# How to Use NetSuite's Outsourced PO Process for Manufacturing

Setup and Configure the Solution with SquareWorks Consulting's Cheat Sheet

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# Introduction

Historically, for organizations in the wholesale and distribution space, NetSuite's out-of-the box solutions for outsourcing manufacturing was complicated, risked inaccuracies and was overall an inefficient process. In 2020, NetSuite released their outsourced manufacturing feature that now solves these complications and streamlines the processing and accounting of outsourced purchase orders. This solution is ideal for warehousing and distribution companies that outsource some or all Make to Order products, or those who provide outsource purchase orders to sub-contractors. In this piece, we break down the solution and use case, as well as an overview of the setup and configuration in your NetSuite environment.

# What is Outsourcing?

First, let's define what outsourcing is in a business setting. Outsourcing is defined as the act of passing on individual tasks or processes to another party and receiving the results or products from an entity outside of your company. Basically, the idea here is that instead of doing something in-house, you are outsourcing it to another company to utilize their efficiencies or capabilities.

The feature in NetSuite that we are discussing in this article is outsourcing for manufacturing specifically. These product lines could include flooring, wood, chemicals, food, or health and beauty items.

# The Outsourcing Feature in NetSuite

This feature is relatively new in NetSuite and was released in NetSuite 2020.1. Prior to this, there were a few workarounds available as SuiteApps or in-house workarounds that clients built themselves through complicated scripting. The bottom line is outsourcing has been streamlined significantly with this new feature and can handle many business use cases.

By using the outsourcing features, our customers now easily manage their sub-contracted manufacturing processes by purchasing outsourced assembly production from vendors. This new feature enables NetSuite to automatically **consume consigned components from the outsourced warehouse** and then, after production, **the Assembly Build can bring the produced assemblies on hand in a user specified location**. Automating Outsourced Manufacturing **synchronizes NetSuite procurement and production** transactions. This feature ensures that the Purchase Order to your Vendor for their services is properly accounted for in the value of the inventory asset that you just created, without your team having to side-step through journal entries, inventory adjustments, scripting and other workarounds. This helps make the accounting for your asset value of your assembly items much more robust and fool proof to help ensure that the margin on the product being sold can be accurately tracked.

## NetSuite Outsourced Manufacturing 2020.1 Automates the Following:

▸ Creating sub-contracting orders for assemblies (one Purchase Order from one Work Order or creation of one or more Work Orders from a single Purchase Order)
▸ Managing ordering components for sub-contracted production
▸ Simulating the manufacturing sub-contractor's production
▸ Transferring semi-finished assemblies to other sub-contractors
▸ Drop-shipping the assembly to the customer or shipping it to the brand-owner's warehouses

# Setup & Configure Outsourced Manufacturing:

## Turning on Required Features:

This feature is not included in the SuiteSuccess SKUs, but instead, accessible through the **Advanced Bill of Materials Add-On** from NetSuite. The pre-requisite features that need to be enabled prior to using this feature are:

- ▸ Purchase Orders
- ▸ Advanced Receiving
- ▸ Multi-location Inventory
- ▸ Assembly Items
- ▸ Work Orders
- ▸ **Advanced Bill of Materials**

Once these features have been enabled, you can then enable the outsource feature by navigating to Setup > Company > Enable Features. From here, click the **Items & Inventory** subtab. In the **Inventory** section, check the **Outsourced Manufacturing** box and save. The moment you enabled the outsourcing feature, you will see new tabs on the vendor record, items, and work orders, and gives you a new purchase order form to work with.

## Setup Cost, Location & Vendors:

In terms of configuration, first you need to set up a new cost category in NetSuite. To do this, navigate to Setup > Accounting > Accounting Lists > Type = Cost Category > New. Next, you need to create a location for each of your vendors that you are outsourcing to. To configure this list, go to Setup > Company > Locations.

