



Outsourcing to contract manufacturers is a continuing trend in the electronics sector.

Focus on the Present, Plan for the Future

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For the past decade or so, we have seen vigorous consolidation in the SMT world driven by mergers and acquisitions. A handful of large SMT companies have been leading the activity, acquiring captive manufacturing capabilities from electronics companies. At the same time, electronics companies have shifted to the outsourcing model, where the components and products are manufactured by subcontractors. The drive is for SMT companies to transform themselves, increase volumes, and recession-proof their portfolios through diversification.

"We are seeing a strong growth in anything that uses remote tracking and sensing that can help with fuel savings, such as monitoring of wind stations and oil rigs," states Lee Melius, GM of QCMI, a contract SMT manufacturer. "The one thing that has helped us survive and grow has been knowing our niche and staying true to our business model. We resist the tremendous temptation to take on projects that are too big for us and would jeopardize the diversification of our customer base that we have worked to maintain."

In this dynamic environment, managing engineering and technical resources is an uphill task. With modern manufacturing's trend toward reduction in job security, it's a challenge for assembly houses to keep the engineering/technical teams engaged, motivated, and relevant. Taking a mixed approach of focusing on the present and planning for the future helps convey a realistic and practical message to the employees and customers, sustaining their attention.

A career is a journey and not a destination in itself. While there is emotional upheaval at the personal and organizational level during change caused by merger and acquisition (M&A) discussion or activity, the challenge is to manage it in a way that leads to positive outcomes for the company and the employees.

"We counsel our strategic acquisition clients to look for companies with a strong management team and a stable workforce," notes Loren Lancaster, managing director of Core Capital Group's Electronic and Semiconductor Group (ESG). "Ideal acquisition targets create a total value greater than just the sum of two separate companies."

For the management team, focus must remain on the present and planning for the future. Easier said than done. However, allowing the organization to get distracted from its current mission is a path to downfall. Fortunately or unfortunately, the days of long-term customer relationships have passed. There is significant churn in the customer base for a host of reasons, including customer's desires for optimizing supply chains, costs, intellectual property (IP) protections, access to needed technology, market consolidation, etc. While the customer base can flux and change, they all desire to work with a supplier that is stable today and confident of the future. The management team is charged with charting out a confident and practical path for the future with the possibility of changes on the horizon.

"To grow our business, we have engaged in a strategy to grow with our customers," adds Jay Palace, president of Linear Manufacturing, a full-service EMS provider. "We seek out good companies with products we believe in and partner with them as customers."

To keep manufacturing and administration staff keyed into core business strategies, the management team has to communicate the business strategy and its impact on the organization and employees in an open, honest, and timely manner. This includes the company mission, along with the good and bad news. Often, managers fear losing employees if they share bad news. To win battles against sometimes daunting odds, the troops have to believe in their mission, and then will go beyond their call of duty.

"We talk about our customers and the lessons learned with our line-level employees on a regular basis," Melius says. "We try hard to share the good news along with the bad. Too often, employees only hear about something that goes wrong. We share as much as possible positively and negatively, and engage our team in fixing problems and continuing what's working. This kind of communication keeps our employees with us willing to work through the down times and share in the good times."

Business-level Changes

Management faces a counterintuitive approach of investing in equipment and employees while the M&A possibilities are being explored. A hunker-down approach can lead to stalling and loss of market share. Practical confidence in business strategy should continue to drive capital investment decisions. Recognize and communicate to employees both the need for continuous improvement and the flexibility to change as business needs change. "For management teams looking to sell their company, external advisors with industry-specific expertise offer a broader perspective and can help significantly enhance the value of the transaction," Lancaster adds.

As organizations, in their pursuit to deliver broader value, move from pure-play SMT board assembly to systems/box assembly, to supply chain management, the jobs people do will continue to morph. Preparing employees for the changing roles based on your organization strategies will earn their commitment. This requires working with employees and encouraging them to plan a development path.

"We prompt our employees to cross-train on the floor and help them get extra training to develop and grow with the company," comments Palace. "We have set up our manufacturing process to be collaborative. We need our line-level people involved in the manufacturing planning process from the beginning. They often have the best ideas, for example, for the best order in which the components should be assembled."

On the other hand, employees need to take responsibility for their own career. Don't wait for the company or manager to tell you what to do. Pay close attention to the direction in which the

company and industry are moving. To not just survive, but to succeed, line employee skills must be current and they should keep learning something new. Developing portable skills, considering lateral moves, working with independence and flexibility is an approach that helps whether one decides to either stay with the company through the changes or even if they leave the company.

Conclusion

Almost nothing is as important as keeping the focus on customers during M&A activity. Too many companies get internally focused and disconnected from their customers as the M&A activities progress. When this happens, customers can become concerned and require assurance that their needs will be met as before.

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Maintaining a focus on daily operations during M&A activity reassures customers of quality.