



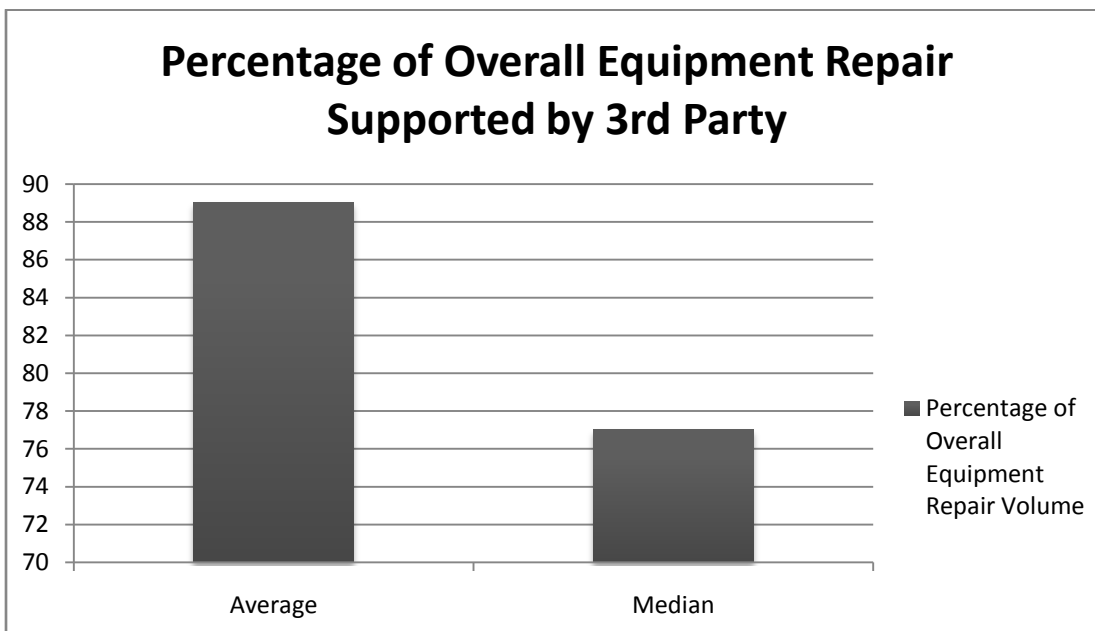
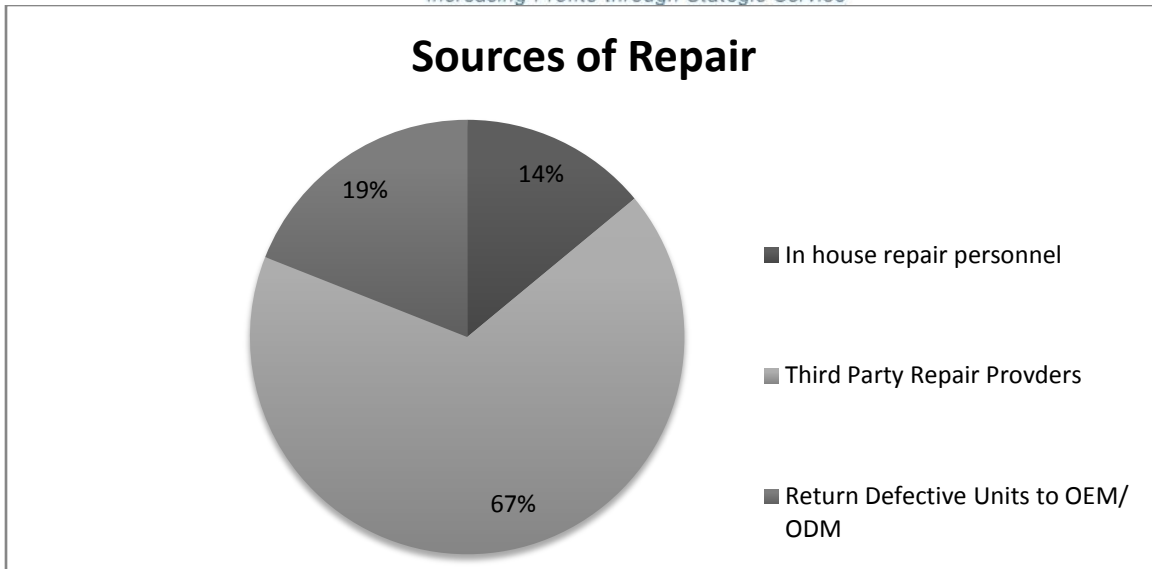
Large and Global Doesn't Mean Better: Making the Case for Regional 3rd Party Repairers

