

July 19, 2004
PORTALS
 By LEE GOMES


PCs Aren't Just Made In Asia Now; Many Are Designed There

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It's well-known that Asia makes many of the world's computers and electronic devices. Thus, few people would be surprised to learn that their computer wasn't actually manufactured by the company whose logo is on the box.

But because of the growing sophistication of these same Asian manufacturers, it's increasingly possible that your computer wasn't designed by the logo company either.

The past few years have seen a rise in something called ODMs, or "original design manufacturers." These are full-service makers that design and build finished products that other companies can then brand as their own.


A growing percentage of products in the computer and electronics industries -- it's hard to know the exact amount -- are being designed as well as made by ODMs. The trend represents a new wrinkle in the developing global economy, and one more reason for American tech workers to be a little edgy about their future.

Much of this is happening on Taiwan. During the 1980s, the island became motherboard maker to the world. That's a big and important business, but not a particularly lucrative one; lots of people are able to take a computer company's motherboard specs and then mass produce the design.

So motherboard companies began adding in-house design staffs so they could offer more "value-added" services. After a while, they were doing all the motherboard design work themselves, and they soon took the next logical step: designing the entire computer. Lately, they have been branching out into new fields, like cameras and cellphones.

Adam Pick, who follows ODMs for the research outfit iSuppli, says that the ODM phenomenon is most advanced in the notebook computer market, with Taiwanese companies like Quanta Computer, Compal and Inventec designing and making the bulk of the world's machines.

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ABOUT LEE GOMES

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It's difficult to know exactly how much ODMs do for U.S. companies, because the companies don't like to say much about the issue. (For their part, ODMs are often forced to sign strict nondisclosure agreements.)

You can glean some clues, though, from SEC filings. **Apple Computer**, for instance, says in its latest annual report that to make its notebooks, it relies on the same Taiwanese ODMs everyone else does. An Apple spokesman wouldn't elaborate, or discuss any design role the ODMs might play.

And then there are occasional slip-ups. Two years ago, for instance, reports circulated that **Gateway** and **Dell** were selling the same ODM-supplied laptop. A Gateway spokesman didn't dispute the fact; Dell says it no longer sells the model, adding, "All Dell products are built to our specification."

While it varies from company to company, Mr. Pick says that typically, ODMs do the bulk of the design work on a product, with the client company perhaps making slight customizations of exterior features. That helps ensure that products look different in the marketplace, at least most of the time. It also allows computer companies to say that they help design the product themselves -- even though their ODMs are doing most of the heavy lifting.

It's little wonder that tech companies are reticent about their use of ODMs -- or of outsourced manufacturing in general. If I buy a widget from Acme Corp., I assume Acme made it, and I may even be willing to pay more for it as a result. But if I were to learn that Acme is simply reselling someone else's widgets and that Acme's rival has the same product for less money, I might well take my widget dollars elsewhere.

The global economy makes these ODMs inevitable, though. The components inside modern electronic devices -- screens, chips, hard drives and the like -- are widely available off the shelf from any number of suppliers.

One result is that innovation doesn't last very long. The iPod was certainly a sensation when it was introduced, but soon, if you want to go into the MP3 player business, you may be able to buy any number of similar ready-made models from ODMs that you can sell as your own. After all, an iPod is essentially a tiny hard-disk drive bolted to some control software.

ODMs are good news for consumers but a mixed blessing for U.S. workers. During the 1980s and 1990s, as U.S. computer manufacturing moved to Asia, you often heard that the trend was nothing to fret about because the really good jobs, meaning the high-paying design jobs, were staying in America. Not any more.

To see how ODMs might start rearranging the world's economic chess pieces, watch the mobile-phone industry. Right now, that industry has two main pillars: Carriers like **Verizon** and AT&T Wireless buy their handsets from big-brand manufacturers like **Nokia** and **Motorola**. But what will happen to manufacturers if carriers decide to save money by getting their handsets from ODMs -- as is already beginning to happen in Europe?

Or what will happen should ODMs begin to brand themselves? Samsung started life, in part, as an ODM; now it rivals **Sony** as a global brand. Up and coming ODMs like Taiwan's BenQ are beginning to sell products, such as phones, under their own brand, especially in Asia. Will BenQ one day be the next Samsung?

- Send your comments to lee.gomes@wsj.com¹, and check back on Friday for some selected letters at WSJ.com/Portals².

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