

Where does Your Company Have Savings Leakage in Global Sourcing and Logistics?

As Companies Fail to Reach Savings Goals, is the Cause Overly Optimistic Expectations or Poor Execution?

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The following is excerpted from our recent Supply Chain Digest Letter on Global Logistics and Trade Management. To download an electronic copy, or access an array of other resources, visit our [Global Logistics and Trade Management Resources page](#).

It seems almost more common than not – companies report that the cost savings realized from offshoring and global sourcing initiatives do not meet initial expectations, disappointing company executives and ultimately shareholders.

So, where do the savings go? As shown in the graphic on page 2, there are many potential sources of savings leakage that reduce and, in some cases, eliminate the expected total cost reductions from global sourcing initiatives. These leakage points or additional costs are often obvious – but just as frequently, the real source of these savings losses are hidden from managers and the accounting systems, especially the total cost impact of added supply chain complexity.

Key areas of lost cost savings from the true potential include:

- **Sub-Optimal Sourcing Decisions:** Countries/suppliers are selected based on perceived lowest total cost, but the analysis is incomplete, often lacking full supply chain cost dimensions.
- **Increased Inventory:** Expectations about the amount of additional inventory that must be added to compensate for the longer supply chain are overly optimistic.
- **Increased Overhead:** Companies often under-

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estimated the amount of additional staff that will be required to manage global sourcing/logistics, both at home and offshore.

- **Transportation Costs:** Another area that is frequently under-estimated, especially with regards to expediting costs (e.g., air freight).
- **Lack of Responsiveness:** Market opportunities are dynamic. Having the right inventories in place at the right time is essential to success. Companies that offshore often miss revenue opportunities due to the longer supply chain and order to delivery cycles.

Inaccurate Estimates – or Poor Execution?

When global sourcing initiatives fail to meet expectations, is the problem that the potential costs savings from the strategy were overestimated to begin with, or were the expectations correct, but the

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potential savings were lost in problems with execution?

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More often, the savings potential is real, but is diminished from problems with execution. Many companies, for example, take buyers that were procuring domestic goods and suddenly make them international sourcing managers, without the necessary training or experience. Poor coordination can lead to higher than necessary transportation costs, such as shipping small or poorly utilized container loads.

