

Hi-tech & Electronics Supply Chain State of the Industry Report

Presenting the results of eyefortransport's 2010 survey

Presented in conjunction with

RR DONNELLEY

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I. Introduction

It comes as no surprise that hi-tech companies often make up over half of AMR's Top 25 Supply Chain List. Grappling daily with tight profit margins, short product lifecycles, ever-increasing supply chain complexity and rapidly depreciating inventory, hi-tech and electronics supply chain executives have – out of sheer necessity – long been at the industry forefront with regard to speed, flexibility, efficiency and innovation.

The major challenge of the recession for hi-tech shippers, was how to strip costs from supply chains that already set the standard for lean and efficient operations. The recession revealed weak links in the supply chain, presented new supply chain challenges and worsened many perennial supply chain headaches.

In many ways, however, it was also 'the year of the shipper,' with many companies securing lower freight rates and better deals from many of their suppliers. Ultimately, for many hi-tech companies the recession revealed opportunities for improvement that may never have been identified, though not without severe difficulty and disruption in the process.

As 2010 begins, the eyefortransport hi-tech and electronics supply chain survey has revealed a strong sense of optimism among top hi-tech supply chain executives. In 2009, eyefortransport reported that only 17% of hi-tech supply chain executives thought that the Hi-tech industry had fared better than other industries in the recession. This year, a full 37% now think that hi-tech is doing better than other industries. This optimism bodes well for the industry amid a cautious sense of stability and the brightening glimmer of economic upswing.

An economic upswing will, however, be a challenge in itself for supply chain executives. Companies are looking to release new products to maintain their competitive edge, limited freight capacity will threaten reduced rates, and several key hi-tech mergers and acquisitions will keep supply chain executives on their toes for a few months to come.

This year's **Hi-tech & Electronics Supply Chain State of the Industry Report**, presents a snapshot of where the industry stands at this fascinating juncture, and offers some key insight into the issues and strategies that will drive hi-tech supply chains through recovery and into the future. With responses from over 100 key hi-tech shippers as well as supply chain service and solution providers, the report shows hi-tech & electronics supply chain executives feeling cautiously optimistic and seeking smart solutions to guide them through the year to come.

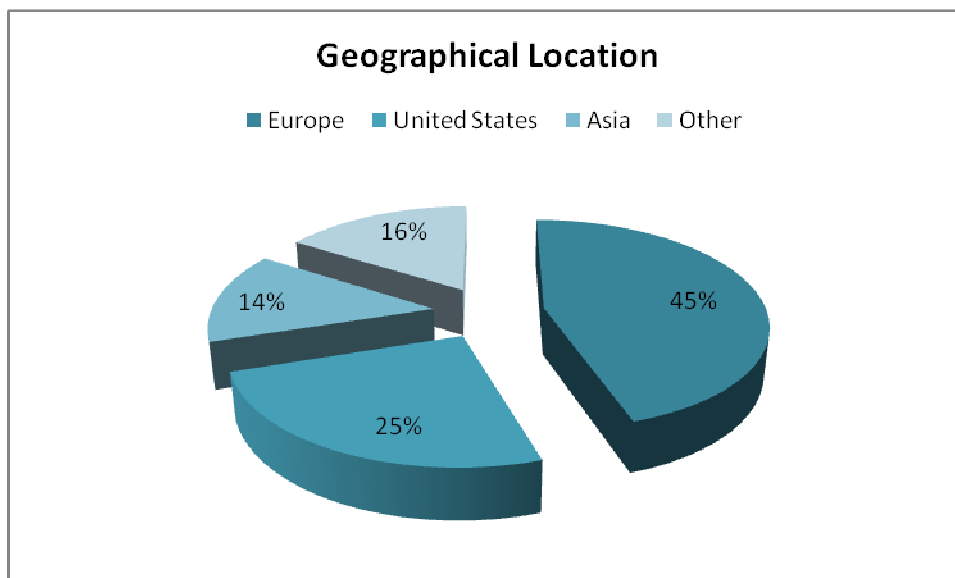
II. Methodology and Approach

This survey was conducted in January 2010 with responses solicited by e-mail from eyefortransport’s targeted database, select trade associations, assorted related industry databases and other target groups. The majority of respondents were C-level executives in supply chain roles for leading hi-tech & electronics manufacturers and retailers, and senior executives from transportation service and solution providers to this industry. The majority of companies have annual revenues of over \$1 billion. No individual responses were analyzed, but rather all responses were consolidated.

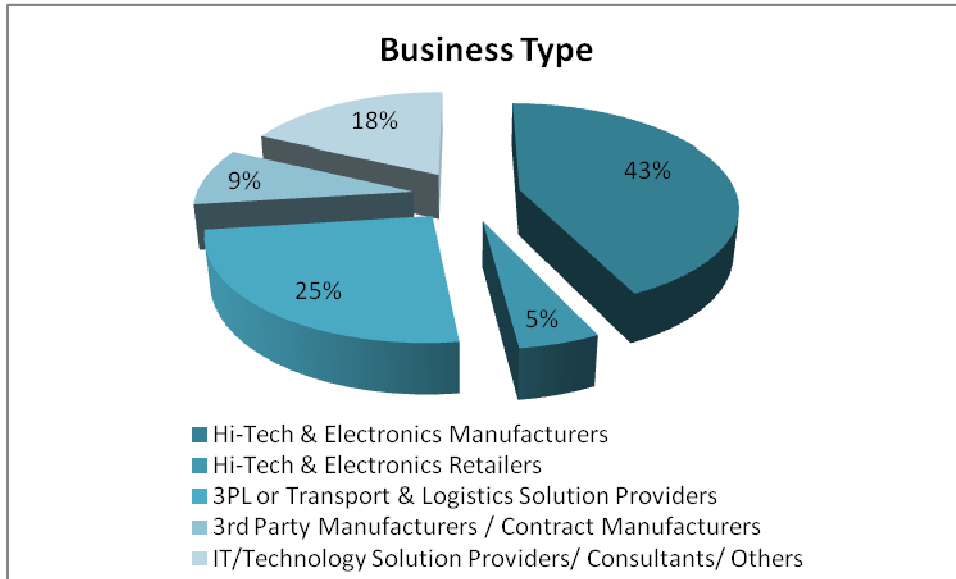
The aim of the survey was to compare the views of service and solution providers and hi-tech & electronics manufacturers and retailers, and assess their evaluations of the current economic situation, and their predictions for 2010 business. The questions asked covered a range of topics, from cost cutting measures taken, investment plans, and effects of the global economy and other major changes on the hi-tech & electronics industry.

III. Profile of Respondents

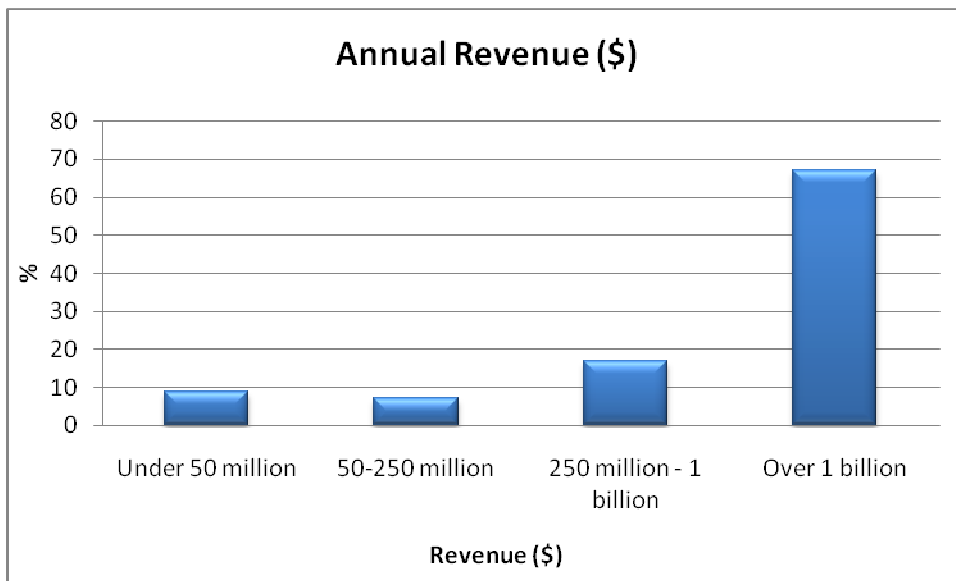
The majority of respondents represented companies based in Europe (45%), while 25% represented companies in the United States, 14% in Asia, and 16% elsewhere.



