

The Process of Becoming a Supplier in Hungary

Kinga Morauszki (Szent István University, Hungary)

This study briefly presents the requirements that must be kept by the suppliers in order to get the supplier's status. It is essential so that they can establish business contact with this company that is in the automotive industry. This article gives short review with the help of specialized literature that was written both national and overseas. This is gives information about what features the process that can result in becoming a supplier in Hungary. This study demonstrates through particular companies what kind of problems and difficulties potential companies have to face while competing to get the status of the supplier. During the survey I used list of Question that contains special questions in connection with this topic. I also made detailed interviews with aim of giving overall description.

Key words: supplier, status of supplier, selection, criterion

Introduction

To remain competitive companies bring the quality of products, semi-finished products and components on focus, which combined with the use of the lowest possible price. This factor is especially in the automotive industry. The supply provides a very large home and international markets for suppliers and last but not least has a great business potential that can not be ignored, have to live with that. In Hungary, the vast majority of industrial production come to pass unfortunately at affiliated units of the international companies. For these companies it is important to build a stable supplier relationship with the companies that have produced for the world market, but it's not exempt from difficulties. Over the past two decades, the Central and Eastern European region has become a target area of international motor-, vehicle manufacturers, thereby had integrated into the supply pyramid. First of all advantage of the region is over and above the low wage-level, motivated workforce and the quick access of the capital markets. As a survey result, the researchers had found that in Hungary the state of development of the supplier's network is above the region's average, but it is underdeveloped compared to Western European standards. The point and the most important thing is that have to be the right product, at the right time, in the right place, of course, in the light of all requirements (machinery, personnel, tools, storage, transportation, etc) in order to can be met all customer requirements and their competitive position can be made stronger by suppliers. It is important to make mention of that Hungary is very popular among the foreign investors. Almost all major multi-national companies are represented as their manufacturer or assembly factory in our country. After these companies had settled, the demands have increased for their top quality products. If this needs of customers can be not met in Hungary, the required products, components, semi-finished products have to be imported from abroad, or in other case their suppliers have to be brought along. According to some surveys and research range the Hungarian suppliers from 15% and 20%. There are companies where this value is higher (eg, Suzuki 50-60%) or even lower (10% of Audi, Visteon 10-15%). Of course, the welfare of these countries requires that this value has to be as high as possible (Dupcsák et al. 2002). This study represents the current picture of the present situation of automotive suppliers, the needs are constantly changing, and further "small standards" are coupled with that must be met in order to get the supplier's status.

Suppliers pyramid in automotive industry in Hungary

As I mentioned, the automotive industry had undergone significant changes, which causes are stated in her study of works by Gelei (2004). According to her observation the division of labour and

globalization in the supply chain can be held responsible for structural changes. The automaker companies (v. referred to as OEMs) consider their task to develop the trademark, and so in 2002 were not produced the two-thirds of the cars by these companies, sooner there were procured through sub-suppliers. According to Neuner (2004), this value for 2015 of 20% will be reduced. Because it is brought increasing emphasis the suppliers, on the basis of the above consideration this means that, the supplier management had become from peripheral regions to the centre.

The OEMs are walking out from the production processes. As a result the suppliers are entrusted with any tasks, such as logistics and development tasks. According to Wildemann (1998), this restructuring will be continued, because the OEMs are forced by the increasing market competition that to task for their have to be a key-element "downstream" activities, such as insurance, repairs, financing, etc. In many cases, it is cheaper if the supplier the parts as if he would hand on to his sub-suppliers. Who simply reproduce the products and can not provide added value will eventually lose the supplier status. More easier parts are produced, is less the likelihood to will be the supplier a long time. Moreover, if the PPM is on the increase, cannot win a new business above a certain level. However, this level is reducing (Kálmán 2007) from year to year. As a result of process these companies have appeared in the automotive supply chain as so-called integrator companies which are carried out production of bigger components (Gelei 2004).

The task as integrators do not here stop their rolls, because they are able to take care for development and management of their suppliers, namely suppliers to discover and select other lower-level to inspire the development and production of their delivered products. Because these companies are participating as supplier and supply organizer in the process, so it's a double engagement. As a function of that must be able to satisfy both directions, namely on the one hand, as a first-level supplier, on the other hand should be guided his own suppliers so that is able to stay competitive. Over time this integrator companies began to perform such tasks, which functions were have been carried out by OEMs. As the time progresses the OEMs will be responsible only for marketing and sales.

