

# Buyers' Black Box Metal Parts & Components and Sub-Contracting

## Introduction

*On the global market for metal parts and components and subcontracting, the need for cost reduction is a driving force for buyer trends. Not surprisingly, efficiency is a central issue, with higher automation levels and process optimisation gaining ground. Combined with Europe's spreading shortage of skilled labour, these factors contribute to a market that offers DC exporters interesting opportunities – provided they keep costs low and efficiency and reliability levels high, while at the same time strengthening their own position by shifting their focus from price to value creation based on a keen understanding of buyer needs.*

## 1. Market Brain

### Select your buyers carefully

European buyers on the metal parts & components and sub-contracting market, as a rule, are serious players interested in developing long-term, win-win partnerships with suppliers. Price is important to them, but it isn't everything – many are increasingly eager for suppliers who can add value. As an exporter, you should be aware that there are different kinds of buyers and not every kind is worth your attention. Characteristics to take into account include: company size, annual spend, the job level and decision-making authority of the purchaser; the company's position (high-end or low-end); and its business attitude (is the buyer merely looking to squeeze a quick win out of you or is he a potential partner?). Checking these qualities will enable you to make a better match.

Roughly speaking, buyers can be classified according to the following 4 developmental phases:

- Phase 1 buyers are not (yet) directly involved in international purchasing. They have potential but their lack of international experience also implies risks.
- Phase 2 buyers source internationally because local purchasing is not a favourable option for them. Some of these may make an interesting match for you.
- Phase 3 buyers are familiar with global sourcing and have a purchasing strategy. Their preparedness for new opportunities makes them an interesting prospect group.
- Phase 4 buyers have highly global sourcing practices and a wide network of sources. Their main reason for shifting to another supplier, in many cases, is price benefit.

**Create an Export Department and train your staff in good communication, export related subjects. Beware of staff turnover.**

Buyers like to keep communicating with the same person. Buyers appreciate having a single point of contact within their supplier companies – someone they know and can count on. The reason for this is that business is largely based on relationships, which in turn depend on trust. Frequent personnel changes, therefore, are not good for business; keeping your key staff on board is a vital part of developing and maintaining successful exports. Relation management has become more important.

**Automation is pushing up efficiency standards**

### Considerations for action

- Before going into business with a buyer, assess whether his firm actually matches your expectations in terms of volumes, market segment, attitudes and culture.
- Be careful with buyers seeking quick wins and buyers looking only for their own benefit.
- Focus on developing long-term, win-win partnerships with 'phase 2 and 3' buyers.
- Look for ways to add value for your customers and consult with reliable buyers on this.
- Implement a solid HR policy to retain key staff.
- Taking a personal interest in your staff is crucial for building a successful and motivated team that is eager to satisfy customers.
- Take care to give adequate attention to your relationships with buyers.
- Realise and consistently

European businesses are increasingly emphasising automation and the use of robots. They have become vital to being competitive. The main reasons for automation are to extract labour costs from the process and to raise their output by facilitating 24/7 operations. In the long run, automation will also spread to high-end segments in DCs, but so far their lower labour costs offer a good alternative. **Still you will need to move from cheap labour as your only advantage, to higher productivity levels and continue to add more value to your product.**

#### **The EU has a shortage of skilled operators**

There is an increasing shortage of highly skilled operators in Western Europe. Interest among young Europeans in a job in the metal industry is low, while the current population of skilled workers is ageing.

#### **Six Sigma and Lean Manufacturing are gaining ground**

Six Sigma, a management strategy aiming at improving the quality and the results of business processes by reducing the standard deviation and increasing process predictability, is gaining ground in this sector. So is Lean Manufacturing. Lean manufacturers seek to avoid spending money on resources for any other goal than creating value for the end customer. The Lean concept offers a way of comparing the production process to the actual product and figuring out how the process can be made more efficient, effective and balanced. In practice, this approach can create huge improvements.

#### **Instead of just producing to order, create value**

While most sourcing in this sector is based primarily on a need for cost reduction, buyers are definitely interested in suppliers who can add value. In order to do this, you must invest time and effort in finding out all you can about how your customer applies your product and who his end customers are. **Create a partnership situation with the customer and attend to development of his ideas at the inception stage; this will give you an edge over the competition when the customer goes into actual purchasing and marketing phase of the idea !**

#### **A CSR policy can offer you competitive advantage**

Corporate Social Responsibility is clearly a trend in Europe, though buyers are unlikely to use it as a selection criterion for suppliers in the short term. However, safe and healthy working conditions for your staff and care for the environment – for instance by implementing ISO 14000 (environment) and OSHAS 18001 (occupational safety) – can distinguish you from competitors. Good working practices and discipline aimed at reducing the risk of accidents are also appreciated by buyers.

