

International Procurement

Modul 1: Basics

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International Procurement



Definition

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Sourcing Strategy

Global Sourcing

Strategic- vs. Operational Approach



Strategic- vs. Operational Approach

Strategic Approach

Procurement

Supply Line Management

Strategic Functions

- Target Costing
- Vendor Management
- Total Cost
- Value Analysis
- Make-or-Buy
- Quality Issues
- Global Sourcing
- Contracts
- Supplier Selection
- Early supplier involvement

Operational Approach

Buying / Purchasing

Logistics

Material Management

Operational Functions

- Invoice clearence
- Forecasting
- Time
- Quantity
- Delivery
- Purchase Order
- Import and Custom issues
- Availability
- Trouble Shooting

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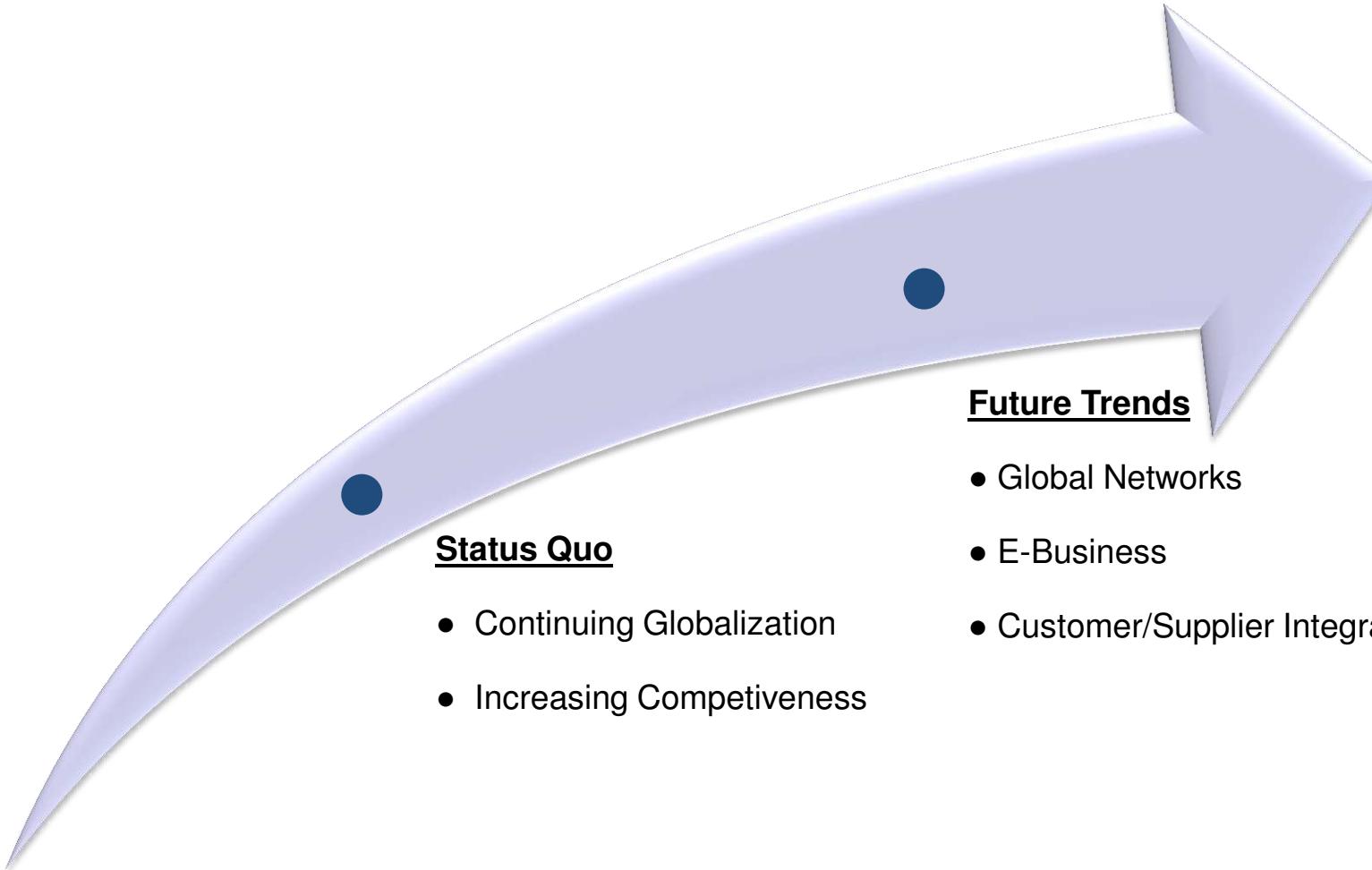
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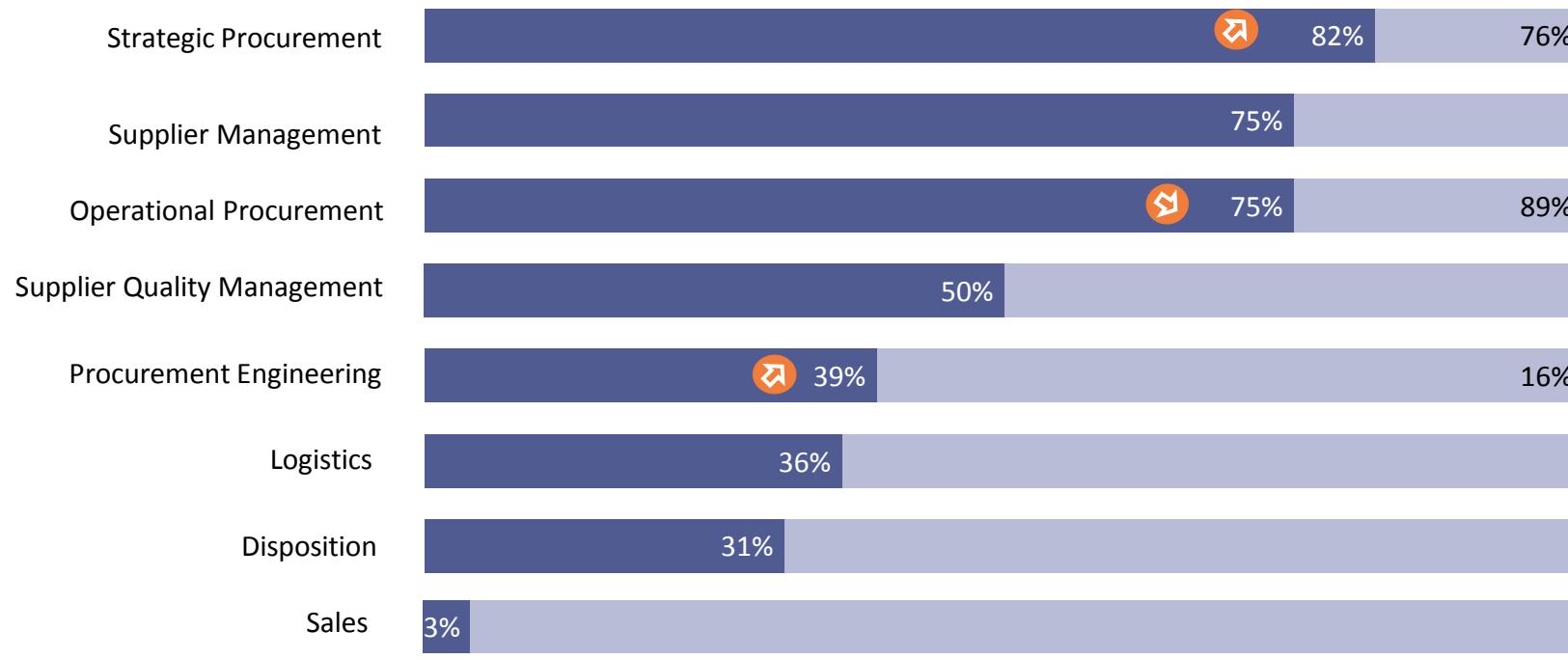
Sourcing Strategy

