

# Outsource Those Orphans!

**Here is a little advice on getting the most out of outsourcing.**

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Orphan products usually fall outside a company's core competencies or what that company does best. If you're a president or manager trying to focus your company on its core competencies, there's a chance that orphan products and services consume more resources, including technical talent, than they deserve. And though you may not realize the effect these orphans have on your bottom line, the company may become more profitable and efficient if you get them out of your organization.

## Identifying orphans?

A good place to start in determining if you have orphan products is to review the following questions. Answer "yes" to any of them and you may have an orphan product:

- Do you have a product line with more than two or three years of declining sales but an installed customer base to support?
- Do you have a product line that is less profitable than your other lines?
- Do you offer a service, such as aftermarket-parts fulfillment, that absorbs a significant amount of resources but does not generate favorable returns?
- Is your company going through an organizational change?
- Do you have a shortage of floor space?
- Do you need to close, relocate, or reengineer a manufacturing plant?
- Have you experienced labor-force reductions or trouble finding good labor?
- Are you stretched too thin and find it difficult to focus on core competencies set for your organization?

Note that the last question mentions core competencies. Identifying your company's

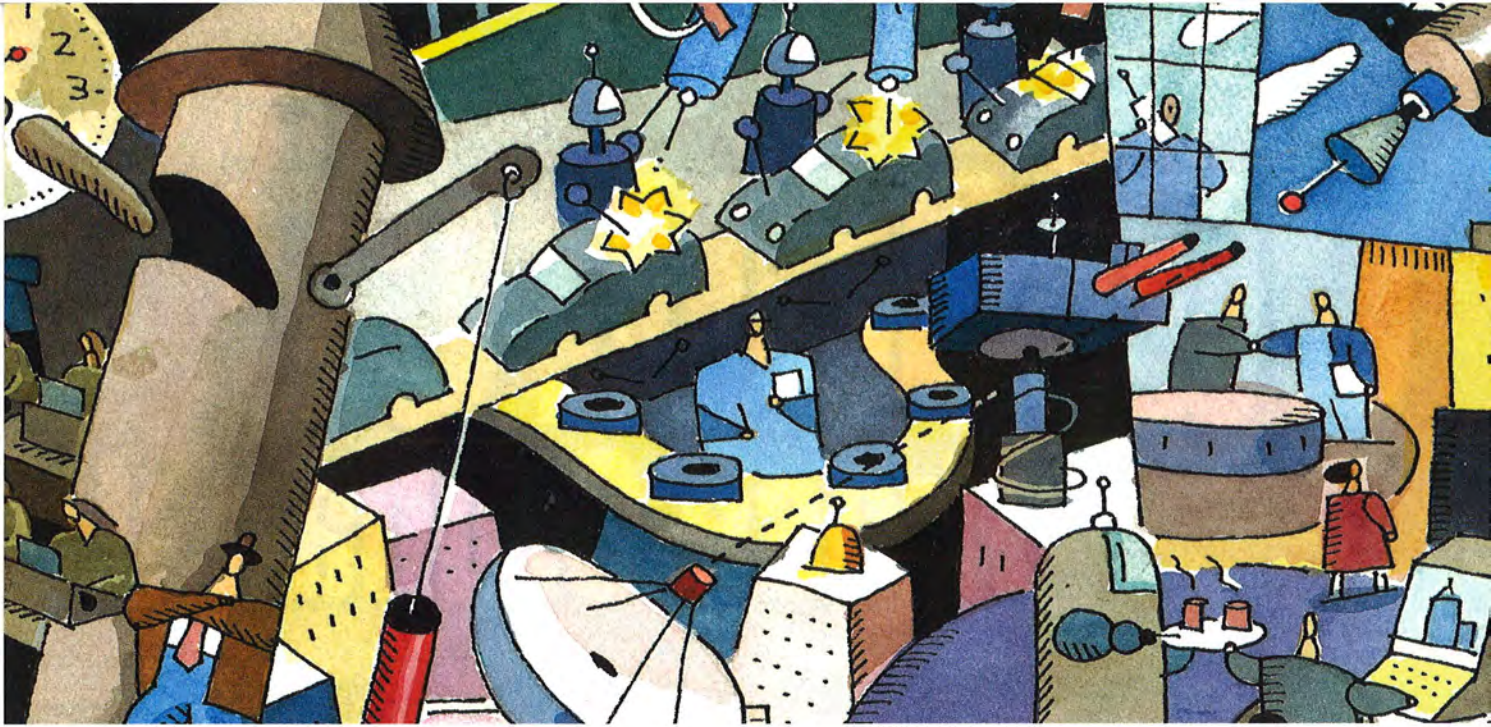
core competencies is another good way to weed out orphan products and services. These competencies are what your company does better than anyone else and keeping up to date in them will lead to future growth. Determining these core competencies tends to highlight certain noncore activities that eat away at profits and drain resources.

