

Androschin & Partner

Optimizing your global manufacturing footprint: Take the crisis as an opportunity

Global manufacturing footprint optimization is a topic that comes up again and again. Most machine and plant engineering companies have adjusted their footprint in recent years – but some have seen their progress on this front impeded by very good capacity utilization at their main plants, limited availability of personnel or risk considerations. The current crisis opens up new opportunities, but they'll need to be grasped fast.

Companies have several goals in mind when they take steps to optimize their global manufacturing footprint. Among other things, they want to reduce manufacturing costs, develop and manufacture products close to their customers/market to ensure they are geared to local needs, avoid (anticipated future) tariff barriers, achieve short delivery times or avoid risks (e.g. of producing in just one country or one site). The current crisis makes it clear that the importance of logistics in optimization considerations has been wildly underestimated to date – particularly as regards the transportation of fabricated materials and end products, as well as employee travel.

It's a similar story with the supply of input materials and components (as well as ensuring security of supply) and the use of local production plants to supply local markets. Evidently, manufacturers are going to have to place much more emphasis on back-up solutions (like having self-contained supply chains within the local regions) and such aspects will need to be given higher priority in risk management considerations. So from an optimization perspective, it would now seem sensible to be operating discrete production plants with supply chains that are relatively independent of each other.

We are currently seeing different markets being overtaken by extraordinary events and extreme measures one after the other – and simultaneously being increasingly cut off from one another. This is exactly the kind of situation in which the importance of local production plants becomes apparent. Take those in China, for example: They are benefiting precisely from the fact that domestic demand is picking up strongly after the slump and much of this demand can be met from production plants operating locally.

In the case of plants that have either been shuttered or are running idle because

the order backlog is being run down and the project pipeline is shrinking, it's very relevant to ask whether they will actually be needed in their present form in the future. Or in other words, whether they should still be an integral part of the company's global manufacturing footprint going forward.

Such plants are often works that have had a question mark over them in the company's strategic planning for a long time anyway, or about which there have been at least theoretical discussions on changing their size and scope. The fact that these thoughts haven't yet been put into practice and realized may be down to a plant's very good capacity utilization or the risk considerations mentioned above. In the current crisis these reasons sadly no longer apply.

There are basically two alternatives on the table: The first is to put the status quo into a kind of hibernation, at least partially (implementing short-time work on a massive scale, temporarily closing sites). The second alternative takes courage but also offers considerable opportunities: Define and implement the future target state now, while the crisis is still ongoing – with significantly lower risk, for example because plants are currently operating at such low levels. We recommend this second alternative.

What to do:

- Develop scenarios for the medium/long-term business plan (by product groups, customer industries and regions); include assumptions on the possible development of key customer industries and regions (also in various scenarios). This point is very important, because you can assume that almost all of your previous forecasts no longer apply and that there will be a very large variance in how key customer industries such as aviation, automotive or food processing develop after the crisis
- Map the implications of the scenarios onto your (ideal) global manufacturing footprint; analyze gaps to the status quo; derive any need for action
- Define appropriate optimization criteria (including lessons learned from the crisis, such as the back-up structures required)
- Determine the new global manufacturing footprint in the target state; develop measures for how to get from status quo to target state, also taking into account short-term effects, such as those resulting from the (enforced) shuttering of sites

Androschin & Partner regularly supports clients in the machine and plant engineering industry in optimizing their global manufacturing footprint. We have conducted projects in segments such as vacuum technology, process technology, packaging machinery, plastics machinery and machine tools.

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Androschin & Partner Management Consulting GmbH was founded by Christian Androschin in 2005 as a boutique consultancy specializing in machine and plant engineering and automation technology. Our focus is on executing strategy projects, developing and implementing value-add concepts, preparing and consulting on acquisitions and mergers, facilitating business integration and providing management coaching.

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