



The state of the global *supply chain* and its impact on site selection

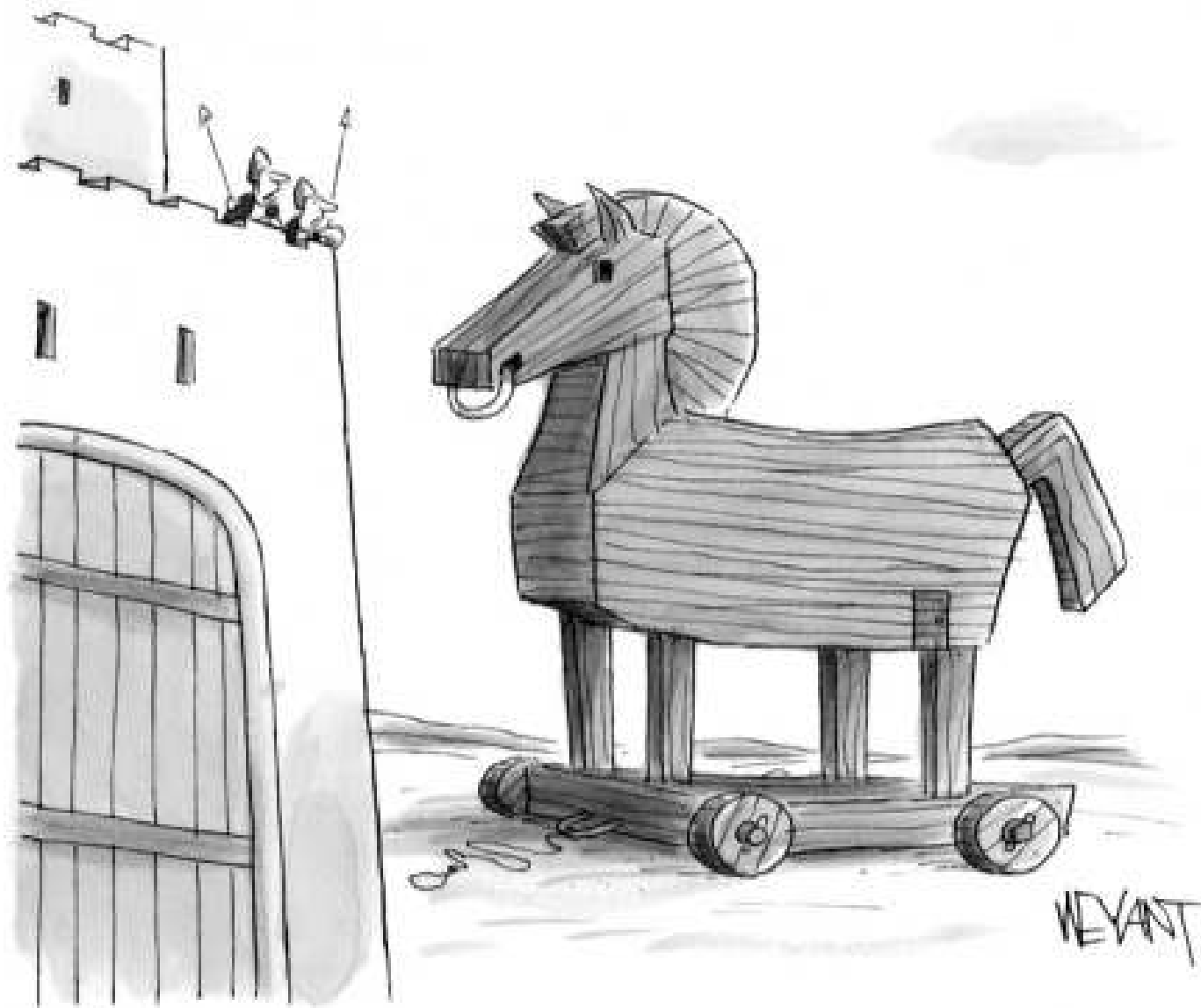
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Real value in a changing world



