

*Practice #7*

# DEMAND-FOCUSED RESPONSIVENESS

**Profiled Company**  
**agere**  
systems

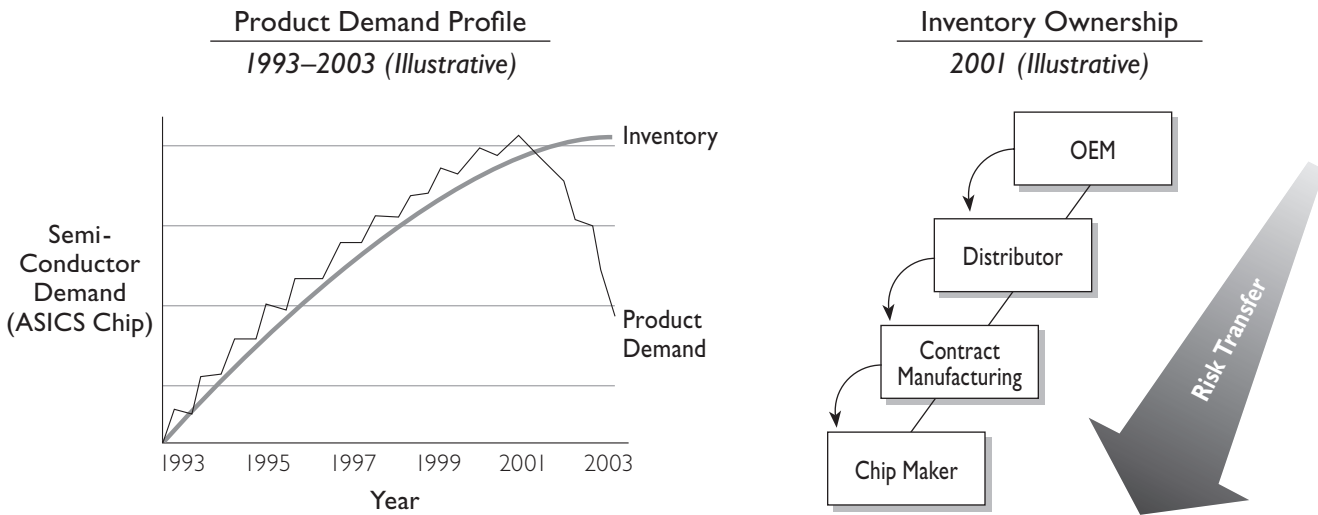
**FY 2002 Sales:** \$2.18 Billion  
**Headquarters:** Allentown, Pennsylvania

One of the world's top makers of communications chips, Agere offers a host of integrated circuits used in telecommunications and networking equipment. Agere has partnered with Motorola to develop digital signal processor (DSP) chips, and with chip foundry Chartered Semiconductor to develop new production methods. Top customers include former parent Lucent, Apple, Cisco Systems, and Maxtor. Lucent spun off part of Agere in 2001, then distributed the rest of its stake to Lucent shareholders in mid-2002.

