NATIONAL MACHINE AND ELECTRONICS

Early in 2002, Michael Phillips, C.P.M., director of supply management for National Machine and Electronics (NME), met with his company's president at the president's request to discuss reducing materials costs. The meeting centered on NME's historical position as a buyer of only domestic products due to constraints in government contracts that had recently been removed. NME could now consider global sources. The meeting concluded with Mike receiving authorization to explore the cost-saving potential of global sourcing.

National Machine and Electronics (NME)

NME is a division of a worldwide conglomerate that specializes in precision machined products and aerospace electronics. While largely government and defense oriented, NME has one commercial aviation electronics division among its fifteen autonomous operating groups. Total sales for NME during 2001 were approximately $2.5 billion, with over $1 billion being spent by the supply management departments of the various groups.

The NME supply management function is divided among the fifteen autonomous divisions. Each has its own supply management department, which reports to division management but adheres to corporate policies and procedures. There is a relatively small corporate supply management staff concerned with corporate policy and common goods and services.

The Cost Reduction Objective

To maintain its competitive position, NME needed to explore all possible ways to reduce costs. In addition to analyzing and working with its domestic suppliers, Mike believed it was necessary at this time to begin considering global sources.

Global Sourcing

Until 2002, NME had only purchased globally as part of an offset countertrade requirement. The other exception was the Commercial Aviation Electronics (CAE) division, which had been acquired in 2001 as a means of diversifying NME's electronics markets. CAE not only had been buying from foreign sources but also had established a factory in Singapore to source and manufacture one of its product lines.

CAE's offshore experience began before being acquired by NME. At first, parts were purchased from Singapore and other East Asian sources. These parts were then assembled in this country. Soon CAE began to buy assemblies in East Asia, and finally all factory operations were shifted to their own Singapore facility.

When Mike contacted each of the other divisions' supply managers, he was surprised to discover that each one had a collection of horror stories of past attempts to establish global sources of supply and was unwilling to try again. Most of these stories centered around problems of communication, quality control, credibility, and understanding.

Mike again contacted the CAE supply manager to discuss details of the Singapore operation. Not only did the Singapore factory build a product line, but also the Singapore supply department sourced components for that product line from throughout East Asia. Initial cost savings from first buys (including engineering, test fixtures, and other startup costs) ranged from 10 to 18 percent. Subsequent purchases yielded savings in the 25 to 40 percent range compared to domestic sources. Quality and delivery problems were minimal.

Following that conversation, Mike wondered what he might do next.

1. What choices for starting a global sourcing program exist?

2. What are the advantages and disadvantages of each?

3. Would NME benefit from an international supply management office in Asia?