LOCAL DEMAND, GLOBAL SUPPLY

THERE is an interesting paradox brewing in the Indian automotive industry. While purchase managers in Toyota, Ford, General Motors, DaimlerChrysler, Hyundai, etc. are working overtime to source as many components as possible from within India, their Indian counterparts such as Tata Motors are doing just the opposite — hunting global markets for new material and component suppliers.

Last year, Tata Motors bought components worth Rs 818 crore (5.74 per cent of total raw materials consumed) from abroad. Three years ago, its import was just Rs 90.16 crore (1.58 per cent). That's a stunning 108.6 per cent compound annual growth rate (CAGR). "We are scanning the whole world. Different geographies enjoy different advantages," says Ravi Kant, managing director, Tata Motors. While the company sources steel from countries such as Russia, China, Belarus, Japan and South Korea, it procures auto components from Malaysia, China, South Africa and Thailand. Besides these, it also imports other raw materials such as plastic and wheel rims. This is a paradigm shift. Earlier, most of its vendors would ideally be located within 100-200 km of the

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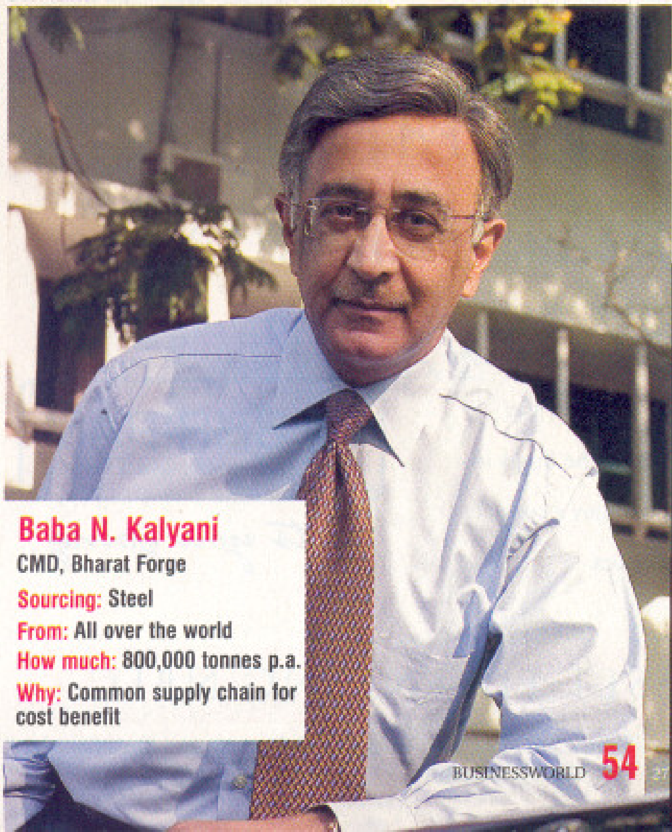

Baba N. Kalyani
CMD, Bharat Forge
Sourcing: Steel
From: All over the world
How much: 800,000 tonnes p.a.
Why: Common supply chain for cost benefit

GOUTAM ROY

Prashant Goenka
director, Emami
Sourcing: Paraffin, lipopearls and peptides
From: South Korea, Spain and US
How much: N.A.
Why: Cost saving (50-60%)

Indian companies have started looking beyond traditional sources for raw material and manpower. The result: a new supply chain. By Rohit Viswanath

plants. But now, Tata Motors is in the early stages of developing a 'global supply chain'.

Component manufacturer Bharat Forge claims that it has already built such a chain, even though it is not importing much. "All our plants in Germany, Sweden, Scotland, the US, China and India work with one global supply chain," says Baba N. Kalyani, chairman and managing director, Bharat Forge. The company's plants worldwide buy nearly 800,000 tonnes of steel every year. According to Kalyani, all the procurement is currently coordinated by the company's global purchase manager, who is based in Germany.

Even as the world seeks India's low-cost manufacturing advantage, Indian companies are finding newer alternatives abroad. And they are going well beyond predictable low-cost destinations like China. FMCG firm Emami sources peptides (used in fairness products) from the US and lipopearls (used in skin products) from Spain. It also sources raw material from South Korea, Singapore and China. Tata Steel, Ispat and JSW Steel are eyeing the rich coal deposits of South Africa, Nigeria and Mozambique for securing hard coking coal to run their plants in India. Tata Steel already sources its coke requirements from Australia. Says B. Muthuraman, managing director, Tata Steel: "Indian coke has a very high ash content. So, we find it better to procure low-ash coke from Australia." Tata Group's recently launched consumer electronics retail arm, Croma, has handed over all sourcing to its Australian partner Woolworths. Nitco Tiles has increased its sourcing of vitrified tiles from China from Rs 10 crore a couple of years ago to about Rs 130 crore today. In three years, L&T has increased its raw material imports to Rs 502.72 crore (7.13 per cent of total raw materials consumed) from a mere Rs 62.86 crore (1.87 per cent) at a CAGR of 99.98 per cent.

