

CVCR Spring 2009 Symposium

BREAKOUT SESSION

Sourcing strategies in the current economy: Is off-shoring the way to go or not?

Moderated by Dr. Bob Trent
May 21, 2009

Strategic sourcing from China

Discussion of factors that influence decision, latest trends:

- Currency exchange rates
 - Was pegged to US\$ 8.77 - which took off risk
 - Now \$6.40 - killed margins on Chinese suppliers
- Labor
 - Costs have increased
 - Introduced mandatory healthcare
 - Also introduced overtime laws
 - Chinese movement from world-sourcing to sourcing for China itself
- BI Tax has added costs
- Legislation protecting US from recalls mostly from China further dampens trends
- Macro-economic structure is another contributing factor

Best practices for sourcing from China or any other countries

- Need to understand price versus total cost
- Have infrastructure on ground to manage manufacturing
- Practice strong S&OP process – work to understand forecast, lead-times, inventory management
- Consider IPO (international purchasing office) presence
- Be concerned with protection of intellectual property

Overall Sourcing Trends

- Bundling purchasing with logistics providers
 - Don't just consider purchase cost, but include cost of how to get it where needed
- Looking beyond tier 1 suppliers to ensure sustainability, viability
 - Auditing T1 suppliers to understand how they qualify THEIR suppliers

- Shedding units that are no longer a fit corporate purpose vs buying non-related companies to broaden footprint, diversify
- Boeing Dreamliner discussion: Large global supply chain is being rethought due to a lack of control, complexity, lower level of flexibility
- CTPAT discussion and how best to combat move to 100% container inspection
 - Manage closer to or at point of origin
 - Go back to manufacturing in US
 - Mandate by law – not a good idea due to international retaliation
 - Idea must be sustainable – coupled with innovation to maintain cost-effectiveness, competitive edge
 - Need to restructure so not as costly
- Discussion on Smoot-Halley Act in 1930's
 - Created protectionism in US
 - Other countries retaliated
 - Global trade dried up
 - Many think that this contributed to Great Depression
- Discussion on Big Package Delivery Co (not Fed Ex) sourcing corrugate and envelopes from China
 - Ended up dual source rather than 100% from China (2nd source in US)
 - Long lead-times were not taken into account
 - Warehousing, break bulk came into the picture, adding further costs

Sidebar Discussion – 1990 HBR article coined the term 'core competency'

- Most misused term
- Mistakenly thought to be something a company does well
- Core competency must also be a sustainable point of differentiation, not something that is easily copied. and something that adds value to the corporate proposition