Here or There?

Deciding where to put your operations

For a long time now, company leaders have exercised the option to outsource or offshore their manufacturing operations. However, many have begun to question the once-popular decision to locate manufacturing operations in Asia. Exactly what criteria should be used when making this decision?

First, it’s necessary to evaluate if a certain capability represents a current or future core competency. Renowned management experts Gary Hamel and C.K. Prahalad argued that core competencies must meet three criteria. They

- are difficult to imitate
- are widely applicable across a portfolio of products and services
- add value from the end customer’s perspective.

So, given these three measures, many companies—particularly those in the consumer electronics industry—quickly determine that manufacturing and assembly (as opposed to product design, development, and marketing) are not core competencies for their business models. Therefore, leaders at these businesses begin to seriously consider outsourcing as a viable option.

Once this strategic decision is made, the next set of criteria addresses the business case for outsourcing. During this time, some analyses will focus on the benefits and value to be gained from the many trade-offs associated with these operational dimensions of customer value (cost, quality, delivery, and flexibility). It’s necessary to evaluate both the order-winning and order-qualifying potential of each.

Some will argue that, in order to be globally competitive when selling high volumes of leading-edge products, a company must outsource operations to a highly trained, disciplined, and flexible workforce. In fact, the potential cost savings (particularly from lower labor expenses) often are so attractive that this one value proposition overrides other concerns.

The third set of criteria considers outsourcing’s impact on the company’s supply chain management (SCM) strategies. One must validate the efficiency and effectiveness of all five SCM flows: raw materials, products and services, information, financials, and returns. Sometimes, a promising proposition can turn out to be quite deceptive because of the complexities involved in order processing, production and assembly, overseas, transportation, warehousing, and inventory management. But the elephant in the room may simply be distance when manufacturing and assembly plants in Asia are located more than 12,000 miles away from facilities in North America. In this scenario, it is quite likely companies will encounter unexpected costs associated with transportation and tariffs, inventory management, and trips to offshore plants.

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In response to the first criterion, they noted that marketing, product development, and digital services are core competencies—not manufacturing and assembly.

In response to the next principles, they say that, given the escalating global demand for millions of iPods, iPhones, iPads, and iMacs, there is no other truly viable manufacturing option on this planet that offers the quality, capacity, responsiveness, and flexibility of Apple’s Chinese manufacturer, Foxconn. The executives also explain that there is an insufficient number of technically trained employees in the United States. In addition, the cost advantages of manufacturing and assembling in China are significant.

As for the third set of criteria, executives argue that the entire consumer electronics supply chain has moved to Asia. Therefore, it is more efficient and effective to source, manufacture, and assemble these products in China. In addition, given the advances in information technology, it is also smart to securely continue product development here in the United States while managing outsourced operations in Asia.

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