



CBI
Ministry of Foreign Affairs

CBI Trends:

Metal Parts and Components in Europe

Introduction

The main opportunity for exporters from Developing Countries lies in the provision of solutions for European buyers. Although competition remains fierce, exporters offering competitive prices combined with reliable delivery, flexibility and compliance with corporate social responsibility (CSR) and other new supplier evaluation criteria will be in the best position to benefit.

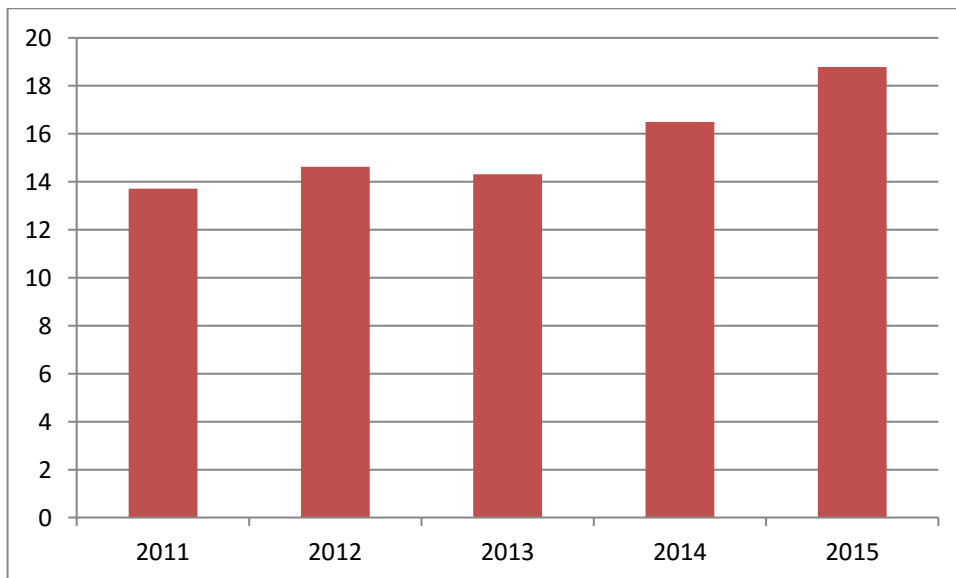
More imports from Developing Countries

The market for metal parts and components from Developing Countries in Europe has shown positive developments. As Figure 1 shows, the import of these goods has increased considerably in recent years to almost €19 billion in 2016. Note that Chinese exports are included in the figures for Developing Country imports.

Some highlights:

- The main importing countries of metal parts and components from Developing Countries are 1) Germany, 2) France, 3) the United Kingdom, 4) Italy and 5) Poland.
- Countries that experienced high growth in imports from Developing Countries are Germany, the UK, Poland, the Netherlands, Spain, France and Italy.
- The main importing country is Germany. This country accounted for almost a quarter of the total imports from Developing Countries in 2015.
- The share of Developing Countries in European imports increased from 13% in 2011 to 16% in 2015. China accounted for 2% of the increase. In 2015, China accounted for 66% of total European imports from Developing Countries, while Turkey, India and Vietnam accounted for the largest part of the remainder. Serbia, Bosnia and Herzegovina and Indonesia also experienced strong growth.

Figure 1: European imports of metal parts and components from Developing Countries, 2011-2015, in € billion