Across sectors, companies are substantially reshaping their supply chains, discovering newer and better vendors from around the world. They are not abandoning domestic suppliers *en masse*, but making a considered and strategic choice of global suppliers based on factors such as quality, cost, geographical proximity, diversity, etc.

THERE are many reasons why Indian companies are now looking to source globally. One, India's balance of payments situation is a lot more comfortable now than it was in the 1990s. The dollar is no longer a rationed currency. And since the export revenues of Indian companies are also increasing substantially, they are a lot more open to importing raw materials.

Two, Indian companies have made several hundred global acquisitions in the past few years. Many of them are now building a global manufacturing footprint. This has exposed them to global supply chains, helping them uncover new and interesting supplier leads. Besides, as they seek more synergies

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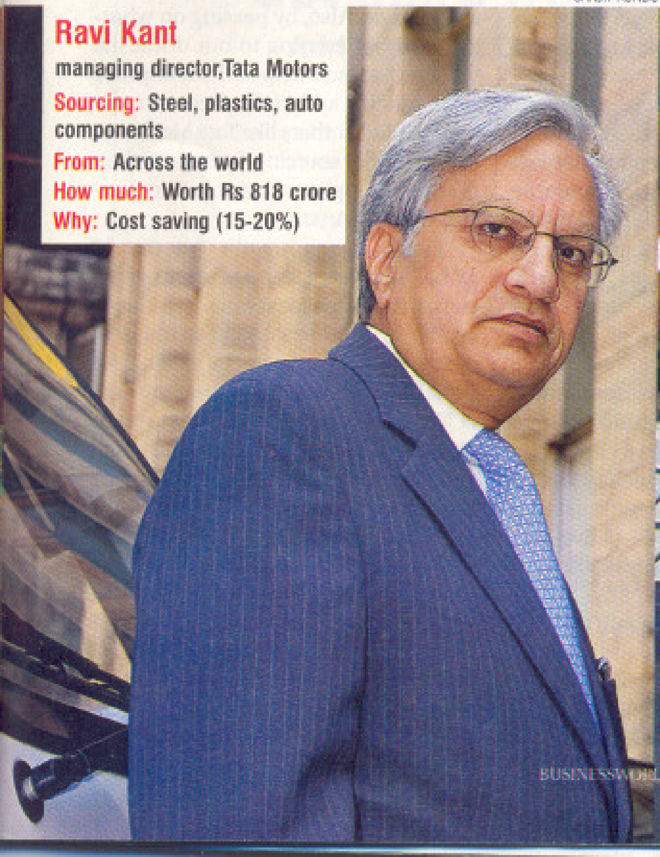

Ravi Kant
managing director, Tata Motors
Sourcing: Steel, plastics, auto components
From: Across the world
How much: Worth Rs 818 crore
Why: Cost saving (15-20%)

HEMANT MISHRA

R.N. Mukhija
president (operations), L&T
Sourcing: Components, batteries, hoses for petrol pumps, accessories
From: China
How much: Worth Rs 500 crore
Why: Cost saving (20%)

with their acquisitions, it becomes imperative to consolidate purchases and build one global supply chain.

Three, the cost factor. Many such choices of global suppliers are because of lower cost. While India retains its cost advantage at a generic level, global suppliers offer lower cost in some specific product categories. Nitco Tiles' China story is a good example. It recently entered into a contract manufacturing agreement with Foshan Lungo Ceramics, part of the New Zhong Yuan (NZY) Group, the world's largest tiles manufacturer. NZY's vitrified tile capacity is more than double that of the entire Indian industry. Foshan city has abundant supply of specific type of clay used for making tiles. "It is almost 20 per cent cheaper to get tiles manufactured under contract in China and delivered here," says Vivek Talwar, managing director, Nitco Tiles. He enjoys zero risk as his Chinese partner will bear the cost of raw material price fluctuations.

"Since most manufacturing companies spend more than half of their revenues on the purchase of parts and material, there is a strong need to source from the most competitive location. This naturally leads to global sourcing," says T. Sivakumar, group director (Asia Pacific), Ariba, a procurement management firm.

"On the FOB (free on board) level, it is easily 5-15 per cent cheaper to source from low cost regions," says Kant. Which means, for every Rs 50 crore worth of materials that L&T sources from China, it saves about Rs 7.5 crore. "Many of the raw materials for our products are very expensive or not available in India. So we have identified tactical sourcing partners and are making the bookings for paraffin wax from South Korea well in advance," says Prashant Goenka, director, Emami.

