Industrial footprint optimization: The operational perspective (article 2/5)

FOOTPRINT OPTIMIZATION IN A TRANSFORMATIVE INDUSTRIAL LANDSCAPE: SET YOURSELF UP FOR PROACTIVE, FLEXIBLE FRAMEWORKS

This is the second part of our series “A blueprint for footprint” on the key facets of industrial footprint optimization

The global industrial landscape is undergoing significant transformation due to evolving trade policies, geopolitical shifts, and supply chain disruptions. These changes make it imperative to rethink operational strategies to ensure resilience and adaptability.

Industrial footprint optimisation must address changes in the entire value chain: streamlining footprint across engineering, procurement, supply chain and operations. Done effectively, such a program can deliver substantial Ebitda gains while boosting operational resilience.

Our previous article established a broad overview of industrial footprint optimization and the main issues facing businesses in an evolving landscape. In this article, we will deep-dive into the challenges and key considerations for businesses from an industrial and operational perspective, emphasizing strategies to build resilient, flexible and adaptive frameworks and to adopt a proactive rather than reactive approach.

Main challenges

Here are some of the key operational challenges and dilemmas that businesses are facing today:

Mitigating tariff impact:

Tariffs are increasingly used as economic tools, creating cost pressures and necessitating strategic adjustments in sourcing and production locations. Companies must evaluate tariff engineering options, such as redesigning products or shifting supply chains to mitigate costs

Integrating acquisitions:

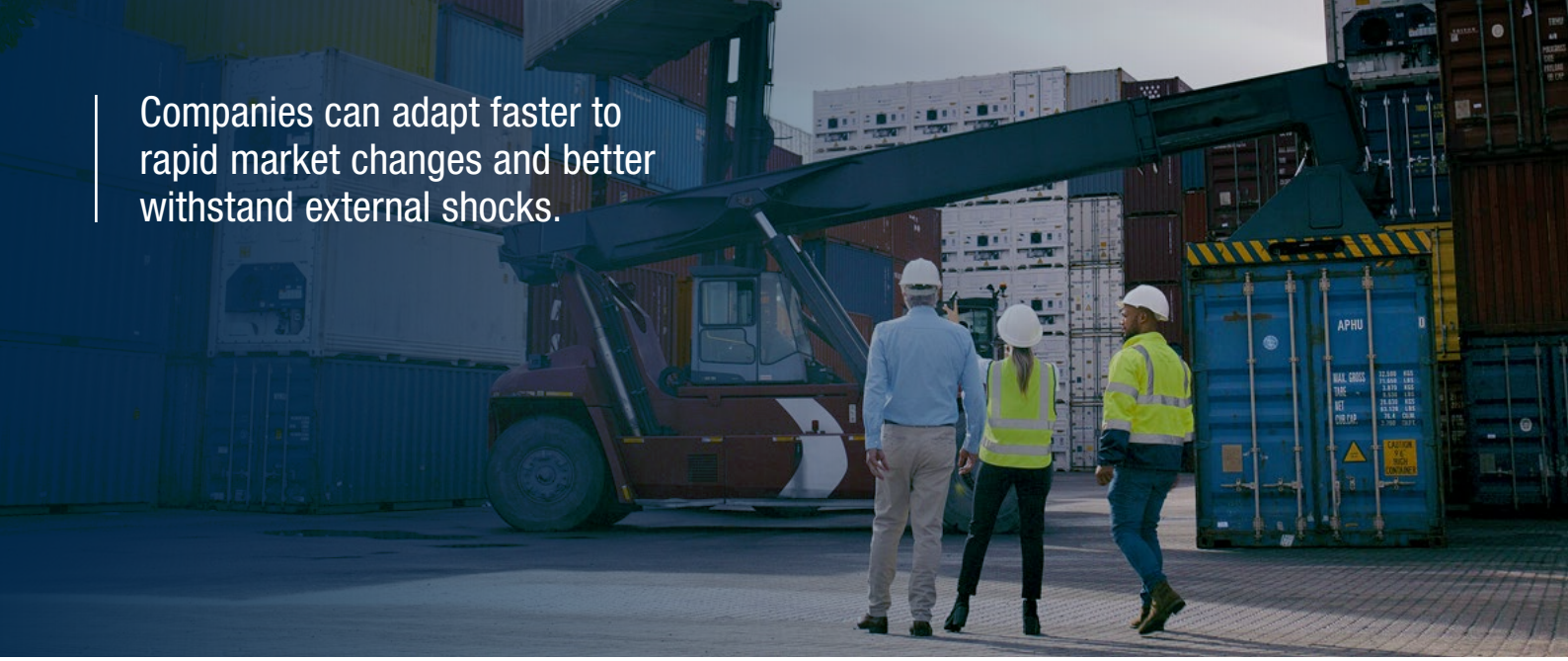
Addressing adjustment issues is vital when integrating acquisitions into the main entity. Inorganic growth through acquisitions often leads to fragmented operations. Integrating these into a cohesive footprint is critical for efficiency and resilience.

Deciding between nearshoring and far-shoring:

While cost remains an important consideration, it is not the only factor when it comes to locations. Decision-making must balance cost, proximity and operational risks. For example, nearshoring to regions like Mexico offers proximity to the U.S. market and reduced tariff exposure, but rising wages and grid strain in Mexico present new challenges.

Adapting to de-industrialization trends:

Europe is facing significant job losses and shifts in industrial output due to deindustrialization. Companies must adapt by investing in automation, artificial intelligence and retraining programs to maintain competitiveness.



Companies can adapt faster to rapid market changes and better withstand external shocks.

