



Trading Overseas - Sustainable Procurement

Dominic Limbrey

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Agenda



- Procurement Challenges
- Checklist To Success
- Trading Options
- The Procurement Cycle
- Practical Steps
- Case Studies
- Luck and Fortune

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Procurement Challenges



Barriers to Entry can be High

Sourcing

- Accessing the supply market
- Benchmarking and keeping tracking of market changes
- Keeping track of suppliers financial standing

Project Management

- Communication – language and time differences
- Cultural awareness – knife & fork vs chopsticks

Supplier Quality Assurance

- Ensuring specifications are understood and no assumptions made
- Managing and maintaining quality standards

Scheduling & Logistics

- Managing an off-shore supplier base
- Scheduling shipments to arrive on time
- Container utilisation

Engineering & Value Management

- Identifying and removing inefficiencies
- Managing risk – price erosion and cost escalation

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A Checklist to Success



<i>Robust Procurement Process</i>	
Sourcing	<ul style="list-style-type: none">• Spend time in the country – develop relationships• Understand the market and cost drivers• Benchmark, set target prices, negotiate, agree payment terms etc• Establish a local contact with language, culture & technical know-how
Project Management	<ul style="list-style-type: none">• Appoint a Project Mgr - planning, communication & relationships• Provide detailed drawings, specifications & samples• Manage tooling set-up and pre-production samples• Be responsive
Supplier Quality Assurance	<ul style="list-style-type: none">• Conduct supplier audits, documentation & sample approval• Implement QA process management incl. FMEA and QC• Monitor loading & pre-inspect shipments
Scheduling & Logistics	<ul style="list-style-type: none">• Find the right logistics partner(s)• Packaging is important – your product has a long way to travel• Co-ordinate shipping, inspection & documentation• Ensure supplier has necessary export licence
Engineering & Value Management	<ul style="list-style-type: none">• Conduct detailed cost analysis & cost management• Manufacturing flow process, product & process specification analysis• Continuous improvement



Trading Options



- **Establish a company in region**
 - Representative office or trading company
 - Set-up and ongoing operational costs – legal, accounting, administration & tax, office & IT infrastructure, employees & training, travel expenses
 - Scale and volume to justify investment
- **Use a third party**
 - Manufacturer, agent, distributor / wholesaler, consultant or trader
 - Find via trade shows, directories, websites e.g. Alibaba.com or referral
 - Target market is typically standard products
- **Work with services companies**
 - Long-term relationship offering value added services
 - Typically an extension of your procurement, scheduling and engineering / QA teams
 - Sustainability and total acquisition cost focused



The Procurement Cycle



- Research & Preparation
- Sourcing
- Cost benefit analysis
- Implementation
- Steady state supply
- Continuous improvement
- Benchmarking



Practical Steps



- Specification definition
 - Drawings
 - Samples and Mating Parts
 - Material and finish specifications
 - Product and process standards
- Supply Market Analysis
 - Local, Regional, Global
- Total Acquisition Cost Analysis
 - Know your costs and what drives them
- Advanced Quality Planning
 - Know what you need before Supplier Assessments
 - Known problems, FMEA, CMM+AQL = QC plan - Supplier QMS
- Operations Management
 - Understand how you need to resource and manage



Case Study – Sports Bag



- A company set out to buy a training bag from China emblazoned with the Welsh flag. One 20' GP of product required. Supplier found, sample approved, 30% deposit paid, 70% settlement paid on dispatch.
- **Product Specification**
 - No clear specification given for colour deviation/ tolerance
- **AQP**
 - No supplier visit or audit
 - No quality control regime agreed or implemented
 - No inspections carried out prior to payment settlement
- **Result**
 - **20' GP of pink dragon bags**
 - **Scrapped and written off whole consignment**



Case Study – Too good to be true



- A company set out to resource a range of tooled components. Drawings and samples supplied, prices negotiated and a fantastic saving for the first shipment – although somewhat delayed
- **Product Specification**
 - Current issue drawing not checked to current issue production
 - Tooling produced to drawing, but drawing wrong
 - Costs escalated for tooling to correct dimensions
- **Pricing**
 - No clear understanding TCB of supplier input costs or TAC – supplier wouldn't share costs
 - Supplier costing errors
 - Supplier 'concession' on first shipment – big price increase for second shipment
- **Result**
 - **Capital investment in tooling written down**
 - **Implementation delayed**
 - **Saving reduced to marginal benefit for extended supply chain**



Case Study – Market Movement



- **A company buying materials on an LME commodity index in China is affected by a massive 50% arbitrage between domestic and global markets. Whilst contracts are based on the LME the supplier has been buying on the domestic exchanges and been caught out. They have an inability to fulfil their contract obligations and have threatened stopping all manufacturing unless agreement can be reached to increase prices on existing orders. At the same time the Chinese government changes export tax legislation.**
- Financial analysis
- Legal opinion
- Schedule fulfilment time allowance
- Resource options
- Risk mitigation
- Leverage and negotiation
- **Whilst a sapling bends in the wind, other trees are blown over.**



Case Study – Value Analysis



- **A company buying wheel assemblies in Asia needs to find value improvements to remain competitive in their marketplace.**
- Cost driver analysis
- Leverage scale on high value bearing component
- Standardise bearing to reduce MOQ and cost
- Update housing body material to engineering plastic
- Simplify manufacturing process to reduce operations
- Changed design allowed more suppliers to compete
- **Overall cost reduced by 50%.**
- **Historical design specifications often need periodic review**
- **Changing design whilst resourcing adds complications but delivers potentially bigger results when working with suppliers openly**



Luck & Fortune



- Luck is about good planning and a moment of opportunity
- Just because things don't go wrong doesn't make it right
- There will always be issues to confront – how they are dealt with defines core strength and expertise
- There are great benefits to be secured from effective procurement
- Effectiveness requires sustainability
- PDCA then do it again



3o - Who Are We



3o is an international procurement services company with offices in the UK, China and Australia and associates in Malaysia. We help organizations overcome the challenges and risks associated with sourcing in Asia through our integrated and end-to-end procurement service capability.

Our service-focused team aims to deliver sustainable value to our customers through achieving the lowest total acquisition cost via our network of suppliers and by aggregating throughout the supply chain.

Our service team includes:

Purchasing, Scheduling, Engineering and Quality

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