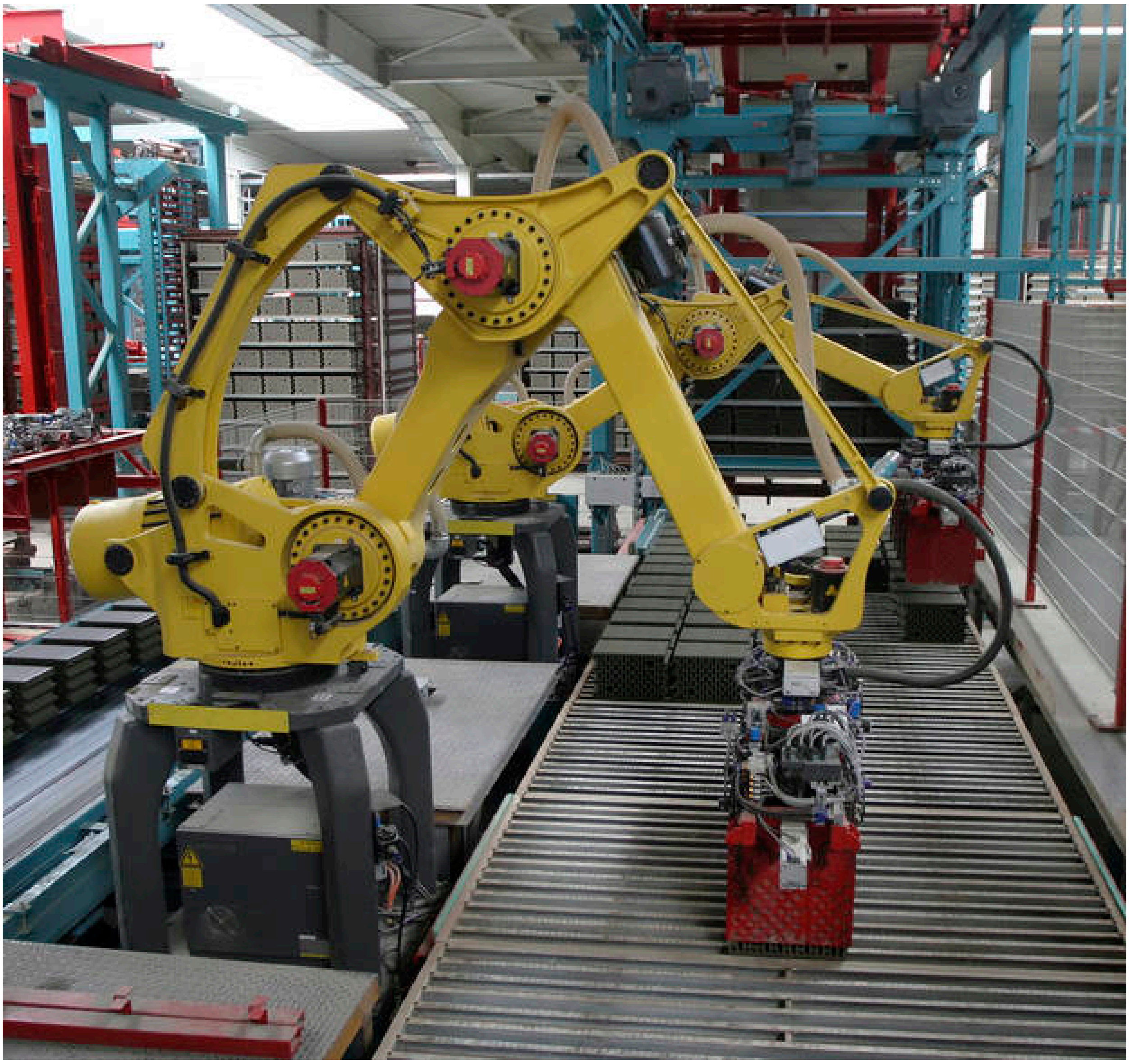
Executive Brief

Manufacturing's trifecta: Optimism, growth, and investment



Manufacturers are hungry for growth. Following a debilitating recession and sluggish recovery period, many manufacturing leaders are ready to play for higher stakes, take bigger risks, go all the way in for the big payoff. Growth has to be just around the corner, they predict.

Is it idealistic, wishful thinking? Or, is fact-based analysis fueling a new optimism? In this brief, we will examine the optimism, see how it is impacting growth strategies, and offer advice on ways that modern IT solutions can help support this forward-facing mindset. Like a three-legged stool, where each leg is critical to maintaining balance, modern ERP technology plays a vital role in manufacturing's positive growth outlook.

Optimism

According to a recent PwC survey, 34% of industrial manufacturing CEOs are very confident of growth. Optimism extends to the entire global economy, with 37% of CEOs saying they believe that the global economy will improve in the next 12 months, This is a big improvement over last year, when just 19% of CEOs were optimistic about the global economy.

