



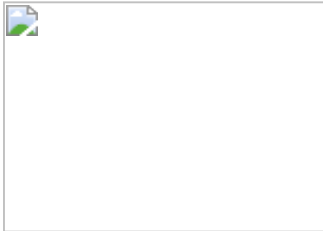
Events Forenotice

Dragon Sourcing Seminar	October 23rd, 2007	Topics to be determined
Procurement Interest Group (PiG)	December 2007	Date and topic to be determined

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中文
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INTERVIEW

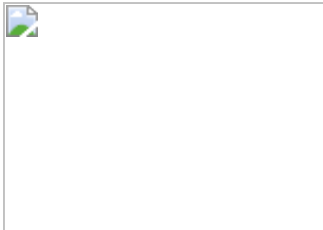


Interview Fabry Group

Fabry Group, Masters in Fasteners, was founded in 1947. The head office is situated in Tilburg, the Netherlands. It is present in 14 countries with 85 branches and 1,700 employees. Fastening materials and systems, tools are marketed worldwide under the famous Fabry brand name. We were given the opportunity to talk to Mr. Theo van der Maas, general manager of Fabry Shanghai...

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ARTICLE



Looking for Labour

Both foreign and domestic manufacturers are feeling the effects of an increasing shortfall in labour supply – and consequent rising wage costs.

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NEWS AND TRENDS

UN seeks Chinese suppliers

The United Nations Procurement Service (UNPS) has set up the UNPS-Canton Fair Promotion Center to serve as a platform for Chinese companies to supply the UN and is expected to greatly boost the UN's procurement from China. The UNPS spends more than US\$30 billion annually. Foodstuffs, medical items, machinery and electronic components top the list of purchases.

Many Chinese companies missed business opportunities with the UN due to a lack of information and knowledge. Any companies holding ISO 9000 certification and operating for at least three years with a stable financial status are eligible to supply the UN. More than 2,000 Chinese firms have become registered suppliers at the UNPS. However, the figure is only 1 percent of the world's total

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2007 ISF China (Shanghai) to be held in September

2007 International Sourcing Fair China (Shanghai) will be held on September 25 to 27 in Shanghai Mart. It has become the largest state-level reverse sourcing fair in China after five years of successful development. By sticking to the principle of Reverse Sourcing, 2007 ISF China would give equal priority to both import and export trade, further improve and expand the platform for international sourcing.

The ISF 2007 China (Shanghai) will maintain its floor space of 20,000 square meters, attracting 260 buyers, 8000 suppliers from home and abroad, and 30 supply chain service providers to the fair. It consists of 6 display areas with the newly built "China Sourcing Area", and it will continue to strengthen and enlarge the display area specialized for small and medium purchasing exhibitors.

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BMW and Mercedes-Benz Race with Audi for government procurement list

Mercedes-Benz's China-made sedans have been made to the Chinese government purchasing list. Another German luxury carmaker BMW is in discussions with regulators to put its vehicles on the government's shopping list. Governments at all levels in China spent 70 billion Yuan buying vehicles last year. Audi dominates this area with its hot-selling A6 sedans for more than ten years.

BMW launched the new 5 Series sedans, which are 14 cm longer than the old ones and only available in China. It will find 80 first-tier suppliers in China by the end of this year, up from 50 at present. BMW also plans to increase its procurement of locally made spare parts to RMB 3 billion this year from 2 billion in 2006. Mercedes-Benz began assembling its E-Class sedans at the beginning of the year in Beijing and also plans to increase its local auto parts supply.

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Bosch plans to increase China purchasing

Robert Bosch GmbH, the world's leading auto parts company, plans to increase its China purchasing to one billion Euro in 2007 from 300 million a year earlier. In 2006 Bosch's global purchases totaled 20 billion Euro. The company, which buys electromechanical parts from China, has identified a ball bearing maker in China to source from. Bosch's next task is to find a suitable Chinese supplier for mechanical parts.

