

Outsourcing Management

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“Outsourcing management” defines the processes required to manage product pricing data, select outsourcing partners, manage pricing negotiations, maintain updated pricing across EMS providers, and rollup product costing.

A cursory look at interactions between electronic OEMs and EMS providers clearly indicates the complexity that exists between supply chain partners. There are significant challenges associated with engineering, manufacturing, and distribution, and these areas are often noted when discussing industry dynamics. However, there is as much complexity involved with other less visible processes, such as OEM/EMS pricing negotiations and product costing.

To gain an appreciation of the volume of data, as well as the depth of analysis that is required within these processes, one only needs to consider that each OEM has dozens, and more often hundreds, of assemblies to manage. Each of those assemblies has hundreds of parts, which means literally hundreds of thousands — even millions — of components going through quarterly costing cycles.

The need to be able to manage, manipulate, negotiate, analyze, and assess data on these parts is a daunting task. For the purposes of this article we will define “outsourcing management” as the processes required to manage product pricing data, select outsourcing partners, manage pricing negotiations, maintain updated pricing across EMS providers, and rollup product costing.

In the following sections, the requirements for four key processes used to manage direct material spend in an outsourcing business model will be addressed. These processes are: assembly and component pricing data management; EMS negotiation and selection; quarterly BOM (bill of materials) validation and pricing revisions; and ongoing price adjustments.

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1) Assembly and component pricing data management: OEMs must have accurate BOM and pricing data on all assemblies before they can effectively manage their EMS partners. While product data management (PDM) systems contain the BOM structure and part data, they don't effectively manage pricing data. Additionally, PDM systems are the domain of the engineering department and not readily available to staff in commodity management, outsourcing management, and procurement.

Therefore, an open system management (OSM) system is needed to house accurate assembly data that marries BOM structure information to pricing data. BOM structure data includes BOM, current component revisions, approved manufacturers' list (AML), and component specifications. Pricing data must be combined with assembly data in the OSM system.

Pricing data can be highly fragmented for most OEMs. There are usually dozens of pricing sources within an OEM that have to be managed. Different prices exist across different regions and different ERP systems. The OSM system must be able to track contract pricing, historical prices, target pricing, financial standard costs, PO pricing, and RFQ bids from multiple competing sources. Without an OSM system, this is virtually impossible. Being able to step back and evaluate, analyze, and measure the results of all the thousands of components in multiple assemblies to determine the best source for the lowest cost of ownership is usually a luxury that is difficult to achieve in a timely manner.

2) EMS negotiation and selection negotiating with multiple companies to select an EMS provider is also fraught with challenges. The sheer number of variables that must be considered is enough to overwhelm even the most experienced supply chain professional.

OEMs must negotiate with EMS providers when considering switching the site or provider that builds a current assembly, or when new assemblies are introduced.

Sticking with the current EMS provider without validating that its service levels and pricing are competitive is simply not an option for most companies; therefore, outsourcing teams must manage negotiating cycles with multiple EMS providers on a regular basis. Without centralizing and automating that function, the task is near impossible. Evaluating bids from multiple EMS providers is difficult because of the age-old problem of "comparing apples to oranges."

EMS companies submit their proposals in various formats and various levels of detail in their cost summaries. The number of components and pricing variables make it difficult to do side-by-side comparisons of competing quotes.

An enterprise OSM system provides all of these ways to streamline the negotiation and selection process while driving down overall assembly cost and product costing cycle time.

In the second part of this article I will explore the remaining two fundamental steps for managing direct material spending in an outsourcing business model.

An OSM system helps OEMs gain control over an array of challenges by enabling them to do the following:

- Consolidate component demand across multiple assemblies, global regions, and business units to drive better pricing through higher part volumes.
- Manage multiple approved manufacturer lists across each component, and provide insight and analysis on the best sources for supply.
- Capture and compare all pricing variables including material, labor, fixed and variable markups, tooling, and profit margin.
- Assign total cost of ownership (TCO) factors to supplier bids to enable better decision-making.
- Simplify the analysis and comparison of all cost factors across multiple EMS providers.
- Identify best worldwide pricing through analysis of internal and EMS pricing.
- Utilize online negotiation tools to reduce total assembly cost. For example, extract the best price on various components and cost factors across multiple EMS providers to derive a lower overall assembly price.

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