

*A global product company saw increased competition and considerable price erosion coming in its high end/high margin business. The company wanted to explore the possibility of reducing cost by moving the manufacturing to China.*

*MTEK helped the client to develop a new strategic direction for its supply chain and created a shortlist of five alternative manufacturing partners aligned with their new strategy.*

## SOURCING STRATEGY AND EMS SELECTION

Our client faced increased competition and saw considerable price erosion in its high end product and high margin business segment. In addition, deliveries and cost control from its manufacturing partner was not satisfying.

MTEK was asked to identify, evaluate and create a short list of alternative EMS suppliers (Electronic Manufacturing Services) that could meet the client's strategy, business goals and sourcing requirements.



## CLIENT BACKGROUND

The client makes high end products for customers in more than 45 countries with a total turnover of +50 MEUR. The company has a strong market position and a well recognized brand.

The client's customers are professional users who require a high service level and expect short delivery times. Quality and reliability of the products is very critical. The product mix is high and demands project related causing the supply need to be volatile. The client also has a strategic plan that involves expanding its product range into the low cost and high volume market.

The client's supplier base is a mix of low cost country and European based high technology providers. Their current EMS was based in Europe.

## MTEK ACTIVITIES

MTEK divided the assignment into three main parts:

- *Identification of Requirements*  
Reviewing the client's strategy and company goals, market and customer requirements, client's business model, sourcing contracts and supplier governance models.
- *EMS Analysis*  
Reviewing the client's current EMS business, general requirements on EMS and review of the EMS market for potential suppliers.
- *Evaluation and Conclusion*  
Linking the client's strategy and business requirements to a shortlist of EMS suppliers with a strategic fit for the client. Presenting a report with a plan for suggested steps ahead.

## KEY ACTIONS

The supplier selection program included a number of actions; this section presents the ones that had the largest impact.

### **The Strategic Fit of the Supplier**

MTEK met with the CEO and CFO to review the strategy and market activities, financial and business goals. MTEK also interviewed the head of sales to understand the market and customer requirements. Discussions with the development and supply requirements regarding the R&D and sourcing organization also took place.

From these discussions and the analysis of sourcing contracts and measurements in supply chain, it became clear that product cost should not be the primary focus for selecting a new EMS. Instead, product quality and flexible deliveries to customers were identified as the critical success factors from a sales growth and profitability point of view, both for the current product offerings and for future high volume products. Good control of the manufacturing process as well as efficient sourcing capabilities was identified as the most critical criteria and focus area for the selection of EMS partner.

### **Low Cost Country**

Given the geographical location of the client's customers, China was not considered as an optimal solution from a delivery perspective as it would cause longer lead times and less flexibility in supply of products. Also from a cost perspective MTEK's business case showed that moving the production to China would result in 18% lower unit price, but the landed cost per unit would be 12% higher compared to today's European based manufacturing. Moving production to China would also have a very negative impact on the client's work-

ing capital. Instead, MTEK concluded that a European low cost alternative would best meet the product cost requirements (for fairly high manual labor content), working capital requirements and the need for flexible and quick deliveries to the market.

### **Product Demands**

Many of the products developed by the client have a rather high content of mechanical parts. That consequently put demands on the EMS to be familiar with the different aspects of material sourcing, quality demands and assembly of mechanical parts.

### **Service Level and Governance**

The client had little or no background in manufacturing or outsourcing. Most of the R&D organization had no experience in design for manufacturing. Client would benefit from an EMS supplier capable of generating assembly instruction and have a rigorous NPI-process that can be fit into the client's product development model. The client would also benefit from an EMS supplier with strong test development capabilities.

To secure cost control and delivery flexibility the client had a need for an EMS supplier with a purchasing department focused on total cost and short lead time, instead of price per part. In addition, a clear interface on how to handle the clients forecasting models and materials authorization in order to optimize deliveries and minimize material liabilities was of essence.

As the EMS would form an integral part and be business critical for client's sales and brand, implementing an efficient governance model would be imperative. In such case the client would benefit from working with an EMS with pro-active customer support, similar

company culture and stakeholders located geographically close to the client.

In summary, in order to secure product quality and flexible deliveries, the shortlisted EMS needed to meet the following profile:

- High manufacturing process quality.
- A possibility to perform flexible deliveries.
- Professional sourcing organization.
- Mechanical sourcing and production familiarity.
- Ability to implement an efficient governance model.

### **IMPACT**

MTEK utilized its global network to identify a list of companies with the correct profile for the client.

The client received a report with the suggested steps ahead for the client based on their strategy and business goals which gave the following impact:

- A new strategic direction for the client's supply chain.
- Deeper understanding of the company's value proposition and priorities.
- A clear alignment between sales and supply requirements.
- A list of five potential EMS partners with the correct profile.

The assignment took MTEK four days to perform.