

Expanded Outsourced Manufacturing FAQ

1. What is outsourced manufacturing?

Outsourced manufacturing occurs when a company contracts a third-party to produce components or products.

Why it matters:

- Outsourcing requires sharing process knowledge and sometimes proprietary know-how.
- Provides operational efficiency but creates IP exposure.

2. Advantages

- a. Lower capital costs — avoids factory investments.
- b. Faster scaling — manufacturers have established infrastructure.
- c. Technical specialization — leverage advanced process expertise.
- d. Focus on core competencies — internal teams focus on design and R&D.

3. Risks and challenges

- a. Loss of control — suppliers may deviate from instructions.
- b. Supply chain fragility — geopolitical and logistical risks.
- c. IP leakage — trade secrets may be exposed.
- d. Enforcement limitations — foreign courts may not protect IP effectively.
- e. Over-dependence — manufacturer gains too much technical knowledge.

4. Protective measures

- a. Rigorous due diligence — assess stability and integrity.
- b. NDAs + manufacturing agreements — define confidentiality and penalties.

- c. Compartmentalization — limit knowledge shared.
- d. Just-in-time disclosure — minimize exposure.
- e. Data purging — ensure deletion of sensitive documents.
- f. Monitoring — audits to ensure compliance.

5. Choosing the right partner

- Technical capability
- Financial stability
- Supply-chain transparency
- Ownership structure
- Reference checks

6. Contractual protections

- Confidentiality clauses
- No unauthorized subcontracting
- Clear IP ownership
- Audit rights
- Cybersecurity obligations
- Exit terms

7. Steps to keep in-house

- Core IP-heavy processes
- Sensitive manufacturing steps
- Key QC processes
- Regulated activities

8. When a joint venture is preferable

- Required collaboration
- Local regulatory regimes
- Need for transparency
- Long-term partnership goals

9. Role of IP audit

- Identify all IP assets
- Score sensitivity
- Map exposure points
- Determine alternative processes

Why: Shapes outsourcing structure and protection strategy.

10. Due diligence steps

- Corporate structure review
- Financial health check
- Litigation history
- Site inspections
- Supply-chain mapping
- NDA before disclosure

11. Ongoing oversight

- Surprise audits
- Subcontracting monitoring

- Change management processes
- Security and quality checks
- Data deletion compliance
- KPI dashboards

12. When outsourcing is a bad idea

- Highly sensitive processes
- High-risk IP jurisdictions
- Need for end-to-end control
- Insufficient internal oversight
- Rapid iteration cycles

13. How to begin outsourcing

1. Conduct IP audit
2. Segment product
3. Identify suppliers
4. Run due diligence
5. Negotiate agreements
6. Pilot production
7. Establish governance

14. Common mistakes

- Choosing by price alone
- Skipping due diligence
- Over-sharing information

- Poor compartmentalization
- No monitoring
- Single-source dependency