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# **International Purchasing Office (IPO) and Global Sourcing**

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# INTRODUCTION

## IPO definition

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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

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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

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- 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

	Sector	Sourcing Areas
	Data processing	Taiwan, China
	Textile	China, Bangladesh, Pakistan, India
	Office equipment	China
	Engineering	China
	Fashion	China, Vietnam, Indonesia, Sri Lanka
	Fashion (glasses)	China (Hong Kong)
	Systems for the textile industry	China, Taiwan
	Gift and fancy goods	China
	Toys	China, Vietnam, Indonesia
	Power tools	China
	Mechanical Electromechanical	China

# RESULTS

## Sourcing typologies

- Imposed international sourcing
- Intermediated international sourcing
- Direct international sourcing
  - Traditional
  - Collaborative (non-equity)
  - Collaborative (equity)

### PURCHASING RESPONSIBILITY

IPO FDI HEADQUARTER

INTERMEDIARY

HEADQUARTER

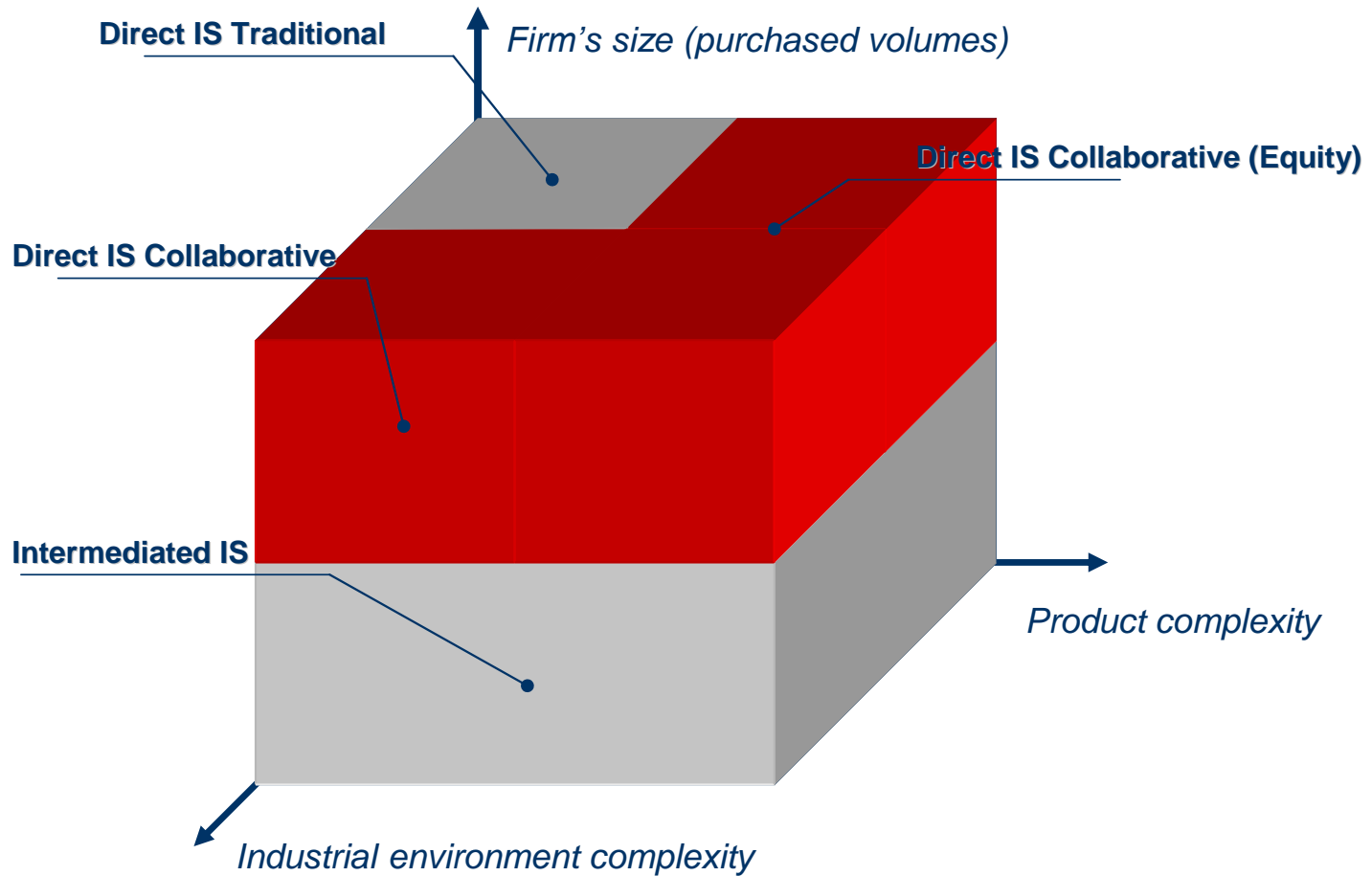
IPO HEADQUARTER

IPO FDI

