

Overview

The Short Story:

How do you address high direct-labor turnover that affects operating costs in a Mexico manufacturing facility, within a product category (wire harnesses) that is very price-sensitive?



Client:

Telamon Corporation, based in Indiana

Manufacturing operations in:

United States, Mexico

Sector:

Numerous, including automotive, industrial, telecommunications

Products:

Wire harness (produced in Mexico)

Profile:

Manufacturer specializing in telecommunication networks, industrial assembly and business process outsourcing

Challenge:

Telamon needed to identify the root causes of high direct-labor turnover in Mexico, during an era when their headcount grew by nearly 100% over four years

The Detail:

Telamon relied heavily on Entrada Group benchmarking for turnover data, local plant leadership analysis, workplace amenities and benefits, and other retention best practices.

Telamon: What to Do When Growth in Mexico Leads to Challenges



This auto sector manufacturer grew from 50 employees to over 1,400 in a few years in Mexico. Explosive growth amid a hot employment market caused some recruitment and retention issues that Entrada and Telamon safely navigated.

Indiana-based Telamon Corporation today employs more than 2,000 people globally, with production in the U.S., Europe and Mexico. Upon opening in 2007, the company's central Mexico facility became its first production location outside of the U.S., being situated at the Entrada Group manufacturing campus in Fresnillo, Mexico.

Phase One: Doubling of Mexico Headcount Over Four Years

Since initial launch in 2007, Fresnillo has been home to Telamon's wire harness assembly, and an integral part of the company's dedicated division, Telamon Industrial Solutions, a leader in the production of automotive wire harnesses, primarily used in automotive safety applications. In the U.S. and Mexico, Telamon Industrial Solutions cranks out more than 25 million harnesses annually and employs 1,250 people. Telamon occupies its own facility in Fresnillo, Mexico at Entrada's manufacturing campus.

Although Telamon, operating as Westbrook at the time, started its own operations in Mexico in 2007 modestly, with 30 total employees (directs and indirects), headcount and production grew quickly, as customers appreciated Telamon's competitive operating costs in the very price-sensitive business of harness assembly. In fact, by 2014, Telamon had 600 employees performing assembly in Mexico.

Phase Two: Hot Auto Sector, Faster Growth and High Turnover

From about 2012 to 2014, Telamon's growth in Mexico continued unabated, amid an explosive growth period for Mexico's automotive sector – which relies heavily on a cost-competitive workforce, especially for labor-intensive processes like wire harness assembly. During that period, turnover at Telamon's operation was still on par with other manufacturers in the region. The high demand for cost-competitive wire harness production in Mexico's auto sector at the time also worked in Telamon's favor; as new orders kept coming in, the company could justify headcount increases in response to greater customer volumes.



But between roughly 2014 and mid-2018, as the employment market in Mexico's auto sector continued to heat up, Telamon's and Mexico's employee retention issues became more acute. While headcount doubled from 600 to 1,200 employees over the period, turnover shot up by more than 43% on an annualized basis, peaking in 2016.

Telamon and Entrada had issues with employee recruitment and retention, leading to more pervasive operational challenges that couldn't be overcome merely by increasing production volume. New hires were leaving after as little as one week, and Telamon and Entrada were unable to find enough staff to keep up with ever-growing demand. The issue was further exacerbated by the fact that customers were attracted to Telamon in large part due to its competitive cost structure. Adding new costs to address labor challenges wouldn't be a sustainable solution.

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Phase Three: Addressing the Issue

Telamon and Entrada knew they had a staff turnover issue in Mexico that had the potential to result in quality issues. Fortunately, Telamon was able to leverage the best practices, expertise, real-world data and human capital intelligence of fellow manufacturing clients co-located at Entrada Group's Fresnillo manufacturing campus, to formulate a lasting solution.

Entrada and Telamon conducted a yearlong evaluation, to get at the root causes of high turnover that were compromising Telamon's brand reputation as an employer. Entrada formulated a comprehensive and custom-tailored analysis of many facets of Telamon's Mexico operations, including:

- Performing a comprehensive audit of Human Resources activities, such as: recruiting, interviewing, onboarding and offboarding processes
- Evaluating turnover data
- Benchmarking against other producers within Entrada's manufacturing campus of 6,500+ employees
- Evaluating local plant leadership performance and compensation

- Analyzing and comparing a raft of Telamon compensation factors: salary, benefits, bonuses, transportation
- Reviewing training and development programs, and workplace facilities and amenities

Entrada collaborated with Telamon's executive leadership and local (Mexico-based) management team through the entire process, enabling fully transparent recommendations to be made with input from both groups. The analysis resulted in extensive changes.

Phase Four: Recommendations and Change

The evaluation revealed that Telamon's manufacturing operation was not compensating local plant management sufficiently compared to prevailing regional wages in Mexico's competitive manufacturing sector. Telamon agreed that new local leadership was necessary, in order to better handle the company's ongoing growth, given the company's expanded footprint and headcount of more than 1,200.

Changes to human capital programs and activities were extensive, such as an overhauled interview process, implementation of exit interviews, enhanced training, recognition of new-hire referrals, new programs that encouraged staff interaction and greater community engagement.

In addition, Entrada advocated Telamon make capital improvements to workplace facilities and amenities, add employee bussing (making it easier for staff to get to work and in keeping with many other local employers) and augment productivity bonuses.

In total, Telamon invested more than \$50,000 in improved workplace amenities alone. The long list of facilities enhancements included:

- Bathrooms
- Office expansion
- Cafeteria extension
- Water storage expansion
- Improved ventilation
- Pluvial ramp drainage

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ABOUT ENTRADA GROUP

Entrada Group guides international manufacturers in establishing and running their own Mexico production, enhancing global competitiveness. Our manufacturing support platform and our strategically positioned, cost-competitive manufacturing campuses give small- and mid-sized international companies a production footprint for the North American market, with less cost and risk. As your Mexico experts, we handle all your general and administrative support services, giving you freedom to focus on quality and business growth.



Phase Five: Positive Outcomes and No Fear of Growth

The results were impressive. Once the recommendations were implemented, turnover plummeted by nearly 50% on an annualized basis, well below the average in the surrounding area. Telamon's turnover has stabilized over the past year-plus, and more consistent Human Resources processes and exit interviews have shown an enhanced brand perception among employees and prospective new hires.

More importantly, Telamon has won new projects with new clients in Mexico, as its Fresnillo facility is better servicing customers, has become more efficient, and has expanded its manufacturing footprint by an additional 25,000 square feet.

Faith in Entrada's Manufacturing Support Platform helped Telamon navigate strong auto sector growth and overcome challenges caused by enhanced customer interest. Now the company is poised to focus on its next phase of expansion and contemplate additional new markets that a Mexico footprint offers.



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