Globalization Survey 2005

"Globalization" is an imprecise term.

Globalization can be active; a US manufacturer of 1000+ employees, that purchases raw material or components from Asia, and has assembly plants in both Mexico and Germany, is certainly globalized. So too is the 100-person contract manufacturer with no plans to expand overseas, but who has found new sales opportunities in Western Europe.

Globalization can also be more passive, and those who haven't gone global are certainly not immune to its effect—case in point, the wood product manufacturer who simply cannot obtain enough raw materials, or must pay higher premiums, as its steadiest suppliers ship more of their product to Europe.

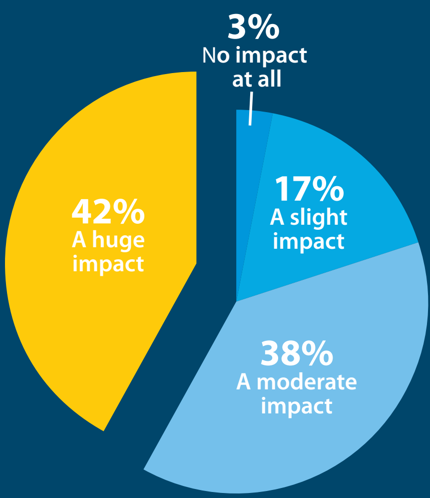
One soap manufacturer summed up many of the challenges and adaptations necessary in globalization. The company has downsized, finding it impossible to compete with overseas pricing, particularly with a unionized US operation. Still the company must survive, and relocated some of its production to Asia. It sees offshoring to lower-cost economies as one of its priorities—grudgingly. It also sees optimizing its IT infrastructure as a second priority, with an emphasis on the production and logistics backbone in ERP and WMS.

These are three of the 174 US manufacturers who responded to *The Manufacturer's* Globalization Survey 2005. It became clear as we tallied the results that no company is immune to the effects of globalization—with many experiencing shrinking profit margins due to global competition, which necessitates tough business decisions like offshoring and downsizing.

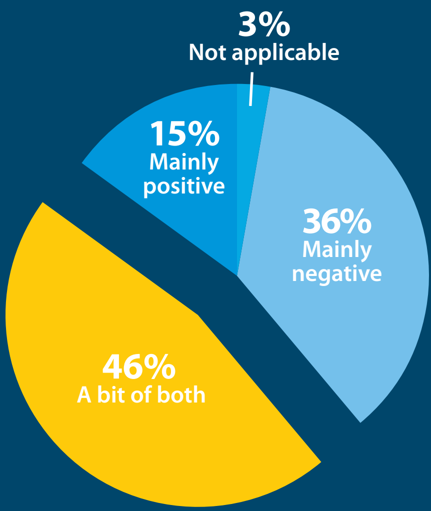
Export growth and downsizing are the two most significant benchmarks at the extremes of success and failure. Those companies that claim a positive experience from globalization are immune to none of the pressures—they too have seen profit margins shrink, and lead times lengthen from offshore suppliers. Most saw growth through globalization, but none was forced to downsize.

If our respondents feel the pinch of globalization, they are also enjoying its opportunities. They are adapting to shrinking profit margins with leaner operations, by strengthening their IT backbones with enterprise systems of high integration and visibility, and functions aimed at higher quality and superior delivery.

How much impact has globalization had on your business?

