



China/Asia Sourcing Landscape and Implications for Global Supply Chains

For CHAINA'14 Live

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The Beijing Axis (TBA) is an international advisory and procurement firm



- Established in 2002, The Beijing Axis:
 - Supports our clients' international initiatives with cross-border advisory and procurement solutions
 - Thrives in dynamic and challenging emerging and frontier markets
 - Emphasizes strategy implementation, focused on 'actions and transactions'
 - Collaborates with clients and provides integrated solutions across their value chain
- The Beijing Axis has formed a strategic partnership with Imperial Logistics, which creates an end-to-end, integrated supply chain from Asia to Africa and vice versa
- The Beijing Axis Africa has been integrated within Resolve, an Imperial Logistics company. Resolve is a newly formed venture that merges Imperial Group companies Volition, e-Logics and associated Consulting, Technology and Managed Services businesses within the group



CIPS and The Beijing Axis Unite to Enhance the Procurement and Supply Profession in China and Hong Kong

Sunday, 08 June 2014 16:01



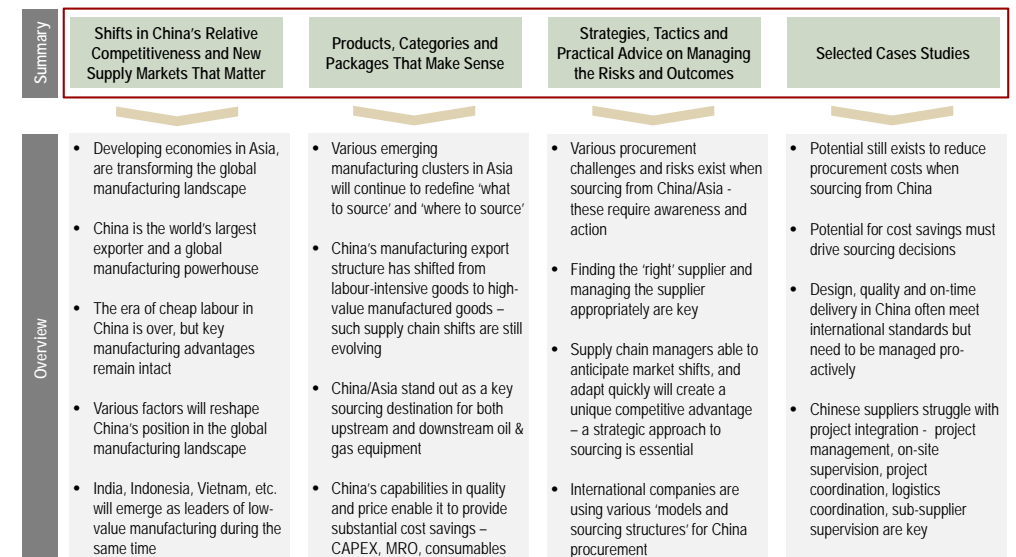
BEIJING – 9 June 2014 – The Chartered Institute of Purchasing & Supply (CIPS) has partnered with The Beijing Axis (TBA) to strengthen and support the procurement and supply profession in mainland China and Hong Kong.

The Beijing Axis has extensive experience in servicing the procurement needs of multinational companies and established platform and networks in China and Asia. CIPS expertise lies in developing the procurement and supply management profession through specially-designed training, qualifications, products and services. The combined team will have the ability to better serve the mainland China and Hong Kong markets through a focused programme that synthesises global best practices with local delivery.

Established in 1932, CIPS is the dynamic champion driving the global procurement and supply management profession and promotes licensing the profession, which encourages the advancement of best practice in the profession. As the world's largest institute of its kind, CIPS was awarded a Royal Charter in 1992 and is a not-for-profit body with offices in the UK, Africa, Australia, Middle East and North Africa (MENA), and Singapore, while expanding its presence in China. CIPS clients include China Light & Power (CLP), Caterpillar and American Express.

Full press release can be found at www.thebeijingaxis.com.
 For more information, please contact: barbieco@thebeijingaxis.com

At the highest level



Agenda

1. Shifts in China's Relative Competitiveness and New Supply Markets That Matter

2. Products, Categories and Packages That Make Sense

3. Strategies, Tactics and Practical Advice on Managing the Risks and Outcomes

4. Selected Case Studies

5. Final Word

Why and Where?

What?

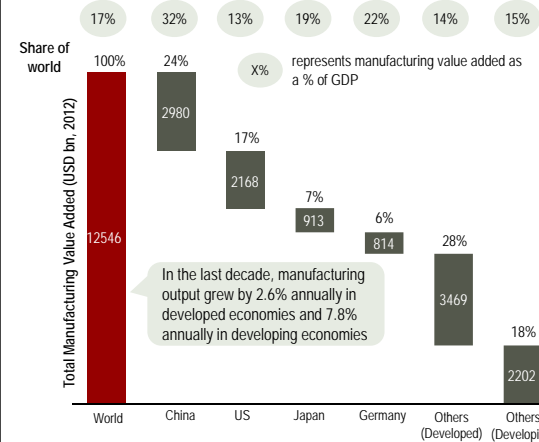
How?

Are we really sure?

Why and where?

Developing economies led by China, India and Indonesia are transforming the global manufacturing landscape - expect the trend to continue

Global Manufacturing by Gross Value Added (USD bn, 2013)



Top Manufacturers by Nominal Manufacturing Gross Value Added (1980-2030F)

