



EFFECTIVE RISK MANAGEMENT IN GLOBAL SOURCING:

The China price does not have to be where the dream ends and the nightmare begins.

EXECUTIVE SUMMARY

There are numerous benefits to making global sourcing part of a company's packaging supply chain strategy. However making sure that these benefits become a reality can be far more challenging than the typical internet sourcing search and blind contact of "direct sources." This paper will identify the risks in detail and introduce three phases of the process where they can be best mitigated.

TABLE OF CONTENTS

Introduction.....	3
Risks with Non-U.S. Sourcing.....	3
Time difference.....	3
Language barriers.....	3
Quality expectations.....	3
Compliance issues.....	4
Production scheduling.....	4
Logistics.....	4
Avenues to Mitigate Risks.....	4
Phase I - Preproduction.....	4
Phase II - Production.....	5
Phase III - Final inspection and logistics.....	5
How to Get Started.....	6
Summary.....	6
About Berlin Packaging.....	7

INTRODUCTION

There are numerous benefits to making global sourcing part of a company's packaging supply chain strategy. A few key benefits are lower cost of goods, low tooling costs for custom packaging, flexible and low minimum order quantities, and reduced lead times for development and commercialization of custom packaging components.

However making sure that these benefits become a reality can be far more challenging than the typical internet sourcing search and blind contact of "direct sources". It is very important that customers seeking a global option take risks into account when assessing the full business case and seek an expert in the field to assist. The minimal cost for assistance is far less than the cost of poor quality or a broken supply chain.

RISKS WITH NON-U.S. SOURCING

Global sourcing introduces many benefits into the packaging supply chain. But along with those benefits are numerous complexities that, if not managed with precision and expertise, can lead to increased costs and dissatisfaction. Simply put, these are commonly referred to as risks. There is a common saying that "getting the China price is easy, but that is typically where the dream ends and the nightmare begins." The following list identifies some of these risks along with an explanation of negative results if these are not managed closely.

TIME DIFFERENCE

Sometimes, dealing with the various time zones in the U.S. can be problematic. Especially when the manufacturer is on the West Coast and the customer is on the East Coast or vice versa. Now, increase the magnitude of the impact by a 12 to 13 hour time difference. When you are sleeping they are working, when they are sleeping you are working. This often leads to very early morning or late night conference calls, and handling challenges real time is difficult. Moreover, if an email is misunderstood, it will typically take another 24 hours for it to cycle through with a clarification.

LANGUAGE BARRIERS

By virtue of dealing with a global manufacturing partner, you must deal with the fact that their native language will be different to yours. While most factory merchandisers and managers speak English, there is still a bit of translation and interpretation that takes place in day to day communication. Without possessing the ability to interpret spoken and written communication effectively, errors or misunderstandings are certain to occur.

QUALITY EXPECTATIONS

In a perfect world we would command and receive product with zero defects. However, manufacturing introduces a certain level of complexity and variability that leads to the chance for a percentage of defects. Typically manufacturing defects are measured through the use of acceptable quality levels and are driven by industry standards. If the factory that is manufacturing the goods is not familiar with acceptable quality levels or industry standards (for the products they produce!), then liability for the nature and percentage of defects will fall into a gray area.

COMPLIANCE ISSUES

One compliance issue that must be integrated into every global sourcing decision is social compliance. Social accountability in global sourcing ensures that no child or forced labor is employed and there are no issues with working conditions, compensation, or disciplinary practices within the factories. Without having a physical presence in the factory, there is no way to tell if positive social accountability practices are occurring and that a customers' brand reputation is protected.

PRODUCTION SCHEDULING

A key step to ensuring that product is delivered on time is knowing when goods are being produced and ultimately when they are shipping. In many cases, a globally-sourced item is part of a larger bill of materials used to produce a finished good. Delays are not only unacceptable, but costly as well.

LOGISTICS

The process of shipping goods from point A to point B can be viewed as one third of a product development and production cycle; the other two thirds are sourcing/development and production. Oftentimes, the decision to purchase an item at a "delivered price" is viewed as the path of least resistance and simple. However, if not managed carefully, overseas shipments may get delayed at the factory, final destination, or any point in between. Overlooking logistics complexities is a common risk.

AVENUES TO MITIGATE RISKS

Now that the risks have been identified, what can be done to ensure that these risks are avoided and that the global sourcing process is as smooth and cost-effective as possible? A highly effective approach deals with and manages risk at three phases of the sourcing process.

PHASE I - PREPRODUCTION

Everything must start with a factory evaluation, and a comprehensive factory evaluation starts with a physical inspection. While "walking the floor", it is important to take notice of the cleanliness of the production environment as well as storage areas for raw materials and finished goods. Also, the condition of the equipment can offer insight into the quality of the operations and products that are produced. This portion of the factory inspection should also include a review of the products produced as well as an understanding of current customers buying from the factory.

The second element to a comprehensive factory evaluation is to review the processes used throughout the manufacturing process and the documentation in place to validate this. Typically, this portion of the factory evaluation is conducted with top management in each of the functional areas. As mentioned earlier, social compliance should be reviewed and validated at this point. On a side note, it is recommended that a factory review does not stop short at a review of the

factory per se. A study of the upstream suppliers must be conducted as well. This is very important to ensure that the raw material sources that the factory chooses to work with are legitimate and support the overall goal for approval of a stable supply partner.

