

icf NEWS

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The Challenges to serve the OEM Market

**International Wire & Cable
Symposium (IWCS)**

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NEW MEMBERS

We are very pleased to welcome YANGTZE OPTICAL FIBRE AND CABLE CO. LTD. in China, UNIVERSAL CABLES LTD. and »BIRLA ERICSSON OPTICAL LTD.« in India as new members of our Federation. More information about our new members can be found at www.changfei.com.cn/en, www.universalcables.com, and www.birlaericsson.com.

INTERNATIONAL WIRE & CABLE SYMPOSIUM (IWCS)

The International Wire and Cable Symposium (IWCS) recently issued a Call for Papers for its 54th annual Symposium and Conference, scheduled for 13 to 16 November 2005, in Providence, RI, USA. IWCS is a non-profit organization whose mission is to provide a forum for the exchange of information among suppliers, manufacturers and users on advancements in materials, processes and products for transmission systems of voice, data, video signal and electrical current. Its Symposium and Conference draws hundreds of delegates internationally and is recognized as the premiere technology event for the industry. IWCS has recently named a new CEO/Director, John T Barteld, who served as Secretary General of the ICF in the mid-1990's. More information about the organization and its conference may be found at www.iwcs.org.

3 NEW ICF STANDING COMMISSION MEMBERS

Mr. Gregory Lampert, Vice President & General Manager of General Cable (Carol Products Division), Mr. Simon Cua, Managing Director of LTK Industries Ltd. and Mr. Jae-In Yoon, Vice President, Head of Overseas Promotion Group, LG CABLE LTD have been appointed as new members of the Standing Commission of ICF. The Standing Commission is already busily working on the development of this year's Congress Program (Tokyo 19 to 23 October 2005).

ARAB CABLE MANUFACTURERS ASSOCIATION

An Association of 36 companies engaged in the manufacturing of electrical and telephone cables in the Arab World has recently been established. Mr. Hamid Al Zayani has been appointed General Secretary of the Executive Secretariat, which is located in the Kingdom of Bahrain. More information can be found at www.arabcab.org.

Thomas Neesen

THE CHALLENGES TO SERVE THE OEM MARKET

The structure of the global market for wire and cable is changing quickly. This is especially true of the »OEM« market, where the demands placed on the cable-maker are influenced not only by character and performance of the end market for products, they are also deeply influenced by trends amongst their customers. The OEM industry structure, performance and changing customer priorities are all issues that have direct relevance to the wire and cable companies that serve the OEM business, a market in which a close long-term relationship between customers and their suppliers is an essential ingredient in business success.

The OEM Business

A quote from the General Motors Document »Working and Winning Together«:

»Any successful business relationship is a two-way street. While GM employs a variety of tools and programs to choose, support and strengthen valued suppliers, those same suppliers represent a pool of talent and innovative ideas that, in turn, help to support GM.«

There are two ways of looking at the relationship between OEM and supplier, which at first sight may seem to be contradictory. Firstly, there is a strong desire to buy at the lowest cost. Secondly, OEMs want to buy from suppliers that can provide the best and most innovative materials and components to go into their products. The first priority suggests a »natural« adversarial relationship, while co-operation is needed to fulfil the second priority.

The focus on the price paid to suppliers is natural, given the assembly nature of OEM business. In the table to the right we show just how important the cost of

SALES, COST OF SALES AND PROFITABILITY OF THE MAJOR OEMS IN 2003 (US\$ MILLION)

Company	Net Sales	Cost of Sales	Cost of Sales/ Net Sales	Op. Profit	Op. Profit/ Net Sales
ABB	18.795	14.080	75%	845	4,5%
BMW	46.900	36.244	77%	3.787	8,1%
Canon	27.574	13.872	50%	3.918	14,2%
DaimlerChrysler	154.096	124.154	81%	3.578	2,3%
Dell	41.444	33.892	82%	3.544	8,6%
Electrolux	15.351	11.598	76%	888	5,8%
Fiat	53.389	46.115	86%	-576	-1,1%
Ford	164.196	129.821	79%	14.083	8,6%
General Electric	134.187	99.302	74%	19.904	14,8%
General Motors	185.524	152.071	82%	12.445	6,7%
Hewlett Packard	73.061	53.857	74%	2.896	4,0%
Hitachi Ltd.	76.326	59.330	78%	1.635	2,1%
Honda	72.172	49.601	69%	5.306	7,4%
Hyundai Motor	39.001	27.459	70%	2.256	5,8%
IBM	89.131	56.113	63%	7.583	8,5%
Matsushita Electric	66.134	46.977	71%	3.115	4,7%
Mitsubishi Electric	29.263	22.180	76%	2.478	8,5%
Mitsubishi Motors	22.276	19.104	86%	-856	-3,8%
NEC	43.385	32.034	74%	2.944	6,8%
Nissan	65.688	46.952	71%	7.293	11,1%
Peugot Citroen	59.502	45.808	77%	2.007	3,4%
Philips Electronics	32.795	22.089	67%	551	1,7%
Renault	42.382		0%	1.394	3,3%
Samsung Electronics	54.261	35.371	65%	5.271	9,7%
Siemens	83.841	60.255	72%	2.577	3,1%
Sony	66.282	44.724	67%	874	1,3%
Toshiba	49.333	36.033	73%	1.544	3,1%
Toyota	152.917	122.636	80%	14.738	9,6%
United Technologies	31.034	22.508	73%	3.470	11,2%
Volkswagen	98.433	87.818	89%	2.010	2,0%
Whirlpool	12.176	9.407	77%	830	6,8%
2001 Total	2.100.852	1.561.403	74%	132.332	6,3%

Source: Metalica Ltd.

raw materials and components is in the business profile of the largest cable buyers.