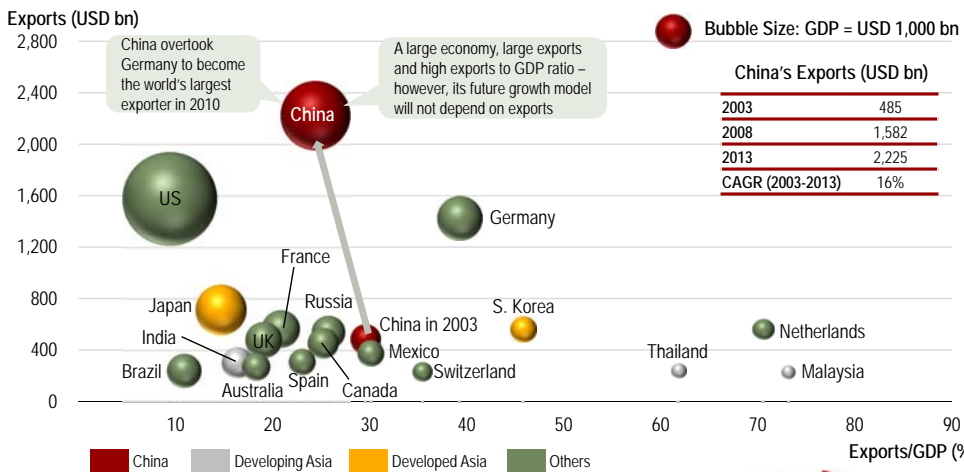
Rank	1980	1990	2000	2013	Gross Value Add (USD bn)	2030F*
1	United States	United States	United States	China	2980	China
2	Germany	Japan	Japan	United States	2168	United States
3	Japan	Germany	Germany	Japan	913	Japan
4	UK	Italy	China	Germany	814	Brazil
5	France	UK	UK	South Korea	379	India
6	Italy	France	Italy	Italy	324	South Korea
7	China	China	France	Russia	322	Germany
8	Brazil	Brazil	South Korea	Brazil	297	Indonesia
9	Spain	Spain	Canada	France	273	Russia
10	Canada	Canada	Mexico	India	263	Mexico
11	Mexico	South Korea	Spain	UK	255	Italy
12	Australia	Mexico	Brazil	Mexico	219	France
13	Netherlands	Turkey	Taiwan	Canada	218	UK
14	Argentina	India	India	Indonesia	208	Canada
15	India	Taiwan	Turkey	Spain	181	Thailand

Note*: 2030 rankings are based on The Beijing Axis forecasts
Source: World Bank; IMF; CIA Factbook; The Beijing Axis Analysis

Why and where?

China's importance to the global economy is illustrated by its position as the world's largest exporter – driven by its manufacturing sector, it has rapidly outstripped developed markets

World's Major Exporters (2013)

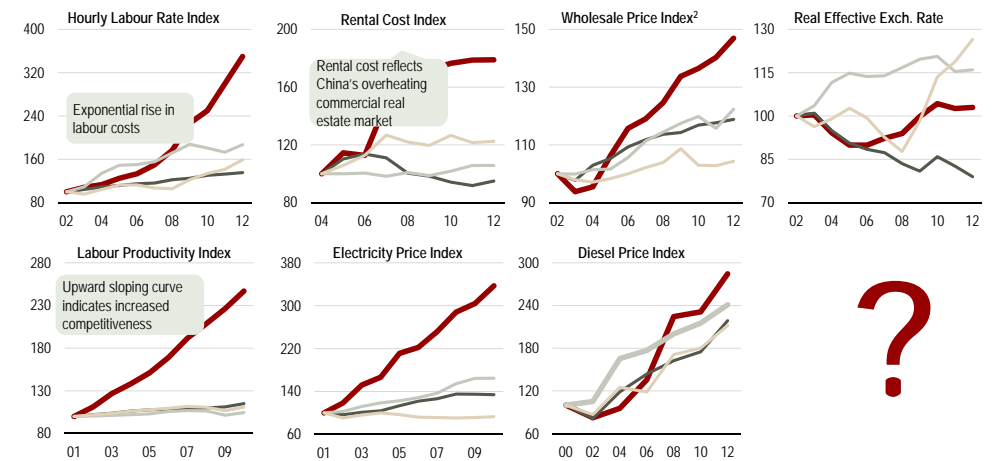


Source: World Bank; IMF; UN Comtrade; The Beijing Axis Analysis

Why and where?

China's manufacturing competitiveness among developed markets remain intact despite a narrowing gap in labour costs, increased industrial land costs and rising electricity costs

Cost Input Comparison Between China and Developed Markets¹

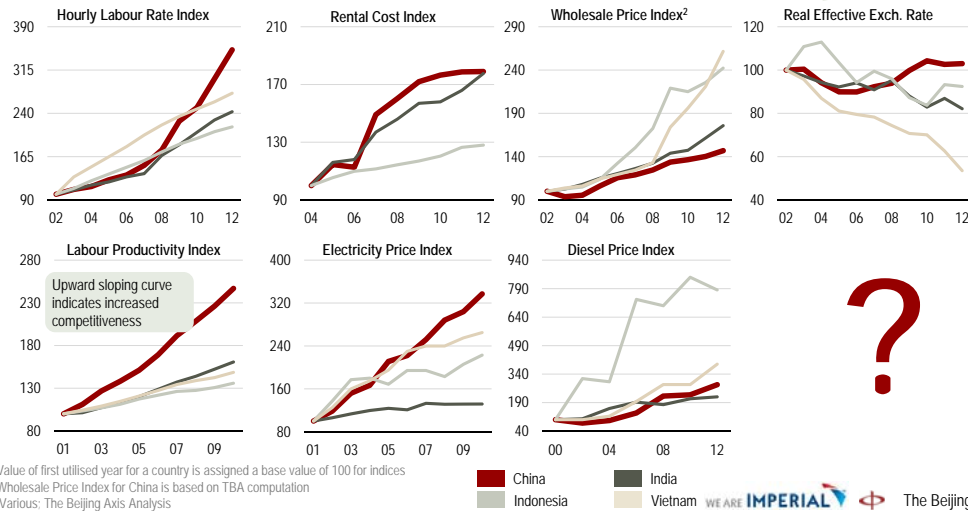


Note 1: Value of first utilised year for a country is assigned a base value of 100 for indices
Note 2: Wholesale Price Index for China is based on TBA computation
Source: Various; The Beijing Axis Analysis

China's manufacturing competitiveness has begun to partially erode recently due to increasing labour costs, real estate costs, and rising inflation - is there a next China in Asia?

