OUTSOURCING ON-DEMAND MANUFACTURING
USING CONVERSION COST MODEL

THE NEED

When it comes to low volume, high quality, on-demand manufacturing in sectors such as mechanical, material handling, electrical, control systems, panels etc., OEMs and EPCs find it very difficult to find good quality players to whom they can outsource. Outsourced manufacturing in this sector is fragmented with many small and unorganized players, who struggle to maintain the difficult balance between quality, consistency and cost. They lack scale. They also do not have enough volumes or margins to invest in training, people development and competencies over the long term. So they lead a hand-to-mouth existence.

What is the root cause of this?

THE CHALLENGE

If a product or sub system is standardized with a predictable demand volume, clear specification, BOM and process, it is very easy to outsource this on annual contract basis. However, most OEMs and EPC customers in this space, have changing – diverse requirements. The technical and commercial terms will vary widely between each requirement. Floating RFPs and finalizing terms for each and every requirement is very time consuming.

THE NEW MODEL AND ITS IMPACT

"Outsourcing On-Demand manufacturing using Conversion cost model", is a disruptive new approach pioneered by Autosys. Like the way high volume contract manufacturing changed the structure of the industry in many sectors such as electronics, computers and automobiles, this model is likely to fundamentally change the structure of outsourced manufacturing in the capital equipment sector. We are going to see more consolidation and an emergence of big players, who can deliver substantially high levels of quality and consistency at a much lower cost.

CONVERSION COST MODEL

The core principle behind this model, is that the OEM / EPC company and the ODM Partner (Such as Autosys), pre-agree in principle on a conversion cost % for each category (For example Electrical / MCC / Control Panels, Conveyors / Screw Feeders / Silos / Batch weigher / Piping Module etc).

Similarly they also agree upon the overall size / value of the business for the year, even though quantities could vary from one requirement to another.

The manufacturing is always done on-demand as per the custom specification / BOM of each requirement. But the customer gets a price advantage, as if they are outsourcing a standard high volume product on annual rate contract.

HOW IT WORKS?

For each requirement, the input costs are mutually and transparently shared and agreed. If there is a budget limitation for a specific requirement, the target costs are also mutually discussed and the input specifications / makes / models are collaboratively frozen.

THE BENEFITS

The ODM partner gets better prices and just-in-time deliveries from downstream vendors because of the sizeable business volume that is consolidated in this model. The Quality, Productivity and Process control efficiencies are also substantially better. As a result the final landed price to the OEM / EPC customer for the same requirement (Mutually agreed Input cost + Pre-agreed Conversion cost) will be lower, without compromising on Quality and Consistency. The over-all cycle time from requirement to delivery is also shortened.

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