FRIWO

WHITE PAPER

OEM Services for Agile Industrial Companies

How successful OEM partnerships are established

Introduction

If we glance back at the events of the past two years, we can only conclude that we're in the midst of worldwide change. The "system" as we have known it until now will no longer exist in the same way again. If the coronavirus pandemic and conflict in Ukraine have shown us one thing, it's that we're living in times of upheaval.

Sustainability, digitalization and dependence on global supply chains sum up these changes rather well. As a manufacturer, you're facing ever greater challenges today in both the B2B and B2C markets.

The development and life cycles of our products are becoming shorter and shorter, while customers, investors and legislators are demanding the development of more efficient and environmentally friendly technologies.

In the following pages, we'd like to provide you with a guide on how to successfully navigate these new realities by making the right choice in using an OEM partner.

Five Key Theses About OEM Partnerships

1

An increasing number of industrial companies are turning to OEM partnerships to boost their competitiveness in the market.

2

An OEM partner is primarily used to pool expertise, enhance product scalability and shorten time to market.

3

For companies, working with an OEM to develop and produce new products must generate synergies for it to really pay off on the bottom line.

4

For an OEM partnership to be successful, the OEM must contribute extensive experience and skills in the areas of development, research, testing and production.

5

OEM partnerships require a clear definition of responsibilities and roles within the project teams on both sides from the very outset.

What Is an OEM Partnership?

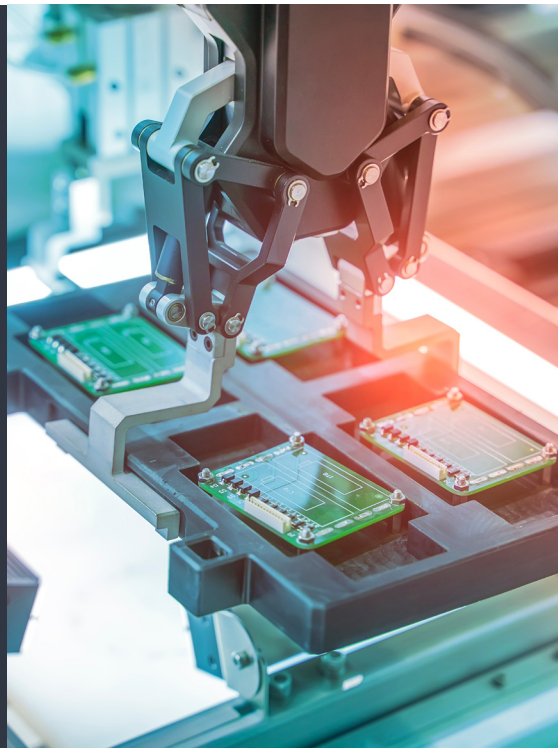
An OEM partnership describes the cooperation between an industrial company and original equipment manufacturer (OEM) in the development and production of individual components or complete systems. As part of this cooperation, the OEM supports an industrial company with its product development and brand presence.

This can be done, for example, by the OEM partner taking over the development of a sub-component or a group of components according to the company's specifications. This is where the OEM comes into play by contributing its industry experience and expertise to product development. In practice, the OEM can handle the entire development process, including tests and certifications, produce the components and deliver them to the industrial company's production site to fit the respective production processes.

In this partnership, the OEM is generally characterized by the fact that it doesn't market the components and products that are manufactured for the industrial company under its own brand name. The specifics of an OEM partnership are contractually settled by the cooperation partners prior to the beginning of the collaboration.

OEM – a term with several meanings

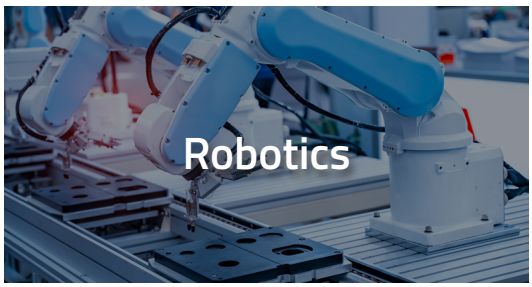
- **In most industries, original equipment manufacturer refers to a company that manufactures components or devices that are subsequently marketed by another company under its own brand. This is also what the term OEM partnership refers to.**
- **In the automotive industry, on the other hand, the car manufacturers themselves are referred to as OEMs. In the automotive industry's model of the supplier pyramid, the OEMs within the meaning of an OEM partnership are equated with the suppliers at tier 1 (systems and modules) or tier 2 (components).**
- **In the IT industry, hardware and software products are labeled as OEMs, which are sold under certain licensing agreements or in bulk.**



