

# Taking Advantage of Opportunities of Outsourcing

*by David Brown*

“Increasing costs and increasing competition are killing us” is a frequent refrain from numerous business owners in the past year. David Brown of Red Hawk Associates, a business improvement firm that helps its clients solve urgent strategic problems, hears this frequently in his travels through Northeast Ohio. No wonder business owners are worried, the region lost 174,000 jobs and 3.7% of payroll dollars from 2000 to 2003. He believes that the only way for businesses to survive here in long run is through a willingness to look at one’s business through the eyes of a hawk and to radically change it. David suggests that the main change to make for many businesses is to look outside abroad for new suppliers and new markets.

China clearly is making a huge impact on our economy. William Sinn, President of his own consulting firm, an advisor to Red Hawk and an expert in helping American companies to leverage China, says that when he goes to China every three months he sees a new city that has been built! The statistics are staggering, in 2003, China consumed 40% of the world’s cement production and had a trade surplus of \$124 billion with the United States. And while big American companies have the resources to decide how to leverage the growth in China and also in Europe and India, most companies (under \$250 million in revenues) do not.

But there have been some surprising outsourcing success stories in our area. Kevin Shaw of Eagle Creek Capital in Cleveland, tells the story of one of his portfolio companies, with sales of under \$5 million, sourcing a critical part from China out of desperation to reduce costs. The sourcing (from a pricing and quality standpoint) has been a huge success and is helping to trigger an excellent year. That sense of “being under the gun” from a customer or competitor is what drives most Ohio companies to look offshore. While that sense of urgency can result in success, David has found that combining a need to act with a good approach is the best solution. He has these instructions for business owners and managers here based on Red Hawk’s unique approach to sourcing:

- Don’t start with the realities of a current manufacturing or service base (plants, vendors, equipment), instead start with what current and prospective customers want, and what your competitors are doing and drive your plan from there (separate short term need from long term goal)
  - For example, if a major customer is going to China and wants you as a vendor there, be careful and understand whether that customer can generate the type of return on investment you need to get to justify the investment
- Determine what core strength you need to be able to beat your competition. For many manufacturers in Ohio, that strength is not in manufacturing locally but is in service, design and management

- Answer these questions like these about offshoring:
  - Are you lean at home (reduced direct labor)?
  - What's the value of manufacturing near your customers?
- There are many countries from which to source product. If you choose China, be sure to use an expert who can sort through with you which region to choose, which factories are good and ones to avoid and can scout, lead and spearhead this time consuming and expensive effort

The complexity and expense of outsourcing often results in savings being overestimated by 20% to 50%. However, for most business owners in our area outsourcing is not an option but a requirement for survival in this decade.