Sustainability is also gaining prominence in this sector. Two key focal points among EU players are the reduction of energy costs and of material waste. In this area, cost reduction is still the main motive. **It may help to align your own CSR activities with those of your customer and gain a better working relationship with several people in the organisation other than just the buying department !**

#### **Re-shoring can also be an opportunity**

Re-shoring, the transfer of business operations back to their country of origin, is until now a minor trend, occurring primarily among companies with long-term experience in outsourcing. Those opting for re-shoring seek to escape the rising cost and risk of outsourcing (transport, inventory levels, administration and currency fluctuations) as well as problems they have experienced with supplier lead times, reliability and overall performance. The – sometimes negative – effects of global sourcing on their own flexibility and reliability also play a part. Unfavourable exchange rates can also lead buyers to consider re-shoring. **There is a possibility, however, of gaining confidence of a customer and get his business, with promise of better results and service, and catch the business before it is re-shored. Your efforts in discovering a dis-satisfied customer and winning him to your side can pay off !**

#### **The condition and image of your country matter**

As a DC exporter, it is important to realise that your attractiveness to EU buyers does not merely depend on your own company qualities, but also on local or national business conditions. Most EU buyers engaged

monitor your own efficiency (doing more with the same number of people), increase output and reduce lead times.

- Monitor your process optimisation and efficiency with a focus on cost reduction and reliability.

- EU companies will be facing increasing capacity problems due to labour shortages. This means they will increasingly need reliable sources to compensate.

- Implement Six Sigma and Lean Manufacturing to improve your performance on cost, speed, shorter delivery times and reliability and to keep in step with buyers.

- Find out how you can create more value for your customer by understanding his product applications and his end customers.

- If you sense a strong CSR interest among your buyers, consider implementing ISO 14000 and OSHAS 18001.
- Reducing your energy costs and material waste quantities is worthwhile if it helps reduce the cost for your buyer, but not yet as an environmental consideration.

- Being fast is no longer enough to hold onto your buyers: in today's market, you must be fast, flexible and reliable.

- Build a relationship with your buyer and provide intelligent, positive information on your country to counter

in outsourcing tend to direct their attention to the most familiar low-cost countries, i.e. China, India and Eastern European countries. They will tend to avoid countries that are unsafe, politically unstable or poorly equipped in terms of infrastructure, travel and transport facilities et cetera.

unbalanced media coverage.

- Join forces with branch associates to issue positive information about your country to the market.

