

Model N



Managing Business Transfer through Improved Design Win Tracking: Key Drivers for Successful Growth

A Model N and Levementum White Paper



This white paper outlines how changes in the semiconductor industry have impacted how business transfer is conducted and tracked and the financial implications for manufacturers that do not adapt to these changes.

Table of Contents

| | |
|--|----------|
| 1. EXECUTIVE SUMMARY | 3 |
| 2. KEY DRIVERS FOR BUSINESS TRANSFER..... | 4 |
| 3. IMPACT OF NOT MANAGING BUSINESS TRANSFER..... | 6 |
| 4. PRINCIPLES FOR MANAGING THE IMPACT OF BUSINESS TRANSFER..... | 7 |
| 5. CONCLUSION..... | 8 |

1. Executive Summary

The openness of today's global economy has driven semiconductor and component manufacturers to sell products through an ever growing, multi-tiered design and distribution partner network. In order to meet customer demands and usage patterns, these networks will often design and manufacture a single Original Equipment Manufacturer (OEM) application in multiple geographical locations simultaneously, regardless of where the application specifications were conceived. This new reality presents challenges to manufacturers that are interested in tracking shipments back to the original design win. Tracking design wins is critical for manufacturers that are striving to improve margins and allocate scarce resources to optimal manufacturing locations. Defining the proper design win strategies, and then enabling them with technology has proven a winning combination for industry leaders.

Over the past five years, the semiconductor and component business climate has significantly changed due to:

- Heavy consolidation
- Maturity of electronic manufacturing industries throughout Asia and Eastern Europe
- Increased demand for technical solutions and ready-to-manufacturer applications
- Demand primary driven by consumer products
- Emergence of design houses and application consultants incentivized to focus on a given manufacturer's products
- Collaborative forecasting and die banking
- Supply chain portability in ever increasing global environment
- Growing sophistication among large OEMs in optimizing semiconductor pricing weakness

These changes have created a significant increase in global business transfer. Since 2003, the value of *business transfer in sales dollars has quadrupled*. The business impact on manufacturers includes:

- **Margin Erosion:** Bidding against yourself due to lack of visibility into duplicate opportunities
- **Lost Opportunity:** Misaligned incentive programs that lead sales and channel resources to ignore large and valuable business transfer opportunities
- **Under Leveraging Channels:** Failing to recognize the channel partners that are the actual demand generators because they aren't the ones fulfilling the order
- **Poor Resource Allocation:** Dedicating sales, engineering, and support resources to the wrong markets, locations, or channel partners, away from where demand is actually being generated
- **Lost Margin on Incentive Payments:** Not accurately incentivizing each channel partner for the appropriate impact they have in generating revenue from designs

As a result of these issues, semiconductor companies are struggling to enforce complex pricing rules across regions and channels, appropriately allocate scarce engineering resources, reduce quote response cycle times, track customer compliance with contracts, and reconcile point of sale (POS) and order data with debits and the original design. These challenges are causing companies to leak hundreds of millions of dollars in gross margins every year. Manufacturers must understand where to focus resources and which opportunities across the channel are for the same end customer. To be successful, companies must have sound business transfer processes enabled by technology designed to manage information and relationships in real time.

2. Key Drivers for Business Transfer

The Definition of Business Transfer is Blurring

When an opportunity is identified for a certain end customer, it is owned and tracked by reps from the design location region. However, as the opportunity and design moves forward, the end customer may decide that the actual purchasing of the component will be done in another region. To mitigate the financial risks of transfers, it is imperative that manufacturers effectively manage opportunity transfer tracking between their personnel and other regional channels with effective tools that support established transfer policies.

The common definition of business transfer is any business that is manufactured in a region or territory that it is different from where the design was conducted. This includes transfers between geographies (e.g. between North America and Asia) but may also include transfers between two sales rep who are in the same geography (e.g. between two territories in the North Central sales area). For example, most manufacturers are familiar with the reality that designs conducted in the coastal regions of the U.S. usually transfer to Asia Pacific (e.g. Taiwan, China, or Singapore) for manufacturing.