Cost Input Comparison Between China and Other Asian LCC Markets¹

Compared to other LCCs in Asia, China has seen greater increases in both hourly labour rates and labour productivity

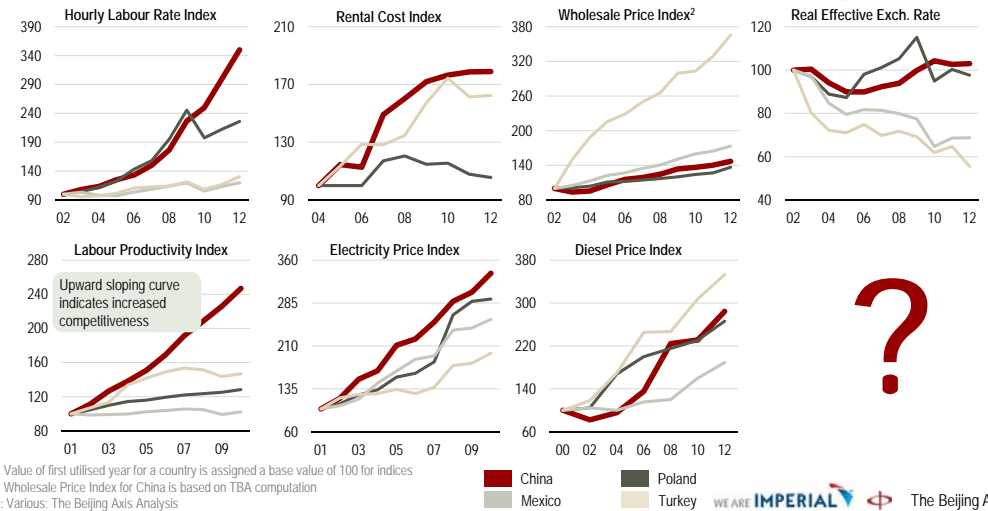


Note 1: Value of first utilised year for a country is assigned a base value of 100 for indices
 Note 2: Wholesale Price Index for China is based on TBA computation
 Source: Various; The Beijing Axis Analysis

China's manufacturing competitiveness has begun to partially erode recently due to increasing labour costs, real estate costs, and rising inflation - is there a next China elsewhere?

Cost Input Comparison Between China and Other Non-Asian LCC Markets¹

Increases in cost inputs for manufacturing is a global phenomenon and can be seen in other LCCs worldwide

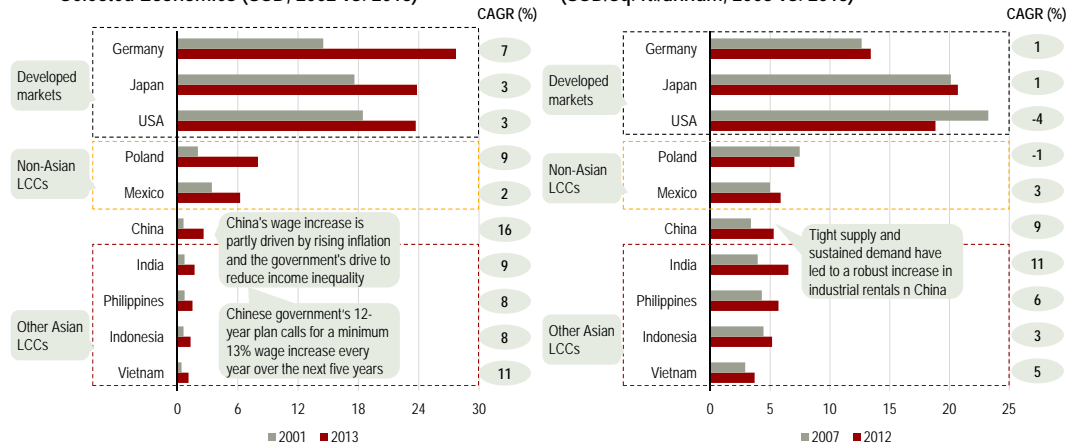


Note 1: Value of first utilised year for a country is assigned a base value of 100 for indices
 Note 2: Wholesale Price Index for China is based on TBA computation
 Source: Various; The Beijing Axis Analysis

Although manufacturing input prices have increased in China, they are still low in absolute terms when compared to other manufacturing powerhouses

Average Hourly Manufacturing Wage Comparison in Selected Economies (USD, 2002 vs. 2013)*

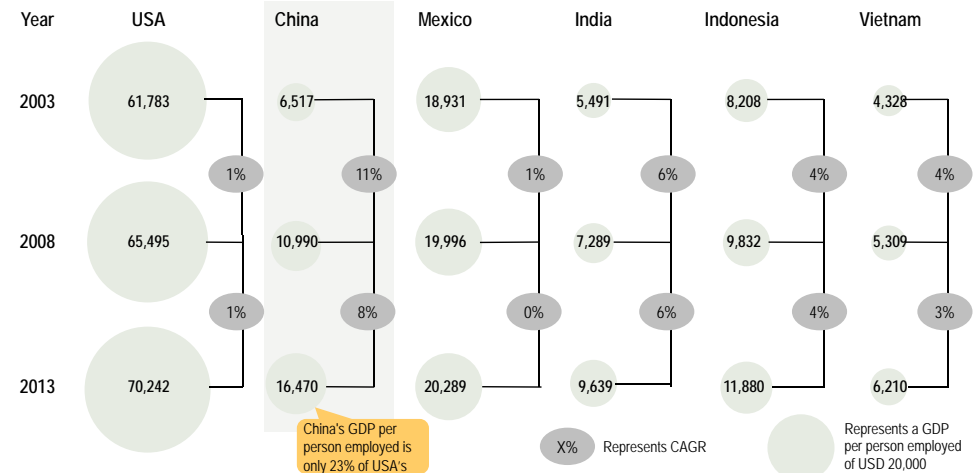
Average Industrial Rentals in Selected Economies (USD/sq. ft./annum, 2008 vs. 2013)



Note*: Hourly manufacturing wage is computed using total manufacturing compensation, which includes compensation related to all employees in the manufacturing sector and includes (1) direct pay and (2) employer social insurance expenditures and labour-related taxes
 Source: Bureau of Labour Statistics; National Bureau of Statistics; CBRE; The Beijing Axis Analysis

China's labour productivity has improved significantly over the past decade but it is still far lower than that of developed economies - this presents both opportunities and challenges

