



GET BACK TO MAKING MONEY

As Competitively As You Used To!

By Maurizio Porta

WELCOME to the world of PORTA PRODUCTION

The author's voice



"Hi!

*I am **Maurizio Porta**, CEO of Porta Solutions and trainer at Porta Production School, where I explain competitive methods of production for the world of the users of Machine Tools for metalworking.*

*After more than 25 years of experience in this field, I developed and designed my method, the **PORTA Production Method**, to help production companies that use Machining Centers and Transfer Machines, to reduce waste, increase profit and become more competitive."*

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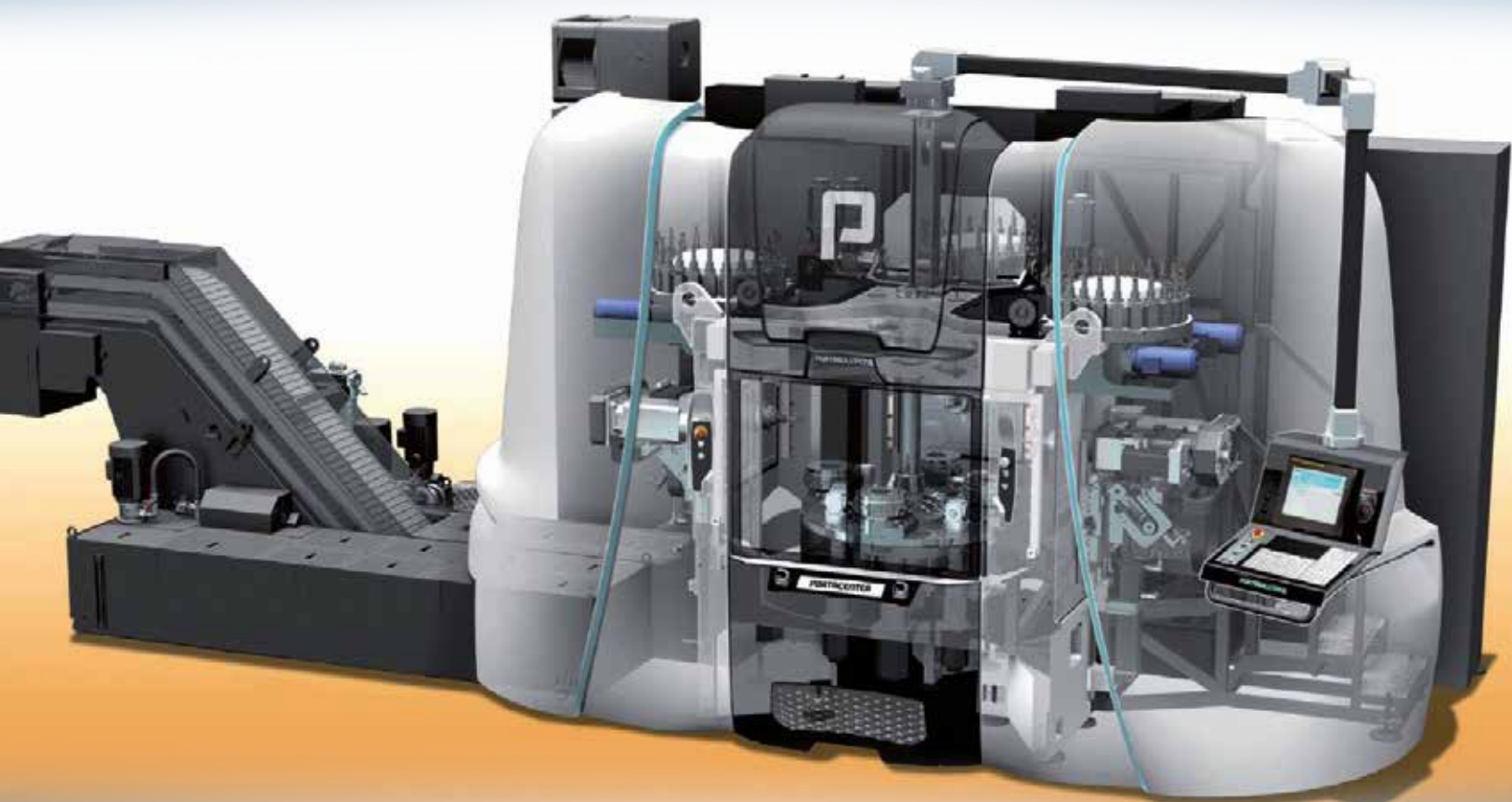
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**TESTIMONIAL:
BÖME S.R.L.**



OUTSOURCING: WHEN DISPLACING PRODUCTION MEANS DELEGATING SUCCESS!