Global Sourcing

Future Trends on International Procurement



Functions of the purchasing department



(in % of questioned companies, multiple answers allowed)



Development
since 2003

Source:

International Procurement in Emerging Markets
– Discovering the drivers of sourcing success (2007)

Globalization and its Effects on International Procurement

Sales Management

Expand Business

Access new markets



International Procurement

Competitive Advantage

Core Element to compete with
other global Players

Globalization is not only sales-oriented, but Global Supply Chain Management and therein embedded International Procurement are becoming a key factor to guarantee a sustained competitive advantage and is a core element to be able to compete with other global players on global markets.

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Customer Expectations



Cost Leadership

- Reduce costs sustainably

Differentiation

- Realize a higher degree of differentiation

With help of IP the key concept of mass customizing as a hybrid competitive strategy can be realized with greater ease.



Unique Selling Proposition (USP)

Coming up to the customers expectations must be the highest aim of the company. Therefore, the customer must be integrated in the supply chain. To reach a Unique Selling Proposition, the strategies cost leadership and/or differentiation must be followed. International Procurement can help to realize these strategies.

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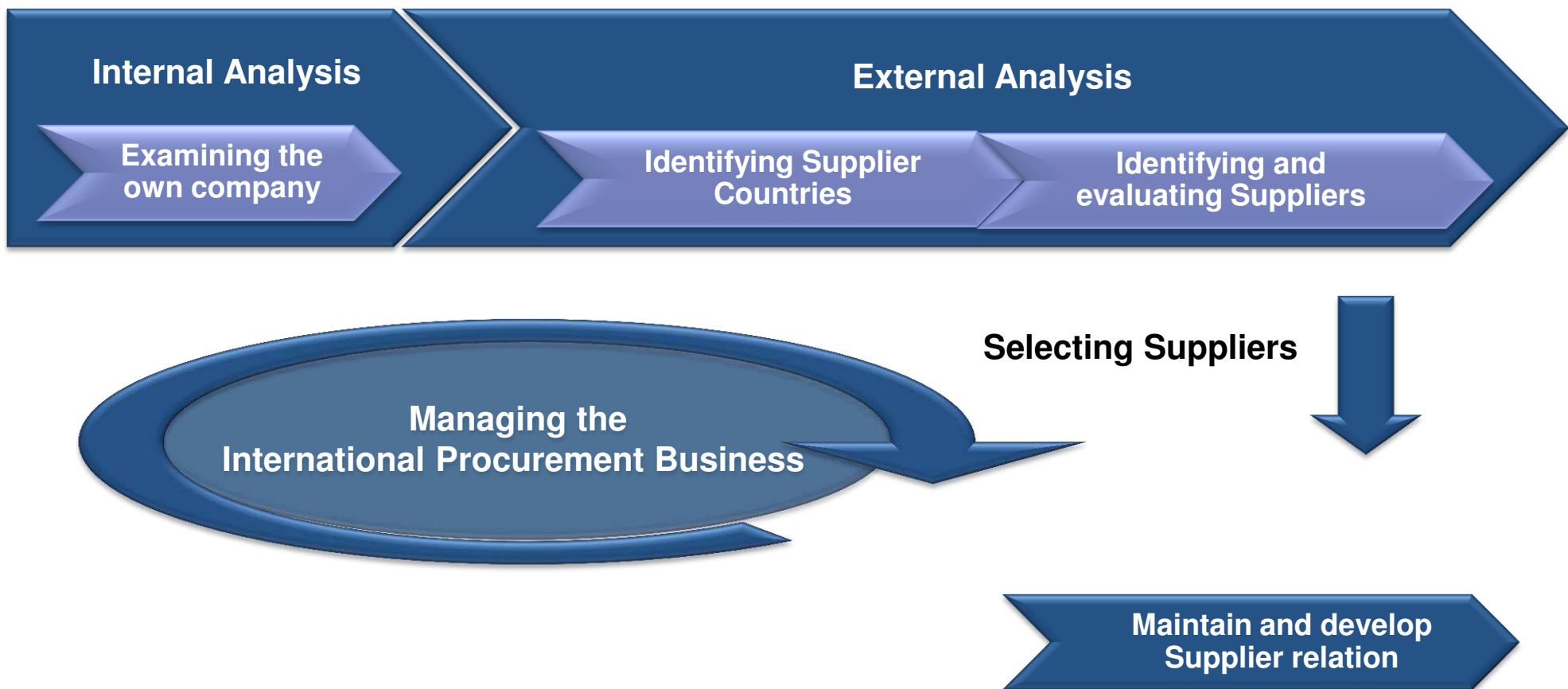
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The Process of International Procurement



The internal analysis is the actual nascence of the IP-Process.

The external analysis describes the searching in order to find the right supplier.

Then the process needs to be attended to guarantee the ideal sourcing situation.

The Process of International Procurement



Process Changes within the Company through Global Sourcing

- Longer delivery lead time/Decrease of flexibility
- Modification of
 - Development concepts
 - Quality systems
 - Cash flow and controlling systems
 - Requirements on Employees
- New tools and methods and the deployment of new information technologies
- Other new procedural specifications/International law of contracts
- Tap new potentials/market/customers/supplier/culture
- Active involvement of the management

The Process of International Procurement



Steps in Supplier Country Identification

- Purchasing strategy must be in line with the sales and production strategy.
- Make clear what potential will be reserved for east european and asian countries.
- Don't split up to much of your purchasing volume over different supplier countries.
- Monitor the development of your supplier countries and always be prepared to look for new markets.

