

CONTRACT MANUFACTURING

Key evaluation criteria to select contract
manufacturer / third-party vendor

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Contract manufacturing has grown rapidly in the last few years and the trend is expected to continue in the coming years as well. Although there are challenges due to changing regulations and geopolitical issues, the merits of contract manufacturing still make it attractive. Today many companies are open to explore outsourcing partners as a cost-cutting strategy and to bring agility to their business.

However, with all the benefits that contract manufacturing offers, choosing the right partner is a critical and comprehensive task. Many factors need to be considered and analyzed in the selection process. In this document we have covered key points one should consider while identifying and evaluating a potential contract manufacturer.

KEY EVALUATION CRITERIA



BUSINESS INDICATORS

- Technical Capabilities
- Operations
- People
- Competitive Standing



VALUE CHAIN ANALYSIS

- Industry Relations
- Supplier/intermediary Relationships
- Customer Insights and Feedbacks



FINANCIAL ANALYSIS

- Balance Sheet and Income Statement
- Cash Flow
- Working Capital



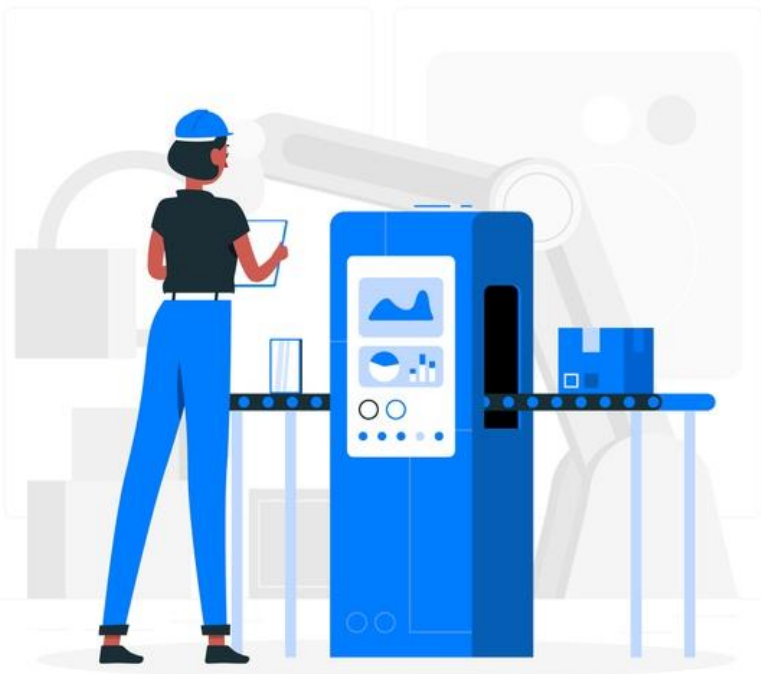
REGULATORY COMPLIANCES

- Tax Compliances
- Labour Law
- Company Law
- Health, Safety and Environment

BUSINESS INDICATORS

Technical Capabilities
Operations
People
Competitive Standing

#1 TECHNICAL CAPABILITIES



Get all relevant information to evaluate the technical capability of a potential contract manufacturer, including the work outsourced to the third parties.

CHECKLIST

- Technical certifications such as IBR/ISO9001
- Equipment details (equipment maker, model, etc.), maintenance and calibration schedule
- Experience of conducting similar projects
- Details of work outsourced to third parties
- Any specific capabilities subject to proposed project

#2 OPERATIONAL CAPABILITIES

It is important to understand and evaluate the operational capabilities of the contract manufacturing such as plant capacity, design and manufacturing processes.

CHECKLIST

- Plant capacity and utilization
- Shop Floor inspection – Organized/Not organized
- Input material source control– Trader, Authorised Intermediary, Manufacturer
- Input material inspection – SOP's, methods etc
- Capability to develop process sheets with transparency and sufficient reviews



BUSINESS INDICATORS

#3 PEOPLE

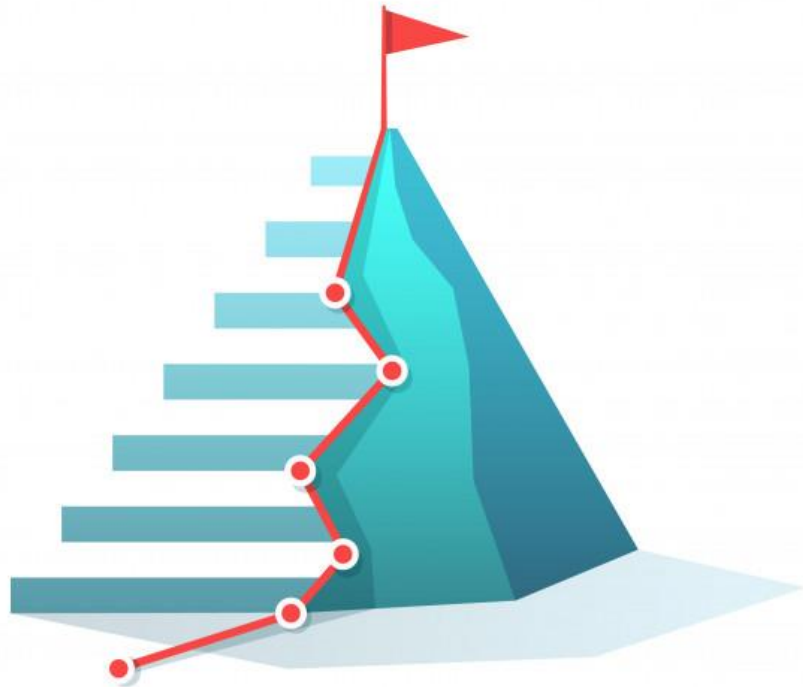
Success of the project depends on the management and project team involved. Get relevant details about the project team, management background and people specific initiatives.