According to Gelei (2004), the other dominant cause is the globalization, because many companies were looking for supplier in Eastern Europe or the Far East, the only reason of that was the low labour cost. Now the numbers of companies that manufacture the products the above-mentioned regions in Hungary outsourced were converted to significant. Behind all these are the low cost. In recent years, multinational companies had established in Hungary, which are mostly in the machinery industry started to operate in extremely high production capacities are reached. The investments were followed by another in order to more and more companies or businesses could settle. These companies have emphasized the develop the capacity, software development, end was started the production gradually. The technology and the development of information, the spread of globalization has opened up international markets, which has the advantage that in the case of Hungarian suppliers to meet the expectations appreciate the easy access to international markets for multinational companies as a supplier, but the disadvantage that at home also have to contend with foreign competitors. The development of supplier industry can constitute desert for many companies. Hungarians are embarking on foreign-owned companies to organize one of the best way to get these large companies have sustained the Hungarian economy chain suggest. This would significantly change the structure and situation of the Hungarian engineering industry. With the performance of the supply requirements would be possible to obtain more and more stores.

The companies in the Hungarian automotive industry are located at different levels of the so-called *Supply Pyramid*. Previously, the OEMs directly or indirectly were in control of the basic technologies, components, systems and modules, but these days, while one group (unit group) is specializing for special components and technologies, the other group is specializing for systems and modules (Jürgens 2004). To come to life a new car it is necessary many participants of supply chain beyond the assembly plants. These suppliers in the supply chain can be connected vertically and horizontally to each other. By reason of the vertical connection can you talk about first, second or further level suppliers (Fig. 2).

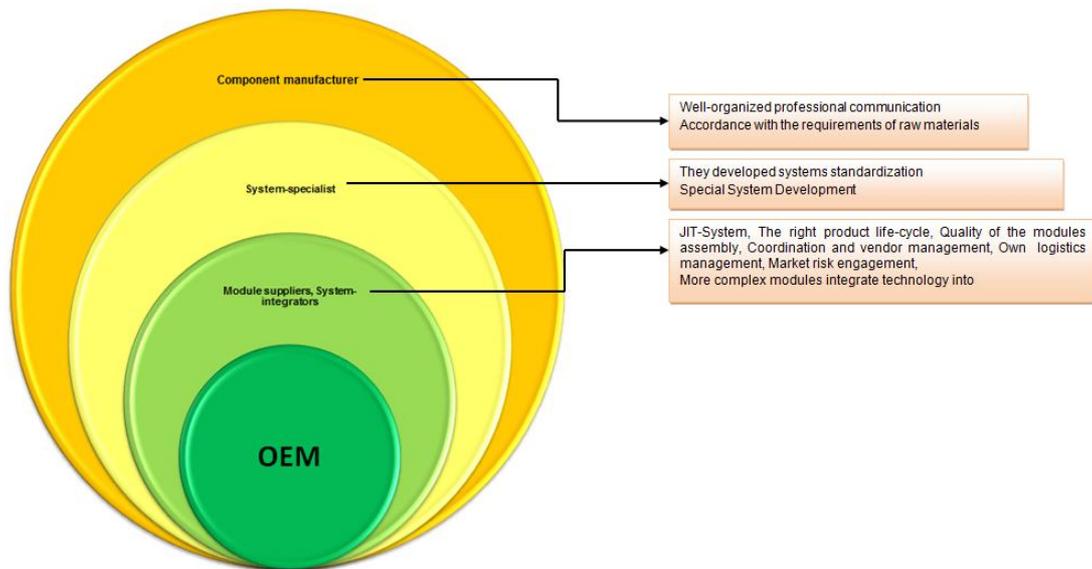


Figure 2. The „Supply Pyramid” (my edits, 2013)

Most of the suppliers had direct contact with the manufacturer of the final product, and the beginning of the 1900s each of the manufacturer had had supplier from 1000 to 2000, as a consequence of this, the European supplier relationship was accused as "plump" expression. International trends show that on the summit of the supply pyramid can be seen those firms with over 300 more workers, which are independent of property, but they have been attaching strict contract relationship to the OEMs. As primary suppliers, which have been delivering car body parts, fasteners, industrial robots which needed for assembly, automobile engines, wheels, dashboards, chairs, braking devices, transmission, front and rear bridges, etc. carried. (Audi, Suzuki, Opel). Under this firms can be found the first suppliers so-called integrator companies (eg. Lear., Johnson Controls, Knorr-Bremse).

