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26 November 2017

Student
Address
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Dear Ms. Smith,

I deeply appreciate this opportunity to assist you and your company with the potential impacts of moving manufacturing overseas. Enclosed is my final recommendation report, "Effects of Moving Playtime Toys Manufacturing Overseas."

If I can provide any further assistance in this decision, please do not hesitate to contact me. I look forward to meeting with you regarding your thoughts on this matter. I hope this report will be valuable to you and your company.

Sincerely,

Student

Effects of Moving Playtime Toys Manufacturing Overseas

For
Ms. Smith
CEO – Playtime Toys

By
Student
University of Wisconsin
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Abstract

The purpose of this report is to assess recent studies concerning companies moving their manufacturing processes overseas and to recommend, based on these studies whether it would be in the best interest of Playtime Toys to remain manufacturing in the United States or to outsource overseas. Many reports have found that moving manufacturing processes overseas can financially help business but adversely affect the quality of the goods being produced. There are also many reports that claim there is little alternative to save a business other than to move its manufacturing overseas. In this report, we will examine both alternatives for the most fitting solution for Playtime Toy.

Example

Introduction

For decades companies have been sending their manufacturing processes to other parts of the world to save on costs. Many companies feel it is nearly impossible to compete in the global market without offshoring. There are many studies however, that show that moving manufacturing processes overseas will be beneficial only if a company is willing to move other aspects of the production processes as well (see appendix). If a company merely looks to reduce costs by going overseas without examining the business as whole, the company will not be protected in the future. This report will be examining all business aspects of Playtime Toys to determine if offshoring manufacturing is the smartest option.

Background

Manufacturing overseas has become common practice in companies all over the United States. Many companies feel that they are unable to compete with inexpensive foreign manufacturing and therefore turn to it as a solution when faced with economic hardship. When outsourcing overseas, companies may benefit from savings, but also may run into unforeseen problems, such as quality control and a communication breakdown (Bivens 2005). There are usually ways a company can keep their manufacturing processes in the United States while cutting costs in other ways in the business. This can reduce the headaches that come with using foreign labor and keep production in a domestic setting (Burke 2015).

This report is an assessment of five peer-reviewed journal articles that will examine if it is indeed within the best interest of the company to send their manufacturing processes overseas. The goal of this report is to help examine all solutions for Playtime Toys to stay competitive in a global market and keep current with emerging technologies.

Methodologies of the Studies

The following is a summary of the research from five different studies:

Offshoring: Value Creation through Economic Change

This study explores the benefits from offshoring, which includes cost reduction and economic growth for the world. The study shows the businesses in the U.S can benefit tremendously by taking advantage of what it calls “high-skilled, low-wage workers in emerging markets.” The research shows that offshoring can create wealth for both companies and countries involved. It is estimated that for every \$1.00 American companies that transfer to overseas, \$1.46 in new wealth is created. Also, in the U.S, companies save €0.58 for every dollar of spending on jobs moved to a foreign country. They also show

that offshoring not only benefits in savings but also in export growth.

Manufacturing outsourcing and its effect on plant performance

This study examines the way in which outsourcing manufacturing and design relates to performance at plant level. The study is based on a large-scale survey in a sample of Swedish engineering plants. Their results show no significant effects from outsourcing on plant operations. This study also shows that total outsourcing was seen to have more positive performance than plants the only outsourced manufacturing activities and kept work in-house. Furthermore, this study showed that for a company to become successful with outsourcing, it should not use it as an isolated and alternate strategy, but as a tool to further develop international production and relations.

Cheap Imports and the Loss of US Manufacturing Jobs

This study examines international outsourcing to low-wage countries and manufacturing job loss in the United States. It combined worker and trade data to find if there is a likelihood of job loss among manufacturing workers in the US. The study collected data from workers with a high-school education or lower and workers with at least a bachelor's degree to see which were affected most by the offshoring.

Recent studies overstate the benefits and ignore the costs to American workers

This study analyzes three studies that have claimed that offshoring will result in large benefits to the United States Economy. These studies to be analyzed have been widely cited but in fact is said to make unwarranted benefit claims. Likely economic costs are not considered in the studies and findings indicate possible benefits from offshoring are likely to affect only a certain percentage of American families.

Automation and Technology Increase Living Standards

This report addresses the concerns Americans have with emerging technologies and automation, as related to growth and prosperity. The data shows that automation is changing the type of work Americans do, but not the need for human labor. Technological progress enables employees to produce more goods and services while utilizing human labor. This report shows that as companies increase the level of technology used, employment rates remain largely unaffected. There are limits to automations, which workers must perform to keep the company running smoothly, while production and productivity increase.