Lastly, you have to create or update the Vendor record for whom you are issuing Purchase Orders and Work Orders. To do this, navigate through the menu to Lists > Relationships > Vendors, and use the following steps:

1. In the **Vendor** window, click **Edit** beside the Outsourcing Vendor.
2. Click the **Outsourced Manufacturing** subtab.
3. Beside the **Manufacturing Locations** field, click the arrow icon.
4. In the **Choose Manufacturing Location** form, select the Manufacturing Location, or locations, for the outsourcing vendor. Each location can be used by one vendor, but a vendor can use multiple locations.
5. Click **Done**.
6. Click **Save**.

## Configure Outsourcing Order Elements:

**To create an Outsourcing Charge Item:**

1. Go to Lists > Accounting > Items > New.
2. In the **New Item** window, click Other Charge for Purchase or Service For Purchase.
3. Enter a unique **Item Name/Number.** For example, Bike Production charge.
4. Complete the other fields in the form.
5. In the **Purchasing** subtab, enter a Purchase Price.
6. In the **Cost Category** field, select Outsourcing Charge. The system will recognize this as an outsourcing charge item.

7. In the Vendors section, select a **Vendor**.
8. To designate this vendor as your default vendor, check the **Preferred** box.
9. In the **Accounting** subtab, select a Tax Schedule.
10. Click **Save**.

**Note**: When you select Outsourcing Charge as the cost category for the item, the Preferences subtab will automatically update to show the option **Can be Fulfilled/Received** box as checked and disabled for editing.

**To create a Bill of Materials:**
1. Create a Bill of Materials (BOM). For example, Outsourced BOM. To learn more, see Creating a BOM.
2. Create a **BOM Revision**.To learn more, see Creating BOM Revisions.
3. In the **Bill of Materials Revision** window, in the **Item** list, select the components you keep in inventory and will provide to the vendor. For example, bike seats and bicycle wheels.
4. Select the **Outsourcing Charge** item.
5. Enter the BOM Quantity per assembly. For example, 1 seat, 2 wheels, and 1 charge item.
6. Click **Save**.

**To create an Assembly Item:**
1. Create an **Assembly Item**. To learn more, see Creating Item Records.
2. Enter a unique **Item Name/Number**.
3. In the **Manufacturing** subtab, select the Bill of Materials.
4. Optionally, click the **Master Default** box to designate this as your default BOM for this assembly.
5. Click **Save**.

Now that everything has been configured, we are ready to actually process the transactions. With this feature, there are two different transactional flows: flow number one starts with a purchase order, which is then used to create one or more work orders; flow number two starts with a work order, which then is used to create a single outsourced purchase order. Both options are equally valid, and companies often have use cases for both. This functionality is compatible with NetSuite's mechanism for automatically creating special work orders from the sales order lines but is not compatible with the concept of special purchase orders generated from sales order lines.  The latter is true because NetSuite has separate transaction forms for Outsourced PO's and Special PO's.

# Using the Outsourcing Feature:

## Flow One: Create a Work Order from a Purchase Order

**Step One - Create the Purchase Order**

1. Go to Transactions > Purchases > Enter Purchase Order.
2. In the **Purchase Order** window, in the **Custom Form** field, select the Standard Outsourced Purchase Order.
3. Select the outsourcing **Vendor**.
4. Complete the rest of the Purchase Order form.
   - In the **Items** subtab, select the outsource Assembly.
   - Select an outsourcing **Location**.
   - In the **Item** field, select the item charge: For example, Bike Production Charge.
   - Enter the Item **Quantity**.
   - The other fields, Rate, Amount, Bill of Materials, BOM Revision, and Production Dates are populated automatically, but can be overridden.
   - NetSuite enables you to create multiple lines depending on what you are building in house and what you are outsourcing.
   - To automatically create work order, check the **Create Work Order** box.
   - Click **Save**.
5. After you save the Purchase Order, the Work Order is automatically created and a link to the new Work Order is displayed in the **Items** subtab.

