

THE OUTSOURCING NAVIGATOR SERIES: PUTTING OEM AND EMS ALIKE ON THE RIGHT PATH TO SUCCESSFUL OUTSOURCING RELATIONSHIPS

When Charlie Barnhart first developed the Global Pricing Workshop for TFI in 2003, he knew that his decades of immersion in the financial details of actual EMS-OEM transactions could serve as the foundation for bringing much-needed consistency and standardization to the process of outsourcing.

Indeed, OEM and EMS users of Charlie's proprietary financial tools and algorithms demonstrated in the workshops have found the information fundamental in their development of strategies for and their relationships in outsourcing of electronics manufacturing.

Since 2003, the Global Pricing Workshop has evolved to become the Outsourcing Navigator Series, a workshop and on-line training service that leverages real-world data and case-based research to provide insight and the necessary tool-set to:

- Estimate and analyze the price of global manufacturing services,
- Calculate and analyze an OEM's internal costs and total cost of ownership, and,
- Understand and monetize the risks associated with global manufacturing in dozens of geographies around the world.

While these methodologies are road-tested and disciplined, different companies have leveraged the knowledge in different ways.

IMPROVED PROFITABILITY OF OUTSOURCING AT TERADYNE

Teradyne™ designs and manufactures automatic test equipment that delivers competitive advantage to the world's leading electronics companies. Burton Ehrlich, Cost Manager/ATE Operations at Teradyne, began his relationship three years ago with TFI by attending a Global Pricing Workshop held as part of the Quarterly Forum.

"I'm responsible for labor cost validation of all quotes from our contract manufacturers, so I became interested in his [Charlie Barnhart's] cost model. For years I had utilized my own internal cost model, but felt that an alternative cost predictor was now necessary since we no longer assembled or tested PCBA's in our own factory and were currently sourced with our CM's." says Burton.

Teradyne brought Charlie to their facility in North Reading, MA to present the Global Pricing Workshop (as it was then called) to an internal group of about 25 Teradyne operations employees. One topic Teradyne found most useful, "Total



WWW.TERADYNE.COM

TERADYNE

NORTH READING, MA



WWW.BLUECOAT.COM

BLUECOAT

SUNNYVALE, CA



WWW.INOVAR-INC.COM

INOVAR

LOGAN, UTAH



TECHNOLOGY FORECASTERS INC.

Cost of Ownership" (TCO), explored the cost that OEMs spend internally to manage their CM relationships. This resulted in a benchmark for how Teradyne compared with "like companies" relative to this metric cost of managing their contract manufacturing.

Using Teradyne financial data, Charlie compared their cost structure to others in the TFI database. After reviewing the results, Burton and Teradyne's Operations Financial Controller were able to restructure certain data formats and gained a confirmation that Teradyne compared favorably with the other companies analyzed.

Also introduced was the "Single Enterprise Model" (SEM), comparing all components of internal and external cost into a single enterprise roll-up so that they could be compared to similar companies or divisions of larger companies. This approach provided Teradyne with a more robust view of their operation, and expanded the benchmark comparison to a broader set of companies.

According to Burton, "The SEM analysis has been instrumental in identifying areas for us to focus on to further improve our bottom line. We commend him for his consulting expertise in cost comparisons, and have found the analysis to be a critical piece of our benchmarking strategy."

KEY BENEFITS OF THE OUTSOURCING NAVIGATOR FOR TERADYNE:

- Competitive analysis for contract manufacturer pricing has enabled more confident negotiations with suppliers
- Improved margins on products manufactured by CMs, increased profitability of outsourcing

ENSURING CONFIDENCE IN MANUFACTURING OVERHEAD SPENDING LEVELS AT BLUE COAT®

Blue Coat secures Web communications and accelerates business applications across the distributed enterprise. Blue Coat's family of appliances and client-based solutions -- deployed in branch offices, Internet gateways, end points, and data centers -- provide intelligent points of policy-based control enabling IT organizations to optimize security and accelerate performance between users and applications. Blue Coat has installed more than 30,000 appliances worldwide and is ranked #1 by IDC in the Secure Content and Application Delivery market. Blue Coat is headquartered in Sunnyvale, California, and can be reached at (408) 220-2200 or www.bluecoat.com.

David Cox, the vice president of operations at Blue Coat, feels that remaining competitive in his industry requires constant vigilance around manufacturing costs. Regarding product manufacturing costs (materials and transformation), Blue Coat had regularly benchmarked itself by leveraging Charlie's Global Pricing Workshop and other activities. But overhead costs had never been benchmarked. Attempting to secure meaningful comparative overhead costs seemed challenging and problematic.

"The SEM analysis has been instrumental in identifying areas for us to focus on to further improve our bottom line. We commend Charlie for his consulting expertise in cost comparisons and have found the analysis to be a critical piece of our benchmarking strategy."