Chicago - December 5, 2011

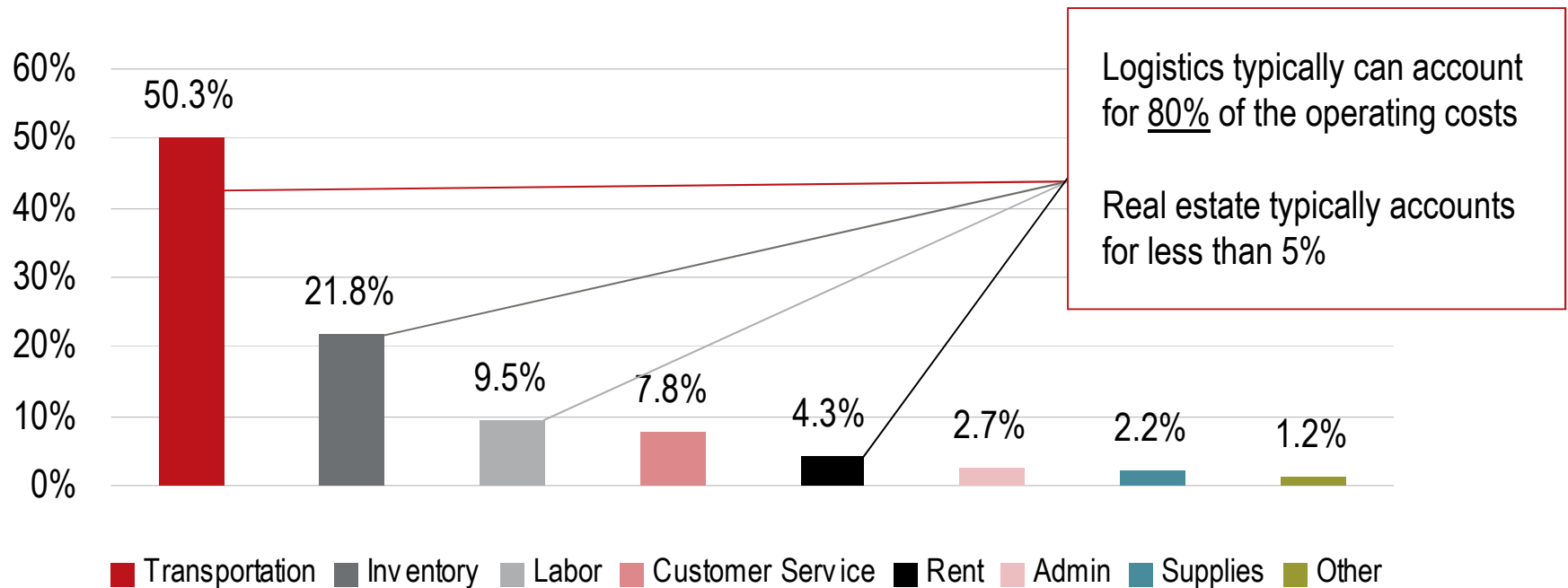


"How do we know it's not full of consultants?"

Questions for you to consider...

1. If freight costs were to go up 25% in the next two years, what would the impact be on a company's supply chain network (e.g., plants, distribution centers)?
2. Will China continue to be the dominate country from a manufacturing perspective?
3. What factors do companies consider when making manufacturing site selection decisions?
4. How can / should you position your own market to attract new businesses?

Corporations make site selection decisions will analyze and model the *total operating cost* picture



Source: Exchange Inc.: Logistics Cost & Service Report

How about U.S. manufacturing competitiveness?

- Many believe that the United States has *lost* its edge in manufacturing... Myth or Reality??
- Perception is that almost everything is made overseas these days

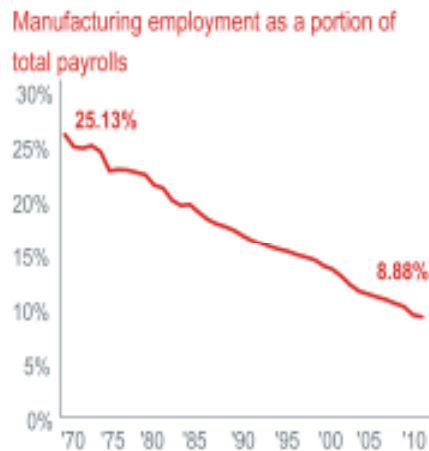
Much of this is true:

- The number of manufacturing jobs in the United States has been steadily declining over the past 40 years.
- Manufacturing employment in the United States has decreased from 25 percent in 1970 to just 8 percent today.