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| <p><b>2. Channel Brain</b></p>   |  |
| <p><b>Buyers face pressure from different sides</b><br/>Buyers face pressure from both sides. On the one hand, they face managers who are constantly insisting on cost saving. To a purchasing professional, successful cost saving measures may well mean a higher salary or an early promotion. On the other hand, buyers face external and internal customers (regarding warehousing, planning, manufacturing, QA, engineering, sales and finance). Their main interest is to secure quality and on-time deliveries.</p>  | <p><b>Considerations for action</b></p> <ul style="list-style-type: none"> <li>• Try to be a partner who relieves the buyer of worry.</li> <li>• Promises kept are opportunities created.</li> <li>• Develop a positive climate of honesty and reliability throughout your company and among your own suppliers.</li> </ul>  |
| <p><b>Buyers have many things to worry about</b><br/>Working with long-distance supply lines, especially, can be a major headache for a buyer. Typically, he will worry about whether you will send the agreed quality and quantity, whether there will be transport and delivery delays – and if there are, whether you will inform him in time. And on top of all that, there are many other unforeseen misfortunes he fears that might affect your performance.<br/>Understand that any failure in these areas means your buyer will disappoint his management and both internal and external customers, suffering immediate reputational loss.<br/>This means a buyer is constantly looking for ways to control the risks of poor supplier performance and cost spending. It also means that in negotiations, he will try to push the risks across the table to you by proposing strict terms that are to his own benefit, or penalties for over-due deliveries.</p> | <ul style="list-style-type: none"> <li>• In negotiating with a buyer, beware of the fact that he will want to reduce his own risk by proposing payment, delivery and Incoterms that may not be in your favour.</li> <li>• Deliver the agreed quantity and quality and if you can't, notify the buyer in time.</li> <li>• Keep your buyer updated on order status and be quick to inform him about delays as well as proposals for solving the problem.</li> <li>• Assign a key account to every customer.</li> </ul> |
| <p><b>OEMs are the likeliest destination for DC exports</b><br/>Direct sales to Original Equipment Manufacturers (OEMs) are, generally speaking, your best chance for developing exports – especially to OEMs in need of complex parts with many specifications and requiring intensive communication. Commodity items, like fasteners or springs, are best exported through distributors, who are more capable than most individual exporters of managing direct sales to a multitude of end users.</p>   | <ul style="list-style-type: none"> <li>• Review what is the best distribution channel for your type of product.</li> </ul>   |
| <p><b>Buying combinations require high volumes and value</b><br/>Buyers who lack the experience, the interested or the time to develop global sourcing will look for a buying combination specialised in purchasing from best-cost countries. Usually, they will look for a buying combination that keeps stocks and takes care of all the logistics and quality issues. The price you offer is even more important if you're supplying to buying combinations, as they require a high margin for covering costs and risk and making a profit. This option is really only favourable for high volumes and high value supplies.</p>   | <ul style="list-style-type: none"> <li>• Buying combinations are an interesting option if you're selling higher volumes of high value products at cut-rate prices.</li> </ul>  |
| <p><b>If you need an agent, select one with care</b><br/>Buyers in some cases will appreciate companies that work with an agent based in their own country. The agent can add value in overcoming cultural differences and conveying the buyer's needs. An agent is also easier to reach of the buyer wants to discuss issues and problems related to quality, delivery and communications. If you are considering working with an agent in your export market, choose one who will proactively seek out new opportunities for you, contact new prospects and contribute to a growing and sustainable export business. In addition to his technical background and knowledge of the local market, your agent's personality, experience, communication skills, along with a strong sales drive, are key success factors.</p>  | <ul style="list-style-type: none"> <li>• Only work with an agent if you are unable to develop exports on your own.</li> <li>• Don't underestimate the importance of selecting an agent who fits into your company's culture and has the right skills for contributing to your exports.</li> </ul>  |

| 3. Money Brain   |   |
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| <p><b>Your quotation is part of the first impression you make</b><br/>Your price levels are a vital part of the first impression buyers get of your company. The initial trigger for buyers to contact you will usually be the price level you offer. Additional factors discussed in this document – such as your reliability or CSR performance – only come into view once your quotation has grabbed the buyer's attention. Both its contents and its appearance must be clear, complete, tidy and professional. This will impress buyers and motivate them to follow up.<br/>Quotations must include all essential information: your company address, logo, contact details; your customer's contact details; date of the quote, quotation nr. and revision; product description, quantities offered and specifications (e.g. a drawing nr.); unit price on currency as per buyer inquiry; tooling costs, if applicable.</p> | <p><b>Considerations for action</b></p> <ul style="list-style-type: none"> <li>• Make sure your quotations are clear, accurate, attractive and professional.</li> <li>• Quote a delivery time that is realistic and achievable.</li> </ul>  |
| <p><b>Cost calculation must be highly accurate</b><br/>Your cost calculations must be very accurate. Buyers often encounter substantial price differences between companies from best-cost countries and, obviously, they wonder about the cause. In some cases, the cause, quite simply, is miscalculation. Underpricing will cause losses at your end of the transaction, while overpricing will reduce your chances of getting into business. After finalising any order, you should always review your calculations against the actual cost. This will help you to improve the accuracy of future quotes.<br/>Calculations should also be used as input for you capacity planning. For any first order, work out the required capacity in the short run as well as the required capacity and resources on an annual base.</p>  | <ul style="list-style-type: none"> <li>• Review your quotes after finalising orders.</li> <li>• Prevent any miscalculations and develop a standardised calculation system (spreadsheet) that also gives you insight into required capacity.</li> </ul>  |
| <p><b>Look carefully at enquiries to assess a buyer's potential</b><br/>Many buyers you will encounter, especially newcomers and SMEs, are relatively inexperienced in global purchasing. Some of their enquiries will be unclear or even lacking essential information. The quality and content of an enquiry can help you assess a buyer's experience, performance level and main interest – in many cases you will even be able to decide whether or not to proceed.</p>  | <ul style="list-style-type: none"> <li>• The content and quality of enquiries can give you vital insight into a buyer's potential. Use that information to avoid wasting time on fruitless contacts.</li> <li>• Review whether a prospect's products represent considerable labour costs, as this will make your offer a more attractive alternative to that of his local suppliers.</li> </ul> |
| <p><b>Buyers tend to exaggerate order levels</b><br/>In some cases, the actual orders placed by a buyer may be a lot lower than suggested in the inquiry phase. Order forecasts are often based on forecasts by salesmen, who are known sometimes to be over-optimistic.</p>   | <ul style="list-style-type: none"> <li>• Be aware that actual orders placed by a buyer may in some cases turn out to be a lot lower in volume than suggested in the enquiry.</li> </ul>   |
| <p><b>Different buyer types may prefer different Incoterms</b><br/>The most commonly used Incoterms in this sector are EXW, FOB, CIF, DDU and DDP. Buyers representing multinationals prefer to use EXW or FOB, as they usually have their own global contracts with forwarders. Smaller companies may prefer DDP, so as to reduce risk while at the same time providing them with the best way of comparing your offer with the price levels of local suppliers. Freight costs fluctuate with the global economy. They are expected to increase in the future, as energy costs go up. Freight cost is an important aspect of logistics costs and can be between 3 and 10% of the invoice value of goods.</p>  | <ul style="list-style-type: none"> <li>• Understand the Incoterms as well as the costs involved in shipping from door to door.</li> <li>• Keep up with developments in global transport.</li> </ul>   |
| <p><b>Packaging is part of first impressions</b><br/>The first impression your customer's staff get of your company is based on how your shipments arrive at their warehouse. Poor packaging may damage goods and will almost certainly damage your company's image. Buyers expect suppliers to communicate with them as to how they plan to pack the goods ordered. They appreciate packaging that is firm as well as easy to remove during unpacking. Your packaging must comply with the market access requirements of the country to which you are exporting.</p>  | <ul style="list-style-type: none"> <li>• Develop a good and attractive packaging for preventing damages and on strengthening your image. In many cases, the best way to pack goods is inside a wooden crate reinforced with metal strips.</li> </ul>  |

