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North American Market Drawing Offshore Players in EMS

Given the prolonged shrinkage of the EMS industry in the U.S. and the current state of the U.S. economy, it might seem that now is not the time for an Asian or European EMS company to be investing in a North American presence. Nevertheless, at least four offshore players are gaining EMS footholds in North America or planning to do so.

EMS production in the U.S. has been dwelling in Asia's shadow for some years now, but the U.S. market has not entirely lost its luster. For one thing, any EMS provider wishing to call itself global must have its ticket punched in North America. Globalization, which took large U.S.-based providers into Asia and Europe, is now bringing EMS companies from those regions into North America.

Within the EMS industry, globalization has more than one driver. More and more providers want to have NPI operations close to their customers' design activities. Although U.S.-based OEMs have sent large amounts of outsourced production to offshore operations, they often maintain some level of engineering activity in the U.S. Hence, offshore providers need a North American presence if they want to support customers' U.S. design groups with an operation in the same time zone.

The trend toward regional manufacturing also plays into this industry need for globalization. Manufacturing

in or near the region of product consumption is becoming increasingly attractive. A North American operation allows offshore providers to take their European and Asian customers into the U.S. market.

Locating an operation in North America not only affords better support for existing customers, it also helps an offshore player with marketing in the U.S. It's usually easier to sell to a U.S. customer if you already have a manufacturing operation in the country or next door. For example, an offshore provider can promote the advantage of having a U.S. operation to handle prototypes and pilot production.

Of course, an offshore provider can enter the U.S. market either by setting up a greenfield facility or by making an acquisition. An acquisition costs more but comes with a U.S. customer base that can be a potential source of new business for the acquirer's low-cost manufacturing facilities offshore.

Cal-Comp to acquire two North American providers

Cal-Comp Electronics, a top-10 EMS provider based in Thailand, has entered into an agreement to acquire **Spectragraphics**, the holding company for two EMS providers, **Total Electronics** and **SMS Technologies**. Thailand-listed Cal-Comp, a member of Taiwan's **New Kinpo Group**, has selected Spectragraphics and its two subsidiaries as Cal-Comp's entry to the North American electronics manufacturing industry. Total Electronics has operations in Logansport, IN, and Reynosa, Mexico, while SMS maintains a plant in San Diego, CA. Terms of the acquisition were not disclosed.

However, in June Cal-Comp's board approved a \$20-million investment to acquire a company engaging in EMS in the U.S. Last month, *MMI* reported that Cal-Comp planned to make the investment to expand its business base in North America and

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support customer needs (Sept., p. 6). In a May meeting, the board authorized a \$3-million expenditure to gain control of two companies in the U.S. and Mexico. *MMI* reported that Cal-Comp intended to undertake this investment as well. When asked whether the \$3-million investment has been replaced by the larger investment, a Cal-Comp executive referred *MMI* to the Spectrographics deal.

Recognizing that the great migration of American products to Asian manufacturing sites has slowed and is now stable, Cal-Comp believes that a smaller but vibrant North American electronics market will continue to be served by North American factories, according to a statement issued by Spectrographics. In order to participate in this market, Cal-Comp elected to acquire Spectrographics and its subsidiaries as its entry point. Cal-Comp plans to help the EMS subsidiaries grow rapidly in the North American market.

Spectrographics' sales will end up at \$60 million to \$70 million this year. The company employs about 400 people, all of whom will be asked to continue in their present positions. In San Diego, SMS Technologies offers 45,000 ft² of manufacturing space, while Total Electronics' facilities in Indiana and Mexico are listed at 75,000 ft² and 25,000 ft² respectively. More than 29 years old, Spectrographics has been in the EMS business since 1992. It acquired Total Electronics in 2004.

When the deal is completed, the merged companies will operate under the name Cal-Comp USA and continue to serve customers of SMS and Total in the same fashion as in the past. In addition, the companies plan for a substantial acceleration in the growth rate of North American operations.

