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2009: A Year To Endure

There's no getting around it: 2009 will be a tough year for the EMS industry. The global downturn has created a lowering of demand in most if not all market segments of the EMS industry. This loss of demand is now pervasive enough to offset gains from new outsourcing business. As a result, the EMS industry will be fortunate to eke out any growth this year.

A composite growth estimate based on three forecasts of 2009 contract manufacturing revenue (EMS + ODM) amounts to 3.8% (Dec. 2008, p. 1). When the EMS portion of these forecasts is considered alone, the aggregate growth estimate doesn't change much. The average projection for EMS sales in 2009 is \$176.3 billion, which represents a 3.2% increase from the 2008 average. **IDC**, **iSuppli** and **TFI Quarterly Forum** supplied forecast data for this analysis.

If growth for the year ends up in the low single digits, it wouldn't be the worst thing ever to happen to the industry. Indeed, it would be a far better result than what befell the industry in 2002, when that year's *MMI* Top 50™ saw their combined sales decline by 4.4%.

What's more, the EMS industry is in a better position today to weather a downturn than it was when the previous recession struck. Leading up to the prior recession, a number of large providers had acquired OEM facilities in

high-cost areas, and these facilities then became dead weight as demand fell and more and more customers opted for production in low-cost geographies. Massive restructuring followed. But at present there is no need for such a large-scale realignment because the capacity shift to low-cost regions has already taken place. (This point has been made by EMS executives, but it bears repeating.)

The EMS industry has something else going for it – agility. Because the industry does not have the luxury of operating with the fat margins, EMS companies by experience must be ready to quickly adjust their cost structure in line with demand. Many employ temporary workers as a way to bring their staffing levels up or down fast.

However, the magnitude of the current downturn is beyond what providers are used to seeing in the typical ebb and flow of customer demand. The downturn isn't confined to a particular region or market segment. Un-

fortunately, at least some providers will likely face the prospect of making cuts across the board, if they haven't already. They will find themselves in a difficult balancing act: taking out enough cost to preserve margins without undermining their ability to respond when markets recover.

If one knew how end markets will behave through the course of 2009, one would have a better idea of how the EMS industry will fare this year. As long as a recession persists in the U.S. and other markets, end markets will likely be mired in demand softness. End market recovery could be delayed if the recession is U-shaped, as some economists are now predicting.

Two market research firms are predicting slight declines this year in the OEM space. Last month, **iSuppli** released a semiconductor outlook, in which it forecasted that OEM factory revenue for electronics equipment would decrease by 1.3% in 2009. Another firm, **IC Insights**, has projected

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that electronics systems markets will decline by 2% overall this year.

But semiconductor forecasts, which depend on other factors as well as equipment production, are less encouraging. The iSuppli forecast calls for a 9.4% drop in semiconductor sales this year, while the **Semiconductor Industry Association** predicted in November that sales would fall by 5.6%. If end markets performance falls within the range of these two forecasts, then it could drag EMS growth into negative territory for the year.

Whether or not the EMS industry manages to keep top-line growth positive, providers will be tested in the year ahead. Much of the activity in the EMS industry this year will be directed toward responding to the global downturn. How well providers endure the recession will have much to say about their future viability. No provider wants to emerge from the downturn in a weakened condition.

Coping with the global downturn will be the overarching theme in the EMS business during 2009. This theme weaves its way through the nine trends that follow in *MMI's* annual outlook for the year ahead.

Growth in 2009 will not be easy to come by. It must be remembered that providers typically start a year in the hole due to cost reductions in existing business and expiring programs. This year, new business must not only offset this normal loss of revenue, but make up for lower demand levels resulting from the downturn. It's a tough order. Basically, providers can draw upon two sources of new business: new customer wins and expansion of existing relationships.

New customer business will be become even more valuable this year, and many providers will redouble their efforts to find it and then win it. The more successful a provider is at winning new business, the better its top line will be. This industry truism will take on added significance in 2009.