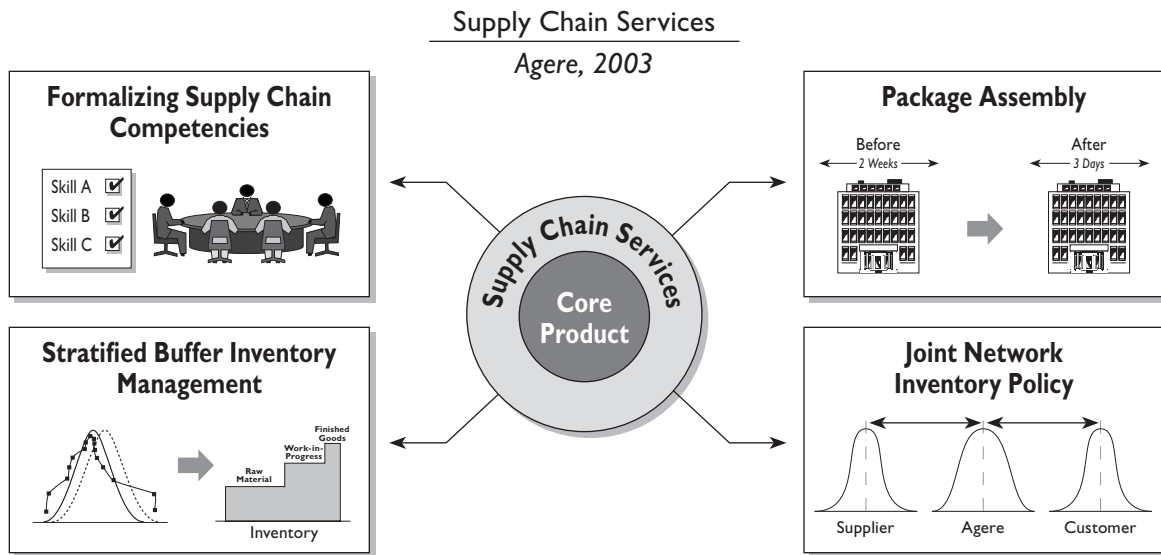
Practice in Context

# PASSING THE BUCK

## Limited product demand in a commodity market...



...creates an opportunity for Agere to position supply chain services to drive differentiating advantage



### TRANSFERRING THE "HOT POTATO"

"The culture that was built in high-tech supply chains was all about transferring risk. The build up of inventory drove a very contract-oriented approach to supply network relationships with always a focus on exercising the conditions in the contract."

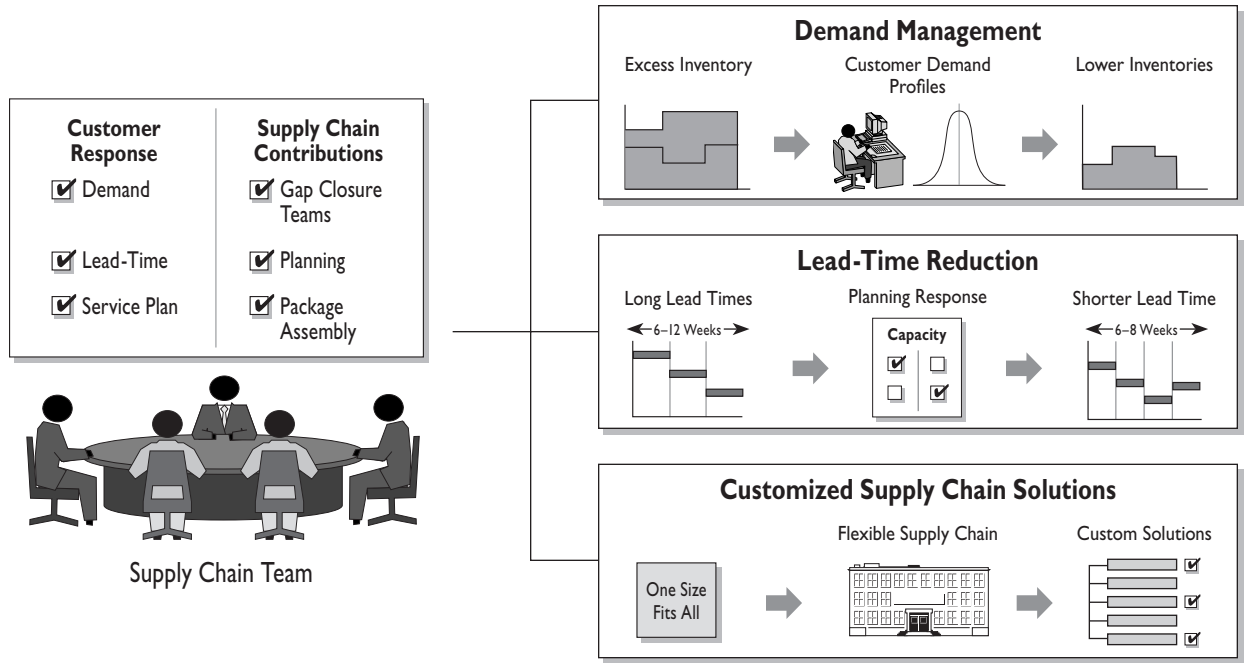
Chris Armbruster  
 Director, Supply Chain Strategy  
 Agere Systems

