

# How Will Western Manufacturers Survive?

**Webcast**  
*January 2008*



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# Agenda

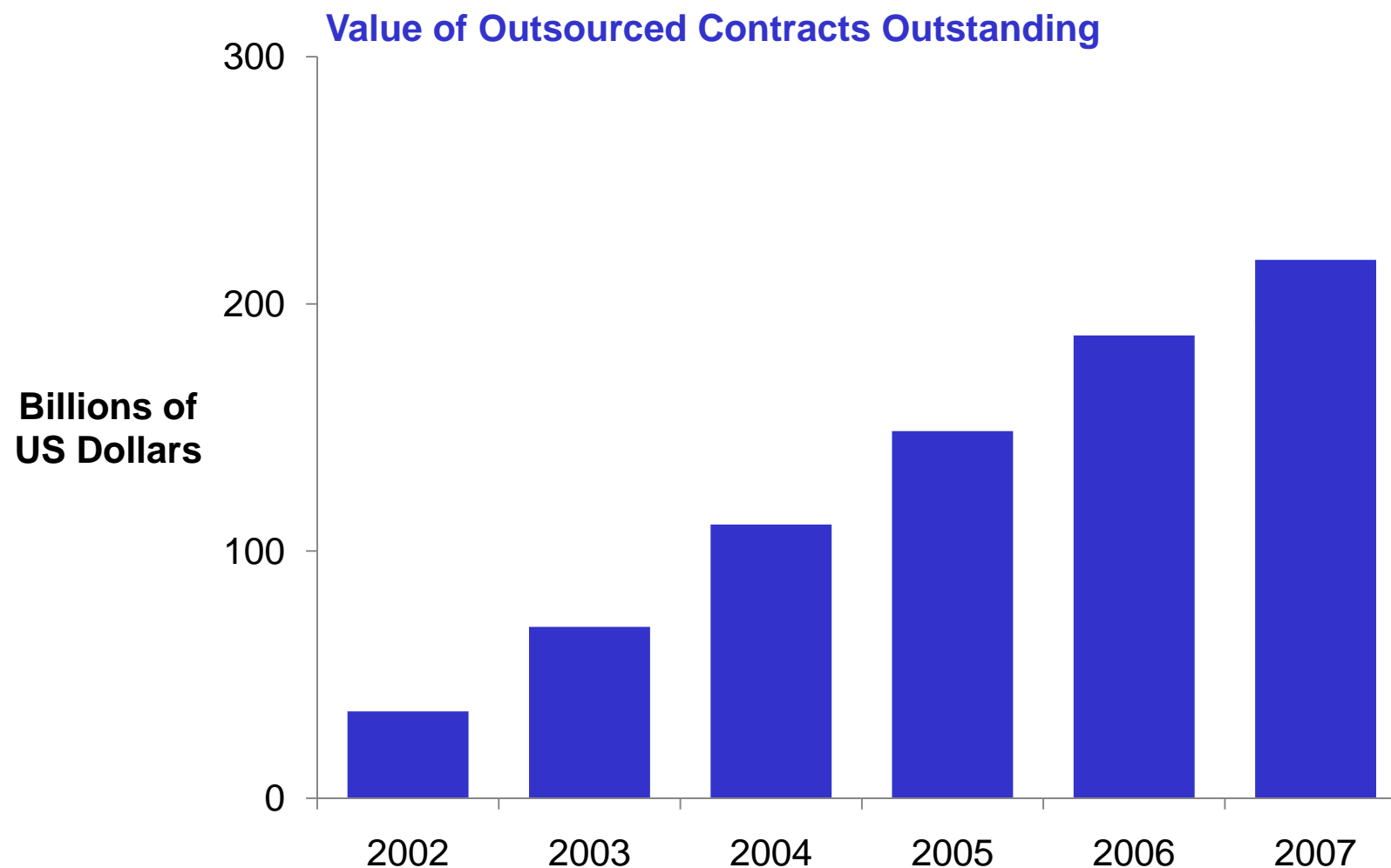
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- Outsourcing and off-shoring continue to grow
- Western manufacturing losing ground
- This problem won't go away
- The high-growth opportunity
- The art of high-cost country sourcing (HCCS)



