



ASSOCIATES, LTD.

Sourcing

Framework

Summary

This framework provides clients with increased short-term profit and improved free cash flow as well as a longer term strategic strengthening.

The main point of the framework analysis is to develop a sourcing structure to provide satisfaction to the customers at the end of the supply chain.

Outsourcing means contracting outside of the company for services such as manufacturing.

Offshoring is an extension of outsourcing where the outside contracting is performed by vendors outside of one's home nation.

Approach

Phase 1, Get Started

1. Do not start with the realities of your manufacturing base (plants, equipment, vendors) or service infrastructure and then build the best sourcing structure from there, instead
2. Survey your customers to rate you along a number of important capabilities such as price, delivery, service, quality, depth of products, engineering support, and other relevant criteria. Also if possible, rate your competitors on same capabilities
3. Weigh costs and value of becoming excellent at each capability
4. Sort through this list to determine what is really a core and irreplaceable competency for your company
5. Find the combination of initiatives that give you a competitive advantage

Phase 2, further evaluate outsourcing and offshoring

1. First see if you are lean at home
 - a. Are you doing everything to diminish the importance of direct labor?
2. Look at the value of being near your customers
 - a. Short logistics lines?
 - b. Better responsiveness, faster, easier to communicate?
 - c. Fewer inventories?

3. Develop a matrix of outsourced vendors, listing pros and cons
 - a. Dimensions to consider include
 1. Quality
 2. Price
 3. Delivery
 4. Exchange rate changes and cost to manage that
 5. Soft issues such as language, developed relationship
 - b. Visit the vendors you are considering
 1. The more time you take and the more money you spend, the more likely you will succeed
 2. Especially if offshoring, find a consultant to help you who has been to the country you are considering sourcing from
 1. In China, for example, rely on him for recommendations on
 - a. Areas to source from
 - b. Factories which are good
 - c. Logistics and shipping
 - d. Communications
 - e. Exchange rate management
 - c. Select a vendor(s)
 - d. Be aware that your intellectual property will likely be risked
4. Develop legal agreements with your vendors

Phase 3, Act

1. Realize that usually savings of outsourcing are overestimated by 20% to 50%
2. Monitor closely the results of the outsourcing/offshoring effort
3. Be willing to change to a domestic supplier as needed

Other Tips

1. For consumer goods companies strategies
 - a. Continue to execute
 - b. Serve emerging markets better
 - c. Add more value to advanced companies
 - d. Be bold, outsource, add new products, fix old products
2. Loosen up in general
 - a. Develop process networks to unlock the power of specialization
 - i. Like Li & Fung trading company (www.lifung.com)
 - b. Orchestrates the production of goods by others
 - c. Gain efficiency through specialization of suppliers
 - d. Your mission is to develop the right product at the right price at the right time

