

## Farm out: to a new risk reward relationship



*We believe that OEM companies are aiming for a higher level of outsourcing, to speed up their innovation process, to reduce their organization complexity, to free up working capital, to lower their break even point and to reduce costs*

## The high-tech world of today

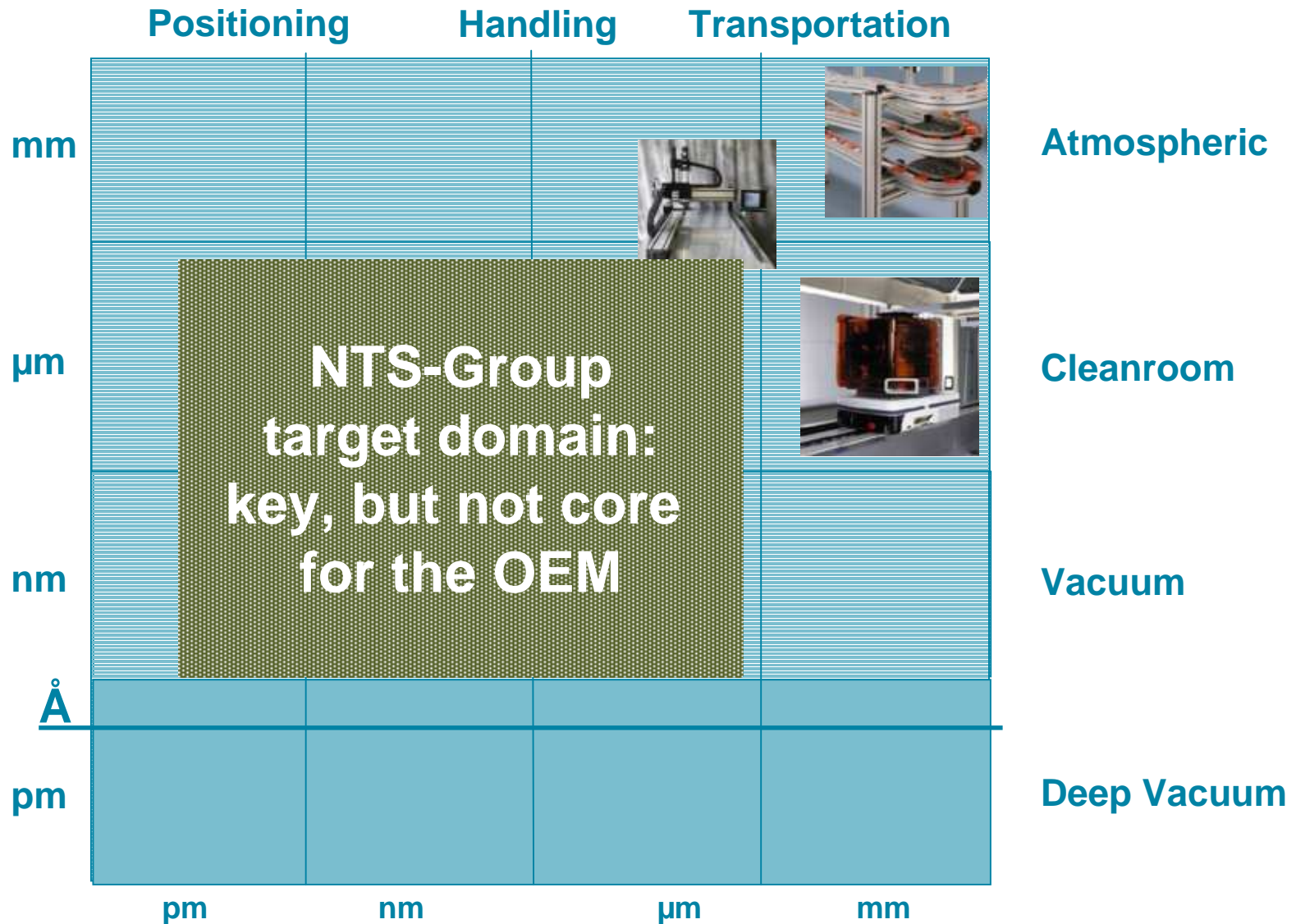


- World wide competition
- Increasing complexity
- Flexibility and agility demanded
- Shorter product life cycles
- Upfront investment for new product development grows
- Pool of technical talent shrinks
- Cost price pressure
- Higher quality levels required



