

**Locating and Qualifying Global Sources**  
**(The Steps to Start or Revitalize a Global Sourcing Effort)**

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**Summary:** It is a small world after all, as a Disney song says. In the Sourcing arena it has never been more true. We are challenged either directly or indirectly to find that low cost supplier, where ever they might be, today. In this global search we are more and more prompted to look beyond our borders, and many times beyond the oceans to find that low cost source. Assuming we are looking for that ‘holy grail’ of the lowest cost and therefore are going to try countries that are new into the market place, what do we do now? What do we need in place before we start the search? How do we find a source that can supply our parts in countries we have never visited or know much about? How can we ‘qualify’, or at least assure ourselves of their capability ‘over there’? These are questions this presentation will try and provide some answers for as we face this challenge more and more in this competitive marketplace.

**How to begin...** First, we must ask some key questions about the product to be sourced.

Is timely delivery a prime consideration for this commodity or class of product? That is one of the first questions we must address. If the answer is yes, that does not mean you can not global source the items, it is simply one more requirement you will need to address in sourcing. This especially applies if your schedule is subject to short term fluctuations in demand. This issue can be addressed and handled today with many global sources that have US operations or warehouses, but it is a question you must answer.

Are there any special tariffs, quotas, restrictions or other issues that must be considered in importing the item? Make sure you have the most current data to avoid a problem when the product arrives stateside and gets held up in customs. Along that point goes making sure the paperwork is clearly communicated to the correct source for payment and release, for the same reasons.

Is your market sensitive to ‘non-USA’ product? This is far less of an issue that it was at one time, but still it should be thought over to make sure you do not hurt your company’s market share.

If you plan to purchase finished product that will go directly to the store shelves, is packaging available in your target country that match your packaging in appearance? This can be a major or minor issue in your source selection, depending on your product and market place.

Is the volume you plan on sourcing enough to fill a half or full container on any regular basis? A half container is roughly 20 foot long by 8 foot x 8 foot. A full container is 40 foot long by the same rough dimensions. If so you can stand transportation on your own, if not you will need to get with others to fill the container or pay higher costs. If you are in the small volume or irregular volume category a freight forwarder or a supplier who does more business with

companies in the states may be your best cost selection. They can use multiple companies' requirements to fill a container and ship it at a better per unit cost than if the container was not filled either to weight or volume. Bottom-line to hold the transport cost down the cost of shipping the container must be spread over the maximum number of units of an item or items.

In selecting what to outsource or re-source off shore you should look for two factors. Is the basic raw material less costly in that region or country producing a lower base cost? The second factor is your product labor intense? Much of the advantage of global sourcing is to lower the labor cost content of the final product. Most of the target countries being looked at today, have much lower labor cost than the US. It is not that they work faster or more efficiently, the per man hour cost is lower, sometimes surprisingly low to our standards.

Many global sources request or almost require a target price to be able to respond to your requests. This applies primarily to sources and countries that are the cutting edge or emerging markets that provide the best chances for low cost supply. This is primarily true due to their inexperience with what price it will take to sell into the US market in any volume. Think of it as an education that you are providing to allow them to enter the market place with their eyes open. The target should be lower than you currently pay, that is obvious, but how much lower. Taking into consideration all landed costs, to make it attractive for most companies that margin needs to be in the 20% range. This will help off set the additional effort required to purchase internationally. We will discuss that more in a minute.

What does a good product look like, feel like, and work like? Unlike your sourcing efforts in the states, many times you can not just say I want a left handed widget and expect your source to know what that is. This is not because they are un-educated or ignorant in any way. The product may be 'cultural' or country specific. It may be an item that is in common use in the USA but is not used, or used rarely, in the foreign country. A good example in our country is a door threshold like you would find under your front door at home, either wood or metal. The style, material and dimensions of that item are fairly specific to a select building style, which tends to be fairly country specific. In fact in the USA it is even fairly regionally specific. Your specifications must be fair and culturally neutral. That being said, it means they can not be in inches for most of the world. You may have conversation issues on sizes if your organization does not convert the parts to metric measures before sending the prints or specifications. The specifications should refer to international standards, not just a local specification. The best prices will come from countries and companies that do not have a file of ASTM test methods or standards. Make sure you list any and all tests you wish the supplier to perform before shipping, very specifically and clearly. The last point you should review is fairness. Are you asking the new supplier to do more, provide more and to meet tighter requirements than your current US source? If so you may have no savings from your new source. More clarification and cleaner specifications are needed to secure a good source globally that will meet your needs. It should not be the case that your current source can not, or will not, hold the tolerance you ask the new guy to hold, or they will not provide the test reports you ask the new source to provide.

Last but certainly not the least important point is Management support. If this is a new effort, a restart of a half way effort or an attempt to expand a current effort, it is critical that Management, meaning upper management that reviews budgets and performance results, understand the program and sign up for it. Successful global sourcing does not happen over

night and does not bring in the savings without travel and other expenses up front. This is not an 'overnight success' type program, it takes time to research and locate qualified sources. It generally takes a little more time to get the hidden bugs worked out, distance and language sometimes being the delay in that effort. Make sure all parties that will determine your success are fully informed and ready for the long haul. Many times it can be the second or third year before the real impact of the new sources are felt and seen clearly on the bottom line.

