

## Benefits and risks of global sourcing

The benefits of global sourcing include:

- **Greater access to new technologies and emerging markets** - you can access new cutting-edge technologies not currently available in local markets.
- **Access to quality** - countries can offer you superior product quality in the manufacture of many products due to advanced lean and Six Sigma-based methods of production.
- **Introduction of competition with the domestic supplier base** - global sourcing can give you access to a global marketplace which offers competition for your local supplier base. You can use this global competition to drive down local prices and negotiate better contract terms with local suppliers.
- **Improved political and regulatory environments in supply markets** - as a result of the uncertainty associated with Brexit, certain markets can offer more stable political and regulatory environments.

However, you should consider the performance issues such as quality, delivery and service levels, which might not be at the level offered by local suppliers. Moreover, as a result of the difficulties and complexities of managing suppliers over wider geographical distances, it might be appropriate to consider sourcing products from suppliers that are highly standardised, and in event of supplier failure these can easily be reshored to local suppliers, or if appropriate brought back in-house.

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Table 1 (Christopher et al. 2011; McIvor, 2010) summarises the risks associated with global sourcing.

Table 1: Summary of global sourcing risks

Risk category	Overview
<i>Exchange rate fluctuations</i>	Firms that deal with suppliers in many different countries will have to manage many currencies at once. Significant currency fluctuations as a result of political events or otherwise can threaten the financial position of a firm.
<i>Enforcing contracts</i>	Due to the greater geographic distance between suppliers, hidden costs may arise in terms of monitoring suppliers and enforcing contracts. Countries with ineffective legal systems in global locations can create risk in the form of dispute resolution and enforcing the contract.
<i>Complex logistics management</i>	Managing a global logistics networks will prove far more complex and time-consuming than sourcing in local or nearby markets. There will be additional methods of shipping including air and sea transport that needs to be managed as well as the need for additional warehousing capacity.
<i>Quality and service problems</i>	Longer lead-times and the need for warehousing can increase the potential for products to become damaged. In terms of customer service, longer lead-times mean firms cannot offer services such as next day delivery, which may have been possible with local suppliers.
<i>Lack of supplier monitoring</i>	Without adequate supplier monitoring, there is a risk that suppliers may deviate from quality specifications and supply an inferior or dangerous product. In the event of a large-scale quality issue, shipping the product back to the global suppliers can be complex and costly.
<i>Loss of firm value and control</i>	Global sourcing of products or services can increase the likelihood of a loss of knowledge and know-how. This can also result in a loss of control as knowledge or Intellectual Property (IP) may be at risk of theft in low cost countries. Additional mechanisms are required for protecting IP in some global locations with ineffective legal systems.
<i>Communication issues</i>	Global sourcing also gives rise to communication issues due to greater distance between suppliers, language barriers, differing time zones and inadequate global organisational structures and supply networks.
<i>Demand and supply side forecasting problems</i>	Moving to a global supplier from a domestic supplier will inhibit a firm's ability to predict demand and supply. Longer lead-times and less developed supplier relationships will inhibit demand and supply forecasting, which could lead to stock-outs or over-stocking.
<i>Lack of resources</i>	Firms may have issues coordinating global suppliers as they often lack the resources and technology needed to co-ordinate a global supplier network.
<i>Culture and language differences</i>	Culture and language differences increase the potential of global suppliers misunderstanding requirements of the buyer and failing to deliver the product at the required quality level.
<i>Corporate social responsibility</i>	Global, low cost country sourcing can put the firm at risk from Human Rights breaches such as using child labour or other unethical behaviour.

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## References

Christopher, M., Mena, C. Khan, O and Yurt, O. (2011). Approaches to managing global sourcing risk, *Supply Chain Management: An International Journal*, Vol. 16 No 2, pp.67-81.

McIvor, R. (2010). *Global Services Outsourcing*, Cambridge: Cambridge University Press.