

The China Challenge:
*Analyzing Southeast Asia, Eastern Europe, and Mexico as
Manufacturing and Supply Chain Alternatives*

EWA Roundtable with three Senior Global Executives

November 9, 2022



Webinar Agenda

Housekeeping

- Registrants encouraged to ask questions
- Click on Questions on Control Panel
- Taking Questions throughout EWA Webinar

1. Introduction of East West Associates

2. Introduction of Corporate Speakers
3. Economic Challenges in China
4. EWA Global Supply Chain & Manufacturing Methodology
5. Case Studies
6. Q&A Session
7. Conclusion

- A leading provider of Corporate Strategy, Commercial, Operational & Risk Management solutions
- Founded in 2005, EWA executives have held senior management positions with P&L responsibilities for western MNCs, including
 - Briggs & Stratton Asia (NYSE: BGG)
 - CIATEQ Mexico
 - Littelfuse, Inc. China
 - American Standard Thailand
 - General Motors Automotive Poland
 - Eastman Kodak Asia (NYSE: KODK)
 - Bechtel Corporation China
 - Conceptos Para el Hogar, Mexico
 - General Electric Appliances Poland
 - Ashland, Inc. China (NYSE: ASH)

EWA Executives in 5 Regions



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Dave Burdakin, Executive Vice President & President of JBT Aerotech

Andy Barnauskas, Vice President of Operations for Banner Engineering

Mark Plum, Managing Director of East West Associates

- Former President of Briggs & Stratton Asia (Shanghai & Thailand)

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During the last 13 years, the economic challenges facing western companies operating in China have been continuously evolving and growing for years:



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Step 1a. Spend significant time to understand thoroughly the business, markets, manufacturing operations and supply chain (Headquarters)

- Size & location of key markets/customers
- Client's business operating model
- Scale of client's business and operations
- Degree of reliance on supplies (raw materials, part suppliers, contract mfg.)
- Current and projected manufacturing & supply chain network capacity
- Tariff exposure from recent or potential trade policies
- Client's financial priorities & constraints

Step 1b. Conduct a systematic review of commercial, technical, and operational information & data to document current state and look for opportunities for improvement (Field Interviews)

- Manufacturing footprint
- Supply chain network
- Product and production scale
- Status of inventories & delivery lead times for key materials, components, or finished products
- Landed cost basis for key products
- Impact of tariffs & logistics costs
- Labor costs, headcounts & projected wage inflation
- Availability & stability of direct, indirect, and professional labor

EWA Global Supply Chain & Manufacturing Methodology

Step 2a. Agree upon current baseline and future goals for supply chain, product distribution, processes, landed cost targets and capacity requirements.

Consider...

- manufacturing capabilities and capacity
- outsourcing/contract manufacturing spend
- makeup of landed cost (materials, factory costs, freight, tariffs, inventory value, customer delivery performance)

Decide upon target parameters, priorities, and goals for future state.

Examples:

- Reduce landed costs
- Reduce inventories
- Closer proximity to growth markets
- Reduce sole sourcing
- Over-reliance upon a few key suppliers
- Avoidance of tariffs, etc.

Step 2b. Identify and analyze required changes to current state. Suggest opportunities for improving manufacturing & supply chain network performance.

- Assess current and future competitiveness of existing manufacturing operations and performance of key suppliers.
- Identify actions to improve cost and cash flow performance.
- Explore opportunities from a change in geographic location.

Step 3. Present analysis and recommendations to client management for decision and implementation planning.

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Case Study 1.

Background - \$1.8B global manufacturer of automotive parts, with plants & supply chain vendors in the US, Europe and China.

- China plant had reached capacity. Government officials did not allow an expansion of operations.
- China plant customer base is 30% China and 70% Southeast Asia.
- Decision was made to minimize China footprint. EWA engaged to identify the right country and property locations for a new manufacturing operation to support growing sales in SE Asia.

Deliverables

1. EWA conducted a site selection study of Vietnam, Thailand & Malaysia.
2. EWA recommended Vietnam, based upon availability of greenfield sites, lease buildings, land sites, skilled labor, supply chain vendors, potential tax incentives. Based on EWA recommendations, Board of Directors (BoD) approved Vietnam as the location for the new facility.
3. EWA conducted a search of multiple greenfield sites, and narrowed selection to 3 locations. EWA negotiated tax incentives with the Vietnamese government.
4. EWA presented recommendations to the senior executives who reviewed with the BoD. Project was approved.
5. EWA selected Vietnamese-based contractors, provided an EWA Project Manager, identified and qualified Vietnam-based suppliers.
6. After Vietnam facility was built, EWA was engaged to properly close the China operation.
7. The Vietnam plant continues to service customers in China and Southeast Asia.

Background - \$1.4B global chemical manufacturer with plants and supply chain networks in the US and China, with customers in the US and Western Europe.

- Company served European customers from China facility, resulting in logistical delays, high shipping costs, and annually increasing Chinese labor costs.
- Company needed to get their manufacturing and supply chain closer to European customers.
- Company hired EWA to assist in establishing a Western European plant and local supply base.

Deliverables

1. EWA conducted a country site selection study in Poland, Czech Republic, Slovakia, and Hungary to determine the best country and region to locate a new manufacturing plant and supply chain network.
2. EWA narrowed down the location to 3 qualified sites in Poland and the Czech Republic. The BoD approved the qualified location in the Czech Republic.
3. EWA negotiated the tax incentives with Czech officials, and identified Czech suppliers and contractors.
4. After the Czech operation was completed, EWA closed the China plant.
5. The Czech plant continues to serve the client's Western European customers.

Background - \$1B+ global F&B manufacturer with plants and supply chain networks in the US and China.

- Company's primary market is US, but cost structure of US manufacturing & supply chain was too expensive to remain competitive.
- Company needed to evaluate alternatives to their US manufacturing & supply chain network.
- Company's primary manufacturing plant is located in the Northeast.
- Company hired EWA to conduct a site selection & financial evaluation of a manufacturing plant in Mexico.

Deliverables

1. EWA conducted the site selection search in Mexico.
2. EWA identified site criteria to establish the plant, including availability of skilled labor, available sites & buildings.
3. EWA identified and qualified Mexican vendors.
4. Senior management approved EWA's recommendations to establish new manufacturing facility & supply chain network in Mexico.
5. EWA and client have completed joint supplier audits and issued RFQs to the Mexican suppliers.
6. EWA interviewed and short-listed 3 potential build-to-suit developers and made a final recommendation.

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Questions currently include:

- What's the trade agreement situation for the countries under consideration?
- What are important *in-country* factors?
 - Labor cost and availability; engineering skill sets; partnerships with local trade schools, universities
 - Local component & raw material availability
 - Local corruption considerations
 - Employee & management safety
 - Manufacturing infrastructure
 - Global shipping complications & freight costs
 - Domestic market(s) for your manufactured products
 - Government incentives
 - Ease of establishing business entities & permitting
 - Economic trends and general business-friendly environment

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