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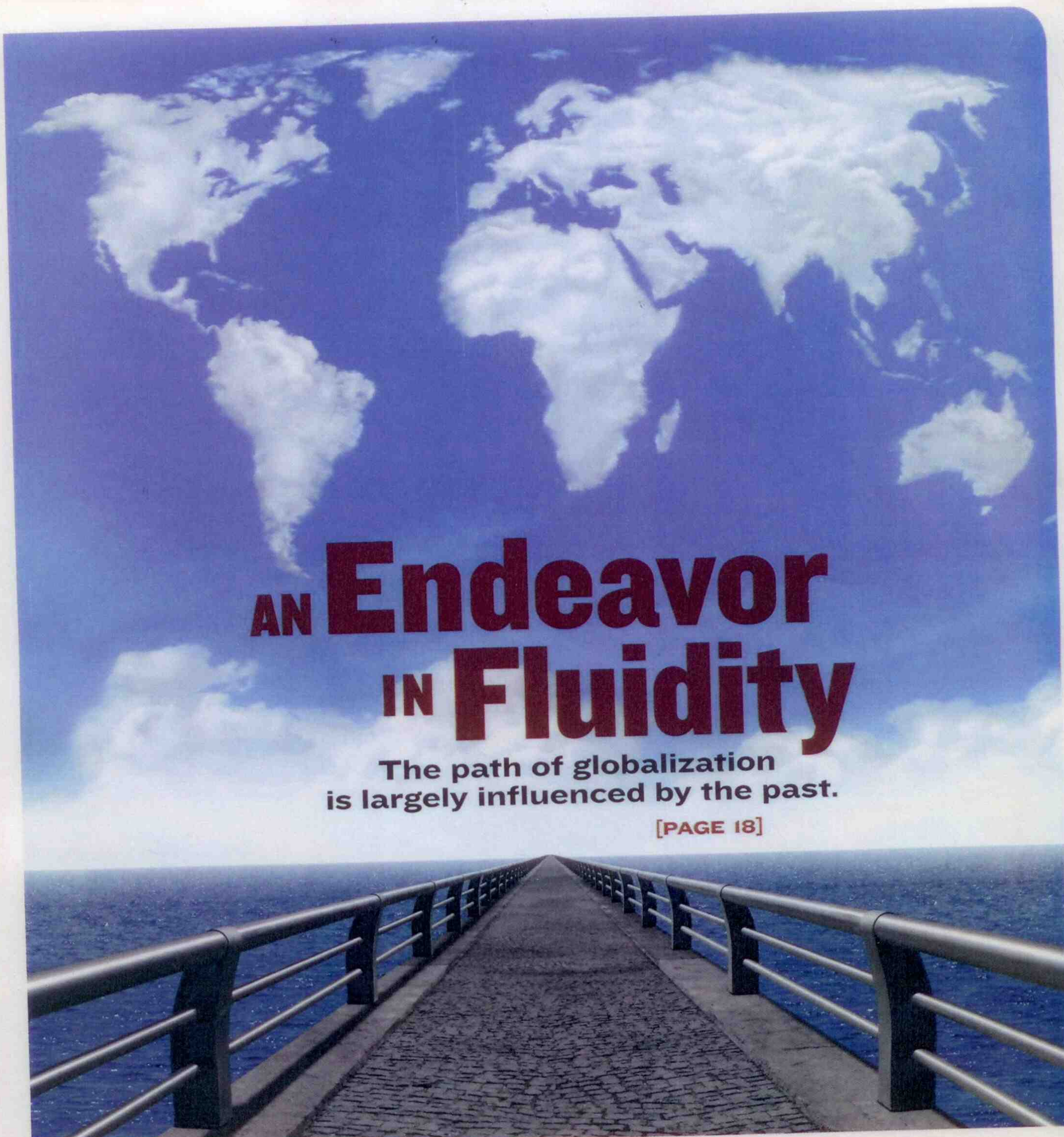