OEM Partnerships Are on Trend

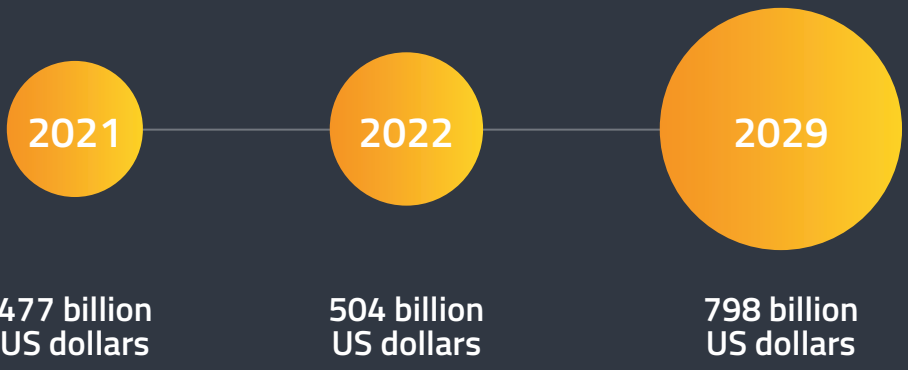
Industrial cooperation as represented by OEM partnerships has a longstanding tradition, especially in the automotive industry. Due to the series production of vehicles, car manufacturers began to integrate highly specialized suppliers into their value chain many years ago. Today, there is practically no manufacturer in the automotive industry that can do without close technological cooperation with suppliers.

In recent years, the OEM partnership model has become established in more and more sectors of the manufacturing industry. The following sectors are particularly important for OEM partnerships:



The global electronic manufacturing services market was valued at $476.88 billion in 2021. From 2022 to 2029, this market is expected to grow at an average annual rate of 6.8 percent. Analysts assume that a significant part of this market growth will be driven by the trend towards contract manufacturing and outsourcing of technical services to OEMs.

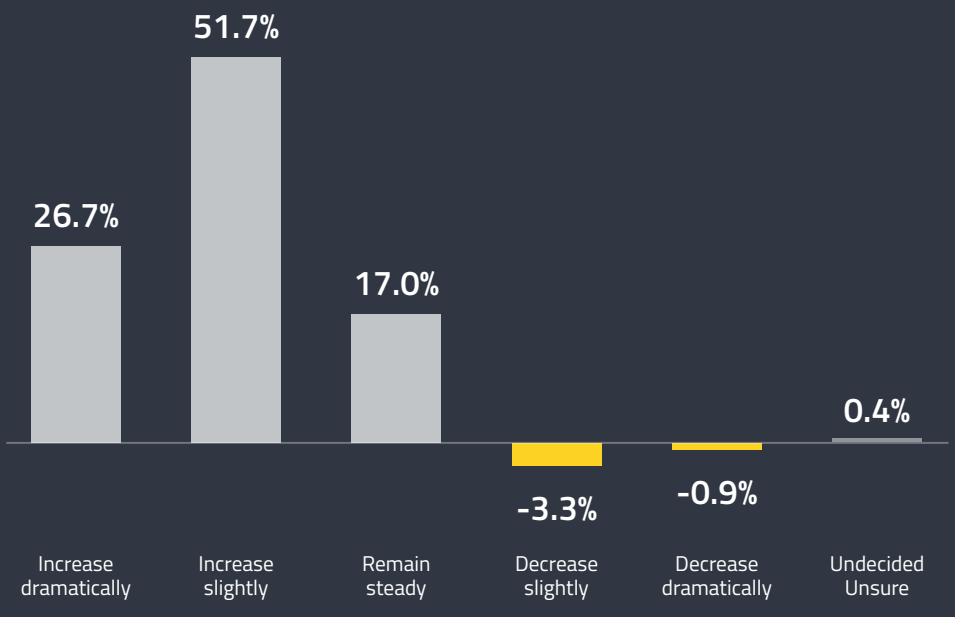
Global EMS Market



Source: Fortune Business Insights

OEM Partnerships are on Trend

What are your plans for OEM partnerships in the next 12-18 months?