It should be noted that in 2003, for the companies covered, on average around 75% of OEM company revenue was allo-

Common Themes

The OEM market is diverse, covering everything from automobiles to air conditioners. Despite the diversity, some themes are common to many of the companies that constitute this customer group. We label these themes:

... as OEM assembly moves, there is intense pressure on suppliers to move ...

The incentive to move production offshore is enhanced by the low cost of labour in the emerging markets. Indeed, if the established leaders of the OEM

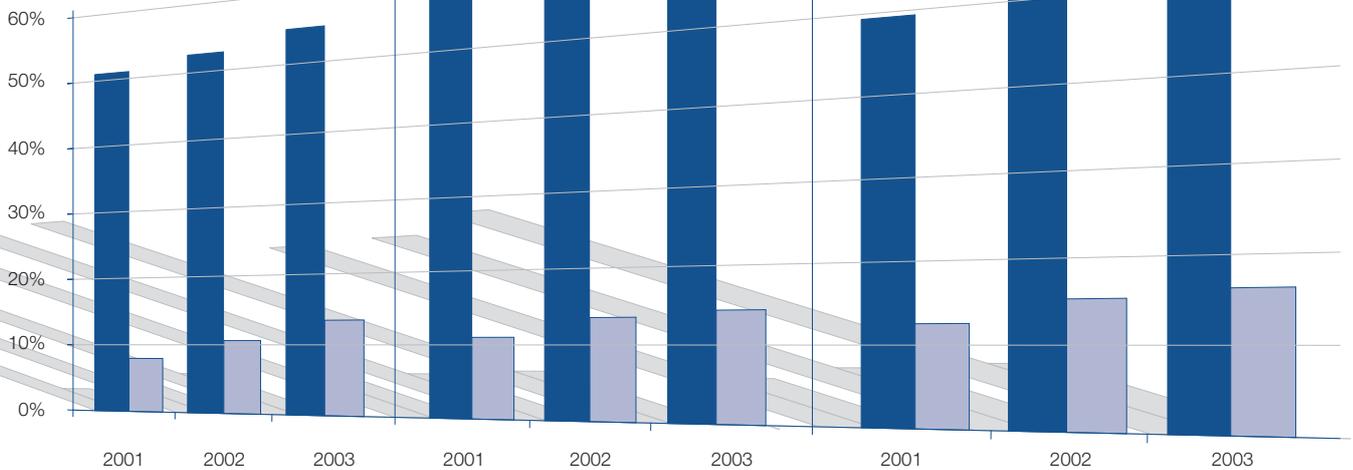
PROFITABILITY OF THE MAJOR OEMS 2001 TO 2003

All OEMs

Electrical/Electronic Companies

Automotive Companies

■ Gross Profit / Net Sales
■ Opt. Profit / Net Sales



Source: Metalica Ltd.

cated to purchases of goods and services. The figures were even higher for 2004, as the price of commodities such as steel, base metals and polymers had escalated. As the relative costs of materials are so high, quite small differences can have a major impact on profitability. In the OEM business overall, net profits are quite small, averaging around 3% of revenue in 2003 (and slightly more in 2004).

This means that a reduction of just 1% in the cost of raw materials and components should result in a 20-30% improvement in profitability: Hence the focus on cost.

- Geographical relocation
- A »kind to the earth« mentality
- »More for less«

Geographical Relocation

The markets for OEM products are changing quickly in geographical structure. While unit purchases of OEM goods are growing quite slowly in the mature markets of Western Europe, North America and Japan, some other parts of the world are experiencing very rapid growth, especially China.

As the market shifts, manufacturers can reduce their logistical costs by locating some OEM assembly outside their historical core areas of operation.

business do not move their production base along with the market, they are in very real danger of losing huge chunks of their market share, even in their home territory, to fast growing emerging market suppliers. Already, names such as China's »Haier« are becoming well known in the world domestic appliance market.

While the geographical shift of industry is a well-known trend, the speed of change is not always understood. In the table on page 5 we show the development of sales by source between 2001 and 2003 for the major OEMs. They suggest a significant shift away from the traditional home production bases in North America, Western Europe and Japan.

