

HEARST ELECTRONICS GROUP ADvantage News

VOLUME 7

Accountable Media for Accountable Marketers

Welcome to Hearst ADvantage News, April 2007. Your resource for what's going on in the electronics industry.

In our Economic Outlook from Technology Fore-casters Inc., Bruce Rayner discusses his findings on out-sourcing trends among fast growing OEMs. According to TFI's research, small and mid-tier companies, especially entrepreneurial, high-growth companies are turning to contract manufacturing.

In this month's Spotlight Greg Evans, Chairman and CEO of WelComm talks about the challenges an agency faces when serving electronic OEMs. Greg answers the question: "What advice would you give to manufacturers on how to structure their media strategy?"

Research: See a preview of a new study conducted by the Hearst Electronics Group on Memory Awareness. This study was done to gather information from engineers about their perceptions of various memory manufacturers. Also, Electronic Products China introduces their first Supplier Interface Study. Learn about the engineers need for product information, services and how and when they interface with suppliers.

What's New at Hearst Electronics Group? Check out the best way to receive ROI for your print ad in Electronic Products magazine with www.EPInfo.US. See the latest blogs at SemiApps.com. Hearst teams up with a new vendor ReprintBuyer.com, to service all of your reprint needs.

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**Do you want to appear in our Spotlight?
Report news on the Electronics Industry?**

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Accountable Media for Accountable Marketers

Outsourcing Trends Among Fast Growing OEMs

Contract manufacturing not just for production anymore

By Bruce Rayner, *Technology Forecasters Inc.*

Reports on manufacturing and design outsourcing typically focus on the top-tier electronics companies such as Apple, Cisco Systems, Hewlett Packard, and others. But they are not the only ones tapping contract manufacturers. Small and mid-tier companies, especially entrepreneurial, high-growth companies, are increasingly turning to contract manufacturers – and not just for production, according to a recent research report by Technology Forecasters Inc. (TFI).

Collectively, the thousands of electronics OEMs with annual sales below \$1 billion produce about \$140 billion worth of products and represent about 13 percent of the total global electronics market. About half are in the computer and consumer sectors of the market with the remainder split between communications, medical, automotive, industrial and aerospace/defense equipment.

Many of these companies are relatively young and started life with an idea for a new design or technology; they never had any intention of building factories to manufacture their own products. Instead, out of the gate, they turned to contract manufacturers for prototyping and production.

TFI's research findings included the following interesting trends among this sector of the market:

- **Printed circuit board assembly (PCBA) outsourcing** appears to be the norm among smaller, fast growing electronics OEM, however, many also outsource parts of their product design.
- **Cost, quality, and protection of Intellectual Property** are the major challenges faced by the smaller OEMs outsourcing.
- **Cost reduction, flexibility, and reduced cycle time** are the three main reasons they outsource.
- **China and Southeast Asia** are the primary areas cited by these small companies for production expansion.

Based on the interviews TFI conducted, the outsourcing of PCB assemblies among these small, high-growth OEMs may have reached a saturation point. Currently the firms surveyed outsource PCB assemblies over 90 percent of the time. That's because internal production of PC boards is not justified in their business model.

Outsourcing in other services areas is not as prevalent. Opportunities exist for these contract services, but they lie outside the traditional PCB assembly manufacturing scope. Sub-assembly and final assembly are

now outsourced about 35 percent of the time, according to the survey sample. Likewise they are using contract services 21 percent of the time for shipping final products to customers or distribution centers.

TFI asked these OEMs what they considered to be the most significant challenges they faced in outsourcing electronics. The issue of cost management appeared at the forefront with quality close behind. (**See Chart A**). As might be expected among smaller, fast-growing companies, the risks associated with protecting intellectual property is a major concern as they look to outsource manufacturing.

An unexpected finding was the willingness among this group of companies to outsource design. Approximately 15 percent of their design activity is outsourced. In some cases, the outsourcing of design was seen as a short-term strategy; the in-house design teams simply didn't have the bandwidth to handle the volume of design work. Outsourcing design allows them greater flexibility as they grow the business. However, the OEMs TFI interviewed indicated that they plan to decrease the outsourcing of design as they add internal resources.

