



Control & Automation
Complete manufacturing solutions



An insight into the benefits of
STRATEGIC OUTSOURCING



Outsourcing

To **Outsource** / **Outsourcing** involves the contracting out of a business process and operational, and / or non-core functions to another party. To obtain (components, services) etc. from outside suppliers. The concept “outsourcing” came from the American Glossary ‘outside resourcing’ and it dates back to at least 1981.



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The benefits of outsourcing

“Reduce production lead times and total manufacturing costs whilst improving internal capacity and cash flow”

TIME TO MARKET
is a critical factor for many machine builders.

The faster the machine development, production readiness and commercialisation, the faster that revenue stream can be accessed by the builder as part of the revenue growth strategy. Equally important is that once the target market has accepted that technology / solution –

the more difficult it is for a competitor / alternative technology to enter that market space. Having a strategic outsourcing partner can, without any doubt, **accelerate the time to market challenge and deliver scalability from prototype stage through to production volumes.**



Play to your strengths

The benefits of outsourcing



Concentrate on what you do best

An increasing number of OEMs do just that, choosing outsourcing as part of their overall production and supply chain strategy. Delegating non-core activities to organisations that specialise in those processes allows them to focus on their core competencies such as Product Innovation, R&D, Sales and Marketing, whilst delivering their product/process in an efficient and cost effective manner.

The benefits of outsourcing are many and varied but some of the key drivers are:

- **Reduced costs associated with production** and associated overheads
- **Reduction in total manufacturing costs**
- **Elimination of unnecessary stock** and reductions of Work In Progress (WIP)
 - Improved cash flow
- **Improved manufacturing lead times**
 - Secure more orders
- **Flexible and responsive production** to the typical 'peaks and troughs' of demand – the creation of better 'agility.'
 - Reducing the need for costly sub-contract labour at busy times
 - Reducing the requirement for redundancies during quiet times
- **Improves management of risk**
 - Creates a competitive advantage for your organisation



Depending on the volume and complexity of the product and process to be outsourced, below are a number of points to consider when selecting an outsourcing partner.

Size – Are they matched to your needs?

- Too small – they may not be able to cope with your demands
- Too large – you may not be important enough to them

Geographical location

- Give consideration to lead times, logistics, communication, degree of management and potential issues surrounding local legislation
- Look at total cost of acquisition, not just direct or landed costs
- Be aware of the true cost of managing complex supply chains that are situated in supposed low cost regions

Competencies

- Can they demonstrate, beyond doubt, that they have the skills necessary to provide you with consistent quality for your required product/process?
- Can they combine different and complementary engineering and production disciplines in order to offer an added value solution?

Risk

- Consider ownership, financial security and succession planning
- Financial strength
- Do they manage risk well? Are they over reliant on one single customer or market?

Supply chain management

- Can they take a proactive approach to supply chain management or will you have to take on this costly exercise? Handling numerous free issue parts is a significant hidden cost

Cost leverage

- Can they offer you increased capability in reducing material costs through combined purchasing strength?

Technical innovation

- Can they offer you innovative solutions learnt over many years working in diverse and complementary industries?

Quality

- Can they offer you state-of-the-art automation that is guaranteed to improve quality and reduce machine downtime and costly warranty failures?

Experience

- Do they have a proven and relevant track record? If so, ask for testimonials and details of their key customers so that you can speak to them directly. Be wary of a company that won't allow you to do this
- Understand company structure
- How long has the company been established?

Synergy

- Often overlooked but rapport with a potential partner is very important
- A partnership will work best if the culture of the outsource partner is aligned with that of your own business
- You should know, like and trust your partner





Sales, revenue and growth

*“If you could build more
machines faster and better –
could you sell them?”*

Growth – still the fastest way to profitability

All manufacturers aspire to protect and grow profitability – ‘profit’ is not and never should be seen as a dirty word. The ways in which machinery builders pursue profit growth are vastly different, depending on both their culture and the markets they serve. In essence, there are only two ways to achieve this ‘holy grail’, and the first one typically focuses inwardly on cost cutting.

This could be through reducing material costs by supply chain leverage, improving internal efficiencies and processes, thus optimising direct labour costs or perhaps reducing costs associated with fixed overheads. All are ‘levers to pull’ when considering an impact on the bottom line.

