

# FROM SURVEY TO SUCCESS

## Guidelines for exporting castings and forgings to the EU

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### CONTENTS

INTRODUCTION	2
1 EXPORT: YES OR NO?	2
2 PRODUCT AND COUNTRY SELECTION	4
3 MARKET ENTRY	6
4 EXPORT MARKETING TOOLS	8
5 FINANCES	10

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## Introduction

Are you already exporting to the EU, but do you want to increase your exports to the EU?  
Or, if you are not yet exporting to the EU, should your company start exporting to the EU?

Which (new) target market(s) should you aim for and which key product(s) should you choose? Which trade channel fits your company best and how do you promote yourself to EU buyers? These are common concerns of exporters from developing countries (DCs) who want to enlarge their exports to the EU or who consider to start exporting to the EU but are not sure if it is right for them. That is what these export guidelines are all about: to help you evaluate whether or not to get involved in the EU market or how to improve your approach of the EU market.

From survey to success: these guidelines are a practical add-on to the CBI market surveys for castings and forgings. If you did not yet consult the CBI market survey 'The castings and forgings market in the EU', you are advised to do so before continuing with these guidelines. These guidelines are adapted to the specific challenges in the castings and forgings industry and contain many practical suggestions which will help you make decisions.

First, you are advised to define whether your company is ready to export or not. Section 1 helps you answer this question. Then, if the answer to this question is positive, it is time to prioritise. Section 2 guides you through a process of country- and product selection, which helps you focus your export efforts. Once you have defined a target country in the EU and some priority products, you will have to choose the appropriate entry strategy and sales channel. Section 3 deals with this sales channel assessment. Section 4 gives you a range of practical suggestions for your marketing tools and Section 5 discusses the financial part of exporting.

These guidelines are an addition to related CBI information that covers the general theory of exporting, like the CBI export manual 'Export Planner' and the CBI export tool 'EMP Builder'. The market surveys, export manuals and export tools are available at <http://www.cbi.eu/marketinfo>.

Although these guidelines are developed for exporters in particular, Business Support Organisations (BSOs) could also very well make use of them. Staff of BSOs in developing countries can use this document to support and advise their members about exporting to the EU.

## 1 Export: Yes or no?

As can be read in the CBI market survey 'the castings and forgings market in the EU', the import demand for castings and forgings originating from DCs has grown fast to 8% of total EU imports. Although China has succeeded in growing into the leading DC supplier to the EU, there are still good opportunities for exporters from other DCs. However, there are some important requirements that DCs have to meet before they are able to export successfully to the EU in the long run. The most important ones follow below. Should your company be unable to meet them or unable to overcome these challenges in the near future, it is not advisable to start exporting to the EU. DC exporters should be prepared to:

### a) Comply with European market access requirements

The following requirement could apply for cast and forged parts:

- The European Directive for Machinery (98/37/EC) applies to all machinery, including safety components, sold in the EU. According to this directive, all machinery, including safety components, in the EU must have a CE marking.

### **More information**

- <http://www.cbi.eu/marketinfo> - select 'castings and forgings'. Tap the box 'legislation' and download, for example, documents like 'EU legislation: Product safety' and 'EU legislation: Cadmium in several products'. The section 'non-legislation' contains documents with market-driven demands, for example, 'EU buyers' requirements: Social codes in the castings and forgings industry'.
- <http://exporthelp.europa.eu> - use this source to find additional requirements, import tariffs and customs documents. Click for example on 'requirements and taxes'. Go to 'search' to find the HS code for your product. Select it, as well as your country and the EU country of destination. Depending on the product, the result is a page with specific requirements for your product, general requirements and import procedures.
- <http://ec.europa.eu/enterprise/newapproach/standardization/harmstds/reflist/machines.html> - overview of all harmonised standards under Directive 98/37/EC on Machinery.

