

eXensys - Subcontracting Cycle [®]

exensys

Business Performance Sustained

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Introduction

Objective of this document is to furnish a conceptual analysis of what subcontracting Out & Subcontracting In process is and how it is executed in a business environment. **Subcontracting** involves sending production work outside to another manufacturer. It is the process of having suppliers provide goods and services that were previously completed internally. When the available capacity is less than the required capacity then subcontracting process is contemplated. There is a possibility of subcontracting some of the operations of routing. In this case, most of the operations are carried out in-house and for some few operations for which in-house expertise is not available or producing in-house will cost more, during such cases only a part of the process is outsourced. Such a kind of subcontracting is called as operation subcontracting. Subcontracting is basically done in the organization to utilize capacities for new products introduction. The customers may provide some of the items in bill of material for production. At the time of actual production, customer material is to be used. The stocks of the customers are maintained separately without updating the plant's stock ledger. This is typically called as Sub Contracting IN Process.

Overview

Sub Contracting In Cycle:

Sub contracting In cycle is carried out when the customer gives part of items to be converted as expected finished items. Based on the sales order the items are received and maintained as a separate stock type in the Inventory. At the time of executing production order, the items issued by the customer are also used for production depending upon the requirement. After completing the production, the finished items will be delivered to customer. Sub contracting In cycle starts with below process Flow:

1. **Request for Quotation (RFQ)** : Subcontracting In cycle is initiated with Request for quotation. Customer requests quotation from manufacturer for the expected Items. In the

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request for quotation process customer items , expected items and service items are mentioned.

Sub organization	SO1
Customer Code	CO-001
RFQ	RFQ-001

Expected Item code	UOM	Quantity	
Coated Stand	No.	10	
Customer Item code	UOM	Quantity	
Stand	No.	10	
Service Item code	UOM	Conversion Quantity	Quantity
Painting	Sq. Feet	100	1000

2. **Quotation** : Quotation is raised from manufacturer to the customer with reference to the request for quotation from customer. Amount incurring on the service of the customer items will be mentioned in the quotation.

Sub organization	SO1
Customer Code	CO-001
Quotation	Q-001

Expected Item code	UOM	Quantity			
Coated Stand	No.	10			
Customer Item code	UOM	Quantity			
Stand	No.	10			
Service Item code	UOM	Conversion Quantity	Quantity	Price	Amount
Painting	Sq. Feet	100	1000	10	10000

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3. **Sales order** : In the sales order customer items, service items and expected items are captured. Sales order entails of delivery date and delivery location.

Sub organization	SO1
Customer Code	CO-001
Sales Order	SO-001

Expected Item code	UOM	Quantity			
Coated Stand	No.	10			
Customer Item code	UOM	Quantity			
Stand	No.	10			
Service Item code	UOM	Conversion Quantity	Quantity	Price	Amount
Painting	Sq. Feet	100	1000	10	10000

4. **Customer Receipt Note** and Integration with Production /Process: In the customer receipt note customer items are received and stored as a different stock type in the customer stock Ledger. MRP doesn't raise any requirements for those customer items received through the sales order. With reference to the PO & Sales order Items are requested from shop floor to the inventory. Only those customer items are moved from inventory to the shop floor. A separate ledger (Customer Ledger) is maintained to update those items received from inventory. On consuming these items in the shop floor the customer ledger will get updated.

Sub organization	SO1
Customer Code	CO-001
CIRN No.	CIRN 001

Sales Order Code	Item code	UOM	Received Quantity	Price	Amount
SO-001	Stand	No.	10	5	50

Inventory Posting

Sub-contracting in – Customer items receipt	Receipt of input raw materials from customer to carry out subcontracting activities	<ul style="list-style-type: none"> ▪ Addition – Customer stock
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5. Delivery Note:

Delivery Note helps in checking the availability of stock items for a period and obtain the stock items for particular sales order. Delivery Note is raised to deliver the goods to the customers .

