

Competitiveness of French plants

Manufacturing Competitiveness Radar 2012: Going beyond labor cost reductions

WHY PRODUCE A MANUFACTURING COMPETITIVENESS RADAR?

As a top strategy consultancy in all major European sectors, Roland Berger Strategy Consultancy actively supports industry leaders in identifying challenges, uncovering solutions and driving decisive changes in their organizations.

The role of manufacturing in advanced economies is changing. A global economy, along with innovative supply chains and new technologies, require new visions about how to organize and operate manufacturing.

The current survey was conducted between September and October 2012, involving more than 110 top manufacturing managers and representing a broad range of French industry segments.

The survey captured prevailing trends on three hot topics:

- > **Evolution of French manufacturing competitiveness - 2012 results and 2013 outlooks**
- > **Typical profile of competitive and non competitive plants**
- > **Keys levers identified by French manufacturers to increase competitiveness**

We herein present the conclusions and trust you will find them insightful in supporting your manufacturing strategic thinking and decision making.

We would welcome the opportunity to have a more detailed discussion directly with you on any of the issues presented.



RAW MATERIALS, SALES FORCES, LABOR QUALIFICATION AND SUPPLY CHAIN ARE MAJOR ISSUES - NOT ONLY LABOR COSTS

KEY SUBJECTS COVERED BY THE 2012 SURVEY

1. COMPETITIVENESS OUTLOOK
2. COMPETITIVE PLANT PROFILE
3. LABOR AND RAW MATERIAL COSTS
4. KEY FRENCH MANUFACTURING STRENGTHS
5. INNOVATION

TOP EXECUTIVE SUMMARY

75% of respondents consider themselves as competitive and have a positive or stabilized outlook for 2013.

The typical competitive French plant is a larger than average profit center, integrated within a group but addressing a rather local or regional market.

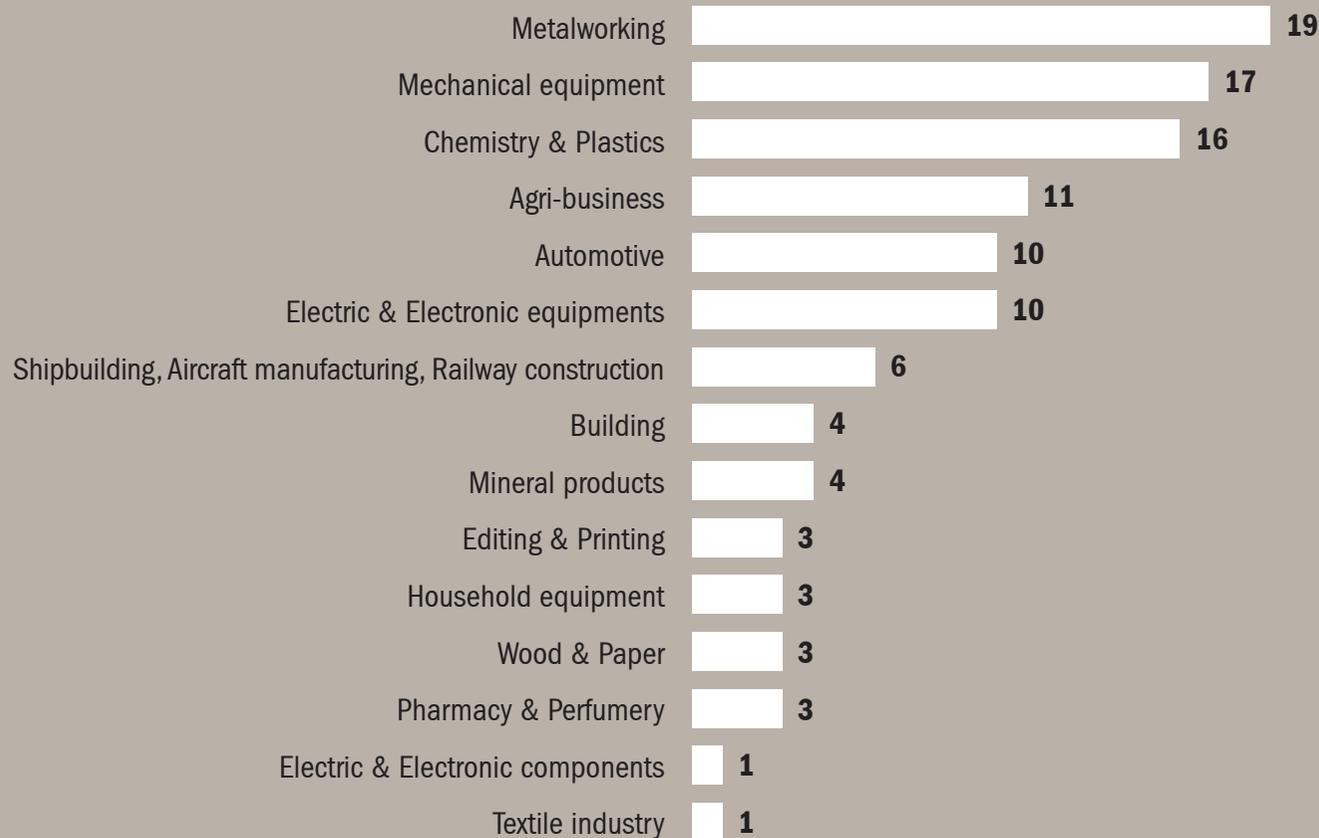
Without surprises, labor costs are, by far, the most critical issue French plants managers are facing. The same applies, but to a lesser extent, to volatile raw material prices. But plant managers also have, on top of their agendas, issues regarding sales force performance, labor qualifications and supply chain.

French plants benefit from efficient industrial processes, optimal plant size and very good public infrastructures.

The most competitive plants clearly have newer portfolio products and are deeper involved in product innovation and portfolio review.

THE 2012 SURVEY RESULTS ARE BASED ON CONTRIBUTIONS FROM FRENCH PLANT MANAGERS ACROSS MANY INDUSTRIES

NUMBER OF RESPONDENTS PER INDUSTRY



SAMPLE PORTRAIT

Survey responses from more than 110 plant managers.

80% of surveyed firms are French, 15% European and 5% International.

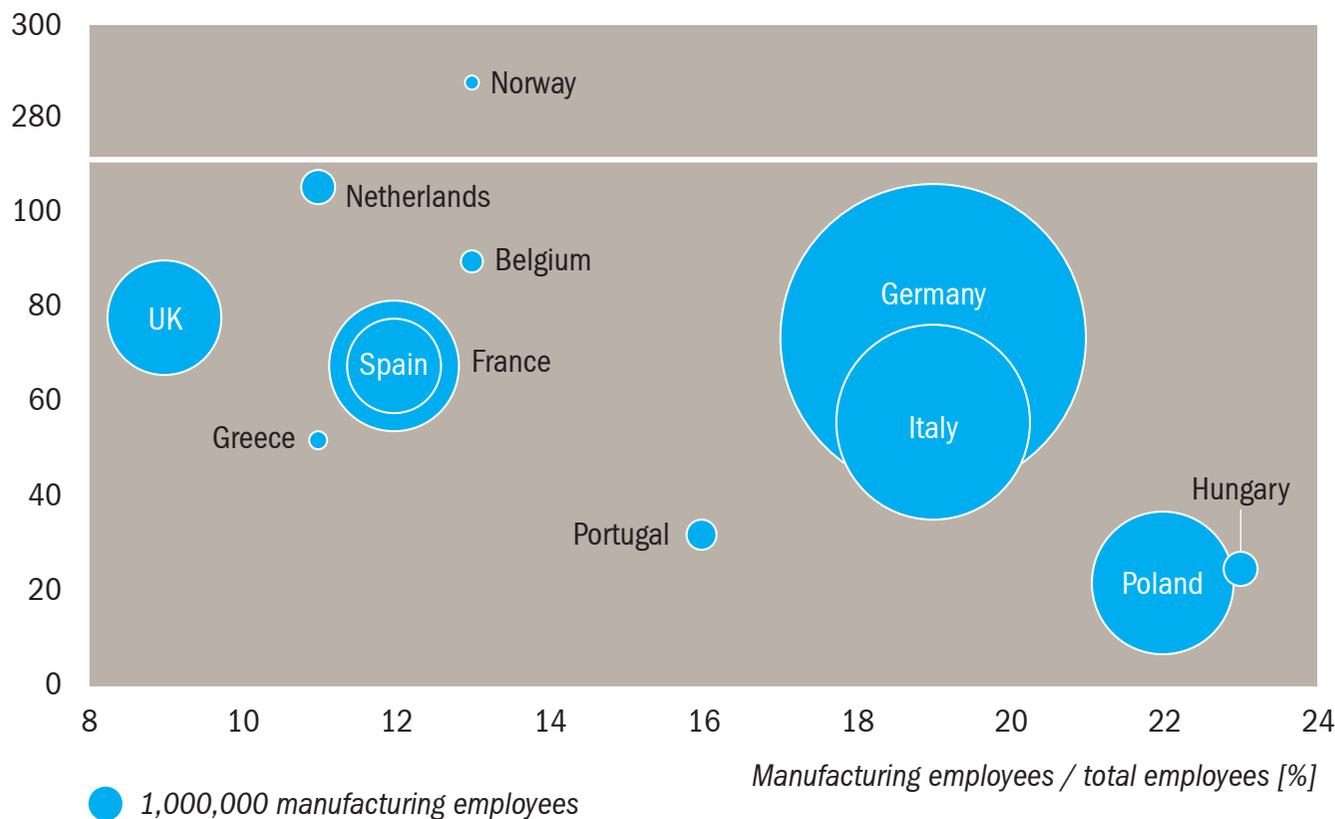
27% of the surveyed plants have more than 250 FTEs, while 37% have less than 100 FTEs.