## **b) Meet industry specific challenges**

### **Quality demands**

For potential customers, low cost prices are important, but they are no guarantee for business. They base their selection of exporters mainly on product quality (compliance with specifications and standards). Additional criteria are:

- Flexibility (quantity, labelling, packaging units)
- Reliability (quality, delivery time, cost). Refer to 'Reliability' below.
- Pro-active attitude to provision of additional services
- Quality of the organisation. ISO 9001-2000 certification is often demanded by customers. Although certification takes time (and money), obtaining ISO 9001 – but also other certification such as ISO 14000 (environment) and OSHA (safety and health) – certification can be beneficial when promoting your products to EU prospects. It is advised to present certificates or information about certifications on your website.
- Total landed costs (product, transport, damage, required control, etc.)

Quality means that the product should be supplied at a constant level of quality and according to agreed specifications. Moreover, supplying at the agreed time and date is very important. DC exporters should think of 'quality' through the eyes of the customer and imagine how he would like to receive the goods. Conformity to the quality standard must be continuous. In practice this will often mean investing in new machinery and in the education and training of operators and quality controllers. You are required to demonstrate that you can adhere to the standards in the long term. In an open, positive relationship with a prospect, the prospect will often be willing to support you in meeting standards by supplying knowledge transfer.

### **Reliability**

Reliability is of the utmost importance to exporters. Entering the EU-market is a difficult process, and if exporters cannot keep promises, they will very soon be out of business. Also important is the reliability of your (on-time) delivery performance. This means that your production capacity and organisation must be sufficient and prepared to deal with the - anticipated - higher demand.

### **Professional communication**

EU customers expect DC exporters to possess good communication skills. Therefore, you should be open and clear in presentations, keep appointments, respond quickly to questions and deal with questions and problems adequately. It is good to realise that nowadays, several EU companies still struggle with a lack of communication skills of their Chinese suppliers.

## **c) Prepare your company to be export ready**

- Do the Export Readiness Checker at <http://www.cbi.eu/tools> (→ 'export checker');
- Have an initial look at the online exercise for writing an Export Marketing Plan (EMP Builder) at <http://www.cbi.eu/tools> (→ 'Export Marketing Plan'). Familiarise yourself with the demands and requirements of exports;

- CBI's 'Export Planner', in particular chapter 1 and 2 (<http://www.cbi.eu/marketinfo> → 'search CBI publications' → export manuals).

#### d) Do a financial analysis

Exporting involves taking risks; the financial aspect is certainly one of them. Section 5 deals with finances in more detail. A financial analysis should also be used to help make the decision whether or not to export. If your profit and loss projection of the export venture is not positive, you can still decide not to export, as the financial risks are too high.

#### Yes or no?

If your company is unable to meet the minimum demands mentioned above, is not export ready and/or is not able to conform to these demands in the short term, it is not advisable to start exporting to the EU. On the other hand, if you feel comfortable with these demands, you could consider exporting to the EU. In that case, continue with Sections 2-5 of this Guide.

## 2 Product and country selection

Once you feel your company is export ready, it is time to choose a priority product and EU country.

### Product selection

In order to be competitive in the EU market, certainly when competing with Chinese producers, it is important that DC exporters add value to their product. Generally speaking, the more sophisticated the casting, the higher the labour factor in the landed cost price and the larger the interest of EU companies to source in DCs.

Experience from the past has shown that it would be a very good approach to focus on one or two products which are truly unique and in which the exporter has a competitive edge. Once the customer is satisfied, the product range could be expanded. Exporters who claim to be able to supply e.g. both magnesium and metal articles and even other non-ferrous products without a problem will not be taken seriously by an EU prospect. Please note that, beside product selection, market selection is also important. Refer to Subsection 4.1 for more information.

### Suggestion to DC exporter - adding value by joining forces

DC exporters have a better chance of succeeding when they join forces. By working together, they can offer not only a loose part or component to the customer in the EU, but also a higher-added value product. For example:

1. Company A casts or forges a crankshaft;
2. Company B treats the crankshaft and fits a bearing wheel;
3. Company C finishes the product and adds a coating;
4. EU end-user does the final assembly and fits the component with other ones into an end product.

