

OBJECTIVES OF PROCUREMENT COMPANIES IN EMERGING MARKETS

COST SAVINGS WERE ALWAYS IN THE MAIN FOCUS OF PROCUREMENT COMPANIES. AS A PART OF THEIR GLOBAL SOURCING STRATEGY THEY ALSO PURSUE ADDITIONAL OBJECTIVES, SUCH AS PRODUCT DEVELOPMENT PARTNERSHIPS AND SUSTAINABLE PROCUREMENT. TOP PERFORMER COMPANIES ARE LOOKING FOR INCREASING PARTNERSHIP WITH THEIR SUPPLIERS IN THE EMERGING MARKETS.

Procurement companies' essential objective – cost savings – are not alone a sufficient success factor in Emerging Markets sourcing. Operating in Emerging Markets requires further high priority objectives. Companies are determining objectives regarding the market and the relevant products. For example, a company considers product-related goals such as costs in terms of procurement, while the focus of market-related goals is on the condition of focal market.

Emerging Markets are attractive for multinational companies due to their low cost level and economic development. Sourcing in these markets can reduce costs in areas such as labor, energy and material. 75% of procurement companies are pursuing cost savings as their most important objective in sourcing from Emerging Markets. The share of material costs affect the total procurement costs, and at the same time reductions in price and costs have a direct influence on the operating profit. Companies emphasize the total cost of ownership in order to manage and get a grip on business-related issues.

57% of procurement companies determined the establishment of a local supply chain as the second main objective for presence on-site. This is an important goal: on the one hand, in order to benefit from future market growth in Emerging Markets, and on the other hand, in order to reduce procurement costs. The establishment of a local supply leads to fewer efforts with local-content regulations. In the study, this objective has been analyzed by comparing the relevance in respective regions. The results show that the development of a local supply chain is more relevant in some regions than it is in others. Accordingly, 83% of the participants

seem to invest locally in China, in order to support their local production site. This is due to regional characteristics, such as country-specific local content regulations, and the large growth potential in this market.

In this study, participants have been asked about the importance of sustainable procurement in their Emerging Markets efforts, since its relevance in business operations is increasing. Sustainable procurement encompasses economic, environmental and social aspects. 49% of the participants are pursuing the implementation of a sustainable procurement.

In 2007 the surveyed companies focused, besides cost savings, on the establishment of a local supply chain as well as local content regulations as their top objectives. Today's agenda reveals a modified set of top objectives. In particular, local content regulations are not part of it because other criteria such as product development partnership have come to the fore.

What do "Top Performer companies" do?

Top Performer companies do not focus on short-term cost advantages only. They know that long-term perspective strategies contribute to long-term competitive advantages. Top Performers' objectives in Emerging Markets sourcing do not display significant differences between regions. Top Performer companies follow the same set of objectives compared to the overall participants in the study. But they are stringent in achieving their objectives and are in a position to pursue their set of objectives simultaneously because they provide sufficient resources and focus on long-term planning.

Cost savings is indicated by 83% of Top Performers as being the most important objective, but this is not the only reason why they are sourcing from Emerging Markets. Based on their supplier management efforts, Top Performers set additional objectives which are related to product development cooperation (62%), sustainable procurement (59%) and technical know-how (49%) in order to achieve strong supplier partnership.

