

# Global Manufacturing & Supply Chain Footprint Analysis & Implementation.

Wednesday, December 11, 2024

11:00 AM EST

east  west<sup>®</sup>

a s s o c i a t e s

DRIVING COMPANY GROWTH IN CHINA, ASIA, MEXICO & CEE

## Webinar Agenda

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

Part 2: Webinar Series

Part 3: Introduction of Speakers

Part 4: Why are manufacturers relocating out of China? What are some critical considerations?

Part 5: East West Associates Case Studies

Part 6: Q&A Discussion

Part 7: Follow up

**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

**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

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**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

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**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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## Webinar Agenda

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 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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**Dan McLeod, Director, East West Associates**

**Mark Plum, Director, East West Associates**

**Jacob Miller, East West Associates Vietnam**

**Moderator: Alex Bryant, President of East West Associates**

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Part 4: **Why are manufacturers relocating out of China? What are some critical considerations?**

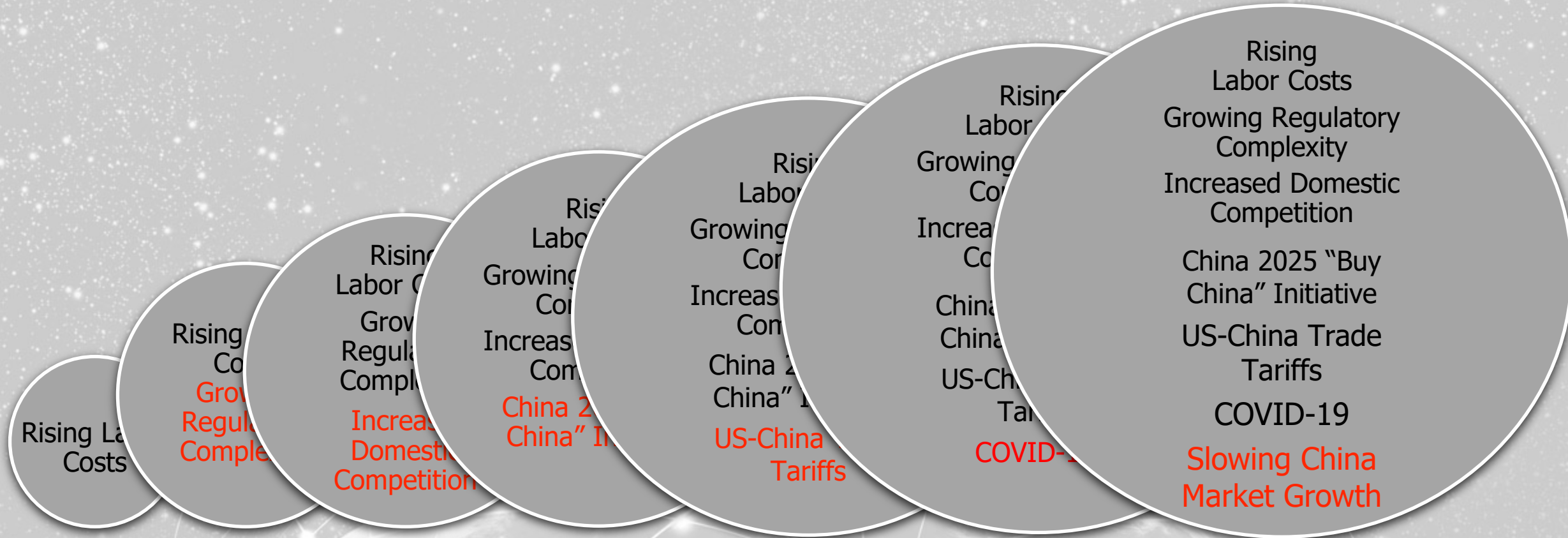
Part 5: East West Associates Case Studies

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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:



