Far East Sourcing and Managing an Agile Supply Chain

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Introduction to 4C

4C Turnover (£m)

£0  £10  £20  £30  £40  £50  £60  £70  £80  £90
2003 2004 2005 2006

THE SUNDAY TIMES
FAST TRACK
100
2006

The CIPS
Supply Management
AWARDS
2006

In association with
4C company structure

Private ownership
75%

4C Procurement Consulting

4C Procurement Outsourcing

POS Managed Solutions

Private ownership
25%

DHL
4CX aims to deliver the lowest total costs

The Right Sourcing Decision
(15-50%+ product cost saving)

The Right Logistics Solution
(15-25%+ logistics cost saving)

Lowest total cost

• Direct sourcing
• Volume aggregation
• Order aggregation
• Specialist sourcing technology
• Price benchmarking
• Global supplier research
• Global low cost sourcing
• Cost modelling
• Product optimisation

+ 

• Optimal freight buying and management
• Minimising air freight
• Eliminating unnecessary transport
• Optimising stock levels
• Efficient warehouse management
• Effective customs management and clearance
• Carrying out value add work in best value location
4CX global low cost sourcing

- **4CX Central Sourcing**
  - London & Manchester

- **4CX Eastern Europe Sourcing**
  - Warsaw

- **4CX Middle East Sourcing**
  - Athens

- **4CX Asia Sourcing**
  - Shanghai

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4CX Sourcing Centre  
Key 4CX sourcing zone
Economics of direct sourcing

- 30-50% savings

Diagram showing comparison between Traditional and Direct sourcing methods.
Extreme example – Plastic stirrer

>95% saving
Cost saving is the main driver of Low Cost Country Sourcing

Drivers of LCCS initiatives (% of research survey respondents)

- Cost savings
- Penetration of new markets
- Inventory reduction
- Increased customer service
- Access to new technology
- Reduced cycle time
- Logistics cost reduction

![Bar chart showing cost saving as the main driver]

[Bar chart with cost savings at 100%]
Low cost country sourcing risks

- Natural disasters
- Production failures
- Supplier failures
- Contract enforceability
- Financial exposure
Corporate responsibility
Corporate responsibility
Product quality and consumer safety

- Consistency of product quality
- Compliance with latest regulatory standards
- Liabilities for consumer safety issues and recalls
Reebok example 2006
Regulatory compliance

- CE mark
- Recycling symbol
- GS mark
- RoHS mark
- WEEE symbol
- Heart symbol
- PCT mark
- CCC mark
Legal frameworks
Logistics management
Logistics management

- Origins:
  - Supplier Factories
  - Origin Management

- Freight Management:
  - Offshore Consolidation Centres
  - Air
  - Road
  - Sea
  - Sea/Air

- Deconsolidation Centres:
  - Destination Deconsolidation Centres

- Destinations:
  - Origin Supplier Sources
  - Destination DC Network
  - Destination Management

- Point of Use
Financing

**Traditional**

- **Place order**
  - Sourcing
  - Manufacturing
  - Shipping
  - Payment terms
    - Pay supplier

**Direct**

- **Place order**
  - Sourcing
  - Manufacturing
  - Shipping
    - Part pay manufacturer
    - Pay balance to manufacturer
    - Pay VAT, duties and logistics
Financing risks

Exchange rate – Yuan / Euro
Increased complexity

Traditional

Direct
What are your real costs for going direct?

- Labour and overheads in low cost country
- Testing costs
- Duties and VAT
- Freight
- Warehousing
- Financing
- Insurance
- Central labour costs
- Central overheads
- Travel & expenses
- Management time
- Admin fees
- Set up costs
Case study

Full supply chain outsource for marketing materials for a global drinks company

Scope of service

- Full management of global marketing materials:
  - Design and development
  - Sourcing
  - Order management
  - Logistics
  - Payment management
- Management of local POS sourcing and logistics across every European market
- Responsibility for supplier selection and management, product quality and CSR
- Provision of Pro4CX technology to underpin the service
- Centralised sourcing, local account management

Key benefits

- Substantial cost savings – in excess of original targets (12%+)
- Increased idea generation and innovation + better sharing of ideas across markets and brands
- Integrated freight, inventory management, storage and distribution
- Single point of contact with streamlined processes with new underpinning technology
- Improved brand consistency and product quality
- Ethically responsible sourcing and environmental compliance
Approaches to sourcing

- Purchase goods DDP
  - Low volume orders with short lead-times
  - Print is generally produced locally, in Ireland a production run can be manufactured and delivered within 1-2 days

- Purchase goods FOB through a local agent
  - Products where the supplier has a patent, moulds or ownership of the designs
  - A textiles manufacturer may have inventory locally and have (for example) embroidery capability also

- Purchase goods FOB direct from factories in the far-east
  - High volume orders with longer lead-times
  - St. Pats hats for Guinness are made in China, this year we sourced over 750,000 hats for the UK
Supply chain agility that supports reactive marketing campaigns

DDP:

Factory \[\rightarrow\] Port \[\rightarrow\] Port \[\rightarrow\] 3PL \[\rightarrow\] Stores

Buyer \[\rightarrow\] PO Placed \[\rightarrow\] Visibility Through Pro4cx System \[\rightarrow\] Goods Receipt

FOB:

Factory \[\rightarrow\] Port \[\rightarrow\] Port \[\rightarrow\] 3PL \[\rightarrow\] Stores

Buyer \[\rightarrow\] PO Placed \[\rightarrow\] Visibility through DHLs Log-net System With a Direct feed into the Pro4cx System \[\rightarrow\] Goods Receipt

Issue Management
Global ranges

Leisure

9 products found

- CAS120 Golf Balls
- CAS134 Carrier Bags
- CAS135 Castrol Woven Badges
- 20 piece Toolset
- Mini Maglite AAA
- Handyman Golf Tool
- 20mm Lanyard
- Castrol Remote Control Car
Managing the logistics for global ranges

- Production site
- Consolidation point
- Delivery location
Query Resolution Network

3x Brand Managers
8+ Buyers
6+ Finance Team
36+ Suppliers
5+ Freight forwarders
2+ Customs Agents

1x Supply Chain Director
1x Account Director
1-2 Account Managers
2 x Client Logistics
5+ Delivery Locations (Warehouse contacts)
1x Supply Chain Manager

Pro4CX System – Gives Online Access to Live Updates
Pro4CX information sharing across the business

Automated reporting gives live updates to users signed-up to specific projects
Summary

- Most companies can achieve large cost savings from sourcing materials directly from low cost countries.
- However, there are a number of big challenges to overcome to successfully achieve these savings.
- Companies that are successful consider the whole end to end process including both the sourcing and logistics components.
- Partners such as 4CX can help to provide the expertise to deliver the benefits while managing the risks.
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