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Building OEM-EMS Relationships

The strongest relationships begin during the sales process and involve the EMS provider and OEM.

The complexity of the electronics manufacturing services relationship creates interesting negotiating dynamics in the sales process. Unfortunately, short-term wins can turn to long-term losses for both EMS providers and their clients. Successful EMS providers have some common characteristics including

- Visible mastery of niche capabilities such as
 - Range of services offered.
 - Regional manufacturing operations.
 - Industries served.
 - Technological expertise.
- Strong vision of their business model.
- Adequate internal resources for that business model (people/systems).
- Financial resources sufficient to support business growth.
- Development of a core customer base aligned with their business model that supports continued growth.
- Service mix aligned with the needs of their target market.
- Good definition of target markets and best fit customers.

Strong OEM selection teams also have common characteristics:

- A clear understanding of project scope and requirements.
- A cross functional team of experts capable of assessing prospective EMS providers' ability to meet project requirements.
- A strong understanding of their business model and a methodology for analyzing prospective contractors' ability to align with that model both immediately and over the long-term.
- A methodology for assessing and comparing the total cost of various options.

Market perceptions can increase the complexity of the process. Some selection teams gravitate toward a "bigger is better" mentality. This is often the case for high-volume projects. However, higher mix, low-volume or smaller projects with high service needs may be

better served through a smaller provider. While predictions of its demise have been around for at least a decade, the mid-tier EMS sector continues to thrive and many of those providers actually grew during the past recession because of their less volatile client bases. Besides a business model that focuses on service and flexibility, many smaller EMS providers depend on customers whose projects would represent insignificant revenue in a Tier 1 provider. Also notable: Strong regional providers are not limited to North America. A number of European and Asian contractors are focused on regional business models vs. developing a global footprint. In some cases, these regional providers have the revenue base, service range and level of vertical integration found in Tier One but are more geographically clustered and may market strongly only in their region.

Ineffective sales processes on the EMS side can also weaken the selection process. Generic capabilities presentations or a focus on price alone often make it difficult for selection teams to understand the actual differences between various EMS options. While customers are normally blamed for a focus on price, price competition often evolves because no clear service or capability advantages are presented by the competing companies.

Market dynamics played the villain in the past recession. EMS providers with excess capacity aggressively priced and chased all business. For customers who were actually a good fit, this price competitiveness was a benefit, but for marginal fit customers yesterday's savings may be today's unanticipated transition costs, as EMS providers with demand upturns tend to return to a more narrow definition of ideal customers as capacity fills. Marginal fit customers tend to see price increases, reduction in flexibility or an actual invitation to move elsewhere.

How can both parties gravitate to a process that generates competitively priced services and strongly aligned business models? For EMS providers, it is important to not only understand the business model internally, but to also translate the outputs into specific customer benefits.

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Typically, EMS providers develop expertise in one or more of these areas:

- Service.
- Systems/infrastructure.
- Manufacturing.
- Product lifecycle.

EMS providers with clear internal competency goals decide on their key areas of focus and market “packages” of services in these areas. OEM decision teams with mature EMS provider selection methodologies often shop for EMS providers with clusters of competencies best aligned with their project requirements. Having capabilities clustered in specific service packages makes it easy for selection teams to understand degree of fit.

For OEMs, it is important look at the long-term aspects of the relationship. For example, working from a detailed cost matrix can result in a very competitive unit price in a market with several good EMS options. However, the unit price concessions can easily reverse later in the program if demand increases unexpectedly and the choice is to either pay a higher price or lose market share for lack of product.

Selecting EMS providers with the optimum mix of required services required helps ensure a focus on lowest total cost. Cost matrices focused on analyzing elements of unit price can neglect hidden cost drivers in projects with complex requirements; a good cost analysis model identifies needed areas of support. Hidden cost issues that commonly arise in this area include:

- Costs associated with changes in project scope.
- Costs (for both EMS provider and customer) associated with project transition.
- Costs associated with degree of schedule flexibility required vs. assumed in the bid.
- Costs associated with frequent engineering change orders.
- Costs associated with working at a distance.
- Costs associated with variations in amount of project support actually performed by the EMS provider.

Contract negotiation should be a time for both parties to work on structuring a mutually beneficial relationship. As some of the examples suggest, in a long-term complex relationship, negotiating advantage shifts between the parties over time. A big win motivates the other party to maneuver to regain advantage. A partnership orientation that recognizes that both parties have internal goals for maximizing profit and reducing waste is the best way to ensure a strong long-term relationship.

Specific activities in the sales and selection process that build that strong foundation include:

- Focused plant tours that allow selection team members and the EMS support team to discuss specific

project issues and solutions.

- Detailed quoting which reflects accurate RFQ documentation and very specific pricing responses.
- Discussion of contract terms during the selection process.
- Detailed transition issue planning during the quoting/selection process.

The strongest relationships evolve from teams committed to achieving mutually beneficial project goals and who have good working relationships, excellent communication practices and a clear understanding of the total cost structure. Identifying these potential partners is an important part of a good sales and selection process and involves effort on the part of both EMS provider and OEM. The long-term advantage can be competitive price and superior responsiveness. ■

Bibliography

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