However, many OEMs don’t always stop to think about the startling impact that revenue growth can have on increased profits, often because they’re too quick to accept the perceived barriers that exist to prevent significant growth. Assuming market potential is not the constraint, then this strategy can deliver results that even the best cost-cutting exercise could ever provide.

*“Imagine a machine builder that produces 10 machines a month, each machine sells for £200,000 with an average profit of 10%. If that company could build and sell 12 machines a month – with the same overheads and direct costs – **this would add close on £500,000 a year to the bottom line.**”*

Take a step back and that’s close to half a million pounds a year of additional profit, and that’s not even taking into consideration the improvement in margins proportional to production increases.

The maths is undeniable and when you speak to most OEMs and ask the question... ‘If you could build more machines faster and better – could you sell them?’ The answer, in our experience, is almost always ‘yes’. The conclusion is clear – sales-growth potential is very rarely a constraint.

Strategic outsourcing

This is where strategic outsourcing can act as a catalyst for unlocking growth potential in a manufacturing organisation. Let’s consider the typical barriers that exist for growth:

- **People** – number of skilled workers available, training requirements, the availability of new, young engineers, an ageing workforce and the associated loss of key tacit knowledge.
- **Space** – simply not enough room to build additional machines.
- **Production lead times** – all lean exercises have been done, obvious waste eliminated and yet, you’re still struggling to build machines any quicker.

The first step is to consider changing your whole supply chain and production strategies. Review all processes that you currently undertake and determine which processes are genuinely core to your business, those processes in which you need to invest, to develop and ultimately protect. Next, consider processes that don’t add value, those processes that are not a core competence, those areas that probably cost you money instead of generating it. They may even create bottlenecks in your business. Now imagine having strategic outsourcing partners that can provide you with solutions in these areas of non-core activity. Partners that can carry out the processes better than you

machines with greater speed, thereby reducing production and sales lead times and improving productivity.

Meeting economic challenges

Machine builders in the UK are generally optimistic about the current and future trading conditions, albeit the ‘post-Brexit’ landscape is yet to be realised and there have been a couple of recent negative impacts that have adversely affected profits and confidence.

Rising costs, whether material prices driven by weak sterling or increasing employee costs driven by new living wage rules, pension regulations and the Apprentice Levy all have to be paid for.

Strategic outsourcing can also provide a solution to ease these areas of pain:

- **Combined purchasing leverage** – economies of scale.
- **Creating a fixed cost of ownership** – price stability.
- **Minimise direct costs that are rising** – reduce financial risk and exposure, especially in markets where demand can change quickly.
- **Provide an extension to your own engineering, supply chain and production support capabilities** – allows you to leverage off their knowledge and optimise your own fixed overhead costs in these areas.

So, we have now created a scenario of increased capacity, shorter lead times, greater production agility, reduced total cost of manufacture, increased sales revenue, a higher degree of fixed cost of ownership and an element of ‘de-risking’ if market conditions change. However, there are still more advantages to come.

What if that outsourcing partner could help develop your technology platforms, assist with design for manufacture, offer specific advice on product design or approvals required in new sales geographies, such as UL compliance for North America?

What if that outsourcing partner could connect you to other best-in-class suppliers, partners they work closely with that could further support your product design and performance to create a real and measurable advantage over your competitor? What impact could this have on your business?