The Process of International Procurement



Steps in Supplier Identification and Evaluation (1/2)

- Supplier- and Customer Support through IPO's (Win-Win Situation)
 - Regular Business-Review Meetings
 - Supplier Selection and Development
 - Request for Quotation (RFQ) in English and related to international standards (no local standards)
- Price Negotiations
 - „The first price is never the right price“
 - Pricing will be given on price and not on complexity
 - Cultural Aspects

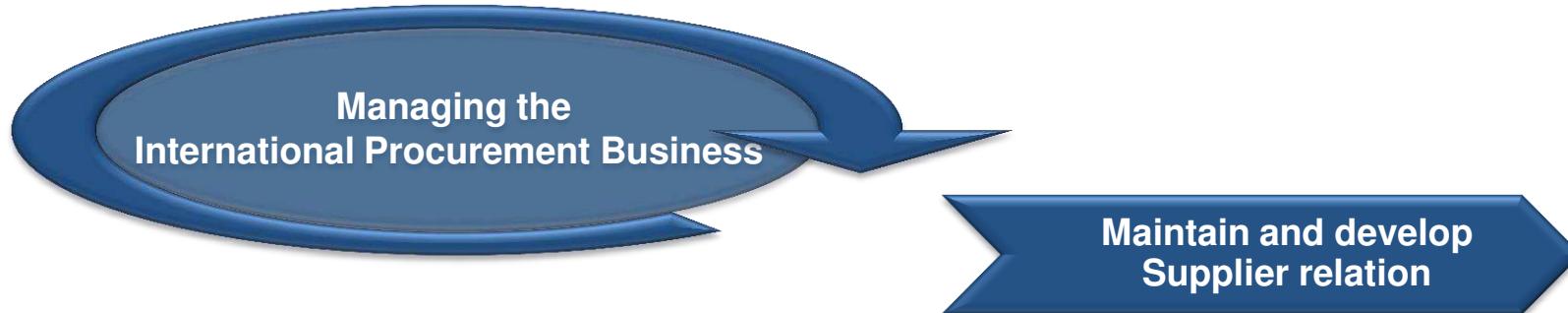
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Steps in Supplier Identification and Evaluation (2/2)

- Quantity and expected purchasing volume must be right.
- Start with products which have a stabil design.
- No simple machined parts / parts with value adding
- Be prepared to discuss alternative raw material.
- Quality agreements have to be signed and
International Purchasing contracts to be established
- Open Cost Discussion
- Cost calculation should be based on TOTAL COST

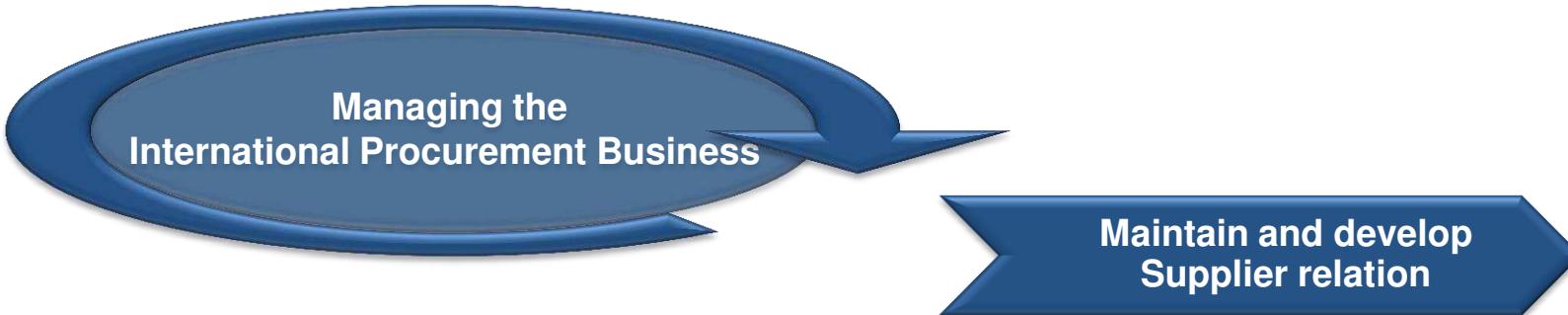
The Process of International Procurement



Things you have to do – to be successful (1/2)

- Close supplier relation
 - Monitor the supplier progress
 - Discuss all requirements and specification in detail with supplier
 - Never trust on given promises from supplier
 - Define quality standards and lay down your quality standards in written quality agreements
 - For critical parts outgoing source inspection at suppliers place is mandatory
- **Global presence is a must**

The Process of International Procurement



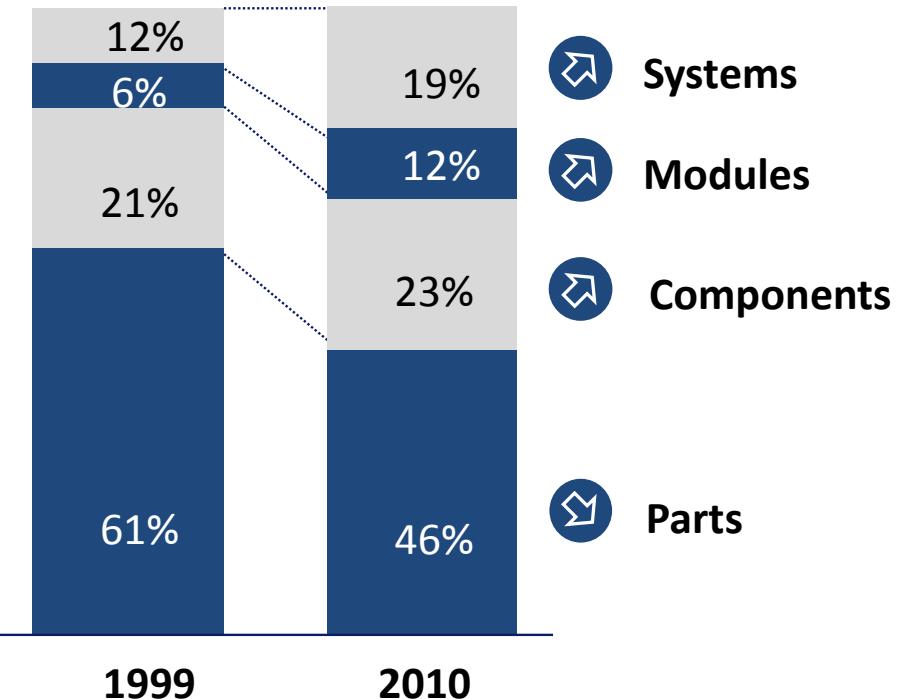
Things you have to do – to be successful (2/2)

- Employees
 - Flexibility, Engagement, ability to work in teams, professional competence, strategic and analytical thinking
 - Knowledge about markets, technique and commerce
 - Skills in foreign languages
 - Empathy
 - Moderator
 - Time for strategic tasks

