

ARENA SOLUTIONS

# eBook

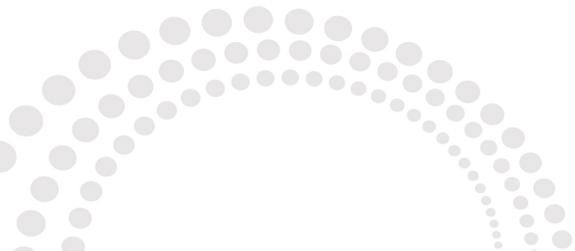
BEST PRACTICES IN OUTSOURCED MANUFACTURING:  
**Are You Making the Right Decisions?**



# Best Practices in Outsourced Manufacturing

## Table of Contents

<b>Introduction</b> .....	<b>3</b>	<b>Chapter 3: Two ways to optimize your production for multiple product lines</b> .....	<b>25</b>
<b>Chapter 1: How much of your production process should you outsource?</b> .....	<b>4</b>	Key factors in your decision-making process .....	26
Key factors in your decision-making process .....	5	Option A: stick with your current supply chain to optimize costs .....	27
Option A: outsource purchasing, inventory and assembly .....	6	Option B: find the best supply chain for each product line .....	29
Option B: outsource assembly only .....	8	Recap .....	31
Recap .....	11	Tips for making it work .....	32
Tips for making it work .....	12	<b>Chapter 4: Should you move manufacturing closer to customers?</b> .....	<b>34</b>
<b>Chapter 2: Two ways to lower supply chain costs— which is right for you?</b> .....	<b>14</b>	Key factors in your decision-making process .....	35
Key factors in your decision-making process .....	15	Option A: find suppliers close to your customers to avoid international delivery costs .....	36
Option A: reduce costs with your current supplier .....	16	Option B: work with your current CM to find other ways to cut costs .....	39
Option B: pursue a new outsourcing strategy .....	19	Recap .....	41
Recap .....	22	Tips for making it work .....	42
Tips for making it work .....	23	<b>Conclusion</b> .....	<b>43</b>



# Adopt an outsourcing strategy that's right for your business

Companies looking to take full advantage of the benefits of outsourced manufacturing face a variety of challenges— from securing the best pricing to creating an approach that works across several different product lines.

Through years of working with original equipment manufacturers (OEMs) and contract manufacturers (CMs), Arena has identified trends and industry best practices associated with success in outsourced manufacturing. This guide examines several of those to help you determine an outsourcing model that increases company revenue, minimizes errors and unnecessary costs, optimizes product quality and inventory levels, and ultimately speeds your time-to-market.

Outsourcing presents opportunity, but there are also risks and challenges for OEMs to consider.

The “right” manufacturing outsourcing strategy is different for every organization, so assess your internal strengths and resources before adopting an outsourcing strategy.

# How much of your production process should you outsource?

When preparing for production, should you outsource purchasing, inventory management and assembly, or just assembly? This chapter discusses the pros and cons of each option and offers suggestions to help you in your decision-making process.

Your manufacturing milestone: you're a start-up getting ready for production. **And now you have a decision to make.**

*Should you outsource purchasing, inventory management and assembly, or just assembly?*

*Weigh the options before making a decision.*



Outsource purchasing, inventory and assembly to your contract manufacturer.



Outsource assembly only.

# How much of your production process should you outsource?

## Key factors in your decision-making process:

- Importance of IP protection
- Organizational core competencies
- Cost of purchasing errors and rework
- Capabilities of BOM and change management systems
- Operational efficiency
- Required business systems
- Budget



Outsource purchasing, inventory and assembly to your contract manufacturer.



Outsource assembly only.

# Option A: Outsource purchasing, inventory and assembly.

This can work for you when:

- You have a simple product.
- Your product has a stable design.
- You can trust your supply chain partners.
- You have few employees or lack in-house expertise.

Potential Benefits	Potential Risks
Focus on core competencies by outsourcing other parts of the process	Less control of supply chain
Mitigate sourcing and shortage issues	Decreased IP security
Leverage economies of scale for better deals	Fewer opportunities for supply chain innovation
	Less visibility into actual part costs



Outsource purchasing, inventory and assembly to your contract manufacturer.



### Outsource purchasing, inventory and assembly to focus on core competencies.

The major benefit of delegating purchasing and inventory to your contract manufacturer (CM) is that your in-house team will have more time to focus on design and engineering. Purchasing and inventory can be very resource-intensive, and assembling and training a team to manage this work in-house takes time away from product maintenance and development. Pushing these responsibilities to a CM gives your internal team a chance to develop expertise and strength in other areas.

