

The Road to China

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Abstract:

A major manufacturer of cabling for the Telecommunications Industry is concerned about diminishing profits on mature product lines, and wants to determine at what gross margin (profit) should they consider moving/augmenting production to a facility in China. Major considerations to be evaluated include; labor, transportation and raw material costs, production levels and life of the product.

Currently one of the two product lines under consideration is labor and raw material sensitive, while the other product line is most likely going to see market share diminish due to competition from fiber optics. The company is deeply involved in cost reduction projects in an attempt to prolong current facility production levels. Unfortunately the company's competitors are beginning to source production from the Chinese market. Product made in China, in some instances, can be made and shipped to the US for less than domestic production. Fortunately the mainstay product for this company has not seen a major shift in cost (operating, scrap, materials, labor) and has become a fairly consistent gross margin earner. This is the product line we will concentrate on in this project. The big question is, when will the bread and butter product for this company, become toast

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