# RESULTS

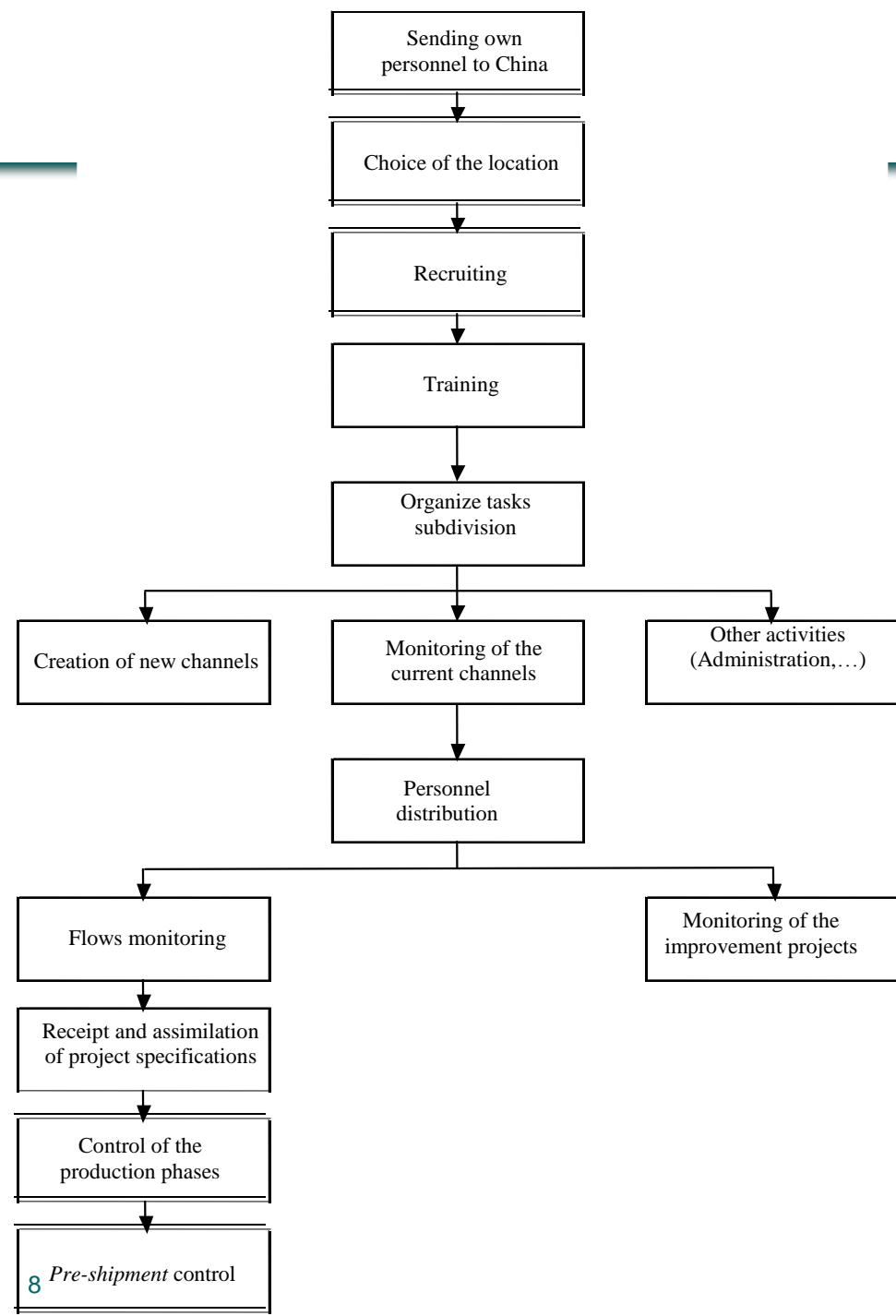
## Sourcing typologies

### IPO ADOPTION



# RESULTS

## Phases for the creation of an IPO



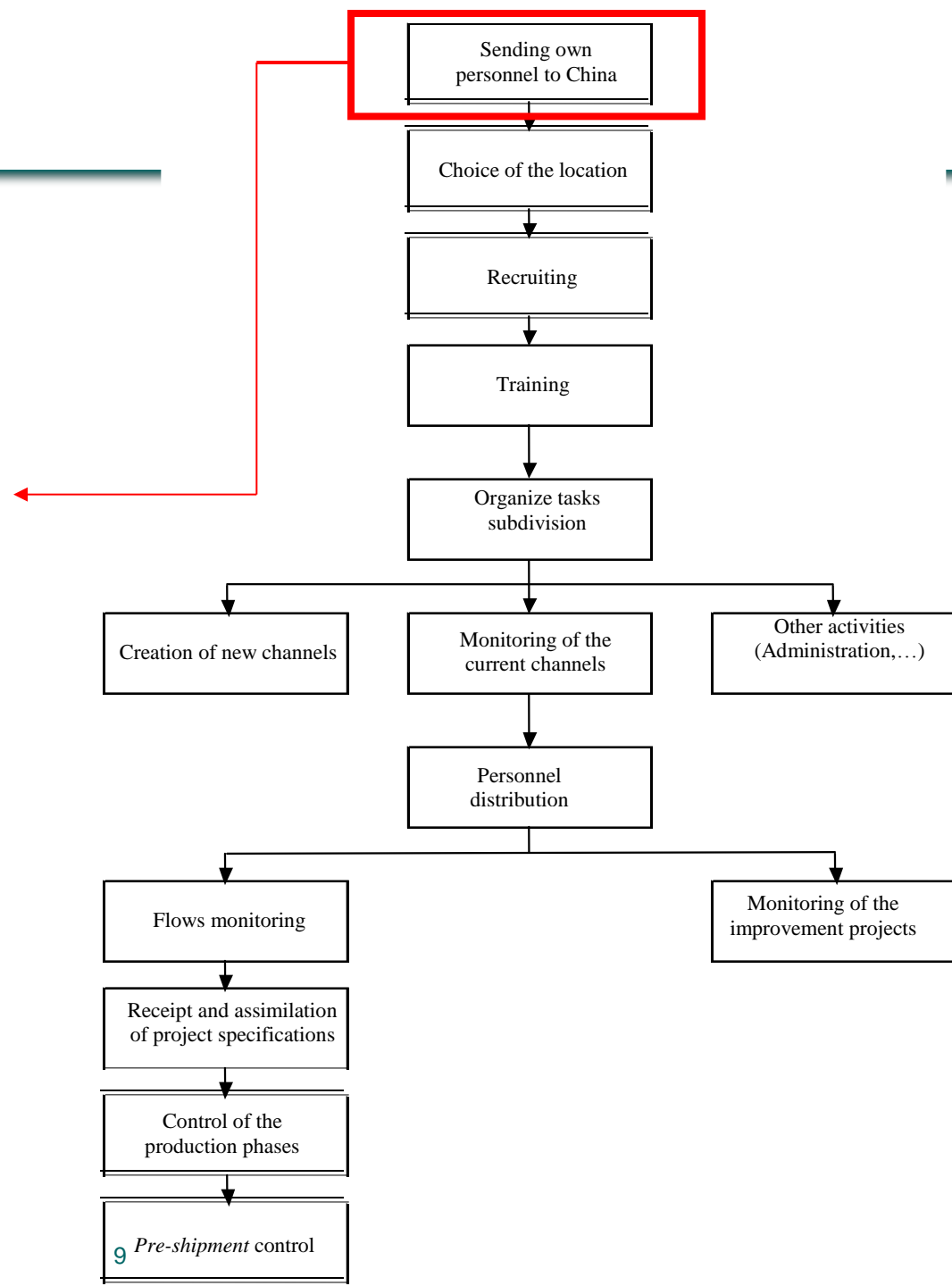


# RESULTS

## Phases for the creation of an IPO

### 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

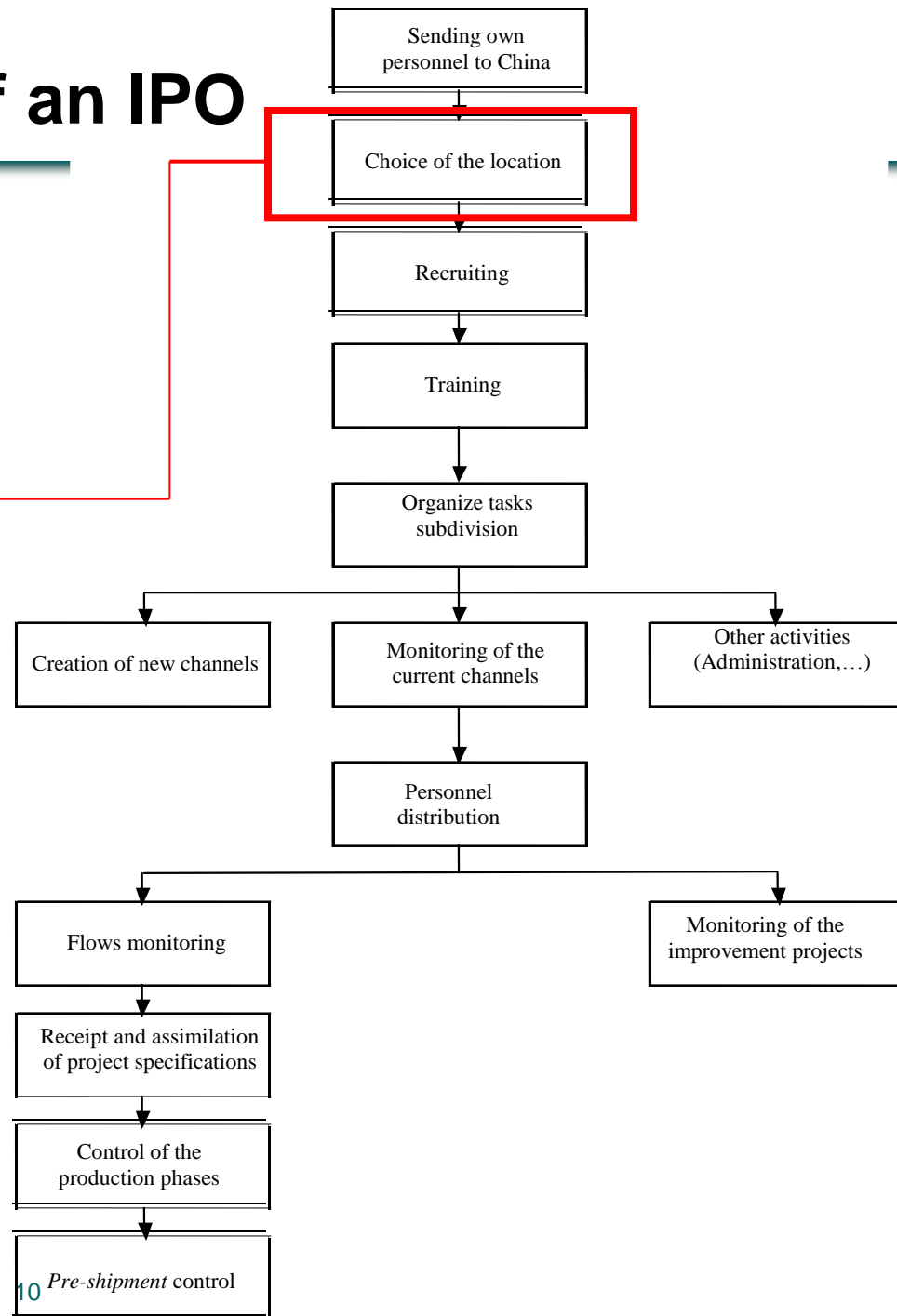


# RESULTS

## 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



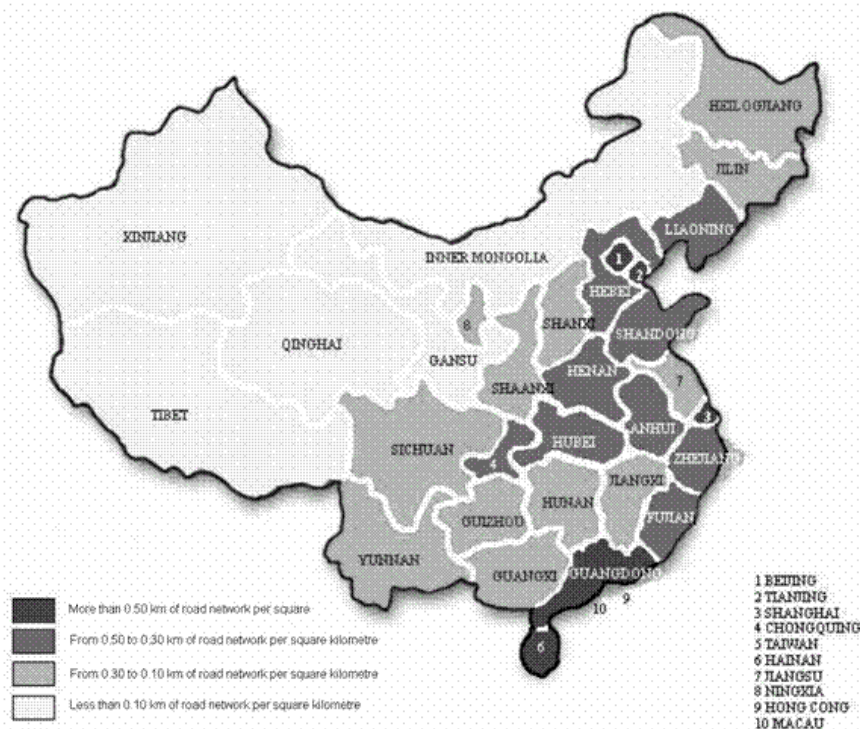
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### Distribution of the road network

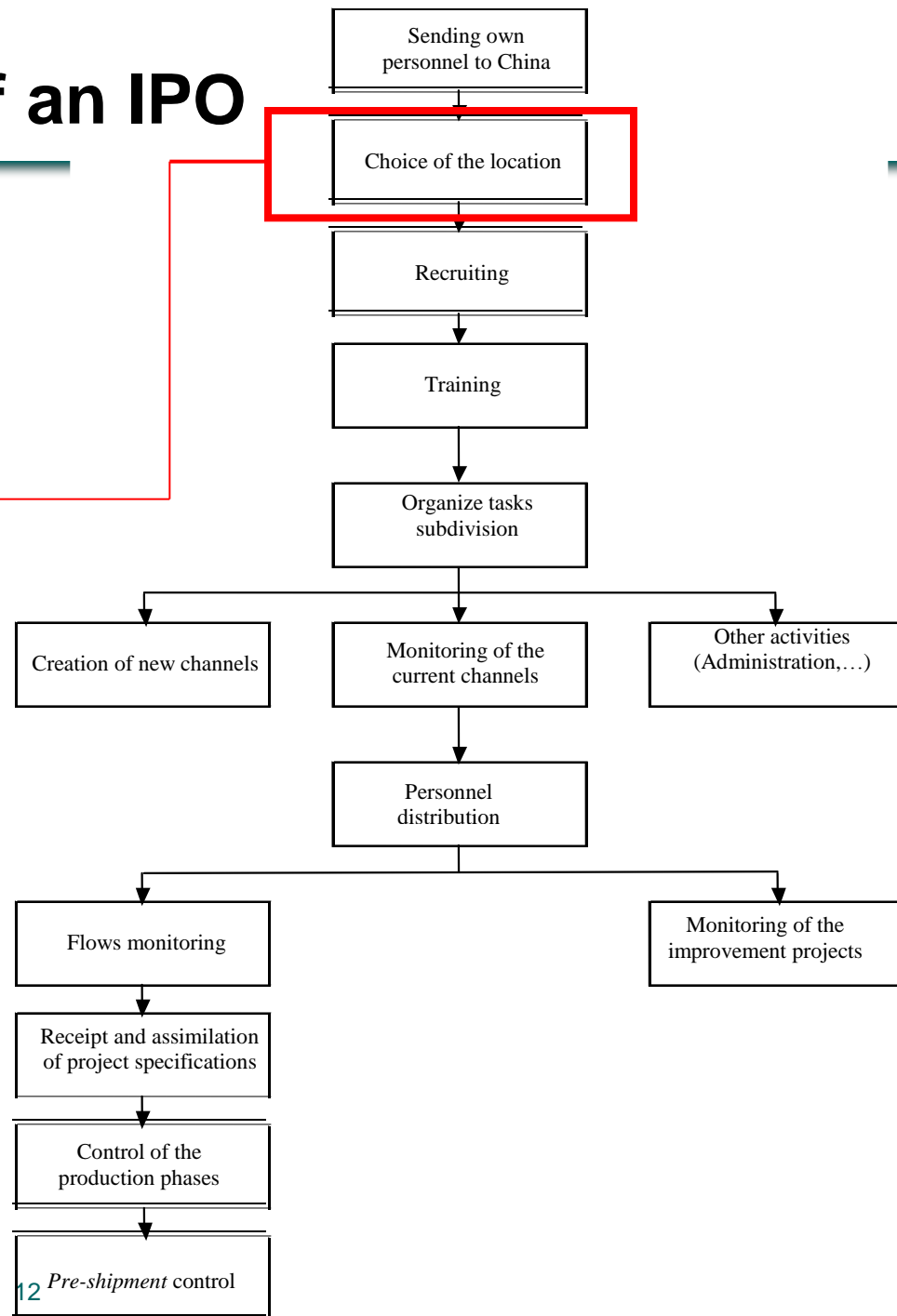


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### Main advantages:

