

BME Sourcing Conference 2009 - Workshop

Optimization of China Sourcing in Cooperation with  
high quality suppliers and employment of true global  
procurement organizations

Shanghai, September 2009

## Optimization of China Sourcing in Cooperation with high quality suppliers and employment of true global procurement organizations

- Chinese Automotive Industry leading "Supplier Integration"
  - ▶ Supplier Development Excellence Study by SMI

*Discussion*

- Case study 1
  - ▶ Evaluation and selection of Chinese EPC

*Discussion*

- Case study 2
  - ▶ Building a true global procurement organization

*Discussion*

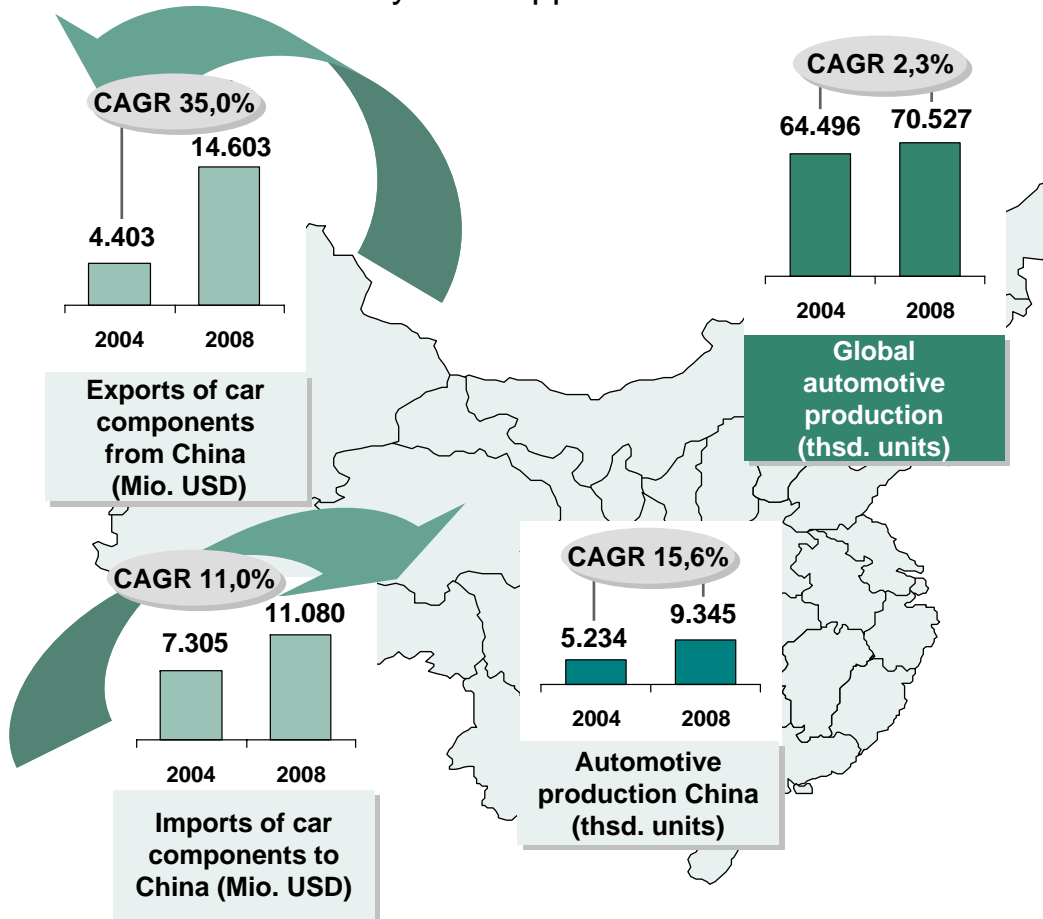
- Case study 3
  - ▶ Chinese suppliers want more than just delivering simple parts

*Discussion*

- Case study 4
  - ▶ To implement china wide sourcing concept "As-Is" analysis and definition of "To-Be" new IPO

## Chinese automotive industry stands firm during the crises and experiences a period of change: global offensive of Chinese OEMs paired with a technology and quality upgrade.

### Automotive industry and suppliers China



Production numbers for cars and commercial vehicles

Source: BrainNet EAC

### Key-Trends of the Chinese automotive industry

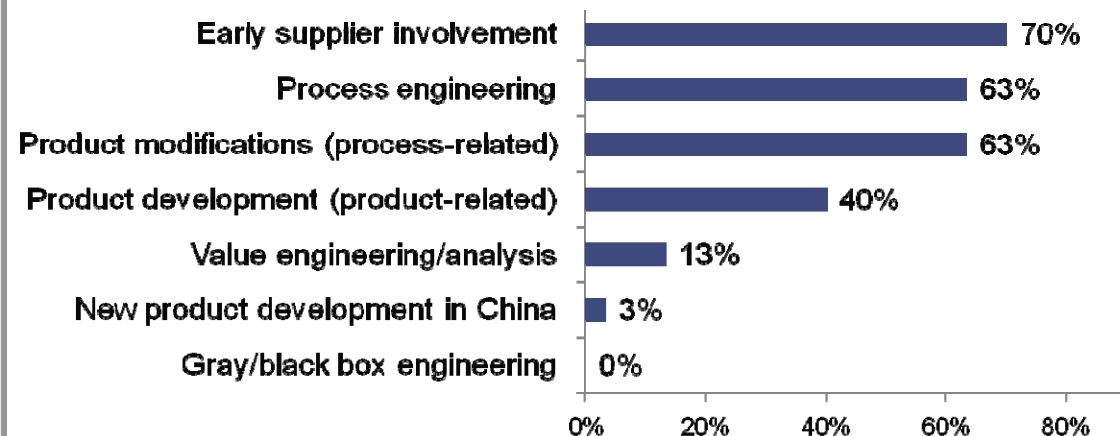
- Car sales January – April note 21% over previous year level
- Infrastructure offensive of the Chinese Government shows impact and significantly supports the automotive industry
- Dominance of the Western OEMs is still unbroken with a market share of appr. 50% - VW remains as the strongest company in the market
- The pure Chinese manufactures like BYD and Geely show in 2009 the highest rates of sales increase
- Chinese OEMs push forward the development of Hybrid- und Electro vehicles – a clear trend goes to small, economical cars as the growth potential of the future
- Increasing localization and professionalism in Procurement of the local OEMs, applying „local for local“ strategies – global procurement in the HQ loses influence
- Suppliers foster by technology and quality upgrades their „Going West“ strategy - not to be underestimated competitors of the future



## The Importance of Chinese Suppliers.

Involvement of Chinese suppliers in joint activities with foreign automotive OEMs

- 100% of the respondents claim they want to increase their number of Chinese suppliers.
- However, Chinese suppliers mainly deliver b- and c-parts; very few Chinese module/system suppliers deliver to the foreign OEMs.
- This explains why Chinese suppliers are involved in joint development activities to a relatively low extent.

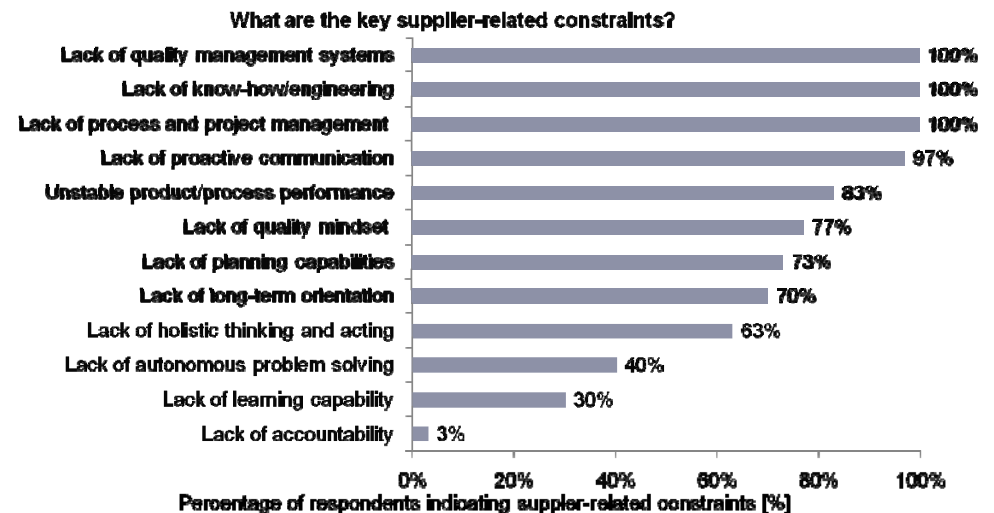


Involvement of Chinese suppliers among foreign automotive OEMs [% instances]

## Chinese Automotive Suppliers Going Global – Fact or Fiction?

Expectations on domestic suppliers and their weaknesses.

- Automotive OEMs are outsourcing non-strategic activities to an increasing extent – key suppliers are in turn taking on additional responsibility beyond sole manufacturing.
- Currently, most Chinese suppliers are lacking necessary capabilities to take on such responsibility and become a global key supplier for the foreign OEMs.
- Key bottleneck is not equipment/machinery, but lack of quality mindset and customer orientation.



## Case study 1 Evaluation and selection of Chinese EPC

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The target in this case was to evaluate the capabilities of Chinese EPCs to realize a power plant project in Eastern Europe.

