

## **Strategies against Protectionism**

**Bonn, May 18, 2009 – The economic mood this spring is decidedly flat: a second major wave of insolvencies and redundancies looks inevitable – right in the peak phase of the German elections. In these situations, the temptation to reach for popular measures such as protectionism is great. Already, the European Union is attempting to boost its economies through the increasing isolation of domestic markets. Experts are united in their opinion that this policy will lead to a long-term disruption of the global economy and will prolong the downturn rather than alleviate it. As the latest investigations by BrainNet confirm, many companies are already responding to this development with a change in their global sourcing strategies.**

In times of crisis, protectionism appears to be an obvious remedy, but in truth it damages global trade long term. The long-lasting depression that followed the global economic crisis eighty years ago was made considerably more acute by protectionist measures. The current situation is developing along similar lines: deliberate currency revaluations and devaluations or trade restrictions on certain raw materials, which the US economic package for steel and iron sets out, for instance, are intended as short-term measures to support the economy and reduce citizens' fears. The governments of Western Europe and North America have also continued to expand their protectionism in recent years and months: the EU directive on the introduction of an anti-dumping duty was only tightened in January. Importers not bearing official ratings may be subject to an 85 percent customs penalty levied on Chinese goods such as connecting elements made from iron and steel, for instance.

“The isolation of the domestic market is also a popular instrument in China, India and Russia for countering the crisis through psychological means – after all, it conveys decision-making and responsibility to the citizens. In actual fact, however, such populist decisions result in dramatic losses for globally operating companies, which accelerates the final step into global depression,” says Sven T. Marlinghaus, Partner and Managing Director at BrainNet. “Consequently, companies now need to respond urgently with individual strategies to safeguard their position as a global player.”

### **Local-for-local approach growing in importance during the crisis**

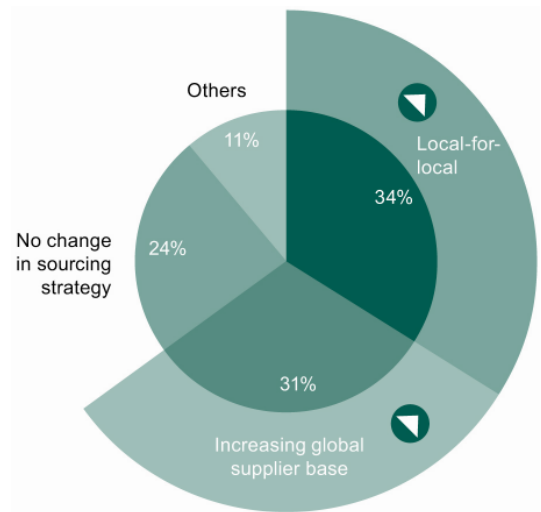
Not only are German companies the world champions of export, but they are also already represented on a global scale with production facilities on the key sales markets. The task now is to expand these sites further. In reality, more and more companies are operating on their procurement and sales markets as local suppliers and gearing their production and

sales strategies increasingly towards a “local-for-local” approach. However there is still a need for improvement in purchasing, which is still a long way from being global. According to BrainNet studies, almost a third of surveyed companies want to further expand their global supplier network over the next five years, while a further third are already concentrating on a “local-for-local” strategy.

“German companies urgently need to take a critical look at their own sourcing strategies. Although many large companies achieve around 60 to 70 percent of their sales abroad, the global sourcing quota often only stands at 20 to 30 percent. This is because purchasing is often still controlled centrally for each materials group, i.e. from Germany, and not locally,” explains Marlinghaus.