**Locating the Right Source** is the next step and requires work and research to do.

There are many ways to find that global source; the two most common major methods are to use a broker or to do it your self. A broker brings local experience and knowledge of the sources to you as a resource. He serves as a middle man and can perform a vital function in many sourcing situations. The most common benefit is for smaller firms that do not have the volume of different parts or the volume of those parts to command a great deal of attention from the global sources. The broker frequently groups several end customers requirements together and with that consolidated volume gets the supplier interested. He can also be the middle man if a dispute arises. He is in a position to talk straight and firm with the supplier without reflecting badly on you and therefore can be an asset in many negotiations where knowledge of the sources culture is not known and could be a stumbling block in straight talks. The down side of the broker is extra costs. He makes money on your business. That is simply an extra step, a middle man in your transaction. There is a time and place for his service, but if you can handle the work and have the volume avoid the broker as costs are what you are trying to cut.

Assuming you are not planning on using a broker and are doing the work yourself, or as a team, the next steps are finding that good source. There are many good sources for information on these low cost suppliers we are looking for, some of the best being other Purchasing personnel. In the same way that you ask other buyers of a commodity for ideas on which they use for this or that, ask a buyer you know who does some global buying who he uses for your widgets? He/she can share the experience they have had with specific suppliers possibly even in the type of item you are looking for. If not they may refer you to some one they know who can help you. This is the best source because you are getting first hand experience information from someone with nothing to gain by your decision, from here on that is not the case. Be sure to contact the Global Group of ISM, web site at <http://www.ism.ws/sites/ismglobal/> for additional guidance in this effort.

One of the best second sources is found in both the hard copies and on-line copies of foreign sourcing guides. For example the publication *Asian Sources* has several different versions targeted are different market segments. The *Hardware* publication comes once a month and has an average over 200 pages each issue. It covers sources of various hardware products as well as in depth discussions on a specific market segment each month. You can also find it on-line at <http://www.asiansources.com/> and includes search capability as well as details on many products and links to all the various segment publications of their group. This just one of many available both in print form and on-line to find that foreign source. As was pointed out the down side is they make money from advertisements, not from the joy of you finding the best source for your needs, so they are a beginning but not the final say in the process. Another good source if you have a better idea where your item comes from into the US today is the Embassy of that Country. Most have a 'Business Development' section at the embassy. They are very

happy to help you out with this type of work, as they are benefited by increased exports from their country. A good example of the foreign help in this area can be found on-line at <http://homepage.ktnet.co.kr/ktnet> . This is a site for the Korea Trade Network. This is an excellent source for information on South Korean life, business and sources. It also gives some guidelines on their EDI efforts and e-trade in general with Korea. As a semi-government site it offers main good insights into Korean business for those looking to source there.

### **Qualification of the Sources** than becomes the task.

The most important step in the success of this effort comes in qualification of the selected supplier.

Make sure the details of the product, the tests or inspections you will require are understood and in writing with sign off by both parties. It can not be over emphasized the importance to ask questions and make sure the supplier feels free to ask as many as they can think of. Taking time now will save hours and hours later trying to figure out what went wrong.

If you have determined to use a broker make sure they make a visit to confirm your questions and get the assurance you need. If not unless your company has someone on the ground in that country. The next step is to travel.

It can not be over emphasized the importance of face to face contacts with the supplier at their site. Let's first look at this trip. Your goals are many fold but bottom line you must confirm with this first face to face that you are both talking about the same thing. Language, culture and mutual lack of true understanding can cause more problems then it is economical to list. An example would be our cultural expression 'in the ball park'. When we talk to our domestic suppliers and say they are 'in the ball park' they know they are close on price or getting the order. When we say that to a foreign supplier, say from Italy, he says 'OK' but has little understanding what that means exactly. Face to face you can tell the lack of true understanding and explain in non-cultural terms. You can also see how they will make your item, or where it comes from, how they inspect and test or any other piece of information not fully clear to you before the visit.

This is also vital to establish in the supplier's mind that you are serious about this business and working with them. This can be vital in getting that better price and success in your efforts. This is costly in time and travel expense, but the rewards in understanding and stability of your sourcing will many times pay for the expenditure many time over if handle well.

During this visit the specifications you developed should be discussed in depth to assure everyone" understanding and commitment meet them on an on-going basis. You must understand if you have found that 'low cost' supplier you were looking for, they may also be new to the export business and sales to the United States. Assure yourself that they understand the paperwork involved and processes they must follow to export you product, low cost on their dock does you little good. Also assure yourself they understand the quality expectations of your market if this is a finished good for your product line. Many other countries do not have the retail market as developed as we do and appearance is not a critical factor on the shelf in their domestic market. This is changing rapidly in some global countries, but is still a broad guideline to consider. Make sure you both understand it is critical for you and your

efforts. Again be fair, do not set higher standards for a global source than for a domestic source, which will only assure failure for both of you.

**Summary:** Global sourcing can be very rewarding both from a business perspective but also a personnel perspective if done well. It can also be a disaster if done for the wrong reasons or with lack of commitment of research. Hopefully you will find by identifying the right items, targeting reasonable (but aggressive) savings, establishing the proper specifications that completely identify what a good item is, and researching the supplier you will have great success in this portion of your Procurement task.