CHANGING GEOGRAPHICAL STRUCTURE OF OEM SALES 2001-2003 (2003 US\$ MILLION)

Company	Division	2001	2002	2003	Company	Division	2001	2002	2003
ABB	The Americas	25%	22%	19%	Mitsubishi Electric	Japan	79%	78%	77%
ABB	Europe	56%	56%	55%	Mitsubishi Electric	Asia (excl Japan)	7%	9%	11%
ABB	Asia	13%	14%	18%	Mitsubishi Electric	Other	0%	0%	1%
ABB	Middle East & Africa	6%	7%	8%	Mitsubishi Motors	North America	22%	25%	19%
BMW	America	32%	32%	28%	Mitsubishi Motors	Europe	13%	16%	21%
BMW	Germany	27%	24%	26%	Mitsubishi Motors	Japan	55%	48%	49%
BMW	Rest of Europe	31%	31%	32%	Mitsubishi Motors	Asia	4%	5%	6%
BMW	Africa, Asia, Oceania	11%	12%	14%	Mitsubishi Motors	Others	6%	6%	6%
Canon	Americas	34%	34%	33%	NEC	Japan	81%	83%	79%
Canon	Europe	28%	25%	30%	NEC	International	17%	17%	21%
Canon	Japan	28%	29%	27%	NEC	Other & Unspecified	2%	n/a	n/a
Canon	Other Areas	10%	12%	10%	Nissan	North America	30%	30%	36%
DaimlerChrysler	USA	53%	52%	47%	Nissan	Europe	11%	11%	13%
DaimlerChrysler	Other Americas	9%	8%	8%	Nissan	Japan	48%	49%	46%
DaimlerChrysler	Germany	16%	15%	17%	Nissan	Others	12%	11%	5%
DaimlerChrysler	Other EU	14%	16%	18%	Peugot Citroen	Latin America	3%	2%	2%
DaimlerChrysler	Asia	4%	4%	5%	Peugot Citroen	W. Europe	89%	88%	86%
DaimlerChrysler	Other Countries	4%	5%	6%	Peugot Citroen	Rest of Europe	3%	4%	5%
Dell	Americas	71%	71%	69%	Peugot Citroen	Rest of World	7%	8%	10%
Dell	Europe	19%	20%	20%	Philips Electronics	North America	29%	31%	27%
Dell	Asia Pacific	10%	10%	10%	Philips Electronics	Latin America	6%	5%	4%
Electrolux	Durables- N America	35%	36%	36%	Philips Electronics	Europe / Africa	44%	42%	44%
Electrolux	Durable -Europe	35%	36%	38%	Philips Electronics	Asia Pacific	22%	22%	25%
Electrolux	Durables-Other	11%	11%	10%	Renault	France	n/a	n/a	35%
Electrolux	Professional Products	20%	16%	15%	Renault	Other Europe	n/a	n/a	52%
Fiat	North America	13%	13%	n/a	Renault	Rest of the World	n/a	n/a	12%
Fiat	Mercosur	7%	7%	n/a	Samsung Electronics	Americas	21%	23%	20%
Fiat	Italy	34%	36%	n/a	Samsung Electronics	Europe	18%	20%	20%
Fiat	Other Europe	39%	38%	n/a	Samsung Electronics	Africa	0%	0%	0%
Fiat	Other areas	6%	6%	n/a	Samsung Electronics	Korea	48%	41%	31%
Ford	USA	67%	67%	63%	Samsung Electronics	Other Asia	13%	17%	29%
Ford	Europe	22%	22%	24%	Siemens	Americas	30%	30%	25%
Ford	Others	11%	12%	13%	Siemens	Germany	22%	22%	23%
General Electric	United States	68%	69%	63%	Siemens	Other Europe	30%	32%	34%
General Electric	Other Countries	32%	31%	37%	Siemens	Asia-Pacific	13%	12%	12%
General Motors	USA	74%	74%	72%	Siemens	Other	5%	5%	6%
General Motors	Canada and Mexico	7%	8%	8%	Sony	United States	32%	32%	28%
General Motors	Europe	15%	14%	16%	Sony	Europe	21%	22%	24%
General Motors	Latin America	3%	3%	2%	Sony	Japan	30%	28%	30%
General Motors	All Other	1%	1%	2%	Sony	Other	17%	18%	19%
Hewlett Packard	United States	42%	41%	40%	Toshiba	North America	14%	14%	12%
Hewlett Packard	International	58%	59%	60%	Toshiba	Europe	8%	8%	9%
Hitachi Ltd.	North America	10%	10%	9%	Toshiba	Japan	69%	67%	67%
Hitachi Ltd.	Europe	5%	5%	5%	Toshiba	Asia	9%	10%	11%
Hitachi Ltd.	Japan	77%	77%	74%	Toshiba	Other	1%	1%	1%
Hitachi Ltd.	Asia	8%	8%	12%	Toyota	North America	30%	30%	34%
Hitachi Ltd.	Other	1%	1%	1%	Toyota	Europe	8%	8%	12%
Honda	North America	56%	57%	56%	Toyota	Japan	54%	54%	41%
Honda	Europe	8%	8%	9%	Toyota	Other	7%	8%	13%
Honda	Japan	25%	22%	23%	United Technologies	United States	61%	59%	54%
Honda	Other Regions	11%	12%	12%	United Technologies	Europe	17%	20%	23%
Hyundai Motor	North America	n/a	17%	29%	United Technologies	Asia Pacific	12%	13%	14%
Hyundai Motor	Europe	n/a	8%	9%	United Technologies	Other	10%	9%	8%
Hyundai Motor	South Korea	n/a	73%	59%	Volkswagen	North America	20%	20%	17%
Hyundai Motor	Asia	n/a	2%	4%	Volkswagen	South America	5%	4%	3%
IBM	Americas	n/a	45%	43%	Volkswagen	Germany	28%	27%	30%
IBM	Europe/M East/Africa	n/a	30%	33%	Volkswagen	Rest of Europe	41%	42%	41%
IBM	Asia Pacific	n/a	21%	22%	Volkswagen	Africa	1%	1%	1%
IBM	OEM	n/a	4%	3%	Volkswagen	Asia/ Oceania	5%	6%	8%
Matsushita Electric	N & S America	21%	19%	18%	Whirlpool	North America	63%	65%	64%
Matsushita Electric	Europe	12%	14%	14%	Whirlpool	Latin America	14%	11%	11%
Matsushita Electric	Japan	47%	47%	46%	Whirlpool	Europe	20%	20%	22%
Matsushita Electric	Asia & Others	20%	21%	21%	Whirlpool	Asia	4%	4%	3%
Mitsubishi Electric	North America	8%	7%	6%	Source_ Metalica Ltd.				
Mitsubishi Electric	Europe	6%	5%	6%					

