

## “Ten Common Mistakes When Outsourcing Manufacturing”

### **I. Ineffective Strategy and Plans**

- a. outsourcing before you're really ready, i.e. fully developed strategic plans, corporate lacking an outsourcing strategy, i.e. what gets outsourced, where it gets outsourced, time line to execute, key drivers, associated cost, benefits to be realized, ROI
- b. lacking knowledge involved in manufacturing product with a subcontractor, i.e. registering IP rights, tax considerations
- c. holding unrealistic expectations, i.e. cost savings, subcontractor performance, delivery times, quality
- d. having insufficient disaster-recovery plans and backup, i.e. if production shipments stop

### **II. Corporate Support Insufficient Relative to Staffing, Budget and Time Lines**

- a. not allocating sufficient time and resources to transition, i.e. accurate documentation, BOM's, AVL's, planning cycles, engineering support
- b. insufficient/inadequate corporate staffing and skills to support the outsourcing project plan

### **III. Subcontractor Selection/Relationship Misfit**

- a. lacking knowledge to select the optimum subcontractor to support the manufacturing requirements, i.e. capabilities, unit cost and capacity of the subcontractor
- b. not having a clear understanding of the nuances of the countries you plan to conduct business in, i.e. stability of government, weather, earthquakes, poor infrastructure, brown outs, unions
- c. not making the appropriate choice between outsource and captive line, i.e. not knowing if your products would be better served in the subcontractor's mainstream or is there benefit from a total captive line.
- d. choosing a vendor for the wrong reason, i.e. narrow focus on cost only
- e. not achieving a level of partnership with a subcontractor, i.e. a strategic and tactical working relationship
- f. lack of openness and flexibility, i.e. no hidden agendas

### **IV. Due Diligence for Prospective Subcontractor Not Performed Well**

- a. poor due diligence due to inexperience, i.e. accepting what is said and not looking at the details of what's being done
- b. how ready is the subcontractor for your business, i.e. top tier, bottom tier, competency, organization, ability to effect change
- c. does the subcontractor have the ability to grow to meet your business needs, i.e. capacity, staffing, floor space, committed to spending for capital
- d. is the quality sufficient to support your expectations

### **V. Contract/Administration – Lack of Attention To**

- a. accurately defining the scope of work the client will do and what the subcontractor will do
- b. poor mutual understanding of the contract

**VI. Inexperienced Staffing to Manage the Outsourcing Project**

- a. ineffective deployment of key contributors i.e. wrong person for the job, lacks manufacturing skills, lacks negotiation skills, lacks people skills, packaging skills
- b. try to manage subcontractors on a part time basis
- c. trying to manage too many subcontractors

**VII. Transition Product/Software/Hardware – Poor Preparedness**

- a. not clearly defining the necessary steps and processes to effectively and efficiently transition product to Asia for manufacturing
- b. loss of key talent creating poor knowledge transfer to the subcontractor

**VIII. Management of the Subcontractor - Inadequate**

- a. inadequate governance, control, monitoring by management; if not managed properly, a company can lose visibility of performance and control of their manufacturing operations
- b. subcontractor provides unsatisfactory performance results, i.e. cost, quality, CT
- c. the gap between change making and implementation, i.e. clearly define, monitor and executed properly, subcontractor internalized
- d. blaming outsourcing or the client for all the problems
- e. providing unclear specifications is a sin
- f. introducing too many scope changes is a recipe for disaster
- g. poor operational and logistics planning, i.e. raw materials supplies and die availability
- h. not creating sufficient visibility/reports of operational indices

**IX. Poor Communication Between Corporate and the Subcontractor**

- a. difference in time zones adds difficulty
- b. not having real-time communication when required
- c. incomplete or inconsistent written report formats
- d. language differences can create barriers or incomplete understanding between customer and subcontractor

**X. Cultural Differences Not Recognized**

- a. lack of knowledge in dealing with different cultures and language barriers required to effectively manage the subcontractor for optimum results, i.e. different communication styles, attitudes towards conflict, approaches to completing tasks, decision-making styles, attitudes towards disclosure
- b. thinking that the potential for a culture clash is not an issue breaks down the ability to accomplish objectives