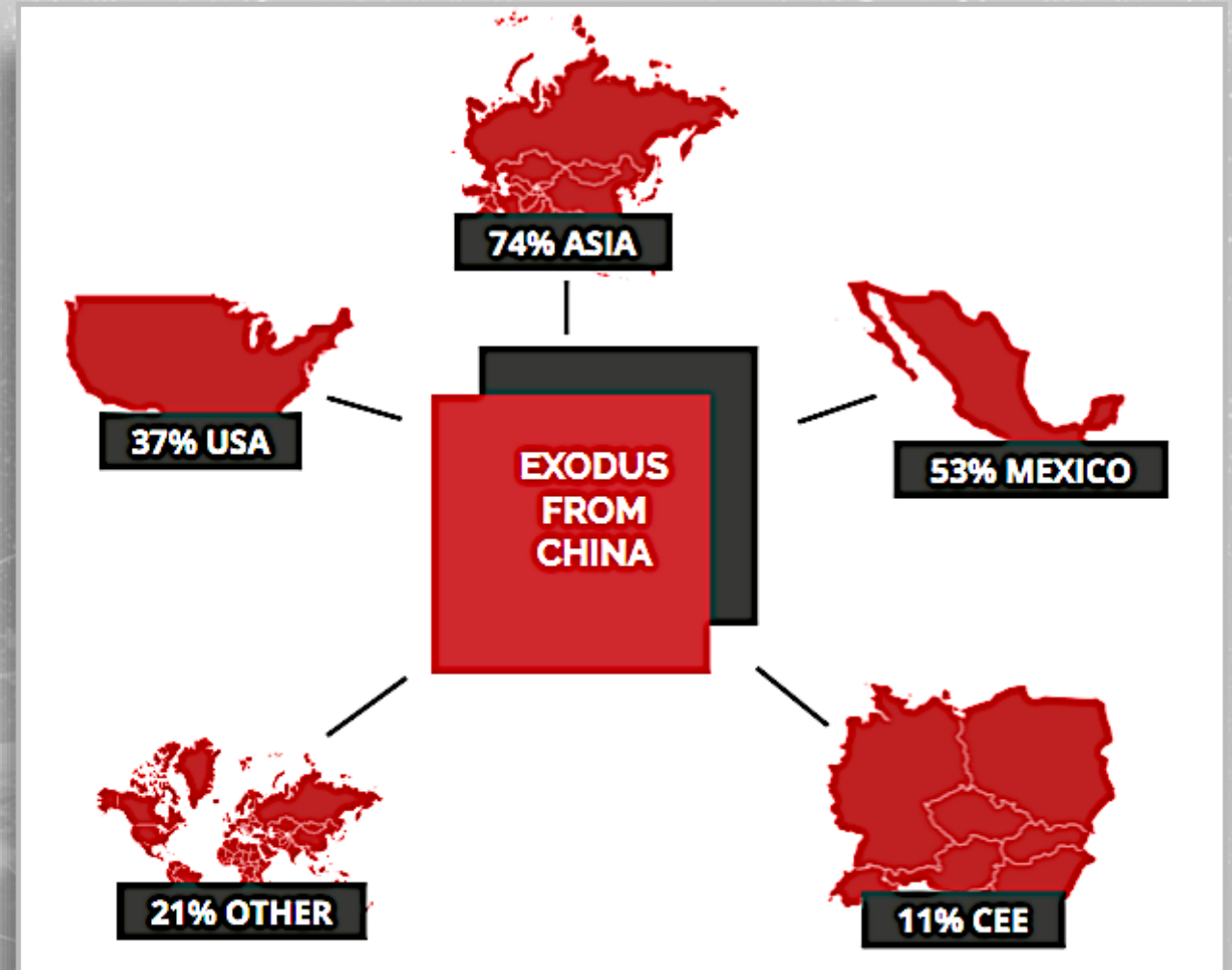
## Why are manufacturers relocating out of China? What are some critical considerations?

