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*Ministry of Foreign Affairs*

# **CBI Channels and Segments:**

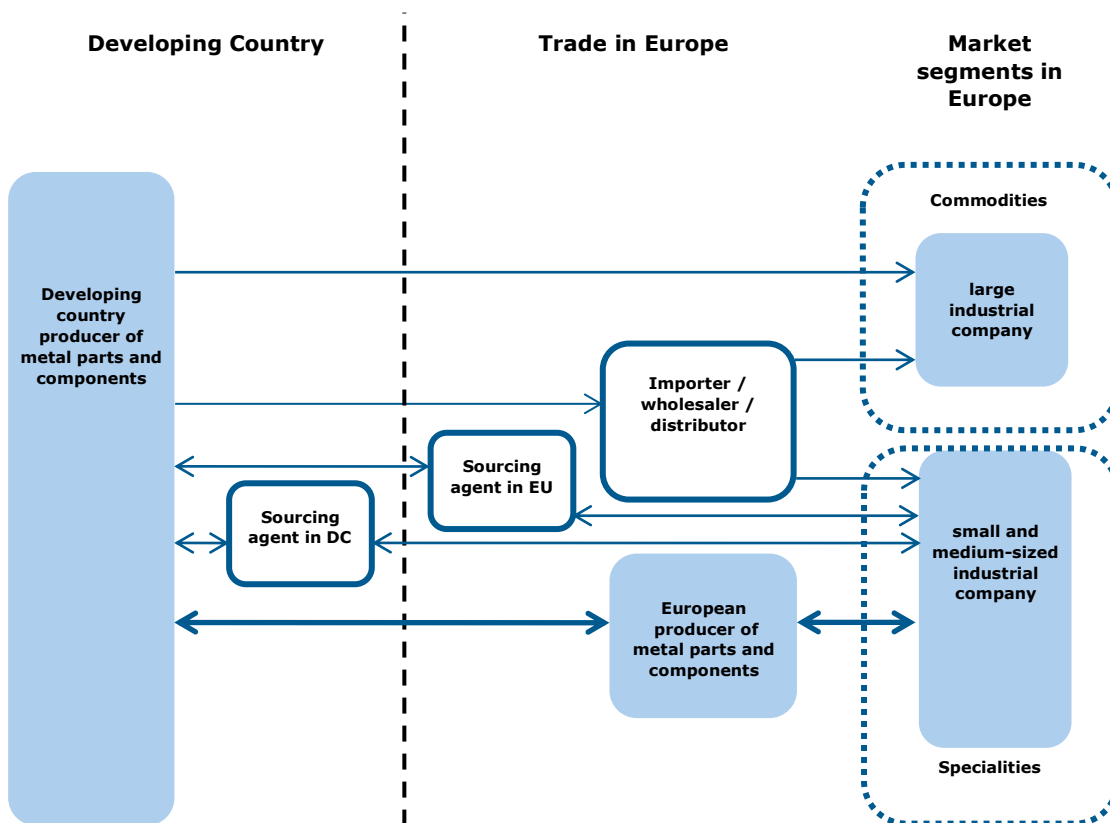
# **Metal Parts and Components in Europe**

## Introduction

Developing Country manufacturers of tailor-made metal parts and components (specialties) should focus on subcontracting for or partnering with European producers who operate in the same field. Other options for entry to the European market include sourcing agents and importers. In the case of commodities, Developing Country exporters can choose between indirect trade via importers, and direct trade with large industrial companies in Europe.

## Market channels

Figure 1: Trade structure for metal parts and components in Europe



Source: Interviews with industry experts (2012-2015)

### Sourcing agent in Developing Country

- Offers logistics, marketing and communication services for companies wishing to source from this specific country or region.
- Sourcing agents match supply in Developing Countries with demand in Europe.
- For exporters of commodity products (which are large volume products that can be kept in stock and are available on demand) from Developing Countries, a sourcing agent can help to keep the focus on production. In the case of specialty products, there will be more communication with the final customer. Because the sourcing agent will not be able to deal with all technical application specific issues.
- China and India are home to sourcing agents. In other Developing Countries, these agents are hard to find.
- They have a thorough knowledge of production capabilities and the capacities of suppliers of metal parts and components in their country.
- Sometimes the sourcing agent in a Developing Country also supports a European company in the search for a reliable partner in a Developing Country.