Source: Futurum Research

Why OEM Models Generate so Much Added Value for Industrial Companies Today

1. The Challenge

For industrial companies that want to be successful in the consumer or B2B market, the world is spinning faster today than it was 20 or 30 years ago.

Digital transformation has led to unprecedented innovative competition. New technologies and products are becoming increasingly complex and are emerging at an ever faster pace. Industry boundaries and value chains are shifting, while at the same time markets have globalized, supply chains have become more fragile and market trends are now less predictable.

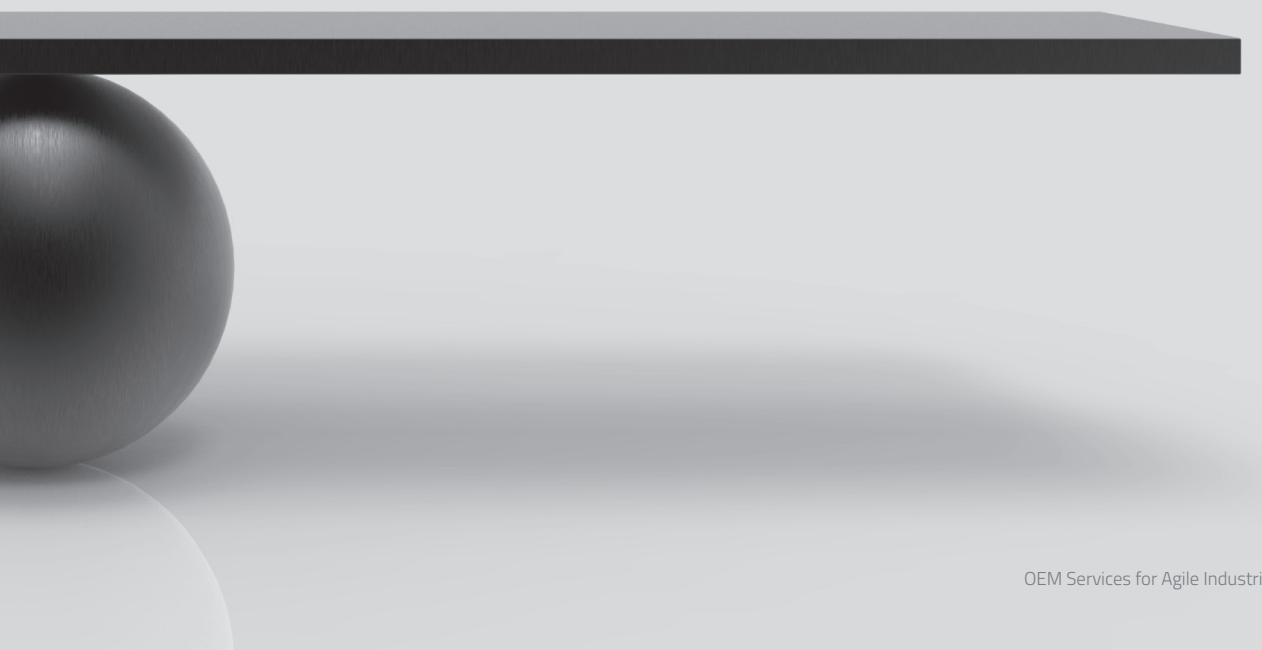
These developments have also led to a shift in customer expectations: products must now offer a seamless customer experience while new technologies should be adopted as quickly as possible. What's more, expectations have become more demanding. Consumers expect product solutions that are quickly available, tailored to their personal needs and meet high quality standards.

In order to keep pace in this environment, manufacturers must act in a quick and flexible manner. At the same time, however, they also need in-depth specialist knowledge to be able to embrace innovations and incorporate them into their products. All of this means that those who want to be successful in this competitive market need to develop highly complex products in short cycles, all of which requires a considerable amount of hardware and software expertise. At the same time, these products must be developed in agile teams with overarching know-how and comply with international standards.