Results of the Studies

Offshoring: Value Creation through Economic Change shows:

According to this study, offshoring should be viewed as an important opportunity for businesses, consumers and shareholders. They urge sponsored insurance programs to offset wage loss that are transferable from one company to another. They consider globalization a force that cannot be stopped and that there's more to offshoring than simply lowering costs. Improving global production will lead to lower costs for companies and consumers which

will expand the market for goods and create new business opportunities. The opportunities are better than the profit and cost savings and companies that understand this process will have a better chance of profiting from the new global environment.

Manufacturing outsourcing and its effect on plant performance shows:

This study finds that although there is no direct correlation between outsourcing and the ability to develop new products, cost reductions must be weighed against hidden costs and the ability to respond to consumer demands. Companies who outsource designing and manufacturing have more positive performance results than those who outsource manufacturing alone. This is an indication that manufacturing and design should be integrated together. The findings also indicate that offshoring does not solve many internal problems, and it is most likely harder to manage manufacturing processes when they are not done internally.

Cheap Imports and the Loss of US Manufacturing Jobs shows:

This study shows the importing of manufactured goods from developed countries by the U.S. has risen exponentially over the past several decades as domestic manufacturing employment is currently less than 10%. Job loss, it seems, may affect workers with lower skill levels. Low-wage imports relate to job loss in different ways, depending on the worker's skill level. Offshoring competition and job loss is more widespread among workers who have completed less than a high school education. Low-skill workers are more likely to lose their jobs with import competition. Workers have completed at least a Bachelor's degree and are working in an industry-specific area are unlikely to be affected. Technology appears to be the most important factor when looking at offshoring manufacturing processes, and there is no skill-biased link between technology and job loss. Both low and high-skill workers have better job retention rates when they are versed in computer equipment. These findings are an indication that computers can be a substitute for less-skilled workers. This study also suggests that offshoring adversely affects labor market outcomes for low-skill workers. Developing countries mainly rely on less-skilled workers for manufacturing, therefore there is less job security for U.S. workers on the same level. This study ignored part-time and seasonal workers, so these findings may not be consistent on that working level. It is possible that less-skilled workers may be even more vulnerable than suggested by this study. Furthermore, this study does not assess gains from trade, which could very well outweigh losses in this worker class. The findings do indicate that income inequality and unemployment of these American workers is affected by offshoring.

Recent studies overstate the benefits and ignore the costs to American workers shows:

Many advocates and economists alike have claimed offshoring has a minimal impact on the United States economy and its workers. This ignores the fact that offshoring practices are likely to increase dramatically in the future, which will have dramatic effects on the economy in years to come. Offshoring clearly provides substantial savings and profits for many companies, but this cannot be assumed for economies as a whole.

Automation and Technology Increase Living Standards show:

Automation reduces labor costs and prices. Lower prices keep companies competitive and increase demand for labor. Automation changes how people work, but overall does not reduce the need for human employees. Rather than eliminating human labor, technology advancement reduces the need for routine jobs and increases the need for non-routine jobs.

Figure 1 (Table shown below) This table shows the direct effects of outsourcing, displaying most plants felt their expectations for cost reduction and efficiency were fulfilled while others experienced difficulties in reducing indirect costs, management and administrative functions. The analysis shows that logistics, manufacturing times, delivery times and accuracy were affected by outsourcing manufacturing to low-cost countries. This shows that outsourcing potentially can hinder companies' operations and minimize profitability from offshoring (Bengtsson 2008).

Table 1

Direct outsourcing effects	<i>N</i>	Mean values		Share of plants		
		Mean	SD	Improved	Worse	No change
Cost effects						
Product cost	130	0.89	1.51	62	16	22
Indirect costs	128	0.42	1.11	50	18	32
Cost control	129	0.64	1.15	45	10	45
Efficiency in manufacturing	130	0.76	0.99	57	8	35
Capital tied up	129	0.53	1.07	49	13	38
Quality						
Product quality	129	0.11	1.06	26	21	53
Lead times						
Lead time in manufacturing	129	0.02	1.22	33	33	34
Delivery time	129	0.02	1.13	26	29	45
Delivery accuracy						
Delivery accuracy	128	0.34	1.19	34	18	48
Flexibility						

