

EMS Provider Sales Opportunity & Deal Flow: Why Some Contract Electronics Services Firms Grow Faster Than Others

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This two-part paper focuses on the challenges facing CEOs of electronics manufacturing services (EMS) and electronics original design manufacturing (ODM) firms when marketing and selling your services. The issues and challenges identified and solutions suggested, are from years of experience working in and with EMS and ODM firms plus, candid discussion with hundreds of electronics OEM decision makers that continues today.

These discussions take place at all phases of the OEM-provider relationship and range from feedback on the EMS and ODM RFP/RFQ process, disclosure vs. discovery during due diligence, quality of provider support post-signing of agreements, and general business dialogue, to name a few.

The one prevailing theme in each discussion is decision makers are seeking better ways to gather information about contract electronics services, and ways to select and manage their EMS and ODM partners. This knowledge presented in is not specific to one contract electronics end market and applies to every region where contract EMS and ODM services are marketed and executed.

Part I

EMS growth opportunity, specialization and stickier customer relationships

Ideal capacity utilization for an EMS provider is roughly 75 percent when measured across 24 hours, seven days a week. Depending on the EMS business model and markets served this can cover cost of doing business + profit and, it tells OEM prospects your services are in demand and some upside capacity exists should his program volumes fluctuate or spike.

Although Europe still faces challenges and China growth has slowed compared to growth rates years earlier, periods of economic recovery find many electronics OEMs with internal capacity shortages which pushes OEM executives to increase outsourcing. This is profitable for EMS providers because wins are incremental and often without asset purchases thereby creating opportunity for higher margins. Regardless of global economic influences and regional business environments EMS CEO must constantly be on the lookout for ways to differentiate and place their services in front of OEMs.

More differentiation, especially among larger EMS providers, exists today regarding EMS provider specialties compared to where most providers of EMS were five to ten years ago. For an actual industry example, looking at the communications sector, *Provider A* focuses on video content communications and *Provider B*, serving the same communications space, focuses his service on LTE/4G and optical. Numerous other examples also exist across all end markets.

Larger, tier-1 EMS providers today are also taking in considerably smaller OEM lot sizes than in the past and all vertically integrated EMS providers (and even some non-vertically integrated and smaller providers) are positioning themselves as solutions partners compared to the role of commodity service contract electronics manufacturer just a couple of years ago.

Furthermore, the EMS provider return-on-assets (ROA) metric has typically yielded different financial results for providers depending on industry segments where a provider participates. According to one Wall St. analyst, "I think the realistic view of what's able to be accomplished in ROA can ultimately be quite different as a result of the type of industry segment participation and customers [EMS providers] serve perhaps more so than the execution."

Is EMS execution no longer important? Sure it is, and success is the providers to lose so long as you have proper equipment, adequate technical capabilities for the job at hand, a reasonably good executive management team and sound processes and procedures in place. But regardless of preparations, no plan survives the war.

Success is never guaranteed and EMS sales and marketing activity still remain integral to help drive new business opportunity despite EMS CEOs wanting to create more value-add and stickier existing customer relationships.

Differentiation does not make growth easier for EMS CEOs

Vertically integrated, full service global contract EMS providers with multiple facilities in key geographies can attract a wider variety of OEM business opportunities, in a same period, compared to non-vertically integrated EMS providers with fewer facilities. The same can be said when also comparing EMS providers with facility locations concentrated in one region.

However, one downside to full-service EMS provider business models with locations in various key regions is operating margin is more likely to take a hit during slow periods. Either way, size matters in the worldwide market for contract electronics manufacturing. For EMS provider CEOs wanting to grow, you have several options.

Growth can be based on a previous relationship with the customer and/or existing piece of business with that customer. The deal can also be with a new customer where the EMS sales person had no prior relationship with the customer.

- New sales hire lands business from previous EMS employer (existing relationship)
- Sales person lands business based on previous deal (existing relationship)
- Sales person lands 'new' business based on a new relationship

Many CEOs, particularly tier-1s, want to focus on ways to get more business from existing customer relationships, and rightly so. Sticky EMS relationships can drive deeper customer supply chain involvement with providers. Costs for additional business from a customer can almost be negligible when compared to investments of time and money to identify and land 'new' EMS business.

A major benefit for the latter, as CEO you minimize how you place costs for growing your business ahead of revenues due to headcount costs for marketing staff, sales people and manufacturing reps. Some EMS providers are so focused on stickiness their TAM of OEM prospects consists of no more than 50 companies which they continually nurture.

