



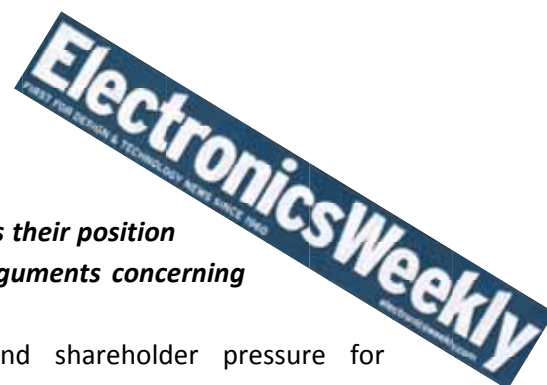
Manufacturers weigh pros and cons of going to China

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As a growing number of UK electronics companies begin to re-assess their position on offshore manufacturing, Steve Wilks weighs up some of the arguments concerning overseas production.



Electronics manufacturers are challenging the common assumption that outsourcing usually means moving production off-shore. Axiom explains how local companies are adapting in order to survive in the changing market. **SEE FEATURE PAGES 12/13.**

Increasing competition and shareholder pressure for greater profitability led many British OEMs over recent years to outsource production to places like Eastern Europe or China.

This trend towards off-shoring within the electronics manufacturing service (EMS) market has accelerated from the year 2000 onwards, and some reports suggest that, by next year, 85% of the European EMS activity will be located in the East of the continent, with only 15% in the West.

While the continued shrinking of the British manufacturing sector may appear inevitable to some, that is by no means certain.

The original attraction of outsourcing per se was that it allowed OEMs to concentrate on core competencies and develop new products. Subsequent outsourcing to off-shore manufacturers then added the promise of huge cuts in basic production costs. This much hasn't changed.

However there are arguments now coming to the fore which challenge the common assumption that outsourcing usually means off-shoring. The UK CEM sector is adapting in order to serve the changing needs of OEMs.

Unit production cost is no longer the only consideration for those seeking a manufacturing partner. Those considering such a move are now thinking more about the 'total cost of ownership.' That includes an analysis of both production cost and of the value the contractor can add to the product, for example through innovation, design input or other services which benefit the customer.





It's arguable that, the more sophisticated the product, the greater the case for keeping production in the UK. It's noticeable that the manufacturing which has remained in the UK is generally higher technology and lower volume.

These are the areas where collaboration between OEM and CEM needs to be at its closest – areas where IP protection, close cultural match, common language and physical proximity are key to achieving customer satisfaction.

Of course the internet has made it easier to communicate specifications and instructions to the other side of the world in milliseconds but it hasn't necessarily improved understanding and trust between partners or enhanced the flexibility of contractors overseas. UK firms needing to change a brief at relatively short notice will have discovered the shortcomings of a long-distance relationship.



There is no denying that outsourcing abroad has proved profitable, particularly for high-volume producers. However there is a strong case for the manufacture of more complex lower-volume products to stay in locations where personal contact, a common language and shared cultural experiences are assured.

For some companies the promise of off-shoring hasn't necessarily lived up to expectations anyway. Even the production cost savings may not have come to fruition, once customers took account of currency fluctuations, quality issues, high shipping costs, rework, or higher than expected labour costs.

And, in an era when Corporate Social Responsibility is increasingly important to investors, off-shoring can also carry some ethical risks. For example the issue of wage exploitation may well be scrutinised by stakeholders, and offshore production methods don't always match the green aspirations of the OEM.

In any event, recent reports suggest that many Chinese workers are now pressing for higher wages, and many eastern Europeans have already secured salary uplifts, so this key element of the production cost differential may well be eroded anyway.

I believe there is now an emerging opportunity for British contract manufacturing to stage something of a comeback, as more OEMs widen the criteria under which they compare the value of home-based and off-shore manufacturing for low to medium-volume work.

However the window of opportunity may be relatively narrow as the industry must ensure it preserves the skill-base to cope with a resurgence in business. That also requires extra effort to attract new talent into the sector by making it more appealing to young people.





Opportunities do exist in Britain's EMS market, but only for the right kind of added-value service. It is perhaps hard to justify bringing home the traditional high-volume 'build to print' type of work but, provided that UK contractors are able to adapt to the demands of specific markets, there is certainly potential for renewed growth in the industry.

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