

## **EWA Webinar**

# **Global Supply Chain Optimization in a Changing China** **“Reevaluating China’s Role in Your Global Supply Chain”**

October 29, 2020

**east**  **west**<sup>®</sup>

**a s s o c i a t e s**

DRIVING COMPANY GROWTH IN CHINA, ASIA, MEXICO & CEE

- A leading provider of commercial, operational & risk management solutions and detailed implementation to western companies competing in the ever-changing China, Asia, Mexico & Central Eastern European markets
- Founded in 2005, with executives in China, Asia, Mexico & Central Eastern Europe
- All EWA executives 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:

Automotive

Metal Fabrication

Chemicals

Semiconductors

Specialty Metals

Energy & Natural Gas

General Manufacturing

Consumer Goods

Packaging

Food & Beverage

Laboratory Equipment

Industrial Textile & Apparel

Durable Goods

Filtration & Separation

Electronics

Medical Devices

Food Technology

Costings & Building Materials

Strategic Business  
Planning

Manufacturing  
Footprint  
Optimization

Supply Chain  
Optimization

Performance  
Improvement

HR & Executive  
Recruiting

Risk Management

M&A Due Diligence

Business  
Assessment

Research Services





**ALEX BRYANT**  
Founder & President

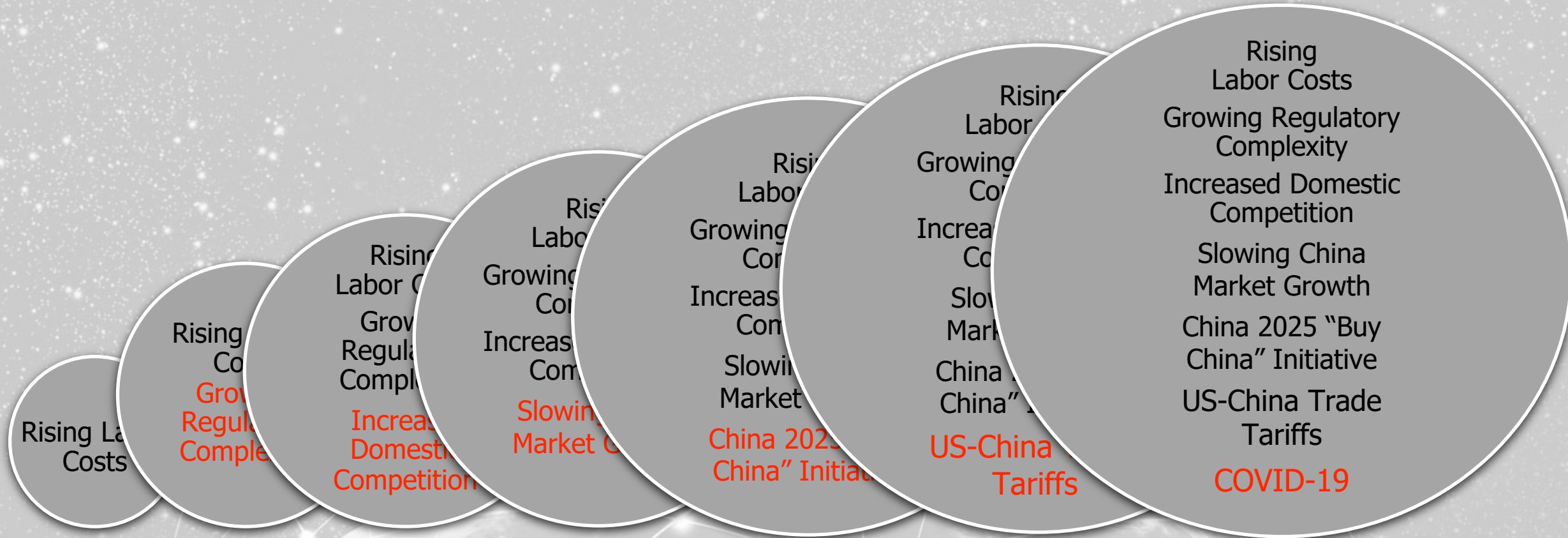


**DAN MCLEOD**  
Director



**MARK PLUM**  
Director

**During the last 12 years, the economic challenges facing western companies operating in China have been continuously evolving and growing for years:**



# Enough is Enough

A stylized globe is centered at the bottom of the slide, with several glowing white orbital lines or paths curving around it. The background is a dark, starry space with numerous small white dots representing stars. The overall aesthetic is clean and modern, with a focus on global connectivity and technology.