Also, the higher the win rate, the more business won. One way to boost win rates is to take business at below adequate returns. This is a short-term fix that will likely backfire later on. Nevertheless, some providers will likely succumb to the temptation, as has happened in the past.

Smart providers will step up efforts to expand customer relationships. These providers will seek more business from customers by proposing to take over more product lines or more phases of a product's life cycle. This can be an efficient way to add business when a provider is only competing with an OEM's internal operation. Business acquisition costs are less as well.

Unfortunately, business awarded now will only contribute to second-half revenue, at best.

Diversification will take on new urgency in 2009, but this strategy has moved well beyond merely penetrating a nontraditional segment. Diversification will be a major source of new business in 2009. But some segments may be more fruitful than others. Companies that are not well-established in the defense sector will probably have a hard time making inroads there. Competition in the medical segment will only intensify as large players already have ongoing activities in the segment.

Intra-segment diversification, dubbed diversification 2.0 by *MMI*, is the new way to broaden customer portfolios. The highly fragmented industrial segment offers the greatest potential for unearthing new product categories under diversification 2.0. Examples of new categories flowing from this strategy are mechatronics, solar products and LED lighting (Dec. 2008, p. 5-6). But a diversification 2.0 category need not be brand new to the industry. Under this strategy, providers will also be looking for underserved product areas that are new to them.

Economic pressures will place

additional strain on some supply-chain relationships. After this recession, suppliers will know who their true partners are. Customer-supplier relationships can fray during a recession when customers squeeze their suppliers for additional cost reductions. This downturn will be no different.

The pressure to reduce costs starts at the top of the supply chain and flows downward. To preserve margins as much as possible, OEMs will push to lower their EMS costs wherever they can. Material costs will receive more than normal scrutiny from OEMs, and more OEMs will likely elect to take greater control of procurement, especially the "A" items in a BOM. This recession will increase the number of OEMs who do not believe in placing procurement entirely in the hands of their providers.

In light of lower raw material costs and reduced component demand, OEMs will expect larger cost reductions this year. However, friction between OEMs and their providers will build in cases where OEMs ask for reductions that are not warranted by component pricing changes or process efficiencies. But OEMs will have a gripe if their providers hold back any PPV (purchase price variance). And *MMI* believes that 2009 will be a year of decidedly negative PPV.

Another area to be targeted by the OEM cost cutters is inventory. OEMs will increasingly offload as much inventory as possible onto the books of their providers. Also, if OEMs think they can negotiate better payment or other terms, they will. Finally, EMS providers will have little chance of collecting for design services that their customers are used to getting for free.

In the current environment, OEMs will generally have the upper hand as most providers will want to avoid jeopardizing their share of a customer's business. Still, OEMs who see their supplier relationships as long-

term partnerships will be reluctant to push their suppliers too far.

Much of the foregoing discussion regarding cost reduction also applies to the relationship between EMS providers and their materials suppliers.

In the current economic environment, balance sheets have become a more important selection criterion for OEMs. Fortunately for the EMS industry, this criterion plays to one of its strengths.

With lower demand, providers need less capital, which translates into more cash flow, as the EMS industry is well aware. Providers will accentuate this positive aspect of their model by building up their cash reserves. Balance sheet strength will be a major selling point for providers this year. No provider will want to be seen as weak in this area.

Massive layoffs in China and lower fuel costs for shipping will retard the long-term trend toward regional manufacturing. With large numbers of workers being laid off in China, especially in the country's southern region, there will be less pressure to raise wages.

Fuel surcharges have been another recent source of cost increases for OEMs shipping product from China. Following a dramatic decline in the price of oil, OEMs will be looking at lower shipping costs this year. Less global economic activity will keep a lid on the price of oil.

In addition, OEMs sourcing from China may see a reduction in materials costs if Chinese suppliers of components and other materials cut deals to keep factory utilization up. The prospect of more stable wages, lower fuel costs and possibly lower material costs will work against the regional manufacturing model in 2009.

