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中文版



Survey 2009 - Key trends in global sourcing in India

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NEWS AND TRENDS



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INTERVIEW



Leica

Leica Microsystems, headquartered in Wetzlar Germany, is a well-known optical and science equipment manufacturer. As part of its global development strategy, in 1995 Leica established its joint venture "Leica Microsystems Ltd., Shanghai". In 2005, Leica Microsystems joined the Danaher Corporation. With a history of more than 150 years, Leica has always committed itself to the brand strategy to focus on innovation, leadership, professionalism and quality.

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ARTICLE



Key trends in global sourcing in India

In order to assess the level of current sourcing activity as well as the level of interest for developing sourcing activity in India in the future, Dragon Sourcing conducted a survey both in Europe and in China across a set of large corporations representative of all business sectors.

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NEWS AND TRENDS

China overtakes Germany in exports

WTO data shows that China has overtaken Germany as the world's biggest exporter in H1 of this year. During the first six months, China's total export volume amounted to USD521.7bn, while Germany's was USD521.6bn.

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China's Export Tax Rebates Up 8.6 Percent

Export tax rebates increased by 8.6 percent in the first eight months of the year, according to China's State Administration of Taxation.

The Chinese government has raised export tax rebates seven times since last August in an effort to shore up exports following weakened overseas demand as a result of the global financial crisis. The latest rebate rise was announced on June 20, covering more than 2,600 items.

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China becomes Japan's largest trading partner

China became Japan's largest trading partner in both exports and imports in the first half of this year, as the global economic downturn notably affected Japan-US trade. Exports to China fell 25.3% from a year earlier to USD46.5b and imports from the country dropped 17.8% to USD56.2bn, while trade with other countries and regions showed larger declines. It is the first time exports to China surpassed those to the United States.

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China signs on USD3.87bn Taiwan procurement contracts

The third cross-Straits trade promotion delegation from the Chinese mainland signed USD3.87bn worth of procurement contracts with Taiwan companies at the Taipei World Trade Center. Beijing-based Lenovo Group signed contracts worth USD3.25bn with nine Taiwan companies. Meanwhile, Shenzhen-based Hasee Computer Co signed USD369m worth of contracts with four Taiwan firms.

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China strongly opposes US tariffs

China strongly opposes a US decision to raise tariffs on Chinese-made tyres, and it would launch anti-dumping and anti-subsidy investigations into some imported vehicles and chicken products from the US. The Ministry of Commerce said in a statement it would look into complaints from Chinese manufacturers, in accordance with Chinese laws and the rules of the World Trade Organization.

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India to Unveil New Foreign Trade Policy

India's Commerce and Industry Minister Anand Sharma recently met with Finance Minister Pranab Mukherjee to discuss the details of the new five-year foreign trade policy (FTP) to be unveiled on August 27. The new FTP is expected to help exporters struggling with the recession in their traditional markets in the United States and the European Union through incentives.

The government could extend support but would not be in a position to generate demand from contracting economies in the West. India's exports have been declining since October last year at an average rate of around 30 percent.

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Salaries to Rise by 8 Percent As Employee Demand Increases in India

India's salary rates are expected to increase at an average rate of eight percent this year and with as much as 50 percent of companies saying that they plan to recruit in the next three months.

Despite the fact that past year saw slowest growth in a long time, the economy is expected to grow at over six percent and industry is estimated to see overall average salary hikes at 8 per cent for 2009.

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Ford India Begins Bulk Export of Cars from Chennai

Ford India has begun exporting cars in bulk from Chennai for the first time; exporting 158 units through Chennai port to Durban, South Africa.

The company plans to export more models. According to the Society of Indian Automobile Manufacturers, data, Ford India between April and June produced 6,752 cars, of which 219 units were exported, through containers in different shipments.

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Vietnam Foreign-Invested Firms to be Allowed to Export Rice

Following its WTO commitments, the Vietnamese government will now allow foreign-invested businesses to distribute and export rice this year, says Deputy Minister of Industry and Trade Nguyen Thanh Bien.

