



**Outsourcing as a
Competitive Advantage:
Contract Manufacturing for OEMs
Outsourcing 101**

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The objective of this whitepaper is to give OEMs a basic overview of contract manufacturing (CM) outsourcing, outline several of the pain points that outsourcing can address for OEMs, and offer a framework for choosing a CM. Future whitepapers will describe outsourcing benefits in more detail and offer Total Cost of Outsourcing formulas to help those new to the concept of outsourcing better estimate and understand potential cost benefits.

As an OEM, your production life-cycle includes everything from design and engineering to material selection and sourcing to assembly and shipping.

Have you contemplated outsourcing a portion or perhaps all of your production to lighten the load?

What is Outsourcing?

Quite simply, outsourcing is the process of transferring manufacturing and related support functions to companies outside of your own. For U.S.-based business, outsourcing could be done within North America (domestic) or overseas (often called offshoring).

There's not a business in existence that isn't challenged to reduce expenses. When it comes down to it, the reason for outsourcing usually comes down to one objective – reducing costs to improve the bottom line. Benefits of outsourcing can include refocusing existing engineering resources from production to design and innovation, or decreasing the production labor force and therefore the related human resource expenses.

Other than just not knowing where to start when it comes to finding a CM, many OEMs are road-blocked by the perception that outsourcing is just too expensive. Through analysis, preparation and planning, outsourcing can be a competitive advantage for many manufacturers.

There are many factors to consider when outsourcing – most notably, selecting the right collaborative partner is of paramount importance. Perceived loss of control when outsourcing can be a big roadblock for many OEMs, but with the right partner you actually can (and should) gain greater control over the manufacturing process and see improved and/or consistent quality of your product.

Do you want to continue to “make” your product or components, or is it time to “buy” in order to reduce some pain points in your production cycle – and therefore improve your competitive position in the market?



Pain Points That Often Lead to Outsourcing



At ALTEX, we spend considerable time getting to know our prospective customers in order to understand their manufacturing needs and obstacles. We then provide solutions that demonstrate how we can best become a collaborative CM partner by alleviating those challenges.

Pain Point

How Outsourcing Can Help

- I can't find enough help or hire qualified labor; our need for staffing really ebbs and flows – depends on production demands.



Labor is one of the largest costs related to any business. If your production needs increase, the CM can respond much faster than you could as the OEM; outsourcing takes the responsibility and challenge of staffing out of the OEM's hands. If you were to outsource, consider how much time and money could you save just in managing staff, hiring and firing, training, and possibly even downsizing staffing levels.

- We have a solid product and process. Besides I don't have the time or resources to spend on product development and design.



The right collaborative partner will provide the flexibility for you to move some or all production outside of the business in order to focus on research, design and innovation. During growth you may come to the realization you need to focus on what you do best and move some tasks offsite. If an engineer spends 80 percent of his or her time on the people, processes and production and only 20 percent on development, your company could be leaving quality improvement, product innovation and new sources of revenue on the production floor.

- I'm being challenged to get products to market more quickly. I don't have time to look into outsourcing.



Many things can impact the ability to meet time-to-market demands. For example, some engineers may not understand the full impact of their design decisions on cost, turnaround and the supply chain. A good CM partner will provide solutions to improve processes to get to market faster. A qualified CM will have staff who do nothing but keep abreast of material and process innovations, and have established relationships with suppliers.

- I'm pressured to cut costs as it is, so I can't outsource. It's too expensive.



If you consider the amount of financial resources dedicated to in-house production such as labor, soft labor, overhead, maintenance and repair and capital investments in machinery – outsourcing may be a major cost-savings opportunity. There comes a point in the growth of every company when its leaders need to look at the economies of scale. Perhaps, instead of budgeting to replace machinery, add new machinery or labor, it would be beneficial to compare those costs with the cost to outsource.

About ALTEX

ALTEX is highly regarded as a contract-manufacturing partner located in the Midwest just north of Indianapolis. We uniquely offer the adaptability, flexibility and responsiveness of a small company while having the facilities, expertise and aptitude to manufacture the most complex cable, wire harness, box build and electro-mechanical assemblies.

Our engineering team can take a customer's schematics and help them identify and eliminate unnecessary design and production costs, while optimizing product quality and functionality, speeding up the time to market.

Benefits of working with ALTEX:

- Flexible manufacturing solutions using any supplier component, or as specified by the customer
- Sourcing experience and knowledge to assist in the selection and procurement of the right electronic components
- Minimization of part numbers, tooling costs and labor demands



17201 Westfield Park Road
Westfield, IN 46074

Manufacturing engineers or production managers often state they don't have the time to research who would be a good CM vendor or how to begin the outsourcing search process. The process does take time but can reap significant rewards. Plan ahead in order to use your time most effectively and don't take the task on by yourself. Work with others in your organization to develop a selection process with a clear set of selection criteria and requirements for the CM for quick as well as long-term successes.

Considering Outsourcing? Where to Start

Just to get the ball rolling, consider some of the following in your criteria:

- Location: Would it be more convenient or comfortable for the CM to be located within driving distance?
- Experience: Has the CM manufactured a similar product before?
- Facility: Do they have the equipment and staffing to support your project?
- Certifications: Is the CM certified? An ISO-certified CM will have proven quality processes in place to ensure your product is manufactured with the highest controls.
- Communication: Determine how it will be best to communicate with your CM and what you will need from them in terms of project management and reporting so you have peace of mind.

Once you've narrowed down the field of prospective partners, the process continues with an RFP and facility audits. But if you put the work into the process up front, you're sure to select the CM partner who can give you a competitive advantage.

ALTEX, headquartered in Indiana with a satellite facility in Nogales, Mexico, supports representatives in 14 states making face-to-face meetings easier and timely customer service a priority.