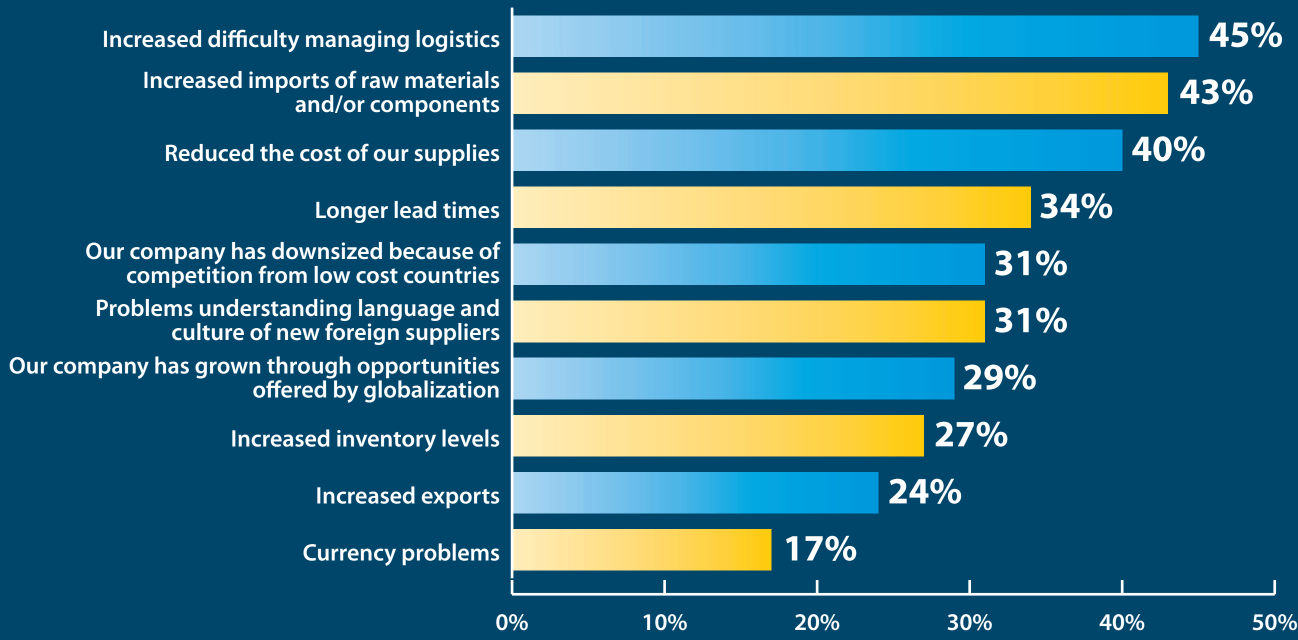


Has the overall impact of globalization been positive or negative?



Almost all of our respondents observed some impact from globalization, with 42 percent claiming a huge impact on their operations. The reviews are mixed, with 46 per cent reporting both positive and negative effects and 36 percent claiming mainly negative—thus, 82 percent report some negative experience, and only 15 percent see the effects as mainly positive.

What effects has globalization had on your business?



Managing logistics in a global marketplace is the leading cause of frustration for US manufacturers. Globalization, at its smoothest, complicates the supply chain exponentially. A US company ordering from a supplier in Wisconsin can have its order in days with no trade restrictions, tariffs, language barriers, currency problems, or regional complexities on, for example, transport of hazardous material.

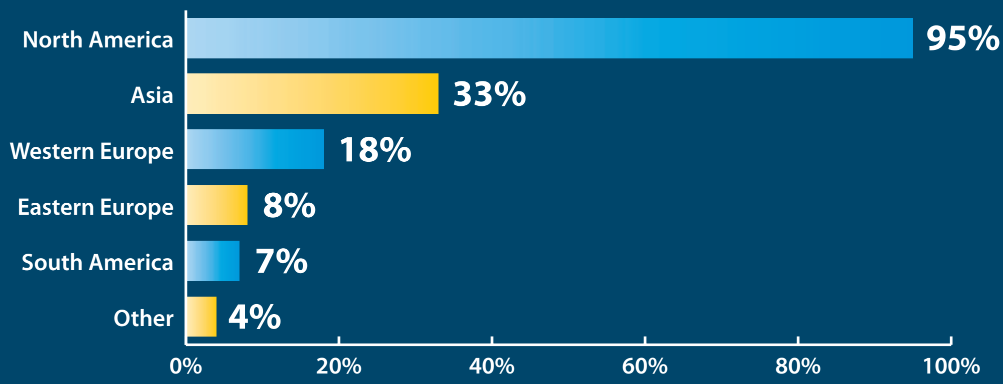
Interestingly however, although 45 percent admitted that logistics was a headache, only a third experienced longer lead times, indicating that a good number were managing their logistical problems pretty well. A natural consequence, however, would be increased inventory levels, experienced by over a quarter of respondents.