Orphan products may no longer require the skills and operations that differentiate you from competitors. They also might not be critical to the company's future success. But these products cannot be abandoned. They are part of your offering and important to maintaining customer loyalty.

Unfortunately, orphan products usually hamper a company's ability to invest resources properly in other new and more profitable products. Orphans may also take up valuable manufacturing space. In essence, you're faced with continuing to turn out a product that stunts the company's growth.

## Outsource them

The best solution for most orphan products is to outsource them. Most companies traditionally look at outsourcing as passing on an already designed product to a contract manufacturer to make. The contract manufacturer has invested in state-of-the-art production equipment and resources that would be expensive and time consuming to duplicate. This equipment is coupled with world-class knowledge and experience in making similar products quickly and efficiently. Companies outsourcing orphans, or noncore activities, get the best of both worlds: their product is still available to customers but someone else invests the resources to produce it.



Once a company decides to outsource an orphan product, managers should make a list of contract companies that can manufacture the product, including project management, skilled manufacturing resources, and just-in-time delivery. Candidates should have at least 10 years experience in these types of deals.

Company managers should interview candidates to see if they have a bona fide interest in establishing a relationship. Key items to discuss include units to be produced, status of prints and specifications, and any special circumstances that might affect production. To be most effective, interviews should be completed 35 to 45 days after making the decision to outsource. This prevents deliberations from languishing.

After the interviews, the list should be winnowed down to just serious contenders and negotiations on price and production transfer can begin. It is not uncommon for the transfer to include work in progress, inventory, finished goods inventory, as well as, equipment and material supplier lists.

A formal session should be held about one year after the transfer is completed. This lets both parties benefit from the knowledge, experience, and lessons learned during the transfer.

Several forces such as downsized work forces and techno-

logical advancements are pressuring companies to focus on the capabilities that will drive the company's growth. Only by properly allocating resources can companies compete and plan for the future. A strategic outsourcing partnership for orphan products can help companies establish the focus their core competencies demand. ■

For more information: <http://www.orphanproducts.com>

## What to look for in outsourcing partners

To take full advantage of outsourcing, hook up with the right partner. To make sure a contracting company is the "right" one, consider the following when choosing them:

- Benchmark candidates. Compare operational activities of candidates to activities of world-class companies doing the same type of manufacturing.
- Review your business plan. Using a set of clearly defined criteria, ascertain what percentage of existing activities could and perhaps should be outsourced for a maximum return on investments in those activities.
- Keep employees informed. Prepare people for the likely integration of outsourcing of activities by scheduling informal and formal dialogs with everyone in the company. Emphasize that the move will free individuals to grow in new and productive directions by removing rote tasks.
- Check candidates' qualifications. Experience counts for a lot because many will try to "talk the talk" without having any history of having successfully "walked the walk."
- Set up a test project. Isolate several manufacturing tasks for outsourcing and iron out any problems on them before outsourcing an entire product.

Once a partner has been chosen and the outsourcing project is moving forward, companies should:

- Measure performance. Establish well-defined goals and measure actual performance to identify, isolate, and eliminate sub-par performance.
- Partners should visit each other. Regular site visits by cross-functional teams from OEM and contract manufacturer lets them share benefits and handle changes intended to improve the process. This step is essential in building long-lasting bridges.
- Acknowledge and reward exceptional successes. Gains attributed to an outsourcing project should be shared among the groups who meet or exceed project goals.