

Business Briefing

Low cost sourcing – the keys to success

Buying goods and services from countries in Eastern Europe, the Far East and other regions where costs are lower can save cash. John McClelland of ADR International Australia offers some insights into making the strategy work

Sourcing from low-cost countries can be a risky business, as many have commented. I've been involved in LCCS since the early 1990s and have successfully sourced everything from pharmaceutical ingredients and industrial chemicals to packaging materials from low cost countries, primarily India and China.

I believe sourcing from these regions can be an extremely effective strategy – if you know what you're doing.

You need to align your internal KPIs so that all stakeholders, not only procurement, are using similar measures, and start off cautiously with independent pre-shipment analysis/inspection. It's a good idea to trial quantities after you have evaluated and selected the suppliers to develop.

The keys to success can be summarised as:

- Ensure that your LCCS objectives are aligned with the overall business strategy and objectives
- Don't rush in. Develop a detailed source plan with a focus on supply market, risk, technology and supplier analysis using risk identification and mitigation and a robust supplier evaluation process
- Understand why the LCC suppliers want to supply you. Reasons may include making profits, taking up spare capacity, responding to new markets, prestige, growth plans or to keep out competitors.
- Understand why the country concerned is low cost compared to your traditional supply markets – what gives them competitive advantage? There are many possible reasons including, most obviously, low labour costs. But there may be other low costs - energy, for example. State subsidies may also play a role.

- Identify the capable suppliers in an immature supply market, and remember that possibly only about 20 per cent will meet your quality, CSR, SHE and logistical requirements.
- Carry out supplier visits early in the process and build relationships with the potential suppliers. Include your technical and quality people in the evaluation team

The dangers of a poorly thought-out low cost country sourcing strategy are legion. Your reputation may suffer disastrously if, for example, you fail to bear in mind that in some regions business takes a relaxed approach to intellectual property.

Lower levels of safety, health and environmental legislation may also spell danger for your company's reputation and it is not worth taking risks in these areas.

Remember also that costing methodologies may differ to those used in the West, so you need to analyse the Total Cost of Ownership. Ensure you include all cost elements in the cost models, including the costs of inspection and managing the risk.

Finally, competitive advantage may not be maintained over time. So you need to consider alternatives and draw up some "what if?" scenarios for the time when conditions may change and sourcing from your chosen low-cost destinations is no longer cost-effective.

Meanwhile, celebrate any successes you may achieve and reward those who have helped make it possible. Low-cost sourcing, like any other management strategy, is essentially all about people and effective communication. So make sure your people know when they have made a contribution to a successful outcome.

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