Last week, Deputy Prime Minister Hoang Trung Hai approved the measure. Mr. Hai also added that the trade ministry should also ask the government to adjust legal frameworks and regulations to ensure long-term transparency in state management of rice trading.

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US CPSC to establish Beijing office

The US Consumer Product Safety Commission (CPSC) has issued a statement confirming its wish to establish an office in Beijing. The office, in a bid to reduce the large number of recalls from China, would work with Chinese manufacturers and regulators to ensure products meet US trading standards. The office is prepared to open in October and would be situated in the US embassy.

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Coca-Cola to develop own juice business in China

Coca Cola Co Ltd, the U.S.-based soft drink giant, plans to develop its own juice business across China following the rejection of its bid for China Huiyuan Juice Group Ltd by the Chinese government.

The company yesterday also inaugurated a new bottling plant in Urumqi, capital of the Xinjiang Uygur Autonomous Region, just a day after it opened its 37th bottling plant in Jiangxi Province. It has an annual capacity of 200,000 tons. Coca-Cola is also building a plant in the Inner Mongolia Autonomous Region.

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Panasonic looks to local sourcing

A focus on local sourcing in order to meet the demands of emerging markets is a key focus of future growth for Japanese electronic giant Panasonic.

The company, well known for its range of digital cameras and flat-screen televisions, also manufactures air conditioning units and domestic appliances - the only division of the company which made money in the last quarter. And most of that came from emerging economies such as the Bric countries (Brazil, Russia, India and China) and the Mint countries (Mexico, Indonesia, Nigeria and Turkey).

But to meet the demands of these economies, Panasonic's chief financial officer Makoto Uenoyama said that the company would look to local procurement in order to maximise profits.

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Mr. Gary Wang, Sourcing Manager of Leica Microsystems Ltd., Shanghai, majored in engineering and foreign language. After graduation started his career in Schindler as a sales engineer, handling order processing and managing customer relations. He entered Leica in the year 2000 as purchasing manager. The technical background and strong business sense helped him to manage the sourcing activities in Leica.

Leica Microsystems runs 2 factories in China, the sourcing department started fulfilling its IPO mission since end of last year. Before that, it was mainly focusing on the need of production for those 2 factories in China. Due to the fact that new products rapidly entered Chinese market, it extremely enriched the sourcing categories, ranging from casting, machining, electronics, to LCD, optics parts, plastic and rubber. Most of the products produced in Shanghai are use in industry and R&D, 90% of them are exported to final destination overseas. The reason why Leica leverage its local sourcing department to start IPO function is that, Leica believes there is still a long way to go in LCC sourcing in order to improve LCR rate (Low cost regional rate).

The first responsibility of Shanghai IPO is to build its own supplier database. As Leica is very critical with the requirements on suppliers, and its sourcing activities are usually multiple items with small quantity, to have the right supplier pool is very important. The second responsibility is to bring the sourcing of new products initially to China, rather than move to China after the sourcing destination has been pointed as someplace else. The third responsibility, most importantly, is to move the currently sourcing activities overseas to LCC such as China.

The sourcing team is divided by functions to commodity management, project management and SQE. In total there are 11 people working under Gary's lead. All of them are Chinese nationals, which helps to guarantee the in time and no barrier communication with Chinese suppliers.

Both Shanghai IPO and Singapore IPO belong to Asian Global Sourcing Team. As the local need from Singapore factory is relative bigger, Singapore sourcing team focus more on its own production. But meanwhile, it works closely with Shanghai sourcing team on how to move the currently sourcing activities overseas to Asia. Not only looking at Singapore and China, but also on other Asian low cost countries such as Vietnam, India and Malaysia.

