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Your Road Map to Going Global in Uncertain Times

Managing an international supply chain is getting riskier. Here's how to keep your product, your customers, and your company safe.



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Factory riots and espionage in China. Mass uprisings in the Middle East. Economic uncertainty and swine flu in Southeast Asia. Drug cartels in Latin America.

The world's an uncertain place. And it's not only governments and massive companies that have to worry about geopolitical chaos.

If you're a small company manufacturing overseas, or if you have a substantial supply chain there, you're at increased risk from human events, too. Just like a disaster recovery plan, you need to make sure you have the financial risk.

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Paul Golden, founder and chief

executive of Schilling Ventures, a holding company for manufacturing ventures that build non-auto transportation and water filtration components.

Golden should know. About four years ago, his ability to ship from China was severely impaired by a strike in Shenzhen, in southern China, that lasted for about a week. Although the factory he had contracted with was not shut down, roads and ports were, and Golden missed product delivery dates for his customers.

To make up for the slowdown during the strike, he temporarily switched the tooling part of his manufacturing process to the United States, which doubled his cost to produce the product.

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Golden isn't alone. Such events are increasing with alarming regularity.

In 2011, supply-chain losses grew 465%, resulting in \$350 billion in losses to U.S. companies, according to the Business Continuity Institute, a membership group devoted to business continuity management, and Capgemini, a management consultancy. And the number of companies reporting supply-chain disruptions has increased 11 percentage points to 85% since 2009, according to BCI's poll of 559 members.

The most common cause for supply-chain interruption is adverse weather, which accounted for 51% of problems, according to the [survey](#) of 559 businesses and organizations. IT and telecom interruptions garnered 41% of supply-chain difficulties. Transportation network disruption accounted for 21% of snafus, and civil unrest accounted for 10% of supply-chain disruption.

Bryan Kline, chief executive of MSi, a lighting manufacturer in Deerfield Beach, Florida, would have liked to move part of his manufacturing to Mexico, but the threat of disruption from drug cartels and what he perceived as the unstable environment in Mexico stopped him. Instead, he settled on China, which, despite being much farther away, seemed more stable for his purposes.

"Our distribution centers are in California, and we could distribute from Mexico, but the security issues in Mexico" outweighed the value of outsourcing there, Kline says.

Fortunately, there's a lot your company can do to mitigate such risks. First, it's important to see your entire supply chain as an organic whole, experts say. That means ditching an "us against the world" mentality, in which entrepreneurs all too frequently pursue low-cost strategies at the cost of relationships.

Instead, small-business owners should do everything they can to support their partners, to ensure continuity, experts say.

"There's a high correlation between having a good supply chain and [solid] financial performance," says Ricardo Ernst, professor of operations at Georgetown University's McDonough School of Business. He adds that all components of your supply chain are important.

For Golden, that has sometimes meant setting up shop in factories near some of his most important suppliers for components such as subassemblies, frames, and electrical boards--or sharing overhead in the same factory that manufactures his parts in China.

"It enables us to be high touch with our suppliers," Golden says.

Redundancy is also crucial. If operations shut down in one location, they should be able to roll to another.

Entrepreneurs with multiple products might also consider splitting the different orders among factories in a single country, says Shanton Wilcox, principal in charge of logistics and fulfillment for Capgemini. A good service-level agreement with your manufacturer should ensure that anyway, experts say, but some entrepreneurs may want to go the extra mile just to make sure.


Julie Austin, the chief executive and founder of HydroSport, a promotional-water-bottle company in Los Angeles, manufactures her product primarily in China, but she also has licensing deals with manufacturers in Argentina and Malaysia.

Austin says she has supplied each of the manufacturers with the mold for her product, so at a moment's notice they can be called upon to make it.

"Having a backup in another country and making sure they can deliver for me works great...and covers a lot of basics, because I can't be everywhere in the world," Austin says.

When it comes to IP theft and espionage, things get trickier. It's easy to have your trade secrets stolen when you're manufacturing overseas, particularly in China, where


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such problems have been rampant recently.

In early October, for example, the U.S. House Intelligence Committee [warned that the threat](#) of espionage from electronics manufacturers Huawei and ZTE in China was so great that U.S. manufacturers should avoid using their parts.

"The explicit goal of the Chinese with respect to foreign investment and business is to acquire the technical competence necessary to compete globally and build national brands," Christopher McKee, editor in chief of the PRS Group, which calculates global political risks, wrote in an e-mail.

So, it's important to have a series of best practices here, too. Above all, experts say, you should only work with partners you trust, and even then, you should only go so far, making sure your precious IP never strays abroad.

"If you're going to China to make a simple widget or subcomponent in order to cut costs, that's just fine, but if you're looking to manufacture something that involves closely held information or protected IP, there is a real cost-benefit analysis that needs to be done," McKee says.

Although China leads the U.S. Trade Representative's priority watch list, other countries near the top of the [list](#) include Russia, Argentina, and India.

McKee advises entrepreneurs bringing laptops overseas to risky locations to wipe them clean of any sensitive data, and then rewipe them when returning to the United States, considering that some of the worst places for piracy are notorious for installing spyware through networks, even in hotels.

Quadlogic Controls, of Long Island City, New York, has done its own cost-benefit analysis and has skirted the problem by manufacturing only the most rudimentary parts of the company's configurable submeters overseas--and even that is done in stages: Wafers for semiconductors are made in Idaho. Those are then shipped to the Philippines for assembly into semi-conductors, which are then set into display boards in Malaysia. The boards are then shipped back to New York--where the company employs 100 people--for proprietary assembly and customization.

"The IP that's critical to making the product we keep close and we keep in New York," says Phil Fram, vice president in charge of sales and marketing for Quadlogic Controls, adding the company's goal is to have a backup location for each factory in case there are interruptions.

Similarly, experts say entrepreneurs can think of outsourcing older generations of products in countries where IP theft is a threat, because the danger of theft is less important.

"The age-old clichés of diversification are tough to do as a small business, but not impossible," says Wilcox of Capgemini.

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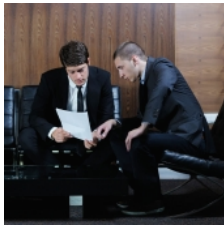
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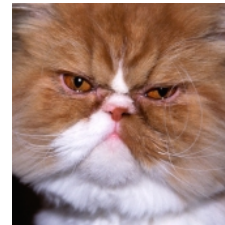
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