

THE NEWSLETTER OF THE BDO MANUFACTURING & DISTRIBUTION PRACTICE

BDO MANUFACTURING OUTPUT



BDO Manufacturing Output regularly examines how manufacturers are rethinking operations, processes, supply chains, workforces, business systems, products and markets to achieve competitive advantage. This issue of *BDO Manufacturing Output* includes four articles that explore the talent gap in manufacturing today and highlight ways that companies can close the gap and grow their businesses:

- **The Talent Bottleneck**
- **Assessing and Closing the Talent Gap**
- **Attracting and Keeping the Right Talent**
- **Talent at the Top**

THE TALENT BOTTLENECK

U.S. manufacturers face a unique problem: despite high unemployment, industry still suffers from a skilled-labor shortage.

Today, after an impressive recovery from recession, the problem is even more pronounced. Although employment in the sector has remained essentially unchanged since mid-2012,¹ anecdotal evidence continues to mount that manufacturers simply can't find the skilled talent they need to remain competitive.

Why? Primarily because the advanced skills required by manufacturers are far more complex today than they were just 20 years ago. Manufacturers once had a limited, predictable shopping list for talent (machinists, tool and die specialists, etc.). But application of technology to all facets of

production has changed jobs and increased the skills required to work in manufacturing; the days when a foreman would choose brawn over brains are long gone. Compounding the issue, U.S. manufacturers are improving productivity through efforts such as lean manufacturing and Six Sigma. These strategies call for line employees with well-developed technical, problem-solving and interpersonal skills often lacking among new hires. It's no surprise that manufacturers across the country report wide disparities between what is required to work within modern manufacturing and what is taught in most high schools and colleges — leaving a skills gap that companies must bridge.

¹ "Employment Situation Summary," Bureau of Labor Statistics, Feb. 1, 2013.

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ASSESSING AND CLOSING THE TALENT GAP

Many manufacturing executives worry that they can't find the right talent. But how many have undertaken a comprehensive analysis of the skills required to improve performance and drive growth at their organizations?

The first step in identifying skill gaps within your company is a corporate performance appraisal. Analyzing performance issues will help you to target where talent upgrades are required. Common problems related to talent gaps at manufacturing companies include:

- **Downtime, safety, equipment failures:** Make sure your maintenance staff is sufficient and adequately trained.
- **Declining market share, rising returns, warranty claims:** It may be time to reinvigorate your research and design staff by bringing in new talent with new ideas.

▶ CONTINUED FROM PAGE 1 THE TALENT BOTTLENECK

Unfortunately, this gap is widening just as U.S. manufacturers have a unique opportunity to take advantage of rising demand and bring back production previously lost to foreign facilities. Even worse, the skills gap has become a bottleneck that damages current performance and hinders manufacturing growth. The manufacturing workweek was 40.6 hours in January 2013, with factory overtime unchanged at 3.3 hours — a tipping point at which workforce productivity is likely to decline. The lack of suitable talent also threatens to stifle innovation and the flow of new products. Expansion into new markets or geographies could likewise be delayed because of an inability to staff new locations.

Executives who want their businesses to grow will have to move aggressively to find, train, leverage and retain the talent they need. In this issue of *Manufacturing Output*, BDO outlines an approach to bridge the skills gap, including:

- Accurately identifying where skills gaps exist
- Attracting and hiring talent to close gaps
- Ensuring continuity (no gaps) at the most senior positions

- **Labor turnover, absenteeism, grievances:** Don't allow poor managers to drive away good employees or create a disgruntled workforce.
- **Complaints, missed orders, poor retention rates:** Companies lose customers for many reasons, but regular assessment of sales and service staff is crucial, especially when customer feedback turns negative.
- **Safety, quality, delivery:** Establish systems, such as standardized work, to ensure that frontline operators can safely and efficiently handle their jobs. Training and development can help to bridge a production skills gap, but the increasing complexity of operator roles often requires new talent.

