AMI/HAN Business Concept and Model

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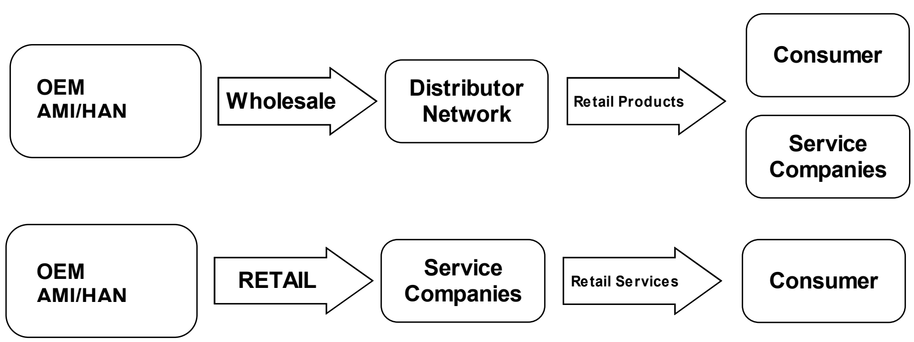
AMI/HAN's approach to a business model most likely follows the established OEM (original equipment manufacturers) practice of developing product for mass distribution and marketing. Basically, it models the idea that manufacturing costs can be continuously (up to a point) reduced to increase the profit margins of each product line. Manufacturing price reduction is achieved through increasing volume production. The wholesale price to distributors, by its very nature will decrease over time, which must be offset by lower manufacturing costs. The pricing moves on a scale that allows for every player their percentage of profit margin.

This approach necessitates partnering with strategic partners who have the depth and width to move large volumes of product into a specified niche market.

The best strategy is to sell into known markets and use the proceeds to penetrate the newer and untried markets. Since the early movers of technology garner the larger risks associated with educating the consumer and establishing market share, it stands to reason that the initial product offerings would be priced higher than normal and be limited in functions and features until there is traction within the market place. Once a level of acceptance is accomplished, a more complex product can be easier introduced.

The exception would be a B2B approach in which the infrastructure for technology already exists and the technology learning curve is minimal.

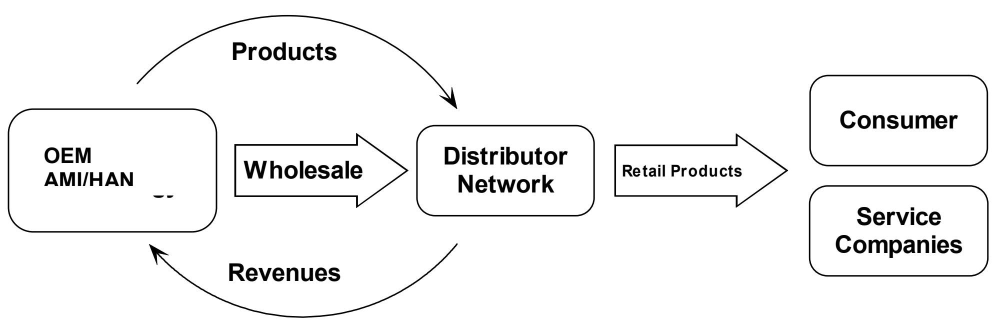
There are two basic models that could be followed: (1) OEM to Distributor to Service Companies or Consumers and (2) OEM to Service Companies. These Subsidiary Companies provide a service to consumers using the OEM technology but not necessarily selling the technology. A service company that provides either leasing or management of the technology at a monthly or annual cost would fit this description.

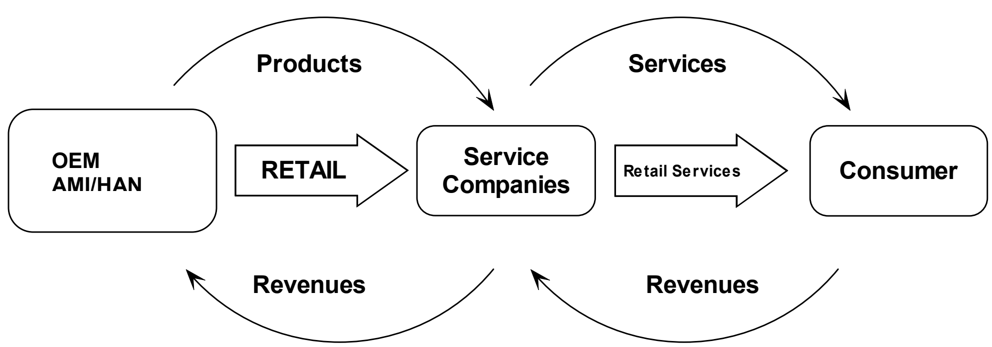


The dynamics as to pricing and costs differ in each model. A comparison chart below compares the two as to possible scenarios based on certain Sales, Marketing, and Decision matrix. While the list isn't exhaustive, it does show that the models differ in many areas and consideration needs to be taken when evaluating how the product gets to market.

