



Choosing and
Optimizing Outsourced
Assembly and
Subassembly
Services



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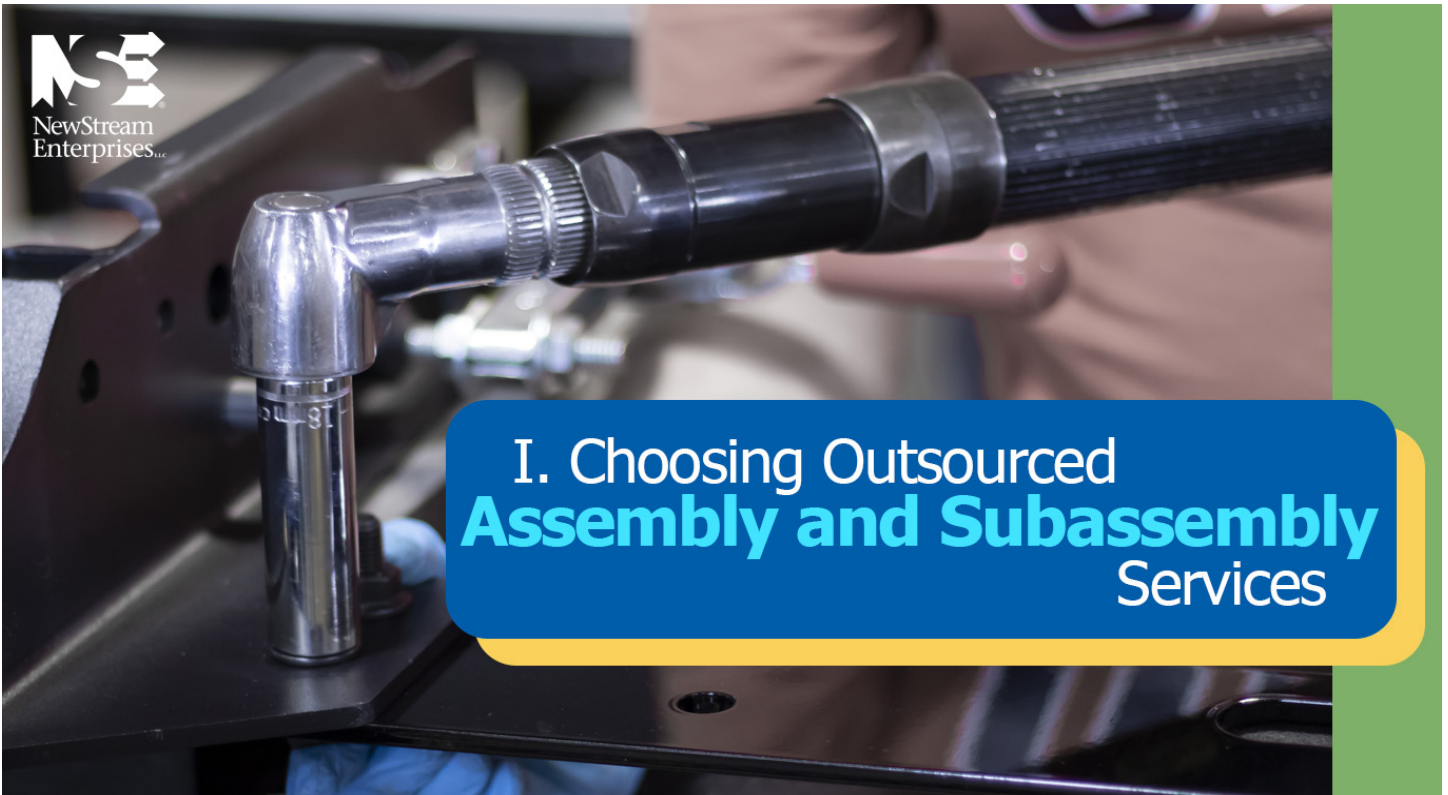
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Introduction

