Sourcing options

You have a number of options for managing sourcing arrangements both locally and globally. Using the dimensions of *level of ownership* and *sourcing location*, categories of sourcing arrangements can be created as shown in Figure 1.

**Figure 1. Sourcing arrangements**

**MAKE in-house locally**
This option involves manufacturing a process in-house. This option is often chosen for the following reasons:

- Need for direct control over the manufacturing process
- Intellectual property concerns
- Quality control concerns
- Lack of capable suppliers in the supply market
- Insufficient volume to attract a capable supplier
- Reductions in logistic costs
- To maintain an alternative internal supply source in the event of supplier failure.
BUY from local supplier
This option involves outsourcing a manufacturing process to a local supplier. The ‘buy’ decision is often chosen for the following reasons:

- Lack of technical expertise in the process in-house
- Supplier has much higher level of expertise in the process due to gains from specialisation
- Supplier has a lower cost base due to lower labour costs and/or scale economies from serving the needs of other customers
- Lack of internal manufacturing capacity to produce the component.

Source from foreign subsidiaries
This involves establishing and managing a subsidiary in a foreign location to avail of local skills and lower labour costs. With this model, the firm builds, owns, staffs and operates the facility, or it can acquire a firm in the foreign location. This model offers a high level of control through ownership, but also carries high levels of risk due to set up and management costs, and the inflexibility of owning the manufacturing process.

BUY from foreign supplier
This arrangement involves sourcing the manufactured item from an independent supplier in a foreign location. The option is often chosen for the following reasons:

- Supplier can manufacture and deliver the process at a much lower cost than local suppliers
- Access to superior technical expertise in the process not available in-house or from local suppliers
- Superior quality in the product compared to domestic suppliers
- Higher number of suppliers to choose from

Use the resources in the Do More area to review your current suppliers and select an appropriate sourcing option.