### Empower your CM partners to purchase the parts they need.

Outsourcing purchasing, inventory and assembly to your contract manufacturer also addresses sourcing and shortage issues. It makes a lot of sense to have your contract manufacturer find and purchase the parts that they will ultimately be using. Because CM teams are often more specialized than original equipment manufacturers (OEMs), they are typically in the best position to ensure that they have what they need in order to do their work.

### Use your CM network to take advantage of volume pricing.

A third reason to outsource purchasing and inventory to your CM is that this move can help you reduce costs by leveraging quantities of scale. Your CM may be doing similar work for other customers using the same components. If your CM purchases all the parts together, he or she can get volume pricing and can pass the savings along to you.



The major benefit of delegating purchasing and inventory to your contract manufacturer is that your in-house team will have more time to focus on design and engineering.



Outsource purchasing, inventory and assembly to your contract manufacturer.



# Option B: Outsource assembly only.

This can work for you when:

- You have a highly complex product mix.
- You have security concerns.
- You are confident in your ability to leverage a diverse, competitive supply chain.

Potential Benefits	Potential Risks
Maintain flexibility and control	Inability to get volume pricing
Empower innovation internally	Decreased focus on specialized core competencies
Develop skills in-house	Additional management responsibility
Reduce supplier management costs	



Outsource assembly only.



**If you want it done right, do it yourself.**

If maintaining control and flexibility is important to you, you will probably want to handle purchasing and inventory yourself. Managing a supply chain can be a lot of work, but if you can develop it as a core competency, it becomes a competitive edge. (Just look at what Tim Cook did for Apple.)

**Develop competencies in-house to increase opportunities for innovation.**

New substitutes cut in on your market share. In today's world of rapid iteration and innovation, you may find competitors emerging much earlier in the product lifecycle than you expected. Often, a sound business model and production process can mean the difference between success and failure. If you outsource this task you can miss a good opportunity to innovate.

“ Managing a supply chain can be a lot of work, but if you can develop it as a core competency, it becomes a competitive edge.



Outsource assembly only.



### Avoid CM markups and fees.

Another reason to keep purchasing and inventory in-house is that outsourcing these processes can be pricey. Not only do most contract manufacturers charge a mark up, but also they may not work as hard to get you the best deal. When you outsource purchasing, you have less control of the buying process and can't be certain that your total part cost is as low as possible. Even if working with a CM results in volume pricing, it is likely they will only pass the savings on to you if your business represents an important revenue stream for them. (Can you really blame them for wanting to keep the margins?)

### Don't pay more to do more work.

Even if you pass off purchasing and inventory to your supplier, you will still need to manage change, communicate design and tell your contract manufacturer what to buy. You end up managing the hard part of the task – passing off POs and inventory management to your contract manufacturer – but still paying a high price for your CM.

### Bring purchasing in-house to protect your IP.

Lastly, there is inherent risk in giving a partner so much access and visibility into your supply chain. If your product comes with a lot of security concerns and you outsource purchasing and inventory, you may unintentionally be giving too much power, product knowledge and control to your CM.

“ When you outsource purchasing, you have less control of the buying process and can't be certain that your total part cost is as low as possible. ”



Outsource assembly only.



# Recap

## You may want to outsource purchasing, inventory and assembly if:

- Your product is stable in its design and not very complex.
- You have a partner that you really trust.
- You are just getting started and don't have in-house expertise (or want to develop it).

## Consider managing purchasing, inventory and assembly in-house if:

- You have a highly complex product mix or a highly complex product.
- You have IP or security concerns.
- You are confident you can leverage a diverse supply chain as a competitive advantage.

# Tips for making it work

## Option A:

### Outsource purchasing, inventory and assembly to your contract manufacturer.

If you decide to turn over purchasing and inventory management to a vendor, make sure you only work with people you trust. By outsourcing such an important part of your operation, you create a great deal of operational dependency. This can make you more vulnerable, so keep an open eye, be flexible and be ready to change if needed.

When you outsource purchasing, inventory and assembly, you lose a potential core competency or competitive advantage. So you must decide if this fits with your company's strategic goals. If you decide your supply chain isn't a competitive differentiator, then move forward cautiously.

If you are a small company and are outsourcing these key processes because you lack the skills in-house, be ready to increase your staff and take over if needed. If you are a large company looking to focus more on engineering and design, do some testing and take it slow if you are considering changing your model.

