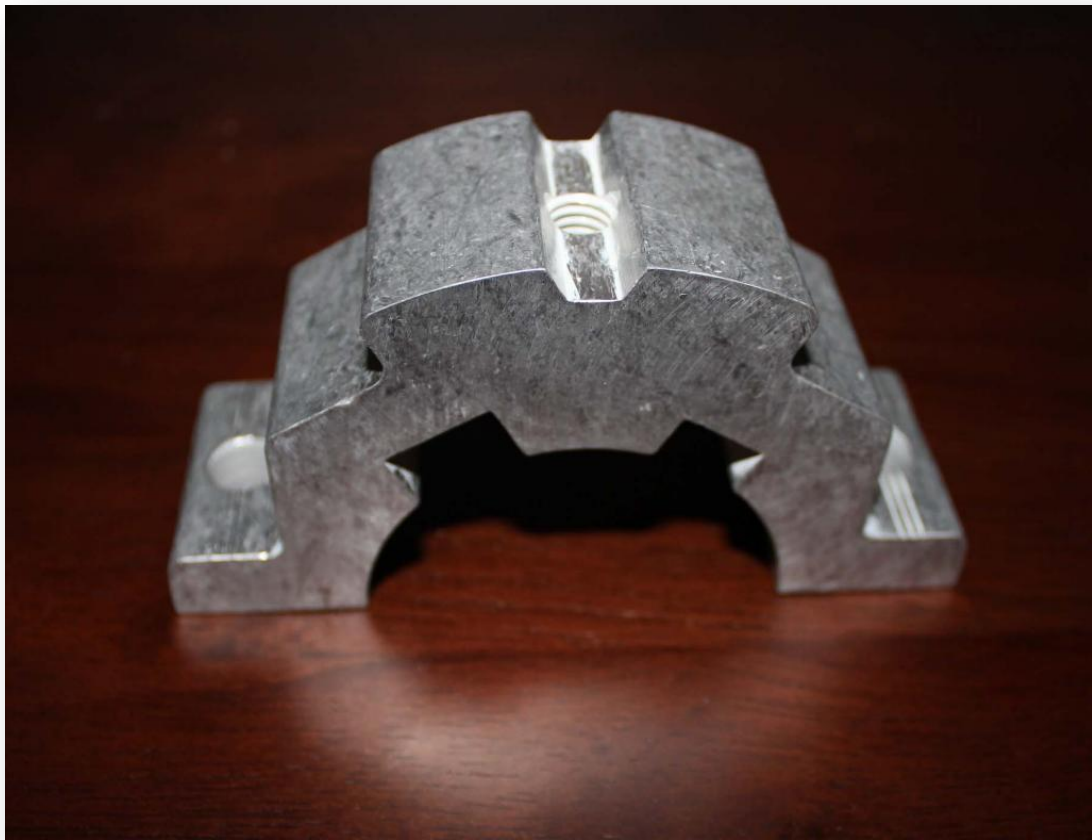


IN-SOURCE OR OUT-SOURCE MY FABRICATION?



In-Source or Out-Source My Fabrication?

Much has been written, and contemplated regarding the old “make or buy” decision. In our specialty, aluminum fabrication and finishing for a wide variety of markets, it’s a topic of daily conversation with existing and potential clients. Do I out-source or do it myself? Perhaps the biggest benefit of outsourcing is its ability to save you money. While there are many factors to consider, let’s look at the Pros.

- Free more management time to focus on your core competency.
- Improved revenue realization and return on investment.
- Leverage expertise and economies of scale from your out-source partner – you focus on innovation and marketing.
- Reduce inventory cost.
- Improved business processes and work flow.

We all employ very talented and competent people with excellent abilities suited to their education and experience. With any enterprise, the fundamentals are the same - product development to fill a demand, performance, and branding. What happens in between is critical, and like any professional sports team, you want the best players on the field in the right position. As a business owner, I too am very critical of utilization, both with personnel and capital to increase sales and profits. Stay focused, and be passionate on what you do best - leave the balance to the experts.

Capital utilization certainly cannot be ignored. The best use of dollars is to drive innovation and market share, to get and keep customers, and provides the optimum return on investment. The cost of raw goods inventory is not solely determined by the direct expenses associated with storing, managing, and maintaining components, but also by the opportunity costs that arise when money is tied up. Goods represent a store of value; keeping resources tied up in underutilized capital equipment, raw materials, products or components that are not being utilized or sold immediately restricts a company's overall cash flow and may reduce the amount of liquid capital available. Inventory management requires a careful balancing of all these costs against the benefits of having more goods or inputs available on demand. In addition, indirect labor cost to transact raw material purchasing, including collateral services such as anodizing or painting outside your facility, may add up to another 8-10% of the cost of goods. The increased risk of material handling damage may also yield less than 100% of parts required, further extending lead times to solve the problem and replace defects.

Taking my own advice, we only do what we do best. Knowledge and expertise in material specifications, processing, finishing, packing, and logistics are shared enthusiastically with our partner clients. The basis for any good relationship is a mutual exchange of value. This “Win-Win” strategy assures you and your out-source partner have the same objectives at heart, and translate to the balance sheet for both parties. This philosophy for success cannot fail. Where we may have the ability to leverage volume purchases for raw materials, or a relationship to reduce costs in any area of the supply chain, we need to share this benefit. Experience in metalworking, new innovation via improved technologies, and specifications equal to performance with cost benefits are also shared to keep cost low.



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Cost-Benefit Analysis

Before outsourcing, a cost-benefit analysis should also be carried out on the proposed arrangement to understand the expected ROI. On the cost side, clients should be aware of certain factors which are often overlooked. Assure any quote received from a potential provider is an all-inclusive price, terms, and conditions proposal.

Another specific area often overlooked is the inclusion of the current commodity price index effecting price, and how they are determined. An example will be the prior month's LME Aluminum Average, a commodity price which fluctuates daily. An agreement should also determine how the pricing on long term pricing structures will change depending on how demand expands or contracts. Qualitative factors may be harder to measure than quantitative metrics, but these may be the factors that ultimately determine the success of the program.

Companies need to calculate the full benefits and subtract these from their in-sourcing cost to calculate the overall value of the agreement. Areas to focus on include a reduction in overhead, including direct and indirect labor costs and applying internal resources to focus on core competencies. Additionally, outsourcing can create a more level playing field by enabling small businesses to access the same high-level expertise larger companies can retain on staff.

The next step is to agree how the benefits will be measured. Qualitative factors may be harder to measure than quantitative metrics, but these may be the factors that ultimately determine the success of the outsourcing arrangement. Remember, ROI is not just a financial number, take into account value delivered, management hassle removed, innovation delivered and a view on any competitive advantage, including customer satisfaction. Your CFO, or outsourced accounting specialist can help reasonably quantify the financial impact in the final analysis.

Now the Cons.

- Chronic problems related to quality and lead time.
- Slow response time to issue resolutions.
- Unsatisfactory in performance to expectations.
- Lower than expected realization of benefits and results.

Misunderstood requirements, cost overruns, inadequate deliverable quality, cultural and language barriers (particularly with offshore suppliers), and challenges vetting appropriate and quality vendors require due diligence to avoid the cons. The key component to make this work best, is pick a partner with the initiative to learn your business model, one who communicates well, has the capacity and capability to deliver, understands your customers' needs, and works with you to fill them.

Weighing the pros and cons, as well as considering factors other than cost savings, will help you determine whether outsourcing is the right option for your business. Gather your team, ask what project merits an outsource study, and give it a try.