

Outsourcing – Custom Synthesis

EDITORIAL

What is outsourcing exactly? In a very simple quick answer, we could be tempted to say 'a convenient way to reduce costs'! As you will read in the articles of this CHIMIA edition, outsourcing, custom synthesis and toll manufacturing are very complex challenging issues with cost being only one of the many factors and very often not the most important.

The good supply of product is generally recognized as critical to the success in our industry. A lot of chemical and pharmaceutical companies had for many years a sourcing policy based only on internal research, development and production, being self-supporting in every aspect of their business.

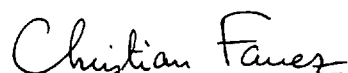
During that period, several companies have been pushed to evaluate outsourcing in cases where in-house production posed problems *e.g.*: special technologies like high pressure, low temperature, solid handling or manipulation of high-reactive substances. Usage of HCN or acrolein on a production scale should be best done by specialists located next to the producers of these substances for obvious safety reasons. An other push has been market demand: if a product has an unexpected success, this could pose a severe production-capacity bottleneck. In that case, a very quick answer from subcontractors is vital. In the same way (see the Capacity Utilisation dilemma described by Dr. *P. Pollak*): chemical manufacturers add production capacity in discrete steps, but the increases in sales typically follow more smoothed-out lines. This leaves some opportunities for temporary toll manufacturing.

In addition to that, more and more outsourcing opportunities are offered in the service areas: Accounting, Catering, Cleaning & Security, Information Technologies ..., even big companies are now offering contracts to chemical plants to supply energy or to treat wastes. Following this trend, an impressive number of small- to medium-sized companies active in the field of custom manufacture has emerged.

All in all, outsourcing seems to be now very attractive: access to new production technology, short time-to-market, benefit from synergies, less in-house heavy investments (approval for internal capital expenditures is more difficult to get).

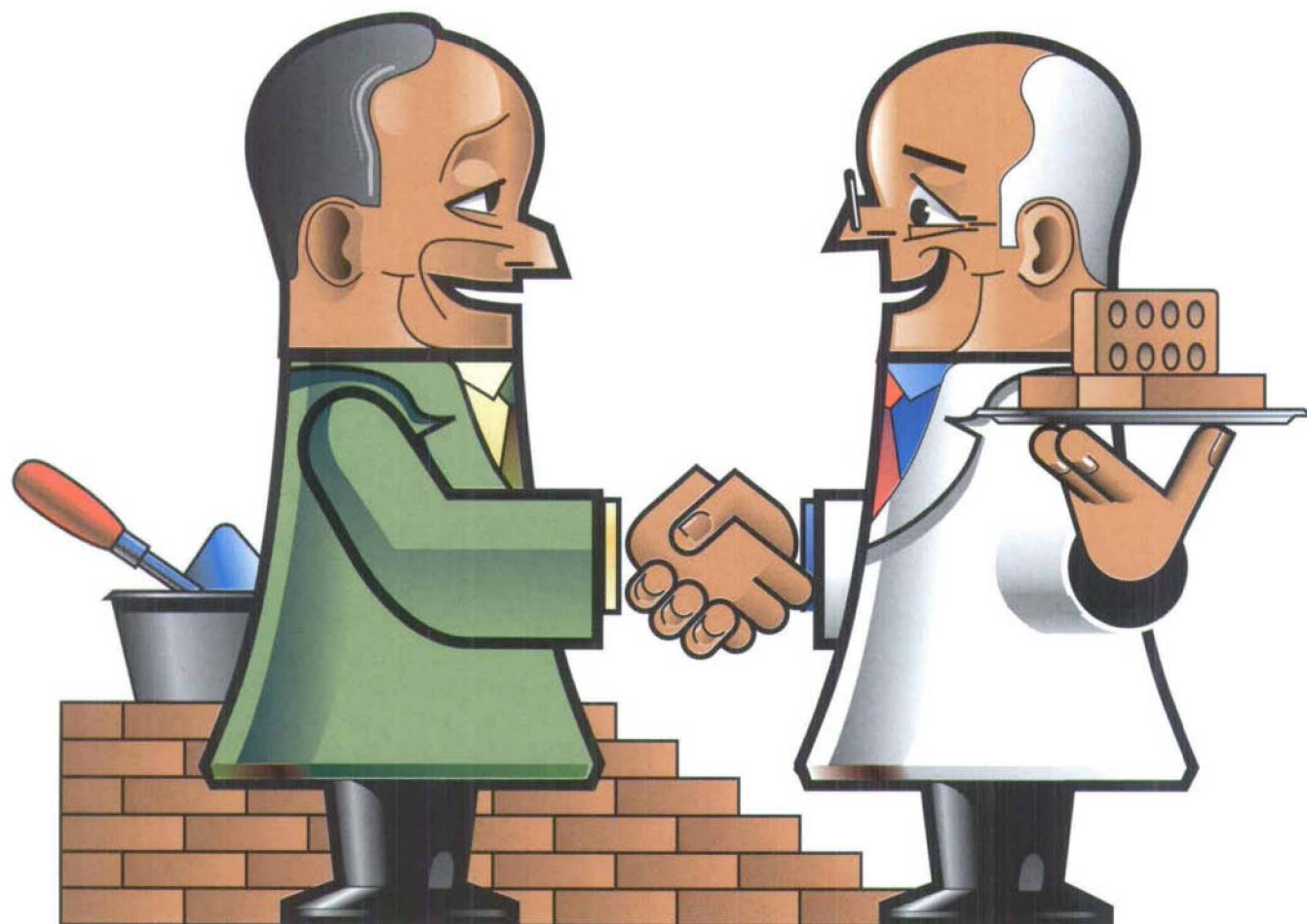
However, this is not without risk: abandon of core know-how to third parties, loss of control on strategic areas. Very often, for economical reason, the subcontractor fixes the size of the batch and the date of production ... leaving the contractor with unnecessary inventory. An urgent need from the market cannot always be inserted in the subcontractor planning. Risks also for the supplier: important investments and development expenses are needed without guaranties on the long-term. Slowdown in the business will affect them first.

To minimize this, a clear sourcing strategy has to be defined by all interested companies and a close long-term relationship with strict confidence has to be established between both partners. In the actual global market with continuing mergers, we can expect that the trend to outsourcing will continue and smart and flexible Total Service Providers will have success. As a potential client for toll manufacturing, I would strongly recommend to subcontractors to give answers (especially negatives ones) to customers' requests as fast as possible.



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