The survey was targeted towards supply chain executives from hi-tech & electronics manufacturers and retailers, and from transport and logistics service and solution providers. 52% represented service and solution providers (25% 3PL or transport & logistics solution providers, 9% 3rd party manufacturers and contract manufacturers, and 18% IT/technology solution providers / consultants / others), and 48% represented hi-tech & electronics manufacturers and retailers (43% hi-tech & electronics manufacturers and 5% hi-tech & electronics retailers).

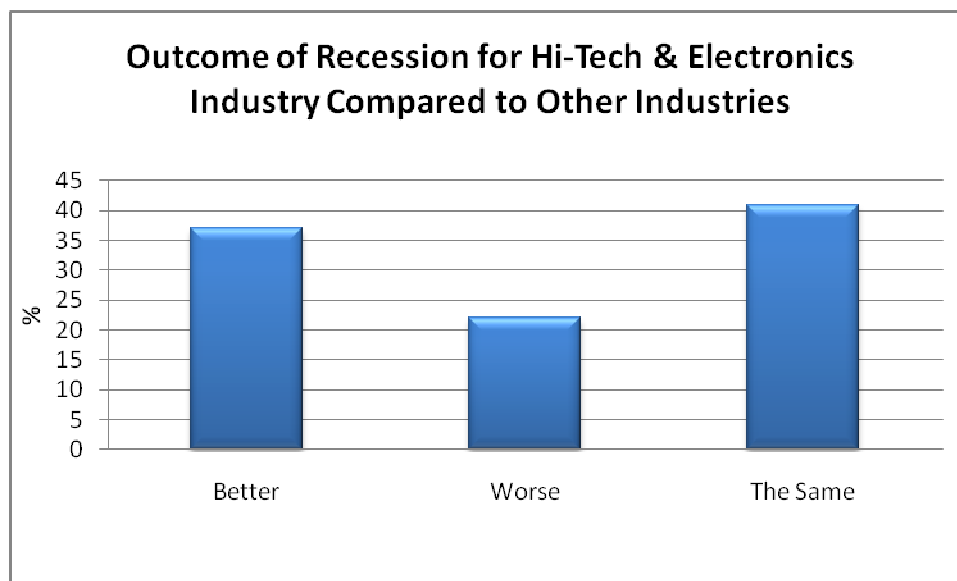


67% of respondents represented companies with annual revenues over \$1 billion, while 17% of respondents represented companies with annual revenues between \$250 million and \$1 billion, 7% of respondents represented companies with annual revenues between \$50 million and \$250 million, and 9% of respondents represented companies with annual revenues below \$50 million.

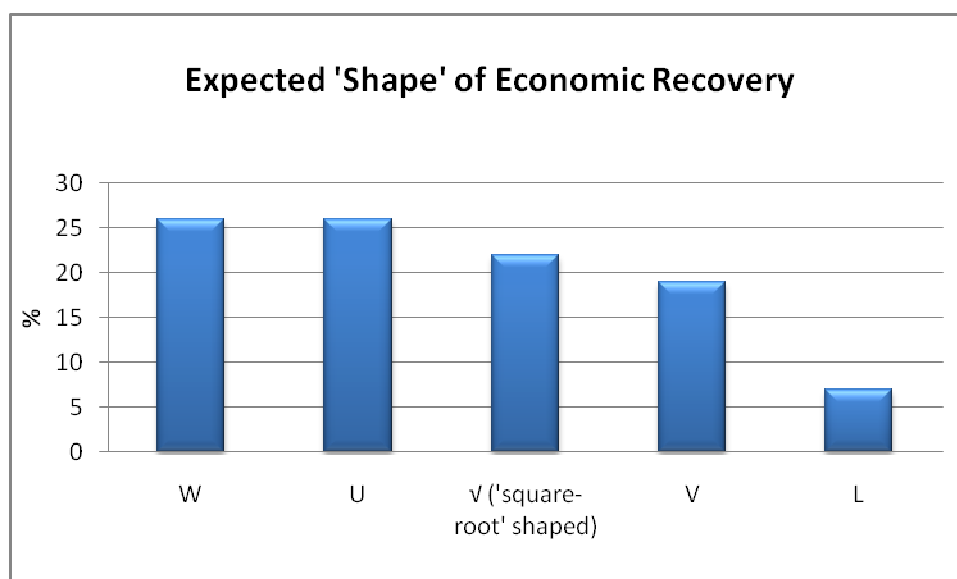


IV. Information from hi-tech & electronics manufacturers & retailers

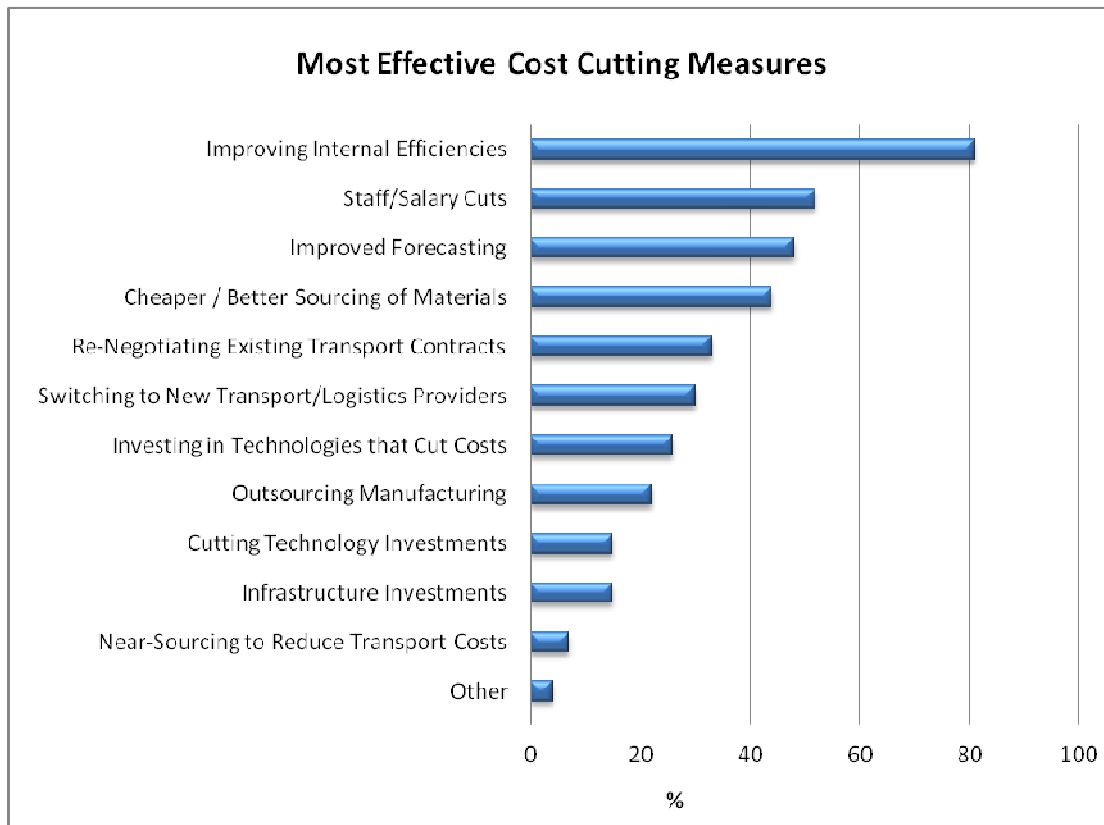
Respondents representing hi-tech & electronics manufacturers & retailers (hi-tech shippers) were asked how they perceived the impact of the recession for the hi-tech and electronics industry, as compared to other industries. 37% said that they thought the outcome was better for the hi-tech and electronics industry than for others, while 22% said it was worse. The remaining 41% thought the outcome was the same as for other industries. These results were broadly similar to those of the respondents representing transport service and solution providers.