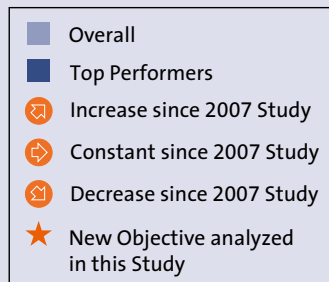
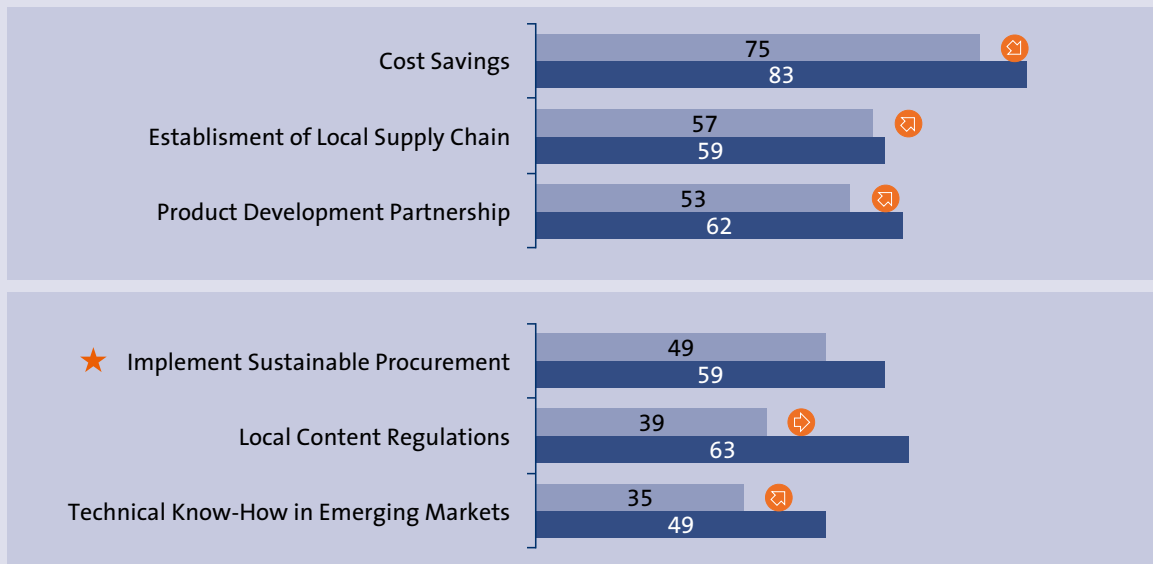
Sectoral breakdown

The electronics sector sets objectives in Research and Development collaboration in order to benefit from local knowledge. This is due to the global activities of the electronics sector which mostly have suppliers with product development competence in Asia.

Companies in the automotive sector have different objectives in order to fulfill the requirements for market entrance, such as local content regulation, and to benefit from customs advantages. These objectives enable the automotive sector to gain competitive advantages for their products in Emerging Markets. The automotive sector is producing and assembling in different countries so the fulfillment of local content becomes important due to different local content regulations given by authorities in each market.

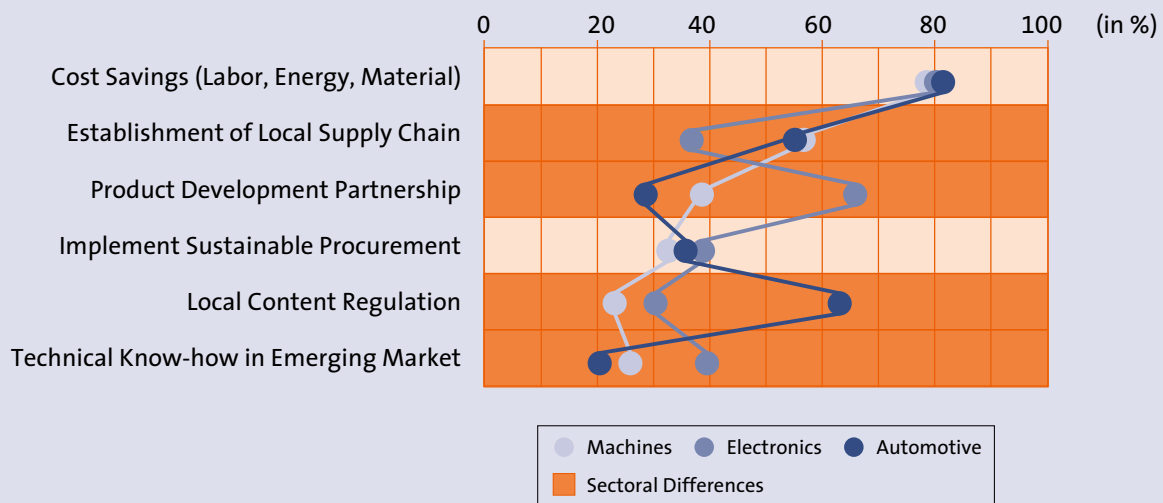
Benefiting from advantages of a local supply chain is as well a very important fact for procurement companies in the machine sector because they need to minimize their lead time and increase their service level by supplying customer with after sales services and spare parts out of warehouses that are located in these markets.

