

## **LEARNING OBJECTIVE 18.1 Compare the advantages and disadvantages of global procurement.**

Global procurement is the act of buying product components in another country or an overseas location. The advantage is that it enables a company to outsource functions to vendors with competitive advantage in those areas so the company can focus on its own core competencies. The major disadvantage is a potential loss of control in the supply chain—which sometimes can lead to the creation of a new competitor.

- Buying globally is called **global procurement**; producing globally is called **global production**
  - **Advantages of GP**
    - enables a company to take advantage of cheaper costs abroad for components like labor, land, and resources.
    - allows a firm the most flexibility in deciding on which products or inputs to use because it opens up sources to the global market
    - enables a firm to focus on its core capabilities by outsourcing those activities that are not vital to creating value for the customer
  - **Disadvantages**
    - Transportation costs for goods and communication challenges between parties can absorb significant time and money, and in the process supply chains often become long and convoluted
      - **just-in-time (JIT)** a method of manufacturing that consists of carefully planning the whole production process from start to finish in order to avoid carrying excess inventory
    - Some firms lose control of their operations when they purchase goods and components around the world because maintaining quality and punctuality standards becomes more difficult.
    - procuring from suppliers may have the unintended consequence of helping suppliers become future competitors
    - **offset agreements** may force companies to practice global procurement in a way that reduces their competitiveness
      - an agreement wherein a supplier agrees to buy products from the party to whom it is selling in order to win the buyer as a customer and “offset” the buyer’s production costs
- **Outsourcing and offshoring**
  - **Structural Risk:** a measure of a firm’s difficulty when relationships with vendors do not work as expected

- **Operational Risk:** a measure of a firm's inability to document the work remote employees do, describe the different situations they might face, and direct their responses in each scenario

**Structural Risks: Resources spent on guarding against opportunistic behavior by vendor**

- Finding reliable vendors
- Drafting contracts
- Enforcing contracts
- Dispute resolution

**Operational Risks: Resources spent on managing interactions with a (remote) vendor due to non-codifiability and non-measurability**

- Travel
- (Tele)communications
- Coordination mistakes

**LEARNING OBJECTIVE 18.2 Evaluate locations for global production.**

Global production is the act of making products in-house while using an international supply chain. The major advantage is increased control over the process. Outsourcing adds steps and distance to the production equation but can come with advantages in efficiency and cost.

In-house production teams also often suffer from apathy because of their captive customer. Some companies combat this issue through dual sourcing. Typically, facilities are either consolidated to achieve economies of scale or placed regionally to meet the needs of specific customer segments

**Making**

● **Advantages**

- can ensure a steady supply, enable stable price estimates, and maintain control of sensitive knowledge
- To make in-house production worthwhile, a company must make at least the **minimum efficient scale**, the smallest quantity at which long-run, total average cost is minimized.

● **Disadvantages**

- it requires the company to develop production expertise
- runs the risk of distracting the firm from its strategy if production is not at the core of what the company does
- producing components in-house can make it difficult to achieve economies of scale
- in-house producers often do not have the same incentives as external suppliers to produce high-quality products because internal producers have captive customers

- firms sometimes use a **strategy of dual sourcing**, or producing certain products in-house to ensure quality and availability while also purchasing the same products from suppliers in order to force competition and push innovation within the in-house unit
- building up in-house production leads to increased fixed costs for companies

## Location

	Attributes	Concentrated Production	Decentralized Production
<b>Country Factors</b>	Differences in political Economy	Substantial	Few
	Differences in culture	Substantial	Few
	Differences in factor costs	Substantial	Few
	Trade barriers	Few	Substantial
	Location externalities	Important	Not important
	Exchange rates	Stable	Volatile
<b>Technological Factors</b>	Fixed Costs	High	Low
	Minimum efficient scale	High	Low
	Flexible manufacturing technology	Available	Not available
<b>Product Factors</b>	Value to weight ratio	High	Low
	Serves universal needs	Yes	Low

### **LEARNING OBJECTIVE 18.3 Explain benefits of global supply-chain management and modern planning systems.**

An efficient, effective supply chain can be a powerful competitive advantage. To maintain greater control over supply chains, companies are taking a more active role in managing supplier operations by integrating systems and processes. Companies are also using tools like the Internet and Internet-based applications coupled with enterprise resource-planning (ERP) systems to streamline and automate supply chains, improving efficiency and quality.

### **LEARNING OBJECTIVE 18.4 Identify ways to improve supply chains through the use of data analytics.**

Big data uses statistical models and computerized algorithms to automatically identify efficiencies based on huge pools of data drawn from past experiences and their outcomes. Data

analytics enables companies to identify weak links in their global supply chains and take preventive action to strengthen their positions.