The Art of Negotiation

One of the most insidious words in this industry today is *partnership*.

Killer line. Wish I could have said it.

Instead, it came from Charlie Barnhart of Technology Forecasters, Inc. (TFI) at that company's recent Quarterly Forum at Cisco in California. A many-year electronics manufacturing services (EMS) veteran, Charlie was given free reign at the end of a session titled "OEM Panel: Contracts, Relationship and Trust." Woo-wee, that's a can of worms to consider, and Charlie knew it.

Inciting those present to kill the word *partnership* from their vernaculars, Charlie made the point that the reality of the outsourcing situation is that both parties—the EMS provider and the original equipment manufacturer (OEM)—are entering into a buy/sell relationship. And, although partnership is a warm, fuzzy idea much touted in this age of political correctness, it does not accurately describe the for-profit business relationship of the EMS company and its OEM customer.

According to Charlie, in their business dealings both OEMs and EMS companies are responsible to three interested parties:

- their employees
- their shareholders
- their community.

Nowhere in that equation is fiduciary responsibility to your suppliers suggested.

A panelist serving on that day's discussion agreed in spirit with Charlie's assessment of the business relationship, with his answer to the following question: What is an acceptable level of profit for the EMS partner?

This panelist—from OEM HP—said, simply, that the OEM does not have any duty to pay an EMS company enough to keep them alive. At the same time, however, the OEM has to realize that a bankrupt supplier does the OEM and its products no good. The key is balancing the profit of both companies, with the understanding that price and all the trappings that come with it is something that is always negotiable.

Indeed, something must be working correctly in the OEM/EMS business relationship, because TFI announced that it has seen in its recent research "a strong resurgence in the industry." EMS revenue turned the corner in 2003, and TFI forecasts a compound annual growth rate (CAGR) of 11.6% for EMS companies' revenue—from 2002's \$88 billion to 2007's nearly \$153 billion. That CAGR is not the rate of yesteryear—with predictions that swelled to 20 to 25% and that were delivered in the glory days of 1999/2000. However, TFI does stand by that initial prediction, forecasting that the industry will return to a 20/25% growth rate at some point—just not, and this is key, in the next five years.

According to TFI, even though the wounds of the telecom and Internet bubbles are starting to heal, EMS companies still have their work cut out for them. Several are still riding low with debt and overcapacity; they're also facing an increasing threat from original design manufacturers (ODMs) who are beginning to serve more and more OEMs such as HP, Dell and Gateway who want to quickly enhance their product lines with ODM offerings.

In the end, at least in capitalistic societies and those struggling that way, competition and negotiations are what makes the industry stronger. If an OEM doesn't like the price an EMS company is quoting, that OEM can jolly-well head to another contractor. Same goes for the EMS company—if it doesn't like a particular deal an OEM is forcing, it can find another OEM to serve.

In a business relationship, there's tension. There's negotiation. And that's a good thing. Long live the ability to realize each others' goals without making enemies.

Lisa Hamburg Bastin, Editor-in-Chief
e-mail: lhbastin@upmediagroup.com