Most industry segments were covered by the analysis.

FRENCH MANUFACTURING EMPLOYMENT IS BELOW GERMANY, ITALY AND POLAND, AND IS STEADILY DECLINING

MANUFACTURING EMPLOYMENT AND ADDED VALUE IN A SELECTION OF EUROPEAN COUNTRIES [2010]

Added value per manufacturing employee [€]



RATIONALE

In terms of manufacturer weight in total employment, France is ranked 4th in Europe, not only after Germany, but also after Italy and Poland.

France has lost 1.2 million manufacturing jobs between 1991 and 2012. In the meantime, China created 80 millions manufacturing jobs.

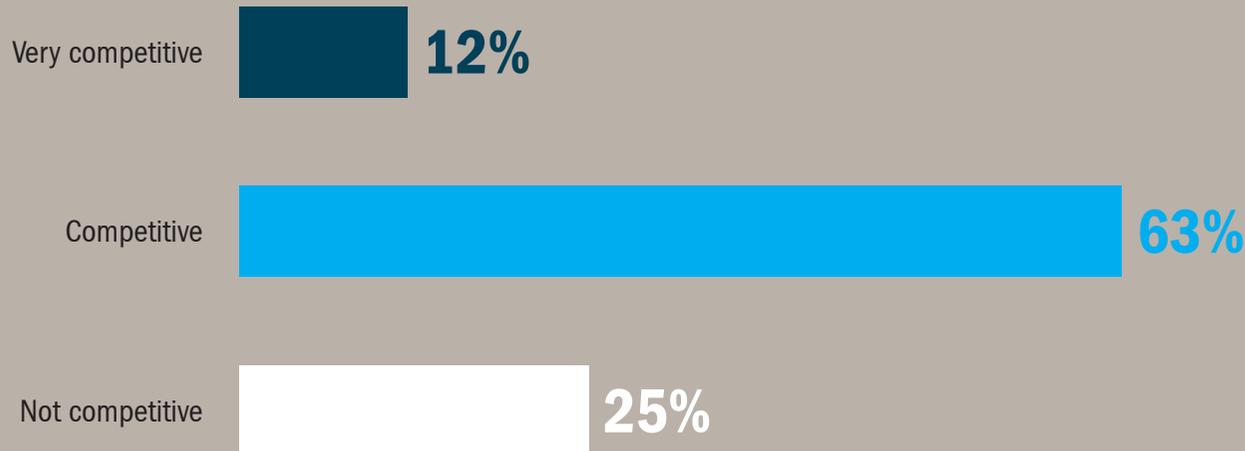
Three factors explain manufacturing jobs decline in economically developed countries:

- > increased productivity, affecting both processes and products (10% factor)
- > professionalization of services such as telecom and travel services, logistics or IT are more and more externalized (and thus not considered as manufacturing employments) (45% factor). The distinction between manufacturing and services is increasingly blurred. And services also increase the demand for manufactured goods.
- > Competition with imported products (45% factor)

Source: Eurostat 2010, Roland Berger Institute, Roland Berger Manufacturing Competitiveness Radar 2012 Survey

A LARGE MAJORITY OF SURVEYED PLANT MANAGERS CONSIDER THEMSELVES COMPETITIVE – 25% ARE SUFFERING

DO YOU CONSIDER YOUR PLANT AS...



RATIONALE

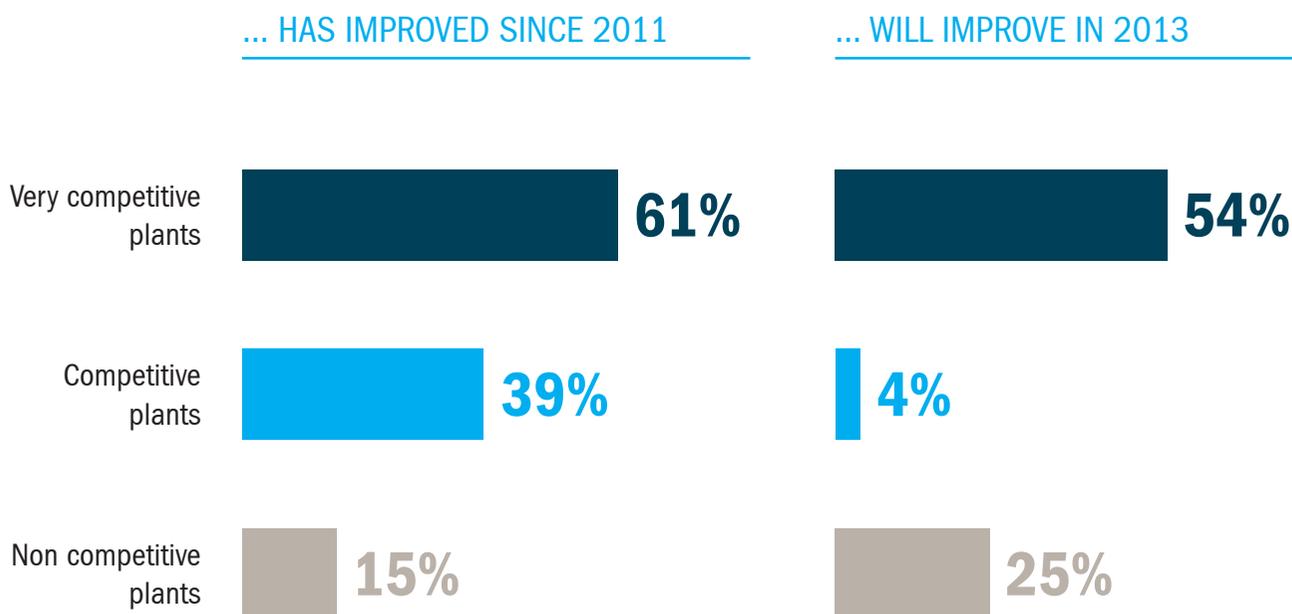
At first glance, a positive result. However, a quarter of plant managers consider themselves insufficiently competitive.

This potentially represents 8,000 plants – and almost 800,000 employees – in dire need of reinforcing quickly their competitiveness.

This number could also be under-estimated since the survey might present a bias towards competitive and very competitive plants, as their managers may spontaneously devote more time to external studies.

COMPETITIVE AND VERY COMPETITIVE PLANTS ARE ON A POSITIVE TREND BUT REMAIN CAUTIOUS ABOUT 2013 OUTLOOKS

% OF RESPONDENTS CONSIDERING THAT THEIR COMPETITIVENESS...