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| <p><b>Import duty levels depend on the HS code</b><br/>Some goods imported into the EU are subject to import duties. The percentage of import duty depends on the HS code (Harmonized Commodity Description and Coding System) that applies to the goods in question. Your global forwarder can help you identify the correct HS code. This aspect is important if you have agreed on DDP delivery conditions (Door Delivery Duty Paid). Goods imported from countries which have a free trade agreement with the EU are duty-free or are subject to reduced duty. In such cases, exporters are required to send a certificate of origin Form A along with the shipment.</p> | <ul style="list-style-type: none"> <li>· Make sure you are aware of import duties and their effect on your export costing.</li> </ul> |
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| <p><b>4. Communication Brain</b></p>  |   |
| <p><b>Trust is vital and is initially built on first impressions</b><br/>Buyers will form a first impression of you in the first ten seconds of meeting you. Apart from their obvious interest in your product and company, they will want to find out whether you are trustworthy. Good communication will help you gain their trust. Many suppliers focus exclusively on their product or business processes, failing to recognise that communication is, in fact, essential for building and maintaining business relations. How you communicate may well make the difference between developing a successful partnership or not.</p>  | <p><b>Considerations for action</b></p> <ul style="list-style-type: none"> <li>· Many DC suppliers offering good products and services fall short on communication, thus unnecessarily making a careless impression on buyers. In developing new contacts, your focus from the start should be on building a good relationship and maintaining it.</li> </ul>   |
| <p><b>Slow email response can cost you customers</b><br/>Email is often the first point of contact between buyers and suppliers. In Europe, buyers expect same-day response to emails they send – even if in your initial response you offer no more than a confirmation and a due date for an in-depth answer. A slow response will be taken by many European buyers as a sign of disinterest or lack of professionalism – and vice versa.</p>   | <ul style="list-style-type: none"> <li>· Always answer, or at least confirm, every email, informing the sender when and how you plan to deal with the issue presented.</li> <li>· If you receive an urgent email, respond by phone.</li> </ul>  |
| <p><b>Email is not everything: use the phone regularly</b><br/>Don't fall for the temptation of doing all your business with buyers by email. As efficient as email may be, it is also impersonal and has its limitations. Phone calls potentially can give you a lot of buyer input that you would miss by email. For instance, if you have sent a quotation, it can be useful to schedule a phone call 2 or 3 days later to find out whether your quotation is clear and what the customer's first impression is. Or if there is an urgent issue, dealing with it on the phone can save precious time and prevent misunderstandings. As a rule, buyers will appreciate the use of email for exchanging clear, short messages and documentation and the use of the phone for discussing issues, resolving problems and building trust and understanding.</p> | <ul style="list-style-type: none"> <li>· Prepare for phone calls by writing down what you want to discuss.</li> <li>· Make sure you have all relevant correspondence and data at hand before calling.</li> <li>· Be aware of time differences.</li> <li>· Speak clearly and listen carefully without interrupting.</li> <li>· Show enthusiasm about your own business and your customer's.</li> </ul> |
| <p><b>Your reachability matters to your customers</b><br/>Being difficult to reach as a supplier will make your customers feel uneasy. Unanswered emails or phone calls will give them the feeling you are out of control. Ideally, they will want to be able to reach you, or someone representing you, on the phone 24/7. This kind of availability will definitely increase their confidence in you as a supplier: to your customer, it means you take him and whatever problems or questions he may have seriously.</p>   | <ul style="list-style-type: none"> <li>· Make sure your customers know how and when they can reach you and who to contact if you are not in.</li> <li>· Set up clear lines of communication for emergencies.</li> <li>· Notify customers in advance of holidays and festivals.</li> </ul>   |
| <p><b>Proactive communication will strengthen your position</b><br/>Effective communication goes beyond merely keeping in touch with your customers and answering their questions and queries to anticipating their needs before they express them. It's about being one step ahead. Remember, your contact person within the buyer company is under pressure from a lot of different sides. This means that he will value your efforts to understand his position and to come up with solutions for the challenges he faces. This kind of proactive communication will inspire trust and establish you as a responsible and dependable player in the supply chain.</p>   | <ul style="list-style-type: none"> <li>· Take time to consider the challenges your buyer may be facing and how you might offer support.</li> <li>· Proactive communication is an excellent promotional tool: your engagement (or failure to engage) with buyer issues will spread throughout the buyer company.</li> </ul>  |
| <p><b>Bring problems out in the open</b><br/>Any problems that may sooner or later affect your customer –</p>   | <ul style="list-style-type: none"> <li>· In case of problems, don't wait for your customer to call</li> </ul>   |

