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COME CLOSER

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Now new imperatives such as proximity to emerging market demand, innovation, and talent development are rising to the fore. As a consequence, companies are moving past labor-cost arbitrage and operational efficiency to reinvent the manufacturing ecosystem.

The name of this new approach? Next-shoring.

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Issue Brief

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This concept, introduced by McKinsey thought leaders Katy George, Sree Ramaswamy, and Lou Rassey in early 2014, is moving from idea to execution as global manufacturers plot their next move.

With No Time to Approximate, Being Proximate Is the New Advantage

Over the past few decades, companies have made sizeable investments in creating a production footprint to get closer to suppliers and customers. To meet the global appetite for inexpensive products, they set up shop wherever they could find growing demand; inexpensive, abundant raw materials; and low-cost workers. These goals drove U.S. companies to off-shore in countries like China and India, near-shore in countries such as Canada and Mexico, and reshore when energy and labor cost paradigms shifted. Other global firms followed similar patterns in different geographies.

ISSUE BRIEF COLLABORATION PARTNER

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While locating close to demand is still critical, pursuing cost efficiencies at all costs has become an end game. Companies are now focusing on enabling innovation and growing a high-skills talent pool to outpace the competition. Demand, innovation, and talent recruitment and retention are all fueling an important new trend that represents the future of manufacturing: next-shoring.

Far more than a simple siting strategy, next-shoring is a way to build a vital, ever-growing manufacturing ecosystem that produces radical marketplace advantage. In their article, "Next-shoring: A CEO's Guide," McKinsey thought leaders Katy George, Sree Ramaswamy, and Lou Rassey lay out the business case for this important new trend, stating: "Next-shoring isn't about the shift of manufacturing from one place to another but about adapting to, and preparing for, the changing nature of manufacturing everywhere."[1]

Global innovation for local markets, which represents 34% of the $10.5 trillion in global manufacturing value added in 2010, and global technologies/innovators, which represent 9%,[2] are most likely to benefit. Both sectors are R&D-intense and require constant innovation to compete effectively.

While next-shoring is growing closer, redesigning one's ecosystem is no easy or low-cost proposition. Companies will need to move swiftly, making critical investments in innovation hubs, digitized operations, and talent development, to capitalize on the full promise and economic reward of next-shoring.

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[1] Katy George, Sree Ramaswamy, and Lou Rassey, "Next-shoring: A CEO's Guide," McKinsey Quarterly, January 2014. Online article. http://www.mckinsey.com/insights/manufacturing/next-shoring_a_ceos_guide. Accessed April 16, 2014.

[2] James Manyika, Jeff Sinclair, Richard Dobbs, Gernot Strube, Louis Rassey, Jan Mischke, Jaana Remes, Charles Roxburgh, Katy George, David O'Halloran and Sreenivas Ramaswamy. "Manufacturing the Future: The Next Era of Global Growth and Innovation, McKinsey Operations Practice, McKinsey Global Institute,: November 2012. http://www.mckinsey.com/insights/manufacturing/the_future_of_manufacturing. Accessed April 16, 2014.

Disruption is the New Normal

Manufacturing and other industries prove that change is constant. Those companies that seek long tenures at the top are never satisfied, continuously evolving their processes, products, and technologies.

Companies such as Apple, Zara, and Nucor have proven that investing in perpetual innovation can disrupt established business models by creating new consumer appetites, implementing new technologies, and accelerating R&D and time-to-market.

It's no longer sufficient to react to trends: Companies must sense them, working closely with partners and employees to analyze, iterate, test, and rush to market. The manufacturing ecosystem is always in motion, never at rest.

Emerging markets will be the new epicenter of supply and demand, offering double-digit growth opportunities, an increasingly affluent and discerning customer base, and governments willing to extend the incentives brand leaders require to build a production presence. By 2025, 66% of global demand will come from emerging markets.[3]

So how do you operationalize these insights? Here's how to build on the marketplace lessons of manufacturing leaders – while creating your own winning strategy for success with next-shoring.