RATIONALE

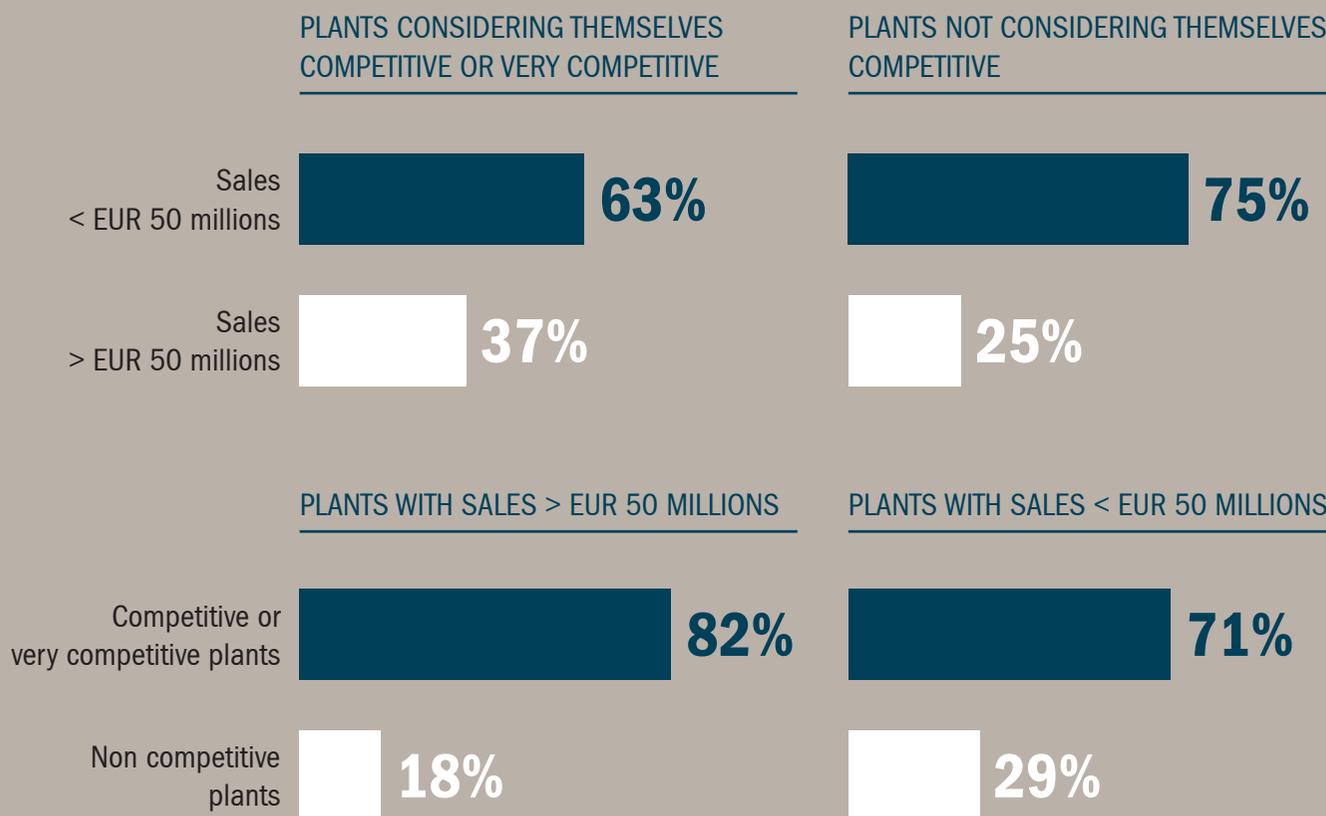
Competitive and very competitive plants are on a positive trend, but remain cautious regarding 2013 outlooks.

In October, the IMF divided its 2013 growth forecast for France by two, to a mere 0.4%, reflecting not only the Euro zone difficulties but also the general loss of the French economy competitiveness.

In this context, 57% of the non competitive surveyed plants considered that their position will deteriorate in 2013 (18% expect no changes in 2013).

SIZE DOES MATTER – LARGER PLANTS HAVE STRONGER POSITIONS

PLANT SALES AND COMPETITIVENESS



RATIONALE

Economies of scale remain a key competitiveness factor for the French industry as they imply:

- > Purchasing power (bulk buying)
- > Financing possibilities (access to lower rates and more sophisticated products)
- > Marketing & Sales leverage (overhead costs spread over a greater base)
- > Larger investments (increased financial capacity)

Surprisingly, the importance of their plant's size is not necessarily recognized by plant managers, who rank it only in 11th position among their key competitiveness criteria.

Large plants are on the other hand more exposed to decreasing volumes and current low activity levels can also mean significant overcapacity issues.

COMPETITIVE PLANTS TYPICALLY ARE PROFIT CENTERS REALIZING SLIGHTLY BELOW AVERAGE A SHARE OF THEIR SALES WITH THEIR GROUPS

GROUP SALES & PROFIT CENTERS

SHARE OF SALES WITH THE GROUP ¹⁾



PERCENTAGE OF RESPONDENTS BEING A PROFIT CENTER



1) For plants belonging to groups

Source: Roland Berger Manufacturing Competitiveness Radar 2012 Survey

RATIONALE

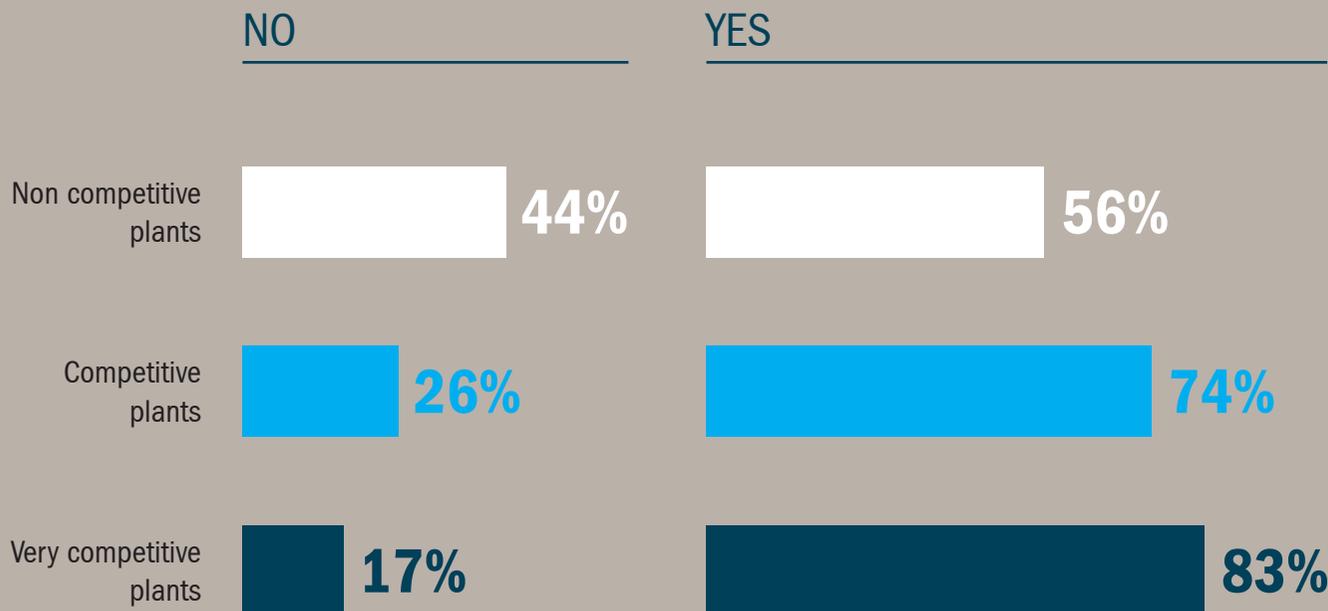
French plants belonging to groups are well integrated, with 49% of total sales achieved with the group. Competitive plants seem to be slightly less integrated and have more autonomy in the destination of their products.

Despite this strong integration, only a limited number of plants are now mere cost centers: integration within a network of plants does not reduce accountability on profits, on the contrary.

Making a plant a profit center does not seem to significantly impact the competitiveness level.

AFFILIATION TO A GROUP CLEARLY INCREASES COMPETITIVENESS

DOES YOUR PLANT BELONG TO A GROUP?