The worldwide downturn will cool off further global expansion in the outsourcing space. *MMI* believes that the downturn will set back development in Vietnam. Although *MMI*

has seen no evidence indicating that **Hon Hai Precision Industry** (Foxconn) has changed its plans for Vietnam, *MMI* would be surprised if Hon Hai's \$5-billion investment program for the country remains unaffected by the downturn. Furthermore, **Compal Electronics** has reportedly scaled back the amount of capacity it will initially put into Vietnam (Nov. 2008, p. 6).

Likewise, *MMI* predicts that a critical mass of EMS operations will not emerge in Russia this year. In 2008, there was one major EMS player in Russia, and that number is unlikely to increase this year, *MMI* believes. Granted, **HP** and Hon Hai started construction last year for a factory in St. Petersburg, Russia (May 2008, p. 6). But **Elcoteq** just announced that it will close its St. Petersburg plant. Note that last year **Flextronics** withdrew from a deal by which it would have acquired the Elcoteq facility (see News, p. 7, and June 2008, p. 6). No net gain is expected in Russia this year, barring an unforeseen investment by another player.

Mid-tier and smaller providers will see more competition from large players. EMS providers from the industry's mid-tier and below will run into large players more often for two reasons. First, the large providers will step up their diversification efforts within the industrial, medical and instrumentation segments, where smaller providers are often ensconced. This follows from the aforementioned diversification trend (see p. 2). Second, large players will be more inclined to go after undersized programs than they normally would be. Their push to add new business as an offset to lower demand will lead them to bid on more programs that would otherwise be the sole property of smaller providers.

Consolidation will continue and should pick up momentum, credit permitting, as a result of the downturn. Some companies that were on financial thin ice before the downturn

will be forced to sell or go under. In addition, the global recession will put other EMS providers in a selling mood. Buyers will take advantage of both kinds of opportunities. But M&A activity will be held back if the supply of corporate credit is inadequate.

Business failures will contribute more to consolidation than in recent years.

It is unclear whether any of the large publicly held EMS companies will be sold. Low stock prices reduce the cost of acquiring publicly held providers. As a prominent example, **Sannina-SCI's** market cap at this writing is about \$173 million. But where will the buyers for any such deal come from? Competitors are expected to husband their cash. They also have their own challenges in dealing with the downturn. If credit markets permit, a private equity firm is a possibility. But *MMI* wonders why a private equity firm would put the low-margin EMS industry, no longer a guaranteed engine of growth, above other areas for investment. A Taiwanese company in the outsourcing space could step in, but it would be a first.

ODMs will be more of a threat than ever to the upper end of the EMS industry. Dependence on the PC industry will catch up with the ODM sector, *MMI* believes (May, p. 8), and 2009 could well be the sector's year of reckoning. In the face of flagging sales from the PC industry and increased competition from the likes of Hon Hai and Flextronics, ODMs will seek to diversify further. They have already moved into mobile phones and flat-screen TVs and will be looking for more product areas where they can apply their scale and design expertise. This need to diversify will bring ODMs of various stripes further into the computing, communications, mobility and consumer spaces where EMS providers compete. In January, Taiwanese news source *CENS* reported that **NEC** will contract with Tai-

wanese companies instead of U.S. providers for mid-range servers in 2009. New technologies such as WiMAX are especially vulnerable to ODM penetration.

But the nontraditional segments coveted by the EMS industry have also become expansion targets for at least one major ODM. According to a November 2008 report by *CENS*, ODM **Quanta Computer** intends to expand its activities into the medical and automotive sectors.

Market Sector

Differing Views of TV Space

LCD TVs have been one of the hottest growth areas in recent years, yet not all the providers in the TV space are approaching the TV business in the same way. While **Elcoteq** and **Flextronics** are trumpeting their initiatives in the TV space, **Jabil Circuit** is reducing its exposure to the space. Although, according to some reports (Sept., p. 5-6), the TV space has become fertile ground for outsourcing, not everyone in the space is planning a strategic expansion of their domain.