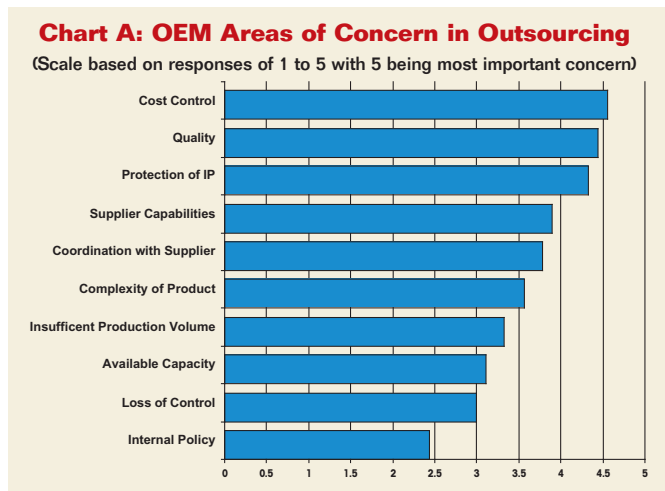
"We see product design as one of our core competencies and we want to move more of that in house," said one consumer OEM executive.

An issue large OEMs have been grappling with for over a decade is the shift of manufacturing to low cost regions. Increasingly, smaller OEMs are facing the same challenges. The tremendous economic growth in the developing nations of the world such as India and China creates a boom in consumer spending in these areas. To serve these untapped markets, companies will, by necessity, need to develop strategies for serving these growing markets, which typically include locating

production and distribution operations close to these markets.

When we asked the survey respondents where they were considering outsourcing in the future, China and Southeast Asia were the predominant responses. Although all the companies interviewed were headquartered in either the United States or Western Europe, they showed a distinct preference for outsourcing to low-cost countries in Asia. Even those companies that currently serve the US market and use only a domestic supply base said they could not ignore today's global marketplace.

For more information on this report and other Technology Forecasters Inc. reports go to www.techforecasters.com or contact Bruce Rayner, TFI's vice president of consulting and research, at brayner@techforecasters.com



Greg Evans

Chairman and CEO of WelComm

Talking Mar-Com Strategy

Q. What are the most complex challenges your clients face today?

A. The electronic OEM is an extremely competitive, fast-moving, global marketplace. Design and development will often take place in one part of the world; manufacturing in another; consumption in yet another. In some cases, the development cycle for complex electronic components and sub-systems can be longer than the life-cycle of the end product. So the challenges facing our clients are to understand the trends in marketplace and the advances in technology; to bring new products to the marketplace in a timely fashion and to communicate the benefits and features of their product offering to a global market.

Q. How does WelComm try and meet those challenges?

A. I used to believe that the basic work we perform for our clients has remained constant, namely, to elevate and sustain the awareness (and we hope, preference) of the market of our clients' products and services. In the most fundamental way, this objective hasn't changed in the nearly 25 years we've been in the business. But what has changed, thanks to the interactive nature of the electronic media, our work is now often part of the sales "dialog."

I have always promoted the notion that effective marketing communications serves as a "surrogate sales call." Good advertising, for example, always promotes the benefits of the product and always includes a call to action. But with traditional print media, the response to the call was limited and often delayed. With electronic media, we are often engage in an interactive dialog that may actually lead directly to closing the sale.

Q. WelComm prides itself on its technical expertise, why do you think that is so important today? Does it provide you an advantage in the marketplace?

A. Effective marketing communications has as its objective the clear presentation of the benefits of a product or service. We are fond of saying that it's not the "what," it's the "so what" that we need to get across. Digging out the "so what" frequently requires a technical understanding of not only the product but of the competitive alternatives.

WelComm has never wavered from its focus on the electronics industry because this is where we have significant value-added to offer our clients. My business partner, Mat Naraghi and I are both Electrical Engineers and our senior staff has spent their entire career working in this area. As a result, we usually get it right and right away.

Q. WelComm goes way beyond the "typical" ad agency services by providing not only media and advertising but PR, web services, collateral, trade shows, etc. why did you elect this strategy?

A. We understand the idea that a marketing communications program, to be effective, must be an integrated effort. It is the public face of each company's marketing strategy. Some firms are starting to use the term "tactical marketing" to describe their marketing communications function.