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Vodafone opens sourcing center in China

Vodafone has opened a new office in China with an aim to more than double its annual procurement in the country within three years. The China Sourcing Center will lead the negotiations between Vodafone and Chinese manufacturers. The firm has sourced hardware in China worth 200 million Euros, and expects to increase the annual sourcing volume to 500 million to 1 billion Euros within three years.

The launch of China Sourcing Center will help improve the management of Vodafone's global supply chain and help the company remain competitive in the global market. This marks the trend among international telecom operators looking at China to source telecom equipment and mobile phones to cut costs and stay competitive in the global market.

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Goodyear saves money from sourcing in China

The biggest U.S.-based tire-maker saved about \$35 million last year from production sourcing in China, such as buying tires, equipment and raw materials. In order to offset the 17 percent cost increase to raw materials that it saw last year, Goodyear will look to expand efforts in China. This initiative will accelerate over the next two years.

The company's plans in China do not include expanded tire production. Goodyear has one plant in Dalian,

China. Instead, Goodyear buys tires from Asian plants that make them according to Goodyear's specifications.

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Nortel opens first Asia Global Operations Center of Excellence in China

Nortel is to open its first Center of Excellence for Global Operations in Asia, based in Shanghai China. The new Shanghai Center of Excellence will provide a full suite of services including strategic procurement, supply chain operations and order fulfillment capabilities. The Center is expected to officially launch in the second half of 2007.

Nortel believes that Asia - and China in particular - is fundamental to the transformation of its supply chain activities as it continues to drive for cost-competitiveness and value for its customers across the globe.

Among Nortel's 200 emerging suppliers and strategic partners, 30 to 40 are from China. Nortel's procurement investment in China passes the US\$1 billion mark annually in 2007.

Jeff Townley, Nortel's incoming chief procurement officer is in the process of relocating to China and manages all of Nortel's supplier relationships as well as all of Nortel's annual purchases.

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Panasonic expects its Chinese suppliers to achieve CSR procurement

Panasonic Corporation has signed the purchasing contracts with 4,200 Chinese suppliers, putting CSR (corporate social responsibility) as conditions. This is the biggest CSR procurement case among the Japanese companies doing business in China.

CSR clauses, such as "compliance and fair trade", "information security", "environmentally consciousness management", "safeguarding of human rights", etc., have been added to the purchasing contracts. Failure to fulfill these CRS requirements will cause the suppliers to loose the business opportunity with Panasonic.

Last year the company bought JPY 600 billion worth of parts, and 60% were purchased from China.

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INTERVIEW

Fabory Group, Masters in Fasteners, was founded in 1947. The head office is situated in Tilburg, the Netherlands. It is present in 14 countries with 85 branches and 1,700 employees. Fastening materials and systems, tools are marketed worldwide under the famous Fabory brand name. We were given the opportunity to talk to Mr. Theo van der Maas, general manager of Fabory Shanghai.



Mr. van der Maas, creator of group's first two companies in Asia

Fabory Group is celebrating its 60th birthday. Two baby companies of the group, aged three and one

separately, were built up by Mr. van der Maas. BoPac, located at Zhangjiagang Bonded Logistics Park, was set up in 2004 to become one of the group's four international sourcing and distribution centers. Fabory Shanghai was established in 2006 as a sales and trading company. Mr. van der Maas has 25 years rich experiences in international marketing, sales, sourcing and general management, and his career path covers Netherlands, Germany and China.

China sourcing, core for low cost country sourcing program

China's cost-competitive environment provides Fabory with the ideal climate for increased investment in procurement. Currently, 65% of Fabory's global purchase comes from low cost countries in Asia, representing 40% of the total value for global purchase. Half of the purchase in Asia is achieved in China. In 2006, Fabory bought nearly 10,000 tons of fasteners from China, and this number will be doubled this year. 12,000 articles, out of 55,000 from the group level, are sourced in China. The target is set at 15,000 articles in three years time.