### Project background

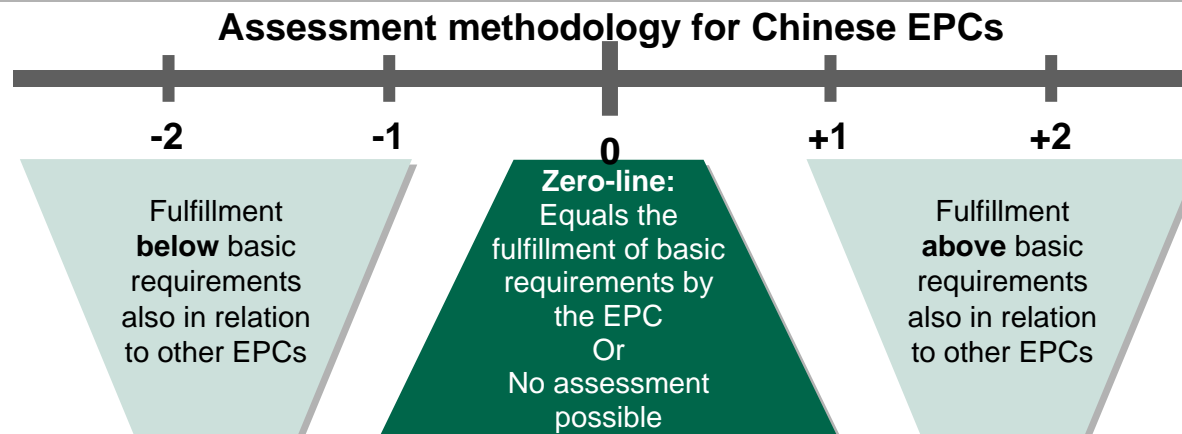
- Chinese EPCs have **longstanding experience** to build **power plants** domestically (“EPC” stands for Engineering, Procurement, Construction of power plants)
- Due to a **decline of new power capacity** installation in **China** the EPCs started to **export** their technology mainly to other **Asian countries**, but are also on a further westward move to **Eastern Europe**
- On the other hand **available resources** from **European EPCs** to realize **new power plant are very limited**
- A further reason for the project is the **expected cost advantages** provided by a Chinese EPC
- Therefore, BrainNet EAC was entrusted to **evaluate** the **operational feasibility** of a power plant **investment in Eastern Europe** utilizing a Chinese contractor
- The project started with a **pre-due diligence process** to evaluate **company fit and project fit** of **4 selected Chinese EPCs**
- One **important step** of the pre-due diligence process were **several research journeys** to the **EPCs headquarters** as well as to selected **international reference projects**

Assessment criteria and mathematical scheme were applied to evaluate the Chinese EPC's performance.

### Pre-Due Diligence China EPCs

Company fit	Project fit
Pre-Due Diligence Chinese EPC	Pre-Due Diligence Chinese EPC
Company information and background	Project management pre-erection
Project execution experience	Project management erection phase
HSE standards and philosophy	Standard service concepts
Technical/ Conformity Assessment	Contract fulfillment
	Reference customers' experience

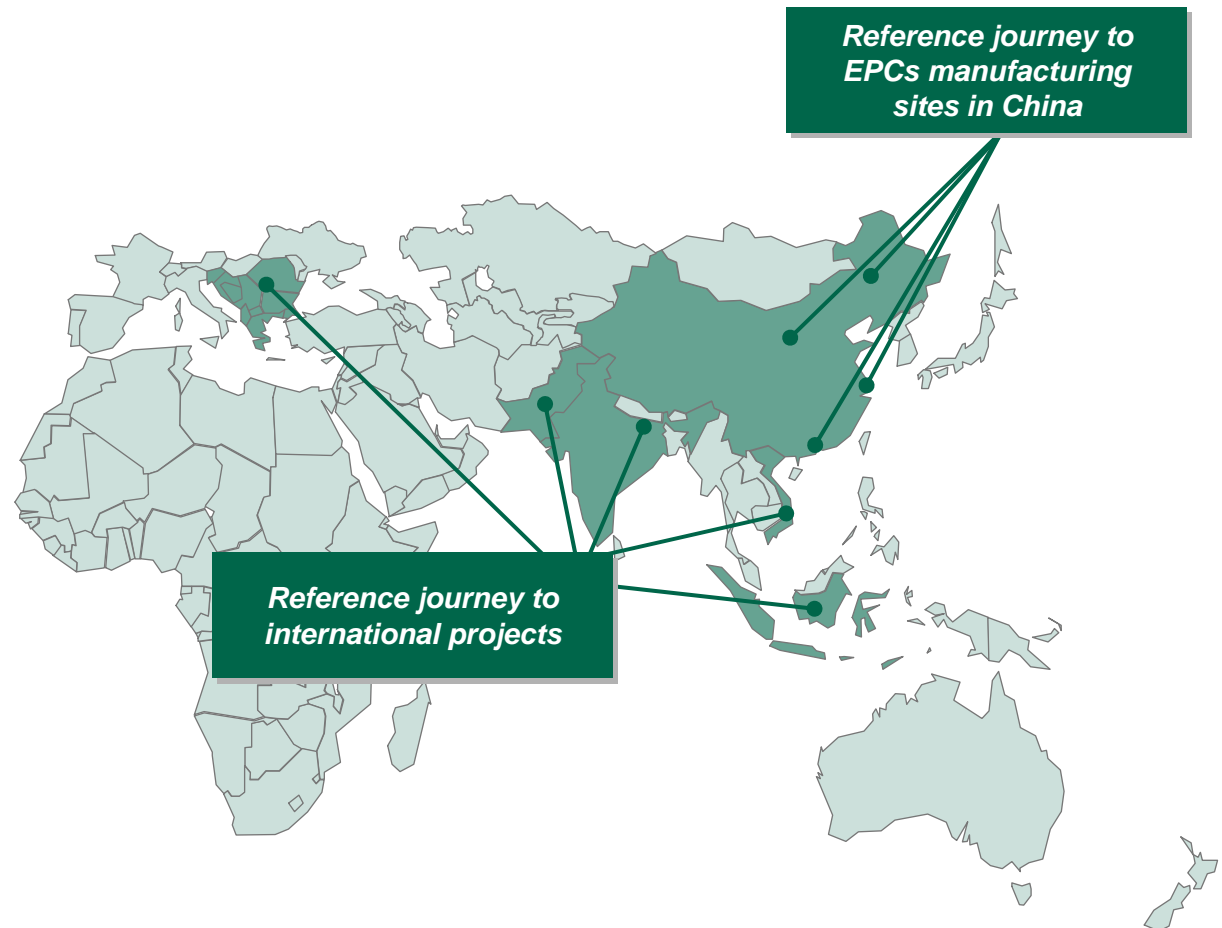
### Mathematical scheme for China EPCs



Reference journeys were carried out to observe the capabilities of selected EPCs during manufacturing and all phases of construction and commissioning.

### Reference journeys

- Purpose of the journeys: To evaluate
  - ▶ Manufacturing facilities
  - ▶ Power plants under construction
  - ▶ Power plants in operation



Suppliers were screened in a personal visit, taking 2-3 days per supplier for a thorough check up.

Methodology: Detailed Audit procedure and documentation to the client

Detailed Audit Check-up → Concise Company Assessment and Profile

The image displays a series of overlapping screenshots from BrainNet EAC Factory Assessment Reports and a Concise Company Assessment and Profile report. The reports are for various suppliers, including Tangshan Mining & Metallurgical Machinery Plant, Evonik Steag, and Zhenjiang Puoplun Pneumatic Conveyance Co., Ltd.

The Factory Assessment Reports show detailed data collection, company profiles, and evaluation metrics. The Concise Company Assessment and Profile report for Zhenjiang Puoplun Pneumatic Conveyance Co., Ltd. provides a summary of the supplier's performance, including a Supplier Assessment score of 4.8 and a Company Profile overview.

**Supplier Assessment**

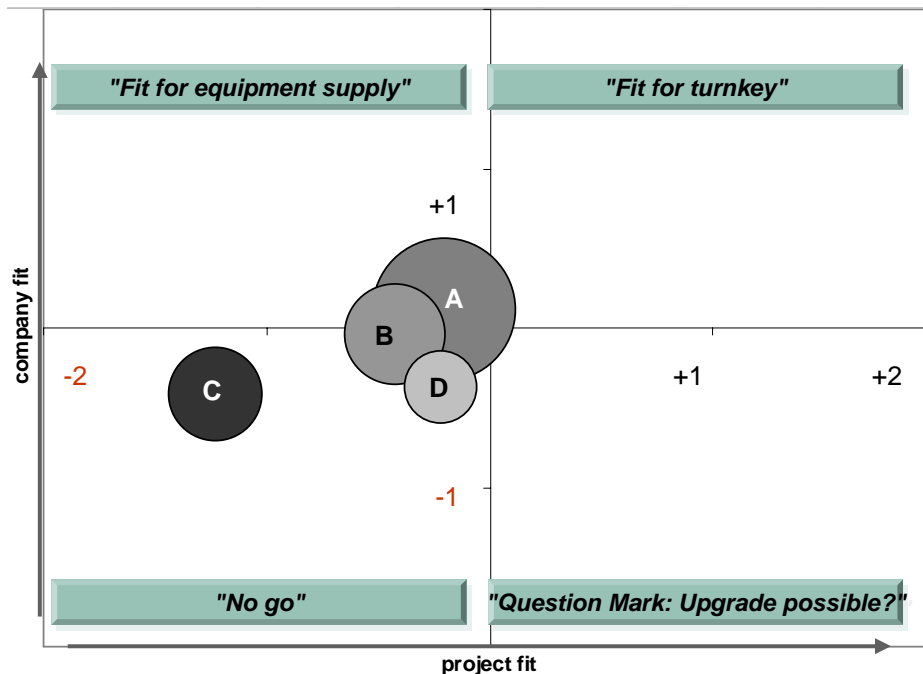
Assessment Criteria	Score
Company Profile	4
Organization & Structure	4
Production & Equipment	4
Logistics & Service	4
Quality	4
R&D Testing	4
Specification Fulfillment	4
Contractual & Reputation	4
Appearance	4
Plant	4
<b>Overall (Weighted)</b>	<b>4.8</b>

**Company Profile**

- Company Name: Zhenjiang Puoplun Pneumatic Conveyance Co., Ltd.
- Legal Form: Private
- Foundation: 2008
- Turnover 2007: 29.1m RMB (1st plant)
- Employees 2007: 54 in RMB (1st plant)
- Employees 2007: approx. 2 in RMB (2nd plant)
- Product portfolio:
  - Fuller series of pneumatic conveying system
  - Large scale powder pneumatic conveying system
  - CS series ash handling system
- Certifications: ISO9001, ISO14001

The overall assessment shows: non of the evaluated Chinese EPCs qualified themselves appropriately.

