

# NECON 2007

## “THE TOP TEN HIDDEN COSTS OF OUTSOURCING”

2007 Northeast Supply Chain Conference &  
Educational Exhibition

# THE TOP TEN HIDDEN COSTS OF OUTSOURCING





# Outsourcing Drivers (The Good)



- **Cost savings/Increased Profits**
  - Reduce Labor Costs
  - Increase Efficiency
- **Control Capital Costs**
- **Focus on Your Core Business**
- **Increase Cash Flow**
- **Lack of Internal Skills**
- **Access to Advanced Technology**
- **Start New Projects Quickly**
- **24/7 Work Cycle**
- **Level the Playing Field**
- **Reduce Risk**
- **Competitive Advantages**



# The Top Ten Hidden Costs of Outsourcing



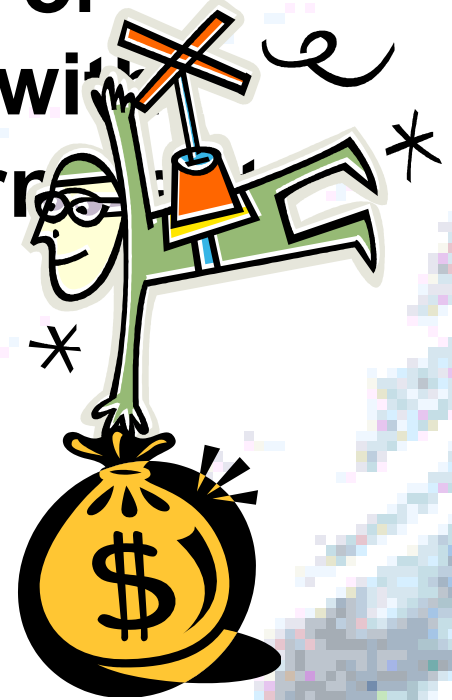
**Review the Impact of Re-allocating the Overhead Costs to the Remaining Products**



# The Top Ten Hidden Costs of Outsourcing



**Add the Cost of Senior Executive Visits to Set Up the Operation or Straighten Out Relationships with Managers, Suppliers or Government Officials, depending on the Local Business Practices and the Business or Country Culture.**



**January 19, 2007**

**Western Companies  
caught in Chinese  
Bribery Inquiry:**

**ABB**

**McDonald's**

**McKinsey & Co.**

**Whirlpool**

**J & J**



# INTERNATIONAL CORRUPTION\*

## TOP 10 LEAST CORRUPT

1. Finland
2. New Zealand
3. Denmark
4. Iceland
5. Singapore
6. Sweden
7. Switzerland
8. Norway
9. Australia
10. Netherlands



## BOTTOM 10 MOST CORRUPT

139. Indonesia
140. Tajikistan
141. Turkmenistan
142. Azerbaijan
141. Paraguay
142. Chad
143. Myanmar
144. Nigeria
145. Bangladesh
146. Haiti



\*"2006 Transparency International Corruption Perceptions Index" – a Berlin based organization

2007 Northeast Supply Chain Conference &  
Educational Exhibition

# The Top Ten Hidden Costs of Outsourcing



**Review the Cost of Additional Inventory of Goods in Transit and the Cost of Additional Safety Stock to Ensure Uninterrupted Product Supply.**



# The Top Ten Hidden Costs of Outsourcing



**Add the Cost of Expedited Shipments which will be required to meet Demand Requirements and raise Depressed Service Levels.**

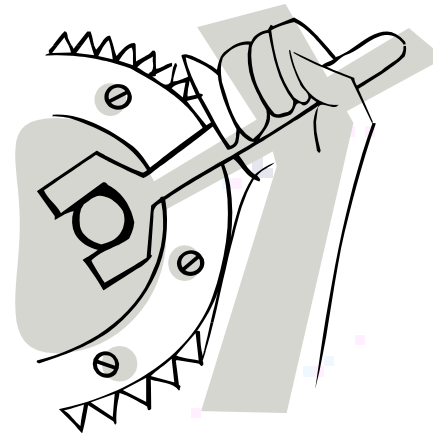


# The Top Ten Hidden Costs of Outsourcing

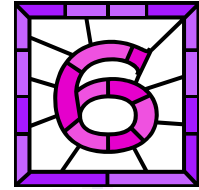
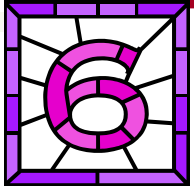
5

5

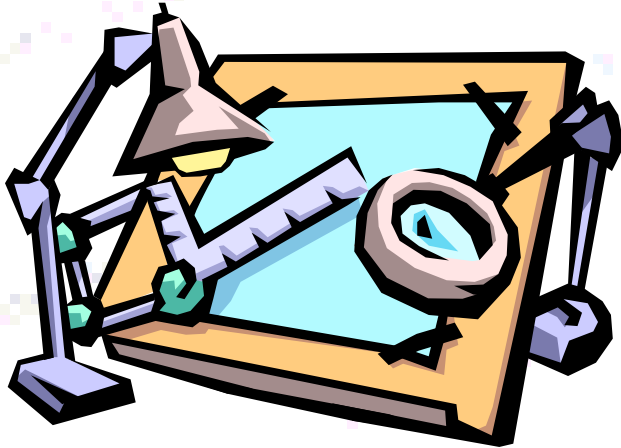
**Add the Cost of Product Rework, and maybe Product Recalls & Warrantee Costs as a result of out-of-tolerance product slipping through the system.**



# The Top Ten Hidden Costs of Outsourcing



**Add the required cost of Additional In-House QC Labor as the New Vendor comes-up-to-speed on the Learning Curve.**



# The Top Ten Hidden Costs of Outsourcing

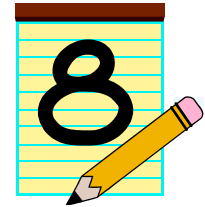
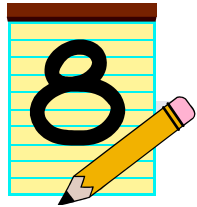
VII

VII

**Add the Cost of Vendor Visits by Engineering and QC personnel to Reduce the Level of Scrap, help solve the Manufacturing Problems and help to “Get the Process Right”.**



# The Top Ten Hidden Costs of Outsourcing



**Add the Costs of “Out-of-Stock and Lost Sales” caused by Transportation mishaps, Engineering Changes, Long Lead Times, Material Replacement and disrupted Forecast changes.**



# The Top Ten Hidden Costs of Outsourcing

**Add the Future Costs Associated with Obsolete Goods or Scrapped Stocks due to the Higher Levels of Inventory carried.**



# **X** The Top Ten Hidden Costs of Outsourcing **X**

**Beware of your Outsourcing Vendor becoming your Competitor and Launching New or Similar Products to Compete against you.**



# IBM Outsourced its Operating System for the PC



**Syrus, Maxims**

**"Be careful about starting something you may regret."**

2007 Northeast Supply Chain Conference & Educational Exhibition

**THANK YOU**

2007 Northeast Supply Chain Conference &  
Educational Exhibition