To Leica, the most direct standard to measure sourcing performance is savings. Total cost reduction is considered as one of the most important figure to measure savings. Other than that, the quality and quantity of supplier database, the rating between preferred and qualified suppliers, and whether PO goes to qualified suppliers, are considered very important too. Gary mentioned that Leica has a moving to west strategy in the upcoming 3 years. How to find and develop suppliers in west China has been arranged up to Leica's agenda. Taken Xi'an for example, the military industry suppliers identified near Xi'an are well equipped, products are very unique and special. To help them become Leica's qualified suppliers is the key point on its way of moving to west.

The DBM system is used by Leica to manage the sourcing cost. One of the most important functions of the system is the usage in line manufacturing. Leica put a lot of efforts to promote this system to its suppliers in order to gain year over year cost savings. Only negotiation cannot bring value, to help suppliers develop, improve, be more efficient, is the optimal approach to gain year over year savings. By showing and sharing the benefits of using DBM system, Leica successfully persuaded its supplier to use it.

When talked about Chinese suppliers, Gary said Chinese suppliers are developing really fast. A lot of private enterprises move themselves quickly to exporting economics. But what worried him is that, whether big quantity, low value added industry can sustainably bring benefits to them, especially after this economic crisis, he's worried about this type of business model. Finally, he suggest Chinese suppliers to think about how to produce products that others incapable of producing, and how to be unique in the supply market.

The stability of quality is the main challenge that Gary said he's faced in China. The brand's focusing on quality force Gary to focus on the stability of quality on every order. To deal with the culture difference with local suppliers is also a big challenge.

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Sourcing Trends in India

Introduction

China, Vietnam and India are experiencing unprecedented and exponential economic growth which offer unique opportunities (and risks) to companies wanting to take part in this boom. It is precisely to manage those risks opportunities that we have created Dragon Sourcing which is focused on helping our clients create long-term and sustainable value in the on-going management of their procurement function and processes in China, Vietnam and India.

Achieving procurement excellence in these countries requires the deployment of western style procurement practices adapted to the local context and culture. To that effect, we have built strong and integrated teams of experienced procurement professionals whose expertise was built both in the West and in China, Vietnam and India. Our people originate from either leading consulting organizations where they held key leadership positions in procurement practices and/or from leading international industrial organizations where they held strong operational positions in procurement. This ensures that we can combine analytical rigour with operational pragmatism; and conceptual thinking with a down-to-earth "roll up your sleeves" attitude.

For the first time in 15 years, the rate of exports growth from China to the western world has begun to slow down. The Chinese government has put the brakes on the Yuan's gradual re-evaluation vis-à-vis the US\$ and has reintroduced tax incentives to several Chinese export driven industries (such as textiles), that are increasingly feeling the pain caused by past unrelenting investments in more production capacity combined with a slowdown in Western orders. Admittedly, some of this trend is driven by the near recession which has gripped the developed world in recent months. However; factors that are specific to China's competitive position are equally responsible for the observed deceleration in Chinese exports growth; namely:

- The labour wage inflation on the eastern coast of China
- The gradual re-evaluation of the Chinese currency over the last 4-5 years vis-à-vis the US\$
- The "pre-crisis" increase in raw material costs which reduced the relative potential savings from sourcing in China
- The "pre-crisis" increase in transportation costs driven by the rise in energy prices
- The anticipation that raw material and transportation prices will re-increase once the crisis is over
- The imposition of anti dumping taxes on several products for which Europe and the US are trying to protect themselves against Chinese imports

This slight erosion in China's competitive position and questions about what the longer term holds has triggered some strategic rethinking in companies' global sourcing strategies as companies are concerned that they might have put all their LCC sourcing eggs into the sole Chinese supply market. Consequently, many companies have begun exploring alternative sources of supply to manage the perceived country risks associated with China.