"We may continue to build TV sets, but it will be a smaller part of our business in tune to economic performance as opposed to strategic penetration of the space," said Jabil's president and CEO, Tim Main, during the company's earnings conference call last month. TVs form the main part of Jabil's displays sector, which, Main reported, has been the primary drag on earnings in the provider's consumer division.

Jabil considers displays an underperforming sector, and the company is de-emphasizing its participation in the sector. For the company's fiscal Q2 ending February 2009, Jabil expects displays revenue to fall by more than 50% year over year. That's a decline

of \$120 million from the year-earlier period. The company is projecting that the displays sector will account for about 3% of Jabil's sales for fiscal Q2, down from 7% in the prior and year-earlier quarters.

In contrast, Elcoteq is investing in its flat-screen TV business. The company recently acquired **Philips'** final assembly operations for LCD TVs in Juarez, Mexico (Sept. 2008, p. 5). By adding LCD-TV final assembly to Elcoteq's repertoire, the acquisition strengthens Elcoteq's flat-screen TV capabilities. It also deepens the provider's longstanding relationship with Philips; adds a new customer in Japan's **Funai**, which has taken over some of Philips' TV business under license; and boosts the growth of Elcoteq's Home Communications business.

Since the beginning of 2008, Elcoteq has organized itself around three business areas, or divisions: Home Communications, Personal Communications, and Communications Networks.

Elcoteq's goal is to develop the Juarez activity further as its center of excellence for flat TV business. "It will have a big role globally supporting Elcoteq's other flat TV business development projects and supporting our other manufacturing operations," said Vesa Keränen, president of Elcoteq Home Communications.

The company plans to expand its flat-TV final assembly operations to other locations including Eastern Europe.

Flat-screen TVs are one of two key segments driving the development of Home Communications' manufacturing network and service offering. Set-top boxes comprise the other segment. For both segments, "we clearly see that especially in Europe, the market demand is still very robust even though that now during the past few months we have been experiencing really very extraordinary market cir-

cumstances as a result of this global financial turmoil," said Keränen. He added, "There are very good opportunities to grow further the business in Eastern Europe."

Starting in Europe, Elcoteq is building products for a new TV customer and a new set-top box customer. Production will expand to other locations including China, said Keränen.

Home Communications' service offering includes a complete ODM solution. It is primarily based on sourcing the design and development work from third parties. Keränen said ODM-type outsourcing "is already a significant factor in the flat-TV business and most likely will be increasing in the future."

Prior to the acquisition, Elcoteq's flat-TV business was limited to the subassembly level. The company provided flat-TV customers such as Philips with PCBAs and other subassemblies. For example, Elcoteq supplied the Juarez site, which has no SMT capability, with PCBAs from China. That will continue to be the case.

Elcoteq is reacting to changes in customer demand in the flat-TV business. "The whole value chain is in a process of major reshaping, and it will definitely offer a lot of business development opportunities for the companies who are successful in providing needed solutions and needed services," said Keränen. "Outsourcing will increase for sure."

He noted that major Japanese and Korean companies are increasing their outsourcing. This rise in outsourcing "didn't start as a result of this recent economic turmoil. But it did start actually much earlier," said Keränen.

One beneficiary of this outsourcing trend is Flextronics. During the provider's November analyst and investor meeting, Flextronics disclosed that it is manufacturing TVs for **Sony** under a contract described as "pretty big" by Flextronics CEO Mike McNamara

(Nov. 2008, p. 7). He said that more than anything, this contract is responsible for making Sony a top-ten customer. Alexander Blanton, an analyst at **Ingalls & Snyder**, reported that these TVs are Sony Bravia LCD TVs, for which Flextronics is also supplying plastics and finishing.