OBJECTIVES OF PROCUREMENT COMPANIES – OVERALL VS. TOP PERFORMERS



in % of surveyed companies responding important/very important

SECTORAL BREAKDOWN OF OBJECTIVES FOR EMERGING MARKETS



in % of surveyed companies responding important/very important

IMPORTANCE AND IMPLEMENTATION LEVEL OF SUSTAINABLE PROCUREMENT

TOP PERFORMER COMPANIES EMPHASIZE THE IMPORTANCE OF ENVIRONMENT MORE THAN OVERALL RESPONDENTS. BUT ACKNOWLEDGING THE IMPORTANCE OF THE SUSTAINABLE PROCUREMENT DOES NOT NECESSARILY IMPLY A HIGH IMPLEMENTATION LEVEL. BUYING COMPANIES PRIORITIZE SOCIAL ASPECTS IN SUSTAINABLE PROCUREMENT, FOLLOWED BY ECONOMIC ASPECTS DUE TO COST REDUCTION POTENTIALS.

Sustainability has been an important issue for companies, governments and societies. The Brundtland Report is one of the fundamental environmental documents, and it describes the necessity of awareness regarding growing environmental problems as well as the preventative actions which should be taken. Sustainability goals are summarized in the Brundtland Report as “helping to define shared perceptions of long-term environmental issues and the appropriate efforts needed to deal successfully with the problems of protecting and enhancing the environment, a long-term agenda for action during the coming decades, and aspirational goals of the world community.” Sustainable procurement encompasses economic, environmental and social aspects. These aspects have been described in detail in the Agenda 21, issued by the United Nations Conference on Environment and Development (also known as the Rio Summit) in 1992. The study results show the increasing importance of this topic for successful procurement in Emerging Markets. Thus, participants have been asked both about their motivation as well as challenges to implementing sustainable procurement. In this study, respondents indicated the importance of sustainable procurement and the actual level of implementation.

Procurement companies prioritize specific topics for the different aspects of sustainable procurement. For instance, **transport efficiency** as an **economic aspect**, avoiding environmental pollution and the abandonment of child labor usage are the most relevant aspects. These measures are usually widespread in their application. This means that, when it comes to sustainable procurement, methods and measures seems to have higher relevance if the procurement companies have experience and if measures are already in use.

Social aspects have been playing a decisive role in **minimizing risks to companies' reputation**. 49% of the surveyed companies indicated that they first and foremost consider the importance of social aspects. They are aware of the important role of human resources in their procurement activities, and concern themselves with labor conditions and child labor issues.

In this study, the importance of efforts against **child labor** is remarkable, since only 76% of the participants of the group of 49% see this objective as being very important. This aspect might now (2010) be evaluated much higher. It is astonishing that 24% of surveyed companies still appear to have no ethical problem with child labor. In comparison to overall respondents, the group of 49% falls far short of Top Performer companies in their perception of both importance and implementation.

What do “Top Performer companies” do?

Social aspects (average 77%) are prioritized in sustainable procurement, followed by economic aspects (64%) due to cost reduction potentials. An average 53% of Top Performer companies emphasize the importance of **environmental aspects** compared to 40% of overall respondents. “Implementation level” of sustainable procurement aspects follows the same order as the “importance level” that companies indicated before. Implementation level (average 47%) falls behind defined objectives (65%) due to resource-related challenges. The differences between the importance and implementation of sustainable procurement are significant, but Top Performer companies pursue all three dimension of sustainable procurement.