### EU-country selection

Please be aware that the EU is a continent and not a single, homogeneous market. It consists of 27 individual member states with their own characteristics. For this reason, it is wise to make a country selection. Even within one member state there may be significant differences. For example, Italy can be divided into two parts, a Northern and Southern part. While the Northern part is highly industrialised, home to many end-users, and characterised by widespread distribution networks, the South Italian industry is less developed, and characterised by relatively low wage costs. The idea is to select 2 or 3 of the most interesting countries from the entire EU27. Then start an in-depth survey of these selected markets. The following criteria/suggestions can be used to carry out the selection. Please note that in the case of aiming on subcontracting for EU producers, you need to analyse EU production instead of EU-imports.

**a) EU-imports**

At least do an analysis of:

- EU-imports by country (which country is importing the most?);
- Share of developing countries in these imports (the higher the share of DCs in imports, the higher the acceptance of DCs as a supplier);
- The share of China compared to other DCs;
- What is the development of imports, are they growing?

**Sources**

- Section 4 of the CBI market survey 'the castings and forgings market in the EU';
- CBI market surveys covering the market in individual EU countries;
- EU helpdesk - <http://exporthelp.europa.eu> - go to 'trade statistics' and then use 'search' to find the HS code for your product (You could also consult Appendix A of the CBI market survey 'the castings and forgings market in the EU' to find relevant HS codes). Then select a reporting country (at this stage you will most likely choose EU27) and the partner country (your country or all partners). In order to determine the most interesting EU countries for your product, select at least 3 consecutive years and also click on value and/or volume. The result is a list of all imports by the EU27, sorted by supplying country and also by importing EU-country. Use it to determine the most interesting EU-countries. Also analyse the development of imports (in both volume and value) and also look at your competition: which other countries supply 'your' product and how are their supplies developing?

**b) Industrial demand**

Try to answer at least the following questions:

- What is the demand for your product in each EU-country?
- How has this been developing? Which EU countries are showing the largest growth?
- What are the most important trends and in what way do they fit your product?

**Sources**

- Section 1 of CBI market survey 'the castings and forgings market in the EU' and in the CBI market surveys covering the market in individual EU countries;
- Industry associations and trade journals in EU countries (to be found in CBI market surveys covering the market in individual EU countries).

When analyzing these criteria, please be aware that the largest (importing) EU-market does not always have to be the most interesting country for you. Although Germany is by far the largest market in the EU in terms of value and volume, it may, for example, turn out that – based on growth rates and/or interest in your country - another country is far more interesting for your product.

**c) Primary research**

Beside internet research, you are advised to do your own primary research. This means talking to experts who are specialists in the castings and forgings market in the EU. They can provide you with extremely valuable first hand information, which you can use to make choices. Try to interview industry specialists, CBI consultants and other experts. In general, the best way to gather such information is by talking to people (at trade fairs or by phone). As a suggestion, to interview such experts by phone, you may want to use Skype (<http://www.skype.com>), which offers a cheap mode of communication, at least if your internet connection is stable enough.

**Sources**

- Trade fairs in Europe, such as the Hannover Messe - <http://www.hannovermesse.de> - in Germany and Midest - <http://www.midest.com> - in Paris.
- CBI's Export Manual 'your guide to market research' (Section 2.2.3);
- Industry associations in the EU (to be found in CBI market surveys covering the market in individual EU countries).

#### d) Competitor analysis

Look at your competition and learn from them. What can you find out about their strengths, success factors, price level, materials, finishing level of products and/or added value? Do not forget that competitors can be found in your own country, but in other DCs, in industrialised countries and within the EU itself as well. You can use Section 4 of the CBI market survey 'the castings and forgings market in the EU' for a competitor analysis. This section contains a table with leading supplying countries to the EU. Furthermore, it contains a discussion on the development of imports per product group. You can also use the CBI market surveys covering the market in individual EU countries to identify EU competition. They discuss production (developments) and the most important players per country.

