



Speaking of Business Management

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Electronic Manufacturing Trends in the United States

Each of us has a perspective on “where we think the country is going regarding the trends in electronic manufacturing. Last month I posed that very question to 700 EMS executives across the country. Below, are the general thoughts and some specific comments made by many of these executives, as we in EMS look to the second half of 2007.

What’s Gone? - Clearly the commercial high-volume manufacturing market has gone to Asia (China, Singapore, Malaysia, Vietnam....) with some of the mid-volume manufacturing going to Mexico. This is no surprise to most people. What is not common knowledge are the engineering positions and competencies that we have lost. We in America would like to believe that we have exclusive rights to creativity and innovation. One only needs to look at companies like Sony to see otherwise.

What’s Going? - Joseph Fjelstad (CEO of SiliconPipe Inc.) says: “Loss of manufacturing may well lead ultimately to the loss of competitive edge the U.S. has enjoyed in innovation. This is because manufacturing innovation typically thrives best in proximity to manufacturing, where manufacturing challenges present opportunities for improvement in a way that manufacturing research laboratories cannot duplicate. Though the U.S. has a long history of creativity, owing to its nurturing environment, it does not have a lock on creativity. If the trend continues, as it has, and the U.S. divests itself of an even more significant amount of its manufacturing, (beyond prototype and small production runs), risk to the security of the country is something that will need to be deeply considered by political and business leaders.”

The Tier I EMS companies are driving the price and profits of electronic manufacturing down for everyone. The profit margins

are so small in volume manufacturing that one miscalculation can have a significant impact to the bottom line profits in consumer electronics. No other industry has seen such an increase in performance and a decrease in price of its products.

What’s Here? - The margins and America’s competencies are in the niche markets. Ron Lasky (professor Dartmouth College/ Senior Technologist Indium Corp.) says: “Contrary to conventional wisdom the US has vibrant electronics manufacturing. The manufacturing is mostly in high value add processes like IC manufacture, medical, or military assembly. According to Prismark, 34% of all ICs are manufactured in the Americas. So the good news is that the bad news is wrong. We make things where money is to be made, we don’t make things where there is no money to be made (consumer electronics).”

Capital Market Perspective - Raymond P. Carpenter (VP, Southwest Securities, Inc.) says: “the last two years continues to be the private regional Tier II and III EMS providers’ propensity to take a regional approach to expanding nationally, through acquisitions, into incremental high growth areas of the United States. That is, many of these newly acquired entities remain regionally focused on the customer and are not fully integrated with the acquirer. Furthermore, these acquirers are primarily fixated on acquisitions that bring low volume, high mix customers in industries that provide the best opportunity for superior returns on capital and that remain under-penetrated. These opportunities include the military and aerospace market, the medical market and the industrial segment. The aforementioned target industries are viewed by many as defensible niche areas of growth and profitability that will primarily remain out of the hands of China and other

low cost regions of the world because of two inherent traits; (1) the necessity to be close in proximity to the customer; and (2) the high complexity involved in manufacturing. The benefits of this strategy are many. First, the newly acquired entity remains very close to the customer, both in

proximity and relationship, providing for more personalized and more dynamic service. Second, although in many instances the acquirer and target are managed separately, they may take advantage of economies of scale related



“Making money in electronics: knowing what people will want, then giving it to them before your competition.”

to combined purchasing power of components. Finally, improved diversification of the customer base and the ability to leverage new and exist-

ing relationships offers both lower risk profiles and top line growth opportunities.”

The American Spirit - “The U.S. has 5% of the world’s population yet we consume 40-45% of the goods and services provided on the face of the earth. There has been more change to our lives in the last 20 years than in the prior 100 years. Those companies that anticipate the direction of the global market, will make money” says David Mahmood (Chairman of Allegiance Capital Corporation).

America has significant challenges ahead regarding its position in the world market of electronics. I remain hopeful that our creativity and resourcefulness will open areas of growth and international competitiveness.

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