



It's 2008: Do You Know Where Your Talent Is?

How Manufacturing Companies Can Beat the Coming Talent Crisis



United States-based manufacturers soon will confront one of the greatest ironies in recent business history. After two decades and billions of dollars of investments in performance improvement programs geared toward making their U.S. operations more competitive at home and globally, manufacturers soon will face a severe shortage of the very talent they need to make use of these investments. Fueled by the retirement of Baby Boomers, a widening skills gap driven by

changing job requirements, declining educational standards, and the proliferation of technology across the manufacturing value chain, the looming talent shortage is already being felt and will be in full swing within several years.

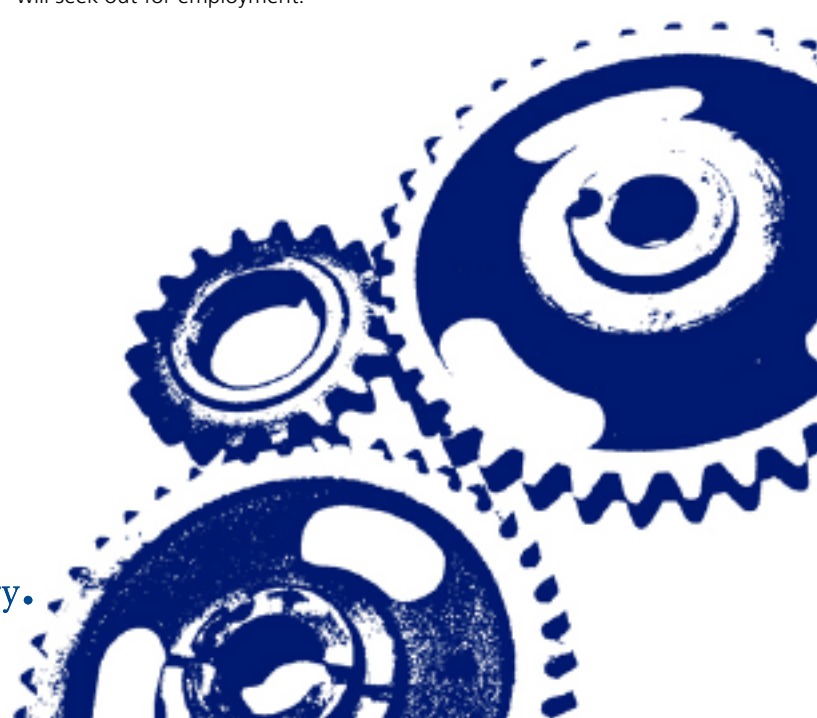
This talent crisis will not be limited to the manufacturing industry or the United States (see our in-depth report: *It's 2008: Do You Know Where Your Talent Is? Why Acquisition and Retention Strategies Don't Work*). Throughout the world and across industries, retiring Baby

Boomers will leave behind a huge leadership and experience shortage. This and the widening skills gap will converge to create an environment in which the competition for skilled workers will dwarf anything manufacturing companies experienced during the "war for talent" of the 1990s. Outdated and inefficient talent management practices will exacerbate the problem for ill-prepared manufacturers.

Deloitte Consulting LLP believes that manufacturers can thrive in the midst of the coming talent crisis by implementing an integrated talent management strategy now. This approach addresses talent "pain points" that manufacturers will experience in coming years and position them to be viewed in the marketplace as true employers of choice – companies that high-performing, highly skilled professionals will seek out for employment.

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The Perfect Storm for Talent Management?

Talent management is an integrated set of processes, programs, and technologies that deliver improved employee productivity and business results. Several converging trends will compel U.S. manufacturers to boost their talent management capabilities dramatically in the next ten years.

