

MEXICO *NOW*

Mexico's Manufacturing Supply Chain Summit

Conference - B2B - Plant Visits

**El Paso, Texas
April 26-27, 2012**

Key Matters in Designing and Operating Supply chains in Mexico



*Presented at the
Manufacturing Supply Chain Summit*

El Paso, Texas

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Key Supply chains Matters in Mexico

Outline

1) Who from and how much to buy

- A discussion on **SUPPLY CONCENTRATION**
Or “many” versus “few” sourcing

2) Who to partner with & why

- A discussion on **PARTNERING**

3) The How and Why of **COLLABORATION**

- Key requirements in collaborating
- Collaboration between US and Mexican manufacturers
- Key indicators of success in collaboration

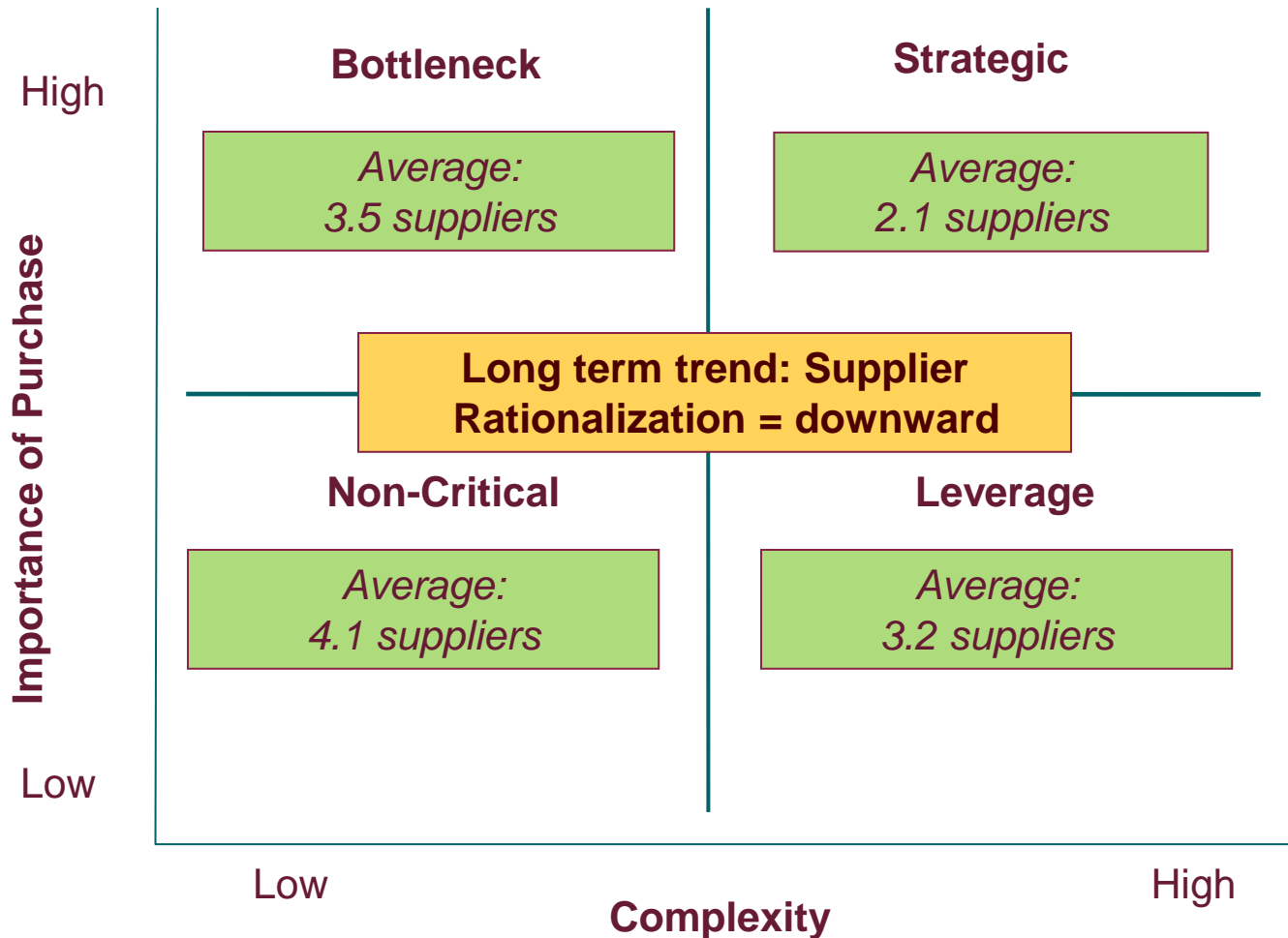
Arguments in Favor of Sourcing from “Many”

