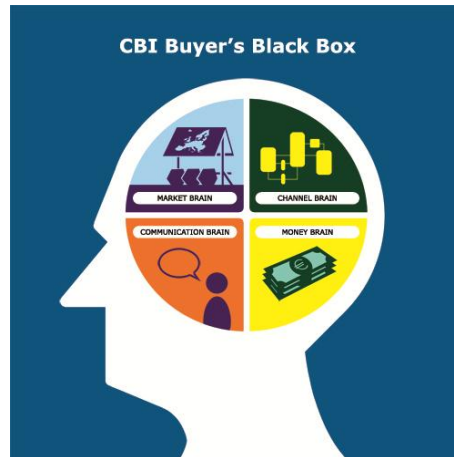




CBI Buyers' Black Box: Automotive Industry



About this document

The CBI Buyers' Black Box offers exporters and Business Support Organisations (BSOs) in developing countries (DCs) a clear and up-to-date view of what goes on in the minds of European buyers when they are sourcing from suppliers in DCs. This Buyers' Black Box offers an analysis and interpretation of the expectations buyers have of exporters in the Automotive sector, against the backdrop of general market trends. The purpose is to give DC exporters understanding of how European buyers think, act and what they focus on, and to highlight opportunities and practical considerations for action. Topics have been arranged in four 'brain sections': market, channel, money and communication.

Sector introduction

The automotive industry is one of the driving forces behind globalisation. No longer is Europe the core market – this industry's ongoing growth is being generated far from Europe's borders. Today, the BRIC markets are pushing up demand, tomorrow it will be the ASEAN countries and soon the Middle-East and Africa are expected follow. Not surprisingly, virtually every automobile manufacturer that matters is represented in China, India, Brazil and/or Russia. Most leading international suppliers, or so-called Tier 1 suppliers, have no choice but to follow their clients and set up factories in those countries as well. They source locally or regionally, providing a huge source of business for professional newcomers.

Meanwhile, European OEMs suffering from price competition are transferring the price pressure onto their local suppliers, making sourcing beyond European borders an attractive alternative – yet another opportunity for competent newcomers from DCs.

A fast growing market in Europe is the aftermarket. End consumers tend to reduce the cost of ownership by using non-original spare parts when servicing their cars. This huge segment, too, offers many opportunities for suppliers from DCs.

The success factors for DC exporters pursuing any of these openings – whether by becoming a player in the global supply chain, delivering to subsidiaries abroad, getting integrated as a contract manufacturer or serving the aftermarket in Europe – is reliability and a sustainable combination of excellent quality and low, fair prices.

1. Market Brain

This section looks at external market factors, both macro- and micro-economic, that influence the business options and preferences of European buyers in this sector. Market factors, typically, are beyond the influence of both buyers and suppliers. The right-hand column presents opportunities and practical considerations for exporters in relation to the trends, developments and foresights discussed at left.

Buyers like political and economic stability

Before screening potential suppliers in a specific (low-cost) country, most European buyers will look at the general economic development and trends of that country's market, or the common market to which it belongs (e.g. the ASEAN market). Their investigations will cover mid- and long-term macroeconomic plans and tendencies; the country's import/export regulations and policy trends; the opportunities and advantages of a potential supplier country as compared to other countries in the same region; legal conditions, e.g. national policies trademark and patents protection; currency exchange development; and the cost of labour, logistics and banking.

Buyers are eager to benefit from favourable government policies

Many buyers in seeking suppliers in a low-cost country will be eager to find out whether they are eligible for financial benefits offered to foreign investors in that country. If they are, they will gladly make use of these options. A favourable government policy regarding the development and promotion of automotive suppliers (tax benefits, duty reductions, other preferences) can be an important criterion for EU buyers in assessing a country's automotive export potential.