RATIONALE

Plants belonging to groups not only are more focused and more specialized but can also benefit from increased spread of their overheads costs (not only plant costs such as maintenance and quality but also Finances, Sales & Marketing and so on).

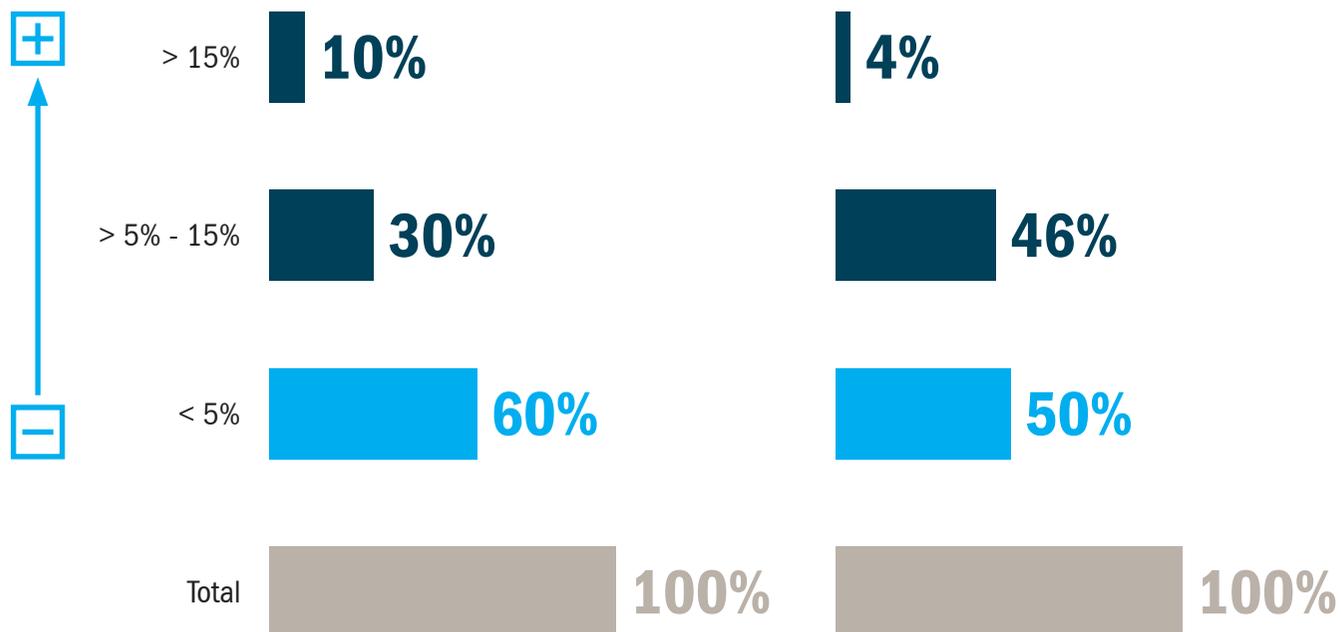
Although this conclusion was to be somehow expected one can be surprised by the highly significant result: affiliation to a group clearly increases competitiveness.

COMPETITIVE PLANTS DO NOT NECESSARILY INVEST MORE – HOWEVER ONLY THE MOST COMPETITIVE CAN INVEST A LOT

CAPITAL EXPENDITURE AS A PERCENTAGE OF SALES

PLANTS CONSIDERING THEMSELVES
COMPETITIVE OR VERY COMPETITIVE

PLANTS NOT CONSIDERING THEMSELVES
COMPETITIVE



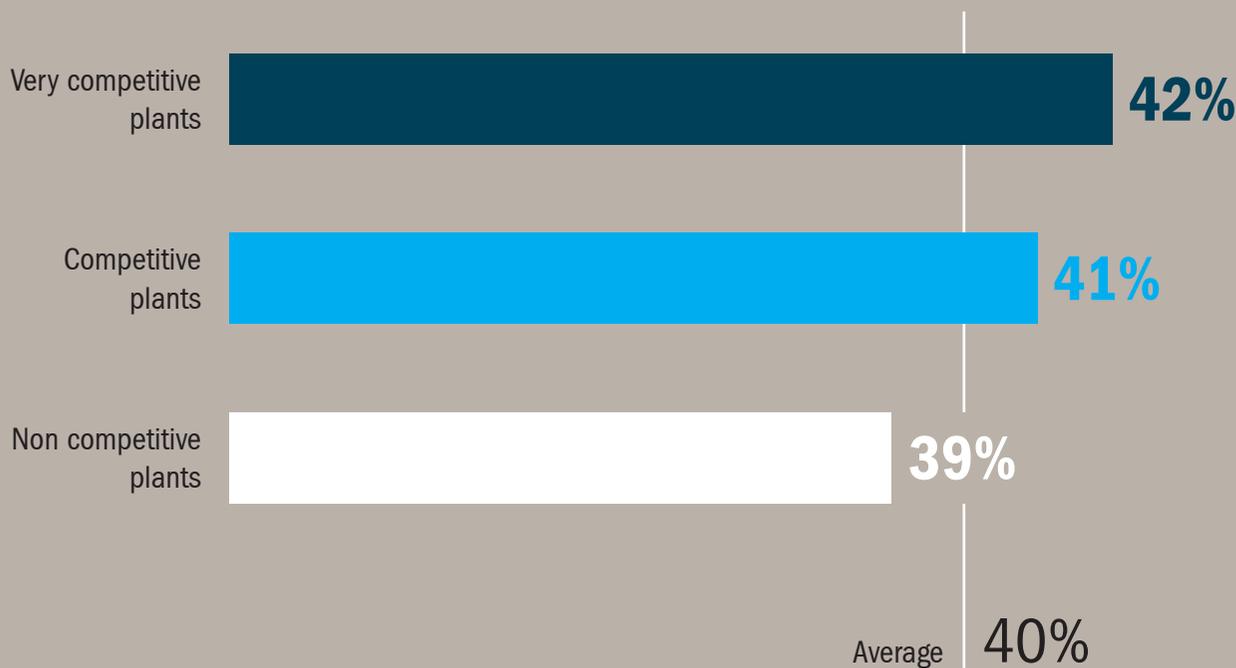
RATIONALE

Typically, most plants invest on average less than 5% of their sales in capital expenditures.

However, our survey shows a number of plants can invest significantly more than 10%: 10% of the most competitive plants but only 4% of the non competitive plants.

STRONG INTERNATIONAL EXPOSURE DOES NOT SIGNIFICANTLY INCREASE COMPETITIVENESS

SHARE OF EXPORT SALES ON TOTAL PLANT SALES



RATIONALE

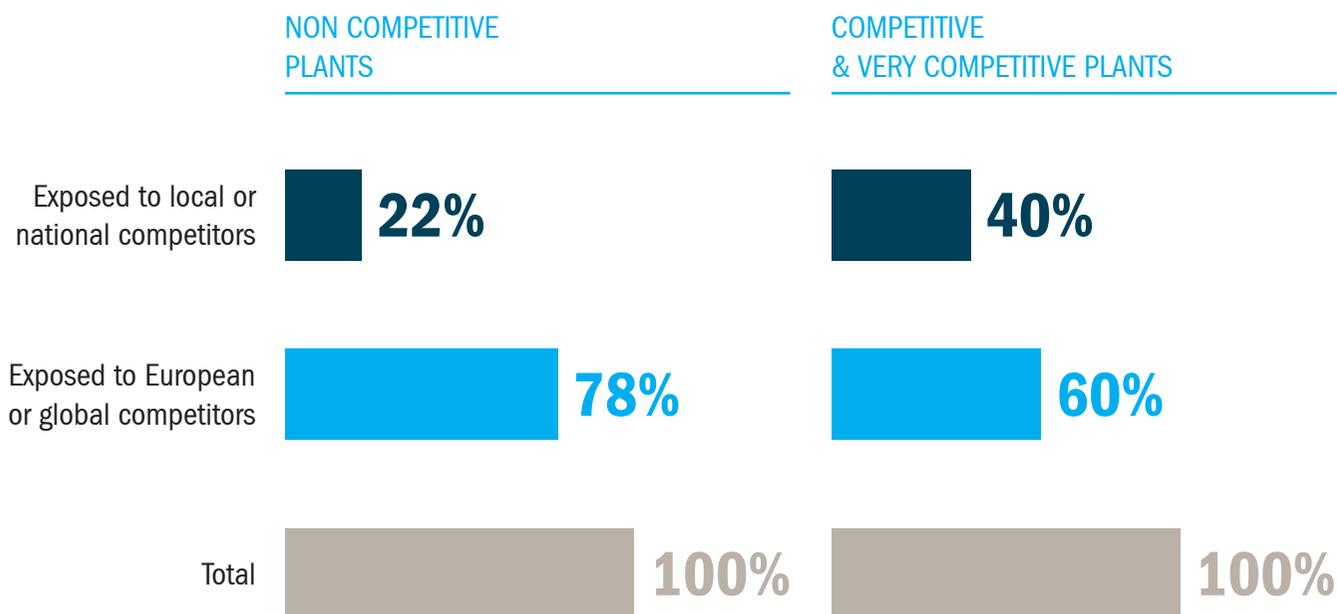
Although survey results suggest that competitive or very competitive plants export slightly more than their non competitive counterparts, the conclusions are not obvious.