## Proceed with Caution

- Only turn purchasing and inventory management over to people you trust.
- Before outsourcing, think carefully about whether purchasing, inventory and assembly are competitive advantages for you.
- It may make sense for small companies to outsource—but be ready to step in if needed.

### Word to the Wise

- Don't panic if mistakes are made—they're normal.
- Have backup plans for supply chain breakdowns.
- Leverage the right people.
- Nurture the skill sets you'll need to step in if necessary.

### Option B:

#### Outsource assembly only.

If you decide that your purchasing and inventory should be managed in-house, don't panic when mistakes are made. Mistakes are inevitable, and this is a normal part of business maturity. You will undoubtedly encounter supply chain breakdowns and errors, so create a Plan B.

No matter what you decide in this situation, make sure you are depending on the right people. Whether you in-source or outsource, its important to carefully select people with the right skill sets and industry knowledge.

# Two ways to lower supply chain costs. Which is right for you?

If you're looking to lower manufacturing costs, should you cut a deal with your current supply chain partner or find a cheaper supply chain partner? This chapter discusses the pros and cons of each option and offers suggestions to help you in your decision-making process.

**BEST PRACTICES IN OUTSOURCED MANUFACTURING**

Your manufacturing milestone: your first-to-market product is being undersold by fast-followers. You need to find a way to cut costs.

*And now you have a decision to make.*

*Should you work with your current supply chain to lower costs or should you find a cheaper supply chain partner?*

*Weigh the options before making a decision.*



Reduce costs with your current supplier.



Find a lower-cost supplier.

# Two ways to lower supply chain costs—which is right for you?

## Key factors in your decision-making process:

- **Cost of conversion**—In addition to implementation costs, consider the potential cost of production gaps, scrap and rework errors and overtime labor costs.
- **Risk of change**—Can you handle the risk of making a big change to your supply chain?
- **Effectiveness of your new product introduction process**—Does it make sense to work with your current supplier to improve this process for future releases?
- **Supplier availability and resources**—Does your current supplier have the bandwidth and/or desire to help you with a cost-reduction effort?
- **Lean, Six Sigma, 5S, TQM**—Have you already implemented one of these cost-cutting business strategies, or is there potential to save money by improving your internal processes?



Reduce costs with your current supplier.



Find a lower-cost supplier.

# Option A: Reduce costs with your current supplier.

## This can work for you when:

- You will be introducing new product lines with similar assembly requirements in the future, and can flush out production-related issues for them now.
- You can potentially cut costs in other places by implementing lean initiatives throughout your business and supply chain.
- Your supplier has bandwidth to reduce costs and is willing to work with you.
- You fear a large change is too risky for you at this time.
- You are mid-production and can't afford any setbacks or delays.

Potential Benefits	Potential Risks
Minimal risk	Your supplier may be unwilling or unable to cut costs
No surprises	There is less opportunity to innovate
Leverage an established partnership	You could miss out on a chance to revitalize your business
Opportunities to optimize for future release and a baseline for improvement	
Available resources to focus on quality and governance issues	



Reduce costs with your current supplier.

**Adaptation is safer than starting from scratch.**

Evolution is safer than revolution, so in many cases, working with your current supplier is the least risky and most efficient way to reduce costs. Although it may be tempting to start fresh with a new supplier—especially if there has been tension over decreasing profit margins—pursuing a whole new strategy can be hard to pull off smoothly.

**Leverage your current partnership to cut costs.**

If you have had a good relationship with your supplier you can leverage it—and any other learning experiences you’ve had with them—to refine your production methods without disrupting business. It might be easier than you think to reduce costs with your current supply chain because they are invested in your success. Since they depend on the money from your orders, they have some natural incentive to help keep things running smoothly.

**Establish a baseline for improvement with your current supplier.**

Working with your current supplier also gives you the opportunity to pursue cost-reduction sharing. If you’ve been with your current supplier for a while and know their costs, you can quickly establish a realistic baseline for improvement.



It may be tempting to start fresh with a new supplier—especially if there has been tension over decreasing profit margins. But pursuing a new partner can be risky.



Reduce costs with your current supplier.



### Avoid production stoppage by staying with your current supplier.

Moving production to a new supplier can be a headache. You need to sort out various quality and governance issues. Also, it may take longer than you think to end things delicately with your current supply chain—especially if you will be running multiple supply lines over multiple products. You may also be surprised by the level of management intervention and resources required to get everything set up. If your current supplier is willing to work with you, cutting the ties may not be worth the hassle.