#### Sources

- Industry associations in the EU, look for member lists to identify EU competitors (to be found in CBI market surveys covering the market in individual EU countries);
- Look for product catalogues at Direct Industry - <http://www.directindustry.com> or refer to Section 4 for examples of websites containing catalogues.
- CBI's Export planner (Section 2.5.4 and 3.3);
- CBI's Export Manual 'Your guide to market research' (Section 3.1.7);
- CBI's EMP Builder (Section 3);
- Trade fairs

#### e) Common sense

Always use your business sense to make choices.

#### Priority

In the castings and forgings industry, primary research, competitor analysis and common sense are more important than analysing import statistics. Asking the opinion of industry experts results in first hand information, which you can use to make choices for your target countries and products.

#### More information

Please also read the following:

- CBI's 'Exporting to the EU' (Section 1 – the EU as an export market, Subsection 2.4.1 and 2.4.2 – trends in business to business, subcontracting, Subsection 2.5 – case 2 exporting magnesium from India) (<http://www.cbi.eu/marketinfo> → 'search CBI publications' → export manuals);
- CBI's 'Digging for gold - Internet as a source for marketing information' (techniques to do internet research, many useful websites) (<http://www.cbi.eu/marketinfo> → 'search CBI publications' → export manuals);
- CBI's 'Your guide to market research' (<http://www.cbi.eu/marketinfo> → 'search CBI publications' → export manuals);
- CBI's 'Export Planner' (chapter 3.1) (<http://www.cbi.eu/marketinfo> → 'search CBI publications' → export manuals);
- CBI's export tool 'EMP Builder' at <http://www.cbi.eu/tools> (→ 'Export Marketing Plan').

### 3 Market entry

Once you have selected a priority product and (an) EU target market(s), it is time to focus on the appropriate trade channel. This section helps you assess which channels suit your company best. Your possible trade channels in the EU are 'direct sourcing', 'importer', 'agent' and 'subcontracting'.

#### Which channel is the best?

Direct sourcing is the best trade channel: it assures a long-lasting relationship and therefore DC exporters should put efforts into building up supplier relationships with end-users in the EU. Of the other three trade channels, it depends from case to case whether one or an other trade channel is the best one to choose. Please note that, although in some cases the importer

may be the preferred channel for a DC exporter, in a number of cases, DC exporters have experienced that the relation with an importer is not an enduring one. In these cases - it concerned relatively standard parts –the importer decided to change to another, even cheaper source after a period of time.

### Direct sourcing

Most often, end-users (OEMs or subcontractors to OEMs) in the EU buy their castings and forgings directly from a foundry or forge, without the intervention of an intermediary.

### Importer

It is possible to distinguish between traditional importers, and so-called 'supply agents'. Catalogue items are the products that are most suited to be traded by traditional importers. Examples are valves, flanges and fittings. As opposed to traditional importers, supply agents deal with tailor-made parts and components. The supply agent often makes use of so-called sourcing agents in DCs, in order to define the best sourcing solution for the product. The only thing a DC foundry or forge has to focus on is production, leaving all other activities such as logistics, marketing and communication to the sourcing agent and supply agent. The DC exporter could make itself known with the supply agents in the EU, but even better would be to contact sourcing agents, if available, in the DC country. Beside good contacts with European supply agents, the sourcing agent may also deal with OEMs and subcontractors in the EU, and sometimes also supports an EU foundry or forge in the search for a reliable subcontractor in a DC.

### Agent

For a better access to potential customers in a new country, agents may be a good choice. They are often one-man businesses specialised in tailor-made products and not so much in standard products with a high turnover rate that need to be available from stock on demand. Several agents have built up strong relationships with customers and act as a professional intermediary, also in cases of quality problems or when communication with the end-user is necessary. Contrary to this, other agents may only be focussed on closing the deal and are not willing to intervene in case of problems. DC exporters should be aware of that.

### Subcontracting

Subcontracting means that a DC exporter carries out a full process for an EU foundry or forge. It often concerns labour intensive production, while the EU foundry or forge will take care of design, research and development. Please note that the willingness to form subcontractor relationships with DC exporters differs from country to country.

