

Commercial, Operational & Organizational Diagnosis of China Operations

Tuesday, December 3, 2024

11:00 AM EST

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a s s o c i a t e s

DRIVING COMPANY GROWTH IN CHINA, ASIA, MEXICO & CEE

Webinar Agenda

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Webinar Agenda

Part 1: **Brief Introduction of East West Associates**

- Webinar Series
- Introduction of Speakers

Part 2: Why are manufacturers relocating out of China? What are some critical considerations?

Part 3: East West Associates "Diagnosis"

Part 4: Q&A Discussion

Part 5: Follow up

Introduction to East West Associates (**EWA**)

East West Associates

East West Associates advises manufacturing companies on establishing and improving international manufacturing operations and global supply chains.

China, Southeast Asia, Mexico & Poland/Central Eastern Europe

- GLOBAL MANUFACTURING & SUPPLY CHAIN FOOTPRINT
 - Global Manufacturing & Supply Chain Footprint
 - Global Manufacturing & Supply Chain Footprint Implementation
 - Global Site Selection
 - Identification & Qualification of Contract Manufacturing
 - Plant Rationalization / Consolidation / Relocation
 - Plant Closure Planning
 - Negotiation of Foreign Governmental Incentives
 - Project Management of Plant Construction & Relocation

Introduction to East West Associates (**EWA**)

East West Associates

East West Associates advises manufacturing companies on establishing and improving international manufacturing operations and global supply chains.

China, Southeast Asia, Mexico & Poland/Central Eastern Europe

- OPERATIONAL & COMMERCIAL PERFORMANCE
 - Operational Diagnostics and Functional Reviews
 - Growth Potential and Development
 - M&A Due Diligence
 - Corporate Turnarounds & Restructurings

Introduction to East West Associates (**EWA**)

East West Associates

East West Associates advises manufacturing companies on establishing and improving international manufacturing operations and global supply chains.

China, Southeast Asia, Mexico & Poland/Central Eastern Europe

- SUPPLY CHAIN
 - Global Supply Chain Assessment
 - Make VS. Buy Strategy
 - Set Up & Operate Sourcing Office
 - Supplier Identification & Qualification
 - Covert & Overt Supplier Investigations
 - Supplier Performance Improvement
 - Supplier Transition
 - Global Relocation Of Supply Chain

Introduction to East West Associates (EWA)

East West Associates

East West Associates advises manufacturing companies on establishing and improving international manufacturing operations and global supply chains.

China, Southeast Asia, Mexico & Poland/Central Eastern Europe

- HUMAN RESOURCES & RISK MANAGEMENT
 - Integrity Awareness Training
 - Interim General Management
 - Executive Search
 - Background Checks
 - Organizational Assessment & Implementation
 - Compensation & Benefits

EWA Executive-level Advisors in 5 Global Regions

East West Associates



East West Associates Representative Clients

East West Associates



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Driving Company Growth in China, Asia, Mexico & Poland/CEE

Webinar Agenda

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Part 2: **Webinar Series** planning.

1. November 12, 11am - 12pm webinar:
Is Mexico an option for moving your US Operations?
2. November 14, 11am - 12pm webinar:
Setting up your Factory in Mexico: Operating Structures.
3. November 20, 11am - 12pm webinar:
Revealing Country Feasibility Studies
4. December 3, 11am - 12pm webinar:
Commercial, Operational & Organizational Diagnosis of China Operations.
5. December 5, 11am - 12pm webinar:
Metal-industry Sourcing & Supply Chain in Mexico
6. December 11, 11am - 12pm webinar:
Global Manufacturing & Supply Chain Footprint Analysis & Implementation.

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Introduction of Speakers

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Mark Plum, Director, East West Associates

Li Xiao, Director, East West Associates China

T.T. Chen, AmCham Shanghai, Chair of Manufacturing Business Council

Moderator: Alex Bryant, President of East West Associates

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Part 2: **Why are manufacturers relocating out of China? What are some critical considerations?**

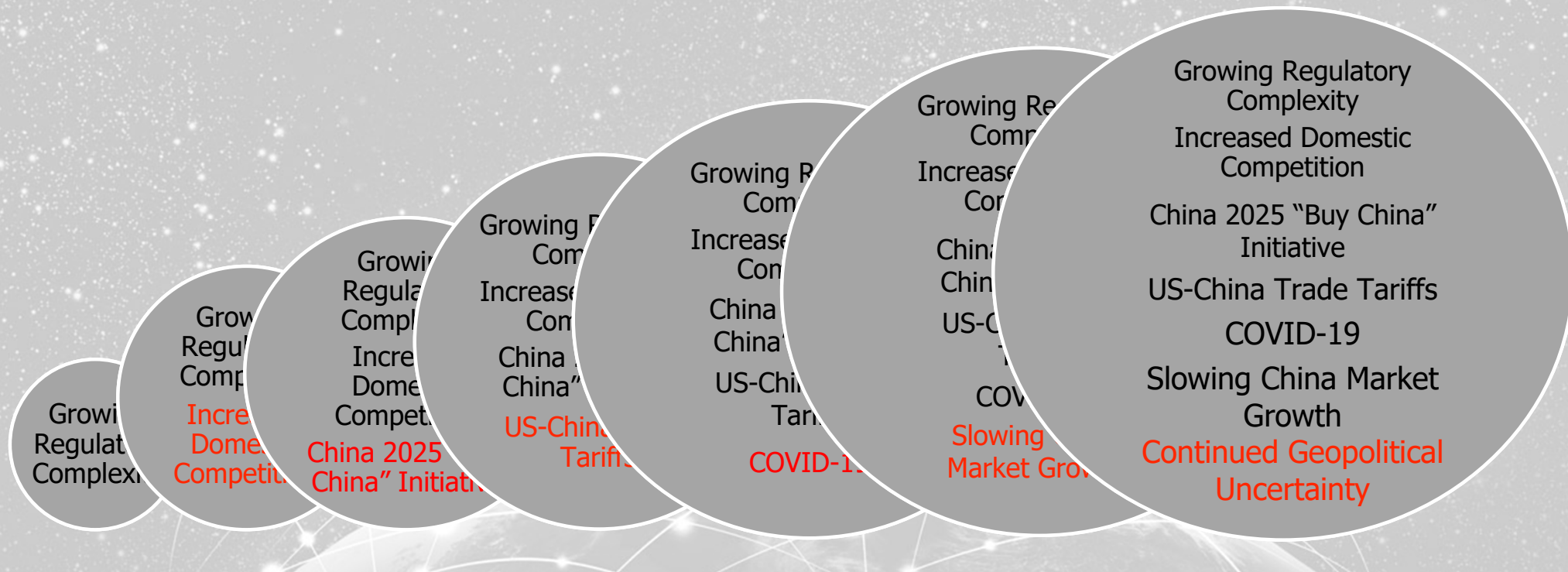
Part 3: East West Associates "Diagnosis"

Part 4: Q&A Discussion

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Why are manufacturers relocating out of China? What are some critical considerations?