Global Pressures

Facing brutal competition from abroad, many U.S. companies are relying on offshore labor pools to cut costs. At the same time, these companies are being forced to compete on product design, innovation, productivity, flexibility, quality, and responsiveness to customer needs. As a result, U.S. manufacturers need more skilled workers who can contribute more both individually and on teams. A high premium is being placed on specific skills, strong morale, and worker commitment. Productivity continues to be a key lever for competitiveness. And a workforce focused on innovation is of paramount importance.

Talent Supply

At the same time that manufacturers face a growing need for skilled workers, labor pools in the United States will shrink rapidly as Baby Boomers begin to retire in 2008. The Bureau of Labor Statistics estimates a shortfall of three million workers by 2010. Turnover in executive and managerial positions is projected at approximately three million by 2008. Ten million new skilled workers will be needed by 2020. In fact, 80 percent of manufacturers already report a shortage of qualified job candidates, especially in production and direct support fields, such as entry-level production employees, craft workers, operators, machinists, technicians, electricians, and engineers.¹

With departing workers, companies will face a massive loss of knowledge capital in the next ten years. Currently, the main source for replacing these retiring employees is immigration or offshoring. Yet importing talent into the United States has become far more difficult post-9/11 and offshoring, while a competitive imperative for many companies, is fraught with risks. These issues put manufacturing at a severe disadvantage in attracting new talent, especially because graduating students now entering the U.S. workforce view career opportunities offered by the manufacturing industry with unprecedented disdain.²

Technology Advances

Technology plays an ever-larger role in manufacturing, not just on the shop floor, but also across the entire manufacturing value chain. As a result, manufacturing jobs are now technology jobs – all employees must have a wide range of skills to work in an increasingly complex environment.

As a harbinger of what's to come, talent shortages have already begun to impact enterprise and shareholder value, making it difficult for manufacturers to:

- Maintain production levels to meet customer demand
- Implement new productivity improvements
- Implement quality improvement processes

These trends continue despite the relatively higher compensation and rewards offered in the industry. Manufacturing worker wages are 18 percent higher than the rest of the population, and 84 percent of manufacturing workers receive direct health care coverage through their employers.³ Only the federal government provides health care benefits to a greater proportion of its workers.

¹ "The Skills Gap 2001," National Association of Manufacturers.

² Ibid.

³ Ibid.

The Springboard to a New Level: Develop, Deploy, Connect

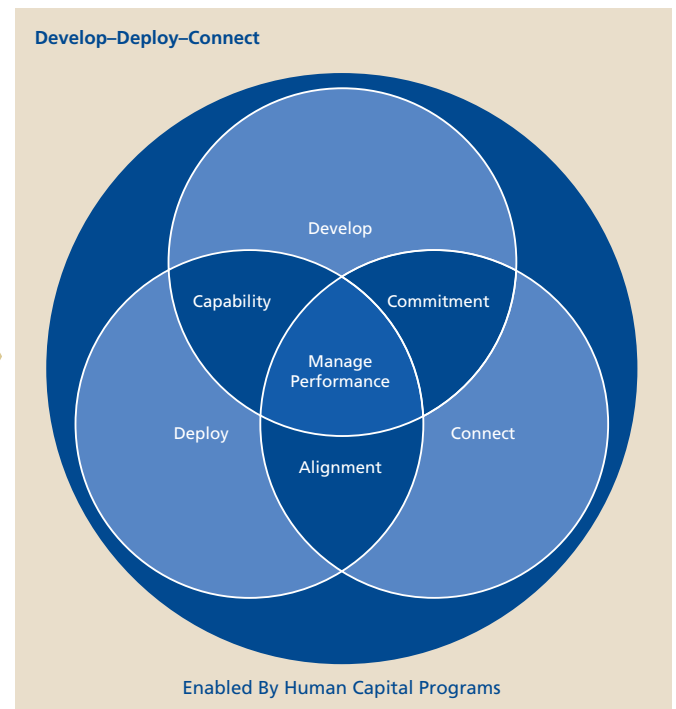
Manufacturers can begin to address these inexorable challenges by considering this fundamental talent question: What are the critical workforce segments required for the business to succeed? Critical workforce segments are groups and individuals that drive a disproportionate share of their company's business performance and generate greater-than-average value for customers and shareholders.

