

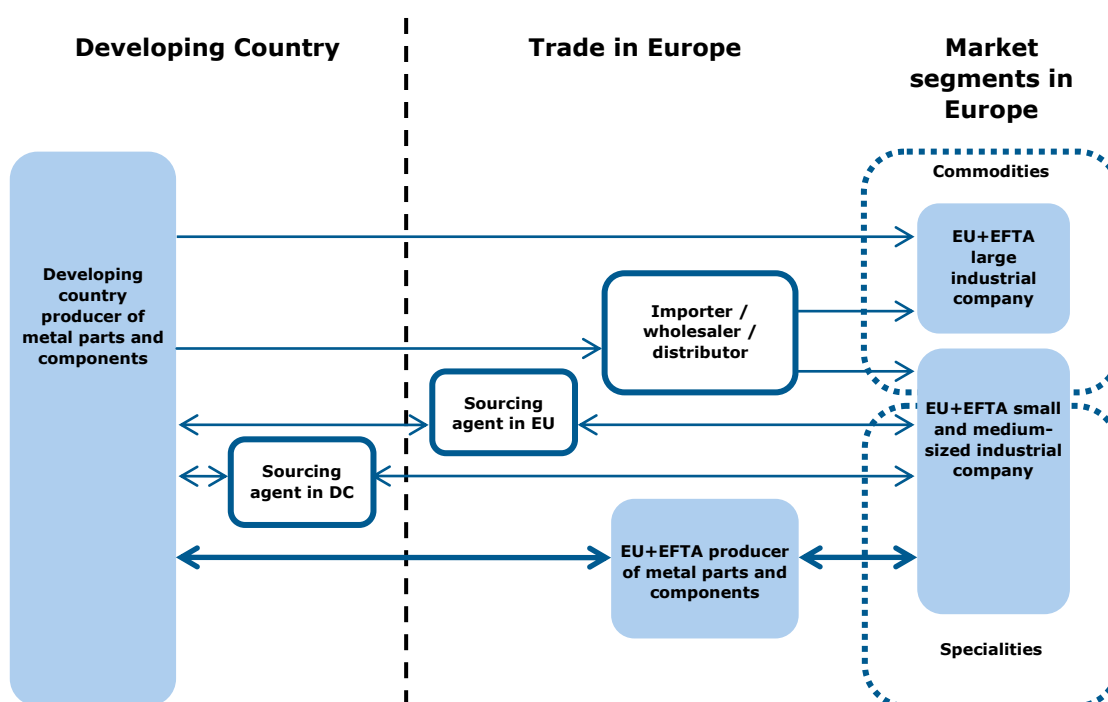


CBI Market Channels and Segments for Metal Parts and Components

‘Your trade route in the European market’

DC manufacturers of tailor-made metal parts and components should focus on subcontracting for or partnering with EU+EFTA producers of metal parts and components. Other options for entering the EU+EFTA market with tailor-made parts and components include sourcing agents and importers. In the case of exporting commodities, DC exporters can choose between indirect trade via importers and direct trade with large industrial companies in the EU.

Figure 1: Trade structure for metal parts and components in Europe



Source: Interviews with industry experts (2012)

Market channels

Please refer to [Annex I](#) for the characteristics of the individual market players.

Market segments

The market for metal parts and components can be divided into specialities and commodities.

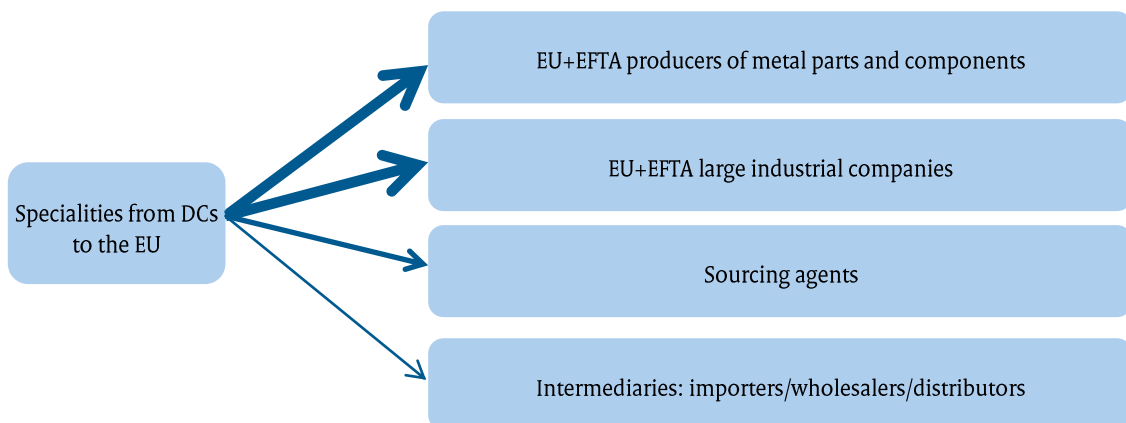
Specialities

Specialities are more tailored to the needs of the buyer and are therefore less suitable to be held in stock. More than 90% of all metal parts and components are specialities. In recent years, China has started to tap into this market however its share of trade is still limited, leaving clear opportunities for exporters from other DCs.