In response to the deterioration of the global economy, Sony will pursue further "OEM/ODM deployment and a far-reaching asset light strategy" for its LCD-TV business, according to a statement released by the company this month. Sony cited the anticipated growth of emerging markets and the resulting demand for more entry-level models.

Flextronics worked with Sony from the early stages of a TV product cycle all the way through launch, according

to McNamara. In addition, Flextronics reported that the first Flextronics-designed TVs went into production in its current fiscal year. It has not been confirmed whether both reports are referring to the same product.

The provider also revealed at the November meeting that it had added "a very advanced" vertically integrated TV factory in Hungary, which incorporates plastics molding, among other things. "We believe that's the only way you can be in this business and make money," said McNamara.

Flextronics, like Elcoteq, has invested in its TV business. Both companies are committed to grow their business in the space. But for Jabil, an emphasis on economic performance in the space is causing the company to reduce its exposure to it.

Sanmina-SCI (San Jose, CA), on the other hand, is in the midst of rebuilding its relationship with Nortel. The provider estimated that its gross Nortel exposure is about \$20 million. Against this exposure, Sanmina-SCI in its fiscal Q1 ended Dec. 27, 2008 recorded charges of \$10 million related to the Nortel filings. Both Sanmina-SCI and Flextronics said their estimates for Nortel-related charges could change as the Nortel proceedings develop.

The Nortel action has also made an impact in Taiwan. ODM **Wistron**, which has maintained a business relationship with Nortel for many years, estimated a maximum possible loss of about NT\$200 million (\$5.9 million) in connection with the Nortel move, according to information posted on the Taiwan Stock Exchange. Taiwan news source *Digitimes* reported that this exposure comes from IP phone orders. Wistron has sent people to consult with Nortel and stated it will require Nortel to pay in accordance with the law.

Accton Technology, another Taiwanese ODM, said in a Jan. 16 filing on the Taiwan Stock Exchange that it would stop shipment to Nortel. As of Jan. 15, Accton's accounts receivable balance with Nortel was about NT\$51 million (\$1.5 million). Accton will reserve a bad debt allowance.

NBS To Acquire CompServ

EMS provider **NBS** (Santa Clara, CA) intends to acquire **CompServ** (Fremont, CA), a provider of electronic and mechanical services for engineering builds, quick-turn production and volume manufacturing. NBS plans to integrate CompServ's materials and project management strengths into NBS's PCB layout and assembly services. Financial terms were not disclosed. Closing is targeted for the end of February.

News

Nortel's Bankruptcy Protection Move Ripples Through Supply Chain

Nortel suppliers received bad news on Jan. 14 when the company announced that it and certain Canadian subsidiaries were seeking creditor protection in Canada and that certain U.S. subsidiaries had filed under Chapter 11 of the U.S. Bankruptcy Code. Filings in Europe were also expected.

In addition, Nortel announced that a Nortel subsidiary had entered into an amendment to arrangements with its key supplier, **Flextronics** (Singapore). Under this amendment, the Nortel unit has agreed to purchase \$120 million of existing inventory by July 1, 2009 and to make quarterly purchases of other inventory. As of this writing, Flextronics has received \$75 million of the agreed-upon amount. The amendment also covers terms relating to payment and pricing. Flextronics has secured five-day payment terms on all post-bankruptcy-petition sales of product.

Nortel said the amendment gave its

unit confidence that Flextronics would continue to maintain the supply chain. Flextronics said it remains engaged with Nortel as a strategic supplier.

In connection with Nortel's bankruptcy protection move, Flextronics recognized a distressed customer charge of about \$145 million during its fiscal Q3 ended Dec. 31, 2008. This charge consists of \$47 million of provisions for pre-bankruptcy-petition accounts receivable and \$98 million for the write-down of inventory.