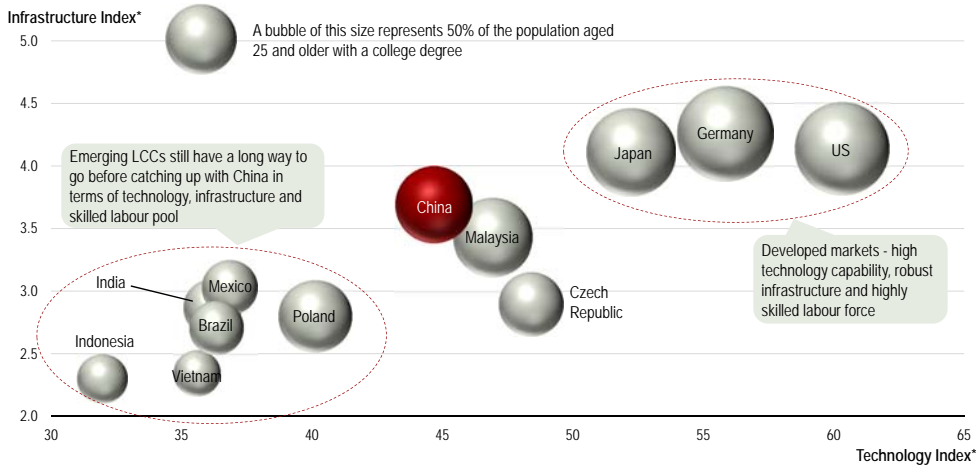
Labour Productivity Comparison Across Selected Economies (USD, 2003-2013)*



Note*: GDP per person employed in 1990 USD is used as a measure of labour productivity
 Source: The Conference Board; The Beijing Axis Analysis

China will continue to hold certain key advantages compared to its manufacturing competitors i.e. robust infrastructure, advanced technology/R&D and a skilled labour force

Comparison of Sourcing Capabilities of Selected Economies (2013)

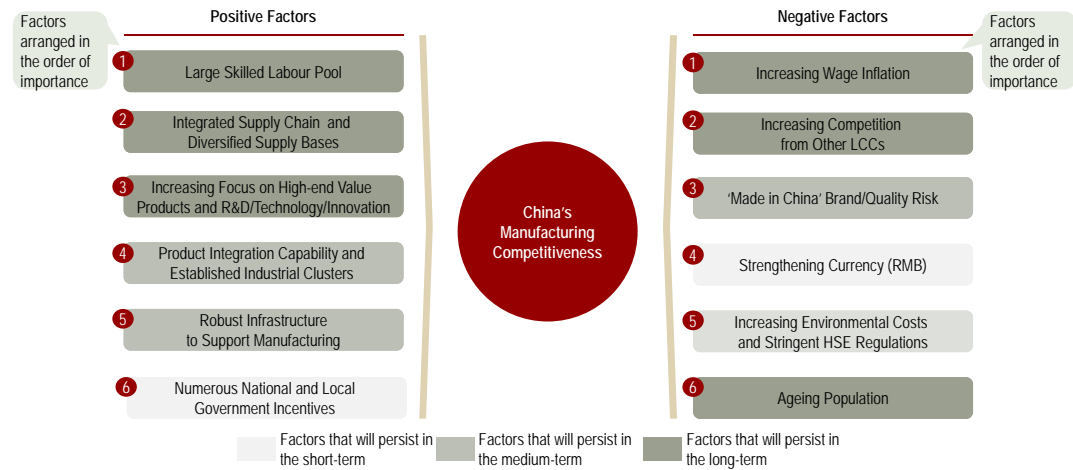


Note*: Technology Index based on WIPO's Global Innovation Index (out of 100) and Infrastructure Index based on World Bank's Logistics Performance Index (out of 5)
 Source: World Intellectual Property Organisation; World Bank; UN; The Beijing Axis Analysis



Various positive and negative factors will reshape China's position in the global manufacturing landscape over the short, medium and long term – the implications are clear

Positive/Negative Factors that will Affect China's Competitiveness in the Short, Medium and Long Term



Source: The Beijing Axis Analysis



China's alternatives in LCC sourcing continue to attract global attention

Selected Recent Quotes on China and Emerging LCC Alternatives

<p>"The days of ultra-cheap labor and little regulation are gone. As manufacturers' costs climb, export prices will follow." — <i>Businessweek</i></p>	<p>"We still have a lot of sourcing from China. We have a Far East office and we have marginally increased the amount we take out of China in the last year and some of the locations have changed. Costs have increased marginally but we are sticking with China." — <i>CEO, Prominent high street chain</i></p>
<p>"A majority of buyers report paying higher prices for products sourced in China, and China's exporters are becoming less competitive with other low-cost countries such as Vietnam, particularly in the market of low-end products." — <i>AmCham Vietnam</i></p>	<p>"The challenge for rival destinations such as Vietnam is that China still offers great value and other countries will be hard pushed to take pole position." — <i>Richard Lowe, Head of Retail and Wholesale, Barclays Corporate</i></p>
<p>"Over the years [sourcing from India] has been increasing year on year by around 100%. Of course, it's on a small base. China is big for us from a market perspective. From a sourcing perspective, India is ahead of China." — <i>James Chelliah, CFO, AstraZeneca India</i></p>	<p>"All the responding Indian companies say they already collaborate with customers at the R&D level. This could reflect the historical lack of manufacturing in India, and a strong national desire to catch up" — <i>Cap Gemini-IDG Research</i></p>
<p>"After China, Thailand is the second best place for investment for emerging markets. Ford recently started its production of their all new Ford Focus in Raygong. If you're looking for a new place to set up your manufacturing, Thailand is one place you should consider." — <i>Bloomberg</i></p>	<p>"International companies sourcing from Thailand should raise concerns with the government that using criminal charges to silence rights critics could adversely affect the overall reputation of Thailand's major export sectors." — <i>Brad Anamy, Business Watch</i></p>