## According to a recent survey of 600+ global supply chain specialists:

**90%**

Believe fundamental changes to the way they do business must be made in the near future

**73%**

Plan to make major changes to their supply chain strategy & supply chain network in the near future

**67%**

Believe managing & implementing company change will be the greatest challenge of their executive career

**21%**

Believe they have the necessary expertise & resources to successfully face this challenge

*Procurious Survey of 600+ Global Supply Chain Specialists / August 2020*

- **Today's presentation is dedicated to enabling companies to successfully confront and manage the challenges of planning and implementing changes to supply chains**
- But before we get started, I would like first address an issue that is both part of the problem & part of the solution:
  - The extensive amount of information regarding changes in supply chains that has been published in recent months
- This information is highly diverse and addresses the topic of supply chain optimization from different angles and various perspectives:
  - The advantage: a comprehensive overview
  - The disadvantage: a lack of clarity
- On the following slides, I will present a quick overview of several key examples

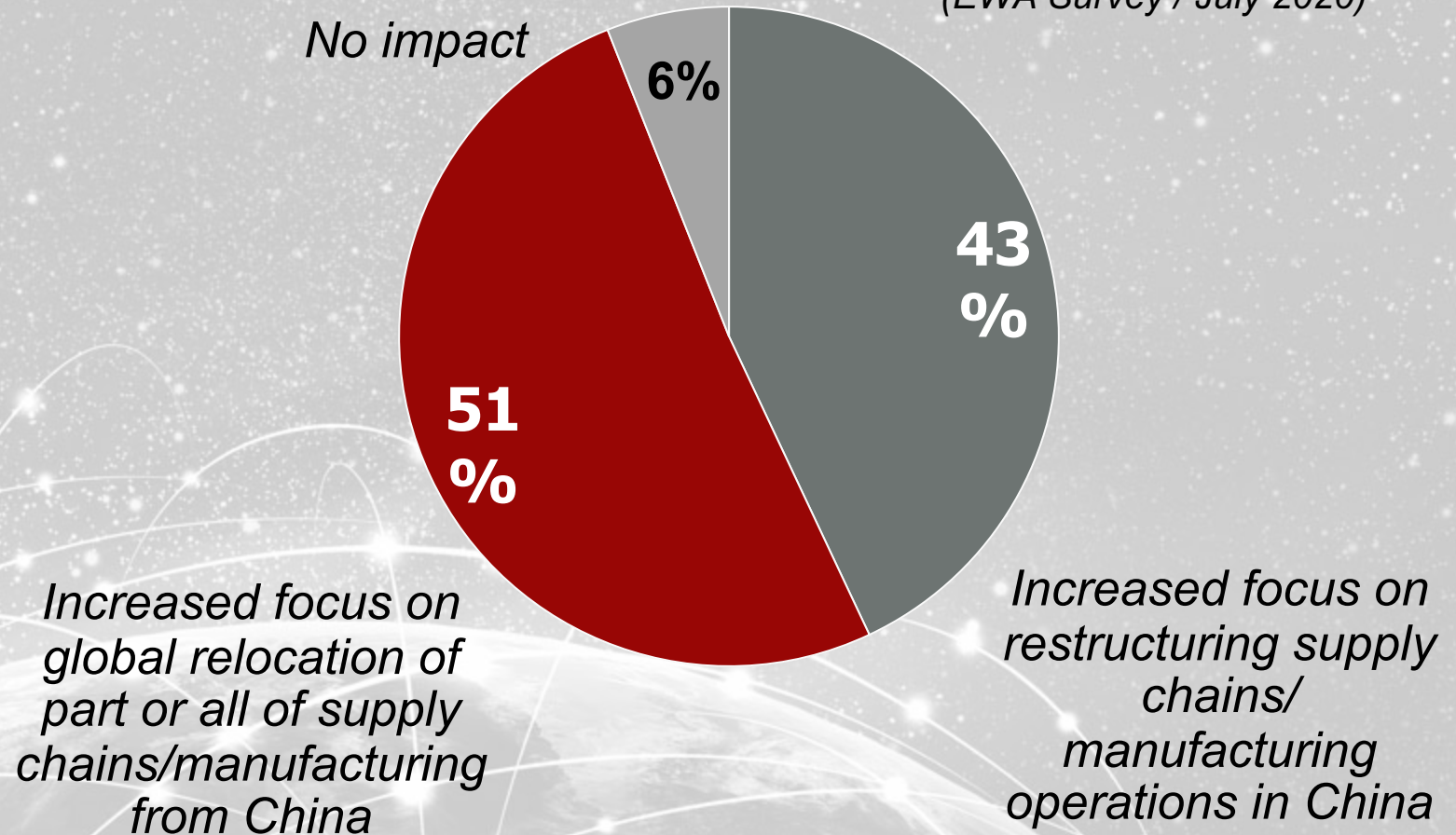


*“As many as 76% of US firms with factories in China are planning or considering moving part of their supply chains and/or manufacturing operations to other countries”*  