There are real synergies that result from taking a holistic approach to marketing communications, particularly in the EOEM. Because we have focused our business on the electronic OEM, we can effectively provide a range of services that are often outsourced to

Interview with Greg Evans (con't)

specialists. Media buying agencies typically buy media over a range of markets and media; graphics design shops and web designers will work with an array clients. These folks do great work...we use them ourselves...but they put the burden back on the client to get the messaging right. As technologists, we are able to translate and integrate the marketing messages into effective ad copy as easily as well-written editorial. Our specialization is technology marketing.

Not all of our clients make use of the services WelComm offers. Some use us principally for PR, others for media planning and management, still others for web development, graphics design, or tradeshow management services. But even when this is the case, we strive to work closely with our clients and their other suppliers.

Q. What advice would you give manufacturers about how to structure their media strategy?

A. I think the most important ingredient in a media strategy is balance. Print media alone is not the answer; online media on its own will not bring optimum results. My advice to manufacturers is to use care in creating a balanced program to serves to reach your customers at the key points in the design and procurement process with the information they need. This is

simple to say, but not really easy to implement.

My last piece of advice...Since practically everything you do in your marketing communications endeavors results in visits to your website, please be sure there's a "there" there. I am amazed at how frequently a manufacturer's website will be slow to load, difficult to navigate and unresponsive to customers' needs. So please invest the necessary effort to produce a website that reflects your company and its products.

About WelComm, Inc: WelComm is a full-service marketing communications firm exclusively serving high-technology, business-to-business clients. WelComm's clients include market-leading firms in the electronic OEM including Fairchild Semiconductor, Tyco Electronics – Raychem Circuit Protection, Taiyo Yuden (USA), Inc., and FutureLogic, Inc. **You can reach Greg Evans at greg@welcomm.com**

This interview was conducted by Susan Mulcahy of Channel Media & Market Research. You can contact her at susanm@channelmediaco.com

Supplier Interface Study: China

NOTE: To see the equivalent Supplier Interface Study for the U.S. Market:
Contact Steve Cholas at scholas@hearst.com

Electronic Products China is pleased to introduce their first “Design Engineer and Supplier Interface Study”. The purpose of this study was to gather information from engineers in China about the need for product information, services and how and when they interface with suppliers.

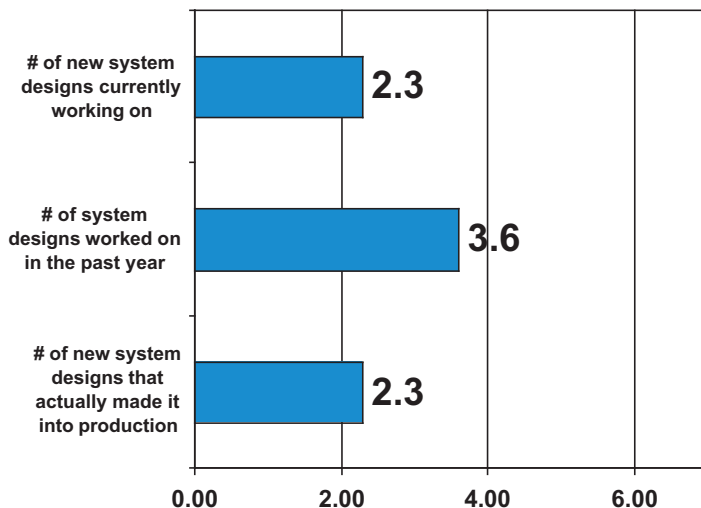
Methodology:

The study was completed by December of 2006 in the local language. Results were tabulated and compiled by Electronic Products China. As of the end of December 2006—**456** surveys were returned and included in the tabulation. Results are contained in this study.

How many Designs do Engineers in China Work on?

- Q.** How many new systems designs are you currently working on?
- Q.** In the past year how many new systems designs have you worked on?
- Q.** In the past year how many of those new system designs have actually made it into production?