Source: Various; The Beijing Axis Analysis



Agenda

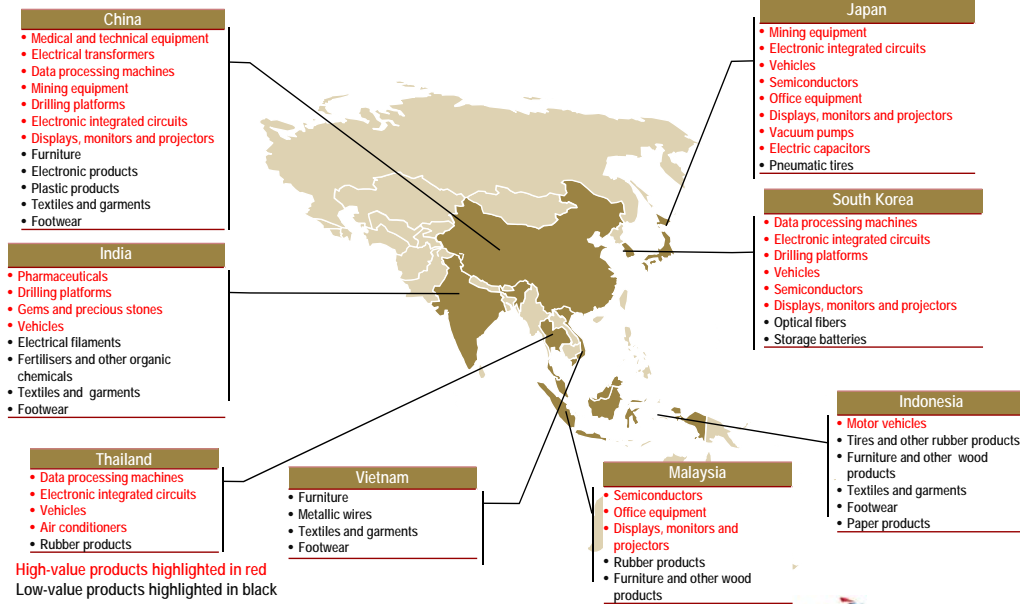
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Why and Where?

How?



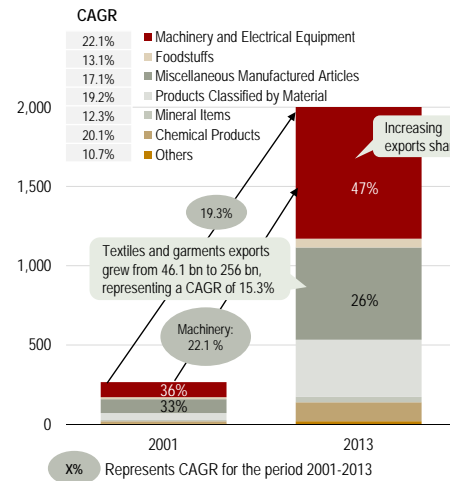
Various emerging manufacturing/industrial clusters in Asia will continue to redefine 'what to source' and 'where to source'



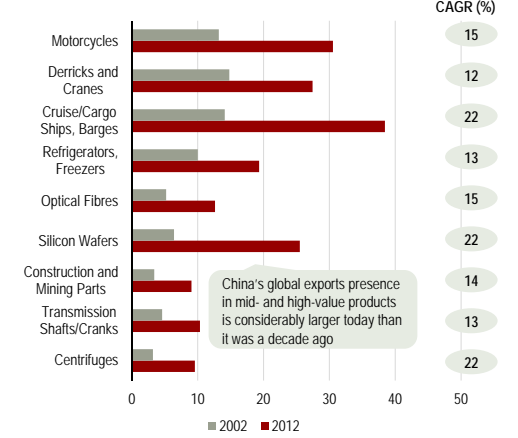
Source: Various; The Beijing Axis Analysis

Over the last decade, China's manufacturing export structure has shifted from labour-intensive goods to high-value manufactured goods such as machinery - such supply chain shifts are still evolving

Composition of China's Exports* (USD bn; 2001, 2013)



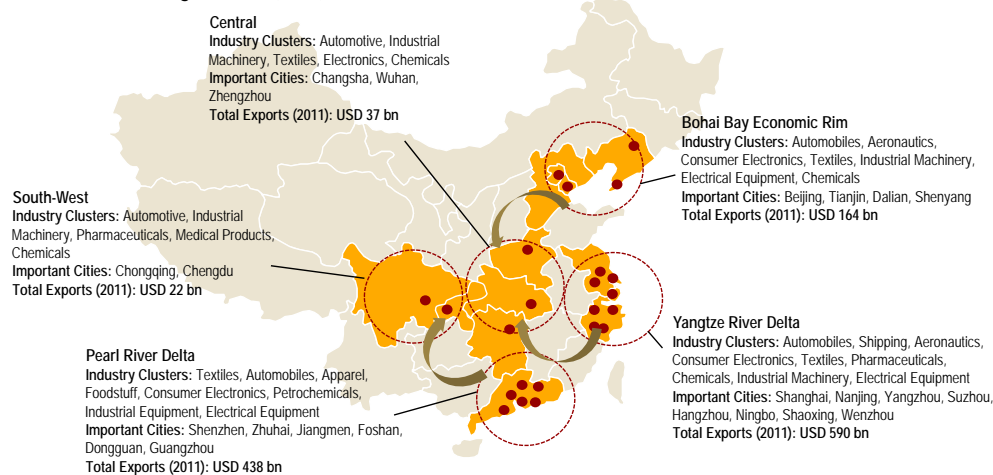
China's Exports as a Share of Global Exports for Selected High-Value Items (%; 2002 vs. 2012)



Note*: SITC Classification System
Source: China Customs; The Beijing Axis Analysis

Several industries have historically focused on China's coastal regions but the trend is clear – as wage inflation continues to rise in coastal regions, manufacturers are moving to emerging inland clusters

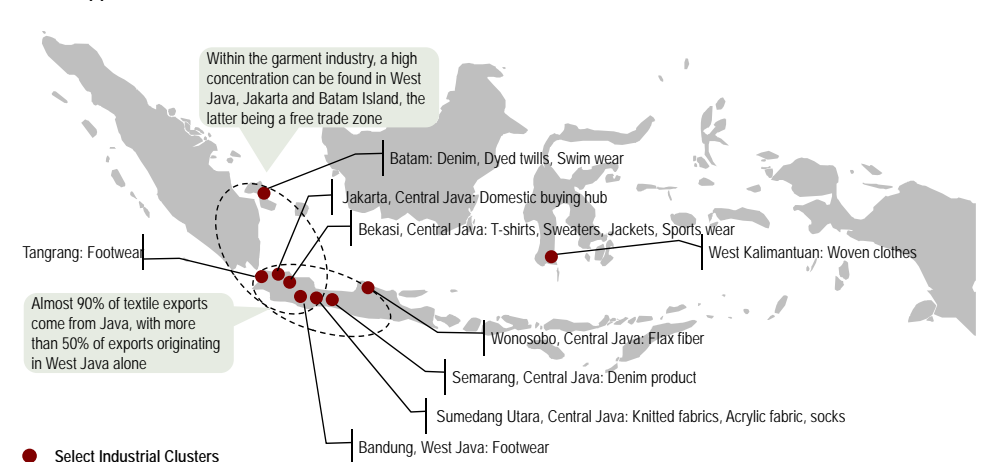
China's Manufacturing Clusters (2012)



