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Weathering the Storm:

How Manufacturers Survive Tough Times

Compdata SURVEYS
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Executive Summary

Recently, economists have suggested the recession has finally ended and the economy is slowly beginning to come back to life. The recent economic crisis has forced many organizations, manufacturers in particular, to make tremendous sacrifices in order to stay in business. Previously, the emphasis on compensation planning was to create packages that were as attractive as they were financially practical. Due to the downturn in the economy, companies have slashed budgets and have come up with creative ways to stay afloat while minimizing the effects on their workforce. This whitepaper will give you a clearer picture of how manufacturing companies are surviving these challenging economic times by covering the following issues:

- Benefits
- Salaries
- Staffing
- Lean Manufacturing

Introduction

While conservative compensation planning has long been the norm, many manufacturing executives have been faced with the unique challenge of trimming their budgets to bare bones levels. Although some organizations have had to make uncomfortable compromises to survive, the national manufacturing unemployment rate dropped over the course of the year to 9.9 percent in January 2011, an indication the industry is slowly starting to recover.

Although the economy is finally beginning to show signs of life, manufacturing executives still have difficult choices to make to keep their companies afloat. Overcoming the challenges created by the recession has proven to be an extraordinary task for organizations across the country, but many have persevered and are emerging stronger than before as a result of developing smart compensation strategies.

Benefits

The 2010 Compensation Data Manufacturing *results showed more than 40 percent of organizations reduced or eliminated benefits.*

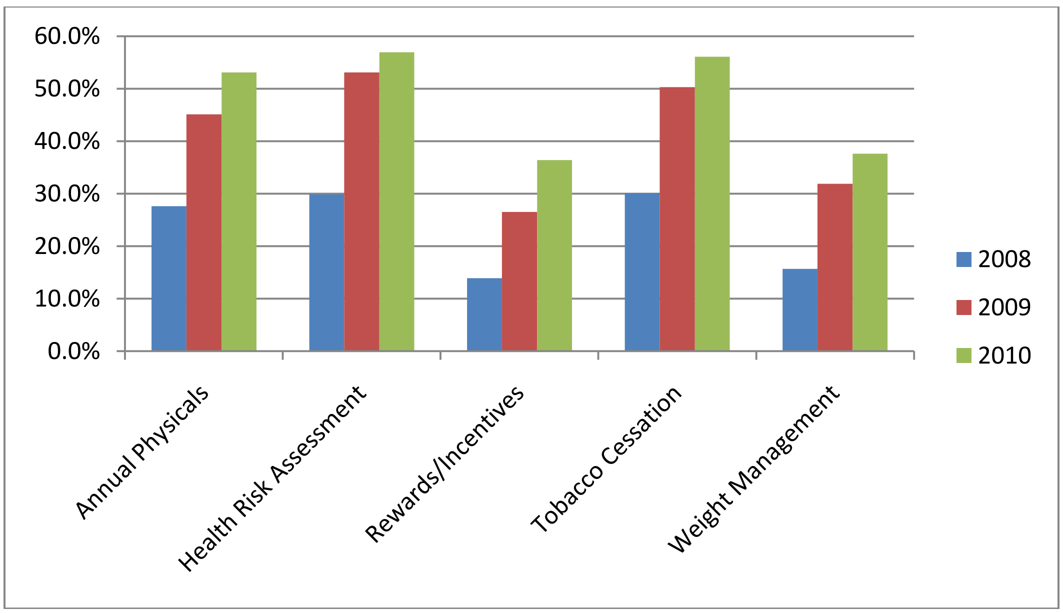
It goes without saying that the cost of providing benefits, medical insurance in particular, has exponentially increased for several years. Employers have made efforts to rearrange budgets in order to compensate for these increases, but in many cases it hasn't been enough. More than 40 percent of the respondents in the 2010 *Compensation Data Manufacturing* survey reported they have reduced or eliminated some benefits in order to deal with escalating costs.

While most companies have been able to maintain employee benefit coverage and coverage levels, finding ways to reduce benefit costs remains a crucial element of a company's compensation strategy. Companies employ a number of methods to aid in reducing the overall costs of providing medical insurance. Increasing the employee portion of the premium is most prevalent at 56.7 percent, while increasing deductible levels follows at 46.9 percent. The results found that 25.8 percent of organizations have increased employee co-insurance levels and 23 percent offer a choice of deductible levels. More than 20 percent of manufacturers have switched carriers in an effort to reduce costs.

Cost containment measures are also an important strategy in keeping costs in line. Coordination of benefits is used at a rate of 83.8 percent. Disease management is used by 61 percent of organizations, while 57.9 percent employ utilization reviews. Manufacturers use pharmacy benefit management at a rate of 55 percent.