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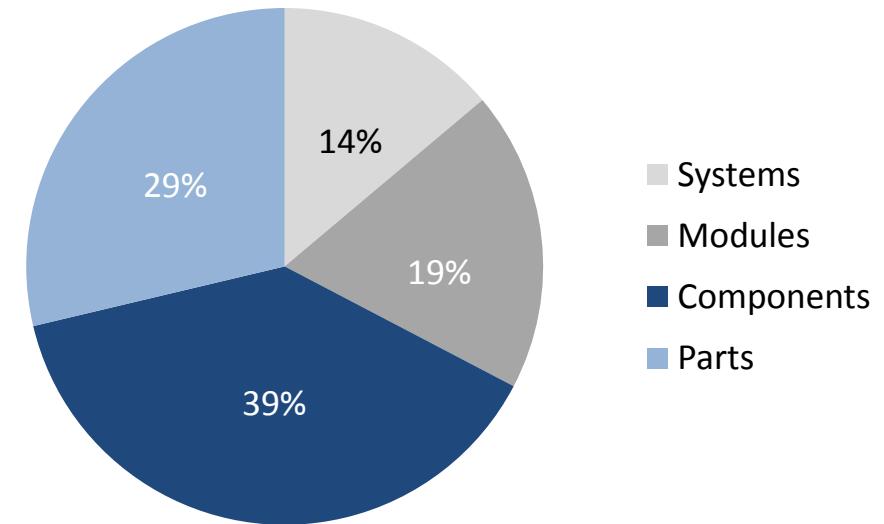


Changes in the Sourcing Behavior



- Systems**
- Modules**
- Components**
- Parts**

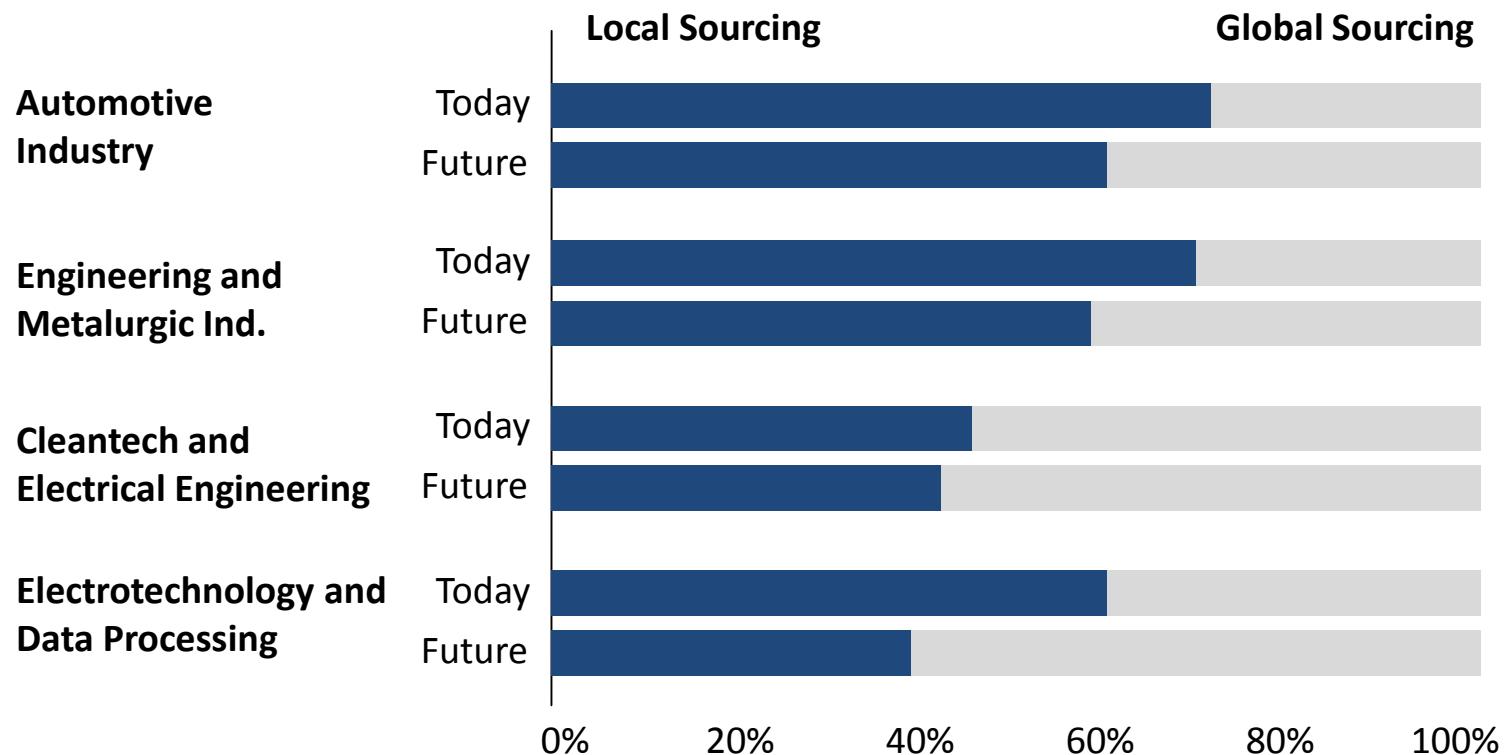
Todays Sourcing Complexity



Source:

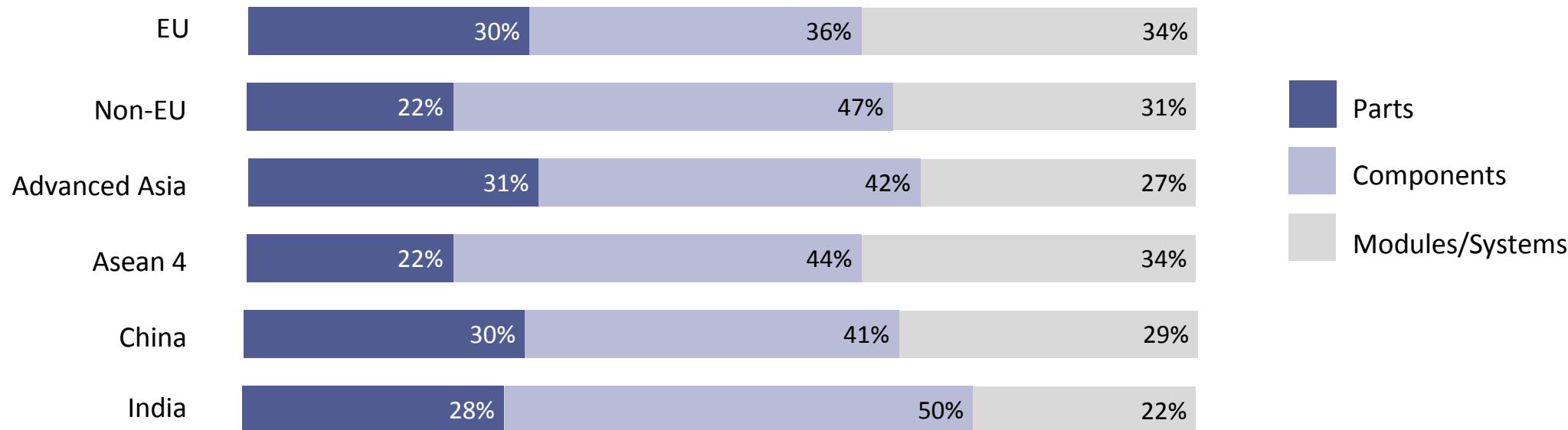
International Procurement in Emerging Markets
– Discovering the drivers of sourcing success (2007)

