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# Outsourcing - Control is the Key to Success

**Though this may appear to be a dream come true and a solution to your problems, if it is not carefully structured, outsourcing could be your worst nightmare.**



by  
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**T**he authors defined outsourcing as:

“Transferring the control of a process or product to a supplier.”

The future of your company’s success could be linked to your successful relationships with your outsourcing partners. The reasons for using outsourcing for components or the complete finished product could include; less expensive supplies, increased capacity, or reduced overhead. Though this may appear to be a dream come true and a solution to your problems, if it is not carefully structured, outsourcing could be your worst nightmare.

Thus, when you decide to outsource, you make the decision to transfer part of your business processes to your suppliers. A successful outsourcing partnership is one where you would not need to guide your supplier on how to perform the task, but where you can just focus on communication with the supplier and monitor the results you expect. Your supplier would be completely responsible for achieving those results and supplying you with a quality component, or in some cases, a finished product. In this way, you can focus on your own core business.

However, because of this kind of transfer, outsourcing is becoming very challenging. As you depend more and more on your supplier, it is imperative that you ensure the supplier can control the processes and provide the results your products require. When you decide to outsource, you create a dependence on your supplier to provide you with high quality products in a timely manner.

As areas of the globe developed over time, spheres of outsourcing changed. After World War II, Japan became a prime supplier for the United States. As other countries became more developed and the cost of labor increased, new areas of the world became the new outsourcing centers.

Now the main area for outsourcing is mainland China, where the labor pool appears to be so large that this new center of outsourcing should be a strong supplier for years to come.

If you are thinking of outsourcing, there are many reasons to use a procurement outsourcing service firm in China to guide you in supporting this endeavor. China is a large country, and trying to weave your way through hundreds and hundreds of companies in making your decision on which company meets your requirements can take an enormous amount of

your staff's time. Using an outsourcing service would provide the guidance to find you the right partner, assist with monitoring the quality, and negotiating the finance arrangements, thus reducing your time and costs. A good outsourcing service will act as your strategic partner to help manage the outsourcing process in China. They help control the overall outsourcing process, ensure the results meet your expectations, and reduce the expense.

If you decide to use an outsourcing procurement service you should expect the following support:

- The outsourcing procurement service needs a complete set of documents to support your outsourcing request. This would include drawings, specifications, materials, etc. The service would then locate several of the most competitive suppliers in the related industry based on the required product.

*Note: The company should provide well-defined specifications to the outsourcing procurement service and the outsourcing partner as well. There should be a system in place to measure the results of the process to ensure specifications have been met.*

- They will then perform a vendor survey and create a bidding table which contains the information including the capability, capacity, and initial price quoted.
- A bidding score sheet will be generated for these suppliers. It is usually weighted as follows: price – 50%, quality – 30%, delivery – 10%, and service – 10%. This is the initial measurement based on the service's professional opinion. You would then make the final selection based on this information.
- A sample will be provided for your approval. It will then be your decision to run mass production.
- The outsourcing firm will be expected to perform the manufacturing readiness review during the pilot run, and measure the manufacture if they can go to mass production. You should expect that a routine report would be sent to you for review.
- All product defects, failure reason, and corrective action will be documented and sent to you for verification.
- The supplier will make the shipment, and it would be expected that the supplier will also handle all export issues. The packaging method

will follow up your instruction.

- The outsourcing service will be expected to perform the Out-of-Box Audit (OOBA) inspection before the shipment. The Acceptable Quality Limit (AQL) will be as you specify, or based upon the general requirements in MIL 105E or similar standard.
- An inspection report will be signed by both the supplier and your service and forwarded to you for verification.
- It is recommended that regular measurement of the supplier be performed to ensure the product quality is under control. A regular quality report should be forwarded to you for your reference.
- The outsourcing procurement service should assist in setting up a quality target for the supplier to achieve and make on-going improvements to your product.

You should not only rely on the inspection to control the quality of the product. With your supplier being located in a foreign country, you would expect that the outsourcing procurement service will ensure that the manufacturing process is under control with an acceptable quality management program fully implemented.

Critical elements that an outsourcing procurement service should focus on during a supplier qualification are:

- ① The Engineering Change Process Review
- ② The Incoming Material Inspection Process Review
- ③ The Technique Capability Review and Production Process Review, etc.
- ④ Management Review
- ⑤ Corrective and Preventative Actions

One of the biggest concerns when dealing with outsourcing contractors is whether the engineering changes are being fully understood and implemented. The key is to verify how the engineering request is issued from the client side to the contract supplier's Research and Development (R&D) department. It is important to ensure that there is a strong relationship between the customer and the outsourcing company. There should be an initial contact inside the supplier. This is usually someone in the production engineering department, who will be responsible to review all updated engineering documents. This person will also be responsible to

ensure that this information is then transferred to the production lines where the working instruction will be updated, and even to the operators who will be the ones who will actually implement the change.

The incoming material inspection is also important to the whole process. It is critical to ensure the right material is received and inspected based on the established procedure. In the case of mechanical parts, for example, it is critical to ensure the dimensions are being measured and the inspection method is adequate. It is also important to ensure that the rejected parts are returned or reported to the clients in the event that the disposition require that the rejected parts had to be modified to meet specifications.

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An area that is missed by clients when seeking an outsource supplier is if the supplier has the technique capability. You need to ensure that the supplier has adequate technique capability to do the job, and that the supplier has plans to continue to upgrade technology to meet the requirement in the future. This should be done prior to entering any long-term agreement. This would assure that you do not have to keep on looking for alternative suppliers as your technology progresses past your supplier's capabilities. A pre-agreement capability assessment is required to determine that the technological and production environment is capable of meeting your needs.

It is critical to a company/outsourcing partnership that a strong contract manufacturing agreement is established and maintained. A sound contract manufacturing agreement is achieved by including the following:

- Outline the specific responsibilities of both the company and the supplier.
- Specify the expectations for inspections. Is "first piece" inspection required, or will in-pro-

cess inspection be more desirable for the specific product.

- Establish that no change to the specification or manufacturing process can be made without written approval by the company.
- Require and document that the current production environment is cGMP or ISO 9000 compliant as applicable to the product or location of the contract facility.
- Certify that batches meet all specifications and that there is a system of formal, written release.
- Include the requirement that the company can audit any batch produced by the contract facility.

During the entire production process, the key is to witness the operation to ensure the supplier is well organized, and that there are no potential failures due to the arrangement of the production lines. All the operators should be qualified and are trained to follow all the working instruction as provided by the client for their product.

It is important to receive a shipment that can be used or shipped directly from the con-

tainer. This can only be assured if you use an outsource procurement service to do a random check on the final inspection at the supplier. The outsourcing procurement service will be responsible for batch release and provide an inspection report. They will supervise any rework or corrections.

Outsourcing is one of the ways that you can gain an edge in this very competitive marketplace. But a bad supplier can be the downfall to any company. The selection of your suppliers, and establishment of a system of controls is necessary to maintain a quality supplier/client relationship, and prevent surprises when you open that container.

One should not be afraid to outsource, but you should go into this with open eyes and backup to maintain the controls necessary to succeed with this option. □

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**About the Authors**

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