Note: The dots on the map represent key industrial cities in each cluster
Source: The Economist; China Statistical Bureau; The Beijing Axis Analysis

The Indonesian textile industry is highly concentrated on the island of Java, particularly in West Java. For the garment industry, clusters can be found in West Java, Jakarta and Batam Island

Select Apparel Industrial Clusters in Indonesia



Source: Various; The Beijing Axis Analysis

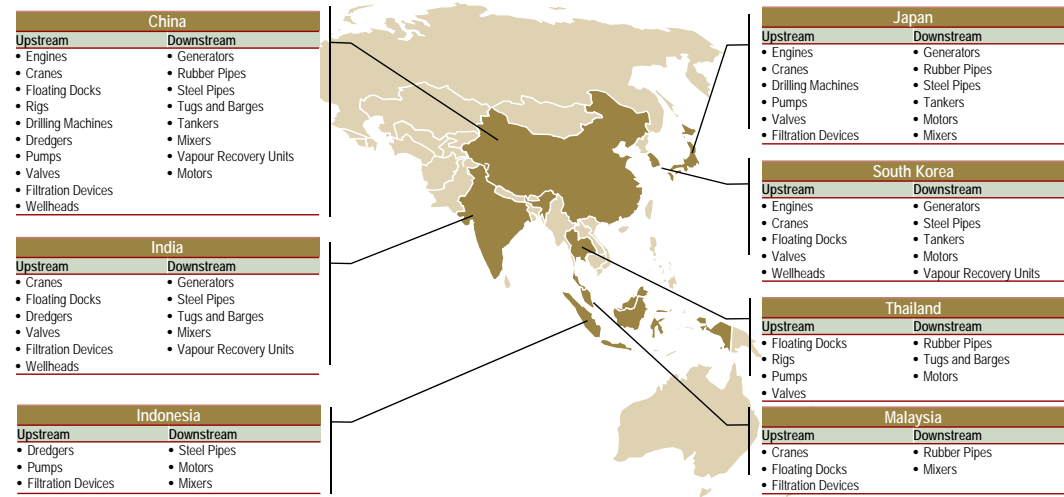
Digging down to the product level, China exports a wide variety of product categories – supply chain partner to the world

List of Selected Key Export Product Categories from China (USD bn, 2012)



Source: UN Comtrade; The Beijing Axis Analysis

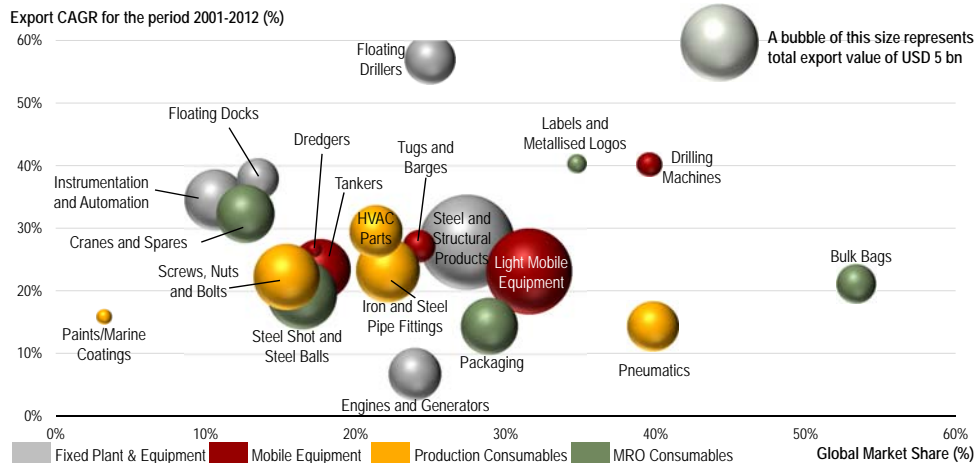
As an example, China stands out with the largest number of mining procurement packages in the region. For other Asian countries, the sourcing potential is limited to a few select packages



Source: The Beijing Axis Analysis

Over the last decade, China's exports of major oil & gas equipment has grown rapidly as the country transitions towards manufacturing high-value goods

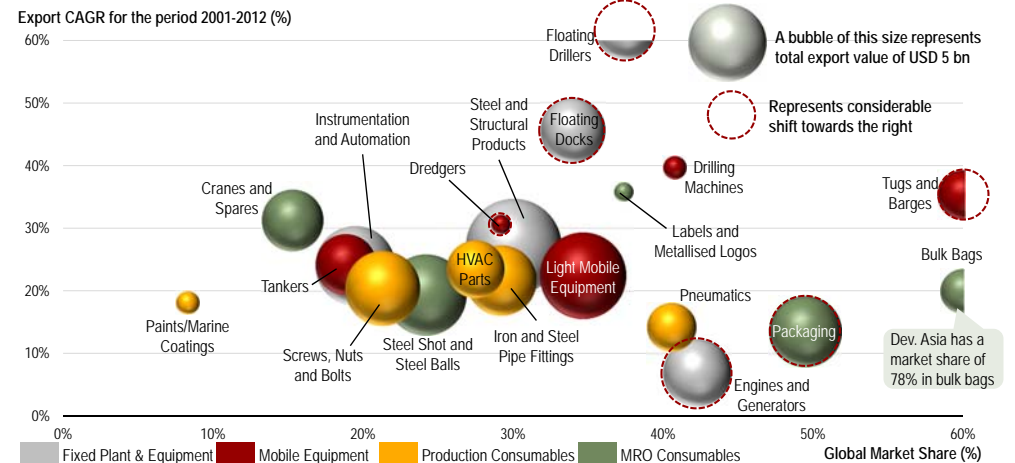
Analysis of China's Exports of Top Oil & Gas Equipment* (2012)



Note*: The top 5 oil & gas-related equipment in each product category based on total global traded value were selected for comparison. Source: UN Comtrade; The Beijing Axis Analysis

Developing Asia's global exports of major oil & gas equipment has also grown rapidly – China leads, but alternatives are rising

Analysis of Developing Asia's¹ Exports of Top Oil & Gas Equipment² (2012)



Note: (1) 'Developing Asia' includes both developing and emerging Asian economies as per the economic classification. (2) The top 5 oil & gas-related equipment in each product category based on total global traded value were selected for comparison. Source: UN Comtrade; The Beijing Axis Analysis

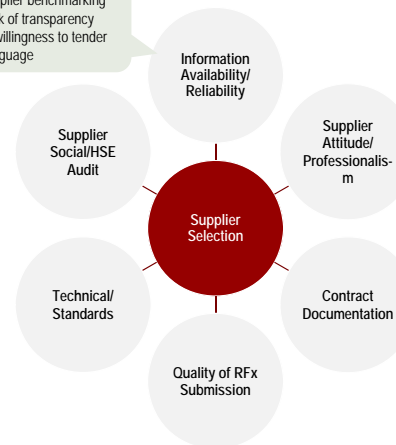
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What are the key procurement challenges in China/Asia?