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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# Case Study 1: Global Manufacturing & Supply Chain Footprint Analysis

## – Background

- Client is a OH-based manufacturer of outdoor recreational equipment, with a major factory in Ohio plus 2 smaller operations in China, 3 in Thailand, & 1 in Vietnam.
- A significant portion of the product line is sourced from 3<sup>rd</sup> party manufacturers, mostly in China.
- Client's market is almost entirely US. Tariffs had a major impact on landed cost. Inventories greatly increased to compensate for unpredictable transit times during Covid.
- Client had made the decision to reconfigure their manufacturing base by shutting down the two operations in China.
- The OH operation was labor intensive. The operation appeared to be a fit for a lower cost country like Mexico, but the management team had limited experience there.

# Global Manufacturing & Supply Chain Footprint Analysis

## – the engagement

- Project Deliverables:
  1. Conducted Assessment at Ohio HQ included modeling the current state of manufacturing and supply chain footprint, including headcount, costs, material buy, sales revenue and logistics/flow. Additionally, the specifics on which product lines are produced/sourcing, which suppliers, identify the most significant, etc.
  2. Conducted on- site analysis of the 6 Asian & US manufacturing facilities + the China trading company.
  3. Conducted on-site analysis on the suppliers in China, Thailand, and Vietnam.
  4. EWA conducted an analysis to score products as to potential in Mexico.
  5. Provided costs for establishing a Mexican manufacturing operation, specifically site analysis, labor, labor availability, land, lease, building costs, utilities, and potential incentives.
  6. Based on our Asian site visits, EWA identified potential for product rationalization in Asia facilities and insight on plant consolidation/closure and potential facility improvements.

# Global Manufacturing Reconfiguration in 5 countries



**United States**  
– Consolidated factories in OH

**China**  
– Closed Factories

**Thailand**  
– Consolidate 3-2 factories & moved product line from China to Thailand

**Mexico**  
– Establish contract manufacturing

**Vietnam**  
– Moved China & US product lines into VN & expanded factory

# Global Manufacturing & Supply Chain Footprint Analysis

## Case Study 1 – RESULTS

- The two **China** sites were shut down without incident, on schedule & within budget.
- EWA identified multiple potential contractors in **Mexico** for components. Estimated annual savings of US\$3M (15%).
- EWA evaluated multiple options for relocating all or part of US manufacturing to **Mexico**, identifying savings of up to US\$8M annually.
- Expansion in **Vietnam** was an attractive option. However, EWA calculated that these savings would be offset by higher inventories and higher capital cost.
- EWA's review of materials purchased in **China** determined many can be purchased from manufacturers in **Vietnam**. EWA recommended that Client expand their existing Vietnam operation and set up a sourcing office there to reduce spend in China.
- In **Thailand**, EWA determined one of the 3 sites would be shut down, and that the returns for consolidating the remaining 2 sites was unattractive.
- Recruited new General Manager and Finance Director for **Thailand**.



# Case Study 2: North America Footprint Analysis

East West Associates Confidential

## – Background

- Client: Illinois-based manufacturer of consumer products previously engaged EWA for expansion into Poland
- In Illinois, client's largest operation was faced with:
  - Declining output due to aging assets
  - Increased costs from escalating wage rates
  - Increasing difficulty finding and retaining employees
  - Increased demand, requiring outsourcing of some processes. Limited ability to reduce production in China
- **EWA was engaged to evaluate multiple options for reconfiguring the North America footprint.** These included:
  - Construction of a new factory and distribution center in the Southeast US.
  - Partnering with an established manufacturer in Mexico to produce product and ship to a new distribution center in the US.
  - Establish a factory in Mexico and a distribution center in the US, using components sourced primarily from Mexico and Asia.

## – The Process

### **1: Southeast US – Evaluated 10 states to determine the 4 most suitable sites based on client’s primary drivers: access to labor pool, logistics connectivity, utility cost and availability**

- Interview state, regional, and local economic development entities to evaluate level of interest and capabilities
- Visit sites to confirm data collected and understand available incentives
- Collect site specific information on wages, utilities, property costs to model investment and operating costs

### **2: Mexico Contract Manufacturing – Identified potential partners through desktop research and existing relationships with established manufacturers**

- Met with potential partners to assess interest, capability and fit
- Developed Heads of Terms for the contracting relationship to gain alignment with potential partners
- Audited manufacturing facilities
- Developed project economics and estimated product cost – materials, utilities, labor, overheads, freight and distribution