Almost a third of respondents reported problems understanding the language and culture of new foreign suppliers. English is simply not as universal a language as American companies would surmise, and methods of conducting business vary widely in different countries. It's easy to ruin a deal with an innocent remark that may be polite in one country but insulting in another.

The number of respondents who have downsized because of competition from low-cost countries is also almost a third. Very few of those have seen revenue growth or greater global opportunity, and one of the few who did described it as a "dichotomy." Still others found themselves closing domestic plants, and relocating production to "questionable overseas locations" with mixed production and quality results.

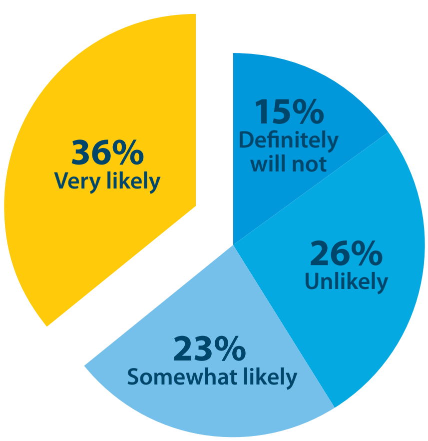
Currency problems troubled 17 percent of our respondents. One in the primary metal industry complained that exporting raw material to China had increased cost, arguing that China is undervaluing its currency, ostensibly to give itself an unfair trade advantage (a complaint with which the U.S. Congress agrees, and is in active negotiations with China to stem).

In which areas of the world do you currently manufacture?



Have you moved any of your manufacturing operations to a low cost country in the last two years?

How likely is it that you will move some of your manufacturing operations to a low cost economy in the next two years?



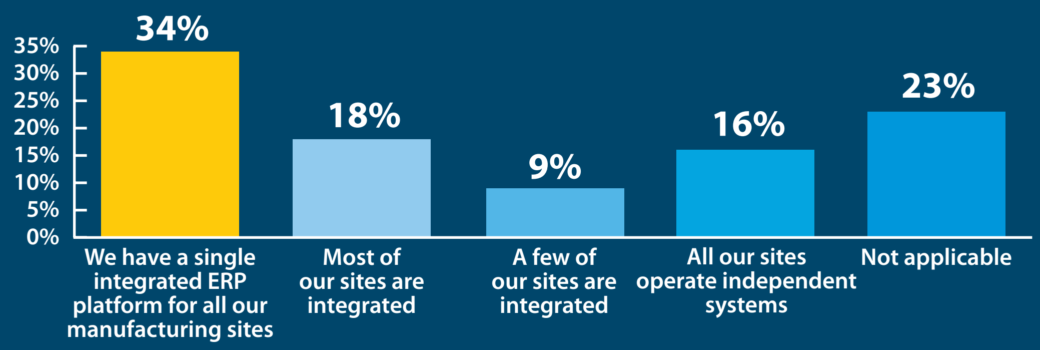
Over half of respondents have moved some of their manufacturing to lower-cost economies in the last few years, with almost 60 percent saying they are somewhat or very likely to do so in the next two years. Of those who already manufacture abroad, Asia topped the list of locations at a third, with Western Europe a distant second at 18 percent.

Surprisingly, of those respondents who felt positively about globalization, few manufacture outside the US—rather, their positive experience is from reduced supply costs and greater sales opportunities. About half of the 36 percent who reported a negative impact have offshore production facilities.