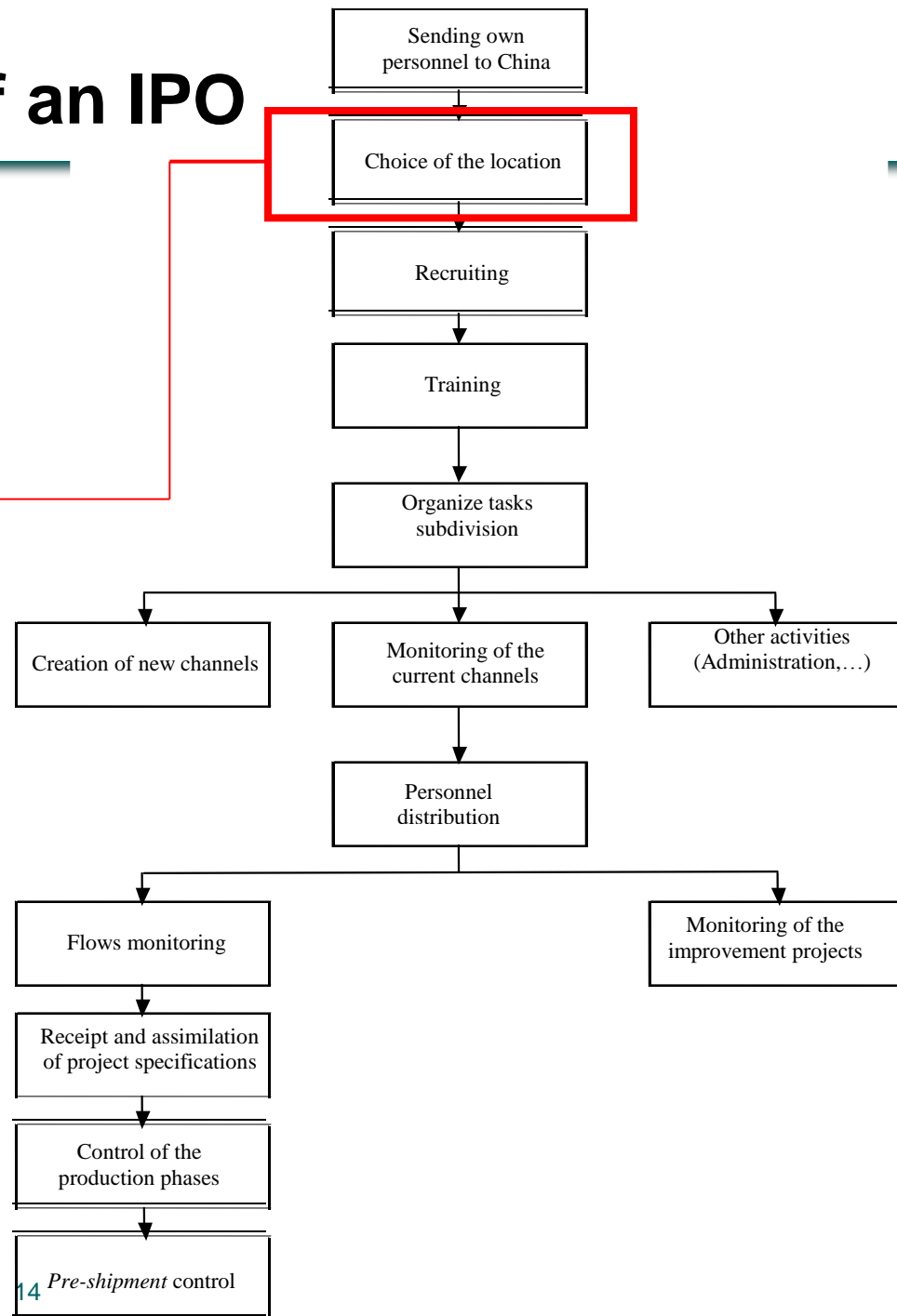
- Special tax incentives for foreign investments
- Greater independence on international trade activities.

# RESULTS

## Phases for the creation of an IPO

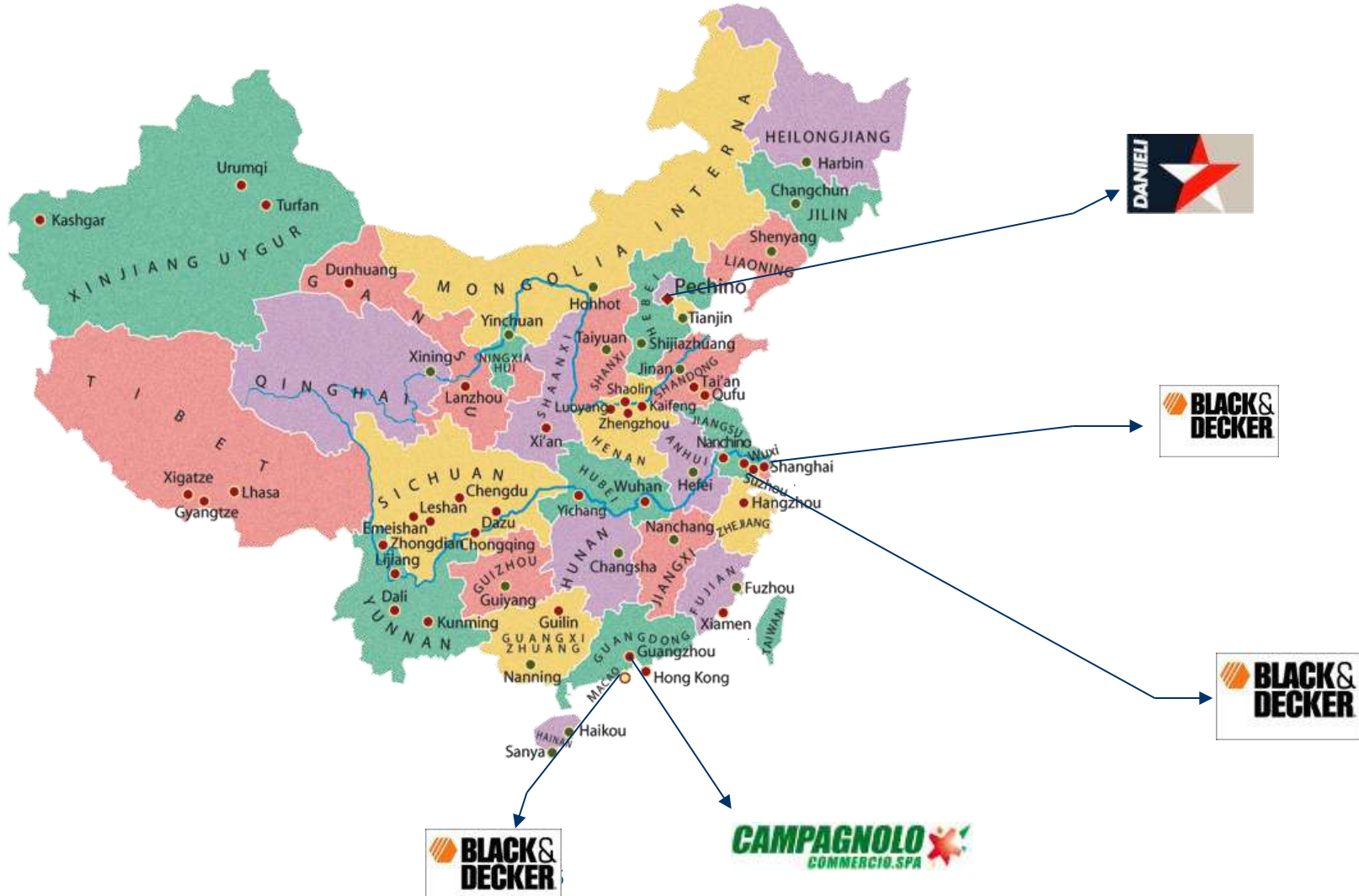
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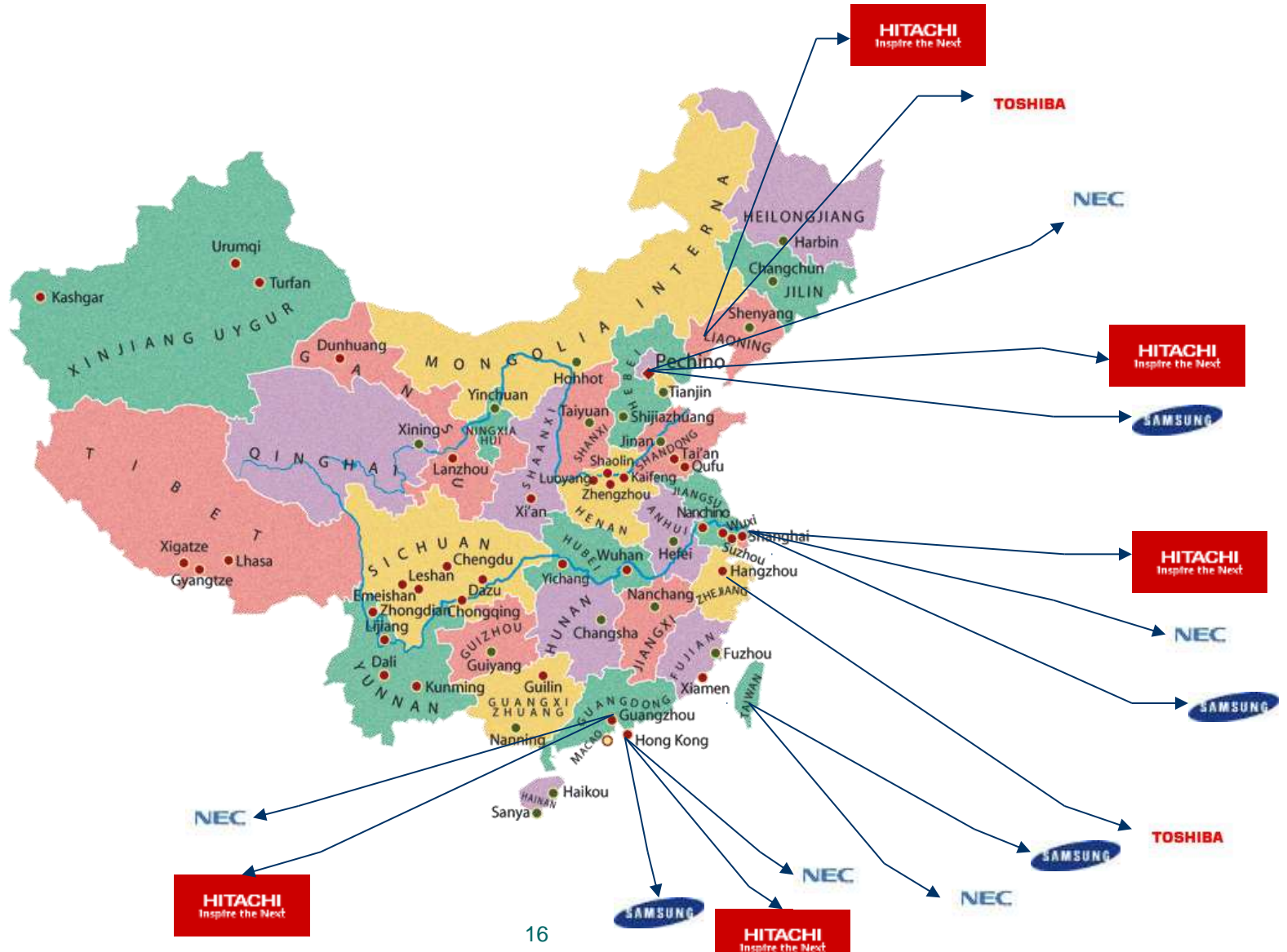
# RESULTS

