#### **EWA Webinar**

Reducing the Costs of Supplying Customers in Europe
The Growing Importance of the Czech Republic, Slovakia, Poland & Hungary

June 19, 2019



- Founded in 2005, East West Associates (EWA) is a leading provider of commercial, operational & risk management solutions and detailed implementation to western companies competing in the everchanging international business environment.
- All EWA executives are experienced global players and have held senior management positions with P&L responsibilities for western MNCs, including Briggs & Stratton (NYSE: BGG), Bechtel Corporation and Littelfuse, Inc. (NASDAQ: LFUS).
- Extensive experience in numerous key industries:

Chemicals
Packaging
Electronics
Semiconductors
Food & Beverage
Medical Devices

Specialty Metals
Laboratory Equipment
Food Technology
Energy & Natural Gas
Industrial Textile & Apparel
Costings & Building Materials







**ALEX BRYANT** 

Founder & President

- Director of International Business Development for Barnhardt Manufacturing Company
- Attorney, Ogletree Deakins Nash Smoak & Stewart, P.C.



**DAN MCLEOD** 

Director

- Former Asia Pacific Operations Director of Ashland Specialty Ingredients (NYSE: ASH)
- Former Director of Engineering for Hercules Asia Pacific



**MARK PLUM** 

Director

- President of Briggs & Stratton Asia (NYSE: BGG)
- Vice President of Sales & Marketing, American Standard Thailand & American Standard China

#### Today's webinar is divided into 4 segments:

- Czech Republic, Slovakia, Poland & Hungary / An Overview of the Region
- Cost Comparisons of Supplying Customers in Europe
- Leveraging the Advantages of Supplying European Customers from V4
   Global Manufacturing Footprint & Supply Chain Optimization
- Working Example Case Studies







- Established in 1991
- Four member countries:
  - Czech Republic
  - Hungary
  - Poland
  - Slovakia
- A regional partnership to drive cooperation in culture, scientific exchange, research, education and the development of cross-border trade
- Each country is a member of the European Union





	Distance to Frankfurt			
	Miles	Driving Time (hrs)		
Most CR	304	5		
Ostrava CR	544	8.5		
Bydgoszcz PL	566	9.5		
Katowice PL	554	9		
Miskolc HU	711	12		
Kosice SK	725	12.5		

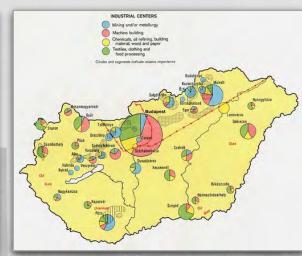




- "The Czech Republic's infrastructure is among the best in CEE. Located at the very center of Europe, it is a transit hub with direct highway connections to Germany, Poland and Slovakia as well as one of the densest railway networks in Europe." (Czech Invest 2019)
- "Infrastructure investment boom predicted for CEE nations on the rise." (British Chamber of Commerce 2018)
- "EU to invest €320 million into Poland's road infrastructure." (New Europe 2018)
- "Hungary to spend massively on road, rail developments by 2022 in order to strengthen Hungary's position in logistics." (Hungarian Ministry of Foreign Affairs and Trade, 2018)
- The Visegrad Four group has agreed to prepare the development of a high-speed railway link between Budapest, Bratislava, Brno and Warsaw." (Budapest Business Journal, 2018)