Beyond low prices, European buyers expect a functioning infrastructure

Low prices are an attraction, but most European OEMs, as well as buyers operating on the EU aftermarket, also want their suppliers' countries to be equipped with a properly functioning infrastructure. Good access to ports and airports and an acceptable road transportation system are a non-debatable precondition to business, as transportation costs are a crucial part of product cost calculation.

EU players that have their own production facilities in the supplier country, or a neighbouring country, will be accustomed to economic and efficient product shipments.

Although JIT (Just in Time) delivery is not a relevant factor between EU buyers and DC suppliers, buyers do expect logistic processes to be monitored and documented.

To buyers, low-cost, highly available raw materials outweigh low labour costs

Buyers in Europe are well aware of the fact that raw material is a key factor in cost calculation. This means they will be wary of suppliers based in countries with difficult access to affordable raw materials, regardless of how low their labour costs may be. Particularly high-

Considerations for action

- To provide prospective buyers with reliable information on your country or region, draw information from the BERI index (Business Environment Risk Intelligence) at www.beri.com.
- Make yourself acquainted with all relevant legal matters regarding import/export, especially customs regulations, in your country and in your export destination.
- Study the exchange rates of your local currency to the USD and Euro.
- Study export-related preferential rates (if available).
- Find out whether your government offers foreign investor's any specific benefits. If it does, market this fact positively in contacting potential buyers. If necessary, help them access these benefits.
- Get information from freight forwarders to make sure you can offer a competitive deal that includes shipping.
- Study the whereabouts of potential buyers on the Internet.
- Implement a monitoring system for your shipments. Buyers will be a lot happier to work with you.
- To make sure your low labour costs are not outweighed by high raw material costs, make sure you regularly check the availability of raw materials and prices in your country/region.
- Compare your purchasing prices with those of other suppliers in the region.

quality raw materials can be hard to come by at competitive prices in some supplier countries and the added cost of acquiring them will usually exceed the benefit of low labour costs. In addition to good prices, buyers also expect suppliers to be able to provide regular supplies at predefined standards. This implies reliable resource availability.

EU buyers tend to assume suppliers have as much as information as they do

EU buyers tend to assume suppliers in DCs have all the information related to international trading and exports that they do themselves. And if suppliers lack information, buyers will expect them to take the initiative in obtaining it, for instance through their local chamber of commerce, which in many cases can offer detailed knowledge on local regulations as well as European market information. In the mind of buyers, suppliers with lots of knowledge and know-how regarding local and regional markets as well as exports to Europe are an asset.

- If you have access to low-cost raw materials in reliable quantities, market this fact positively
- Get to know your local and national BSOs and their performance. Find out what their targets are in terms of promoting your industry and get aligned with them.
- Find out whether there are organisations near you experienced in exports. They may well be willing to assist you.
- In your contacts with BSOs and other support organizations, be transparent about your own company and ambitions: the more you share with them, the better they will be able to help you.

2. Channel Brain

This section provides insight into key issues affecting the whole supply chain in this sector: product and process requirements and criteria applied by buyers in sourcing and trading. These issues are analysed and interpreted in order importance and converted into opportunities and practical considerations for exporters in the right-hand column.

Buyers want suppliers who can be integrated in the existing supply chain

While always interested in new sources of supply, many OEMs in the European automotive industry are downsizing their network of so-called Tier 1 suppliers (suppliers of systems). However, suppliers that do not fit the bill as Tier 1 suppliers – which will be the majority – may qualify for element sourcing (small, simple parts) or modular sourcing (more complex components). The decisive factor for many buyers is whether a supplier, in addition to having experience in the sector, can be easily integrated in the supply chain. Among other things, this means buyers want suppliers who offer compliance with standards, guaranteed delivery capacity and reliable logistics. Buyers view the supply chain as a network of relations and interactions, whose members share standards and even IT platforms. A new DC supplier may have difficulty gaining access to this intricate network of OEMs. Most buyers would agree that it is easier for DC suppliers to operate on a Tier 2 or 3 level – or, easier still, to serve the aftermarket. However, even in these segments, buyers will have detailed requirements and will be quick to avoid suppliers who are unable to comply.

