

Key Success Factors for Low Cost Country Sourcing

Low cost country sourcing is a critical issue for North American manufacturers. All industries are putting intense effort into finding and using suppliers in low cost countries. According to the Aberdeen Group, “CPOs rate Low-Cost Country Sourcing (LCCS) a top priority over the next three years, and companies plan to double their spending with offshore suppliers by 2008.”

There are nine key success factors for low cost country sourcing:

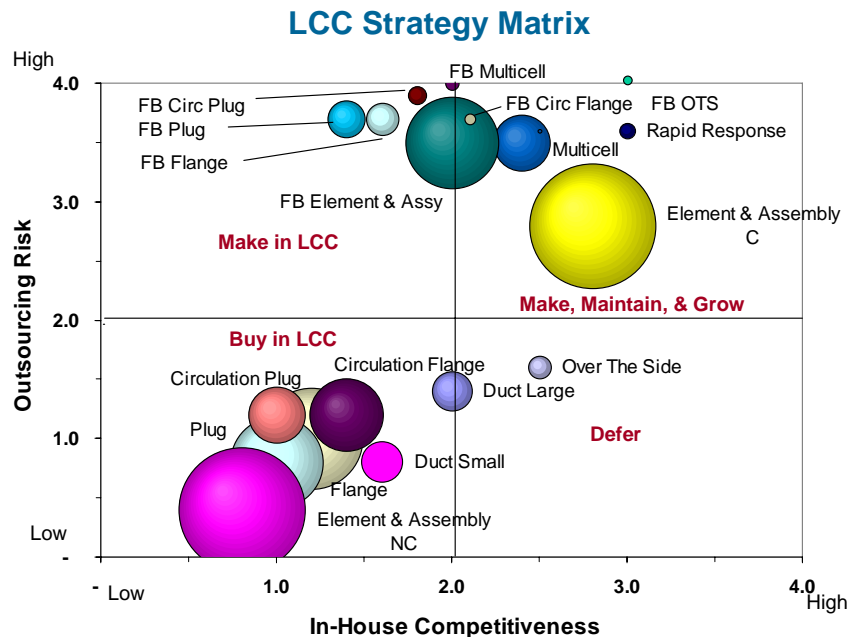
1. Set and Track Corporate LCCS Objectives

Like most corporate objectives, the objectives need to be quantifiable in terms of dollars and time. They should be driven by management and communicated throughout the company.

2. Know your Strategy to Protect Intellectual Property & Satisfy End Customers

Depending on your industry, protecting IP may be critical. A good way to protect your IP may be to ensure your pricing is low enough that potential low cost country competitors are not tempted to compete with you. This will help keep you current customers happy as well.

The matrix below illustrates how companies can assign different sourcing strategies to components based on Outsourcing Risk versus In-House competitiveness. While some components should be made in house, other components should be bought or made in low cost countries.



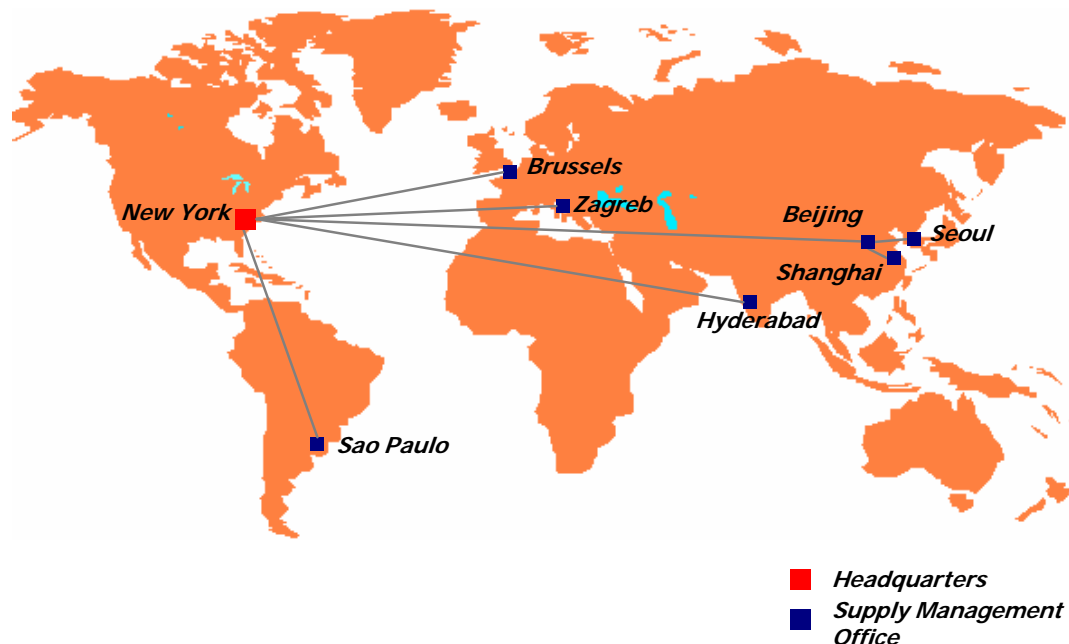
3. Establish or Hire an International Procurement Office

It is important to have a presence in low cost countries. Trying to conduct low cost country sourcing from your home country will not succeed – you will not have access to accurate information or be able to build meaningful relationships.

4. Perform Extensive Supplier Due Diligence

Only by conducting thorough site visits and getting to know management at suppliers will you have enough information to select suitable suppliers. And only by conducting thorough site visits will you build close relationships and generate high levels of trust.

Following is an illustration of the Transpac Access Global Procurement Network, which we use to find potential suppliers, conduct site visits, elicit quotes, negotiate, make awards, and conduct first article inspection.



5. Consider Total Cost

You will want to examine the following factors

- Labor savings
- Overhead savings
- Transport (including expedited shipments)
- Warehousing
- Inventory (working capital & holding cost)
- Duties/Taxes
- Quality
- Supplier Management (travel & time)
- Currency Risk
- Country/Political Risk

6. Focus on a Limited Number of Suppliers/Countries

Since there is little synergy between regions, you will want to limit your focus to regions that are most appropriate for the materials you are sourcing. While China supplies the most material, other low cost regions may be more appropriate for petroleum based products or for raw materials such as wood.

7. Persevere

Successful LCCS projects for custom-engineered items may take nine to twelve months to implement. Typically, a host of small implementation issues arise, all of which need to be resolved. Plan on spending nine to twelve months to effectively source the materials.

8. Have a Backup Plan

In case the supplier you select develops issues and is unable to provide material to spec on time, you will want to have a backup plans. You can mitigate risk by utilizing dual-sourcing or by keeping your current supplier providing a percentage of the materials for some time.

9. Improve and Innovate

LCCS is a dynamic process, with frequent developments in supply bases and changes in currency and political risk. Be prepared to respond to these changes by learning the business culture of your LCCS region.