### Will you like your new supplier's new ideas?

Additionally, a new supplier means new ideas and surprises along the way—for better or worse. Will the new supplier's ideas mesh with yours? Will you be able to resolve problems quickly enough to keep the line moving?

In the long run, the only way to avoid the headache of sourcing, managing and problem-solving with a new supplier is to stick with your current supplier. If you demonstrate your loyalty to your current supplier now, it may help you if you need to negotiate additional price cuts down the road.

### Moving to a New Supplier Can Be Risky

- Sorting out quality and governance issues is complicated.
- Disengaging with current supply chain can be complex, especially if multiple supply lines over multiple product lines have been used.
- Involving management extensively is often necessary.



Reduce costs with your current supplier.

# Option B: Pursue a new outsourcing strategy.

## This can work for you when:

- You are well established and have a highly mature product.
- You are at a stable place in your company and product lifecycle.
- Your current supplier is unable or unwilling to cut costs any further.
- Your team is up for a challenge and can put additional resources into change management.
- You understand how your product is designed and manufactured well enough to explain it to a new set of vendors.
- You have little opportunity to cut process costs internally by adopting Lean, Six Sigma, 5S, TQM or other strategies.
- You have access to a competitive supplier landscape where sourcing is not prohibitive.

Potential Benefits	Potential Risks
Kick bad habits to the curb	Increased risk of production stoppage
See real change	Decreased stability
Demonstrate to other suppliers that you're serious about cutting costs	New and unexpected problems to manage
Find a supplier in a more ideal location, with better technology	Additional resources needed to source, manage and problem-solving with a new supplier
Increase your ability to innovate	Potentially burned bridges with your old supplier
	New supplier may be unable to help you cut costs



**Your supplier may not be motivated to help you.**

If your suppliers work with larger clientele, it might be more difficult to get what you want out of a continued relationship—especially if your supply chain doesn't seem to care about your business. Investing more time and money into a partner relationship only makes sense if your partner is willing to meet you halfway. If you don't have the size, clout or relationship to get your supplier's attention, you may not be able to implement the changes you want.

**Prove you're serious about cutting costs.**

Even if you are decently satisfied with your current supplier, you may want to consider looking into other options. Introducing a new supplier sends the message to your old suppliers that you are serious about cutting costs—and may even convince them to put more effort into streamlining your production.



If your margins have been steadily decreasing and your supply chain has already made all the cuts they can, there isn't much you can do to improve your current situation without a major change.



Pursue a new outsourcing strategy.



### Take your business to the next level.

By moving to a new supplier, not only is there potential for monetary benefits, but you can also improve your business in a variety of ways. If you take the time to shop around and find a more tech savvy supplier, you can utilize their new technology and equipment to speed production, improving your edge. Additionally, if you find suppliers in areas where the cost of labor is much cheaper, you might be able to save money without making many dramatic changes to your process.

### Create competition in your supply chain and get the best deal.

You can create greater competition in your supply chain and stronger options for sourcing by increasing your supplier network. If suppliers are competing for your business they may be more willing to expose hidden margins that your current supplier may not be telling you about.

### Drop dead weight and take advantage of an opportunity to innovate.

Finally, starting fresh with a supplier can breathe new life into your business. When you are starting something new, you are forced to look at your status quo operation and refine it as you deploy with the new partner. In some cases the new supplier may be equipped to help you expose better or more refined processes. There is a huge benefit in getting a new set of eyes onto your product and production methods.

With all the possible benefits, working with a new supplier can be a risk, but it's often a rewarding risk to take.



One big reason to change suppliers is that starting fresh with a supplier can breathe new life into your business.



Pursue a new outsourcing strategy.



# Recap

## You may want to work with your current supplier to cut costs if:

- You will be introducing new product lines with similar assembly requirements in the future, and can flush out production-related issues for them now.
- You can potentially cut costs in other places by implementing lean initiatives throughout your business and supply chain.
- Your supplier has bandwidth to reduce costs and is willing to work with you.
- A large change is too risky for you at this time.
- You are mid-production and can't afford any setbacks or delays.

## You may want to find a lower-cost supplier if:

- You are well-established and have a highly mature product.
- You are at a stable place in your company and product lifecycle.
- Your current supplier is unable or unwilling to cut costs any further.
- Your team is up for a challenge and can put additional resources into change management.
- You understand how your product is designed and manufactured well enough to explain it to a new set of vendors.
- You have little opportunity to cut process costs internally by adopting Lean, Six Sigma, 5S, TQM or other strategies.
- You have access to a competitive supplier landscape where sourcing is not prohibitive.