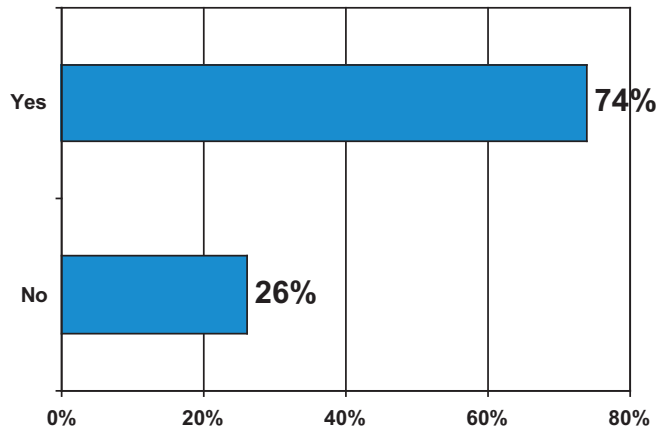
(N= Mean #)



Engineers in China are currently working on 2.3 designs. The average engineer has worked on 3.6 designs in the past 12 months.

For more information on the Supplier Interface Study: China, contact Steve Cholas at scholas@hearst.com or your local rep at www.HearstAdvantage.com

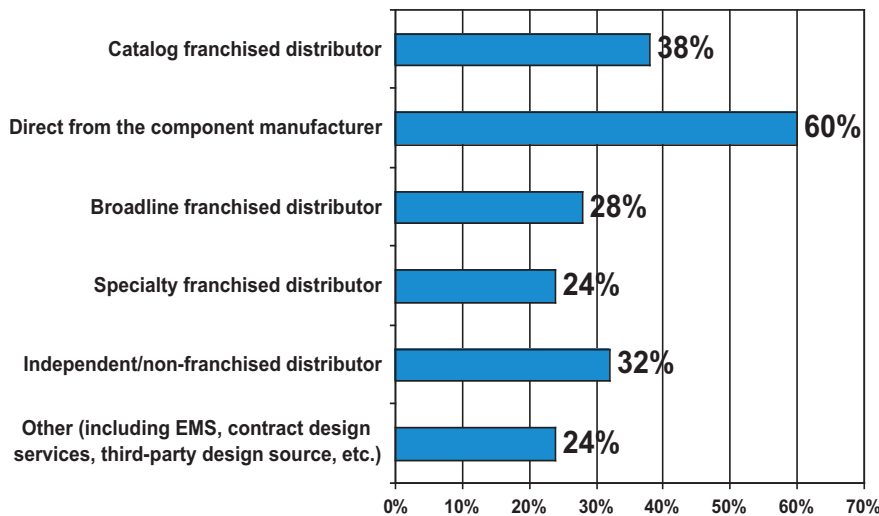
Source: Hearst Electronics Group Supplier Interface Study/Channel Media & Market Research, Inc.



Engineers in China Purchase Products

Q. In the past 6 months have you purchased electronic components from any channel?

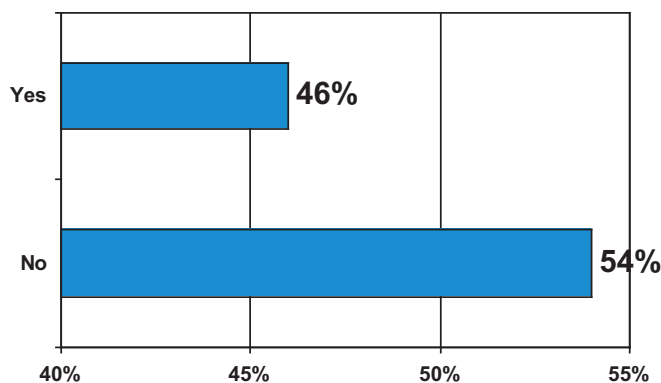
Almost three-fourths of engineers in China have purchased products in the past 6 months.



Engineers in China Purchase Products from Multiple Sources

Q. From which channel(s) did you buy electronic components?
(Check all that apply)

Engineers in China purchase products from many sources. Directly from the component manufacturer (60%) and catalog franchised manufacturers (38%) are the most commonly used channels.



Engineers in China Outsource

Q. Does your company outsource at least a portion of its design engineering product development?

Almost half of companies in China (46%) outsource at least some of their design engineering product development.