This can be explained by the combination of two opposite factors:

- > on the one side, more competitive plants can effectively export more,
- > on the other side, higher exposure to international competition decreases the sense of competitiveness.

COMPETITIVE AND VERY COMPETITIVE PLANTS ARE MORE NATIONAL, EVEN LOCAL, AND LESS EXPOSED TO INTERNATIONAL COMPETITION

COMPETITIVE LANDSCAPE



RATIONALE

Being exposed to global competition often implies producing simpler not to say commodity products, on which French plants logically have less competitiveness.

On the other hand, it is a worrying fact to note that a large part of France's most competitive plants still address mostly local markets. The durability of this position can be questioned.

LOW RAW MATERIAL AND LABOR COSTS AND OPERATIONAL EFFICIENCY ARE CRITICAL COMPETITIVENESS CRITERIA

COMPETITIVENESS CRITERIA ¹⁾



RATIONALE

French plant managers consider that access to low raw material prices is a key factor of their competitiveness.

Clearly, managers also consider that a key criteria for competitiveness is their excellence in managing their plant: state-of-the-art operations, strong industrial processes, efficient supply chain and flexibility are at least as decisive as low costs.

Labor costs come only as fourth criteria, which may come as a surprise. However, we will see that less competitive plants rank this criteria in first position.

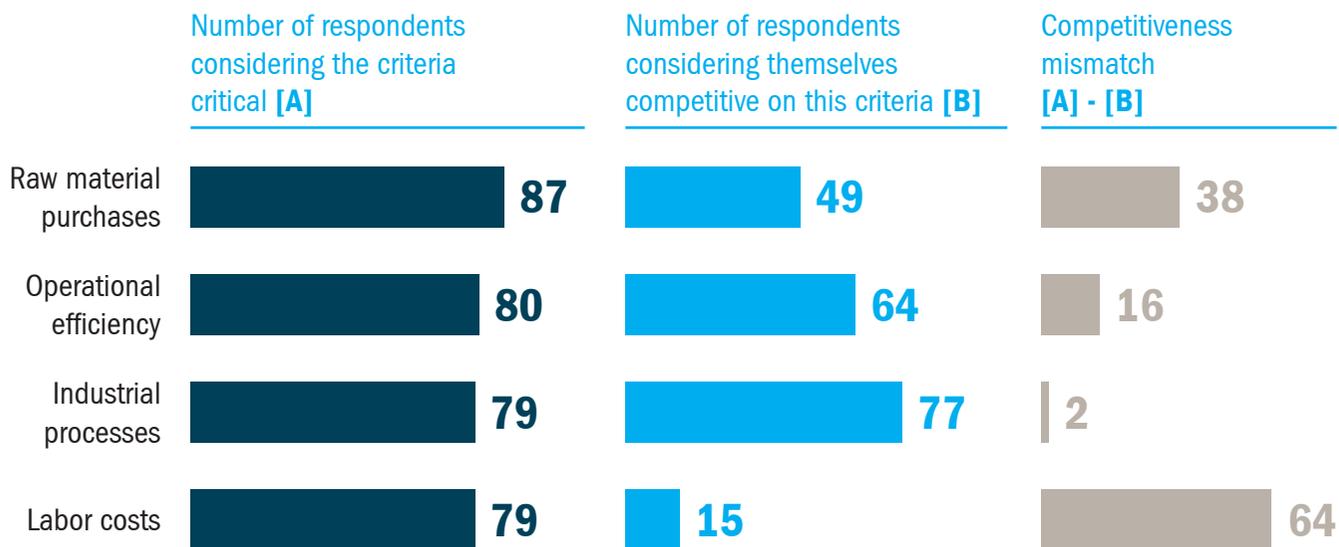
Energy costs, traditionally presented as a strong force of French competitiveness due to the relatively low electricity costs, comes only in 12th position.

French plant managers consider that public support or improved local infrastructures can only marginally increase competitiveness.

1) Number of responses – Possibility of multiple responses

PLANT MANAGERS CONSIDER THAT THEIR MOST IMPORTANT COMPETITIVENESS GAP IS ON LABOR AND RAW MATERIAL COSTS

COMPETITIVENESS MISMATCH ON CRITICAL ISSUES



RATIONALE

If labor costs are not the most critical issue (raw material prices are), it is, however, the one for which French plants consider themselves, by far, the less competitive.

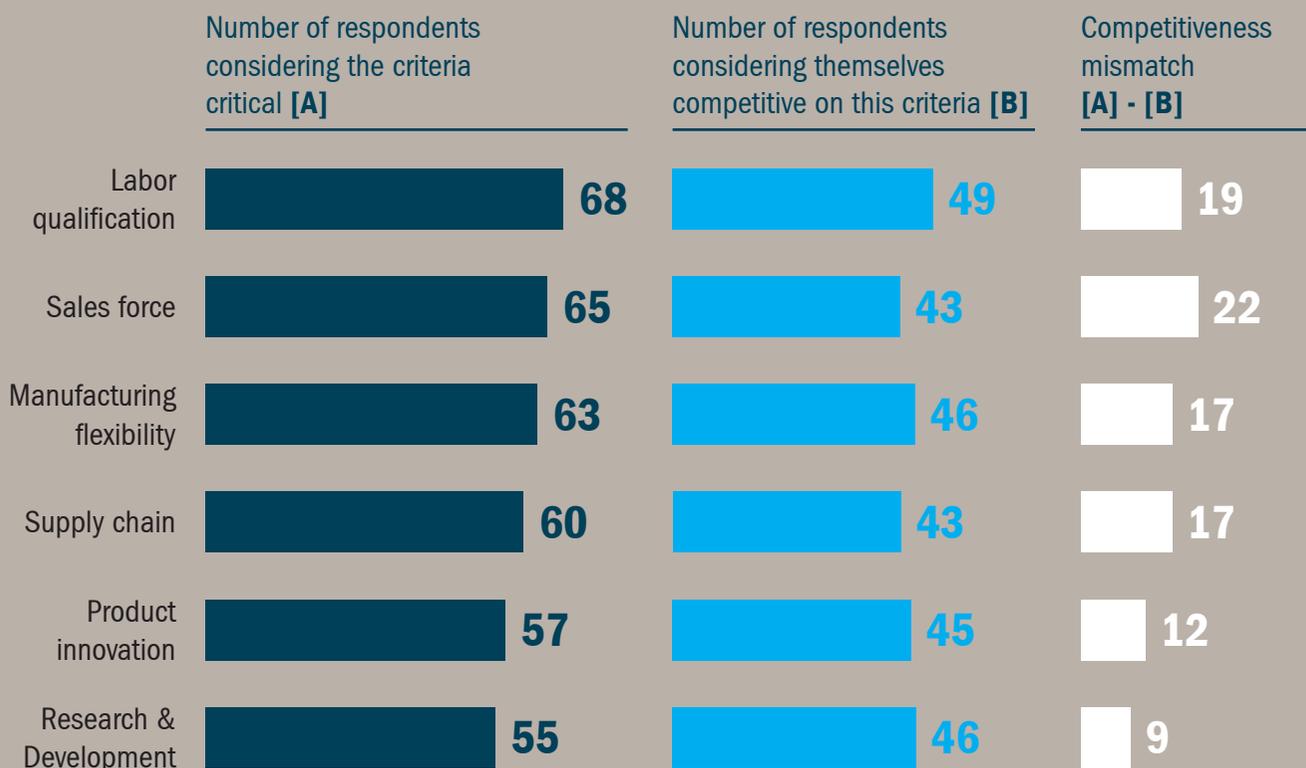
Accelerating unemployment in 2012 urged French Government to accelerate reforms and new measures were announced recently.