# **Outsourcing and off-shoring continue to grow**

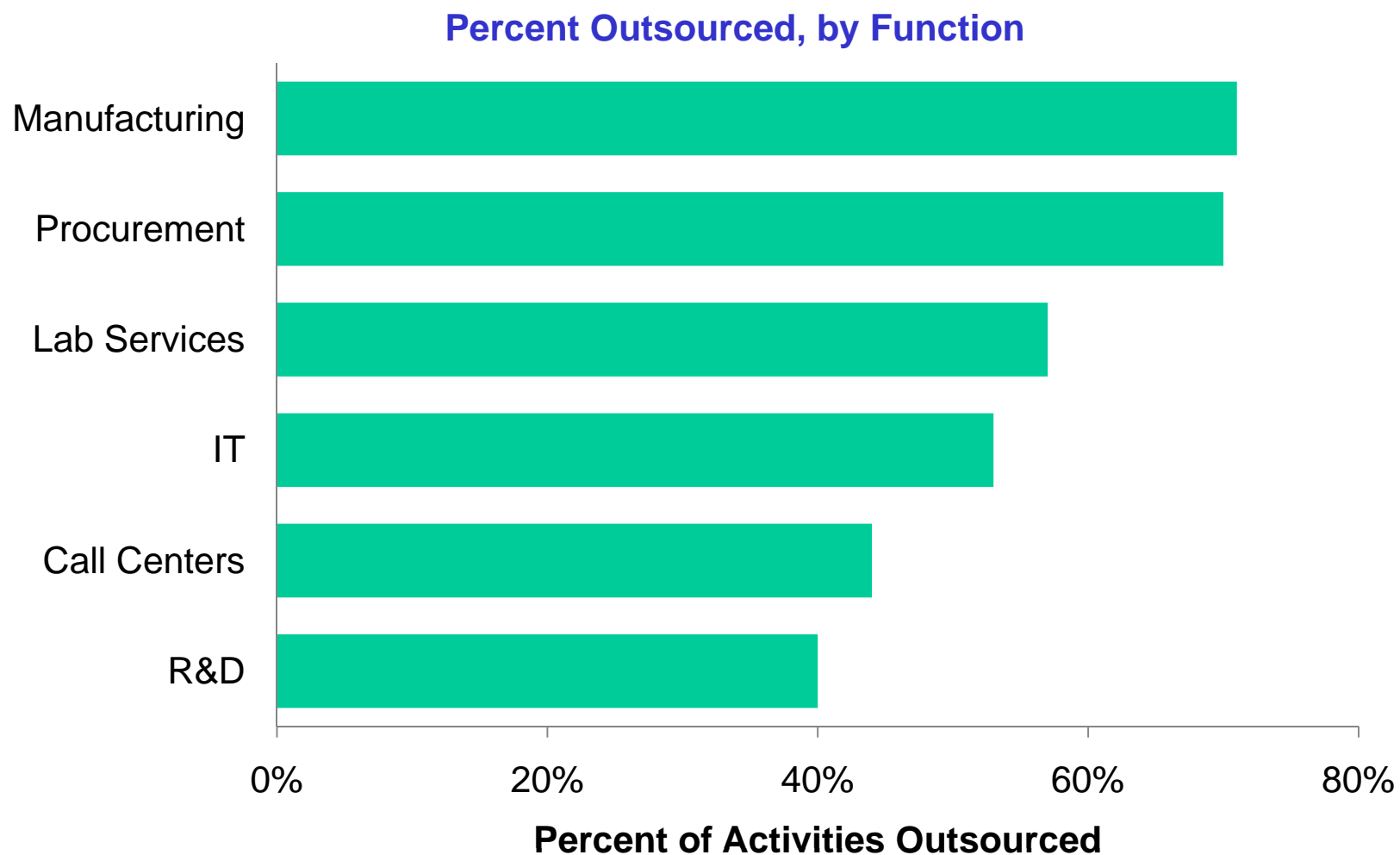
# The off-shoring trend is continuing



Source: Boston Strategies International analysis



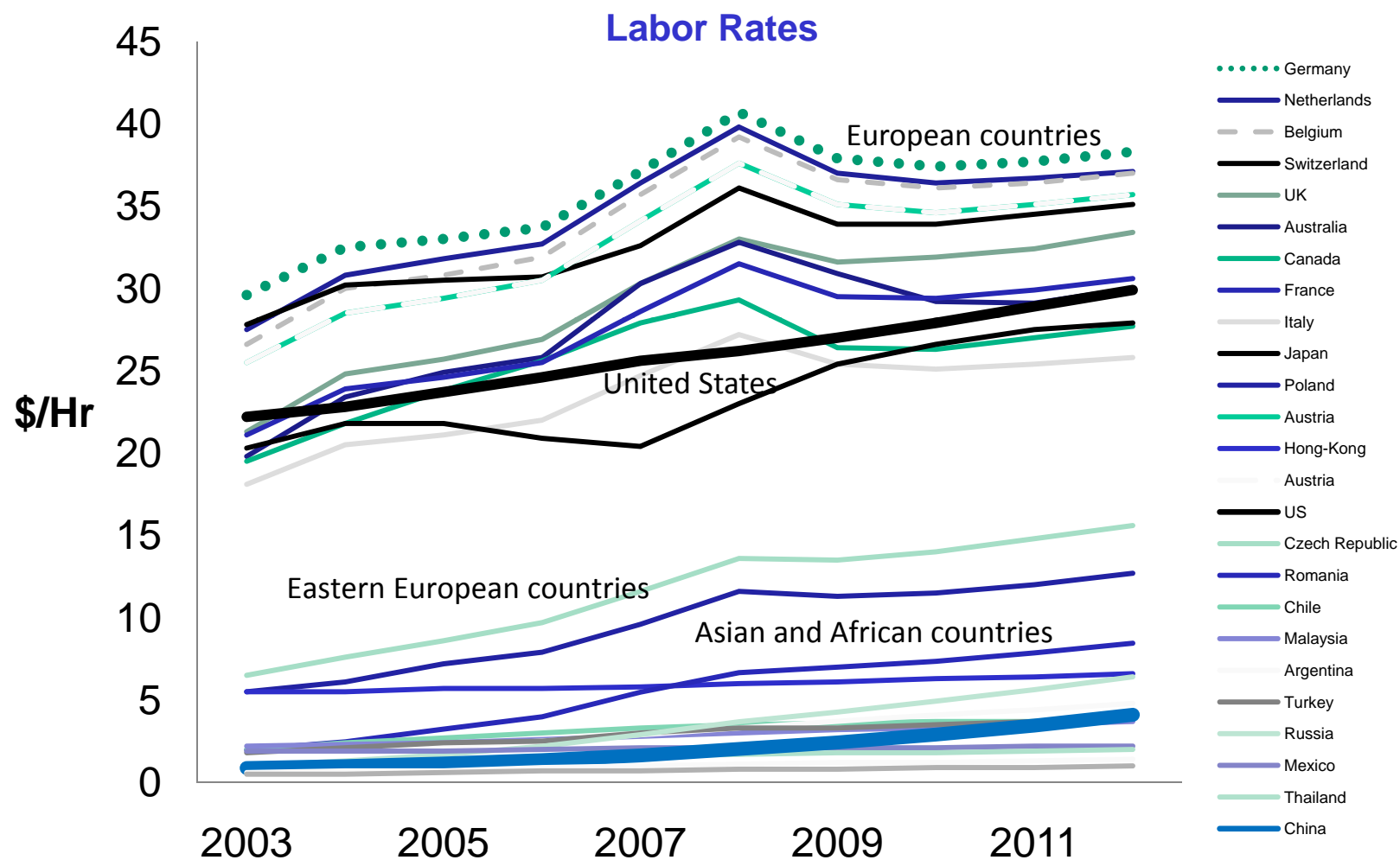
# Manufacturing is outsourced more than services