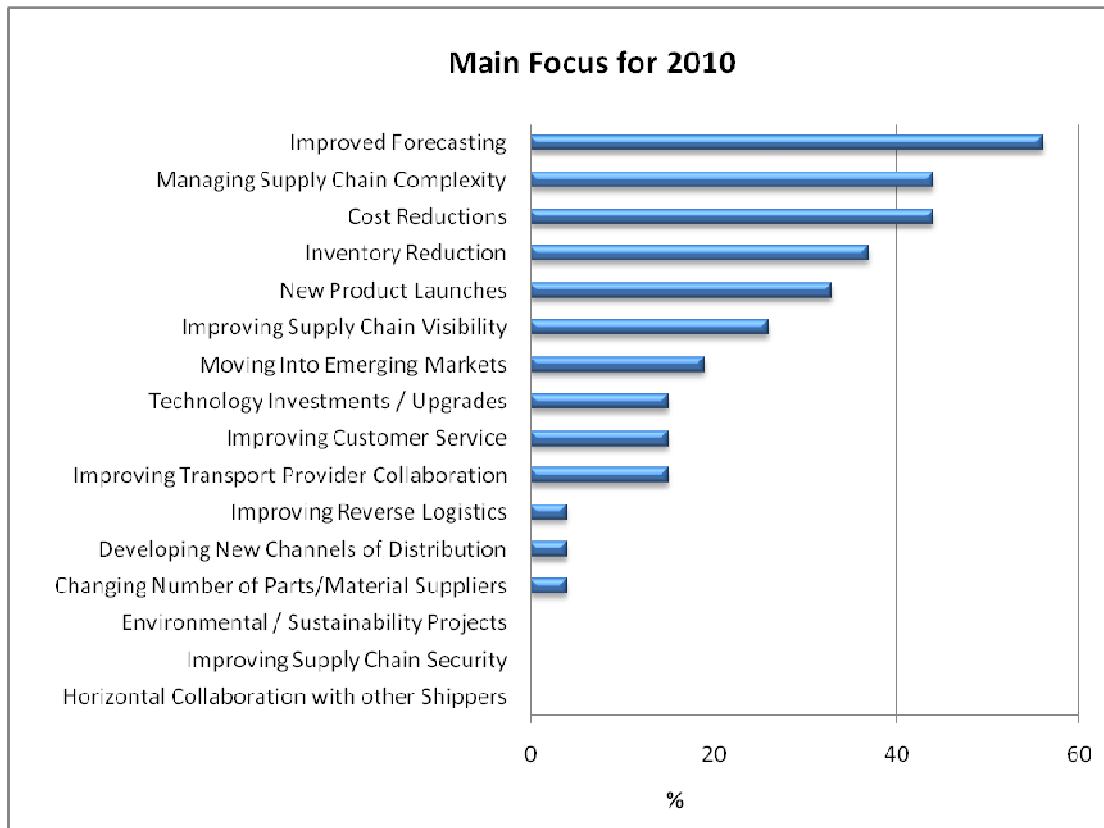
Opinion was divided among hi-tech shippers as to the 'shape' they expect the economic recovery to take. 26% expected a W-shaped recovery, while the same percentage expected a U-shaped recovery. A sizeable proportion also expected a $\sqrt{\quad}$ -shaped recovery (22%) and a V-shaped recovery, but only a minority (7%) expected an L-shaped recovery.



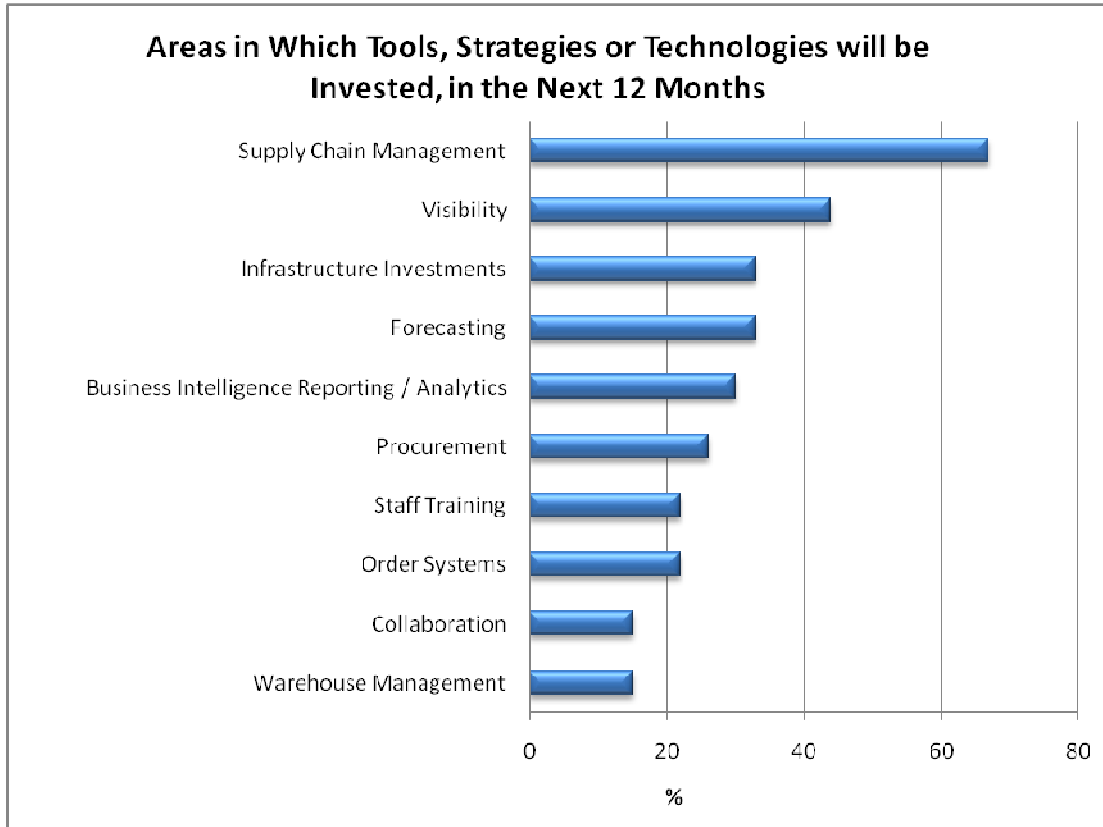
Improving internal efficiencies was seen as the most effective cost cutting measure for hi-tech shippers, with 81% having seen benefits from this approach. Staff and salary cuts were another popular choice (selected by 52% of respondents), while improved forecasting (48%) and cheaper or better sourced materials (44%) were also largely seen to be beneficial. A less prominent, though still notable, set of responses were in favour of re-negotiating existing transport contracts (33%), switching to new transport/logistics providers (30%), investing in technologies that cut cost (26%), outsourcing manufacturing (22%), cutting technology investments (15%), and infrastructure investments (15%). Only a minority (7%) of respondents saw near-sourcing to reduce transport costs as the most effective measure.



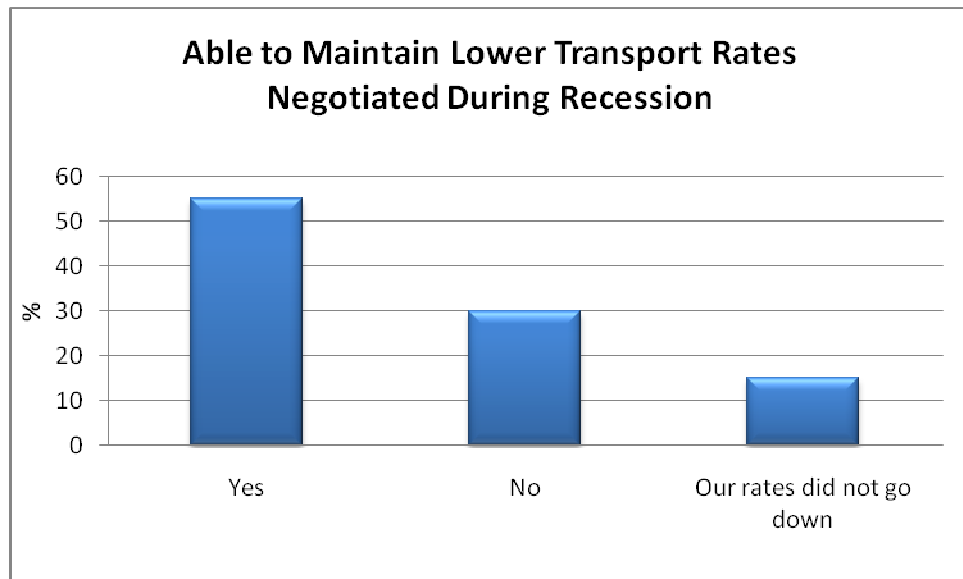
Although 48% of hi-tech shippers saw improved forecasting as having been their most effective cost cutting measure, 56% said that they thought it would be their main focus for 2010. 44% of respondents were focusing primarily on managing supply chain complexity, with the same percentage focusing on cost reductions. Inventory reduction (37%), new product launches (33%), and improving supply chain visibility (26%) were other common targets. As were, though to a lesser degree, moving into emerging markets (19%), technology investments or upgrades (15%), improving customer service (15%), and improving transport provider collaboration (15%). Improving reverse logistics, developing new channels of distribution, and changing the number of parts or materials suppliers were all chosen by 4% of respondents.



