



in many cases plumbing and sink repairs. Increasingly, due to constraints in my time and sometimes simply my stamina, I sub-contract or outsource these projects. I take my car to a local garage and mechanic. The computer shop repairs my computer. I pay to have my driveway plowed up north. I used to buy all of our appliances and install them myself. Today, I pay to have it done and walk in the door after work to admire the finished job. I am paying someone else to do the jobs I once did and did well. We go to the barber or hair stylist. Many of you used to cut your own hair. Many of you hire interior decorators or landscape architects for jobs you once did willingly yourself. What changed?

2. **Not all Outsourcing is bad.** I once worked in a plant where an upper manager predicted the doom for the plant when he informed me that the cost dept had determined if the plant was operational; their burden rate (fixed cost) was a higher percentage of sales than their cost to outsource. They later determined that the plant could be closed outright and save even more burden so that outsourcing was a more economical alternative to the existing plant. I continued to outsource at corporate direction. I then found a new job elsewhere. A few years later that plant was closed entirely. It was all outsourced to a sister division.
3. **There is a time and a place for it.** Sometimes outsourcing is sorely needed. School districts and nursing homes are easy targets for private sector outsourcing. The general public has a politically correct term for this: **Privatization**. You contract to pay some private company to run your program, whether it be housekeeping or custodial service, food services, procurement or the whole school system operation itself. In many cases, the outside service comes in, uses your equipment and sometimes even your own support staff, but provides new managerial staff or outside supervision, with closely monitored expenditures and controlled inventory or supplies management.
4. **Outsourcing is not just done overseas**, nor can it be equated in one sweep of the hand to taking Union jobs and giving them to non-union, low-wage sweat shops whether here or abroad. In our firm we outsource to local suppliers in the tri-state MI, OH, IN region. We purchase no components at present directly from overseas. Some of our suppliers however, do furnish foreign material to us. Quite often the item to be produced or the service needed is not a core competency for your firm or organization. Ajax Enterprises around the corner or just down the street provides the expertise and core competency your firm lacks. You have a core competency they can use or need as well, so you barter and trade services to your mutual benefit. In today's market, often you and a competitor trade components from your core competencies when you can do something better than him and vice-versa. It is in your mutual benefit to help each other out, since in the final analysis, you meet two distinct market needs or customers. This type of on-going collaboration is how major stores now sell products such as electronics or appliances that are private labeled for them by a select group of OEM manufacturers. One manufacturer may be making HD TVs for 15-20 major retailers all with private label brands for the individual stores.
5. **The Bad Rap starts here.** I *will not defend* companies that knowingly divert jobs and orders to sweat shop firms just to save \$\$ at the expense of local jobs and even quality. Clothing (millenary goods) and miscellaneous gift items like you find in the Big-Box retailers are now 80% or more manufactured overseas then imported. The American public has unconsciously driven this situation by the loss-leader, low price promises of the big-box retailers. How do they do it? The mass market retailers drive the manufacture of goods from the price backwards, instead of from design to manufacture to marketing. From first hand experience, I purchased prototyped industrial products locally here in Michigan, and then witnessed those products submitted to the big-box retailers at a mfg cost + meager profit for say \$89.95 only to have them reply back to our salesmen that they (the big-box retailers) had decided in their marketing group, that the product would be sold to their customers as an in-store promotion for

only \$69.95 and we were given 6 weeks to have a revised, look alike product for sale to them at \$59.95 . That forced reverse engineering, backwards from the selling price, and forced a cheapening of the product to the point it was no longer industrial grade. The retailer wanted it to look and feel like it was industrial grade in the eyes of the consumer. Perception of equal value or features was all that mattered to the retailer. Any warranty or guarantee was our problem as the manufacturer, we bore all the risk. In essence we were to create a throw-away version that the American consumer would be duped into thinking was industrial grade or labeled as “heavy duty”. It was not the same product that we started with in our first submission.

To make this picture even worse--that big box retailer’s original request for bid was for 20,000 units starting in March to be shipped on demand to their stores thru August. June arrived, sales were slow, so the retailer only released a shipping schedule for 7-10,000 units. We were expected to warehouse and hold the remaining units until next season. They would consider buying the remaining units the next season, with no compensation to our firm for the loss in business and our then excess finished goods inventory now in our warehouse. Guess what, the retailer over the winter went to another competitor of ours and the following season took the competitor’s product first then gradually provided our one year old product to fill availability gaps. It took over two years for the retailer to consume the 20,000 units they had originally committed (??) to us for the first year. What a racket! Our company was literally raped and held captive by the big box retailer for over a year and a half. We were forced to bear all the risk financially. To add insult to our injury, the retailer accepted (as defective product), returns from their customers, no questions asked. In one case the item was bent up badly with welds on it broken due to its being run over by a fork lift or car. It was returned to us with the broken pieces banded to a wood pallet. Still it was deemed a manufacturers defect by the retailer and returned to our company. We were debited for the returns from that retailer. As a result of several of these buying experiences, there are a few of the mass retailers that I refuse to shop in their stores. The product is garbage, knock-off copies from overseas. Most were initially submitted to the mass market retailers from local, domestic manufacturers. The manufacturers were then pressured to unethically(??) or knowingly have the product copied in low cost overseas factories. The final product bears only a partial visual resemblance to the American manufactured product from which it was originally copied. If placed side by side, the foreign copied product cannot meet or match the construction or durability of its higher cost, name-brand relative from which it was copied.