During the last 15 years, the economic challenges facing western companies operating in China have been continuously increasing and evolving:



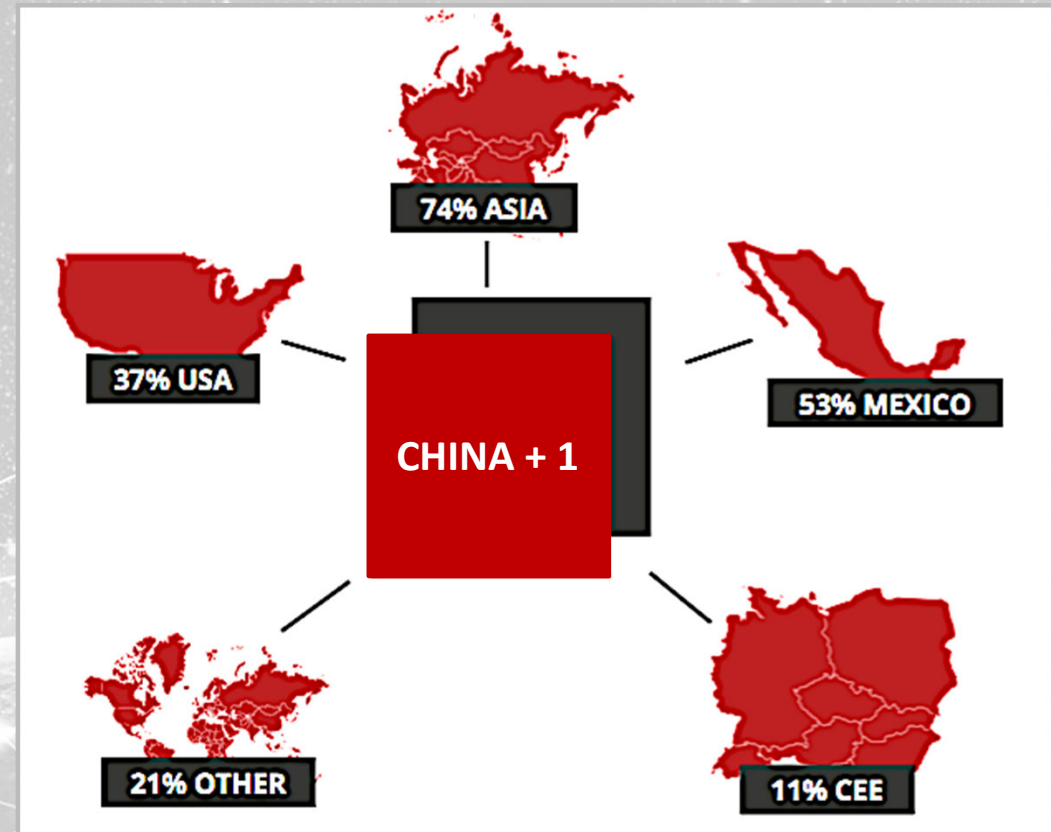
Why are manufacturers relocating out of China? What are some critical considerations?

To where are you considering or planning to relocate your China-based operations, (Multiple Responses Possible)

EWA Survey of 150 Manufacturers Operating in China

Diversification from China

- Alter the global business landscape
- Drive supply chain networks to alternative emerging markets
- Accelerated growth of emerging markets



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BACKGROUND

Our client is a Massachusetts manufacturer of Precision Tools and Measuring Instruments. After a few years of successful growth in China, the company experienced difficulties in China: slower growth; loss of market share to major competitors; and the ratio of Instruments-to-Tools became the inverse of what it was globally, reducing client's profitability.

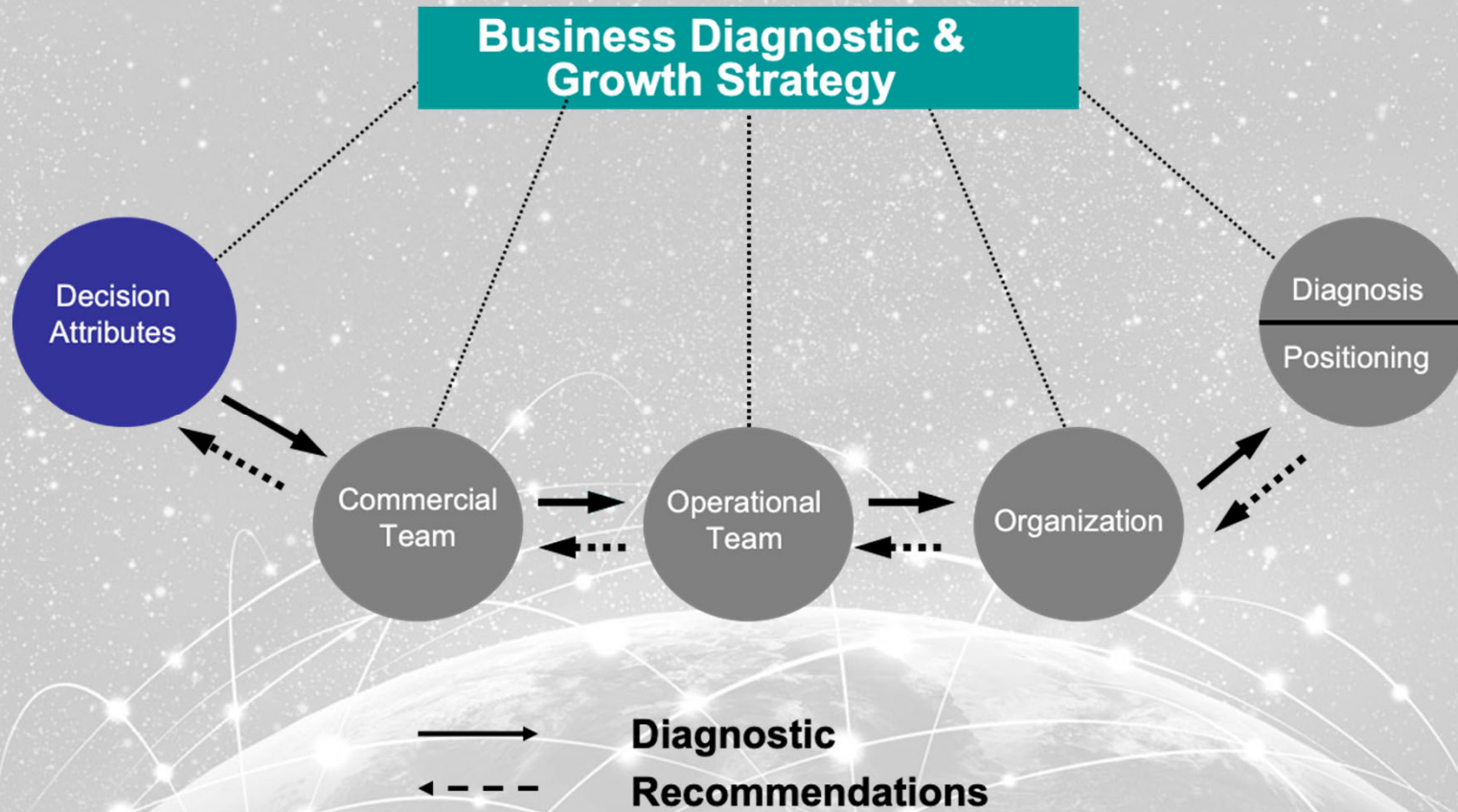
Client engaged EWA to examine their strategy in China and provide an actionable plan to address their challenges in China.