ACHIEVING LONG-TERM BENEFITS:
THE RESILIENT OPERATIONS FRAMEWORK

As we have outlined above, businesses are facing a plethora of challenges when it comes to optimizing their industrial footprint. To address them in a holistic manner, it is necessary to focus not just on short-term gains, but on long-term resilience and adaptability. At A&M, we call this the Resilient Operations Framework. By adopting this approach, companies can adapt faster to rapid market changes and better withstand external shocks. We break this down into two phases:

Phase 1

Diagnostic and Scenario Planning

Objective:

- Identify operational weaknesses that hinder flexibility and resilience.

Key activities:

- Conduct a comprehensive assessment of current operations, including supply chain vulnerabilities and site performance.
- Develop scenario models to test potential solutions, focusing on resilience to future disruptions (e.g., tariff changes, supply chain shocks).
- Incorporate cross-functional insights, such as tax implications and compliance requirements, into scenario planning.
- In an evolving scenario, consider whether the best path forward is to take immediate action or to delay new investment and maneuver within existing footprint until a clearer picture emerges.

Phase 2

Implementation and Continuous Optimization

Objective:

- Execute the transformation plan while embedding resilience into operations.

Potential key activities:

- Develop a phased implementation roadmap, including footprint transformations or site closures, supply chain realignments, and workforce adjustments.
- Establish a Project Management Office (PMO) to monitor progress and ensure alignment with strategic goals.
- Implement advanced technologies (e.g., automation, AI-driven supply chain tools) to enhance operational flexibility.
- Regularly review and optimize the footprint to adapt to changing market conditions.

AN INTEGRATED APPROACH

Any operational resilience optimization program must adopt an integrated approach. To maximize impact, it is crucial to leverage synergies across tax, compliance, and valuation functions.

Below, we highlight some of the key synergies between operations and other business aspects and the importance of leveraging them in footprint optimization efforts:

Tax-efficiency is critical in site selection and supply chain design:

When optimizing the industrial footprint, companies must consider tax implications such as transfer pricing, customs duties, and local tax incentives. For instance, relocating production to a nearshoring location like Mexico may reduce tariffs but could increase tax exposure if local tax incentives are not leveraged effectively. Collaborating with tax experts during the scenario planning phase ensures that the chosen footprint minimizes tax liabilities while maximizing operational efficiency.

Failure to comply with trade regulations could kill cost arbitrage in footprint optimization:

A company shifting production to a new region must comply with local trade regulations, such as rules of origin under free trade agreements. Failure to meet these requirements could negate tariff benefits. Compliance teams can work alongside operations and tax teams to ensure that supply chain adjustments align with regulatory requirements, avoiding costly penalties or disruptions.

Valuation of assets supports strategic footprint decision-making:

When consolidating or closing sites, companies need to assess the value of assets (such as facilities and equipment) to determine whether to sell, repurpose or write them off. This valuation impacts financial reporting and investment and footprint optimization decisions. Valuation experts can provide critical input to operations teams, ensuring that decisions are financially sound and aligned with long-term strategic goals.

Site selection due diligence must focus on mitigating risks in changed footprint and cross-border operations:

Expanding operations into new regions introduces risks such as currency fluctuations, political instability, and compliance with local labor laws. A company moving production to a low-cost country may face challenges related to labor standards and environmental regulations. A cross-functional approach ensures that compliance, tax, and valuation considerations are factored into risk assessments, leading to a resilient and legally compliant footprint.

Maximizing financial returns from footprint optimization drives project and shareholder value:

A company optimizing its footprint to improve Ebitda must consider the financial impact of tax credits, depreciation of assets, and potential write-offs. Closing a facility may trigger tax liabilities or impact the valuation of the company's overall assets. By involving tax and valuation teams in the planning process, companies can identify opportunities to maximize fi nancial returns, such as claiming tax credits for investments in automation or renewable energy.

CASE STUDY:

A&M'S ENGAGEMENT IMPACT

A&M recently supported a global multi-billion-dollar revenue supplier with an industrial footprint optimization project, with our approach resulting in a winning outcome for the client. Here's how:

The scenario:

The client operated a global network of sites, with a substantial focus in one region and fragmented implementation. This led to significant internal costs, underutilized processes and unclear performance at a time of increased cost- and competitive pressures.

A&M's intervention:

A&M worked with the client to assess the sites and define industrial strategy that would serve as a footprint framework. Our industrial strategy laid out plans for fully integrated "product and process completion" plants, location proposals of the best countries cost-wise, and shared sites. At the same time, we challenged existing plant performance, measuring plants on best cost standard productivity and ensuring consistent make vs buy strategy. We targeted decreasing the number of plants and inter-plant transport, while increasing integration, plant size and performance.

The outcome:

$400 million EBITDA upside and multiple expansion for the client.

- A&M's industrial strategy developed for the client served as guidance for future decisions on product allocation and supplier network.
- The recommendation would result in improved footprint across the region, with the closure of half of the sites in more expensive locations and the opening of three larger plants in better cost countries.
- Evaluation and recommendation for recurring annual benefits of around $330 million

CONCLUSION

Industrial footprint optimization is more relevant than ever for businesses as they grapple with issues ranging from new tariff and trade developments to ongoing deindustrialization trends in Europe. This calls for companies to not just adapt swifty, but smartly.

With an integrated approach to footprint optimization that takes into consideration not just operational impact, but also tax, compliance and valuation perspectives, businesses can maximize the impact of their strategic actions.

With the market in a state of constant flux, industrial footprint optimization must prioritize resilience and flexibility. By adopting a structured, cross-functional approach, companies can not only address current challenges but also position themselves for long-term success.

In the next part of our series, we will explore the key compliance considerations of footprint optimization. To read the first article in the series, click here

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