

## Five Ways to Lower Your Outsourcing Cost

By Curtis Campbell

The need to reduce cost is a constant requirement for most original equipment manufacturer (OEM) sourcing teams. While making contractors compete for business may appear to be one way to do that, the reality is sustainable cost reduction is best achieved by teaming with a contractor or contractors to take cost out continuously.

Five areas to evaluate closely in this process are:

- Project transfer
- Contractor product improvement recommendations
- Region in which the product is manufactured
- “Orphan” internal operations
- Strategy for dividing outsourcing “spend”

### **Project Transfer**

Inefficient project transfer can drive significant internal costs. In choosing a contract manufacturer, supplier assessment should evaluate a contractor’s ability to support an efficient project transfer.

Questions to consider include:

- Does the contractor have a detailed transfer of work process?
- Do the contractor’s systems support electronic transfer and validation of documentation?
- Is the contractor’s engineering team able to support development of any documentation that your company hasn’t been able to provide?
- Does the contractor’s team appear to be able to identify likely project challenges?
- Does the contractor’s team have experience with projects of similar size and scope?

SigmaTron uses Agile Product Lifecycle Management (PLM) tools to support project transfers. Product documentation is transferred electronically from customers, eliminating potential errors associated with more manual processes. Design for manufacturability/testability (DFM/DFT) is performed using Valor.

### **Contractor Improvement Recommendations**

Contractors aren’t simply in the business of building others’ products. Instead, they are in the business of building product well. A poorly designed product typically generates cost at contractor in terms of rework inefficiencies, increased overhead and reduced production capacity. Products with a large number of single-sourced components also generate cost when lack of material results in missed

deliveries. Not surprisingly, most contractors make recommendations on ways to eliminate potential product issues as part of the product transfer process. Following a contractor's recommendations not only eliminates measurable cost, it can also eliminate costs that are very difficult to track.

SigmaTron evaluates all new products for improvement opportunities including DFM, DFT and obsolescence risk mitigation. Component engineering recommendations can also be made to add alternate suppliers or reduce material cost.

### **Region in Which the Product is Manufactured**

North America has been gaining in cost competitiveness, both in the U.S. and Mexico. And, while China's costs have increased, it still represents the most cost effective option for products sold to the Chinese market. Vietnam, Indonesia and Malaysia are increasingly competitive options for lowest cost manufacturing for in Asia. In short, there is no one best region for all products and a region's cost competitiveness can change over time.

Questions to ask in determining the best region include:

- How important is proximity of manufacturing location to your design team?
- Would proximity to end market reduce logistics costs or better support demand variations?
- Is intellectual property protection a critical concern?
- Are margin pressures and an inability to further cost reduce a product driving a need to move to a low cost country?
- Do regulatory issues limit the regions in which this product can be manufactured?

SigmaTron's global network of facilities offer customers a wide range of production site options and the ability to compare costs among regions when assessing which location would be best for a given product.

### **"Orphan" Internal Operations**

Sometimes OEM sourcing teams are so focused on outsourcing a major project that they fail to include peripheral operations such as repair depot or related subassemblies. This can result in duplication of inventory or capital equipment that would be unnecessary if those operations had been outsourced to the contractor handling volume production.

SigmaTron routinely supports its customers' full product lifecycle needs including post-manufacturing operations such as repair depot. Its sales team can work with customers to identify orphan operations and prepare a quotation that analyses the cost and benefits of outsourcing them along with volume production.

### **Strategy for Outsourcing Spend**

One final way to reduce cost is to carefully evaluate the way the outsourcing “spend” is allocated. Most OEMs have a mix of project types that includes high runners and lower volume, often higher mix product. Often the highest volumes go to a contractor in a low cost labor country while high mix business stays onshore. High mix production has more frequent line changeovers and that can drive higher costs. Contractors in the lowest labor cost countries often prefer high volume, low mix production, and may not have systems optimized to support the challenges of high mix and/or variable demand production. So, does dividing that production on volume and mix lines achieve lowest total cost? The answer may be no. Instead, if some of the high volume business is awarded to the contractor also building the high mix product, the costs of the high mix product may go down as economies of scale improve. Selecting contractors flexible enough to support your entire production mix provides greater options than selecting those with narrower business models.

SigmaTron’s systems support both high volume and high mix, lower volume production across its global network of facilities.

Achieving lowest total cost requires careful analysis of a range of variables. Working with contractors willing to listen to your needs and provide costs for multiple options can help ensure your outsourcing strategy is focused on continuously reducing cost.

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*Curtis Campbell is SigmaTron International’s Vice President of Sales, West Coast Operations. He can be reached at [Curtis.campbell@sigmatronintl.com](mailto:Curtis.campbell@sigmatronintl.com). For more information on SigmaTron International’s capabilities, visit [www.sigmatronintl.com](http://www.sigmatronintl.com) or call 510-477-5000.*