

An Innovative Look into the Real Cost of Off-Shoring

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A company recently decided to move an electronics assembly operation from the eastern United States to Mexico. Why? Because labor rates outside of the US are indeed attractive in some cases. Factory direct workers in Mexico, for example, are paid a fully burdened wage rate near \$2 per hour. Many US factories have fully burdened labor costs in excess of \$20 per hour. With just 100 positions moved, labor savings for the company were expected to be in excess of \$3 million annually. It's no surprise that company leaders were tempted by these numbers. But that's not the entire story.

There are extenuating costs involved in sending processes outside the US that most companies fail to recognize and plan for. "Our electronics process was 'stable' before the move," they say. That means that the process performed as expected. There had been no sudden changes or unexpected events. This is generally referred to as a process "under control". When the process came online in Mexico, in the aforementioned example, however, it was definitely not in control. It did all sorts of unexpected things. Defects increased, cycle time increased, quality escapes increased. Why did all of this happen? Because company leaders thought a process "in control" in the US would be a process "in control" in Mexico. That was simply not the case. The additional costs over a year's time reduced the anticipated savings by more than \$500,000. The question, then, is how to move processes offshore while maximizing the anticipated labor savings.

The answer is simple: never assume that a process moved from its home-base will act the same in a new location. You have to assume it is a brand new process in a brand new set of circumstances. Think about all that might have changed in the new environment. The physical location is different. Temperatures and humidity may change. There may be new sources of vibration and contamination. The society is different. People feel differently about things than they might in the US. In some countries, for example, an employee might never tell a manager something negative about a process design. Out of respect, they might allow a defective process to go into production.

These brief examples should drive one to consider the transferred process as a brand new process, not one that is in control and simply changing locations. New processes demand all kinds of attention because of anticipated risk of failure. Processes are documented carefully, dissected and analyzed for every failure mode possible. They are redesigned to take those failure modes into account. Careful controls are put in place to make sure the process always behaves as designed. This clearly requires additional investments in the move process, but the return on investment is significant.

If off-shoring is your desire, it may be the right thing to do. The trick is to NOT assume it is the same old stable process when turning the key in the new location. Physical conditions and employee changes require additional investments to find stability once again. The payoff will be returned in terms of fewer trips, shipments and quality spills that result in added cost and potential breakdown of customer relationships.