Part of this growth will originate from increased prototyping and new product introduction. The companies intend to rapidly increase the number

of customers going through prototyping in the North American facilities and the flow from prototypes to low-to-medium production in North America followed by high-volume production in Asia.

Cal-Comp has a number of multinational customers "who want to have their prototypes done in the U.S. and their initial product launches done by a manufacturer close to their U.S. engineering design centers," said Bob Blumberg, president of Spectrographics.

Growth will also come from the ability to attract customers that Spectrographics couldn't reach before because it didn't have access to low-cost manufacturing in Asia. With Cal-Comp, "I'm able to serve the customer need for lower unit volume manufacturing in Asia," said Blumberg. Cal-Comp's Asian facilities are in Thailand and China (Sept., p. 6). Spectrographics will also have access to the Taiwan facilities of New Kinpo Group.

Also included in growth plans are possible acquisitions, he told *MMI*.

In addition, the parties also plan to expand product design services in North America. Although the Spectrographics operations do some design work, Cal-Comp's more extensive capabilities in such areas as board layout, DFM and DFT will give the North American operations a lot more depth in this area, said Blumberg.

After considerable research, Cal-Comp selected Spectrographics based on two attributes: its ability to provide high-mix and moderate volume manufacturing and its NPI capabilities. Spectrographics' geographic footprint also factored in the decision.

"This shows that essentially a tier-one size company that's Asian recognized the importance of having a manufacturing footprint in the U.S.," said Blumberg.

The transaction is expected to close after a vote of Spectrographics' share-

holders.

Other market entries

Cal-Comp is not the only Asian provider aiming to establish a manufacturing footprint in North America. In August, **Ionics EMS**, a Philippines-based EMS provider, received approval from its parent Ionics to set up a U.S. company that will function as a full-service design and prototyping house in Silicon Valley. Ionics EMS, which was voluntarily delisted from the Singapore Exchange this year, reported 2009 sales of \$70.7 million. The provider operates eight plants in the Philippines and one in Southern China, according to its website.

Earlier this year, **Season Group**, a vertically integrated EMS provider based in Hong Kong, gained a foothold in the U.S. through its acquisition of **DC Electronics**, a 5,400-ft² EMS operation in San Antonio, TX (May, p. 8). The deal enables Season to offer U.S. customers services such as prototyping and NPI as well as low- to high-volume manufacturing. "It is a tremendous advantage to have a domestic USA site and use Season's global infrastructure to help our USA customers launch products quicker and more effectively," stated David Chavez, director of USA sales for Season Group.

The company operates seven plants spread among four countries: Canada, USA, Malaysia and China. In Canada, Season engages in die and mold making and injection molding, but not EMS. So the acquired operation in Texas is Season's first EMS site in North America.

A European EMS provider is also entering the North American market. Norway's **Kitron**, an *MMI* Top 50 EMS provider, has decided to set up a wholly owned subsidiary in Johnstown, PA (June, p. 7). Scheduled to be operational as of Jan. 1, 2011, the site will focus primarily on the defense industry in the near term. Kitron said

the new unit serves as an example of Kitron following its customers internationally.

The company has located a site with 20,000 ft² of space.

Using an alliance for market access

Acquisitions are one way to break into a new region, but there's another. A well-known strategy in EMS industry is to form an alliance that allows a provider in a one region to offer manufacturing through a partner in another region. An offshore provider can use an alliance to gain exposure to the North American market through a U.S. partner.

Several such alliances have appeared over the last year, and two of them involved an EMS provider in India. **EPIC Technologies**, a Top 50 provider based in Ohio, forged a partnership with **SFO Technologies**, de-

scribed by EPIC as India's largest indigenous design and manufacturing provider. The alliance allows EPIC to offer a manufacturing option in Asia, while SFO can give its customers a North American solution through EPIC's facilities (April, p. 6).

Another Indian EMS provider, **Mobile Telecommunications Limited**, which is also in other businesses, entered into an alliance with a U.S. provider, **Aimtron** of Illinois (Jan., p. 7). Again, Aimtron is offering manufacturing in India through its partner. MTL is in a position to gain U.S. customers through Aimtron.