While this original definition of transfers is still very common, many new scenarios have emerged in recent years. Business transfer situations are now impacted by new trends in the design process. Examples include:

- A dramatic increase in OEM manufacturing options, including new markets in Asia and Eastern Europe
- OEMs that outsource or bid-out their design to multiple consultants in different locations
- Design houses that create applications and then sell them to one or more OEM
- Contract manufacturers (CMs) that create their own applications in order to add value for their end customers

Furthermore, transfers are fluid. It is not uncommon for an OEM to begin manufacturing in one geographic location and then subsequently move to a new service provider at a later date.

Therefore, all of the following are valid examples of business transfer:

- **Traditional Transfers:** As described above. An opportunity is designed in the Northwest U.S. region and then moved to another region or geography (e.g. Mexico or China) to be manufactured for the duration of the application's life cycle. For traditional transfers, it is critical that the 'transfer in' region has visibility to the original design and any quotes made to the OEM to keep pricing consistent and avoid inappropriately paying demand creation incentives to local distributors.
- **Sequential Transfers:** An opportunity designed in the U.S. is first transferred to China for manufacturing. Later, for price or service reasons, the customer shifts to a new CM location in Taiwan. As manufacturing shifts from one location to another, the manufacturing and distribution support teams will usually change. The representatives for both locations should be alerted when a transfer happens and the manufacturer should not consider the 'new' business in Taiwan as a new design and subsequently overpay incentives.
- **Parallel Transfers:** In this situation, the OEM shops the design around in two or more manufacturing locations. Usually the CMs will place quote requests through local distributors that in turn will create registrations to claim the business independently. Also, separate semiconductor sales regions will reply to the quote requests, unaware of the competing request in their sister region. Consistently tracking and pricing to the original OEM design quote is critical to protection margins.
- **Outsourced Design:** In this transfer situation, the OEM may bid out the design to one or more consultants, each of who may turn to a distributor or sales region for local support. Once completed, the OEM may then proceed with a manufacturing transfer. Proper identification of the OEM and project information is critical to maximizing the value of the opportunity at the design stage.

- **Ready-to-Make Applications:** With consumer applications replacing industrial and government as the primary driver of semiconductor demand, OEMs (especially in Asia) now place a premium on time-to-market for new offerings. This transformation has placed a premium on ready-to-make applications as OEMs look for application solutions that they can purchase and take immediately to market. Design houses and CMs have responded by designing new applications before there is an OEM identified to make them. Design houses are valuable new channels for semiconductor manufacturers to influence and incentivize. However, tracking the initial design and connecting it to the OEM that ultimately builds the application is critical to measuring the return on investment in this emerging channel.

The diverse list of business transfer scenarios underscores the complexity of managing and optimizing semiconductor revenue and margin. Furthermore, manufacturers will regularly encounter all of the transfer scenarios. To minimize their impact, a comprehensive assessment of business transfer policies, processes, and information flows is required.

Influencing Sales and Channel Resources

As the definition of business transfer blurs, the lack of comprehensive and effectively communicated policies by semiconductor companies adds to the confusion among direct and channel sales resources. The ultimate goal of sales management is to align highly skilled sales resources and channel partners with the opportunities that will maximize revenue and margin — and incentives are defined accordingly.

The diverse list of business transfer scenarios underscores the complexity of managing and optimizing semiconductor revenue and margin

However, it is common for established incentive programs to influence the pursuit of smaller, non-transfer opportunities so that sales or channel resources can ensure they receive credit for their efforts. Even worse, incentive programs may drive teams to hide opportunities from each other in order to justify traditionally demand creation higher incentives. When evaluating existing

business transfer policies and procedures, semiconductor manufacturers should pay attention to everyone involved in the sales process. Empathy with the needs of all resources, whether they are direct sales, manufacturers reps, or distributors should be applied to find the 'win-win' solutions that will maximize pursuit of the most profitable and valuable business.

The needs of direct sales resources often depend upon the predominant role their region plays in business transfer scenarios. Regions where the cost of manufacturing is high and the OEMs tend to use CMs are commonly referred to as 'transfer-out' regions. Sales resources in transfer-out regions are often fighting for acknowledgement of their efforts, since the billing dollars usually show up in other regions. Lack of effective measurement not only impacts reward systems, but can make it harder for these regions to justify critical engineering resources or influence product marketing and application engineering.