2. The Solution

OEM partnerships give industrial companies a real competitive advantage in the following areas:

- **Time**
- **Cost**
- **Product Quality**
- **Strategy**



Time:

Time to market has become one of the most crucial factors for companies to succeed in competitive environments. OEM partnerships shorten the time for product development, as the OEM is able to contribute its diverse knowledge of suitable products or solutions and its ready-made infrastructure. This way, a manufacturer eliminates the time-consuming process of setting up new project teams and additional development and production capacities. The OEM's experience also reduces the likelihood that projects will drag on unexpectedly or that selected solutions fail completely.

Cost:

Access to the OEM partner's infrastructure significantly reduces the manufacturer's total cost of ownership (TCO). This is because the OEM contributes already established products, the necessary infrastructure and access to technical expertise to the partnership. Consequently, there are no costs for the following: highly qualified personnel who would otherwise have to be found, recruited, hired and trained, investments in equipment and highly specialized technical devices or the development of additional manufacturing capacities, the establishment of new workflows as well as the long-term maintenance of all these investments.

Product Quality:

The OEM not only helps the brand manufacturer to achieve a shorter time to market with a lower TCO; it also enhances product quality thanks to its product experience and in-depth market knowledge. This both saves the manufacturer from having to make mistakes with product components and enables it to avoid expensive learning curves that could jeopardize its market position. Rather, by bringing a competent partner with industry experience on board, the competitiveness of the end product is guaranteed to improve.

Strategy:

The aforementioned benefits of an OEM partnership provide the brand manufacturer with strategic leeway, enabling the company to devote its resources to its own strengths and expand its expertise and market position in these areas. This minimizes investment costs that are difficult to calculate. The rapid adoption of new technologies through the OEM partnership means that the product portfolio can be adjusted to market changes in a more agile and flexible manner and with more predictable costs. Finally, the OEM partnership reduces the risk for a manufacturer to set new trends itself and to penetrate new markets. In other words, the OEM gives the company a broader strategic footprint in today's dynamic business world.

Why do manufacturers enter into OEM partnerships?

Why companies choose an OEM partnership

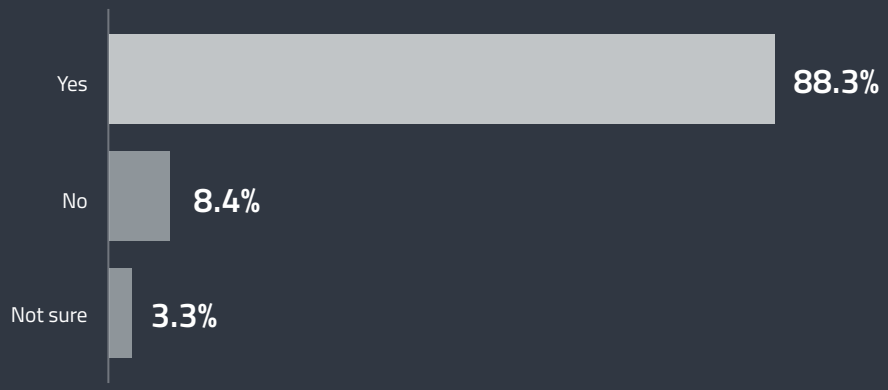
Performance capability and existing solutions: 86 percent

Better scalability of products: 80 percent

Cost reductions: 74 percent

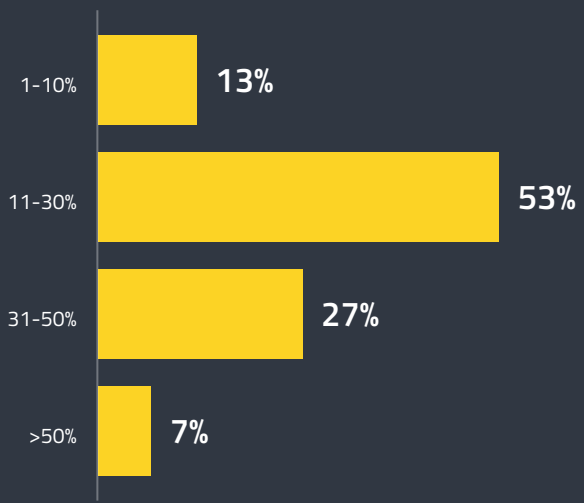
OEM partnerships as a guarantee of innovation:

Have OEM partnerships helped you to overcome innovation challenges?



