



Realising Full Potential of your Contract Manufacturing Strategy

Introduction

In response to the dynamic nature of customer demands and service requirements, the growing complexity of supply chains, and the mounting challenges of fixed costs, an increasing number of companies are turning to third-party manufacturing as a viable strategy. While this approach offers several advantages, it also presents risks and challenges concerning product quality consistency, on-time delivery, and adherence to process norms.

To fully leverage the benefits of contract manufacturing operations, companies must adopt innovative and adaptable ways of working. They need to navigate situations where they heavily depend on third-party providers while having limited control over the final outcome.

Challenges in Third-Party/Contract Manufacturing

- **Plant & Layout Design:** In Indian context, while dealing with 3rd party manufacturers the issue of sub optimal plant & layout and space constraints can become a major contributor of supply related risks.
- **Maintaining Quality Standards:** Inconsistencies in quality standards, skills, methodologies, and materials across third-party manufacturers can create a discrepancy in product output and overall costs.
- **Securing Supply Consistency:** The benefit of faster manufacturing can be compromised if shop floor control, asset reliability, and other factors are not up to par.
- **Managing compliance and Liability:** Third-party manufacturers can sometimes present unforeseen compliance issues or legal situations that can impact the principal companies financially and reputational.
- **Synchronizing Technology:** Aligning technological systems across all entities can prove difficult, potentially leading to operational inefficiencies and communication barriers.

Key Issues in Contract Manufacturing



60%

companies reported quality issues in 3rd Party manufacturers

40%

companies cited communication challenges

27%

faced theft of Intellectual Property

40%

companies struggled with regulatory compliance issues

35%

challenges in obtaining real-time visibility into their contract manufacturers' performance.



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Addressing the Challenges

- **Avoid Contracting pitfalls:** Ensure a comprehensive contract that explicitly outlines all terms, conditions, and expectations, including product specifications, quality standards, delivery schedules, and pricing and most importantly the consequence management of any failure.
- **Partnership Mindset:** Embrace a *partnership mindset* rather than a *buyer-supplier dynamic* is probably the most significant change required in order to realise benefits. Viewing the third-party manufacturer as an extension of the company's capabilities, fostering mutual respect and shared goals has to start with leadership driving the mindset across the organization.
- **Thorough Documentation:** Ensure that all material-related information, including quantities, specifications, and yield, are clearly documented with the third-party manufacturer at various stages of manufacturing. A comprehensive record of consumption & losses can help identify *material accounting discrepancies* more easily and minimise penalties & hidden losses
- **Align internal organization:** To achieve success in the contract manufacturing strategy, it is crucial to align the entire internal organization. Unfortunately, it is common for the management of third-party manufacturing to be delegated to a single individual or department, overlooking the importance of involving other key functions. To maximize the benefits of this approach, it is essential to bring together various departments such as supply chain, planning, quality, and safety in a collaborative effort
- **Communication Channels:** Establish open and transparent communication channels to ensure a smooth flow of information. Establishing a point of contact, regular meetings, status updates, and feedback sessions will foster a deeper understanding of each other's requirements and expectations.
- **Collaborative Planning:** Performance of your 3rd party manufacturer depends on how well the internal supply chain team is supporting the entire process order to delivery process. Ensuring adequate capacity load, resource planning like raw materials to manage the demand variability etc will be extremely critical in realising the benefits



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Addressing the Challenges

- **Mutually Defined Goals:** Set clear, mutually defined goals and performance metrics. These goals should align with the overall business objectives, ensuring that the third-party manufacturer is committed to delivering results that contribute to the company's success.
- **Quality Standards and Compliance:** Establish stringent quality standards and ensure compliance with industry regulations. Clarity on standards & requirements, conducting regular audits and inspections to verify adherence to quality norms and addressing any potential issues proactively.
- **Risk Management:** Work together to identify potential risks and develop risk mitigation strategies. This proactive approach will help prevent disruptions in the supply chain and minimize the impact of unforeseen events.
- **Intellectual Property Protection:** If applicable, safeguard intellectual property rights through contractual agreements and confidentiality clauses. This protects the company's proprietary information and prevents unauthorised use.

Conclusion

Despite the challenges, third-party manufacturing can offer significant benefits when managed strategically. Through inventive problem-solving, meticulous planning, and a partnership approach, these challenges can be transformed into opportunities for exponential business growth.

Progility Consulting: Your Partner in Navigating Business Complexities

At Progility Consulting, we specialize in profitability and productivity improvement services and can provide solutions to navigate these complexities. Our approach is holistic and interconnected, helping clients optimize various facets of their business, including their engagement with third-party manufacturers.

We aid businesses in developing technology integration strategies that foster collaboration amongst all entities in their manufacturing process. We also help them institute protocols to uphold product uniformity across all manufacturing locations. Additionally, we provide the necessary guidance to ensure the safeguarding of intellectual property rights within the third-party manufacturing network.