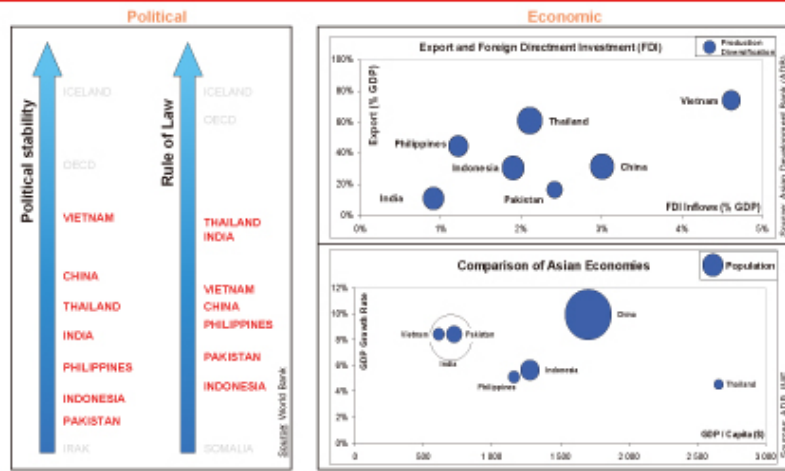
Globally; India is probably one of the countries which is getting the highest level of interest from companies looking to diversify their LCC sources of supply. The interest generated by India is driven by the fact that India is favorably positioned on several key country dimensions (see graph 1):

Graph 1 : India's competitive positioning

Main Criteria	Subcriteria	China	India	Indonesia	Pakistan	Philippines	Thailand	Vietnam
Political and legal	Political stability	☺	☺	☺	☺	☺	☺	☺
	Commitment to reforms	☺	☺	☺	☺	☺	☺	☺
	Corruption and bureaucracy	☺	☺	☺	☺	☺	☺	☺
	Legal framework and rule of law	☺	☺	☺	☺	☺	☺	☺
Economic	International performance	☺	☺	☺	☺	☺	☺	☺
	International competitiveness	☺	☺	☺	☺	☺	☺	☺
	National performance	☺	☺	☺	☺	☺	☺	☺
Social and demographic	Financial situation	☺	☺	☺	☺	☺	☺	☺
	Education	☺	☺	☺	☺	☺	☺	☺
	Human development	☺	☺	☺	☺	☺	☺	☺
Infrastructure and technologies	Age profile	☺	☺	☺	☺	☺	☺	☺
	Transport infrastructure	☺	☺	☺	☺	☺	☺	☺
	Energy and power supply	☺	☺	☺	☺	☺	☺	☺
TOTAL	☺	☺	☺	☺	☺	☺	☺	

- On the political and legal fronts (see graph 2), India probably offers one of the highest level of stability of all countries in the region and has shown great commitment to reforms. It is the world's biggest democracy and has a legal system inherited from the UK.

Graph 2 : India's political and economic relative position



- On the economic front, India benefits from labor costs that are as competitive as China (see graph 3). Furthermore, India is often granted a more favorable regime by the Western world in terms of import duties which are often much lower than those imposed on Chinese exporters and very rarely have to face anti dumping taxes which are increasingly being levied on Chinese products.