- Traditional practice
- Keep suppliers “on their toes”
- Assurance of supply
- Volume flexibility
- Strategic considerations; - Supply Chain Resilience

Arguments in Favor of Sourcing from “Few”

- Exclusivity
- Order too small to split
- Discounts on/ Ease of purchase
 - lower freight costs /easier delivery
 - JIT, stockless buying or EDI arrangements
- Cost of duplication prohibitive
- Prerequisite to partnering

Purchase Importance and Supply Complexity as criteria for supply concentration



Matrix Source:
 Peter Kraljic,
 Purchasing Must
 Become Supply
 Management,"
*Harvard Business
 Review*, September-
 October, 1983

View of Buyer-Supplier Relationship: A Paradigm Shift

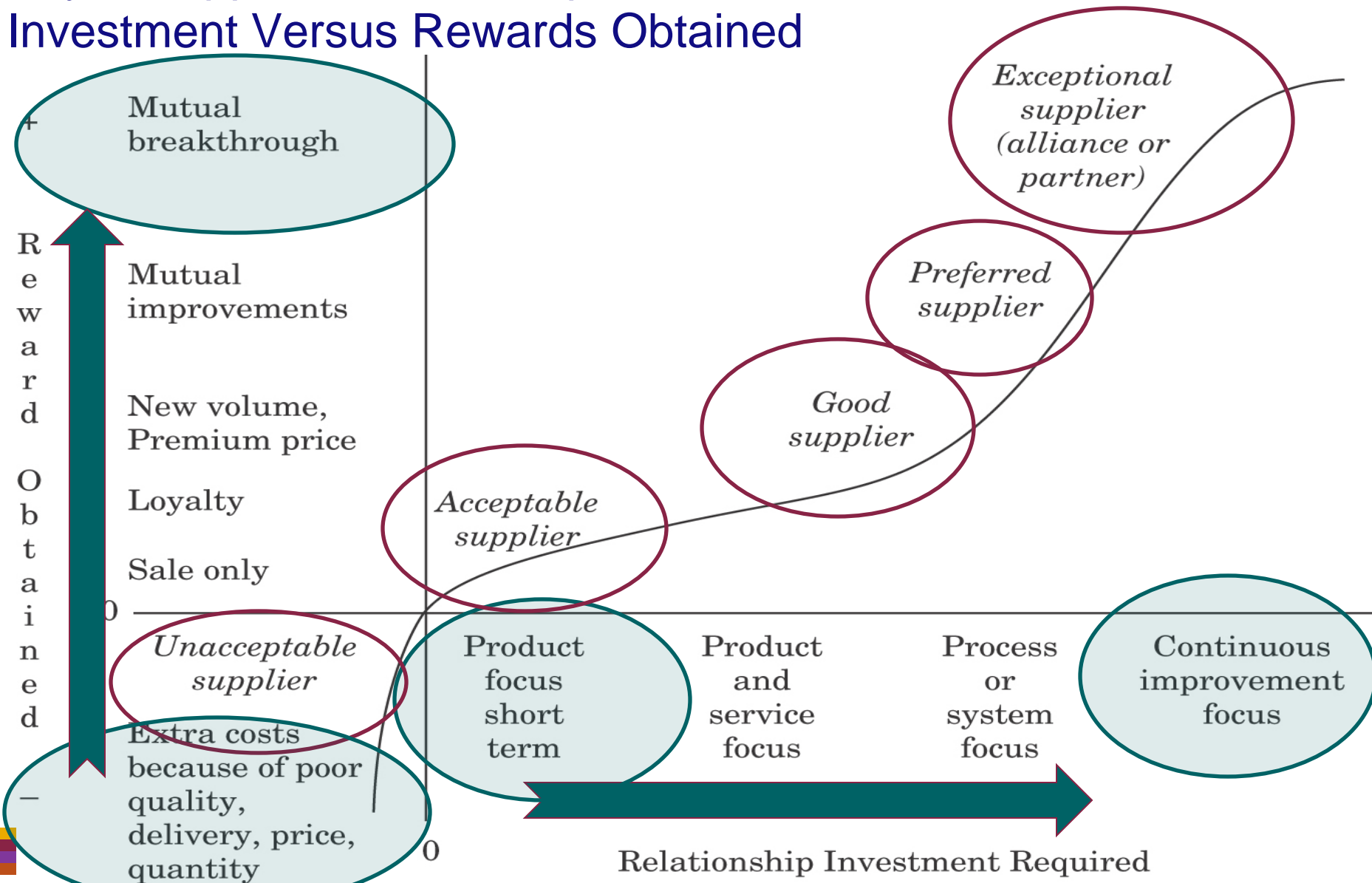
Traditional

- Lowest price
- Specification-driven
- Short-term, reacts to market
- Trouble avoidance
- Tactical

