



Outsourcing Insight Series

The Top 12 Key Factors in Considering Outsourcing Your Manufacturing Domestically



Presented by



The Simple Concept

The purpose of this booklet is to highlight some considerations in regard to your manufacturing needs – whether you determine the best course of action is to manufacture in house or decide to outsource to a competent supplier.

Outsourcing is a relatively new concept for American businesses. The ability for businesses to let go of tasks that were traditionally considered mission critical and of necessity to handle in-house has been a slower road. Most businesses crossed their arms and sat back in a wait-and-see position to let the mavericks go forth. The executives that initially held back certainly were in a “safe” position as nothing ventured – nothing lost...however, those same executives soon found out that nothing was gained either. Most executives turned to financial staffs that were inexperienced in outsourcing and were not able to deduce the kind of numbers that justified a need for outsourcing. Then retailers came into the picture and started moving toward an economy that was price driven and many of these companies were forced to find radical ways to reduce costs. Outsourcing came of age. Now, we are looking at offshore outsourcing. Is this the best plan to take the concept to the next level? You decide.

Read on, enjoy these thoughts and let us know if you have further questions.



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Rule #1

Outsourcing offers cost efficiencies that companies cannot replicate interorganizationally.

Outsourcing Concept #1

In-House or Outsource? Domestic or Offshore? The 30,000 Foot View

If your product is so complex and there is no capable outsource provider that is able to rapidly understand your product and use existing infrastructure to produce your product, it is tempting to create an operation or continue to run your own operations. Most manufacturing firms I speak with are concerned that they will somehow lose control of their products if they are sent to a third party producer. Some firms feel that they can do a better job in house with their own people or systems than sending out their product to an “inexperienced team.” Some feel as though they can control costs better because they don’t have to pay the markup on third parties services. Some others just want to be close to their products in the manufacturing cycle to insure they understand manufacturing issues and can find efficiencies and cost reductions.

The answer to the question of “why manufacture in house?” could only be that you are absolutely unable to find any supplier that is capable of manufacturing your product because the other considerations are all surmountable in a good manufacturing environment.

Domestic suppliers have been pushed to provide better solutions because of offshore competition. Domestic manufacturers have improved systems, including full spectrum reporting, and have added automation that improves accuracy and reduces labor costs. While offshore suppliers have focused on cost reduction due to labor cost efficiencies, US manufacturers have increased customer services levels and added value to the supply chain to maintain the client relationship while driving cost reductions. Offshore relationships are outstanding options if the necessity is to deliver product to that local market.

Rule #2

Do a product review and determine what benefits can come from outsourcing your products to a competent provider – divide the benefits outlined below of domestic outsourcing by the cost savings offered offshore and determine the net real savings.

Outsourcing Concept # 2

Time to Market

Manufacturing domestically offers a number of advantages that manufacturing offshore does not. Some of those advantages include time from prototype/concept to shelf. Many components for physical products are available domestically or can be sourced offshore and shipped in prior to final assembly. Time to market gives you flexibility to avoid market displacement. You do not want to be stuck with your big retail order half way across the Pacific Ocean while your competitors eat away at market share. Ocean freight and customs can take up to six to nine weeks to deliver product to your customer's doorstep. Further lengthening this schedule is the likelihood that product will be shipped to a domestic fulfillment/distribution center anyway to handle re-work such as re-packaging and retail store requirements. If you are experiencing delays, consider keeping a small percentage of your manufactured product with a domestic supplier who can quickly turnaround the packaging and assembly. You should also consider domestic manufacturing for those products which rev frequently such as software. A good domestic supplier can get a software product to the channel as soon as three days from handoff of the gold disc. Finally, in the case of handling returns, the manufacturer can handle the returns management process and return the product to the channel in a timely matter.

Outsourcing Concept #3

The Cost of “Shipping Air”

The thought that using lower cost offshore labor offers a dramatic cost benefit can be quickly offset by invisible costs such as shipping. Consider the cost of “shipping air”. When product is shipped in the full retail package, which contains a lot of air space, it is far more expensive than bulk shipping the smaller components themselves. Companies continue to emphasize a strong shelf presence with minor components in the package. Air space can be up to 10x the size of the actual component and thus very costly to ship either via ocean or air. In addition, the retail industry move towards blister packaging makes the “shipping air” factor today even more costly. Products such as flash memory cards or other portable storage devices are examples of components with small form factors in large clamshell packaging. The more containers you have the more the cost goes up. Shipping, receiving and transporting air can be very expensive when product is produced offshore. Other costs worth considering when shipping overseas include international duties, custom costs and port costs.