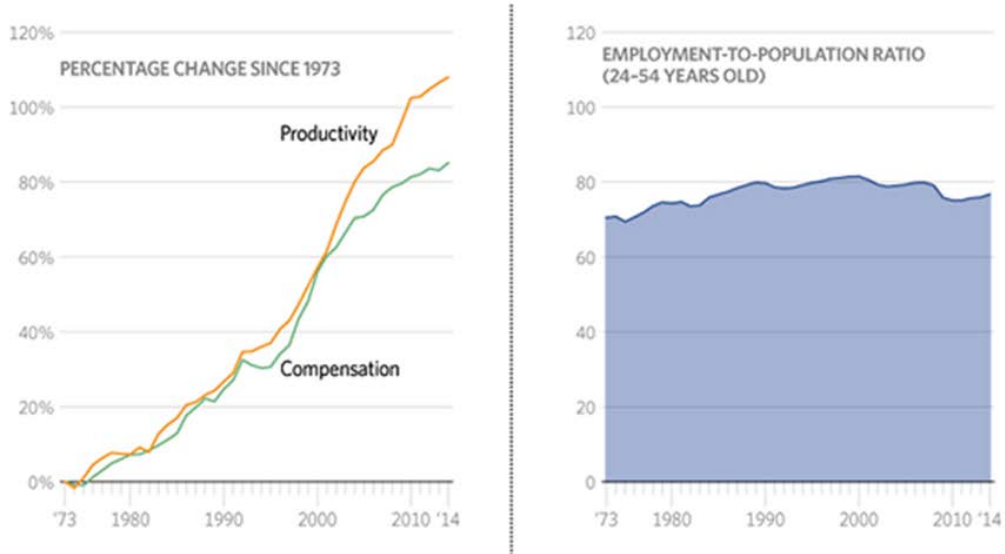
Direct outsourcing effects	N	Mean values		Share of plants		
		Mean	SD	Improved	Worse	No change
Manage volume changes	129	0.94	1.01	60	3	36
Customer adaptation capability	128	0.03	0.74	14	11	75
After market service	129	- 0.01	0.53	6	6	88
Innovation						
Industrialization time	129	0.25	0.65	20	3	78
Product development time	128	0.24	0.73	19	4	77
Product development costs	129	0.15	0.54	13	3	84
New functionality	128	0.02	0.70	8	7	85

The question was posed as follows: What was the effect of your outsourcing initiative on the following performance indicators? A seven-point Likert scale was used: - 3 = much worse, 0 = no effect, + 3 = much better. The improved category includes the alternatives 3, 2 and 1. The worse category includes - 3, - 2 and - 1.

Figure 2 (Chart shown below) shows that technological updates can increase productivity among workers and has little effect on overall employment rates in the United States. This shows that technology can increase a company's productivity while keeping domestic workers employed in a valuable way (Burke 2015).

Figure 2, Chart 1**Labor Productivity Aided by Technological Advances**

Between 1973 and 2014, technological advances have made workers more productive and sharply increased their pay. However, it has had little effect on overall employment rates.



Note: Productivity and compensation are adjusted for inflation using the implicit price deflator for non-farm businesses.

Source: U.S. Department of Labor, Bureau of Labor Statistics, and Haver Analytics, "Labor Force Statistics from the Current Population Survey," Employment to Population Ratio (25-54 years old) and "Productivity and Costs," non-farm business sector.

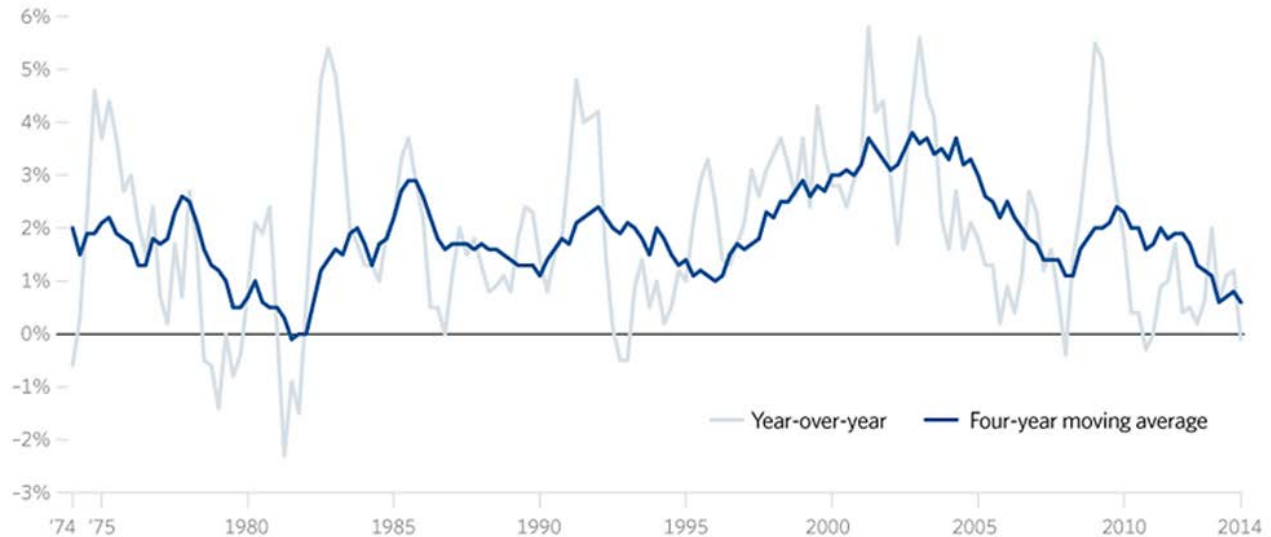
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Figure 3 (Chart shown below) shows that machines are not replacing human workers, but assist companies in productivity growth while utilizing human labor. This displays a minimized need for offshoring (Burke 2015).