BUILD AN INNOVATION HUB

R&D Especially Critical to Technology and Local Market Sectors

It's time to draw closer to your suppliers, creating a virtuous ecosystem where you share competitive intelligence, interlace processes and supply chains, and develop new products for

[3] "Next-shoring: A CEO's Guide." FYI - MAPI webinar says it is half, but rephrases it as consumption, not demand.

discerning customers. That's going to be especially critical in emerging markets, where diversity rules the day.

Use collaboration platforms to brainstorm ideas, synthesize customer input, design and customize products for local markets, and use big data to assess their impact. These same tools can also be leveraged to help vendors evolve their capabilities to meet your needs. They mirror the way people work: in environments that range from laboratories, to customer sites, and production floors, to office cubicles, home offices, and hotel rooms.

Companies can choose to co-locate near epicenters of innovation, where they can access the latest thinking and technologies. They can also create virtual centers of excellence, using voice, content, and audio platforms and tools to leverage the input of experts around the globe and create a virtual, virtuous loop of ideation, feedback, and synthesis.

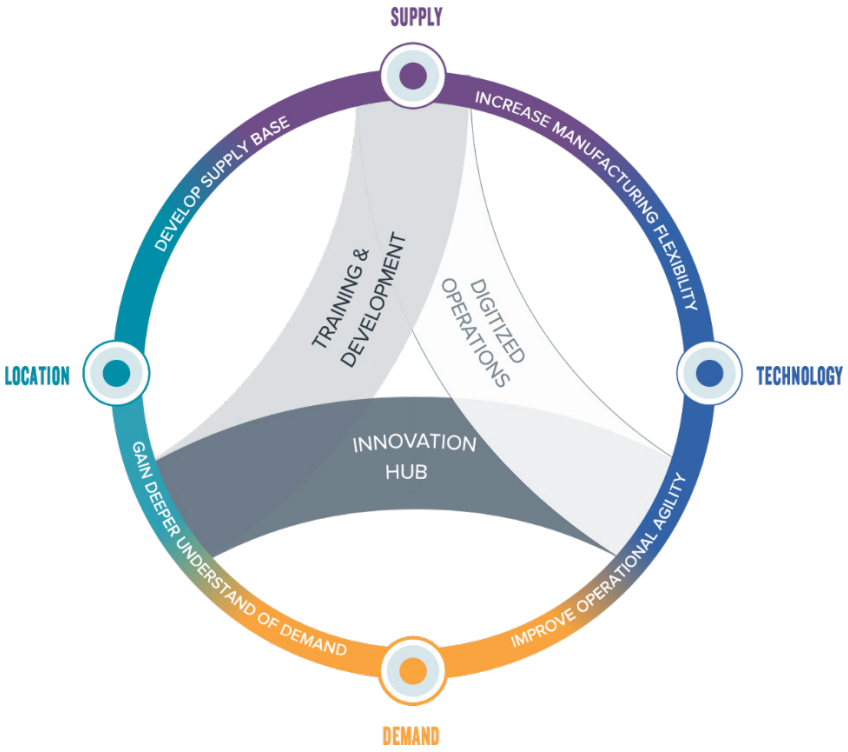

Figure 1. A model representing areas of Investment into your manufacturing ecosystem.

DIGITIZE YOUR MANUFACTURING OPERATIONS

3D Modeling and Printing, Robotics, and Digital Systems Poised to Transform Manufacturing

Digital systems are linking the production floor to the R&D lab. Companies are already using 3D modeling to test new product designs: Now they can print them quickly and inexpensively. Robotics work side-by-side with workers. Sensors provide instant feedback on machine and product performance. And plant managers use online technologies and real-time data to make rapid decisions and interact with internal stakeholders.

Collaboration technologies link cross-functional improvement teams, integrate product design and manufacturing operations, and continually align sales and product groups to meet customer expectations – three business activities AberdeenGroup says 70% of best-in-class manufacturers do.[4] Since only 23% of manufacturing leaders have linked global operations to improve interoperability and collaboration[5] there is still significant opportunity to improve agility and performance by digitizing knowledge sharing and communication. This will be especially important as manufacturing companies evolve from labor-intensive to knowledge-driven enterprises.

