Is Globalisation Coming To An End For Procurement?

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Nov-22

Global Sourcing/Offshoring & Its Benefits

Global sourcing is a procurement strategy that involves buying products and services from overseas.

Offshoring is moving a once home based production facility to another country that offers materials, labour etc at a lower price.

The benefits seen for many years include:

- Lower costs
- Access to skilled labour
- Lower raw material prices
- Access to technology to available in the home country

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- Innovation

Global Sourcing/Offshoring & Its Accepted Risks

The risks of engaging with a global supply chain are well known, established and in some cases accepted.

Mitigation does exist to try and reduce the impact of the risks.

Common risks include:

- Exchange rate fluctuation
- Import/export costs and customs
- Ethical risks (modern slavery, child labour, working conditions)
- Sustainability concerns
- IPR infringements
- Quality concerns

Historically….

The benefits have far outweighed the risks.

Until 2020 the global supply chain performed very well for all parties.

Global supply chains allowed consumers to buy lower cost good, have reduced priced clothing and have access to good quality, advanced technology.

This trend help to develop countries such as Taiwan, Singapore and of course China.

But are the days of reaping those benefits coming to an end?

Challenges In Recent Years

Global supply chains/global sourcing has faced some challenges in recent times:

- Force majeure
- Suez Canal blockage

However these challenges were in infrequent and procurement professionals were, in the main, able to make provisions to secure products elsewhere to eventually meet the demand.

Current Challenges

Since 2020 more challenges have presented themselves:

- BREXIT
- COVID-19
- War in Ukraine

These challenges are far more deep routed, destined to have longer lasting and more serious consequences on the supply chain than those mentioned o the previous slide.

Possible Problem

In Spring 2022, the US Treasury Secretary called on America and Europe to "reduce its reliance" on China and Russia as supply partners. She suggested that procurement professionals moved business aware from "strategic rivals" and placed it with allies instead.

This means that it was suggested that we move a lot of business from countries that offer us lower costs and added value to countries that may not be able to deliver those advantages.

We consider reshoring – bring back the production/manufacturing facilities to the home country.

Why?

The logic behind the suggestion was to support “friendshoring”

Working with countries that foster peace and diplomacy rather than those that operate strict regimes and promote violence and war.

It is an ethically good suggestion, but is this a somewhat naive ask?

Benefits Of Friendshoring

- Working with countries that are peaceful
- Less likelihood of supplier disruption
- Low levels of political unrest
- Stable trading environment
- Enhanced relationships
- Shared cultures
- Reduced lead times (in some instances)

Would This New Concept Work In Reality?

Whilst a great concept to support only countries that are allies and share trade between each other, would this really work in reality?

Can we get everything we need from our allies?
Does the home country have the capacity to ensure continuity of supply?

Risks Of Friendshoring

- Is it not true that global sourcing benefits both the buying and the supplying organisation?
- As such both countries are benefitting?
- The buying company achieves a lower cost
- The supplying organisation gains a high price that supplying in their own country
- Orders from the buying country help to keep employee levels up in the supplying countries
- With overseas orders coming in, supplying organisations can contribute positively towards the economy and help to develop their country's financial situation

If we stick to our allies as supply partners, the global supply chain will dissolve and ultimately their economies will start to fail. Economies that we have been contributing towards building up for almost 50 years.

Options?

Whilst easy to see how shortening supply chains (keeping things local) can, in theory, offer a more stable procurement option, would this work in reality?

- Do we have the investors, skills, materials, resources to rebuild manufacturing in this country? The manufacturing that we have almost dissolved in the last 30 years?
- Do we want to sever all ties with global supplies?
- Do we want to risk what commodities we can source?
- Do we want to risk economic sanctions?
  - Working with countries that don't share the same values are us may not be idea but it does help to keep the peace by ensuring that these countries are somewhat reliant on our business.

The Future

Whilst there is a somewhat valid argument for ending globalisation in relation to procurement but at the present time, the risks of doing are higher than those of keeping the status quo.

We need global supply chains, we need lower cost labour, access to worldwide resources and as such we need to maintain and continue to develop relationships with overseas suppliers.

With the current cost of living crisis, removing the globalisation element of procurement and supply would only drive costs up further.

Build Resilience

Moving forward, globalisation is likely to continue as we know but it for procurement professionals it is important to:

- Manage the risks
- Have a contingency plan
- Dual source
- Build extended lead times into the supply chain
- Hold buffer stock where possible
- Continue to develop the relationships
- Develop a plan for unexpected supply/demand issues
- Make your business indispensable to the overseas supplier