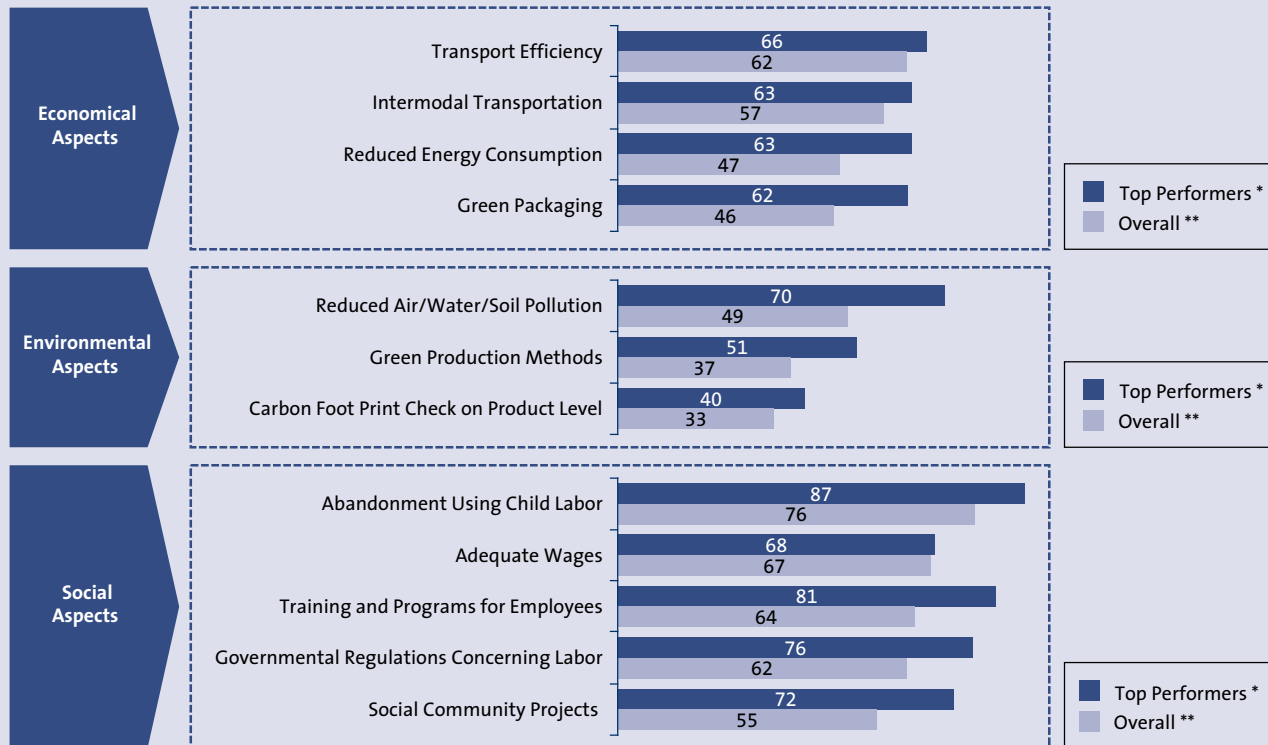
For instance, in the field of economic aspects, **transport efficiency** has been implemented by 54% of the Top Performer

companies. However, minimizing costs is ostensibly the reason for this sustainability approach. Furthermore, 42% of the group of Top Performer companies focuses mainly on activities like the prevention of **environmental pollution**. This high implementation level can be attributed to both environmental regulations and existing suppliers' certifications. In contrast, for example, the “carbon foot print check” - a method for measuring and reporting greenhouse gases- must be specifically mentioned in the presentation of results. While 40% of the Top Performer companies indicate that the carbon foot print check is particularly important, just 16% of these respondents have implemented this goal. One reason for this discrepancy is the lack of internationally accepted standards for measuring greenhouse gases and emissions along the supply chain.

When it comes to the social aspects of sustainable procurement 66% of the Top Performer companies fulfill the objective of abandonment of child labor in the Emerging Markets. More members of this group are planning to implement this measure in the medium to long term. The fulfillment of environmental and social objectives reduces the risk of negative perception of the companies' reputations in society, thereby losing a competitive edge. Nowadays, stakeholders such as customers or non-governmental organizations (NGOs) closely follow the activities of multinational companies.

