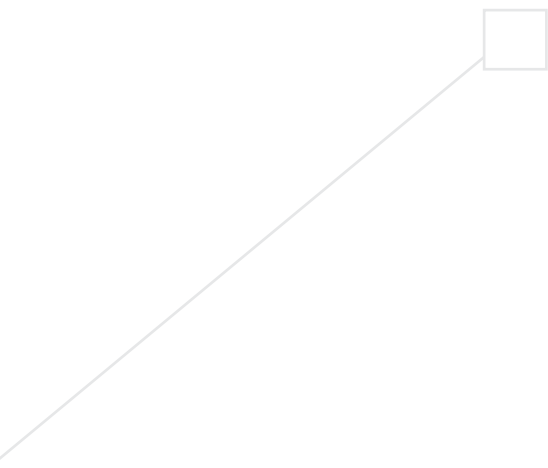


The Outsourcing Phenomenon



Newview

Facing the 5 Key Challenges

Are you prepared to face the unexpected fall-out of *The Outsourcing Phenomenon*? Is outsourcing the next "inflection point" in manufacturing?

Outsourcing has become so widely adopted that it is becoming a standard rather than a trend. Companies that seek improvements in many areas have chosen this model for many reasons and most have transitioned to it within short timeframes. However, many organizations have found that once outsourcing is in full force, multiple challenges arise in these key areas:

- 1) *Higher Costs* from reduced visibility and control
- 2) *Increased Liability* from distributed (and dedicated) inventories
- 3) *Increased Supply Chain Latency* due to information flows that are sequentially cascaded from company to company up and down the supply chain
- 4) *Higher Financial Risks* due to difficulties measuring and monitoring performance outside the 4 walls
- 5) *Loss of IP*¹ competitive edge if your design information leaks to competitors or customers

Though the use of outsourcing continues to expand in many industries, such as Automotive and Consumer Goods, one of the industries that is most highly impacted by *The Outsourcing Phenomenon's 5 Key Challenges* is the Electronics Industry.

A Little History

Once upon a time, the supply chains of OEMs (Original Equipment Manufacturers) used to be "vertically integrated." OEMs not only designed their own products, but they built, tested, sold and delivered the products themselves. They "owned" their supply chains. They could plan for expected demand because they knew the demand and could anticipate it based on what they knew. They could control the costs of components used in making their products because they built their own components – such as IBM making computers and building their own memory, processor chips, or hard disks. They could serve their customers effectively, because they knew how much product they had in stock, as well as how much product they were in the process of building – like Ford Motor Company and their assembly plants. They also had a very specific product mix that served their market well. The limited variety of SKUs (Stock Keeping Units) kept things simple – fewer options/configurations, customizations, bundled services, regional specs, etc. had fewer channels to market, which limited channel conflict and made it easier to anticipate demand and plan supply accordingly.

However, in time, customers became more sophisticated in their demands and expectations. OEM's now were forced to stay competitive by offering a wider range of options, while balancing low pricing with fast innovation. This made it even more difficult to manage businesses profitably, since the costs of owning the assets needed for manufacturing their products was still high and profits did not scale proportionally to costs of good sold (COGS). They needed to prepare a global supply network to serve the demand effectively, yet how to become global without the astronomical costs that their "own" supply chain on a global scale was incurring? How to scale the business while keeping costs low and profits high?

Late in the 1990's OEMs decided they could keep doing some things well, but some things would be better done, or more cost effectively done, if they let someone else take over that part of their business. They decided they were in the business of innovation, of intellectual property branding and marketing, and wanted to differentiate themselves. They focused only on what they did best: bringing to market continuously innovative technology products. When it came to mass-producing those designs, they would hire manufacturing capacity from outside and divest their own facilities. New and growing OEM's adopted the approach from the start of business, thus bypassing the pain of first acquiring and later divesting assets.