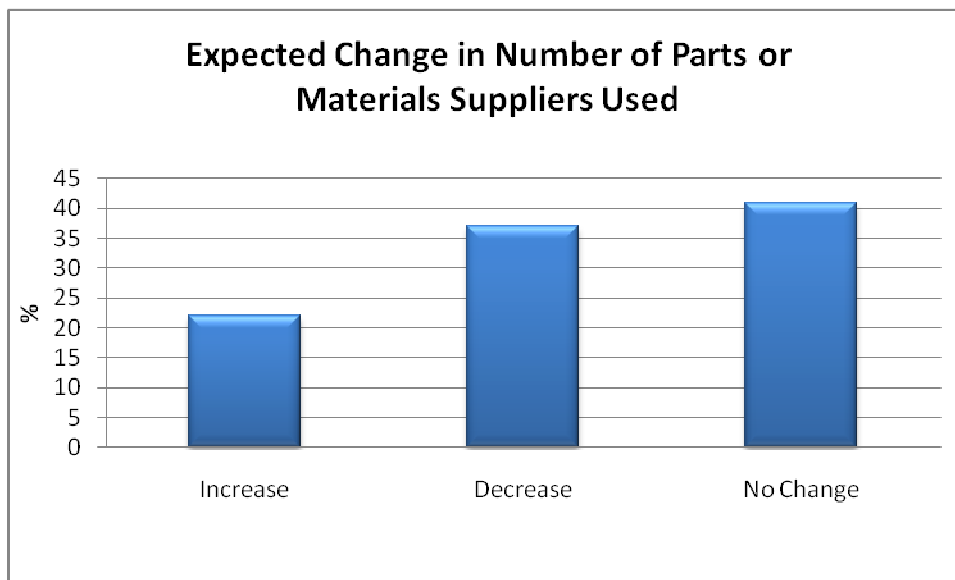
Hi-tech shippers were asked to identify the areas in which they plan to invest in tools, strategies or technologies during the next 12 months. Supply chain management was the notable response (selected by 67% of respondents), with other responses being visibility (44%), infrastructure investments (33%), forecasting (33%), business intelligence reporting or analytics (30%), procurement (26%), staff training (22%), order systems (22%), collaboration (15%), and warehouse management (15%). Respondents representing service and solution providers were asked what they thought main areas hi-tech shippers would be investing in, and the results were broadly similar. The most notable exceptions were regarding infrastructure investments (selected by 17% of service and solution providers and retailers as opposed to 33% of hi-tech shippers) and staff training (selected by 10% of service and solution providers as opposed to 22% of hi-tech shippers).



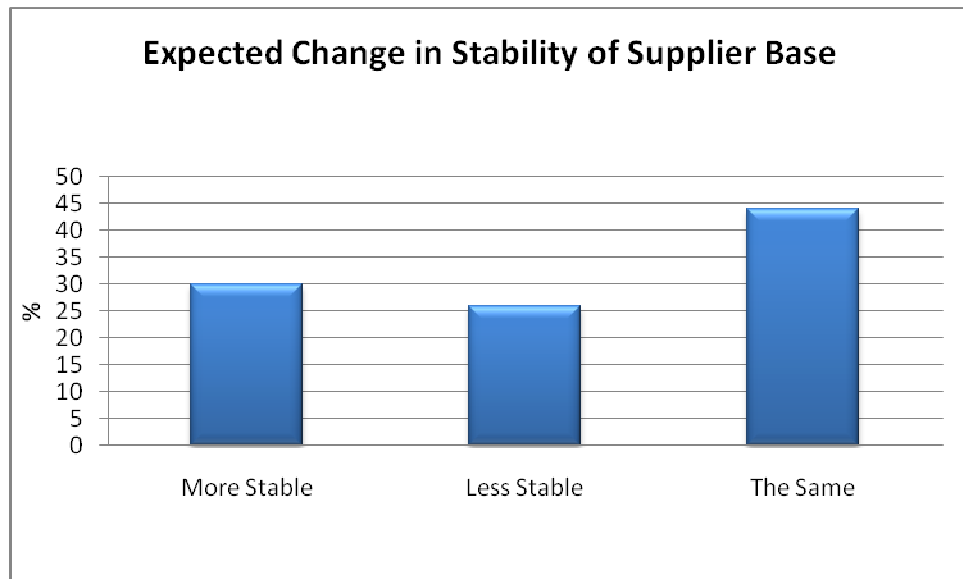
Hi-tech shippers were asked if they expected to be able to maintain lower transport rates that they had negotiated with service & solution providers, as a result of the recession. 55% anticipated being able to do so, as opposed to 30% who didn't. 15% reported not having seen their rates go down. These results contrasted greatly with those of the service and solution providers, with only 14% of them anticipating being able to continue offering discount rates.



Hi-tech shippers were asked if they were looking to increase or decrease the number of parts or materials suppliers they use, resulting in a spread of opinions. 22% said they planned to increase the number, 37% said they planned to decrease the number, and 41% said there would be no change.

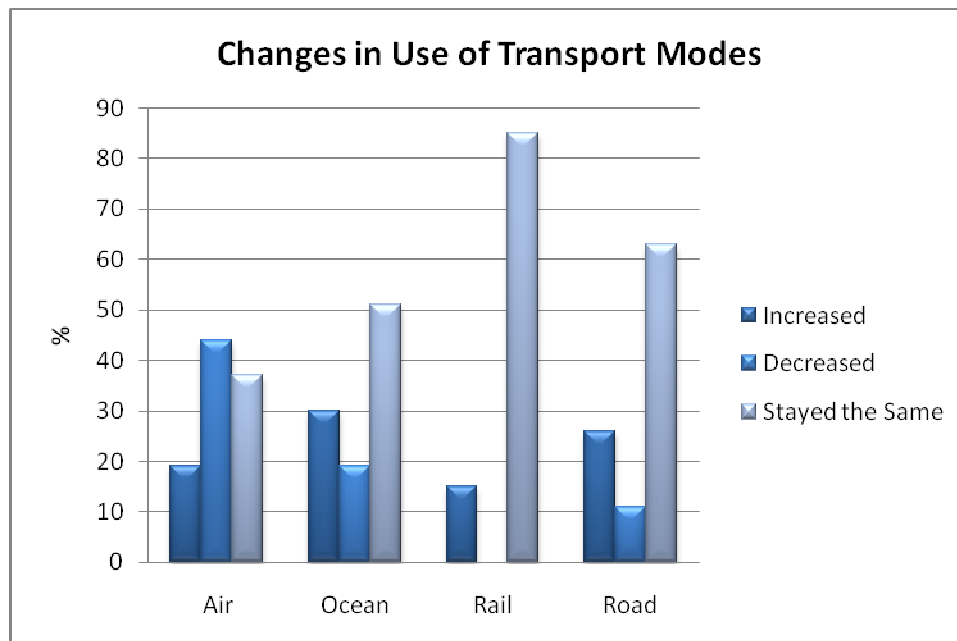


When asked if their supplier base will be more or less stable than in 2009, 30% of hi-tech shippers expecting increased stability, while a similar 26% expected decreased stability. 44% expected no change.

