

Case Study – A Virtual Supplier

Have you ever heard of Solectron?

It was a major manufacturer, but you would have not found its name on any products. Solectron was acquired by Flextronics International Limited in 2007.

Solectron was a virtual supplier for a large number of other companies. It manufactured computers, printers, cellular phones, and other electronic goods. It did not manufacture "off-brand" products either; its customers included IBM, Hewlett Packard, and Cisco Systems.

Solectron was so efficient that HP, IBM, and Texas Instruments were turning over their factories to the company, including their employees. European companies like Telefon AB, L. M. Ericsson, and Nokia outsourced some of their production to the U.S. Even Mitsubishi sold some production lines in Georgia to Solectron and contracted with the firm to make cellular phones on the lines.

Outsourcers can get a product into production quickly to meet changing market demands. Ingram Micro, Inc. is a distributor of computer products; it hired Solectron to develop and run 11 plants worldwide to build personal computers. Solectron's annual revenues were around \$5 billion. While Solectron did have some production overseas, it had added employees and expanded products at factories it purchased from IBM, HP, and Texas Instruments.

The company was a study in efficient manufacturing practices. It invested heavily in training for its employees, even offering language classes for immigrant workers. While wages were not extremely high, promotion came quickly; one year 25 percent of the company's California workers were promoted. The company bought \$3 billion worth of components, giving it some of the best prices. It had lean operating margins, spending 90 cents for a dollar of revenue. Solectron relied on high volume and control of its overhead to make a product. The company was obsessed with quality; it could not afford to lose a customer or spend a lot of time reworking products with flaws. Each week 150 customers graded the company on quality. A score below a B- required managers to present a remedial plan to senior executives and the customer within three days. We often talk of virtual companies, but forget that they must have outsourcers who provide the services that are virtual. Solectron was an excellent example of one company that was successful as an outsourcer in the highly competitive manufacturing industry.