Inside the issue:

Automobile Industry in India

The Indian auto industry has been recording tremendous growth over the years and has emerged as a major contributor to India's gross domestic product (GDP). The industry currently accounts for almost 7 per cent of the country's GDP and employs about 19 million people both directly and indirectly.

Key Statistics

The passenger vehicles production in India is expected to reach 10 million units by 2020–21 from 3.3 million units in 2012-13. The industry is estimated to grow at a compound annual growth rate (CAGR) of 13 per cent during 2012–2021. In addition, the industry is projected to touch US$ 30 billion by 2020–21, according to data from Automotive Component Manufacturers' Association (ACMA).

Major Developments & Investments

- German auto maker Volkswagen is planning to expand production capacity and introduce a slew of new models. The group is looking at investing Rs 1,500 crore (US$ 248.55 million) over the next five years to set up a diesel engine manufacturing facility.
- Amtek Auto signed an agreement to buy Germany's Kuepper Group of companies for about Rs 16.78 billion (US$ 277.97 million) in December 2013, which was its second big European acquisition in 2013.
- Jaguar Land Rover (JLR) will scale up its production capacity to hit 700,000 units by FY 2017 riding on its joint ventures (JV) in China and Brazil, as per analysts. JLR's capacity for 2014 is pegged at 450,000 units.
- Infosys has signed a multi-year contract with Volvo Cars to provide application development services to the latter's global operations.
- JCB announced plans to relocate production of compaction equipment to factories in the UK and to Pune, India, and close the Gatersleben site in Germany.
- Piaggio Vehicles Pvt Ltd, scooter and light commercial vehicle manufacturer, is planning to assemble its super bikes locally, which it sells under the brand Aprilia.

Furthermore, India is expected to emerge as a centre for producing compact superbikes. Several global and Indian bike makers plan to utilize India's mass production base of 16 million two wheelers to roll out sports bikes in the 250cc capacity.

Government Initiatives

The Budget 2014-15 added some incentives to the auto industry. To give relief to the automobile industry, the excise duty has been reduced till December 31, 2014 as follows:

- For small cars, motorcycle, scooters – the duty has been reduced from 12 per cent to 8 per cent.
- For commercial vehicles and SUVs – the duty has been reduced from 30 per cent to 24 per cent.
- For large and mid-segment cars – the duty has been reduced from 27/24 per cent to 24/20 per cent.

The other incentives from Union Budget 2013–14 are as follows:

- The period of concession available for specified part of electric and hybrid vehicles till April 2013 has been extended up to March 31, 2015.
- An exemption from Basic Custom Duty will be provided to lithium ion automotive battery for manufacture of lithium ion battery packs for supply to manufacturers of hybrid and electric vehicles.
- The Government of India allows 100 per cent FDI in the automotive industry through automatic route.

Road Ahead

The vision of Automotive Mission Plan 2006–2016 expects India, "to emerge as the destination of choice in the world for design and manufacture of automobiles and auto components with output reaching a level of US$ 145 billion; accounting for more than 10 per cent of the GDP and providing additional employment to 25 million people by 2016."

In Indonesia

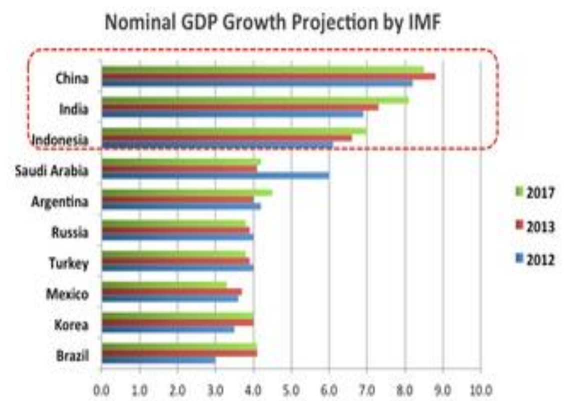
It gives us immense pleasure to share that ***Pinnacle Sourcing & Consultancy has added Indonesia to its presence in ASEAN region*** *with the addition of a full time resource. Our resource comes from manufacturing industry background and has good exposure to Operations, Business Development & Supply Chain functions.*

Opportunities in Indonesia

With Indonesia in our geographical reach, we would like to share with you business opportunities in Indonesia.

Overview

Spread across a chain of thousands of islands between Asia and Australia, Indonesia is currently the world's third largest democracy and Southeast Asia's biggest economy. Much less affected by the global financial crisis compared to its neighboring countries, Indonesia's economy grew by 5.7% to $1.3 trillion in 2013, making "The World's Most Stable Economy in the Last Five Years" according to The Economist Magazine. The IMF projects Indonesia will be at the top three fastest economic growths among G20 countries.