Key Procurement Challenges in China/Asia

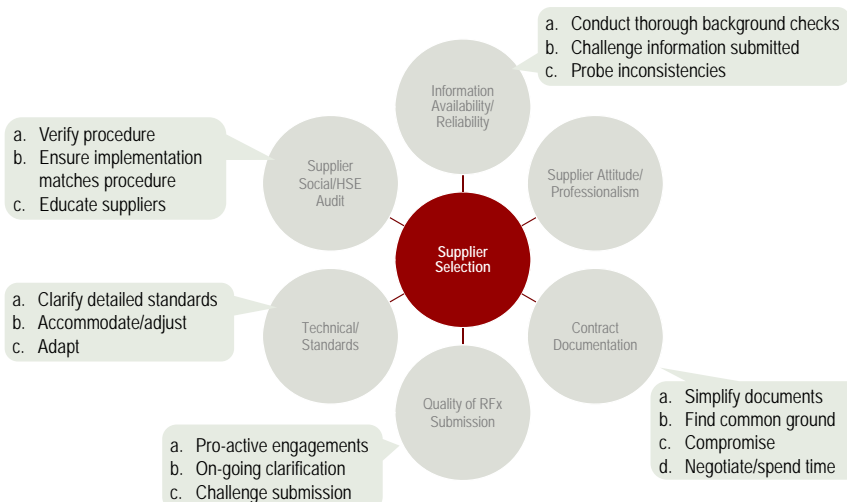
- Supplier benchmarking
- Lack of transparency
- Unwillingness to tender
- Language



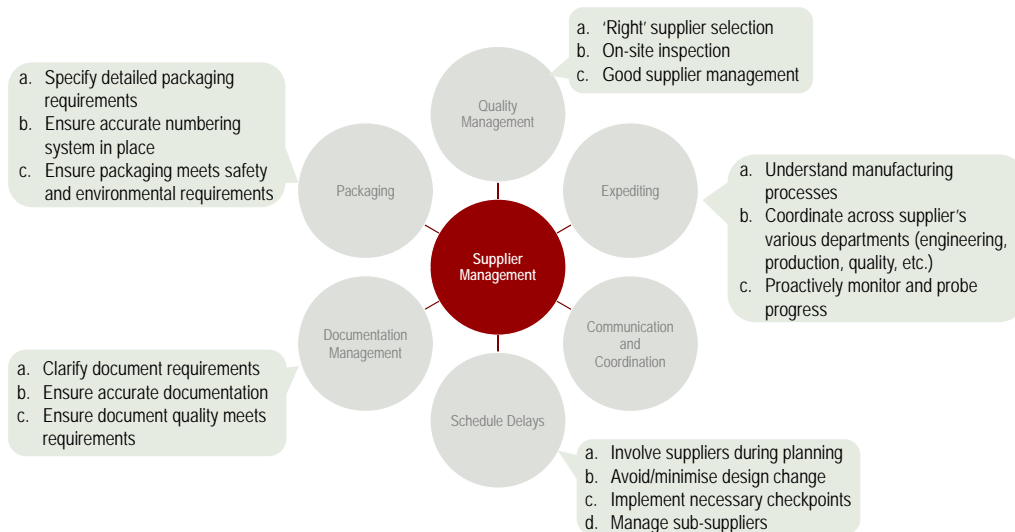
- Sub-contract management
- Insufficient after-sales service
- Supplier non-performance
- Language



How to overcome these challenges – supplier selection

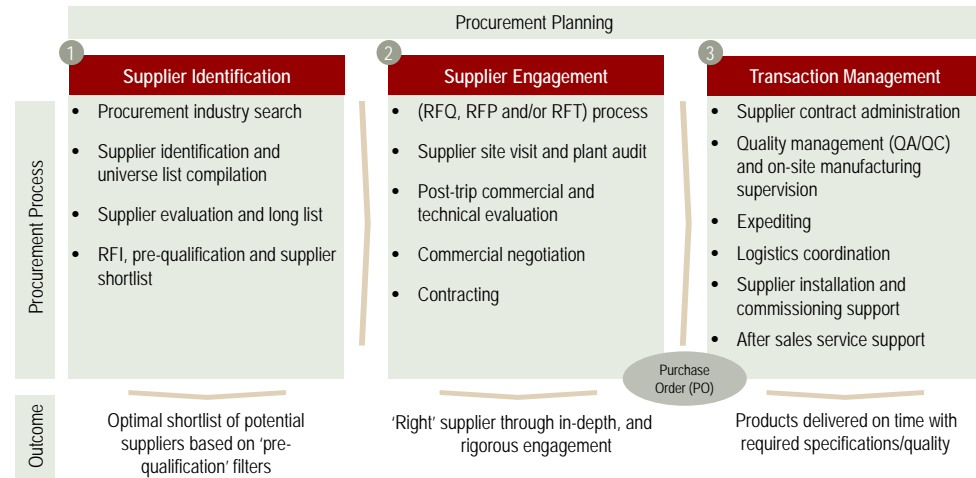


How to overcome these challenges – supplier management



Towards a strategic procurement approach and process

Strategic Procurement Process – Planning and Execution



Source: The Beijing Axis Analysis

International companies are using various 'models and sourcing structures' for China procurement

Various Sourcing Models in China

Primary and Secondary Channels	No China Sourcing	Sourcing via Agent	Fly-in-fly out (FIFO)	via a Procurement Service Provider (PSP) ¹	Office in China		
					Small	Medium	Large
	• No agents	• High use of agents	• Medium use of agents	• Light use of agents	• Very light use of agents	• Very light use of agents	• Very light use of agents
	• No fly-in-fly out (FIFO)	• Light FIFO ²	• High FIFO	• Medium FIFO	• Medium FIFO	• Light FIFO	• Light FIFO
	• No PSPs	• Light use of PSPs	• Medium use of PSPs	• High use of PSPs	• High use of PSPs	• Medium use of PSPs	• Light use of PSPs
	• No Office	• No Office	• No Office	• No Office	• Small Office	• Medium Office	• Large Office

Level of Engagement and Commitment →

Note: (1) Also use EPCMs for projects

(2) FIFO: Fly-in-fly out

Source: Various: The Beijing Axis Analysis

What does it mean for procurement and supply chain managers?