Source: Boston Strategies International analysis



# Asia is the lowest-cost area for labor

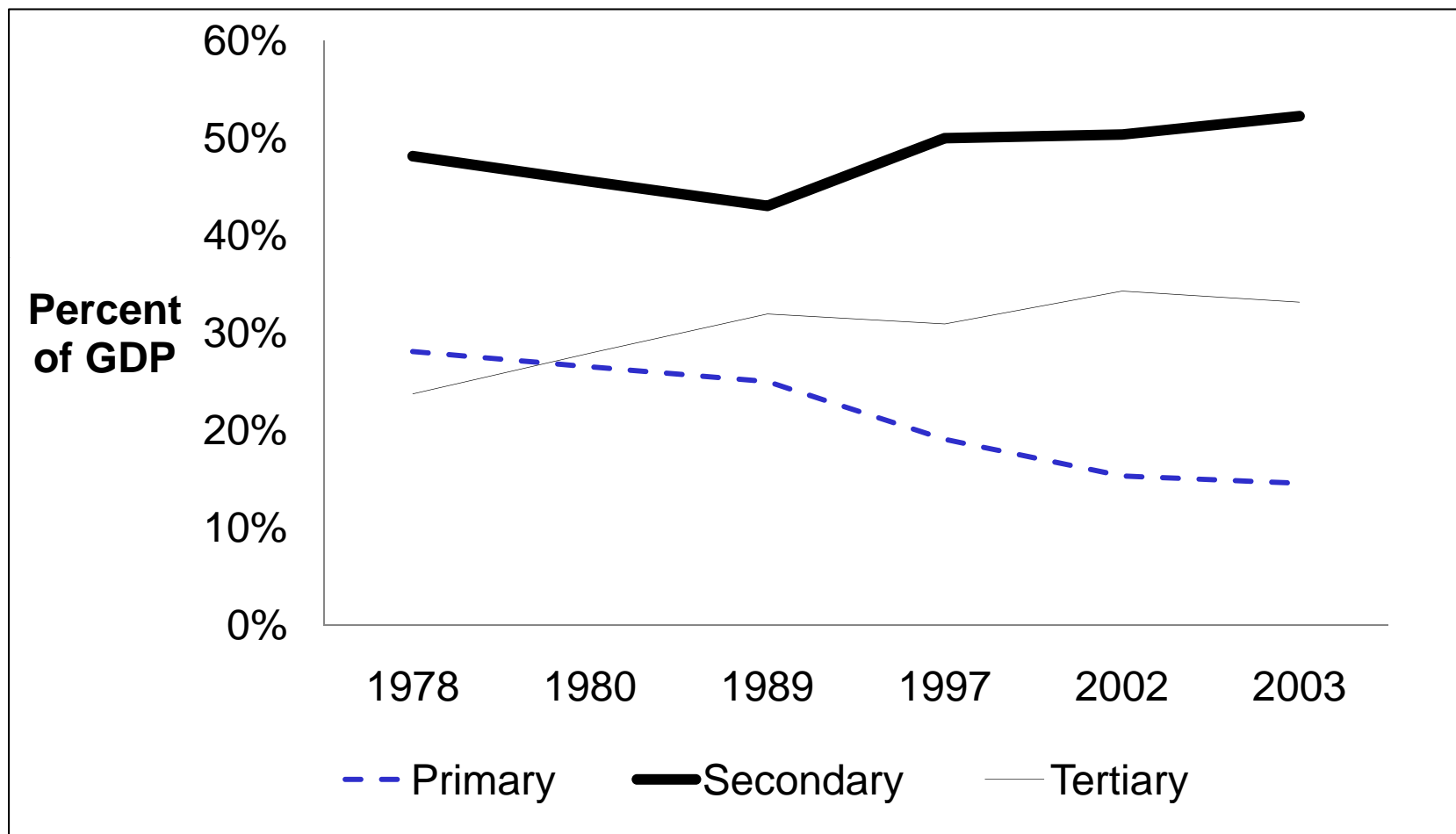


Source: Economist Intelligence Unit



# China's manufacturing sector is growing

## Manufacturing as a Percent of GDP



Source: Boston Strategies International analysis of Chinese government data



# Multinationals are migrating to China

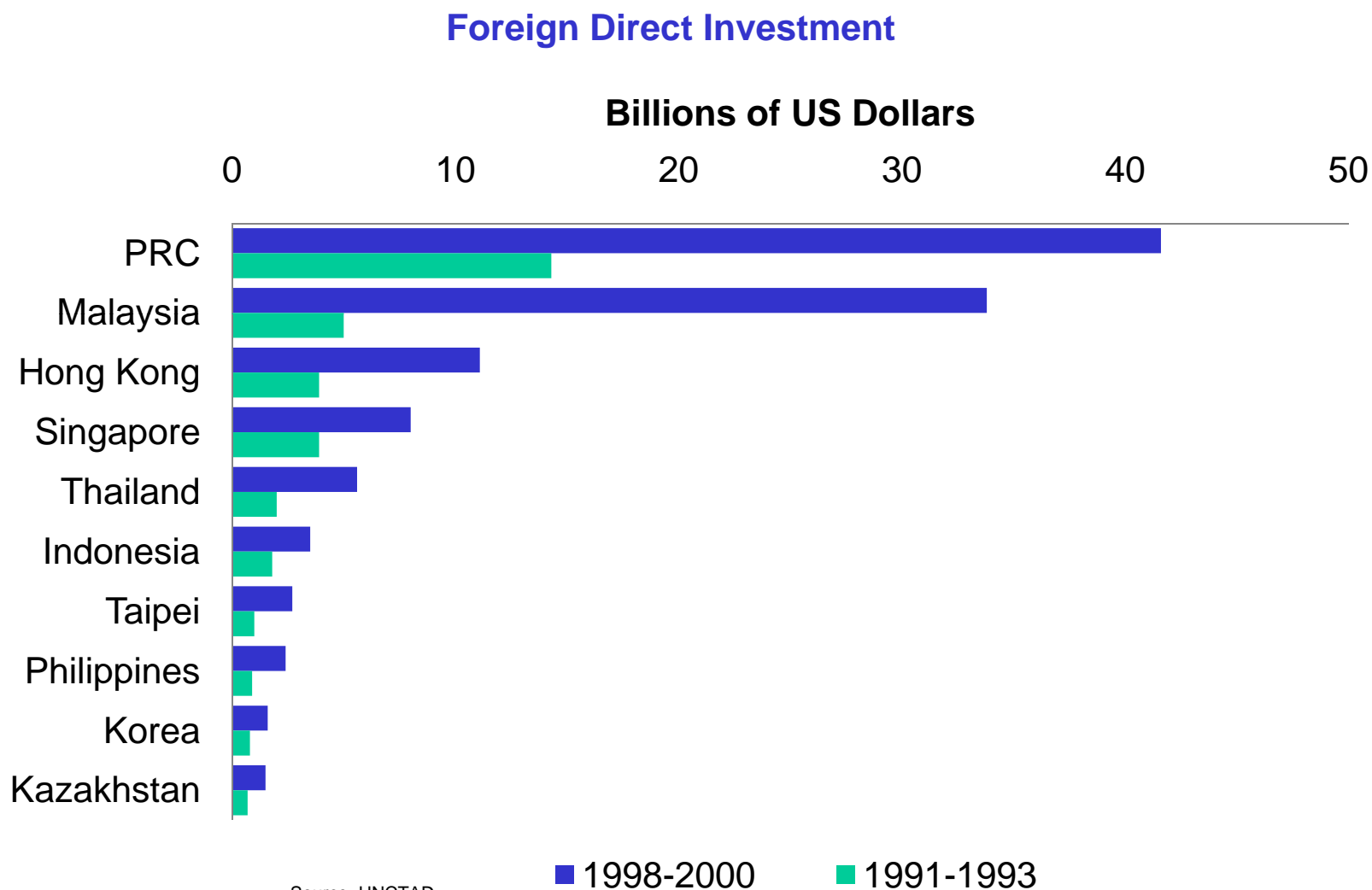
## Recent Corporate Relocations

Corporation	Presence in Asia
Caterpillar	<ul style="list-style-type: none"><li>• Relocation of Asia-Pacific Operations headquarters from Tokyo, Japan to Beijing, China</li><li>• Vice President with administrative responsibility for manufacturing operations in Asia will relocate as well</li></ul>
General Motors	<ul style="list-style-type: none"><li>• Relocation of Asia-Pacific headquarters from Singapore to Shanghai</li><li>• \$253.7 million initiative with a Chinese partner</li></ul>
Goodyear	<ul style="list-style-type: none"><li>• Relocation of Asia-Pacific headquarters from the U.S. to Shanghai</li></ul>
Stora Enso	<ul style="list-style-type: none"><li>• Relocation of Asia-Pacific headquarters from Singapore to Shanghai, China</li></ul>
Visteon	<ul style="list-style-type: none"><li>• Relocation of Asian headquarters from Tokyo to Shanghai</li></ul>
Volkswagen	<ul style="list-style-type: none"><li>• Relocation of Asia-Pacific regional center from Wolfsburg to Beijing</li></ul>

