Reasons to **rethink** your global-supply **strategy**

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IDC Manufacturing Insights, a group noted for compelling and timely research, recently released a white paper that ought to grab the attention of U.S. manufacturers. In a nutshell, it says we need to rethink the collective instinct to off-shore manufacturing and assembly operations. They cite three emerging global factors:

Profitable proximity sourcing. This refers to an emerging trend whereby domestic manufacturers are realizing a multitude of benefits by using manufacturing/material vendors based in the same region as their own headquarters, or where the majority of their customers are located.

Emergence of the "globally fair wage." The reality is that Asia, India, and others are waking up to the fact that a fair wage is worth fighting for, and labor costs are rising.

Logistics versus labor. Even with relatively low oil prices, global logistics costs are eating into or exceeding any margins gained in sourcing from low-wage regions.

We at Morey agree with these trends. But perhaps the biggest factor in 2010 is inventory risk.

Our industry, electronic manufacturing, is like all manufacturing sectors. When we negotiate a contract with an OEM, the biggest sticking point is volume commitment. We want to give customers a tight tolerance on commitment. Our customer wants as wide a gap as possible. This is a common scenario. But if 2009 taught us anything, it's that this unruly economy has made volume commitments almost irrelevant. It turns out our customers don't have any better read on how much and when to order than do the housing, retail, or banking industries.

The net result is higher inventory risk. And this alone is enough for U.S. companies to reconsider where their materials are coming from and where their manufacturing partners reside. 2010 holds a lot of promise, but putting an ocean between your products and customers just adds to the uncertainty.

Then there's quality. Most customers don't like to think about quality failures, but they happen. And when they do, having oceans between sources and markets multiplies the recovery time because of time and language differences. Product travel time also adds to recovery time and could potentially cost millions in customer line shutdowns. Fast and effective response to quality problems becomes increasingly difficult to manage when working with partners in far-flung geographies.

Other risks include currency fluctuations which directly affect customer profits. With the decline of the dollar, particularly versus Asian currencies, the benefit of off-shore manufacturing diminishes further. The biggest benefits companies seek from low-cost countries are labor costs. In typical electronics manufacturing, labor accounts for 7 to 12% of a component's total cost. Even cutting those costs in half would not yield savings that compensate for quality recovery and inventory risk. In addition, most suppliers also have to replicate overhead on both shores. This overhead generally ends up eating into customer profits, as it must be built into the price or transaction costs.

Considering these trends, OEMs should reevaluate their decisions or intentions to source globally. **MD**

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