

# A guiding hand

Intellect and Electronics KTN combine to help companies address offshoring decision making. By **Graham Pitcher**.

Outsourcing manufacture to another country is nothing new; the electronics industry has been doing that for some time now with varying degrees of success. But if you're thinking about outsourcing, how do you know whether that's the right choice for the product in question?

It's an issue which is being addressed through a partnership between the Electronics KTN and Intellect through a combination of publications and web based information.

David Kynaston, EKTN chairman, has wide experience of contract manufacturing through his involvement with Selectron. "The context of our initiative is that most companies that make something are either bringing in parts from overseas or exporting some of that manufacture. We tried to get some interest going in supply chain management about three years ago, but there was little traction in the wider industry. Large companies know this area well, but smaller companies may confuse supply chain management with subcontracting."

The Guide to Offshoring notes that there remains a widespread perception that offshoring is an easy way to cut costs, but points out that reality can be substantially different. 'Some companies that previously offshored failed to consider the impact of the myriad factors involved. Although labour may be cheaper, other factors such as IP protection, transport costs, exchange rate fluctuations, speed of redesign and, sometimes, dubious working conditions must be taken into account'.

Kynaston is keen to point out this is not a 'John Bull' initiative. "We're responding to the need for more awareness of supply chain management issues, which is an area which doesn't seem to get the recognition you would imagine."

Instead, Kynaston describes the initiative as something which is intended to 'ignite the imagination' of those considering offshoring. "If I

were to ask a number of companies who have recently offshored how they constructed their supply contract, how they framed variability requirements, would I get coherent answers?"

In his view, if you are thinking about offshoring then you must have an organisation that is capable of running an extended supply chain. "You will need people who understand the dynamics," he emphasised. "Effectively, you are talking about project management in the supply chain."

This kind of supply chain management is a skill, he noted, because things are

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always going awry. "That's the nature of things," he observed.

The Guide – which is scheduled for publication in the near future – features case studies of designs which have remained in the UK and which have been offshored. Each case study examines the factors that informed the decision. But the publication also considers the points needed to be borne in mind when reaching that decision. For example, is the product design relatively stable? What about quantities?

Kynaston added: "Whose manufacturing process is the product designed around and how will you do prototyping and manufacturing set up? It's an area which, from my experience, is

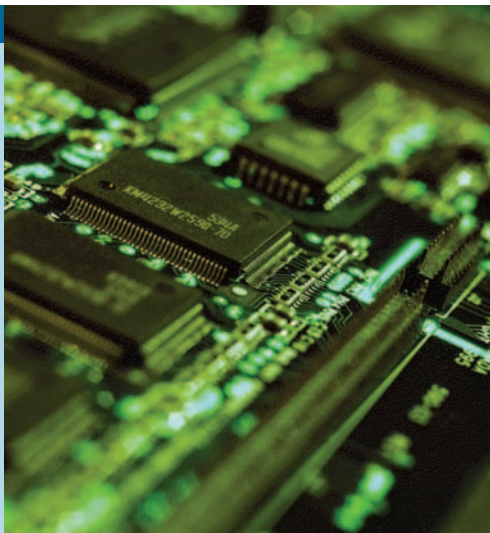


### Case Study 1

A consumer electronics company considered manufacturing in a range of countries, looking at such factors as the availability of skills, the infrastructure, logistics and local support.

Eventually, it decided to manufacture in Eastern Europe. However, a number of difficulties were encountered: supply chain management was difficult as most of the components needed had to be sourced from the Far East; skilled people were difficult to attract, and labour costs were relatively high: and the company struggled to get loyalty from the local workforce.

It has since learnt to look at the local culture and to consider more thoroughly where the components they require are manufactured.



massively under represented at senior management level: find me a company which has a supply chain director on its board. But that's the heart of profit maintenance."

The guide is designed primarily to help companies make an informed decision about where to get a product manufactured. But Intellect believes it will also be of interest to other companies, including electronic manufacturing services providers.

"Partly," Kynaston continued, "it's about allowing people to share experiences, but we also want to provoke different thinking; helping companies to come to the right decision. It's complex and I would challenge anyone to tell me where it is well taught in the UK."

The message coming from EKTN and Intellect is that offshoring is much more than throwing a design 'over the wall'. 'Offshoring is a question of

good supply chain management', it emphasises. It provides an indication of the main factors that should be taken into account, along with suggestions about how these should be weighted. "People must look forward to consider problems in the extended supply chain," Kynaston urged. "If a company is naïve enough to put an unstable design into manufacture, it has to determine how that instability can be covered. You also have to be able to cope with life's imperfections. If there is a design failure, where is the return loop and how fast can that loop be exercised? We all make mistakes, but you have to plan how you will recover."

Another issue to be addressed is IP protection. Kynaston pointed out: "You can find yourself working with a company of good integrity, but IP tends to walk out on two legs. In cultures where engineers regard their knowledge as tradable,

### Guide and Webinars

Intellect's offshoring guide will include an opportunity evaluation matrix, intended to assist in the decision making process. By completing this matrix, it will be possible to see an indication of the relative strengths and weaknesses of different options.

Two webinars will also be available. The first webinar will summarise some of the major factors that should be considered, while the second will explain how to use the Guide's matrix as a tool to begin to weight the relevant factors.

For more information about this project, or to be notified when the guide and webinars are launched, please email [info@intellectuk.org](mailto:info@intellectuk.org)

they may not always see that as IP trading. But this is not as simplistic as saying 'companies in country X aren't to be trusted'; it's more about individuals not knowing the rules. A solution could be performing software configuration elsewhere and taking stringent control of source code."

One thing is certain: offshoring or outsourcing manufacturing will not solve internal problems. If a company is struggling with design instability or a lack of manufacturing flexibility, these issues must be dealt with prior to considering offshoring or outsourcing. "Offshoring will not solve endemic problems," Kynaston concluded. "It will only exaggerate them."

**ne** For further information on any subject visit: [www.newelectronics.co.uk](http://www.newelectronics.co.uk)

### Case Study 2

A defence company found that manufacturing in the UK suited its needs best when manufacturing a wind measurement device.

The scales of economy were such that it was suited to UK manufacture – it was low volume and high value. After considering transport costs, potential language barriers and the associated difficulties, time differences, the possible risk to IP and the importance of maintaining UK security, lead them to the decision to manufacture in the UK.

The process went well and the company found plenty of companies in the UK with the right skills to do the work.