### More information

- Section 3 of the CBI market survey covering the EU market (trade channels);
- Association of European Pump Constructors - <http://www.europump.org> - click on 'member catalogue'. It is possible to select pump producers by type of product or market segment.
- Direct Industry - <http://www.directindustry.com> - you can search by product, company ('exhibitors') or catalogues and technical brochures.
- EU Association of Internal Combustion Engine Manufacturers - <http://www.euromot.biz> - click on 'about Euromot', 'members'. You can also use the 'Industry navigator'.
- European Power Transmission Distributors Association (EPTDA) - <http://www.eptda.org> - click on 'EPTDA Membership' and on 'Membership Directory'.
- Kellysearch - <http://www.kellysearch.com> - type, for example, 'mechanical engineering' in the Find It box and select Europe. One example of a search result that may offer a list of interesting players is 'Mechanical Engineering Components Suppliers'.
- CBI market surveys covering the market in the EU country of your choice;
- CBI's Export planner (Section 4.6, 4.7, 5);
- CBI's EMP Builder (Section 3 and Section 7.7);
- CBI's Export Manual 'Your guide to market research' (Section 3.3.3).

## 4 Export marketing tools

The next step in your export plan is to choose your marketing instruments. This section discusses industry specific tools for the export product, costing and pricing and promotion.

### Export product

Casting and forging products are usually required in large quantities (e.g. machine parts). DC exporters should adapt their product to the demands of the market and thus the buyer. Quality and process standards such as ISO play an important role in this as they will give prospects confidence. As can be seen from Section 2, it could be wise, certainly for beginning exporters, to focus on one or two products and to specialise in these in order to be able to supply the customer with an outstanding product.

Of the wide range of end-user segments in the EU, the two most important segments for both castings and forgings are automotive and engineering. Although the automotive industry is a very large segment, DC exporters of castings and forgings are advised not to focus on this segment. Quality requirements are usually very high, competition is mainly on price and, above all, the order quantities involved are far too large to be met by the average DC exporter. Instead of the automotive industry, DC exporters of castings and forgings had better focus on the engineering industry. Beside the Original Equipment Manufacturers (OEMs), the sector consists of many subcontractors of OEMs that produce assembled parts such as units, modules and subsystems. These subcontractors - often SMEs – use a considerable number of castings and forgings. Most important is that quality requirements in this sector are not as high as in the automotive industry. In addition to the engineering industry, another segment that could offer opportunities is the construction industry.

### More information

- CBI's Export planner (Section 4.2 to 4.4);
- CBI's EMP Builder (Section 4.1, 7.4 and 7.5);
- CBI's Export Manual 'Your guide to market research' (Section 3.2).

### Costing and pricing

The most common delivery conditions in the industry are the FOB and CIF condition (Cost Insurance & Freight). CFR (Cost & Freight) occasionally occurs as well. In other occasions, it is possible that customers arrange their own transport. Then, Ex Works could be the delivery condition. However, supplier and customer are free to negotiate and agree whether quotations and subsequent trade are based on CFR or FOB prices. The negotiated price depends on the INCOTERM, the means of payment, credit terms and currency risks, quantities and the means of transport (refer to Appendix 2 of CBI's Export Planner). Most transactions are executed with a Letter of Credit. One of the advantages of this method is that subsidies, if any, are only granted with L/Cs.

### More information

- CBI's Export Planner (Section 4.5);
- CBI's Export Manual 'Your guide to market research' (Section 3.1.4).

### Promotion

In the castings and forgings industry, there are some very important promotional tools. They follow below.

### Website promotion

Going online is fundamental in the castings and forgings sector, especially when taking into account that trust and credibility are major challenges for DC exporters. Your website could help meet these challenges to some extent. A website proposing well-defined products, competitive advantages and a customer reference list helps create a trustworthy image.

When asked for their opinion on the outline of a website from a company that they would consider contacting, EU buyers named the following features:

- Company information (when founded, history).
- Product information (pictures, technical drawings, possible specs). The best would be to create a product catalogue on your website with pictures, specifications and technical descriptions.
- Certificates or information about certifications
- Information about production capacity.
- Information about the production process.
- Contact details (including the name of the direct contact person).
- Information about languages that are spoken and written.
- References/success stories.