**Note**: As with all Purchase Orders in NetSuite, the General Ledger impact is "Non-Posting," so the **true Posting GL impact** occurs on the:

- The **Item Receipt** and **Vendor Bill** (and possibly a Vendor Bill Variance Journal Entry) all from the Purchase Order (PO)
- The **Assembly Build** from the Work Order (WO)

**Step Two - Review the Work Order**

1. Click the **Work Order** number link to display the work orders details.
2. The Outsourcing subtab displays the outsourcing information:
   - A checked outsourced box denotes that this order is outsourced
   - The vendor name
   - Outsourcing charge type
   - A link to the original purchase order
3. You can also click the **Create Work Order (WO)** link to have the system automatically create a work order with the same information as shown previously.

**Step Three - Recieve the Purchase Order**

1. In the **Purchase Order** window, click Receive.
2. The **Item Receipt** window enables you to receive all the items, or some of the items.
3. In the **Items** subtab, the **To Location** field enables you to select where you want to receive the final product.
4. Click **Save**.

**Note**: NetSuite creates assembly build transactions for the received number of items based on the information entered in the "Assembly Build helper" (see below). You can click an Assembly Build link to review assembly build details.

## The Assembly Help Builder

NetSuite 2020.1 Outsourced Manufacturing adds the Assembly Build Helper to enable you to override existing production data.

**To change data using the Assembly Build Helper:**

1. In the **Purchase Order**, items subtab, click the link in the **Assembly Build Helper** column.

2. The **Assembly Build Helper** window displays the assembly item with editable fields. For example, because the vendor broke 5 bicycle seats in production 25 seats were consumed, not the 20 shown in the assembly build.

3. In the **Quantity** field, enter a number. In this example we would enter 25. If you were using serial lot numbers for consumed or produced final production, they would also be editable in the assembly build helper. When you override a purchase order rate for line, the system automatically uses the new rate in the final assembly charge.

4. Click **Save**.

## Flow Two: Create a Purchase Order from a Work Order

Generally, customers who rely on supply planning or are in a manufacturing environment create outsourced items from work orders, rather than starting with the Purchase Order. These are the exact same transactions as before, **but the Purchase Order (PO) is created from the Outsourcing subtab of the Work Order (WO)** and there will only be one line on the Purchase Order specific to the Work Order that spawned it.

**To outsource production from a Work Order:**

1. Go to Transactions > Manufacturing > Enter Work Orders.

2. Complete the **Work Order** form.
   - Select a Subsidiary.
   - Select an Assembly.
   - Select the Outsource BOM.
   - Select an Outsourcing Location.
   - Enter the item Quantity.

3. In the **Outsourcing** subtab, based on the Outsourcing BOM, the outsourcing box is automatically checked:
   - The details are populated
   - Select an Outsourced Vendor
   - Select an Outsourcing Charge

4. Click **Save**. The Purchase Order will be automatically created from this information.

# Additional Information:

## Outsourced Manufacturing Consolidator:

The Outsourced Manufacturing Consolidator lists all pending work orders. To access the outsourced manufacturing consolidator, go to Setup > Manufacturing > Outsourced Manufacturing Management.

This page enables you to learn work order specific information such as:
- Last Successful Run
- Next Scheduled Run
- Pending Work Orders

To update the work order information, click Run Consolidator Now.

## Manufacturing Preferences Page:

The release of NetSuite 2020.2 combines the preferences affecting the manufacturing module together into the new Manufacturing Preference section in the NetSuite Setup tab. To update manufacturing preferences, go to Setup > Manufacturing > Manufacturing Preferences.

# SquareWorks
### C O N S U L T I N G

**Simeon Jack**, *Principal Consultant*, SquareWorks Consulting
As a certified NetSuite consultant, Simeon has managed and designed NetSuite Optimization projects for organizations of various sizes and needs. From designing robust scripts and workflows, to deploying NetSuite's advanced features, Simeon has developed a diverse knowledge of the Wholesale and Distribution industry. After deploying NetSuite's outsourced manufacturing for one of our clients, he went on to train the entire SquareWorks Consulting team on this new feature.

**About SquareWorks Consulting**
SquareWorks Consulting provides fast, reliable, ongoing NetSuite Support and Project Services for mid-size organizations. Our services include hyper-responsive day-to-day support, building new features and/or reports, executing data migrations, building integrations and many others. For more information, visit our website at **www.squareworks.com** or contact us at **info@squareworks.com.**

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