



# riding the waves

## OF OVERSEAS SOURCING

by Richard Murphy

**The results are in. Sourcing products from overseas suppliers can reduce costs. More companies, including those in the fastener industry, are turning this direction to lower the costs of goods, reduce the amount of working capital needed to run the business, or simply find an available supplier for their products.**

According to a recent CAPS Research study entitled *Effective Global Sourcing and Supply for Superior Results*, almost half of all goods will be purchased offshore by 2010. The study also indicated that total goods purchased from overseas sources represented 31 to 40 percent of all purchases in 2005.

There are significant advantages to sourcing material from overseas. The survey outlined that on average, companies with effective global sourcing strategies report cost reductions of 19 percent and a 12 percent reduction in total cost of ownership costs.

Mark Cloud, Vice President of Sourcing for Wurth Service Supply, a fastener company located in Indianapolis, and one of 300 companies in the Wurth Group, a nine billion dollar company headquartered in Germany, indicates that overseas sourcing is becoming extremely common in the fastener industry. "Many of our commonly used items are now only available through overseas markets," said Cloud.

Just as waves go up and down, there is another side to sourcing overseas. While unit costs may go down, the protective layer of inventory needed to buffer supply risk, longer global lead times, and increasingly complex administrative processes can chip away at any working capital improvement.

### **WITH REWARDS, EXPECT MORE RISKS**

The rewards of overseas sourcing naturally come with risks. As companies begin

navigating the waters of overseas sourcing, they can be successful by knowing what to expect and how to best manage those risks.

First and foremost they should expect longer and more varied lead times. Every day counts toward working to have stock available for sale. While you can expect longer travel with longer distances, overseas sourcing can also add to other lead time components such as receiving and put away.

"We are seeing very different lead times with sourcing overseas," according to Cloud. "Our domestic lead times for a special part may be about 12 weeks domestically, but we are seeing 24 weeks on average with overseas sourcing."

In addition, more components, including oceanic transit routes, port capacity, customs clearance, and inter-modal transfers can make lead times more variable even when sourcing from the same overseas suppliers.

Next, expect the purchase volumes to increase. "Overseas manufacturers are geared today to produce a very high volume, that's how they offer lower costs, and that's the way they sell the product," according to Cloud. "In some cases we may have to bring over our entire annual volume, creating one of the biggest challenges that we face." Purchasing inventory in this manner can stress warehouse operations as well as working capital budgets.

A high customer service level, one of the most important goals for any organization, can be at risk. "When buying from overseas,

you have to pay much more attention when confirming and expediting orders," according to Cloud. "Because there are so many more opportunities for something to go wrong, considerations like longer lead times, administrative processes, and customs clearing, all contribute to longer lead times and can affect our service levels."

And, it can become even more challenging to maintain, let alone improve, high service levels to customers.

### **BETTER INVENTORY MANAGEMENT REQUIRED**

So, how does a company that is sourcing overseas take into account the increase in variability on factors, including lead-times, higher volumes, and stocking strategies, while improving their performance? Unfortunately, many times these issues are addressed with higher inventory levels.

The higher inventory levels are typically a result of utilizing traditional planning methods like days of supply and ABC analysis. While these methods were effective when supplier lead times and demand were more predictable and consistent, that is no longer the case in today's global environment.

Sourcing overseas creates turbulent waters for attributes that impact how inventory is planned and how inventory performs. Attributes such as lead times, volume, and customer service levels become less predictable and are more difficult to manage with traditional planning theories.

An AberdeenGroup benchmark study released in 2006, entitled *The Technology Strategies for Inventory Management Benchmark Report*, and reported on [industryanalystsreporter.com](http://industryanalystsreporter.com), finds that companies adopting new inventory management technology are able to better manage supply chain complexity and can reduce inventories by 20 to 30 percent while simultaneously increasing customer service levels.

The study also outlines that nearly 70%

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of the survey respondents say they have made or been asked to provide recommendations in the past six months to management on how to improve their inventory management technology. And fully 83% of companies say they have made or been asked to make process recommendations for inventory reduction strategy within the past six months.

Thomas Uhrig, President of TLogic, an inventory optimization software provider based in Indianapolis, sees the need for companies to improve their inventory management. "As companies deal with increased volumes of overseas products, they must do a better job of managing the rest of their inventory or potentially risk running out of warehouse space or, even worse, draining their lines of credit," said Uhrig.

For planners, this may involve purchasing other products more frequently, redistributing product amongst locations to obtain the optimal mix, realigning order points, safety stock, EOO (Economic Order

Quantity), or utilizing a postponement policy for purchasing new stock.

"Inventory optimization can be a very effective solution to come up with the right mix," added Uhrig. "Companies utilizing inventory optimization software solutions are far more capable of maintaining higher service levels for their customers, but doing so without overstocking their locations. And they are much more able to work through the longer and varied lead times and increased volume that comes with sourcing overseas. The results they can see are better business results, especially in markets where their peers are struggling to compete." ■

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### Sources:

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Tom Uhrig, President, TLogic  
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