Until now, companies typically have pursued talent management initiatives reactively, without sufficient analytical rigor. Rarely is there sufficient tie-in to business priorities or a focus on critical workforce segments. Moreover, current talent management initiatives often focus exclusively on the traditional areas of acquisition and retention, an approach that is proving increasingly ineffective.

Instead, manufacturing companies must build strategies around three key dimensions that matter to critical workforce segments:

- Development and growth, recognizing that training is part of, but not the sole path to, achievement
- Deployment of employees into jobs or special projects that engage them, creating roles and opportunities that tap the full potential of top performers
- Connection and engagement with others in the company, focusing on the networks and quality of interactions that top performers need to succeed

When companies focus on the development, deployment, and connection of critical workforce segments, they find that the attraction and retention of key talent largely take care of themselves.



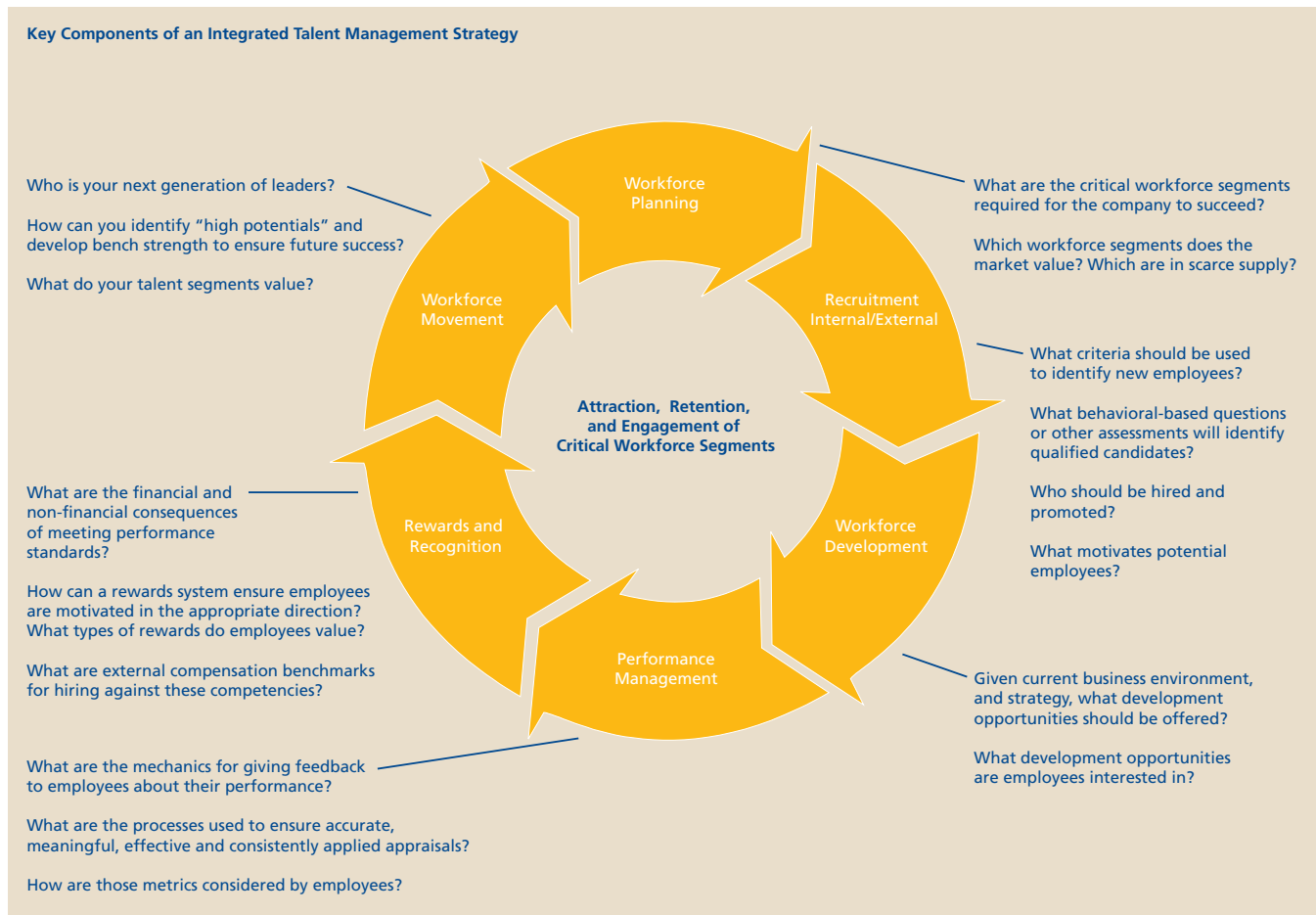
Getting Started: What Manufacturing Companies Can Do Now