EU players expect all foreign suppliers to be acquainted with EU standards

EU players – including OEMs and Tier 1, 2 and 3 buyers¹ – will expect any and every player entering the market

Considerations for action

- Realize that becoming a supplier of an international OEM, i.e. becoming integrated in the supply chain at a Tier 1 level, is a long and complex process. The supply chain is a tight network in which the buyer dictates the rules.
- It may be advisable to focus on lower-ranking EU buyers, i.e. Tier 2 or 3 players.
- The EU aftermarket (the channel for replacement products) offers even better chances.
- Check your production capacity in terms of product categories: your company must be able to comply with the requirements of EU buyers.
- Contract manufacturing is often outsourced to third parties: check it out as a possible alternative source of business.
- Be aware of the fact that exporting your branded product may not work.
- Before contacting buyers, acquaint yourself with the standards and procedures in the international automotive industry.

¹ Original equipment Manufacturers (OEMs) in this industry are the major brands, such as Mercedes, BMW, Volkswagen etc. These OEMs purchase brand-tailored modules and systems from Original

from abroad, even from emerging markets, to be acquainted with the relevant standards in Europe. Familiarity with the EU's quality and safety standards as well as import and other legislative regulations is a prerequisite for even getting in touch with European buyers on the automotive market. Even in dealing with Tier 2 or 3 suppliers, or on the aftermarket, they will take knowledge of standards and regulations for granted.

Buyers want suppliers who can offer sustained quality

European buyers do not only want a high level quality from suppliers, they want to be sure their suppliers can sustain it. Quality standards, such as QS-9000, are considered basic; the latest standard buyers will expect suppliers to apply for ISO/TS 16949, a standard developed by the International Automotive Task Force (IATF). All of this means buyers will expect suppliers to have well-trained quality management staff and to include QA training in their annual budget. A form of statistical process control for guaranteeing sustainable quality will also be appreciated.

Buyers want suppliers who can add high productivity to low costs

Every buyer knows that today's cost advantages may be obsolete by tomorrow. They therefore want suppliers who, in addition to offering consistently low costs, can increase their productivity. In the buyer's view, suppliers who work on optimizing their performance, for instance by implementing a Lean Manufacturing concept like 5S or a productivity improvement programme like KAIZEN, are not indulging in some luxury but doing what is necessary to guarantee higher profitability (and more motivated staff, see next topic).

EU automotive buyers view experience as added value

European automotive buyers tend to rely on business partners already related to the automotive industry. In their mind, experience is added value. First, they will want to know whether a supplier's country has a share in the global, or at least regional, automotive industry, or whether it has an automotive industry or supplier network of its own. If it does, they will want to know who the main players are, who is supplying to whom, and which products. Also, they will investigate whether any European, American and/or Japanese automobiles or motorcycles are being assembled there. A neighbouring market that shows more maturity in these areas will generally have their preference. Next, they will

- Realize that ignorance in this area will disqualify you from exporting to Europe.
- Good information is available from support organisations and chambers of commerce in your country or from ACEA (www.acea.be).
- Quality is one thing, maintaining it in the long run is another. As an exporter, you must realize that sustained quality is vital to export success.
- Get information on quality standards from TUV in your country or TÜV International (www.tuvinternational.eu/certifications.aspx).
- Develop a QA (Quality Assurance) system in-house, including a QA handbook.
- Compare the scrap rate in your company with international standards by benchmarking with competitors.
- Maintain your machines and tools regularly to ensure consistent quality.
- In this sector, your competitors never sleep and despite your low costs, EU buyers may easily switch to suppliers with a better offer.
- In adding increased productivity to low costs, proceed one step at a time: for instance, start with implementing 5S, then move on to KAIZEN. And study the methodology!
- Increase process flexibility to quickly respond to business changes – behave proactively.
- To raise motivation and creativity among your staff, implement a measurable rewarding system.
- Implement a human resource policy that will facilitate sustainable exports. Invest in training.
- As a DC exporter seeking to access Europe's automotive industry, you must try to get all the experience you can.
- Get information on your competitors and their strengths and weaknesses as compared to your own.
- Invest time and effort in cultivating business relations with foreign automotive players in your country.
- Look for ways to distinguish yourself from local competitors and their products.