It is often difficult or near impossible to manage all your operations within the company. This is because, in many cases, it would involve having a huge organizational structure, which wouldn't be needed for much of the time.

Delegating part of your production to others is a very specific activity, known as **OUTSOURCING**.

But do you really know what this involves? If the answer is "no", don't worry, I'll explain it all below...

If you use batteries of Machining Centers for metalworking you'll know the skill this requires, and doing it badly could cost you dear in the future and affect your company's results.

Let's start with a general description of this hotly contested issue in the field of production, by examining the precise meaning of the term OUTSOURCING:

"The procurement of certain functions or services, or even entire production processes, from an external company."

Although this definition is factually correct, my first-hand experience in the manufacturing sector has led me pitch it in the following way:

"Delegating the success or failure of your business to an outside company".

I say this because I have seen many - indeed too many - companies hit the rocks due to poor management of this very tricky business strategy. So, my definition is based on real cases and direct experience in production departments.

Profitability vs Value. This issue normally arises when you are studying the short-term results in relation to the **Profitability** of your production or services company.

However, we often lose sight of the main

*Value Creation is what
you should concentrate
on FIRST, and THEN
later you can focus on
Profitability.*

goal that a company should pursue to ensure a successful future, i.e. the **Creation of Value**.

Profitability and Value Creation might appear to be the same thing, but confusing them or being unclear about the difference is very dangerous and might lead you to make some dreadful strategic errors!

Profitability: The ability to produce financial income.

Value Creation: The growth and development of a company, achieved by studying long-term effects and planning corporate strategies.

You can only achieve a totally WINNING strategy by combining both these concepts.

It's hard to attain both goals at your first attempt, but back-pedaling will lead you nowhere. Concentrating on Profitability and relegating Value Creation to second place will lead you to make some high-risk choices.

Insourcing vs Outsourcing.

Insourcing refers to an increase in profits due to the lower costs of producing goods internally, rather than buying them in from a third-party producer. In other words, it's like pocketing the profits of your suppliers.

On the other hand, **Outsourcing**, if mishandled, can mean reducing the profits you make from internal production, and handing them to an outside source. To put it bluntly, you're giving profits to your suppliers.

Put in these terms, our immediate reaction is to ask: "WHO WOULD EVER CHOOSE OUTSOURCING?"

It would be crazy to do without profits and just hand them over to suppliers, but I assure you that this very often happens thanks to a pattern of behavior I will now describe.

Anyone examining the Profitability of their company or product tends to compare the cost of making that product in-house with the external market, by looking for a benchmark price, i.e. how much it would cost to buy a similar product.

Companies that haven't invested in the new technologies and business models required in a rapidly changing market often find their internal production costs are higher, because they're using machines and production models that are out of step with the times. Or rather, they're out of step with a market that has been changing at a remarkable speed.

When this happens, the quickest solution is to outsource production of this item. By doing this, Profitability should suddenly increase, without the need to commit to huge financial investments.

However, the truth is that putting Profitability first by outsourcing production may have positive effects in the short term, but will impoverish your company in the medium to long term when it comes to Value Creation.

Although creating value in your company has to be rule number one, actually doing so is not that easy. You have to work hard, make sacrifices, support your financial investments, and dedicate yourself to staff training. Basically, you can't do anything in a hurry, there's no special secret or magic formula.

DO YOU WANT TO ACHIEVE RESULTS IN THE **SHORT** OR **LONG TERM**?

This is the high price you have to pay if you want a sound, successful company with long-term prospects for growth. Clearly, using others to make your product is an easy fix, and works well in the short term, but in the long run, it will endanger your company and jeopardize its survival.

So is Outsourcing totally bad?

No, not entirely. But to answer this question more clearly, let's look at the origins of this phenomenon.

The first companies to use outsourcing were the so-called commodities, i.e.

non-strategic concerns far removed from core business. The primary objective of outsourcing was to reduce costs.

In the 1960s and 1970s, manufacturing companies began to adopt certain strategic practices to shore up their value chain, relocating some of their processes to low-cost countries such as China, to the benefit of small specialist suppliers.

As anticipated, this was initially mainly restricted to non-strategic businesses, and therefore only certain companies. However, as often happens, the trend then spread and got out of control, becoming quite excessive and causing harm to many companies.

Unfortunately, outsourcing took a bad turn over the following decades because certain stages in some strategic processes began to be entrusted to third party suppliers.