Clear targets for procurement function in China

Except for the number of articles, Fabory has set other clear targets in regards to its Chinese procurement function and performance measurements for the next three years. As to the payment terms, full prepayment from Europe has been changed into buying against credit, and the objective is on average 30 days. Fabory is trying to improve its delivery performance to better serve the customer's needs and to limit the delay from the current 25 days to within two weeks maximum. The company has done very well in reducing the rejection rate. 15% in 2004 to the target of 3.5% in 2007, and to below 2% in 2009 shows a great progress.

Process optimization, proven way for cost saving with fasteners

Fasteners are so called "C articles". The production costs account for only 20% of the total cost of a fastener. Optimizing the procedures has result in great savings for Fabory. The group procurement function conducts worldwide allocation. Four international sourcing and distribution centers help avoid the unnecessary movement of the articles with all the quality control performed locally and each article fully registered. Because of the cost advantage, BoPac purchases packing materials and packs the articles in China. The integrated procurement function of the group, with the help of SAP system, greatly improved the internal supply chain and reduced the cost.

Supply chain thinking, the main challenge

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ARTICLE

Looking for Labour By Maria Trombly

Shanghai Business Review, January 2007, volume 4, issue 1

Both foreign and domestic manufacturers are feeling the effects of an increasing shortfall in labour supply – and consequent rising wage costs.

Despite having a population of more than 1.3 billion people, labour shortages in China are starting to become a problem. And not just in emerging areas like the technology industry, but in manufacturing as well – especially as manufacturers move up the value chain and work gets correspondingly more sophisticated. Today, even low-end jobs are going unfilled.

"China faces a looming labour shortage that could stall not only its economic growth, but also its migration up the value chain," say McKinsey&Company analysts Diana Farrell and Andrew Grant in a recent report.

Strong demand and weak supply is pushing up labour rates in key areas. Among members of the American Chamber of Commerce in China, 41 per cent of companies and 48 per cent of manufacturers report being negatively affected by increased salary and wage expenses.

Low-skilled Shortage

Several reasons exist for the rising labour shortages in China's coastal cities, says Hiroshi Inagaki, Senior Economist at Japan's Mizuho Research Institute. The leading factor is the fast growth of the manufacturing sector, Inagaki writes in a recent research report. Other reasons include the industrial development of China's inland cities, creating incentives for would-be migrants to stay at home.

In addition, the number of workers employed by state-owned enterprises is on a sharp downward curve, declining by three million a year from 1997 to 2002. In 2004, the decline was 1.6 million.

"Some state-owned enterprises may have started to hire new graduates and the unemployed," Inagaki says. In any case, the flow of new labour from lay-offs as a result of restructuring in the state sector is dwindling, he adds.

"The manufacturing industry is one of the five industries which were short of workers last year," says Daniel Bian, Chief Career Consultant at CHR China Consultants Group Co. Ltd., which was the first professional career consulting company in China when founded in 1999.

"The lack of low-skilled workers is a big problem for many Chinese traditional manufacturers because of the population ageing problem," Bian says. "Young workers are becoming fewer, which means they have more jobs to choose from. It leads to higher labour costs and more frequent turnover."

In the southern industrial heartland city of Shenzhen, the minimum pay for a typical worker in July 2006 was USD78 per month (RMB610). Today, that has increased to USD104 per month (RMB810). But though wages are going up, workers are still leaving for other areas, local experts say.

"In the Yangtze Delta, the pay is more attractive, so workers choose to work there," says Gerry Gao, a spokesman for the Shenzhen office of 51job.com, a popular online recruiting website.

Rising Coastal Labour Costs

The shortage of blue-collar workers in the coastal cities is pushing up labour costs for businesses there and hampering production, says a new report from Manpower Inc.'s China office. "Some organisations are relocating to inland regions where the shortages are less severe, or even to other countries in southeast Asia."

