International Purchasing Office (IPO) and Global Sourcing

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“An IPO can be defined as an offshore buying office or buying house set up to procure components, parts, materials and other industrial input for use by manufacturing plants globally”

(Goh and Lau, 1998)
OBJECTIVES OF THE STUDY

The objectives were the followings:

• To identify the factors that influence the choice and the construction criteria of an IPO;

• To point out phases and development path in IPO’s establishment;

• To determine the main tasks of IPOs and critical organizational factors in its management.
METHODOLOGY

• Literature analysis;

• Development of a check list (collecting information such as IPO’s enabling factors, tasks and criticalities, characteristics of the IPOs’ path of growth);

• Sample selection;

• Case-studies development;

• Data analysis and elaboration.

• Development of a theoretical model.
### METHODOLOGY

#### The sample

<table>
<thead>
<tr>
<th>Sector</th>
<th>Sourcing Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data processing</td>
<td>Taiwan, China</td>
</tr>
<tr>
<td>Textile</td>
<td>China, Bangladesh, Pakistan, India</td>
</tr>
<tr>
<td>Office equipment</td>
<td>China</td>
</tr>
<tr>
<td>Engineering</td>
<td>China</td>
</tr>
<tr>
<td>Fashion</td>
<td>China, Vietnam, Indonesia, Sri Lanka</td>
</tr>
<tr>
<td>Fashion (glasses)</td>
<td>China (Hong Kong)</td>
</tr>
<tr>
<td>Systems for the textile industry</td>
<td>China, Taiwan</td>
</tr>
<tr>
<td>Gift and fancy goods</td>
<td>China</td>
</tr>
<tr>
<td>Toys</td>
<td>China, Vietnam, Indonesia</td>
</tr>
<tr>
<td>Power tools</td>
<td>China</td>
</tr>
<tr>
<td>Mechanical Electromechanical</td>
<td>China</td>
</tr>
</tbody>
</table>
RESULTS
Sourcing typologies

• Imposed international sourcing

• Intermediated international sourcing

• Direct international sourcing
  ■ Traditional
  ■ Collaborative (non-equity)
  ■ Collaborative (equity)
RESULTS
Sourcing typologies

IPO ADOPTION

- Direct IS Traditional
- Direct IS Collaborative
- Intermediated IS

Firm’s size (purchased volumes)
Product complexity
Industrial environment complexity
RESULTS
Phases for the creation of an IPO

- Sending own personnel to China
- Choice of the location
- Recruiting
- Training
- Organize tasks subdivision
- Creation of new channels
- Monitoring of the current channels
- Other activities (Administration,...)
- Personnel distribution
- Flows monitoring
- Receipt and assimilation of project specifications
- Control of the production phases
- Pre-shipment control
- Monitoring of the improvement projects
Critical activity in China because:

• the Chinese industrial sectors are deeply heterogeneous

• it’s wide country with a normative and industrial system that changes continually
RESULTS
Phases for the creation of an IPO

Parameters to be considered:

- the distance from current/potential suppliers;
- the presence of adequate transport infrastructures;
- the presence of suitable infrastructures for the communication;
- the places in which the industry-relevant trade exhibitions are held;
- the cost for the creation, and the keeping of an office;
- possible opportunities at commercial and/or fiscal level offered by the SEZs;
- the cost of the local employees.

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Main advantages:

- Special tax incentives for foreign investments
- Greater independence on international trade activities.
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- the cost for the creation, and the keeping of an office;
- possible opportunities at commercial and/or fiscal level offered by the SEZs;
- the cost of the local employees.
RESULTS
IPOs’ distribution
RESULTS
Distribution of other IPOs
RESULTS
Phases for the creation of an IPO

• Critical activities for the good office operation
• They are normally carried out by the IPO itself in cooperation with the headquarters
• There are several advantages in recruiting local employees in China
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Phases for the creation of an IPO

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Sending own personnel to China
Choice of the location
Recruiting
Training
Organize tasks subdivision
Creation of new channels
Monitoring of the current channels
Other activities (Administration, …)
Personnel distribution
Flows monitoring
Receipt and assimilation of project specifications
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Pre-shipment control
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RESULTS

Phases for the creation of an IPO

• Critical activities for the good office operation

• They are normally carried out by the IPO itself in cooperation with the headquarters

• There are several advantages in recruiting local employees in China

• They are normally well trained (the percentage of the PIL allocated to instruction is recently arisen from 2.5% to 3.4%)

• They usually have a good level of technical experience

• Their knowledge of the language and of the local culture/normative system simplifies the communication with the suppliers and the operations

• Their cost is lower
RESULTS
Phases for the creation of an IPO

CRITICAL ACTIVITY:
It’s important to exactly define task distribution among IPO, central (purchasing) units, and suppliers (for example with reference to quality control)
RESULTS
Phases for the creation of an IPO

- Sending own personnel to China
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## RESULTS