# Tips for making it work

## Option A:

### Reduce costs with your current supplier.

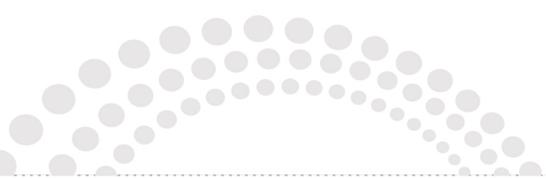
If you're going to stay with your current supplier, you need to work closely to integrate industry best practices like Lean and TQM into your strategy. To ensure you don't become supplier-dependant, always be ready to reassess and make changes proactively.

As you move forward with your current supplier remember that it's one thing to make a smart plan, but it's another thing to execute it well. This is where you will need to be vigilant—don't expect your supplier to implement change independently of you.

Throughout your changes, remember to focus on your product. Don't get so caught up in adding a lot of new technology and processes that you forget to simplify. If the product doesn't get made faster, better or cheaper, it's not worth doing.



If you move forward with your current supplier, remember that it's one thing to make a smart plan, and another thing to execute it well.



## Leaving Your Current Supplier?

- Don't rush your decision.
- Don't assume that outsourcing overseas is automatically the best option.
- Evaluate many suppliers in many geographies.
- When you tell your current supplier, they'll be less motivated to help you.

## Option B:

### Pursue a new outsourcing strategy.

If you decide to leave your current supplier, don't rush the decision. You should evaluate many suppliers in many geographies. Don't assume that outsourcing overseas is automatically the best solution. It's also important to remember that as products mature and become obsolete, other products will emerge. You need to balance your supply chain to fill both needs. Execution is critical.

Also, keep in mind that once you break the news to your current supplier, they will be less motivated to help you, which can make the transition painful. As with any other breakup, you may notice your calls go unanswered, your voicemails aren't returned and your product deliveries are treated less urgently. Understand your supplier's motivations, and find ways to compensate them.

No matter what you decide, don't be fooled into thinking there's a magic bullet. You should always be evaluating new options for all of your products.

# Two ways to optimize your production for multiple product lines

When introducing a new product, should you work with your current supply chain to optimize your part costs for multiple products, or add additional supply chain partners to optimize quality and efficiency for the new product? This chapter discusses the pros and cons of each option and offers suggestions to help you in your decision-making process.

**BEST PRACTICES IN OUTSOURCED MANUFACTURING**

You've hit a key milestone: you've developed a new, cutting-edge product and want to begin manufacturing it alongside your more stable and easy-to-manufacture product lines. *And now you have a decision to make.*

*Should you work with your current supply chain to optimize your part costs for both products, or add additional supply chain partners to optimize quality and efficiency for the new product?*

*Weigh the options before making a decision.*



Stick with your current supply chain to optimize costs.



Find the best supply chain for each product line.

# Two ways to optimize your production for multiple product lines

## Key factors in your decision-making process:

- **Available resources**—Do you have the time and money required to manage multiple supply chain vendors for each product line?
- **Organizational priorities**—Would you rather optimize your process for design or for cost?
- **Supply chain lifecycle**—Does your current supply chain have room to mature along with your product lines?
- **Supplier relationships**—Will your current supplier help you optimize for each product line? Does your current supplier see you as a priority customer?
- **Risk**—Can you handle the risks that come with adding a new supplier?



Stick with your current supply chain to optimize costs.



Find the best supply chain for each product line.

# Option A:

## Stick with your current supply chain to optimize costs.

### This can work for you when:

- You have high-volume, low-complexity products that share similar tooling, raw materials or assembly procedures.
- Your organization lacks the resources to manage new supply chain partners.
- Your current supply chain partner can offer diverse solutions and has room to grow.
- You are confident in your ability to source back-ups if something happens to your current partner.

Potential Benefits	Potential Risks
Simplicity	Decreased stability
Reduced part costs from volume purchasing	Lost opportunity for innovation
Reduced management costs and required resources	Increased dependence on your current supply chain partners
Opportunities to build upon an established relationships	A team that isn't the best fit for the new product



Stick with your current supply chain to optimize costs.

