



# Q&A with Intermex Industrial Parks



## Sourcing Challenges and Solutions for Manufacturers in North America

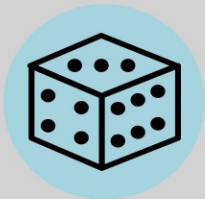


# 1

What are a few of the main sourcing challenges manufacturers face in North America?



Culture of Complacency



Risk

## Culture of Complacency

If North American manufacturers want to outsource, leaders have to change their mindset to adapt to a worldwide view and use geographic diversity to their advantage. When a company is doing well and the idea of change comes up, it may be difficult to allow that in a culture of complacency.

## Risk

Sourcing can involve risk due to transitions that are new to the company. If, when outsourcing, you use new suppliers from your location, there's the risk of delivery failure, supplier quality risks, etc. And, with every risk comes vulnerability.

When a company expands into different parts of the world, they gain a competitive advantage, but also risk becoming vulnerable to cultural misalignments or miscommunications.

Financial vulnerabilities can also occur when gaining a new supply case through delivery, in the case of bankruptcy or financial distress.



Cost

## Cost

Due to many companies being vertically integrated, their costs may increase during sourcing because of margin payment.



Logistics

## Logistics

Logistic services can come with different challenges including costs and complexity. When sourcing in an area that you are particularly familiar with, freight and logistic services may become complex, which can lead to costly decisions.



Manufacturing Skills Gap

## Manufacturing Skills Gap

In today's world, we are facing a large manufacturing skills gap. As companies have migrated overseas, those jobs have been eliminated in the US. Therefore, there is a shortage of manufacturing work within North America. Though, this problem does not currently exist in Mexico.

Setting up in city clusters, you find tremendous talent that has been created by Fortune 500 organizations located in those maquiladora cities. And, you have immediate availability of that talent, whereas, in the United States (specific aerospace, automotive, etc.), talent can be hard to find.



Inventory



Structure

## Inventory

When sourcing to countries that are far from your point of origin, inventory must increase. For example, sourcing in China is complex, start-up takes a good amount of time, and the delivery of the product can take longer due to the distance.

## Structure

Small to medium sized companies have a disadvantage when thinking about sourcing because they can face the challenge of lacking the internal capabilities and structure to outsource in a productive manner. There is a program called “Shelter” that can aid in these types of situations.



# 2

In today's low-margin and demanding market, how can manufacturers save in production costs?

## Outsourcing to Countries or Places with Low Labor Costs

One way that manufacturers can save on production costs is by outsourcing to countries or places with lower labor costs. If we're speaking about North America, companies based in the North can move to the South where the minimum wage is reduced.

If companies are based in the South, they can move to Mexico, where the minimum wage is low enough to really make a difference.

## Become a Lean Organization

Become a lean organization! Implementing and deploying lean methodologies and quality management programs, like Six Sigma, help manufacturers in many ways, one of them being saving in production costs. These programs are designed to reduce defects in order to help lower costs, save time, and improve customer satisfaction.

While implementing a program like Six Sigma can be a huge commitment, it can provide benefits that will make the discipline worth it.



## Be Effective & Precise

In order to save in production costs, companies should be effective and precise at the level of vertical integration that they can afford.

## Foot Print Rationalizations/Account Rationalization

Cost improvement initiatives such as foot print rationalizations and account rationalization can change an organization.

## Pay Attention to the Exchange Rate

Pay attention to the exchange rate. One of the biggest advantages of going to countries such as Mexico is the exchange rate. Companies enjoy the benefit of a strong US dollar, therefore continuously benefit from foreign money devaluation reducing their costs effectively.

For, example, in the last three years, the Mexican Peso has devalued 30% of our USD. Therefore American companies manufacturing in Mexico can benefit from that exchange rate.

# 3

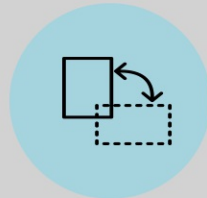
## Why are manufacturers struggling to remain competitive in the market today?



Fast-Paced World



Cost



Afraid of Change

### Fast-Paced World

One of the challenges to remain competitive in today's market is keeping up with innovation and product development. It is vital for manufacturers to stay relevant in order to stay competitive. There is a big advantage to being the first to market new concepts or products.

### Cost

There is a lot of competitive pressure to keep costs low. Low-cost manufacturing is a priority if you want to stay in the fight.