Finally, **Express Manufacturing, Inc.**, a U.S.-based EMS provider, and Singapore-listed **Beyonics Technology**, a vertically integrated provider, combined forces to offer high-volume production in Asia and product development and NPI in the U.S. (Nov. 2009, p. 7). In this partnership, EMI

takes on the role of product development and NPI in the North American market on behalf of Beyonics, whose manufacturing is confined to Asia. "The collaboration will bring new business opportunities to Beyonics as we could [sic] now take part in NPI efforts with customers in North America through our affiliation with EMI," stated C.P. Goh, CEO of Beyonics.

Beyonics, which generated about \$1 billion in 2009 sales, operates manufacturing facilities in Singapore, Malaysia, Indonesia, Thailand and China. Although EMI already had manufacturing operations in Southern California and Southern China, the Beyonics pact enables EMI to expand its market focus to include consumer products.

Whether by alliance, acquisition or greenfield site, more and more offshore providers are recognizing that they need to offer some level of manufacturing in North America.

Reverse Logistics

Distributors Target Reverse Logistics

Recently, the two largest franchised distributors each made an acquisition in the reverse logistics field, an area that EMS providers have staked out through their aftermarket services (AMS) offerings (see also Sept., p. 1-3). So distributors and EMS providers will both be seeking reverse logistics business from the AMS market.

Earlier this month, **Avnet**, the world's biggest distributor, announced that it acquired **Broadband Integrated Resources, Ltd.**, a reverse logistics provider that specializes in the repair of broadband and cable TV equipment in support of cable operators and manufacturers. Employing about 50 people, Broadband generated services revenue of about \$9.5 million in 2009. The company will become part of Avnet Logistics Services.

"Avnet's acquisition of Broadband

Integrated Resources, Ltd. demonstrates our commitment to expand our services offerings and gives us an entry into a new customer base in North America," wrote Steve Church, senior VP and chief business development and process officer at Avnet, in an email to *MMI*. Previously, Avnet had been providing some reverse logistics services globally. "However, the acquisition of Broadband will enable us to offer reverse logistics repair services to cable operators and manufacturers for broadband and cable TV equipment as part of our Avnet Logistics Services business," he noted.

"With management, systems and processes that have built a successful reverse logistics business, Avnet Logistics Services will gain a proven platform upon which we can expand our service offerings," Church stated in a press release.

From facilities in Columbus, OH, and Dallas, TX, Broadband provides repair services and logistics to cable operators in the U.S., including **Time**

Warner, Comcast and Charter Communications. Repair services cover the breadth of CATV equipment, including line amplifiers, fiber optic transmitters and receivers, and head-end equipment as well as cable modems and set-top boxes.

Before the Broadband acquisition, Avnet's reverse logistics services included a repair depot within Avnet's integration and logistics facility in Chandler, AZ. That repair activity, however, only covers products integrated by the Chandler facility. Broadband will enable Avnet to act as a repair service for broadband and cable TV equipment manufactured by others. This acquisition is similar to the route taken by EMS providers who set up separate AMS units able to repair equipment that the providers did not manufacture.

Does Avnet see itself competing with some of its EMS customers in the reverse logistics space? "Avnet is constantly evaluating ways to grow our business in adjacent markets based on

our expertise, and reverse logistics presents a tremendous market opportunity with room for multiple participants to pursue with a wide variety of value propositions. With the acquisition of Broadband Integrated Resources Ltd., we'll be focusing on providing services to cable operators and manufacturers, companies that are not typically EMS customers," Church wrote.

Arrow Electronics, the second largest distributor, has also made a move in the reverse logistics space. In June, Arrow reported that it completed its acquisition of **Converge**, another provider of reverse logistics services. Converge, which employed 350 people at that time, is organized into three divisions: component distribution, reverse supply chain solutions and IT asset disposition. Headquartered in Peabody, MA, the company has offices in Columbus, OH; Irvine, CA; Singapore; and Amsterdam, along with support centers throughout Europe, Asia and the Americas.