- Advanced analytics, i.e. benchmarking, becomes a value driver
- Supplier relationship management becomes key
- Supplier performance management becomes more complex
- Supplier development becomes challenging
- Category knowledge and management necessary
- Global supply chain portfolio management becomes essential
- Total cost of ownership has become more complex
- Contract management a differentiator
- Risk management becomes key
- Need wider board room involvement – more complex, more strategic
- New skills become necessary – i.e. languages, cultural astuteness and international business experience

Source: The Beijing Axis Analysis

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What can we learn from complex case studies?

	Client	Project Type	Product Categories	Learnings
1 Case Study 1	<ul style="list-style-type: none"> Leading global ferroalloy producer 	<ul style="list-style-type: none"> Vendor identification, tender management, order placement and comprehensive management for heavy equipment and structural steel for plant expansion project 	<ul style="list-style-type: none"> Kilns Mills Structural steel Platework Transformers 	<ul style="list-style-type: none"> RFQ adaptation to China Coordination of design changes QA plan implementation On-site expediting
2 Case Study 2	<ul style="list-style-type: none"> Large listed international aluminum company 	<ul style="list-style-type: none"> A multi-year service agreement whereas TBA acts as client's procurement office in China, providing procurement management, strategic sourcing and market monitoring services to the client 	<ul style="list-style-type: none"> Magnesium ingots Hardeners - silicon, FeAl, CrAl, MnAl Casting equipment Wire belt Generator sets 	<ul style="list-style-type: none"> Supplier vetting QC inspections Logistics coordination Post-delivery support to client
3 Case Study 3	<ul style="list-style-type: none"> Large regional coal company 	<ul style="list-style-type: none"> Establishment of quality risk control strategy for major capital procurement project, compilation of QCP and final quality documentation pack, and risk-management of manufacturing process on site 	<ul style="list-style-type: none"> Electric rope shovels Hydraulic shovels 	<ul style="list-style-type: none"> Quality documentation QCP compilation Project coordination On-site risk management On-site expediting

Source: The Beijing Axis Analysis

Case studies key takeaways

Plant Equipment	Mining and Plant Equipment	Rope Shovels
<ul style="list-style-type: none"> Supplier involvement in early stage planning and design Permanent on-site supervision of suppliers Chinese suppliers struggling with project integration Dedicated project management team with complementary skills Client's technical support is crucial 	<ul style="list-style-type: none"> Initial category feasibility assessment for China sourcing Periodic analysis of China supply and feasibility review Hands-on quality assurance including selective inspection Client's technical support is crucial Engage supplier during design phase to benefit from innovation 	<ul style="list-style-type: none"> Both clients and suppliers require assistance for QCP and documentation On-site management key in mitigating risks associated with complexity Quality control is essential – inspections enable control over defects and repairs Management of component sub-suppliers also required Highly competitive suppliers exist in China, but may be small in number
Shift of China's competitiveness – from single components to large pieces of equipment	Shift of QA/QC model – from full-time to part time inspection	CSF: Supplier selection, supplier relationship management

Source: The Beijing Axis Analysis

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At the highest level

Summary	Shifts in China's Relative Competitiveness and New Supply Markets That Matter	Products, Categories and Packages That Make Sense	Strategies, Tactics and Practical Advice on Managing the Risks and Outcomes	Selected Cases Studies
Overview	<ul style="list-style-type: none"> Developing economies in Asia, are transforming the global manufacturing landscape China is the world's largest exporter and a global manufacturing powerhouse The era of cheap labour in China is over, but key manufacturing advantages remain intact Various factors will reshape China's position in the global manufacturing landscape India, Indonesia, Vietnam, etc. will emerge as leaders of low-value manufacturing during the same time 	<ul style="list-style-type: none"> Various emerging manufacturing clusters in Asia will continue to redefine 'what to source' and 'where to source' China's manufacturing export structure has shifted from labour-intensive goods to high-value manufactured goods – such supply chain shifts are still evolving China/Asia stand out as a key sourcing destination for both upstream and downstream oil & gas equipment China's capabilities in quality and price enable it to provide substantial cost savings – CAPEX, MRO, consumables 	<ul style="list-style-type: none"> Various procurement challenges and risks exist when sourcing from China/Asia - these require awareness and action Finding the 'right' supplier and managing the supplier appropriately are key Supply chain managers able to anticipate market shifts, and adapt quickly will create a unique competitive advantage – a strategic approach to sourcing is essential International companies are using various 'models and sourcing structures' for China procurement 	<ul style="list-style-type: none"> Potential still exists to reduce procurement costs when sourcing from China Potential for cost savings must drive sourcing decisions Design, quality and on-time delivery in China often meet international standards but need to be managed pro-actively Chinese suppliers struggle with project integration - project management, on-site supervision, project coordination, logistics coordination, sub-supplier supervision are key

Source: The Beijing Axis Analysis

Final word

- The global manufacturing landscape is changing and China/Asia is now at the forefront of it
- China's competitive strengths and weaknesses will continue to evolve – realities, myths, threats and opportunities will differ
- Understand the China/Asian System – market dynamics, language, culture, business practices
- Very complicated - many risks i.e. quality/safety, counterparty risk, financing, complexity, contracts, language, trade protectionism, etc. – Watch out!
- Finding the 'right' supplier and managing supplier appropriately are key!
- Communicate well and often; manage engagements – Both with HQ at home and with Chinese counterparties
- Four key questions - Why? Where? What? How?
- Learn from others!

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Thank You!

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Associate Director

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