The third and final step in the factory review process includes rolling up all of the evaluation detail into a pivotal decision; do we trust that our business is stable with this factory or don't we? It should come as no surprise that the majority of factories audited do not pass. Now, this isn't to say that factories that don't pass the evaluation process are not worth working with. A few minor corrective actions just may bring them up to a passing level.

Now that an approved source exists and a sourcing decision has been made to place valuable purchase order dollars with them, the focus needs to shift to ensuring that all product specifics are defined and offer no surprises when delivered to the final destination. The way to define this is through the use and approval of technical drawings, physical sign off samples, color range boards (light, standard, dark), and item specific sheets or spec sheets. These tools will prove invaluable during the next phase of the global sourcing process.

PHASE II - PRODUCTION

The ultimate goal of a well managed second phase is to ensure that the customer gets what they want, when they want it. A perfect scenario would have "feet on the street" who are "walking the floors" when production is underway. To trust that your production is being effectively managed while you are miles away may lead to dissatisfaction. Many customers can save money by working with a sourcing partner that has the resources to cover numerous, if not all, production runs. Prior to pressing the green start button on mass production, it is best to ensure, through a production line start procedure, that the initial production parts match the quality control tools established in phase one.

As production progresses detailed communication plans should be sent from the factory to the customer. This can be done weekly through an open order report process. The exception would be daily communication if an event occurs that may ultimately delay the confirmed ship date. Finally, advanced shipping notices or cargo bookings should be made at least two weeks prior to a communicated ship date. This will ensure that the cargo capacity will be available with the freight forwarder or steamship line directly. Also, this will allow for scheduling of a final inspection, which will be discussed below.

PHASE III - FINAL INSPECTION AND LOGISTICS

Up to this point, there has been a tremendous amount of effort and communication put into the development and production process. It would be a shame to have all of the work fall to pieces because of a quality control issue or a shipping delay. Prior to loading a container and sealing the doors, a final inspection of the goods must happen. The tools used during the final inspection are the same ones that were established previously and are guided by acceptable quality levels dependant on the full size of the production run. Assuming that the goods pass final inspection, they are then loaded on the container and delivered to the port of loading in preparation for their journey to the customer. This is when an outbound quality control report should be sent from

the factory and kept on file. If the goods do not pass final inspection, a plan will then be put in place to sort out the defective product and replace if necessary. Assuming the proper measures were taken up front to ensure the quality of the goods, the percentage of shipments that do not pass should be very small. However, it is much less expensive and time consuming to remedy a quality issue at the factory than on a U.S. loading dock, not to mention the dissatisfaction and lost business that may result from delivery of a defective product.

As mentioned earlier, the logistics process contributes one third of the overall project management timeline. The only way to gain true visibility into this leg of the process is to work with a steamship line or a freight forwarder that offers on-line track and trace tools. Continually working with a freight forwarder vs. one steamship line ensures access to many steamship lines that fall under their umbrella. This is beneficial because it greatly improves the chance that a shipment will move according to schedule and not be bumped due to over capacity. On a final note, working with a supply partner that is C-TPAT (Customs Trade Partnership Against Terrorism) certified is another way to ensure that product delivers on time. C-TPAT offers businesses an opportunity to play an active role in the war against terrorism. Essentially, this means that U.S. Customs recognizes them as a trusted importer doing business with trusted exporters, which ultimately leads to a reduced number of inspections which can delay delivery.

HOW TO GET STARTED

Time, resources and expertise are required to reliably get the best value out of global sourcing. Many companies invest internationally and build experience over time. There are also sourcing partners that have the experience, people, and processes that are dedicated to understanding and managing all of the complexities involved in delivering a global sourcing solution.

SUMMARY

Global sourcing offers many competitive advantages and cost-saving opportunities. But without discipline, advanced processes, and consistency, any planned savings may erode quickly; and this is where the dream ends and the nightmare begins. With access to the internet and email, the process of finding an offshore source is much easier today than it was five years ago. However, one must take caution when communicating business objectives with a source that has not been inspected, evaluated, and approved. If there is a doubt that a direct factory source may not be the best option, then seek out a partner that has a global presence and expertise in the field.

Your satisfaction and profitability count on it.

6

ABOUT BERLIN PACKAGING

Berlin Packaging is North America's premier Hybrid Packaging Supplier of plastic, glass and metal containers and closures. With over 33,000 available SKUs, over 100 packaging consultants, and more than 80 sales and warehouse locations across North America, the company has the right products, expertise, and geographic proximity to help customers increase their net income through packaging products and services. Berlin Packaging supplies billions of containers and closures annually as well as warehousing and logistics services for customers of all sizes in all industries. It is the only company in its sector to be ISO 9001 certified, to have Customs-Trade Partnership Against Terrorism (C-TPAT) certification, and to achieve 99% on-time delivery of its shipments every month for over six years. Related services include Studio One Eleven, a full-service custom packaging and graphic design division; Berlin Global Packaging Group, a global sourcing solutions provider including custom packaging, order and quality management, and logistics; E3, a consulting division that helps customers unlock profit; Berlin Financial Services, which provides financing for equipment and capital improvements; Dangerous Goods, offering safe, economical, UN-certified packaging solutions for shipping dangerous and temperature-sensitive goods; Freund Container & Supply, a need-it-now packaging and industrial supplies provider with no minimum order requirements; and Qorpak, a global supplier of laboratory packaging and supplies. The company can be reached at 1-800-2-BERLIN, BerlinPackaging.com, and on LinkedIn and Twitter.