The second step is a review of opportunities missed due to a lack of new talent and ideas, including:

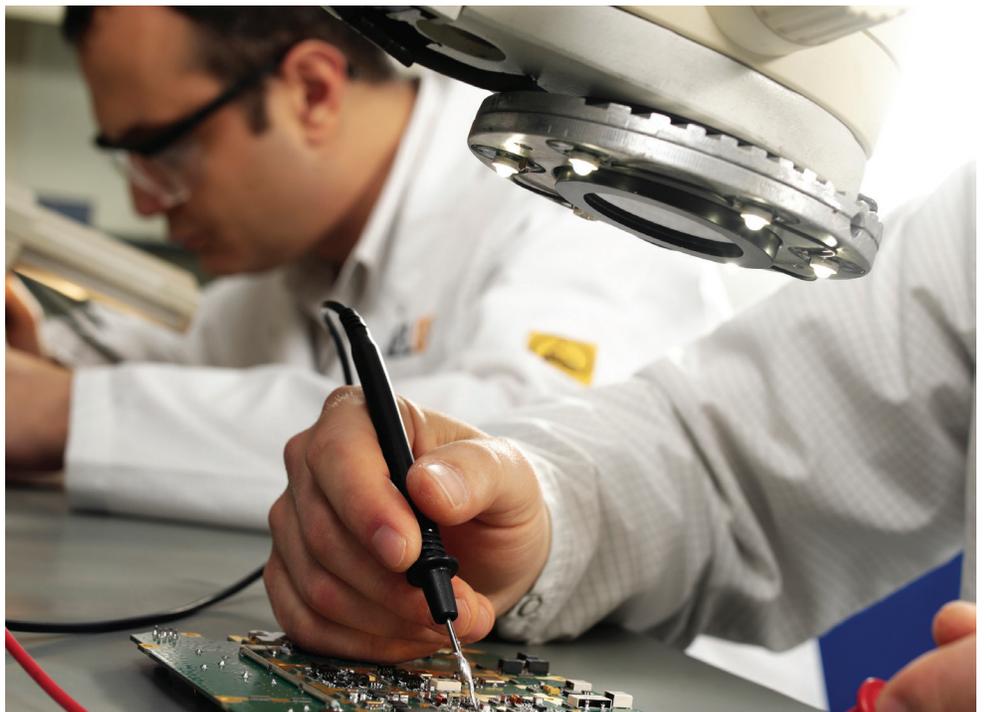
- **New customers and markets:** Don't miss out on new business because you don't have enough sales talent or the right kind of sales talent.
- **New processes:** Most manufacturers are pursuing improvement methodologies such as lean manufacturing or Six Sigma.

Unfortunately, many never progress beyond basic implementation, or rely too heavily on outside consultants. Establish performance management systems that allow managers and employees to grow their skill sets and lead your improvement efforts.

- **New products:** A rising economic tide can lull manufacturers into complacency regarding product development. R&D talent should drive efforts to create new products that incorporate new technologies, materials and software.

Human resources staff can supplement this two-pronged analysis via performance reviews and employee surveys with questions such as: Do employees need training to fill a skills gap? Are they willing to relocate? The end result of this approach is a talent development plan with two components:

- **Short-term:** Identification of urgent skill requirements and quick solutions (outsourcing, temporary staffing, new hires or reallocation of employees).
- **Long-term:** A talent pipeline plan focusing on recruitment of new talent and long-term employee development, training and retention.



ATTRACTING AND KEEPING THE RIGHT TALENT

Manufacturers will have to fight for the talent they need. In a recent survey, more than two-thirds of HR executives described their company's recruitment efforts as either extensive (23 percent) or moderate (46 percent).¹ More companies looking for talent means that competition for the best talent is increasing. Even amid 2012's stop-and-start economy, HR executives said their companies spent an average of \$10,731 per new hire, taking an average 51 days to fill an open position.³

Manufacturers must consider a range of approaches to attract job candidates even as they fight to retain their own talent, especially for advanced skills. Smart executives and HR leaders get the most out of their talent, both new hires and longtime workers, with a comprehensive strategy:

- **Multipronged recruiting:** Leading companies find employees from a variety of sources, including recruiters (external and internal); employee referrals; job boards; and affiliations with colleges, universities, community colleges, technical schools and high schools (e.g., apprenticeship programs).
- **Complete recruitment packages:** Creating the right recruitment package calls for comprehensive research into packages offered by regional and industry competitors for comparable roles. Companies also should consider fringe and intangible benefits (e.g., flexible work arrangements, job sharing) to lure new talent.
- **Hire-then-train option:** Executives often fail to find candidates with all required skills, and resort to hiring candidates that meet most, but not all, criteria. This approach works if the company can train for technical skills (and assuming all other candidate attributes, including attitude and work ethic, meet or exceed requirements). Some world-class organizations, such as Toyota, actually prefer to mold the workers they want, rather

than hire candidates steeped in another company's culture or processes.