These companies are typically producing complex parts for car assembly factories, and join forces the suppliers in the lower levels, that means they have attended integrator tasks. Manufacturing activities are carried out, assembles the components which were produced by the supplier in lower level and are formed into a complete module forward to OEMs. In order for these companies can operate successfully, it is necessary to be located geographically closer to the car factories. Most of these suppliers in itself a multi, that means they are the integrator companies, by which the production of lower-level was managed. These suppliers with 20 to 300 employees are independent, but these medium-sized companies are connected with the first suppliers by closely contracted. System integrators have often performed tasks these days in many cases, which were previously performed by the automakers. It is important that these companies can work up strategic partnership with the OEMs. This is the key to success that is based on long-term relationships and trust. Among the world's 30 leading automotive suppliers the followings have sites in Hungary as well: Knorr-Bremse, Audi, Denso, Bosch, Opel, Visteon, Delphi, Calsonic, Delphi Packard, Valeo U-Shin, Suzuki, Daewoo-MGM, Musashi, Mitsuba (Kemenczei 2006). The on the different levels of the pyramid supplier companies located in different positions at the same time also can occupy different positions. For example, in the case of one product the supplier would meet the requirements as system-integrator but at the other product this supplier is up and coming in a position with a lower supply status.

On the second level can be located the system specialist companies. While the module suppliers attend to the manufacturing, than these companies move toward the product development. These developments are voluntarily carried out by the supplier companies and not because of the requests of automakers. If a supplier wants to reach a specialist supplier status in the supply management system, he should aim in the field of product development leadership achievement. These companies are

connected with the first tier suppliers. The second tier suppliers can be classified into one of the following companies: RABA Mor Inc, Videoton Holding Group Pannonplast, etc.

Bottom of the supply pyramid are located the suppliers of small businesses with 1-30 employees which have dealt with the production of relatively simple components. These firms are also independent of property but are contractually bound to the supplier's business system (Czakó et al. 2003). These companies are characterized by low production and development activities. They produce components, these were developed by the customers, and their manufacture does not require high technical standard. As it is not typical that the automakers would be in direct contact with the suppliers, therefore has established close cooperation with these companies, which are located in the first level. Thereby, the components manufactured components integrated into higher value-added product or semi-finished product they can produce. Furthermore, it is not secret of the fact that can only stay marketable with relatively low prices. The suppliers who are located on the different levels of the supply pyramid must be met a great many of requirements, which are summed up in the following table (Table 1).

REQUIREMENTS TO THE SUPPLIERS		
<i>Supplier Pyramid Level</i>	<i>Type of Company</i>	<i>Requirements</i>
Level 1	System-integrator	Own logistics management Market risk engagement More complex modules integrate technology into
Level 1	Module supplier	JIT-System The right product life-cycle Quality of the modules assembly Coordination and vendor management
Level 2	System-specialist	They developed systems standardization Special System Development
Level 3	Component manufacturer	Well-organized professional communication Accordance with the requirements of raw materials

Table 1. Requirements to the suppliers (my edits, 2013)¹

Process and problems of the supplier selection

Increasingly important that the companies have found a reliable partner for a long-term strategic cooperation. The purchasing task in this case is that to select the right suppliers and to control and improve their performance. The improvement and increasing of quality stay in the focus, such as in a cooperative network stay the cost reduction between the company and its supplier. In order to achieve this, the processes between them have to synchronize and coordinate. Independently of industry the client is always the most important partner for the company and it will be remain so. The long-term business success can only be achieved if the customers are satisfied and this is possible only if a concerted effort is made to ensure and maintain good customer relations. Customer satisfaction and customer relations appertain increasingly to the controversial topics (Voeth et al. 2005). An enterprise is becoming suppliers of the process takes a year and a half. The customers give out in the first a portion of the total quantity manufactured to new suppliers, then the majority of the total amount and finally according to agreement the whole quantity. This is to work on a long-term supply relationship for years, which give some safety for the employees and suppliers. Large companies commit that of writing the requirements for the suppliers that can be measured and hauled up. However, there are no quantifiable requirements, such as corporate culture, the reliability of the company's management, knowledge of foreign languages. The potential suppliers is examined primarily based on criterion what price they offer, what kind of quality can be ensured, and how to take delivery schedule.