Those in the "mixed bag" category lead the way in offshore production, with about two thirds having relocated production offshore or planning to do so. Thus they have seen both the profit and problems of offshoring in full.

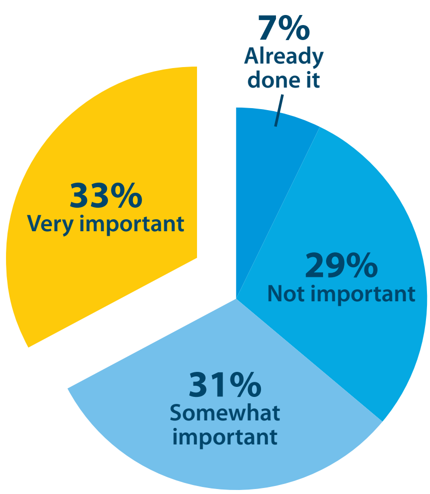
A good many who have relocated production did so as a grudging "survival measure." For example, a rubber and plastics product manufacturer claimed to be forced by OEMs and tier 1 customers to make offshore alliances that it would not have otherwise, while an industrial machinery maker felt compelled to relocate much of its production to a Latin American location, where the company feels less in control of quality and throughput.

What is the status of your ERP system?



Are you considering an ERP software system or replacement in the next six months?

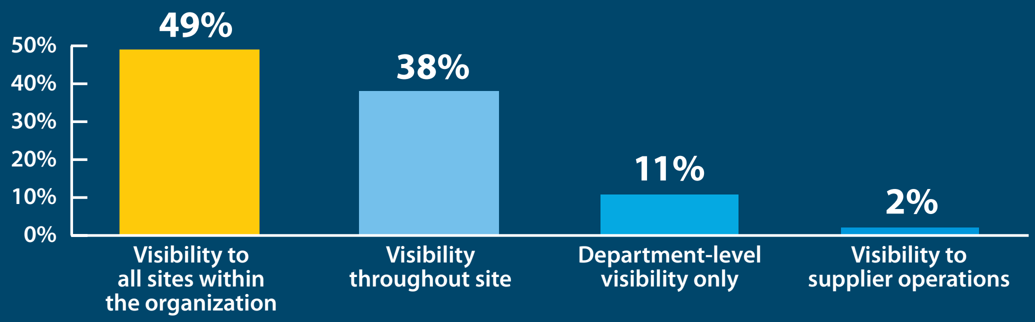
How important a priority is the integration of your corporate ERP system?



While almost a quarter of respondents have no ERP and 29 percent see its integration as unimportant, analysis reveals that these tend to be smaller companies with fewer than 250 employees. Those companies with a working system in place favor a single system to cover all sites. They also tend to have a higher visibility, proportionally, than those companies with independent systems at each site. As the employee count rises, so too do ERP integration and visibility as priorities. Those companies who claim the highest integration and visibility are overwhelmingly comprised of 500+ head counts.

Nearly two thirds of respondents reported that integration of their corporate ERP system was either quite or very important, and over one third are considering the purchase of a new system in the next six months.

What degree of visibility do you have in your enterprise?

