

Product Development Services Help Customers to Focus on Their Core Areas

By outsourcing product design to a partner, equipment manufacturers can focus their own development activities on products that are important for them and get products more quickly onto the market.

THE TERM ODM (Original Design Manufacturing), which has earlier been used for example in the computing industry, means that companies with product design expertise design and manufacture a product for their customers. The key technology and components used are normally off-the-shelf products.

"A company providing ODM services designs and manufactures the product for the customer company, which owns the brand. By outsourcing design and manufacturing in this way, the client needs only one instead of two outsourcing contracts. When design services are linked seamlessly to the manufacturing process, the total process is more efficient than when design and manufacturing are carried out separately," explains **Mr Anssi Korhonen**, head of Elcoteq's product development services.

Outsourcing product design has also become more common in the mobile phone industry. Elcoteq aims to focus not only on handsets but also on home communications electronics and communications network equipment. Certain customers in these areas have already said they would like Elcoteq to participate in the design of their products.

Some 970 million mobile phones were manufactured in 2006, and 130–140 million of these were made with the ODM business model. The mobile phone market grew some 20% in 2006. The ODM business is generally expected to grow faster than the mobile phone market.

ODM manufacturing of mobile phones only started in 2001 and has grown rapidly during the past few years. ODM has been one factor that has helped keep mobile phone prices under control, and even to bring them down. Mr Korhonen adds that ODM has also helped some smaller manufacturers to launch phones at competitive prices.

Getting Concepts Quickly to Market

"It's important for the value chain to function smoothly right from the product design stage. And it is for that reason that we have got involved in product development during the past few years – not so much for the value of product design itself, which in fact forms only a very small part of the total cost of the product, but so that we can also bring added value to the manufacturing of the product," says Mr Korhonen.

Elcoteq's product development services, with 150 personnel, are located in Finland, Russia and China. The company is also looking at the possibility of starting product development operations for example in Bangalore, India. The product development service makes product platforms available and brings new technology into use for customers more quickly than if they obtained it themselves.

Using the ODM model, companies can therefore expand their product range and maintain dozens of different models that change rapidly. Although an external observer might easily think that the ODM model appears only in the low-cost phone product segment, Mr Korhonen affirms that it is used in all product segments.

"To introduce certain standards and technologies is often vital for customers. When a technology has reached a certain stage of maturity, ODM companies can help bring a concept quickly onto the market," says Mr Korhonen.

R&D Resources for Core Areas

Customers often use their own R&D resources on their core products or product areas. "Many companies are concerned about rising costs, so they focus their own R&D resources on products from which they believe they will receive the greatest return on their investment."

In line with its ODM strategy, Elcoteq develops certain technology and product platforms itself, and expands its service offering by cooperating with design partners. Mr Korhonen emphasizes that one company cannot be best in all areas and that it has to expand its offering through partnerships.

Mr Korhonen considers that Elcoteq's competitive edge derives from the company's global operations and process-oriented approach. Services have been brought together under a single umbrella, so the company can supply the entire service chain and not just parts of it.

"Integrating design and manufacturing saves time in the ramp-up stage of production," stresses Mr Korhonen. "Elcoteq does not have on-the-shelf products on which customers stamp their logo. Our model is based on longer-term cooperation. Even so, the end result of a global project may be that a product is brought into volume production in nine months."

ODM is one business model for carrying out product design. Other options include collaborative and joint development. The idea behind these business models is to supply a product project or to participate in a customer's project using the customer's proprietary technology or a technology specified by the customer.



Photo: Miika Kainu

"We not only expand the customer's R&D, we can also start up volume production quickly thanks to our global plant network," says Mr Anssi Korhonen, Senior Vice President, Product Development Services at Elcoteq.