

Overseas Sourcing...

How to Achieve this Competitive Advantage

The Challenge

For sourcing materials, subassemblies and components, manufacturing today is a world without borders. Experience tells us that overseas sourcing can assist organizations in reducing costs. However, experience also proves that the savings from overseas production can quickly disappear without effective planning, as well as managing longer timelines and the larger financial requirements to implement them.

The challenge is finding balance: reliable sourcing at competitive prices without sacrificing quality. The key is looking beyond the short-term cost savings goals and incorporate it into an overall business strategy.

CONSIDERATIONS & CHALLENGES

1. Language and Communication
2. Factory and Product Quality
3. Production Run vs. Sample Quality
4. Payment and Documentation
5. Shipping, Customs and Logistics

Q: Is overseas sourcing right for your projects and your brand?

DOMESTIC vs. GLOBAL

Typical overseas modifications include:

- Conversion from metric to imperial dimensions
- Packaging and labeling
- Modifying design or finishes
- Making materials compatible in a “blended program”

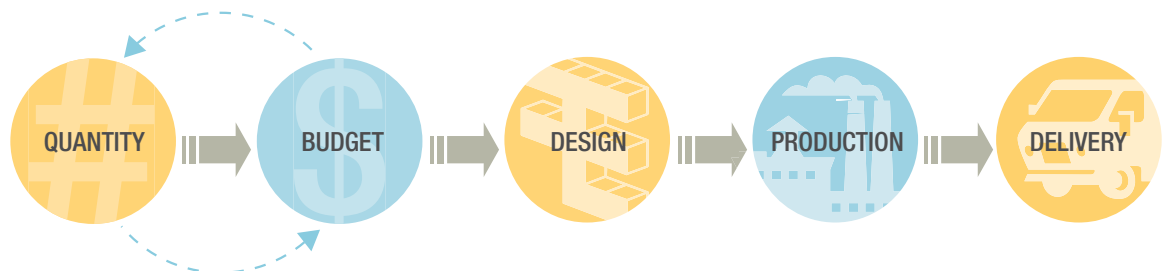
Decision Factors

Brands and retailers are constantly challenged to move from a domestic sourcing strategy to a global strategy, as emerging markets offer new cost savings opportunities. Coupled with this, a highly competitive market has inevitably led to, at times, fierce price competition with brands and retailers exploring these alternative markets. As with any decision to implement an overseas strategy, materials, schedule, quality and size are primary drivers of the decision.

Larger programs, for example, with a longer production lead-time and a simplified design are prime candidates for global sourcing. More complex programs with mixed materials and shorter timeframes, requiring more coordination are at risk in an overseas strategy. Oversight on the ground as well as from domestic offices will add to program costs, and must carefully be weighed in your decision.

BUDGET, QUANTITY AND QUALITY RELATIONSHIPS

All variables must be in sync for efficiency and cost effective choices



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Logistics Implications

The single most important rule about international pricing: A price is always associated with a location and a location is always associated with a cost of movement.

Within retailers or brands, logistics and procurement departments tend to be isolated functions because of their focus and how they are measured. They often end up working cross purposes, with one gaining or losing at the expense of the other. For example, procurement is measured by unit price; logistics is measured by transportation or total logistics cost as a percent of revenue. The result is various operational processes running concurrently with little insight about each other. The impact: sourcing initiatives that don't deliver projected savings because the risks of longer, more complex processes were not properly understood, tracked and managed.

STORE FIXTURE PRODUCTION TIMELINES

General Time Allocation

PHASE	DOMESTIC	OVERSEAS
Tooling	*N/A	4 weeks
Prototyping	3 weeks	Included in Tooling
Production	8 – 10 weeks	6 – 8 weeks
Freight to US	N/A	4 weeks
TOTAL	11 – 13 weeks	14 – 16 weeks

**Tooling typically not required for metal/wood fixtures.*

Keys to Balance and Success

Global sourcing has become the strategy to reduce the costs of acquiring, building and selling products in a continual effort to compete more successfully. Yet extending supply lines overseas brings with it operational challenges that are far more complex that expose brands and retailers to an entirely new universe of costs, liabilities and management requirements. The challenge is to:

- Strike a balance between lead-time and costs savings
- Understand and clarify the needs of multiple stakeholders
- Utilize planning calendars to communicate goals and results



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Other Resources:

Fundamentals of Developing P-O-P Programs

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