## IPOs' distribution



# RESULTS

## Distribution of other IPOs

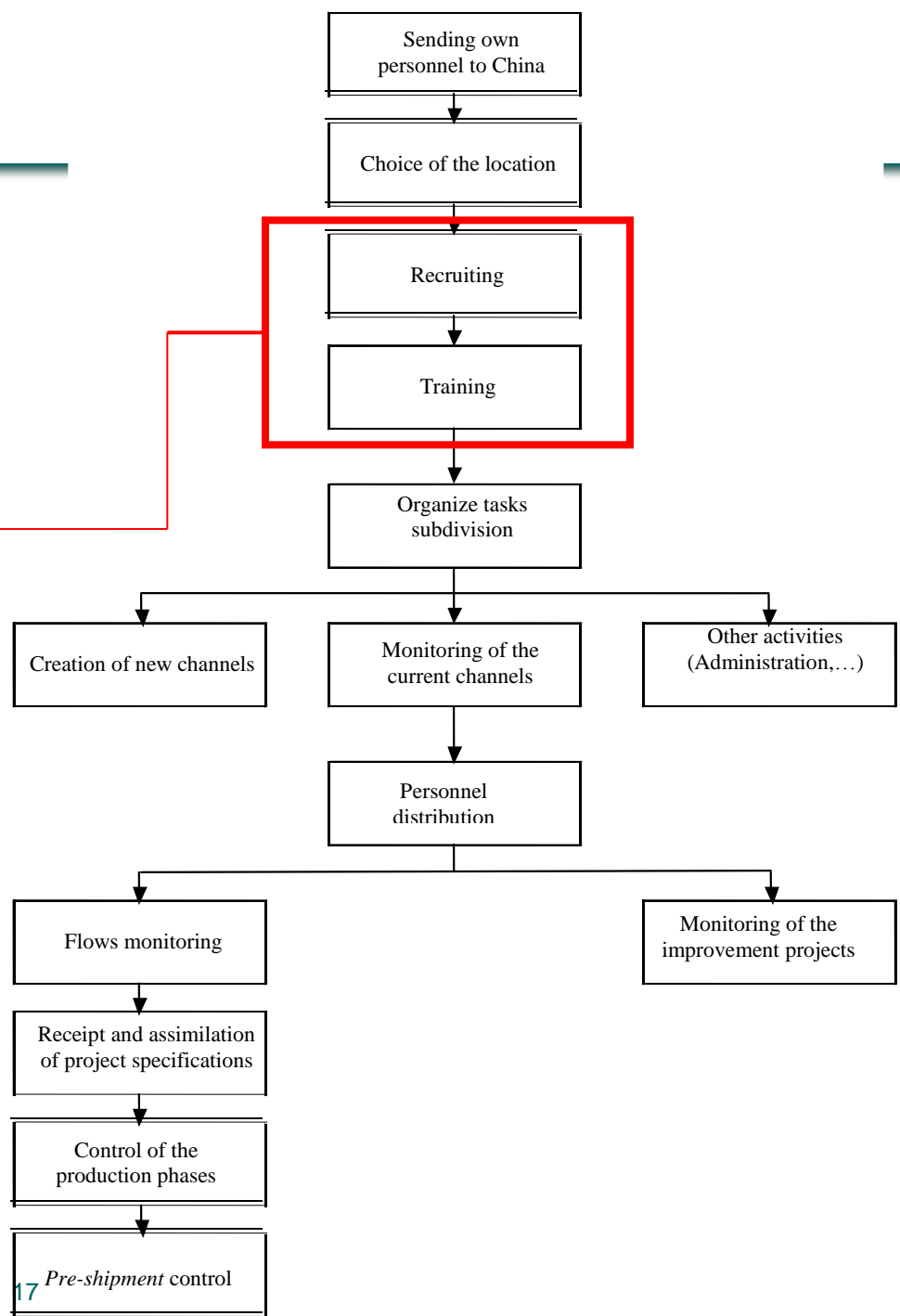




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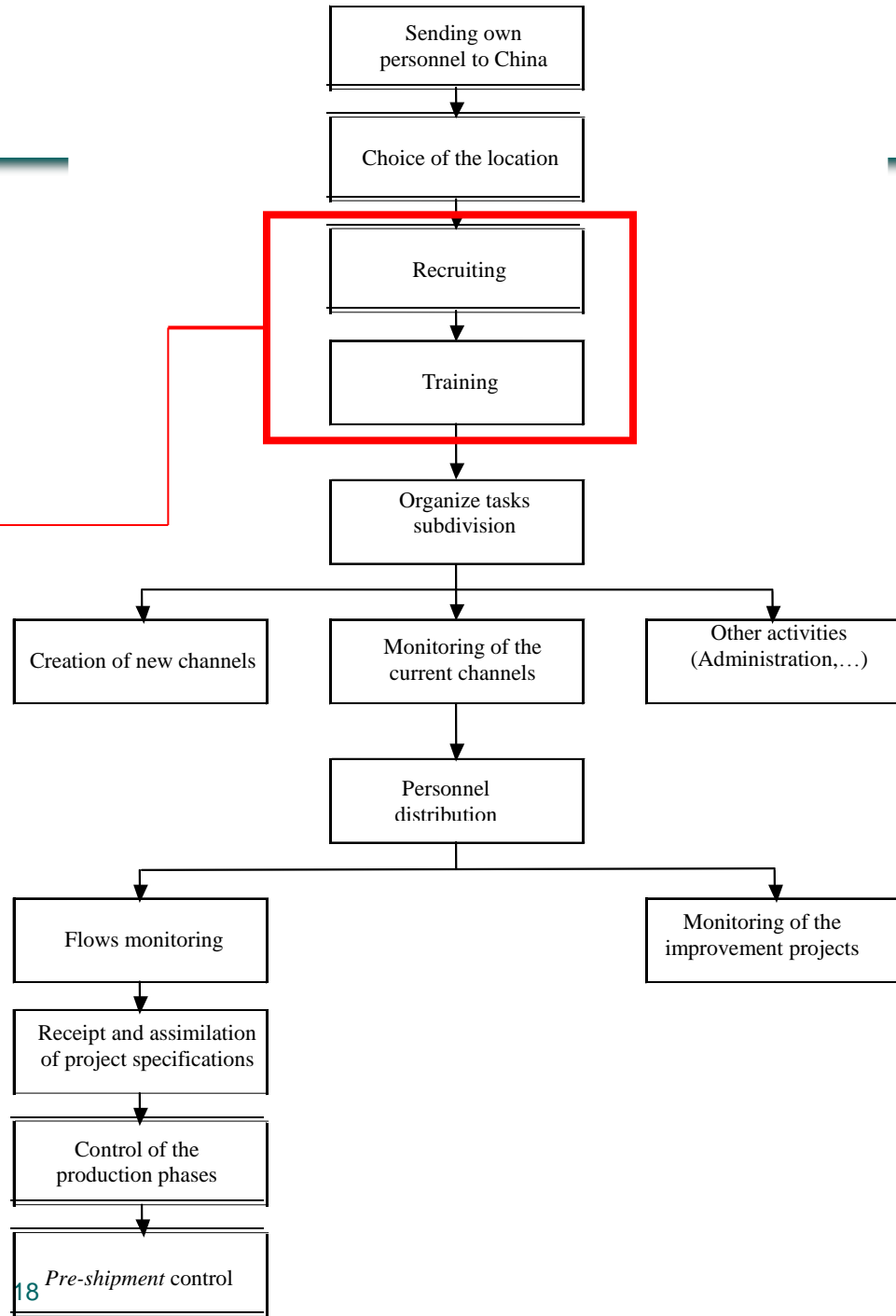
- Critical activities for the good office operation
- They are normally carried out by the IPO itself in cooperation with the headquarters
- There are several advantages in recruiting local employees in China