These are the main areas of Outsourcing, according to research conducted by "The Outsourcing Institute":

- Information Technology (28%)
- Administration (9%)
- Human Resources (16%)
- Marketing (14%)
- Finance (11%)
- Logistics (22%)

We should add that, even though production prices were cheap at the start, companies soon found themselves



having to deal with extra costs, hitches and late deliveries, as well as quality issues and communication problems.

It's easy to imagine the negative impact of such factors and the displeasure of your customer, who will probably begin to look at what your competitors are offering.

For all these reasons, outsourcing parts of a strategic process is fraught with risks.

Everything looks good on paper: fewer financial commitments for the company, so less risk and more convenience and, to top it all, greater profitability. But this shortcut only favors Profitability in the short term, becoming increasingly risky as time passes.

Hence my definition of Outsourcing:

“Delegating the success or failure of your business to an outside company.”

Although delegating to third parties seems so simple, in reality it can cause a whole range of problems:

- Difficulties with quality control and actual costs related to the business.
- Potentially irreversible choices.
- Few incentives for internal improvements.
- Suppliers that fall short of expectations.
- Interface and coordination costs.
- Loss of control.
- Lose-win rather than win-win relationship.
- Lack of convergence between supplier and company objectives.
- Opportunistic and speculative behavior on the part of the supplier.
- Problems with identifying staff roles.
- Loss of critical skills in the company, or worse still, development of the wrong skills.

And yet something is now changing... After moving towards increased Outsourcing for many years, from 2011 onwards certain companies began to have doubts about this policy. So, they began planning to relocate into Europe or their country of origin, as part of a project known as *European Reshoring Monitor*.

OUTSOURCING



With the spread of the Covid-19 global pandemic, these initiatives have gained pace.

And so... how can you decide if or when you should resort to Outsourcing?

A good method is to look at how your product manages to combine particular expertise with the value attributed to it by your customer.

If the product you're offering has high value for your customer and the skills used to make it are equally high, then the way to go is Insourcing.

Conversely, if the product under review has a low value for your customer and also requires low-skilled labor, then it is better to opt for Outsourcing.

In the first instance, you're creating value for your company (which is not an easy task, as we said), so you need to protect your business model. But this does not apply in the second instance, so you can aim to maximize profitability by outsourcing the work.

Relocating. This process is known in Economics as **Reshoring**. It consists of relocating your production inside your own country, and is now growing in popularity. The literal meaning of relocate is: "to move, to settle in another place, to locate elsewhere."

Studies have shown that the Italian manufacturing sector is one of the main players in this Reshoring process.



FONDAZIONE PORTA

There are many reasons for this and the global crisis has only accentuated them. One factor is the need to speed up the supply chain to support a time-to-market strategy, satisfying the needs and demands of the market in a prompt and efficient way.

Other important reasons relate to protecting sensitive production processes and company knowledge and expertise. Clearly, these are strategic activities.

Some activities can certainly continue to be carried out abroad, but other companies need to plan to bring their operations back on-shore.

This is in order to protect their value, and to preserve corporate Profitability.

It is clearly very important to have a sound understanding of how to manage and arrange these various activities, such as Outsourcing, Offshoring and Reshoring. This sensitive question requires detailed research and should be tackled step by step.

The aim is always to improve the Value chain and increase corporate Profitability.

And so, if you use batteries of Machining Centers for metalworking, I have some good news for you!

I have decided to condense the most important aspects of this subject into my new **"Outsourcing" POCKET HANDBOOK**, which aims to explain what Outsourcing really is, when it is good to do it to enhance PROFITABILITY, and when it is best to avoid it as it can DESTROY VALUE.

And most importantly, it examines the best methods to use to deal with the change.

This manual is particularly aimed at companies using Machining Centers in battery, to help them to understand how they can increase productivity, while

remaining flexible and reducing the COST PER PIECE.

These ideas will help you develop a stronger and more stable strategy for production and competition in the market.

However, how can you become competitive again without outsourcing strategic operations, and also achieve a good level of Profitability (which is clearly essential)?

I have two words that help answer this question, and others too: **FONDAZIONE PORTA**.

Fondazione Porta is an independent, non-profit organization which I set up to promote the economic, technical and entrepreneurial development of the manufacturing sector.

The Foundation aims to support the professional life and training of the people involved, through specialist technical courses, integrated school-work programs, and events and seminars related to the world of manufacturing. The ultimate goal of our Foundation is to defeat what I regard as enemy number 1, NO CHANGE, and addresses all those who believe they are safe by choosing NOT to CHANGE.