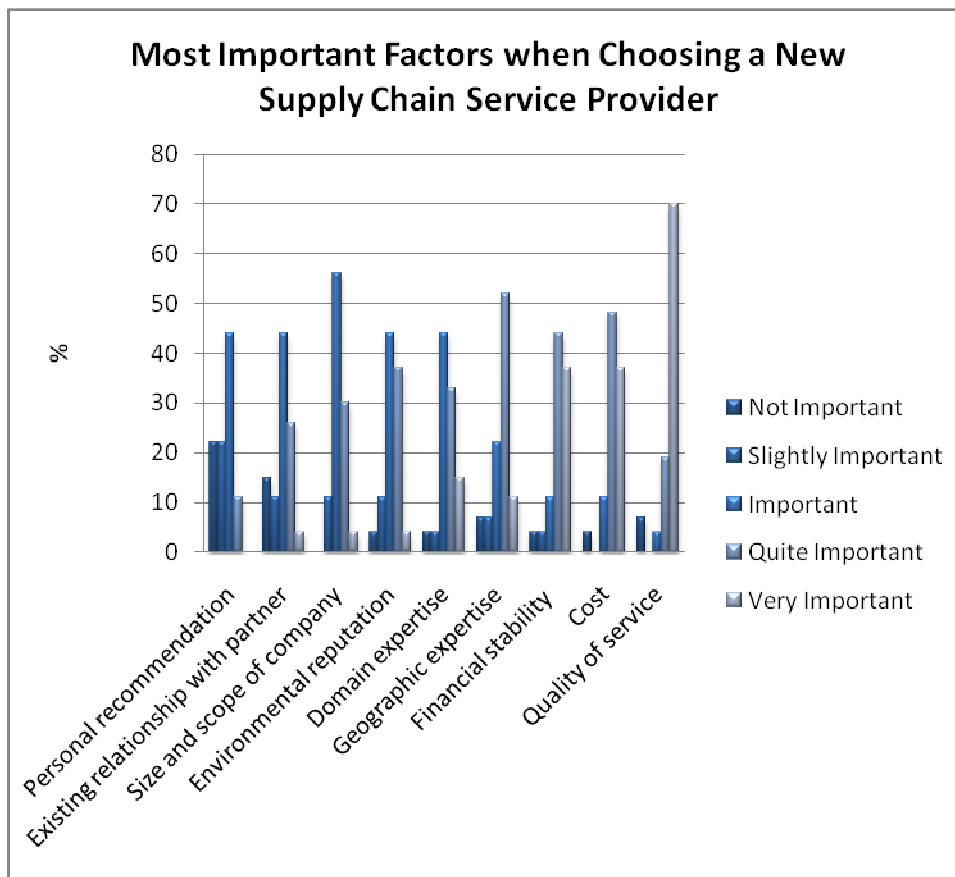


Hi-tech shippers were also asked whether they had increased or decreased their use of any particular modes of transport. Air transport was the only mode that saw more respondents decreasing their use of it (44%) than increasing their use of it (19%), while 37% said their use had stayed the same. Ocean transport saw the greatest number of respondents increasing their use (30%), but had the second highest number of respondents who were decreasing

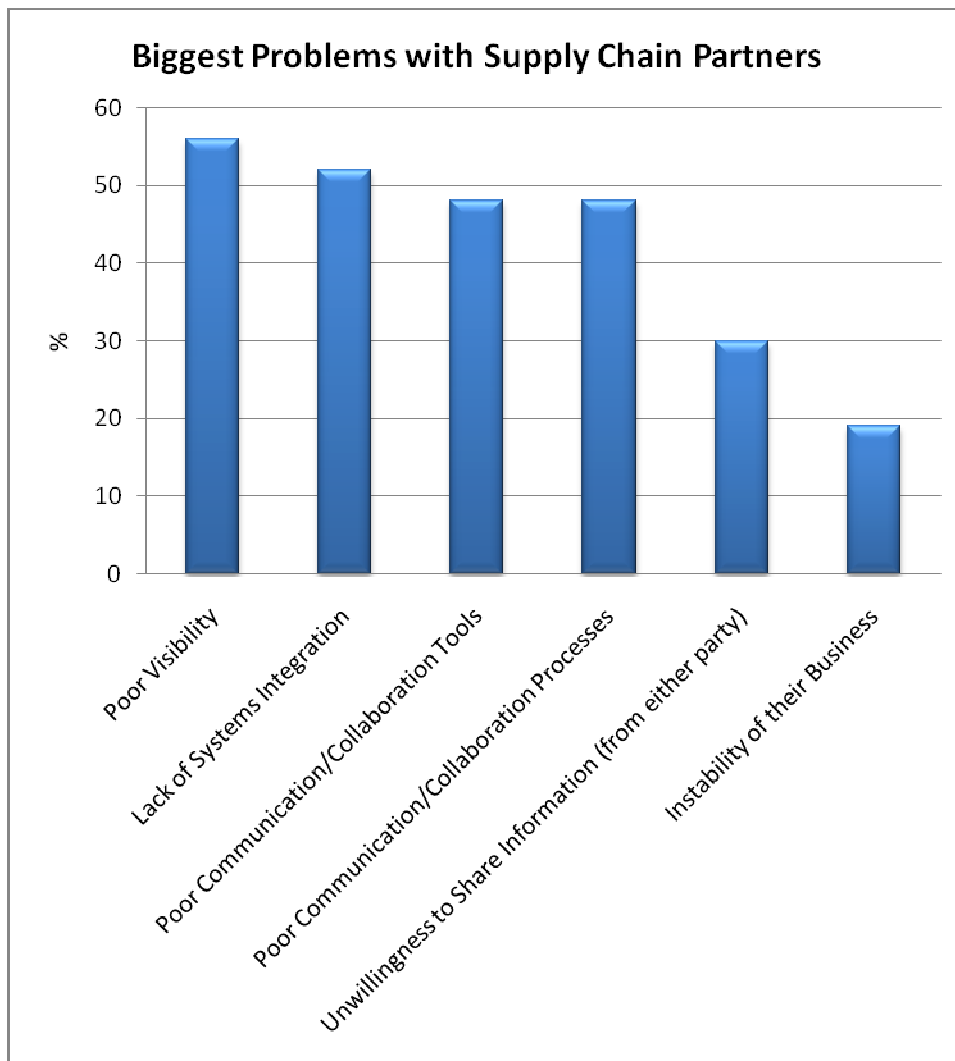
their use of it (19%). 51% of respondents saw no change in their use of ocean transport. None of the hi-tech shippers reported having decreased their use of rail transport, though only 15% reported an increase, with 85% seeing no change. Opinion was slightly divided on road transport, with 26% increasing their use of it, 11% decreasing their use, and 63% seeing no change.



When looking at the most important factors when choosing a new supply chain provider, quality of service was identified as the key factor, with the majority of respondents seeing it as being very important. Cost and financial stability were largely seen as quite important factors, though each also saw a sizeable proportion of respondents considering them very important factors. Geographic expertise was also mainly seen as being quite an important factor, though fewer respondents identified it as being very important, with a greater number seeing it as just an important factor. Domain expertise, environmental reputation, and size and scope of company were all largely seen as important factors, though all also had a notable proportion of respondents identifying them as being quite important factors. Existing relationship with partners and personal recommendations were seen as important factors also, though they had a greater proportion of respondents seeing them as only slightly important or not important at all.

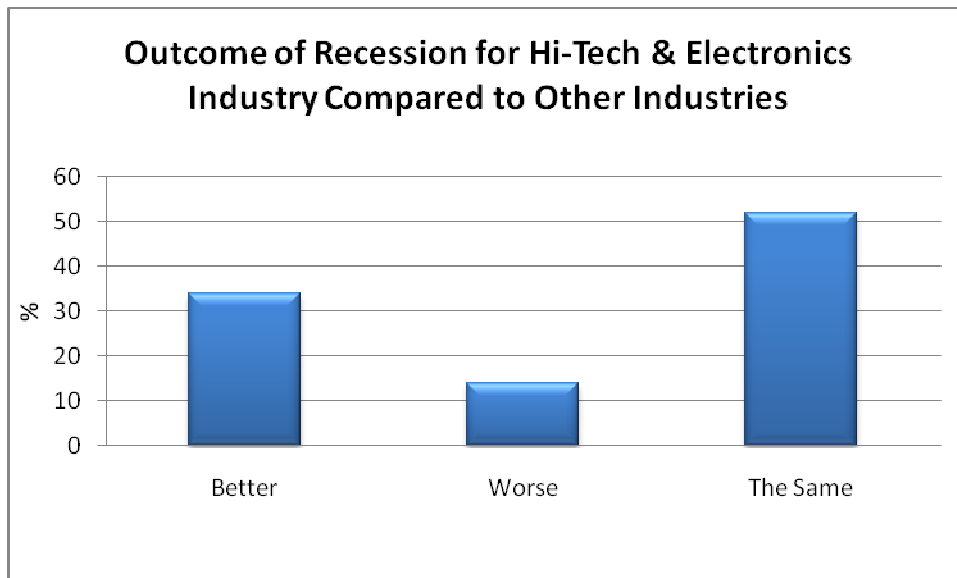


Hi-tech shippers were asked to identify which difficulties caused the most problems in working with their supply chain partners, Poor visibility was a notable response (chosen by 56% of respondents). A lack of systems integration (52%), poor communication/collaboration tools (48%), and poor communication/collaboration processes (48%), were the other most notable responses. A lack of willingness to share information (from either party) was seen as the biggest problem by 30% of respondents, while 19% saw instability of their business as their chief concern.

