

# INsight

A Venture Outsource publication

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September 2006

## Industry pulse

*Flextronics recently announced* the Company is acquiring small form factor display maker, International Displayworks, Inc. The move will allow Flextronics to offer a more integrated solution that adds LCD modules to its current camera module, TV tuner, and wi-fi capabilities. The Company is gaining traction with its vertical model and is also being added as a third supplier for Juniper Networks.

*Foxconn announced recent solid* financial performance. Company long-term secular growth remains attractive. Earnings per share are up 95% y/y and 18% q/q. Some of the changes happening with the Company include an increase in R&D spending and a product mix shift to include more lower-margin game consoles.

*PCB manufacturer TTM's recent* acquisition of Tyco's PCB operation makes TTM the single largest military supplier of printed circuit boards. The move also causes no customer overlap for TTM.

*Bear Stearns recently announced* seeing a buildup trend in inventories in the industry. Findings indicate EMS inventory days and inventory/sales of 51% and 13.2% respectively are the highest since March 2002. A concern Bear points to is the buildup is ahead of anticipated decelerating growth. One perspective supported by discussions among those in industry is some OEMs are convincing their EMS

partners to carry more inventory to satisfy any potential upsides, without having to pay for the convenience. Holding this excess inventory could hurt near-term financial performance metrics for certain EMS companies.

## Five minutes with...

*INsight* talked with Douglas P. Colbeth, president, CEO, and chairman of the board with operations performance management company, Kinaxis Corporation. Transcripts from that discussion follow.



Douglas P. Colbeth  
President, CEO, Chairman of the Board  
Kinaxis Corporation

**INsight: What major changes do you see taking shape in the electronics industry that might impact the way electronics contract manufacturers (CMs) and their technology OEM customers interact?**

**Colbeth:** There are two undeniable trends in the electronics industry today; increasingly aggressive consumer demands and the pervasiveness of manufacturing outsourcing as OEMs focus on their true value and core competency.

With endless competitive product options, consumers today are clearly in charge. OEMs must be empowered to quickly respond to their vigorous and volatile demands or, someone else will.

At the same time, outsourcing has increased the complexity of the OEM enterprise and has moved management of critical operations outside of its four walls, creating an extended supply network comprised of a multitude of geographically-dispersed sites and/or partners using disparate data systems that were not designed for a highly dynamic and interactive environment.

So, the need for responsiveness has never been more critical to success, yet, for most, it has never been more difficult to achieve.

Establishing responsiveness in this environment requires effective coordination between the OEM and their CMs, enabled by multi-enterprise visibility (consolidated data across internal and external supply chains) and collaborative decision-support tools (real-time "what-if" simulation capabilities). It's about creating a better balance where manufacturing operations are managed by CMs and

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suppliers, but brand owners are able to actively coordinate activities to ensure the desired outcome.

**INsight: In the fast-changing world of bringing electronics products to market, OEMs and contract manufacturers are constantly tasked with making sure any last-minute product changes are applied to the most recent product revision. What do you see as some of the primary challenges this scenario presents and, how does Kinaxis address this?**

**Colbeth:** A key challenge is to coordinate the introduction of new products or product changes in a way that minimizes inventory risk while continuing to meet demand. With our *RapidResponse* on-demand service, users can instantly model multiple “what-if” product revision scenarios and cut-in dates to accurately pinpoint procurement needs/schedules and optimize use of existing inventory.

This type of activity is what *RapidResponse* is about – offering multi-user, collaborative “what-if” capabilities that traditional technologies like ERP, other planning solutions, and even Excel, were not designed for.

**INsight: Inventory liability is on the mind of every manufacturing supply chain executive. Can you briefly discuss some of the ways you see industry executives within contract manufacturers, and their OEM counterparts, resolve exposure in an equitable manner?**

**Colbeth:** When it comes to inventory liability, the resolution process can be incredibly time-consuming and oftentimes quite turbulent, causing tension between parties. We’ve heard countless hair-pulling stories. With the onset of strict regulation requirements, “creative” ways to managing this are no longer acceptable.