In today's supply chain, we all face what seems to be a never-ending list of challenges. From understanding customer demands to benchmarking against our competitors to preparing for the newest emissions standards, engine and equipment production can be difficult to manage. This does not take into account the post-pandemic world we live in where labor, space, and raw materials are in high demand with low availability. **Original equipment manufacturers (OEM) face the challenge of optimizing their internal labor resources and physical space while needing to be flexible with production demands.** Most OEM's find during their production planning that the benefits in regard to breadth of services, level of quality, and years of expertise of third-party assemblers or sub-assemblers far outweigh the cost of keeping these services in-house, leading procurement teams to find an outsourced solution to solve their problems. **But how can you ensure you are getting the most from your outsourced partner?**

In this guide, you will learn **how to choose the right assembly and subassembly provider and how to get the most out of the relationship.** Learn how to optimize the new business partnership to ultimately increase your company's revenue, minimize errors, cut unnecessary costs, improve product quality, enhance inventory levels, and ultimately speed your time-to-market.





1. Choose the Right Outsourced Assembly and Subassembly Provider Based on Your Needs and Parameters

There is not a perfect solution in outsourcing your assembly and subassembly process. Each outsourcing strategy will be different for every organization. An OEM's internal strengths and resources need to be assessed to determine the right fit. When preparing an outsourced strategy before production, a key question to ask is, "How much production should we outsource?" In addition, "Should we outsource inventory management, purchasing, or just assembly?"

The following tables will help you compare the two options - **outsource purchasing, inventory, and assembly to your contract manufacturer** OR **outsource assembly only**. Each option will have its pros and cons that will weigh differently depending on your company's situation. To help determine which solution is right for your company, you will need to **consider the type of product, phase of production, and supplier abilities**.



Option A: Outsource Purchasing, Inventory, and Assembly

This option can be more effective and applicable than Option B if the following is true:

- Your company **product is simple** and has a **stable design**
- Your **provider has the willingness to work with you** and the ability to **provide the expertise you are lacking in-house**

The following table shows potential benefits and risks of outsourcing purchasing, inventory, and assembly.

Potential Benefits and Risks of Outsourcing Purchasing, Inventory, and Assembly	
+	△
+ Focusing on core competencies by outsourcing other certain processes	△ Less control of supply chain
+ Mitigate sourcing and shortage issues	△ Decreased intellectual property (IP) security
+ Leverage economies of scale to decrease raw material and component costs	△ Fewer opportunities for supply chain innovation




Option B: Outsource Assembly Only

This option can be more effective and applicable than the Option A if the following are true:

- Your company **product is highly complex**
- There are **IP or security concerns**
- You are **ready and confident to leverage a diverse and competitive supply chain**

The following table shows potential benefits and risks of outsourcing assembly only.

Potential Benefits and Risks of Outsourcing Assembly Only	
+	△
+ Ensure flexibility and control	△ Volume pricing opportunities greatly decrease
+ Opportunities for internal innovations	△ Unable to consistently focus on specialized core competences
+ Utilize and enhance in-house skills and experience on core competencies	
+ Decrease supplier management costs	



2. Ask Your Potential Providers Right Questions

Based on your **project objectives and expectation**, the information you need to look up may be different. Besides the basic information, such as location, company size, industry experience, and customer base, consider the following questions:

- What value-add services do they offer?
- Do they have the required certifications?
- What quality metrics can they provide?
- How does the provider match up to your KPI expectations?
- What is their continuous improvement methodology?
- How will your company's resources be redirected to their operations?
- What is their pricing structure? How does their price compare to your in-house cost?
- What is the On-Time Delivery or Just-In-Time Delivery rate?
- What are their abilities in handling the scope of work on the project: labor consideration, technology, infrastructure, timeliness, trouble-shooting?



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II. Optimized Outsourced **Assembly and Subassembly** Services

1. Optimize Cost-Effectiveness

To optimize cost-effectiveness, you can either **reduce costs with your current assembly provider** or **switch your outsourced assembly to a new provider**. There are several key factors to consider in choosing which option would be the best for your company:

- Cost of conversion
- Risks of change
- Resources
- Improvement to your internal process.