### Overall evaluation of Chinese EPCs



### Impressions on present state of knowledge

#### 1. Technical impression

- **Good impression on manufacturing facilities** in China
- **Approvability** in Eastern Europe considered **feasible**
- But: **deficient implementation quality** in power plants
  - ▶ Long-term performance cannot be assessed
  - ▶ Deficiencies in spare part availability

#### 2. Commercial impression

- Significant increases in costs due to application of **international engineering and safety standards**
- **Service concepts** are **open/ not implemented**
- Significant **deficits** in **contract fulfillment** and **claim management**

#### 3. Project management philosophy

- Significant **deficits** in **quality-and HSE philosophy/** missing concept and systems in project management
- Lacking **customer orientation**, documentation and claim management

Overall the utilization of Chinese standard technology requires high attention by the client.

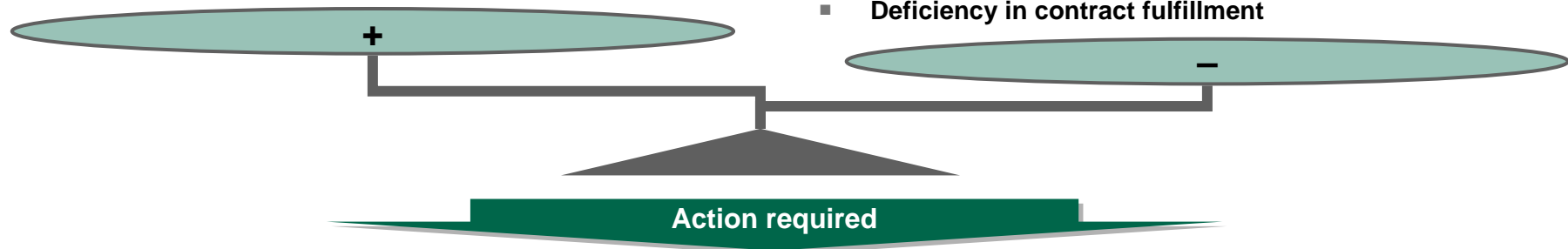
### Opportunities – Risks of a cooperation with Chinese EPC

#### Opportunities

- Expected **investment cost advantage**
- **Availability** of capacities and project teams
- **Extension of supplier base** by international contractor
- Positive **learning curve** to cooperate with international contractors

#### Risks

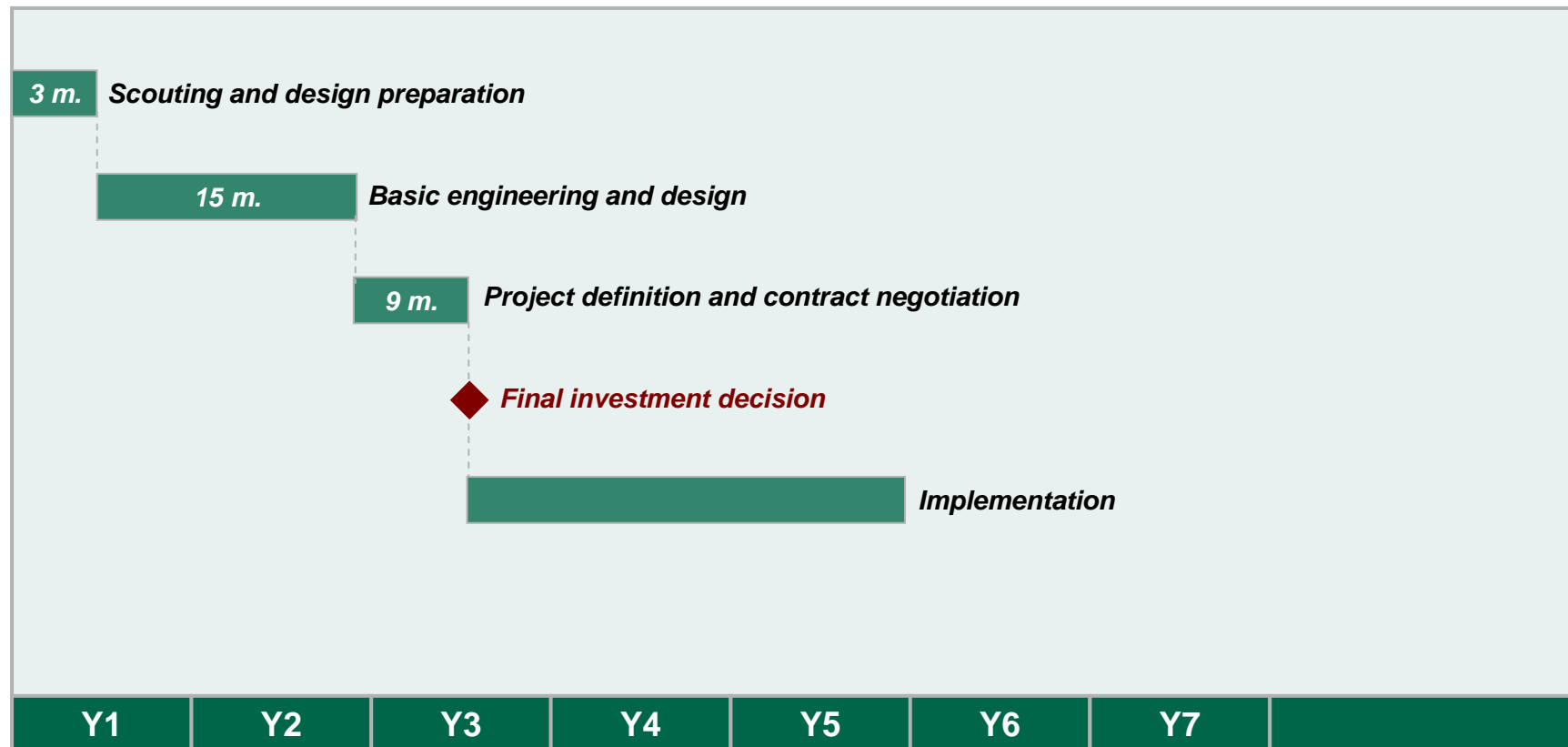
- Design of PP with **previous technology generation, upgrade demand** to international engineering and safety standards
- **Insufficient fulfillment** of **emission** and **environmental requirements**
- **Reduced life time**
- **No fulfillment** of basic requirements regarding **HSE, QM and project management**
- **Deficiency in contract fulfillment**



Detailed project development necessary for transparency on technology levels, design parameters, project planning, logistics, quality assurance concepts and operational concepts ⇒ transfer to thorough business planning

Detailed development phase can take up to 2 years including technical, commercial and project management development.

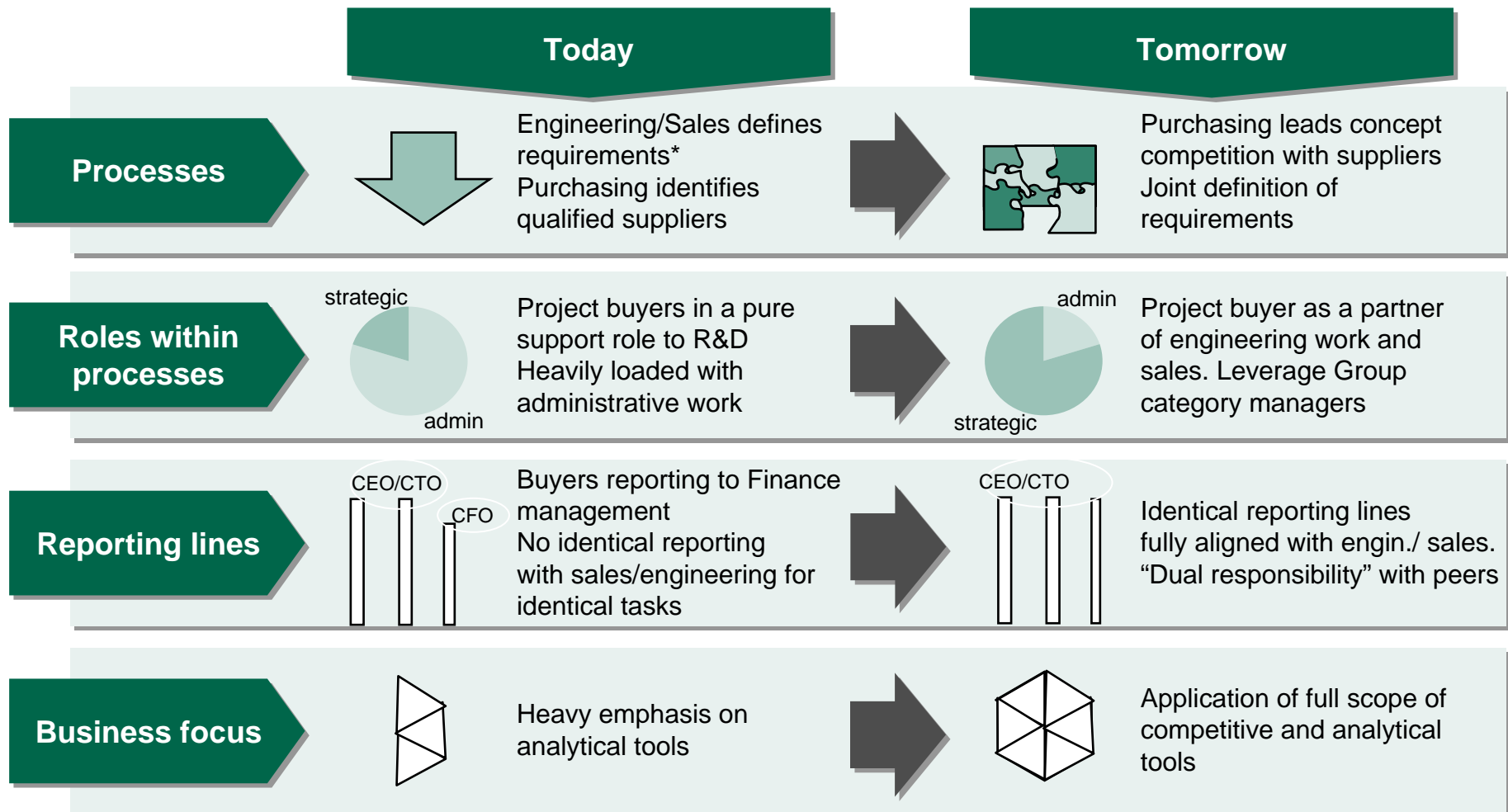
Steps of project development and implementation






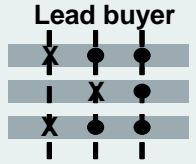
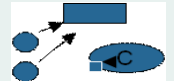

## Case Study 2 Building a true global procurement organization

Shanghai, September 2009

Successful Purchasing organizations are build on reliable processes, clear roles and reporting lines and a straight business focus.