Inventory liability must be managed in a reliable, consistent and mutually-agreed upon manner. We offer tools that accurately calculate current and historical liabilities, as well as the projected liabilities, associated with any “what-if” scenarios.

And of course, through effective response to volatility in supply; demand, and product, you can proactively manage inventory to avoid much of the liability in the first place.

**INsight: The electronics marketplace continues to experience increases in demand volatility. What are your thoughts on how OEM’s and CMs can best cope with these realities?**

**Colbeth:** At the risk of sounding like a broken record, I believe it all goes back to responsiveness – empowering OEMs and CMs with multi-enterprise visibility and collaborative decision-support tools to respond to change with speed and confidence.

Also critical is to put those tools into the hands of the very people dealing with the unexpected events and, whose resolution dictates success or failure.

When faced with a demand change, front-line decision makers inside and

outside the enterprise must be able to have instant access to the information required to understand the impact and the corrective options available.

At the end of the day, coping with unexpected changes comes down to a series of tradeoffs and compromises that people need to make together, based on the best information available. By having the right tools and technologies, OEMs and CMs can enhance supply chain coordination to drive significant breakthroughs in customer service and operating performance.

**INsight: Will you please share with our readers a personal experience that taught you an important lesson in life you've been able to carry over into your professional life as an executive?**

**Colbeth:** As a child I had to adapt to very different living experiences due to my father being a military person before he transitioned to a civil government worker. We lived in various remote areas and eventually settled just outside New York City.

As I graduated college, I began to believe people who are adaptable would do better in life. However, I also learned most people do almost anything to avoid change unless they are made to understand why it is necessary.

Likewise, I believe those companies which can adapt the best will be most successful. This is especially true today for electronics companies,

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where change is a permanent way of life, and those who can adapt will win.

So, given that fundamental belief, it is personally satisfying to lead a company that's mission is to empower companies and their people to both understand change and respond better to it.

**INsight:** Thank you, Doug.

**Colbeth:** Thank you.

## Trends & observations

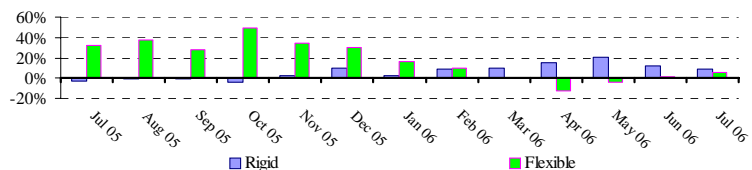
Venture Outsource presents two lean manufacturing outsourcing seminars lead by *Sr. Consultant & Lean Practitioner*, Eric O. Olsen, Ph.D. (Sept. 20-21, San Jose). Joe Kane, Associate Dean for University of Toyota, says "Dr. Olsen's work with the University of Toyota, Toyota's Corporate University, provides students curriculum in the principles of lean and *The Toyota Production System* ...adding value to students way beyond their classroom experience." The event is sponsored by Kinaxis, Standard & Poor's Vista Research – Society of Industry Leaders, and Shingo Prize – Excellence in Manufacturing. To learn more and to register, visit: <http://ventureoutsource.com/events/conferences/leanmanufacturing.html>



## Rigid & flexible PCB shipments

Source: IPC - Association Connecting Electronics Industries®

Rigid and Flexible Printed Circuit Board (PCB)  
Shipments Y/Y Growth Rates  
(% Change/Month)



The above graph for rigid and flexible PCB shipments is generated from IPC's monthly PCB industry statistics based on data provided by a representative sample of both rigid and flexible PCB manufacturers in the USA and Canada. IPC provides the information to Venture Outsource Group each month for publication in *INsight*. Statistics for the previous month are not available until the last week of the following month.

Register for *INsight* here: <http://ventureoutsource.com>

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