THERE are many challenges in building a global supply chain. Among them, finding the right supplier is the biggest. According to Gregory C. Cudahy, global managing partner (supply chain strategy), Accenture, organised and creditable databases of suppliers and their capabilities are not so readily available. Emami took the reverse route — by appointing staff in different countries who regularly interact with its vendors. "Our staff have picked up the local languages and look after the vendor development activities," says Goenka.

However, companies are generally wary of committing large volumes to suppliers in new countries. They take their own time to test out new vendors before ramping up the offtake. Says R.N. Mukhija, president (operations), L&T: "The time taken to establish an understandable relationship was large, and if there was no pressure to find new suppliers, one could have easily given up."

L&T started with a definitive, measurable and tangible plan to implement global sourcing tied to its corporate goals under 'Lakshya' — a five-year growth programme of the company. Teams were then sent to China to assess and shortlist vendors. The basic idea was to check out the sourcing model and the sourcing process. L&T's feasibility study involved visits by various team members to 56 suppliers. Customer profile, design, engineering and financial capabilities, source of raw materials, and equipment used were the major parameters. During the feasibility check, the company found that there were various models that could be used for sourcing. It decided to source through its Shanghai office, which acted as an interface between suppliers and its plants in India. According to company sources, this model has been successful.

The next challenge is to integrate and balance global and domestic suppliers into one supply chain. Most companies do not switch over to global suppliers overnight. They keep existing supplies going till the new vendors are developed. "Many companies go to global sourcing destinations only for their new products. So it leaves no space for a clash [with domestic vendors]," says Sivakumar. But other companies develop domestic and global suppliers for the same product. And quite often, they use this leverage to their advantage.

Says Mukhija: "By taking part of the requirements from an international vendor and starving the existing domestic suppliers, we can point to them the quality we can get from abroad as well as the price. Also, by passing on whatever we are learning to our domestic vendors, we have helped them improve their quality and reduce cost to our benefit." Still, others like Tata Motors go in for sub-tier sourcing — they ask their domestic suppliers to source from low-cost destinations.

Finally, retaining the interest of global suppliers is also a problem, especially if the purchase volume is not large. Moreover, products that need frequent design changes may not be suitable for procurement from multiple countries.

Besides raw materials, Indian companies are also looking to source talent globally. At present, 160 of Air Deccan's 304 pilots are expatriates. They come from countries as varied as Columbia and the Philippines. Says Preetham Philip, deputy COO, Air Deccan: "We source pilots from around the world."

Indian companies are turning the higher costs and scarcity at home into opportunities abroad. ■

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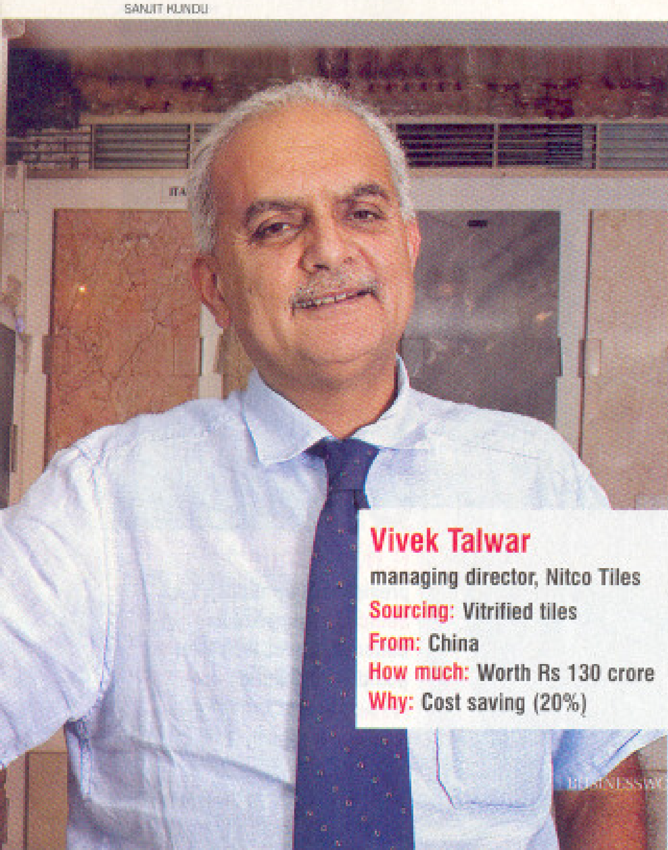

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managing director, Nitco Tiles
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