

# Thomson uses value analysis to lower functional cost

By Staff -- 6/15/2000

In some ways purchasing for consumer electronics is similar to buying in the PC industry. In some ways it is similar to the automotive industry. In some ways it is like neither, says J.P. Collin, vice president of worldwide sourcing, Thomson Consumer Electronics. Thomson makes a wide variety of equipment under the RCA brand including analog and digital televisions, DVDs, VCRs, MP3 players, set-top boxes and satellite TV systems.

Collin's organization buys about \$3 billion of components and other production materials including microprocessors, memory, graphics ICs, encoder and decoder chips, passives and connectors.

He says buying for consumer electronics is similar to the PC industry because new-product development cycle times are about the same, approaching six months. Because of that CE companies, like PC companies, need to work very closely with suppliers. "It is also similar to the PC industry in that we have a very lean and highly reactive supply chain," he says.

Thomson also uses commodity teams, which many PC companies have as well. Thomson has seven commodity teams for parts such as passives, application-specific integrated circuits, standard ICs and connectors.

However, buying in consumer electronics is different than the PC industry because there is no common platform. In the PC industry, most computer companies use Intel's x86 processors and Microsoft's Windows operating system.

"We don't have a Wintel in consumer electronics," says Collin.

The lack of a standard platform is one reason that consumer electronics companies have been slow to use contract manufacturers (CMs), unlike the PC industry, says Collin. CE companies are much more vertically integrated, he says.

"If you look at the PC industry, the architecture is very similar from one PC to another. It's very standard so the CM industry embraced it quickly," says Collin. "CMs are big in the PC arena, but not so big in the midrange or high-end computers because they are not as standard as PCs," he says.

He says because there is no standard platform in consumer electronics, contract manufacturing has not played as big a role as in the PC industry. "That may change in the future as a set-top box becomes more like computers and there is a convergence of TVs and computers. But right now we don't have a modular design and we don't have the Wintel phenomenon."

While CE manufacturers don't have a standard technical platform like the PC companies, the need to reduce cost is just as important as in the PC industry and the automotive industry.

In fact, Thomson has borrowed a page from the auto industry using **value analysis** and **value engineering** to lower the cost of parts and systems.

"We look at the product itself and do value analysis and value engineering. We try to get integration and to simplify the design. "We try to look at functional cost beyond the cost of the component," says Collin. "In that way we are similar to the automotive world," he says.

Suppliers play a big part in cost-reduction efforts, he says. "We look at our major products and then we do cost-improvement workshops with suppliers and we try to get them to criticize what we are doing," says Collin. "We want them to tell us what we are doing well and what we are not."

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