

# Could Consumers End Outsourcing?

Alan Nicol, Contributor



As an engineer, I lamented and mourned every time I witnessed an employer move a product line to another facility in a lower-cost region. As a business analyst I got to see some of the numbers and I could understand the decisions.

As a process improvement agent, I knew that the savings projected in the business plans behind the moves would never be realized and I watched my predictions come true and worked projects to try to recover some of those alleged savings. As a consumer, I'm tired of it.

I went shopping on-line for some pants this week. I need to refresh my casual wardrobe. I went to a major on-line retailer and to a specific "store" in its repertoire where I found a series of products in the men's pants category that I know to come in my uncommon size and fit my tastes, from a brand that I prefer. It is one of the best-known American brand names for casual pants.

I found the models and styles I wanted. I was hoping to find some discount prices, naturally, and while I didn't find any real bargains, the price wasn't outside of expectations. However, before I clicked the buy button I glanced, out of habit, at the reviews.

The significant majority of the reviews were favorable. What caught my attention though, was that a larger-than-outlier, or larger than normally expected, portion of the comments were negative. I glanced at some of them and they all said the same thing. The size wasn't right.

Most of the comments also informed that the commenter was, like me, a repeat buyer of this trusted product and brand. They were disappointed that their new

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pants didn't fit the same as their previous ones. Normally, I take these sorts of comments with a grain of salt because a person can change size just as easily as a process can change it and some people choose to blame the product instead of the body. In this case, there were just too many similar comments for me to dismiss them.

Unfortunately, I have an illness that comes from too much process improvement practice. I began looking for similar comments and counting them, comparing them to dates the comments were posted, and comparing them to the "made in" information on the site. Now that I'm writing about it, I wish I had done some statistical comparisons just for "proof" of my observations, but at the time I didn't "geek-out" quite that much.

I found one example where I could clearly associate comments of "too-big" to specific time frames and comments of "too-small" to two other specific time frames. While I did not perform a statistical correlation, my experience tells me that there was enough data with enough of a pattern that a compelling correlation would have been determined.

I found several examples where comments concerning size differences in orders less than a year apart happened coincident with at least one comment that two sets of the same model, ordered at the same time in two or more colors were differently dimensioned when they arrived in the same box. One color's legs would be longer than a different color's of the same model, or one waist would be wider.

Here's where I'm going with the tale of this experience. My immediate assessment of the on-line shopping experience was that the brand, overwhelmed by their movement to provide a wide variety of product models, outsourced much of their other-than-main product lines and lost quality control over those products by doing so.

I expect the consumer that is I, with much experience with such things, to jump to such a conclusion. What surprised me was the volume of comments expressing frustration that the brand had apparently and unfortunately outsourced and lost control of quality. Nearly half of the negative comments about size or color or craftsmanship that I was sorting through made some statement to that affect.

In other words, at least a significant portion, if not a major portion, of retail product consumers are aware of the phenomenon of losing quality control through outsourcing product. I don't know what other consumers did, but this one decided not to order pants from that brand on-line. Instead I went to a retail store where I could put my hands on some items before I bought them.

The retailer to which I went does not carry the brand I looked for on-line; it carries its own. It features a rather youthful style that doesn't always suit me, or that I can't always pull off, but the value of the goods has never disappointed me. They fit me well and wear better and longer than most other brands I have tried. I got lucky in this case. I found some clothes that were the cut and style I wanted, that fit me, and because of the on-going "Fathers' Day" sale, I got one extra pair of pants and two

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shirts for about the same money I had planned to spend on-line.

I was able to find the value that I sought. Had I not flinched at the thought of shopping on-line instead of hands-on, I could have bought the same clothes from the retail stores own on-line store. Next time I probably will.

Ultimately, we consumers deserve some blame for the outsourcing phenomenon that has swept through the U.S. and Europe. People in general tend to make decisions based on a single significant factor and in retail settings, especially when economic conditions are regressed, that factor tends to be price. When price primarily drives consumer decisions, producers adjust.

When the apparently best way to compete on price is to reduce labor costs, manufacturers outsource to low-cost regions. When quality or value does not appear to make a difference in consumer decision-making, we accept the decision to cut costs, assuming the risks to quality.