Source: Hearst Electronics Group Supplier Interface Study/Channel Media & Market Research, Inc.

Hearst Electronics Group Memory Awareness Study

Hearst Electronics Group Memory Awareness Study:

Hearst Electronics Group conducted a memory awareness study to gather information from engineers about their perceptions of various memory manufacturers.

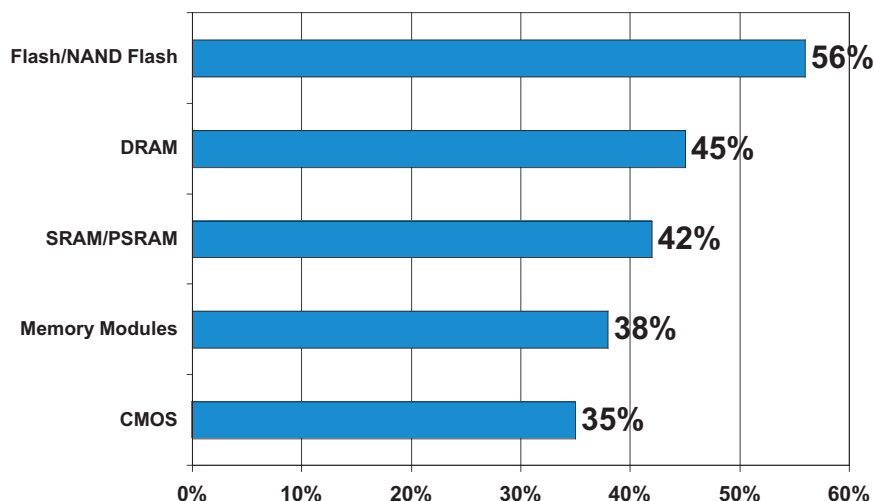
How the Study Was Conducted—

The study was fielded and completed from March 13, 2007 through March 16, 2007. Results were, as of March 16, 2007 -- **368** surveys were returned and included in the tabulation.

Results are contained in this study.

Q. Which of the following do you currently recommend, specify, and/or authorize?

(Check all that apply)



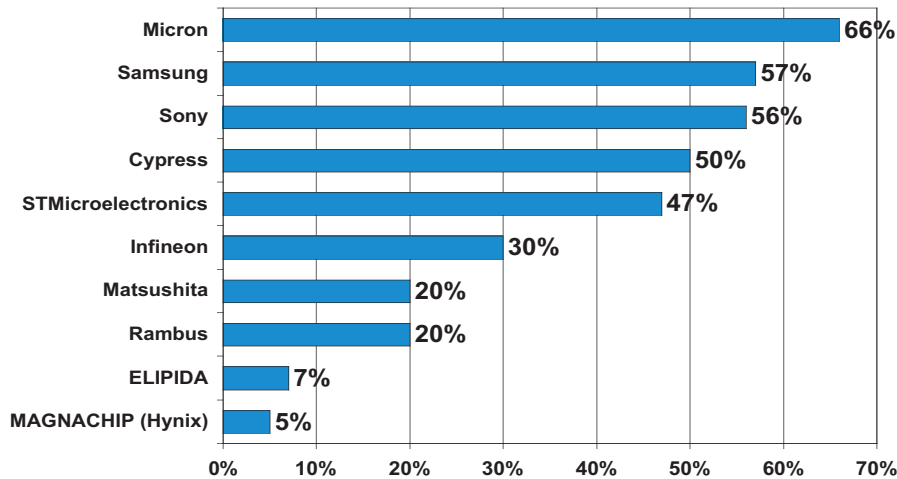
Design & development engineers and engineering managers for this study were involved in recommending, specifying, and or authorizing many types of memory products. Over half were involved with Flash/NAND Flash and more than two in five were involved with DRAM and/or SRAM/PSRAM.

Source: Hearst Electronics Group Supplier Interface Study/Channel Media & Market Research, Inc.