# DRIVING INTERNAL BUY-IN

**Agere's supply chain team assessed its core supply chain capabilities...**

Competency Planning Session

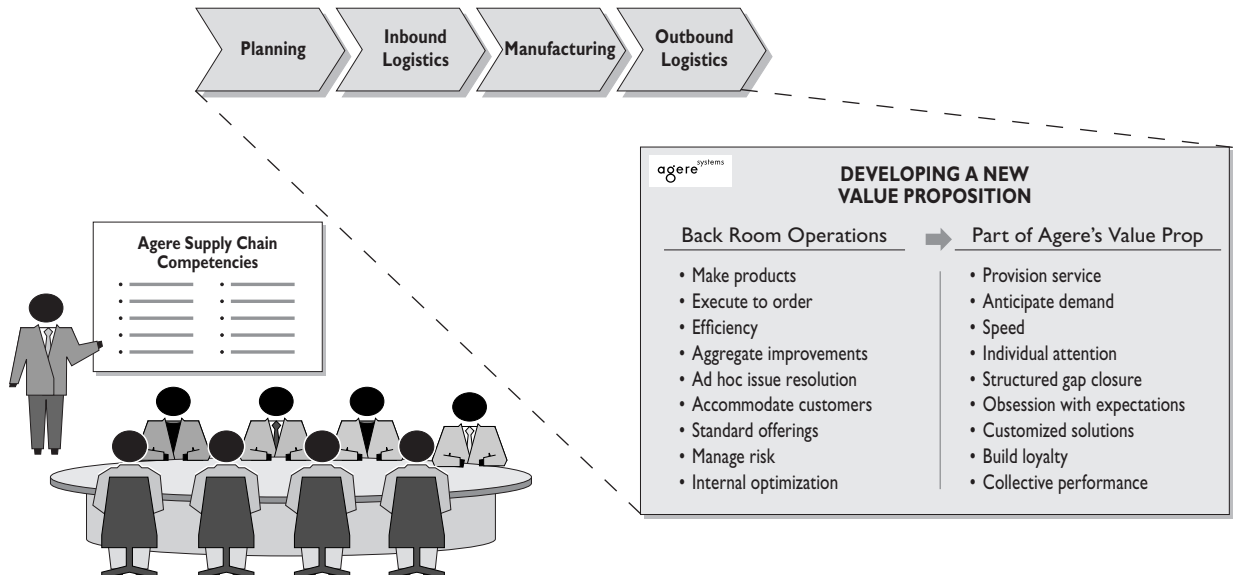
Agere, 2003