IPO’s activities

### Main activities

<table>
<thead>
<tr>
<th>Quality control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Know-how and technology transfer</td>
</tr>
<tr>
<td>Search for new suppliers</td>
</tr>
<tr>
<td>Recruiting and training of the Chinese personnel</td>
</tr>
<tr>
<td>Negotiation</td>
</tr>
<tr>
<td>Information exchange</td>
</tr>
<tr>
<td>Other activities (legal, organization, and administrative ones)</td>
</tr>
</tbody>
</table>

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22
<table>
<thead>
<tr>
<th>Case</th>
<th>Country origin</th>
<th>Annual turnover (2010)</th>
<th>1st IPO</th>
<th>Financial profile</th>
<th>Components sourced from the IPO</th>
<th>Stand-alone / Inside a plant</th>
<th>No. of staff</th>
<th>No. of suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appliances</td>
<td>Sweden</td>
<td>EUR 11,12 billion</td>
<td>1998</td>
<td>Internal Trading Company</td>
<td>Electrical, mechanical, and chemical components</td>
<td>Stand-alone</td>
<td>70</td>
<td>N/A</td>
</tr>
<tr>
<td>Automation</td>
<td>Italy</td>
<td>EUR 0,18 billion</td>
<td>2007</td>
<td>Internal Trading Company</td>
<td>Mechanical, electro-mechanical, and electric components</td>
<td>Stand-alone</td>
<td>6/7</td>
<td>N/A</td>
</tr>
<tr>
<td>Engine</td>
<td>USA</td>
<td>USD 13,2 billion</td>
<td>2003</td>
<td>Centrally funded</td>
<td>Machining parts</td>
<td>Stand-alone</td>
<td>75</td>
<td>100+</td>
</tr>
<tr>
<td>Engineering</td>
<td>Italy</td>
<td>EUR 2,58 billion</td>
<td>2004</td>
<td>Funded by the plant in China</td>
<td>All kinds of mechanical parts</td>
<td>Inside a plant</td>
<td>250</td>
<td>N/A</td>
</tr>
<tr>
<td>Identification</td>
<td>USA</td>
<td>USD 1,26 billion</td>
<td>2006</td>
<td>Internal Trading Company</td>
<td>Maintenance, repairing, and operational identification</td>
<td>Stand-alone</td>
<td>6</td>
<td>N/A</td>
</tr>
<tr>
<td>Industrial A</td>
<td>USA</td>
<td>USD 13,2 billion</td>
<td>2003</td>
<td>Centrally funded</td>
<td>Mechanical precision parts</td>
<td>Stand-alone</td>
<td>7</td>
<td>20</td>
</tr>
<tr>
<td>Industrial B</td>
<td>USA</td>
<td>USD 1,9 billion</td>
<td>2004</td>
<td>Internal Trading Company</td>
<td>Electrical and mechanical parts; sheet metal</td>
<td>Stand-alone</td>
<td>20</td>
<td>20+</td>
</tr>
<tr>
<td>Industrial C</td>
<td>UK</td>
<td>GBP 0,38 billion</td>
<td>2006</td>
<td>Funded by the plant in China</td>
<td>Plastic, aluminium casting, and cast iron</td>
<td>Inside a plant</td>
<td>3</td>
<td>4/5</td>
</tr>
<tr>
<td>Industrial tools</td>
<td>USA</td>
<td>USD 8,4 billion</td>
<td>1998</td>
<td>Internal Trading Company</td>
<td>Motor, plastic, and machining parts</td>
<td>Inside a plant</td>
<td>8</td>
<td>98</td>
</tr>
<tr>
<td>Lighting</td>
<td>Netherlands</td>
<td>EUR 25 billion</td>
<td>2003</td>
<td>Centrally funded</td>
<td>Lamps and automotive lighting</td>
<td>Stand-alone</td>
<td>500</td>
<td>N/A</td>
</tr>
<tr>
<td>Printing</td>
<td>UK</td>
<td>GBP 0,3 billion</td>
<td>2004</td>
<td>Centrally funded</td>
<td>Electronics in a PCB, power supply, injection mouldings</td>
<td>Stand-alone</td>
<td>4</td>
<td>around 12</td>
</tr>
<tr>
<td>Retailer A</td>
<td>Sweden/Netherlands</td>
<td>EUR 23.5 billion</td>
<td>1992</td>
<td>Centrally funded</td>
<td>Textile, steel, aluminium, plastic</td>
<td>Stand-alone</td>
<td>500</td>
<td>300+</td>
</tr>
<tr>
<td>Retailer B</td>
<td>UK</td>
<td>GBP 1,08 billion</td>
<td>1994</td>
<td>Centrally funded</td>
<td>Toys, clothing, home &amp; travel systems</td>
<td>Stand-alone</td>
<td>300</td>
<td>100 core of 5-600</td>
</tr>
<tr>
<td>Solar</td>
<td>Germany</td>
<td>EUR 2,38 billion</td>
<td>2005</td>
<td>Centrally funded</td>
<td>Solar products</td>
<td>Stand-alone</td>
<td>7</td>
<td>4</td>
</tr>
</tbody>
</table>
Multidimensional development - APPLIANCE case study
Selective development - RETAILER A case study
Stable configuration - ENGINE case study
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