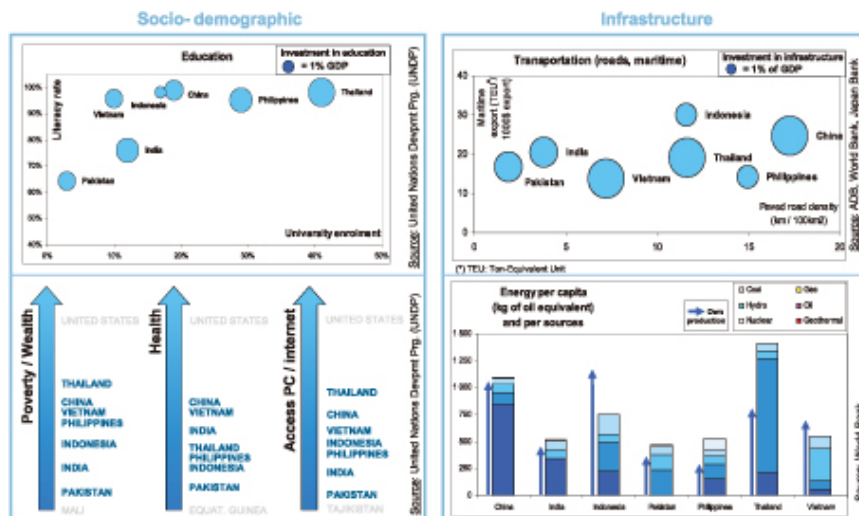
Graph 3 : Relative Labour Cost Position



- Whereas the labor costs are low, the size of the labor pool is obviously very high and young with a population in excess of 1.2 billion (and forecast to soon surpass that of China), increasingly educated, highly productive and meticulous in its work ethics, with access to an improving healthcare system.
- Finally, in terms of access to technology and infrastructure (see graph 4), whereas this is still a major weakness in India compared to China, it is equally true that the country as a whole is making gradual improvements in terms of transportation; telecoms and in energy generation transforming it – too slowly admittedly - into a country in which it is “less difficult” to conduct business.

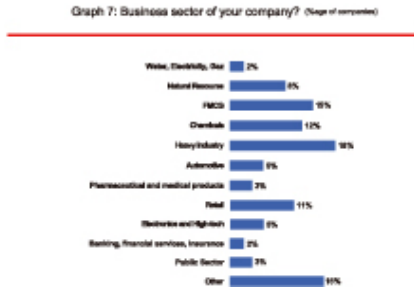
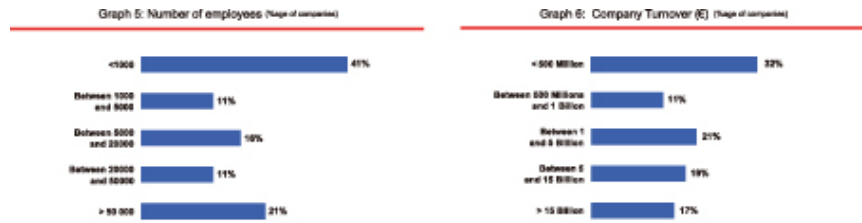
India's sheer size, economic weight, and the country's overall macro-economic rating compared to other sizeable developing economies in the region (such as the Philippines, Pakistan; Indonesia, Vietnam and Thailand) explain the level of attention it is attracting from potential investors and corporate buyers.

Graph 4 : Demographic and Infrastructure positioning



Trends in India Sourcing

In order to assess the level of current sourcing activity as well as the level of interest for developing sourcing activity in India in the future, Dragon Sourcing conducted a survey both in Europe and in China across a set of large corporations representative of all business sectors (see graphs 5, 6, and 7).



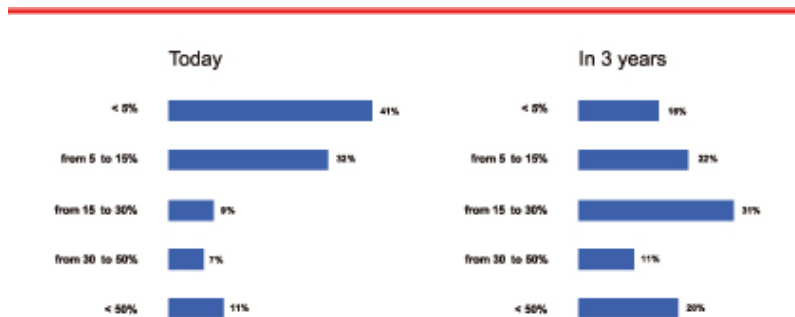
What appears very clearly from the survey is that most companies have significant experience in sourcing from LCCs countries (82% have at least 1 year of experience in LCC sourcing, see graph 8) and that nearly half of them have experience in sourcing from India (see graph 9).