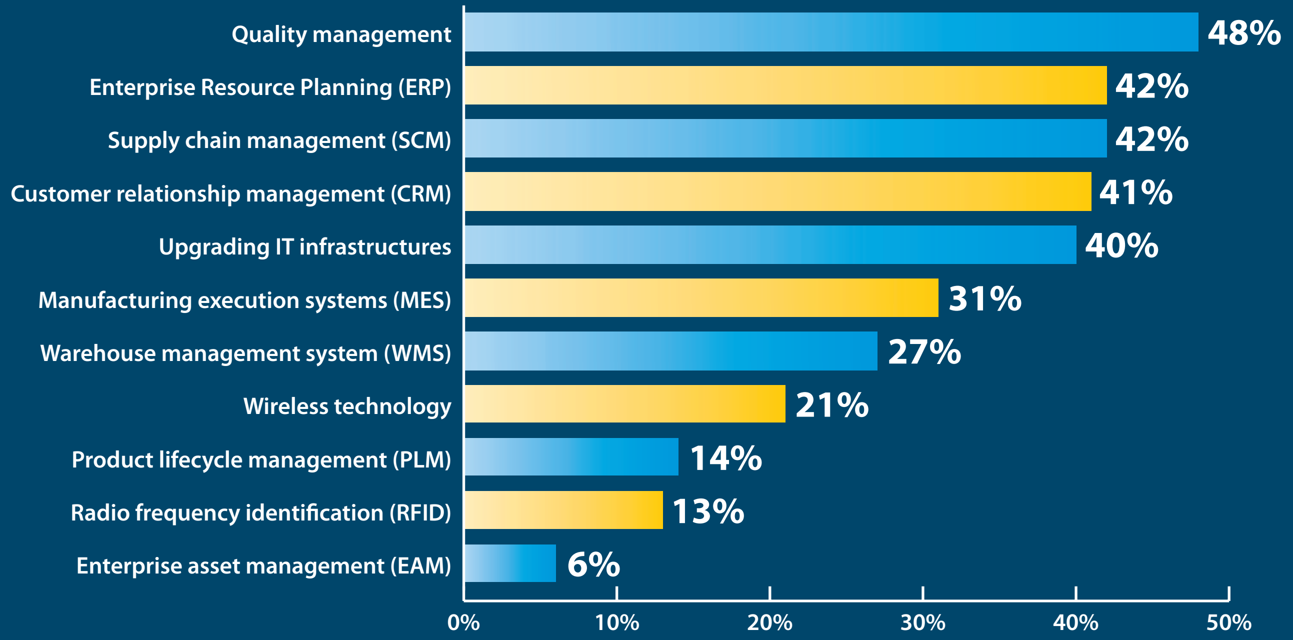


Comparing the positive-, mixed-bag and negative-impact categories, some striking differences arise. Of those that enjoyed the most positive experience of globalization (our now famous 15 percent), practically all claim visibility to all sites within their organizations. Those with a mixed or negative experience have, overall, lesser visibility, either within their four walls or at the department level, only.

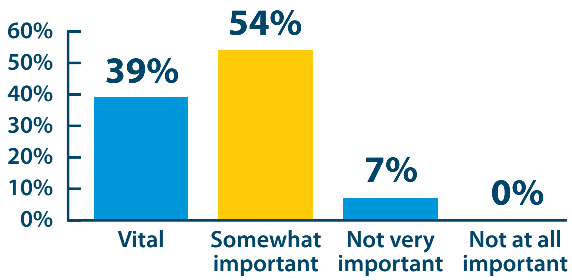
We can conclude that enterprise visibility is the sign of proactive, hands-on management, and perhaps, of a "can-do" corporate culture. Visibility enables management by exception, and those companies that more actively manage their supply chains have the more positive experience in global operations.

A surprising fact to emerge from our findings is that only four respondents in total claimed visibility to their supplier organizations.

Which of the following IT and technology based initiatives are currently a high priority within your company?



How important is it for your company to have optimized IT systems to achieve your operational excellence goals?