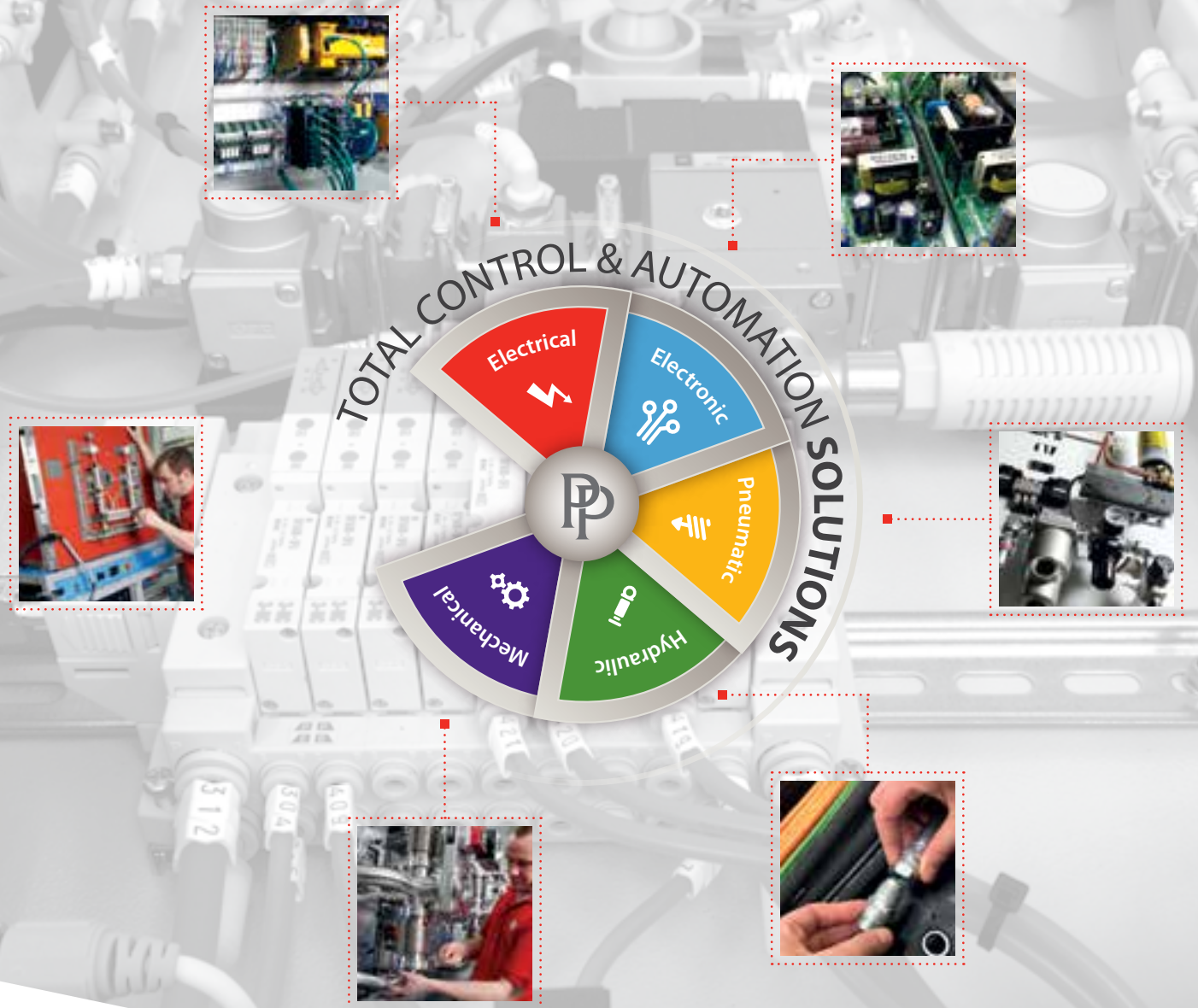


A complete outsourcing solution for OEMs

*“Every customer requires a specific
outsource solution that is unique to their
needs. We never assume what has worked
for one client will work for another”*

Solution

The **Solution** / 'a' **Solution**. The act of solving a problem, question, etc. (i) The situation is approaching a solution. (ii) being solved: a problem capable of a solution. (iii) a particular instance or method of solving; an explanation or answer.



An outsourcing
solution designed **to fit**
your business needs

We combine our extensive engineering and production capabilities in order to design an outsourcing solution that delivers the desired result. Such a solution could be module or assembly based, part machine build or full machine build... it's all designed to fit your business needs.



Partnership

The **Partnership** / 'a' **Partnership** two or more companies join forces in a joint venture or a consortium to (i) work on a project which would be too heavy or too risky for a single entity, (ii) join forces to have a stronger position in the market, (iii) comply with specific regulation and working to specific standards of building regulations.

Whilst the benefits of outsourcing are significant, the cost of getting it wrong can be damaging. Therefore, taking the time to choose the right partner is critical to your business.



Selecting the right outsourcing partner

The right outsourcing partner should be able to offer complementary skills and capabilities

Outsourcing is a long term strategy, not a short term capacity fix

Don't simply look at what they can do for you now. How could they help you in the future?





Take your first steps to realising growth potential by making outsourcing part of your manufacturing strategy

We look to adopt a consultative approach when engaging with our customers, looking to first fully understand and appreciate their areas of constraint and 'business pain', before we look to design a manufacturing solution that will deliver specific remedies, based on their individual needs. The solutions we offer are able to deliver significant and measurable results for our customers.

Contact us today for an informal discussion regarding your business needs.

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Creating partnerships
that provide real
business benefits