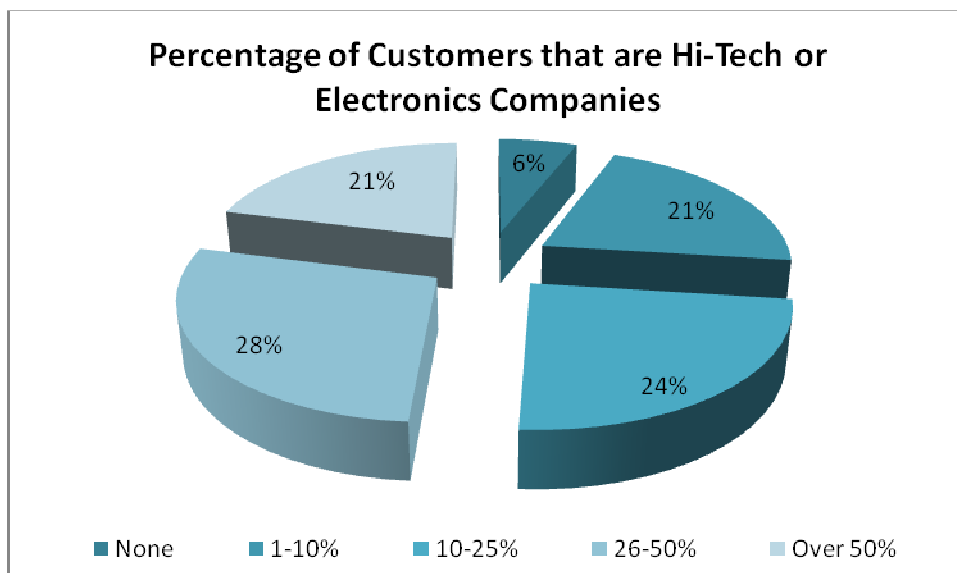


V. Information from Transport Service and Solution Providers

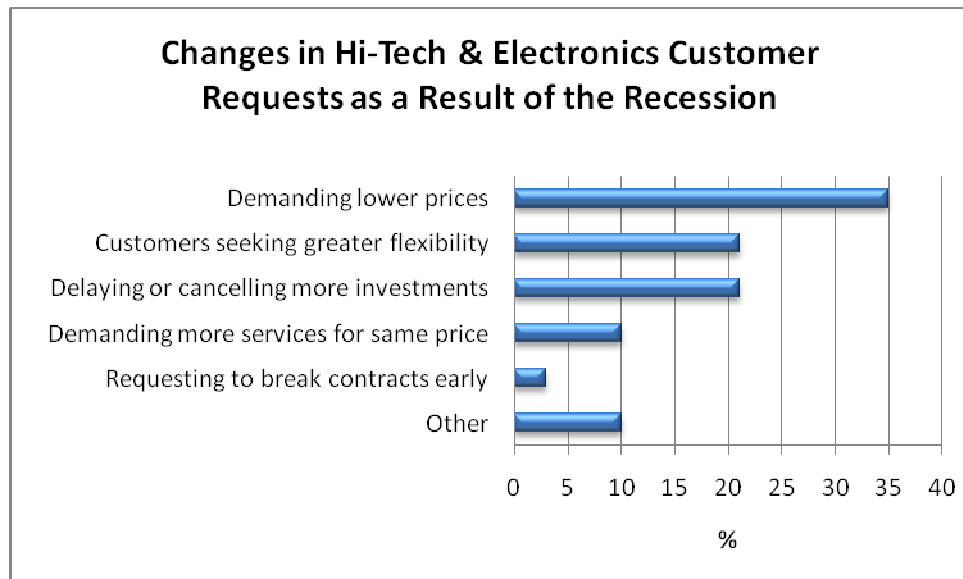
Respondents representing Transport Service and Solution Providers (Solution Providers) were asked how they perceived the impact of the recession for the hi-tech and electronics industry, as compared to other industries. 34% said that they thought the outcome was better for the hi-tech and electronics industry than for others, while 14% said it was worse. The remaining 52% thought the outcome was the same as for other industries. These results were broadly similar to those of the respondents representing service and solution providers, of whom 37% thought the hi-tech and electronics industry had fared better, and 22% thought it was worse.



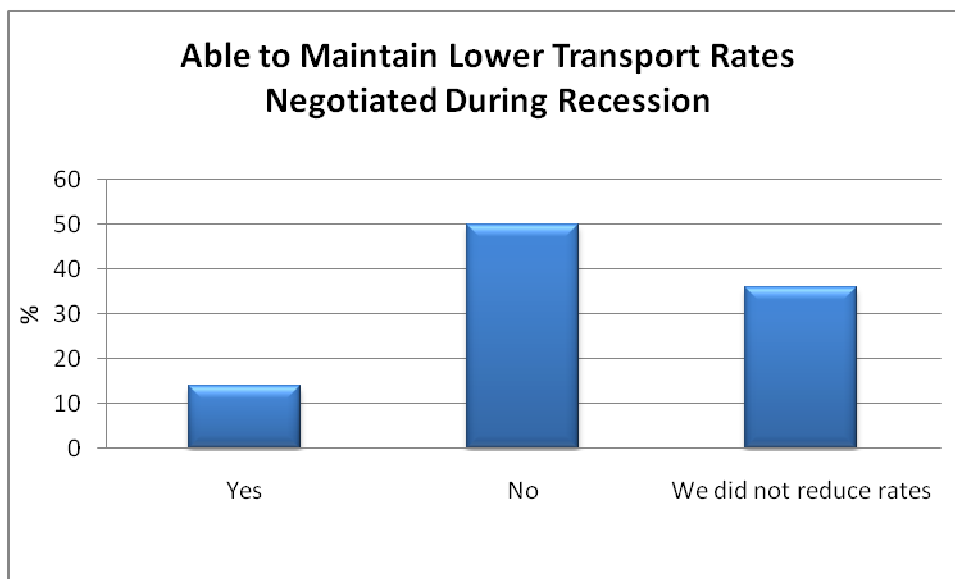
Of the solution Providers, 21% had more than 50% of their customers from hi-tech and electronics companies. 28% had between 26-50% of customers, 24% between 10-25%, 28% between 1-10%, and 21% with no customers from hi-tech or electronics companies.



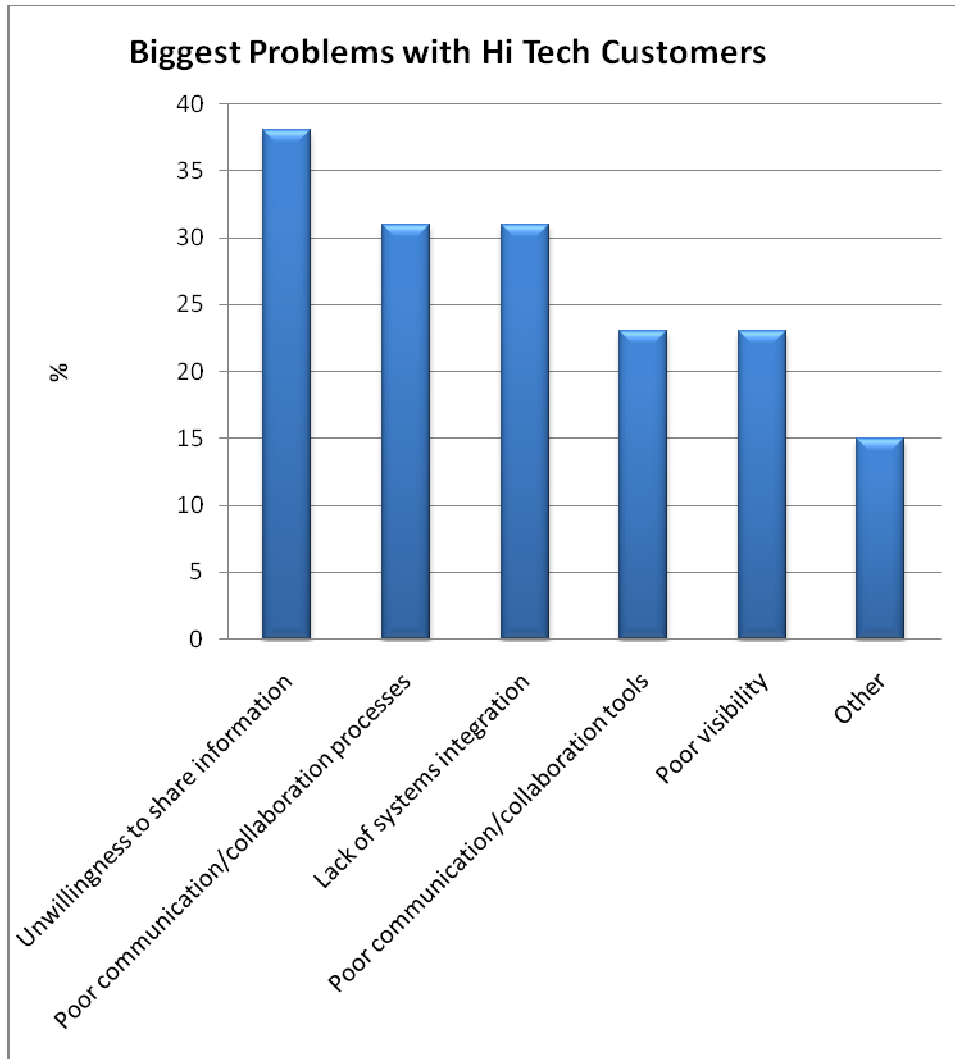
Solution Providers were asked how the recession had changed their hi-tech & electronics customers' requests. Customers demanding lower prices was the most frequent answer, with 35% of respondents seeing this as the main request. 21% saw customers seeking greater flexibility as a result, while the same percentage chose customers delaying or cancelling further investments. Only 10% selected customers demanding increased services at the same price, while only a small minority (3%) selected customers wanting to break contracts early.



