

# China's Supply Chain raises the bar

Learn lessons from some of the leading

**I**nnovation is a word we are hearing a lot more of in China these days. The consensus is that as manufacturing costs in China continue to rise and supply chain complexity increases, so companies have to innovate both to save money and to increase efficiency.

In this story we take a deeper look into what a few companies and individuals in China, both foreign and Chinese are doing to lead the way in service, supplier management, IT implementation, as well as cost and process efficiency. These companies and individuals were all winners of awards at the November 2007 CHaINA Summit.

Advances across the supply chain in China are taking the form of new IT implementations, greater levels of service through 3PLs, better supplier management, strategic location of operations and an increased focus on domestic R&D and development of local human and other resources..

## The human edge of the pharmaceutical supply chain

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In the fast changing corporate world it is rare these days to find someone who has made one company practically his entire career. This is especially true in China where supply chain management expertise is in incredibly high demand and executives can have their pick of jobs. "I love Bayer," proclaims Dittmar Nerger in an interview with CHaINA Magazine, speaking enthusiastically of the company he has worked at for 25 years in various

by Russel Beron

## companies in China

capacities and in different countries including Germany, the US, Korea and China.

Nerger was the recipient of China's Supply Chain Executive of the Year award at the November 2007 CHaINA Summit Awards. His team of four people is responsible for sourcing raw materials and services for much of Bayer's global production of drugs. From their Shanghai office overlooking the old Bund and the busy freight traffic of the Huangpu river, Nerger's team develops sophisticated sourcing strategies and evaluates and manages suppliers from across Greater China.

In 1994, Nerger transferred to Bayer in Korea to take responsibility for Technical Operations of animal health, pharmaceutical and vaccines products. After being responsible for the global Technical Operations of one of Bayer Healthcare's Divisions in Germany from 1998-2002, he moved to Chengdu, in the capacity of General Manager of Bayer's JV, where he still serves as Chairman. Nerger

received the Bayer Healthcare Asia Pacific Star Award in 2005 for his efforts in turning around the business and profitability of this venture. In 2004, Dr. Nerger accepted the task to establish a new department in Shanghai for Sourcing for Bayer HealthCare's Global Divisions.

### Sourcing pharmaceuticals isn't easy

"Pharmaceutical supply chains can be very complex," says Nerger. "With the supply chain we have to warrant compliance and quality and at the same time ensure a competitive, flexible and timely supply. We have to remember that the money that we get comes from our customer and we need to deliver the best product at the best price."

Unlike other types of sourcing, Angela Ye, one of Nerger's team members adds, "With pharmaceutical sourcing the procedure is more complicated and time

consuming mainly because the industry is so highly regulated. We source everything related to the drug: the raw material intermediate and the Active Pharmaceutical Ingredient (API) and increasingly the packaging and services.”

For one finished dosage, Nerger’s team might have to screen an initial 300 manufacturers, select about 100, then further reduce these to 10 or 20, before doing the RFP, RFI, RFQ, and selecting a final 3 companies to start the bidding and develop the supplier to Bayer’s required standards. This process can take up to 3 years.

Pharmaceutical transportation also brings its own challenges, says Richard Li, another of Nerger’s team. “We have to educate the local suppliers about safe handling and transport. The guiding principle is that package must be safe as well as operator friendly, so that the product is not contaminated, international rules and our customer’s requirements are followed.”

## Why China?

Increasingly, Nerger’s team involves R&D in the sourcing process at an early stage, which allows the sourcing team to give input right at the research stage, which makes sense in terms of building in cost savings.

Why is China the right place for pharmaceutical sourcing, you might wonder? Isn’t China the place the arm

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### Teamwork: The key to sourcing success

When Dittmar Nerger's Global Sourcing team organized a series of training modules in English and in Chinese, you could find them on an early Sunday morning in Shanghai's Zhongshan park for Taichi lessons, and, after a hard day of training, cooking and eating Jiaozi, together in the evening.

Getting together after work creates a sense of personal trust with each other and makes it easier to cooperate and appreciate each other's culture and thinking. Likewise, it is important to the team to maintain intensive communication and cooperation with their colleagues around the world, in Europe, the Americas, and in Asia-Pacific. Often, the team starts the morning with teleconferences with their Australian colleagues, and finishes the day by talking to their colleagues in the Americas.

luxury products," comments Lam. "These SOE's used to handle all the marketing and distribution of the products, but didn't do it that well.

End-to-end solutions -- including transport and handling, storage, labeling as well as customs, import duties and taxes -- such as Kerry offers to Dunhill with full supply chain visibility, are rare in China.

According to Lam, companies like Dunhill are willing to pay for this kind of service as it removes a lot of potential headaches. "Kerry has the economy of scale as well as the credibility to handle everything for the customer."

Kerry offers much more than an off-the-shelf logistics solution. "For a 3PL to be a good contract logistics provider, we have to work with our customers in developing new models to cope with the requirements of the market. We are more like a consultant providing customized solutions."

### Get your suppliers in line

While Alfred Dunhill needs specialized service to handle its high value products, large manufacturers such as Haier Group need specialize strategies to handle their suppliers.