How much can the risk of change cost you? Since you've already decided to make a change in your product assembly strategy, you know that the cost of changing is less than the cost of doing nothing. Now consider the cost required to make a significant change to your assembly process. The cost of conversion will include implementation costs, potential cost of production gaps, scrap and rework errors, and overtime labor costs. Does your current supplier have the bandwidth and/or desire to help you with a cost reduction effort? Consider the supplier's availability and resources. Internal processes such as Open-Book Management (OBM), Lean, Six Sigma, 5S, total quality management (TQM) can be implemented to save money.

"**Open-book management** at its most effective far outperforms a definition as simple as 'sharing financial information with employees'. Open-book isn't just about opening your financials to your company, it's about **responsibility, ownership, results** and **growth**, all of these things can come together to drive the needle forward in your organization. With proper training and knowledge, all levels of your business start to act and engage just like the owner, or leadership."

- The Great Game of Business



At NewStream Enterprises, LLC, we practice Open-Book Management



1. Optimize Cost-Effectiveness (Continued)

There are two major ways to save money on outsourcing your assembly and subassembly: **Reduce costs with the current provider** OR **go with a new outsourced strategy**. Each option has its own pros and cons. The following tables help weigh the options to figure out which one would be the better solution for your company.



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Two Ways to Save Money on your Assembly and Subassembly

Option A: Reduce Costs with the Current Provider

Option B: Go with a New Outsourced Strategy

Option A: Reduce Costs with the Current Provider

This option can be more effective and applicable than Option B if the following are true:

- You have a **new product line** that has **similar assembly requirements**, and all **production-related issues** can be **identified** and could be **solved** now
- There is an opportunity to **implement lean initiatives** through your business and your current provider
- Your **current provider is willing to work with you** and has the **ability to cut costs**
- You are **mid-production** and **cannot afford any setbacks or delays**

The following table shows potential benefits and risks of reducing costs with the current provider.

Potential Benefits and Risks of Reducing Costs with the Current Provider	
+	△
+ Minimal risk	△ Supplier unable to cut costs
+ Leveraging an already established relationship	△ Less opportunity to innovate
+ Opportunities to optimize for future release	
+ More resources available to focus on quality	


Option B: Go with a New Outsourced Strategy

This option can be more effective and applicable than Option A if the following hold true:

- Your **product** is **highly mature** and **fully developed**.
- Your **business and product life-cycle** are in a **stable status**
- Your **current provider** is **not able to reduce costs**
- Your team **can apply new operation methods** and has **available resources for change management**
- You **understand your product thoroughly** and are **confident about your manufacturing processes and output**

The following table shows potential benefits and risks of going with a new outsourced strategy.

Potential Benefits and Risks of Going with a New Outsourced Strategy	
+	△
+ Increased ability to innovate	△ Losing relationships with previous provider
+ Substantial changes can be realized quick	△ Decreased stability during the on-boarding phase
+ Can chose a supplier with an ideal location	△ Additional resources are needed to problem solve, source, and manage
+ Change bad habits in current process	△ Increased risk of production stoppage
	△ New and unexpected problems to manage



1. Optimize Cost-Effectiveness (Continued)

Flexibility in your assembly operation can make the difference in your profit margins. Always be ready to reassess and make changes proactively instead of reactively. If you decide to move forward with your current provider, remember there is still a large gap from your current operating status to great execution.

Throughout this transition period, remember to focus on your product and end customer need in order to simplify the operation. Only add new technology and processes if needed. The ultimate goal is to speed up the process and cut costs while ensuring product quality.



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2. Optimize Multiple Product Lines

If your company has different product lines that need outsourced assembly or sub-assembly services, you may be asking yourself the following question: “Should we utilize one provider to optimize costs and reduce complexity? Or should we use different providers to get the best of each?” There are several key factors in this decision-making process. You will need to consider:

- Financial impacts
- Timeline constraints
- Organizational priorities
- Providers’ abilities
- Risks and rewards

Initially, it is important to review your company’s available resources. Do you have the labor and/or cash to manage multiple providers for different product lines? Will this increase in responsibilities overload your team? Additionally, consider your organizational priorities. Would you rather optimize your production for the performance or for cost? What is your overall budget and desired output for your providers? After having a solid idea of your needs and a clear picture of your situation, you need to look at the providers’ abilities to evaluate if they are capable of providing you the services that satisfy your expectations. In addition, identify both the benefits and possible risks for each option.