As a result of the Solelectron acquisition in October 2007, Flextronics' share of Nortel's business became too large for both companies. In an October 2008 earnings call, Flextronics CEO Mike McNamara said Flextronics was initially about 90% of Nortel's business. Flextronics has been working to reduce its exposure to Nortel for some time. Nortel's business with Flextronics decreased by 37% from \$613 million in the December 2007 quarter to \$387 million in the December 2008 quarter. Nortel represented 4.7% of Flextronics' sales in the quarter, down from 6.8% in the year-earlier period.

NBS will not only gain CompServ's capabilities but also its president, Michael Maslana, who will take over as CEO and president of the expanded company. Maslana replaces NBS founder, president and CEO Craig Arcuri, who is leaving the business to spend more time with family and to pursue his passion for aviation. A CompServ executive will also oversee NBS's sales organization. Chris Alessio, CompServ's VP of sales and marketing, assumes the same role at the combined company.

CompServ's 18,000-ft² facility in Fremont employs 32 people, of which 13 work in the company's **Datest** unit, an independent test services house. Plans are to combine CompServ's operations other than Datest with NBS's Santa Clara activity, which occupies a 40,000-ft² facility. Datest will operate in a separate location.

"NBS bills itself as a domestic NPI provider. We intend to extend and diversify our services to include high-mix, low-to-medium production and engineering development (ODM)," Michael Maslana wrote in an email to *MMI*. The company also plans to make more acquisitions and to selectively enter global markets.

According to Maslana, the recession had nothing to do with this deal. "It was simply the culmination of two separate attempts – the first came in 2006 – to combine our companies," he noted.

NBS has been one of four consignment labor sources for CompServ, which provides customers with turnkey project management.

In 1999, NBS Design started as a PCB layout firm and began offering manufacturing in 2004. The company is now using the trade name NBS. With 215 employees, NBS has design and manufacturing facilities in Santa Clara, CA, and Jakarta, Indonesia, as well as design centers in Santa Barbara, CA; Richardson, TX; and Nashua, NH.

The combined company will have sales of about \$50 million.

Computrol Buys Utah Provider

Computrol, a low-volume EMS provider based in Meridian, ID, has acquired another provider, **Wolf Electronix** of Orem, UT.

"This acquisition expands Computrol's service market in the high-tech Salt Lake City area while increasing production capacity and overall flexibility of service throughout our three locations," stated Charlie Scott, president of Computrol.

Computrol expects the synergy of this acquisition to provide greater customer service and technology solutions to both companies' current and future customers.

Totaling 120,000 ft², Computrol's three manufacturing facilities are in Boise and Post Falls, ID, and now Orem, UT. With the acquisition, the company's workforce exceeds 300 people. Computrol, a member company of **Armstrong Global Holdings**, serves military, medical, aerospace, broadcast and general industry customers.

"With Computrol's technological capability and financial stability, we have found the right partner to assist us in expanding our electronic contract manufacturing capabilities," said Jim Trent, Jr., president of Wolf Electronix.

The company was founded in 1996 by the Trent family.

New business... **ADB Group**, a set-top box OEM, intends to engage **Foxconn Technology Group**, which is anchored by **Hon Hai Precision Industry** (Tucheng City, Taiwan). ADB said it will continue its business relationship with Thailand-based **Cal-Comp Electronics**, its longtime manufacturing partner. This new arrangement will provide ADB with a more diversified supply base, the com-

pany said. In addition, Hon Hai will provide manufacturing for a netbook partnership with **Asustek Computer** and **Best Buy**, according to an unconfirmed report by Taiwan news source *CENS*. The group is reportedly targeting the U.S. market for netbooks.

...**Benchmark Electronics** (Angleton, TX) provided NPI services, PCB assembly and functional test for a **Cray** supercomputer system that set a new world record for computer speed at **Oak Ridge National Laboratory**.

...In Q4 2008, three multibillion-dollar global enterprises, all of which are number one in their respective markets, selected **Riverwood Solutions** (Menlo Park, CA) for supply chain implementation and management. Riverwood, a managed services provider, offers the Hybrid Outsourced Services Team model, which supplies clients at any stage of supply-chain maturity with project management in the world's innovation centers and in-country operations and supply chain expertise in the world's leading manufacturing centers....**BAE Systems** has awarded **LaBarge** (St. Louis, MO) \$2.9 million in contracts to manufacture electronic assemblies for the Bradley combat vehicle program.

