

# Selecting Electronics Outsourcing Partners

Late (or unreturned) phone calls are a plain sign to steer clear.

If you move to a new area and need to find a physician, one of the best ways to decide is to contact hospitals in your new neighborhood. Depending on the type of doctor you seek, ask to speak with that particular department's charge nurse. Inform this person of your situation, and ask which doctor they would recommend to their family members and, most importantly, why. Based on the information the nurses use to support their recommendation, the competence and mannerisms of a number of doctors will begin to emerge. You can then arrange to visit each doctor, get to know the office staff and decide which is best for your family.

This is one of many reasonable ways to obtain information on a pool of medical providers in a given area. Now consider supply chains and electronics outsourcers, of which there are more than 3,000 providers worldwide. No wonder selecting the right partner is daunting. Then, of course, there is the financial reasoning. Executives will ask, Will outsourcing save me money, and if so, how much? It is important to understand the general financials for managing an outsourcing division or organization. Doing so will help prevent OEMs from purchasing sophisticated supply-chain services only to find later their outsourcing partner is financially unstable and they have bought the troubles that come with migrating programs from a failing provider to a more stable one. We have seen situations where providers losing programs to other providers can obstruct an otherwise easy transfer.

There are a number of ways to take the economic pulse of your potential outsourcing partner. Materials cost of goods sold (MCOGS) make up the majority cost of doing business; OEMs should focus on it. Likewise, it is important to evaluate and measure a provider's management acumen. For public companies, such information can be found on the Internet. If privately held it is harder, but if the provider runs a tight ship chances are they may be impressed you asked and answer your questions directly (or at least hint in the right direction). Besides revenue and margins, key benchmarks include days of inventory, days sales outstanding, days of payable, and cash conversion cycle. Other important metrics include debt-to-equity ratio and inventory

turns. Note that each balance sheet metric has an acceptable target (number) range for the industry and peer-to-peer comparison.

Some outsource providers are consistent leaders in finance metrics-managed areas of performance, while others have high debt-to-equity ratios and should not be touched with a 10' pole. Beyond determining the provider's financial health, ascertain if they can meet your specific product and end-market requirements, the first step in becoming a true partner.

**Make a checklist.** A comprehensive process or checklist can ensure potential EMS partners are evaluated strategically, not casually. To be effective, companies should have a good understanding when it comes to identifying and benchmarking their supply-chain requirements. An example of a casual process is to send an email with jpeg photos, a bill of materials, and volume and ship date requirements to multiple EMS providers, then select the one that quotes the lowest price. This happens more often than people think. We strongly discourage this because the lowest price provider is not always the better choice. Instead, try to understand the big picture of the potential partner's capabilities, then drill down into some of the granular areas of its business model. We direct OEMs to identify and address internal needs of all company stakeholders and functional groups and to create a checklist prior to initial discussions with potential partners. Doing so will help validate the OEM's thoughts and internal decision processes while saving time and mitigating short- and long-term risk.

Some areas OEMs will want to evaluate include certain quality qualifications and capabilities such as ISO registrations, document control and failure analysis. Some non-quality capabilities to look for include a disaster recover plan, capacity planning and internal information systems support. One of the easiest ways to build trust is to show interest by returning phone calls and emails. If a provider is too busy to be courteous to return calls when you are not their customer, chances are they will not change their habits. The world is filled with quality, professional EMS firms, at all tier levels, eager to court and service your company and product program needs. ■

*Mark Zetter is president of Venture Outsource Group; mzetter@ventureoutsourcing.com. For a free outsourcing cost-benefit analysis tool, visit [ventureoutsourcing.com/products.html](http://ventureoutsourcing.com/products.html).*

