

Executive Outlook 2012: Re-Evaluating International Sourcing

Written by Aaron Jagdfeld, CEO, Generac Power Systems
Thursday, 16 August 2012 14:26



Most companies pay close attention to having a competitive cost structure in the manufacture of their products. Generac is no exception. Decisions are constantly being made about whether it is more cost-effective to source components from international suppliers or produce them here in the U.S.

Over the last two decades, the trend for many companies—including *Generac*—has been to source numerous components internationally because the cost structure of component manufacturers in other countries has been lower than that of similar U.S. manufacturers. In recent years, however, that cost advantage has begun to be mitigated by a number of factors. In the U.S., that includes the use of more advanced manufacturing techniques like automation and lean manufacturing principles that improve productivity and reduce production costs. In other countries, the rising cost of production, as well as the rising cost of shipping components to the United States, have contributed to cost increases for components overall.

The above factors have combined to cause manufacturers like Generac to re-evaluate inter-national sourcing—in some cases to the point of actually making decisions to “onshore” the manufacturing of certain components back to the U.S. as cost competitiveness has improved.

This is a real trend, particularly with components that are physically larger or of a higher-value nature for which shipping and logistics is especially costly, or those that can benefit from automation and lean manufacturing.

Manufacturers need to be cognizant of this trend when making their hiring plans, as it might require that future employees have certain unique skills related to specialized equipment or manufacturing processes. There’s also value for manufacturers to invest in employee training, if they’re not already doing so.

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Generac is proud of its robust internal training programs that help our employees continuously improve. I credit these programs—*and our employees*—with contributing to our ability to efficiently onshore jobs over the past couple of years

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