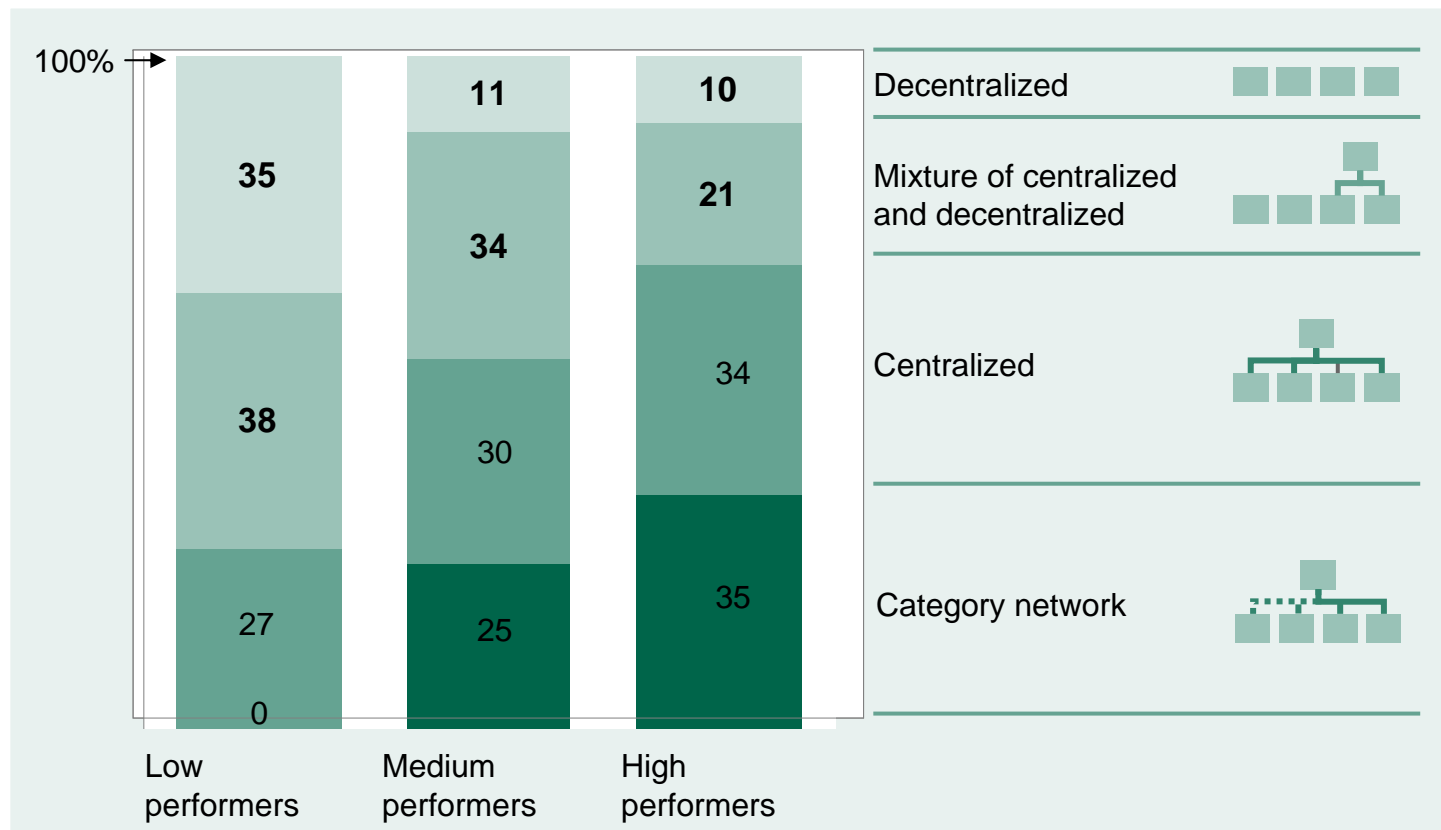


The characteristic of the present client group organization limits the future structure of the new Purchasing organization.

	Degree of organizational centralization/decentralization				Degree of cross-functional collaboration	
<b>Structure</b>	<b>Centralized</b> 	<b>Centralized &amp; decentralized</b> 	<b>Decentralized</b> 	<b>Lead buyer</b> 	<b>Technical/ forward and commercial / commodity sourcing</b> 	<b>Functional and cross-functional teams -</b> 
<b>Characteristics</b>	80% volume with centralized decision by 1 person	Centralized for ca. 50% of categories  Decentralized for other categories	Decentralized decision making	Each business unit or site with own purchaser  One purchaser has designated purchasing responsibility	Technical/forward sourcing for technical specifications and development phase  Centralized commercial/commodity sourcing for components in series phase	Permanent cross-functional teams  1:1 structure towards engineering/development
<b>Leveraging Component pressure</b>	++	+/-	--	-	+	-
<b>Technical specifications</b>	--	+/-	+ No bundling & competitive pressure	+ Lead buyer not powerful enough	+ Perfect balancing	++ Perfect leverage product design

Only 10% of the high performers\* have a decentralized Purchase organization.

Organizational structure per performance level



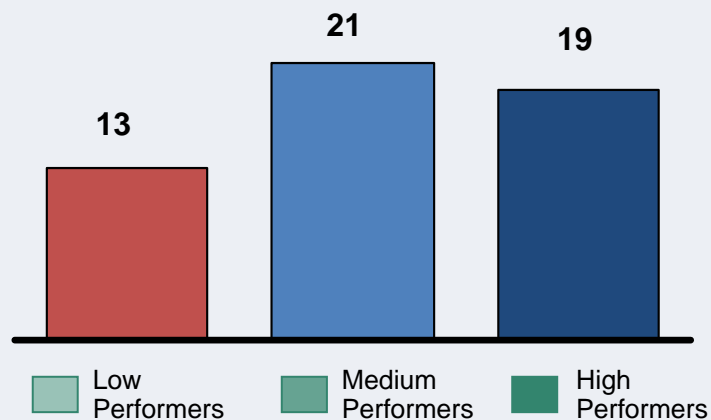
\* CFROI, ROCE, growth rate  
CFROI = cash flow ROI  
ROCE = Return on Capital employed  
Source: BrainNet EAC, SMI

## High performers invest in corporate strategic sourcing professionals and it pays off.

Example - USD 1 billion spend

### Number of strategic buyers

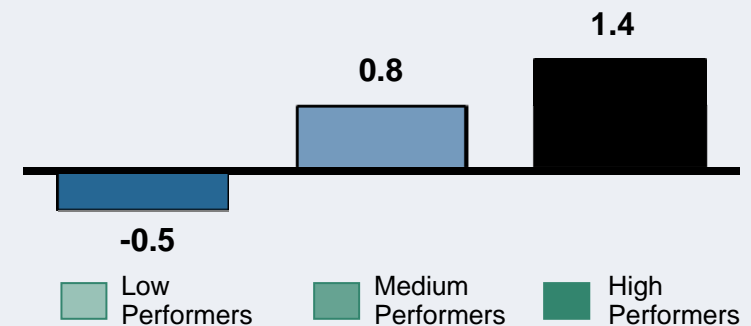
Per USD 1 billion spend



Medium and high performers invest ~ USD 1,5 million in strategic buyers

### Annual reduction of COGS

Percentage points



Medium and high performers realize USD 15 - 20 million more savings

## Basis to evaluate sourcing office is a polarity profile created from a questionnaire focusing on the relevant areas of performance/ set-up.

Excerpt questionnaire polarity profile

**Organisation Assessment** Client China Sourcing Office

Person responsible on behalf of BrainNet

— please mark the grey field of your choice with an "X" or enter the corresponding value (if asked for)

Comments

1. To what extent do the following statements apply to your company's purchasing department?

	does not apply	partly applies	mostly applies	applies fully
1 There is a corporate / local purchase controlling in place.				
a) corporate purchase controlling		X		
b) local purchase controlling		X		
2 Reporting to controlling department				
a) on monthly base	X			
b) on quarterly base	X			
c) on yearly base	X			
3 Corporate controlling / reports are physically available	X			
4 Controlling / CFO knows the purchase volume for				
a) indirect Material	X			
b) Project Material	X			
c) Production Material	X			
d) in total		X		

**Organisation Assessment** Client China Sourcing Office

Person responsible on behalf of BrainNet

— please mark the grey field of your choice with an "X" or enter the corresponding value (if asked for)

Comments

1 What commodities do you source in which BCC?

	commodity	BCC	
a) steel produces	machined parts stamped parts sheet metal parts	China	40% for US, 40% for Europe, 20% for others
b)			
c)	rollers, conveyors		In start-up process
d)			

2 Why do you source not more than x percent in BCC?

a) 5%	it's actually less than 5%	
b) 10%	because they are dependent on inquiries from the other sourcing hubs	
c) 15%		

Purchasing Interfaces

	regular	none	
1 Does the purchase department participate in regular meetings with			
a) sales department			CSO has regular calls with sourcing hub in US regular calls with sourcing hub Europe were called off recently, because of no business engineering is integrated from the German side, but on project basis, not regular basis
b) engineering			
c) service			

**Personal interviews with Sourcing Managers**

The CSO scores only below average compared to "Best Practice" benchmark and other sourcing hubs, weaknesses apparent in transparency and value-add.