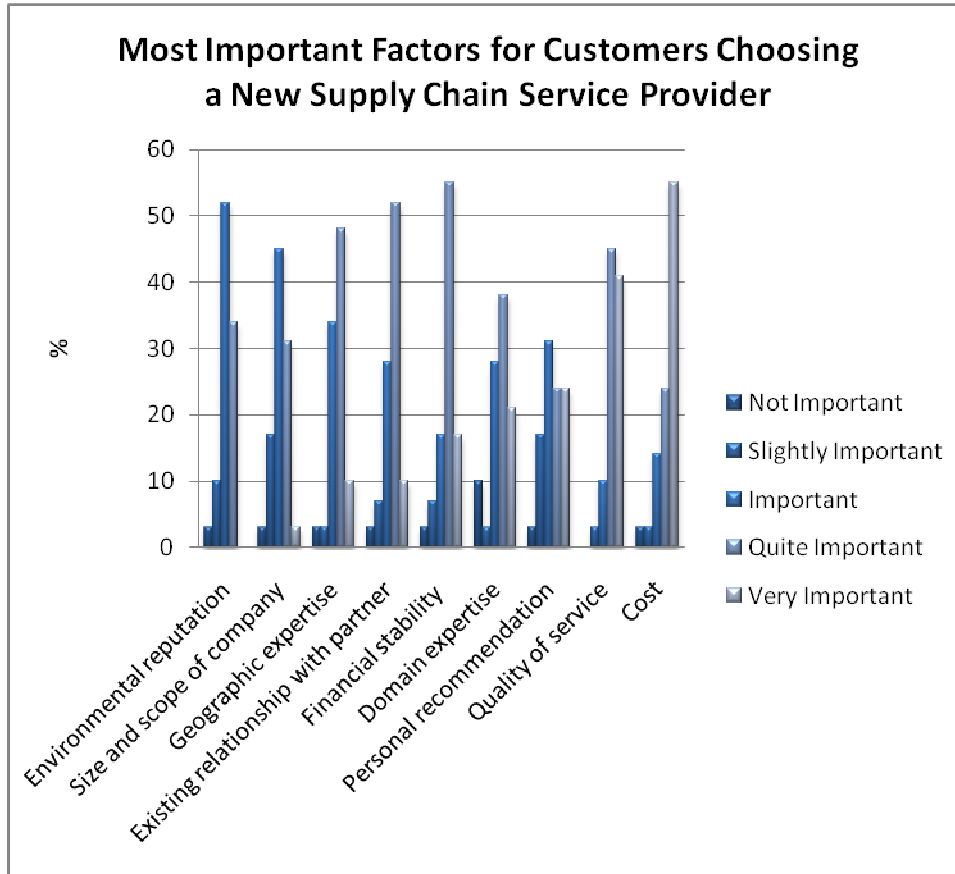
Solution Providers were asked if they expected to be able to continue offering any reduced transport rates as a result of the recession. Only 14% anticipated being able to do so, as opposed to 50% who didn't. 36% reported not having reduced their rates. These results contrasted greatly with those of the service and solution providers, with 55% of them anticipating being able to continue their discounted rates, as opposed to 30% who don't.



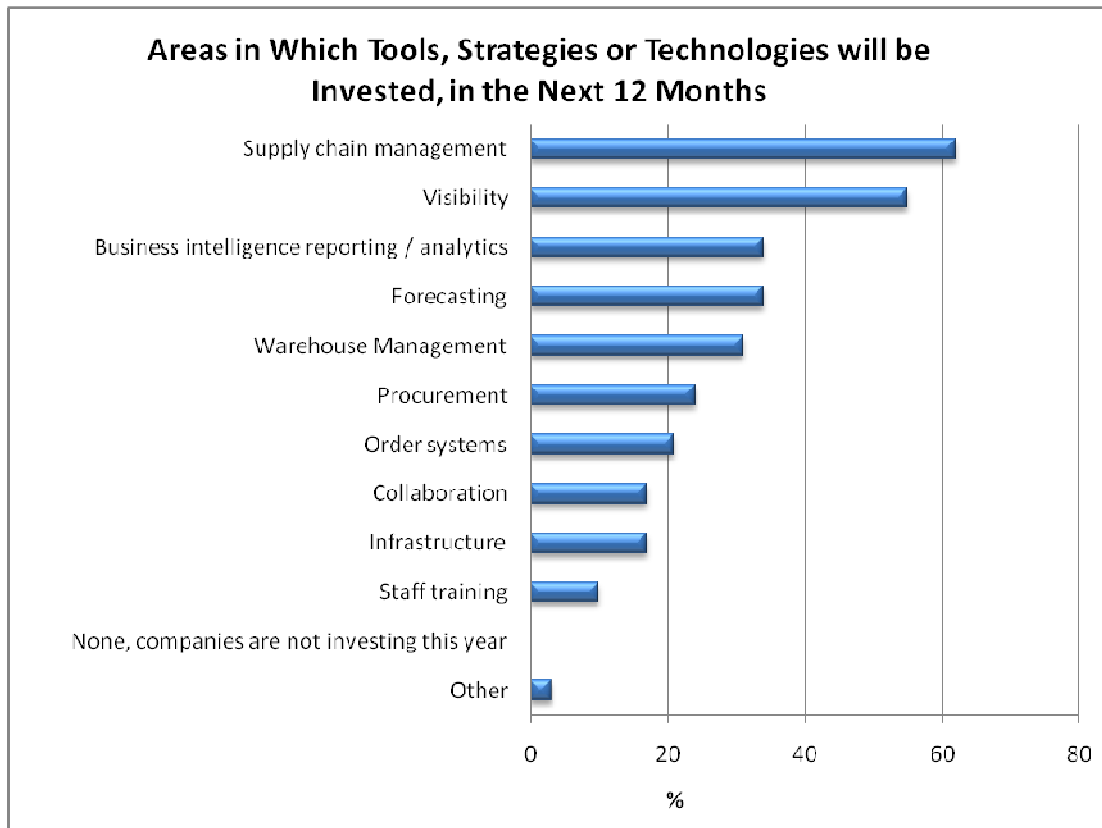
Unwillingness to share information (from either party) was seen as the biggest problem for solution providers working with hi-tech customers, with 38% of solution providers holding this opinion. 31% saw poor communication/collaboration processes as the biggest problem, with the same percentage choosing a lack of systems integration. Poor communication/collaboration tools and poor visibility were each selected by 23% of respondents, with 15% choosing other problems.



When looking at the most important factors when choosing a new supply chain provider, cost was identified by solution providers as the key factor for their hi-tech customers, with the majority of respondents seeing it as being very important. Quality of service was the second most important factor, with the vast majority of respondents seeing it as either very important or quite important. Opinion was more divided between personal recommendations, domain expertise, financial stability, existing relationships with partners, and geographic expertise, though all were generally seen as being quite important to hi-tech and electronics manufacturers and retailers. Size and scope of company and environmental reputation were largely seen as being important, though both saw more hi-tech shippers viewing them as quite important or very important than slightly important or not important.



Solution providers were asked to identify the areas in which they expect hi-tech shippers to invest in tools, strategies or technologies during the next 12 months. Supply chain management was the notable response (selected by 62% of respondents), with other responses being visibility (52%), business intelligence reporting or analytics (34%), forecasting (34%), warehouse management (31%), procurement (24%), order systems (21%), collaboration (17%), infrastructure investments (17%), and staff training (10%).



VI. Beyond the Numbers – Key Trends Behind the Results

The numbers reveal that hi-tech & electronics supply chain executives are generally positive about the 2010 outlook, and are looking to invest in smart solutions to develop their supply chains. But what are the deeper trends at play that will guide their decision-making and investment strategy?