The effective impact of the *Crédit d'Impôts pour la Compétitivité et l'Emploi (CICE)* will need to be properly assessed in 2013.

It is expected to decrease labor costs on lower salaries (up to 2.5 times the minimum wage) by 4% in 2013 and by 6% from 2014 onwards.

PLANT MANAGERS ALSO CONSIDER THAT THEIR COMPETITIVENESS IS NEGATIVELY AFFECTED BY SALES FORCE EFFICIENCY AND LABOR QUALIFICATIONS

COMPETITIVENESS MISMATCH ON IMPORTANT ISSUES



RATIONALE

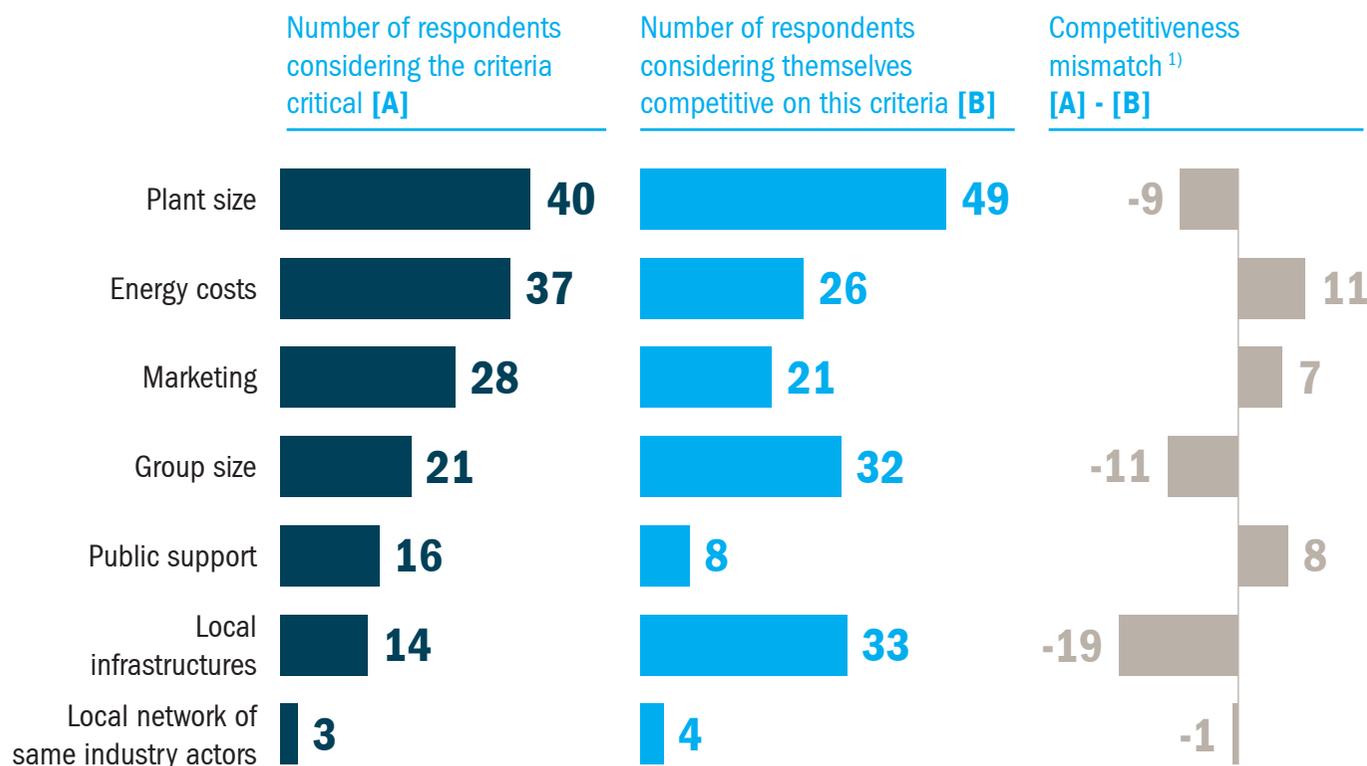
There are 3.2 millions manufacturing employees in France, this is a 30% less than only 10 years and manufacturing companies now face increasing difficulties to attract talents, whether those are qualified (engineers) or not (technical workers).

Labor qualification does not refer only to technical or professional skills. It is also the employee's ability to be flexible in its day-to-day work and adapt its activities when required by either the plant's workload or a specific production schedule.

Sales force efficiency also appears as a hot issue, as many plant managers are increasingly facing stronger international competition and clear sense the need to increase their commercial impact.

FRENCH PLANTS HAVE THE RIGHT SIZE AND BENEFIT FROM STRONG INFRASTRUCTURES – ENERGY COSTS AND PUBLIC SUPPORT ARE TO BE IMPROVED

COMPETITIVENESS MISMATCH ON SECONDARY ISSUES



1) Negative figures suggest that survey respondents consider that they are more than competitive on that criteria

Source: Roland Berger Manufacturing Competitiveness Radar 2012 Survey

RATIONALE

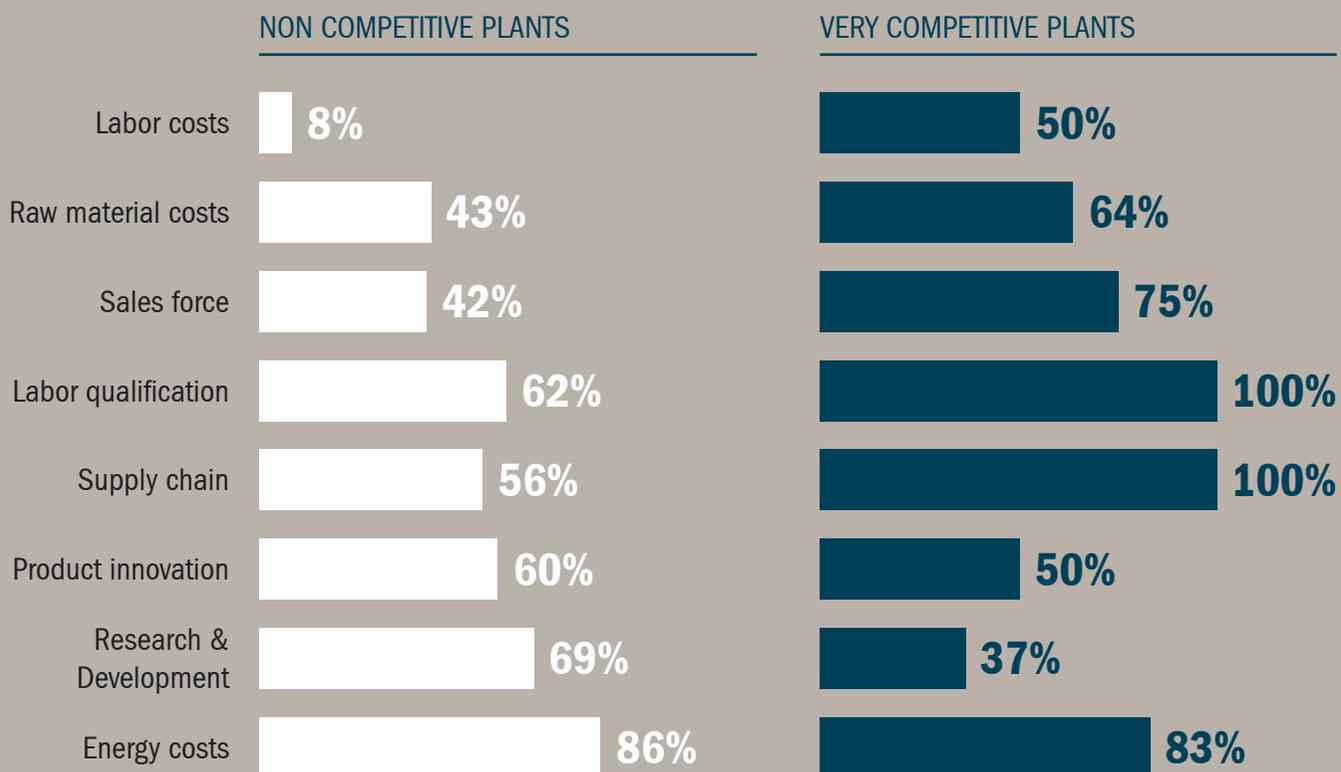
Although plant and group size clearly improves competitiveness, depressed European markets in 2012 and 2013 also mean overcapacities issues that will need to be addressed.