Sales teams in 'transfer-in' regions benefit from the visibility associated with bookings and billings for designs completed in other regions that naturally transition to their areas. But it is important to recognize that these opportunities often require significant engineering or quality support as they transfer to local CMs, and that effort should be respected. Protecting relationships with local distributors that are often involved in the fulfillment of CM business is also a critical need for these teams.

Manufacturer's reps are traditionally incentivized on the units shipped into their territory. This naturally creates a disincentive for them to support designs with a high probability being manufactured in other regions. Reps may also ignore valuable design houses or consultants if the OEM is unknown or in another territory. Business transfer policies must recognize this reality and incentivize accordingly.

For most manufacturers, distributors play critical roles in their ability to generate new demand and serve the fulfillment needs of a broad customer base. When distributors make engineering or marketing investments in a semiconductor line, it is necessary for them to have clear and consistent guidelines for how their return on that investment is realized. Registration programs should identify the specific role (e.g. demand creation or fulfillment) a distributor is supporting in the opportunity, and protect their incentive for that role in transfer situations wherever possible. It is therefore incumbent on the manufacturer to be able to track the design back to the original registration as it moves globally and where the distributor is franchised in the transfer-in region, protection should be extended.

Design houses and consultants are also potent new channels for demand creation that, with creativity, semiconductor companies can incentivize to specialize on the semi's products for new designs. Some manufacturers have found success through registration type programs that reward the design house with demand creation commissions on their applications, regardless of where the ultimate shipment occurs.

Balancing the needs of each sales resource or channel is complex given that there needs can be competitive. Effective measurement of results and payment of incentives in today's Business transfer-dominated world requires well-defined policies and access to data that ties POS and direct billings back to the original designs from which the business originated. Effectively tracking design wins is no longer a 'nice to have.' It is now a fundamental component of effective sales strategies.

Studies by the Yankee Group have shown that bidding against yourself contributes significantly to the pricing inefficiencies that cost manufacturers as much as 2%-3% in lost margin annually

3. Impact of Not Managing Business Transfer

The negative impacts of business transfer on a sales operation are significant. Semiconductor manufacturers that fail to effectively manage these impacts fail to maximize their potential for revenue growth and operating margins. Furthermore, critical resources are allocated to less valuable regions, customers, and opportunities. The specific impacts include:

Lost margin from bidding against yourself for the same opportunity

Effective visibility into demand involves gaining visibility into design activity across the direct sales force, channel partners, and design houses, as well as understanding opportunities and avoiding duplication. Duplicate opportunities can occur when a single end-customer approaches multiple channels for a part. These competing channels in turn may approach different regional offices of the same manufacturer.

Without the ability to triangulate customer, end-customer, part and assembly, or program, manufacturers will struggle to determine if the design exists in another region and what region originally quoted to the OEM. As a result, transfer-in regions run the risk of bidding against each other and unnecessarily eroding price and margin. To avoid these pitfalls, semiconductor companies must establish registration and quoting policies that drive correct behaviors and provide the information needed to execute those policies.

The industry is littered with proverbial horror stories of semiconductor companies that have given away hundreds of thousands of dollars on single opportunities because they failed to identify an opportunity in Asia that originated from a design in another region before they gave a quote response. Studies by the Yankee Group have shown that bidding against yourself contributes significantly to the pricing inefficiencies that cost manufacturers as much as 2%-3% in lost margin annually.

Failing to recognize channel partners that are demand generators when they aren't fulfilling the order

Very few organizations have the resources to actively engage in every opportunity with every single end customer. Many focus their resources on a limited number of high performing customers and leverage other channels such as manufacturing representatives, design houses, and distribution partners to help reach the rest. To successfully utilize resources in attracting business, companies must respect the needs of these channels and incentivize accordingly. To gain the visibility necessary to determine which organizations are actually succeeding as demand generators, semiconductor companies must be able to connect orders back to opportunities to effectively measure which regions actually generated the original demand.