The allocation of production by the OEMs by no means tells the whole story. For nearly all of the established industry leaders, sales in emerging Asia and other emerging markets are higher than local output. This gap, however, is narrowing quickly. In their annual reports for 2003 and 2004, most companies are quite clear about their intentions to move more production to emerging markets that serve both as a dynamo of sales growth and of competitive cost performance.

As suppliers have to serve their OEM customers on many fronts, not just price, there is intense pressure on them to move as OEM assembly moves. It would be very difficult to achieve just-in-time delivery, to respond to specific customer requests, or to engage in the design process at a distance.

any delay in following the end customer carries with it the risk that existing intermediate customers will find new suppliers

As the OEMs become more global in their area of operation, they are asking their suppliers also to have a global footprint.

While in theory it may be possible for the OEMs to stay with their existing suppliers in their home market and seek new suppliers offshore, there is a clear preference for working with the same companies in all locations. A supplier that fails to move with its customer, therefore, risks losing the whole of its business, not just part of it.

News items in each ICF Newsletter demonstrate that the relocation process applies to cable as it does to other industries. Often being removed by one or more process stage from the OEM assembler, however, there is a time lag before the makers of cable experience the full force of geographical relocation in the markets for goods in which cable is contained. Where wire and cable is contained within a motor or wire harness, for example, the pressure to move is felt first by the motor manufacturer or har-

ness assembler rather than the cable-maker.

This being said, any delay in following the end customer carries with it the risk that existing intermediate customers will find new suppliers and the opportunity to develop business relationships with indigenous OEMs and their suppliers in emerging markets is missed.

»Kind to the Earth« Solutions

For more than ten years, some of the large OEMs have provided annual environmental reports alongside their financial statements. Where the terms of such reports were, at one time, fairly nebulous and focused on management systems, now there is detailed statistical reporting of performance, a clear statement of objectives and targets and of company definitions as to what it is to be »Green«. Increasingly, also, suppliers are being drawn into the process with procurement falling within the OEMs' self-appraisal process.

Over the past year or two, sustainability credentials have come to be an important part of many company's image

It is becoming common for OEMs to wrap up their environmental appraisal with that of the wider issues of corporate governance and citizenship in what is called a »Sustainability« report. By proving itself to be a »sustainable« company, an OEM is showing that it is able to maximise the benefits of economic growth while minimising its negative impact on the environment, social justice and individuals. Over the past year or two, sustainability credentials have come to be an important part of many company's image, and are considered relevant by some major investors. OEM »Sustainability« (like Green credentials), has direct bearing on their relationship with suppliers.

The Green credentials of OEMs can be judged in terms of both their products and their manufacturing processes. At its simplest level, being »Green« means

a) making products that are energy efficient, do not contain toxic materials, are recyclable, and b) achieving a minimal negative environmental impact during the manufacturing process.

... expect to see an increasing penetration of »Green« cables, which do not produce halogens, hydrogen chloride or dioxin when burned

Legislation such as the EU Directive on Waste of Electrical and Electronic Equipment (WEEE) and the EU Directive on Restriction on Hazardous Substances (RoHS) are helping the process along, but some of the leading OEMs appear to be one stage ahead of legislation in their environmental management.

The growing interest of OEMs in making »greener« products has some direct bearing on the products required of the cable industry. We may expect to see an increasing penetration of »Green« cables, which do not produce halogens, hydrogen chloride or dioxin when burned, and cannot release lead or other toxins in normal use. We may also expect to see more cables designed for energy efficiency and for simple disassembly, including thermal recycling. The scope of the Green initiative, however, goes far beyond a requirement for more environment-friendly products.

... potential suppliers and existing ones may be judged and assessed on the basis of lean manufacturing and environmental management

In describing its environmental initiative, Electrolux, for example, states that it takes a holistic approach. It assesses the environmental load of its product's through their entire life cycle, from raw material extraction, to manufacturing, transport, consumer use, recycling and final disposal. By looking at the whole picture, it is clear that the choice of materials and manufacturing processes of suppliers have just as much bearing on the environment as the OEMs' own business operation. With this in mind, poten-

tial suppliers may be judged and existing ones continually assessed on the basis of lean manufacturing and environmental management principles that apply to the OEMs' own operations. Detailed environmental reporting by suppliers is required, which may partially be waived for those companies that gain ISO 14001

»We expect our suppliers to act as responsible corporate citizens and take a positive, proactive stance regarding labour, occupational health, safety, environment and ethical issues.«

As is true for issues regarding the environment, suppliers are now being

spotlight in today's changing business environment.