¹Source: IWK Institut für Wirtschaftsanalyse und Kommunikation in der Automobilzulieferindustrie 2005

For the companies in Hungary to obtain the supply function has several advantages: high-volume clinic, correctly paid, where appropriate, technical assistance is ready order gain. However, it is not easy the supplier rolls to acquire: the quality is not negotiable, the finished product manufacturer have got special requirements for the suppliers about the production / delivery schedule and the flexibility, the suppliers must demonstrate to be commercial to solve the tasks and in order to be certified to the functional role of the quality assurance system. The study has determined that long-term success can not build upon that, the supplier is cheap, the suppliers, who are produced only components can be replaced at any time. The previous experiences also show that there need many time to build-up a stable supplier relationship: in the case of the automotive investments in industry opinions have to run on at least 1-2 well-managed years after the new Hungarian automotive factories (assembly plants) in production step in order to become really actual the question of home supplies - this interval can be pulled by little home business - especially if the scope of product offerings and partnerships are not sufficiently diversified. Several international automotive manufacturing company to create at a new standort, they plan its own suppliers of park where their partners can be built up a factory, but this is not yet admitted among the international companies who are looking for supplier partners. So most of the partner-seekers have to relies on its resources. In opinion of the international and home experiences the companies have chance to get major supplier status, which have got at least 50 employees and sales revenue reaches HUF 500 million. Nevertheless in Hungary in 2008, the year before the crisis, it was only 773, and all of them includes a total of 607 firms were having a positive operating results, and the researches had founded alone 199 foreign-owned.

It makes no secret that a car model can produce for years, therefore in the car industry is good practice that the companies which have successfully been able to connect to the product manufacturing start of the project, they certain orders can count on for years. Of course, if the customer is still satisfied with the supplier company. That is why a new supplier would have been difficult to take place industry participants as a new project to get involved. This process can be mentioned at the Suzuki Zrt, which has been calling the suppliers before two years of the start of the new models (Kálmán 2007). In the early '90s, Suzuki has himself visited the suppliers, but now it has turned and the potential suppliers occurs to Suzuki, where the automotive reference is necessary (Mészáros 2009). It can be observed that the companies seek long-term strategic with the suppliers to establish a connection, so the optimal supplier selection requires great responsibility and a major decision accordingly, because even a small mistake can negatively affect the organization itself. The selection of appropriate suppliers as process which deals with qualitative and quantitative questions. These days we can find with many suppliers who produce for their customers more thousands products, but there are also those that are not able to meet the customers' expectations. Against this background, a customer can cover the needs with more suppliers.