According to a Gartner Research study about on Why supplier relationship management matters, procurement costs account for about 50% of expenses. As profit margins in manufacturing tend to be slim, the incentive to save on purchasing costs is very high.

To reduce costs, improve efficiency and obtain competitiveness to support the aggressive sales growth of different business units, Haier Procurement asked the IBM Global Business Services, SCM Procurement team to develop a procurement strategy for them. For their work with Haier, IBM won the CHaINA award for Best Supply Chain Consulting Partner in China.

Haier Group, a Chinese company which is ranked as one of the top ten global appliance giants, makes everything from white goods, to personal electronics, mobile phones and computers. They are expanding aggressively into world markets.

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IBM developed a supplier evaluation model to objectively and precisely reflect supplier performance and capability. Their model which is linked with various supplier development strategies, helped transform Haier's procurement supplier management to a global best practice level.

"The benefit for Haier of IBM's strategy is that they now have the right KPI and the right volume indication to give to suppliers," said JC Lee, IBM's project manager.

The three-year master plan for the procurement strategy, covered the entire procurement process, with the first phase involving the design and implementation of a Supplier Relationship Management (SRM) plan.

The next step, a Strategic Sourcing Project will be launched in January 2008. The focus will be on installing advanced strategic sourcing methodology and processes through a pilot category. The result is expected to achieve considerable cost savings.

Further explaining their approach, Lee pointed out that before IBM's strategy initiative, "Haier was only focused on direct procurement; we will also implement indirect procurement innovation." Indirect procurement refers to corporate wide spending on office furniture and other items that are not purchased centrally. "Our target is to save at least 10% of the procurement cost in the direct procurement category," said Lee. In a company the size of Haier such cost savings are nothing to laugh about.

## Making the auto supply chain transparent

Similar to Haier Group, China's automotive industry has an array of suppliers which require sophisticated systems to manage them. China's auto market, an ongoing hot topic is becoming more competitive and manufacturers have to look at the entire supply chain to cut costs.

BeijingBenzDaimlerChrysler (BBDC) is a more recent joint auto venture which built a new manufacturing facility in Beijing in early 2007 to build the E-Class Mercedes and Chrysler 300C. Recognizing the importance of communication with their suppliers, BBDC implemented a web-based EDI system which is user friendly for all levels of BBDC suppliers. This implementation earned Seeburger the CHaINA award of Best IT Supply Chain Solution for China.

**“When you implement this type of comprehensive supply chain solution you can more quickly share demand from your customers down to your supply base.”**

According to James Hatcher, managing director of Seeburger Asia Pacific Ltd. who managed this project, the implementation “Gives BBDC a way to optimize their supply chain while giving them a competitive advantage.” Hatcher has worked in Asia for 24 years in Taiwan, Hong Kong and Singapore in various supply chain capacities.

## Just-in-Time (JIT) and Just-in-Sequence (JIS)

BBDC went live in January 2007 with their complete JIT/JIS solution that also integrated their 3PL for full visibility. This project is a good example of some of the innovative changes that have begun to take place in China's automotive manufacturing industry. Over 150 suppliers are live and using the system daily giving BBDC a competitive advantage in the do-

mestic automotive market. Their market leading solution has now forced most other OEM's to re-evaluate their SCM solutions.

“One of the big challenges with the China supply chain is the fact that many tier 1 suppliers, while they might have ERP, can't necessarily do system to system communication,” says Hatcher, explaining the rationale behind the Web-EDI system.

“Part of what we architected for suppliers who could do traditional EDI messaging is a comprehensive web EDI portal which provides a user interface, so that while they don't have an IT system, they have the ability to do JIT and JIS.”

“This means you have a fully integrated solution for any level supplier,” explains Hatcher. “For BBDC, this means there is no data entry required, they can just scan the bar-code, there is little room for error.”

## Deliver faster, sell more

According to Chunmei Han, the system administrator at Seeburger who helped implement the system, “The benefit for BBDC of the web-EDI system in that we can send out the PO and our material schedule automatically through the system, which allows us to save time and the vendor can supply the material in time.”

Just-in-time and Just in Sequence are key differentiators in a competitive market. “The biggest challenge for China automotive manufacturers is demand and inventory,” says Hatcher. “Because demand is growing in irregular spurts it's constantly a challenge to juggle how much inventory to keep versus having lead time from suppliers. When you implement this type of comprehensive supply chain solution you can more quickly share demand from your customers down to your supply base, improving inventory management and shortening lead times. If you can deliver faster, you sell more.”

The Web-EDI system also helps BBDC to optimize their production line so they can produce more than one car on the same production line – from 2008, they will produce the Mercedes C-Class -- and receive parts directly to the production line through the JIS information. This allows BBDC to bypass delivery of the parts to a warehouse.

The regional trend appears to be that China will continue to take on more business process and service functions while countries like Vietnam will grow in manufacturing.

As China's role in the global supply chain continues to shift, manufacturing companies in China will have to continue raising the bar by establishing and maintaining new best practices. 