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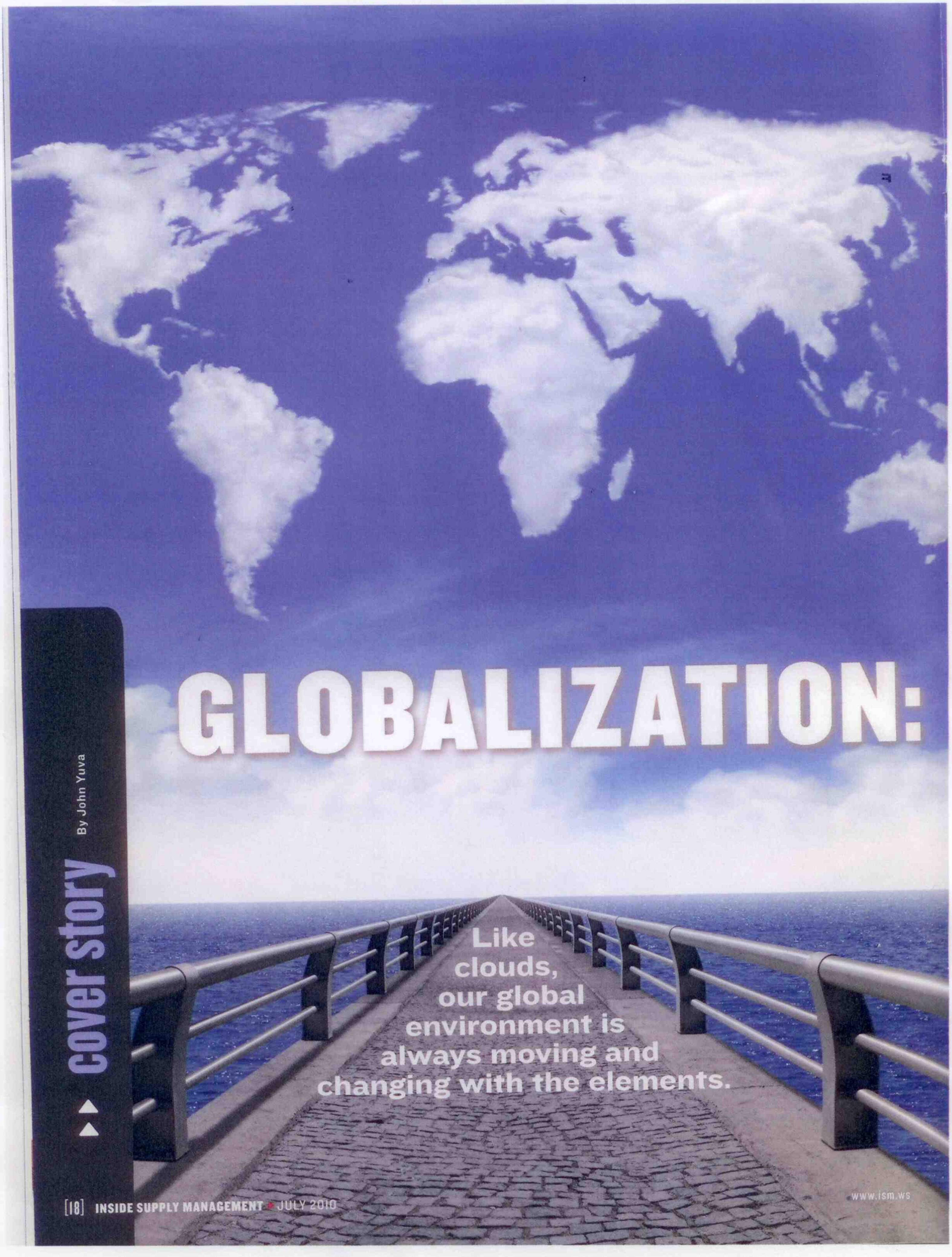
DAVE BARRY IS ~~NOT~~ MAKING THIS UP [PAGE 26] cover story

By John Yuva



GLOBALIZATION:

Like clouds, our global environment is always moving and changing with the elements.

Photo by Murat Giray Kaya

As the recessionary clouds recede and organizations pull up sail, what course is your ship going to take? This is a question that supply management executives are asking as they gauge the global landscape. What many realize is that globalization now requires a different approach than it did eight, five or even two years ago. This is not to suggest a slowing in global initiatives or even a reversal in sourcing distance, but rather a strategy that compensates for potential international shifts in geopolitics, manufacturing and commerce. It is all part of a sourcing evolution that supply managers can reference as a guide to the future. Often, examining where you've been is the best way to know where you're going and how to get there.