Partnership

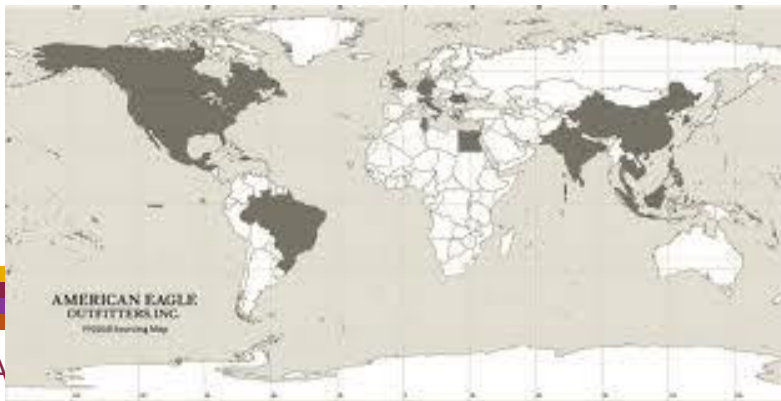
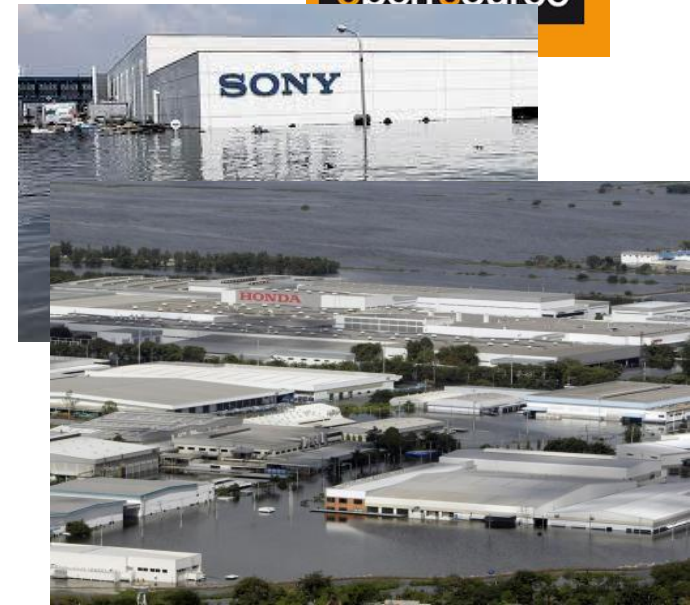
- Total cost of ownership
- Long-term
- Opportunity maximization
- Strategic
- Shared risk & opportunity

Buyer-Supplier Relationship: Investment Versus Rewards Obtained



Collaboration: The Roots of its growth in significance

- A more connected world
 - Mozilla, Google and Linux using open source networks to develop products
- A more dependent world
 - Thailand flooding hurts manufacturing for Sony, Dell and Honda
- A more complicated world
 - *Levi Strauss depends on 19 locations around the globe to produce a pair of jeans*



The rise of collaboration in supply chains

Collaboration:

- Mutually beneficial agreement between two or more partner in which resources, knowledge, and capabilities are shared with the objective of enhancing the competitive position of each partner.
- Helps identify and create synergies between organizations
 - As firms specialize on core competencies
 - As globalization opens doors
 - Particularly relevant in US-Mexico manufacturing



Collaboration between US and Mexican Manufacturers

Expected synergies

- 1) Low landed cost = Lower TCO
- 2) Reliable workforce + technical know-how
- 3) Agility through proximity
- 4) Low political, inter-national risks
- 5) Available supply network = Reduced “spend”
- 6) Cultural alignment



Collaboration: Significance for Mexico and USA

Portents to collaboration

- Collaboration is NOT a “natural” tendency of organizations.
 - “We” prefer to reduce our dependence on others.
- Loss of autonomy
 - need to manage the needs of the partner as well.
- Coordination costs
 - added effort to maintain the relationship
- Sense of inequality in effort allocation



What makes collaborations successful?
- **Reciprocal factors affecting collaboration** -

- Collaboration is associated with **trust**
- **Credibility** of the parties
- **Commitment** of the parties
- **Goal congruence**



Indicators of a Successful Supply Chain Collaboration

- Mutual profitability
- Stable relationships
- Formal communication processes
- Feedback
- Realistic expectations
- Meaningful information sharing



Thank you for your attention

gracias por su atención!



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