How OEM partnerships improve time to market

To what extent have OEM partnerships increased the speed at which you bring new ideas to the market?



Source: Futurum Research

What Requirements an OEM Should Meet

As useful as an OEM partnership can be for an industrial company, it's also vital that you find the right OEM partner. After all, in practice, an OEM must actually be able to fill the strategic position assigned to it in the partnership. But how can you tell whether an OEM is a good fit for your business?

Technical Competence

An OEM partnership only makes sense if the OEM excels in its field of technology. After all, the goal is to develop outstanding products together with the OEM in a short time. Therefore, before starting the partnership, companies should make sure that the OEM has all the resources needed for the collaboration. Among other things, these include:

- the necessary technological know-how;
- the necessary infrastructure for development, project management, testing and manufacturing;
- experience in the field of qualification and certification of products.

Tip: The perfect partner brings technological capabilities that address the manufacturer's weaknesses and combine with its strengths to create a win-win situation that unleashes synergies.

Market Expertise

Besides the technological know-how and suitable products, the OEM partner also needs in-depth knowledge and experience of the relevant markets and the market environment. This means that the OEM should be familiar with:

- existing product solutions on the market;
- possible regulatory requirements and certification processes;
- the requirements that users place on the components supplied and the end product;
- the industry partner's business model.

OEM Competence

The OEM must be absolutely reliable in the partnership. For this reason, the industrial company should make sure that it can really fulfill its role. This means the OEM should:

- provide all services it contributes to the partnership from a single source and have all the associated processes under control;
- have already established complete process chains and workflows on which the OEM partnership can be built;
- possibly have a second international location, provided this results in tangible benefits for the project;
- have transparent structures that form a basis of trust for the cooperation.

Tip: A good OEM partner can be recognized by the fact that it has already developed, manufactured and successfully launched the same or similar components or products for which it offers support.

Strategic Convergence

As important as it is in a successful OEM partnership for your capabilities to complement each other and develop synergies when working together, there also needs to be overlap. This means more than that the “chemistry should be right” from the start. The same expectations should also be placed on the collaboration. It’s also beneficial if both sides have the same views on the market opportunities presented by the cooperation project right from the outset and that the risks are equally spread.

Best Practices for an OEM Partnership

As with any form of collaboration, the success of an OEM partnership depends on how it's implemented in practice. On the one hand, this naturally involves general virtues such as trust, open communication and a clear allocation of roles. On the other hand, practical experience has shown that there are other "soft factors" that make an OEM partnership a resounding success:

Before a company begins to cooperate with an OEM, it's crucial that the decision to work together is wanted within the company itself. Since an OEM partnership is also a strategic corporate decision, the company's C-level should be able to give the move its full backing.

+ From the first day of the cooperation, an OEM partnership requires a clear definition of responsibilities and a clear specification of roles within the project teams. This applies to both the brand manufacturer and the OEM.

+ On this basis, clear communication structures should also be established at the start of the project: who talks to whom and who reports to whom? Which channels, tools and forums are used for communication? How regularly does communication take place? What are the expectations and goals? How are these communicated and reviewed?

+ Well-maintained, clear project documentation facilitates cooperation. At the start of the project, this includes preparation of a jointly agreed requirements specification and functional specification for the development of all components, component groups and products.

+ Project management is of particular importance in an OEM partnership. It requires established, transparent methods and must integrate both sides of the partnership equally in the project. To this end, all relevant stakeholders must be identified and clear communication established with all parties involved. Over the course of the project, project management must ensure that all steps within the project plan are transparent and coordinated with all stakeholders.