PROJECT STEPS: Conduct a call meeting with US HQ; visit China factory, Chinese distributors & End users; and attend *International Manufacturing & Technology Show*, all to:

- Understand US and Global sales strategy for both machine and tools
- Understand the current general Chinese business situation
- Understand the Chinese market competition and distribution
- Understand End user purchase criteria and perception of different players

Operational, Commercial & Organizational Diagnostic Methodology

East West Associates Confidential



Operational, Commercial & Organizational Diagnostic Diagnosis & Recommendations

East West Associates Confidential

- Client is an organization selling three different products lines (optical, vision, precision tools) with optical equipment being the most well-positioned for the Chinese market. Difficulty in communicating and resolving issues of product quality, pricing, and delivery has led to a lack of ownership in driving the business. The organizational changes of the last year have exacerbated this accountability issue as roles and responsibilities have become less clear. However, the changes have also helped the business by giving it a leader who can more easily communicate the needs of the domestic business throughout the global organization.
- To build a faster growing business, the fundamental issues of price and quality in vision equipment, and delivery and quality in precision tools must first be addressed. Then, issues surrounding a more focused organization, distribution strategy, and sales team will be able to work together smoothly and provide greater results.
- Alternative improvement plans are presented on a spectrum based on the risk and investment appetite of the business at this time.

Operational, Commercial & Organizational Diagnostic Recommendations

East West Associates Confidential

	Changes to be Done Now	Next
Sales	<ol style="list-style-type: none"> 1. Split Incentives (Equip/PT) 2. Distribution Building Mode 3. Industry focus for Equipment 4. Sales Time: 20% End User / 80% Distributor 5. Training 6. KPIs 	<ol style="list-style-type: none"> 1. Hire end user specialists for places with distribution built (80/20) 2. M1 distributor bounty 3. With Delivery and Quality fixed, consider splitting sales force for increased focus and accountability
Distribution	<ol style="list-style-type: none"> 1. Change Hardware Discount 	N/a
After Sales	<ol style="list-style-type: none"> 1. Change Incentives 2. Training 3. Distribution Training 4. KPIs 	Continue Activities
Branding	<ol style="list-style-type: none"> 1. BIGGER impression at trade shows 2. Gorilla warfare (seminars) 3. Industry focused, more trade shows 4. Monthly newsletter 5. Measure brand awareness 6. KPIs 	Continue Activities
Price	<ol style="list-style-type: none"> 1. Adjust PT pricing 2. Solve Equipment Positioning 	Monitor
Delivery/Quality	<ol style="list-style-type: none"> 1. Agree on roles and responsibilities 2. Agree on targets 3. KPIs 	Continue Kaizen

**China Business / Market Diagnostic
&
Growth Plan**



Contents and Sources

Market: Overview – Metrology
Competition

Diagnostic: Decision Attributes
Precision Tools Overview
Equipment Overview
Quality
Branding
Delivery
After Sales Service
Price
Breadth of Line
Sales/Distribution
Operations
Organization
Diagnosis

Recommendations: Positioning
Organization
Sales/Distribution
Operations
Decision Attributes
KPIs

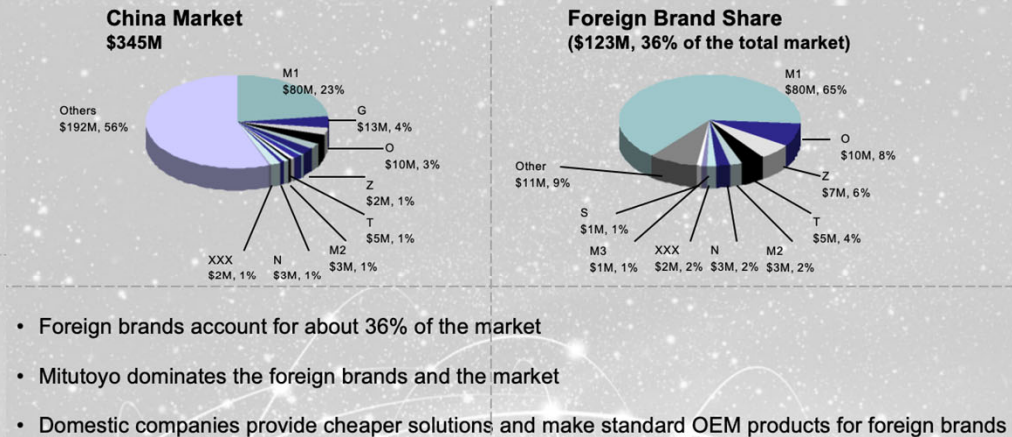
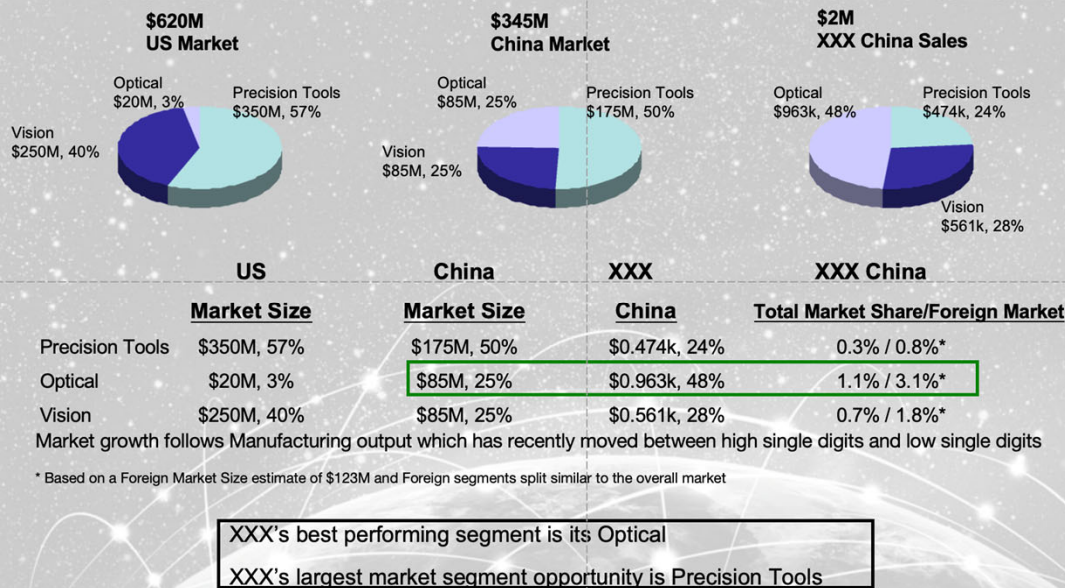
Source of Information:

Interviews: Distributors: 12, Competition: 6, End users: 8, Sales people: 6, Internal (XXX)

Trade Shows: CIMES June 12th-16th Beijing, EASTPO July 3rd-6th; Shanghai

Industry Data: China's Medical Device and Healthcare IT Industries / APCO report; November
China Healthcare Policy Study / Frost&Sullivan report, April
Momentum: China's Automotive Components sector emerging from the Crisis: KPMG
Putting the pedal to the metal / EPI Briefing Paper, January
China Metal Products Mfg. Industry Research and Statistics, Zeefer Consulting Report, July
China National Bureau of Statistics, CIA Fact Book, The Economists;

Market Overview – Metrology & Competition



Competition is fierce, the market is crowded and fragmented, share must be taken

Market Competition – M1

Vital Statistics:

China Sales \$80M

China sales are difficult to measure in that a good percentage of sales are imported from Singapore and Hong Kong. The total number for Hong Kong is not available.

China Employees 170 + Suzhou + Beijing

China Sales People 50

China Sales Structure

Feedback from M1 sales people confirmed that the sales team is not separated between Equipment and Precision Tools. Also, the sales people can sell Equipment direct to end users, but not Precision Tools.

China Distribution

Interviews with M1 sales people and former distributors indicates that distributors are quite closely managed. Distributors must meet monthly M1 purchase targets and their requirement to carry inventory is quite high. This has created a bit of distributor discontent, but still, everyone agrees M1 “sells itself.”

Market – Competition Vs. XXX

Company	Revenue (US\$)	No. of Sales person	\$/sales person	1st level Distr. Target/Y (RMB/Y)	# of Distr.	Sales Structure
M1	80 M	50	1.6 M	24 M	13 (1tier)	1 salesforce for all products
O	10 M	9	1.11 M	N/a	14 x (1tier)	Distribution & direct sales
D	2 M	7	0.28 M	N/a	N/a	Distribution
M2	3 M	10	0.3 M	N/a	N/a	Distribution & direct sales
T	5 M	6	0.83 M	N/a	N/a	N/a
XXX	2 M	7	0.28 M	1.2 M	3 (1 tier)	1 salesforce for all products

There appears to be a correlation between product segment leaders and \$/sales person

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Recommendations: Positioning
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China National Bureau of Statistics, CIA Fact Book, The Economists;

Decision Attributes - Precision Tools

Brand Perception

	PT	Perceived Brand Leader	XXX Positioning
High	Quality	T, M1, M2	○○○●●●
	Brand Awareness	M1	○○○●●●
	Price	M1, M2	○○○●●●
	Delivery	M1	○○○●●●
	After Sales Service	Negative for M1, M2	○○○●●●
Low	Breadth of Line	M1, M2	○○○●●●

Purchase decision Importance

XXX & Competition Ranking

PT	Qual	Price	Del.	Brand Awareness	Bth. of Line	After Sales	Total
M1	3	3	3	3	2	1	15
T	3	2	2	2	2	2	13
M2	3	3	2	2	2	1	13
XXX	1	2	1	1	2	2	9
	10	10	8	8	8	6	

Note: 1 = bad; 2 = par; 3 = good

No brand owns 'After Sales Service'

XXX has poor brand awareness and also negative perceptions with regards to delivery and quality

Decision Attributes - Equipment

Brand Perception

	EQ	Perceived Brand Leader	XXX Positioning
High	Quality	N, O	
	Brand Awareness	M1	
	After Sales Service	N for M1	
	Price	Z, M1, O	
	Delivery	Z, M1, O	
Low	Breadth of Line	M1, O	

XXX & Competition Ranking

EQ	Qual	Price	Del.	Brand Awareness	Bth. of Line	After Sales	Total
O	3	2	2	3	2	2	14
M1	2	2	2	3	3	1	13
T	3	2	2	2	2	2	13
N	3	2	2	3	1	2	13
Z	1	3	3	1	2	2	12
M2	2	2	2	2	2	1	11
XXX	2	2	2	1	1	2	10
	16	15	15	15	13	12	

Note: 1 = bad; 2 = par; 3 = good

No brand owns 'After Sales Service'

XXX has negative quality and price perceptions with vision

Decision Attributes - Quality, Branding, Delivery & After Sales Service

Decision Attributes - Quality

Quality Attribute: No one brand owns this attribute but several are mentioned

Precision Tools: M1, T, M2 Equipment: N, O, M1

Equipment

With the exception of some specific customer and packaging related issues, there appears to be no continuous quality issue with equipment.

3 issues cited with the XXX AV 300-Z-QC5200.2 LED (~80% of XXX China vision sales)

- 1.) Manual recalibration necessary when changing lenses
- 2.) Cannot turn off surface light while leaving machine on – fuse burns out
- 3.) The computer "re-starts" itself

Precision Tools

Perception Vs Reality:

"I won't sell Precision Tools because I will lose the equipment sale" – XXX Salesperson

"I won't sell XXX Precision Tools because they break" – Distributor

"XXX is unresponsive to quality problems even when they see them in person" – Distributor

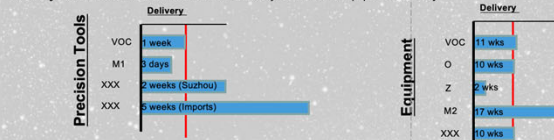
"We visited a M2 factory and they showed us a XXX product Vs a M2, and the M2 was definitely nicer" – Distributor

"M2 tools simply look nicer" - Distributor

There seems to be a perceived and actual quality issue with Precision Tools

Decision Attributes - Delivery

Delivery Attribute: M1 owns Precision Tool Delivery and Z owns Equipment Delivery



	OTD per Customer Request	OTD per "Reasonable Date"	Reasonable Days
Import	62%	96%	58
Domestic (SZ)	43%	73%	11

	OTD per Customer Request	OTD per "Reasonable Date"
Optical	58%	66%
Vision	48%	69%

	Sales RMB	Gross Margin	COGS RMB	Inventory RMB	Turns
Optical Vision	13.1M	24%	10M	3.2M	3.0x
Precision Tools	4.4M	43%	2.5M	395K	6.3x

Definite disconnect between actual performance & market / competition reality in Precision Tools

Decision Attributes - Branding

Brand Awareness Attribute: M1 owns Brand Awareness

Precision Tools

"Most people don't know XXX has Precision Tools" – End User

"Other brands have been in the market longer, M1 and M2 have been in the market more than 10 years" – Distributor