Hungary

**Poland** 





Slovakia

**Czech Republic** 



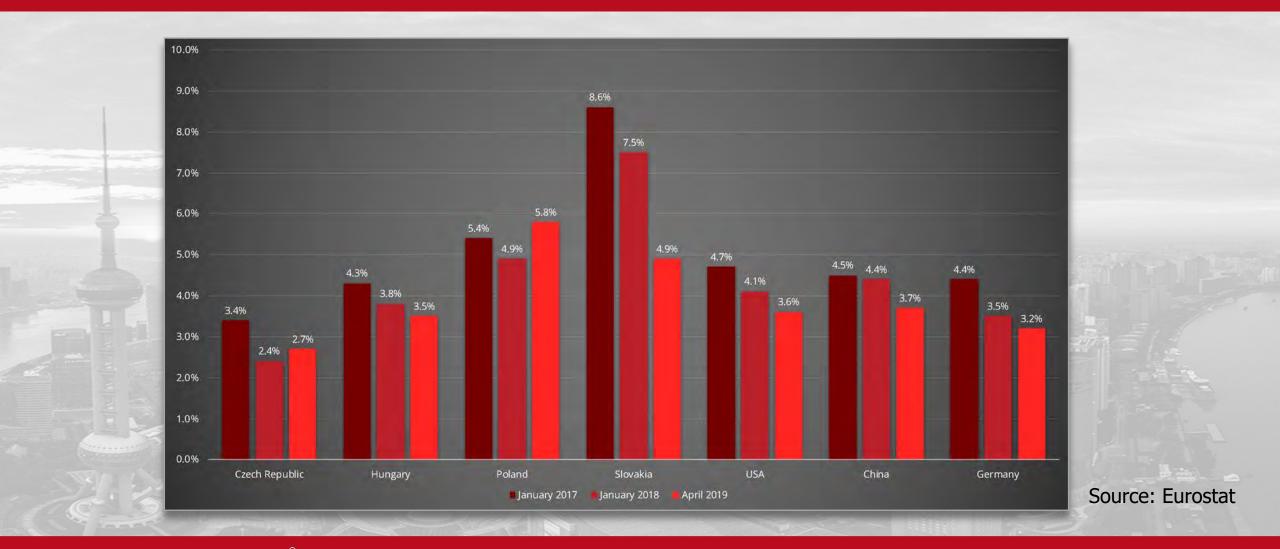
- "Poland Emerging as European Hub for Automotive Electronics." (EE Times, 2018)
- "New Advanex manufacturing site in Czech Republic to be opened in Spring 2019." (Advanex Press Release, 2019)
- "New electronic components manufacturing plant to be built in Hungary." (The First News, 2019)
- "Toyota to build new hybrid car plant in Poland." (Emerging Europe, 2108)
- "Mitsubishi Electric building new factory in the Czech Republic." (Business Info CZ, 2019)



#### Inflation Rate Development

Country	2015	2016	2017	2018	<b>2019</b> p	<b>2020</b> p
Czech Republic	0.3	0.7	2.4	2.3	2.0	2.0
Slovakia	-0.3	-0.5	1.3	1.9	1.9	2.0
Poland	-0.9	-0.6	2.0	2.5	2.5	2.5
Hungary	-0.09	0.4	2.4	2.7	3.3	3.1

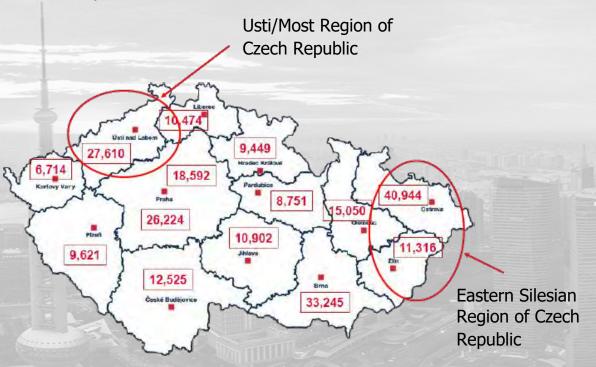
Source: World Economic Outlook Database, IMF, 2018 Note: p = prediction





#### Czech Regional Unemployment

February 2019



#### Poland Regional Unemployment

February 2019





#### **Multiple Investment Options**

• Lease, Buy Back, Build

#### **Corporate Tax Rebates**

- Rebate a portion of capital investment
  - Opportunity to include lease as capital investment
- Varies from 10% 50% of investment
- Recovered over 10-12 years

