Manufacturing overseas

Manufacturing offshore can reduce the cost of production, help get your product to market faster, and reduce delivery costs.

For most businesses, it makes sense to manufacture overseas to reduce component costs while keeping research and development, and design and short-run manufacturing, in New Zealand.

For most small businesses, the trick to manufacturing overseas is to find a way to contract the job or go into a partnership with an overseas manufacturer without losing control of your product. It’s common for companies to gradually increase their commitment to overseas manufacturing and move from outsourcing through to ownership of a factory as the business grows.

Exploring your manufacturing options

Your approach to manufacturing overseas could include:

**Contract manufacturing**

This involves using an overseas firm to manufacture all or part of your product under contract, to your specifications. Your relationship with the manufacturer is essentially customer and supplier. In many cases, you might supply a mould or detailed manufacturing specifications, but you’ll need to take care to protect your intellectual property (IP) and rights from exploitation.

**Licensed manufacturing**

Manufacturing under licence includes giving an overseas company the right to both manufacture and market your product in a defined territory, using your IP. The advantages of lower production and transportation costs can increase your ability to compete in overseas markets.

Offshore production and manufacturing capability may also enable you to overcome import restrictions and focus on your strengths, such as R&D or design, rather than production.

[Intellectual Property](/risks-and-operations/intellectual-property-protection/what-is-intellectual-property/)

**Setting up or buying a facility, or entering into a joint venture**

Setting up or buying your own manufacturing facilities overseas can be extremely expensive. Be aware that you’ll need to have a large volume of business to make a return on your investment.

Running an overseas factory as a joint venture with a local company can reduce the risk to your business in New Zealand and allows you to take advantage of local knowledge.

[Overview of importing and exporting regulations](/risks-and-operations/manufacturing/importing-and-exporting-laws/)

[Trade agreements and exporting rules](/how-to-grow/importing-and-exporting/trade-agreements-and-exporting-rules/)

[Consumer law for manufacturers and importers](/dealing-with-customer-complaints/consumer-law-for-manufacturers-and-importers/)

Some countries put conditions on foreign-owned businesses and may have laws relating to foreign investment.
Make sure you get advice from your accountant and other business advisers before you invest in overseas production facilities.

What risks are associated with manufacturing overseas?

There are always risks involved when entering into an agreement with an offshore manufacturer. You could:

- lose some control over the manufacture of your products
- experience relationship difficulties with your new supplier or business partner
- fall victim to IP theft or misuse
- be exposed to exchange rate fluctuations.

To reduce these risks, you should be clear about your quality requirements and delivery expectations and set these down in a manufacturing agreement. Include a comprehensive IP clause and confidentiality agreement, as well as governance, dispute resolution and exit provisions in the manufacturing agreement.

Consult a professional finance specialist to decide how best to protect your business against foreign currency exchange rate fluctuations.

Protecting intellectual property (risks-and-operations/intellectual-property-protection/simple-steps-to-protect-your-intellectual-property/)

Finding the right overseas manufacturer

Finding the right manufacturer for your products can be crucial to your success. You’ll need to find a reliable company with the right technological know-how and equipment to produce your product to the required quality and specifications. They’ll also need enough capacity to meet your production needs and be flexible enough to work your needs into their manufacturing schedule.

Here are eight top tips you should follow:

1. Learn the regulatory requirements of your target industry.
2. Research the market or industry to find out its structure – it can be very different to what you might expect.
3. Define your needs accurately.
4. Research potential manufacturers.
5. Shortlist potential manufacturers and get quotes and references. If you don’t have anyone in-market to assist, ask potential manufacturers for New Zealand (or Australian) client references. Follow these up.
6. Do a proper legal background check on the final candidates to verify the information provided, including ownership, registrations and business scope.
7. Personally visit the top candidates with a trusted translator and experienced resident.
8. Use a proper legal translation from a law firm for final contracts. Make sure the company you hire for this has experience in structuring offshore manufacturing contracts and is familiar with the law in the country concerned.

Managing quality

A big issue facing companies considering overseas manufacturing is quality control.

You can outsource quality inspections for your products or employ someone to be on site to oversee quality. Independent inspection companies can visit your manufacturing partner’s plant and do quality controls and production audits.
Make sure quality standards are specified in your service level agreement.

Your manufacturing agreement

A manufacturing agreement sets out the terms and conditions on which your selected overseas manufacturer will produce your products. You agreement should include:

- an accurate description of the products including product specifications, raw materials and packaging
- the ordering procedure, shipping terms and delivery arrangements – including the transfer of title in the manufactured products
- the price for the finished product and the payment terms
- whether or not the manufacturer has the right to sell the finished product to third parties
- warranties and contractual protections relating to the delivery and quality of the products
- a requirement that the manufacturer develops and maintains suitable business continuity practices and capabilities
- a comprehensive IP clause that clearly identifies who owns the IP in the finished product and any materials developed in the course of production
- a process for effective management of the relationship between the parties to enable open communication and speedy resolution of problems
- an escape clause for your business
- a dispute resolution procedure
- the country’s laws that will govern the agreement.

Getting help

It is important to get advice from experts and specialists who understand the options, know your company, and understand the market.

There are a number of options for finding experts and specialists to advise you.

- Contact New Zealand companies and individuals who have ‘been there, done that’ and are willing to help newcomers.
- Hire a specialist or consultant. Take care in selecting a specialist, ask for references and follow these up.
- Find a mentor with export experience.

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