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Success factors in outsourcing

The high-tech industry is outsourcing more and more work – high-value work for technology specialists, which involves the supplier taking on increasing responsibilities and so ‘taking away the worries’ of the customer.

High-tech machine constructors are increasingly focusing on their core competencies. They want to focus on what they are good at and what makes them unique. The rest they outsource to skilled suppliers. For instance, OEM companies like ASML want to focus primarily on the lithographic process. Over time, they have acquired more and more peripheral disciplines: mechatronics, electronics and software. In the race to make things smaller, more accurate and faster, ever higher demands are placed on electronics and software. The peripheral disciplines have become so specific that OEM companies are bringing in external specialists to cover them: design agencies and producers specialising in technological niche markets. In this way, a chain of suppliers is created. Customers put in a lot of effort make this supply chain transparent. They want to know where the costs and risks are and how best to organise them. If everything fits together properly, production is a moving train of companies. The trick is to connect all the carriages together properly and keep them on the track. To achieve that, OEM companies look for strategic partners: professional suppliers who are flexible, technically and financially solid and can offer sharp pricing. High-tech companies compete in a global market and cost reduction is always high on the agenda. So suppliers will always be asked if they can do things even more cheaply.

Application knowledge

In order to meet all these wishes, the supplier needs to have some application knowledge of the OEM partner. He must know and understand the customer's product and market. A supplier for ASML, for example, needs to understand that its market is highly dynamic and can be pretty hectic, which demands the capacity to adjust at lightning speed. If you can't cope with that, you shouldn't be there.

Building up a partnership with an OEM partner costs a company a lot in terms of money and effort. You need to learn the terminology used in the company and understand its culture and mentality. So an initial quotation process for an OEM company is something of a trial-and-error exercise, in which you make a number of quotations until you grasp exactly what the customer wants and you are really on the same page. Since establishing a good relationship with an OEM company is a relatively big investment, the supplier wants to

have long-term relationships. Because when you are used to doing business with each other, communication becomes much easier.

Specifications are the foundation

In order to make a good quotation, it is important as a supplier to get involved in the project at an early stage – preferably already when the specifications are being drawn up. After all, you first need to understand the problem properly before you can explain it to someone else. By taking part in the specification process, the supplier can himself contribute ideas about the actual problem and help decide on fundamental choices to be made. Indeed, a smart OEM party will turn the process on its head and have the supplier draw up the specifications. By drawing up good specifications, the supplier proves his qualities and demonstrates that he can realise the project.

The other extreme is also possible: the OEM presents a concrete plan for what the solution is to look like. In this case, the OEM is outsourcing the solution and not the problem. It means he is not making use of the supplier's creativity and knowledge, so the supplier cannot make the best solution and his added value is limited.

Politics and communication

A supplier will usually be smaller than the OEM. This has consequences for communication and political sensitivities. However good your contacts with the customer's technical people, they are usually not the final decision-makers. You may be in complete agreement at the technical level, but politics also plays a role. You might have to deal with a director who once had a bad experience with a particular technology and 'so never wants to use that technology again'. Or a purchasing department who have their own ideas about particular technologies or solutions. Within an organisation, there can be all kinds of issues which you as supplier know nothing about, so communication is essential. Likewise, many misunderstandings can arise through mistaken perceptions or interpretations. Good communication can dispel fears, misunderstandings and prejudices. Communication also means being present at important project meetings of the customer. These may address matters connected to your project and it is naturally a



good thing if you hear about them first-hand and are able to contribute to the discussion. Naturally, the supplier also has the responsibility to raise problems or point out when the planning is not achievable.

Focus on core competencies

Suppliers for high-tech companies often have specific, high-value expertise. That is their strength and it is what makes a company unique. Focusing on your own core competencies gives you a high added value for your OEM partner. You know what you are talking about. That is why it is important to do your own R&D; to build up your own expertise and as a calling card which can serve as a way in for joint R&D with the OEM. Conducting joint R&D means working on a long-term relationship with your customer. You are investing in the future together.

Design & production

R&D is interesting, but what the customer is really interested in is the end product. The rest is the responsibility of the supplier, including the contributions of his subcontractors. A 'design house' that does not do its own production is nevertheless responsible for the manufactured product. What they develop must be able to be manufactured to a high standard and affordably. Knowledge of production is therefore indispensable to a designer. Cooperation with the producer is also a critical factor. Ideally, you want to be sitting down with

the manufacturer right at the start. He will be able to give you tips for small adjustments that can save extra work or costs in production. The designer and producer can together work out the test strategy during production, building into the design the option of conducting cost-effective interim tests during production. All of this results in an optimum production process and robust products at the lowest cost.

Synergy

Besides concrete, demonstrable matters there is also a fair degree of psychology involved in a partnership, often referred to as synergy. Does it click between you? Do you look each other in the eye? Do you let each other speak and do you dare to ask critical questions? Do you do what you have promised to do? Are you conscious of the customer's implementation difficulties? Things which are not written down in any project plan but which can make or break a successful collaboration. If both parties communicate honestly and openly, free from politics, you will be making rational choices. In a good, durable relationship you know each others strong and weak points and you can talk about them openly. 'What can we do better, what can you do better?' After all, both parties want a long-term relationship. This is only possible with mutual trust and crystal-clear communication.

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OEM market trends

- Increasing product requirements (financial, logistics etc.)
- Flexibility and application knowledge at supplier is essential
- Long lasting relationship
- Pressure on cost reduction through the network chain
- New requirements for system suppliers
- Impact of customer requirements on the supplier process
- Impact of market globalizing
- OEM industry is concentrating on their core business
- System Engineering requires specific specialism
- Competition within the supply chain
- OEM industry will reduce the number of suppliers
- Suppliers are reducing the number of suppliers in their chain
- Suppliers are going back to their core business
- Reduction of capacity in terms of Engineers and Suppliers

