

Sourcing beyond China: The emerging market in India

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The Brief

- Legislation
- IP rights
- Cost of labour and resources
- Quality control
- Sustainability
- Ethical standards
- Cultural differences
- Exchange rates
- Custom duties
- Transportation infrastructure

PWC Global Sourcing Strategies Survey 2008

- Focused on sourcing of products/ goods and materials only
- Respondents:
 - From companies sourcing less than US\$60 million to those sourcing more than US\$10 billion
 - From 8 countries: Australia, Canada, China, France, Germany, India, the UK and the USA
 - Responsible for their organisation's sourcing activities such as supply chain director, sourcing and logistics director, global procurement director and vice president of procurement.
 - From a range of sectors: 53% from retail and distribution, 24% from food and beverage, 7% from textiles and clothing, the rest from fast moving consumer goods and durable goods

PWC Global Sourcing Strategies Survey 2008

- Global sourcing is dynamic and growing
- Cost is the key driver, key threshold requirement but not the only compelling reason
 - 73% cite cost as main driver for global sourcing
 - Only 2/3 believe cost savings are realised while 1/3 source globally because everyone else does too
- But, sourcing companies lack effective procedures to measure and track actual savings
 - 21% do not know what to expect to save
 - 25% do not know what they really save

PWC Global Sourcing Strategies Survey 2008

- Product quality
 - 90% cited it as the highest future priority
 - But low confidence regarding effective management of the risk of product safety
 - Only 47% very confident while 36% only somewhat confident or not very confident
- Risks cited
 - Product quality 68%
 - Control 49%
 - Compliance 46%
 - Reputation 39%
 - Efficiency 37%

Sourcing Considerations

- Supply chain integrity
 - Physical
 - EPC (engineering, procurement, construction)
- Cost
 - Exchange rates, tariffs, cost of resources and labour, transportation infrastructure
- Quality
- Culture

Sourcing Consideration: Supply Chain Integrity

- Physical integrity
 - Legislation, regulation, compliance
 - IP rights
 - Berne Convention (copyright) since 1928, WTO/TRIPS (IPR in general) since 1995, Paris Convention (priority rights) & Patent Cooperation Treaty (patents) since 1998
 - Madrid Protocol (trade marks) – accession expected
 - Hague Agreement/Geneva Act (designs) – non-member
 - International image less than ideal, so caveat emptor
 - Recourse to law works

Sourcing Consideration: Supply Chain Integrity

- Physical integrity
 - World Economic Forum report world competitiveness (better*)
 - Property rights: China ranks 64, India 43*
 - Judicial independence: China ranks 62, India 25*
 - Ethics and bribery
 - Transparency International's Indices (better *)
 - Corruption Perceptions Index (2009): China 79*, India 84
 - Bribe payers Index (2008): China 6.5, India 6.8*

Sourcing Consideration: Supply Chain Integrity

- EPC integrity
 - Sustainability/ environment
 - Influence of buyer country regulation on emissions
 - World Bank research:
 - Mixed data on “pollution haven” hypothesis
 - JVs with OECD nation partners not attracted by low environmental levies
 - Ernst & Young’s Global Renewable Energy Country attractiveness 2009 by investment
 - China 2nd, India 4th
 - Greenpeace pre-Copenhagen ranking of global ‘green’ leaders 2009
 - China’s Hu Jintao 3rd, India’s Dr Manmohan Singh 4th

Sourcing Consideration: Cost

- Exchange rates and currency control
 - RBI actively trades US\$ but INR not pegged to any currency
 - Trade based intervention to control volatility
 - No artificial controls such as China's of Renminbi/ US\$ rate
 - Capital controls for businesses & households
 - Slowly moving to de facto full convertibility
- Export incentives
 - EPZ since 1965
 - SEZ since 2000

Sourcing Consideration: Cost

- Input costs
 - Labour
 - Most important non-traded input in manufacturing
 - Competitiveness focuses on lower unit labour costs (ULC)
 - Kaldor Paradox: exports & relative ULC tend to move together
 - Managing labour
 - Management skills
 - Educated employees at entry, middle and senior levels
 - Raw materials
 - India exports to China

Sourcing Consideration: Cost

- Input costs
 - Power
 - Indicative power cost per 1000 kWh: US\$ 73 in China, US\$ 97 in India
 - Water
 - Industrial use water per kL: US\$ 0.19-0.9 in China, US\$ 0.175 – 1.5 /kl in India
 - Transportation
 - Railways and road infrastructure
 - Average freight cost in China is US\$ 0.013 per tonne per km compared to US\$ 0.2 in India (FICCI study, 2009)

Sourcing Consideration: Quality

- “Fitness for purpose”
- Conformance and performance
- Measured by producers, customers and consumers but differently
- Exporters comply with export quality control laws as well as international methods and standards such as TQM/ 6σ/ ISO9000/ ISO14000/ CMM
 - Part of supplier due diligence
 - Use of on-site pre-shipment customer inspectors common
 - Competent and trained professionals

Sourcing Consideration: Culture

- The easy bits
 - Historic links hence shared legal and commercial culture
 - Familiar processes
 - Mutual comfort with over 1.5 million Indians living in UK
 - Common language of commerce, education and social interaction
- The not-so-easy bits
 - Nuanced but fathomable diversity

So what about value-add?

- Indian GDP ~ US\$ 3.3Trillion (PPP)
 - Services: 54% of GDP, 28% of workforce
 - Industry: 29% of GDP, 12% of workforce
- Two trends
 - 2nd largest producer: fruit & vegetables, cotton, rice
 - Food production and food processing hubs
 - Blurring distinctions
 - Manufacturing and services/ Hardware and software
- Whither value-add?
 - Bio-agriculture
 - Biogenerics, bio-similars, bio-betters (and bio-IT)
 - ‘Smart’ products i.e. telematics, automation, embedded software

Open for business?

- 2nd most optimistic (survey of privately held businesses in 26 nations, Grant Thornton, 2010)
- 2nd most optimistic in consumer confidence (Nielsen, 2009)
- Most optimistic in employment outlook (Manpower, 2008)
- 2nd most optimistic BRIC nation ahead of China (KPMG, 2008)
- 7th most optimistic overall (China 3rd; TNS-Gallup, 2008)

About me

- Independent consultant for over a decade
- Interdisciplinary training in
 - Engineering
 - Management (IIM Ahmedabad)
 - Technology policy (University of Cambridge and MIT)
 - Doctorate in decision making (University of Cambridge)
- Experience in corporate venturing, capital and market access, cross-cultural relationships