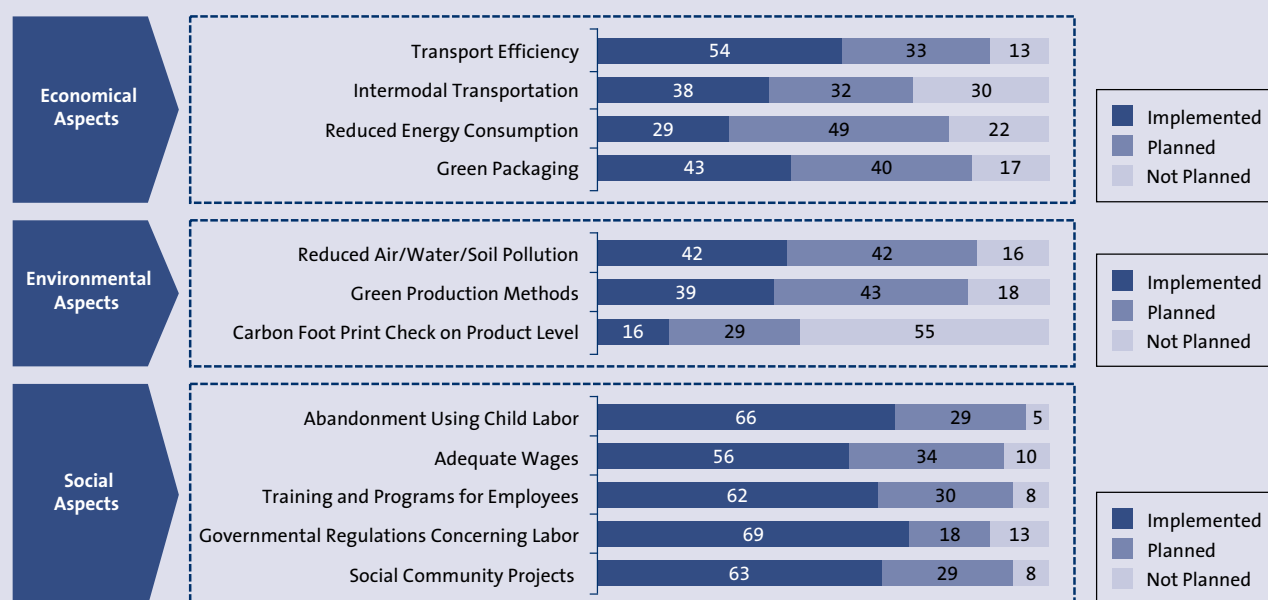
The implementation of environmental methods as a part of sustainable procurement is in an early stage, and this step is primarily taken by Top Performer companies. Pursuing sustainable procurement does not only helps them to achieve better cost and performance levels in their activities, it also aids them in their relationships and cooperation with their suppliers.

IMPORTANCE OF ECONOMICAL, ENVIRONMENTAL AND SOCIAL ASPECTS - TOP PERFORMER COMPANIES VS. OVERALL



* based on Top Performers in % of surveyed companies responding important/very important
 ** based on 49% of the surveyed companies who pursue sustainability objective in Emerging Markets and respond important/very important

IMPLEMENTATION OF ECONOMICAL, ENVIRONMENTAL AND SOCIAL ASPECTS - TOP PERFORMER COMPANIES



based on Top Performers in % of surveyed companies

CHAPTER 5 INTRODUCTION

This chapter is about the Top Performer companies who have been identified as successfully applying diverse strategies and approaches in order to achieve a higher performance in their Emerging Markets sourcing.

Top Performer companies are characterized by excellent cost management, supplier and innovation management, sourcing, process and product quality, as well as by the implementation of sustainable procurement in their procurement processes.

Based on the Top Performer companies' results, following questions are going to be addressed:

- What do the Top Performer companies do differently to enable such success in their sourcing in Emerging Markets?
- What strategic objectives do they pursue for their international procurement processes, and how do are these achieved?
- Which sourcing concepts are they applying in the Emerging Markets?
- How do they succeed in implementation of sustainable procurement in their Emerging Markets activities?