By Michael R. Blumberg, CMC

In the course of Blumberg Advisory Group's (BLUMBERG) extensive research and analysis on the Reverse Logistic and After Market Service Industry, we have discovered an anomaly in our data that bucks common assumptions and trends: Despite the sweeping number of Original Equipment Manufacturers (OEM's) outsourcing their depot repair requirements to large, global 3rd Party Service Providers (3PSP's), smaller regional 3rd Party Repairers, operating a single site in one or two countries are still surviving, even thriving, in the current economic environment.

In an attempt to better understand these occurrences, we asked ourselves three questions: First, how is it that these Regional Service Providers are staying afloat against the Global competition? Secondly, what practices are successful Regional Providers implementing? And lastly, is there an inherent benefit with the offering of a Regional Provider over a Global Provider?

The data for our research involved direct interviews with over one hundred (100) Consumer Electronics, Telecommunications, Wireless, and Computer OEM's of various revenue sizes. The respondents were mostly senior level management whose corporate responsibilities included Customer Support, Services, Supply Chain, and Logistics departments. They also all utilized different methods to manage their product's depot repair either supported or sold by their respective organizations. Finally, over two-thirds of the respondents indicated they outsource some portions, or all of their depot repair requirements to 3rd Party providers.



As we began researching our questions, we found that OEM's pay a great deal of attention to the level of service, and quality of repairs, that they receive from individual repair sites within their 3PSP's operation. In other words, OEMs tend to be more focused on the level of service and quality they receive from an individual repair facility as opposed to the level of service from the organization as a whole. In essence with all things being equal, OEMs have more control over smaller, regional players than large, multi-site global providers. As such, some OEMs prefer to deal with smaller regional players in order to manage risk and ensure optimal results.



The cost factor is another reason why some OEMs prefer to deal with smaller, regional sized players. One of the first things we saw was that Regional Providers were able to provide their clients with lower transportation costs, simply because the geographical proximity between the customer and provider are close. It is often said that there are multiple legs of transportation for every product shipped and repaired. Given the high cost of fuel, it is not always cost effective and productive for an OEM to ship their products to repair facilities in low cost regions. The transportation costs alone could off-set any cost advantages. There are also hidden or “soft” costs associated with off-shore repair such as duties and tariffs; damages due to shipping can also occur. Most importantly, rapid modes (e.g., same day, overnight, etc.) of transportation to low costs regions can be very costly. In addition, the OEM must hold more inventories on hand in order to ensure high levels of availability if a slower, less expensive mode is selected. The net result is higher logistical costs.