#### **Training Subsidies**

- Sharing cost of training
- Grants for training

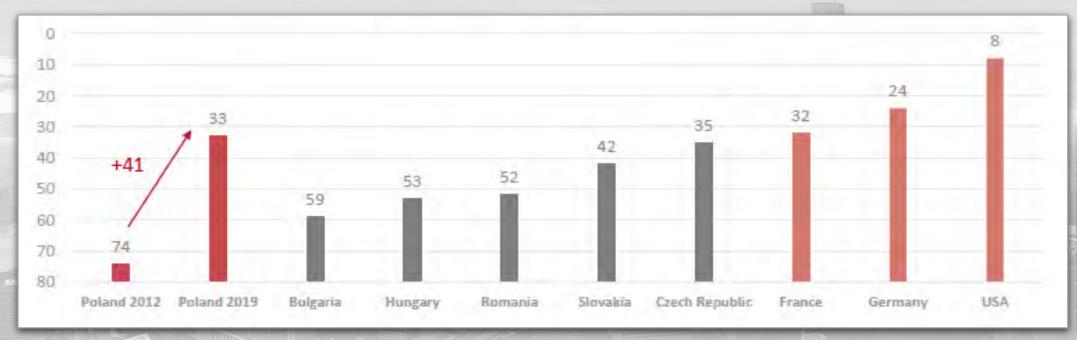
#### **Job Creation Subsidies**

#### **Local Incentives**

Property tax holidays



#### Global Business Corruption Ranking 2019





NOTE: The lower the number the better



#### The top export destinations of V4 Countries (2016)

Czech Republic	Hungary	Poland	Slovakia
Germany	Germany	Germany	Germany
USD 52.3 bn	USD 28.4 bn	USD 53.0 bn	USD 17.0 bn
Slovakia	<b>Romania</b>	United Kingdom	Czech Rep.
USD 13.6 bn	USD 5.14 bn	USD 13.0 bn	USD 9.2 bn
Poland	<b>Slovakia</b>	Czech Rep.	<b>Poland</b>
USD 9.2 bn	USD 5.07 bn	USD 12.7 bn	USD 5.88 bn
United Kingdom	France	France	France
USD 8.42 bn	USD 4.92 bn	USD 10.8 bn	USD 4.75 bn
France	<b>Italy</b>	<b>Italy</b>	United Kingdom
USD 8.39 bn	USD 4.91 bn	USD 9.4 bln	USD 4.6 bn
Total export	Total export	Total export	Total export
USD 161.0 bn	USD 102.0 bn	USD 196.0 bn	USD 77.5 bn

Source: The Observatory of Economic Complexity: OEC, http://atlas.media.mit.edu/en/



#### **V4 Has Much to Offer**

#### Labor

- Skilled and relatively low cost labor market
- Strong pool of technical talent

#### **Supply Chain**

- Developed logistics network
- Sophisticated, well-developed manufacturing ecosystem
- Good availability of suppliers and contract manufacturers

#### **Ease of Doing Business**

- Transparent regulatory processes
- Reduced risk of foreign exchange fluctuation
- Attractive investment incentives
- Strong cross border trade with Western Europe

## V4 offers significant costs savings potential for US companies currently supplying customers in Europe







- On the following slides we will provide numerous cost comparisons to outline the costs savings potentials for US companies with an existing customer base in Europe
- V4 will be presented as a unit / cost basis is the average of the 4 countries
  - vs. China
  - vs. USA
  - vs. Western Europe (Germany has been used as the cost basis)
- The costs savings potential have been calculated using a variety of sources:
  - McKinsey, Deloitte, Transparency International, Colliers, etc,



• Freight Costs Savings Potential: **64%** 

Inventory Costs Savings Potential: 40%

Corporate Tax Costs Savings Potential: 24%

Import Duty Costs Savings Potential: 100%

# The accumulated costs savings potential of the V4 generally far outweigh the slightly lower labor rates in China

<ul><li>Freight Costs Savings Potential:</li></ul>	63%
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Inventory Costs Savings Potential: 40%

Corporate Tax Costs Savings Potential: 20%

Steel & Aluminum Costs Savings Potential: 10%

Skilled Labor Costs Savings Potential:

49%

Import Duty Costs Savings Potential: 100%

## Significant Total Landed Costs savings potential for companies supplying Europe from the USA





Corporate Tax Costs Savings Potential: 36%

Skilled Labor Costs Savings Potential:

Construction Costs Savings Potential: 33%

## Significant costs savings potential without decreasing speed of responsiveness



The Advantages of Supplying European Customers from V4 in a Nutshell

Significant costs savings potential
Operating within a single market (EU)
Proximity to customer base
Reduced lead times





- The EWA Global Manufacturing Footprint & Supply Chain Optimization service was developed around the belief that a company's global manufacturing footprint and its global supply chain are 2 halves of 1 whole:
  - Each influences the other
  - Each exists on its own
- Therefore, the EWA Global Manufacturing Footprint & Supply Chain Optimization service:
  - Begins with a status quo assessment of the 2 both as a single entity and as separate entities
  - Followed by the development of optimization strategies that can be implemented together or independent of one another



#### **Current Global Manufacturing Footprint & Supply Chain Assessment**

#### **Locations Analysis**

Operations, Customers, Suppliers, Competitors, etc.

#### **Costs Analysis**

Logistics, Inventory, Production, Raw Materials, Labor, etc.

#### **Productivity Analysis**

Delivery Performance, Operating Efficiency, Production Capacity, etc.

### **Global Manufacturing Footprint Optimization Strategy**

Manufacturing Site Consolidation, Operations Redevelopment, Plant Relocation, Factory Closure & Manufacturing Footprint Expansion

### Global Supply Chain Optimization Strategy (Components thru Finished Goods)

Current Supplier Improvement, ID New Suppliers/New Geography, Higher-Level Supplier Product Integration, Contract Manufacturing



- The next step is dependent upon the optimization recommendation in phase 1.
- For a global plant relocation, global manufacturing footprint expansion or the identification of new suppliers in a new geography, phase 2 focusses on identifying the V4 member country best suited for the individual company's needs

#### Implementation of a company specific, 4 market analysis

- Definition and weighted prioritisation of the key factors to be assessed
  - <u>Plant Relocation/Footprint Expansion:</u> Government investment incentives, taxation structure, costs & availability of components / raw materials, labor & social benefits costs, expected wage inflation, land prices, proximity to existing customer base & targeted growth markets, logistic requirements, presence of supply chain & distribution partners, etc.
  - <u>ID New Suppliers:</u> Client industry concentration/critical mass of key raw materials thru key component integration + test activity, expected wage/overhead/total cost inflation, ease/efficiency of logistics to mfg operations, customers, avoidance of trade barriers, etc.
- Gathering of information through EWA local staff, desktop research, external research, etc.
- Weighted analysis evaluation and target country recommendation



#### **Manufacturing Site Selection**

- Direct meetings with multiple industrial zones
- Confirm presence of similar industries, availability of qualified/skilled labor, RM & component availability/costs
- Evaluate relative levels of support from Zone, Customs, Tax, Labor, Environmental Bureaus
- Negotiate & secure favorable tax/investment incentives, land rental/purchase price...
- Qualify plant construction partners (architects, engineers, PM/CM/GCs...)
- Qualify professional service partners (recruitment, accounting, legal...)
- Project financial analysis
- Recommendation to client management

#### **Supplier Selection**

- Via multiple sources (EWA data bases, research, etc.), identify specific target locations & suppliers
- Conduct initial interviews to confirm assumptions on qualifications, industries served, etc.
- Develop "short list" of targeted suppliers
- Conduct intensive interviews and investigations financial strength/stability, technical capability/capacity, formalized processes/systems, mgt integrity, cost & historical productivity, etc.
- Identify logistics parameters and implications
- Obtain preliminary quotes, samples where relevant and available
- Develop and present final recommendation to client management



#### **Manufacturing Plant Construction**

- Final selections of plant construction partners (architects, engineers, GCs, PMs, etc.)
- Ensure detail design drawings & specifications comply with local building codes, validate major utility equipment availability, develop RFQ tender package
- Ensure that all applicable permits and licenses are obtained throughout design & construction process
- Recruit PM firm for on-site supervision of entire construction process to guarantee compliance with all scope, cost, schedule, quality, safety requirements
- Coordinate and supervise the installation & debugging of all manufacturing equipment
- Complete all inspections per governmental officials &obtain regulatory sign offs

#### **HR & Administration**

- Recruitment of senior mgt & direct staff, training and development of both production & non-production personnel
- Final selection of admin partners (law, accounting firms, etc.)

