Do You Know Your Total Cost?

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Manufacturing professionals are all aware of the dramatic shifts that the industry has taken in the last few decades. Whether it's moving production to Mexico or China, most of the manufacturing sector has dealt with off-shoring in one way or another. As the world economies shift, however, what made business sense two decades ago may now be an expensive and logistically-complex endeavor.

With these new business factors in mind, more companies are looking for alternative solutions to their manufacturing and supply chain assets around the globe. As this trend continues, two issues have emerged as the primary reagents for these changes: the desire to be closer to the customer, and the need for more complex analyses of the total cost of production.

Accenture is a global consultancy committed to bringing its clients business innovation since 1989, particularly in today's global economy. In order to better gauge the landscape of modern manufacturing, Accenture conducted a large survey across manufacturers of all sizes in order discover the issues they struggle with most often. Their results, titled *Manufacturing's Secret Shift: Gaining Competitive Advantage by Getting Closer to the Customer*, provides more proof that companies of all sizes need to take advantage of the changing markets by doing more thorough analysis of their total costs.

Years ago, countless manufacturers moved their assets overseas in the effort to reduce their costs, particularly in terms of labor. As times have changed, so have their priorities. Small issues have ballooned over the years into logistical nightmares that continue to cost American companies money. According to Accenture's survey (**Figure 1**), 49 percent of manufacturers with off-shored assets are struggling with the cycle/delivery times of their products, and 46 percent have issues with product quality.