From the survey results above, there are 5 key trends that will influence hi-tech supply chain management in 2010. Freight capacity, supplier stability, outsourcing to and working in new markets, and new product introduction. Supply chain visibility also continues to be a concern. Finally, though not as strongly evident in the survey numbers, individual discussions have shown that sustainability remains a key focus of hi-tech supply chain executives, with companies seeking new and better means of measuring and reducing their environmental impact, and also meeting legislative demands without incurring extra costs.

Reduced freight capacity and the increase in freight rates that it will bring is a key concern for hi-tech supply chain executives in 2010. The survey results reveal just how tricky this issue will be for supply chain executives. As seen above, 55% of hi-tech shippers expect to be able to maintain the reduced rates they negotiated during the recession. By comparison, only 14% transport and logistics service and solution providers said that they expect to be able to continue offering the reduced rates they provided during the recession. This disparity shows a need for hi-tech shippers to think outside the box of quick rate reductions, to seek more intricate strategies for cost reduction.

Though the speed necessitated by hi-tech shippers has often meant a proportionally large use of air freight, the numbers show that 44% of hi-tech shippers have reduced their use of Air freight during the recession. In conjunction with a reduced use of Air freight, hi-tech shippers have increased their use of Ocean and Road by of 30% and 26% respectively. This presents a window of opportunity for more cost-effective modes, and also gives hi-tech

shipping executives a further dimension to consider when investing in new warehousing, manufacturing and distribution sites.

Supplier stability has always been a key concern for hi-tech shippers, and the recession revealed key weaknesses and risk areas that had previously gone unnoticed. After a difficult year, however, most supply chain executives seem comfortable that their supplier base is now stable, with 74% responding that they expect their supplier base to be 'more stable' or 'the same' as last year. The difficulty of supplier stability is far from eliminated, however, as a significant 26% of respondents still believe their supplier base will be 'less stable' in 2010. This shows a need for effective technologies and strategies for hi-tech shippers to manage and audit their suppliers on an ongoing basis to avoid damaging supply chain interruptions.

Before the recession took hold, the next frontier for Hi-tech companies was emerging and developing economies – the so-called BRIC economies and others including Central and Eastern European countries. Reaching these large new pools of potential customers with ever-increasing purchasing power was a key priority that, for many companies, was put on hold during the recession.

Now that the dust is settling, these countries are again entering the spectrum as pools of potential customers and also more stable regions for outsourced manufacturing, packaging, kitting and other services. Though hi-tech outsourcing traditionally looked towards Asia for lower cost manufacturing and services, the recession highlighted the increased risk of working with Asian suppliers, who may not offer suitable levels of flexibility, efficiency or quality. This is evidenced in the survey results which show that 'quality of service' and 'financial stability' were equally if not more important than 'cost' when hi-tech supply chain executives select new service or solution providers.

Recent trends highlight the move towards 'near-sourcing' describing the return of in-region/near region manufacturing and configuration. Companies are continuing to look near-shore for sourcing and manufacturing in order to combine continuity, quality and security with low costs. Hi-tech companies have a desire to build a more balanced geographic portfolio to avoid some of the risks associated with low-cost country sourcing. In a weak economy, companies need to focus on core competencies, such as marketing and branding, as opposed to non-core competencies, including manufacturing and outsourcing

Many hi-tech companies are also looking to new products to boost sales and keep profits healthy during the recovery. A solid 33% of respondents said that New Product Launches would be a major priority for 2010. As with any new product launch, the supply chain challenge is to seamlessly integrate new products into distribution operations without incurring extra costs. This will be the case now more than ever as companies depend heavily on high profit margins from new products to carry them out of the recession. As new products are pushed out, Hi-tech companies will be looking to their existing supply chain service providers to step up to the challenge of meeting new product demands and get new products into customers' hands as quickly as possible.

The lack of supply chain visibility continues to be a leading cause of elevated risk in the hi-tech supply chain. The increasing complexity of products, suppliers and geographies, combined with poor visibility, decreases corporate profitability and competitive advantage, in addition to disrupting customer service. Executing on revenue opportunities accurately is extremely important during this time of economic uncertainty. Global corporations stand to lose potential sales due to the lack of end-to-end visibility, including into true customer demand. Improved supply chain visibility will be a key risk mitigation strategy.

Finally, though many expected sustainability to fade into the background as a result of cost-cuts, conversations among many Hi-tech executives show that it remains a key issue for Hi-tech companies in 2010. Beyond finding the most cost-effective ways to meet legislative requirements, many companies still see sustainability as an area for cost reduction and efficiency improvements. The prime concern for most executives is settling on a benchmark

of measurement for environmental impact, as a means to assessing where they currently stand and making plans to move forward.

VII. Conclusion

After a difficult 18 months, it seems that the hi-tech & electronics industry is now seeing signs of stability and improvement. Among eyefortransport survey respondents, the outlook is generally positive, and executives are keen to push forward with new products and increased supply chain investment.

More than ever, hi-tech supply chain executives will need creative and innovative supply chain solutions to tackle new challenges as cost controls remain tight. One lesson learned by many executives during the recession was that a lot can be achieved by working closely and openly with their supply chain service and solution providers, and many executives will likely build on these strengthened relationships to make further improvements in 2010.

2010 still holds a lot of uncertainty for hi-tech manufacturers. But, with refined operations in place, strengthened supply chain partnerships in hand, and new markets on the horizon, it promises to be an interesting year for hi-tech supply chain executives. 2009 was a tough year for manufacturers – in 2010 companies will be looking to their supply chains to renew profitability.

Want to learn more?

At this year's Hi-Tech & Electronics Supply Chain Summit, hear expert speakers share their success stories and strategies for improving their supply chain operations in 2010.

Make sure your knowledge is at the forefront of industry thinking, and help your company renew profitability with innovative supply chain solutions

Complimentary Passes are available to Supply Chain Executives from Hi-Tech & Electronics Manufacturers & Retailers. Visit the website today to register: <http://events.eyefortransport.com/hitech/register.shtml>

You'll See:

Rachel Ougier-Simonin Global Logistics VP **Alcatel-Lucent**

Patrick Barr EMEA OEM Supply Chain Director **Microsoft**

Jan Roodenberg Former SVP Supply Chain **Philips**

Andre Van Hees VP Operations **Airties Wireless**

Johan Jemdahl SVP Global Operations & Supply Chain **Tandberg**

Mark Servidio VP Logistics & Supply Chain Planning **Sharp Microelectronics**

Nigel Cowmeadow Director Logistics **Panasonic**

Marc Schaap Director Global Transportation **Tyco Electronics**

Juul de Veer Delivery Manager Global Logistics **IBM**

Alexander Hemler Director European Transport **Canon**

Tahier Nanabhay Senior Supply Chain Manager **LG**

Thomas Ritter Senior Manager Logistics **Fujitsu Microelectronics**

Christian Verstraete CTO **Hewlett Packard**

..... and more than 10 others

2010 Key Topics:

- ◆ **Collaborative Supply Chain Planning:** Aligning Business Goals with Supply Chain Tactics
- ◆ **Horizontal Collaboration:** Working with your Competitors to Realize Dramatic Cost Savings and Improved Delivery Times
- ◆ **Inventory Management:** The Role of Supplier Hubs and 3PLs in Shifting Inventory to Reduce Risk and Improve Flexibility
- ◆ **The New Wave of Hi-Tech Sustainability**
- ◆ **Emerging Markets & New Distribution Channels**
- ◆and much more!

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This report is presented in conjunction with RR Donnelley Global Turnkey Solutions:

RR Donnelley's Global Turnkey Solutions (GTS) is a worldwide supply chain management group serving many of the world's leading blue chip companies in the medical, IT, retail and consumer electronics industries. For over 25 years, GTS has been providing supply chain management solutions globally to companies in the medical, IT, retail and consumer electronics sectors. RR Donnelley's Global Turnkey solutions include packaging, design, assembly and configuration of consumer electronics and medical devices, delivering to various channels including direct to factory lines, distribution centers, retail outlets or direct to the end-user.

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RR Donnelley (NASDAQ: RRD) is a global provider of integrated communications. Founded more than 145 years ago, the company works collaboratively with more than 60,000 customers worldwide to develop custom communications solutions that reduce costs, enhance ROI and ensure compliance. Drawing on a range of proprietary and commercially available digital and conventional technologies deployed across four continents, the company employs a suite of leading Internet based capabilities and other resources to provide premedia, printing, logistics and business process outsourcing products and services to leading clients in virtually every private and public sector.

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