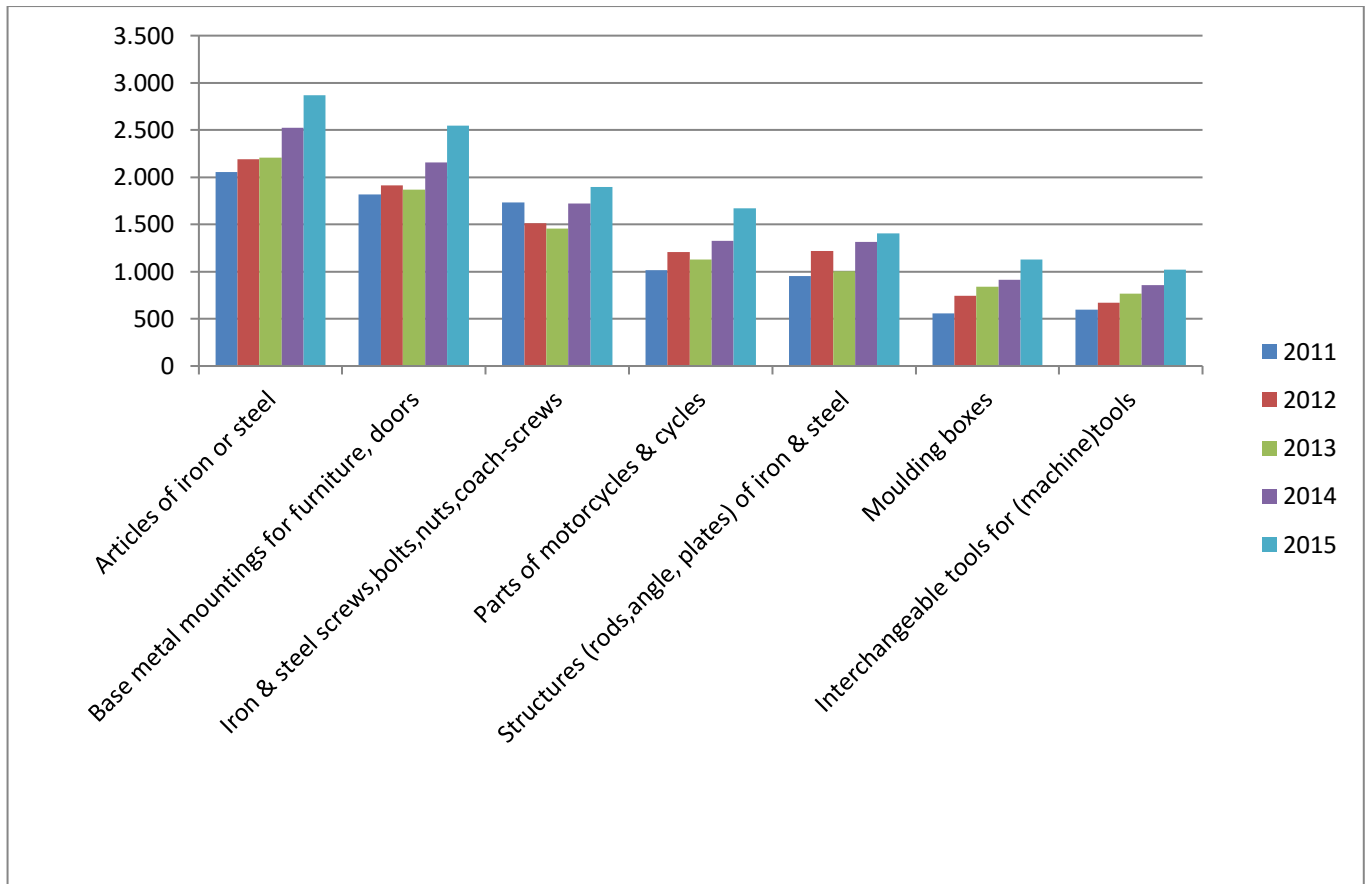


Source: Trademap

An analysis of the European imports of metal parts and components shows that:

- There are 17 chapters (out of 32 in total) in the Harmonized System Nomenclature for which Europe imports more than €200 million from Developing Countries.
- Seven chapters account for more than €1 billion of trade, shown in Figure 2. All of these chapters consist of both specialty and commodity products, although certain chapters have a relatively high share of commodity products (e.g. base metal mountings and screws and bolts).