The importance of this phenomenon is reflected in the statistics of graphs 10 and 11:

- Whereas 41% of the companies are sourcing less than 5% of their spend in LCCs currently; this percentage is expected to drop to 16% in 3 years from now. Similarly, whereas only 18% of companies are sourcing more than 30% of their spend in LCCs today, this percentage is expected to increase to 31% in 3 years from now.

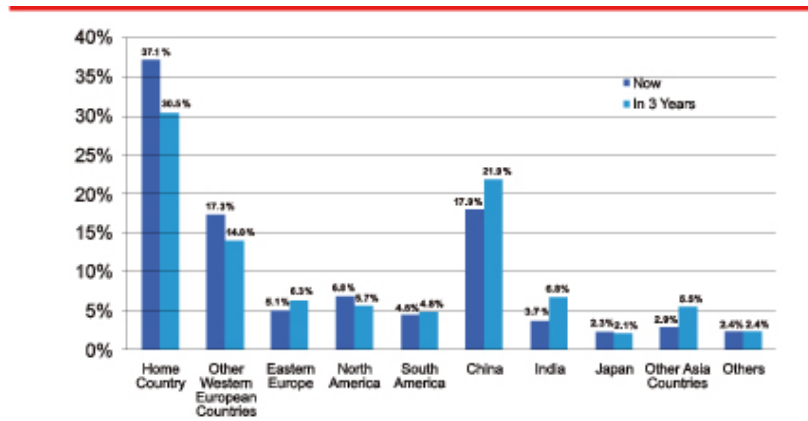
Graph 10: Percentage of your spend sourced from low cost countries, today and estimate in 3 years (% of companies)



- When looking at these trends in more detail (graph 11), Asia appears as the great beneficiary of the geographic rebalancing which is taking place globally:
 - Currently 63.7% of the spend originates from high cost countries (Western Europe, North America, Japan); this percentage is targeted to go down to 52.3% by 2012, a massive 18% drop in high cost country sourcing in a matter of three years.

- o This 11 point reduction (from 63.7% to 52.3%) is essentially explained by the uptake in Asia sourcing:
 - o China will become the second source country in the world moving from 18% to 21.9%
 - o India will nearly double its current position, going from 3.7% to 6.8%
 - o Most of the rest of the increase will be picked up by other Asian countries (from 2.9% to 5.5%)...
 - o ...and with Eastern Europe only seeing a marginal shift (from 5.1% to 6.3%)

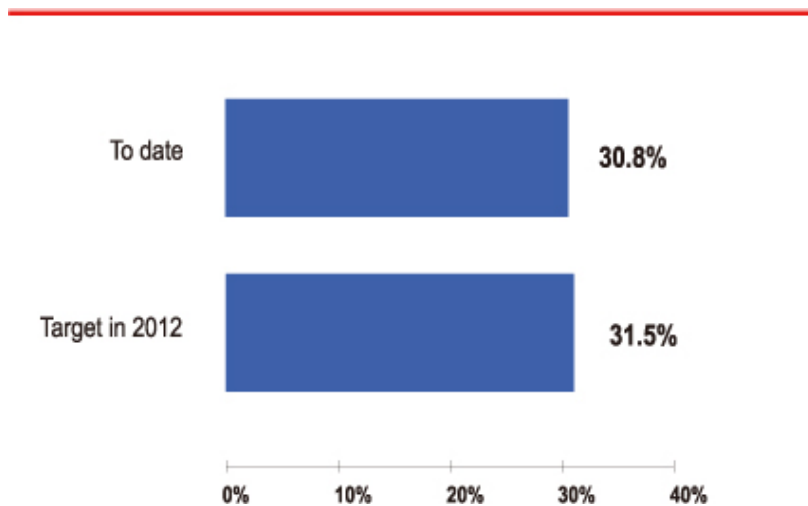
Graph 11: What is the percentage of your total spend in the following region/country now and in 3 years?