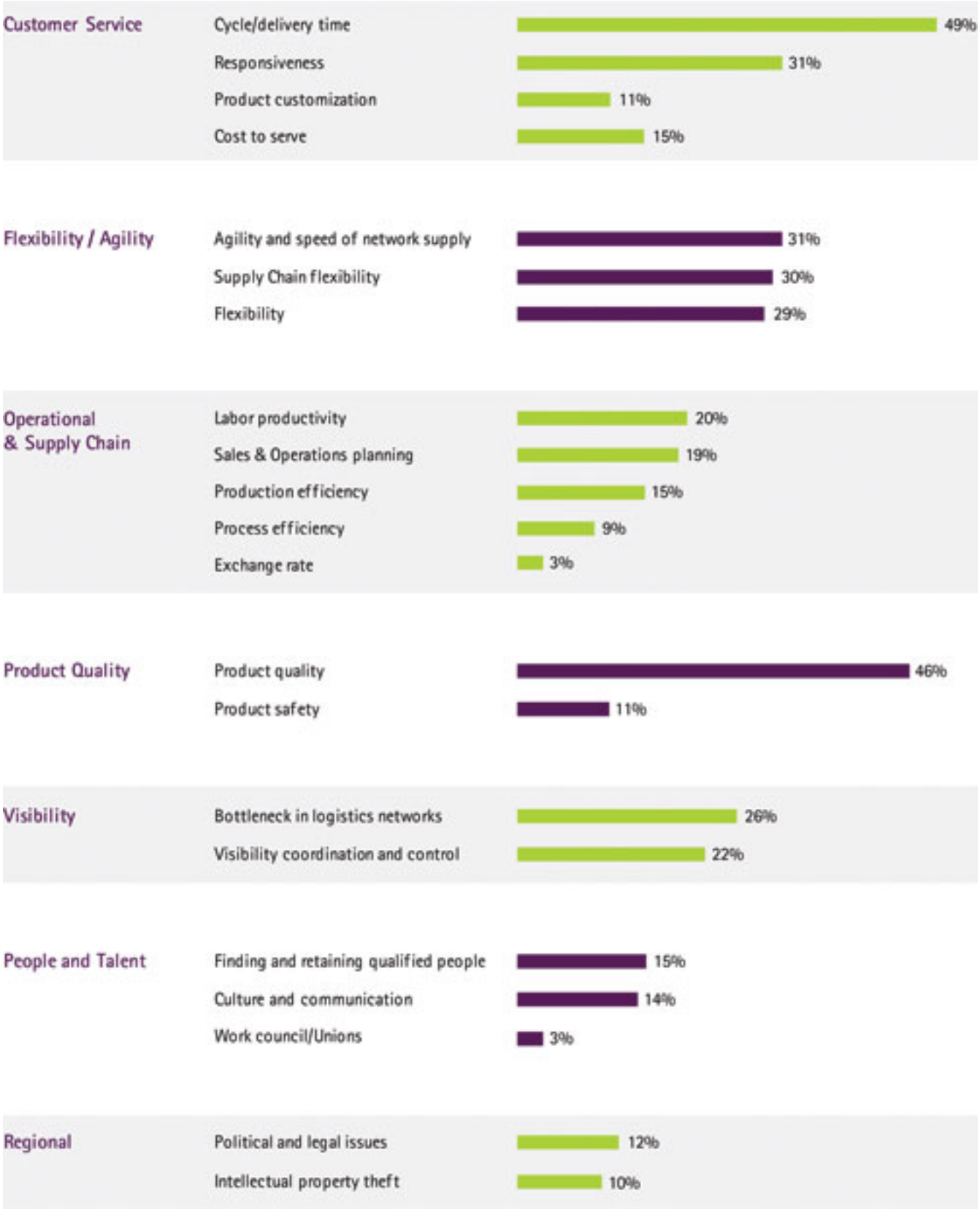

Figure 1. The issues North American manufacturers face from off-shored manufacturing and supply operations.

Rising costs are also hurting manufacturers with off-shored assets. 73 percent (**Figure 2**) of survey respondents have seen a significant increase in the price of components, and 57 percent have struggled with rising logistics prices, which

include significantly higher energy costs required to ship goods long distances to reach the customer. 36 percent of respondents are dealing with rising administrative costs, likely due to the complexity of solving workplace, machinery, and production line issues with little to no oversight, not to mention a considerable time difference.