»More for Less«: Price Pressure on Suppliers

In an ideal world, the co-operation between OEMs and suppliers creates a win-win relationship. OEMs get the



certification. OEMs now often express a preference for dealing with ISO 14000 companies. The automakers Honda and Nissan go as far as to target 100% ISO 14001 certification for all of their suppliers by 2008, by 2005 for those in Japan

... principles of corporate citizenship and governance are being imposed

While procurement contracts are becoming more exacting on environmental grounds, the OEMs drive for »Sustainability« also means tougher social responsibility clauses. Hewlett Packard is not particularly unusual in its statement:

asked to impose the same principles of corporate citizenship and governance that their customers impose upon themselves.

...ideally the co-operation between OEMs and suppliers creates a win-win relationship...

These principles are coming to form part of the contract between suppliers and their customers. As a result, we are moving further and further from a situation where a component supplier can be judged solely by the product it makes. Every aspect of how a company is run and how it performs is coming under the

materials and components that they need to improve their products and take them to market at a competitive price, while suppliers are assured of a stable revenue stream that provides them with a sufficient margin of profit.

In practice, suppliers do not always fare so well. Where competition between suppliers is intense, prices tend to be pushed below the point where sufficient profit can be made. Also, demands placed on suppliers other than price, tend to increase over time, requiring them to commit more resources to serving their customers, and thus further reducing profits.

MAJOR OEMS BUSINESS AREA, SALES AND CABLE USE IN 2003

Company	Business Type	Net Sales (US\$ mn)	Wire & Cable Used (kt Cu)			Total
			Energy	Telecom	Winding	
ABB	Electrical & Electronic Products and Components	19.382	18,1	9,9	17,8	45,7
BMW	Automobiles	34.434	32,5	0,0	14,1	46,6
Canon	Computer Peripherals, Business Equipment and Optical Devices	23.242	25,3	3,7	12,6	41,6
DaimlerChrysler	Automobiles	136.860	87,6	1,9	38,0	127,6
Dell	Computers & Related Equipment & Services	31.168	55,1	7,1	33,2	95,3
Electrolux	Domestic & Professional Appliances, Garden Equipment	13.073	29,9	4,0	21,6	55,5
Fiat	Automobiles & Heavy Mchinery	51.930	25,5	0,3	13,5	39,2
Ford	Automobiles	160.754	107,4	2,3	46,6	156,3
General Electric	Diversified Manufacturing, Financial Services & Entertainment	125.913	85,6	9,8	24,0	119,4
General Motors	Automobiles	177.260	126,4	2,8	54,8	184,0
Hewlett Packard	Electronic Equipment	45.226	56,4	8,7	32,8	97,9
Hitachi Ltd.	Diversified Manufacturing & Services.	63.899	78,1	12,6	46,7	137,3
Honda	Automobiles	58.852	49,4	1,1	21,5	72,0
Hyundai Motor	Automobiles & Heavy Mchinery	30.893	24,4	0,5	10,6	35,6
IBM	Computers, Software & Consulting	83.067	26,2	3,9	15,5	45,6
Matsushita Electric	Electrical & Electronic Products and Components	56.545	36,2	5,2	61,9	103,2
Mitsubishi Electric	Electrical & Electronic Products and Components	29.169	33,3	6,3	37,6	77,3
Mitsubishi Motors	Automobiles	25.585	16,0	0,3	6,9	23,2
NEC	Electronic Equipment	41.658	20,8	2,9	18,0	41,7
Nissan	Automobiles	49.530	45,5	1,0	19,7	66,2
Peugot Citroen	Automobiles	45.021	35,1	0,8	15,5	51,3
Philips Electronics	Electrical & Electronic Products and Components	28.952	23,4	3,4	13,6	40,4
Renault	Automobiles	32.543	27,7	0,6	12,0	40,4
Samsung Electronics	Electrical & Electronic Products and Components	36.003	27,0	2,8	24,2	54,0
Siemens	Electrical & Electronic Products and Components	77.887	78,4	9,5	108,0	195,9
Sony	Electronic Products, Entertainment & Financial Services	60.578	37,6	5,6	18,6	61,8
Toshiba	Electrical & Electronic Products and Components	43.118	26,4	2,3	29,6	58,2
Toyota	Automobiles	120.754	105,6	1,9	45,9	153,4
United Technologies	Diversified Manufacturing	27.486	9,4	1,6	62,2	73,2
Volkswagen	Automobiles	79.266	59,9	1,3	26,0	87,2
Whirlpool	Domestic Appliances	10.343	27,2	2,5	19,8	49,5

Source. Metalica Ltd.

The relationship between OEMs and their suppliers often appears to be an unequal one. The top OEMs, which comprise the lion's share of this business, are very large companies, often with a global market presence. As they are individually very important as customers, they have a great deal of bargaining power in negotiating contracts with their suppliers.

OEMs now often formalise a very specific price commitment in their contracts with suppliers

The bargaining power is strongest where there is little differentiation between the products offered by different suppliers. Strong natural bargaining power is coming to be fully leveraged by the OEMs, as

they combine the power of company size in central purchasing with local knowledge in regional purchasing departments.