Interestingly, consumers are aware of the phenomenon, and some of us at least are fed up. It may be that value, not price, is once again rising to the surface as the primary decision factor. I observe a phenomenon with retail stores in my city in evidence of such.

A major retailer offering everything a consumer might need in a day's shopping for the home and family at lower prices for many things than other retailers entered the market and took significant market share by competing upon price, while also providing adequate quality. Numerous stores are now in my region, actually outnumbering any one previously serving competitor. But those stores are in observable decline.

It's become difficult to find staple products in stock on any given day. It's easier to find a good parking spot that it once was. I was one consumer that rapidly reversed back to old favorite retail stores based upon my dislike for some of the goods and store-specific brands. Among my friends and neighbors, many of them have also stopped frequenting the newcomer, not because of on-line buying or a better price, but because they are tired the store experience and disappointed by the products.

If my anecdotal observations/evidence turns out to be indicative of a real trend, and U.S. consumers do return to a stronger sense of value as the primary decision factor, instead of price (wherein I submit that we originally assumed the quality would be comparable and, thus, the value better), could the same consumers that played along with the outsourcing movement drive a reversal of that movement? If we all started shopping for and buying better, more consistent quality at reasonably competitive prices, would manufacturing return to the U.S. and leave the low-cost regions?

Based on my understanding of process improvement and business performance improvement, I don't think so. At least, it wouldn't be a simple reversal.

Once a business makes the decision to sell off assets and reduce local expertise in

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order to move product to another region, it can't simply bring everything back. That is especially true of the savings projected by that decision were not fully realized, which is common. The capital to buy new equipment to replace the sacrificed production capabilities isn't there. Also, the expertise isn't there and must be rebuilt more-or-less from scratch. Returning is much harder than leaving.

What is more likely is that businesses will either suffer and potentially die off if they can't get their quality control back while consumers increase sensitivity to quality as a part of value, or they will regain their quality control by exerting greater influence and investment in the facilities, expertise, equipment, and processes to which they have outsourced. Outsourced quality can be achieved, but a concerted partnership with the supplier must be constructed and maintained.

The clothes that I eventually bought from the retail store were manufactured in Bangladesh. The clothes that one commenter complained were "probably outsourced to Vietnam" when he expressed his disappointment with the variability of fit were, according to the information on the site, actually manufactured in Indonesia. None of the items I investigated were made in the U.S.

Quality has more to do with the business and manufacturer's culture, its own priority and value placed on quality, and the business' and manufacture's shared expectations and relationship that it does on any region. (I don't mean to underplay that the ability to communicate and share those values isn't impacted by region) We tend to lose quality through outsourcing because we lose some control over the manufacturing processes. We can gain that control back by exerting our influence and building our relationships.

I suspect it is more likely that producers that outsourced and lost control in the process will work to regain control with suppliers rather than bring production back. Not all of them will succeed. That means that there is a big competitive opportunity among producers of goods in every industry affected by outsourcing to be the first to regain that control. Alternatively, new brands might enter markets if they can enter with greater quality control at similar prices.

I'm not an economist, and I've never been the executive leader of a large production business in a retail market. I won't call myself an expert in market trends or business strategy and I don't expect anyone else to do so. This post communicates some observations and experience around quality and outsourcing in a "big-picture" sense, from my humble point of view.

Please add your comments or thoughts or observations to mine. Tell us if you think some of my thoughts have merit, or if I'm off the mark. I always welcome an opportunity for others to teach me and this is a subject where my expertise touches but does not command.

While you consider that request to chime in, consider this. The decision to outsource is not one that can be reversed; not practically. By now, everyone understands that quality should be expected to suffer. The key to succeeding is to build a clear and strong relationship with a supplier such that it understands what is

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necessary to meet your expectations and your customers' expectations and that it knows how to do it. Communication is paramount. The businesses that achieve that relationship and can effectively meet customers' expectations while others are losing control and failing expectations will come out on top.

Stay wise, friends.

*Alan Nicol is the executive member of AlanNicolSolutions. Find more of Alan's thoughts at [www.bizwizwithin.com](http://www.bizwizwithin.com). [1]*

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