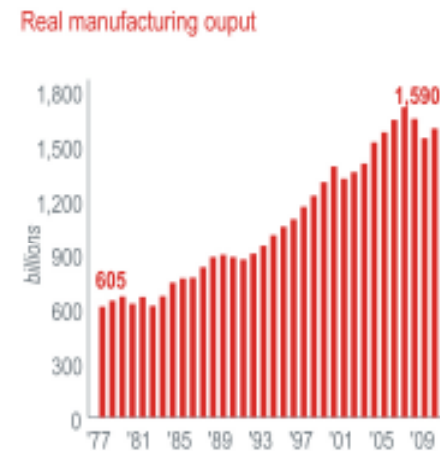
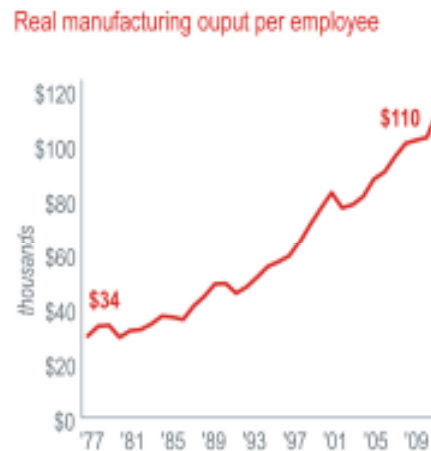


There is more to the story . . .

- It is insufficient to judge manufacturing strength solely by job count.
- The U.S. has not lost its manufacturing edge; the advent of global competition and emerging market competitors has *sharpened* it.
- The U.S. remains the world's #1 manufacturing economy producing 21 percent of all goods globally. *Productivity is at an all time peak.*
 - Manufacturing output—as measured per employee—is up by 70% since 1977
 - What took 1,000 workers to do in 1960, 184 workers can do now.



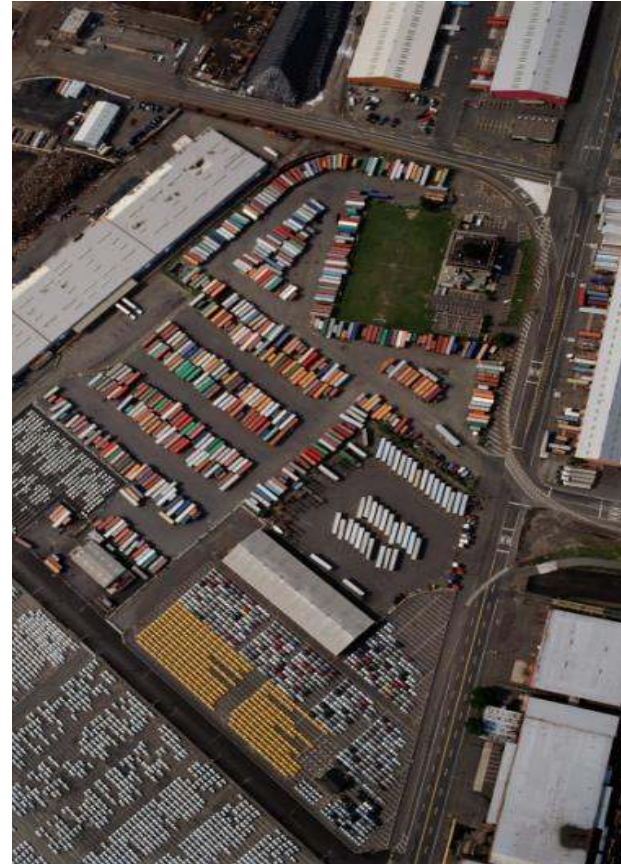
Source: Jones Lang LaSalle Research



Companies take a fact-based approach to manufacturing/sourcing site selection decisions

Six factors to consider when thinking about the competitiveness of your own market:

1. Total delivered costs
2. Supply chain infrastructure
3. Work force profile, availability and wage rates
4. Proximity to customers and suppliers
5. Business, tax and economic incentives
6. Risk mitigation