CATEGORY	SERVICE COMPANY (SC)	DISTRIBUTOR
Revenue Generation	Revenue is dependent on the service model as executed by Service Company (SC)	Revenue is dependent on direct product sales as executed by AMI/HAN OEM
Sales Control	**Distant**, rely on SCs to manage sales (of services)	**Direct**, rely on sales force to manage sales (of product)
Sales Growth	Based on number of consumers per contract	Based on number of distributors
Marketing Requirements	Local, Regional, Global	Regional, Global
Marketing Costs	AMI/HAN OEM plus SCs	AMI/HAN OEM plus Distributors
Strategic Decision Making	Jointly with SCs	Jointly or indirectly with Distributors
Business Relationship	Contractual agreements favor SCs	Contractual agreements favor AMI/HAN OEM
Product and Business Liability Factors	Immediate	Buffered by Distributors (shared liability among many)

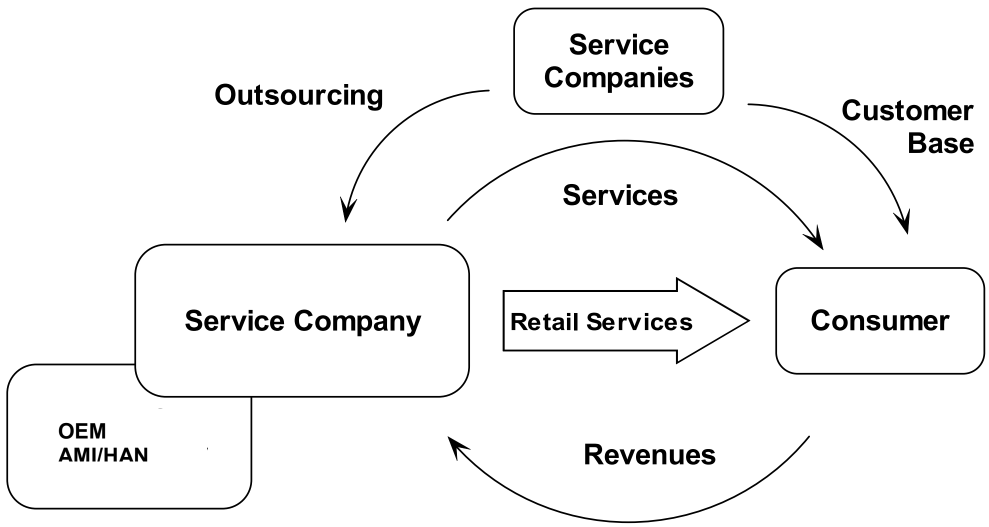
Production differs in each model based on the demand impacting on the COGS and the volume being purchased.





An AMI/HAN manufacturer can use both models, the Service and the Product/Distribution, as they apply to the situation if the product line is broad enough to accommodate each approach to revenue generation.

One other possible model is to sell “services” to Service Companies. The AMI/HAN OEM provides the services under the umbrella of the outsourcing company. This approach is extremely limited as to volume and mass market appeal. In this scenario, the bottom line is selling “service contracts” not products.



One last approach to a business model would be where the AMI/HAN manufacturer is in fact a service company and the product line is merely a tool to entice customers to subscribe to the service being offered. A cell phone company follows this type scenario as does a SaaS company. The AMI/HAN OEM may in fact provide the products at no cost or may charge a nominal rental fee as needed. The cost of the equipment and underlying infrastructure is included into the monthly subscription costs. Again there are many limitations with this approach since the main push here is to sell contracts and not so much the products. This also inhibits the R&D vision of the company since almost any product out there would also meet this objective. The OEM’s own product line would not be driving the company instead, the functions and features or service is the determining factor in the success of the company.

Conclusion. A successful AMI/HAN manufacturer would most likely opt for the goal of selling maximum volumes, both hardware and software, while shying away from those business models that requires extensive infrastructure overhead as is typical of a service type company. With the manufacturing outsourced, the manufacturer can stay focused on its bottom line – selling for revenue generation. The best model for consumer product manufacturing is the one that embraces the mass distribution approach since that provides the best economy of scale in manufacturing and allows for control of pricing schemes. While the other business models do provide other options for revenue creation, they also require more overhead and infrastructure which has to be accounted for.