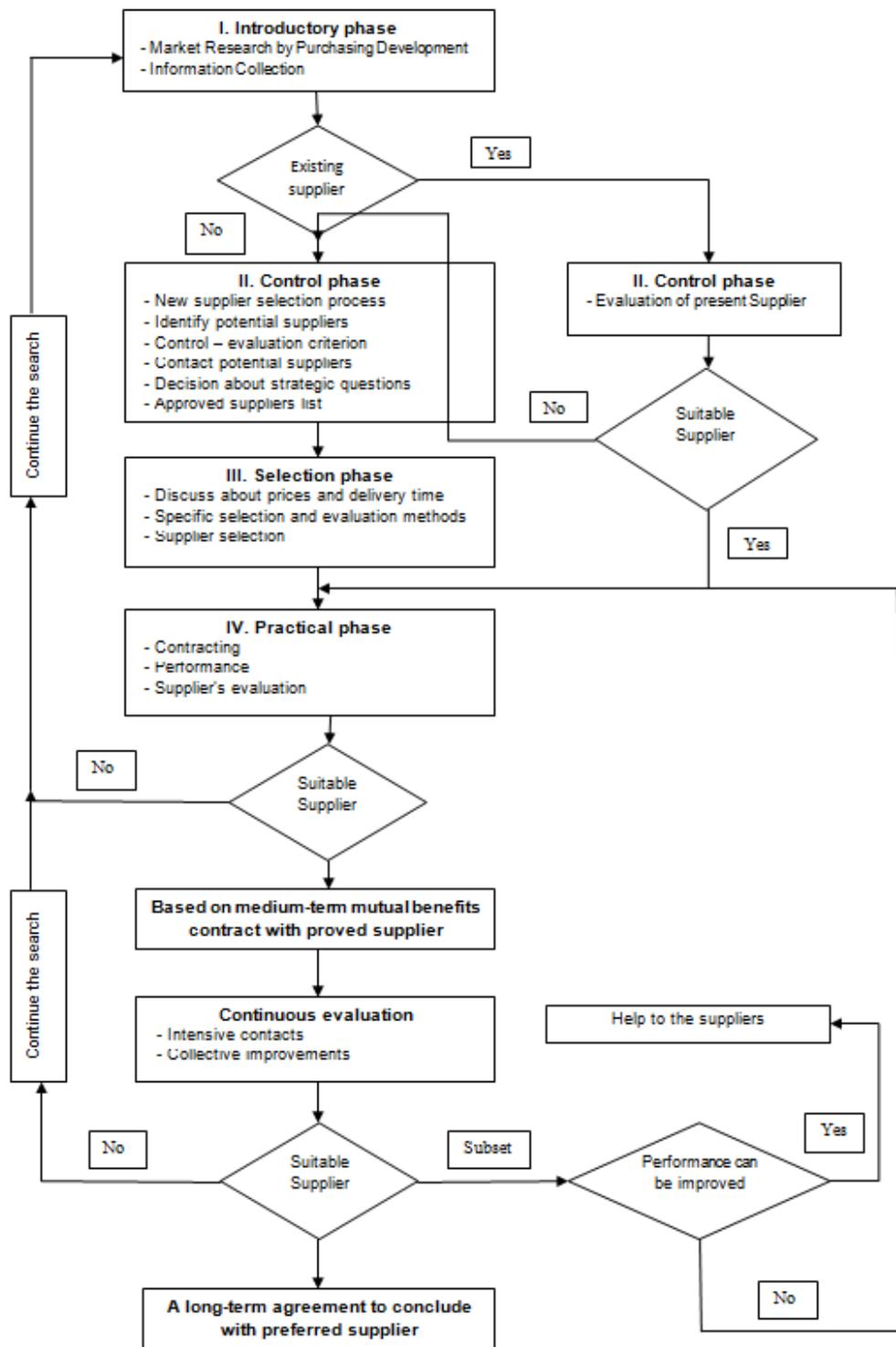


Figure 3. The process of becoming a supplier (Majoros 1999)

According to Majoros (1999) made the qualifying of suppliers in order to meet the necessary requirements of the customer company's products purchased raw materials and services they can provide the appropriate level (Fig. 3). Kerepeszki's view (2002) that the selection has two basic problems (Fig. 4). On the one hand a problem is that if the customer requirements can be met or satisfied by each suppliers (quality, quantity, delivery time, etc..) and because the customer has only one job to take the decision that which is the best among suppliers. That is, if there is no limit, they

must reckon with the fact that they have to choose one of the many "candidates" one with which long-term business success can be achieved.

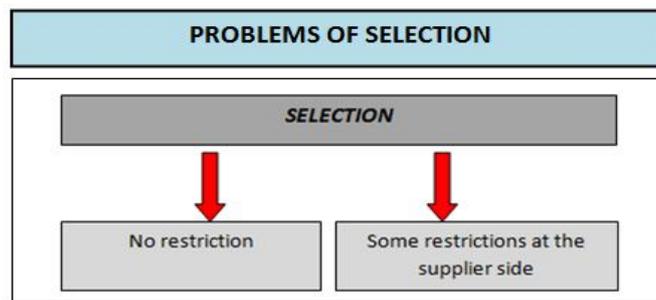


Figure 4. Problems of selection (my edits, 2012)