DEVELOP AND TRAIN A HIGH-SKILLS TALENT POOL

Companies Need to Solve Manufacturing's High-Skills Talent Drain

Manufacturing needs both a branding campaign – and a strategy for developing the high-skills workers companies need running and operating their facilities. In the U.S., 52% of all teenagers say they have no interest in a manufacturing career, while workers 50

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[4] "Manufacturing-Grade Video Collaboration: A Key to Agile TQM," AberdeenGroup, October 2012, page 2. Downloadable analyst report. http://aberdeen.com/Aberdeen-Library/8207/AI-agile-video-collaboration.aspx. Accessed April 16, 2012.

[5] Ibid, page 1.

years and older constitute 80% of the industry's growth in North America, Europe, and Asia.[6]

Use both predesigned interactive and live virtual training to help workers develop the skills they need to thrive in technical and leadership roles at your company and create the long-term career paths they value. Extend the training from inside the enterprise to encompass suppliers, promising students, and new or mid-career employees moving into your industry to build new sources of talent.

Collaboration technologies also play a vital role in recruiting and developing talent. By eliminating relocation requirements and accommodating diverse work styles, manufacturers can attract the best candidates for leadership and subject matter expert roles. Online knowledge sharing platforms bring these thought leaders and key teams together, enabling companies to access their global skills and make them proximate.

Collaborative Decision Environments Bring Next-Shoring Close

In the fast-paced manufacturing industry, collaboration decision environments help companies support rapid innovation, digitization of manufacturing operations, and training and development of staff and partners. Some 88% of best-in-class companies use video collaboration for strategic or revenue-based use.[7] These solutions provide quantifiable gains, enabling companies to accelerate time-to-market by an average of 24% and reduce downtime by 27%.[8]

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[6] Pradeep Amladi, Vice President, Discrete Manufacturing Industries, SAP, "Manufacturing Wants Its Jobs Back – But Can IT Find the Workers?" ForbesBrandVoice, November 25, 2103. Guest article. http://www.forbes.com/sites/sap/2013/11/25/manufacturing-wants-its-jobs-back-but-can-it-find-the-workers/. Accessed April 16, 2014.

[7] AberdeenGroup, "The ROI of Video Collaboration," October 2011. http://v1.aberdeen.com/launch/report/research_briefs/7365-RB-video-conferencing-telepresence.asp?lan=US. Accessed on April 25, 2014.

[8] Wainhouse, ibid.

Collaboration decision environments use video, audio, and content to help teams meet face-to-face, whether they are on a factory floor, in an R&D lab, or on the go. They provide experts with multiple streams of rich data, such as CAD images and work processes, and enable real-time document markup. They also capture video conversations and document views, for later search, review, and collaboration. And their accelerate learning by creating interactive, immersive virtual training experiences that can be delivered live and offered on-demand. Other benefits include:

- Improving knowledge management with ideation and best practice sharing
- Tightly integrating and managing global supply chains and mission-critical projects
- Leveraging the full talents of your global workforce and outside experts
- Providing employees with the tools and training they need to become continual learners and build fulfilling careers
- Integrating valued suppliers and partners in a tightly linked business ecosystem

Next-shoring is far more than a siting approach: It is the future of manufacturing. Companies are harnessing the power of rapid innovation, digitized operations, and a highly skilled workforce to strengthen relationships with their customers and suppliers. Collaborative decision environments help companies defy distance and lean in, to capture new ideas, processes, and technologies. The message from the marketplace is clear: Come closer -- change is at hand.

Issue Brief Collaboration Partner Spotlight

John Paul Williams is Director of Enterprise Solutions at Polycom. His background in leading global innovation in manufacruting, quality and engineering spans the fields of telecommunications, process controls and more. Prior to joining Polycom, John Paul served as General Manager of a process controls firm, designing and manufacturing control systems for the Energy industry. He was Vice President, Operations and Quality for a division of Hunter Douglas, a manufacturer of custom designed products with a 24-hour lead time. John Paul has also managed plants in Europe, Asia and the United States, providing local support to customers and markets while taking advantage of regional cost advantages.

About Polycom

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