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Phone Home: Can We Trust Telecom Again?

编辑意见

Editorial

Not long ago, I returned from a short haul to Telecom Corridor in Dallas, TX. Pam Gordon, Eric Miscoll and the rest of the staff at Technology Forecasters, Inc. (TFI) were sponsoring another one of their excellent *Quarterly Forums for Electronics Manufacturing Outsourcing and Supply Chain*. And, befitting the location of the conference, a major point of discussion was the telecommunications industry.

As presented in "Outsourcing in Telecom: Finding Value Again," Matt Chanoff with TFI offered up the findings of a survey TFI had conducted with 22 original equipment manufacturers (OEMs) to determine telecom's future in electronics manufacturing outsourcing. But, before we get to the good news, let's wallow a little in the bad.

The downside to the telecommunications industry is, of course, its extraordinary volatility. In the glory days of 1999/2000, capital equipment expenditures in telecommunications ramped up alongside most other electronics manufacturing industries. And, after the huge telecom bubble burst in 2000/2001, EMS providers were left with large inventories of new machines. And, as we all know, they weren't buying more. In fact, EMS providers have only recently started to add more equipment—either genuinely ramping up production or replacing worn machines that aren't performing properly.

As TFI so eloquently put in their fourth quarter 2002 *Quarterly Forum*, the "acquisition binge [of the late '90s] left EMS companies with a triple hangover: integration costs, excess capacity and a geographical footprint skewed away from the lowest-cost manufacturing regions."

So, now that we're in 2004, how much does the telecom industry play in electronics manufacturing's recovery? As the president of a large assembly equipment manufacturer succinctly summed up for me late last year, "This industry won't be back until telecom is back. And that's all there is to it."

With that said, the electronics industry has seen a recently renewed demand for telecommunications. TFI found that it is the third largest outsourcing opportunity, behind consumer and computer electronics, for EMS providers. Telecom is expected to reach a \$200 billion total available market (TAM) by 2007, up from \$150 billion last year. In addition, telecom electronics manufacturing outsourcing is also expected to grow as well. In 2003, telecom outsourcing was around \$32 billion; with an expected growth of 18%, telecom outsourcing is predicted at \$80 billion in 2007.

That's a \$50 billion opportunity in the next five years. Not too shabby.

What's driving this growth? According to TFI, drivers include: more outsourcing of design in this area; a focus on core competency from telecom OEMs; a desire for flexibility—OEMs want to shed more volatility onto EMS partners; fulfillment capability—Flextronics was singled out several times by the surveyed OEMs for its high capability in this area; industry restructuring that's almost over; and, finally, increasing technical competence in EMS partners—for the first time, OEMs feel comfortable outsourcing low-volume, high-mix products.

And what are the factors to watch in this industry? First of all, competition from original design manufacturers (ODMs) may be coming down the pike for the telecom EMS provider. Even though TFI's survey indicated that 93% of its respondents' outsourcing budget went to EMS companies and only 7% went to ODMs, these ODMs could present a future threat to EMS.

One large, multinational OEM respondent said: "ODM is not yet well established in high-end telecommunications." The operative word here is *yet*. The telecom OEM shame toward outsourcing to an ODM—like the kind that used to surround outsourcing to EMS—may one day end as ODM turnkey designs, prices and global footprints become more competitive.

Telecom OEMs consolidating the number of contractors they want to partner with may also be troublesome for outsourcing. The OEMs TFI surveyed indicated that, on average, they define the ideal number of EMS partners as three to four. But nearly all the OEMs stated that they want "fewer [EMS partners] than we have now."

OEMs also mentioned the following areas in which their EMS partners are not satisfying them: quality; communications; on-time delivery; lead times; new product introduction (NPI); design for manufacturing (DFM) and neglecting smaller clients.

Some list. Tell you what, if telecom OEMs work on accurate forecasting and EMS partners work on all of the above, telecom may once again return to the cash cow it used to be. Let's hope it's sooner rather than later.



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