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Critical Success Factors for Consumer Electronics & Appliances Companies to Meet Today's Top 3 Issues

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One of the fastest moving industries in the world has always been electronics, and those who supply the consumer segment of this market are hit from all sides with margin squeeze and new product introduction (NPI) pressure. Consumers want trendy new products at affordable prices in special configurations for their region and demographic group. The opportunity in supplying consumer markets is growing extremely rapidly, but so are the challenges. The three top issues facing manufacturers and distributors of consumer electronics, appliances, and computers are:

- Speed has always been of the essence in electronics, and fickle consumer tastes compound the issue of short product lifecycles and even shorter market windows to have first-to-market status and the likelihood of greater acceptance and margins.
- Business risks of parts shortages and inventory liability only increase with ever-shorter product lifecycles, volatile demand, and supply chains spanning the globe. Outsourcing usually only shifts some of the responsibility; every player in the market faces high risk.
- Regulatory compliance pressure continues to mount as concern for the environment takes the form of legislation about hazardous materials used in electronics such as RoHS and the recycling of products at the end of their operating life such as WEEE.

There is a set of critical success factors (CSFs) that consumer electronics, appliance, and computer suppliers must meet to profitably meet these challenges. The electronics industry still uses many information systems that are not focused on collaboration. Companies must live up to the CSFs and have information flows to support them, or risk obsolescence.

Speed

Electronics companies have to work fast just to use the latest technologies. Changing consumer tastes and interests further complicate the picture, as do new competitors from around the globe. Outsourcing allows companies to jump into new markets with relatively little capital investment – and innovative ideas drive market success. Those who lead the market in one revolution often cannot adapt fast enough to be competitive during the next major market trend (or for subassembly providers, gain design wins). Critical success factors for consumer electronics companies to maintain speed include:

- Developing diverse product lines for “one stop shopping” for customers
- Developing effective and cost-efficient supply chain processes with trading partners
- Working closely with partners to conceive and develop products that will allow expansion into new market segments
- Coordinating all departments for speedy NPI and ensured customer service – design, procurement, production, distribution, and customer-facing sales and service
- Recognizing and notifying all departments and partners of changes in market demand to ensure speed of response
- Creating smooth new product ramp-ups and obsolete product phase-outs

These critical success factors require integrated enterprise solutions that span departments and enable trading partner coordination and collaboration, as shown in the top section of Figure 1. These range from demand planning and EDI to multi-site operations planning, logistics and distribution planning, and real-time event notification.

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Enterprise Solution Requirements for Speedy, Low-Risk, Compliant Consumer Electronics & Appliances
Demand planning based on customer forecasts and schedules for new products plus spares, replacements, and accessories
Support for EDI and RosettaNet standard format data exchange with customers
Multi-site global planning and localized scheduling
New product introduction integrated demand, operations, and logistics planning
Global multi-site inventory and distribution planning
Real-time notification of events impacting demand projections and inventory levels
Variant product configuration – family BOM and multi-level components with ability to swap components as appropriate in their lifecycle
Product and part lifecycle management with engineering change management shared across the company for precise timing of change-overs
Safety stock planning based on time-phased BOMs
Supplier sourcing linked to engineering changes to support customers' supplier certification policies
Alerts and updates of material obsolescence and supply or demand chain problems
Ability to segment inventory by environmental certification or suspicion of counterfeit items with allocation of only qualified inventory by region of shipment
Complete track and trace through lot and serial numbers at every level of BOM
BOM and supplier filters to ensure only approved components and suppliers
Tracking progress of redesigned products and assemblies through prototyping and testing to ensure compliant versions of products work as previous
Complete customer location and ship-to records from retail customers for end-of-life pick up and recycling
Document management for proof of hazardous substance restrictions, environmental reporting, and ISO 14000 reporting
Manage an explosion of product data, master data, hazardous materials data, and supplier certifications

Figure 1: Consumer electronics and appliance suppliers have a range of integration and collaboration requirements for their enterprise software.

Business Risks

Exposure to inventory obsolescence doesn't just happen during economic downturns; it happens during every change in technology and every new product introduction. Companies must put processes in place to avoid their risk of major write off, particularly as they have expanded capacity and warehousing to meet broader and more global markets. Stock-outs for consumer products can be just as devastating. Even a successful new product can fall from favor if consumers cannot get it but have alternatives. Critical success factors for minimizing or mitigating risk show up as the following business practices:

- End-to-end inventory management to minimize both obsolescence and stock-outs
- Book and ship within 24 hours based on high-yield, flexible production, or efficient distribution
- Demand-driven replenishment based on vendor managed inventory (VMI)
- Collaborative demand planning and sourcing among departments and trading partners
- Accurate, responsive worldwide distribution networks
- Contract-based procurement, order and billing management to ensure each supplier and customer and is treated appropriately and shares risk as agreed

Risk is based on many factors from contracts to collaboration. Enterprise software systems can play a major role in the success of consumer electronics and appliance companies' ability to navigate

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profitably through this complex world. Integration of functions from inventory and replenishment to production and distribution management is a foundation, as shown in the second segment of Figure 1. A full view of product lifecycles through BOM management and engineering change management are also critical.

Regulatory Compliance

To fully meet all the requirements for removal of potentially hazardous materials and to recycle products at end-of-life, manufacturers and distributors must have complete product history and materials tracking. Companies' responsibilities have expanded due to the European-mandated Restriction of Hazardous Substances (RoHS) and Waste Electronics and Electrical Equipment (WEEE) plus similar laws in Japan and other regions, thus increasing risk if suppliers are not very close partners. Many manufacturers are struggling to comply and some customers are demanding even faster adoption than the laws require. Critical success factors include:

- Analysis of sourcing and BOMs for compliance, with recertification of suppliers
- Managing supplier certificates and proper lot handling and tracking
- Redesigning products to eliminate hazardous materials and make them easy to disassemble and sort into component materials for recycling
- Tracking potentially hazardous components across the supply chain
- Sorting and labeling inbound materials into compliant and non-compliant stock and ensuring each group is used only for shipments to appropriate regions
- Ensuring manufacturing operations are in compliance with all regulations at all times

To support these CSFs, companies require enterprise solutions with some special functionality, as shown in the last portion of Figure 1. Key capabilities include segmenting inventory by certification or suspicion of counterfeit items, complete lot and serial tracking, BOM filters for components, managing an explosion of regulatory data, and documentation of proof for all regulatory compliance.

Set the Trends

Companies that supply the consumer electronics and appliance industry face a need for extreme speed. The critical success factors for this industry are changing rapidly, and companies must move at least as fast as their product lines change. While many companies in the segment still use disconnected and piecemeal systems or spreadsheets, the complexity of regulations, supply chains, and short product lifecycles makes this an obsolete practice. To gain customers and cement a place in the consumer market, companies must have integrated enterprise-wide systems that allow them and their global supply and distribution networks to react quickly and be in a position to set trends.

About Industry Directions

Industry Directions is an independent market research firm that delivers expertise on business processes and IT solutions. Its expertise enables companies to optimize their participation in manufacturing-supported value networks and gain strategic advantage. To learn more, visit: **www.industrydirections.com.**

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