Sources: Boston Strategies International analysis

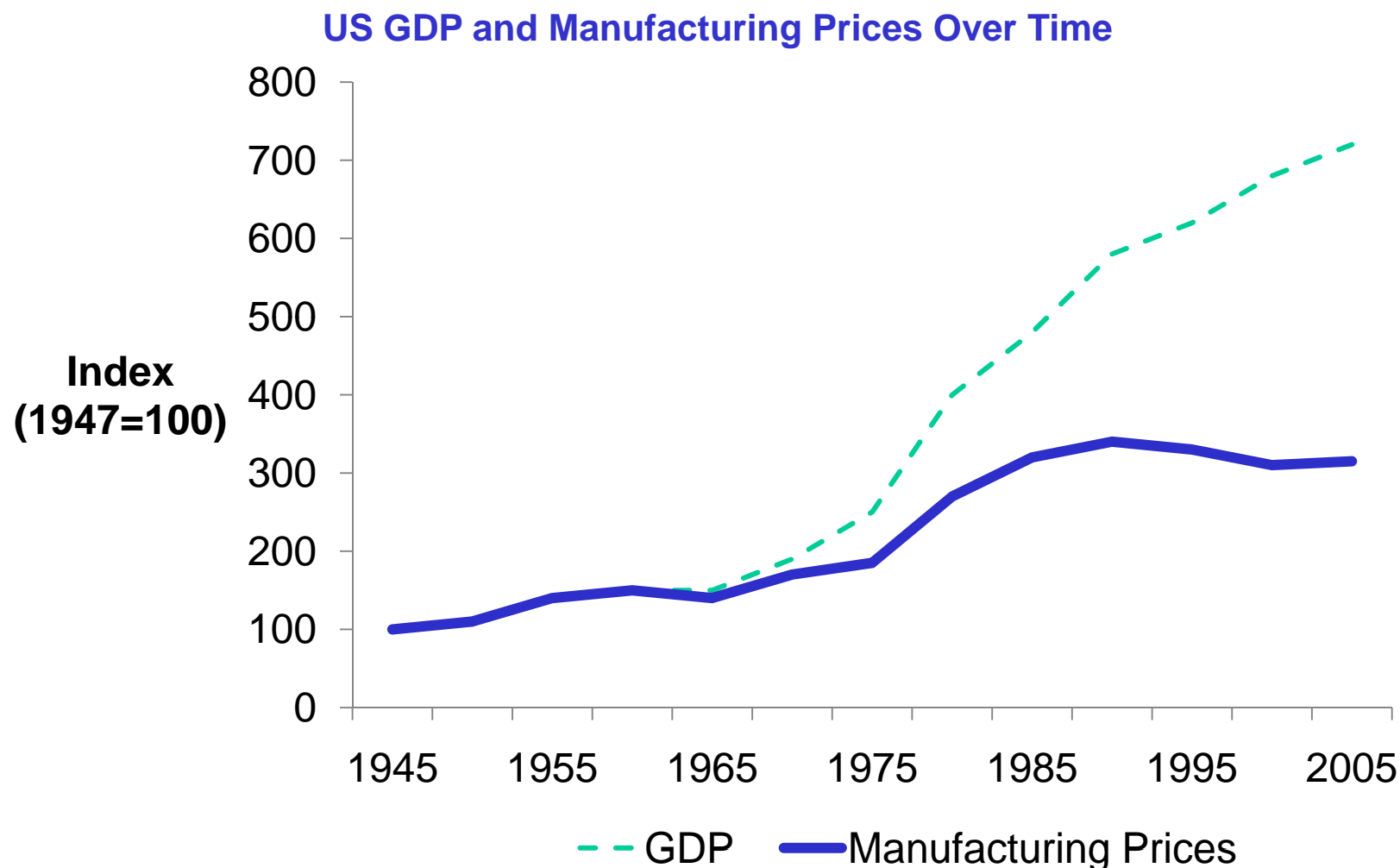


# Foreign direct investment is flowing into China



# **Western manufacturing losing ground**

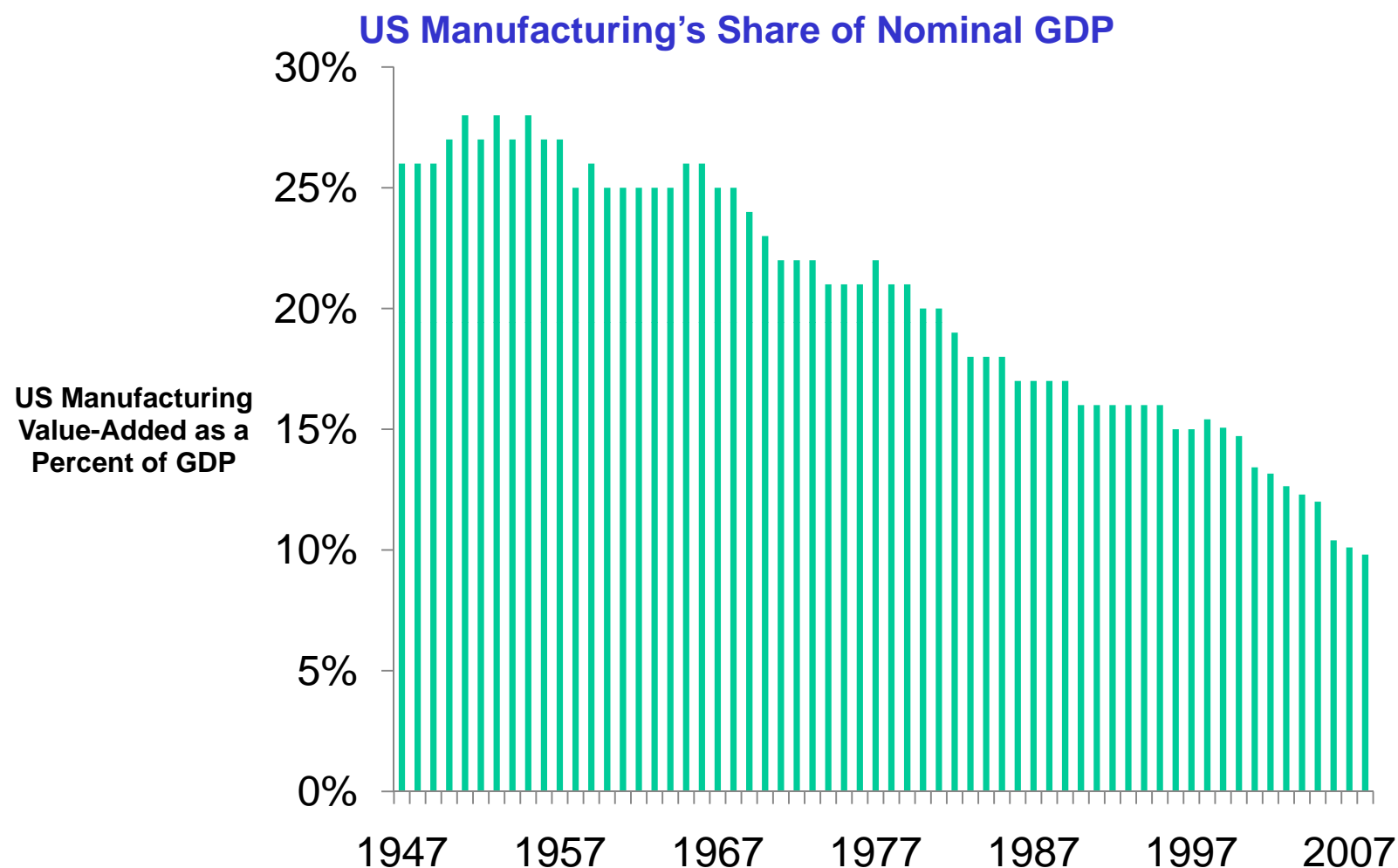
# Prices of US manufactured goods have gone flat



Sources: Boston Strategies International, Bureau of Economic Analysis, National Association of Manufacturers



# Mfg's share of the economy is shrinking



Sources: Boston Strategies International analysis of Bureau of Economic Analysis and other data