Equipment Suppliers (OES's), also know as Tier 1 suppliers. In manufacturing the core automotive components required by the brands, these Tier 1 suppliers, in turn, purchase smaller components and products from Tier 2 or – in the case of even less complex products and materials – Tier 3 suppliers. From the perspective of the Tier 2 and 3 suppliers, an OES or Tier 1 company may easily be seen as an OEM, as it does indeed manufacture original (brand) equipment. Thus the terms OEM and OES, to a degree, are interchangeable. The bottom line is that most, if not all, DC suppliers are Tier 2 or 3 players who can at best supply Tier 1 players, not the brand manufacturers. For DC suppliers it can be a major challenge to gain a position in this complex supply chain; the basic precondition is that they must deliver the same quality and service the OES, or Tier 1 players deliver. See also: CBI Market Channels & Segment Automotive on www.cbi.eu.

want to know whether the sourcing market has existing relations to the EU or any other main automotive markets, such as the BRIC countries. Finally, of course, they will look for suppliers with experience in this market.

Supplier transparency (i.e. documentation) gives buyers confidence

Buyers want suppliers who are transparent. They expect company documentation to be up-to-date and complete, covering the organization, management structure, business figures (sales, profit, forecasts) and production processes. The same applies to product documentation, which in their view should include drawings, specifications and parts lists (including raw material). Buyers also want operational figures on the production planning, logistics et cetera. They view these data as a means of controlling processes, making the system traceable and avoiding shortcomings.

Buyers are more likely to partner with innovators

The automotive sector is one of the leading business fields in terms of product innovation. This innovative power is spreading through the supply chain, with many OEMs even delegating the development of complete systems and modules to their Tier 1 suppliers. Not surprisingly, buyers are always eager to discover a supplier's maturity regarding innovation. They will want to know whether a supplier company has enough potential for producing more advanced products and whether it has the right machines, tools and human resources. Often they will use questionnaires or audits to find out; questionnaires invariably include questions about the supplier's equipment and innovative power. Innovation is part and parcel of being a player in this industry. Buyers also expect R&D to be incorporated in their suppliers' companies, so that know-how can be easily transferred. This explains why they view investment in R&D as a relevant key figure.

EU buyers expect aspiring suppliers to be export-ready in every way

Generally speaking, EU buyers expect suppliers entering the European market to be completely export-ready. This means they expect modern production standard, the ability to meet both quality and quantity demands, a degree of automation to reduce (costly) manual labour, and an appropriate range of products (commodities, parts, replacement parts, components or modules). Also, they expect packaging procedures to be in line with international standards and human resource policies to be geared to exporting to Europe.

- Be aware of the fact that in today's market, without good documentation, you may not be taken seriously by customers.
- Develop comprehensive documentation on your company, processes and products and update it regularly.
- Operating figures and key data should be computerized, reflecting the real status quo of the company.

- If you do not yet have much innovative power, develop it. It will greatly improve your chances of being selected as supplier/partner to an EU firm.
- To be equipped for innovation, screen your product range, analyze the competition and invest in machinery, tools and staff education.
- If your financial resources are limited, consider purchasing second-hand machines as an alternative (e.g., try www.resale.de).
- Get your company computerized. Install CAD/CAM technology.
- Before contacting EU parties, check your resources: Becoming a supplier will cost you time (at least 2-3 years), money and manpower.

