



China & India & Taiwan Oh My!

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Science of Business Goldratt Implementation Group US

African Proverb

Every morning in Africa, a gazelle wakes up. It knows that it must outrun the fastest lion or it will be killed. Every morning in Africa, a lion wakes up. It knows that it must out run the slowest gazelle or it will starve. It does not matter whether you are a lion or gazelle. When the sun comes up you had better be running.

The Current Situation

- **China joined the WTO in 2001 – leveling the playing field**
- **Never has the world seen the simultaneous takeoffs of two nations (China & India) that together account for a third of the planet’s population.**
- **We can not compete with the “China Price” and copycat culture. They have lower wages, benefits, taxes and environmental requirements.**

There are some growing pains ...

- China has been growing at over 9% a year with an investment/GDP ratio of around 40%. India has been clocking about 6% a year with an investment/GDP ratio of about 25%.
- In producing about 4% of the world's annual GDP, China consumes 10% of the world's electricity, 20% of its copper, 31% of its coal, and some 40% of its cement.
- In generating every ton of iron and steel, major Chinese iron and steel producers consume 40% more energy than the world average.
- Both China & India are avoiding military, financial, environmental, social, political, and health crises.
- China has yet to prove it can go beyond forced-march industrialization. 57% of China exports are from foreign invested factories.
- They must keep growing rapidly just to provide the jobs for tens of millions entering the workforce annually → if they don't social unrest will become more of an issue

Forging on ...

- **China's competitive edge is shifting from low-cost workers and low end production to state-of-the-art manufacturing.**
 - **India is creating world-class innovation hubs, starting to focus some on manufacturing.**
 - **An accelerating trend is that technical and managerial skills in both China and India are becoming more important than cheap assembly labor.**
 - **China and India graduate a combined half a million engineers and scientists a year, vs. 60,000 in the U.S.**
 - **“We came to India for the costs, we stayed for the quality, and we're now investing for the innovation.” Cisco**
 - **Infrastructure is being stretched in both India and China but they are addressing it and the benefits outweigh the shortcomings**
- **This challenge is not going away anytime soon.**

Impact on NTMA Members?

- Have YOU felt it?
- In what way?

So how do we compete?

Here's what we know ...

- China, India, and others have increased global competition → customers are asking us to match prices from overseas
- We can not compete against their cost structure → wages, healthcare, taxes, fuel, raw material, transportation, environmental → we can not match their prices
- So our customers/prospects are purchasing (or thinking about it) at least some from overseas
- To purchase from a distance you have to forecast further out → our customers' inventories are increasing
- Price breaks are given for higher quantities → the more our customers purchase the less they pay per part → they take advantage of price breaks and hold even more inventory (forecast out even further)
- Forecasts are not accurate & due date performance is NOT 100% → there is a non zero probability of stocking out
- Despite high inventories, our customers are still stocking out

There is an opportunity! Where are these problems the greatest?

- Which customers/prospects/parts have the most difficulty in forecasting?
 - HINT: They're holding tons of inventory and are still stocking out
- For which customers/prospects/parts, if they purchased from overseas, the amount of inventory they would need to hold is a significant dollar amount?
 - HINT: They're asking for JIT or for you to hold inventory
- For which customers/prospects/parts is the cost of not having a part greater than the price of the part?
 - HINT: They call with emergency orders or to make changes to existing orders on a regular basis
- The greater degree to which these problems exist, the more difficult it will be to for them the source 100% from overseas.

Adapting, Reinventing

- **If we target the customers with the greatest degree of these problems we can out perform any overseas supplier**
 - We have a huge lead-time advantage
 - The more flexible and adaptive we can be, allowing for smaller batches and more frequent deliveries, the less likely they are to stock out.
 - With shorter lead-times and smaller runs the need for high levels of inventory are eliminated
- **This translates into more sales opportunities, less cash tied up, and more profitability for our customers**
- **Total cost of ownership would be on the side of local suppliers (IF WE ADAPT)**

In the next 10-15 years ...

- Increasingly, most China watchers believe that neither financing costs nor infrastructure costs are being passed on to buyers. The correction itself is inevitable and China's pricing will be impacted.
- Retention of skilled workers is already top of mind. Incomes in both China and India are on the rise. Workers have more choices and in China there are over 267,000 unfilled factory jobs today
- As costs increase, China and India will raise prices
- Incomes will continue to rise → India and China become major consumers
- China (and India not far behind) will become the world's biggest market for nearly everything.

After the Next 10-15 Years

- If we can at a minimum survive (and I believe it is possible to thrive) the next 10-15 years
- Then we will enter a time where
 - China and India will be the largest consumers
 - Bottlenecks will pop up everywhere
 - Everyone will sell all they can produce

Summary

- **The survivor in today's world economy is the one that can LEARN and ADAPT and can REINVENT themselves as needed. No business is entirely safe from the unstoppable forces of globalization, but by recognizing these forces for what they are and by accepting adaptation and reinvention as a necessity, American companies can compete and prosper in the global economy.**

How to learn, adapt, reinvent?

- Join the next Velocity Scheduling System Coaching Program
- More information at:
<http://velocityschedulingssystem.wordpress.com/>
- Sign up at: <http://www.VelocitySchedulingSystem.com>
- Typical Results from VSS?
 - Lead time is cut in half (improving cash flow and ability to win business)
 - DDP substantially improves and many reach 100%
 - Chaos is dramatically reduced
 - All this without hiring more people or buying more machines!

Recommended Reading

How to LEARN, ADAPT, REINVENT

- [The Goal](#) by [Eliyahu Goldratt](#)
- [It's Not Luck](#) by [Eliyahu Goldratt](#)
- [Achieving a Viable Vision](#) by [“Dr Lisa” Lang](#)

For the best prices on all Theory of Constraints books go to: www.ScienceofBusiness.com click on products/books. We even have all the Amazon links.

China / India statistics and information:

www.Businessweek.com/go/china-india/

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BIOGRAPHY

- “Dr. Lisa” Lang is the President of The Science of Business®, an international consulting firm specializing in helping companies to achieve bottom line results through the application of Theory of Constraints principles. In addition to consulting, Lisa is a highly sought after international speaker on various topics focused on maximizing profitability. She is a TOC ICO certified expert and a PhD in Engineering. She works with Dr. Goldratt, developer of the Theory of Constraints and author of the best selling business novel The Goal. Lisa is the author of 2 books and another due out later this year.