

Inventec case

Business



Inventec Corporation Case Study Inventec Corporation lies in the ODM industry which designed and manufactured electronic products for client companies that marketed the products globally.

Despite its growth and size, Inventec is not very profitable for the following reasons. To begin with, the ODM industry's average profitability is low. Net margins of leading Taiwan ODM companies range from 1% to 6%. The low profitability is mainly driven by the huge customer bargaining power and the fierce competition.

ODM's clients, these global electronic companies face fierce competition themselves and have a need to lower cost. Their strategy to diversify contract manufacturing partnerships reduces their reliance and increases negotiation power against ODM industry.

Consolidation within OEM industry further gave them greater bargaining power over the segmented ODM. The fierce competition from both existing competitors in ODM industry and the substitute EMS industry further drives the profitability low.

The large manufactory capacity has resulted in ODMs competing with each other for more market shares, which pushed the price down. EMS also provides clients manufacturing, sourcing, procurement, inventory management services. EMS usually doesn't maintain Intellectual Property and are not likely to compete with OEM clients. This has made them an attractive substitute for those OEM clients who want the design of product to be customized and confidential.

In 2004 EMS consumed 61% of contract manufactory revenue.

Their willingness to maintain the low profitability put price pressure on ODM industry. To make competition more fierce, new entrants threat arise for ODM industry when EMS such as Flextronics attempted to move to higher margin ODM industry by creating in house design teams and acquiring second and third tier ODMs. The ODM industrys average profitability is thus squeezed. And for Inventec, the profitability is not the top among leading firms, with net margin of 1.

2% compared to Asusteks 6%. Majority of their revenue comes from manufacturing of hardware for OEM, which has a lower margin.

Since Invetec has a preference for top OEM, they are at a disadvantage position during contract negotiation. Furthermore, the increased value of their software was lost due to the ever tightening squeeze on hardware supplies. Their relatively small scale compared to other first tier ODMs worsens their profitability.

To improve the profitability, company like Inventec should develop their competitive advantage and maintain customer satisfaction. Their patents and designs differentiate them from their EMS substitute.

To distinguish from competitors and retain OEM clients, high quality service should be maintained. Customers' requirements such as peculiar design and fast delivery should be satisfied. Expansion into brand product should be carried out with cautious to avoid direct competition with OEM clients.

Efforts such as expand the scales should also be made to enlarge the negotiation power with OEM clients. Development option. Most Inventec patents were for software solutions. Their strength in software can add unique value to clients. India software industry's success is a good lesson.

As they focused solely on software platform, it is easily recognized as a value-added product with higher margin. The Chinese ODM incorporated their software onto the hardware system. As OEM continues to squeeze ODM for lower price and other ODM competitions, the values of the software was significantly reduced. Learning from India's software industry, Inventec should create a subsidiary software department. Instead of just keeping the software in-house as embedded on hardware, the subsidiary will market the software to other manufacturing company.

Expansion of the subsidiary can also move away from hardware programming onto true software programming in area such as translation software or similar programs.

Inventec should also diversify client base to include multiple companies instead of focusing on the top brand in each field. This will allow Inventec a greater bargaining power with their OEM clients, and it will ensure the survival of Inventec in case a major client decide to leave, such as the influence they suffered from Apple's decision to split its iPod contracts among other competing ODMs and HP's acquisition of Compaq.

To maintain more clients, since many OEM refuse to contract out new technology to ODM, Inventec could create a subsidiary company that approaches existing OEM client, and the new subsidiary will deal solely in the <https://assignbuster.com/inventec-case/>

production of next-gen PC, PDA, cell phone, or MP3 designed by the OEM. This would enable Inventec to become more competitive against EMS substitutes and achieve possible economic scale if they only focus on production so that cost can be further saved.