Manufacturers will find that the shift in strategy from the traditional approach of attracting and retaining employees to the broader, more encompassing method of our Develop-Deploy-Connect model can be enabled through integrated HR programs that are calibrated to specific talent needs.

For example, if a company seeks certain skill sets, improved morale, or greater productivity, then tailored learning, recognition, and performance management programs are powerful levers.

Companies needing a wider range of technical skills can rely on workforce rotation programs, used in conjunction with organizational learning, to produce the types of skill sets that align better with business priorities.

If a company has a large group of retiring employees and, therefore, will be recruiting many skilled workers in coming years, knowledge retention processes – supported again by tailored learning programs – can harvest decades of institutional knowledge in the retirement-age workforce and can use it to accelerate the on-boarding of their successors.



Companies with these types of issues can take the following steps to get started with the Develop-Deploy-Connect model:

1. Identify **critical workforce segments** (CWS) based on business strategy and required skills.
2. Conduct **workforce planning** for each CWS based on flows in and out, future demand, and supply.
3. Evaluate and redesign **sourcing** strategy considering alternate sources, immigration, process, and overall employment brand.
4. Evaluate **total rewards** strategy and align with CWS.
5. Measure levels of **employee commitment** and identify drivers for each CWS.
6. Refine and align **performance management** processes, metrics, technologies and other inter-dependencies.
7. Develop **knowledge management** strategy for collaboration, knowledge capture, and transfer.
8. Create a **talent development** strategy for training, career paths, mentoring, and coaching.
9. Create a **"connect"** strategy around culture, front-line supervisory skills, workforce communities, and communications.
10. Develop an **evaluation** strategy with metrics, KPI's, and scorecards to assess effectiveness.

The pool of talent from which U.S. manufacturers currently dip is already shrinking, and far worse talent shortages are still to come. Leading manufacturers are already looking seriously at how to get in front of the resulting world crisis for talent that is sure to emerge. Success will come to those that let go of outdated and ineffective recruitment and retention strategies in favor of talent management models that nurture, inspire, and reward employees in new ways.

Develop-Deploy-Connect is the new model – one that elevates talent management to an entirely new level. Companies that explore this new model now – and take time to implement it fully over the next few years – will find themselves in a far more competitive position when the talent crisis is in full swing.

Read more about Talent Management on [Deloitte.com/us](http://www.deloitte.com/us):

<http://www.deloitte.com/us/talentpov>

The first in a series on Talent Management, this newly released Point of View from Deloitte Research defines the talent crisis and offers a new, forward-thinking approach to talent management strategies—the "Develop-Deploy-Connect" model.

For more information, please contact:

Richard Kleinert, Principal
Deloitte Consulting LLP
Los Angeles, CA
Tel: 213.688.3368
e-mail: rkleinert@deloitte.com

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