The significant increase in spend which is expected to happen in India over the coming three years is hardly surprising when looking at the of savings which companies have realized and are planning to realize in the coming three years (see graph 12)

- Savings of 31.5% have been realized to date
- Similar savings (30.8%) are targeted in the coming three years

Graph 12: Results achieved (% cost reduction)

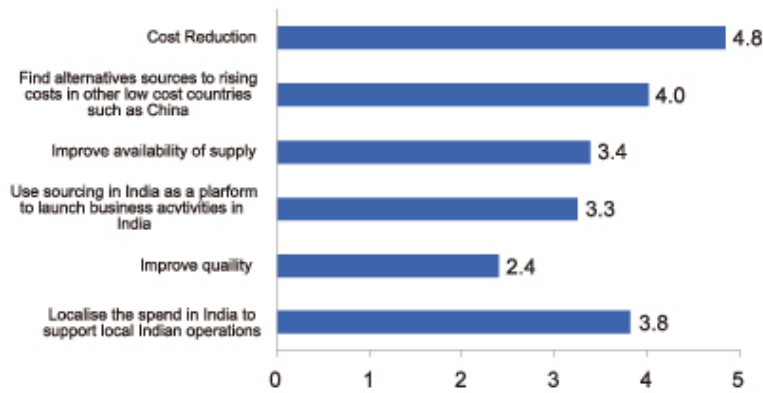


The companies that are sourcing from India are focusing on the categories where India has historically been strong such as IT off-shoring services (which according to our participant will become the most extensively sourced category in India over the coming three years) , but increasingly also in a wide set of industrial categories where India has recently invested into developing some strong capabilities such as automotive components, industrial equipment, electrical and electronic equipment, pharmaceutical products, plastics and rubber components. (see graph 13)

The major drivers to Sourcing from India are not surprisingly the need (see graph 14):

- To look for continuous cost reduction opportunities
- To identify new sources of supply particularly in certain supply markets which have become increasingly tight in recent years as a result of the increased demand emanating from fast developing countries such as China and India
- To ensure competition is not taking sole advantage of more attractive sources of supply
- Finally, to secure local content for manufacturing facilities that have been set up in India

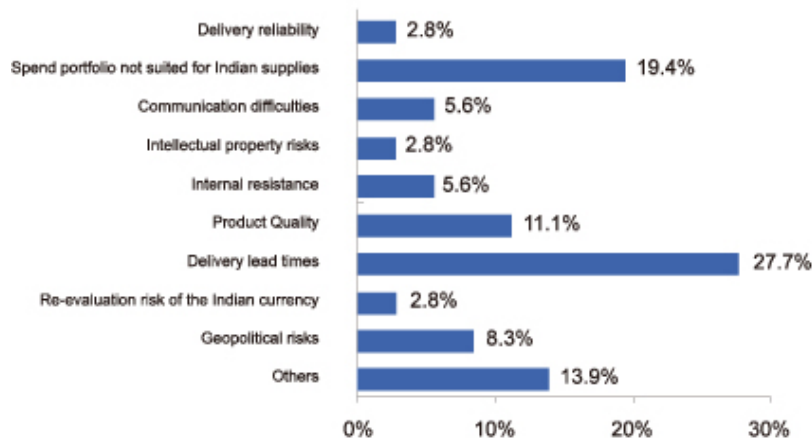
Graph 14: Drivers to India sourcing



The major barriers hindering companies from sourcing from India are: (see graph 15):

- Delivery lead times which are perceived as the major barrier for nearly 28% of the companies that are not sourcing from India currently. This is a reflection of the poor image which India's infrastructure still suffers from in the West, raising fears in the buyers' minds about the difficulties they will face when trying to get products out of India
- The belief that India lacks suppliers that either have the technical capability and/or competitive cost structure that would allow them to become qualified suppliers to Western Companies (nearly 20% of the answers)

