

Selecting Suppliers in the Automotive Industry: Comparing International Logistics Costs

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in the
Automotive
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Abstract

Maquiladoras operations along the Mexico-US border are an oft-studied example of a lean supply chain strategy that allows US manufacturers to benefit from lower labour costs in Mexico while being able to supply to assembly plants in the industrial US Midwest, with a minimum of safety stock.

This study examines an alternative strategy of the subsidiary of a North American automotive parts producer, which purchases raw and semi-finished materials from approved North American automotive 2nd tier suppliers, manages the shipment of the materials to a plant in Thailand where the semi-finished materials are converted in a labour-intensive process into higher-value sub-assemblies. These sub-assemblies are then shipped back to the US for installation into automobiles at an assembly plant in the Detroit area.

The additional logistics costs of using Thailand as a production base are overcome by demonstrable quality advantages and lower wages, as compared to competitors performing similar operations in Mexican maquiladoras.

This case study illustrates that international logistics management strategies must also incorporate product characteristics in addition to customer requirements for meeting optimum logistical performance.

Keywords: International logistics, Thailand, Maquiladoras (Mexico), Automotive industry, Supplier selection, Global supply chain.

1. Introduction

Supply chain management integrates suppliers, manufacturers and distribution centres to get the right products to the right place at the right time and in the right condition (Christopher and Towill, 2001). As the management of supply chains improve, the promise of integrated global supply chains begins to be realized, where raw materials are harvested at their sources, manufacturing is performed in the locations providing highest processing