### Afraid of Change

There is the possibility that manufacturers are afraid of change and of going overseas where they could find better costs, better deals, and better quality. Or they are unaware that there are excellent sources in places like Mexico, where Shelter providers can aid in finding the level of quality and delivery at a much lower cost without having to go the distance, as in going overseas.



Lack of Awareness

## Lack of Awareness

Lack of awareness that sourcing is an option can cause a strain in competitiveness. Deciding to establish in Mexico can resolve some of the most urgent financial and delivery needs.

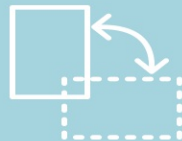


Medical Costs

## Medical Costs

We know that costs are a key aspect of maintaining a competitive advantage. American companies are full of punitive costs created by a legacy of employee benefits such as high salaries, health benefits, pensions, etc.

But, when you outsource to Mexico, you cut all of those costs. Plus, as American health coverage costs skyrocket, other countries retain the same low medical costs.





# 4

## What are common misconceptions surrounding strategic sourcing?

### Finding the Cheapest Product & Disregarding Quality

One of the most common misconceptions about strategic sourcing is that the focus is on finding the cheapest product and disregarding quality.

In reality, maintaining or even enhancing quality is a priority in most strategic sourcing operations. The focus isn't only on cost, but more specifically on the TCO (Total Cost of Ownership) that takes into account the customer needs, the state of the market, and the goals of the organization.

Traditional sourcing focuses on finding the lowest-cost suppliers, but the aim of strategic sourcing is to build long-term relationships with suppliers that offer quality, value, a willingness to collaborate, and the flexibility to meet changing supply requirements.

### "Strategic Sourcing Is a One-Time Project"

"Strategic sourcing is a one-time project". Actually, this is a process that involves continuous improvement and cycles through many contact iterations.



For example, if a Texan company is sourcing to Mexico, they wouldn't have the necessity of sharing their intellectual property because they could set up sourcing engineers on the US side to work with the Mexico side, without having to disclose every spec of information. The closeness is where that advantage comes in because your US personnel can manage your IP protection function more effectively. Mexico is more conscious about IP protection than China and international laws are easily enforced in Mexico instead of countries such as China and Malaysia.



## Cost is Most Important

A common misconception is when the cost is taken into consideration, but quality and inventory are not. Companies minimize the effect of increased inventory. It's important to evaluate inventory and the risk of excess and obsolescence created by outsourcing overseas.

## Strategic Sourcing Is a Job for the "Sourcing Guys"

Strategic sourcing is not just a task dedicated to the "sourcing guys". In fact, it affects the entire organization. When a company has new product design, if you are outsourcing, you could be required to share your intellectual property because of the distance.



## "Treats Every Country Equally"

"Treats every country equally". This is a common misconception because it doesn't consider the political state of the country. Are they US allies? Are they hostile to US interests? This is vital when being strategic about your sourcing. Outsourcing tends to be a long-term decision, so taking governmental factors into consideration can be beneficial.

# 5

When looking at strategic sourcing, what are solutions or best practices manufacturers should be aware of?

## List of Tentative Strategic Products

First, manufacturers should be aware of exactly what is on the list of tentative strategic products they intended to outsource.

## Alliances with Key Suppliers

Manufacturers should be aware of the importance of establishing alliances with key suppliers. When supplier relationship management is a high priority, there tends to be much success for both the supplier and the buyer.

## Sourcing Resources

There are very effective sourcing resources in other countries that, in a very short time, can provide feedback to the organization on if there are existing suppliers and what the targeted costs are.

## Move from North America

Be aware that the process of outsourcing is much simpler than they think. They will be engaging with foreigners but will find that the productivity level, work ethic, and environment, is that of Americans. The further they move from North America, the more prominent that foreign business relationship and performance will be.

# 6

In your experience, when manufacturers use strategic sourcing solutions, what has the outcome been?

## The Result is Excellent

When manufacturers use adequate channels of sourcing, the result is excellent.

## You Begin Identifying Improvement Opportunities

One advantage that comes from strategic sourcing is the understanding of category buying and management processes so that you can identify improvement opportunities.

## Savings and Risk Reduction

Two main results that come from applying strategic sourcing operations are savings and risk reduction while maintaining total control of the near-shored operation.

## Products Need to Be Acceptable

Strategic sourcing and planning process must be done correctly. Products need to be acceptable for the sourcing environment.



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Join Intermex on December 6th, 2016 at the American Aerospace & Defense Summit in Scottsdale, Arizona on December 6-7, as Sergio Almada will be hosting a Lunch & Learn Round-Table Discussion on "Strategic Sourcing for Manufacturing Services."



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