There are two main ways to optimize your outsourced assembly and sub-assembly for multiple product lines: **Keep your current assembly and sub-assembly provider to optimize costs OR distribute each product line with the best assembly and sub-assembly provider possible.** Each option has its own pros and cons. The following tables help weigh the options to figure out which one would be the better solution for your company.



Two Ways to Optimize Assembly and Subassembly for Multiple Product Lines

Option A: Keep Your Current Assembly and Subassembly Provider to Optimize Costs

Option B: Distribute Each Product Line with the Best Assembly and Subassembly Provider Possible

Two Ways to Optimize Assembly and Subassembly for Multiple Product Lines


Option A: Keeping Your Current Assembly and Sub-Assembly Provider to Optimize Costs

This option can be more effective and applicable than Option B if the following are true:

- You have **high volume but low-complexity products** sharing similar raw materials and procedures
- Your company does **not have all necessary resources to manage a new provider**
- Your **current provider is willing to help you**, and they **have the ability to carry out the new solutions**
- You have **back-up plans** in case something unexpectedly happens to your current provider

The following table shows potential benefits and risks of keeping your current assembly and subassembly provider.

Potential Benefits and Risks of Keeping Current Assembly/Subassembly Provider	
+	△
+ Opportunities to establish a new partnership	△ New team may not be best fit for product
+ Decrease management costs and required resources	△ More dependent on the current provider
+ Decrease part costs from volume purchasing	△ Less innovation opportunities
+ Less complexity	△ Less stable



Option B: Have Different Assembly and Sub-Assembly Providers for Different Product Lines to Get the Most out of Each Provider

This option can be more effective and applicable than the other if:

- There are **many differences within your assembly and sub-assembly processes**, such as product lines and breadth of component mix
- Your **current assembly provider does not meet your quality expectations for all product lines**
- Your team **has the ability to manage and look over multiple providers' processes**
- Your **customers require very high-quality products** that need more extensive processes

The following table shows potential benefits and risks of having different assembly and subassembly providers for different product lines

Potential Benefits and Risks of Outsourcing Assembly/Subassembly to Multiple Providers for Different Product Lines	
+	△
<ul style="list-style-type: none">+ Competencies aligned for each product+ Right provider for each product+ Less potential risks+ Higher product quality and faster delivery+ Increase flexibility and innovation opportunities	<ul style="list-style-type: none">△ Introducing more complexity△ Additional management costs and set-up△ Fewer opportunities for volume pricing

3. Focus on the best solution for your product, not the lowest price

The ultimate goal of outsourcing your assembly and sub-assembly process is to enhance the production output and the product quality beyond that which your team is capable. This is especially true with OEM products that require inventory management, product lifecycle management, understanding product requirements, and supplier management all while establishing consistent quality assurance protocols.

To reduce stress in your assembly operation, experts in outsourced assembly and sub-assembly often include additional value-added services that can solve multiple problems you face. Nowadays, in order to be competitive in the marketplace, you not only need to have a great price but offer the best quality and customer experience.

When evaluating assembly service providers, it's not just about the price comparison, you need to find the best solution for your product with a provider whom you trust. If an assembly and sub-assembly provider offers services at a lower price range yet cannot provide what you need, it will actually cost you in the long run.



4. Do not Hesitate to Voice Problems and Concerns

Entering any business relationship will inherently come with risks, especially during the transitional period. Because the implications of a long-term partnership can be far-reaching and changing contracts can be time-intensive and expensive, it is important to raise any concerns early on in the process. In doing so, any problematic situations or conflicts can be addressed properly, and a resolution should be found before the contract is signed.

Remember, it is not the problem itself, but how your assembly partner reacts to it that will build a confident working relationship. Good business partnerships are based on trust and commitment towards a shared vision. Starting off on the right foot makes it more likely that this partnership will develop into a mutually beneficial situation for the long-term.

