

# Avoiding Moving Operations Overseas

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# AGENDA

- Economic Factors
- Current Status
- Disadvantages/Advantages
- Hidden costs
- What the Future Holds
- How to avoid the Move Overseas
- The Final Decision

# Why it is Cheaper Over There

- Labor Costs
- Overhead
- Regulatory Issues
- Environmental Issues
- Work Ethic
- Labor Laws
- Government Incentives

# Why it is Cheaper Over There

- Human Rights
- Social Compliance
- Material costs
- Real Estate/Rentals
- Currency
- Low Capital Investment

# Other Factors that are Fueling this Exodus

- Customer Expectations
  - If it is made in here then it is more expensive than similar overseas manufactured product
- The Consumer wants Low Prices
- Big Retailers

# Current Status

- Productivity
- Material Control
- Accounting and Cost Systems
- Quality
  - Approach
  - Levels
  - Systems

# Current Status

- Improvement Programs
- Support Functions
- Human Rights
- Code of Compliance
- Environmental
  - Pollution

# Current Status

- Cultural Issues
- Political climate
- Economic climate
- Labor-Professional



# Disadvantages of Offshore Operations

- Political/Social Stability??
- Customs
- Low Efficiency
- Low Quality
- Transportation
  - Cost
  - Time

# Disadvantages of Offshore Operations

- Inventory
- In Country Support
  - Technical assistance
    - Up front development
  - Problems
    - Time to arrive on site
- Utilities and Energy
  - Reliability
  - Cost

# Disadvantages of Offshore Operations

- Communication
- Higher Probability of Product Shortages
- Protection of Intellectual Property
- Retaining Key Staff
  - Technical
  - Managerial
- Code of Conduct
  - Human Rights
  - Bad press

# Advantages of Offshore Operations

- Potential Long Term Cost Savings
- Economic Zones
- Sell Product in Country
- Customer Expectations
- Organizational Growth

# Typical Costs

- Costs that Organizations Usually Consider
  - Direct/Indirect Labor
  - Lease
  - Legal Fees
  - Transportation
  - Inventory
  - Logistics
  - Customs
  - Insurance
  - Currency Changes

# Hidden Costs

- Typical Costs that Organizations Fail to Consider or Underestimate
  - Efficiency Drop
  - Scrap & Rework Rise
  - Learning Curve
  - Expedited Shipments
    - Airfreight

# Hidden Costs

- Typical Costs that Organizations Fail to Consider or Underestimate
  - Customer Goodwill
  - Utilities & Energy
  - Back-Up Generator
  - Local Politicians
  - Developmental Time
  - Ex-pat Packages
    - Dependents

# Hidden Costs

- Typical Costs that Organizations Fail to Consider or Underestimate
  - In Country Support
  - Redundancy Time
    - Two operations
  - Travel
    - Startup/Developmental
    - Routine Visits
    - Problems



# Hidden Costs

- Typical Costs that Organizations Fail to Consider or Underestimate
  - Social Costs
  - Code Of Conduct/Human Rights
  - Retention/Replacement of Key Personnel
  - Consultants

# What The Future Holds

- China
  - Political/Social Unrest
  - Currency Issues
  - Labor Rate Increases
  - Higher Material Cost
  - China Controlling Raw Material Supplies
  - Inflation

# What The Future Holds

- China
  - Higher Costs
  - Industry Moving Inland
  - Work Ethic Change
  - Infrastructure will not Keep pace with Growth
  - Electric Power Shortages
  - Material Shortages
  - The Next Generation

# What The Future Holds

- Latin America will Encounter a Rebirth
  - Stable Political Climate
  - Value System Alignment
  - Unused Capacity
    - Personnel
    - Facilities
  - Proximity to North America
  - Emerging Countries
    - Peru
    - Ecuador

# Staying at Home

- Option 1
  - Arbitrary Cost Cutting
- Option 2
  - Improvement Programs

# Staying at Home

- Arbitrary Cost Cutting
  - Short Term Gains
  - Key Resources Lost
  - Morale Issues
  - Cost Increases in Other Areas
  - Sometimes Long Term Suffers
  - Seldom Improves Competitiveness

# Staying at Home

Most Organizations are Wasting 20-40%  
of Sales due to Suboptimal Processes

- Manufacturing
- Administrative

# Staying at Home

- Improving Processes
  - Better Alternative to Arbitrary Cost Cutting



# Systems that have been proven to Reduce Costs

- Lean
- Six Sigma
- Design For Manufacturability
- Supplier Development
- Business Process Improvement

**Do It Right!**

# The Final Decision

- Accurate Financial Analysis
  - Add 05-10 %
  - Resource Availability