...**Kongsberg Defence & Aerospace** has decided to employ **NOTE's** preferred parts database for developing new products. EMS provider NOTE is based in Danderyd, Sweden....Under a Mentor-Protégé program sponsored by the U.S. Department of Defense, **Raytheon** (Waltham, MA) and **UEC Electronics** (Hanahan, SC) will work on Raytheon programs for three different missiles. Raytheon will mentor UEC, a small woman-owned business, for three years in product design, test set design and development, advanced manufacturing and development, lean manufacturing, IT, HR and quality.

...**OSI Electronics**, a business within the Optoelectronic and Manufacturing division of **OSI Systems** (Hawthorne, CA), has received a \$25-million order

from **ITT Corporation** for electronic subassemblies to be used by the U.S. Department of Defense in its Mine Resistant Ambush Protected armored vehicle program. OSI Systems is a vertically integrated designer and manufacturer of electronic systems and components for the homeland security, healthcare, defense and aerospace industries.

Elcoteq To Restructure

Elcoteq (Luxembourg) has decided to launch a restructuring program involving three plant closures, consolidation of two other plants, personnel cuts and other cost-saving measures. The company said it made this decision to prepare it for the exceptionally uncertain market situation and to secure profitability in 2009.

The first measure is to close plants in Arad, Romania; Richardson, TX; and St. Petersburg, Russia, as well as to consolidate the plant in Shenzhen, China, into the plant in Beijing. Secondly, these measures combined with other layoffs will result in personnel cuts of about 5,000 out of a current total of about 21,000 employees at Elcoteq. Thirdly, the company will pursue several other cost-saving measures, including selling machinery and equipment, terminating facility and machinery leases as well as cutting external services.

Annual savings targeted for this restructuring plan are in the range of 80 to 100 million euros. Elcoteq expects that results from the plan will significantly improve the company's full-year profitability for 2009. One-time costs related to the plan will be about 24 million euros, of which 15 million euros will be booked in December 2008, and the rest during Q1 2009.

Elcoteq has also started a process to strengthen its balance sheet by raising capital through a structured equity-linked instrument during the

first half of 2009.

More cost cutting... During the quarter ended Dec. 27, 2008, Sanmina-SCI implemented layoffs of about 10% of its workforce. The company's top two executives will take a salary reduction of 20%, while other executives have agreed to a 10% pay cut. Sanmina-SCI is also forcing all employees to take a minimum of two weeks off without pay per quarter. Vacations can be used to comply. The company will close its enclosure operation in Toronto, Canada, and move most of that business to Mexico. Also in Canada, Sanmina-SCI will combine factories in Kanata and Montreal into one facility. Besides what the company has already announced, "some additional staffing reduction will continue around the world as we tune up to present demand," said Jure Sola, Sanmina-SCI's chairman and CEO, during its January earnings conference call. . . **PartnerTech** (Malmö, Sweden) has obtained shareholder approval to sell its unit in Poole, UK, to the unit's management. The purchase price is estimated at £377,013, the unit's net worth. The Poole unit, one of PartnerTech's three British subsidiaries, does PCB assembly for local customers and accounts for about 3% of PartnerTech's sales. The company is divesting the Poole business because it is operating at a loss and lacks strategic importance in that the unit does not supply PCBAs to other than local customers.