(UBS Evidence Lab / June 2020)

*“A recent survey revealed a majority of western companies operating in China are actively rethinking their supply chains to avoid tariffs, by opting out of sourcing from China altogether”*  
(Forbes Magazine / August 2020)

## Impact of COVID-19 on Company Business Planning

*(EWA Survey / July 2020)*



## Many publications focus on the economic reasons for moving beyond China:

- Emerging global growth markets
- Emerging regional innovation hubs
- Expanding logistics infrastructure
- Lower labor costs & tax structures
- Etc.

## But other publications highlight the economic reasons for remaining in China:

- Established customer base
- Size of market
- Economic growth vs. global economy
- Growing global influence
- Etc.


## Much has been written about the advantages of moving beyond China:

- Risk diversification
- Cost reduction
- Growth development
- Etc.

## But also about the challenges of moving beyond China:

- Leaving established supplier networks
- Replacing China's well-developed transportation infrastructure, logistics, production capacity and scale
- Likelihood of business disruption





**Lots of options. And all are right.**  
**But which approach is right *for your company?***



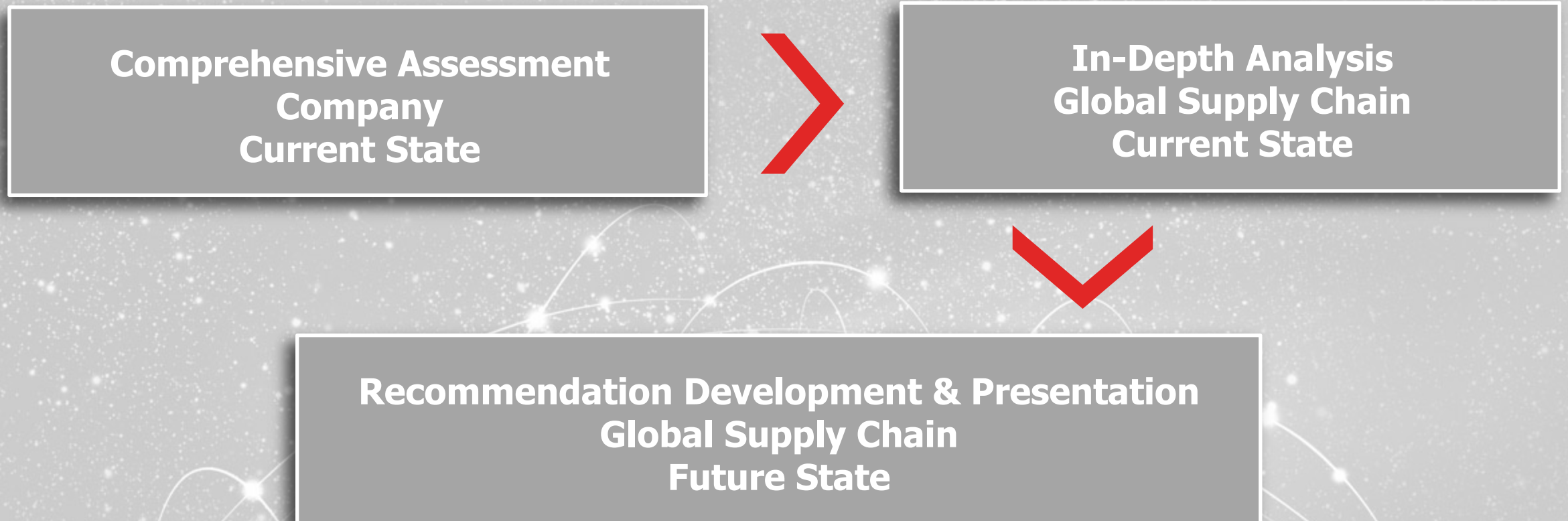
**The EWA Global Supply Chain Optimization service is based upon one simple principle:**