The development of extended networks of a same industry actors («filère») although a strong element for increased competitiveness in Asia is not seen as key for independent minded French managers.

Strong dependence over fossil energies and public policies still excluding shale gas opportunities negatively impact French competitiveness, despite recent development in renewable energies and historical positions in nuclear generated electricity.

ALL PLANTS ARE AFFECTED BY EXPENSIVE LABOR COSTS - BUT MORE COMPETITIVE PLANTS ALSO HAVE R&D AND PRODUCT INNOVATION ISSUES

NUMBER OF RESPONDENTS CONSIDERING THEMSELVES COMPETITIVE ON A CRITERIA CONSIDERED CRITICAL ¹⁾ [SELECTED ITEMS]



RATIONALE

Only an extremely limited fraction of non competitive plants consider that they have a good position regarding labor costs: 8%, vs. 50% for the most competitive plants.

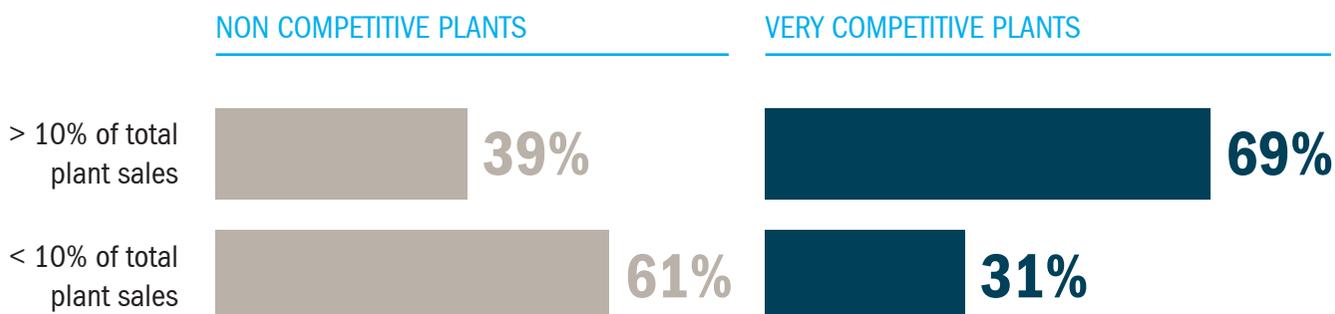
This is mainly explained by the fact that the most labor intensive industries are usually also the ones producing lower added values and facing the strongest global competition.

Most competitive plants are also focusing themselves on improving product innovation and R&D capacity, both marginal issues for the less competitive players who, again, are likely to be focused on more commodity products.

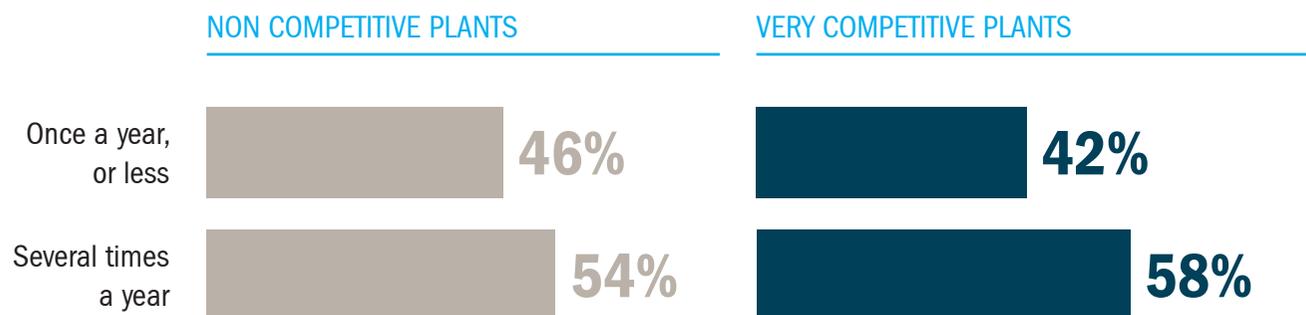
1) Number of respondents considering themselves competitive over number of respondents considering the criteria as critical

SUCCESS STEMS FROM INNOVATION – VERY COMPETITIVE PLANTS GENERATE A HIGHER SHARE OF THEIR SALES WITH NEW PRODUCTS

SHARE OF SALES GENERATED BY PRODUCTS LAUNCHED AFTER 1ST JANUARY 2011



FREQUENCY OF PRODUCT PORTFOLIO REVIEW



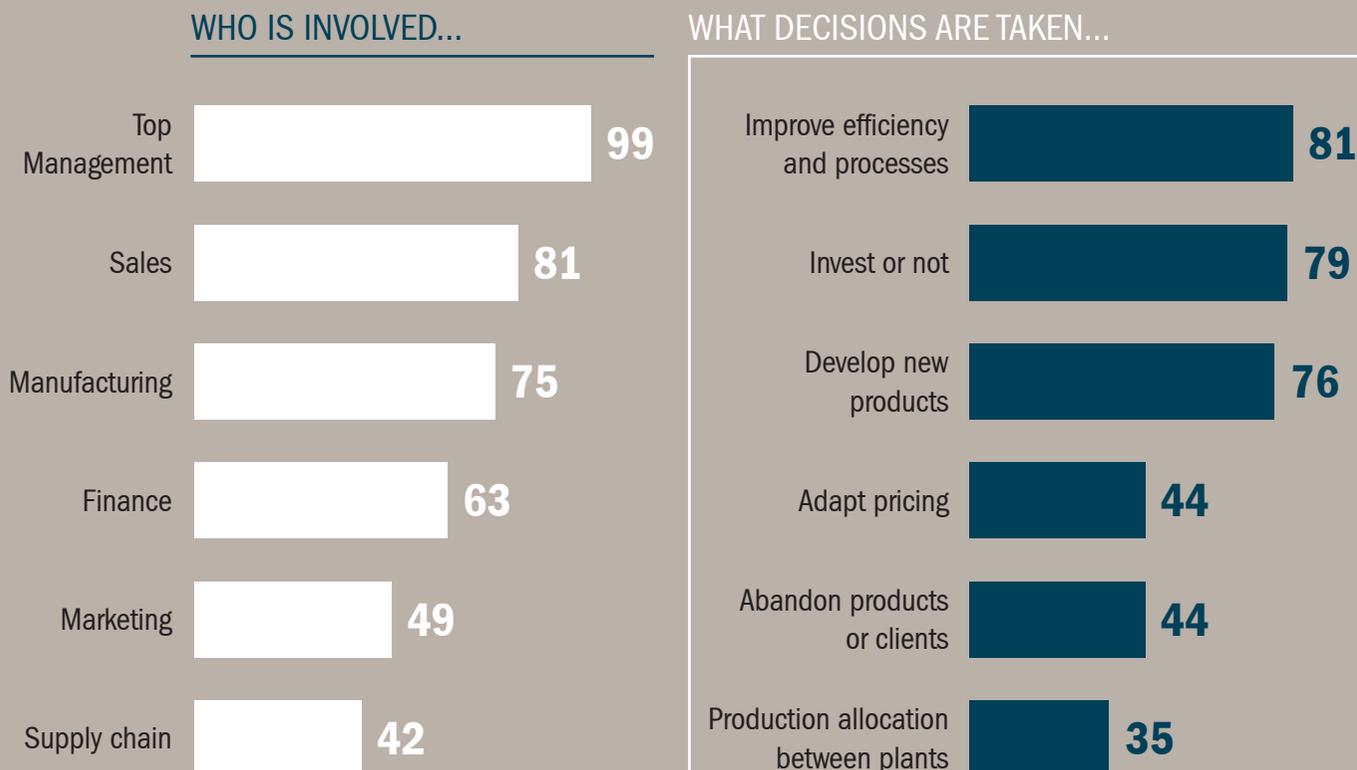
RATIONALE

Again, hardly a surprise: new products can significantly enhance competitiveness as innovation is key to generate unique differentiation.