Figure 2: European imports of specialty and commodity products from Developing Countries, 2011-2015, in € million



In the next few years, it is expected that demand for products from Developing Countries will remain steady in the following chapters: (cast or other) articles of iron or steel and base metal mountings. In addition, high relative growth is expected for:

- Dies and moulds and moulding boxes,
- Aluminium structures & parts of structures
- Interchangeable tools for (machine) tools
- Parts of motorcycles & cycles
- Parts of railway or tramway locomotives or rolling stock
- Base metal mountings for furniture and doors
- Articles of iron or steel.

Tips:

- Germany, France and the United Kingdom will continue to be the leading import destinations for Developing Countries in the next few years. Therefore, these countries offer good opportunities to Developing Country exporters. However, you should realise that these are mature markets, and are therefore relatively difficult to enter.
- Dies and moulds and moulding boxes will continue to be on the list of top-performing products. Developing Country producers who can export these products (and the other products mentioned in the previous section) to Europe continue to have good opportunities.
- There is a growing interest in Asia, not only in terms of supply but also increasingly in terms of markets. European companies are looking more and more for partners in Asia who can play a role in both the supply and the sales of parts and products.

Lower product pricing as result of low raw material costs

In 2015, the global raw material industry was intensely affected by the worldwide overcapacity of oil, steel and aluminium, the strong US dollar and rising distrust in future demand in China. Prices for raw materials such as steel and basic metals decreased heavily. Due to these falling raw materials prices, industrial products were impacted severely as the sales prices of these goods continued to decrease in 2015.

Although the global raw material industry has still struggled in the first half of 2016, it is expected that positive developments will occur in 2016. These positive developments will primarily come from economic recovery in China, a country that plays a major role in the international steel marketplace. Moreover, the consolidation process of the global metals industry is still ongoing. This will lead to the slow recovery of most commodity prices in the coming year, resulting in a slow improvement of sales prices for industrial goods, including metal parts and components.

Chinese switch to specialties was expected, but is hardly visible in Europe

In the past, China has gained most of its market share by exporting low-added-value series-produced products such as manhole covers. For several years industry peers have expected that a growing number of Chinese foundries would increasingly sell specialties to European buyers. However, this has not occurred to the extent previously expected. It is highly questionable whether Chinese foundries will manage to export more specialties to Europe in the coming years, as there are good sourcing alternatives in Central and Eastern Europe, for example.

Competition from China certainly does not make it easier for Developing Country specialty exporters to sell their products to European buyers. At the same time, if the competition does not come from China, then it must come from another place, such as Central and Eastern Europe.

European customers want flexibility

Economic uncertainties and the rising cost of credit in the period from 2009-2014 have led European companies to reduce their stock levels and order lead times year-on-year. These measures have allowed them to reduce their working capital requirements, and thus their overall operating costs. Although the recent decrease in credit costs and metal and steel prices have alleviated the pain to some extent, this trend will continue to impact trade in metal parts and components in the coming years.

In 2016, business in Europe is conducted as follows: companies wait until the last moment before placing orders. They want to receive the products they order as quickly as possible, and at the same time they pay late. This presents opportunities for nearby countries, such as those in the Balkan region or in Central and Eastern Europe. Suppliers in these countries are able to deliver products to European buyers relatively quickly because of the relatively short distances involved. At the same time, it represents a threat to exporters from overseas countries far removed from Europe.

Tips:

- More frequent deliveries can make exporters more attractive for European buyers, but only if they are able to provide the right flow of deliveries at the correct time without generating high stock levels and transport costs within the supply chain.
- Implement flexible logistic concepts (e.g. lean manufacturing, just-in-time delivery, constraint management), or find a distributor with stockholding capability.
- Try to connect the buyer's enterprise resource planning (ERP) system to your own ERP. This will help you to respond to buyers' demands more flexibly.
- Implement flexible production concepts so that you can produce smaller batches profitably.
- Improve or maintain your reliability:
- Maintain sustainable trading relationships (do business with *people* and not with companies).
- Organise regular face-to-face meetings (at least twice a year).
- Keep the buyer informed about order progress. In particular, let them know about problems as soon as possible.
- Form alliances, industry associations or export associations to work together on export and logistics challenges.