The popularity of wellness programs continues to swell as more manufacturers are embracing the philosophy of a good offense is the best defense. In fact, the rate at which several wellness options are offered has risen significantly over just the past two years. According to the survey results, 53.1 percent of organizations offer annual physicals to employees, up from 27.6 percent reported in 2008. Utilizing health risk assessments has risen from 29.9 percent in 2008 to 56.9 percent in 2010. Offering rewards and incentives increased from 13.9 percent to 36.4 percent over the last two years. Tobacco cessation options are offered at 56.1 percent of organizations, compared to 30.1 percent in 2008. Weight management programs are offered at 37.6 percent of companies.

Wellness Options Offered



Even the White House is making efforts to encourage employers to implement workplace wellness programs. The Patient Protection and Affordable Care Act, signed into law in March, allows for $200 billion in grants over the next five years to assist small businesses in creating and implementing wellness programs. The grants become available this year, and wellness programs must meet certain guidelines. To be eligible, wellness programs must include health awareness initiatives, efforts to maximize employee engagement, initiatives to change unhealthy behavior and lifestyle choices and supportive environment efforts to encourage healthy lifestyles.

Salaries

More than 13.8 percent of organizations implemented salary freezes and another 14.7 percent reduced salaries in an effort to reduce costs.

For the last few years, companies have struggled to find ways to maintain current workforce levels while cutting back on total payroll dollars. The 2010 *Compensation Data Manufacturing* results found that, as a result of these efforts, 13.8 percent of companies have implemented salary freezes or are delaying pay increases, while another 14.7 percent have reduced salaries altogether. For companies who do offer pay increases, their budgets increased slightly in 2010, though they are still lower than they were two years ago. The survey results indicated that pay increase budgets rose to 2.2 percent in 2010, up from 1.9 percent in 2009. Manufacturers predict another uptick in pay increase budgets in to 2.6 percent in 2011.

Companies who have formal pay ranges are also waiting longer to make adjustments, in order to control payroll costs. In 2008, companies reported waiting less than 12 months to adjust their pay ranges. This has increased to 14 months over the last two years. Additionally, the amount of the adjustments has declined as manufacturers report pay range adjustments of 1.7 percent in 2010, down from 3.12 percent in 2008.

Pay Range Adjustments

	2008	2009	2010
Pay Range Adjustment %	3.12	1.8	1.7

Along with decreases to employee pay rates and delays to pay range adjustments, employers are making changes to reward systems as 22.2 percent of manufacturers have reduced bonuses and incentives to help control payroll costs. Although keeping current employees on staff is a top concern, increasing pay and rewards will continue to be difficult until an upswing in the economic climate becomes more visible.

Staffing

The 2010 Compensation Data Manufacturing *results showed more than 30 percent of organizations utilized permanent layoffs affecting 12.9 percent of their workforce.*

At the onset of the recession, the U.S. Bureau of Labor Statistics projected that between 2008 and 2018, the number of manufacturing jobs would decrease by roughly nine percent to 1.2 million. At the time, these decreases were attributed to factors such as automation and international competition.[1] When the recession took hold, however, things changed as manufacturing unemployment levels surged to 12.6 percent by May 2009. While the unemployment levels within the industry have dropped from levels seen a year ago, it is still nearly double the rates seen in 2008.

For many manufacturers, reducing staff has been necessary to keep their companies in business. The 2010 *Compensation Data Manufacturing* survey results showed 13.8 percent of manufacturers surveyed have utilized temporary layoffs to mitigate costs. Over 30 percent of respondents have implemented permanent layoffs affecting 12.9 percent of their workforce. Although reducing staff is considered a last resort for most organizations, it is a viable option due to its ability to quickly free up financial resources.

In addition to layoffs, 34.2 percent of organizations have initiated hiring freezes, and 10 percent reported they are not actively recruiting personnel. For many organizations, hiring freezes are used in lieu of layoffs so the company has the ability to quickly rebound when economic conditions finally improve. In fact, finding skilled workers can be exceedingly difficult for manufacturers when they are hiring once again, despite a job market flooded with unemployed workers. The advantage of having trained employees on staff when business picks up saves employers money because they don't have to hire and train new personnel.