Indonesia has been able to soften the impact of the 2008 global slowdown, due to its strong domestic demand and low reliance on export. The strong domestic demand is supported by the growing middle class, which consists of the wealthy young people who are willing to spend. Furthermore, half of the country's population is under-30s years old. This also expands their potential for consumption and helping Indonesia's consumer sector to thrive. Other factor that contributes to making Indonesia a land of business opportunities is abundant natural resource.

Industrial production accounts for the largest share of Indonesia's GDP at around 47%, while services and agriculture is 38% and 15% respectively. In 2014, GDP is forecasted to grow at 5.7% (YOY) while inflation should remain stable at 5.7% (YOY) as per Asian Development Outlook 2014.

Export Partners (2012)	•Japan (15%), China (12%), Singapore (9.1%), US (8.4%), South Korea(7.2%)
Export Commodities (2012)	•Coal Briquettes (12%), Petrolium Gas (9.3%), Palm Oil (8.3%), Crude Petrolium (5.9%), Rubber (4.1%)
Import Partners (2012)	•China (16%), Singapore (14%), Japan (11%), South Korea (6.9%), Malaysia (6.1%)
Import Commodities (2012)	•Refined Petrolium (15%), Crude Petrolium (5.5%), Helicopters/Planes (2.4%), Vehicle Parts(1.8%), Cars(1.5%)

With Indonesia government wanting to graduate from simple exporter of commodities to much more advanced industrial hub, it has started imposing restrictions on export of commodities and wants large corporations to set up Industries in Indonesia. This has lead to huge investment in Indonesia and is been transforming it into a global sourcing hub.

Swot Analysis

Strength

- Globally Cost Competitive
- Trade Surplus Economy
- Young Population
- Huge Local Market
- Supportive Government Policies
- An Educated Workforce
- Availability of Natural Resources

Weakness

- Technological Dependence on Global Majors
- Language Problem
- No Major Home-Grown Players

Opportunity

- Could Become The Sourcing Hub for Global Majors
- FTAs With Different Countries
- Local Brands to Grow & Expand
- Development of R&D
- Increased Access to Latest Technology

Threat

- Countries like India, China, Thailand, Vietnam
- Currency Fluctuation/Weak Currency against USD
- Exceeding Dependency on Raw Material Imports like Iron & Steels, Non Ferrous Metals.

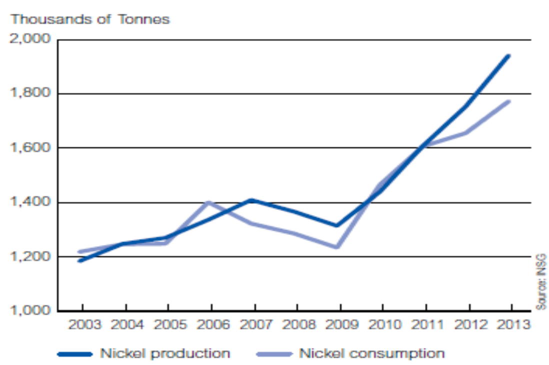
Commodity Outlook: Nickel

Following two years of surplus, global nickel markets are poised to go through a period of rebalancing in 2014, as government policy rather than genuine supply demand fundamentals will work to curtail the supply of the metal.

Demand has been robust with 2013 seeing 7.5 percent growth in global nickel ore consumption in all forms. The global stainless steel industry which accounts for about two-thirds of nickel consumption increased output by 7.8 percent in 2013, to reach 38.1 million tonnes according to the International Stainless Steel Forum. It is expected to grow 8 percent in 2014, according to industry consultant MEPS (International) Ltd. Output in China, the world's biggest consumer of nickel, will climb to 19.3 million tons in 2014, representing almost 50 percent of global production.

At the same time, nickel supply has more than kept pace in recent years. From 2009 to 2013, global refined nickel supply is estimated to have grown at a rate of 9.6 percent per year, reflecting a surge in nickel pig iron (NPI) output in China. According to the International Nickel Study Group, global refined nickel supply still surged by almost 11 percent in 2013 to 1,944,700 tonnes, maintaining the market in a surplus of about 170–180,000 tonnes.

Nickel Metal Production & Consumption



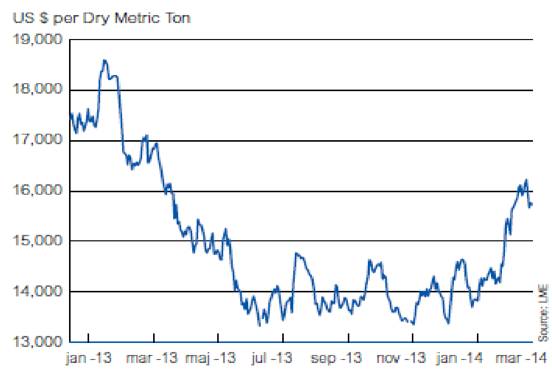
An export ban on shipments of unprocessed nickel ore implemented by Indonesia in January 2014 and the risk of sanctions against Russia as a result of the latter's annexation of Crimea have raised concerns that supplies will be constrained.