Sub organization	SO1
Customer Code	CO-001
Delivery Note Code	DN-001
Sales Order	SO-001

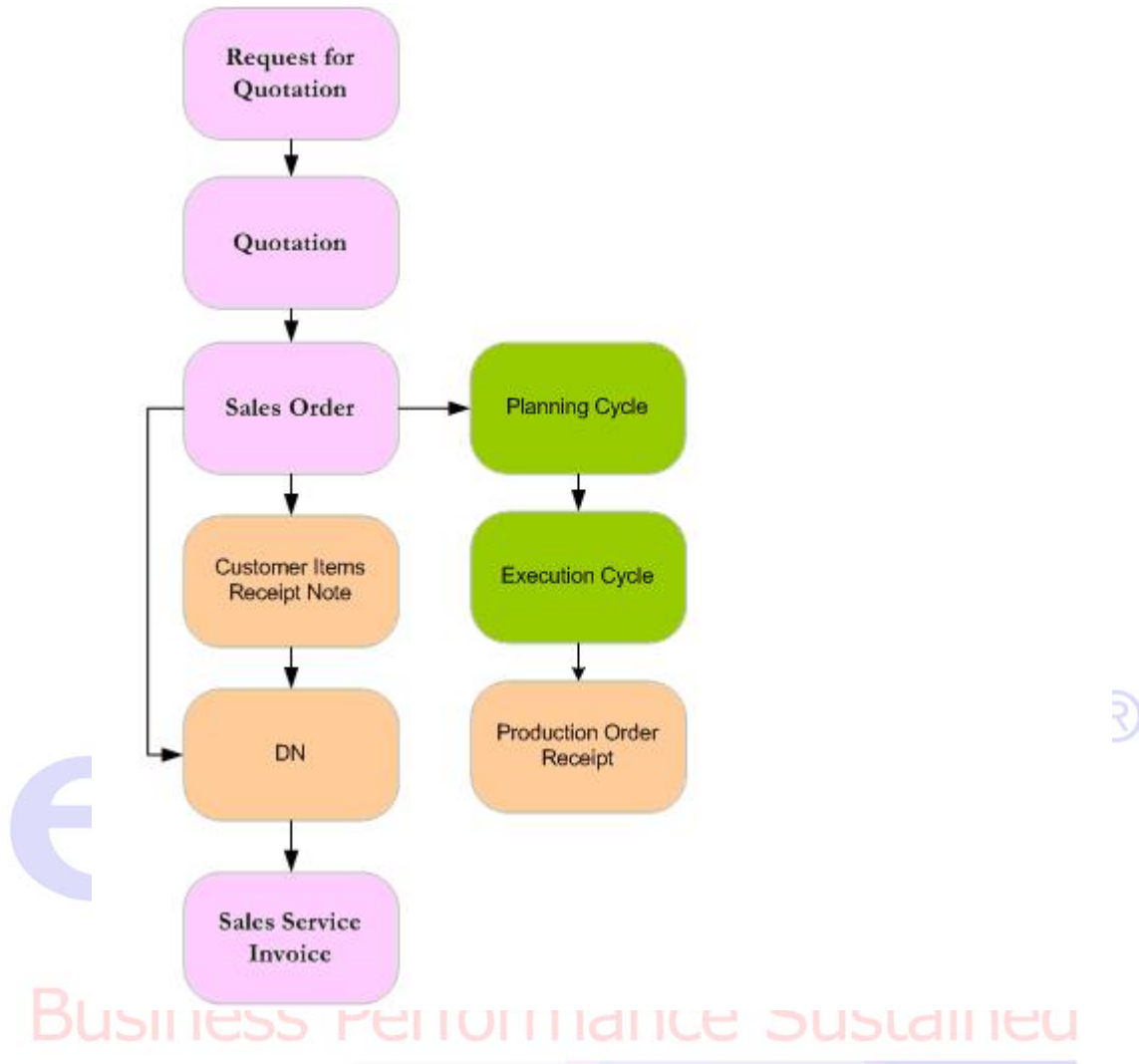
Item code	UOM	Quantity	Price	Amount	
Coated Stand	No.	10	1000	10000	
Service Item code	UOM	Conversion Quantity	Quantity	Price	Amount
Painting	Sq. Feet	100	1000	10	10000

Inventory Posting

Sub-contracting in – Customer finished delivery note	Issue of customer finished items as dispatch with reference to sub-contracting sales order	<ul style="list-style-type: none"> • Reduction– Customer stock
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4. Sales Invoice:

Sales service Invoice is generated for the services incurred on the expected item.