"Arrow's acquisition of Converge complements its global strategy by now allowing it to provide comprehen-

sive services across the entire product life cycle for suppliers and customers. Reverse logistics is a rapidly growing area, and the acquisition of Converge builds on Arrow's global capabilities as supply chain and logistics expert," Mark Romanowski, Converge's marketing director, told *MMI* by email. Providing life cycle services including AMS has become a reoccurring theme in the EMS industry (see also p. 8).

Converge offers customized services for parts supply and total asset management. "While Converge doesn't do repairs, per se, we work with our customers to salvage electronics by refurbishing and remarketing these assets to generate revenue and reduce waste," said Romanowski.

MMI's take

Both Arrow and Avnet have identified reverse logistics as an area worth pursuing. Reverse logistics are also a mainstay of AMS offerings in the EMS industry. Are these distributors, who count EMS providers as important customers, becoming their competitors in the reverse logistics

business? Avnet's CATV equipment repair business serves a sliver of the AMS market and is only a potential threat to an EMS provider that repairs CATV equipment or is planning to do so. And Arrow's acquisition does not include repair.

But both Arrow and Avnet now offer asset recovery services, an area that some EMS providers address. *MMI* believes that at present there is more potential for competition in asset recovery than in repair. Still, EMS companies in the AMS business will likely watch Avnet to see if it expands its repair business into other markets and Arrow to determine whether it will become a factor on the repair side.

These distributors and a number of their EMS customers want a piece of the reverse logistics pie. Perhaps the pie is big enough that the distributors can avoid competing with their EMS customers. On the other hand, if the distributors continue to expand their reverse logistics services, while EMS providers hunt for more AMS business, the chances of one side running into the other go up.

Strategy

Jabil Unveils New Reporting Structure

Reflects company's strategy for the future

Jabil Circuit has changed the way it presents its business to the outside world. The company's new reporting structure now mirrors an internal strategy to rely more on the part of its business with higher long-term growth prospects and a better margin profile. This strategy means putting more resources into a number of high-mix markets including those that are heavily populated by mid-tier and smaller providers. While the new reporting structure gives investors a better picture of how Jabil will operate in the

future, it also sends smaller competitors a message that Jabil will be putting more effort into winning business in their bread-and-butter markets.

During Jabil's fiscal Q3 conference call in June, the company told analysts that it would place more emphasis and investment in a basket of sectors expected to exhibit a long-term growth rate of 20% to 30%. Under the new reporting system revealed during last month's fiscal Q4 call, this group of sectors will be called Diversified Manufacturing Services, consisting of aftermarket services, clean tech, defense and aerospace, healthcare and life sciences, industrial, instrumentation and Jabil Green Point plus unspecified mid-market services and new business initiatives. Jabil has set a target of obtaining 50% of its revenue from Diversified Manufacturing Services in three

to five years. For fiscal Q4 ended Aug. 31, Diversified Manufacturing Services accounted for 33% of total revenue.

The remainder of Jabil's business falls into two new categories, projected to grow at a more modest 5% to 10% rate over the long term. The first one, Enterprise & Infrastructure, contains the computing and storage, networking, and telecom sectors. In the second, dubbed High Velocity Systems, Jabil has put automotive, displays, mobility EMS, POS terminals, printing and set-top boxes. For fiscal Q4, High Velocity Systems represented 34% of sales, while Enterprise & Infrastructure made up 33%. Jabil's goal is to take the combined share of these two areas down to 50% in the three- to five-year time frame.

Given the difference in projected growth rates between Diversified Man-

ufacturing Services and the other two areas, Jabil will increasingly rely on Diversified Manufacturing Services to fuel its growth. "I think it's clear to see that our growth engine is shifting to the Diversified Manufacturing Services area," said Timothy Main, Jabil's president and CEO, during the company's fiscal Q4 call.