Rule #3

Cost control is important – often people make an offshore decision on the cost of labor alone often leaving important cost factors out of the equation. Know ALL costs – including the cost of poor quality or over/under runs!

Outsourcing Concept # 4

Inventory Reduction = Cost Reduction

When the product is made onshore for the domestic market often two costs can be controlled. One is the cost of too much inventory – domestic manufacturing allows greater flexibility in maintaining lower quantities in inventory. Companies can leave packaging components in the warehouse unassembled until channel replenishment is necessary. Leaving products unassembled allows cost reduction by keeping components on the shelf and also eliminates costs associated with recovering obsolete packages in the channels. If channels know they can get materials from you quickly they will be less apt to over order and create the liability of excess inventories. Using a domestic outsourcing plan, the smart company will find that many components can be built or customized on demand giving their clients, partners and retailers with more options than large scale offshore produced quantities. More control means better solutions for your whole channel.

The second cost that is often forgotten is the cost of too little inventory. The smart company does not want to experience excess inventory cost in building and tearing down old product, but they don't want to lose sales to empty shelves – especially to competitors. When you have an effective domestic plan, you can work with a system that allows back-up quantities in the supplier's warehouse for immediate fulfillment and replenishment with a rapid back-up manufacturing order to keep small stocking inventory for rapid dispersal to your needy channel. Offshore channels have a hard time meeting those needs without the excess costs of product distribution.

Rule #4

Domestic time to market efficiencies can improve your cashflow and profitability as well as reduce your excess product liability.

Outsourcing Concept # 5

Build on Demand/Postponement

We touched on Build on Demand (BOD) above, but the importance of BOD or postponement increases with product complexity and need to differentiate your products. Do you have products that could benefit by building smaller quantities? Smaller quantities do not lend themselves to offshore manufacturing very well – especially “build one – ship one” type of products or highly volatile products that require constant change and utilize print on demand components to prevent inventory loss. Because a single source of supply is often better for negotiating shipping rates, handling returns, re-working and sourcing components, consider your BOD products alongside your higher runners to insure that you have a solution that gives you flexibility from one package to one million packages.

Rule #5

Flexibility to meet product lifecycle changes insures smooth transitions and helps control costs and reduce excess inventory.

Outsourcing Concept #6

Localization

When evaluating your domestic versus outsource strategy, evaluate the qualitative values that your partner will bring to the table. Domestic partners will undoubtedly have a better understanding of the domestic market and the requirements of your channels. A good domestic partner should provide you with the following local knowledge and provide it to you as part of their process and not as a “value-added” cost:

- Domestic retail store labeling requirements
- Domestic store routing guidelines
- Packaging consulting

Another benefit to employing a local manufacturing team is the accessibility and ease of interaction you will have them. The team that travels overseas has barriers and costs that are not a factor in working domestically. The obvious factors that affect the company that utilizes an offshore solution include expensive travels costs, language barriers and cultural differences. Be sure to evaluate all of these “intangibles” when determining your manufacturing needs.

Outsourcing Concept #7

Quality

I will not argue with the fact the cost of labor and supplies is cheaper offshore than here in the US. Many companies are going to the heart of the operation and cutting costs at critical stages of the process – the materials and assembly. They also know that they may be compromising the quality of their product for these important cost savings. As I mentioned in my first book, *Top 12 Factors in Product Packaging*, the look and feel of your package will directly impact your consumer's buying decision and ultimately, your revenue. If your package quality looks and feels inexpensive, your product will be perceived as cheap. Go to a retail store, walk down the aisle, closely examine product on the shelf and read the fine print on the back of the box to see its origin. You will be surprised at how accurate you will be at determining where the product was made. I am not saying that you cannot find quality assembly and packaging offshore, because you can. I am saying that when you are looking at cutting costs, you should also look at the other side of the equation – REVENUE.

Rule #6

Better packaging, from design to accuracy insures a positive customer experience and brand loyalty.