Overview

Sub Contracting Out Cycle:

The Process of having suppliers provides goods and services that were previously obtained in-house. If there is a capacity issue for the existing items, due to new product development then subcontracting can be done. The vendors will be developed to produce the items, after quality confirmation, the existing capacity can be completely outsourced. The Major reasons for subcontracting are Cost Reduction, Improve Quality, Operation Expertise, Staffing Issues, Capacity Management, and Risk Management.

The materials can be issued to vendor from (i) Inventory & (ii) Operations Subcontracting.

(i)Inventory Sub Contracting:- The materials will be issued for subcontracting from Inventory to the vendor and the expected item will be received .

(ii)Operations subcontracting: - Operation subcontracting is carried out if some of the operations are to be done outside due to capacity constraint or lack of expertise in the organization.

Sub contracting cycle starts with below process Flow:

1. **Purchase Requisition:** Subcontracting out cycle is initiated with purchase requisition. Input items which are going to be given to the vendor are captured as well as expected items are mentioned. Customer requests quotation from manufacturer for expected Items. In the Request for quotation process customer items , expected items and service items are mentioned.

Sub organization	SO1
Purchase Requisition Code	PR-001
Reference	Inventory

Expected Item code	UOM	Quantity	
Winded Motor	No.	1	
Input Item code	UOM	Quantity	
Motor	No.	1	
Service Item code	UOM	Conversion Quantity	Quantity
Winding	Sq. Feet	10	10

2. **Request for Quotation (RFQ)** : Vendor is being requested for quotation for the expected items.

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Sub organization	SO1
Vendor Code	VO-001
RFQ	RFQ-001

Expected Item code	UOM	Quantity	
Winded Motor	No.	1	
Input Item code	UOM	Quantity	
Motor	No.	1	
Service Item code	UOM	Conversion Quantity	Quantity
Winding	Sq. Feet	10	10

4. **Quotation** : Quotation send by the vendor is evaluated and amount incurring on the service of the input items will be mentioned in the quotation.

Sub organization	SO1
Vendor Code	VO-001
Quotation	Q-001

Expected Item code	UOM	Quantity			
Winded Motor	No.	1			
Input Item code	UOM	Quantity			
Motor	No.	1			
Service Item code	UOM	Conversion Quantity	Quantity	Price	Amount
Winding	Sq. Feet	10	10	100	1000

5. **Subcontract order** : Subcontract order can be raised with reference to requisition, Inventory , Quotation and MFG .

Sub organization	SO1
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Vendor Code	CO-001
Order	SCO-001

Expected Item code	UOM	Quantity			
Winded Motor	No.	1			
Customer Item code	UOM	Quantity			
Motor	No.	1			
Service Item code	UOM	Conversion Quantity	Quantity	Price	Amount
Winding	Sq. Feet	10	10	100	1000

6. **Subcontract Issue:** Materials are issued from inventory or MFG to the vendor for value addition.

Sub organization	SO1
Vendor Code	CO-001
SCI Code	SCI 001
Order	SCO-001

Input Item code	UOM	Quantity			
Motor	No.	1			
Expected Item code	UOM	Quantity			
Winding	Sq. Feet	10	10	100	1000

Inventory Posting :

Sub-contracting out - Issue	Issue of raw materials to vendor to convert them into required expected items	<ul style="list-style-type: none"> • Reduction– Inventory stock • Addition– Vendor stock
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7. Subcontracting Receipt: Expected items are received in subcontracting Receipt. When the items are received in the inventory then the vendor stock get depleted and in the inventory postings will be done accordingly. If the expected item is inspection applicable then the items will be submitted to QC and the accepted qty. and rejected qty. will be automatically updated.