Changes in the Sourcing Behavior



Changes in the Sourcing Behavior

Sourcing Strategies – Product Related



(in % of questioned companies, multiple answers allowed)

Source:

International Procurement in Emerging Markets
– Discovering the drivers of sourcing success (2007)

Changes in the Sourcing Behavior

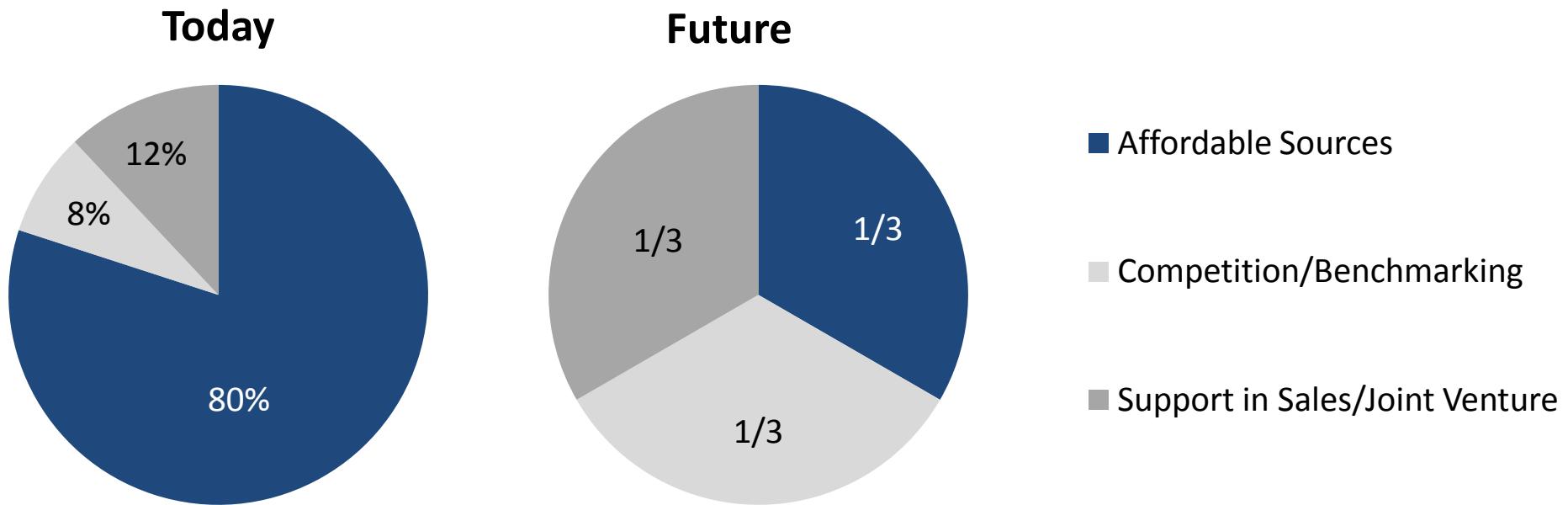


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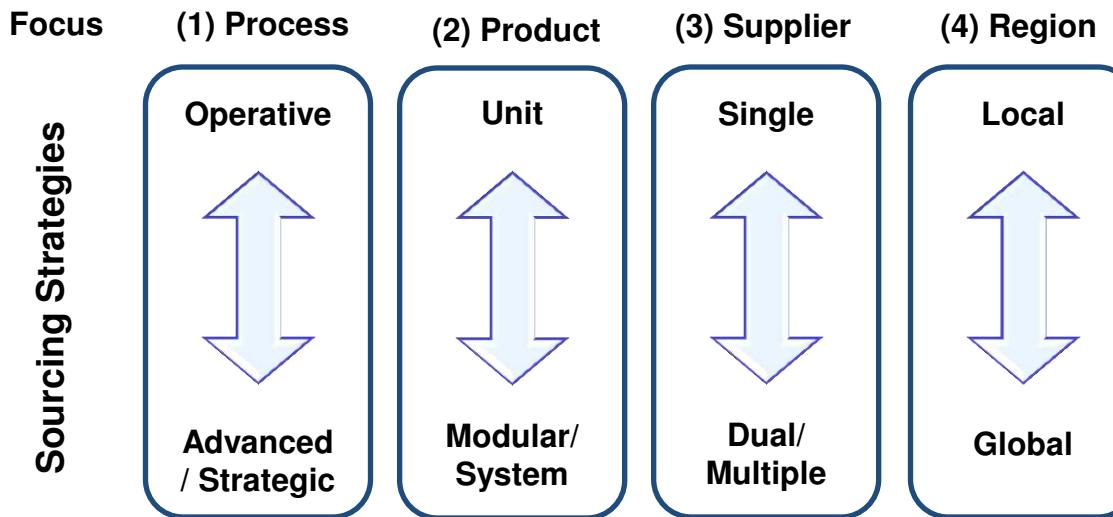
Behavior



Strategies

Global Sourcing

Sourcing Strategies



Sourcing is used in the context of the functional area of procurement. Sourcing strategies can be classified in terms of number of suppliers (total number and number of direct suppliers), the level of competence or geographic proximity. Several strategies might be in use at the same time.

Sourcing Strategies

(1) Focus on Process

Strategic Sourcing

- Longterm
- Helps to ensure future sources (material, products, services)
- Reduces risk of disruption of supply
- Optimises chance of localizing the perfect source
- Sourcing strategies alliances/agreements
- Optimizing the entire value-added process

Operative Sourcing

- Shortterm
- Actual Carrying out of strategic decisions
- Quick decisions due to rapid changes in business process

(2) Focus on Product

Unit Sourcing

- Single Components or parts

Modular Sourcing

- Modules or systems

Termination of Sourcing

International Procurement

Sourcing Strategies

(3) Focus on Supplier

Effects caused by the Number of Sources

Single Sourcing

- Money and time saving
- Better price offers
- Increasing effectiveness
- Higher quality