Barring opportunity for transacting partnerships, acquisitions, and the like, for EMS growth, CEOs rely on a team of sales professionals to grow business. Depending on the size of your EMS or ODM operation and the number of facilities your sales team consists of employees (part-time and full-time) plus manufacturing reps.

Transacting EMS Growth

- Affiliations
- Joint ventures (JV)
- Partnerships
- Mergers & acquisitions (M&A)
- Deal closing (Sales)

EMS marketing challenges locating new customers

Finding qualified leads is not easy. But assuming EMS marketers do find leads, qualifying these leads remains more art than science. Buyers are critical thinkers with independent thought and emotions come into play. Other challenges facing EMS CEOs include:

- Difficulty identifying who the decision makers are once prospect is identified
- Difficulty timing EMS-OEM decision maker engagement at moment of relevance
- Long sales-to-close cycles
- High acquisition costs: EMS sales employees/benefits, reps/legal, systems/tech and software

But in EMS sales 'business class' EMS sales people exist and then there's everyone else. A non-scientific review of a few of hundred *LinkedIn* profiles of non-executive EMS sales people employed in EMS companies above US\$500 million reveals these EMS sales people tend to remain longer, on average (three to five years), with the same EMS employer compared to EMS sales persons with similar sales titles and employed by smaller EMS providers (less than \$250 million), where EMS sales people in smaller firms tend to leave sooner, 12 to 18 months, on average.

Discussing this with EMS CEOs across tiers, some questions discussed include: Do larger EMS providers hire more capable sales persons, perhaps indicating success and therefore employed longer history with the company? Does headcount insulation in larger EMS providers delay EMS management from identifying sales non-performers sooner? Are smaller EMS providers attracting only less capable EMS sales people?

The true cost of closing that lead

It's not uncommon for EMS providers with sales between US\$500 million and \$1 billion to have separate rep agreements with as 25 to 50+ manufacturing reps, in addition to full-time sales and marketing staff.

Most reps working with EMS providers are on a commission basis only. Some EMS providers require a rep bring in a minimum amount of business every month, or quarter or year. The commission-only contractual arrangement is flawed from the start because the rep cannot rely on one provider to put food on his table so he'll rep other EMS provider services.

This does little to build provider-OEM relationships because the rep will not act in the OEM's best interests, instead sending OEM prospects to the provider who pays the highest commission.

Manufacturing reps are not motivated to act in the best interest of OEMs. Instead, reps send OEMs to EMS providers paying the largest commission.

But while not all EMS providers may use reps, all EMS and ODM have sales people. And as effective marketing focused on locating customers becomes more challenging, OEM buyers of EMS and ODM services have become more informed about contract electronics and are making decisions based on more critical thinking which runs counter to 'big picture' sales talk.

These new market dynamics are challenging the rep model, and all sales people. Rep, or not, the EMS sales effort no longer can rely on 'small talk' with prospects and hope to build bridges and friendships and still expect to close deals like years ago.

Information from industry indicates some reps are not only preventing providers from winning the right business, but in the process of grabbing commission at all costs some reps (and sales staff) are jeopardizing hard-fought EMS reputations.

Where OEMs are leaving even before the deal closes, all EMS opportunity for long-term relationship building and securing OEM trust is lost.

Also, where the provider turns out to not be the best match for OEM program requirements and/or EMS provider execution did not meet OEM expectations, this experience is now released into the general business dialogue. Losing business is never good, unless maybe if a piece of business is not profitable and the customer is causing more trouble than his business is worth.

Then when an OEM customer does leave one of the most valuable pieces of information the CEO wants to know is why. Generally, the bigger the value of electronics OEM program being outsourced the longer the EMS sales cycle. Most EMS providers underestimate the amount of effort (cost) in terms of time and money to generate one qualified lead and close the deal.

When the EMS economic stars don't align and EMS providers must rely on marketing and sales resources to grow, trouble identifying prospective customers in purchasing mode becomes even more difficult and the challenges to attract these prospects to your business remain unchanged.

In some ways the EMS industry is a liquid market. Numerous providers are willing to bid a qualified lead knowing the prospect is entertaining competitors. But unlike liquid markets the EMS sales cycle is not quick to transact plus, there is constant impact to EMS pricing [depending who is the buyer].