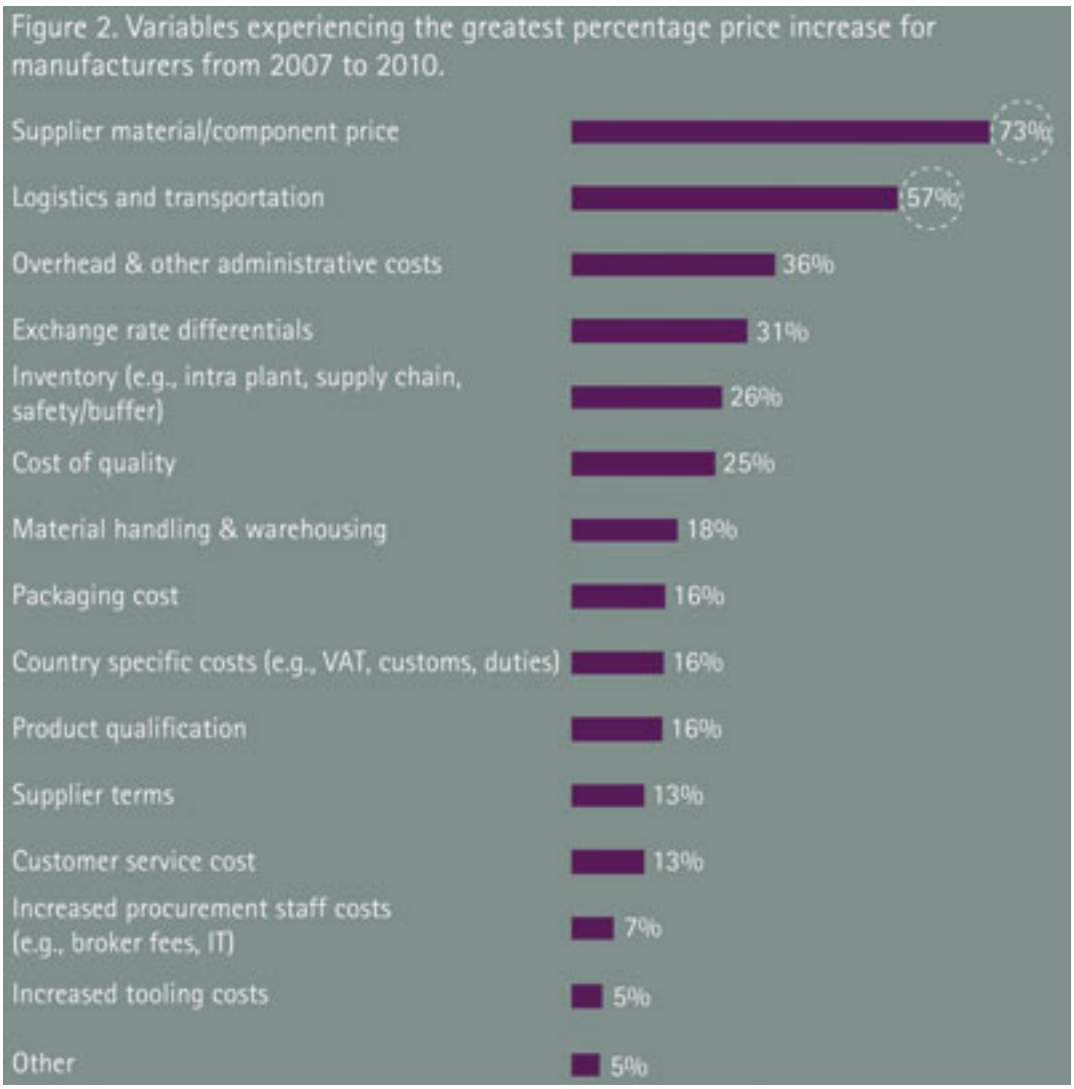

Figure 2. Variables experiencing the greatest percentage price increase for manufacturers from 2007 to 2010.

Larry Oglesby, the senior executive responsible for Process & Innovation Performance in Accenture's North American division, says these issues are not surprising: "Manufacturing is a challenging profession, so any time you create distance from the people trying to manage a process, you're going to have some quality challenges. And that would happen regardless of where the oversight and the manufacturing are happening."

In the end, any major business decision must be made using an accurate and comprehensive total cost analysis. However, many companies have been misrepresenting and miscalculating the overall costs, in ways that eventually damage the business' viability. According to Accenture, many manufacturers overlooked that off-shoring creates many costs that are not applicable to manufacturing itself, but rather the overall enterprise.

The Accenture survey (**Figure 3**) shows that many companies have focused primarily on direct costs when doing a total cost analysis, which skewed the accuracy of their results. Other factors — such as supply chain, operational, or financial costs — were often forgotten. According to Accenture, many of the past decisions to off-shore were made with flawed data. Because of rapidly-changing market conditions, these flaws have been exasperated with unseen volatility.