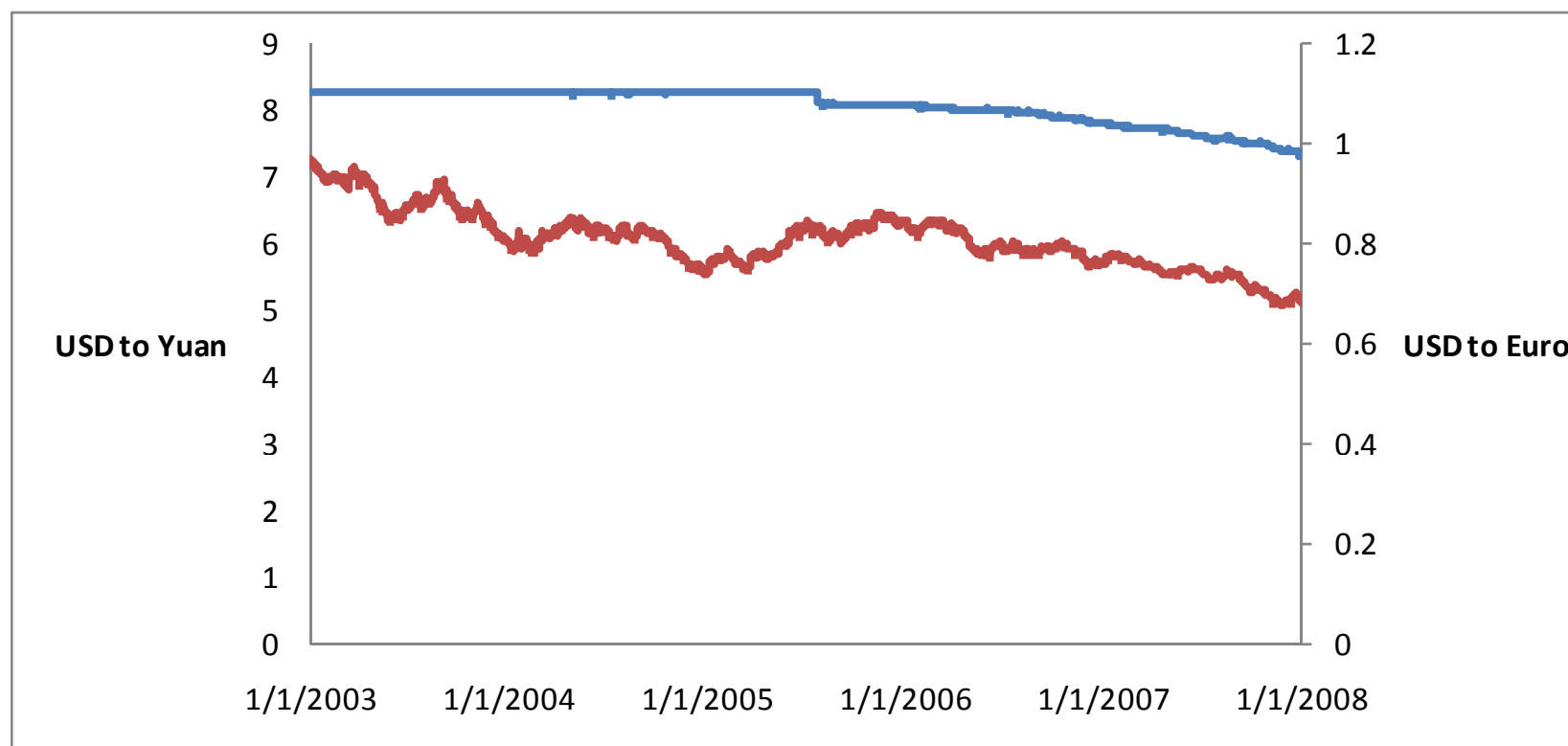


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**This problem won't go away**