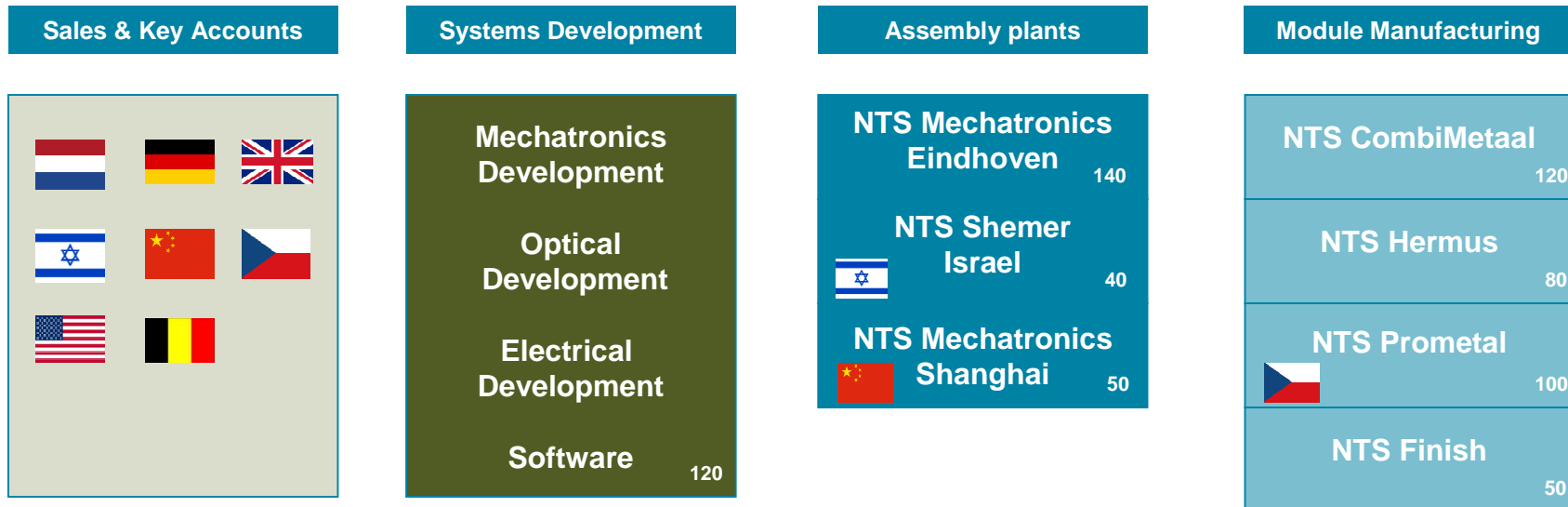
*Being a system supplier, we believe to have a unique position to scale up our relationship towards a subsystem or module supplier based on a functional requirement rather than a completed design from the customer*

# Process accuracy vs. positioning accuracy

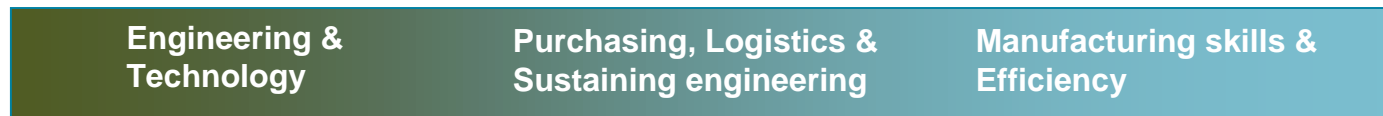


*We believe we can only fulfill this role if it concerns a module/subsystem with a generic character, where through repeating the concept, costs and risks can be shared with others in a sound and profitable business model.*

# NTS-Group organization



## Key competences



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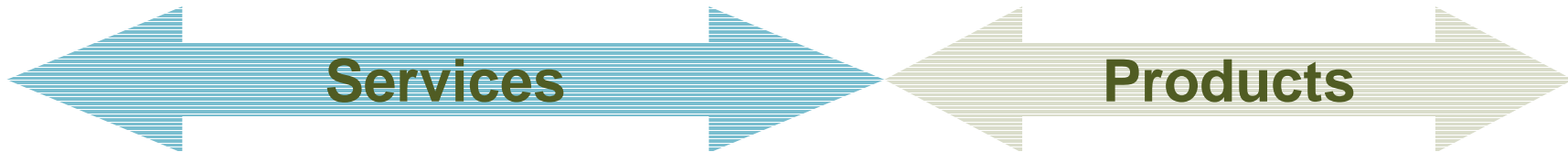
**Propositions:**

- Products (product price)
- Services (hrs \* tariff)

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**Proposition:**

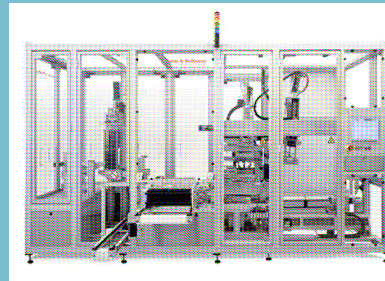
**Services (hrs \* tariff + BOM + Log. Surcharge)**