In Diversified Manufacturing Services, Jabil gains exposure to several global trends. One, of course, is the outsourcing potential in healthcare and other such markets with low penetration rates. Renewable energy and clean tech comprise a second well-known trend. Another one arises from the demand for more healthcare devices created by aging populations in developed regions. Jabil also sees a big opportunity to take customers' complex products into emerging economies. A final trend involves innovating across the markets that Jabil pursues. "We believe this exposure to the global trends provides us an outsized opportunity for growth and earnings," said Main.

"This Diversified Manufacturing Services [area] will see a more significant capital investment as we move forward, and we're certainly broadening our services beyond our historical boundaries of electronics manufacturing," he said. One way Jabil intends to achieve this broadening is by applying its Green Point know-how in materials to the healthcare, clean tech, industrial and instrumentation sectors within Diversified Manufacturing Services.

With respect to Enterprise & Infrastructure and High Velocity Systems, Jabil's focus is much more on customers and capabilities and much less on markets. The company is seeing complex global order fulfillment as extremely important in these two parts of its business. Jabil believes there are fewer fully scaled, multidisciplinary competitors in these areas. Cost and total value management continue to be a key success factor here, according to

Jabil.

"In Enterprise & Infrastructure, we need to be highly efficient and very good asset managers, and in High Velocity Systems, we really need to focus on making sure that we are being decisive about businesses that we want to be in," said Main. He added that in both areas "we'll focus on being efficient from a cost standpoint and sound asset managers."

In contrast, Jabil will "aggressively pursue market share" in Diversified Manufacturing Services, said Main. Left unsaid was who would be on the losing end of this strategy. Clearly, part of this strategy is to go after OEMs in the healthcare, industrial and instrumentation sectors who need to deliver their products in emerging markets. Smaller providers serving such customers or attempting to win them over may well be vulnerable if these smaller players can't provide an emerging market solution comparable to Jabil's.

While Diversified Manufacturing Services accounted for 32% of sales in fiscal 2010, the area's higher margins meant that it contributed 47% of total profit. That's up from 18% of company profit in fiscal 2006. Profit from High Velocity Systems dropped to 24% of the total in fiscal 2010 from 47% in fiscal 2006. Jabil said fiscal 2010 profits showed better balance and demonstrated growth from areas where it has a competitive advantage.

Fiscal Q4 results in brief

For the quarter ended Aug. 31, Jabil's non-GAAP EPS of \$0.52 exceeded guidance of \$0.45 to \$0.50 and the prior quarter's result of \$0.40. Non-GAAP operating income improved by 19% sequentially, as revenue of \$3.86 billion grew by 12% from the prior quarter. Under the old reporting structure, sales from the company's EMS and Consumer divisions increased sequentially by 10% and 18% respectively, while the sales from

the Aftermarket Services division declined by 4%. Under the new structure, Diversified Manufacturing Services and High Velocity Systems contributed 18% and 12% growth respectively in the quarter, while Enterprise & Infrastructure sales advanced by 6%.

On a year-over-year basis, Jabil's revenue rose 38% in the August quarter. Within Diversified Manufacturing Services, sales from Industrial & Clean Tech and Healthcare & Instrumentation climbed by 51% and 64% respectively.

Non-GAAP operating margin for the quarter amounted to 4.1%, up 30 basis points sequentially and 180 basis points year over year. The former EMS, Consumer and AMS divisions produced non-GAAP operating margins of 5.0%, 2.4% and 8.2% respectively. Under the new structure, Diversified Manufacturing Services supplied a margin of 7.1%, compared with 4.3% from Enterprise & Infrastructure and 1.3% from High Velocity Systems.

GAAP net income for the August quarter equaled \$58.7 million versus \$52.0 million in the prior quarter and \$5.5 million in the year-earlier period.

For the November quarter, Jabil expects revenue to be in a range of \$3.9 billion to \$4.0 billion and non-GAAP EPS to be in a range of \$0.53 to \$0.57. Guidance also calls for non-GAAP operating margin to fall in a range of 4.2% to 4.4%.

