Moving jobs overseas might not be worth it

There is a lot to consider before you do

By Tom Wright-Hay
Oregon Manufacturing Extension Partnership

Reshoring has gotten a great deal of press in the last year as it seems the U.S. has finally awakened and realized that moving jobs overseas is neither good for our economy nor fair to our well-trained and dedicated workforce.

In my experience, most organizations that moved work overseas made the decision on price alone without considering many other factors. After all, minimizing unit cost is what it's all about, right?

As it turns out, the decision on where to source your product is much more complicated and requires more than simply comparing your "cost" to the "price" quoted by your provider.

Conduct a Thorough Analysis – Make Here

Manufacturing here should be the base case for your analysis. To get a proper estimate of operational costs, we need to create a value stream map of the process. The map allows us to determine manufacturing steps and staffing levels, as well as equipment and facility requirements. When calculating the total cost for your operation, it is important to include only those costs that are truly incremental. For example, if you have 10,000 square feet of unused space in your facility, you

are already paying for it. Financial theory considers this a sunk cost and, as such, it shouldn't factor into your decision. A similar assessment on excess capacity should be considered for staff, equipment and overhead. Once you've estimated your costs, you should also project any improvements in throughput or costs as a result of continuous improvement through lean manufacturing.

Conduct a Thorough Analysis – Foreign Source

The price from your supplier is just a starting point. We must also include additional expenses such as shipping, tariffs, inspections (on the dock and at your overseas supplier), drayage and other miscellaneous fees. Then, there is the likelihood that you will have to meet certain minimum order quantities to fill up the container that will show up on your receiving dock. How many months (or years) of inventory does that represent and how much working capital will be tied up? Will you have to build or lease additional warehouse space? What about inventory obsolescence, a container full of bad product or worse yet, a container lost at sea? How will those affect your sales? I've been privy to numerous instances where these things happened.

... ask yourself what you are giving up by sourcing overseas. The single biggest loss is control over the quality manufacture and improvement of your product.

Additional considerations include international financial risk (Vietnam has a riskier economy than ours) and IP theft (yes, they will steal your idea).

Finally, you must ask yourself what you are giving up by sourcing overseas. The single biggest loss is control over the quality manufacture and improvement of your product. No matter what kind of contractual agreement you have, your supplier will not care as much about your product as you will. This means that quality and product improvements will most likely suffer.

The Decision

Taking all of this into account will result in a much more realistic cost for sourcing overseas that can then be compared to your cost. You might find that sourcing overseas isn't such a great idea after all.

There is a lot more detail to the decision-making process than can be presented here. If you are interested in learning more, contact Tom Wright-Hay from OMEP at twright-hay@omep.org or consider attending a future Chamber event where Tom will present information that will help you make the right sourcing decision.

INTERNATIONAL CARGO

What is Freight forwarding?

By John Fulcher
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The movement of cargo associated with freight forwarding is often a mysterious realm within an organization. Its related activities are usually delegated to the shipping and receiving departments or perhaps to a traffic department reporting to a traffic manager. The process of moving materials into a facility and processed goods out to end-users is an integral part of the company supply chain and may touch many points within the organization.

Moving product, whether it be raw material or finished goods, from place to place is freight forwarding at its essence. Freight forwarding professionals could be considered travel agents for freight. Larger organizations with a big transportation budget often employ staff with experience in transportation and logistics. These big companies use their buying power to negotiate pricing directly with airlines, steamship companies and trucking companies. Other organizations outsource these duties by utilizing logistics experts in the freight forwarding industry to arrange all or part of their domestic and international transportation requirements.

Freight forwarding companies generally fall into two groups, both of which are staffed with trained and licensed experts to guide shippers through each step of the process. The integrators operate their own equipment and schedule their fleets of aircraft and trucks according to business need. Federal Express and UPS are two examples.

The second group, non-asset-based forwarders, are often referred to as third-party logistics providers and deal in freight forwarding in its most pure form.

Generally, forwarders serve the general business community as a whole, though niche forwarding is also popular. These are forwarders who specialize in a particular industry (e.g., electronics or apparel).

As a one-stop resource, forwarders are poised to arrange one shipment or coordinate a complex distribution system. Freight forwarding is multimodal in scope and exists to keep the global supply chain in motion.