#### **New Supply Chain Implementation**

- Develop detailed RFQ process and packages for all targeted materials, components, subassemblies or finished products
- Obtain formal quotations from "short list" suppliers: unit pricing, lead times/scheduling flexibility, tooling, capital equipment costs, NRE, payment terms & conditions
- Advise client on final recommended suppliers, obtain confirmation to proceed
- Develop formal supply chain transition plan overall project schedule and resources, new tooling/tooling transfer, QC plan, buffer inventory plan (if any), material planning and order entry updates, etc.
- Process and tooling certification, first-from-production inspection
- Logistics plan coordination/confirmation
- Supplier continuous improvement, productivity plan









#### THE BACKGROUND

- Client is an Illinois-based manufacturer of consumer products with operations in US and China
- Approximately half of manufacturing was relocated to China in mid-2000's to reduce costs; achieved 40% cost reductions initially
- Business has continued to grow, with strong growth in Europe.
- European business has grown to 35% of total.
- The European Market was supplied from both the US and China. This created several challenges:
  - Cost advantage of China had decreased with escalating labor, energy, and raw material costs
  - Logistics costs had risen to >25% of product cost
  - Inventories were excessive, averaging 5 months supply
  - Prices for key raw materials became significantly higher in US
  - Responsiveness to changes in demand very slow as a result of long supply chain
- The client completed a cost analysis indicating significant opportunities by localizing European supply. EWA was engaged to validate the savings assumptions, select a site for a new factory, and oversee construction of the new facility.



#### THE PROCESS

- Phase 1: Identify the Expansion Criteria
  - Validated client cost savings and feasibility assumptions around relocating production to CEE
  - Worked with client to develop a phased approach that front-loads savings into the initial investment, while allowing for expansion
  - Developed requirements for property that will support the phased approach
- Phase 2: Location Strategy Development
  - Scorecard was developed prioritizing client requirements
    - Technical/Professional Labor Supply/Cost
    - Transport Logistics
    - Access to established Supplier Base
    - Government Incentives
    - Ease of Doing Business transparency, local support
    - Speed of Project Execution
  - Information gathered through EWA local staff, desktop research, external research, face-to-face meetings with government agencies, property developers, HR service providers.
  - Recommendation of southern Poland



#### THE PROCESS

- Phase 3: Selection Process
  - Visited and Evaluated 13 Potential Sites
    - Short-listed 6 sites for negotiation
  - Interviewed and Evaluated
    - Engineering and Design Firms
    - Property Developers
    - General Contractors
    - Executive Recruiters and Staffing Firms
  - Negotiated conditions of property purchase, property management
  - Evaluated purchase vs lease options
  - Assisted client with application for investment incentives and negotiated incentives with regional government
  - Met with local government agencies, legal and accounting firms to 'roadmap" process for establishing business entity
  - Provided analysis and recommendation to senior management which was accepted by BoD



#### THE PROCESS

- Phase 4: Hands-On Implementation
  - Coordinated selection of engineering, construction management, and general contractor for the new site
  - Provided Owners Representative on site through the construction
  - Identified local component suppliers and assisted with qualification to establish the supply chain for the new factory
  - Selected HR partner; assisted with recruiting site management
  - Equipment installation and commissioning of new facility
  - Insured inspections and approvals of new factory were completed in timely manner



#### THE RESULT

#### **Cost Reduction\***

- \$3.3M annual logistics cost savings
- \$3.0M annual labor savings
- \$7.4M annual material savings
- \$12.6M tax savings over 10 years

#### **Other Benefits**

- \$15M Inventory reduction
- Greatly improved responsiveness to market demand changes



\*Company Forecasts



#### **Contact Information**

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