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Thanks, But I'll Build It Myself

Eight companies list their reasons for bucking the outsourcing trend.

Two years ago I wrote a column looking at when it does *not* make sense to outsource manufacturing.¹ The topic warrants further discussion because although the percentage of cost of goods sold (CoGS) spent on outsourcing manufacturing has increased almost 20%, hundreds of OEMs are still bucking the outsourcing trend.

We interviewed OEM decision-makers to determine why they keep most production in-house.² Every company opting for "in-sourcing" does so for a different reason.

1. Managers at an East Coast U.S. military/aerospace company say they just are not ready to outsource manufacturing. When they consider outsourcing, they wonder how to do so while keeping unions happy.

2. A northern California telecom company manufactures nearly all its products in its facilities in China. Some managers worry about the business risks of having such a strong concentration of manufacturing in China; the company's five-year goal is to balance the ratio: 50% in China, 50% outside.

3. A large Japanese conglomerate identifies quality, product-delivery lead time and inventory management as reasons to keep much of manufacturing in-house. Other Japanese companies state similar reasons.

4. Outsourcing only 5% of its CoGS, a Midwest radar company has no plans for additional outsourcing. The company's EMS supplier is fairly proximal to the OEM, and management is considering moving the small amount of outsourcing to China or India.

5. The CEO of a small electronics company in the Phoenix area places a high value on keeping his manufacturing employees, and therefore resists using CEMs though CoGS sold likely would be reduced.

6. A networking and consumer electronics company in the southeastern U.S. outsources just 15% of CoGS. Management cannot imagine outsourcing the manufacture of its core products. They would rather increase internal capacity.

7. A Midwest producer of industrial equipment currently outsources just a few million dollars worth of PCB assemblies. Management is considering bringing this work back in-house to achieve better lead times, reduce inventory and improve product turns.

8. A Texas company making industrial controls assembles boards, and integrates and tests products

in-house. The general manager has watched employee healthcare and other benefit costs rise, and reluctantly has to consider laying off workers and setting up shop in Mexico.

Will these companies and others that outsource little or none at all ever go that route? Some will, most likely. According to a manager at a mid-sized multinational CEM, half the company's new customers are OEMs that had never outsourced before. The manager of another CEM explains that some OEM managers are forced to make last-minute outsourcing decisions because of financial circumstances.

Note in cases 1 and 8 that although the companies use their own employees to manufacture products, the employees are or soon will be in lower-cost countries.

And some manufacturing jobs never get a chance to spring up in the U.S. Startup companies are still choosing outsourcing in nearly every case – often in low-cost regions such as China. Some venture capital firms even make outsource-consulting resources available to their portfolio companies. The aim: Get the startup's products to market before others and preserve capital for development and marketing – not plants.

Why keep manufacturing in-house? Two respondents said it best:

"As far as rapid time-to-market, our engineers can get us to market as fast as any service providers can, perhaps even faster."

"The main obstacles to outsourcing have been financial. Our model is pretty good and I don't know if we need to change it. I guess our bottom line is still 'prove it to us.'"

As long as OEM managers consider the benefits of in-house manufacturing to outweigh outsourcing – owing to company culture, resistance to change or financial benefit – their potential CEMs will have to focus on customers already outsourcing or hone their "proof" of the superior benefits of outsourcing. ■

References

1. P. Gordon, "When Not to Outsource," *Circuits Assembly*, Sept. 2002, p. 52.
2. Technology Forecasters, *Why OEMs Choose Not to Outsource Electronics Manufacturing*, TFI Quarterly Forum for Electronics Manufacturing Outsourcing and Supply Chain, Sept. 30, 2004.

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