

Welcome to IF Consulting's weekly e-mail newsletter

August 20, 2004

Our regular email tackles the topical issues that surround all marketing channels and their underlying strategies.

Three little letters set to make a big impact

Virgin is about to launch an attack on digital music hardware giants Sony, Apple and Dell, made possible through a largely unnoticed but significant shift in the electronics industry. The "ODM revolution", where ODM stands for Original Design Manufacturer, allows the big brand companies to get products at very low prices with little upfront investment.

Based mainly in Taiwan, ODMs manufacture state-of-the-art electronics, such as MP3 players, notebook computers, DVD players, and LCD TVs, for well-known companies with brands familiar to Western consumers.

Dell has taken advantage of the ODM revolution. By shopping around the ODMs until it found products it liked, Dell was able to request modest customisation to fit the company's branding and commenced selling PDAs and LCD TVs in a relatively short time frame.

By dramatically lowering the barrier to entry, ODM will cause quite a stir in the electronics industry. The Virgin Group, for example, having made the decision to focus on music hardware, immediately dropped all non-music products from its electronics stable. It would be almost impossible for the electronics giants to be so flexible with production, yet with no factories to shut down or workers to lay off, players in the ODM world and shift products almost instantly.

<http://www.siliconvalley.com/mld/siliconvalley/9279971.htm>

IF Comment

Common in the Supermarket sector, with grocers' own-brand food lines, or in the Department Store sector, with named clothing lines, outsourced product development has moved into new product markets. The recent developments in Consumer Electronics represent a new wrinkle on the practice.

Over recent decades, electronics manufacturers have outsourced more mature products, often to contract manufacturers such as Solectron, to maintain margins, while keeping advanced and speciality products in-house.

The new development represented by ODM is that the external fulfilment of the product is deliberately planned at the very beginning of the product life cycle, even at the genesis of the product line, as in Virgin's case in the accompanying article. In the arrangement (we cannot properly call it 'outsourcing' in this case, because it was never 'in'), the principal describes the desired product functions and product appearance, then the manufacturer executes the engineering and assembly.

In this case, Dell, which does manufacture most of its core PC and server product lines, enters this manufacturing arrangement to gain incremental revenue on orders by bundling, eg, a Dell PC sold together with a Dell-branded but ODMed printer and flat screen monitor.



Marketing Channel

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Dell gains the margin on the product resale whilst it can also mine its customer base for more share of wallet and sales of concomitant services (eg, extended monitor warranty coverage).

Dell's recognised logo, respected product quality, high customer service level and consistent styling allows it to execute this approach without damage to brand equity, and the Dell 'look and feel' makes it invisible to the customer. Famed for its laser-focus solely on direct-to-market channels, Dell has, for certain products, nearly morphed itself into a marketing channel for others' manufactured goods.

Snippets

Oracle, in an attempt to mend its marketing channel fences, is rolling out a new program to cut partners in on potentially lucrative business. The new program promises to give dedicated Oracle partners entry into the database giant's biggest accounts.

<http://www.crn.com/sections/breakingnews/breakingnews.jhtml?articleId=29100888>

As part of a strategy to force its way onto Apple's iPod digital music player, RealNetworks launched a promotion last week that halves the price of its digital music offerings.

<http://www.iht.com/articles/534455.html>

Looking to reduce costs, global auto giants are moving parts production to low cost location outside restrictive western markets. India's Tata AutoComp Systems (TACS) may be planning an IPO to give it the financial backing to take advantage of this trend.

<http://www.datamonitor.com/~3543aa86a58b4d94bc842de9025c8b~/industries/news/article/?pid=2F846DE0-3AAA-439E-9E26-DF46577BBD1B&type=CommentWire>

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IF Consulting publishes "Our View", a quarterly review of topical marketing channel issues. Samples are available on our website. To receive "Our View", please return this email with your address details.

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<http://www.i-f.com>