**...and drove internal recognition of Agere's supply chain competencies**

Executive Presentation

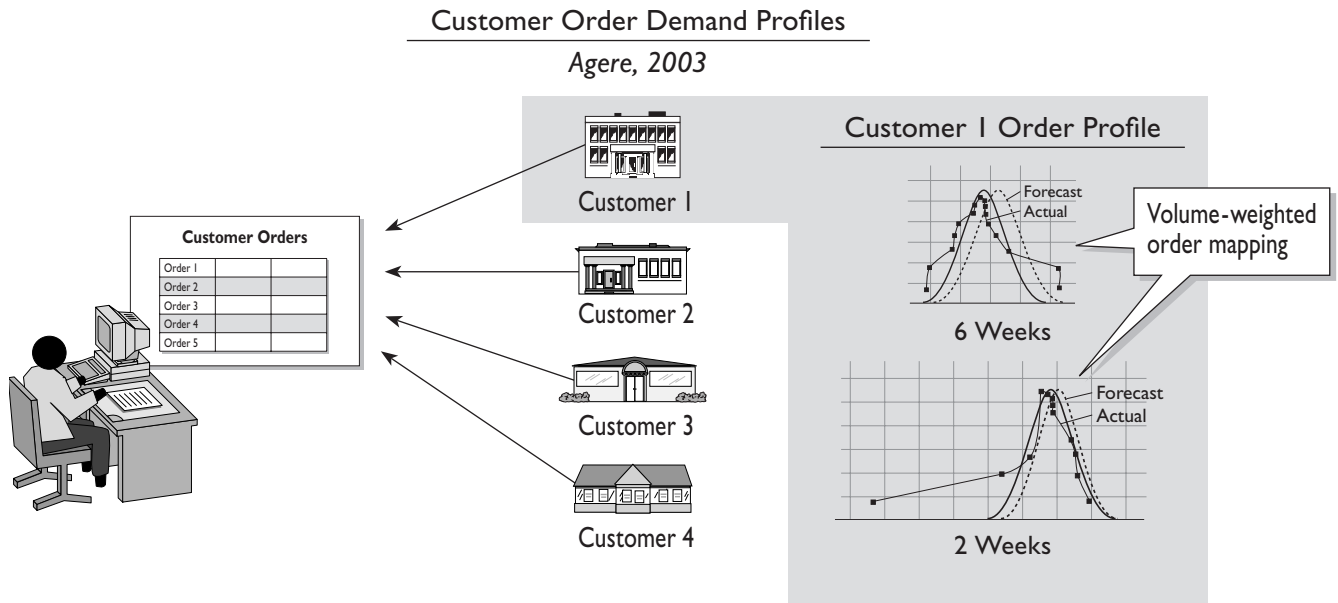
Agere, 2003



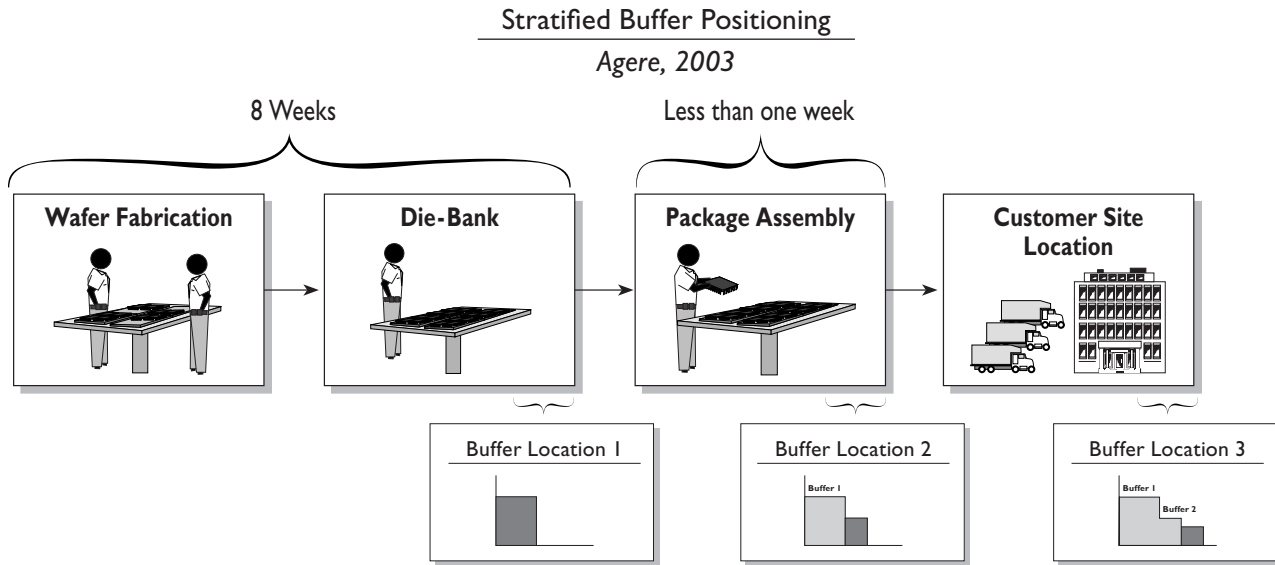
Source: Agere; Roundtable research.

