



SI growth challenges in the global environment

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Global market shifts

- Significant manufacturing shift to China
 - Emerson - systems integration & complete project management for Far East
- Development jobs now moving
 - GE, Honeywell, IBM, Rockwell others have shifted R&D, software dev. to India
- Other countries competing fiercely



Global supply chain

- Proposals & quotes
 - Multiple locations for large jobs
- System design & documentation
 - Anywhere
- Manufacture panels and parts
 - Almost anywhere
- Installation - Customer site
- Services - Customer site

3



Products vs systems

- Traditional split
 - Materials
 - Widgets
 - Products
 - OEM equipment
 - Systems
 - Services
 - Installation
 - Maintenance & upgrade
 - Training

Systems & Services
primarily targeted
at end-user location

4



US Automation Systems Integrators

Annual Revenues for Companies Listed in Control Engineering's Automation Integrator Guide				
Annual Revenue	All integrators		Independent SIs	
	Number	%	Number	%
< \$1 M	214	22%	48	26%
\$1-5 M	429	44%	92	49%
\$5-10 M	159	16%	25	13%
\$10-25 M	108	11%	15	8%
> \$25 M	70	7%	7	4%

* Courtesy Vance VanDoren - Control Engineering

5



Summary of US SI analysis

- 1000 companies
 - 80% major suppliers' SI services
 - 20% "independent"
 - 50% \$ 1-5 million annual revenue
 - Only 15 "independents" \$10-25 million
 - Only 7 over \$25 million
 - Only 3 of the 7 >\$25 million located in US

6



Suppliers seek growth through internal/captive SI services

- Advantages

- “Total solutions” providers for end-user
- Proprietary product knowledge
- Capture revenue growth
- Push higher-margin products
- Keep integration margins in-house
- Develop in-house SI expertise

7



Internal/captive SI Services - strategic error for product suppliers

- Disadvantages

- Cannot compete with small, local independents
- Local territorial focus is vital
- Cannot scale up on a broad front
- SI margins are much lower
- Independent SIs will compete – migrate to other “commodity” products

8



Independent SI assets

- Knowledge & Experience
 - Relationship with specific end-users
 - Applications knowledge & experience
 - Local availability – the key asset
 - Provide all required systems services

9



Key SI services

- Primary customer values
 - Design to suit needs
 - Early partnership to maximize ROI
 - Build to meet budget & schedule
 - Internet-based support
 - Installation & commissioning
 - Service availability
 - Repairs, maintenance & upgrade
 - Training of customer personnel

10



Major suppliers

– competitors or allies?

- How long is “long term” contract?
 - Preferential pricing
 - Relationship between sales channels – Internet, Distributors, Sales Reps, SIs
 - Consistent policies across territories
 - Mutual exclusivity
 - Referrals
 - Mutual dependency

11



Consulting/Engineering firms

- Partners? Or competitors?
- Will they “automatically” choose the major suppliers (Siemens, Rockwell, etc.?)
 - Small SI has “credibility gap”
- Multi-national design, configuration, services
- Vendor-selection power
 - Shared between Engineer & end-user
 - Approved list – tool to favor “friends”

12



Traditional Disintermediation

- Manufacturer “upstream”
- End-user is the “customer”
- All sales channels are the “intermediaries”
 - Sales Reps
 - Distributors - stocking & what else?
 - Systems integrators
 - Internal sales people

13



Disintermediation today

- Products have become “commodities”
- Manufacturer is in the “distribution” chain – no “upstream profits” anymore
- Distributors & Systems integrators can migrate to competition
- Good SI has territorial supremacy – the key link to the Customer

14



Growth through SI partnerships

- Partnering basis
 - Territorial bias
 - Global linkage
 - Specialized market bias
 - Shared knowledge (software)
 - Access to services
- Example: Automation Alliance

15



Pinto's Pointers

- Focus on key markets, customers
- Develop alliances
 - Other US territories
 - Other local markets/applications
 - Global
- Never, never be the lowest bidder

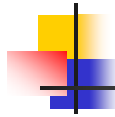
16



Suggested Reading

- Automation: Products Vs. Services:
<http://www.jimpinto.com/writings/choices.html>
- Never, never be the lowest bidder:
<http://www.jimpinto.com/writings/lowestbidder.html>
- **The Disintermediation Series**
 - Disintermediation Stirs up Industrial Automation:
<http://www.jimpinto.com/writings/disintermediation.html>
 - Disintermediation II - The Customer perspective:
<http://www.jimpinto.com/writings/disintermediation2.html>
 - Disintermediation – III – Product Manufacturers get disintermediated:
<http://www.jimpinto.com/writings/disintermediation3.html>
- Automation Systems Integrators – growth ceiling:
<http://www.jimpinto.com/enews/jan28-2004.html#2>

17



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18