

## Extending the Supply Chain to China (2004)

**Client:** German SME in the cosmetics packaging industry, Bavaria / South Germany

**Execution:** Mrs. Christina Werum-Wang

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### The Task

Our client is a leading company in the cosmetics packaging industry. In 2004, the Company planned to expand into the Chinese market by establishing relationships to Chinese suppliers as a first step. The Company entrusted Christina Werum-Wang to conduct a study about the Company's specific risks and chances of sourcing in China, and to provide recommendations regarding the future direction of the Company's activities in China.

### The Company

The Company is a leader in the highly competitive cosmetic packaging industry. The Company specializes in providing top design standard and customized packaging with unique and beautiful appeal for the cosmetics industry. The concept combines creativity, design excellence, technological experience and expertise which are provided by the company's in-house departments. The Company offers complete packaging solutions from conception to delivery.

### Project Background

Cosmetics brands increasingly expect packaging to be innovative and to contribute to brand positioning. Packaging has become a means of differentiation, and the Company occupies this market niche. With its integrated approach, the Company offers the development of concepts for complete new cosmetic lines, and provides system solutions for cosmetics packaging, involving development of packaging design as well as arranging for production and tooling.

The Company has no own production facilities and instead freely chooses among suppliers worldwide, thereby maintaining a high degree of flexibility and independence. Whereas in 2004,

only about 15% of their sourcing market has been in Asia, the strategic impact of the region will certainly rise, and co-operation with reliable Asian suppliers will soon become essential and decisive for the Company's success.

## **Project Goal and Methodology**

The central question of our project was: How to evaluate and select potential suppliers?

In order to answer this question, the study had to identify the aspects that are to be taken into account for successful sourcing in China. Therefore the study had to focus on the following key aspects:

- Corporate and business strategies
- Growth strategies
- Strategic fit of all operations
- Challenges of global operations and supply chains
- Issues of sourcing in Asia for Western target markets
- Market and business environment in China
- Theory and practice of supplier evaluation

On the basis of these aspects, a value-benefit analysis has been developed as an evaluation tool and benchmark for new potential partners.

Besides, further models for market entry have been presented and discussed, and the chances and challenges for the Company's future operations in China have been identified.

## **The Value-Benefit-Analysis**

A value-benefit analysis (VBA) can be applied whenever there is a choice to be made between two or more alternatives. As a weighing-scale approach to decision making, it is a technique for comparatively assessing the costs and benefits of the respective alternatives. Advantages like cash flow, tangible and intangible benefits can be set against the costs and disadvantages, and alternatives can be weighted against each other. Quality issues and intangible values do not necessarily have to translate into monetary terms. Instead, other metric scales are possible as well.

The VBA in our case has been developed over several steps:

- Definition of the problem
- Identification of the alternatives
- Definition of the selection criteria
- Weighing of the selection criteria
- Evaluation of alternatives
- Selection of the best and following alternatives

Since the objective of a VBA is to provide decision guidance, the VBA must be based on the decision matrix and must be fully in line with the corporate and business strategy of the Company (strategic fit).

Any international business partnership, like any other part of the supply chain and business element, too, must contribute to the Company's competitive advantage. Therefore, our VBA had to define the appropriate parameters for supplier evaluation within this "strategic fit".

The VBA clearly showed the strengths and weaknesses of the analyzed suppliers, and provided a strong support for evaluation and decision making. As a result, two suppliers could be identified with whom the Company chose to co-operate much more closely, and a third who has been chosen as a promising alternative for the future joint development of a new market niche.

## Summary

The strategic fit of operations and supply chain management and their global integration specifically challenge Chinese suppliers with regard to quality and reliability of manufacturing and logistics. The study provided an in-depth analysis and revealed the chances and challenges of the co-operation possibilities with Chinese suppliers.

The case study integrated all aspects into the decision matrix of the VBA. As a result, three suppliers have been clearly identified as strategic partners for the Company. This decision has then become the starting point for the "new supplier partnership approach" within the framework of strategic business development.

Far reaching recommendations have been made for the Company's long-term future activities in China, among them:

- 1) Establish a supplier-partnership approach for building of strategic alliances.
- 2) Choose a limited number of supplier partnerships.
- 3) Opening of an own sourcing office in China.
- 4) Start to consider China as a sales market, and start to approach national cosmetics manufacturers.

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