An Endeavor in Fluidity

What follows is an exploration of significant global trends over the last several years and how those trends culminate in shaping today's approach to globalization.

A Decade in Review

This brings us to the question: How has globalization and sourcing evolved? To help answer that question, *Inside Supply Management*® spoke with Fariborz Ghadar, Ph.D., the William A. Schreyer Professor of Global Management, Policies and Planning, and director for the Center for Global Business Studies at Pennsylvania State University in University Park. As organizations entered the 21st century, there was relative ease in moving goods between borders. Long supply chains flourished as U.S. organizations marketed new innovations to emerging economies. Volatile changes, however, were on the horizon.

Early-decade — border and transportation restrictions. The 21st century brought a shift in global sourcing models. The earliest and most volatile shift occurred on September 11, 2001. This event forever altered the efficiencies of long supply chains, says Ghadar. "Following 9/11, moving goods across borders became more costly and time-consuming," he says. "While these constraints did not hinder globalization, they certainly introduced uncertainties into long supply chains that did not exist previously." The decade had just begun and more significant changes were ahead.

Mid-decade — politicized supply chains. In the years following 9/11, there were attempts by companies in globally competing countries to acquire U.S. ports and stakes in major U.S. markets. For example, Ghadar cites China's state-owned China National Offshore Oil Corporation (CNOOC) losing its attempt in 2005 to buy out the U.S. oil company Unocal Corporation. In a similar case a year later, Dubai Ports was in serious negotiations to acquire several U.S. ports before the U.S. government raised red flags over security concerns. Again, political intervention removed a perceived risk to the U.S. economy and global competitiveness. "In essence, some countries were not allowed to integrate or basically expand their supply chains," says Ghadar.

Late-decade — reverse technology flows. For many foreign-born students who came to the United States for science and mathematical education, most remained in the country following their university studies to foster innovation as engineers, technicians and scientists. This proved to be a competitive advantage for U.S. companies, primarily in the technology sector. However, Ghadar says graduates are now returning to Asia, where they're developing innovations for their home countries. "With a substantial amount of engineers and scientists being trained in Asia, particularly in China and India, many new products will be designed and developed in the region," he says. "U.S. companies and supply management professionals must acknowledge the shift in the flow of technology and incorporate it into their supply chains."

With the end of the decade reeling from global economic recession and financial upheaval, organizations must chart a new path — one that adds greater certainty in the supply chain.

2010 and Beyond

That certainty translates into added supply chain flexibility in an effort to reduce complexity. Gone are the days of globalizing for the sake of globalization, says Scott Searls, vice president for purchasing and supply operations for T-Mobile in Bellevue, Washington. Companies must now focus on the markets they're entering to a greater degree. Thus, developing, fostering and growing relationships are paramount. "To achieve this, true collaboration must exist among supply chain partners," he says. "Transparency and strategic planning are also essential in achieving operational excellence."

The next decade brings with it continual change, but opportunities abound for organizations to reach new markets and forge strategic partnerships.

Networks now demand-based. Supply networks over the last several years (prior to the global recession and financial collapse) were inventory-focused, with the objective of pushing as much product into the marketplace as possible. Searls says with readily available partners and capital investment, the potential revenues outweighed the associated risks. However, the collapse of global financial markets promptly ended the free-dealing supply model. With organizations now cautious with their investments, and financial institutions even more so, the name of the game is "demand, then supply."

"In very simple terms, the supply networks mentally converted themselves into 'demand' networks ... meaning they produce to [the] demand, not [what they] forecast," says Searls. "What this means is that, right now, we are more in a build-to-order world than a build-to-forecast world. Supply networks are operating much more risk-averse (in every aspect) because they perceive the consequences of error to be higher."