### Work with one supply chain to reduce errors and simplify.

Having a single supply chain keeps things simple. Managing fewer personalities and hand-offs throughout the production process can reduce errors and lighten the load on your management team.

It can be risky to outsource to a new supplier, and you may not get the level of service you were promised in the initial sales pitch. Although a new supplier may make big promises, you already know what you can expect from your current supply chain. It's less risky in the short term to stick with what you know.

### Use your current supplier to take advantage of economies of scale.

Increasing your volume with your current supplier can result in a significant cost reduction thanks to volume pricing. If you use similar parts across all your product lines, working with a single supply chain makes it much easier to determine your part overlap. Coordinating purchasing to get incentives based on your larger volume is also an option.

### New isn't always improved.

If you do add a second supply chain, not only do you lose the opportunity for volume pricing, but also costs can add up quickly. There are not only the initial set-up costs, but also the added management costs that you incur even after the new supplier is up and running. Multiple supply chains can be the best way to optimize product design, but the stress of managing multiple chains can sometimes take your focus off the product.

“

It can be risky to hand things off to a new supplier.

You may not get the level of service you were promised in the initial sales pitch.

”



Stick with your current supply chain to optimize costs.

# Option B:

## Find the best supply chain for each product line.

### This can work for you when:

- Your current and new product lines have very different components and manufacturing processes.
- Your management team has the availability to take on additional responsibilities.
- Your customers are very quality-sensitive.
- You'd like to reduce your overall supply chain risk.
- You don't have strong relationships with your current supply chain partners.

Potential Benefits	Potential Risks
Reduced supply chain risk	Less opportunity for volume pricing
Better matched supply chain partners	Additional set-up and management costs
Aligned competencies for each product	Increased complexity
Better delivery times and higher quality	
Increased flexibility and innovation	



Find the best supply chain for each product line.

### Diversify to minimize long-term risk.

Although there is inherent risk in making a big change like adding a supplier, a diversified supply chain reduces your risk in the long term. By having more than one supplier to rely on for your sourcing needs, you limit your risk should one of them go out of business, run out of product or have other issues that could have a ripple effect on your productivity.

### The grass just might be greener after all.

Adding a new product line is the perfect chance to try working with another supply chain, especially if you haven't been happy with your current team or have been working with them for a long time. Who knows? If the new suppliers really impress you it may make sense to bring all your business to the new supplier when your product reaches maturity.

### Choose the best to get the best results.

The notion of "best" for each line implies obvious gains. Having suppliers whose competencies are matched with the needs of your product can lead to faster delivery, higher quality and lower cost. All of this can lead to increased customer satisfaction and increased profits.

### Take the opportunity to innovate.

The prototype and early production phases are a great time to shake things up. There are few times in your company lifecycle that you have the opportunity to really innovate, so make the most of them when they come. Even if you are happy with your current supplier, adding a new supply chain freshens things up and allows you to flush out new ideas for your product and process. By sticking with one supplier, you miss the opportunity to find a new and better way to do things.

“

Adding a new product line is the perfect chance to try working with another supply chain—especially if you've worked with your current team for a long time.

”



Find the best supply chain for each product line.



# Recap

## You may want your current supply chain to manage your new product line if:

- Your internal management team lacks the availability and competency to take on new supply chain partners.
- You have high-volume, low-complexity products that share similar tooling, raw materials, or assembly procedures.
- Your current supply chain partner can offer diverse solutions and has room to grow.
- You are confident in your ability to source back-ups if something happens to your current partner.

## Consider working with a new supply chain team to manage your new product line if:

- Your new and current product lines have very different components and manufacturing processes.
- Your management team has the availability to take on additional responsibilities.
- You can't afford a slip in quality.
- You'd like to reduce your overall supply chain risk.
- You don't have strong relationships with your current supply chain partners.

# Tips for making it work

## Option A:

### Stick with your current supply chain to optimize costs.

If you utilize your current supply chain partner for a new product introduction, it may make sense to use the new product as a bargaining chip for better terms, or as a way to demonstrate your faith in your partner and improve the relationship. Remember, happy supply chain partners do a better job and ultimately create a higher level of customer satisfaction.

If you stay with your current supply chain, think it through first. Don't put all of your eggs in one basket just because it is the path of least resistance. When you have a positive relationship with your supply chain, it's easy to assume there's nothing better out there. But it may be a worthwhile investment to perform your due diligence and explore the potential of a new supply chain.

If you diversify, start small—the less you gamble, the less you can lose. Whenever you are dealing with new partners, you should be careful about how quickly you invest. Put your toe in the water to see how it feels before you jump in.

