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The flow of trade: An interview with H. Ray Bingham

As a director of companies such as Flextronics and Cadence, Ray Bingham has seen information reshape trade flows and globalization. Here's what he has learned from the experience.

China's advancing economy is changing global trade flows in Asia and beyond. In this interview with McKinsey's Rik Kirkland, Ray Bingham explains the implications, from his experience as an advisory director of private-equity firm General Atlantic and a board member of companies including Oracle, Flextronics International, and Cadence Design Systems. An edited transcript of Bingham's remarks follows.

Moving supply chains beyond Asia

The common understanding of supply chains is they all go to China: cheaper, better, faster. That's changing pretty dramatically. It changed when we saw the weather events and political disruptions in that part of the world. It changed as customers began to understand the value of having alternatives to that supply chain. It changed as political events began to push prices and costs in those geographies, in many cases, to a level of uncertainty—but certainly, in most cases, higher. Sometimes it's just time to market.

As China has moved its manufacturing focus more inland and tried to create a high-value sector on the coastline, that's created a transportation challenge for any manufacturer going to Europe or, in some cases, the East Coast of the United States.

And so one of the growth geographies for manufacturing in the last five to ten years has been Mexico and Latin America. Good universities, good source of technical talent, good workers; much shorter and much more secure supply chains coming out of Mexico, where we've created large presences, than the all-in costs of working through some Asian situation where it's your only source of supply and therefore brittle.

What's happening now as a result of communications, digitization, and the opening of markets is that more countries are competitive, more educated populaces are able to access the jobs that are created by these manufacturing zones we're creating now, not just in China, but in almost any

country that can deliver the educated workforce, the motivated workforce, and the open borders to be able to move components in and finished goods out to whatever market companies need to serve.

Using data to make smarter decisions

When I was in school, we used to talk about mass personalization. We didn't have the capability to *do* anything about it, but we talked about it a lot. Today, we have the capability to do something about it. In my career in the design-automation business at Cadence, one of the systems that we worked hard on, and is being realized today, is the notion that if a designer, when he's designing a semiconductor or a circuit board or even a system—call it a camera or a phone or a toaster or the front end of a Maytag washing machine—if the designer knows about the availability of components, the performance of components, the specification of components, factory availability, and market demands, that designer will make different design decisions based on the constraints he or she can understand, looking out into that world.

Twenty years ago, ten years ago, even maybe five years ago, access to that information simply wasn't available. Today, with the kind of access that you have, both directly and indirectly, from all kinds of media, you can start making design decisions based on your understanding of component supply, component cost, component performance, factory availability, and supply-chain movements in the markets that you hope to serve with the product that you're designing at some price point.

I know of several companies putting together those kinds of systems, so when the events that represent risks they're managing begin to happen, they know about it instantaneously and can begin imagining the adjustments they'll make in their systems to accommodate those risks.

I'm describing insurance companies, which look at weather events and then project them out and see where the flow of the storm's going to be, and look at the exposures they have in that marketplace, and start mobilizing for that. I'm talking, of course, about designing products, because that's my work, and what it takes to get those products to market at the right place, at the right time, at the right cost. All of those sources, all those information sources, are available in a way to be analyzed and understood to help us make decisions that before were just "gut feel." □

H. Raymond Bingham is an advisory director of private-equity firm General Atlantic and a board member of companies including Oracle, Flextronics International, and Cadence Design Systems. This interview was conducted by **Rik Kirkland**, McKinsey Publishing's senior managing editor, based in McKinsey's New York office.