

‘Rightsourcing’ — A Better Procurement Model For Manufacturers

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The design engineering and manufacturing community is currently enmeshed in an ideological debate over sourcing and procurement. There's vigorous — and at times emotional — argument surrounding strategies for insourcing, outsourcing, near sourcing or keeping it in-house. The argument really shouldn't focus on the fervent and at times politically-tinged abstractions of what flag flies over the factory, but rather what's best for your business.

Getting the best product for the lowest price regardless of where the supplier is located is what I call “rightsourcing.”

While we're all sensitive to the wrenching changes that globalization has brought to the North American manufacturing sector, there's no opportunity to roll back the clocks to 1973. Hundreds of industrial segments from shoes and textiles, to shipbuilding to steel and lighting and on to telecommunications and medical devices have scaled up here, matured and then rotated out in place of a new and sometimes better technology.

The rising economies of Asia, Latin America and Eastern Europe won't be going away anytime soon. If you consider only Asia, there are more than two billion people under the age of 25 living, working and consuming products there. Their productive capacity, energy and skills create an opportunity to procure technically sound raw materials, components, sub-assemblies and finished products at attractive prices. The growth in these geographic areas and the emergence of a robust middle class also offers you the chance to sell your products around the world.

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How best to leverage the capabilities and talents of factories around the world isn't clearly understood. There's no ready formula to measure the benefits of disadvantages of placing business with a supplier in a specific geographic segment. And the pros and cons of what to do abound. For example:

- Does the improved communication earned by trading with a U.S. supplier offset the increased unit price you'll pay?
- If you engage with an Asian contract manufacturer, how do you plan around the increased ocean shipping time?
- When you purchase molded plastic housings in Mexico, do your inspection costs increase?

So, what is a useful strategy for companies that need the best products at competitive prices? What is the intelligent director of purchasing, VP of engineering or COO to do?

In today's business climate, it's necessary to be an internationalist. This requires seeking out world-class products that provide excellent quality value ratio (QVR) and establishing supply relationships regardless of where that supplier may be located.

I recently visited a client that's in the sensor business. They procure value-added materials in Russia, machined metal and plastic parts in China, cable and wire harnesses from Malaysia, inset molding services in the USA and PCBAs from Mexico. All of these items get married up into finished products within their own facilities in Brazil, Turkey and the USA, and then shipped to customers around the world.

Their management team takes a pragmatic approach to developing vendors and sourcing materials and parts. They make it very clear to their staff and their vendors: "We'll purchase from the vendors that provide us with the best combination of price, delivery, quality and overall service."

This is truly an international business. Their CEO also stated, "We are neutral, like Switzerland, and will do business with good companies regardless of location, borders or native language."

While most North American businesses have made the jump and are purchasing products from one or two offshore vendors/countries, this client has fully embraced internationalism.

How did they get there? It was really quite simple: "We modeled our best competitors — we looked at their finished products and found that they weren't shy about looking for top-quality components from around the world. We also found that the competitors that had the most diversified supply chains also had the highest sales abroad."

Now, this didn't happen overnight. This company needed to develop well written

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and robust documentation. They also put key middle managers on airplanes to distant cities to meet the vendors, audit the factories and build human relationships with their professional counterparts. It took time, but our client now has a corps of vendors providing the highest quality and lowest priced goods to be found anywhere.

The takeaway here is that our most competitive and successful clients have broadened their supply chains and are procuring a diverse group of products where they craft the best deals. Is your business ready to make the jump? As a start, look for with furniture in Vietnam, apparel in Peru, medical devices in Thailand, formed metal in China and high-end tools in Taiwan.

In my experience, seeking out, qualifying, placing trial P.O.s and then purchasing from the highest quality vendors, independent of where they're located, is the most straightforward path to securing the lowest total cost of ownership. Casting your net across the world's industrial and technical centers of excellence is the route to establishing a sound and reliable supply chain. That's rightsourcing.

Jack Daniels is the president and CEO of EastBridge Engineering located in Boston, Massachusetts. EastBridge also has satellite offices in the People's Republic of China, Singapore, Taiwan and Vietnam. For more information, please visit www.eb-intl.com [1].

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