Less competitive plants, if they launch fewer new products than their competitive counterparts (or have less success in doing so) are on the other hand almost as active in reviewing and adapting their product portfolio: 54% of these plants review it several times a year (and 18% do it at least once a month).

MARKETING AND SUPPLY CHAIN MANAGERS ARE RARELY INVOLVED ON PORTFOLIO REVIEWS WHICH PRIMARILY FOCUS ON IMPROVING EFFICIENCY AND TAKING CAPEX DECISIONS

PRODUCT PORTFOLIO REVIEW [NUMBER OF RESPONDENTS]



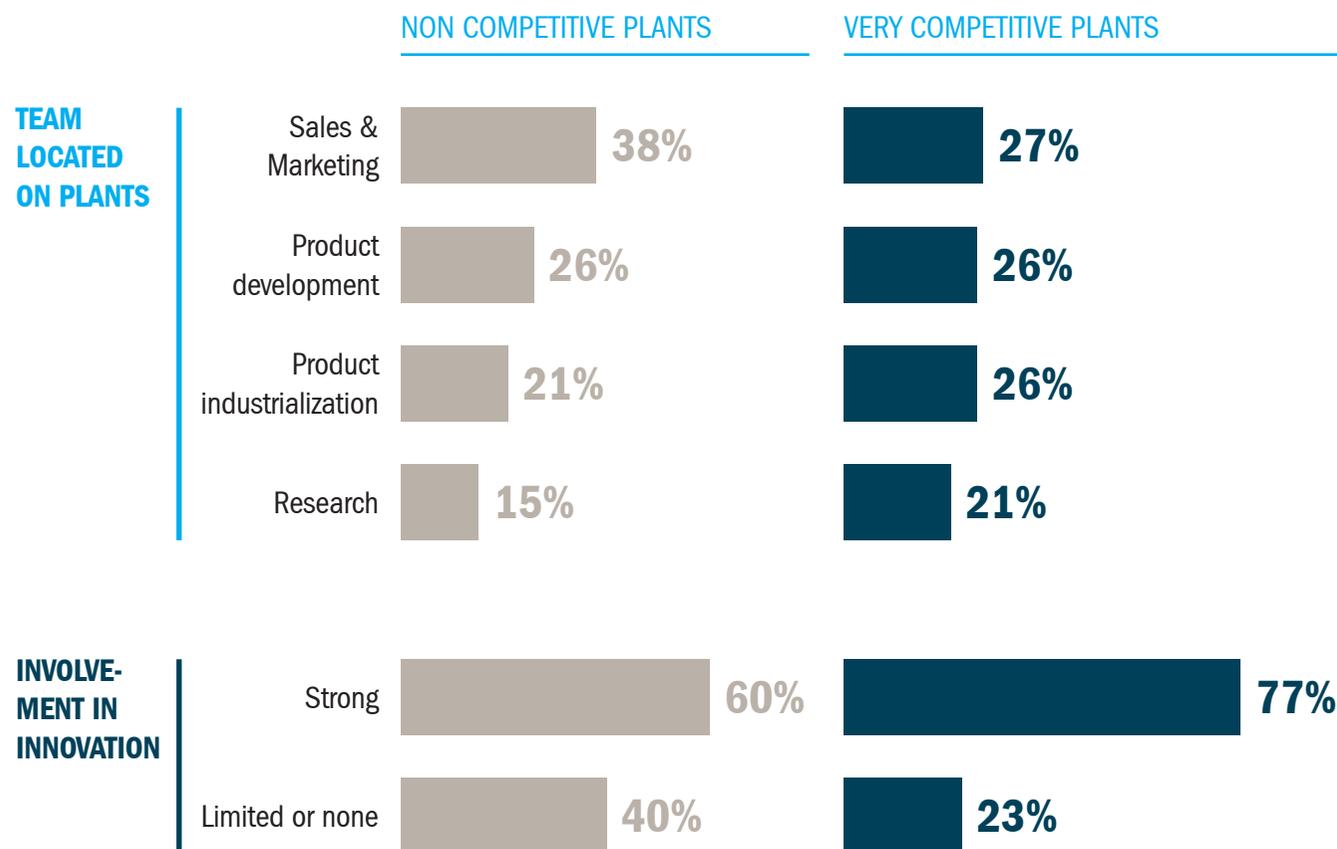
RATIONALE

Plants' competitiveness does not significantly influence the profile of responses. The process of reviewing a portfolio of products is globally comparable among surveyed plants.

The survey points out that most plants could probably consider involving more finance or marketing managers in their product portfolio review process prior to taking decisions on Capex, pricing or new products to launched.

VERY COMPETITIVE PLANTS HAVE STRONGER INDUSTRIALIZATION AND RESEARCH TEAMS AND ARE MORE INVOLVED IN THE INNOVATION PROCESS

PERCENTAGE OF RESPONDENTS



RATIONALE

Sales and Marketing team are relatively more present on less competitive plants, as those typically are smaller and often stand alone units.

The presence of product development teams is comparable between competitive and less competitive plants, with two main differences:

- > Product Industrialization abilities and R&D are slightly more present within the most competitive plants,
- > Generally speaking, very competitive plants are significantly more involved in product innovation.

Source: Roland Berger Manufacturing Competitiveness Radar 2012 Survey

ROLAND BERGER HAS DEVELOPED A UNIQUE APPROACH TO REACH MANUFACTURING EXCELLENCE

BUSINESS REQUIREMENTS



Set ambition & objectives

- > Customer / market
- > Technology
- > Operations
- > People / capabilities

1 Manufacturing strategy:

What do we produce?

- > Definition of Core competencies
- > Strategic Make or Buy decision
- > Supply chain structure
- > Sourcing

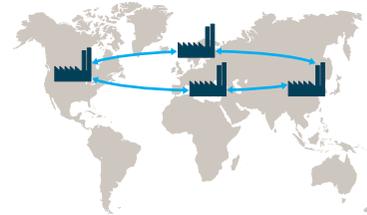
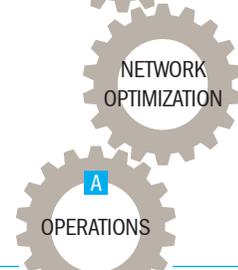


Strategic Disadvantaged assets	Strategic Advantaged assets
Not strategic Disadvantaged assets	Not strategic Advantaged assets

2 Network optimization:

Where do we produce?

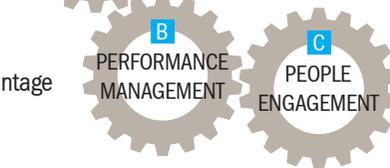
- > Plant network strategy
- > Size & role of plants
- > Capacity planning
- > Location: LCC production
- > Center / site interaction



3 Site performance:

How do we produce?

- > Production systems / Lean Advantage
- > Shop-floor optimization
- > Organization / interfaces



A Improve processes and share practices

- > Lean and continuous improvement principles
- > Design-to-manufacture
- > Efficiency / utilization improvement

B Manage Performance

- > Calibrated objectives & incentives
- > Metrics and targets
- > Roles and responsibilities

C Leverage collective intelligence

- > Cooperation (within and across functions)
- > Right capabilities
- > High job satisfaction

MAIN TOPICS

- > Design of **production strategy**
- > Development of an **optimized manufacturing footprint**
- > Evaluation of **production relocation** opportunities
- > Evaluation of product categories to determine **make or buy strategies**
- > Design of a **low cost country manufacturing strategy**
- > Detailed **site location analysis**
- > **Supplier selection** and **negotiation** based on footprint location recommendation
- > Assessment of potential **product reallocation scenarios**
- > Implementation of **Lean Manufacturing** methodology
- > Implementation of a **Continuous Improvement program**

We thank the following people for collaborating to produce this study:

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