Figure 3, Chart 2**Labor Productivity Shows Machines Are Not Replacing Humans**

If businesses were replacing human workers with machines at a faster rate than before, labor productivity growth would increase. However, as shown below, labor productivity growth has slowed since 2003.

PERCENTAGE CHANGES IN LABOR PRODUCTIVITY



Note: Data for 1974 begins with the fourth quarter.

Source: U.S. Department of Labor, Bureau of Labor Statistics, and Haver Analytics, "Productivity and Costs," Real Output per Hour, Non-Farm Business Sector.

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Conclusion

While all the studies had different findings, it seems clear that outsourcing/offshoring manufacturing processes can save a business money. The question with this practice then becomes if the company is willing to outsource design and other aspects of the company as well. The research presented in this report shows that companies who strictly outsource manufacturing processes alone may create more problems within the company in the future. The research also shows that outsourcing effects economies within the community, which spreads throughout the country. There are many advocates for globalization, who push for widespread growth and development, but studies show that offshoring does negatively impact U.S. manufacturing workers and companies. Technology is a key component when evaluating company production and growth. Studies show that increasing technological capabilities benefit companies and U.S. workers alike. Technological updates can increase production and product output while utilizing both high and low-skilled domestic workers.

Recommendation

Outsourcing manufacturing processes to Mexico can save money for the company. Playtime toys' profits have declined because they have failed to compete in the global toy market and increasing technologies. It appears offshoring could be a helpful option for Playtime Toys, but not necessarily the best. There are more aspects to consider than simply manufacturing. Firstly, if the company was to outsource manufacturing services, it is recommended that the design and administrative functions of the company be outsourced as well. Studies show without keeping these components of the process together, the company may suffer as a result. Is this an option Playtime Toys is willing to consider?

Another component to outsourcing is the potential communication breakdown that can occur when companies have split operations between two countries. Furthermore, the studies examined show that outsourcing benefits a company most when they are prepared to step fully into the global market and use the offshoring opportunity to expand flexibility and resources in an international way.

By remaining local, Playtime Toy can continue to benefit the local community and keep their processes where they are. If the company remains local, they will have to make some major changes in technologies, worker education and processes. If the company were to move to manufacturing processes to Mexico, 30% of the town will potentially become unemployed. By focusing on educating their workers to incorporate new technology and processes into the workplace, playtime toys will be able to keep manufacturing in the United States.

The company must focus on new technological advances in machinery. Investing in new technologies with assistance from local companies would be a good place to start. This will not only strengthen the company internally, but also strengthen the local community by keeping everything local. It is imperative that this company invest and operate the newest technology for design and production. To stay current and competitive, Playtime Toys must lead in innovative manufacturing technology. Conceivably the best way for the company to obtain the new technologies would be to seek investment help from local businesses and banking institutions.

Playtime Toys can remain competitive but keep manufacturing at by further expanding their production as well. Current production consists of toys alone, but should not remain limited in this way. By expanding productions and products produced, this company can continue to have a positive effect on the community and increase potential profits. Expanding production will not only improve overall income for the company, but has the potential to create new jobs for higher and lower-skilled workers.

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Appendix

According to Lars Bengtsson and Mandar Dabhilkar, in their article *Manufacturing outsourcing and its effect on plant performance—lessons for KIBS outsourcing*, it is obvious that those who outsource design along with manufacturing tend to perform better overall when compared to those who outsource manufacturing alone.

Table 9

Performance and outsourcing extent (correlation analysis)

	Purchasing status	Outsourcing intensity
Product quality	0.03	0.00
Product cost	0.05	0.05
Lead time	− 0.02	− 0.11
Delivery accuracy	− 0.02	− 0.14
Volume flexibility	0.09	<i>0.18</i>
Product mix flexibility	0.00	− 0.04
TTM	0.00	− 0.01
New products	0.06	0.08
Product changes	0.12	0.12
<i>N</i>	235 (all plants)	124 (outsourcing plants)

Three cases with mean values exceeding three standard deviations have been excluded. Cases that did not answer the questions on all indicators are omitted. Values in italics indicate that correlation is significant at the 0.05 level (two-tailed)

This is an important supplement to display how important it is to keep design and manufacturing processes under the same roof.