For fiscal 2010 ended Aug. 31, revenue totaled \$13.4 billion, up 15% from the year before.

News

Foxconn Refutes Survey Results Reported by Media

Foxconn Technology Group, which is anchored by **Hon Hai Precision Industry** (Tucheng City, Taiwan), has responded to media reports

of a leaked worker survey (which has since been released in Chinese) with the potential to create more bad publicity for Foxconn.

According to published reports, survey findings included excessive overtime, exploitation of interns, a wage increase with reduced benefits, and occupational health and safety issues. Conducted by teachers and students from 20 universities in Asia, the survey polled 1,736 Foxconn employees at 12 plants in nine cities.

In response, Foxconn stated that it “strongly and categorically rejects reports in the Chinese and international media that are attributed to research by academics and students alleging worker abuse, illegal labor practices, and unsafe working conditions at our operations in China.”

Regarding overtime, Foxconn said its policy is to ensure that overtime does not exceed the Electronic Industry Citizenship Coalition guidelines of no more than 60 hours per week and noted that it is working to reduce overtime hours to no more than 36 hours per month, a target for 2011.

As for student interns, Foxconn said it provides a full package of compensation and benefits for them. “While we have found a small number of incidents where interns have voluntarily and legally worked overtime hours, we are working hard to institute a ban on any overtime work by interns,” the company stated.

Foxconn answered other allegations as well. The company pointed out that October wage increases have not included any reduction or elimination of benefits or payments. In addition, Foxconn said it strictly follows government regulations and industry standards to provide not only proper protection to workers but also regular monitoring of the health of workers who may be involved in areas with potential workplace hazards. The company’s response also included its process for handling grievances.

European Providers Now Linked

Last month, **Scanfil plc**, parent company of Top 50 EMS provider **Scanfil EMS** (Sievi, Finland), bought a 32.96% stake in **Kitron** (Billingstad, Norway), another Top 50 provider. The purchase price was NOK 143.9 million (about 18.0 million euros). Through this investment, Scanfil Group wants to strengthen its position and commitment in international contract manufacturing markets.

In addition, Scanfil EMS recently acquired a 40% interest in **Greenpoint Oy** (Pori, Finland) and signed a supply contract with the company. Greenpoint specializes in development of solutions and equipment to drive impulse sales of fast-moving consumer goods.

Acquisition approved... The European Commission has approved the acquisition of **Dell’s** computer production facility in Lodz, Poland, by Hon Hai Precision Industry. This deal was reported here late last year (Dec. 2009, p. 6-7).

Deal done... **Integrated Micro-Electronics, Inc.** (Laguna, Philippines), a Top 50 EMS provider and a member of the **Ayala** group, has completed the acquisition of a majority stake in **PSi Technologies**, a provider of power semiconductor assembly and test services (July, p. 6-7).

Some new business... Hon Hai is expected to produce high-end frameless LCD TVs for **Sony**, reported Taiwan’s *Digitimes*, relying on TV industry sources.... **Advanced Energy Industries** (Fort Collins, CO) has engaged **Celestica**, based in Ontario, Canada, to manufacture two brands of PV (photovoltaic) grid-tie inverter products in Ontario. The contract with Celestica will expand Advanced Energy’s worldwide production capability to meet growing demand for the com-

pany’s inverter product lines for solar-power generation. By having inverter products manufactured in Ontario, Advanced Energy will also meet the local content requirement of the feed-in-tariff program under the Ontario Green Energy Act.... **Elcoteq** (Luxembourg) and a German fan and motor company, **ebm-papst St. Georgen**, have started a relationship for manufacturing in Elcoteq’s factory in Pécs, Hungary. Production mainly consists of manufacturing PCBAs for fan blowers, but the companies’ agreement covers the manufacturing of 10 different products altogether. Ebm-papst St. Georgen is a subsidiary of ebm-papst group.