The pressure to perform well in price continues beyond the initial contract signing. Rather than a nebulous commitment to continue to offer competitively priced products for the duration of the

contract, OEMs now often formalise a very specific price commitment in their contracts with suppliers. As an example, under the heading of »cost management«, Whirlpool states that:

»Each Supplier is expected to deliver N% Total Cost Productivity yearly, which includes a NET X% cash flowed savings year over year, based on annual purchases.«

The values of »N« and »X« are contract-specific. Whirlpool goes on to explain that NET X% is a subset of N% Total Cost Productivity and refers to cost savings that hit its bottom line profitability, the savings originating either in lower prices or rebates. Where such contract clauses exist, the progressive lowering of the amount paid by customers means that a supplier's cost base must constantly be lowered if profits are not to suffer.

»More for Less«: Non-Price Issues in Supplier Contracts

Other than price, OEMs usually quote at least two other criteria as a basis for purchasing decisions, these being »Quality«, and »Service«. Sometimes »Technology«, an aspect of »Quality«, is specifically mentioned. »Delivery«, an aspect of customer »Service«, is also often listed separately as a primary basis for making purchasing decisions.

Whatever the labels chosen to define the criteria used in the supplier selection process, it is evident that, as for price, the commitment implied by the labels is becoming both broader in scope and more specific in meaning

...a strict »zero defects« philosophy is common...

By »Quality«, it is normal for OEMs to require products to conform to published international standards and also their own technical standards. OEMs frequently stipulate the internal design, testing and process control techniques to be used by their suppliers in order to achieve the required quality. A strict »zero defects« philosophy is common, where-

by defects are kept within closely defined limits and specific targets for their continuous reduction are agreed.

Regarding delivery, it is common for supplier contracts to stipulate an »Integrated Supply Management« process. This may stipulate procedures for the release of materials and components, their tracking, receipt, just-in-time delivery and electronic data interchange relating to the entire process. It is not uncommon for OEMs to have very specific requirements relating to logistics, such as the use of regional supply centres, in order to be assured of a continuous supply of the goods that they require.

while the involvement in design can be a burden, it can be an opportunity for the cabling maker

Logistics and delivery requirements are becoming more exacting.

More difficult still is the growing requirement for suppliers to be an integral part of the OEM design process. In order to succeed, a supplier cannot be simply a maker of components; he needs to be directly involved in the design and support of his product as a functioning item or system within the final assembled product. Supplier contracts often explicitly state a requirement for their suppliers to be directly involved in the design process and to deliver innovative solutions without necessarily being prompted to do so.

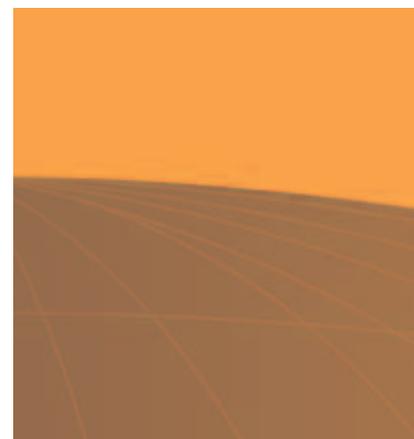
While the involvement in design can be a burden, it can be an opportunity for the cabling maker. At the early stage of product design, OEMs typically look at »functions« rather than »products«. A broad range of disciplines from purchasing through to engineering and design, quality control, marketing and finance may be involved in the process.

For any given function, alternative cable solutions with higher or lower electronic content, may be proposed. Being involved in design allows the cabling maker to state the case of the most cable-

intensive solution (where appropriate) and to gain better insight into what products he needs to offer other than cable to meet customers' purchasing needs.

Implications for Cabling Makers

It is clear that the OEM market is not an easy one to serve, and that the ground rules are becoming more difficult to adhere to. The OEMs experience continuous pressure to reduce their costs and provide greater functionality in the goods that they produce. The performance targets that they impose upon themselves are passed down, at least in equal measure, to their suppliers, and their suppliers' suppliers. For those companies that qualify to serve this market, continuous improvement in performance is required if they are not to fall by the wayside. Improvement is not only in price, quality and delivery; this is taken almost as a given. Cabling makers and other component suppliers are now being asked to show improvement in virtually every aspect of the way that they conduct their business, from manufacturing and management processes through to where they locate their plants and corporate citizenship. For the companies that do manage to serve this market successfully, however, there are rewards. Relationships between OEMs and their chosen suppliers tend to be long and mutually beneficial. Direct involvement in the OEM design process creates opportunities for suppliers to grow with their customers in both volume and the value of their product offering.



COMPANY NEWS IN BRIEF

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Superior Essex to Establish Global Leadership in Winding Wire:

After recently acquiring the US winding wire assets of Nexans, **Superior Essex Inc.** has announced that it has now signed a non-binding Memorandum of Understanding with **Nexans** regarding the acquisition of a majority stake in its winding wire operations in Europe and China. In Europe, Superior Essex would combine its own quite small winding wire operation in the United Kingdom with Nexans' market leadership position to achieve total revenues of US\$ 400 million, based on 2004 figures. Nexans would retain a »meaningful« minority stake in the venture. In China, Nexans would transfer its entire 80% stake in **Nexans Tianjin**, which in 2004 achieved revenues of US\$ 15 million.