**A successful global supply chain optimization requires:**

- The **right plan (assessment)** to confront the specific change challenges facing **your company**
- The **right implementation** to manage the specific change challenges facing **your company**

**With extensive expertise in the development and management of supply chains and manufacturing operations in China, Asia, Mexico & CEE, combined with vast global resources, EWA delivers both - always**

The development of the **right plan *for your company***  
begins with an **assessment *of your company***





## Competitive landscape for the client's industry:

- Scale of the client's business and operations
- Anticipated changes in technology that may affect client's future business
- IP control risks

## Shifts in manufacturing and supply chain strategies for client's industry:

- Impact of automation
- Geographic shifts in key global suppliers
- Global vs Regional supply chains

## Current and projected manufacturing and supply chain network capacity:

- Requirements for increases or decreases in capacity

## Exposure to increased tariffs as a result of recent trade policy actions:

- Imports into the US market from China
- Exports from the US into the China market
- Other geopolitical developments – i.e., impact of USMCA

## Company Overview

## Requirements to control critical manufacturing processes:

- Flexibility to additional or complete 3<sup>rd</sup> party outsourcing

## Client's financial and operational constraints:

- Long term vs. short term priorities
- Potential capital and internal human resource constraints

## Manufacturing Footprint

- Capacity, Asset Utilization
- Footprint, Geographic Coverage
- History of driving continuous improvement
- Regulatory Compliance

## Effectiveness of internal planning functions

- Demand
- Materials
- Production

## Key Supplier Performance

- Quality
- Delivery
- Cost Improvements

## Current & Projected Future Competitiveness of Supporting Supply Chain

## Logistics Strategy and Performance

- Freight spend
- Carrier management
- Reliance upon expedited freight

## Future Projections Impacting Competitiveness

- Labor
- Overhead
- Trade policy changes

## Inventory Management

- Value
- Ageing
- Deployment

**Based on both current state analyses and EWA global manufacturing and sourcing intelligence and experience:**

## Identify and develop alternatives for substantial improvement

- Possible benefits from a change in geographic location
- Longer-term labor and overhead cost savings potential
- Outsourcing of logistics management, warehousing, order fulfillment
- Deployment of newer technologies – planning, factory automation, communication
- Organization Design and Development
- Closer proximity to suppliers for key materials and components

## Develop recommended course of action, including:

- Tactical and strategic recommendations
- “Should cost” analyses
- Year-to-year productivity improvements



Feasibility of Implementation & ROI



### **Analysis and recommended course of action are presented to client management for decision and implementation planning:**

- In a face to face meeting with client management, EWA presents:
  - An in-depth review of the assessment key findings & identified optimization opportunities
  - A detailed recommendation for the optimized global supply chain future state
    - Tactical and strategic recommendations
    - “Should cost” analyses
    - Year-to-year productivity improvements
  - A range of possible alternative to identify the best fit for the client
- Goal is to facilitate client management decision on strategic path forward
  - Define and agree upon forward action/implementation plan