... **SMTC** (Markham, Ontario, Canada) has begun manufacturing a voice-controlled communication badge for **Vocera Communications** at SMTC’s facility in Chihuahua, Mexico. Vocera will use SMTC’s regional manufacturing site in San Jose, CA, to support the development and introduction of the next-generation badge before the product is transferred to SMTC’s Mexico facility.... **WD** (Lake Forest, CA), which will begin hard drive manufacturing operations in Brazil, is partnering with Brazilian EMS provider **Digitron** to perform manufacturing operations and fulfillment services. Digitron’s high-volume notebook PC assembly and motherboard manufacturing plant in the Manaus Free Trade Zone is being utilized for WD’s products.... **Networkfleet** (San Diego, CA), a provider of wireless fleet management services, has expanded its relationship with **The Morey Corporation**, an EMS company in Woodridge, IL. In addition to manufacturing all of Networkfleet’s telematics-based fleet management hardware, Morey will now take on product design and fulfillment responsibilities, also as a sole supplier.... Top 50 EMS provider **LaBarge** (St. Louis, MO) has landed a \$1-million contract from **LORD Corporation** to produce electronic assemblies for military and ci-

vilian helicopters. LaBarge expects follow-on orders.... A Swedish subsidiary of Norway-based Kitron has received new orders of about NOK 34 million (\$5.9 million) from **Saab Dynamics** for missile control systems. The subsidiary also gained about NOK 26 million (\$4.5 million) worth of new orders from **BAE Systems**. These orders involve manufacturing and technical services for control systems for the Archer artillery project.

Customer withdrawing... Kitron is losing a data/telecommunications customer whose departure will have an estimated impact of NOK 100 million (\$17.2 million) on annual sales.

Alliance... **Technolution** (Gouda, the Netherlands), a developer of electronics and software solutions, and EMS provider **tbp electronics** (Dirksland, the Netherlands) recently formed a collaborative venture called **Techno-tbp**. The venture gives OEMs a single contact point for their design and manufacturing needs.

New facilities... Hon Hai has opened a computer plant in Chengdu, the capital of Sichuan province in southwestern China and one of the locations designated for the company's inland expansion (Aug., p. 1-2), reported China's official *Xinhua News Agency*. This month, Hon Hai indirectly invested \$80 million in the new tablet PC operation in addition to the \$20 million it had already put in, according to a company filing. Total investment for the plant's first stage came to \$299 million, and the price tag is expected to hit \$2 billion, once the second and third phases are finished, *Xinhua* reported. In Chongqing, another southwestern city, Hon Hai indirectly invested \$15 million to begin work on a new manufacturing operation for communications equipment including switching and routing apparatus, the company reported in a filing. Note that **Cisco** has pledged to work with the

Chongqing city government on development of a telecom manufacturing base there (Aug., p. 2; April, p. 1). Hon Hai's inland expansion also includes Zhengzhou in the central province of Henan where the company added \$22 million to its previous \$12-million investment in one mobile-phone unit and \$80 million to the \$20 million already invested in a second mobile-phone unit. The first activity, which has started production in a temporary facility, will mainly assemble **Apple's** iPhone, *Xinhua* reported. Finally, through subsidiaries Hon Hai spent \$50 million toward a new computer chassis and metal stamping operation in Huizhou, located in Guangdong province of southern China.... **Flextronics** (Singapore) has launched its newest Flextronics Computing facility in Wuzhong, China. With over one million ft², the facility provides complete design and manufacturing services for desktops, all-in-one computers, notebook products and tablets (Oct. 2009, p. 4). The company expects to hire more than 12,000 engineering and manufacturing employees for the new site.

New subsidiary in India... Publicly held **CTS** (Elkhart, IN), which does business in components and sensors and EMS, has established a new subsidiary near New Delhi, India, expanding its capabilities in this fast growing market. The company said its new subsidiary will allow CTS to operate with full manufacturing, sales and service capabilities within India.