Sub organization	SO1
Vendor Code	CO-001
SCR Code	SCR 001
Order	SCO-001

Expected Item code	Spec.	UOM	INV Received	Accept. Qty.	Quality Applicability	QC Consumed	Rejected Qty.	Stock Type	Received Qty.
Motor		No.	1	1	<input checked="" type="checkbox"/>				1

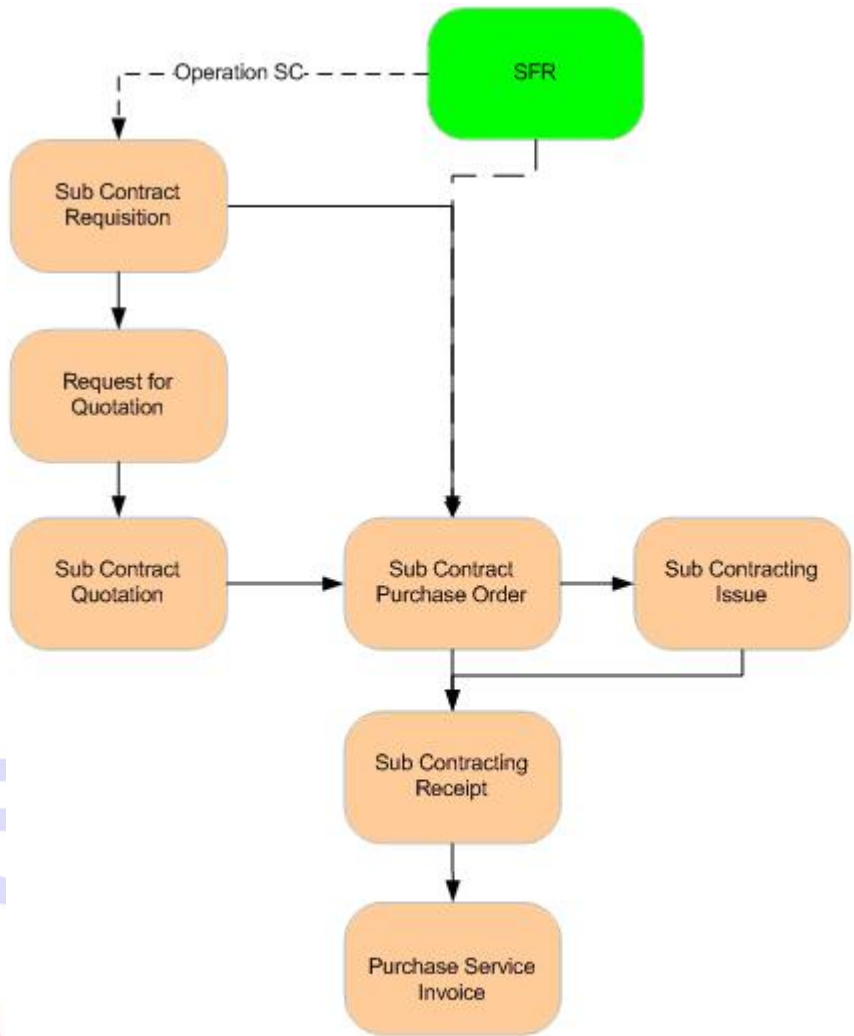
			Price	Amount		
			100	1000		
Service Item code	UOM	Conversion Quantity	Quantity	Price	Amount	
Winding	Sq. Feet	10	10	100	1000	

Inventory Posting:

Sub-contracting out - Receipt	Receipt of expected items from vendor by consuming the raw materials issued by the sub-organization	<ul style="list-style-type: none"> ▪ Addition – Inventory expected item stock ▪ Reduction – Vendor raw material stock
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8. Purchase Service Invoice:

Purchase service Invoice is generated for the services incurred on the expected item.



Benefits

- Improved Customer Satisfaction.
- Involves low Inventory
- Tracking of vendor stock
- Cost Reduction.
- Improves Quality.
- Increased Capacity for fulfilling other orders.

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- Accurate maintenance of vendor stock.
- Processing of customer items and delivery of expected items to Customer.
- Shorter Delivery Lead Time.
- Effective Consumption Reporting.

Conclusion

- eXensys subcontracting In process is very effective as it automates the whole of RFQ-Quotation-Order-DN-Invoice cycle.
- eXensys subcontracting Out process is very effective as it automates the whole of – Requisition-RFQ-Quotation-Order-SC Issue- SC Receipt -Invoice cycle.
- eXensys subcontracting process ensures that the orders are fulfilled on time by avoiding unnecessary costs on inventory and logistics.
- eXensys subcontracting process ensures enhanced customer satisfaction and responsiveness owing to order confirmations as per the requested dates even for the back orders.
- eXensys subcontracting process ensures maintenance of customer items and vendor stock effectively.
- eXensys subcontracting out process helps in reducing the capacity load in the work center.