- **Onboarding:** Companies often contribute to their own skill gaps by losing new employees shortly after they are hired. Why? Because many firms focus on getting bodies in the door, then fail to adequately onboard employees with training and mentoring; thus inspiring "buyer's remorse" among new hires. HR staffers should provide a detailed orientation for new hires, addressing performance and organizational expectations. Leading organizations also don't wait for an exit interview to get employee feedback; instead they regularly

assess employee satisfaction by conducting "stay" interviews.

- **Coaching:** With technical knowledge dwindling at many companies as baby boomers retire; it is imperative that organizations develop coaching programs to link new hires with manufacturing veterans. These initiatives capture knowledge before it walks out the door, even as they help new hires acclimate and learn.

In addition to developing comprehensive training initiatives, savvy manufacturers review available assistance programs (see *Government Support for Workforce Expansion*).

GOVERNMENT SUPPORT FOR WORKFORCE EXPANSION

Manufacturers have a range of financial supports available for growing their workforces, including:

- **Tax credits:** The federal government offers the Work Opportunity Tax Credit for companies that hire individuals from specific target groups, including veterans; credits can be as high as \$9,600 per qualified veteran hired by a for-profit employer.⁴ In addition, many states offer hiring tax credits. For example, the Georgia Job Tax Credit Program provides a job tax credit for any business or headquarters engaged in manufacturing, warehousing and distribution, processing, telecommunications, tourism or research and development industries.⁵
- **Workforce grants:** The Make it in America Challenge is providing \$40 million in competitive grant funding through the Department of Commerce's Economic Development Administration and National Institute of Standards and Technology Manufacturing Extension Partnership, and the Department of Labor's Employment and Training Administration. Applicants propose projects that accelerate job creation by encouraging insourcing by U.S. firms; fostering increased foreign direct investment; providing U.S. companies with incentives to keep or expand their businesses—and jobs—within the United States; and training local workers to meet the needs of those businesses. Recipients can include companies investing in innovative technologies, new products or services, or enhanced processes that grow sales and jobs.⁶
- **Enterprise zone incentives:** Many U.S. states, cities and counties have established enterprise zones. Companies operating in these zones are often eligible for hiring credits as well as add-on, workforce-related tax refunds.

² 2012 Allied Workforce Mobility Survey: Recruiting and Relocation, Allied Van Lines, April 2012, www.HRIQAllied.com; research support by The MPI Group.

³ Ibid

⁴ United States Department of Labor. <http://www.doleta.gov/business/incentives/opptax/>

⁵ Georgia Department of Community Affairs. <http://www.dca.state.ga.us/economic/taxcredits/programs/taxcredit.asp>

⁶ Upcoming ETA Funding Opportunities, Department of Labor's Employment and Training Administration.

TALENT AT THE TOP



For middle-market manufacturers, especially family-owned businesses, the potential for growth often hinges on the activities and decisions of one individual – the owner. When the owner leaves the company or retires, these companies often face a leadership crisis. Baby boomer demographics make this a national issue. According to one recent survey, 59 percent of U.S. manufacturing firms anticipate a possible change in leadership within the next five years.

Savvy manufacturers maintain detailed succession plans that identify critical

leadership roles and the candidates likely to fill them. These companies invest considerable time, effort and money into developing candidates for new roles, rotating them among a variety of leadership positions in multiple departments and, when possible, in multiple locations around the globe.

It's important to remember, too, that critical, non-executive positions also require replacement planning. Candidate development for these positions (e.g., director of procurement, head of R&D, plant manager) usually includes mentoring and shadowing of current staff, along with a range of experiences and training necessary for those roles.

Lastly, owners planning their exits must develop detailed legal and financial plans, even if family members are involved in the succession. Smart owners will work with experienced professionals who can help them value their companies and review liquidity options (sale of the company, employee ownership, etc.) so that talent, operations and profits grow even after their departures.

⁷ "Next Generation Manufacturing Study, National Executive Summary," The MPI Group, 2011.

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BDO's Compensation and Benefits practice offers an experienced and dedicated team of professionals who operate nationwide to provide a comprehensive array of services to address client needs. The practice recently released the 2012 BDO 600 survey, detailing director compensation practices of publicly traded companies in many industries, including manufacturing.

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