# The weak dollar is helping to level the field

## US Dollar Exchange Rate

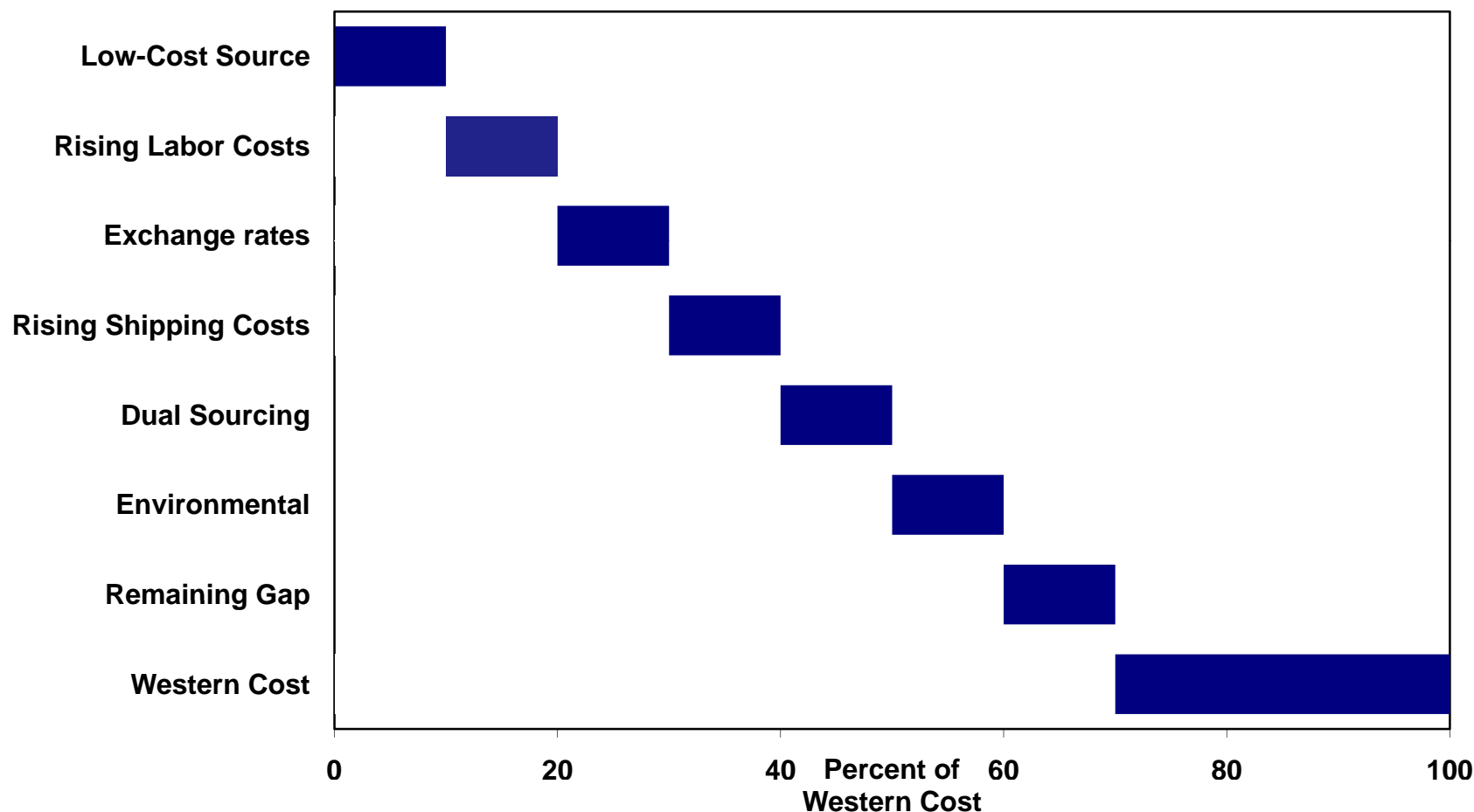


Sources: Oando



# The differential could shrink but won't disappear

## Difference Between Western and Emerging Economy Costs – Illustrative

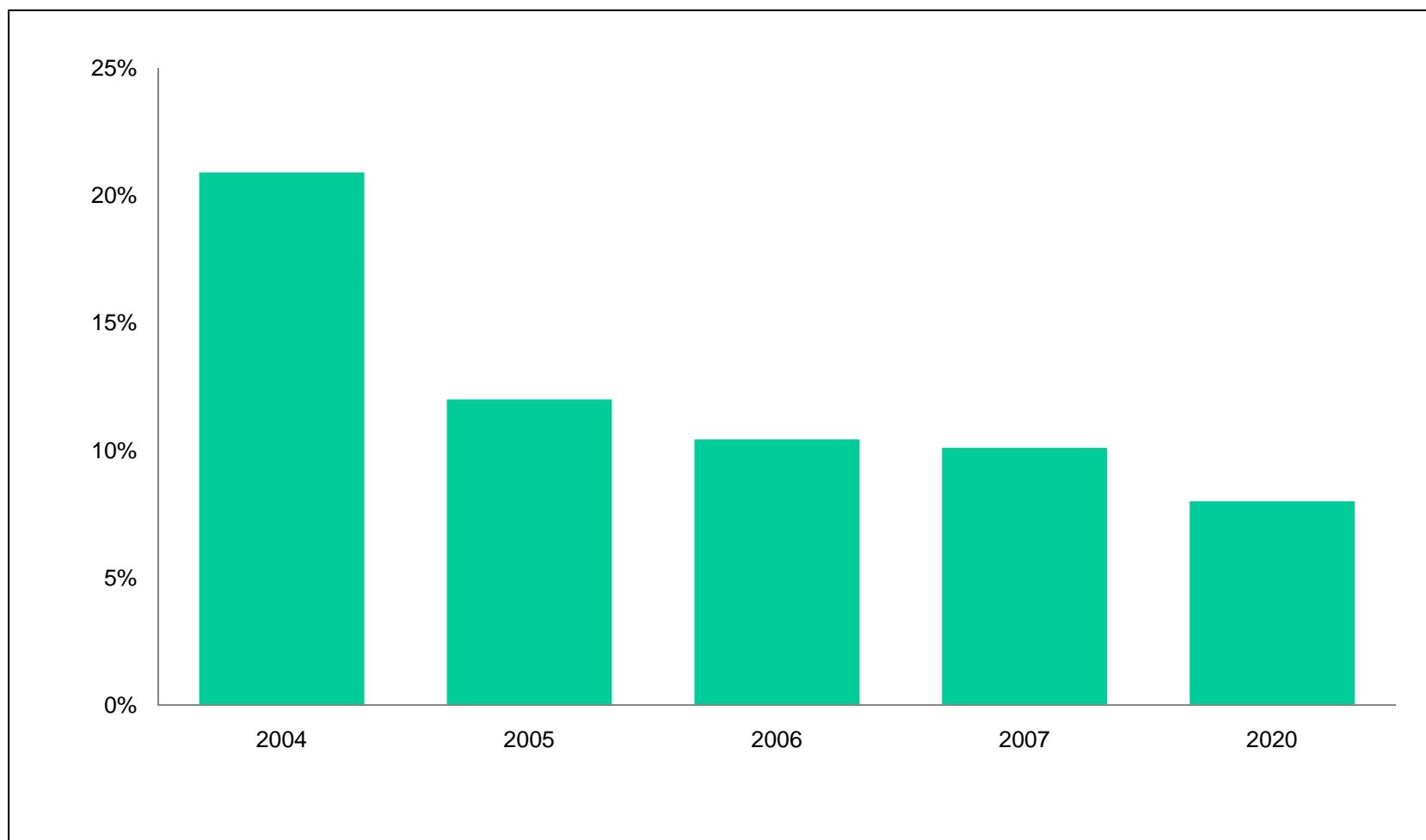


Sources: Boston Strategies International analysis



# The trend is slowing, but will continue

## US Manufacturing Contribution to GDP



Sources: Boston Strategies International analysis





# Repetitive MTS manufacturers are at risk

## Propensity to Off-Shore by Supply Chain Type™

		FLOW/CONTINUOUS		BATCH/CELLULAR			
		Vessel/Railcar	TL/IM	Vessel/Railcar	TL/IM	LTL/Sm. Pkg/Air	
Make to Plan	RAW MATERIAL SOURCE	1. Extraction		4. <b>Make-to-Stock</b> Manufacturing			CONSUMER
Make to Stock							
Assemble to Order		2. <b>Process Manufacturing</b>	6. Distribution				
Make to Order							
Engineer to Order			3. Engineer to Order		5. Make-to-Order Manufacturing		

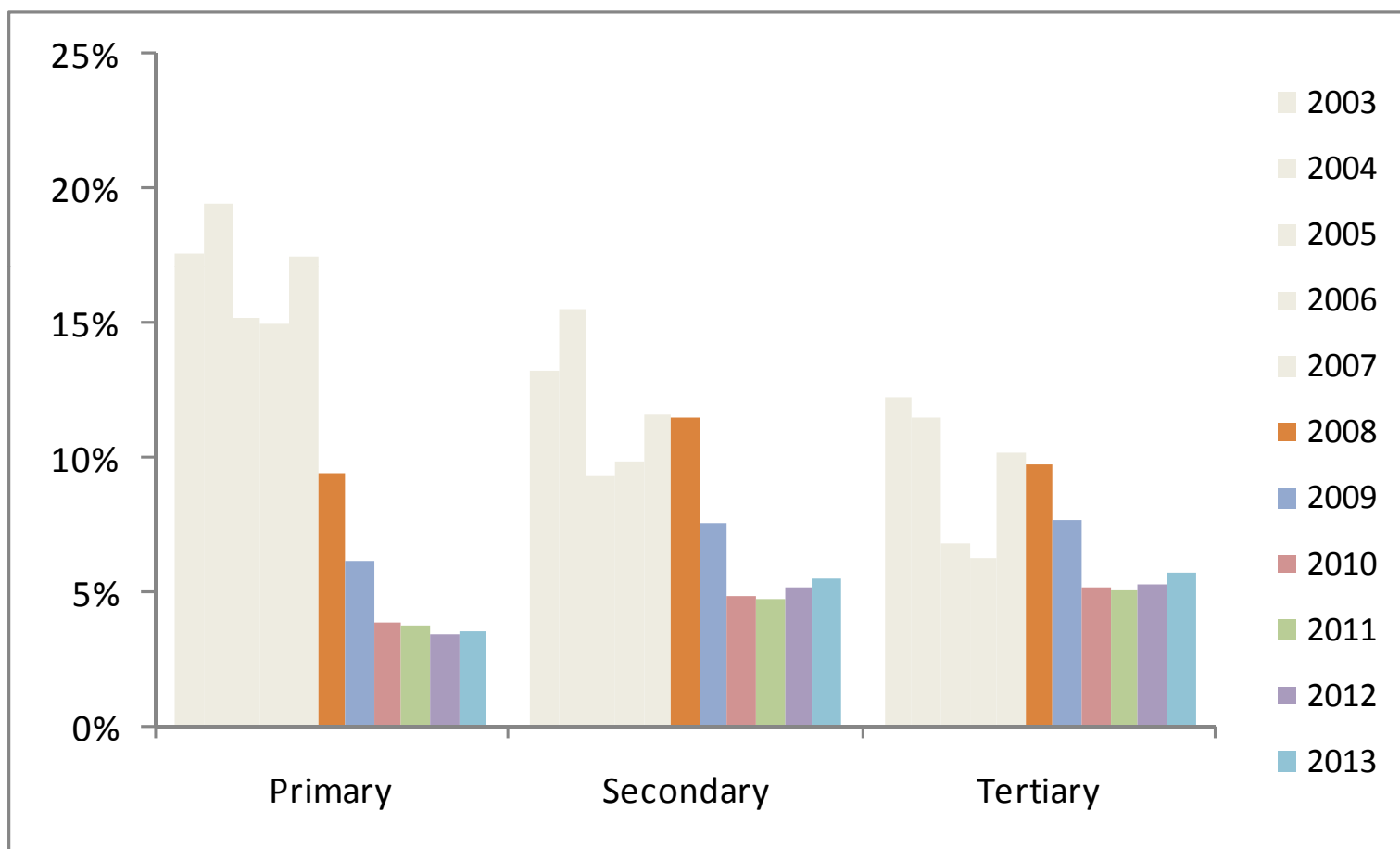
Sources: Boston Strategies International



**Western manufacturing has a high-growth opportunity**

# Manufacturing can be as profitable as services

World Sales Growth Rate by Sector (2006 to 2007)