Canadian Provider Changes Hands

A group of EMS industry veterans led by Paul Walker, the former CEO of **SMTC** and one of its founders, has purchased **Artaflex**, a Canadian EMS provider in Markham, Ontario, whose offerings include product development and commercialization. The terms and

value of the deal were not disclosed.

Joining Walker in the ownership group are Gerry Iuliano, co-founder of Artaflex, and Phil Woodard, who served under Walker as SMTC's COO. Walker has taken on the CEO role at Artaflex, Iuliano is company president, and Woodard has regained his former title of COO.

The new owners were attracted to the high-mix, high-complexity work done by Artaflex in the medium-volume range. They also liked the company's customer list, which includes a lot of military/aerospace, medical and infrastructure type products. "There tends to be margin in those areas," Walker told *MMI*.

He believes that Artaflex has some attributes that separate it from its competitors. With an engineering staff covering multiple disciplines, Artaflex can start with a customer's idea and develop it into a fully commercialized product. For a company of Artaflex's size, that is a "big differentiator," Walker said. In addition, Artaflex developed its own wireless modules and is doing reverse logistics work that is atypical for smaller EMS providers.

Walker and his team are already hunting for other deals. He said, "The Canadian [EMS] marketplace is pretty fragmented," and the company is pursuing consolidation opportunities. "We have a history of doing that [at SMTC] so we're going to do it again," he added.

Artaflex, which is focused on Canada, also plans to extend its market coverage. Walker thinks that New England and upstate New York comprise an achievable target for expansion.

The company's sales are under \$50 million, and Walker describes Artaflex as very profitable and growing.

Walker was originally brought in to advise Artaflex. "For the past four, five years I've been restructuring businesses and getting them fixed and sold. This one we bought, though," he said. It was a deal he couldn't pass up.

Old Sales Pitch in New Packaging

The term life cycle is appearing more and more these days in descriptions of EMS offerings. For providers whose services range from design through aftermarket services, the term gives a company a convenient way to sum up what is being offered. Whether an EMS company positions itself as a life-cycle services partner or a provider of product life-cycle solutions, to cite two examples, the idea is the same – to follow a product from cradle to grave. But does the increasing use of the term reflect a surge in the demand for end-to-end services or a greater focus on selling such services? *MMI* chooses the latter explanation.

While life cycle may be a relative newcomer in the marketing lexicon of the EMS industry, the concept behind the term is not. Providers have been promoting their end-to-end services for years. One could argue that the term life cycle is a glossier repackaging of the same kind of offering. This point may well be correct, as far as it goes.

But for the EMS industry, selling end-to-end services, however they're packaged, is potentially a winning strategy. If a provider can get an OEM to outsource product design or parts of it, manufacturing, fulfillment and aftermarket support all in a single contract,

then that provider would have a chunk of business that won't easily be switched to a competitor. Furthermore, the business would bring in more revenue and higher margins than manufacturing alone would.

On the OEM side of an end-to-end relationship, the customer benefits from having to manage just one supplier for a product line. Such a relationship is also an ideal setup for the feedback of defect data from the repair cycle to design activities in a process for improving an OEM's next-generation product.

But for the most part, OEMs have not adopted the end-to-end model for outsourcing. With respect to the back end, typically one OEM group will choose a manufacturing partner, and another group will select an aftermarket services partner (Sept., p. 2). OEMs can defend this practice by saying that it gives them more flexibility – they're not locked into one supplier – and allows them to pick the best of breed in each category.

One way EMS providers can overcome the best-of-breed objection is to show that both their EMS and AMS offerings are top-notch. The other thing they need to do is convince OEMs that it's worth trading off flexibility for the ease of working with a

single supplier.

This approach has not worked very well in the past. However, a number of providers, especially some of the largest ones, have been putting more emphasis on AMS (Sept., p. 1). Their efforts will lend more credence to a sales pitch for the full range of services from design through AMS. Repackaging this offering with a shiny new label such as life-cycle services won't hurt either.

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