"We don't want to explain who XXX is, M1 sells itself" – Distributor

"XXX looks weak and small at the trade shows" – Distributor

<XXX displays are poorly kept at distributors> - Visits to distributors

Equipment

"They don't know who XXX is in the Northeast" – 2x Distributors

"I don't know XXX" – Quality Supervisor at an End User

"When Equipment is approved by quality engineers they want a brand they can trust – I don't know XXX" – End User

"XXX has ugly (also non-user friendly) catalogs" - Distributor

XXX Van

There was unanimous feed back that the Van is useful – for equipment, not precision tools. There is some discussion about how the van should be used i.e. not as a replacement for a booth at a trade show, but rather to close deals at users that are interested in buying soon. Not as much for Branding as Deal Closing

Sales	\$2,000,000
Marketing/Advertising	\$119,000 (budget)
% of Sales	6%

XXX is not well recognized, especially in Precision Tools

Decision Attributes - After Sales Service

After Sales Service Attribute: No brand owns after sales service yet

Precision Tools

"XXX seems not having any service outlets outside its factory in Suzhou, however M1 and some other brands have. It takes too much time to ship it to Suzhou, fix it and ship back" – End User

"XXX should take care of all the after service, I can't take that today" – Distributor

Equipment

"All foreign brands seem similar on service, but M1 has more service network" – End User

"I have my own after-sales people, XXX only has 1 for the whole country, who can't help much. Also my staff my have more experience than XXX employees" – Distributor

"It takes a lot of time to order parts for the equipment, and I have to keep some stocks even for the parts" - Distributor

XXX along with others underperforms in 'After Sales Service', however, this attribute is still open

Decision Attributes - Price & Breath of Line

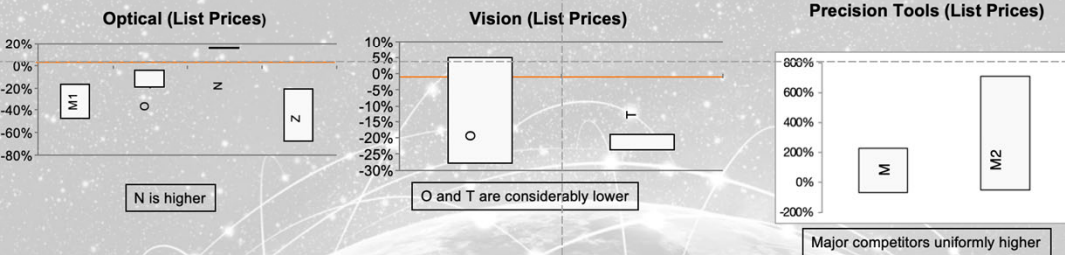
Decision Attributes - Price

Price Attribute: Nobody really owns best price. Z, M1 and M2 are mentioned as good prices. Distributors are almost indifferent about pricing for Equipment

Precision Tools: M1, T, M2

Equipment: N, O, M1

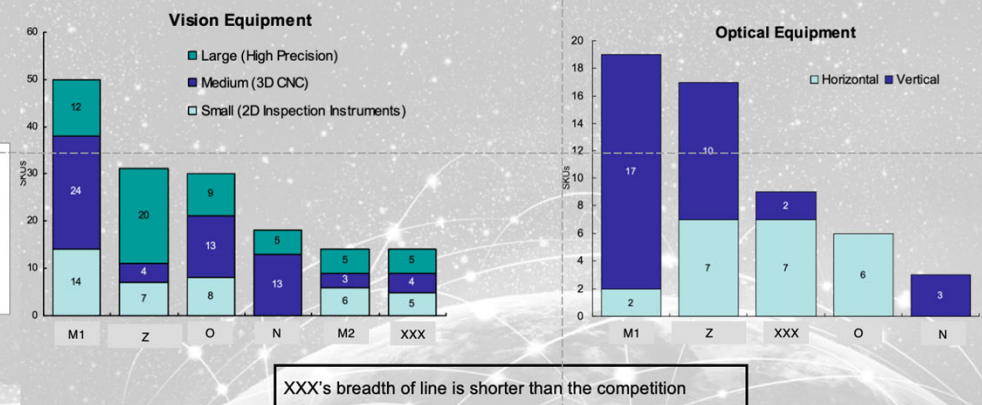
Price Determination: 1. Cost (or transfer price) plus 20% to cover SGA and plus 15% profit
2. Try to be 3 to 5% less than major competition on "Hot Items"



*0%=XXX List Price

Decision Attributes - Breadth of Line

Breadth of Line Attribute: Nobody owns an advantage in BOL. There appears to be little correlation between precision tools and equipment when included together in BOL



Distribution - Discount Management & Segmentation

Distribution - Discount Management

"XXX under-manages its distribution, and we can have better communications" – 3 distributors

Discount Structure

	XXX Metrology		XXX Hardware (Saw/tools)		M1		M2	O
	Size	Discount	Size	Discount	Size	Discount	Discount	Discount
1 st Level	>1.2M RMB/Y	35-40%	0.5 M RMB/Y	35-40%	>24 M RMB/Y	40%	35% (special)	25%*
2 nd Level	0.6 M RMB/Y	30-35% (PT); 25-30% (E)			>12 M RMB/Y	30-32%	30% for signed distributor	25%
Normal					>3.6 M RMB/Y	25%	15-20% for anyone	25%

* O gives a 25% discount through distributors. They also give other discounts selling directly

XXX has the opportunity to convert M1 distributors looking for greater margin

Distribution - Segmentation

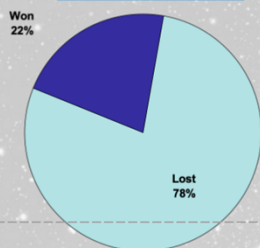
	Sales People	# of Sales People	# of Dist./ Subdist.	Sales Cycle	Sales Approval Process	After Sales	Delivery	Product Value
Equipment	Technically trained	Few	Few	OP: < 200 d VS: < 150 d	High level (Capital), Finance, Procurement Engineering	Important	Not so important	High
Precision Tools	"Hardware Distributors"	Large	Many	Faster	Procurement Direct (Expense)	Not so important	Important	Low

Metrology is serving two distinctively different distribution channels

Sales (Success) Hit Rate & Industry Opportunities – Equipment

Sales (Success) Hit Rate – Equipment

3 Years Sales



If Hit Rate is 22%, but market share is 1.7% then estimated market coverage is:

Equipment Market:	\$170,000,000
Hit Rate:	22%
Potential Sales:	\$37,400,000
Sales Today:	\$1,525,354
Estimated Market Coverage:	4%

More market coverage is needed via salespeople and/or distributors

Competitor	% Competed Against	Hit Rate	Total Competed Against
M1	33%	15%	13
O	20%	0%	11
N	15%	33%	6
T	9%	33%	3
M3	4%	0%	1
Z	4%	NA	3 (Outstanding)
Low Price Point	7%	0%	2
X	4%	NA	1 (Outstanding)
W	3%	NA	1 (Outstanding)