China Sourcing Office in comparison



**Generate transparency**

- Purchase analysis and controlling, KPI's
- Monitoring market & industry sector
- Homogenous reporting purchase-supply chain-project



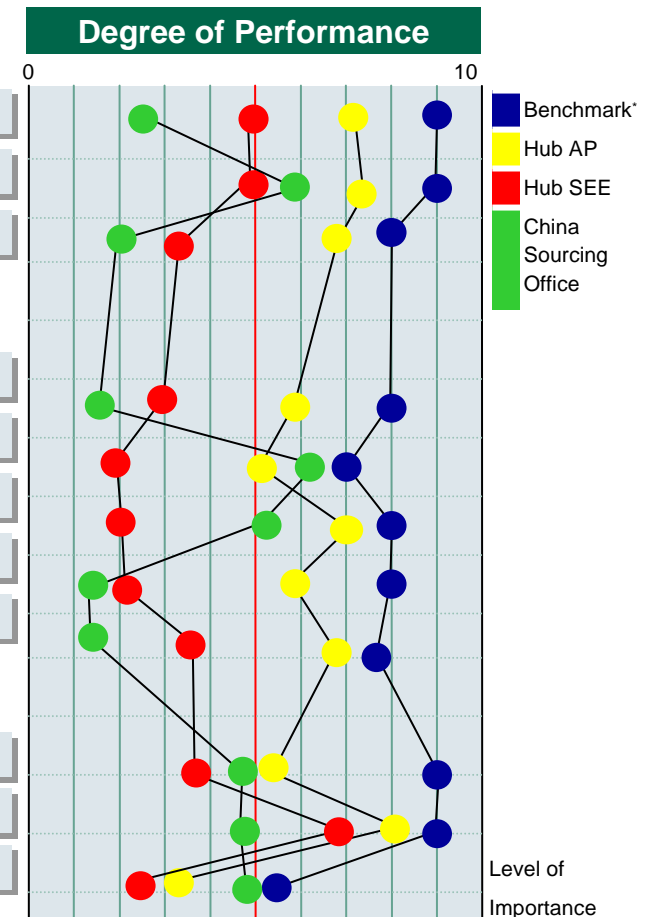
**Generate value**

- Annual measurable value contribution to financials
- Global Sourcing
- Sales, production activities linked with purchasing
- Robust planning of corp. framework agreements
- Utilization of potentials in and along the whole value chain



**Avoid risks**

- Supplier management / Reduction of suppliers
- Securing supply within purchasing and supply
- Single sourcing strategy



## New Global Purchasing Organization has to close current gaps - Global Purchasing has significant potential at Group level.

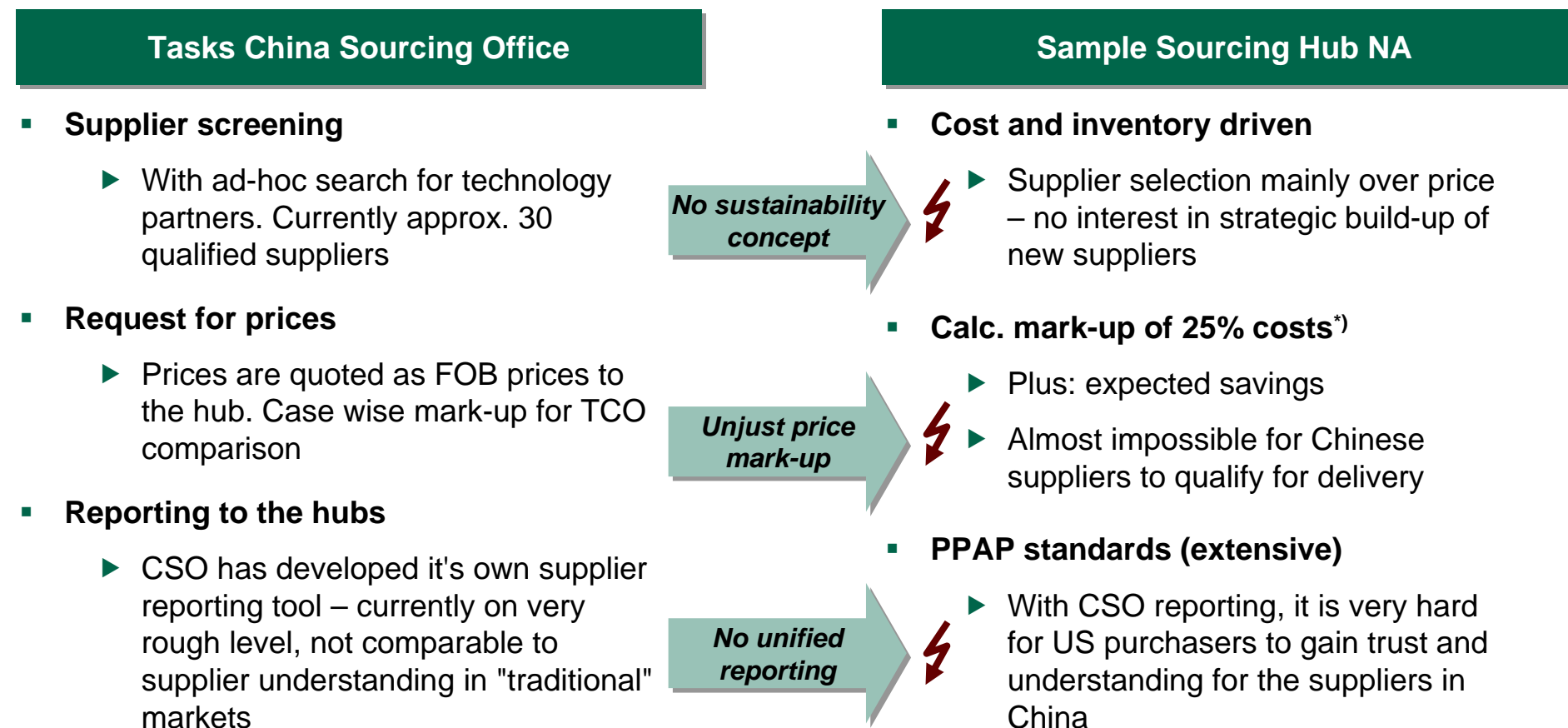
### Key findings

- 1 There is no overall client purchasing strategy (Category Group and Supplier management).
- 2 Operational processes are well established. There is optimization potential within strategic/tactical processes according to BrainNet EAC.
- 3 The value-add from Group Purchasing is not utilized (bundling potentials, partly missing professionalism, etc.)
- 4 Strong focus on operational activities deter the exploitation of existing optimization potentials on the strategic purchase level.
- 5 Client KPI and reporting based performance measurement is not in place.
- 6 In spite of the well established classification system, the Group Category definitions are not homogenous, this leads to interferences.
- 7 Risk management is limited to the operational level.



CSO staff uses much of its capacities on price quoting – purchase decision is not in their reach.

### CSO tasks and processes



<sup>\*)</sup> BNEAC benchmark: max 15% mark-up for transportation, import duty, risk- and warranty mark-ups, handling costs and capital lock-up

The development of a powerful Purchasing organization requires significant changes in client's group practices and processes.

**Purchasing strategy**

- Strong Group coordination, leverage of local market insights
- Differentiated buying tactics in order to drive down cost

**Cross-functional approach**

- Full support from engineering/sales for Purchasing strategy and vice versa, common targets and responsibility (
- Consistent and staged communication to suppliers (one face to...)

**Purchasing footprint**

- Develop global key suppliers
- Strong presence in **non-traditional supply markets**

**Supplier management**

- Aggressive re-sourcing approach towards incumbent suppliers
- Welcoming, coaching attitude towards new, **emerging suppliers**