— **Burton Ehrlich**
Cost Manager/ATE Operations
Teradyne

"Blue Coat joined the TFI Quarterly Forum two years ago, and we've used the reports and breakout session at each event to continuously update our understanding of the international contracting environment. However, it was when we elected to see how competitively we were managing our internal costs and overhead, that we decided to leverage The Outsourcing Navigator methodology," states Cox.

Benchmarked against eight like companies from the TFI database based on revenue, profitability, manufacturing model, product type, it turned out that Blue Coat was in the lower range compared to the companies closest to Blue Coat in those criteria.

As the company continues to grow, the question of adding new partners has come up, along with the scalability of the Blue Coat outsourcing model.

"The Outsourcing Navigator tools and methodologies helped us confirm that our outsourcing model and overhead costs are competitive today. Although we are currently sole-sourced in our appliance manufacturing, we have engaged TFI to help us determine optimal timing for us to consider selecting additional manufacturing partners."

KEY BENEFITS:

- Confidence in internal spending levels on outsourcing activities from competitive standpoint
- Continued ability to stay abreast of outsourcing environment

UNDERSTANDING OEM COSTS AND CHALLENGES MEANS COMPETITIVE ADVANTAGE FOR INOVAR

Inovar, Inc., an EMS in Logan, UT provides a full range of electronics manufacturing services including materials procurement, printed circuit assembly, rapid prototyping, test and system build to the full spectrum of OEMs. As president of this rapidly growing EMS, Blake Kirby takes the notion of understanding his prospects and customers to new heights when competing for business.

"Offering a Tier 1 menu of outsourced manufacturing services to companies primarily in the high end industrial, medical, military aeronautics and technology arenas, we often find ourselves competing with larger EMS or overseas manufacturing resources," says Blake, "so understanding our cost structures as well as those of our customers and competition in other geographies has been key to our success."

Inovar's first exposure to TFI was at a Quarterly Forum in 2005 where their goal was to benchmark their pricing against the market and their internal costs. There they also learned about different geographic structures and how to assess the resident EMS players.

Shortly after that, the Outsourcing Navigator methodologies and models played significant roles in helping Inovar win contracts. By engaging Charlie Barnhart to

"The Outsourcing Navigator tools and methodologies helped us confirm that our outsourcing model and overhead costs are competitive today. Although we are currently sole-sourced in our appliance manufacturing, we have engaged TFI to help us determine optimal timing for us to consider selecting additional manufacturing partners."

— David Cox
Vice President of Operations
Blue Coat

help Inovar guide their costing models for an OEM's internal versus external costs for a true picture of the OEM costs, Inovar successfully won two major contracts with OEMs divesting of their in-house manufacturing.

"Charlie's assistance with that first large OEM has continued to support our competitive efforts, because we now truly understand our own costs and the OEM's costs. Many times competing EMS's are only able to provide a partial picture – making their anticipated savings claims unrealistic. We are able to help the OEM see the true picture of the cost savings they would enjoy by outsourcing with Inovar – the result being that we level the playing field because of our depth of knowledge around true costs."

According to Blake, Inovar sales and program managers have also benefited from the Outsourcing Navigator tools, in that they better understand the market (domestic and overseas), can provide a better picture of pricing with prospects, overcome price objections with REAL data, and feel confident in the quote process. While important to conversations with the manufacturing and operations prospects Inovar is working with, Blake contends that the knowledge they've gained has translated into more productive interaction with executive members of their prospects' management as well.

"Not surprisingly, the Outsourcing Navigator tools have influenced and become part of Inovar's quote model, resulting in ease of visibility into out of balance quote scenarios and increased speed at which a valid quote can be approved for submission to prospect. This positive impact to our quoting process has dramatically decreased the time it takes to turn a forecasted opportunity into a closed deal. With an anticipated growth of nearly 25% in the coming year, that time savings alone will be significant."

KEY BENEFITS:

- Networking provided through the Quarterly Forum has been significant in terms of relationship building
- Increased confidence in quoting and ease of quote development
- Better assessment of opportunity viability
- Increased profitability of contracts

LEADING OEM AND EMS CLIENTS TO SUCCESSFUL OUTSOURCING

To date, over 400 companies have participated in the Outsourcing Navigator sessions. Beginning in 2007, Outsourcing Navigator Series workshop attendees and on-line training participants will be eligible to earn continuing education credits from ISM, APICS and other industry associations as well as receive certification from Technology Forecasters Inc as a "Certified Outsourcing Navigator."

"Charlie's assistance with that first large OEM has continued to support our competitive efforts, because we now truly understand our own costs and the OEM's costs... We are able to help the OEM see the true picture of the cost savings they would enjoy by outsourcing with Inovar"

— **Blake Kirby**
President
Inovar, Inc.



TECHNOLOGY FORECASTERS INC.

Information, Insight, Interaction for Effective Manufacturing Relationships

2000 Santa Clara Avenue, Alameda, California 94501 • www.techforecasters.com

© 2007 Technology Forecasters Inc. All rights reserved. Trademarks used herein are the property of their respective owners.