Double Sourcing

- Double Sourcing
- Higher Transaction Costs
- Lower risk of non-availability

Multiple Sourcing

- Higher Transaction Costs
- Avoidance of Non-availability costs

(4) Focus on Region

Location of Source

Local Sourcing

- Near the customer, JIT-accuracy

Domestic Sourcing

- In the national or domestic market

Global Sourcing

- Worldwide

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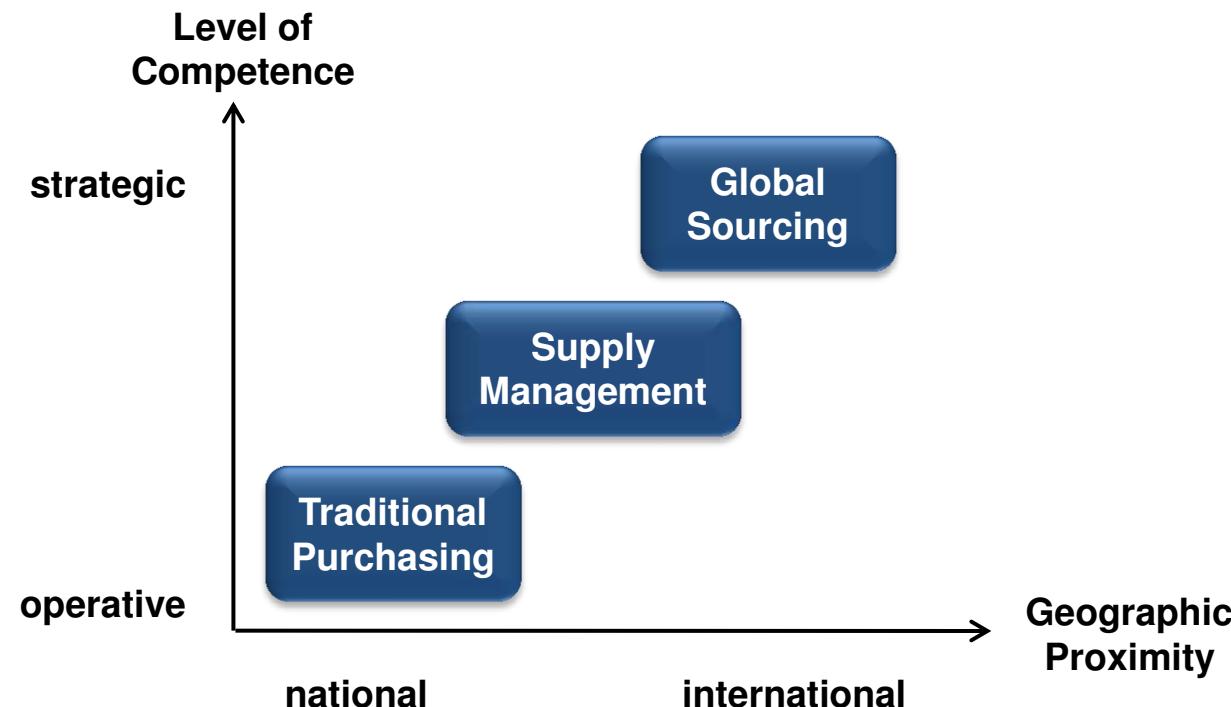


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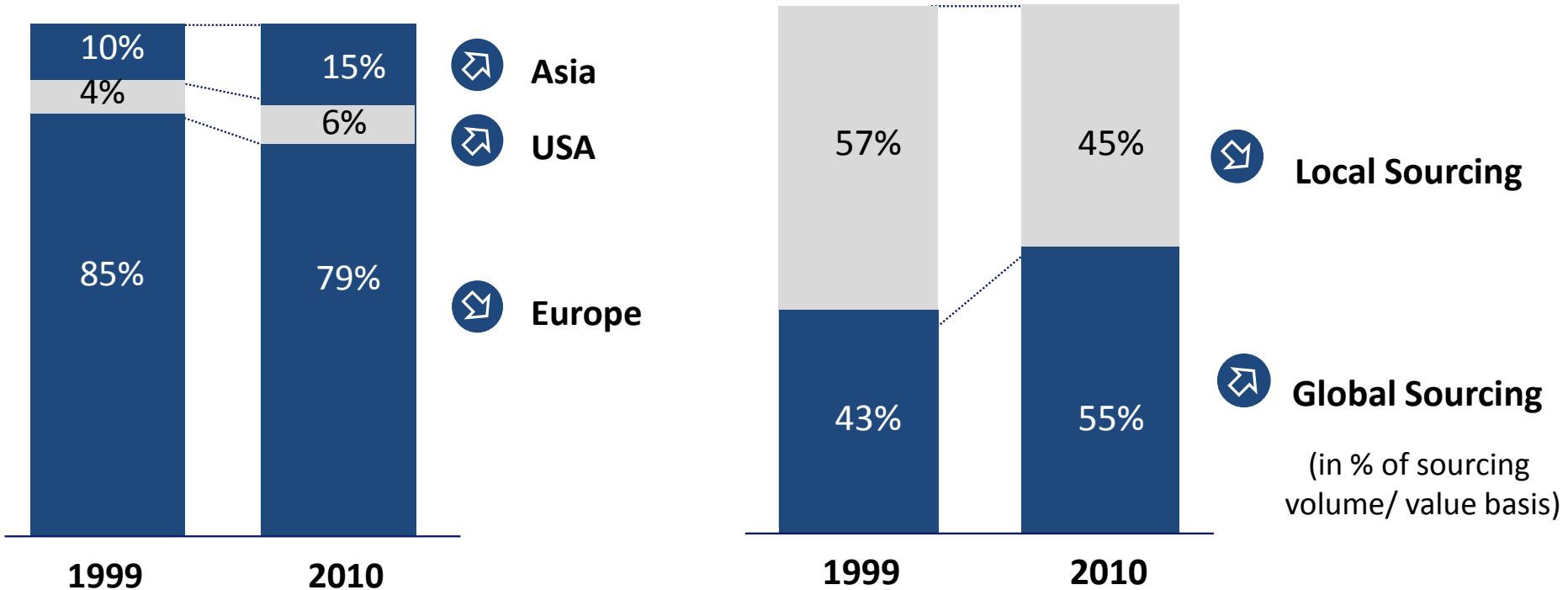


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The Process of Global Sourcing