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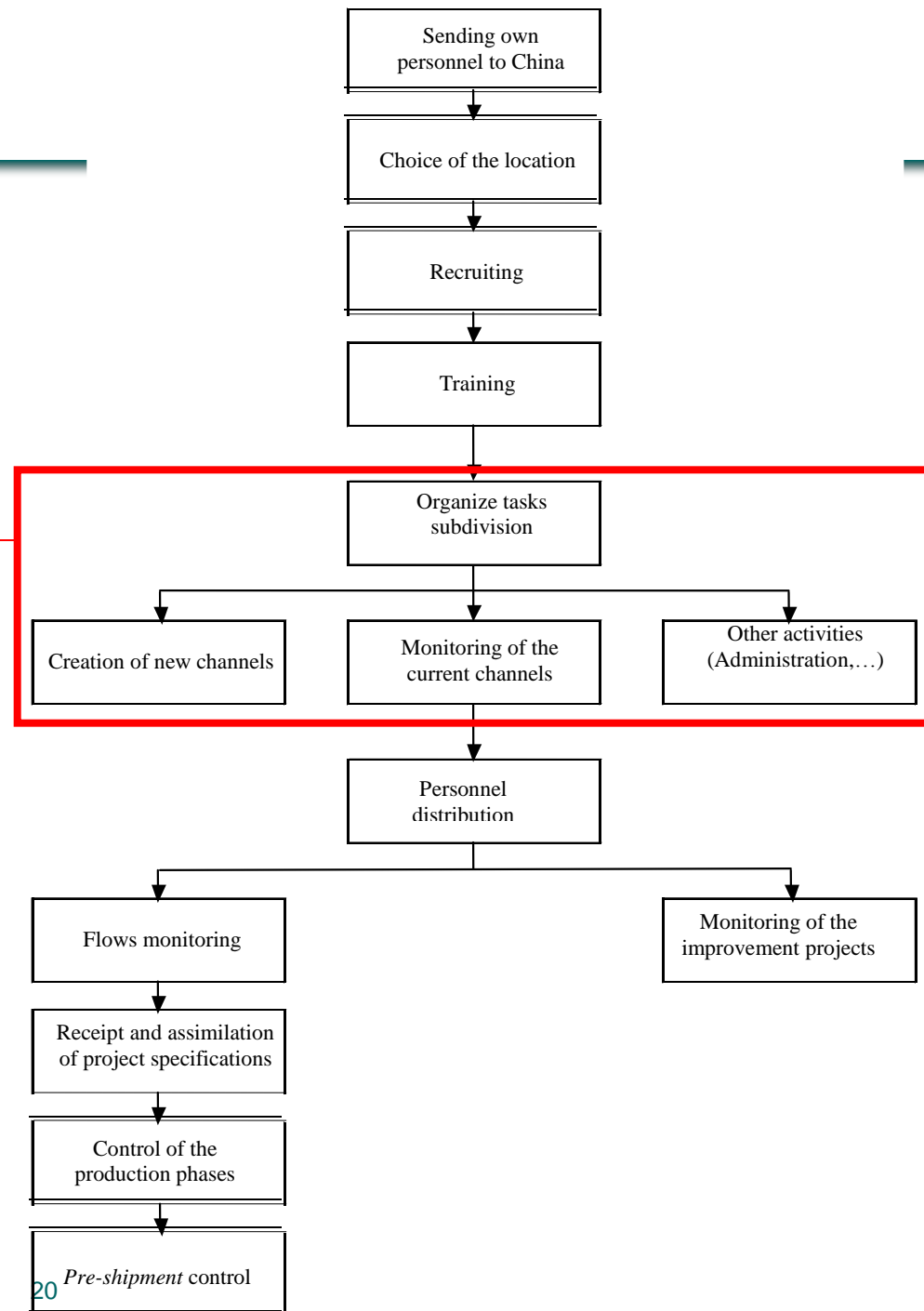


- They are normally well trained (the percentage of the PIL allocated to instruction is recently arisen from 2.5% to 3.4%)
- They usually have a good level of technical experience
- Their knowledge of the language and of the local culture/normative system simplifies the communication with the suppliers and the operations
- Their cost is lower