AN INSIGHT INTO TOP PERFORMER COMPANIES

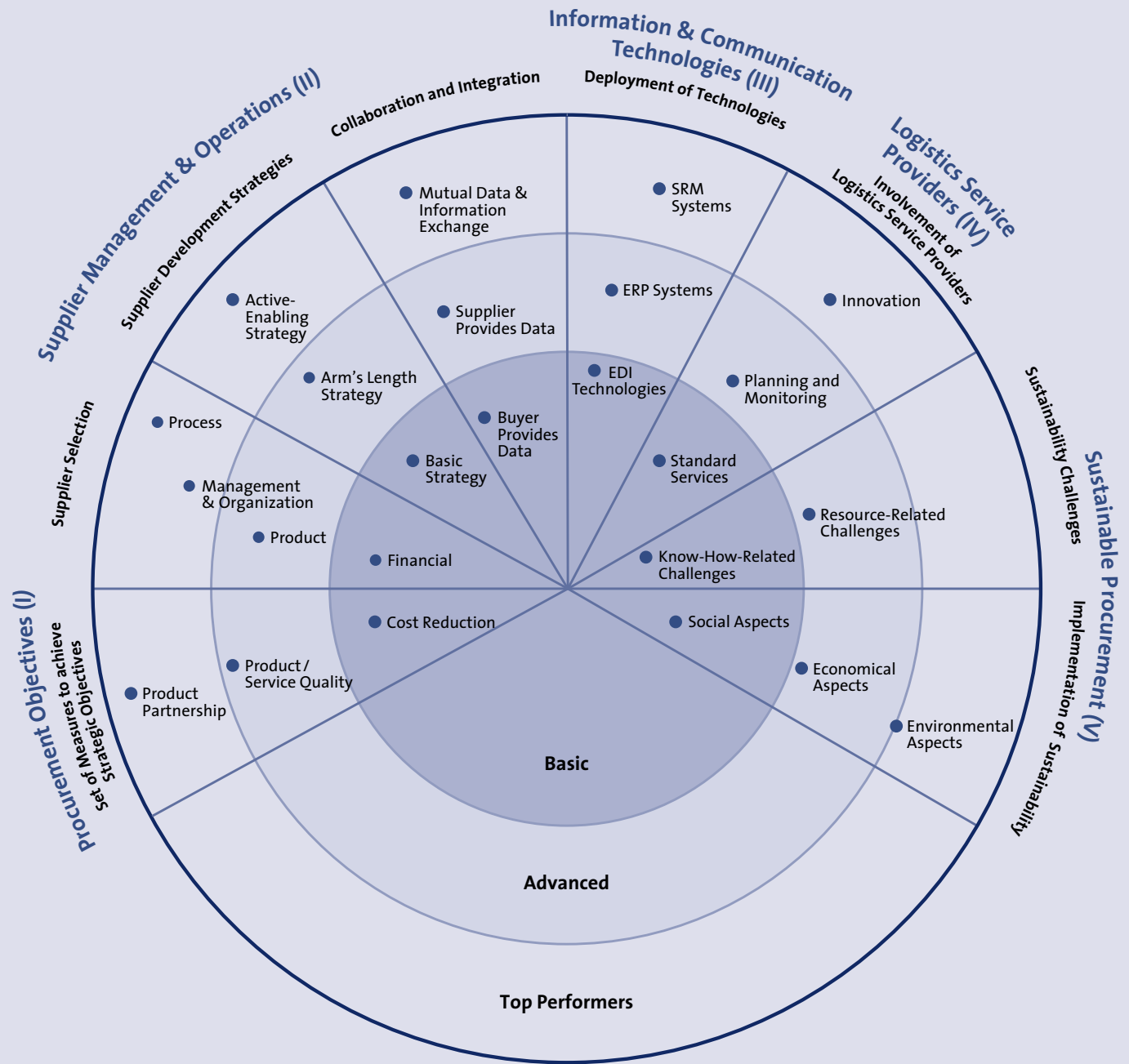
According to the findings, the success of Top Performer companies is independent of any specific country and sector in which they are operating. Their individual success rests entirely on a set of multi-criteria approach with specific principles of actions which enables them to operate more successfully than other companies.

The following findings illustrate how procurement strategies and approaches are successfully implemented

by Top Performer companies. Firstly, a "Measurement Map of Progress in International Procurement" is prepared for procurement managers in order to compare their position with this study's Top Performer companies' achievements. Secondly, a short summary of the activities and characteristics of the Top Performer companies is provided in the context of international procurement as it has been introduced in the first chapter. Additionally, "recommended actions

checklist" is derived from these findings in order to enable procurement managers to learn from the Top Performer companies in this study.

MEASUREMENT MAP OF PROGRESS IN INTERNATIONAL PROCUREMENT



Measurement Map of Progress in International Procurement enables procurement companies to compare their actual status of activities with the level of Top Performer companies. Three concentric circles indicate the different stages of strategies which procurement companies are pursuing in Emerging Markets. The outer circle represents the measures of Top Performer companies and at the same time it includes the strategies of the inner circles (basic and advanced). The farther one strategic activity is located from center of circle, the more this activity is established at the identified Top Performer companies.

For Details please refer to:

- I Chapter 2
- II Chapter 3
- III Chapter 3
- IV Chapter 3
- V Chapter 2 and 3