## – The Process (con't)

### *The Process (con't)*

#### **3. Mexico Manufacturing – Evaluated multiple regions within Mexico. Shortlisted 5 cities.**

- Identified suitable properties in those cities. Generated budgetary costs for a Build-to-Suit factory that met the client's requirements.
- Modeled operating costs based on local wage rates, utility costs, typical O&M costs
- Investigated the availability and capability of suppliers for critical materials/components
- Developed budgetary cost estimate for dismantling and moving critical equipment from US to Mexico
- Modeled costs to build and operate a Distribution Center in Texas to support the new operation

## Case Study 2 - RESULTS

### Conclusions:

- Advantage of Mexico over US is limited to Labor Savings and Tariff Avoidance
- Advantage of US over Mexico is lower costs for factory construction, utilities, freight
- For this situation – due to high utility consumption and much higher freight costs – there was no significant net cost advantage of Mexico vs. Southeast US.
- Mexico has adequate suppliers of steel, stainless steel, aluminum fabricated parts, & injection-molded plastics (which is key for this client).

Client decided to move ahead with a strategy to develop a supplier base in Mexico over a 1-3 year window to supply their current operation. Once the supply chain was established, they then proceeded to factory relocation.



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## Q&A Discussion

1. *What are the key issues which executives are facing when diversifying their supply chain & manufacturing?*
2. *Are there any signs of the business climate improving in China? What about moving west to inland China parks?*
3. *As we assess where to locate or relocate, what important in-country factors should we be sure to compare to China and to other country alternatives?*
4. *What metrics should a company use to determine the most desirable in-country site locations?*
5. *In a global footprint analysis, do country labor costs relative to China really matter anymore? Is Hourly Rate still a relevant question?*
6. *How to optimize your Chinese suppliers in ASEAN? Substantial Transformation?*

## Q&A Discussion

1. *What are the key issues which executives are facing when diversifying their supply chain & manufacturing?*

- Geopolitical risks
- US/China tariffs
- Tariffs on Mexico and Canada
- Rising Chinese labor rates

## Q&A Discussion

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## Q&A Discussion

*3. As we assess where to locate or relocate, what important in-country factors should we be sure to compare to China and to other country alternatives?*

- Availability of skilled labor
- Cost of skilled labor
- Lease rates
- Utilities

## Q&A Discussion

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## Q&A Discussion

### *5. How to optimize your Chinese suppliers in ASEAN? Substantial Transformation?*

- Hold onto major Chinese suppliers
- Localize suppliers
- Approval by both US Customs and local country regulations

## Q&A Discussion

1. *Relative to China, in what other countries is the business climate favorable for US-owned companies?*
2. *What are some unique challenges in Mexico, Southeast Asia & Central Eastern Europe?*
3. *What problems do companies experience if they decide to close facilities?*
4. *Do we need to plan on hiring local operations management to oversee facilities in non-US countries? Can an experienced manager in the US do that from there?*
5. *What kinds of investment incentives are offered (or negotiable) in likely relocation countries?*



## Q&A Discussion

1. *Relative to China, in what other countries is the business climate favorable for US-owned companies?*

- Thailand
- Vietnam

## Q&A Discussion

- 1. Relative to China, in what other countries is the business climate favorable for US-owned companies in my industry?*
- 2. What are some unique challenges in Mexico, Southeast Asia & Central Eastern Europe?*
- 3. What problems do companies experience if they decide to close facilities?*
- 4. Do we need to plan on hiring local operations management to oversee facilities in non-US countries? Can an experienced manager in the US do that from there?*
- 5. What kinds of investment incentives are offered (or negotiable) in likely relocation countries?*

## Q&A Discussion

*3. What problems do companies experience if they decide to close facilities?*

- Protection against loss of Intellectual Property (IP)
- Strikes – Employee violence
- Potential loss of credibility with current customers and suppliers

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Part 7: **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](http://www.eastwestassoc.com))

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