To cope with labour shortages, companies are increasing salaries, benefits and working and living conditions, and increasing outsourcing to other regions with cheaper labour rates, according to the H1 2006 China Supplier Survey by sourcing information provider Global Sources.

The shortage is exacerbated even further by the fact that older, more skilled workers are currently under-utilised. "The number of underused workers in mainland China is huge," says Bian. "Those workers, usually around 40 to 45 years old, used to work in state-owned factories. When the factories were restructured, they lost their jobs. But, if they are given training, they could do some jobs very well for big companies like Motorola and Siemens."

For example, when Shanghai's Dalong machine factory became a joint venture with WOMA Apparatebau GmbH, a German machinery company, the new Shanghai WOMA-Dalong High-Pressure Equipment Co. Ltd. imported the foreign partner's advanced management and production lines, and many workers were laid off because they were no longer needed.

Some of the redundant staff chose to retire from the workforce. Others went on, and, with government help, got jobs in unrelated fields, such as private security. "It's a big waste," says Bian.

Graduate Gripes

On the other end of the labour pool are new college graduates, many of whom aren't capable of fulfilling the white-collar roles they want – but have too much pride to take blue-collar manufacturing jobs, Bian says. According to statistics from the Ministry of Labour, the unemployment rate for the 15-29 age group was nine per cent in 2005, compared to the national average of 6.5 per cent.

"Many companies are not willing to use recent graduates because they have little experience," Bian says. "But also, most graduates don't want to work in a factory." There are two reasons, he says. "One is about our culture. We have been misled for a long time that being a blue collar will be looked down upon by other people. It's kind of losing face. Students are told by their parents that their aim is to go to a big company to be a white-collar employee." Another issue is salary. "Most companies in China are still judging people by education, rather than skills. So it happens often that a skilled blue-collar worker's salary is less than that of a receptionist," Bian says.

Significant recruitment demand also exists below graduate level. Many European companies, especially in the manufacturing industries, are in "strong need of qualified personnel at the technician and craftsman level," says the EU Chamber of Commerce in China's 2006/07 Position Paper. "There is a lack of qualified talent available in China to support this need." It points out that China lacks a qualified apprenticeship system to give high-school graduates the required balance of theoretical and practical training to prepare them for a "highly satisfying career in jobs 'below' college-level positions."

The R&D Facto

According to Beijing-based online recruiting site Zhaopin.com, Shanghai's foreign manufacturers are particularly in need of manufacturing employees, with 1,026 manufacturing vacancies posted between March and October last year. Hao Jian, Senior HR Consultant at Zhaopin.com, says that most of the 'help-wanted' ads are from foreign manufacturers and joint ventures such as Samsung, Saint-Gobain, Zeiss and Daimler-Chrysler Beijing.

"Several years ago, those companies tended to make China their manufacturing base due to cheap labour costs," he says. "But recently, more and more companies like Siemens and GM are moving their R&D centres to China, so workers with high technical skills are badly needed."

Joint ventures and foreign manufacturers have advanced production lines and use computers to control the manufacturing process, Bian explains. "So they need workers who are familiar with the advanced new work environment, rather than traditional workers with low skills."

Because of the shortage, salaries for those positions are getting higher and higher. Gerry Gao, of the Shenzhen branch of 51job.com, another popular human resources website, says the going salary for an experienced researcher is around USD7,700 per year (around RMB60,400), and around USD25,500 per year (RMB200,000) for a project leader. The average yearly salary in China is around USD2,300 (RMB18,000).

Overseas training opportunities also serve to attract in-demand talent. "We send our engineers to [company] headquarters in Italy for training for several months," says Judi Ji, Human Relations Specialist at the Shanghai office of Marposs S.p.A., an Italian measurement equipment producer. "It will be a big help for their careers."

The company is now trying to find engineers for five different jobs, she says. "We know it's time-consuming, so our help-wanted ads are perennial."

Additional reporting by Wang Fangqing.

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