This is my active and practical contribution to the process of changing a business structure that is under increasing strain and pressure in a saturated and fast-moving market.

There are no easy fixes with short-term results. Well, you can of course outsource some of your strategic operations, but this can have negative consequences, as we have seen!

There are ways you can win, they are not simple and can require a lot of initial effort, but they will yield exceptional results in the medium-long term.

Fondazione Porta was created to encourage Insourcing, by offering the PORTA PRODUCTION METHOD and the support to implement it: making your company independent and capable of creating value, which is the only way towards a winning future.

The way forward is certainly challenging, but the alternative is to debase the value of your company and even destroy the company itself... **the choice is yours!!!**

*The ultimate aim of
Fondazione Porta is to
defeat enemy number
1: no change.*

THE PORTACENTER LAUNCHES 24/7 PRODUCTION

Flexibility vs Productivity. The market for manufactured goods tends to move at varying speeds: when it is not working at full capacity (or slowing down) companies **limit production to whatever the market can absorb**.

But during a period of acceleration, such as we are experiencing now, companies are aiming for maximum productivity and using their facilities to the full extent.

At such times, the focus is on production capacity rather than flexibility, and the "simplest" solution (at least on paper) is to add more machines. But we all know that before incurring major expenses it is good sense to make the most of whatever is already available in the workshop. Also, these temporary peaks in demand may not warrant such large investments.

With the PORTACENTER, Porta Solutions has helped its customers achieve high levels of flexibility and productivity. But how can you take it one step further? Simple: increase the hours given over to production.

There will always be 24 hours in a day. However, we need to examine how much of this time is focused on production, and how much is given over to other subordinate and collateral activities.

If you already know or use the PORTACENTER, you will know that a change of production does not have a significant impact, as your machine is designed to be reconfigured in a matter of minutes.

But what happens when you need to develop a new product?

You have to halt production, test some new tools and equipment, create new work strategies, check that the pieces produced comply with the project and the requisite quality standards, repeat everything to optimize the machining cycle and then, finally, start production.

These activities can take from 3 days to 3-4 weeks, depending on the type of component and its degree of complexity. And during these days or weeks THE MACHINE **IS NOT PRODUCING**.

*"It's a service that is enjoying a lot of success, and for us PORTACENTER producers it's a way to gain direct experience on the machine, to continue to improve and learn to use it to the full."
(Maurizio Porta)*

This is where one of the main features of the PORTACENTER comes into play: standardization. The machines are identical to each other in design (in terms of measurements, power, strokes of the axes, etc.) and are then configured with the equipment and tools required for each specific operation.

We at Porta Solutions have developed our **New Product Development** service, to help companies deal with this considerable task.

How does it work? The New Product Development service is clearly just [intended for owners of the PORTACENTER](#). It allows Porta Solutions to help with the development of new products and related work cycles, while the machines on the customer's premises continue to operate without interruption.

As previously mentioned, the process involves: positioning the piece in the machine, checking the brackets (assuming that you do not need to buy them on the market or make them from new), selecting the right tools, making the first samples, checking everything in the metrology room, and then repeating this procedure until you get the desired part, with the correct tolerances and the requisite CPK value.

We replicate the customer's configuration on our premises and attend to all these various tasks. Meanwhile, the customer's workshop is freed from the encumbrance of setup times, and continues to produce and generate income. At the end, you get the clamping fixtures, the tools, and the fully tested and working program for the part. The customer just stops the machine, tools it up, and within a few hours it is ready to start the new machining cycle.





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*The 3-spindle machine tool is the right compromise between **productivity** and **flexibility**.*

We have several parts that rotate on this machine, from small batches (500/1,000 parts) to larger ones (15,000/20,000 parts).

Before, these parts were produced by single machining centers or by twin-spindle lathes.

*With PORTA Production Method, we found that, even if tooling times are similar to those of the previous machines, **productivity is on average five times higher** (from the annual report).*

Your fixture design results in a very functional and high-performance part clamping.

”

Eng. Carlo Medina

Owner

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Do you use **Machining Centers in battery** and **CNC Machine Tools for metalworking**, and would you like to explore a WINNING STRATEGY to improve the **Value** and **Profitability** of your production company?

Get in touch now to request your FREE consultation with one of our **TECHNICAL TUTORS.**

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To learn more about Competitive Production
and PORTA Production Method

VISIT

www.machiningcentersbook.com

My book dedicated to users of machine tools for metalworking who want to make the leap in quality, is waiting for you!!!

To your results,

Maurizio Porta

Master Trainer PORTA PRODUCTION METHOD



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