Research **IN A FLASH:** ADvantage News

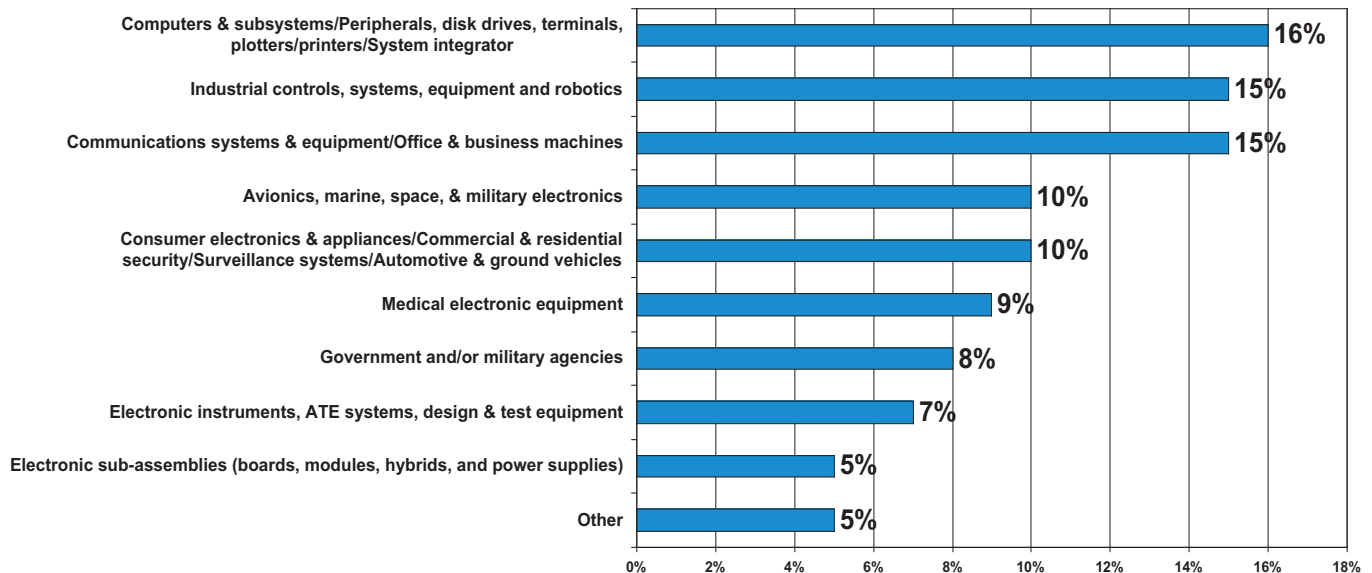
Q. How familiar are you with each of the following companies? Please use a scale from 5 to 1 where 5 means you are “extremely familiar” with the company and 1 means you are “not at all familiar” with the company

(Base= Percentage of respondents who rated each company a 5 “extremely familiar” or 4)



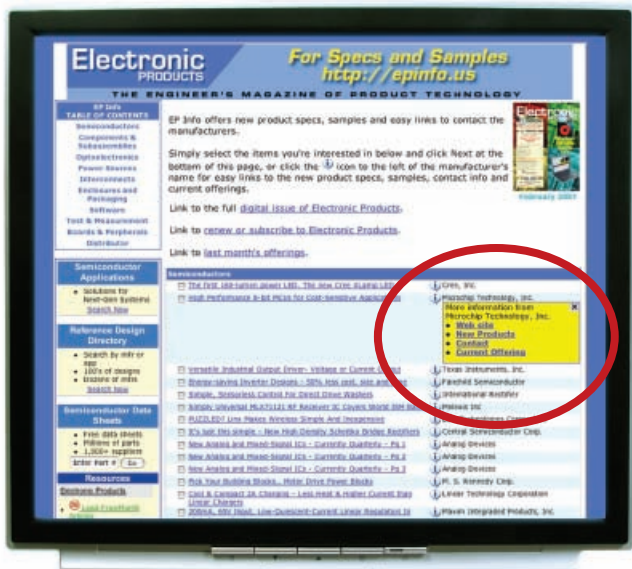
Design & development engineers and engineering managers in this study were the most familiar with Micron. More than half were familiar with Samsung and/or Sony.

Q. Which of the following categories best describes your company end-product/service?



Don't miss the full results of our study! Find out how design & development engineers and engineering managers rate memory manufacturers and what they are looking for.

For more information on this study contact Steve Cholas at scholas@hearst.com or your local sales rep at www.HearstAdvantage.com



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