Greenfield Investment in Chinese Winding Wire by Superior Essex:

As well as its pending deal with Nexans to gain control of Nexans Tianjin, **Superior Essex** intends to form a new wholly owned winding wire subsidiary in China at **New Suzhou**, near Shanghai.

Leoni Establishes Wire Harness Base in Southern China:

A joint venture agreement has been signed between **Leoni Bordnetze GmbH**, a subsidiary of **Leoni AG**, and Chinese wiring system and component manufacturer **THB Group**. The agreement will give Leoni majority control over THB's largest facility, located in Liuzhou, southern China.

MCI to Further Develop its Wire Harness Base in Northern China:

Production has started at **Mitsubishi Cable Industries' (MCI)** new automotive wires and components factory in northern China, Dalian **Lingxing Auto Parts Co. Ltd.** The initial investment was US\$ 28 million. MCI intends to invest a total of US\$ 100 million into the unit, setting up an R&D centre and turning Dalian Lingxing into a core design and production base.

SEI and SWS Deepen Their Wire Harness Presence in China:

The combined **Sumitomo Electric Industries Ltd. (SEI)** and **Sumitomo Wiring Systems Ltd. (SWS)** are also active in Chinese automotive wiring. The companies have set up two harness ventures, in **Huizhou**, Guangdong province and **Wuhan**, Hubei province, both 60% owned by SEI and 40% by SWS and serving the local production bases of **Toyota** and **Honda**. **Sumitomo Wiring Systems Ltd. (SWS)** had earlier announced the formation of a manufacturing and sales joint venture in **Huizhou** with its majority-held subsidiary, Hong Kong based **H.K. Wiring**.

Wire Harness Developments in ASEAN:

A major expansion is planned by automotive wire harness company **Juan Kuang (M) Industrial Bhd.** The company, which is 30% owned by **Sumitomo Wiring Systems (SWS)**, plans to set up an industrial park in **Batang Padang**, creating 2,000 jobs and costing RM20-50 million (US\$ 5.3-12.3 million). Juan Kuang currently holds 90% of the automotive harness market with Japanese automakers in Malaysia. With the help of SWS it intends to extend this dominant role with Japanese companies to the rest of ASEAN, while it is also actively marketing the Korean automakers in Malaysia on its own behalf. In a separate automotive wire investment Malaysia's **Wonderful Wire (»WW Cable«)** is building an RM25 million (US\$ 8.5 million) unit in **Medan** or **Acheh** in Indonesia. The decision to build the new plant follows the signing of a RM500 million (US\$ 130 million) six-year contract with harness assembler the **Lear Corp.** for the supply of automotive wire.

Alcoa and Fujikura Part Company:

A letter of intent has been signed between **Alcoa** and **Fujikura Ltd.** to divide their joint venture company, Alcoa Fujikura Ltd., which is 51% owned by Alcoa, 49% by Fujikura. Alcoa will

become the owner of **AFL Automotive**, with its business in automotive wire harnesses. AFL Automotive has 34 locations in 15 countries and employs 33,500 people. The fibre optic products company **AFL Telecommunications** will become a wholly owned subsidiary of Fujikura Ltd.

Cutbacks in Japan's Telecom Sector:

A cut of 20% in fibre optic capacity has been announced by **Fujikura Ltd.** following the poor performance in this sector. Production had already been halted in some plants, with a saving of Yen 1 billion (US\$ 9.5 million) in personnel costs. The company expects to relocate 200 employees to its electronics division. Some equipment will be discarded, Yen 2 billion (US\$ 19 million) in accounts charges being allotted to cover this. **Furukawa Electric**, also, continues to rationalise its **Information & Communications Division**, with the loss of a further 200 jobs (additional to the 200 lost in the first half of FY 2004/05). The unit currently has 1,400 employees. Sales of the Information & Communication division for the year are forecast at Yen 116 billion (US\$ 1.10 billion, 10% down on the previous year), resulting in a loss of Yen 12.1 billion (US\$ 118 million).

Chinese Optical Fibre Anti-Dumping Measures:

Following an investigation since 2003, the Chinese **Ministry of Commerce** has announced punitive anti-dumping duties to be imposed on foreign companies selling G652 single mode fibre into the Chinese market during the period under review.

Rationalisation in Electrical Wire Distribution in Japan:

The electrical wire sales subsidiaries of **Mitsubishi Cable Industries** and **Fujikura Ltd.** are to be combined. Shares in the new company, yet to be named, are Fujikura 60%, Mitsubishi Cable 30%, with **Nishinihondensen**, owner of **Dia Cable**, taking a minority 10%. Annual

sales of Yen 44 billion (US\$ 420 million) are expected. »Electrical wires« are sold mainly for building construction. Meanwhile, **Hitachi Cable Ltd.** is to merge its two electrical wire and copper products distribution subsidiaries, **Hitachi Densen Shoji Co.** and **Nissin Sangyo Co.**, retaining the **Hitachi Densen Shoji** name. Combined sales of the two units amounted to Yen 43.6 billion (US\$ 420 million) in FY 2003/04.