# GENERATING INTELLECTUAL CAPITAL

*Agere's supply chain develops detailed demand profiles of customer orders...*



*...to strategically locate buffer inventory across various stages of the supply chain*



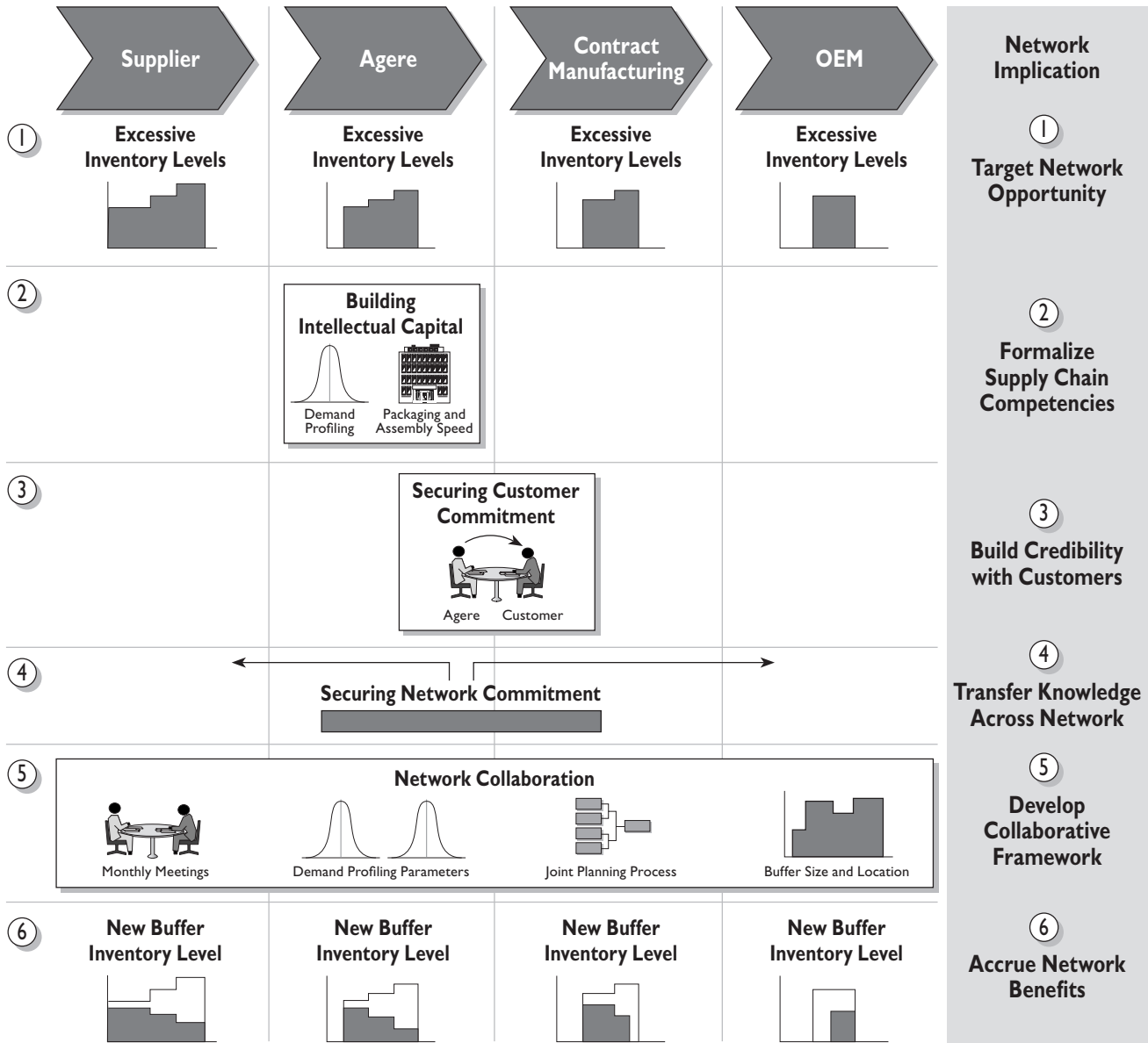
## BUILDING CREDIBILITY

“We invested the necessary resources in learning more about our customers demand and developed this approach to help us better serve our customers. This effort on our end to build the intellectual capital helped us enhance our credibility with our customers by positioning us to serve them better.”