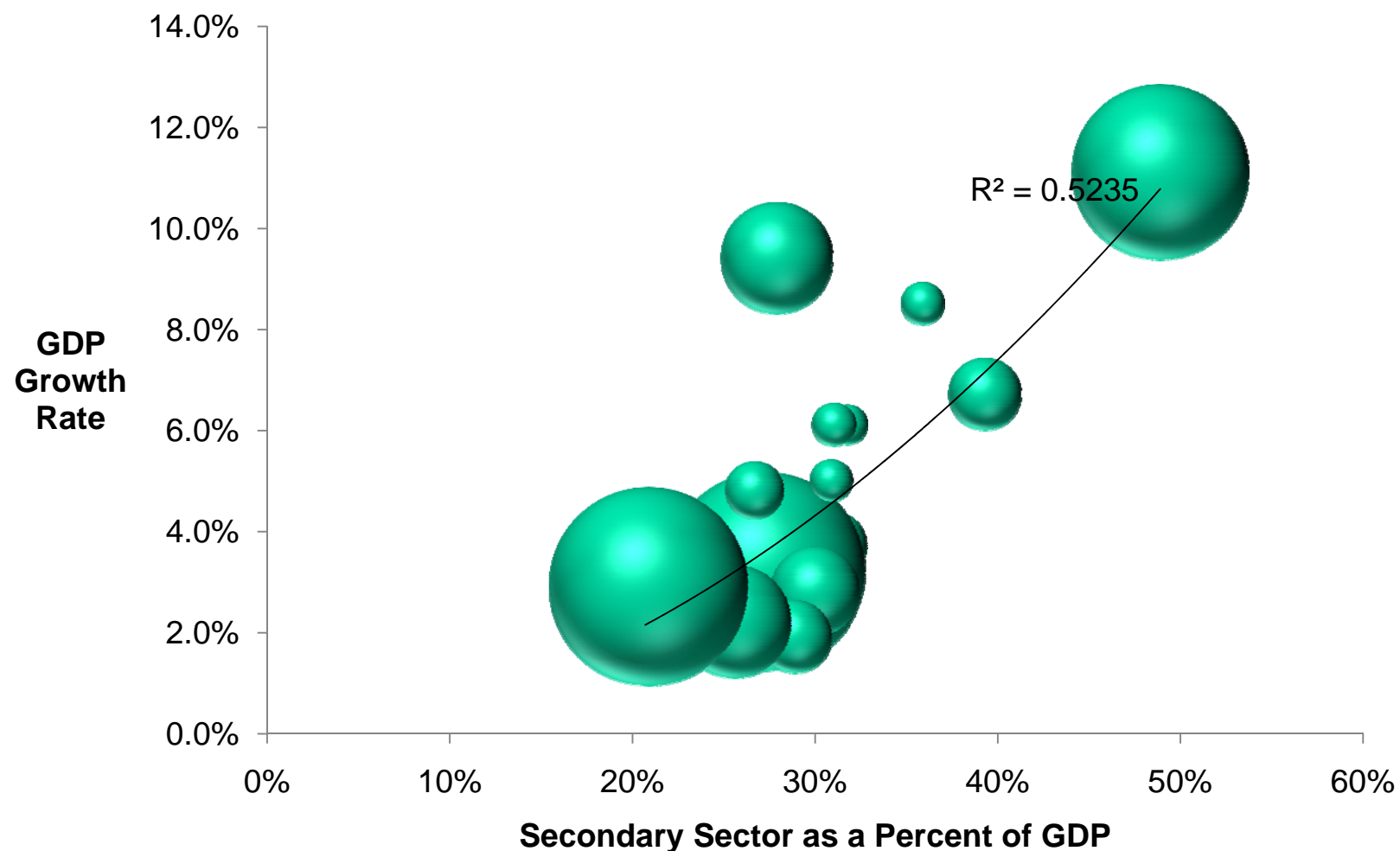


Sources: Boston Strategies International analysis of Global Insight data



# Manufacturing correlates with higher growth

## Correlation Between Secondary Sector Prominence and Economic Growth



Sources: Boston Strategies International, Bureau of CIA data



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# A new model: knowledge-based services

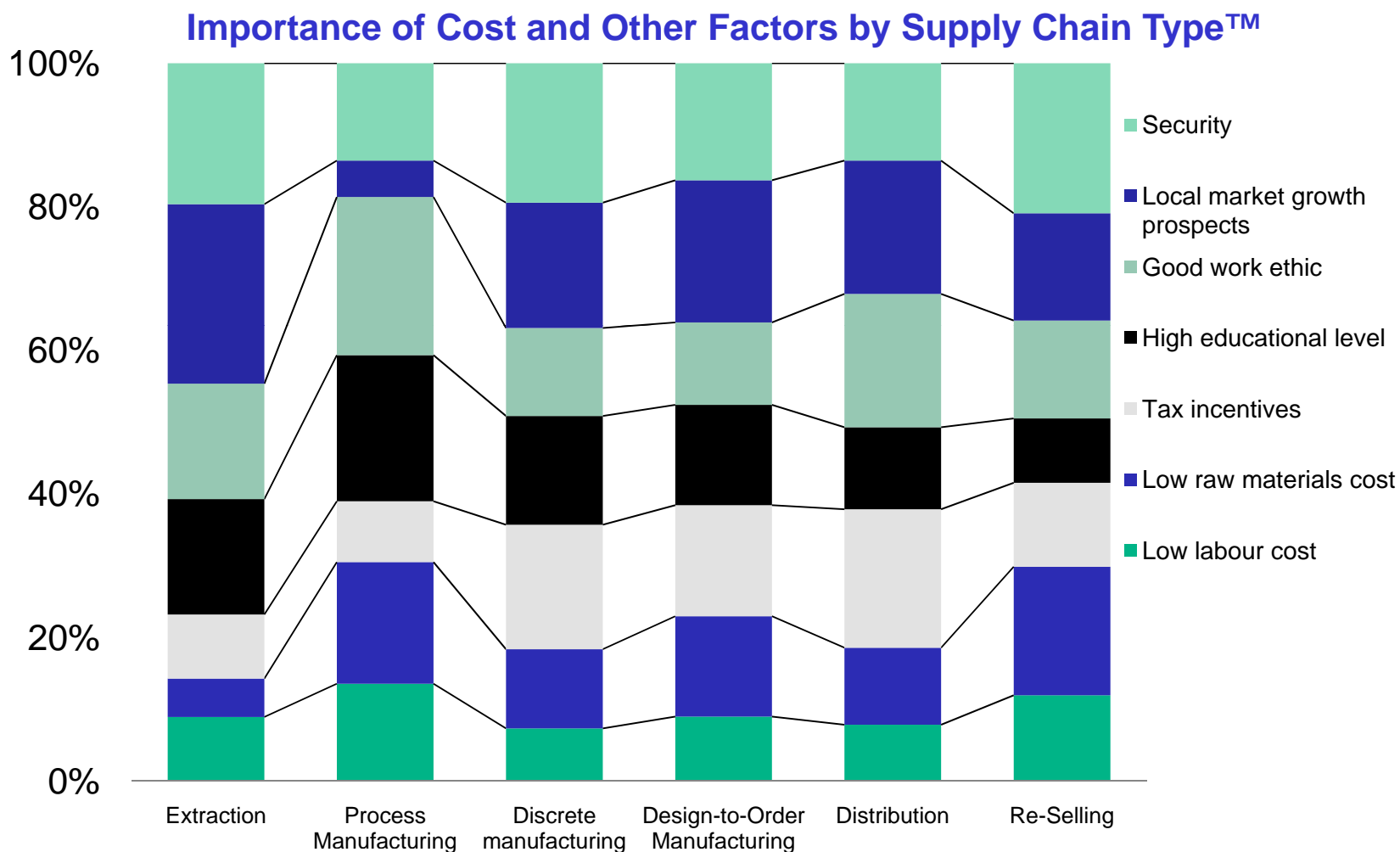
## Stages of Economic Development

<b>Characteristics</b>	<b><i>Preindustrial, Agrarian</i></b>	<b><i>Industrial</i></b>	<b><i>Postindustrial, Knowledge-based</i></b>
Leading economic sector	Agriculture	Industry	Services
Nature of dominant technologies	Labor – and natural resource – intensive	Capital-intensive	Knowledge-intensive
Major type of consumer products	Food and hand-made clothes	Industrial goods	Information and knowledge services
Nature of most production processes	Human-nature interaction	Human-machine interaction	Human-human interaction
Major factor of economic wealth/growth	Nature's productivity (soil fertility, climate, biological resources)	Labor productivity	Innovation/intellectual productivity