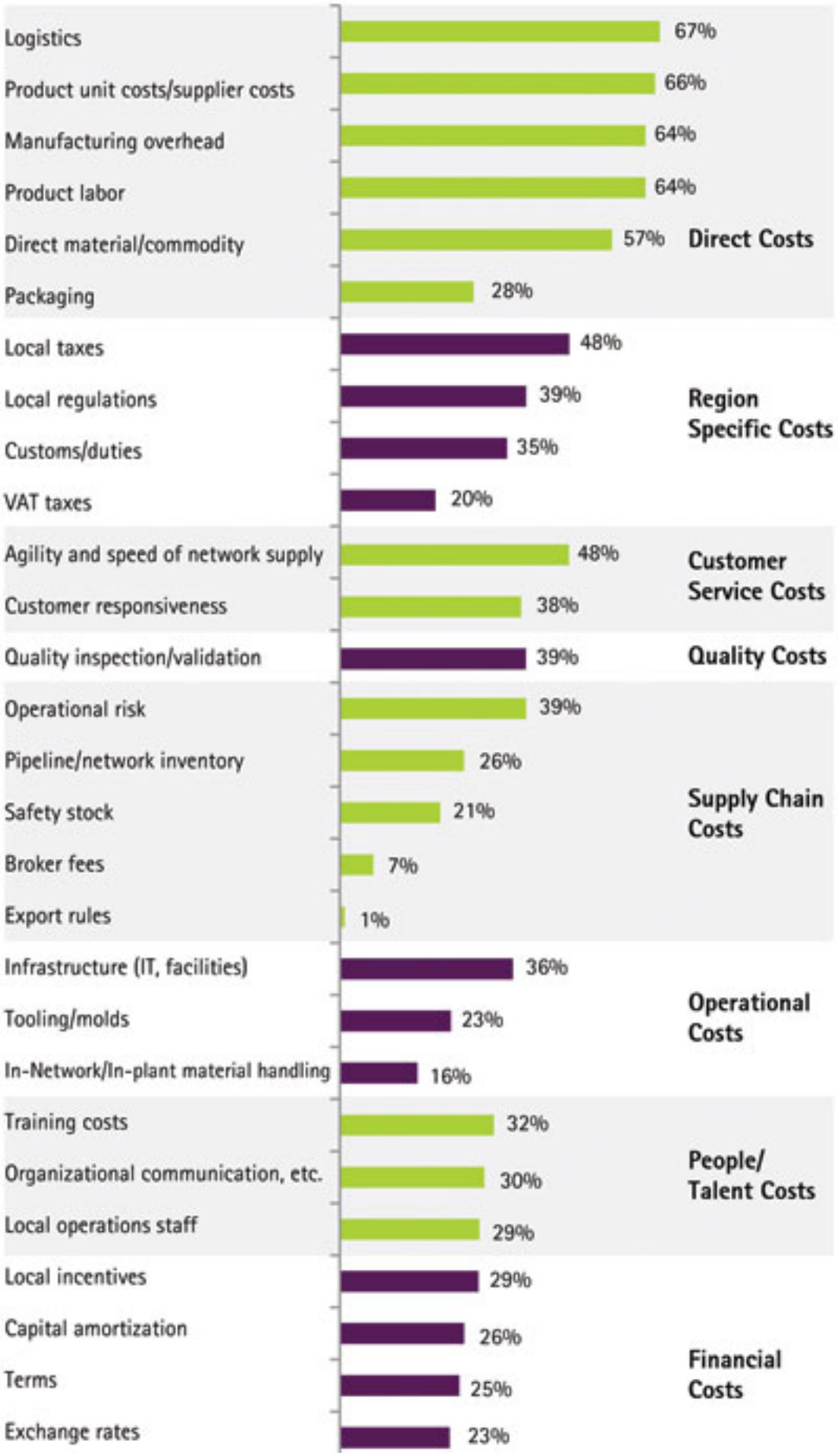

Figure 3. Percentage of companies incorporating the wide range of variables into their total cost analyses.

In order to keep up with these rapidly changing conditions, 61 percent of respondents reported that they were considering matching supply location with demand location by either on- or near-shoring manufacturing assets. The same number (**Figure 4**) also said they would move forward with more comprehensive total cost analyses, and 45 percent claimed they would create a comprehensive manufacturing and supply strategy.