[1]U.S. Bureau of Labor Statistics, "Overview of the 2008-2018 projections," *Occupational Outlook Handbook, 2010-11 edition.*

Lean Manufacturing

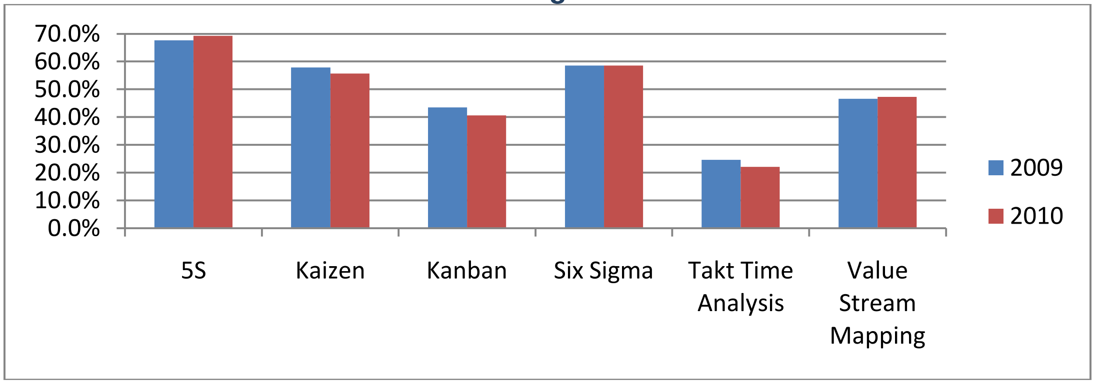
Lean manufacturing practices are utilized by 69.7 percent of organizations.

In recent years, the use of lean manufacturing practices has gradually gained popularity across the country because of companies' ability to streamline workflow processes and cut costs. Due to the economic struggles created by the recession, however, many organizations turned to the use of lean practices to keep companies afloat. Employing lean manufacturing techniques allows companies to cut back on inventory and reduce stockpiles of raw materials, saving companies money in the process. Mattress company, Sealy, cut inventory by 50 percent through the use of lean practices, and in the process, freed up enough space to combine two shifts into one, reducing costs even further.[2]

The 2010 *Compensation Data Manufacturing* survey results found that 69.7 percent of organizations utilize lean manufacturing programs. Of the programs used, 5S programs are the most popular at 69.2 percent. This is followed by Six Sigma at 58.6 percent. Kaizen and Value Stream Mapping are used by manufacturers at a rate of 55.7 and 47.3 percent, respectively. Takt Time Analysis is used by companies the least, 22.1 percent.

Recently, Six Sigma and lean manufacturing have formed a partnership. The convergence of Six Sigma methodology and lean manufacturing is illustrated by the acronym, DMADDD. It takes into account the first three aspects of typical Six Sigma methodology which are Define, Measure and Analyze and adds to them Design, Digitize and Draw Down. The end results are similar, but efficiency is placed on even more of a premium with the DMADDD method of Six Sigma to coincide with some of the basic tenets of lean manufacturing.

Lean Manufacturing Practices Utilized



[2]Paul Davidson, "Lean Manufacturing Helps Companies Survive Recession," *USA Today,* November 3, 2009.

Conclusion

While no industry has escaped the hardships created by the recession, it is safe to say the manufacturing industry took a tremendous hit during this dark economic time. With the national manufacturing unemployment rate still close to 10 percent, it may be a while before companies feel financially secure enough to make noticeable enhancements to their compensation packages. Maintaining current employee levels while sustaining quality and production levels will continue to be a top priority for the foreseeable future.

For manufacturers, future opportunities lie in wait. In 2010, the White House unveiled a plan to double exports from the U.S. within the next five years. The plan is projected to support two million jobs and, if successful, would provide a much needed boost to the industry. The plan, which is detailed in the National Export Initiative (NEI), will eventually provide financing for small to medium sized businesses to assist them in entering into foreign markets and promote the dissolution of trade barriers abroad. Until the success of these efforts can be discerned, however, it will remain important for manufacturers to continue their vigilance and make moderate choices in compensation planning.

Note:
Unless otherwise cited, all data included in this report is from the 2010 *Compensation Data Manufacturing* results, which include data from nearly 1,100 manufacturing and distribution companies covering over 1.1 million employees.

About the Author

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Theresa Worman is the Vice President of Business Development for Compdata Surveys, the nation's leading provider of compensation and benefits data. Over the past 15 years, Theresa has collaborated with clients and associations of all sizes to identify specific compensation information needs in order to address changing issues impacting how organizations recruit and retain the best employees.

About Compdata Surveys

Compdata Surveys is a national compensation survey and consulting firm specializing in providing accurate and reliable data to organizations across the country. Our products and custom consulting services ensure organizations' competitive success by providing an all-inclusive solution encompassing pay, benefits and rewards systems.

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