## New Product as Bargaining Chip?

- Try for better terms.
- Use the new product to show your faith in your partner and strengthen your relationship.
- Loyalty is good, but don't put all your eggs in one basket.

## Different Product, Different Supply Chain

- Will the unit volume of your new product allow you to recover the upfront costs of a new supply chain?
- Evaluate many suppliers in many geographies.
- Don't assume that overseas is always the best option.

### Option B:

#### Find the best supply chain for each product line.

If you are planning to make the investment in a new supply chain, consider how many units will have to be sold to recover your sunk costs. Don't rush into a new manufacturing environment without making sure there is potential to recover your upfront costs. Keep your eyes open for the sales pitch. While a new supplier will make big promises to get your business, it's important to bring the sales pitch down to cold hard facts.

If you decide to leave your current supplier, don't rush the decision. You should evaluate many suppliers in many geographies. You need to balance your supply chain to fill both needs. Execution is critical.

You need to understand that once you break the news to your current supplier, they will have less of a motivation to help you, which can make the transition painful. As with any other breakup, you may notice your calls go unanswered, your voicemails aren't returned, and your product deliveries are treated less urgently. Understand your supplier's motivations, and find ways to compensate them.

No matter what you decide, don't be fooled into thinking there's a magic bullet. You should always be evaluating new options for all of your products.

# Should you move manufacturing closer to customers?

When selling products overseas, should you mitigate the cost of international delivery by manufacturing closer to customers or should you cut costs another way? This chapter discusses the pros and cons of each option and offers suggestions to help you in your decision-making process.

**BEST PRACTICES IN OUTSOURCED MANUFACTURING**

You've hit a key milestone: you've expanded your market reach and are selling across the globe.

And now you have a decision to make.

*Should you mitigate the cost of international delivery by manufacturing closer to customers or should you cut costs another way?*

*Weigh the options before making a decision.*



Find suppliers close to your customers to avoid international delivery costs.



Work with your current CM to find other ways to cut costs.

# Should you move manufacturing closer to customers?

## Key factors in your decision-making process:

- **Quality**—Will a decrease in product quality ultimately cost you more?
- **Logistics costs**—Will a global supply chain reduce or increase your logistics costs?
- **Cost of international management**—Are you equipped to manage multiple supply chain partners across the globe?
- **Communication**—Will you be able to keep lines of communication open across a complex and global supply chain?
- **Supply chain resources and relationship**—Will your current supply chain support you as you expand?
- **Taxes, tariffs and fees**—Will you incur any new taxes, tariffs or fees? Can you eliminate any by manufacturing closer to customers?



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# Option A: Find suppliers close to your customers to avoid international delivery costs.

## This can work for you when:

- You have a mature product.
- You have a well-documented and well-managed product.
- You feel comfortable in your ability to deal with and manage risk.
- You have several companies competing to address your manufacturing needs.
- You don't count manufacturing as one of your core competencies or the core drive of your product's value.

Potential Benefits	Potential Risks
Lower shipping, freight and logistics costs	Decreased stability
Increased supply chain efficiency	Less control over quality
Improved customer relationships	Increased supply chain complexity
Fewer barriers to foreign markets	New social and geo-political challenges to navigate



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**Increase the efficiency of your supply chain.**

Distributing your manufacturing across the globe can make your entire supply chain more efficient because it allows you to lighten the load for your current supply chain partners. By passing some of the total workload to the new international manufacturers, you can ultimately make your whole team more efficient and achieve faster turnaround times.

**Achieve better customer relationships.**

You may also find that being physically close to your customers improves your relationship with them. For example, if a customer has quality check points during the manufacturing process, your nearby location could dramatically reduce the cost of business on both sides. If your product has security or quality issues to manage – or a lot of custom features – your customer may also appreciate that some of the manufacturing is done close to the point of delivery.



Manufacturing close to customers reduces shipping and logistics costs – and those aren't the only benefits.



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### Minimize tariffs and other barriers to foreign markets.

Consider the tariffs and restrictions associated with shipping to some countries. Developing a global supply chain can help cut some of these additional costs. Plus, businesses in some countries (like China) will only buy from you when a percentage of the product is produced in their country.

### Consider your long-term goals.

There is an argument to be made for keeping things the same to maintain stability, but the trade off could be leaving money on the table. Also, while sticking with your current strategy is less risky in the short term, building a global supply chain can reduce your risk in the long run since currencies and availability of raw materials fluctuate depending on region.