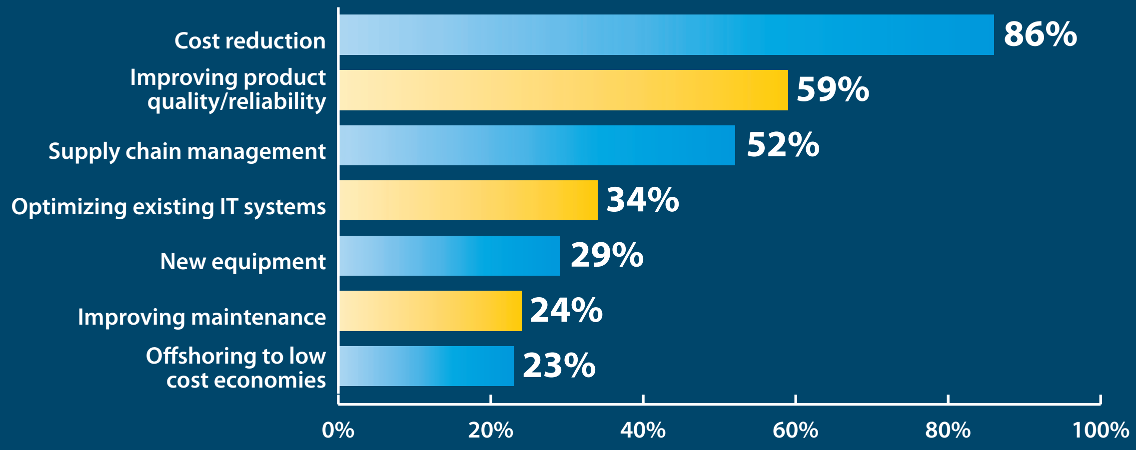
The overwhelming majority of respondents indicated that optimizing their IT was either vital or quite important to them. Quality management systems topped the list of priorities. This closely matches their overall priorities (see next question), where quality was second only to cost reduction.

At first glance, QMS seems an "oddball," as the next six priorities relate directly to the supply chain. However, it seems that quality is still a differentiator and not a "given," as analysts would have it. In fact, several of our respondents complained of lesser quality from both imported goods and their own offshore operations.

The next six priorities are split evenly between strengthening the enterprise infrastructure and optimizing the demand and supply chains. These begin with an ERP backbone and supply chain management, tied at 42 percent, followed by CRM, then upgrading infrastructures, WMS and MES.

The last four priorities are the more closed-loop technologies of product lifecycle management (PLM), radio frequency identification (RFID), wireless enablement and enterprise asset management. All of course connect to the enterprise backbone, which is why ERP is the second-highest IT priority.

Which of the following are key priorities for your business?



The key business priorities, like the IT priorities, reflect strongly the influence and pressure of globalization, and the competitive spirit of US manufacturers. In all three categories of respondent—positive, negative, and mixed-bag—cost reduction was the top priority. This is likely an indicator that those manufacturers are struggling to recoup from shrinking profit margins. Cost reduction also drives the seventh priority of offshoring to low-cost economies.

The fact that product quality/reliability is a high priority—the second highest—underscores that quality is not a "given." One respondent in fact pulled back its Latin American manufacturing operation after a few years of unsolvable quality problems. If US marketers cannot compete on price, they can compete aggressively on quality and reliability.

Supply chain management is both the second highest IT priority and third highest business priority. US customers value delivery, and whatever charms the Asian, European or Latin American manufacturing sectors may have, they cannot compete on delivery. US manufacturers may find their customers willing to pay premiums for both quality and more rapid delivery.

From the priority of optimizing existing IT systems, it seems clear that US manufacturers recognize that technology is key to competition, but at the same time, want to squeeze the highest performance out of their existing assets.

Conclusion

Globalization is unavoidable, but manufacturers can, and do, have influence over its impact. No manufacturer is immune to downward pressure on pricing, but manufacturers are competing through superior quality and delivery, and taking up the challenge by increasing exports.

Success or failure boils down to two very clear benchmarks—sales growth, and downsizing. Manufacturers can influence both those benchmarks by being proactive rather than reactive. Those who take the highest advantage of globalization adapt rather than fight. They take advantage of, for example, low-cost suppliers, and lower-cost labor and new market opportunities.

Yes, globalization strains the enterprise and its infrastructure, even at the most successful manufacturers. They manage their supply chains actively, through leaner operations and driving down costs. And they make demand and supply chain technology and infrastructure a corporate priority.