



## How To Overcome Pitfalls of Outsourcing

I have worked with multiple companies where we transferred some production to contract manufacturers and in one case, the entire production was done by a manufacturing partner. These are some of the criterion I use in the selection process of a contract manufacturing partner.

The criterion are:

1. Demonstrable expertise and success building similar products and volume
2. Numerous positive references and testimonials
3. Advertised expertise
4. A quality control and product audit function
5. Terms and conditions

First, demonstrable expertise and success building similar products in the appropriate volume seems obvious. Too many organizations select a CM based mainly on the piece-part cost. A contract manufacturing firm with good sales and marketing can convince an unsuspecting prospect that they are capable by showing expertise that appears to apply to the project at hand.

The problem, aside from possible deceptive practices, is the technology used today is extremely complex. This complexity makes it important for a client to choose a manufacturer who has successfully built similar products. To accomplish this, it is critical that production capabilities and current products are reviewed in detail. Hire an independent expert to evaluate the competence of the firm if you do not have the technical ability in house. This independent consultant may also help alleviate confidentiality concerns of the manufacturer. The benefit of risk reduction will far outweigh the cost of the consultant.

Second, multiple, positive references and testimonials. This is a simple request and if they refuse to provide references and testimonials under a non-disclosure agreement, then walk away. Contract firms and consultants gain new business through referrals. If they will not provide names of satisfied clients, they either do not have any, or the technology you require is different than any of their previous work.

Third, expertise in your technical field. Does the manufacturer have the test engineering and technical capabilities to solve problems that arise during early production and during volume production? These two stages of production are very different and require different skills.

If they do not have engineers and technicians on staff, is there a relationship in place with a nearby technical firm that can supply these services in a timely manner?

Fourth, quality control and audit functions. How does your factory ensure you receive a quality product that meets requirements? They probably have a quality assurance (QA) department responsible for quality control. An ISO certified factory has work procedures they



must follow. During your interviews and meetings, review their work processes and their system for collecting and analyzing production data.

The final item to consider is the terms and conditions under which you will conduct business. The business requirements are important and can mean the difference between a successful product line and a failure. However, the difference in cost between the acceptable top and bottom firms will probably be less than 15% and the top firms will perform at a higher level on all of the previous steps. A slightly lower margin may be compensated for by fewer returns for poor quality and in better payment terms. You can make up for a slightly lower overall gross margin but revenue and reputation lost due to shipping delays and excess warranty returns are lost forever.

We cannot view all contract manufacturers as the same. Each have their own expertise and methods of doing business. Find the firms that have proven records of success in your field of need. Eliminate any of them who cannot prove this expertise and back-up the proof with some form of guarantee. The hard work and diligence you invest in this vetting process will be returned many times over. Failure to do the work can cause irreparable damage to your business at worst and a difficult industrialization process at best.

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