

OUTSOURCING vs. OFFSHORING

Philip Quigley's Management Perspective column, in the March/April issue of *APICS* magazine, addresses several "Perils of Outsourcing." These perils include logistical issues and the risk of creating a future competitor by transferring technology and knowledge to an outsourcing partner. A recent newspaper item reported that many Chinese manufacturers facing increasing wage demands from workers, which are driving up costs and prices, are now building new plants in interior areas of the country where wages are still low.

Outsourcing, particularly sourcing overseas, has been a significant trend for Western manufacturers for a number of years. Now, it seems, companies are becoming more aware of some of the significant costs and risks associated with this strategy. At the same time, less-developed areas are becoming more developed and new competitors emerge. Thus, the existing competitors become less competitive.

Outsourcing Choice

In many cases, companies really have had no choice but to outsource. With parts, and sometimes entire products, available from China and other areas at a small fraction of the cost of manufacturing them in the West, these companies simply could not continue to make them and stay in business. Few business people, however, were able to fully understand all of the costs associated with offshore sourcing.

In addition to the obvious—higher transportation costs and additional inventory to cover the longer lead times—even larger potential costs exist in the inability to effectively respond to changing demand quickly, delays in bringing new products or variations to market, difficulty resolving quality or design issues, risk of disruptions in supply from any number of causes, and the competitive threats mentioned in Quigley's article.

But we live in a dynamic world, and decisions made a few years ago may not be as appropriate today. Company leaders have become more aware of the costs of doing business with overseas suppliers, and those cost dynamics continue to evolve. In addition, the emergence of e-commerce and the Internet has brought about a revolution of sorts in the domestic sourcing world.

Internet-based Exchange

I have had the opportunity lately to talk to many company leaders who market and source through an Internet-based exchange that offers great opportunities for both suppliers and outsourcers. This exchange, and others like it, enables manufacturers to market their services nationwide (and internationally if the seller is so inclined) and offers the buyer many potential suppliers of machined parts and machining services, molding and forming, electrical assembly, castings, stamping, and more.

The interesting thing about these exchanges is manufacturers are able to

significantly reduce parts costs while dealing with high-quality, reliable, domestic suppliers and, thus, avoid a lot of the risk of sourcing overseas. From the supplier side, small (and large) shops are able to market nationwide and, more important, compete for the right kind of business. In other words, suppliers have such a wide range of work to vie for that they can focus on the kind of jobs that they do best and in the areas where they can compete most effectively.

Through the competitive quoting process, and analyzing wins and losses carefully, suppliers can gain a much better understanding of what kind of work best suits their capabilities. If they are consistently quoting too high for, say, small, high-precision stainless parts but win contracts regularly for larger bronze and brass parts, then perhaps they should stop quoting the stainless work and focus on making processes more efficient on the brass and bronze jobs.

Available Work

There is lots of work out there. One of these exchanges, MFG.com, has about \$170 million in open requests for quotes (RFQs) posted on its site. Buyers tell me that they routinely receive a dozen or more quotes for every RFQ submitted to the site. And the quoted prices are significantly less than these buyers can find when sourcing locally.

Another benefit of domestic, Internet-based sourcing is that many of these suppliers welcome small-lot, quick turnaround work—appropriate for reacting to unexpected change that can't be accommodated by internal resources or distant suppliers and, also, in line with lean, minimal inventory operations. Some manufacturers rely on exchanged-based sourcing for all of their research and development and prototyping work.

Companies that currently engage in offshore sourcing, and those contemplating doing so, should also consider domestic sourcing through one of the Internet-based exchanges. Professionals can potentially find suppliers with high-quality products, very attractive pricing, shorter lead time, and less risk than sourcing overseas. Other manufacturers should keep in mind that there are thousands of suppliers out there with unique capabilities that would welcome the opportunity to submit quotes for work.

Thanks to easy access via the Internet, these suppliers are just a few mouse clicks away.

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