On sourcing strategy and organization –
What is the right approach for your business?

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The party in China is over! China is losing its position as a prime sourcing location.

China still has many advantages,…

- Political stability
- Infrastructure
- Raw materials
- Leading exporter
- Design & innovation
- Productivity & efficiency
- Quality & compliance
- Execution reliability

…but, China is losing its competitive edge in many fields!

- Costs (Exchange rate,…)
- Costs (Wages,…)
- Costs (Social welfare…)
- Costs (Logistics,…)
- Workflow pool
- Export-driven economy
- Supply chain integrity
- Lead time
Re-location of manufacturing to other regions in the world has already started. Is there a true alternative to China?

China is still the prime location for:
- Toys
- Tools
- DIY
- Consumer electronics
- Light

But, China is now only one of many options for:
- Garment clothing
- Footwear
- Home textile
- Furniture
- Decoration items

Other regions are rapidly gaining importance for sourcing:
- South-East-Asia,
- Indian subcontinent,
- Middle-East and CEE.

- China is no more a target for low-cost goods.
- Chinese manufacturing is moving towards higher value added products.
There is no “new China” as “the workbench of the world”! We will have a fragmented sourcing landscape in future.

How to find the right sourcing approach for your business?

- Western world
  - European home markets
    - South Europe
    - USA
- CEE & Middle East
  - Turkey
  - Romania
  - Bulgaria
  - Ukraine
  - …
- China
  - …
- Subcontinent
  - India
  - Bangladesh
  - Sri Lanka
  - Pakistan
- South-East Asia
  - Vietnam
  - Cambodia
  - Myanmar
  - Indonesia
- Africa?
  - North Africa
  - Sub-saharan Africa?
- Latin America?
  - Mexico
  - …
To define your sourcing approach, don’t start analysing your sourcing markets – start with your products first!

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<td>• Required resources and know-how</td>
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Categorize your products according to its sourcing-specific requirements – Find the right sourcing strategy

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<th>Manufacturing requirements</th>
<th>FAR Sourcing</th>
<th>NEAR Sourcing</th>
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<td>Price-sensitivity</td>
<td>China</td>
<td>Western Europe (home markets)</td>
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<td>Labor-cost intensity</td>
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<td>CEE</td>
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<td>Technology intensity</td>
<td>South-East-Asia Subcontinent</td>
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<td>Innovation / Design intensity</td>
<td>Sub-Saharan Africa?</td>
<td>North Africa?</td>
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<td>Latin America?</td>
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<th>Point-of-Sale requirements</th>
<th>VALUE-ADDED Manufacturing</th>
<th>LOW-COST Manufacturing</th>
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<td>Time-to-market (long vs. short)</td>
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<td>Variety / Complexity of assortments (low vs. high)</td>
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<td>Volumes (low vs. high)</td>
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Successful sourcing strategy is about the right balance between costs, speed and risks within your product range.

**Western Europe**
- Home markets manufacturing
  - Lead times, speed
  - Premium quality
  - High productivity
  - Skills, Design
  - Innovation

**Sub-Saharan Africa?**
- Low-cost manufacturing
  - Labor costs
  - Low product variety
  - e.g. garment

**Latin America?**
- Low-cost manufacturing
  - e.g. garment

**Subcontinent**
- Low-cost manufacturing
  - Labor costs
  - Investment capacities
  - Design
  - e.g. home textile, garment, decoration

**CEE & Middle East & North Africa**
- Close to home manufacturing
  - Lead times, speed
  - High product variety
  - Low volumes
  - Skills, Design

**South-East Asia**
- Low-cost manufacturing
  - Raw materials
  - Labor costs
  - High volumes
  - Low product variety
  - e.g. garment, footwear, furniture

**China**
- Value added manufacturing
  - Stability
  - Infrastructure
  - Productivity
  - Product diversity
  - e.g. Hard goods, electrical, toys, DIY

How to set up your sourcing organization to follow your strategy?
Service range of a buying organization depends on the level of supply-chain integration you want to achieve.

**Purchasing process and service range of a buying organization**

- **Assortment Management and Monitoring**
  - Assort./Prod. Development
  - Sourcing / Pre-order
  - Order Follow-up
  - Logistics / Replenish.
  - POS / After-sales

- **Quality Assurance and Control**
- **Supplier Management**

**“Buy-it-yourself”**
- “Consolidator” or “Trader” sourcing
- Low vertical integration
- Low requirements on resources and know-how

**Key question for the service range:** How much of the value chain do you want to handle yourself in each product group?

**“Manage-it-yourself”**
- “Factory direct” sourcing
- High vertical integration
- High requirements on resources and know-how
Competence Center organization with a two-tier structure; Service range can vary depending on your product groups

Regional sourcing offices ("Production")
- Local market and vendor screening
- Order administration / merchandising
- QA / QC Management
- Local supplier development

Global Competence Centers organization – with different service range per product group depending on specific requirements

Global Product Management ("Development")
- Product / Assortment strategy
- Product-driven sourcing strategy
- Global sourcing decisions
- Supplier selection and strategic negotiations
- Product / assortment development
How does that apply to your business?

1. **Product / Assortment strategy**
   - What are specific requirements of your product?

2. **Sourcing strategy**
   - What is the right sourcing strategy for your business?

3. **Sourcing process and organization**
   - Do you need your own buying organization and what is the right set-up for it?
Thank you for your attention!