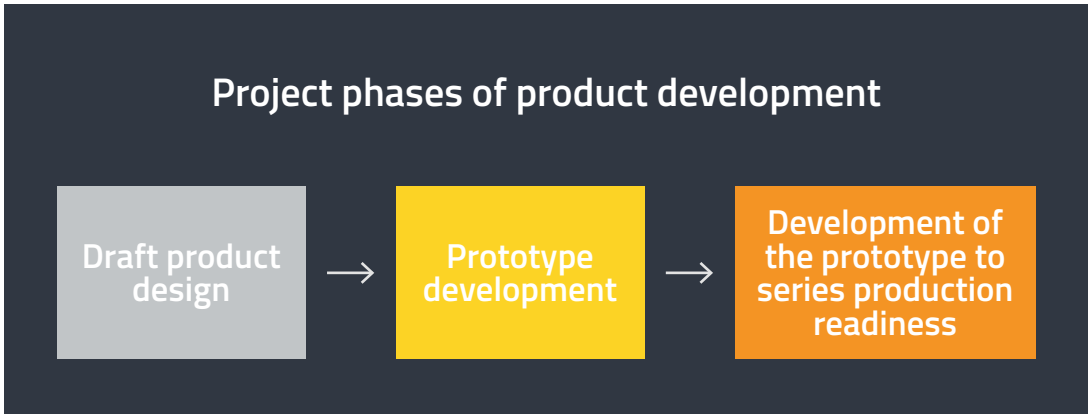
How an OEM Project Works

To optimize process quality, it's important that you use established product development methods to create a transparent, intelligent process with many benefits for product development. This is why FRIWO also uses the established stage-gate process when implementing OEM partnerships, dividing product development into clear milestones that are achieved one after another and transparently record the project's progress.

At the start of the project, an experienced project manager takes care of all project activities and regularly coordinates them with the responsible individuals in the industrial company. Agile development methods are used in the concept and design phase to boost efficiency. In this phase, a comprehensive catalog of requirements is created that is tailored to the product to be developed.

The development process follows the classic V-model, whereby product requirements are defined and then verified in the test lab according to the four-eyes principle between development and final acceptance.

The overarching product development takes place in three project phases:



Checklist: How Industrial Companies Find the Right OEM Partner

Technological Competence

- [ ] Have similar products or components already been developed?
- [ ] Have similar products or components already been used in OEM projects?
- [ ] Have similar products or components already been launched?
- [ ] Does the OEM have the resources to build a qualified team for the collaboration?
- [ ] Are the labs and equipment that are necessary for development available?
- [ ] Are there sufficient opportunities to test prototypes, products and individual components?
- [ ] Does the OEM have the necessary capacities to manufacture the products or components to be developed in sufficient quantities and to deliver them as required?

Market Expertise

- [ ] Has the OEM already gained experience in relevant markets?
- [ ] Does the OEM have practical experience with existing product solutions in the relevant markets?
- [ ] Has the OEM already gained experience with the end product as a supplier?
- [ ] Does the OEM have experience with end user requirements for the final product and/or the corresponding components?
- [ ] Does the OEM have experience with regulatory requirements and certification processes in the target markets?
- [ ] Is the OEM familiar with the industry partner's business model, e.g. from previous collaborations?

OEM Competence

- [ ] Are there complete process chains, workflows and development standards on which the OEM partnership can be built?
- [ ] Can the OEM provide all its services from a single source?
- [ ] Does the OEM have transparent structures in place?
- [ ] Does the OEM have any other international locations?

Strategic Convergence

- [ ] Are synergies generated for both parties?
- [ ] Are the market opportunities presented by the cooperation project assessed in the same way?
- [ ] Can potential risks be spread equally?

FRIWO – OEM Partnership with German Engineering

Do you need a suitable solution for your power supply or electronic drive during product development? Then we should talk!

FRIWO is the ideal OEM service provider for industrial companies looking for a competent partner for the development and production of safely functioning electronic solutions.

As all-round experts in customer-specific power supplies and e-drive systems, we offer you a service from a single source. Our engineering teams in Germany are responsible for and accompany the development of suitable solutions from the initial idea right through to the finished product.

In addition to our knowledge and long-standing expertise, we bring numerous high-quality engineering tools to the OEM partnership. We perform all the necessary tests and inspections, including long-term reliability tests, at our test site.

An OEM partnership with FRIWO enables you to concentrate on your strengths in the development and production of new products while we provide the right solution for the power supply or e-drive. This benefits you in several ways:

- **outstanding product quality**
- **shorter time to market when developing new products**
- **avoidance of capacity bottlenecks or excess capacity**
- **lower business risk**
- **no investments in the development and production of new technologies**

Do You Have Any Questions or Specific Projects Planned?

We're your extended workbench and support you with the production of complete devices or systems, testing and packaging and delivery to your customers.

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