If you want to fill your excess capacity, CEOs don't wait to see which way the business climate will turn because filled to ideal capacity translates to a healthy stream of revenues. Does the quantity of sales people demand your attention more than the quality of your sales people representing your firm? Do the sales folks working with your company today represent the type of person who could interject unexpectedly into a meaningful conversation you are having with your biggest customer? Does each sales person have the proper soft skills and EQ to read situations and others accurately?

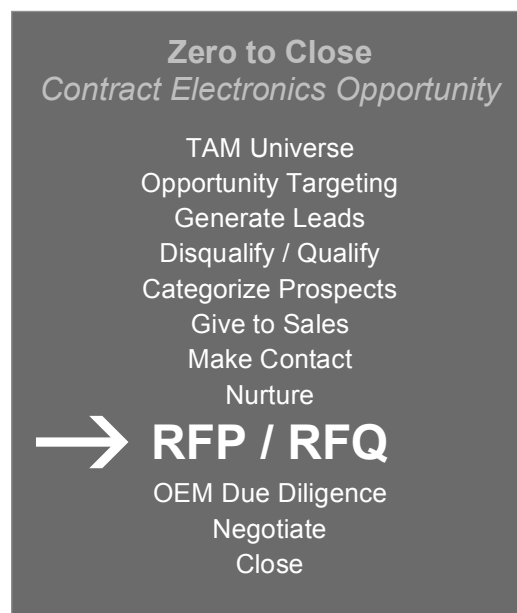
Sophisticated buyers and EMS sales bench strength

Selling EMS services is a complex sell primarily due to ineffective sales technique but things don't have to be this way. Standardized EMS pricing also does not exist and prices can differ based on who the buyer is plus, prices are based on numerous factors, all of which take time to calculate and add to EMS provider selling costs.

Adding to this challenge, the OEM buyer is typically a consensus of several people with decisions for sourcing contract electronics services based on input from various functional groups like engineering, purchasing, finance and supply chain operations, to name a few.

One ideal scenario EMS CEOs can hope for is to become inserted directly into OEM discussions right at the quote RFP/RFQ phase for a pre-qualified prospect.

Long sales cycles, complex services often difficult to identify and convey differentiation against competitors when speaking with prospects, and low margins, it should not be surprising the many EMS sales people last less than 18 months. Add to this a history of talking



with OEM decision makers and EMS sales people confirming low close rates, investments in EMS sales training, progress monitoring and ongoing sales development and management for EMS sales people is a good investment given the average EMS deal is US\$15 million* and lasts three to five years.

Yet, many EMS providers continue to lose new opportunities (and existing customers) and, more importantly, where either situation could possibly have been avoidable.

Most EMS sales people (including reps) recognize the value of the customer relationship. Think of the best, most successful EMS sales people you know. Is their strength in managing and developing other sales people? Are these persons the ones closing the most deals? Do your people each have high EQs?

Nurturing the prospect relationship begins at first point of contact yet many sales people fail to realize this. Sales people reach out to today's buyer wanting to have small talk only to leave OEM COOs, EVPs, SVPs frustrated responding, "Don't waste my time." To build trust with OEMs requires understanding his problems, industry knowledge, being honest and self-aware, courtesy and having a good dose of business common sense. Are these qualities apparent in each of your sales people?

One common issue OEMs have with today's EMS sales person can be expressed this way: If someone were important to you would you take several days to return his or her phone call or email?

Either I've not met enough business class EMS sales people or there exist too few in our industry today. Instead, it seems EMS provider tend to hire a sales force army (quantity over quality) focused on the win and most are too removed from the real, longer-term costs when opportunities are lost.

As CEO, no one cares more about your EMS sales and future revenue growth than you.

A solution that's working

In talking with electronics OEM decision makers over the years, creating content for OEM consumption and helping with OEM risk-decisioning in various ways when OEMs are faced with gathering contract electronics information and selecting and managing EMS and ODM partners, OEMs encouraged our firm to become more involved in the above activities. The net result, we created a way OEMs and providers can engage in dialogue sooner and on a deeper level.

Part II explains ways EMS providers can mitigate risks tied to detailed reasons some providers are losing deals during critical sales and business development phases, and also explains why this approach is being embraced by industry and how it is helping EMS CEOs to grow your business based on a foundation of mutual respect, understanding and trust.

* VentureOutsource.com internal data 2015-16

Part II: Contract Electronics Sales Velocity and Higher Deal Close Frequency