Managing design registrations can further complicate visibility. Some manufacturers manage hundreds and sometimes thousands of open design registrations. Managing design registrations and approvals is only the first step. Demand might be created in one region, but purchasing and fulfillment may occur in different regions. As a result, many manufacturers are challenged to create a link between design registrations, quotes, debits, and POS data records, making it very difficult to understand which design registrations actually generated business and where that business is going.

Allocating sales, engineering, and support resources to the wrong markets, locations, or channel partners

Sales, field engineering, and application engineering resources are typically some of the most expensive and valuable resources a company can invest in. The number of resources available is limited and must be allocated to opportunities that can generate the most revenue and margin for the company. Semiconductor companies that struggle to manage and incentivize business transfer will fail to optimize their return on these critical resources and may fail to allocate new resources to territories, segments, or channels that are the real generators of new demand.

Incentivizing resources to focus on less valuable opportunities

As discussed earlier, it is critical to recognize the needs of sales resources and channel partners in order to align their incentives with opportunities that maximize manufacturer revenue and margin. If business transfer policies, procedures, and information systems are not integrated with these incentives, sales and channel partners will focus on non-transfer opportunities. Business transfer occurs because OEMs are leveraging the economies of scale provided by outsourcing large-volume manufacturing. Therefore, business transfer often represents the largest and most valuable opportunities for semiconductor manufacturers. If incentives are not aligned properly, semiconductor companies will fail to capitalize on these opportunities.

Lost margin due from overpaying incentives to channel partners

Registration programs are already complex. Business transfer situations exponentially increase this complexity. Registration programs must accurately identify the role and function of the channel partner (e.g. demand creation or fulfillment) involved in the opportunity as it moves around the world. Linking registrations and opportunities in parallel and sequential transfer scenarios is also vital, otherwise CM quote requests will likely be viewed as new demand creation business and margins will be overpaid accordingly.

4. Principles for Managing the Impact of Business Transfer

The impact of business transfer is felt by all semiconductor companies. Whether they are small or large, fabless or not, proprietary or commodity products — business transfer situations will impact sales operations. Leading companies have recognized this reality, and have successfully applied many, if not all of the following principles and tactics to manage the impact. These companies have turned business transfer from a weakness to a strength and are reaping the rewards.

- **Embrace a broad definition:** Recognizing that multiple business transfer scenarios exist allows semiconductor companies to define a holistic policy and process without holes that can be exploited by a customer, CM, or channel partner.
- **Define roles:** Successful programs recognize that design and fulfillment are separate roles that can be coordinated among channel partners and incentivized accordingly. Establishing systems for identifying the role of each resource in an opportunity and the value that role provides aligns all partners to the goals of the manufacturer. It is also critical to communicate to each partner the role they are approved for in the opportunity; this requires tracking the OEM, design houses, CMs, distributors, and sales teams involved.
- **Incentivize teamwork:** Internal incentives should help drive partner alignment; sales teams from different regions and geographies should have incentive programs that reward both regional demand creation and coordination on business transfer.
- **Deliver on commitments:** Once incentives are established and approved roles have been communicated to channel partners and sales resources in a given opportunity, semiconductor companies must consistently reward the partners that deliver. A business transfer program that does not consistently deliver on commitments to sales teams and channel partners will lose credibility and therefore its effectiveness at mitigating the impact of business transfer.

- **Information matters:** It is critical to know all the players involved in each design opportunity or registration. Sales resources that are incentivized to support and manage business transfer must have the tools that give them visibility into designs and quotes in other regions. Pricing and quoting processes must be able to determine the original OEM quote and identify the correct role of a distributor or channel partner in order to give the correct margin. Leading semiconductor manufacturers define effective policies and procedures, and then use software tools to enable and scale those procedures across the enterprise. Companies that sell products customized to a specific opportunity will find tracking business transfer easier. But the majority of semiconductor companies are not afforded this luxury.
- **Track results:** Design win value is all theory unless you tie back the actual results through direct and POS billings. Sales management must be able to tie bookings, billings, and POS data back to the original design opportunity in order to be able to determine what markets, segments, and channels are most successful in generating demand.

