

# All Roads Lead to China

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*When goods originate in China, supply chain costs can go as high as 50 percent.*

*Here's a compelling case for outsourcing  
and to partner with the experts  
in international trade.*

By Jim Davidson



THERE IS A CHINESE CURSE that goes “may you live in interesting times.” There’s nothing more interesting than what’s happening in China today.

China has been open for business with the Western world for decades, but it’s only during the past few years that their enterprising ways have turned irreversibly in favor of capitalism.

Why now? By joining the World Trade Organization in 2001 the Chinese agreed to play by international rules in matters of importing, exporting and foreign investment. This is a significant development since China possesses an enormous, cheap, disciplined work

force — a work force that is rapidly become its own best customer. In our world of product manufacturing, distribution and transportation, China looms large on the horizon as a supplier, a customer and a competitor. Consequently, everyone is scrambling to integrate China into *their* global supply chain.

I speak from the perspective of someone within the supply chain, moving the goods. And I can assure you, if your company hasn’t already been impacted, directly or indirectly, by what is happening in China, it soon will be. From manufacturers and dis-

tributors to buyers and finally to the end users of its products, China is impacting *everybody* in the world.

For decades China has been synonymous with offshore sourcing of goods. (Canadians are all familiar with the irony of Canadian maple leaf lapel pins, a symbol of national pride, being made in China.) Now everything comes from China — shoes, clothing, bed linens, furniture, automobiles appliances — the list is endless. The stamp or sticker declaring a product “Made in China” is dominating every manufacturing sector.

North American manufacturers and

distributors now realize that if they aren't there already, they may be too late. They worry and wonder about the best method for entering into business with China. My advice? Partner with the experts — supply chain managers who have experience with the trade routes and the multiple modes of transportation necessary for offshore sourcing of goods.

Business with China is growing concomitantly with the supply chain. Traveling to the other side of the world means the supply chain is longer, bigger, more expensive and more complex. This provides opportunities for those moving the goods and challenges for manufacturers.

When products were traditionally sourced locally, the distribution network was dramatically different than it is today. Going to the other side of the world requires dealing with foreign languages, foreign currency, *different* modes of transportation and border crossings — all things that wouldn't otherwise have to be considerations. Ten-, twenty-, even fifty-year-old compa-

nies must suddenly uproot and go around the world and face these issues. This is where the experienced supply chain managers come into play to manage all the challenges beyond the North American ports.

Manufacturing costs in China may be dramatically lower than those in North America, but transportation costs go up disproportionately. Consequently, supply chain costs become a bigger part of the unit cost. Typical supply chain cost is 5 percent to 15 percent of total gross revenues. When goods originate in China, however, supply chain costs can go as high as 50 percent. What do you gain if the manufacturing cost is cut in half but your transportation cost doubles? But business costs don't have to go this way — not if manufacturers concentrate on their core business and recruit supply chain specialists to manage their supply chains.

In order to mitigate these challenges, manufacturers and distributors should consider partnering with the appropriate experts in supply chain management that are equipped to pro-

vide value added services. Because of high transportation costs, it makes sense to increase the density of packages shipped by sending products broken down and nestled or by shipping products that require packaging or some assembly after they arrive at their destination. As a result, innovative supply chain management companies are offering sequencing, kitting and light subassembly to offshore manufacturers selling to North American markets.

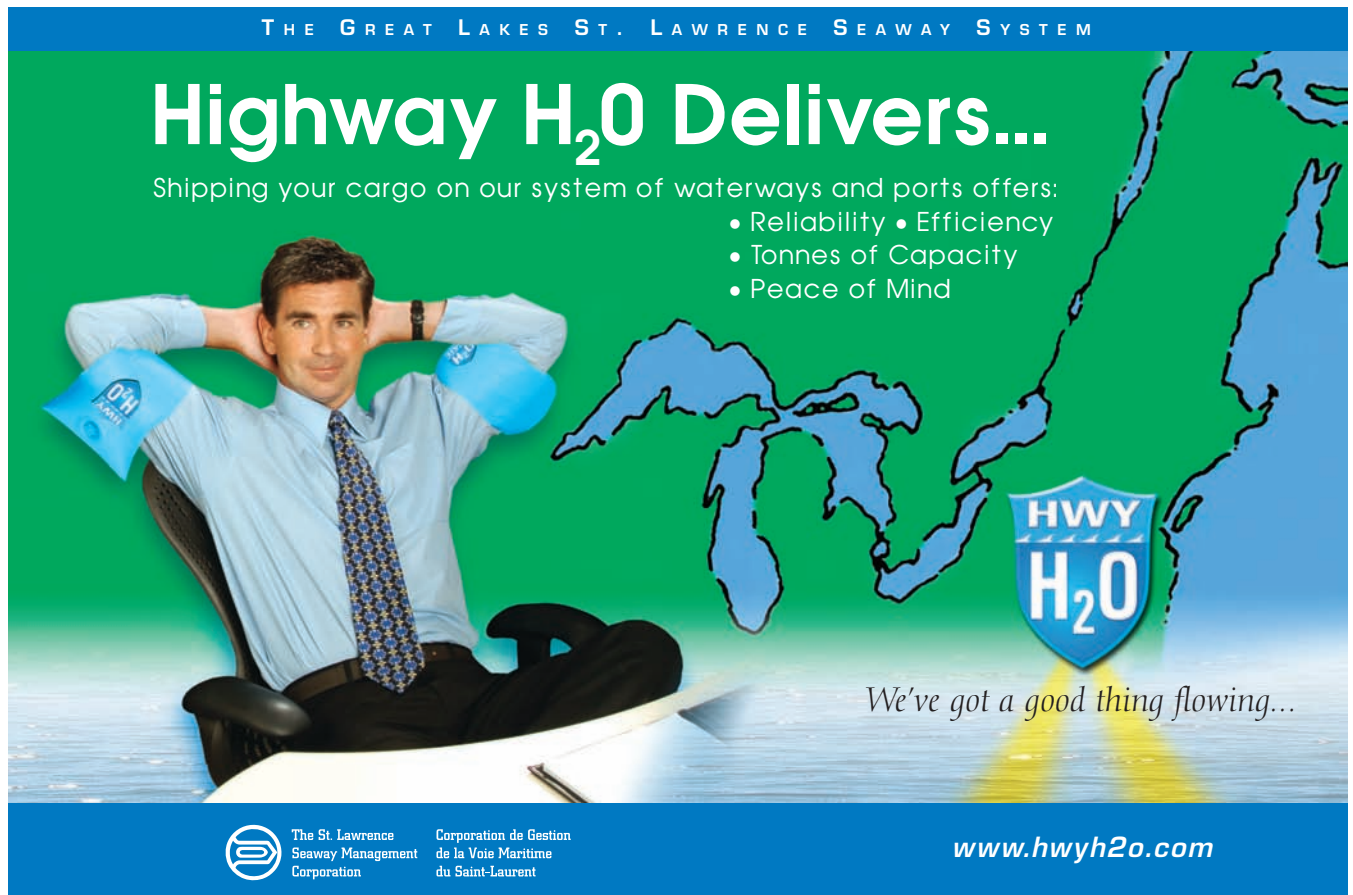
Successful supply chain management is the outcome of intense collaboration. Every aspect of our industry depends on professional teamwork and cooperation based on the careful utilization of timely information and delivery of value added services. Developments in China are forcing North American businesses to develop new models that rely heavily on the ingenuity and competitive advantage of innovative supply chain managers. The nature of these models and exactly how China plays a dominant role in the global supply chain will be topics of discussion in my future commentaries.

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