Sales Industry Opportunities – Equipment

	Total Output	Metrology Equipment Estimate	Ratio to Output
Total Industrial	\$739.68B	\$170M	0.022%
Key Industries			
Medical	\$25B	\$5.5M	
Metalworking*	\$228B	\$50.2M	
Key Ind. Total	\$253B	\$55.7M	

*Metalworking includes Automotive Components

Key Industries are 32% of the Total Metrology Market

Sales - Training and Product Focus & Incentive Structure

Sales - Training and Product Focus

"We don't have specific training on products, it can be very helpful for us" – 3 x sales

"I don't know if the new sales guy can quickly get familiar with our products, and introduce them to the customers" - HR

"We don't have any training from XXX, but not from other brands either" – 2 x distributors

"I have been approached by both XXX's dealer and M1's dealer, when I asked questions on some product, very obviously, the XXX's dealer couldn't answer and had to go back and call someone, then came back to me, however, the M1 dealer could give me the answer right away, looked more professional" – One End User in Changzhou

"We don't have a core product to sell in the product line, other competitors do have, T has its height gauge, O has vision equipment" - Sales

"We are selling both equipment and tools, however equipment worth more and more reliable, tools worth less and have quality issues, we naturally tend to sell harder on equipment" – 2x Sales

Technically, our sales staff and distributors are not very competitive

Product focus is not there, and sales people are making trade-offs between equipment and precision tools

Sales - Incentive Structure

Target*	Sales Payout	Technical Support Payout
>80~100%	.8%	.4%
>100~130%	1%	.5%
>130%	1.2%	.6%

*based on overall sales of all product categories

3 of 7 sales people achieved 80% in FY 2012

The current incentive structure does not seem to be driving sales

Recommendations - KPIs

Category	KPI
Sales	Sales, Equipment
	Sales, Precision Tools
	# of Equipment Distributors
	# of PT Distributors
	Sales Training
Quality	Complaints/Lines (w/abuse)
	Complaints/Lines (w/o abuse)
Delivery	OTD (Precision Tools)
	OTD (Equipment)
After Sales Service	Time to resolution
	Feedback from End User
	Distributor Training
	Certification
Branding	# of Seminars
	Brand Awareness

Recommendations - Positioning

Equipment

Situation	Implication
After Sales Service is important to users and nobody owns it	An important attribute is available for ownership without having to dislodge a competitor
Optical products are known for ease of use	The current optical product line compliments the after-sales service positioning
XXX has a high success rate in the medical, auto, and metal workings industries	Overall success rate can be improved by focusing on these three industries

Positioning

XXX China provides precision measuring equipment with a focus on medical, automotive, and metal working industries, and differentiates itself through easy to use products and high levels of after sales service

Tactics Critical to Success

- Organization capacity to provide high levels of after-sales service
- After Sales Service incentives
- Industry and product focus
- Resolution of the vision quality and pricing issues

Precision Tools

Situation	Implication
XXX sales people spend 70-80% of their time with end-users	A focused effort needs to be made with regards to precision tool distribution development
XXX has yet to convert a major precision tool MRO-type distributor	An incentive based on adding new distributors, or a Mitutoyo hire with distributor credibility could accelerate this
Distributors will hesitate to convert until they are confident in XXX's ability to execute on delivery, quality, and brand-building	A plan to fix the fundamentals must be communicated
Distributors will want to convert given the potential for enhanced gross margin	XXX has the ability to convert distributors given the current distributor discount structure

Positioning

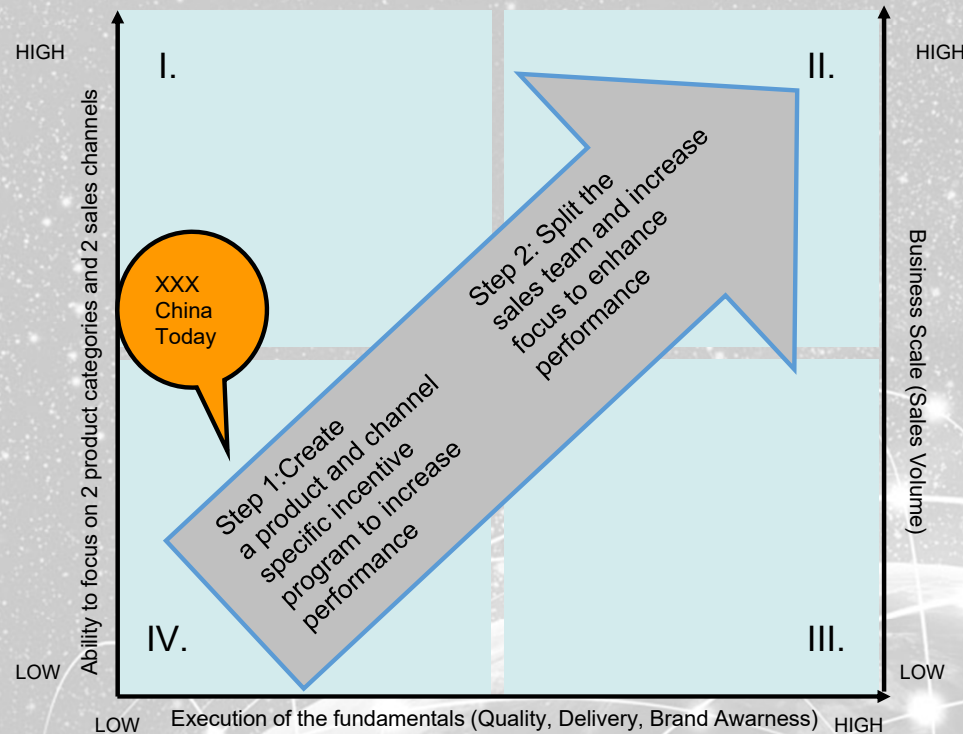
The precision tool line is less about the positioning of the brand as it is simple brand awareness. Precision tools can follow the equipment positioning, but execution of a different set of tactics is critical to success

Tactics Critical to Success

- Organizational focus on distribution development
- Brand awareness campaigns
- Fixing of the fundamentals (quality, delivery)

Recommendations - Sales: Product/Channel Focus

It is difficult to assess if the relative underperformance is due to the Quality, Delivery and Brand Awareness issues v. the salespersons requirement to focus on 2 distribution channels with 2 product categories.