In the medium term, the main characteristics will remain:

- The buyer specifies product requirements.
- Buyers are EU+EFTA producers of products which require metal parts and components, sourcing agents and intermediaries.
- The share of intermediaries is low (less than 5%), while the share of direct trade and trade with EU+EFTA producers of metal parts and components is rather high (75%). The sourcing agent accounts for about 20% of trade.
- Margins are relatively high compared to margins for commodities. It depends on the level of care and attention that must be given to the product, as well as the costs (and risks) involved in the sourcing process.

Figure 2: Segmentation 'Specialities'



Source: Facts Figures Future (2012)

Commodities

The market for commodity-type products (e.g. fasteners and base metal mountings) accounts for approximately 10% of the total market. China dominates the commodity market in the EU+EFTA and competes mainly on price, leaving very limited opportunities for other DCs.

In the medium term, the main characteristics will remain:

- High degree of rivalry with many competitors in the market, which leads to price competition.

- Buyers in the EU+EFTA are made up of intermediaries (indirect trade) or (rarely) large industrial companies (direct trade).
- Only a quarter of trade in the EU+EFTA is direct trade, the rest is indirect trade.
- Margins are relatively low with a maximum ceiling of 20%. They reflect the level of care and attention an intermediary has to give to the sales and handling process. Products that do not need much extra care, such as finished and ready-to-use products, will be sold with a smaller margin than products that need extra handling or even need to be stored.

Chinese exporters shift to specialities

- So far, China has mostly succeeded in gaining market share for low added-value serial products, such as manhole covers. In the coming years, it is expected that a growing number of foundries from China will increasingly sell specialities to EU+EFTA buyers. This can be considered as a threat and underlines the importance for DC exporters to improve their competitiveness. The presence of China will definitely not make trade with EU+EFTA buyers any easier.

Considerations for action:

- Improve your (export) sales and marketing skills.
 - Use a European style of marketing;
 - Follow-up quickly;
 - Show reliability; be honest.
- Focus on a limited number of specialities for certain targeted market segments. Focus on one or two products or core technologies or services which are truly unique and in which you have a competitive edge.
- Offer the 'best costs'. This means the best price/quality ratio for your product and your delivery performance.
- Benchmark your company against your industry peers.

This survey was compiled for CBI by Facts Figures Future
in cooperation with CBI sector expert Peter Lichthart

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Annex 1: Details of market players

Large industrial company in the EU

- Producers of modules or finished products. They can be an interesting partner for DC exporters of commodities if the EU+EFTA company needs large volumes of these commodities.
- They buy parts and components and assemble these into a module (sub-assembly) or a final product. They buy both commodities (as shown) and specialities.
 - They buy specialities directly from EU+EFTA producers (and sometimes also from DC producers).
 - They buy commodities from intermediaries or, in case of high volumes, directly from producers both in and outside the EU.
- Quality and reliability are major selection criteria. Although several large industrial companies may manage supplier selection programmes with strict selection criteria, these companies know that starting a new supplier relationship takes time and effort on both sides and that quality failures may occur in the first few months.

EU+EFTA producer of metal parts and components (subcontracting)

- These companies offer strong potential for the supply of most metal parts and components. This is logical as metal parts and components tend to be specialities and the majority of trade therefore takes place directly, without the involvement of any intermediaries.
- Subcontracting takes place according to the buyers' specifications. An advantage of subcontracting is that the DC exporter only requires a little exporting experience.
- Subcontracting often concerns labour-intensive production.
- The willingness of producers to form subcontractor relationships with DC exporters differs from country to country. Generally speaking, German companies take the lead in the EU+EFTA in this area and, in several cases, have formed joint ventures with DC exporters.

Importer/wholesaler/distributor

- Importers/wholesalers/distributors are attractive targets for DC exporters who aim to export large volumes of commodity-type products. This is because these intermediaries often buy and/or import commodities in relatively large volumes on a scheduled basis. Examples of commodities are fittings and flanges, screws, bolts and nuts and base metal mountings.
- In most cases, EU+EFTA companies can be characterised as distributors, although they also have an import function.
- Importers buy on their own account, and their activities increasingly focus on additional services around the product itself, e.g. marketing, quality assurance, sourcing and transferring knowledge, stock keeping, fast delivery and after-sales service.
- Most importers have several suppliers, allowing them to supply the buyer rapidly.

Sourcing agent in the EU

- Sourcing agents can be seen as match-makers for specialities: EU+EFTA companies which are not satisfied with their current supplier may contact the sourcing agent, seeking a solution for their problem. The sourcing agent, in turn, could then make use of sourcing agents in DCs, in order to define the best sourcing solution for the product.

- Most sourcing agents have several suppliers, enabling them to offer the buyer the best solution.
- There is a negligible difference between a sourcing agent and an importer when talking in terms of responsibilities and margins.
- Usually, the sourcing agent does not hold stock. However, in some cases sourcing agents are asked by their buyers to hold (some) stock in order to be able to supply them faster.
- Offers logistics, marketing and communication services; the only thing a DC exporter has to focus on is production.

Sourcing agent in a DC

- Sourcing agents can be seen as match-makers for specialities: they match supply in DCs with demand in the EU. They have a thorough knowledge of production capabilities and the capacities of foundries and/or forges in their country.
- Sometimes the sourcing agent in a DC also supports an EU+EFTA company in the search for a reliable partner in a DC.
- Offers logistics, marketing and communication services; the only thing a DC exporter has to focus on is production.