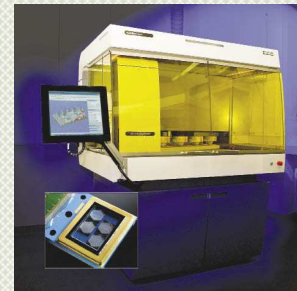
## Mechanical Systems & Components



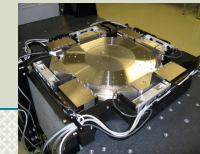
## Mechatronic Systems



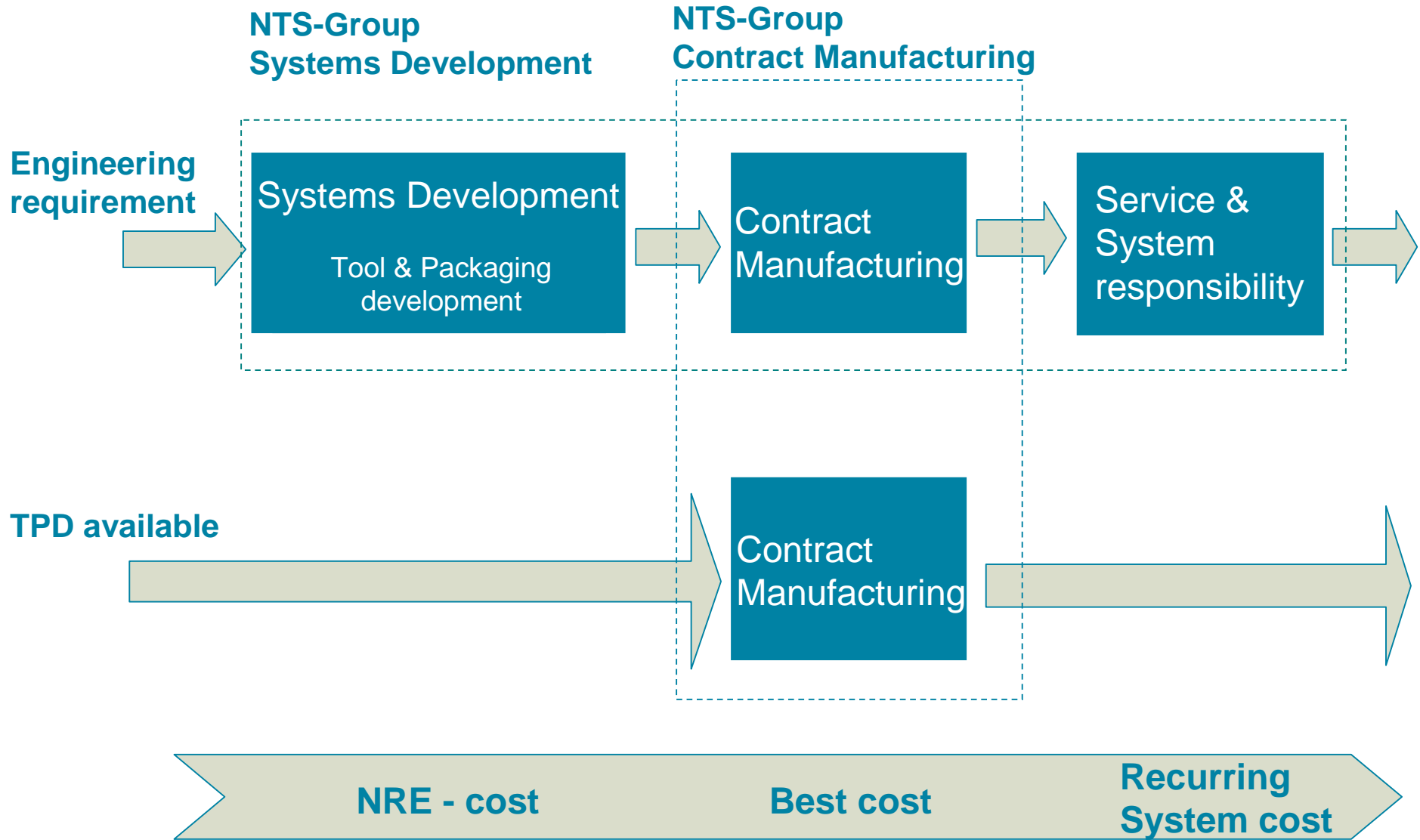
## Systems Development



## OMM



# Outsourcing levels



## P&L of OEM's versus System Suppliers



	OEM 1 - OEM 2	System Suppliers
<b>Net Sales</b>	<b>100 - 100</b>	<b>100 - 100</b>
<b>Gross profit</b>	<b>43 (41) - 40 (42)</b>	<b>14 - 12</b>
<b>R&amp;D costs</b>	<b>12 (14) - 12 (11)</b>	<b>0,5 - 0</b>
<b>SG&amp;A costs</b>	<b>4 ( 6) - 22 (21)</b>	<b>7 - 7</b>
<b>Income from operations</b>	<b>27 (21) - 6 (10)</b>	<b>6,5 - 5</b>

- **What is the limitation (both operationally as well as financially) of the risk of the supplier?**
- **How to calculate this risk in the price of the module?**
- **Is the supplier able to manage the risks?**
- **What level of R&D will the supplier be able to afford?**
- **Is the OEM prepared to change the actual “cost price plus” calculation models towards suppliers?**
- **Is the OEM prepared to shift some development skills to the supplier (and are the engineers involved willing to do this)?**

*We believe that farm-out can bring benefits both to OEM's as well as suppliers. It will strengthen the whole Dutch supply chain in the worldwide competition. However there are still many issues to solve.*

*It is wise to walk this path together.*

*Thank you!*

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