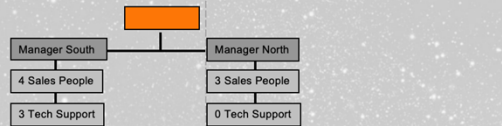


In general, we recommend splitting the sales team to achieve greater focus but it is difficult to say if this will have impact without fixing the fundamentals

Recommendations - Organization

Recommendations - Organization: Incentive Changes

Choosing Option I or II does not require changes in the current organization structure, just change in focus



Option I

1. Change Technical Support Incentive:
 - a. the speed of solving an issue, or
 - b. the feedback survey from the End Users
2. Implement formal training for the Technical Support people; also incentivize them for being certified at different levels of training
3. Have Technical support incentivized to give training to distributors when they are not servicing customers
4. Develop a sales incentive program:
 - a. Sales of Equipment,
 - b. New distributors of Equipment,
 - c. Sales of Precision Tools
 - d. New Distributors of Precision Tools
5. Consider having one Technical support in the North

Option II

Same as Option I and:
Focus only on Optical Equipment sales in the key industries to increase market coverage and leverage the current high hit rate

LOW MEDIUM Minimal Risk and Investment Changes

Recommendations - Organization: Product Specific

Option III or IV change the current organization structure and focus on Equipment and PT distribution development



Option III

Same incentive and after sales service as Option I, but: Sales team is moved to focus on:
Distribution building to increase coverage
Medical, Auto and Metalworking industries to leverage the current hit rate;
Precision Tools manager and sales person focus on distribution channels development & management (if this person does not exist, they should be hired from Mitutoyo, but may be incremental expense for XXX: est. 400k RMB/ year)
After developing an area drop an entry level sales to do End User Work and Distribution Mgt

Option IV

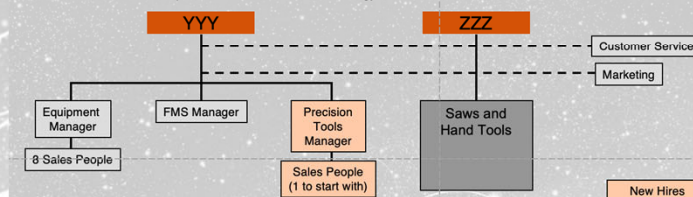
Same as Option III with the addition of 5 sales people to increase market coverage*

*not recommended until building distribution network first; can tell potential distribution that you will hire more sales people after signing up

MEDIUM Minimal Risk and Investment Changes HIGH

Recommendations - Organization: Metrology Focus

Option V. Maximum focus on Metrology and Precision Tools



Focus on Equipment, FMS, PT, Saws and Hand Tools is too difficult

The New GM stepping in to hire and run the Metrology group for 6 months to a year will give the team a leader familiar with the XXX global organization and in a better position to solve some of the positioning and quality issues

The New GM would not leave his operations responsibility but rather leverage this to give focus on the commercial business

In about two years, each group will have its own Customer Service Team

Recommendations - Sales

Sales Recommended Changes (SRC)

SRC I	SRC II	SRC III
<p>Focus Equipment distribution development and End User work on 3 key industries</p> <p>Medical Automotive Metal Working</p> <p>Investment Not Required</p>	<p>Change sales time to 20% End User/ 80% Distributor & have incentives based on:</p> <p>a) Equipment sales b) Equipment distribution network building c) Precision tool sales d) Precision tool distribution network building</p> <p>Investment Not Required</p> <p><Make a KPI></p>	<p>Give the equipment sales people greater technical training</p> <p>a) Training courses with certificate for each level of achievement b) Remuneration based on training levels passed</p> <p>Investment required for the development of training program</p> <p><Make a KPI></p>

Recommendations - Distribution

Recommendations - Distribution

Distribution Recommended Changes (DRC)

DRC I	DRC II	DRC III	DRC IV
<p>Sales incentives for distribution network building</p> <p>a) For Equipment b) For Precision Tools</p>	<p>Leverage distributor margin advantage to convert M1 distributors</p>	<p>Change hardware discount to be in line with 2nd tier metrology distributors</p>	<p>Give distributors precision tool discounts based on precision tool sales only</p> <p>Make equipment and hardware dealers sub-dealers when they don't meet precision tool minimum sales requirement</p> <p>This would improve delivery for the new sub-dealers</p>
Investment Not Required	Investment Not Required	Investment Not Required	Investment Not Required
<Make a KPI>	<Make a KPI>		

Recommendations - Distribution

Distribution Recommended Changes (DRC)

In Step Order of Execution

Step 1

Change the Saws and Hand Tool discount for Precision Tools to match that of a second Tier Metrology distributor

Step 2

Give distributors Precision Tool discounts based on Precision Tool sales (not combined equipment and PT sales)

Step 3

Implement a XXX Sales Incentive program for each of the product lines PT and Equipment

Also implement an incentive program for the signing of new distributors for each category, PT and Equipment

Step 4

Leverage the relative better margins provided to XXX distributors to convert Tier I and Tier II M1 distributors

Have a M1 distributor bounty

Recommendations - Breadth of Line, After-Sales Service

Breadth of Line Recommended Changes (BOLRC)

BOL RCI
Further investigation on whether the apparent shortage in breadth of line is a hindrance to sales growth

After Sales Service Recommended Changes (AFS RC)

AFS RCI	AFS RCII	AFS RCIII	AFS RCIV
<p>Incentive program based on:</p> <ul style="list-style-type: none"> a) The speed of resolution of an issue b) Feedback from end user that had the issue <p>Investment Not Required</p> <p><Make a KPI></p>	<p>Give the after sales people greater technical training:</p> <ul style="list-style-type: none"> a) Training courses with certificate for each level of achievement b) Remuneration based on training levels passed <p>Investment required for the development of training program</p> <p><Make a KPI></p>	<p>Incentive to train distributors</p> <p>An altered after sales training course targeting distributors to increase reach of service network</p> <p>Investment required for the development of training program</p> <p><Make a KPI></p>	<p>Locate new service people in the field</p> <p>Investment required as business grows</p>

Recommendations - Price

Price Recommended Changes (PRC)

PRC I	PRC II
<p>Precision Tools: Adjust current pricing to current pricing strategy, i.e., a slight discount to the competitor</p> <p>Adjustment may lead to overall increase in gross margin</p> <p>Investment Not Required</p>	<p>Work with USA to improve equipment margin issue on the AV 300 and decide to either:</p> <ol style="list-style-type: none">1. Remain uncompetitive2. Lower price and accept lower margin3. Re-source components4. Re-source components and assemble in China <p>Investment required depends on option chosen and research of China options needs to be done</p> <p><Make a KPI></p>

Recommendations - Branding

Branding Recommended Changes (BRC)

BRC I	BRC II	BRC III	BRC IV	BRC V
Focus Brand Awareness campaign on industries you are experiencing high hit rates i.e. Medical, Automotive and Metal Working	Develop low cost "Gorilla" awareness campaigns such as the "Technical Seminar" for industrial parks or industry associations <Make a KPI>	Build a plan to measure brand awareness. <Make a KPI>	Strengthen brand image through great presence at current shows - Based on feedback from distributor	Create monthly communication to distributors and organization - Created by the China organization for the China organization
Incremental Expense: \$60k	Incremental Expense: \$100k	Incremental Expense: \$20k	Incremental Expense: \$60k	Incremental Expense: \$10k