**Controlling & incentive systems**

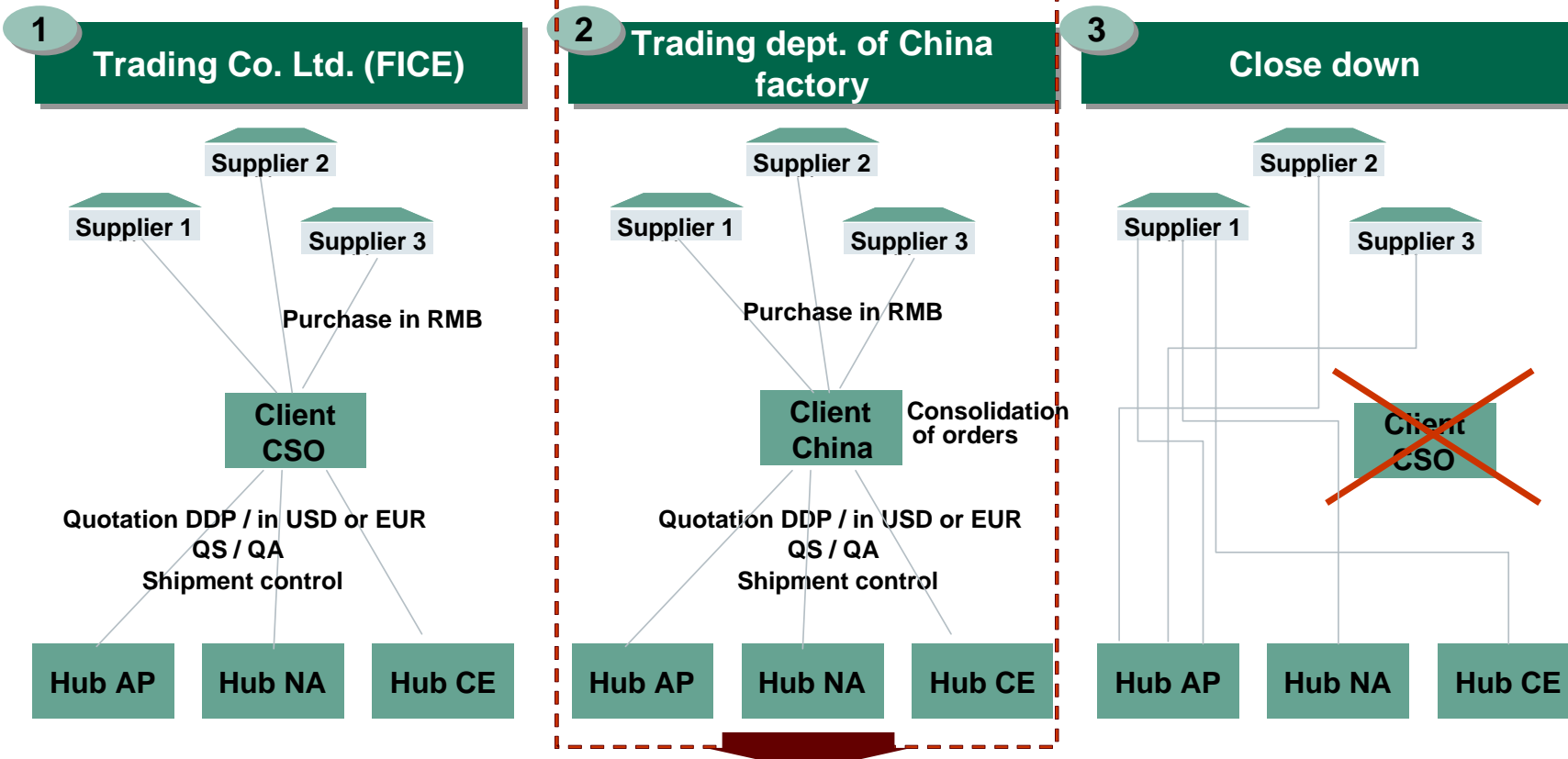
- Breakthrough savings instead of small annual savings
- **Performance of suppliers directly linked to amount of business awarded**

**Human resources**

- Buyers are in full command of technical aspects of products
- Highly skilled buyers in strategic roles

Possible solution: convert CSO to profit center instead of cost center: more responsibility, more accountability and more motivation.

CSO – Options for future



*Most viable option – but: needs significant upgrade of CSO staff capability  
Move to China factory location to be contemplated*

Case Study 3  
"As-Is" analysis and definition of "To-Be" new IPO

Shanghai, September 2009

The company concerned found in BrainNet EAC its best partner for the establishment and implementation of a China-wide concept for its Sourcing Offices.

## Initial Condition

### Company Background

- **Headquarter:** Germany
- **Turnover 2008:**
- **Employees:**
- **Structure in China:**
  - ▶ 4 entities in Mainland China
  - ▶ 1 entity in Hong Kong
- **Sourcing Volume Asia:** approx. USD 100 mio

### Project Targets

#### Strategic Orientation

- Description of responsibilities and quality assurance
- Itemization of sourcing office structure
- Arrangements to reduce purchasing volume over entities
- Illustration of possible scope of services regarding the Chinese sourcing offices

#### Processes and Interfaces

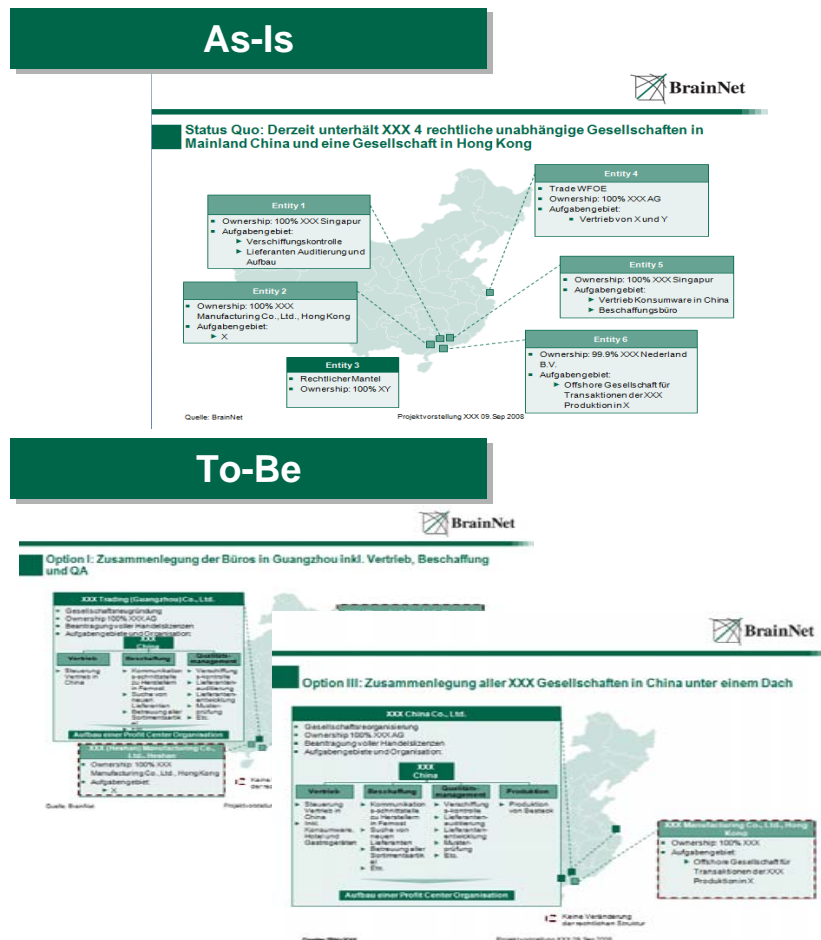
- Product management & Sales
- "Product Scouting" & Product development
- Technical support for suppliers
- Quality assurance

#### Efficiency

- Case Study of cost structure and – productivity of the sourcing offices in China
- Assessment of saving potential by rearrangement of direct purchase

Initially placed with four different legal entities in Mainland China and one in Hong Kong, BrainNet EAC proposed a new, more effective and cost saving legal structure.

### Legal Reorientation



### BrainNet EAC Deliverables

- **As-Is Analysis**
  - ▶ Assessment of current corporate structure and analysis of organization alignment with corporate objectives
  - ▶ Elaboration of a corporate restructuring concept
  - ▶ Scenario Analysis to best align with corporate strategy
  - ▶ “Best-in-class” benchmarking for IPO set-up
- **To-Be**
  - ▶ Definition of new, lean IPO organization
  - ▶ Consolidation of locations and functions
  - ▶ Empowerment concept of local management including definition of responsibilities and accountabilities

In order to identify saving potentials in Asia procurement, a detailed assessment of suppliers and purchasing structures was conducted.

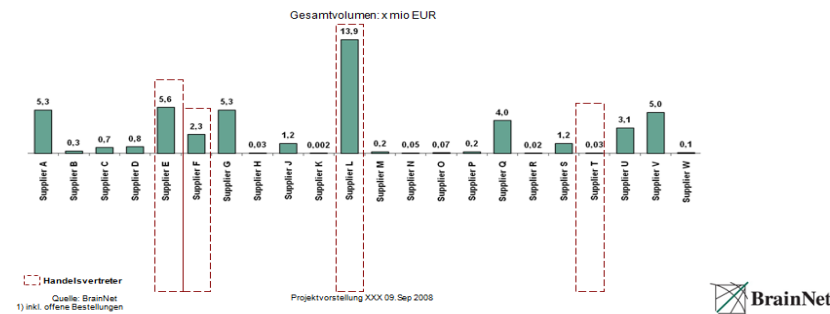
### Spend Analysis

#### Procurement Assessment



Derzeit ist der wichtigste XXX Lieferant aus China der Handelsvertreter YZ – XXX Manufacturing auf Platz 2

XXX Einkaufsvolumen China nach Lieferanten (Stand 01.08.2008)<sup>1)</sup>



Handelsvertreter  
Quelle: BrainNet  
1) inkl. offene Bestellungen



#### Ausgangssituation (2)

Bezugsvolumen Femost in mio EUR 2008 (Stand 01.08.08)

	Supplier G	Supplier H	Supplier J	Supplier K	Supplier L	Supplier M	Supplier N	Supplier O	Supplier P	Supplier Q	Supplier R
<b>Bezugsvolumen</b>	13,9	9,0	6,5	5,6	5,3	5,0	4,0	3,1	3,1	2,3	2,1
Product A	0,6	5,6	0,012	3,0	0,3	4,1		0,1	1,9	0,3	
Product B	0,6	2,9	0,06	1,1		0,9		0,02	0,5		
Product C		0,5			0,2				0,7		
Product D				1,2				1,5		1,0	
Product E	0,04		1,2							0,04	
Product F	12,7		5,3	0,3	4,8		4,0	1,5		1,0	2,1

Handelsgesellschaft  
Quelle: BrainNet

Projektvorstellung XXX 09. Sep 2008

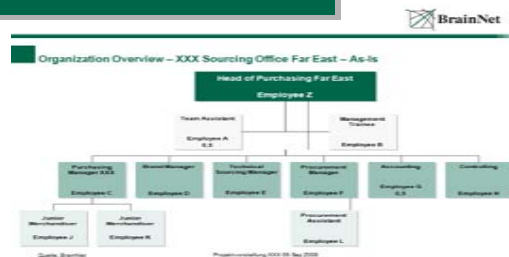
#### BrainNet EAC Deliverables

- Generating of buying power transparency by spend mapping total Asia sourcing volume
- Identification of saving potentials and tendering of biggest spends
- Article shift strategy from sourcing via trading companies to direct sourcing
- Contribution margin analysis on article base on definition of action demand to improve profitability

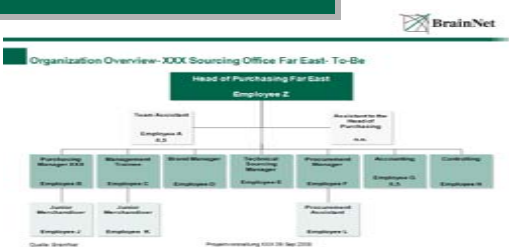
Further implementation of restructuring the organization included employment and training of necessary positions.