- If you are serious about exporting, make sure your company is fit in every sense of the word: make sure you have sufficient capacity to meet quality and quantity demands, appropriate production standards, sufficient automation, the right products for the right market, professional and compliant packaging,

3. Money Brain

This sections deals with the financial requirements and considerations you are likely to encounter in doing business with European buyers in your sector. Issues such as price setting and promotional and logistics costs are looked at from a buyer's perspective and interpreted for you as an exporter.

Buyers view the exchange rate as decisive in doing business

Money matters in business and the development of local currencies against USD and Euro currencies is, to most EU buyers, a decisive factor in setting up a business relation. Buyers need firm and sustainable conditions and a stable currency, to them, is a prerequisite for starting trade relations.

Buyers want complete insight into price calculations

Price competition within the automotive sector is very fierce and margins are narrow: one tenth of a Euro may tip the scales towards acceptance or refusal of a deal. Therefore, buyers expect quotations presented by suppliers to be utterly transparent and cost calculations to include all cost-relevant factors, both variable and fixed. Also, they need supplier costs to be predictable and therefore expect suppliers to have a cost management system in place that will ensure minimum operating costs.

Buyers need strong and reliable partners

European buyers expect exporters seeking access to EU markets to be in it for the long haul. Most buyers are prepared to make long-term commitments and expect the same from suppliers. Financial strength, obviously is a vital factor and buyers will expect suppliers to offer proof of their financial durability. For instance, they may request documentation of sales turnover development, sales forecasts, and a comprehensive financial history and planning. They will want to know whether a supplier has allocated budget for export marketing (2-4% of sales turnover is normal), has sufficient financial resources for replacing old machinery and purchasing new, and whether he has access to bank loans.

Considerations for action

- Carefully observe the exchange rates. If your local exchange rate is favourable, market this fact positively.
- The more you recognize your buyers' need for transparent and accurate cost calculation, the quicker you will be able to get down to business with them.
- Set-up a computerized cost-based pricing system.
- Compare your manufacturing costs with competitors' prices; this should give you a hint of your company's profitability.
- To succeed as an exporter, you need to be financially stable and prepared for the long haul.
- Be willing to provide documented proof of your stability to buyers.
- Include finances in your long-term company strategy.

4. Communication Brain

This section is all about the 'human factor' in business. It highlights the communication behaviour of European buyers sourcing in DCs, offering insight into their expectations and practical suggestions as to how to meet those expectations as an exporter.

EU buyers view written statements and strategies as vital to communication

Most, if not all, EU buyers would agree that a short-, middle-, and long-term company strategy – including sales & marketing as well as products & price – is vital to doing business in this sector. Without a strategy – laid down in writing – a supplier risks losing direction, making wrong decisions and incurring losses. Buyers

Considerations for action

- Draw up a (written) company strategy. Convert it into marketing concepts targeting different products and/or markets.
- Convert the concepts into action plans and schedules, listing the activities your company needs to engage in and their cost.

will say this kind of documentation is vital in helping both internal staff and external contacts understand the company's objectives and will expect suppliers to have it in place and to share it when requested.

Also, buyers will take it for granted that such a strategy has been converted into a set of thorough, targeted marketing concepts. These concepts, in turn, must lead to specific activity plans designed to turn the strategy into real business, e.g. a sales promotion plan, a PR plan, an exhibition schedule et cetera. With these vital building blocks in place, buyers will then expect suppliers to have a system of ongoing monitoring in place, which shows what is being done, at what cost, and with which results. Buyers expect suppliers thus to be constantly comparing their quantitative and qualitative targets with actual business results. The monitoring system, finally, must be integrated in a system for continuous improvement, so that any gaps between targets and actual achievements can be corrected effectively and efficiently.

Buyers expect a supplier's CI and product claim to match its performance

Most buyers in Europe will tend to view a supply company that has its own branded product(s) as a competent partner. The decisive factor, of course, is the product as it is sold in international sales channels. If it has its own CI (corporate identity) that is reflected in the company's corporate image; if the packaging matches the product claim; and if the company has successfully penetrated its home market and enjoys a positive perception among domestic consumers, the buyer is likely to take it seriously as a potential partner.