1. Total delivered costs

- Cost to source materials and components, direct labor and overhead, and freight cost
- Increasing freight costs are beginning to offset the savings from cheaper labor
- The higher the cost of transportation, the more significant the freight “penalty” becomes to ship over greater distances
- Within five years, “the cost gap between the U.S. and China will virtually close”

-- Boston Consulting Group study (August 2011)



2. Supply chain infrastructure

- The United States has one of the best supply chain infrastructures in the world:
 - Ocean accessibility with many large and expanding seaports
 - Interior lakes and navigable rivers
 - Extensive rail and highway network
 - Many of the world's largest cargo airports
- The United States now faces an aging supply chain infrastructure, but investments are forthcoming in both the public (Obama's \$640B plan) and private sectors (BNSF \$3.5B)
- U.S. ports investing heavily in anticipation of Panama Canal expansion which will accommodate the larger "post-Panamax" vessels



3. Work force availability and labor rates

- The United States-China wage gap has begun to close
- From 2002 to 2006, total manufacturing wages in China rose nearly 70 percent
- Chinese wages rising an average of 15-20% per year due to demand/supply imbalance for skilled labor
- Labor costs are one of the biggest “cost buckets” and an important variable in site selection decisions



4. Proximity to customers and suppliers

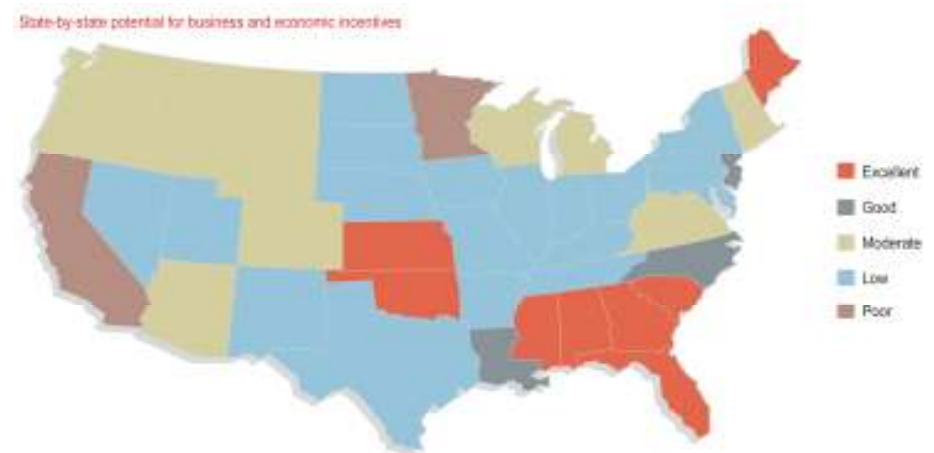
- All things equal, the closer you are the better:
 - Improves speed to market and customer service levels
 - Reduces complexity and risk
 - Shrinks inventory levels
 - Lowers freight costs
- A *majority* of U.S. manufacturing executives considering repatriating manufacturing back to the United States or “near shoring” (e.g., Canada, Mexico)

“Now that oil and transportation prices have gone up, productivity gains are not as big as they were, and there are issues around risk in supply chains, companies are starting to go where the customers are”

-- Accenture Consulting (2011 study)

5. Business, tax and economic incentives

- Incentives can come in many different forms -- cash grants, tax credits, training incentives
- Many states providing significant incentives to allure job-providing manufacturers, especially in the south east
- Incentives are a competitive weapon. Use them proactively to offset known weaknesses, not simply as icing



6. Risk mitigation

- Risk mitigation considerations are becoming increasingly more important
- Risk management is critical in assessing and making location decisions related to manufacturing/sourcing
- Companies will stay away from putting all their eggs in one basket and diversify
- How best market your state from a risk mitigation perspective?



In conclusion

- U.S. manufacturing is a critically important aspect of the nation's future
- Taking all factors into consideration, the United States will increasingly look more attractive
- Many factors to compete on including labor, freight, real estate, tax and incentives as well as risk management considerations
- How does your market stack up with the competition on each of the above?
- The Midwest is a great market with a lot of attractiveness... market your strengths!

