

ModusLink is known to be world largest in SCM industry. What is SCM business? It is rather hard to comprehend.

Your comment is very typical, because there is no other company whose business model mirrors ours. Our solution is the integration of Global Supply Chains for a complete end-to-end solution. By integrating raw materials allocation, production, logistics, call center, after sales, and reverse logistics, clients have more flexibility, better visibility and can reduce costs with a shorter cycle time.

Is the business model something similar to 4PL or LLP (Lead Logistic Provider)?

The concept is rather similar, but only when compared to components of the overall solution we offer. When compared to establishing the logistic plan and offering operation management, it is the same. But 4PL does not cover total supply chains. Our business coverage is much wider and more comprehensive.

What is the reasoning behind incorporating such a business model?

We have 24 years business experience in IT industry. Initially we were only involved in the outsourcing of simple logistic process. As you are aware, IT industry changes around overnight. Accordingly, the client company must look for a new partner for given territory due to the change and this is rather time and labor consuming. Thus we often were requested from the client company about setting up call center or reverse logistics. In the course of coping with such requests, we established current business model that can handle complete outsourcing covering total SCM business in one flow.

Who will be the competitor?

That depends on the needs and requirements of the client. We have various competitors that provide services similar to pieces of our total solution. For example, if it is only logistics, or call center, professional provider such as 3PL will be our competitor. If the client is looking for the outsourcing of its total SCM business, there is no direct competitor that can offer as comprehensive a solution as ours.

How do you approach the potential client?

Most clients are currently doing the job internally. Or they may be looking to outsource just a portion of the supply chain. We study their business and provide them with a solution that outsources the entire process and clearly demonstrates where the savings and value are created.

Ordinarily, we hold, so called "white board session" with client's staff. We analyze the data in order to nail down what is really needed by the client. We look through each item from the cost viewpoint and build up the total scheme of the supply chain.]

In rare circumstances, we are not the right choice for outsourcing. One the other hand, there is a case where we propose the scheme that covers far wider range of outsourcing than the client

originally thought of. And if it was concluded that there are more benefits, we are going to propose them to choose us as one of the outsourcing candidates.

What is the reason of this timing to come into Japanese market fully?

Here, we are going to show you 2 numbers. Our main target customers are storage (computer memory equipment), home appliance (consumer electronics?), and communication industries. Out of these, 27% of home appliance industries are by Japanese manufacturers. On top of this, the majority of top manufacturers are Japanese.

50% of Japanese home appliances are manufactured outside of Japan. Namely, Japanese home appliance manufacturers need the solution to cover multi regions in the world. Our mission is to take care of their global supply chains.

Japanese companies draw the line between outsourcing and insourcing more toward insourcing when compared with those of Western companies.

I think it is true. Where the line is drawn is naturally influenced by the company culture. I had multiple opportunities to talk with tope level management of Japanese companies past several months and all of them unanimously agreed the need to change the structure of their companies.

What the market demands toward the company keeps changing around rapidly. In order to keep up with this change, Japanese companies are forced to change their culture and their decision making process. Same thing happened with US companies in late 70s to 80s. Many US manufacturers were forced to shift their operation into overseas operations. This is what is happening with Japanese manufacturers now.

Up until now, Japanese manufacturers had their production sites within Japan and established their production model in order to keep up with Japanese customers who are very severe about the quality level under global standard. But nowadays Taiwanese, Korean and Chinese manufacturers are also manufacturing somewhat similar to what Japanese manufacturers are making. Accordingly, Japanese customers now are demanding not only the quality but also the price level to be better than before.

As a result, Japanese companies also shifted their production sites overseas. But this shift created quality problems, etc. Japanese manufacturers are forced to change the operation model itself rather than just production site shifting. This change is global lateral integration rather than conventional vertical integration.

What do you mean by the integration we are talking about?

For instance, when a Japanese manufacturer decides to sell products that were manufactured by their subsidiary factory in China, Japanese manufacturer, their subsidiary factory, transportation

company and SCM company like us, must be electronically and process wise completely connected. This is what we call Virtual Supply Chain and this is what the integration means.

Is the biggest objective of this integration, the cost reduction?

For the past 24 years, the cost reduction was one of the biggest objectives. Nowadays besides that, speed and flexibility are highly demanded at the same importance level. Many client companies are having difficulties in forecasting the future. In 80s, it was possible to create the forecast for next year. But now nobody knows about one year away. All they can forecast is for 3 to 6 months ahead. The change is so abrupt.

In conjunction with this trend, the solution developmental capability is getting to be an important factor. The region where low cost production is possible keeps changing around as time goes on. There is no guarantee that the region which enables low cost production remains same. Thus what is demanded nowadays is; to identify the region which offers superior cost performance and try to shift the production site and on top of it, shifted site must be able to operate properly and be capable to supply products to the market in an expedited manner. Thus it is vital to materialize suited production for suited sales in a global manner.

Model changes and introduction of outsourcing will involve disposition of the existing assets and disposition of the employees.

Because of this, conventionally the buyout from client's business unit was a typical model of BPO (Business Process Outsourcing) We have good track records in this field. We also have sound financial capabilities. We are not in a position to disclose detailed figures but we are determined to conduct long term investment into Japanese market.

Company Summary

ModusLink Corp.

SCM company with headquarters in the US.

2005 annual sale is 132 billion yen. Spin out company from RR Donnelley & Sons- Major printing company in US and was established as Modus Media in 1997. US IT investment company CMGI bought out ModusLink in August 2004 and changed the name as ModusLink. Business has been carried out as the joint venture company with Sasatoku Printing but in February 2007, ModusLink bought out the share owned by Sasatoku Printing and the organization is now directly operated from the headquarter.

ModusLink Corporation is a leading provider of global, end-to-end supply chain management solutions. The company provides technology clients in the software, computing, consumer electronics, storage and communications markets with customized supply chain solutions that improve time-to-market, productivity and customer satisfaction while reducing risk and cost. ModusLink's services include consulting and planning, sourcing and supply base management, manufacturing and product configuration, fulfillment, logistics management, e-commerce and the complete range of aftermarket services. With 40 facilities in 13

countries, ModusLink has the largest global footprint in its industry. The company is headquartered in Waltham, Massachusetts and is a subsidiary of CMGI, Inc. (NASDAQ: CMGI). For additional information, see www.moduslink.com.