**Identify and Qualify New Suppliers  
in Vietnam**

**Development of Under-Performing  
Existing Suppliers in China**

**Establish Contract Manufacturing  
in Mexico**

**Optimizing Logistics Management  
in China**

**Site Selection in Southeast Asia**

**Relocate a supply chain and factory  
to Thailand**

But the *right plan* is only half the story

A successful global supply chain optimization also  
requires the *right implementation*



- Supply chain optimization implementation is a highly complex undertaking:
  - When done wrong, it can cause significant disruption to your company
  - When done right, it delivers seamless transition from the current state to the future state of your supply chain
- The right implementation requires:
  - An extensive service portfolio and on the ground resources
  - A team of experienced implementation specialists with years of managing diverse operations
  - A first-hand working knowledge of the emerging markets and proven skills in managing differing cultural influencers

**The Right Implementation is the EWA Point of Difference**

## Supply Chain Relocation From China to Asia, Mexico & Central Eastern Europe (CEE)

### EWA Implementation Services Portfolio

Country Selection for a New Supply Chain

Identification & Qualification of New Suppliers

Initiate Development Programs for New Suppliers

Region & Site Selection for a New Operation

Construction of a New Plant

Establishment of New Sourcing Office

Performance Benchmarks & Metrics for a New Supply Chain and/or Operation

Covert/Overt Investigation of New Suppliers, Partners & Employees

Make vs. Buy Analysis for a New Supply Chain and/or Operation

Development of a **New** Logistics Strategy / Optimization of an **Existing** Logistics Strategy

Development of a **New** Distribution Strategy / Optimization of an **Existing** Distribution Strategy



## Supply Chain Restructuring Within China

### EWA Implementation Services Portfolio

Audits & Assessments of **Existing** Suppliers

Development of Under-Performing **Existing** Suppliers

Identification & Qualification of **New** Suppliers

Initiate Development Programs for **New** Suppliers

Redesign of an **Existing** Plant

Region & Site Selection for a **New** Plant

Construction of a **New** Plant

Establishment of **New** Sourcing Office

Performance Improvement Programs for an **Existing** Supply Chain and/or Operation

Performance Benchmarks & Metrics for a **New** Supply Chain and/or Operation

Covert/Overt Investigation of **New & Existing** Suppliers, Partners & Employees

Make vs. Buy Analysis for **New & Existing** Supply Chain and/or Operation

Development of a **New** Logistics Strategy / Optimization of an **Existing** Logistics Strategy

Development of a **New** Distribution Strategy / Optimization of an **Existing** Distribution Strategy





**EWA Global Supply Chain Optimization Case Studies**  
*Transforming Business Opportunities Into Business Results*

## Background

- Client was sourcing \$150M annually from a supplier network in China to sell in the US
- Tariffs and escalating manufacturing costs had severely eroded margins
- BoD had set target of relocating 25% of sourcing spend outside China within 9 months
- EWA was engaged to develop and execute a strategy to expand the sourcing network beyond China
  - Client defined which products could be sourced outside of China, based on costs, complexity & logistics

## Assessment:

- Based on the current state analysis of the company and the supply chain in China, EWA developed and presented the following recommendations:
  - **Shift sourcing of one product line to Vietnam**
    - During the assessment, EWA identified alternative Chinese suppliers who had established factories in Vietnam and confirmed these suppliers could likely supply quality products to the client
  - **Shift sourcing of the other product lines to contract manufacturers in Mexico**
    - Contract manufacturing because current volume would not support in-house manufacturing
    - Mexico due to the proximity to customer base and to leverage the financial and logistical advantages of the new USMCA trade agreement
- Additionally, EWA identified and presented several optimization opportunities within the China supplier network:
  - Development & implementation were postponed until completion of the global supply chain expansion and have recently begun



## Implementation

### • **Vietnam**

- EWA 'short listed' suppliers and obtained client approval on supplier samples, technical capabilities and pricing
- Worked with the existing logistics partner to integrate the product line into the global process