Recommendations - Delivery

Delivery Recommended Changes (DRC)

DRC I	DRC II	DRC III	DRC IV
<p>Agreement between SZ and SH on what is OTD, how is it defined</p> <p>We recommend using actual customer request date.</p> <p>Make it a KPI for both Precision Tools and Equipment</p> <p><Make a KPI></p>	<p>- Map out the process to determine the largest time bottlenecks. Calculate the estimate inventory required if necessary</p>	<p>-Kanban the top 100 – 200 items on shelves that can be picked by hand. Analysis needs to confirm the right # of items but this first action will probably increase OTD by 10 to 20%</p>	<p>- Each week review the tops down for late items to find correlations and implement one small "Kaizen" each week</p> <p><Make a KPI></p>
Investment Not Required	<p>Incremental Inventory: \$150k</p> <p><i>Decrease in Equipment Inventory may make this number less</i></p>	Investment Not Required	Investment Not Required

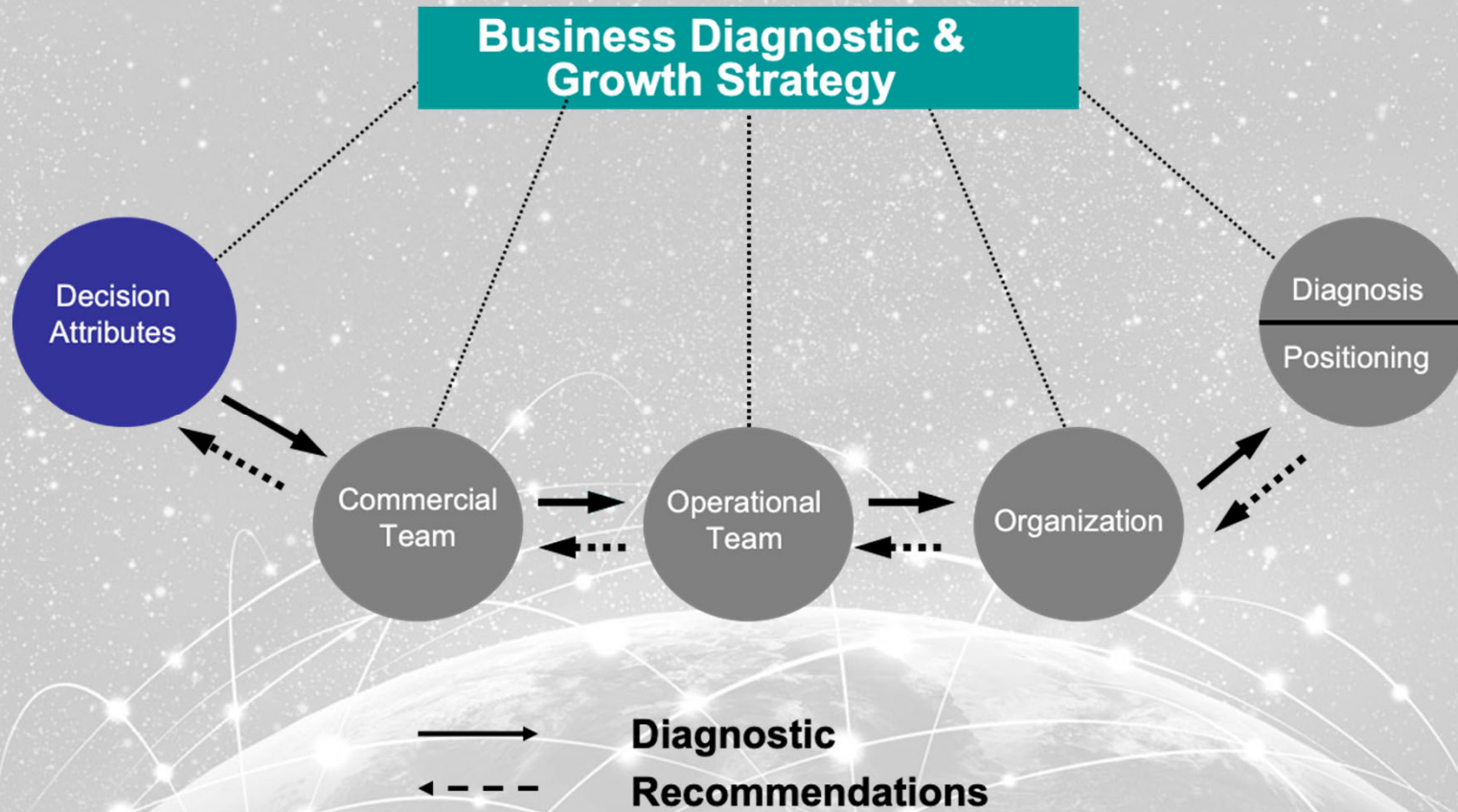
Recommendations - Quality

Quality Recommended Changes (QRC)

QRC I	QRC II	QRC III
<p>-Agreement between SZ and SH on what to measure for Quality</p> <p>Investment Not Required</p> <p><Make a KPI></p>	<p>- We recommend measuring both “with abused tools” and “without abused tools.” The reason for this is to identify different ways tools are used in China that lead to a difference in perception of a quality issue. The “Electronic Micrometer Ratchet” is an example of this</p> <p>Investment Not Required</p>	<p>-Communicate this in some way to your sales team so they are informed with on-going situations and can communicate with distribution thus narrowing the gap between perception and reality</p> <p>Incremental Expense for monthly communication: \$20k</p>

Operational, Commercial & Organizational Diagnostic Methodology

East West Associates Confidential



Webinar Agenda

Part 1: Brief Introduction of East West Associates

- Webinar Series
- Introduction of Speakers

Part 2: Why are manufacturers relocating out of China? What are some critical considerations?

Part 3: East West Associates "Diagnosis"

Part 4: **Q&A Discussion**

Part 5: Follow up

Q&A Discussion

1. We see our China operation is making less margin than before, how shall we maintain or increase our profitability?
2. Given the projected Trump tariffs, shall we consider relocating the operations from China to other regions?
3. We don't travel as much to China, esp. after COVID. How shall we better communicate with China team?
4. There are more local competitors in China now and we are losing market share, what's the recommendation?
5. We see the turnover rate in China is increasing a lot, our HR team is struggling with this, what is your recommendation?
6. We have annual audits from 3rd party every year and all looks good, but there are a few whistle-blowing recently, what shall we do to deal with these?
7. Based on assessment of the China operations, we see the company needs to restructure or close some of the operations. What are the processes?
8. Where would you recommend us to start for a general diagnosis in our China Operations?
9. Would you require our local management and US HQ to spend a lot of time together with you on this Diagnosis process?

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Part 5: **Follow up**

- Participants will receive a webinar survey
- Webinar recording & PowerPoint will be provided in follow up email and available on EWA website (www.eastwestassoc.com)

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