### Office Organization

#### As-Is



#### To-Be



#### Training

Requirements/ Skills	Tasks/ Actions	Individual Background	Training Requirements
<ul style="list-style-type: none"> <li>Ability to analyze and evaluate purchasing data</li> <li>Ability to identify and evaluate purchasing opportunities</li> <li>Ability to identify and evaluate purchasing risks</li> <li>Ability to identify and evaluate purchasing trends</li> <li>Ability to identify and evaluate purchasing opportunities</li> <li>Ability to identify and evaluate purchasing risks</li> <li>Ability to identify and evaluate purchasing trends</li> <li>Ability to identify and evaluate purchasing opportunities</li> <li>Ability to identify and evaluate purchasing risks</li> <li>Ability to identify and evaluate purchasing trends</li> </ul>	<ul style="list-style-type: none"> <li>Identify and evaluate purchasing opportunities</li> <li>Identify and evaluate purchasing risks</li> <li>Identify and evaluate purchasing trends</li> <li>Identify and evaluate purchasing opportunities</li> <li>Identify and evaluate purchasing risks</li> <li>Identify and evaluate purchasing trends</li> <li>Identify and evaluate purchasing opportunities</li> <li>Identify and evaluate purchasing risks</li> <li>Identify and evaluate purchasing trends</li> <li>Identify and evaluate purchasing opportunities</li> </ul>	<ul style="list-style-type: none"> <li>High level of education</li> <li>Good English skills</li> <li>Good IT knowledge</li> <li>Good communication skills</li> <li>Good analytical skills</li> <li>Good organizational skills</li> <li>Good interpersonal skills</li> <li>Good problem-solving skills</li> <li>Good decision-making skills</li> <li>Good time-management skills</li> </ul>	<ul style="list-style-type: none"> <li>Advanced Purchasing Management</li> <li>Advanced Procurement Management</li> <li>Advanced Supply Chain Management</li> <li>Advanced Contract Management</li> <li>Advanced Negotiation Skills</li> <li>Advanced Risk Management</li> <li>Advanced Trend Analysis</li> <li>Advanced Opportunity Identification</li> <li>Advanced Risk Assessment</li> <li>Advanced Trend Forecasting</li> </ul>

#### BrainNet EAC Deliverables

- IPO organization assessment and gap analysis
- Staffing plan for open positions
- Empowerment of existing staff
- Interim management
- Training demand analysis and conduction of tailor made trainings

Next step was to engineer and implement new standard procedures and processes, interfaces and reporting lines.

## Processes

### Process Definitions

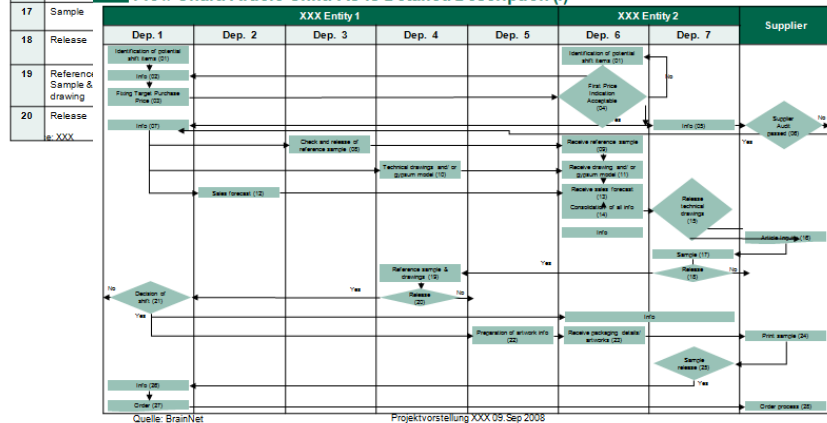


Flow Chart: Article-Shift: As-Is Detailed Description (II)

No.	BriefDes	Detail Description	Required Documents	Person in charge
11	Receive drawing and gypsum model	X will received the drawings and gypsum model from X		
12	Sales forecast	X will prepare a sales forecast for the defined article		
13	Receive sales forecast	X will receive the sales forecast		
14	Consolidate all info			



Flow Chart: Article-Shift: As-Is Detailed Description (I)



Quelle: BrainNet

Projektvorstellung XXX 09 Sep 2008

### BrainNet EAC Deliverables

- Detailed process definition and mapping of all core processes
- Definition of clear cross-functional interfaces
- Core processes employee trainings
- Establishment of Process Ownership system

To realize optimum saving potentials, offshore tax handling and the best logistic options were assessed.

Logistic / Offshore

Offshore



**Maßnahme 2: Überprüfung Rechnungsstellung über existierende Offshore Gesellschaft in Hong Kong**

Strategische Neuausrichtung der XXX Sourcing Gesellschaft in China



Source: XXX

Process Mapping

- **Umstellung der Rechnungsstellung der XXX China**
  - ▶ Schritt 1: Lieferanten stellen RMB-Rechnung an das XXX China Büro
  - ▶ Schritt 2: XXX China fakturiert USD an XXX Hong Kong
  - ▶ Schritt 3: XXX Hong Kong fakturiert USD an die XXX
- **Vorteile der Rechnungsumstellung (Mögliches Potential: Erfahrungen aus Vergleichsprojekten):**
  - ▶ Einkaufsvolumen: 100 Mio EUR
  - ▶ Gewinnmarge in Hong Kong 10%: 10 Mio EUR
  - ▶ Körperschaftsteuersatz in Hong Kong (100% offshore): 0%
  - ▶ Steuervorteil ggü. Besteuerung in Deutschland (Körperschaftsteuersatz 25%): 2,5 Mio EUR
- **Weiteres Vorgehen:**
  - ▶ Prüfung des Konzeptes mit Steuer- und Wirtschaftsprüfer
  - ▶ Definition von Transferpreisen innerhalb der XXX Gruppe und Einfluss auf DB I Betrachtung innerhalb der XXX Gruppe
  - ▶ Organisatorisches Set-up in China und Hong Kong

- Legal and fiscal assessment of offshore model
  - ▶ Assessment of legal enforceability
  - ▶ Negotiation with offshore service providers
  - ▶ Calculation of saving potential
  - ▶ Implementation plan: Capital requirements and detailed project structure

Source: BrainNet EAC

Logistic

**KUEHNE + NAGEL**



**KN Yantian #2 Export Bonded CFS / Warehouse**

**Location:** Strategically located 2 km away from Yantian Port  
**Customs Operation hours:** Monday to Saturday (08:30 – 11:30 / 14:00 – 16:00)

**Facilities**

- Total 31,370 sqm warehouse space
- Ceiling 9m high
- Heavy-duty racking system
- 140 loading bays
- 24-hour security and fire systems

**Main services**

- Immediate VAT refund
- Buyer consolidation
- Value added service
- Storage



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- Assessment of logistic companies (Kuehne + Nagel)
- On-site appraisal and implementation

## Case Study 4 Chinese suppliers want more than just delivering simple parts

Shanghai, September 2009

A mid-sized manufacturer of table socket outlets cooperated with his Chinese supplier for >11 years – At once the supplier increased the ex-factory price by 83%.

### Company overview

#### Company profile

- A mid-size manufacturer and supplier of high-quality industrial equipment for the European market
  - ▶ Product example: table socket outlets
  - ▶ Raw material: copper, plastics
- No. of employees: 2,500
- Turnover: 230 mio EUR
- Corporate organization: The company runs four operational entities located in Germany.
  - ▶ Production sites in Germany, Bulgaria, Romania and Czech Republic
  - ▶ So far no sales agents in China.

#### Client's situation


- (1) Sourcing >11 years from market leader in Ningbo
- (2) In 2008 (9 months), Ningbo supplier increased ex-factory price by 83%
- (3) No transparency in supplier cost structures



BrainNet EAC requested for support

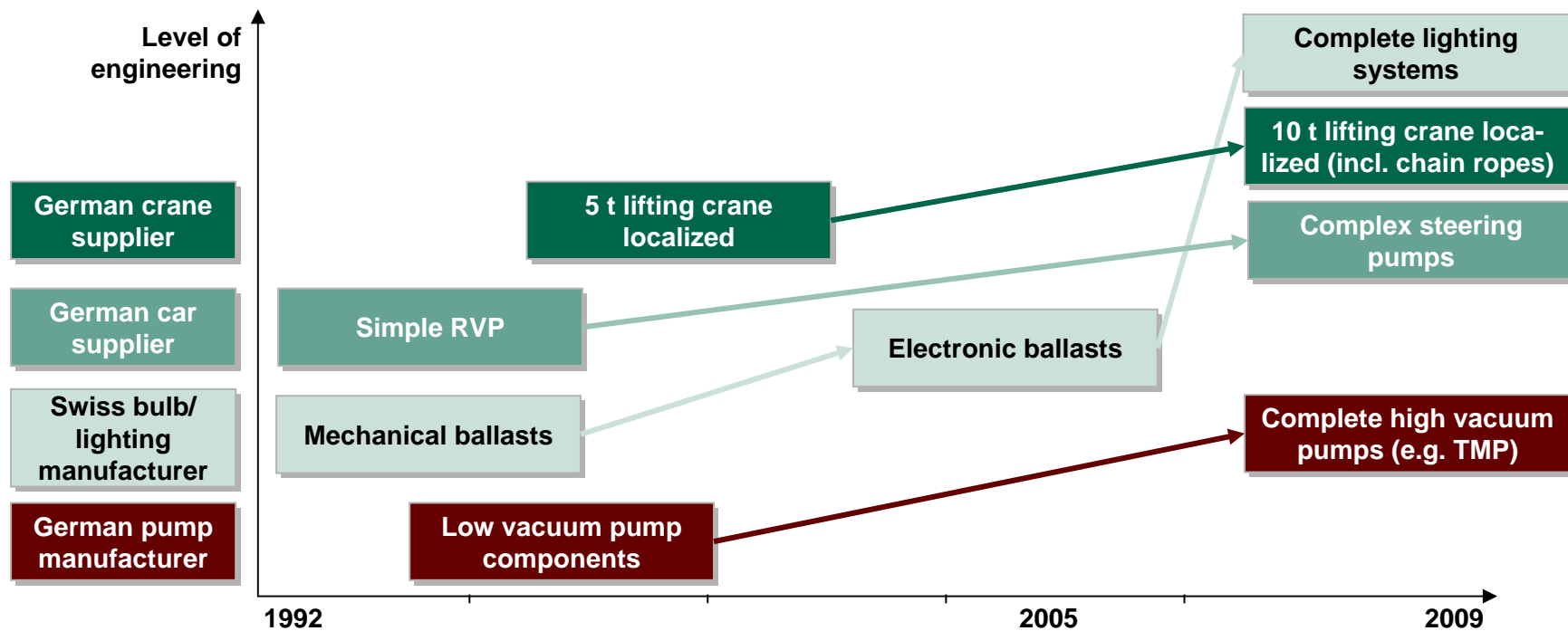
In single cases the lack of interest in purely delivering commodities from China is more than obvious.