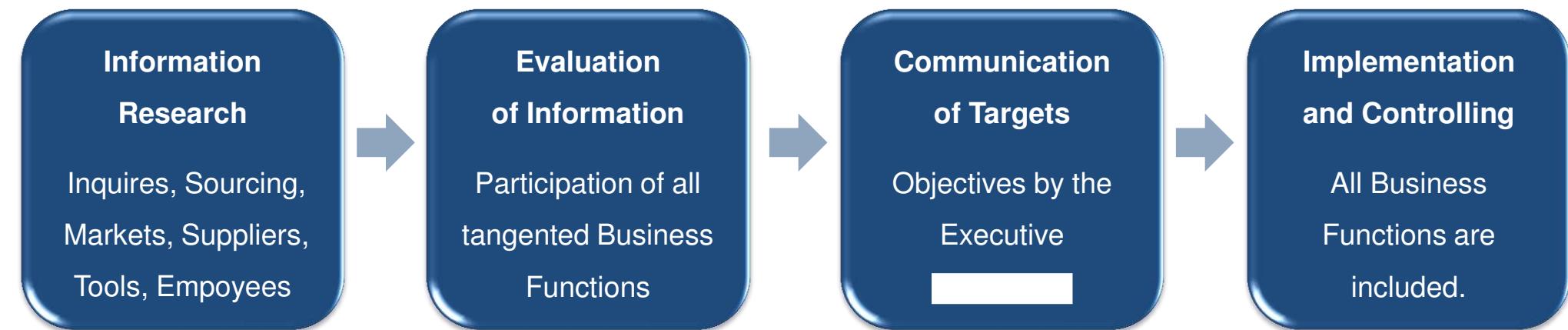


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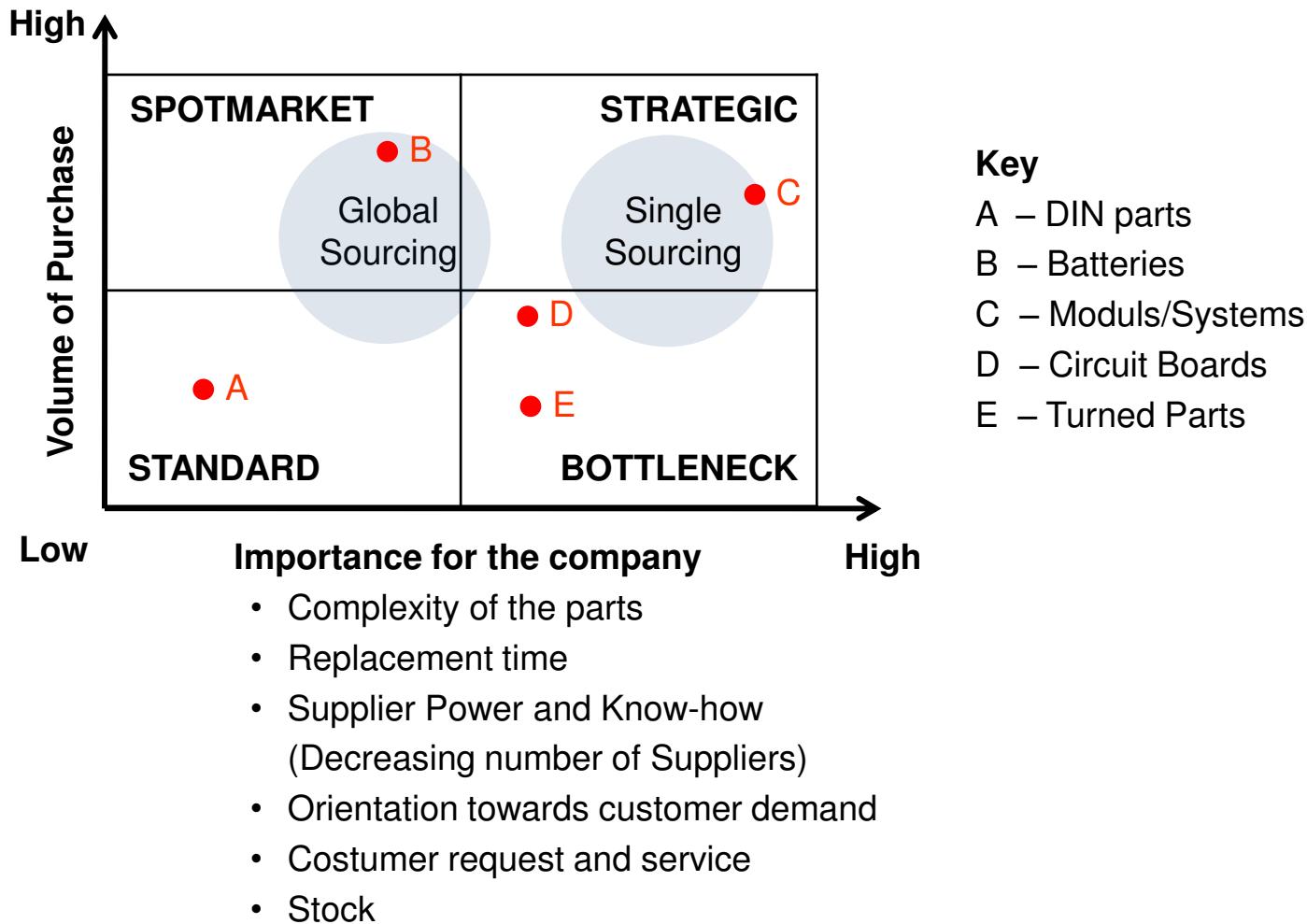
Potential