### • **Mexico**

- Identified and qualified contract manufacturers producing similar products
- Engaged a 3PL in Mexico to provide warehousing, load consolidation, transport management for shipments to distribution centers and customers in the US:
  - Reduced inventory levels
  - Enabled the shutdown of a distribution center in the US
  - Decreased space requirements at other distribution centers

## Results

- Freight & warehousing cost savings: **\$0.7M (annually)**
- Tariff cost savings: **\$6.6M (annually)**
- Inventory reduction: **\$2.3M**
- Total project costs recovered in less than 6 months
- Project completed ahead of schedule
- No disruption to ongoing production incurred



## Background:

- Client had 1 manufacturing facility and a sourcing organization in China for the production of products for sale in China, US and fast growing emerging ASEAN market
- Client profitability had been significantly reduced, as a result of 2 key issues:
  - Decreased margins, due to the rising labor rates, compliance costs and domestic competition in China
  - Decreased exports to the US, due the US-China trade tariffs
- EWA was engaged to develop and implement an operational & sourcing strategy to restore financial stability

## Assessment:

- Based on the current state analysis of the company and the supply chain in China, EWA developed and presented the following recommendation:
  - **Exodus from China**
    - China sales accounted for less than 20% of revenue and were forecasted to decline, due to an on-going global relocation of key customer base industries
    - Company sales did not justify the establishment of China +1 strategy
  - **Relocate all sourcing and manufacturing the ASEAN market**
    - Enables duty free access to the US & China markets
    - On the ground presence in one of the fastest growing emerging markets
    - Company growth potential analysis of the ASEAN significantly higher than that of the US

## Implementation

### **Country Selection (Supply Chain & Manufacturing)**

- Multi-country research:
  - Philippines, Malaysia, Indonesia, Vietnam & Thailand
- Weighted areas of focus:
  - Established industry-specific supply chains, availability of raw materials and finished goods, transport infrastructure, export logistics, government incentives, labor supply/costs, inflation rates, land costs, utility costs, ease of doing business, corruption index, domestic market size, established manufacturing base in the industry, regulatory compliance
- Recommendation:
  - Thailand
    - Highly developed industry-specific supply chain
    - Infrastructure & logistics hub of ASEAN market and fastest access to entire customer base
    - Best investment incentives

### **Preliminary Incentive Negotiations**

- Before presenting recommendation to client, EWA met with the Thai BoI to discuss detailed investment incentives and included results in client recommendation presentation



## Supply Chain Specific implementation

- EWA confirm client's supplier requirements for components and finished goods
- Identify potential suppliers – evaluation on site: material planning, quality mgmt. systems, production equip processes, engineering support, regulatory compliance, technical capabilities
- Obtain approvals of sample, pricing and technical requirements
- Finalize supplier selection
- Client & EWA visits
- Supplier transition with material and demand planning

## Manufacturing Specific Implementation

- Analyze Supply Chain and Manufacturing Footprint
- Country & Region site selection for new factory
- Business zone negotiations
- Governmental and tax negotiations
- Facility Project Management on-site
- Supplier recruitment with the projection of securing 90% of supplies locally
- Initial site hiring, training and start up of employees
- Rationalization of existing operations and supply chain relationships



## Results

### **Government Incentives**

- 8 year tax holiday from corporate income tax (CIT)
- 50% holiday for an additional 5 years

### **Cost Reduction\***

- \$22.0M tax savings over 10 years
- \$4.3M annual labor savings after 5 years
- \$1.8M annual material savings after 5 years
- \$120/unit average freight savings
- \$3.2M annual tariff savings

### **Growth Development\***

- 42% increase in sales over 5 years
- 53% increase in profit over 5 years

\* Company forecasts

## Background

- Client was specialty chemicals manufacturer operating a single site in China.
- Despite very high inventory levels, on-time delivery performance was poor and nearly 60% of shipments required expedited freight at increased cost.
- Multiple warehouses were set up across the country, increasing costs and inventories
- EWA was engaged to evaluate logistics and inventory management processes and develop an improvement plan.