Hitachi Cable Invests in Electronics outside Japan: In China, a joint venture company, **Zhongtian Hitachi Radio Frequency Cable Co. Ltd.** has been formed between the local company **Zhongtian Technologies** (67%) and **Japanese Hitachi Cable Ltd.** (25%) as its major partners. The new company is targeting the mobile phone base station market. Also in China, Hitachi Cable has recently formed the new company, **Suzhou Hitachi Cable Precision Co. Ltd.** to make lead frames. In South Korea, Hitachi Cable has taken a 23.5% stake in wireless LAN antenna manufacturer **EMC Tech Co. Ltd.**

Investments in Vietnam: Taiwan's **Ta Ya** has opened an additional cable factory through its subsidiary **Ta Ya Vietnam Electric Cable & Wire Co.** in **Hai Duong Province**. The investment amounts to US\$ 10 million; annual sales of VND 240 billion (US\$ 15.2 million) are expected. Meanwhile, local cable company, **Thin Phat Electric Wire & Cable Co.** has also invested US\$ 10 million in the building of a new cable factory in **Long An Province**, near **Ho Chi Minh City**.

Investment in Laos: A new company, the **Watana Wire Cable Factory**, has commenced production near **Vientiane**. This is the second cable company in Laos. Watana Wire, backed by Thai investors.

Name Change at LG Cable: Korea's largest wire and cable company, **LG Cable Group**, has changed its name to **LS Group**. »LS« stands for »Leading Solutions«, the name change signifying the group's focus on a range of business solutions, including communications.

Court Approves Jinro Cable acquisition by LG Cable: At the end of December 2004, **LG Cable Ltd.**'s plan to take over **Jinro Cable Industries Co. Ltd.** was approved by the **Korean High Court**, the objections of **Taihan Electric** having been dismissed. As well as giving the company a commanding position in Korean cable, the acquisition is expected to give LG Cable a 30% share of the global shipboard cable market.

Plant Move and Upgrade by LG Cable: The **Gunpo** cable plant of **LG Cable Ltd.** in Gyeonggi Province is to be closed and production moved to a new plant in the **Wanju Industrial Complex**.

Pirelli Raises Cash to Finance its Non-Cable Interests: A more immediate need for cash has been recognised by **Pirelli & C.** than can be met by its cable unit sale. This relates to the company's controlling stake of **Olimpia**, which in turn has a controlling stake in **Telecom Italia**. With Telecom Italia's recent offer to buy shares in **Telecom Italia Mobile**, the Olimpia stake in Telecom Italia was in danger of being diluted. For this reason, Olimpia has approved a € 2 billion (US\$ 2.6 billion) capital increase. In turn, Pirelli shareholders have approved a € 1.08 billion (US\$ 1.41 billion) rights issue to fund the company's share of the Olimpia capital increase.

Investments in the United States: The combined **Belden CDT** is recalling more than 100 workers at its **Fort Mill**, South Carolina plant. The workers had been laid off following the merger between Belden and CDT in July 2004. Fort Mill will be developed as Belden CDT's networking division headquarters, with new investment of over US\$ 10 million. Meanwhile, in New York State **Owl Wire & Cable** has opened a wire drawing facility on the former **Rome Cable** site in Rome. The company is spending US\$ 2.7 million on equipment from the bankrupt Rome Cable. Owl Wire & Cable, a **Marmon Group** company, employs around 350 people: It envisages further expansion at Rome.

Changes in Information Cable Business at Draka: In Russia, Draka

Holding now wholly owns the copper telecom cable company **Neva Cables**, having bought the 49% share owned by its former joint venture partner **North-West Telecom (NWT)** for an undisclosed sum. Early in 2004, Draka had agreed with NWT a joint investment of € 2.5 million (US\$ 3.3 million) in order to double the limited capacity of Neva Cables: Draka was to have provided most of the financing and increased its share in Neva Cables to 75%. Meanwhile, Draka Holding has sold its subsidiary **NKF Electronics BV** to US company **Optelcom Inc.** for € 20 million (US\$ 26 million). NKF Electronics, with 75 employees, makes video network cable and has an annual turnover of € 15 million (US\$ 20 million).

Investments in Automotive Harnesses: In 2005 Nexans plans to invest MAD 15 million (US\$ 1.8 million) in **Nexans Maroc** in **Morocco** to boost automotive wire production. In 2004, MAD 35 million (US\$ 4.0 million) was invested in Nexans Maroc. In **Lithuania**, a second automotive wire harness factory has been set up by **Yazaki's** European subsidiary **Yazaki Wiring Technologies GmbH** at **Lietuva**. Investment in the original Lietuva unit amounted to € 34 million (US\$ 44 million).

Ownership Change in Russia: An ownership change is underway at **Kamkabel**, formerly Russia's largest cable producer and still a major participant in power cable and winding wire. The current owners are negotiating with **Fedcominvest** the sale of a controlling interest in the cable company.

Major New Wirerod Line in Abu Dhabi: The **Emirates International Investment Company LLC (EIIC)** is to invest in a 100,000 tpy copper wirerod line costing Dh183 million (US\$ 50 million). Construction is underway and first production is scheduled for August 2005.

POF Comes of Age? A milestone in the development of Plastic Optical Fibre (POF) was reached as the first building in Europe has been equipped with this data cabling technology. The headquarters building of em2c in Lyon has a complete FOF data cabling system.