Indonesia, a major exporter of nickel ore, accounts for 18–20 percent of global supply. China relies heavily on Indonesian nickel ore to produce nickel pig iron, a less expensive alternative to refined nickel. The upcoming Indonesian elections (scheduled in Q3) will provide clarity on the current mining law. And if the Indonesian ore supply is permanently removed from the market, China will be forced to substitute with higher-grade metal, which could dramatically change the market.

Meanwhile, Russia's annexation of Crimea has prompted the imposition of increasing sanctions by the US and the EU on Russia and its officials. The standoff could potentially affect Moscow-based Norilsk Nickel which being the world's biggest producer of refined nickel, accounting for around 17 percent of global output, and a major exporter of the refined metal to international markets.

As a result of these two events, nickel prices increased 12.5 percent in the first quarter of 2014 from the end of 2013 to end at $15,560 per tonne.

LME Settlement Nickel Price



Outlook

Any further price gains for the remainder of 2014 and into 2015 are expected to be more subdued as the market remains in surplus. Despite these threats to supply, significant new production from large-scale projects started in the last decade (in many cases, years late) will add an additional 250,000 tonnes of supply. All of these new projects will continue to ramp up over the coming months since operators need to recoup what were often huge investment outlays. Hence, the nickel market is anticipated to remain in oversupply for the medium term. Longer-term, a supply deficit is anticipated to emerge around 2016/2017.

Five Keys to Better Sourcing and Supplier Management

How and what you communicate during the sourcing process sets the stage for the resulting supplier relationship. And while that relationship may never become a true marriage of equals, there are several things that sourcing and supply management professionals can do to get things started on the right foot.

We recommend five keys to help facilitate that process.

1. Knowing Your Spend

Simply put, a procurement department cannot claim to be a strategic function if it does not understand its spend: what it is buying from whom, and at what terms. After all, the foundation of operational excellence within the procurement function is spend visibility and an ability to take action on it. When a sourcing team has the ability to leverage spend visibility across its operations, it can improve results by making better, more-informed decisions to help build better sourcing pipelines, optimally allocate resources, and engage and support business stakeholders.

2. Early Engagement

Sourcing projects save more money when procurement is engaged at the front end of the process rather than later. The difference between serving as an order-taker or as a strategic partner is not subtle so, the challenge for CPOs and their teams is to figure out how best to engage the budget-holders in proactive planning discussions and formalize their levels of interaction and support. By increasing the level of professional and personal interaction via physical proximity, higher levels of trust and communication are established, bridging the way for procurement to be engaged on more sourcing projects from the beginning.

3. Clear Communication

One way to ensure that teams are fairly engaging the best potential qualified suppliers in the process is to standardize and centralize supplier communication during the RFQ process, and, in particular, do a much better job in supplier communication upfront. Clear, upfront communication helps level the playing field and as a result, is more likely to engage and attract the highest-value suppliers. Once the right suppliers are engaged, the sourcing team must work to ensure that the process flows smoothly. They can greatly aid their cause by clearly explaining their RFQ process requirements and providing detailed specifications for the category being sourced. Remember, when suppliers lack clarity and details for a RFQ opportunity, they will mitigate the "risk of the unknown" by submitting less aggressive quotes.

4. Efficient (and Robust) Evaluations

Before it launches a competitive RFQ, a sourcing team should have some established or general criteria and/or methodology for evaluating quotes. It is possible that new information will arise along the way that will necessitate process and priority shifts. But, within the general framework, the team should understand what it is trying to achieve, what it is looking for in the supply base, and the general timeframe in which it will make its final decision.

Perhaps even more important than communicating the evaluation process to prospective suppliers is the need for the sourcing team to conduct the evaluation process on the timeline and in the manner that was originally communicated. Easily one of the most frustrating things for suppliers involved in responding to an RFx is when, after investing significant time and effort in preparing a quote, they fail to receive timely feedback or status updates from the buyers, much less a confirmation of quote acceptance. Those suppliers who have been frustrated in the RFQ process are much less likely to participate in one with the same group again.

5. Warm Welcome

For better or worse, the sourcing/negotiation process can have a real impact on the post-contract relationship that enterprises have with their suppliers. There is absolutely nothing wrong with taking a hard-line approach to supplier negotiations, however, the aftertaste of a hard-fought and protracted negotiation can make the development of a strong, post-contract supplier relationship difficult to achieve. We believe that there is a fairly straightforward way to improve the tone and tenor of most buyer-supplier relationships - warmly welcoming the supplier and on-boarding them with a process that recognizes, and even, accommodates their needs and requirements. It may take some time for suppliers to move beyond a tough negotiation, but sourcing and supply management teams would be wise to use the on-boarding (or renewal) process as a means to set or reframe the relationship in a positive light.

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