## Assessment

- Based on current state analysis of the logistics and fulfilment processes in China, EWA developed and presented the following recommendations:
  - Consolidate carriers to improve negotiating leverage and setting of carrier performance management metrics
    - More than 50 carriers were used....none had comprehensive service agreements
  - Transition from manual planning processes
    - Planning processes excessively people-dependent rather than system-dependent
  - Redesign organization to align supply chain functions under a single leader
    - Organization structure slides without shared KPIs



## Implementation

- Logistics Management
  - An RFQ for outbound logistics services was developed and a primary carrier was chosen to handle 80+% of the outbound loads
  - Contract included KPIs, performance expectations
- Organization Design
  - Organization model developed and key professionals with required skill sets were recruited
- EWA assigned an interim supply chain manager to start the transition
- Planning Processes
  - Forecasting, inventory management, and production planning processes were redesigned
  - KPI's were set and training in new systems conducted

## Results

- Freight & Warehousing cost savings: \$0.3M (annually)
- Expedited Orders Reduced from 57% to 14%
- On Time Deliveries: Improved from 60% to 92%
- Inventory reduction: \$1.9M
- Results achieved in 9 months



## **Background**

- Client was a publicly-traded leader in the FMCG industry
- Wide range of popular brands in their traditional sector and an emerging sector consisting of a substitute product set from an acquired company
- The product was made for the subsidiary by 3 China suppliers managed by an agent in Hong Kong and relied, for safety and quality, on certain proprietary ingredients produced in the US and shipped to the China production facilities
- As a public company, the parent bears responsibility for transparent and legally compliant operations with consumer safety paramount
- EWA was engaged in two phases:
  1. Supplier due diligence of the agent and suppliers
  2. Post acquisition, implement parent company Standard Operating Procedures, Business Ethics and Code of Conduct, and establish continuous improvement processes through the supply chain

## **Assessment**

- The EWA Assessment highlighted a number of deficiencies:
  - Weak Quality Control and Supply Chain Processes to ensure the ingredients sent to China were actually used in production
  - Weak systems for monitoring and controlling shelf life, rotation and heat history of the ingredients
  - Possibility of questionable relations between the agent and Chinese Customs officials
  - Irregularities in legal compliance by the Chinese suppliers
  - Failure of Quality Control measures in the Chinese suppliers, including non-use of available 'Clean Rooms'

## **Implementation**

- Counseled Client regarding need for continuous interactions with agent and suppliers.
- Provided ethics and business practice training to key agents and suppliers
- Developed and trained staff in Standard Operating Procedures (SOP's) covering entry and exit of the "clean rooms", handling incoming raw materials, scrap disposal, sterile uniforms, hand washing etc.
- Initiated a Statistical Process Control (SPC) program for suppliers to improve throughput and first-pass quality

## **Results**

- After 12 months the focus on developing and implementing continuous improvement resulted in:
  - "Above average" ratings of for all suppliers
  - Suppliers routinely audited their performance on key indicators and reporting them to the agent and parent company as evidence of improvement
  - Measurement and SPC programs increased throughput 30% from the preliminary baseline and reduced instances of contamination by over 50%
  - Overall first pass quality measures up 43%
  - Reducing waste and spoilage created product cost savings of 15% or \$3.2 million



**Thank you for your time & interest**

**We hope this webinar has provided valuable insights into the development and implementation of the right supply chain optimization strategy for your company's specific needs**



**We would also like to inform you of the next EWA webinar**  
***“Feasibility of Global Manufacturing & Supply Chain Strategies”***

**November 17th / 11AM EST**

The webinar will focus on the EWA Financial and Implementation Feasibility Analysis of global manufacturing & supply chain expansion/relocation strategies:

confirm a proposed strategy will deliver the projected ROI and can be implemented

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**“Portfolio Companies of Private Equity Firms:  
Impact of China Dominated Sourcing & Manufacturing on  
Corporate Valuations”**

**November 19**

**In partnership with the Association for Corporate Growth**

# Contact Information

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