## Sourcing agent in Europe

- Offers logistics, marketing and communication services for suppliers wishing to find customers in a specific target market in Europe.
- In the case of commodity products, the only thing a Developing Country exporter has to focus on is production. In the case of specialty products, there will be more communication with the final customer because the sourcing agent will not be able to deal with all technical application-specific issues.
- Sourcing agents can be seen as match-makers, especially for specialties. European companies which are not satisfied with their current supplier may contact the sourcing agent, seeking a solution for their problem. In turn, the sourcing agent could then make use of sourcing agents in Developing Countries. Together they can define the best sourcing solution for the product. Sourcing agents are also an interesting option for European companies that are unfamiliar with global sourcing.
- Most sourcing agents have several suppliers, enabling them to offer the buyer the best solution.
- Usually, the sourcing agent does not hold stock. However, in some cases sourcing agents are asked by their buyers to hold (some) stock in order to be able to supply them faster.
- A sourcing agent and an importer are not the same, as there are differences in responsibilities and margins.

## Importer/wholesaler/distributor

- These intermediaries are attractive targets for Developing Country exporters. This is because they import large volumes of commodity-type products on a scheduled basis. Examples of commodities are fittings and flanges, screws, bolts and nuts, springs and base metal mountings.
- Importers have several suppliers for a wide range of products.
- In most cases, the European companies in this group can be characterised as distributors. They not only stock the product, but also distribute the products to customers. At the same time, they also have an import function.
- Importers buy on their own account, and their activities increasingly focus on additional services around the product itself, such as marketing, quality assurance, sourcing and transferring knowledge, stock keeping, fast delivery and after-sales service.

## Producer of metal parts and components (subcontracting)

- These companies offer strong potential for the supply of most metal parts and components. This is logical as metal parts and components tend to be specialties and the majority of trade therefore takes place directly. Directly also means: without the involvement of any intermediaries.
- Subcontracting takes place according to the buyers' specifications.
- An advantage of subcontracting is that the Developing Country exporter only requires a little exporting experience.
- The willingness of producers to form subcontractor relationships with Developing Country exporters differs from country to country. Generally speaking, German companies take the lead in Europe in this area and, in several cases, have formed joint ventures with Developing Countries exporters.
- Subcontracting often concerns labour-intensive production.

## Large industrial company

- Large industrial companies in Europe buy parts and components and produce modules (sub-assembly) or finished products.
- These companies buy commodities from intermediaries or directly (commodities and sometimes specialties in high volumes) from producers both in and outside Europe, and specialties directly from European and sometimes Developing Country producers.
- Some of these companies have their own International Purchasing Offices (IPOs) in Developing Countries, and exporters have to deal with the local IPO team.
- Quality and reliability are major selection criteria. Several large industrial companies manage supplier selection programmes with strict selection criteria. These companies know that starting a new supplier relationship takes time and effort on both sides and that quality failures may occur in the first few months.
- Large industrial companies can be potential partners for Developing Country exporters of commodities if the European company needs large volumes of these commodities.

**Tips:**

- As there are many ways of exporting, it is important to choose your partner carefully depending on your strategy.
- It is recommended to cooperate with European producers of metal parts and components (subcontracting), as these companies offer strong potential for your supply.
- European companies often not only look for a company with supplying capacities, but also increasingly seek partners who are able to market and sell products made in Europe as well. Developing Country producers who are able to meet these specifications certainly improve their possibilities.