Outsourcing Concept # 8

High Level Automation

Many intelligent US outsource providers have stepped up to the outsource challenge by engineering automated solutions that improve accuracy and throughput. High-speed automated manufacturing lines allow the manufacturer to invest in top grade to provide assembly services to their clients. Packaging is evaluated and determined to be either automation friendly or re-engineered to be automation friendly where possible. High throughput equipment increases efficiency and accuracy, resulting in lower costs for the manufacturer and pricing for the customer. Investigate whether your manufacturer has invested in automated manufacturing equipment for the future, your future.

Rule #7

Work with your automated outsource services supplier to maximize the efficiency of your products to work with their equipment to enjoy cost savings.

Outsourcing Concept #9

Superior Information Technology

Often in my meetings with companies who have traditionally had an offshore strategy, I am told that reporting systems and customization are lacking with their offshore options. Reporting has become the cornerstone of ANY effective outsource relationship. Complete and total visibility to your business inside your suppliers' walls. The continued expansion of the Internet has given offshore companies the ability to provide a 24/7 reporting solution. Where I often hear the problems related to that reporting is in the quality of the information and the extent of the reports. Outstanding domestic manufacturing companies have invested millions into their reporting solutions and budget generously to provide new features and innovation that allow clients superior visibility. Reporting is one major area that has given the traditional in-house manufacturer the reason to loosen his grip on managing his/her own operations.

Outsourcing Concept # 10

Trade Barriers and Positive Image

Trade Barriers

Consider in your plan whether the type of product you are producing has trade barriers. Especially in the area of technology, it is critical that the offshore firm supplying services to you is in a country where you are able to export the products. Other trade barriers may exist. It is your responsibility to know the laws in the countries where you manufacture product.

Positive Image

Because outsourcing offshore had connotations that American jobs are being sacrificed to a lower cost you may have some backlash from customers or employees of your own company. Today, venture capitalists are thrilled with the idea of moving as much offshore as possible to decrease costs and gain return. The ultimate court on how this process is perceived will be determined state by state as new laws are enacted and as a more vocal majority comes forth to denounce the practice. Some smart companies have recently used their domestic outsourcing position as an advertising point to promote their products over their competitors.

Outsourcing Concept # 11

Security

Your technology is your business – what risks are you willing to take when you send it offshore? US Laws are written to protect US businesses from infringements including patent and copyright. When you authorize an offshore company to produce your goods, are you guaranteed that those goods and rights will be protected? In the case of a breach, are the courts in the offshore country going to back your interests? Do you want to train a firm offshore to produce your products at a lower cost than using a domestic source? What happens when the market opens up and generics hit the market? Will you be competing against your own offshore supplier? Many offshore relationships are respectful abiding relationships, but the burden falls onto you as the technology owner to insure that you are rightfully protected.

Outsourcing Concept # 12

Know Your Supply Chain

Your domestic supply chain may likely be spread out among many suppliers specializing in different components of your product. Your supply chain management company will effectively manage that chain, but the smart company understands the supply chain and the value that a dedicated supply chain manager, or even supply chain group, brings to the relationship. The supply chain manager understands the company's unique processes and intricacies and has access to the supplier's in the process. As the dedicated overseer of the manufacturing process, the supply chain manager will provide efficiencies and value in the chain where possible. They will also act as the liaison or intermediary between the supply chain management company and various groups in the company. For example, the engineering team of the company may interface with the engineering and services teams of the supply chain company to determine where additional benefits may be obtained. This interface increases control, improves relationships and creates positive opportunity for the company to take advantage of highly motivated and technologically capable providers.

Do not underestimate the value of a dedicated supply chain manager or group. It may cost you one or two heads, but the value of employing dedicated personnel to manage your supply chain AND continually look for cost savings is immeasurable.

Rule #8

Participate in understanding how your supply chain can improve process and add value to your products.

Want more information on domestic outsourcing?

Contact DCL today for a no cost evaluation of your current supply chain model and for more information on the benefits of domestic outsourcing.

DCL is a full service product packaging, assembly and fulfillment company that packages and ships software, hardware, medical products and consumer products. DCL has packaged and shipped more than 120 Million packages since 1982 and continues to be recognized as one of the industries leading supply chain companies.

Please contact DCL at **1-800-325-9933** or at **www.dclcorp.com**



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