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Debt load will hinder, advance initiatives. Organizations that were highly leveraged prior to the financial crisis realized the full extent of this risk when many filed for bankruptcy following the collapse. Few industries were immune to the effects of the recession, while many more have yet to return to profitability. Searls believes that well over a trillion dollars of leveraged capital has no underlying capital-asset value. What investment and expansion opportunities exist for organizations facing this type of financial quandary? "I'd be predicting more bankruptcies as marginal companies with less operating free cash flow can't service their debt," says Searls. "The other side of debt is equally impressive — those companies that worked to eliminate debt will have more growth possibilities in front of them — to expand, acquire or invest in operational improvements or research. Supply management executives need to consider this more closely as they look at transforming supply networks around the world."

Shift in value of innovation. Ten years ago, low-cost-country sourcing (LCCS) was the strategy of choice for most global companies. It was about finding components or products at the cheapest cost. While LCCS still remains a viable strategy for certain components, Ghadar says the innovation coming out of Asia offers a significant opportunity to strengthen U.S. companies' product and service offerings. "U.S. companies need to be present in these countries because there will be a reliance on the international community as a source of innovation," he says. "This was a nonissue 10 years ago when there was little attention or concern regarding the innovations coming out of India and China, but it's going to be significant over the next decade."

Sourcing markets become buyers. For Fortune 500 companies, sourcing and supplying products and services from a region is not a recent business strategy. However, it will be a strategy that any global company must pursue to be competitive in the marketplace. Ghadar says a noticeable difference from a decade ago is the continuing growth in what were once emerging markets and economies. For example, Japan and Europe are growing extremely slowly, and the United States is on a long-term growth path of 3 percent to 4 percent annually. This is in contrast to double-digit growth rates in emerging economies such as China, India and Brazil.

And with those growth rates comes greater purchasing power. Ghadar says where the United States held 52 percent of the global purchasing power in 1950, today it's a mere 26 percent, the same as Europe, with Japan coming in at 12 percent. The rising incomes and purchasing power of China, India and Brazil will be substantial over the next 10 to 15 years. "As global purchasing patterns change, there are going to be many factors promoting globalization and long supply chains to serve these changing markets — it's a trend that supply management professionals can't get away from," explains Ghadar. "Thus, the growth of emerging economies must be a consideration when examining where your products will be sold and to whom."

Corporate responsibility as competitive advantage. During the last decade, a movement for corporations to implement social and corporate responsibility principles into their global operations took shape. Often, those initiatives were influenced by governments, nongovernmental organizations and others in the international community calling for action. Reacting to this pressure proved problematic at times because initiatives were difficult to enact and enforce on a global scale. John Forrer, Ph.D., associate director for the GW Institute for Corporate Responsibility at George Washington University in Washington, D.C., says the world is becoming more volatile and uncertain with increased complexity in markets, communities and globalized networks. This poses additional challenges to corporations in knowing what policies and strategies will earn them the reputation as being a good global corporate citizen and a trusted partner.

Going forward, Forrer says organizations can do the right thing and differentiate themselves from the competition by taking a proactive stance and integrating their corporate responsibility initiatives into their best practices. "Looking out over the future landscape, it's corporations that need to be the driving force and bring their efforts to the attention of the public," he says. "Being a responsible company and delivering on your societal commitments will translate into a competitive advantage."

United States a viable sourcing option. While many of the globalization trends involve servicing growing economies, the United States will remain an attractive location for foreign investment. One primary reason is its diverse labor force. Ghadar says the rapidly aging populations in Japan, Western and Eastern Europe, and even China, will have economic impacts on the regions. Many of these countries are raising the retirement age to sustain their workforce numbers. "From a globalization point of view, the U.S. economy, despite the recession and associated challenges, remains quite predominant and will continue to attract companies and serve as a major global hub," says Ghadar.

Supply management professionals face unprecedented times where supply networks are best described as fluid. Charting a course requires calculated decision-making that accounts for foreign innovation and demand-side triggers.

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Joseph L. Cavinato, Ph.D., C.P.M., ISM professor of supply chain management at Thunderbird School of Global Management in Glendale, Arizona, and director, A.T. Kearney Center for Strategic Supply Leadership at ISM in Tempe, Arizona, says supply management professionals are no longer hired to manage something, but to monitor what's moving and what needs to be changed to achieve the next optimum and competitive supply chain solution. "Who knows what 2015 will bring, but today's globalization trends indicate that supply chain agility will be essential." ISM

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