#### *More information*

- CBI Export Manual 'How to promote your website in the EU' at <http://www.cbi.eu>.
- Example of a catalogue - <http://www.tycoflowcontrol-eu.com/products.asp>.
- Example of a catalogue of construction castings  
[http://www.nfco.com/literature/adobe/neenah\\_catalog-r12.pdf](http://www.nfco.com/literature/adobe/neenah_catalog-r12.pdf)

#### **Trade fairs**

Visiting and participating in a trade fair abroad is a very efficient tool to communicate with prospective customers. It provides more facilities for bringing across the message than any other trade promotion tool. After you have participated several times, some visitors will notice your presence and will start regarding you as a reliable partner. It can also be an important source of information on market development, production techniques and interesting varieties. The largest relevant fair in Europe is the Hannover Messe - <http://www.hannovermesse.de> (annually, April, Hannover, Germany; mechanical engineering and sub sectors). Some other examples of relevant fairs in Europe are Midest - <http://www.midest.com> (annually, November, Paris, France; industrial subcontracting) and Subcontratación - <http://www.bilbaoexhibitioncentre.com> (annually, September, Bilbao, Spain; subcontracting).

#### *More information*

- CBI market surveys covering the market in the EU country of your choice - Section 6 contains trade fairs;
- Trade fair sites: <http://www.auma.de> and <http://www.eventseye.com>
- CBI's interactive Export Manual 'Trade fair manager-Your expo coach';
- CBI Export Manual 'Your image builder - A guide for establishing and improving commercial images'.

#### **Trade press**

Trade press could be used very well to gain free publicity. A press release is the most common method to contact the press.

#### *More information*

- Trade journals - to be found in CBI market survey covering the market in the EU country of your choice;
- <http://www.prweb.com/pressreleasetips.php> - how to write a press release that gets noticed by the media;
- <http://www.netpress.org/careandfeeding.html> - the care and feeding of the press;
- <http://www.internetbasedmoms.com/press-releases> - writing a press release & free publicity for your website.

#### **Other tools**

Some other useful promotional tools may be:

- **Visiting prospects.** Visiting a prospect is a serious option. This could be someone that you met at a trade fair, for example. On the other hand, a European prospect that is seriously

considering purchasing components from your company, will always be interested in your capacities and your production methods, and will definitely suggest a visit to your factory.

- **Business Support Organisations.** European companies looking for manufacturers in DCs may contact organisations in the source country. Most of the time, trade associations, export promotion organisations, Chambers of Commerce and/or Embassies are asked for more information or long lists of potential suppliers in the respective country. Make sure that these organisations know you.
- **Purchase partner application form.** Information on an EU buyer website, a so called purchase partner application form, gives opportunities to get in touch with prospects and gives information about buyers' requirements. A good example of information on an EU buyer website can be found on <http://www.daf.com>. Click on 'suppliers' to see a whole page dedicated to all kinds of supply issues, including a 'how to apply' section. Another example is the supply management website of Rolls Royce - <http://www.suppliermanager-online.com>.
- **Springboard tactics.** A DC exporter that supplies to a multinational manufacturer in his home country could use this as a jump start to supply businesses of this company in Europe. For example, an Indian exporter that has been supplying to General Electric in India, could use this as a start to enquire about the possibilities for him to supply plants of General Electric in e.g. Germany or France. Do not ask the buyer in India for a name of his colleague in Germany, he may not know it. Approach the buyer in Germany directly and refer to the fact that you are currently supplying General Electric in India.

#### *More information*

- CBI Export Manual 'Exporting to the EU' (Section 3);
- CBI's Export Planner (Section 4.8);

## 5 Finances

Obviously, you want to know whether export is profitable. In fact, this comes down to a simple calculation: turnover minus costs should equal profit target. Try to calculate the effect your marketing activities will have on revenues and profitability. Draw up an export sales forecast, covering a period of 1 to 3 years.

#### **More information**

- CBI's Export Planner (Section 6.4);
- EMP builder (Section 10).