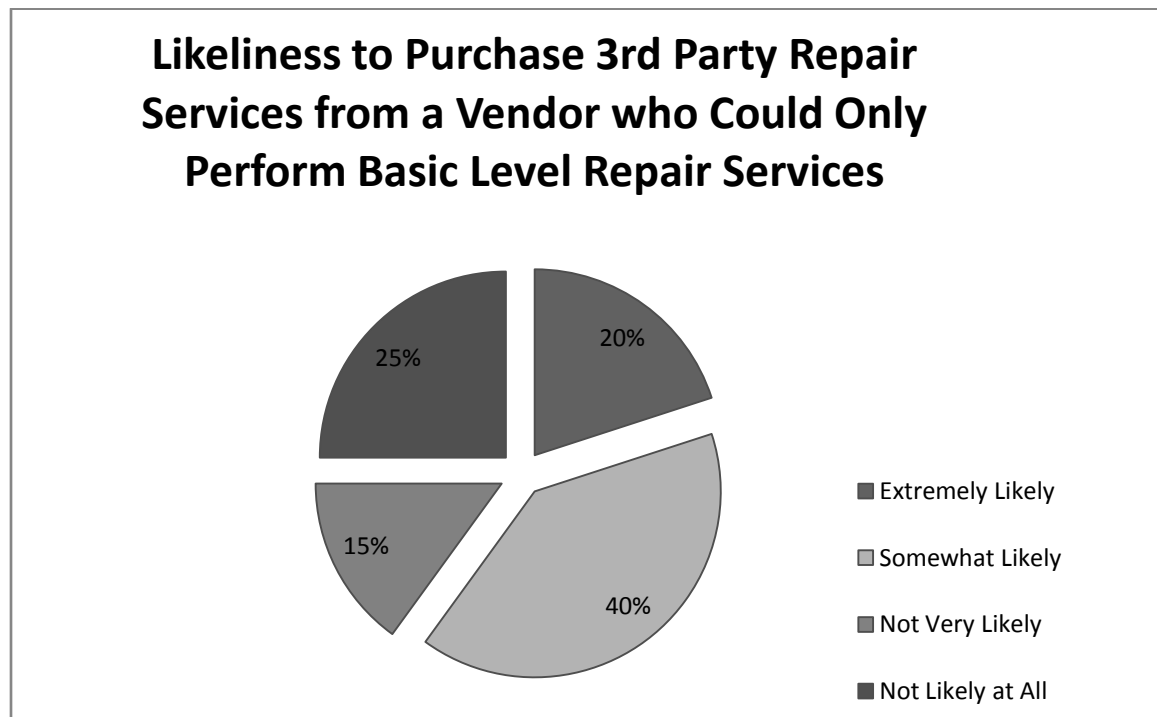
The other benefit that comes from a narrower geographical focus is that the Regional Provider has a closer proximity to the OEM’s customer base. This is useful as the Provider and customer interface with common language and culture, as opposed to Global relationships where communication and expectations are hedged for the sake of lower cost wholesale production. As such, regional providers are often perceived as providing better customer focus than global providers. This is because regional providers have a better understanding of the culture in which their customers operate. Overall, our survey showed time and time again that **customer attention** was what OEM’s uniquely received from Regional Providers and one of the main factors that drive them to award continual business to these providers.

**Most Admired Characteristics of Regional 3rd
Party Repairer Vendors**

- Customer Focus & Attention
- Flexibility
- Problem Solving Capabilities
- Reverse Engineering Capabilities
- Work Ethic & Culture

We've also found that in order to compete effectively with Global Providers, Regional Providers have developed superior problem solving capability through a combination of ingenuity and experience. Like a laser's pinpoint beam, a smaller team is able to focus and target a problem with precision in a way uncommon in larger teams that are bogged down with multi-tiered group dynamics and large corporation red tape. This skill stems from a "can-do" attitude that permeates the smaller teams that we researched. These teams showed a sense of urgency to product problems their customers faced.

Our survey also reported that there is a prominent perception that Regional Providers offer stronger reverse engineering capability. This has to do with the flexibility and breadth of capability that Regional Providers are able to provide to their customers. Historically, regional providers are viewed as the "go to guys" for product repair where the availability of test procedures, documentation, and schematics are often lacking. This is often the case in situations where the intellectual property is lost because it resided with employees who are no longer with the OEM or in instances when the technical content is written in a foreign language.





Our recommended strategy for Regional Providers, in general terms, is to cement their foundation (i.e. beneficial qualities such as shared language and culture that are inherent to their geographical location) through effective marketing that highlights these said qualities. Additionally, concerted efforts to team build based on a spirit of motivation and shared ingenuity will lead to higher customer satisfaction and a larger client base.

In conclusion, the above article paints an important picture: that by following and strengthening the qualities outlined in this article, the “little guy” is positioned to reap the benefits of this globally dominated service provider industry. Through lower transportation costs, closer proximity to customer base, shared language and culture, problem-solving abilities, a “can do” attitude, and stronger reverse engineering capability, regional service providers are able to offer industry-best practices and separate themselves from their competition whether it be other Regional Providers or their global counterparts.

About the Author

Michael R. Blumberg is a Certified Management Consultant (CMC) and President & CEO of Blumberg Advisory Group, Inc. His firm focuses on providing strategic and tactical assistance to client organizations for improving the overall profitability and quality of aftermarket service operations. Mr. Blumberg has established himself as an expert and industry authority on Reverse Logistics and Closed Loop Supply Chain Management.