Buyers get most of their information from your website and business card

European buyers interested in finding out more about a potential supplier will, first and foremost, visit his website on the Internet, as well as other websites on which your company may be featured. European buyers are accustomed to websites being used as a platform for B2B relations. As such, they will expect to find up-to-date and comprehensive information there on the company (history, management structure, premises, goals, social responsibility) and on its products (pictures, technical drawings, parts lists). Ideally, they will find this information presented in several European languages, including, of course, (good) English.

Suppliers offering an online ordering tool as part of a computerized planning system will make a buyer-friendly impression, as such a system can help reducing errors and provide accurate production input.

Buyers also appreciate suppliers who have a customer relation management (CRM) programme in place, thus demonstrating their eagerness to know and anticipate customer needs.

Buyers use trade fairs as an important communication platform

In the view of most EU buyers, trade fairs and buyer

- Without this kind of documentation, you will not easily be taken seriously by EU buyers!
- Ensure ongoing monitoring of all your activities so that you can measuring efficiency and work on continuous improvement.
- What it all comes down to is knowing where you stand as a business, where you want to go and what you have to do to get there. Buyers seeing this kind of self-management will be impressed.

- Your branding and corporate identity are an important part of your communication efforts.
- Check your company's positioning and acceptance in the market place.
- Check for relevant membership of automotive associations as a source of information and as a sign of your market engagement.

- Make sure your business cards look professional and contain accurate web addresses.
- Invest in communicating via the Internet, notably through your own company website.
- Put a staff member in charge of managing this important communication tool and keeping it up-to-date and attractive.
- Compare your website with those of international leading automotive suppliers and adapt it, if necessary.
- Use the Internet to establish initial business contacts with potential EU partner(s).
- Register your company with international IT platforms as a supplier.

- Participation in European automotive trade fairs, such as AUTOMECHANIKA and IAA, can be a good way of entering EU markets. At the very least, you can use

missions offer a good platform for identifying potential trade partners. Most buyers attend the leading European and global trade fairs for this sector, either as visitors or as exhibitors. They will use these occasions to keep in touch with market developments, to develop new contacts and to catch up with existing ones. They will tend to give suppliers who are consistent in attending fairs more credibility.

Buyers expect suppliers to communicate according to international standards

Buyers will use every means made available by a supplier to develop an understanding of that supplier – brochures, catalogues, flyers et cetera. They will expect all of these information carriers to be geared to their expectations as buyers. This means they expect them to be complete, accurate, attractive and easy to read. Particularly in meeting new contacts, for instance at trade events, they will expect to be offered a professional and attractive set of communication tools – in English, of course, and in other European languages, such as German, French or Spanish, as relevant.

Most European buyers do all their international trading in English

Any European buyer would confirm that for a supplier a good command of English, in particular within the export department, cannot be replaced by any other communication tool. Buyers expect supplier staff responsible for day to day export operations to be both equipped and authorized for communication with foreigners. This means they expect them to not only to speak and write English well, but also to have sufficient communication skills, technical and commercial knowledge and understanding of cultural barriers.

trade fairs to familiarize yourself with the high level of international communication.

- Study the AUMA's online calendar of international automotive trade fairs.
- In developing promotional materials, put yourself in the position of a customer who knows nothing about you and is in search of key information that will distinguish you from the many other suppliers jostling for his attention.
- Make sure your promotional materials are complete and attractively designed by a professional.
- Invest in language training for your staff.
- Make sure your export staff, particularly, have a good command of English.
- Make sure the English in your materials is faultless. Poor language will make a shabby impression.

This survey was produced for the CBI by Rolf Hoffmann (CBI Sector Expert) and Stephen Teeuwen (copywriter).

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