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| <p>whether they are capacity or manufacturing issues, transport delays or whatever – should be brought out in the open as quickly as possible. In Europe, buyers expect complete openness. Failure in this area, resulting in unexpected trouble for the buyer, will damage the relationship as well as your business. Problems presented at an early stage – with time for finding solutions – will be more easily accepted. By taking responsibility for the problem rather than ignoring it or leaving it to the buyers you will gain credibility as a partner.</p>  | <p>you, but be the first to make contact and define the problem.</p> <ul style="list-style-type: none"> <li>• Invite the buyer to help you find a solution, if necessary, but remember that essentially you are responsible for solving the problem.</li> </ul>   |
| <p><b>Face-to-face meetings are ideal for building trust</b><br/> Frequent visits to your (potential) European customers are vital to export success. Many DC exporters underestimate the importance of company visits and lose business as a result.<br/> The best time to gain confidence in yourself, your products and your company is in face-to-face meetings at your customer's site. Company visits should be planned, confirmed and properly prepared. Customers and prospects will expect you to bring up-to-date promotional material, relevant documentation, samples and a PowerPoint on your company, products and processes. They will also appreciate it if you have familiarised yourself with their business by checking their website and reading up on market developments. The best way of demonstrating that you have done this, is to ask questions about the company and the challenges it faces. That way, you can make sure you understand the customer's position before proposing solutions. In most European countries, showing a polite interest in the personal life of your conversation partner – e.g. his interests, family life, holiday plans et cetera – is appreciated. Remember, the main purpose of face-to-face meetings is to build trust and to develop a positive relationship that will be conducive to business. Everyone enjoys doing business with people we like. European businesses will expect you to send an e-mail a day or two later, expressing your appreciation for the visit and summing up the issues discussed and the action points agreed on. Using a brief, easy-to-read report for this purpose will strengthen your image as a serious and professional player.</p> | <ul style="list-style-type: none"> <li>• Plan a visit to Europe at least twice a year.</li> <li>• If you have scheduled a customer visit, make sure it is confirmed and you know who you will be seeing.</li> <li>• Prepare your own agenda, while also allowing room for the customer's agenda.</li> <li>• Arrive in time, preferably a few minutes before the meeting. If you are delayed, inform the other party as early as possible.</li> <li>• Dress appropriately.</li> <li>• Ask open questions and listen well: customers will appreciate your interest.</li> <li>• Be yourself.</li> <li>• At the end of the meeting, sum up the main points and confirm these later in an email.</li> <li>• Make a report of the visit and share it with key players in your company.</li> <li>• Do what you promised to do during the visit.</li> </ul> |