On the other hand, it can cause problems if there are any restrictions on the supply side. In this case, there may be no supplier is able to perfectly fulfil the requirements, to cover the needs of the customer have to find another supplier and to contract with him. Researchers have suggested the possibility of overcoming to overcome this difficulty that is in their opinion it is appropriate to combine or fuse the supplier companies which want to get supplier status. Today, the expectations harden and became thightened and in addition to that the support which was offered by the multinational companies became lower proportions. Decades ago, it was easier to gain the status of a supplier than it is today. The firms who would like to gain the supplier status were thoroughly evaluated and tested now, and they can become a partner only, if all requirements can be met absolutely. It is difficult to answer the requirement level with the German precision, Japanese quality and Chinese price, but many small and medium-sized firms can imagine yourself only this way in order to survive (Kálmán 2007). Greater the chance on the market for companies that have proven their worth professional. In the course of the customer - supplier relationship's development can we find problems and risks not only on the supply side, but also on the customer side, so that more types of risk can be eliminated. One of the most dangerous risk factor is if the buyer company becomes insolvent. In this case, the loss is not only the reward of the good or service because consequently as a result of additional costs to be incurred, such as temporary storage, transfer, etc. By this literature was called *commercial risks* that may arise on the buyers' side, however, it maybe an important factor in a partnership.

In the case between the conclusion and performance of contract is going long time, there is a risk that the costs and prices will be change (*price risk*). This is able to significantly affect the success of the business relationship as well. Both on the supplier and the customer side can be mentioned the *political risk* as well as an influencing factor, because unfortunately must not ignore the fact that today in political and economical situation of some countries can be occurred so changes by which the partnership effectiveness can be affected. However, the types of risk listed above, one of the most frequent risks is the *commodity risk* because the products could be damaged during shipment and storage. To prevent this, it is advisable to ensure proper packaging and provide accurate description of the handling, storing, moving in relation to the goods. Some companies will have a clearly defined means of transport and in some cases even the delivery route as well. These clauses and conditions are summed up in the contract.

Methods used for selection

There are several methods to select the appropriate supplier. The study with regard to space limitations I mention these only and the methodology is presented in detail which are used at the Hungarian companies. The specific selection method or tool shall be designed on the basis that what is the company's aim with the supplier's evaluation. It can also be said that the same method can be applied in different ways by two different companies. There is no pre-determined concept to what is the best solution because the head of the purchasing company has to always decide about the used methods

(Szegegi and Prezenszki 2003). National literatures are mentioned several methods (Table 2.) which shows that can be used to search for the ideal supplier. During my researches I have determined that this subject includes only a small number of Hungarian background-literature.

APPLICABLE PROCEDURES AND METHODS IN THE COURSE OF SUPPLIER'S EVALUATION			
<i>Qualitative methods</i>	Oral proceeding Numerical proceeding Graphical method	<i>Quantitative methods</i>	Statement analysis Price-Decision Analysis Costs – Decision Analysis Optimization procedure Index proceeding
<i>Traditional methods</i>	Simple categorical method Weighting method Cost method Complex evaluation method	<i>Other methods</i>	Fuzzy Logic Principal Component Analysis Activity – Based – Costing Cluster analysis
<i>Multiple attribute decision making (MADM)</i>			

Table 2. Applicable procedures and methodes in the course of supplier's evaluation
Following of from Glantschnig (my edits, 2012)

The topic of analyzing literature and as a result it is established that the Hungarian companies virtually only used in complex evaluation method. Although some methods, processes focus on different factors, and other factors are planted in the center, however, it is important to keep in mind the fact that a complete picture can be obtained only a potential supplier if its every "inch of it " were analyzed, investigated. Since it is unfortunate when a small moment have been revealed after the contracts - and causing major damage to both parties - which could have made a different decision outcome. In light of this, my future research plans include a detailed explanation of reasons for this study referred to above.

Conclusion

An important objective of supplier development is that the Hungarian companies that innovative capacity and productivity of them are approaching or reaching the level of the European Union have to become strong capital and stable, because only in that case can they get at multinationals constant supply status. As you can see, becoming suppliers length of many steps, systematic process. Many times the units of multinational companies in Hungary can only lead the customer through the parent company of an international procurement centre of the road. Potential suppliers should note that a multinational company is looking for and will compete with each other the best suppliers which are for him the most appropriate. However, they are looking for also the Hungarian suppliers, in most cases because due to cheaper labour. As my study only relied on the literature review, so my aim is to examine this area of research in a practical way, through specific automotive companies.

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