### Actions of BrainNet EAC and Results

Actions	Results
<ol style="list-style-type: none"> <li>1. Cost-Due Diligence at Ningbo supplier</li> <li>2. Personal “revisions” with management</li> <li>3. Competitor benchmark RFQ from 4 alternative suppliers</li> <li>4. Simulation: Cost analysis: Alternative supply chain structures (incl. East Europe)</li> </ol> <div style="text-align: center; margin-top: 20px;">  </div> <div style="text-align: center; margin-top: 10px;"> <p><b>Assessment of results</b></p> </div>	<ol style="list-style-type: none"> <li>1. Chinese supplier sold table socket outlets to client below manufacturing costs</li> <li>2. Odd price increase by supplier caused by 2 motivations:               <ol style="list-style-type: none"> <li>1. Attempt to reduce losses</li> <li>2. “Signal” to show loss of business interest with client (“We are not willing to produce commodity products any more”)</li> </ol> </li> <li>3. Recommendation BrainNet EAC:               <ol style="list-style-type: none"> <li>1. Implementation of alternative Supply Chain Management                   <ol style="list-style-type: none"> <li>a. Plastic injection: Romania</li> <li>b. Assembly: Germany</li> </ol> </li> <li>2. Contract cancellation end 2008 with PRC supplier</li> </ol> </li> </ol>

This trend is confirmed by showing other cases within the “Evolution of the Chinese sourcing market”.

Chinese sourcing market



## Nevertheless: Success of China sourcing projects always depends on internal and political support of our clients.

### Internal limits China sourcing

**China sourcing is no business segment- or executive board initiative – insufficient or delayed implementation**

**No clear responsibility regarding local product requirements**

**Lack of language skills and experiences in terms of internationalization**

**Missing decisions regarding local IPOs (International Procurement Offices)**

**Insufficient grouping of functional teams “engineering”, R&D, technology and purchasing department**

**Insufficient prioritization and project grouping**

**Technical documentation, processes, audits, etc. are not consistent with global sourcing standards**

#### Case studies



#### BVCS

**Plant engineering constructor: 83% sales in China, 70% purchase in Europe “It is a code of conduct problem”**

**Manufacturer of machine tools: 4 years development time – suppliers stopped cooperation**

**China teams consciously allocated to irrelevant product groups (politics)**

**A multi-corporate enterprise for electronics sources for 21 country branches in 21 countries**

New ways in logistics

Shanghai, September 2009

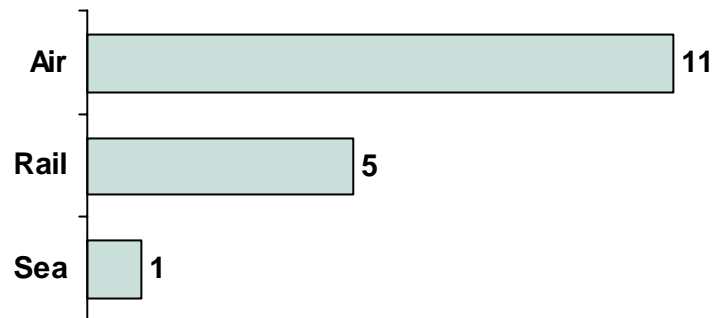
## Trans Eurasia Express – a new transport solution between China and Europe.

### Trans Eurasia Express – General Information

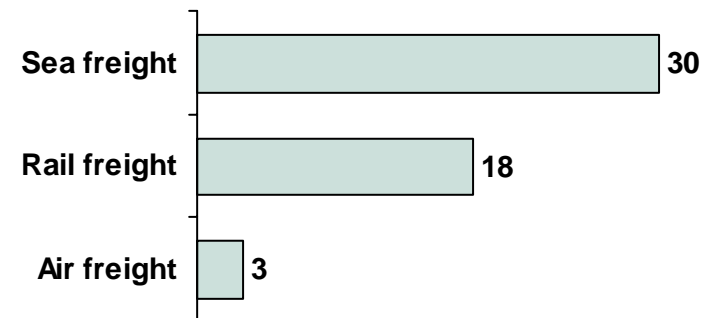


## Trans Eurasia Express – between China and Europe a new transportation solution to cover the gap between Air and Sea

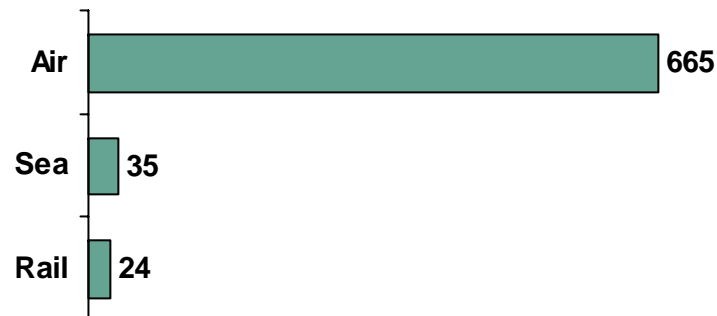
### Price index



### Transit times terminal to terminal from China to Europe



### Freight transport emissions in grams CO<sub>2</sub> per ton kilometer



### Product parameters

- Transit time 18 days (terminal – terminal)
- Block train (min quantity 84 thsd TEU),
- company train and public train available
- Public train one train per week each direction
- Routes defined or per request for company train

## Western Europe

BrainNet Supply Management Group AG  
Teufener Strasse 25  
9000 St. Gallen, Switzerland  
Fon: +41 71 22610-60  
Fax: +41 71 22610-69

BrainNet Supply Management Consultants AG  
Teufener Strasse 25  
9000 St. Gallen, Switzerland  
Fon: +41 71 22610-60  
Fax: +41 71 22610-69

BrainNet Supply Management Consultants GmbH  
Willy-Brandt-Allee 12  
53113 Bonn, Germany  
Fon: +49 228 72537-0  
Fax: +49 228 72537-37

BrainNet EAC GmbH  
Willy-Brandt-Allee 12  
53113 Bonn, Germany  
Fon: +49 228 72537-0  
Fax: +49 228 72537-37

BrainNet EAC GmbH  
c/o EAC- Euro Asia Consulting PartG  
Erika-Mann-Straße 66  
80636 München, Germany  
Fon: +49 89 922993-275  
Fax: +49 89 922993-33

## Eastern Europe

BrainNet Sp. z.o.o.  
Rynek 39 / 40  
PL-50-102 Wrocław  
Fon: +48 71 344908-0  
Fax: +48 71 344908-9

BrainNet Wentech Kft.  
Bécsi út 3-5  
H-1023 Budapest  
Fon: +36 1 8019445  
Fax: +36 1 3450729

## Asia / Pacific

BrainNet EAC GmbH  
c/o EAC- Euro Asia Consulting Pvt. Ltd.  
708 / 709, Peninsula Plaza  
Off New Link Road, Andheri (West)  
Mumbai – 400053, India  
Fon: +91 22 267424-91  
Fax: +91 22 267424-81

BrainNet EAC GmbH  
c/o EAC- Euro Asia Consulting Rep. Office  
Sunyoung Centre, Rm. 1702  
398 Jiangsu Road  
200050 Shanghai, P.R. of China  
Fon: +86 21 3250 6967  
Fax: +86 21 3250 5960

## Americas

BrainNet USA  
Independence Wharf, 470 Atlantic Ave.  
Boston, MA 02210, USA  
Fon: +1 617 2738388  
Fax: +1 617 2738001

BrainNet USA  
203 North LaSalle Street, Suite 2100  
Chicago, IL 60601, USA  
Fon: +1 312 8277964  
Fax: +1 312 3469603

BrainNet USA  
2202 N West Shore Blvd., Suite 200  
Tampa, FL 33607, USA  
Fon: +1 813 2884669  
Fax: +1 813 6397501

## Supply Management Institute

Supply Management Institute SMI™  
SVI-Stiftungslehrstuhl für Einkauf, Logistik  
& Supply Chain Management,  
European Business School  
Soehleinstrasse 8  
65201 Wiesbaden; Germany  
Tel.: +49 611 360 188 00  
Fax: +49 611 360 188 02

Supply Management Institute SMI™ China  
Chinesisch-Deutsches Hochschulkolleg  
Tongji University  
Siping Road 1239  
200092 Shanghai, China  
Tel: +86 21 659 790 92

Supply Management Institute SMI™ Russia  
MSU  
Berezhkovskaya nab., 12  
121059 Moscow; Russian Federation  
Tel: +7 926 815 3947

Supply Management Institute SMI™ India  
IIMB  
Bannerghatta Road  
560076 Bangalore; India  
Tel: +91 80 26582450

[www.brainnet.com](http://www.brainnet.com)