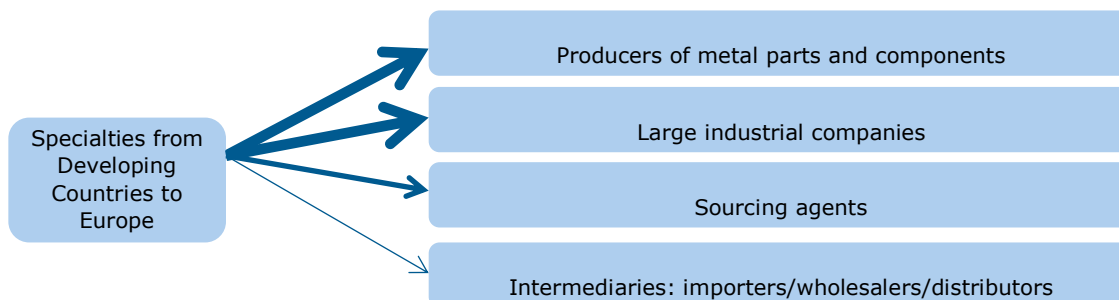
## Market segments: specialties and commodities

In general, the market for metal parts and components can be divided into specialties and commodities. Since specialties offer the best opportunities for most Developing Country producers, the focus here is on specialties.

### Specialties

Specialties are parts made according to the buyer's specifications. Since specialties are tailored to the needs of the buyer, they are not so suitable for holding in stock. More than 90% of all metal parts and components are specialties. Mainly China and India have started to tap into this market in recent years, but their market shares are still relatively limited, leaving clear opportunities for exporters from other Developing Countries.

**Figure 2: Segmentation of the Specialties market**



Source: *Globally Cool (2012-2016)*

The main characteristics of this market will remain as follows in the short to medium term:

- The buyer specifies product requirements.
- Buyers are European producers of products who require metal parts and components (and may also be large industrial companies), sourcing agents and intermediaries.
- Intermediaries have a low market share (less than 5%), while direct trade with European producers of end-products and of metal parts and components represent quite a large proportion of all transactions (about 75%). Sourcing agents account for about 20% of trade.
- Margins are higher than for commodities, the precise level depending on the level of care and attention required by the product and the costs and risks involved in the sourcing process.

**Tips:**

- Improve your export sales and marketing skills. Use a European style of marketing, follow up quickly on initial opportunities and be honest about your capabilities. Also build strong relationships with customers, keep in touch and meet with each other every year.
- Focus on a limited number of specialties targeted at specific market segments. Pick out one or two of your products, core technologies or services that are truly unique and in which you have a competitive edge.
- Offer the "best costs of ownership". This means the best quality/price ratio for your product and your delivery performance.
- Establish your company as a benchmark for your industry peers.

## Commodities

Sales of commodities such as mainstream fasteners and base metal mountings accounts for approximately 10% of the total market. China often dominates the commodity markets in Europe and competes mainly on price, leaving limited opportunities for other Developing Countries.

**Figure 3: Segmentation of the commodities market**



Source: *Globally Cool (2012-2015)*

The main characteristics of this market will remain as follows in the medium term:

- High degree of rivalry between the many Developing Country exporters in the market, particularly from China. This leads to price competition.
- Only 25% of trade in Europe is direct trade, the rest is indirect trade.
- Margins are relatively low with an average of 5-10%. They reflect the level of care and attention an intermediary has to give to the sales and handling process. Products that do not need much extra care, such as finished and ready-to-use products, will be sold with a smaller margin than products that need extra handling or even need to be stored.

### Tips:

- Exporters from Developing Countries should find a way to escape from commodity products within their market, focusing on specialty products instead. For example, fastener producers should focus on exports of specialty fasteners.
- Think of ways to get support from CBI or a local industry association.



**CBI Market Intelligence**

P.O. Box 93144  
2509 AC The Hague  
The Netherlands

[www.cbi.eu/market-information](http://www.cbi.eu/market-information)

[marketintel@cbi.eu](mailto:marketintel@cbi.eu)

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