CHECKLIST

- Top management structure – Family driven or Professional management
- Key Individuals & their background
- Workforce strength
- Composition of workforce – Engineers/ Technicians etc
- Skill set and training programs



#4 COMPETITIVE STANDING



Evaluate key business parameters of the contract manufacturer to understand strength and areas of improvement in comparison with other players

CHECKLIST

- Access to new or proprietary technology
- Geographic/location advantage
- Products offered – Diversified group or focused product line
- Growth/expansion in last 2-3 years
- Positioning in the industry and brand reputation
- Export capabilities (if required)

VALUE CHAIN ANALYSIS

Industry Relations
Supplier/Intermediary Relationships
Customer Insights and Feedbacks

#5 INDUSTRY RELATIONS



Take feedback and inputs from industry stakeholders such as suppliers, distributors, industry associations and business partners.

CHECKLIST

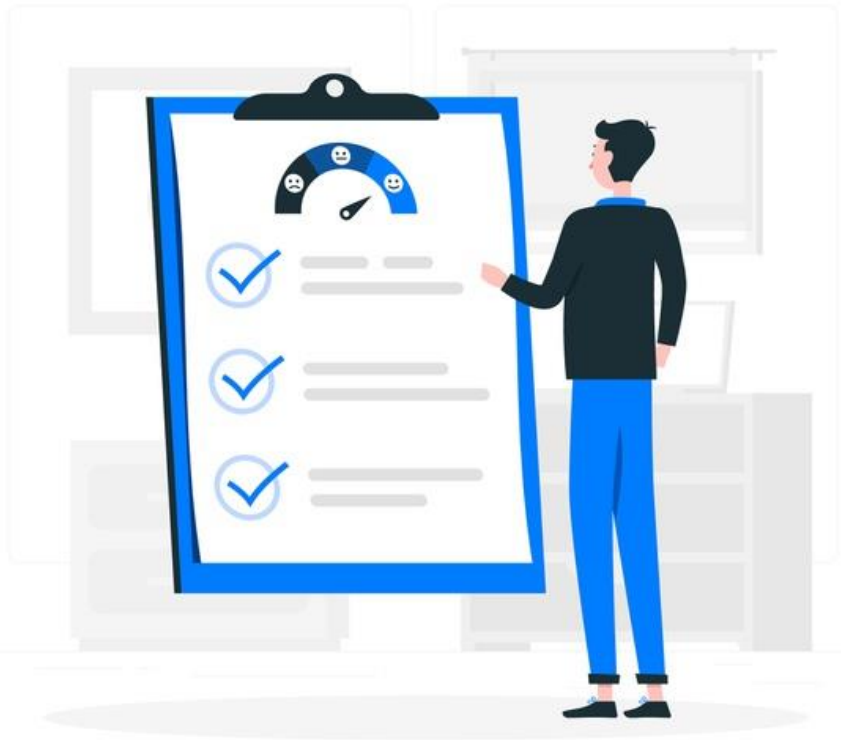
- Relationship with suppliers – Feedback/ Complaints
- Intermediaries' feedback – Distributors, agents, etc.
- Feedback on earlier business partnerships such as JV's and Technical collaborations (if any)
- Membership of various associations

#6 CUSTOMER INSIGHTS

Get information about the customer portfolio specific to the assigned project and other relevant details.

CHECKLIST

- References and testimonials from customers
- Project details executed in a specific duration – project completion (on-time or delayed), any unanticipated cost, any dispute, etc.
- Customer retention over a period



FINANCIAL ANALYSIS

Balance Sheet
Income Statement
Cash Flow
Working Capital

#7 FINANCIAL ANALYSIS



Knowing the financial health of contract manufacturer is must to avoid any potential disruption during the project.

CHECKLIST

- Analysis of the financial statements – P&L, cash flow, balance sheet -
 - Position of Assets- Cash, Accounts Receivable, Inventory and Fixed Assets
 - Position of liabilities- long term, current and contingent
 - Capital Structure and debt servicing capabilities
 - Liquidity position
- Credit rating certification, if available

REGULATORY COMPLIANCES

Tax Compliances

Labour Law

Company Law

Health, Safety and Environment

#8 REGULATORY COMPLIANCES



Regulatory compliance is essential for any project. It is important that the contract manufacturer is meeting all required compliance standards – health, safety, labour, environment, tax, etc.

CHECKLIST

- Routine tax and regulatory compliances
- Review of pending claims/litigation (if any)
- Compliances with labour and factory registrations
- Compliances with statutory deductions from payroll
- Contractual arrangements and terms with various parties
- Necessary registrations under applicable laws

OUR OFFERINGS



**Shortlisting and Selecting
suitable Contract
Manufacturer**



**Support in Formulating
and Negotiating
Contract**



**Transaction Structuring
covering Tax and
Regulatory Aspects**

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