### Why Manufacturer Near Customers?

- Lower shipping and logistics costs.
- Improve supply chain efficiency.
- Strengthen customer relationships.
- Minimize tariffs and fees.



Find suppliers close to your customers to avoid international delivery costs.

# Option B: Work with your current CM to find other ways to cut costs.

This can work for you when:

- Your product is immature.
- You can't afford a reduction in quality.
- You are dependent on a competency owned by your current suppliers.

Potential Benefits	Potential Risks
Maintain control over product quality	Higher shipping, freight and logistics costs to ship internationally
Avoid the hassle of setting up a new system	Less access to some foreign markets
Avoid short term risk	Less opportunity for innovation



Work with your current CM to find other ways to cut costs.

### Maintain your current supply chain and cut costs another way.

In spite of the advantages there are reasons why you might not want to move parts of your supply chain across the globe. A local supply chain gives you better control over product quality. If you are in an especially quality-sensitive industry, such as medical device, quality control may be more important than ease of distribution. Also, the risk of production stops and errors increases when you are further away from your supply chain. So if you move your manufacturing, you will have to invest in remote management resources to ensure quality.

### You may not have the resources to develop a global supply chain.

Additionally, you should consider what else is going on in your organization and where you are in the production schedule. It takes time and energy just to set up a new domestic manufacturer—let alone manage the new team—once travel, new customs and other socio-political challenges are added to the mix. If you have other organizational changes to manage simultaneously, or if you are getting close to kicking off your next production cycle, you may be asking for trouble by making major manufacturing changes.

### There are other ways to cut costs.

Remember, moving your manufacturing close to customers isn't the only option for cutting manufacturing costs. You can also save money by optimizing what you're already doing. For example, if your current domestic manufacturers have the bandwidth to handle the new demand, you may be able to leverage quantities of scale and save money.



A local supply chain gives you better control over product quality. This is especially important if yours is a highly-regulated industry.



Work with your current CM to find other ways to cut costs.

# Recap

You may want to consider moving your manufacturing close to customers if:

- You have a mature product with strong documentation and management.
- Your core competency isn't manufacturing the product.
- You have a lot of competing providers that can meet your manufacturing needs.
- You are in a position where you can take a manageable risk.

You may not want to develop a global supply chain if:

- Your product is immature.
- Your concerns over the cost of poor quality are greater than the potential savings from shifting.
- Your current manufacturers hold a great deal of power in your relationship.

# Tips for making it work

## Option A:

Find suppliers close to your customers to avoid international delivery costs.

If you decide to make the move and develop a global supply chain, a little bit of planning upfront can prevent a huge headache later on. So be sure to put in your due diligence. Also, make sure to check the political ramifications of the move, as well as taxes and tariffs domestic and abroad. These factors can help you make the “go” or “no-go” decision.

Remember that making a big change to your supply chain can be risky, and it can take a while for things to settle. If this is your first stab at a move of this magnitude, start small and grow it out.

## Option B:

Work with your current CM to find other ways to cut costs.

If you decide to keep things the way they are, see if you can optimize your procedure by leveraging economies of scale or adopting business improvement practices like TQM, Lean or Six Sigma. Also don't hesitate to reevaluate often. Just because you made the decision to stay local two years ago doesn't mean that it is the right decision for life. The sooner you can refine your process domestically, the sooner you will have the option to go international.

## For More Information

Harvard Business School Case Study, [\*Arcor: Global Strategy and Local Turbulence\*](#)

Harvard Business School Article, [\*Are you ready to go global?\*](#)

## CONCLUSION

# Equip yourself with the right tools to achieve outsourcing success

Whether you outsource to a small team down the street or to multiple contract manufacturers (CMs) across the globe, real-time, accurate supplier communication is key. With centralized access to BOM data and change history, you can eliminate incorrect builds and obsolete or excess inventory.

Arena BOMControl centralizes product information and project details—including design files, BOMs, items, costs, vendor information, ECOs, compliance status, schedules and tasks —so OEMs and CMs can access up-to-date information, anytime and anywhere.

Arena PDXViewer—a free cloud application—provides a single, standardized format for sharing build packages across the supply chain, enabling you to get the right data to the right people—fast.

Learn more about how Arena makes outsourcing easier at [www.arenasolutions.com](http://www.arenasolutions.com).

For more information,  
contact Arena at [www.arenasolutions.com](http://www.arenasolutions.com)  
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