Sources: World Bank



# Low cost is only 30% of the equation

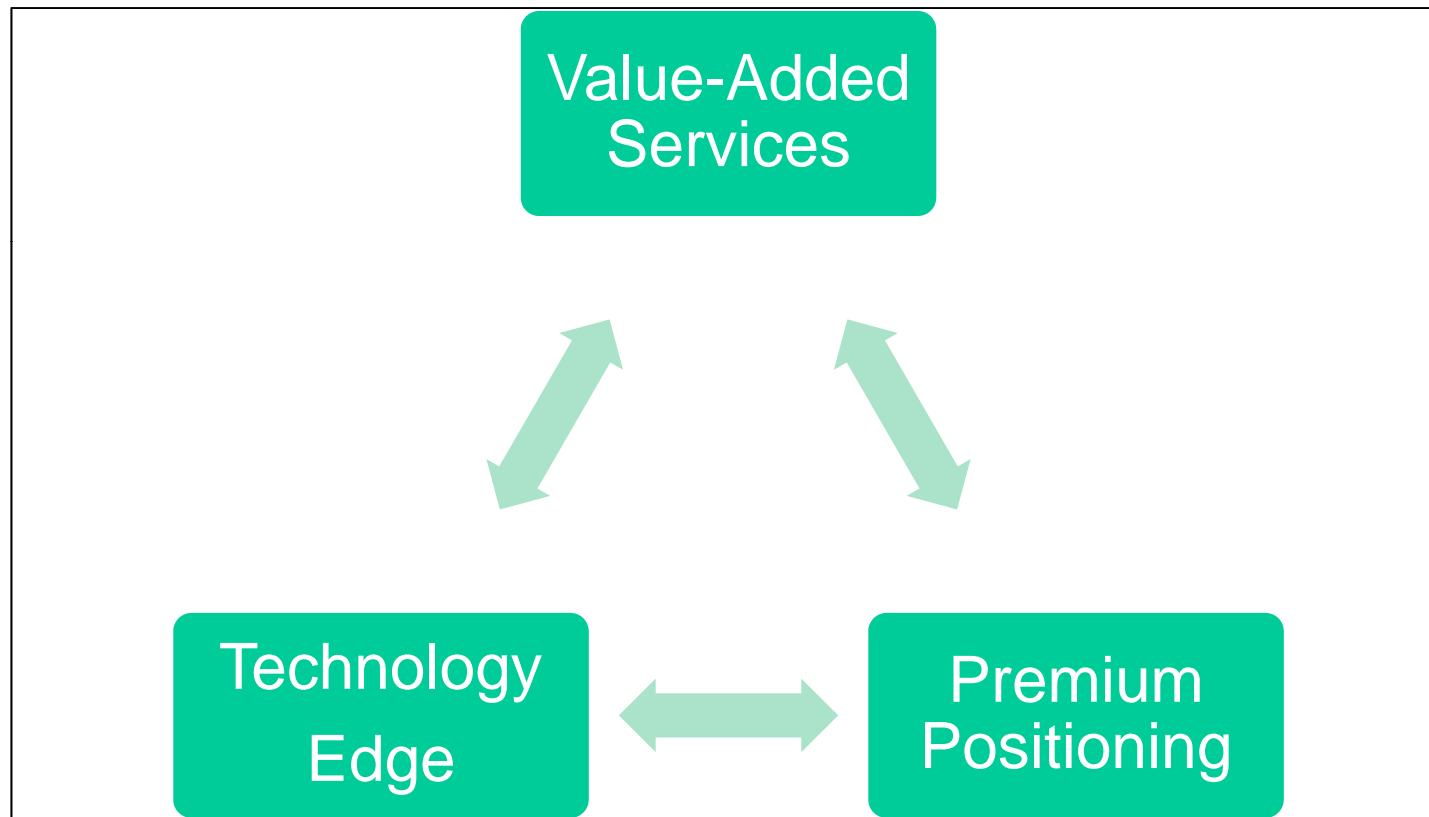


Sources: Boston Strategies International analysis

# **The art of high-cost country sourcing (HCCS)**

# The path toward differentiated manufacturing

## The Services-Technology-Premium Cycle



Sources: Boston Strategies international





# Recommendations – Governing Boards

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- Ensure a level playing field for CEO selection to include foreign nationals
- Promote skills in finance and negotiation in global contexts
- Focus business growth around core competencies; elevate Engineering and Marketing



# Recommendations – CEOs

## Recommendations by Supply Chain Type™

Supply Chain Type™	Strategy
I. Extraction	• Move up the value chain
II. Process manufacturers	• Offshore labor-intensive activities
III. Engineer-to-order manufacturers	• Outsource R&D • Focus on premium • Value-added services
IV. Make-to-stock manufacturers	• Differentiate with value-added services
V. Make-to-order manufacturers	• Position as premium
VI. Distribution	• Focus on Asia and Middle East marketing and sales
VII. Reselling	

# Recommendations – managers

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- Build strong engineering skills
  - Do not overemphasize cost
- Enable employees to personalize, customize, and offer tailored value-added services
  - Through advanced information technology applications (esp. CRM)
- Position and brand as premium and high-quality
  - Differentiate you and your organization; prevent commoditization
- Know low-cost country environments personally
  - Open your mind to low-cost country travel and expatriate assignments

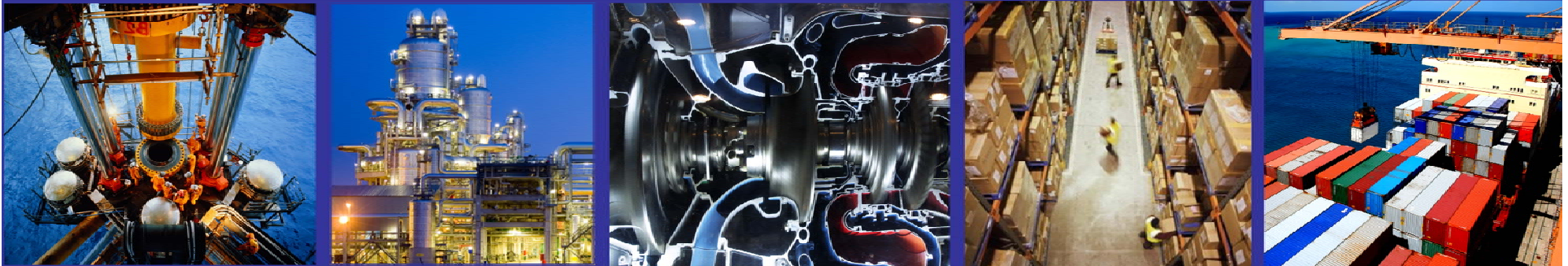


# Boston Strategies International

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- **Supply Market Analysis** that helps identify emerging issues that affect their supply chains
- **Supplier Enablement** that facilitates global growth and local content requirements
- **Supply Chain Optimization** that reduces project and life cycle costs



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