Organisation

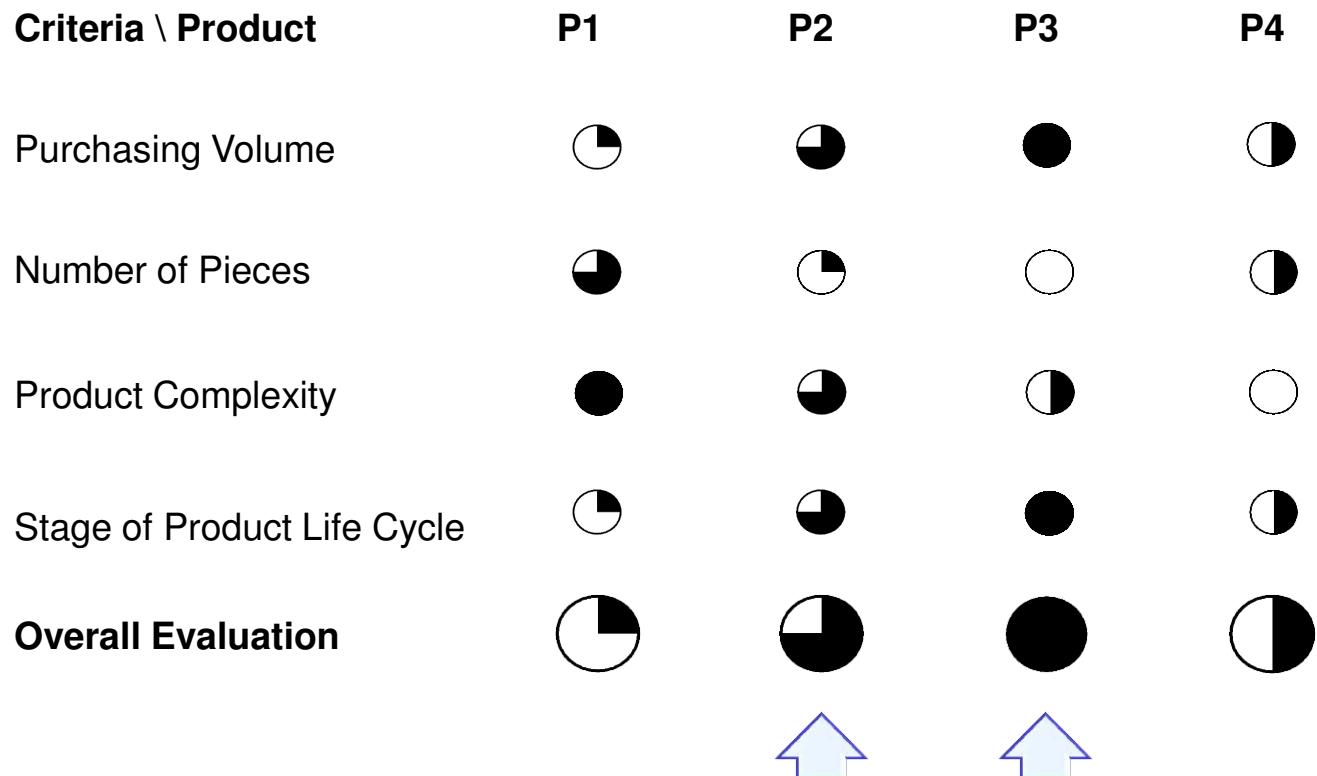
Risk Analysis



Evaluation of Global Sourcing Potential of Parts



Evaluation of Global Sourcing Potential



Suitable Global Sourcing Products

Global Sourcing Potential

very high

high

medium

little

very little

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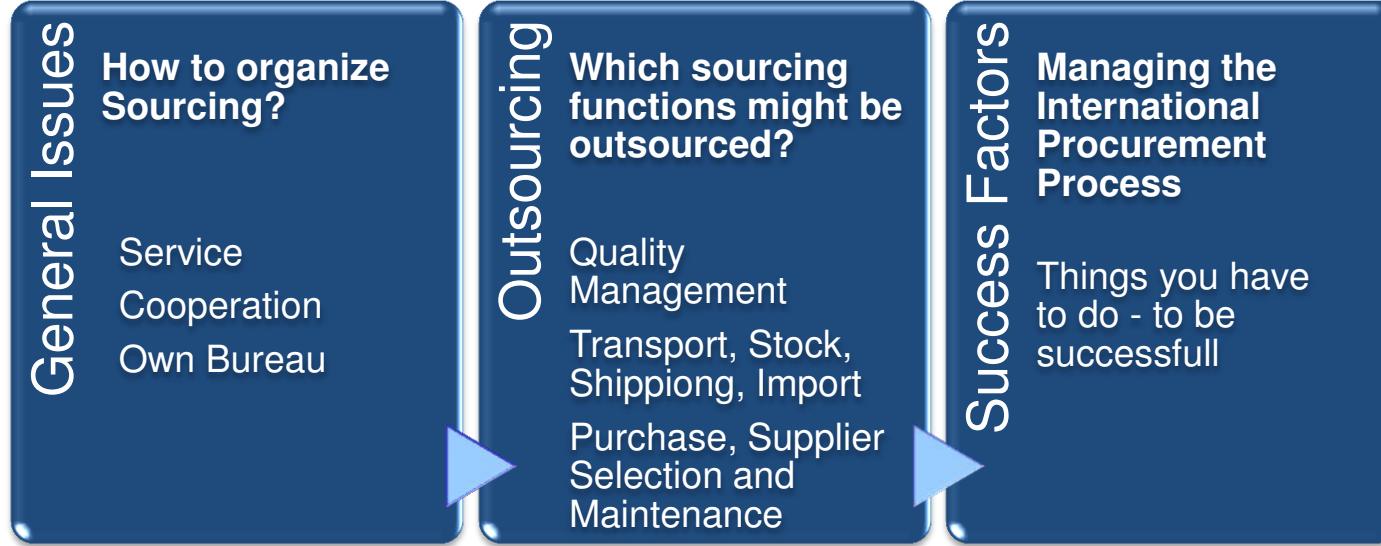
Risk Analysis

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Organisational Requests on Companies



How to organize sourcing?

	(1) Service	(2) Cooperation	(3) Own Bureau
Purchasing Volume	< 1 Million EUR/year	1-10 Million EUR/year	> 10 Million EUR/year
Costs	1-3T EUR/month	50T EUR/year	250T EUR/year
Advantages	<ul style="list-style-type: none">• Short obligation• High flexibility• Possibility to use several IPO's• Low costs	<ul style="list-style-type: none">• Medium termed obligation• Better controll• Accomplishment of strategic tasks	<ul style="list-style-type: none">• Complete controll
Disadvantages	<ul style="list-style-type: none">• Low individuality• No accomplishment of strategic tasks		<ul style="list-style-type: none">• Long termed• High Effort• High cost and risk

How to organize sourcing?

(1) External Service Provider

- Logistic Partner
- International Carrier
- International Procurement Offices
 - Consulting and local support
 - Honkong and Singapur has more than 100 IPOs
 - Knowledge about worldwide sourcing markets and international contract law
 - Supplier Selection and – assesement
(Benchmarking, Comparisson of different offers, Contract Negotiation, Audits, Reclamations, Joint Venture and Sales Support, Expediting)
 - Supplier Management
(Pooling of Demands)
 - Total Cost of Ownership
 - Qualification and advanced training of employees

Requests on the companies

(3) Own Bureau

- Formation of a Global Sourcing Organisation and a Competence Center in the factory
- Distinct central from decentral tasks
- Integration of Know-how
 - Coordination
 - Controlling
- Management of Human Ressources
- Acceptance in company

Head Office

Global Sourcing – Strategy Manager

- Determination of Instruments and Processes
- Controlling
- Recognise Synergies
- Coordination with Competence Centers



Factory

- **Operative Purchase**
 - Disposition
 - Administration
 - Amount, Time, Availability
- **Competence Center**
 - Coordination with other Factories
 - Administration of interdisciplinary teams
 - Contracts
 - Market Analysis
 - Evaluation of Factory and Suppliers
- **Production, Research and Development, Quality Management, Sales**

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Source: TU Berlin / BVL
Study 2007 – International Procurement in Emerging Markets

Risk Analysis in Global Sourcing



Helpful Chances

Opportunities to achieve the objective

Price-Advantages

- Labor costs, subsidies and tax advantages

Anticyclic Purchasing

- Exchange Markets, stock/capacities
in times of Boom or Recession

Special Product Knowledge leads to Innovation

- Electronic and Computer
based products in Asia

Sales Expand and Support

- Purchaser-Knowledge about market structures
e.g. import constraints
(Amount of Local Content)

Flexibility

- Purchased goods can increase the production
output in times of increasing market demand

Harmful Risks

Threats to achieve the objective

Communication problems

- Mindsets (effectivity, timeliness, accuracy), negotiation tactis, education systems and professions, technical standards

Legal Norms and Adminstrative Regulations

- Obligatory relations, purchase agreements

Safety

- Security of supply, Damage of goods because of a longer transport route, Hazard of strike, political instability
riots and confiscation; Quality vacillation; Environment
(Climate: natural disasters, earthquakes, hurricanes etc.)

Others

- Time between order and consignment, stocks, Customer- and Repair-Service , Life-Cycle Management, Stock Market,
- Supplier Development, Loss of Technology (Know-how, Patents, Technical Drawings, Methods)
- Social Setting (Vacations, job-guarantee)

Thank you

Thank you for your attention.