

Global Endgame: Sourcing Or Market Penetration?

By Jeffrey Meyer

For many decades, U.S. companies have sought lower-cost and higher-quality sources of supply, both domestically and internationally.

This never-ending quest has taken us around the world and back again several times, as economies rise and fall, wars begin and end, and governments come in and go out of power. We thirst for this coveted combination of lower costs and higher quality because it tends to increase profit margins and facilitates market share increases by lowering our costs of goods sold.

One of the most recent areas of focus for low-cost, high-quality sourcing has been China, in addition to several other countries in Southeast Asia and Eastern Europe. The focus of this trend has been on cheaper labor. For many, especially those with higher labor content, this has proven to be a successful short-term strategy.

There are other companies in the United States that have tried to avoid dealing with foreign sources. Some of those companies that have been successful have automated, migrated (within the United States), or outlasted their last competitor to continue their growth.

Regardless of your company's strategy, the concern is that executives are making decisions about low-cost country sourcing from a short-term play perspective.

It is entirely possible that cheap labor will continue moving around the world, given time, and may even end up back in the United States if gas prices continue to rise (insert laugh here).

The fact of the matter is that cheaper labor and cheaper sourcing is a short-term situation. If you are not making sourcing decisions from a long-term, market-penetration perspective, you are literally missing the boat.

The same could be said of those companies that have decided to hold their ground and become more efficient or less dependent on labor to remain competitive.

While automation and acquisitions

are not likely to be seen as short-term solutions, the effect is still the same. The foreign market knowledge and network opportunities missed due to their strategy could stunt their global penetration efforts.

That's not to say a company has to source to be successful globally, but it has to gain global market competency in some way.

When a new source is set up in a market, some simply see a cheaper product. Those companies that are in the game for the long haul see short-term sourcing combined with a new means of entry into the market.

Labor rates will increase over time, shipping costs will increase over time, customers will move over time, and quality fluctuates over time. That LCC will not be there forever.

However, the time you spend identifying and developing this relationship gives you experience in the market. Use that experience to enter the market you have been sourcing from. Utilize your China sourcing operation to develop a sales and distribution network throughout Southeast Asia, accessing all of those foreign customers you were never able to access before. Increase your market share from new foreign customers and markets while you also work on increasing your existing base.

That sourcing operation has financed your education with market know-how, contacts with customers, raw materials sources, and international suaveness. Use all that experience to meet your customers' needs in overseas markets, thereby increasing your attractiveness as a supplier in the foreign market and your competitive strength in the United States.

Now your sourcing has purpose above and beyond the lowest cost flavor, and is part of a comprehensive growth strategy for the future of your company.

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