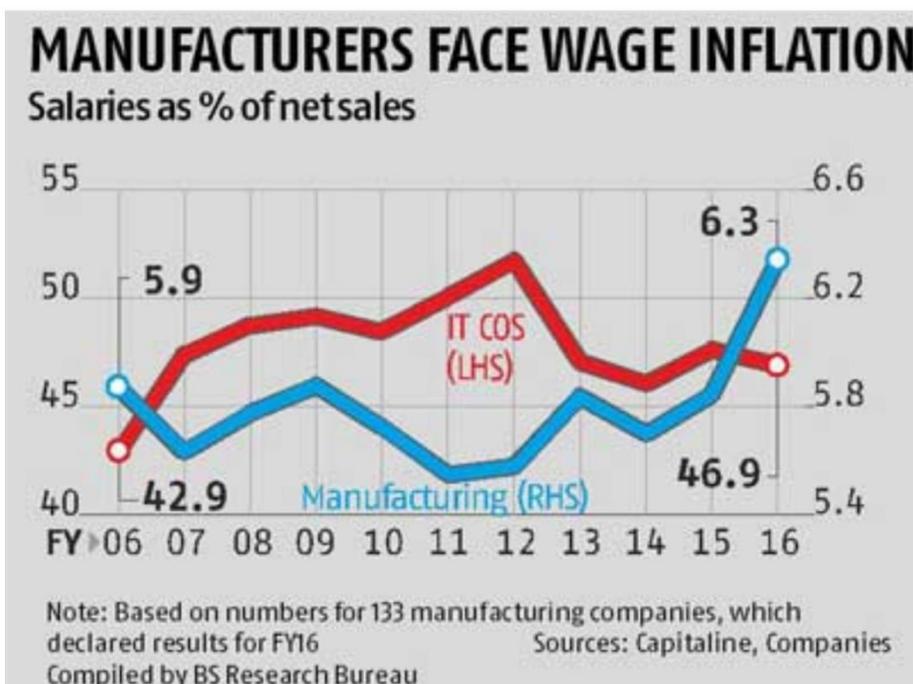




### Wage Inflation: a Tsunami in the offing?

- Wages as a % of net sales for manufacturers has gone up from 5.9% to 6.3% in the past 3 years
- The drop in cost of raw materials during this period has masked this increase and manufacturers have posted increased profits
- The proposed increase in minimum wages is likely to push up wages as a % of sales by another 2% i.e. from 6.3% to 8.3%.
- With raw material costs also expected to go up again in the near future, this “double whammy” looms ahead as a veritable Tsunami for manufacturers who typically operate with low single digit net margins.

After nearly a decade where salaries as a % of net sales had actually dropped from 5.9% to 5.6%, wages have suddenly shot up in the last couple of years to 6.3%.



The impact is far more significant at the entry level where wages normally have nearly doubled in the last 2-3 years. Manufacturers have been able to survive this sudden hike in the recent past because the dramatic drop in the cost of raw materials in has more than offset the increase in cost of wages.

But, the forecast for the next 3 years looks pretty gloomy for manufacturers - especially when the proposed hike in the minimum wages takes effect. An increase of minimum wages from the present Rs.6000/- or so to the proposed Rs.10,000\ per month is inevitably going to result in overall wages as a % of net sales going up from the present 6.3% to anywhere between 8 to 8.5%.

With costs of raw materials already having bottomed out and expected to go up significantly in the near future, this “double whammy” looms ahead as a veritable Tsunami - especially for component manufacturers who typically operate with low single digit margins.

While manufacturers are able to pass on a major portion of the increase in raw material costs to their OEM customers, most customers are unwilling to compensate you for the increase in the cost of your salary structure.

Here are our 5 recommendations to survive this minimum wage surge:

1. Increase value-add per headcount: Move up the value chain. Increase the number of operations , move up from components to sub-assemblies to complete assemblies;
2. Design for Manufacturing: Build competencies / skills in Design in order to reduce overall manufacturing and materials costs
3. Increase productivity : Multi-skill; multi-task ; automate
4. Continuous Improvement - LEAN/ Global Manufacturing Excellence
5. Systems, processes and IT

Consistently measuring and tracking overall value-add per employee as a Key Performance Indicator is a good way to focus on this challenge. Value-add per employee is calculated by taking the operating profit plus salaries, wages and payroll expenses and dividing this amount by the average number of employees. Including this key parameter in your Managerial Dashboard provides the focus that would enable you to manage your wage bill as a % of your net sales..

[Affordable Business Solutions](#) has enabled component manufacturers to address these business challenges for over 12 years. Our strong understanding of the component manufacturing business has been embedded in ABS Baadal - an Industry Vertical Solutions for Component Manufacturers that includes a suite of pre-configured ERP/ CRM/ Business Analytics solutions offered on the Cloud Computing model for Component Manufacturers including Fabrication, Precision Machining, Foundry, Forging, Plastics, and Rubber. ABS also offers business consulting to enable you to embrace LEAN/ Global Manufacturing Excellence practices, when can help you

implement programs to increase the value added per employee. ABS Baadal provides the IT solutions which can help monitor, track and increase the overall productivity and efficiency of your organization

Do let us know your thoughts and responses at [ABS Linked-In](#). Please connect with us on [absbaadal@abs.in](mailto:absbaadal@abs.in).