Supplier evaluation criteria are getting stricter

European buyers have increasingly shifted their focus from initial purchasing costs to all costs involved in sourcing. This is also called "Total Cost of Ownership" or TCO. Every year, more European buyers shift their focus to TCO. This means that they are increasingly looking beyond the invoice value and starting to examine costs related to energy, quality, risks and similar factors. They start to implement the principles of LEAN manufacturing and also LEAN supply chain management. This poses a new challenge to Developing Country exporters. However, exporters who manage to meet the new supplier evaluation criteria will achieve a real competitive edge.

To deal with this development, the metalworking companies in Europe supplying metal parts and components to buyers are increasingly automating their production processes. This enables them to reduce their labour force and increase the overall quality level, for example by making use of 5-axis CNC machining and robots. These changes also allow them to continue to meet the supplier evaluation criteria set by their European customers.

Tips:

- Let buyers know about your capabilities and your ability to meet their evaluation criteria. Be honest and realistic about what you can and cannot do. Keep track of your performance and pass this information on to your buyer or prospective buyer. For example, let them know about your quality performance in relation to mass production quality, defect rates (e.g. 2 parts per million), certification and sample quality. Alternatively, you can demonstrate your delivery performance relative to criteria for delivery times, quantity reliability and buyer satisfaction.
- Implement the principles of LEAN production and LEAN supply chain management with your suppliers and customers.
- Play a proactive role in your buyers' supplier development programmes.
- Manage and meet buyer expectations.
- See our study about [Top 10 Tips for Doing Business with European Buyers](#) for more information.

Engineering design services will pay off

Innovation in relation to metal parts and components has so far mainly focused on reducing material consumption and improving functionality, for example by casting or forging a component without the need for additional machining (which is inevitably wasteful).

Certification against ISO14001 – Environmental Management is also increasingly requested by customers. An important element of ISO14001 is energy-based life cycle assessment. The metalworking industry has increasingly used energy-based life cycle assessment to develop optimal manufacturing processes. Such assessment takes many factors into account, for instance optimum energy and material consumption together with recycling. The recent focus on making European economies more sustainable will continue to influence product design and the design and engineering of metal parts and components. It also impacts the whole metal supply chain, as the increasing requirement of ISO14001 by large companies sometimes goes further than only the direct supplier.

Tips:

- Show commitment to the environment by making your production process as sustainable as possible. Also look at the opportunities for Certification against ISO14001 – Environmental Management. Use this approach to achieve a competitive edge.
- Mention your engineering design services and other services in your marketing material (website and literature) to differentiate your company from competitors.
- Learn from others by reading relevant publications (such as [Metal Working World](#)) or news from leading companies. For example, [Componenta](#) has published details of the advances it has made in reducing the weight of machine parts by replacing welded machine parts with innovative cast components.

CSR is an effective unique selling proposition

Corporate social responsibility (CSR) will become the norm in the metal industry, though it may take decades to achieve this. As a result, a growing number of European companies will prefer to deal exclusively with foreign companies that have a CSR policy in line with their own. In the long term, CSR is expected to become a fundamental selection criterion for new suppliers to Europe. Exporters who have implemented a solid CSR policy can use this as a unique selling point.

In the metal parts and components, the focus of CSR strategies has primarily been on human rights and labour conditions.

Tips:

- Show commitment to CSR, and use it to increase your competitive edge.
- Implement CSR as part of your company's culture, provide evidence to back up this claim and tell people about it in your marketing material. Don't wait to be asked; go ahead and offer it.
- Mention your CSR compliance in your marketing material (website and publications) in order to stand out from competitors.



CBI Market Intelligence

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

www.cbi.eu/market-information

marketintel@cbi.eu

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