

Reducing cost further by utilizing emerging nations “Procurement reforms”



It is very crucial to utilize the strengths of local suppliers and actively include emerging nations in the value chain to respond to the growing demand for cost reduction.

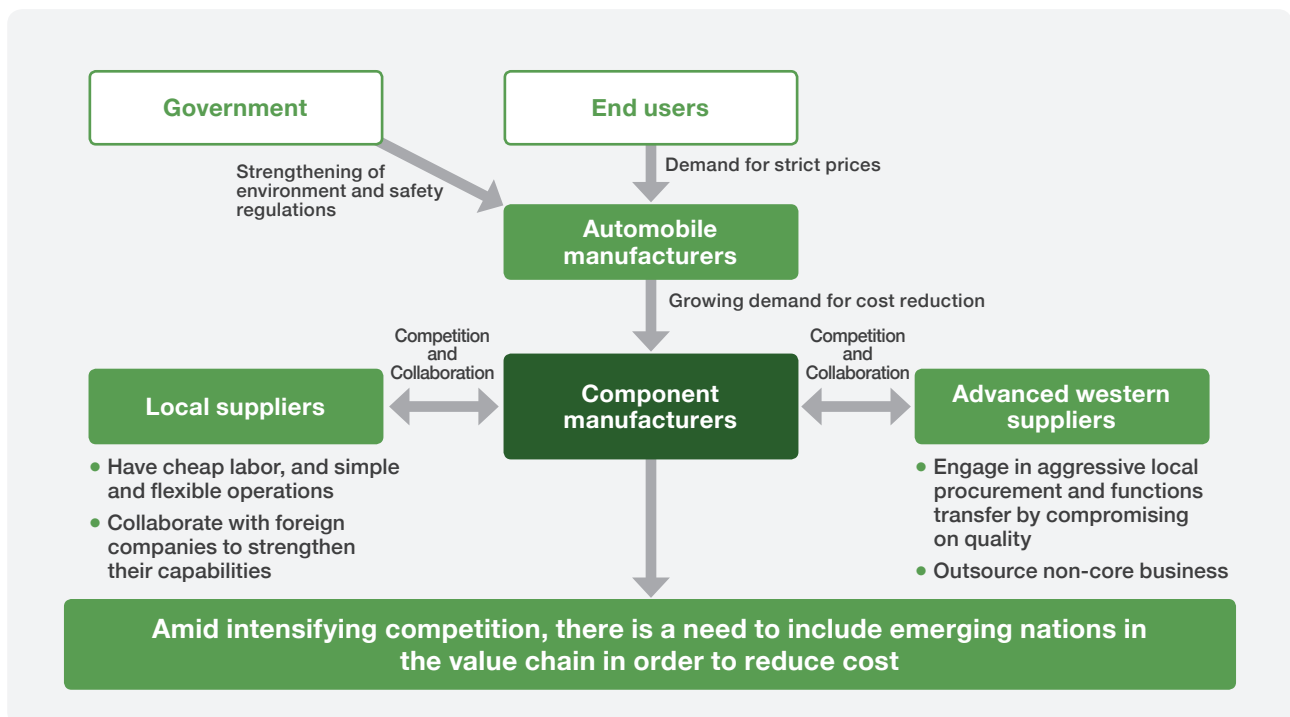
With the growing importance of emerging nations market, demand for cost reduction is becoming very strict

It is necessary to include emerging nations in the value chain by harnessing the potential of local suppliers

While the new car sales are hitting their peak in developed countries, importance of emerging nation markets including China is increasing. Under these circumstances, “cost reduction” is something that automobile and component manufacturers cannot overlook. With rise of middle class and strengthening of environment and safety regulations, emerging nations require “high-performance cars that can be purchased at affordable prices”, and manufacturers are required to offer “low-cost products”. With price demands from end users becoming strict, the demands of automobile manufacturers from component manufacturers for cost reduction is also getting severe. The operations centered on developed countries have reached a stage where any increase in fixed cost cannot be afforded. The component manufacturers must stay determined to reduce the cost by utilizing emerging economies.

The rise of local suppliers is remarkable in emerging nations. Local suppliers aggressively set low prices by employing cheap labor and compromising on quality, which helps in expanding sales to automobile manufacturers. Especially, in India and China, many local material and mold manufacturers have emerged, who utilize the “wide range of industries” to devise creative measures for cost reduction. Further, if we look at after-market components, China and other countries are supplying such components to the entire world and also offers improved quality, due to which, they are used in the genuine components of OEMs. Under such circumstances, advanced Western suppliers are aggressively progressing towards local procurement and functions transfer activities, and are strengthening their operations in China and India. They are strengthening their collaboration with local suppliers in order to reduce cost.

■ Structure of demand for cost reduction and tough competition in emerging nations



NRI provides comprehensive support for procurement reforms, from drafting a procurement strategy to exploring suppliers by utilizing the potential of emerging nations.

With a base structure deeply rooted in emerging nations, NRI provides support for partnering with local suppliers

NRI has a well-established base structure in Asia where many promising suppliers are present. The overseas bases of NRI constantly build a strong network with local industry groups and suppliers. In order to search, evaluate and select the promising suppliers, NRI provides support to contact the suppliers and negotiate for the clients. Further, not only do we search for promising suppliers but also supports procurement strategy planning in the preliminary stage. In "Business Environment Analysis", we analyze country-wise strengths and issues from a macro viewpoint. Further, we also conduct a concrete market survey to identify the environment where products are used. In addition, we also "set targets" regarding supplier of products, products that are to be procured and procurement price. In the subsequent "simulation", we analyze the awareness about cost benefits and risks associated with a change in supplier.

Case: Support for searching new suppliers for power train components in India and examining collaboration with them

Using our strong industry network in India, NRI provided support to search new suppliers for power train components and examine the possibilities to collaborate with the identified companies. In the Company Search phase, we 1) Clearly defined the skills required from new suppliers, based on the management issues faced by clients, and 2) Created a long list of suppliers in a short period of time, using our database and interviewing local industry groups and leading companies. In order to create a long list, we implemented desktop surveys as well as soft sounding towards promising companies and evaluated them from the perspective of QCDDM to identify the promising companies. In the Evaluation and Selection phase, we connected our client to the local suppliers of the potential region for procurement and provided indirect support for specific negotiations. We also provided support during discussions and negotiations to find any possibility of collaboration.

Characteristics of procurement reforms implemented by NRI using emerging nations