Solving business transfer problems requires changes in business practices and policies. Forward-thinking companies have created internal transfer teams that specialize in defining business transfer programs and measuring and managing their effectiveness.

Transfer teams are often centralized groups dedicated to keeping track of transferred opportunities. This team provides better visibility into what is happening to the business, helps determine where resources should be invested, and contributes data for better revenue forecasting and predictability.

Other companies will use transfer teams to establish policies and procedures, and then communicate and train regions and channels on expectations and the tools available to them for effective process execution. They then monitor results and act as process auditors in order to optimize results over time.

Companies that fail to recognize the scope of transfer business challenges will continue to suffer the impact of a poorly managed transfer business program

Regardless of whether the approach is centralized or decentralized; formed as a new team or handled by sales operations, the most important step is to acknowledge and take action. When initiating a transfer team process it is recommended that semiconductor companies:

- Plan and communicate the goals of the initiative internally and to channel partners, why it is important, and how it will create a win-win for all involved
- Collect data about current processes in order to provide measurement benchmarks
- Define policies, procedures, and incentives that are influenced by differences in sales approaches and channel relationships in different geographies
- Transactions are the key — recognize that capturing the details of each transaction (quotes, debits, POS, billings) allows you to obtain the data needed to meet your goals; evaluate integrated solutions that can serve as the information foundation for these processes (integrated, end-to-end revenue management solutions have the best track record)
- Measure and adapt processes over time to optimize results

5. Conclusion

Business transfer in the semiconductor industry is a reality. As globalization continues, new transfer variables will be introduced regularly that will force companies to adapt or suffer the consequences.

Leading companies recognize this reality, embrace it as a potential differentiator, and implement the incentives, processes, and tools necessary to maximize results.

Companies that fail to recognize the scope of business transfer challenges or fail to apply sound principles to address these challenges will continue to suffer the impact of a poorly managed business transfer program, including:

- **Margin erosion**
- **Lost opportunities**
- **Under-leveraged channels**
- **Poor resource allocation**
- **Lost margin on incentive payments**

Authors:

Doug Guibeau, Managing Director, Levementum dguilbeau@levementum.com

Marci Bosse, Solutions Principal, Model N mbosse@modeln.com

About Model N High Tech

Model N, the leader in Revenue Management Solutions, offers an integrated application suite for managing global pricing, quoting and contracts, and the channel revenue life cycle. We have helped our customers increase gross margins by 2-3% annually by reducing price erosion, improving quote-to-order conversion rates, and by reducing overpayments to channel partners. Our Revenue Management solutions are designed and exclusively delivered to semiconductor and electronic component manufacturers. By enabling a seamless, end-to-end process, from creating visibility into opportunities and design registrations, to global pricing, to quoting and contracts, to managing channel incentive payments and reconciliation of POS data with debits, Model N's uniquely integrated approach improves visibility into demand, reduces margin erosion, increases quote conversion, and improves compliance with financial reporting requirements. Our solution is designed to complement and augment existing ERP systems such as SAP and Oracle. Our customers include STMicroelectronics, PMC-Sierra, IDT, Microchip, Micron, Micrel, ON Semiconductor, Pericom, FCI, Intersil, and many others. For more information, visit www.modeln.com.

About Levementum

Levementum is a leading professional services firm focused on delivering world-class implementations of CRM, ERP and BI/Data Warehouse systems integration solutions. Levementum's High Tech Practice shows Semiconductor and High Tech companies how to leverage information technology and innovate in the areas of Demand Creation, Pricing/Margin Management, and Sales and Channel Operations. Decades of experience in the Semiconductor industry gives Levementum the insight required to leverage processes and successfully implement technologies that ultimately allow our clients enable their sales strategies. As an implementation and consulting partner of Model N, Levementum has led or played a major role in the many of the major Model N High Tech Revenue Management implementation over the past five years. We have experience implementing the complete High Tech Revenue Management product suite, and help Model N High Tech customers maximize the value of their investment through process consulting, project leadership, adoption and training programs, High Tech Revenue Management application development, integration with back-end ERP systems, and business intelligence. For more information, visit www.levementum.com.