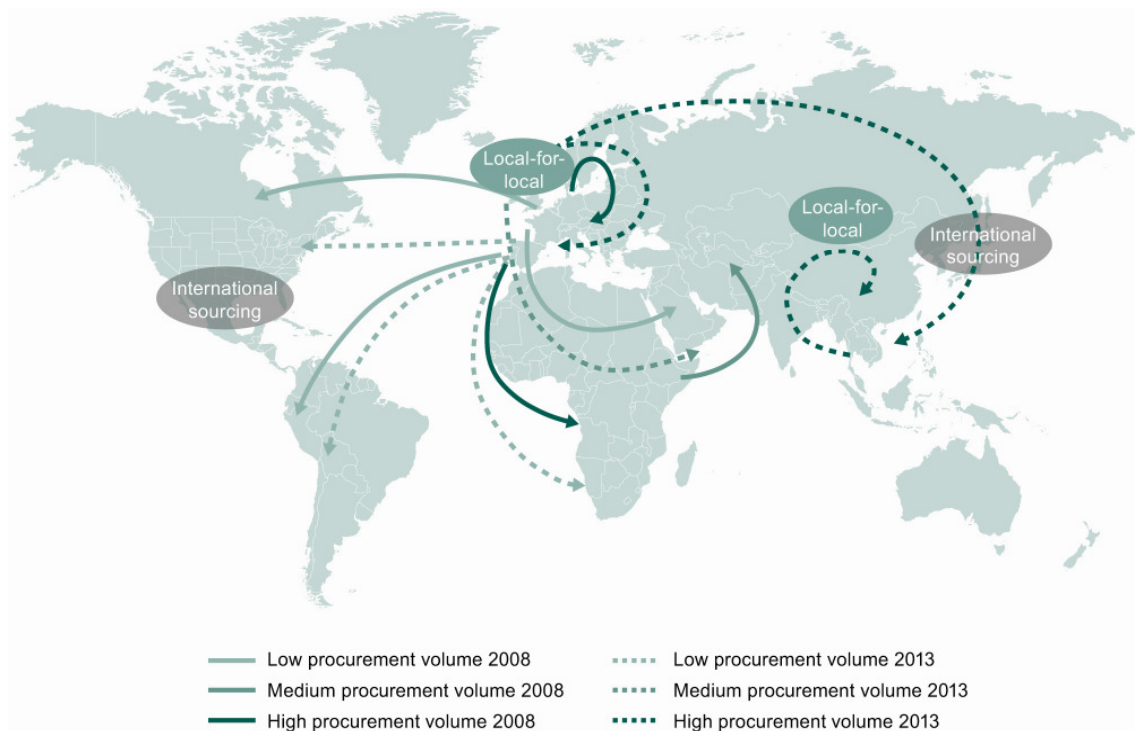
“Companies however need to have a presence through strategic buyers on the relevant procurement markets. Buyers of electronics components, for instance, must without fail establish local offices in Asia so that local risks can be assessed more efficiently and better conditions in terms of price and quality can be secured.

**Changes in sourcing strategies**



Source: BrainNet EAC, “Best Value Country Sourcing – A Paradigm Shift for Global Sourcing Approaches “

**Map of sourcing markets for Western Europe: 2008/2013**



Source: BrainNet EAC, “Best Value Country Sourcing – A Paradigm Shift for Global Sourcing Approaches “

“In the next few years, we will see both a significant outsourcing of procurement volumes and new procurement strategies. It is absolutely essential to prepare for these politically and economically motivated changes,” concludes Marlinghaus.

#### **About the BrainNet Supply Management Group AG**

BrainNet is one of the leading international brands for supply chain management consultancy. Employing 220 members of staff, BrainNet turns over €30 million globally. BrainNet develops and realizes tailored solutions for more than 80 of the companies listed in the Global Fortune-500 and around 240 fast growing SMEs. For years, BrainNet has had offices in Bonn, Boston, Budapest, Chicago, London, Mumbai, Munich, Shanghai, St. Gallen, Tampa and Wrocław.

Through its close collaboration with the Supply Chain Management Institute (SMI) at the European Business School (EBS), BrainNet offers a totally unique value-creation chain ranging from research and training young talent at leading business schools to implementing consultancy projects and strategic qualification of top managers and supply chain managers.

For more information about BrainNet, please go to [www.brainnet.com](http://www.brainnet.com)

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