Some financial results... Sales for Flextronics' fiscal Q3 ended Dec. 31, 2008 totaled \$8.15 billion, down 10.1% from the year-earlier period. Adjusted operating margin for the December quarter was 2.3% versus 3.3% in the prior quarter and the same period a year ago. Adjusted operating income for the quarter was off 38.1% year over year. Non-GAAP EPS equaled \$0.16, compared with \$0.30

for the year-ago quarter. Flextronics recorded a non-cash charge of \$5.9 billion in the December 2008 quarter to write off the entire carrying value of its goodwill. The company's GAAP net loss for the quarter amounted to \$6.02 billion. Top-ten customers represented 48% of sales in the quarter. Excluding the write-off of Nortel inventory (see p. 5), Flextronics reduced inventory by about \$936 million quarter to quarter. For the quarter ending Mar. 31, the company expects revenue to be in the range of \$5.5 billion to \$6.5 billion and adjusted EPS to be in the range of \$0.02 to \$0.07. . . For the first fiscal quarter ended Dec. 27, 2008, Sanmina-SCI reported revenue of \$1.42 billion, down 16.4% sequentially and 19.9% year over year on a non-GAAP basis. Revenue decreased sequentially in all seven of the company's end markets. Non-GAAP gross margin was 6.7%, compared with 7.8% in the prior quarter and 7.4% in the year-earlier period. Non-GAAP operating margin came to 2.2%, versus 3.5% in the previous quarter and 2.3% in the same period a year ago. For fiscal Q1, non-GAAP EPS was at break-even, compared with EPS of \$0.05 in the preceding period and \$0.01 a year earlier. Sanmina-SCI recorded a GAAP net loss of \$25.3 million, compared with a net loss of \$9.5 million from continuing operations in the year-ago quarter. The company was unable to provide guidance for its fiscal second quarter, but did state its internal targets for the quarter: about \$1.3 billion in revenue, non-GAAP EPS at break-even, and positive free cash flow.

Correction... The wrong company name was used to identify the source of one of the forecasts presented in the front-page article of the December 2008 edition. The correct name of this source is TFI Quarterly Forum, not Technology Forecasters Inc. Note that the electronic version of the December issue was revised accordingly and reissued.

EMS Brands

For many EMS providers, branding is a strategy to be practiced by their customers, but to be avoided by them lest they be seen as competing with their customers. But as the EMS industry comes to terms with a slower growth environment, providers will look for new ways to expand business opportunities. And branding will be one of them, *MMI* believes.

This is not a call to start developing branded products, as some ODMs have done. The idea here is to brand not a product but an EMS company. In the next few years, EMS providers that have succeeded in developing a brand identity for themselves will be at a competitive advantage.

Think about it. In mature industries where one company's offering is not that much different from another's, what often marks the difference between them? Brand names.

By and large, service offerings in the EMS industry seem pretty much alike. Most companies provide SMT assembly and box build, and many offer design services at some level. Some providers would argue that their service is more comprehensive than the next guy's. And a nuanced audit of their operations might agree. But generally that is hard to tell from the

outside.

Industry growth is forecasted to slow down this year and may stay in single digits for the next two years and possibly longer. In this environment, providers will be pushing hard to grow faster than the average. Margin improvement can only do so much for the bottom line. A common approach to this problem will be to diversify into new product areas, thereby increasing the number opportunities in the quotation pipeline. More opportunities should translate into more wins. *MMI* would submit that branding is another way to increase opportunities.

If a provider has an established brand name, some prospects will be attracted at least in part by the brand. Although a having a brand name isn't enough to land a new program, the name should expose a provider to potential customers that might not turn up otherwise. This effect becomes especially useful in a new product area where the provider's brand name may be the only connection a prospect has with that company.

Deciding to adopt a branding strategy is the easy part. Figuring out what the brand should convey is the rub. Associating a brand with such generic concepts as full-service provider, one-stop shop, low-cost solution, global network and high-mix/low-volume will

not get the job done. A brand must communicate what is truly special about a company, and it must do so succinctly.

Companies of all sizes can benefit from a brand. For the largest players, it is a way to differentiate a provider from its competitors. A brand gives medium-sized and smaller companies a higher profile to stand out in the markets where they compete.

For some providers, branding will likely become as important to them as it is to their customers.

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