concrete measures and financial solutions.

The company has introduced standard virus protection measures to reduce the number of contacts and locate infected workers. For office workers, the home-office was preferred. A decision-making group was set up under the direction of the parent company to develop and coordinate Covid protection strategies. Anti-Covid measures only transformed the work environment, not taking time out of production which would reduce work efficiency. Measurable quantitative and qualitative indicators did not deteriorate. There is no public data about the infected employees or whether there were any interruptions due to the illness of the workers.



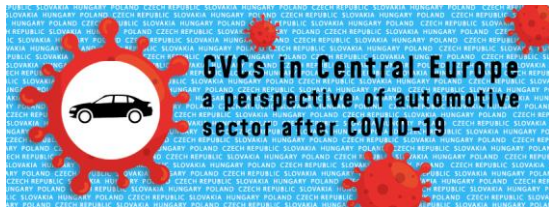
Covid had no changing effect on the JIT system. It is because the supply chain is designed for continuous production. There is a strictly scheduled production, where the suppliers have no capacity to produce more or to produce for storing. There are initiatives in the industry, mainly by OEMs, towards suppliers to increase their storage capacity, but this also raises serious financial issues as it requires significant financial resources from suppliers.

At the same time, Covid did not cause any price increase for the products, neither for the products nor for the parts supplied, i.e. there is no detectable change on an annual basis. In the case of emergency delivery, this may arise. The main reason for this is that there is strong pressure in the system against price increases.

The pandemic has accelerated quite a few processes and new factors have emerged in terms of production. Reducing dependence on markets and workers began long before the pandemic, so the effort is not new. At the same time, automation, the long-term reorganization of the supplier market, home office, the spread of the virtual environment and digitalization have accelerated because of the virus. Diversification of the supplier market and the evaluation of locality also arise, however, there are several advantages and disadvantages of localization that need to be considered.

Employee needs have also changed, which seem to appreciate the work-life balance. The issue of physical and mental health has become much more important, the flexible work system of the home office has also come to the fore.

*The Case Study was made based on the interview with Ákos Kalmár Head of HR and László Ágoston Head of Plant Industrial Engineering, of the Continental Automotive Hungary (May 14, 2021)*



### Questions related to the case study:

1. How has the crisis, in particular supply chain disruption, affected the company?  
How did production and orders evolve during the epidemic?
2. Has the crisis changed anything in the supply chains, in particular the JIT system? Is there a realistic possibility in the short term to restructure the supply chain and find new suppliers?
3. What virus protection measures have been taken? How has production disruption been managed during the pandemic?
4. How did procurement prices evolve?
5. What changes in production organisation did the pandemic bring about? What lessons were learnt during the pandemic? How does the future of the company look like in the face of an uncertain outlook, what are the breakout directions for the company to increase its competitiveness and resilience?