# RESULTS

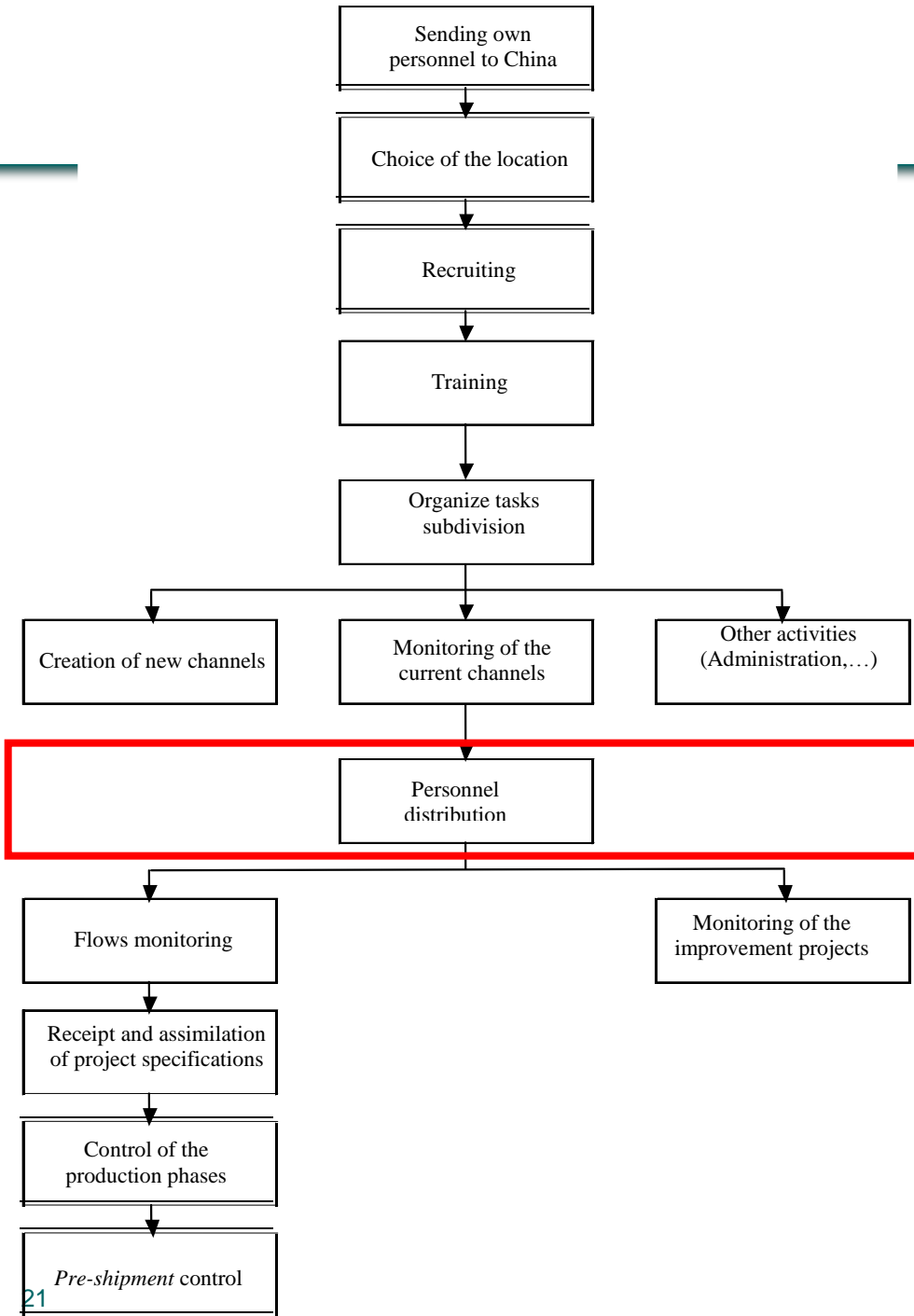
## Phases for the creation of an IPO

**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



# RESULTS

## IPO's activities

### Main activities

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

# THE SAMPLE

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

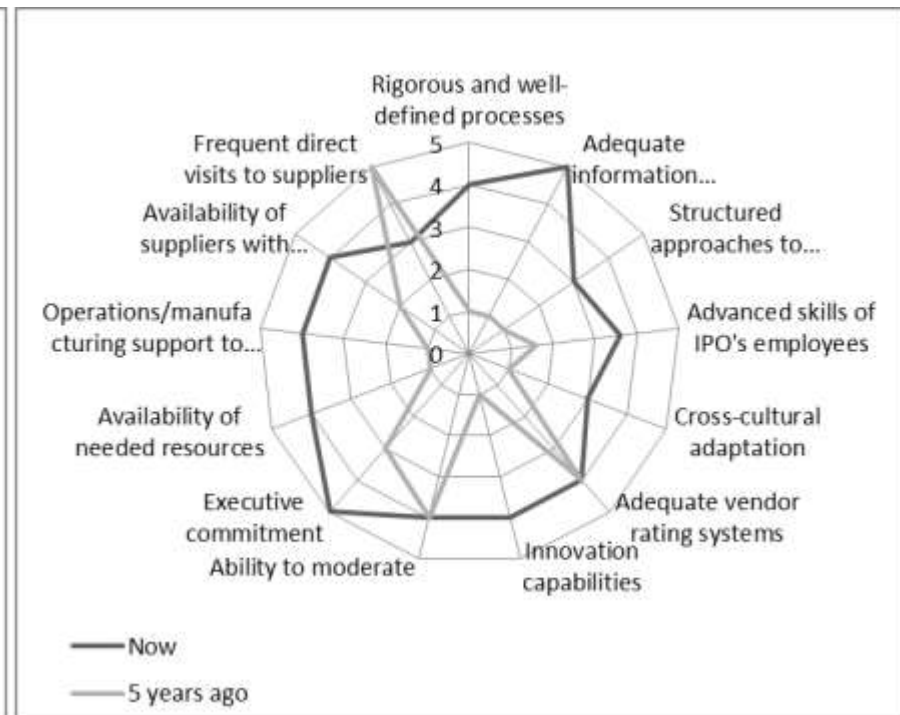
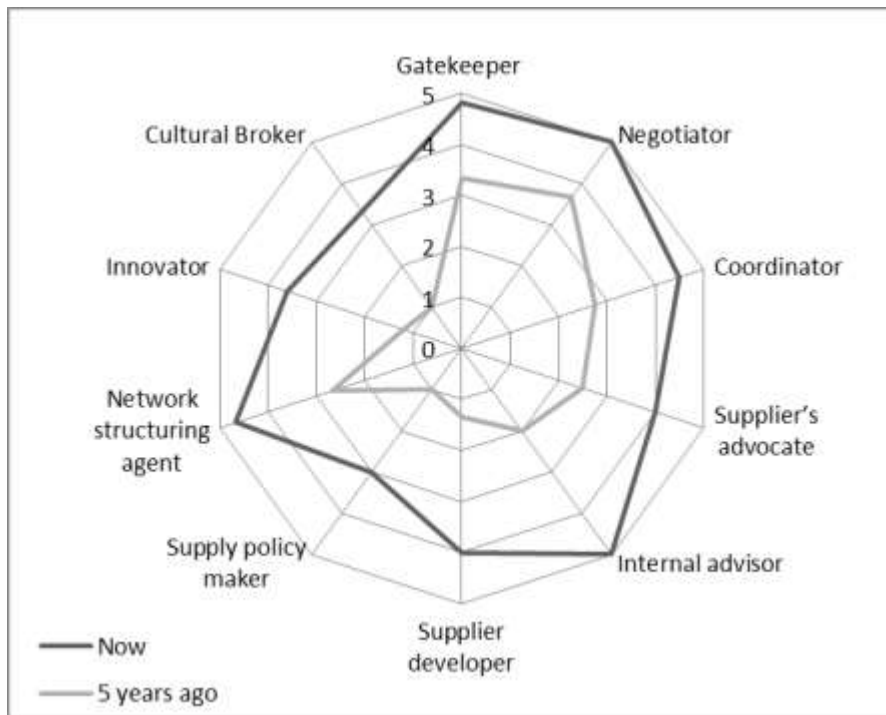
# THE SAMPLE