Chris Armbruster  
Director, Supply Chain Strategy

# CRAFTING NETWORK ADVANTAGE

**Agere Works with Its Suppliers and Customers to Create Competitive Advantage Across the Supply Network**



## —MINIMIZING RISK—

“Working collaboratively with supply chain partners helps us minimize the risk in the extended supply chain. Now it is no longer a discussion about exercising a clause in a contract to transfer liability, but focused on collaboration to minimize individual risk and optimize collective performance across the entire supply chain.”

Chris Armbruster  
Director, Supply Chain Strategy

# RECIPROCATING VALUE CREATION

## Customers Invest Time and Resources to Drive Value Creation at Agere

### Agere–Customer Collaborative Interaction

Agere, 2003 (Illustrative)

**Contract Vendor Advisory Service**

Agere's teams receives consultative advice on third party vendor services based on customer's past experience

**Design Support**

Customer's design team works with Agere to offer advice on new product design and improve efficiency on customer's product assembly

**Customer's Customer Interactions**

Agere's customers invite Agere's supply chain team to interact with their customers to discuss joint demand planning and inventory policy

**Additional Service Contracts**

Agere's supply chain is rewarded with additional service contracts as a result of the improved service efficiency that it offers to its customers

**Long-Term Product Strategy**

Agere receives insight into the long-term product strategy that the customer is developing allowing it to position its services appropriately

**Deeper Organizational Integration**

Agere successfully moves beyond the traditional mode of transactional engagement to a tighter integration between Agere and its customers supply chain teams

### “IT IS CLICKING”

“The customers are really keen to help us serve them better. Some of the customers carve out a day in a week and help us really understand how we can effectively collaborate to further derive advantage.”

Chris Armbruster  
Director, Supply Chain Strategy

## Results

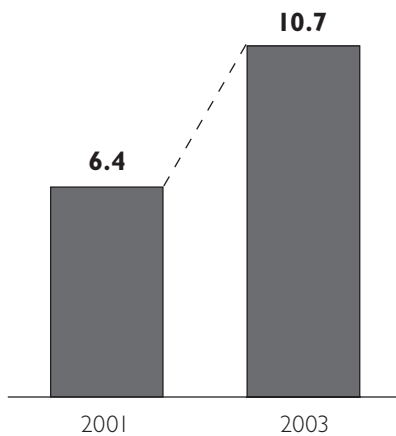
## CAPITALIZING ON STRONG RELATIONSHIPS

**Agere has Demonstrated Significant Improvement  
in Operational Efficiency and Customer Responsiveness**

### Results from Customer-Specific Engagement

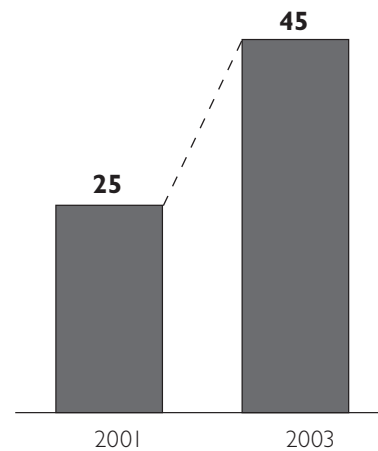
#### Inventory Turns

Agere, 2003



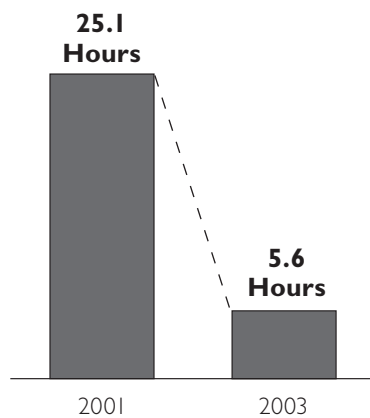
#### Finished Goods Inventory Turns

Agere, 2003



#### Order Responsiveness

Agere, 2003



### A PARADIGM SHIFT

“This approach has truly helped facilitate a closer relationship with several of our principal customers. In our industry, having great products is a mere price of entry. Our positioning of the supply chain has been instrumental in distinguishing our offering to our customers.”

Peter Kelly  
Executive Vice President,  
Global Operations

Source: Agere; Roundtable research.