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Can Outsourcing Ever be a Good Practice?

by John J. Flaig, Ph.D.

This is my third article on outsourcing and in the previous articles I painted a rather unfavorable picture of the outsourcing business model. So, you may be surprised to hear me say that outsourcing can be a successful business strategy and should be used when it is appropriate. We know from the previous article (the mathematics of outsourcing) that sending product out for processing and having it returned creates a system that is more complex and which can be expect to have yield, cycle time, and yield volatility issues. Now, suppose we follow the advice of one Harvard Business Review article which advocates that almost everything should be outsourced so that companies become virtual [Chesbourgh, 2002]. Under this model your company does the design work and then transfers the design to a company with outstanding manufacturing expertise for production and distribution to customers. If managed properly, this structure eliminates all the redundant nodes we talked about previously and creates a production system that has the potential to produce good products at reduced cost. So, the key question is how do you find a great partner to handle production and distribution?

There is no way to completely overcome all the potential problems inherent in the outsource model but there are some things that the company can do to reduce the risks and take advantage of the skill, technology, and economic strength of an outstanding partner. Let me give you my approach and criteria for finding the right partner.

1. Form a cross-functional team to select the outsource supplier. This team must include at a minimum representatives from engineering, materials, and an independent quality representative (i.e., the quality representative does not report to operations or materials).

2. All team members must agree on the choice of supplier and don't select a supplier based on price alone (see Dr. Deming's Point #4).

3. Consider suppliers that are close to you geographically to reduce the communication, transportation, and cycle time issues. Off-shore suppliers may offer a lower purchase price but their total cost may be much higher once all the negatives are factored in. Beyond the cost issue, it is vital to the long-term success of your company that you select a local supplier, if possible, because this will allow you to monitor, control, communicate, and learn from the production process by being on-site. If you lose this channel to in depth understanding of the process that produces your products, it is unlikely that your company will be successful in the long-run.

4. Select a single, first class, high quality supplier with low labor turn-over to avoid quality, delivery, and development problems [Flaig, 2002]. Also, look for statistically proof of good performance in all your key performance metrics (i.e., delivery, quality, etc.).

5. Outsource only as much of your process as is reasonable and adopt a high standard for what is reasonable. If possible, have the supplier ship directly to distribution/customers. This solves many of the outsource problems but can only be done once you have established a robust partnership relationship with the supplier including an extensive process/product monitoring program.

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