6. **Outsourcing may be done strictly because it is fashionable** in the public or corporate mindset--which naturally leads to the **conclusion--it will save you big money—Not Always True!** I spent years in the automotive sector. There, outsourcing to third world countries was a buzz word and everyone jumped on the bandwagon sooner or later. Could you blame the firms? The union contracts of the 70’s and 80’s and their long-term burden to large corporations have spelled doom for many national companies. Visteon and Delphi were spun off to rid the automakers of labor and benefit expense, in addition to allowing these companies once spun off, to sell direct to cross-competitors. Ten years or so later, it all came back to roost where it started and it is driving Ford, GM and Chrysler to either wake up and change or go bankrupt. Outsourcing seemed a quick and easy way to reduce costs. That was not always the case.
7. **Outsourcing needs to be considered when your current plan or means of providing the product or service leaves you short on your original expectations**, or the end results you had hoped to achieve. In December 2006, I participated in some supplier site audit visits. The one

firm is nationally known and at one time, was the Cadillac in their product line. They began 5-7 years ago major outsourcing of their components to Mexico and China thru joint-ventures. They sacrificed available domestic plant capacities to cultivate overseas outsourcing. It backfired on them. Their customers revolted, went elsewhere. Sales dropped as did their market share and customer service satisfaction levels. Today they are trimming their overseas manufacturing, pumping money into modernizing the domestic production plants that still had exceptional production capacity and skilled workers. They are today regaining their competitiveness with domestic plants in Ohio, Michigan and Indiana. They assure us they do not intend to go so heavy in overseas outsourcing again, only where it is demanded by certain customers. It was an experiment that backfired. They reviewed their benchmarks and found they did not reach their original expectations. It made economical and customer service sense to return to what they did best—design and build the product here, and back it with their own quality approval processes and local support.

8. **When you outsource, you have to measure your results again and again.** (I was reminded by a fellow supply chain practitioner a few days ago.) Was there any difference or gain by outsourcing? Did it cost your more or less than before? Was it a wise choice to begin with? Is it a wise choice to continue or should you return to what was done before due to changing circumstances?
9. **What are the total costs or outsourcing?** Over my 30 plus years career, this is the most repeated error seen in the decision to outsource—failure to consider *total cost of acquisition* for an outsourced component or service. In addition to unit mfg cost, there can be added ocean, air or inbound land trucking or rail transportation cost, broker and importing costs, letter of credit costs which include tying up substantial amounts of capital for long periods of time during the manufacture and shipping cycle, increased inventory, handling and warehousing costs. For example the example earlier of 20,000 units inbound from China, meant arrival of sometimes two ocean containers per day, special portable roller conveyors purchased just to unload the containers in a prescribed amount of demurrage time, temporary help brought in just the days of container unloading to speed the hand unloading, stacking and palletizing of boxes coming out of the ocean containers. In the event of a delayed production overseas, or a temporary shortage or a quality issue, the freight expense to expedite or Premium Freight the replacements via UPS, FedEx or Air Freight to keep production going, can be exorbitant. If you have to sit on finished goods inventory due to late arrival from overseas or a misjudged sales season, how do you cover the inventory carrying costs over the winter? In the company's situation I cited, the owner had to pledge his home as a bank collateral guarantee for the inventory goods. What a waste of company and personal assets!

**Just this past week, I received a newsletter from a major supply chain service provider. They are heavily pushing the China connection for sourcing.** Design can be a problem. They can copy anything, but can't readily design an item from scratch. The ingenuity we take for granted in the states is something that sets us apart from workers in other countries. Somewhere along the line we have forgotten about value-added services like ingenuity. There is a cost to it, but such costs build in value to our products and services that make us more competitive.

**We all use and require outsourcing in various situations in our daily lives. That does not make it wrong, ugly or un-American! There is a time and place for it.** Always plan your outsourcing choices. List your expectations and monitor the results to see if the results meet your expectations. Maybe you will find you are better off to outsource locally or down the street. Just remember, realistic and measurable expectations, and focus on core competencies.