Graph 15: Barriers to sourcing from India

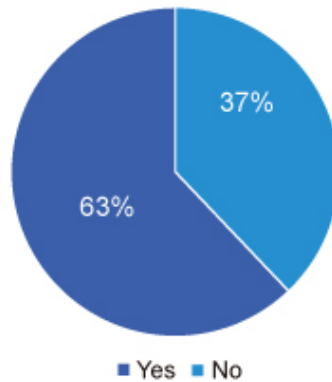


- In addition to these two fundamental issues of capability and delivery; other more traditional barriers that are common to all LCC countries are mentioned as well but to a much lower extent such as:

1. Internal barriers to change which makes it difficult for procurement professionals to convince their internal customers in engineering, manufacturing, quality and marketing of taking the risk of testing new suppliers
2. Communication difficulties which discourage some companies from attempting to reach out directly to potential suppliers in India.
3. Quality risks where the belief is that low costs is often synonymous with poor quality
4. Geo-political risks

Despite these barriers, when asked whether they are planning to launch a sourcing initiative in India over the coming 3 years, nearly 2/3 of the companies who participated to the survey actually responded positively. (see graph 16). This is the reflection of the following 3 factors:

- The need for companies to continuously look for alternative sources of supply in order (1) to either secure new supply lines in areas where the supply markets are increasingly tight because of the increased demand emanating from countries such as China, and/or (2) to identify lower cost sources to remain competitive in global markets
- The beliefs that the long term trend for costs in China are heading in one direction only and that is north and the conviction that despite the fact that China is still the most competitive country for many spend categories that this competitive cost advantage will slowly erode over time
- The view that India is, in all likelihood, one of the few countries offering the best medium-to-long term alternative to sourcing from China and that being amongst the first movers will be critical to secure competitive advantage

Graph 16: Is your company planning to source from India in the coming 3 years?

Best sourcing practices from India

Identifying the key success factors of an effective India sourcing strategy – leveraging the best practices of the most experienced global corporations in this field – constitutes the last section of this report. The analysis of the best practice companies has allowed us to identify 3 critical drivers of success factors that explain the difference between success and failure in this area:

Engage the whole enterprise in the initiative

Making a sourcing program successful in India requires overcoming significant internal barriers to change. Key functions of the corporations will raise issues in terms of quality, flexibility, reactivity which will complicate attempts to re-source from India. To surmount those internal resistances, the India sourcing initiative needs to be driven top down by top management and engage the whole enterprise under the stewardship of the procurement department. The programme needs to include, from the very beginning key internal customers (engineering, manufacturing, quality and marketing) and ensure representation from key functions in multi-functional working teams. In order to reduce internal barriers, pick – if possible – some of your initial pilot categories amongst those categories that are already being sourced from low cost countries. Savings will all likelihood be lower but the company's readiness to re-source from an existing LCC supplier to one located in another country will be much higher.

Deploy dedicated "export buyers" based in India

Many companies initially tried to leverage buying resources from their local Indian operations to drive their "export sourcing" programmes. Most of these companies failed in this approach, realizing that sourcing for the local requirements versus sourcing for the export market often required a different set of capabilities in the supply base, and a different set of skills and competencies (both linguistic and technical) in the human resource base. Best practice entails deploying dedicated buyers, separate from the buyers for the local market, focused exclusively on sourcing for the export market either by opening a fully owned IPO or by leveraging the capabilities of an external Procurement Service Provider (PSP).

Implement western style procurement processes in India

It is often assumed that buying practices in India are very different from those in the West. Whereas in the West sourcing is a highly structured, fact based, objective and disciplined process, sourcing in India would be a network and relationship driven game. Whereas there is an element of truth in that, Network buying tends to be the "default" process which is implemented in the absence of a fact-based process. In our experience, India is highly receptive to the deployment of western style procurement practices based on templated RFIs/RFQs, objective supplier selection and negotiation processes and quality audit procedures similar to those conducted in the West. As a matter of fact the biggest savings are achieved (as high as 30% on and targeted in 2012) when similar buying processes to those implemented in the Europe and the US are rigorously applied in India.

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