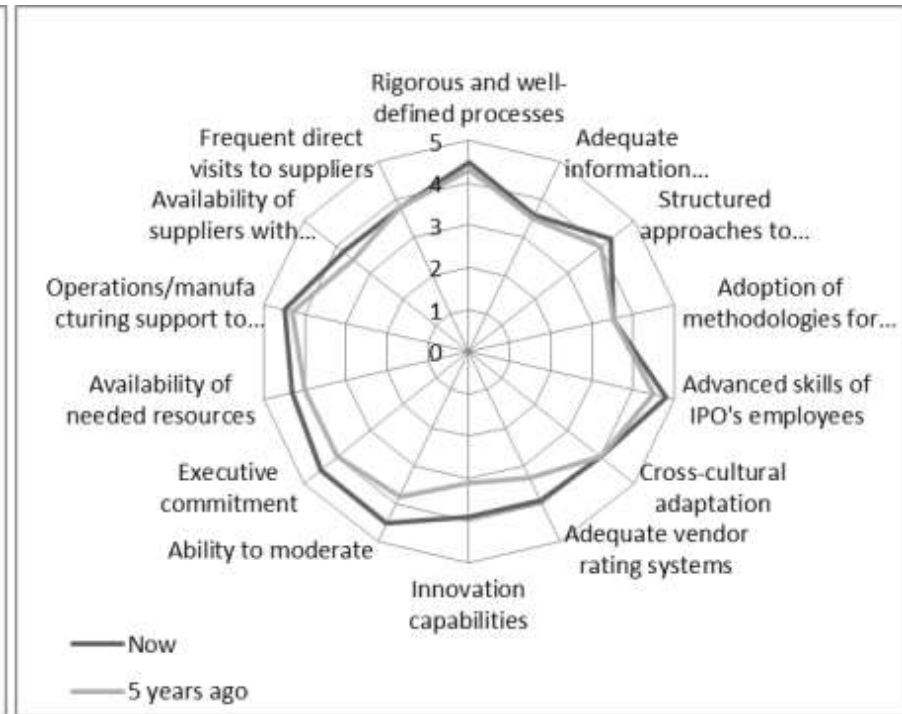
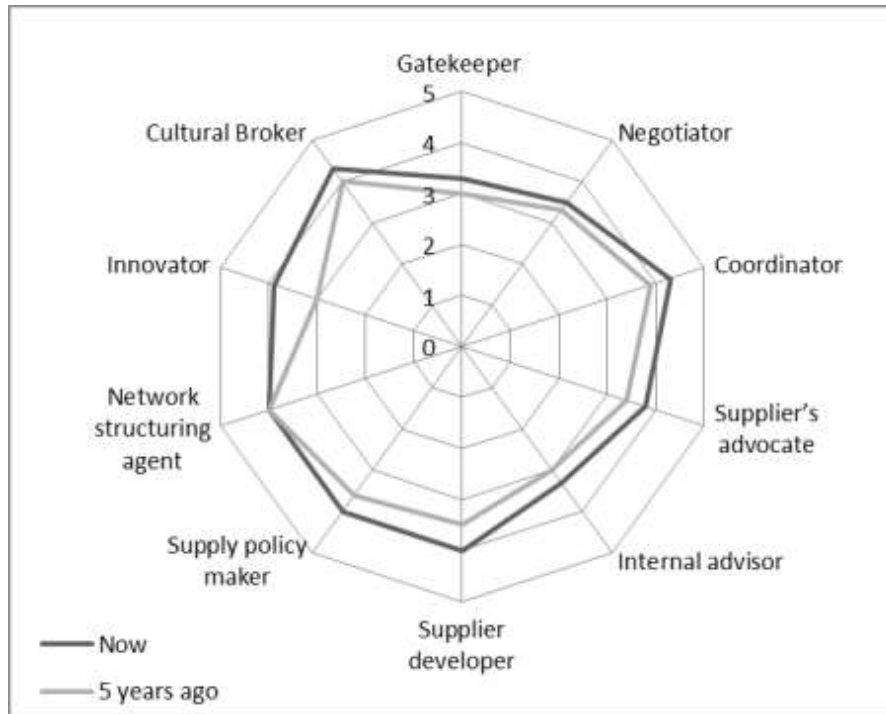
# THE EVOLUTIONARY PATHS

## Multidimensional development - APPLIANCE case study



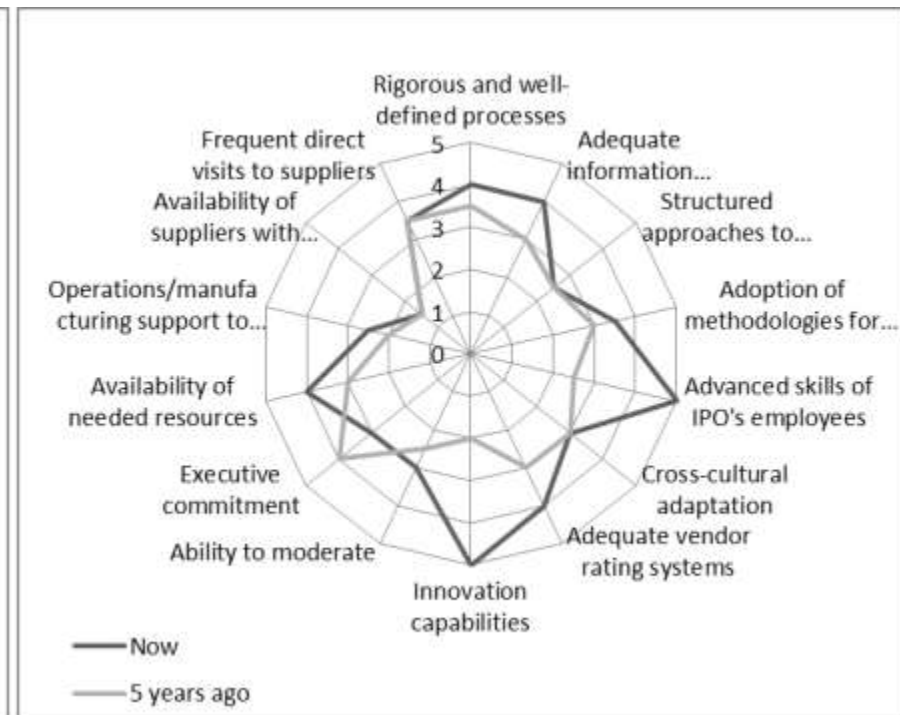
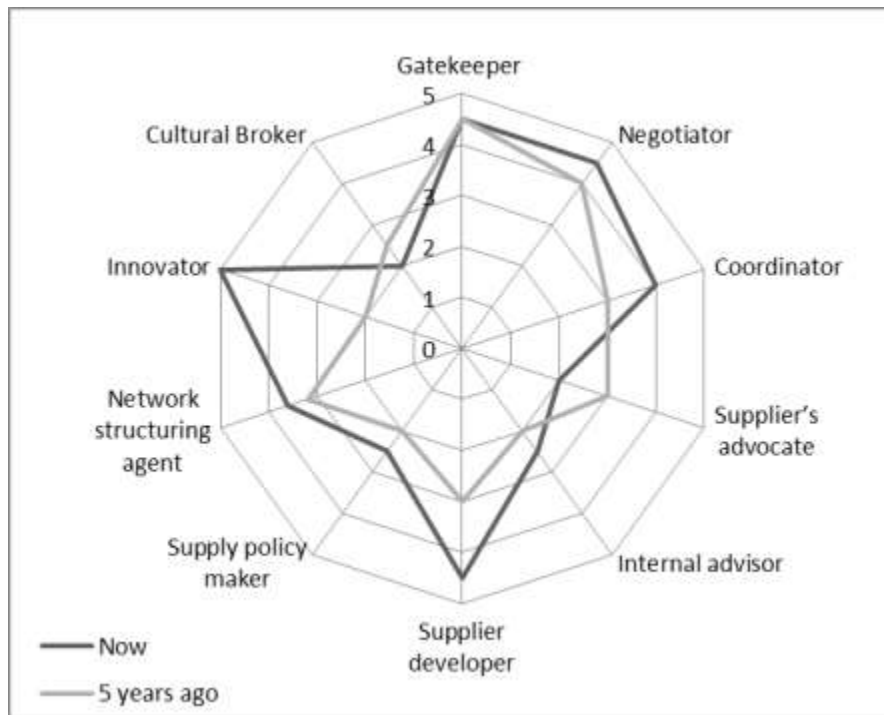
# THE EVOLUTIONARY PATHS

## Selective development - RETAILER A case study



# THE EVOLUTIONARY PATHS

## Stable configuration - ENGINE case study



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