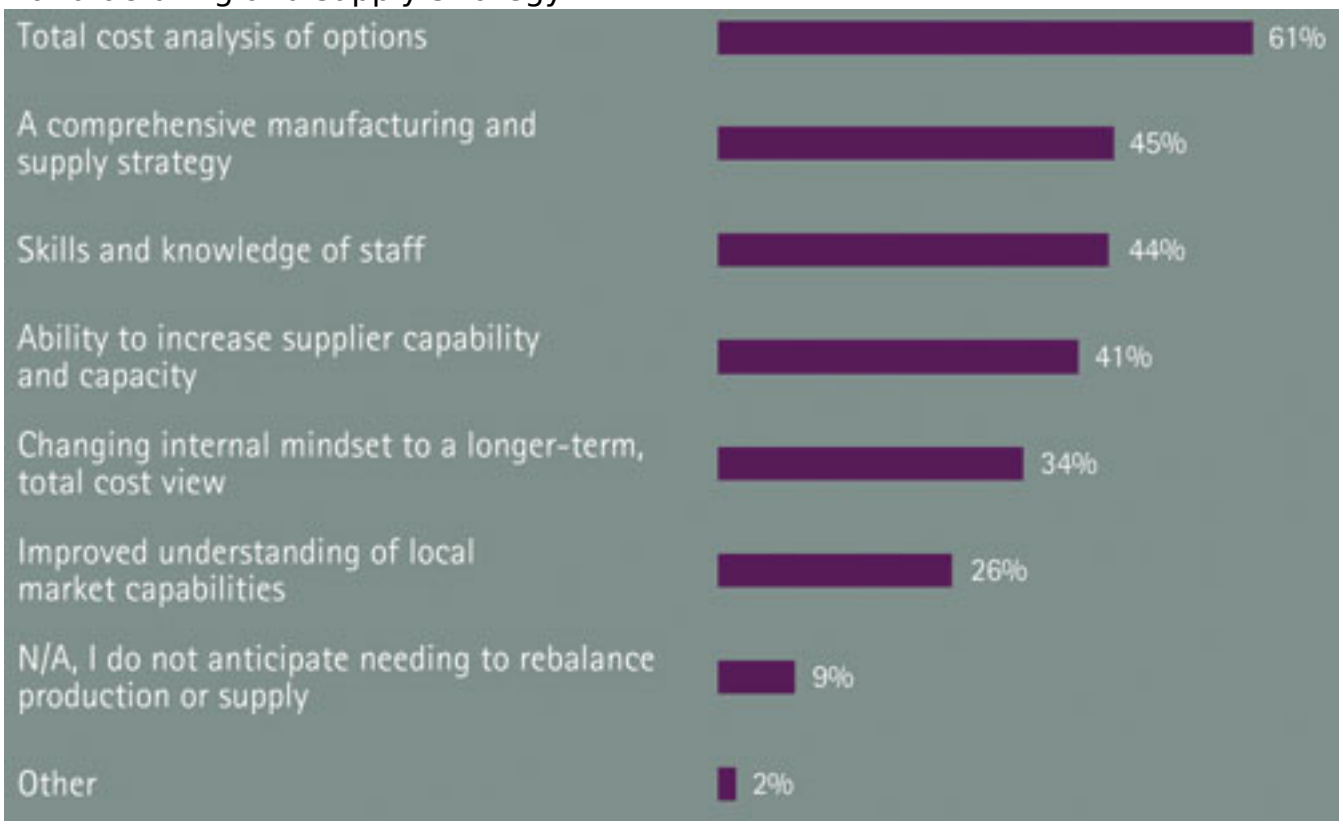

Figure 4. Capabilities companies believe are most needed to rebalance manufacturing and supply networks.

Oglesby thinks that despite past mistakes, companies are improving their decision-making processes constantly. He says, “I think that globally, we talk about the multi-polar world, and what we find is that companies are quick to learn the latest lesson. We think that their pace of learning gets faster and faster.”

In order to combat these changes in the global business environment, more manufacturers are looking to realign their supply chains and manufacturing operations for increased oversight and less complex logistical networks. Any near- or re-shoring efforts aren’t without their own unique concerns, as manufacturers are discovering. 74 percent of respondents said that labor costs were “most important” to their process in selecting a location for new operations. 67 percent cited a concern for the proximity — or lack thereof — between manufacturing and the customer, while 61 percent sought more skilled employees.

The collision of these variables would seem to spell unfortunate news to any re-shoring efforts, but Oglesby disagrees. He says, “I think people are always trying to bring their supply chains down to where they can reduce their risk, reduce their cycle time, and bring their total costs down. What we’re seeing in today’s

environment — and that's being interpreted by our survey — is focusing on driving to the customer. I think we'll see that trend continuing."

Furthermore, the changing landscape is swinging back in the U.S.'s favor. Oglesby explains, "If you've looked at when people have made decisions to offshore in the past, labor costs were a predominant factor in that equation. If we look at what's trending up — transportation, energy, and exchange rates — they are all moving in a negative direction for off-shoring, and it's swinging back this way."

In addition, the American worker is highly-skilled and flexible, which can aid manufacturers in continuous advancement efforts. While every company has to make the correct cost decisions for their business, Oglesby says, "I'm proud of the amazingly robust workforce we do have in America. I think that regardless of what changes have come to the American landscape, we've rose to meet them."

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To see the whole survey, visit www.accenture.com *[1]*.

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