

# Managing Outsourcing Risk

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# AGENDA

- Factors that are driving outsourcing
- Challenges to Outsourcing
- Hidden Costs
- Success Factors
- Slowing the revolving door
- Learning the culture- “a critical element of success”
- Due diligence, due diligence, due diligence!!!!!!!



# Why it is Cheaper Over There

- Labor Costs
- Overhead
- Regulatory Issues
- Environmental Issues
- Work Ethic
- Labor Laws
- Government Incentives



# Why it is Cheaper Over There

- Material costs
- Real Estate/Rentals
- Currency
- Low Capital Investment
  - Automation?



# Outsourcing Risks

- Productivity
- Material Control
- Distance/Time Zones
- Accounting and Cost Systems



# Outsourcing Risks

- Quality Systems
  - Inspection
  - Rework/replace
  - Poor Quality Assurance
  - No/Little Quality Improvement Programs



# Outsourcing Risks

- Cultural Issues
  - Value System
- Political Climate
- Economic climate



# Outsourcing Risks

- Skilled and Technical Labor
  - Retention
  - Turnover



# Typical Costs

- Costs that Organizations Usually Consider
  - Direct/Indirect Labor
  - Lease
  - Legal Fees
  - Transportation
  - Inventory
  - Logistics
  - Customs
  - Insurance
  - Currency Changes



# Hidden Costs

- Typical Costs that Organizations Fail to Consider or Underestimate
  - Efficiency Drop
  - Scrap & Rework Rise
  - Learning Curve
  - Expedited Shipments
    - Airfreight



# Hidden Costs

- Typical Costs that Organizations Fail to Consider or Underestimate
  - Utilities & Energy
  - Back-Up Generator
  - Local Politicians
  - Developmental Time
  - Ex-pat Packages



# Hidden Costs

- Typical Costs that Organizations Fail to Consider or Underestimate
  - In Country Support
  - Redundancy Time
    - Two operations
  - Travel
    - Startup/Developmental
    - Routine Visits
    - Problems



# Hidden Costs

- Typical Costs that Organizations Fail to Consider or Underestimate
  - Retention of Key Personnel
  - Consultants



# Success Factors

- Careful Research
- Perform Risk Analysis
- Relationship Building
  - Find the Right Partner
- Language
  - Printed Materials
  - First Impression



DUE DILIGENCE

DUE DILIGENCE

DUE DILIGENCE

DUE DILIGENCE



# Success Factors

- In Country Legal/Agents
- Political Affiliations
  - Get to Know Local Officials
- Benchmarking
- Local Managing Director
  - Spend the time and \$ on this one



# Success Factors

- Joint Comprehensive Evaluation of Facilities/Systems
  - Manufacturing
  - Quality
  - Social Compliance
  - Accounting
  - Capacity & Planning
  - Safety
  - Supplier Management



# Success Factors

- Learn the Culture
  - Use to your Advantage
  - Provide Cross Cultural Training
    - All personnel involved
  - Language Basics
  - Take this one seriously
    - Many organizations overlook this
    - *Cross-Cultural Training will pay dividends over and over*



# Success Factors

- Select the Right Support Personnel
  - Screen
  - The Right Attitude is Vital for Success
    - More Important than Technical Skill
  - Honest Travel Expectations
  - Evening Phone Calls



# Questions?

Thank You for allowing me to be of  
service!



# Contact Information

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