Other industry sources agree. *Industry Week* reported that The Manufacturers Alliance for Productivity and Innovation (MAPI) found growth to be a key theme in a January 2014 survey. MAPI's composite index from the survey, a leading indicator for manufacturing's status, improved from 66 to 67, the highest level since September 2011. This marked 17 quarters of growth in the sector, the report said.

"The increase in the composite index and the continued improvement in most individual indexes signal that there is momentum pushing manufacturing activity and that activity is expected to increase over the next three to six months," said Donald A. Norman, MAPI senior economist and survey coordinator. "The results suggest the sector has reason for optimism for all of 2014."

This optimism isn't just a US phenomenon. In the UK, the CBI quarterly Industrial Trends Survey of 405 manufacturers reported that 41% of businesses are more optimistic about the general business situation than three months ago, the highest since April 1973.

"Signs of a continued recovery in the manufacturing sector appear to be feeding through to investment plans over the next 12 months, with plans for capital expenditure on plant and machinery (relative to last year) the highest for 17 years. Investment plans for innovation and training and retraining also remain robust," said Katja Hall, CBI chief policy director, adding, "Confidence is rapidly rising among British manufacturers, with a real sense of business optimism."

What is fueling this optimism? The CBI contends that it is more than wishful thinking, citing that 38% of businesses reported an increase in total orders. The volume of new domestic orders was up 17%, the highest since April 1995, and 16% increase in export orders also represented strong growth. In addition, 36% of manufacturers expect this climb to continue into the next year.

Growth

In their Barometer Report, PwC took a deeper look at this optimism and what it means for manufacturing investments and growth plans.

Regarding actual company growth expectations, 82% of survey respondents expect positive revenue growth for their own companies in the next 12 months, with 15% forecasting double-digit gains. CEOs predict the average revenue growth rate for their own companies to be in the 5.3% range.

This optimism bodes well for the job market, as the majority of manufacturers surveyed (56%) say they plan to hire new employees over the next 12 months. According to PwC's report, the most sought-after employees will be skilled labor (33%), followed by production workers (30%), professionals/technicians (28%), and white-collar support personnel (20%)

Manufacturers plan to increase investments to support this growth strategy, the PwC report finds. In fact, 75% of respondents plan to increase investments in the next 12 months, up from 71% at the same time last year. The leading investment areas will be new products or service introductions, information technology, and research and development.

Another area of growth is likely to be through mergers and acquisitions, according to PwC. More than one quarter of respondents (28%) say they plan M&A activity in the year ahead, with a majority of that group focusing on purchasing another business, followed by the sale of part/all of their own business or a spin-off. For 18% of respondents, expansion will take the form of moving into new markets abroad, while 13% planned to invest in new facilities abroad.

ERP

With expectations for growth come investments in the future. Forward-looking manufacturers are, indeed, paving the way to increased capacity and reinforcing the infrastructure to manage larger volumes. Investing in modern ERP solutions helps manufacturers identify growth opportunities and take action to seize those opportunities and capitalize on them quicky. First, advanced analytics help spot trends in markets, including upward swings in regions or among target markets or new products. Once upward trends are spotted, changes can be made to enhance the product line, expand into new regions or focus greater attention on a target market in order to tap into the potential. Because modern software promotes efficiency and increases productivity, manufacturers can often increase output in these new areas, without adding headcount.

Advanced functionality in modern solutions also gives manufacturers added visibility, enables a global perspective and provides the ability to manage complex orders, including Made-to-Order and Engineer-to-Order projects. As manufacturers gear up for the new reality of customer expectations, this advanced functionality is more important than ever before. Resarch indicates that manufacturers are understanding that value and investing in the tools to support their optimistic growth plans.

Industry Week quoted Bobby Bono, PwC's US industrial manufacturing leader, as saying, "We saw a notable increase in indications for both long-term capital investment and short-term spending plans during the second quarter....Companies have maintained historically high levels of liquidity and are increasingly looking to put this money to work in strengthening their operations, adding talent and improving technology in a highly competitive marketplace. "

PwC also states that plans for new investments of capital rose notably during the second quarter of 2014, with 52% of respondents saying they plan increased spending in the next 12 months. Plans for spending on research and development also rose significantly, hitting 45%. Other areas of investment include new product or service introductions (43%) and information technology (33%).

As the PwC survey indicates, manufacturing executives recognize the need to invest in IT solutions—especially modern ERP systems—to support growth strategies. If adequate systems aren't in place, added volume, increases in customer expectations, and the expansion to a global supply chain can't happen. Failure to meet expectations and as-promised deliveries to new customers is a sure way to curtail future growth and tarnish a brand's reputation in the critical early stages of launching into new markets or countries.

Global growth, particularly, requires a robust supply chain management system that supports visibility across the global network of vendors, suppliers, channel partners, and contractors.

In KPMG's "Performance in the Crosshairs," authors reference a *Forbes* survey that asked manufacturing CEOs about the capabilities of their existing supply chain management systems. Only 20% percent of respondents claim to have complete visibility (and that is up from the even lower 9% in 2013). So, although the trend is improving, it is clear that most manufacturers lack a sufficient supply chain management system.

From the Forbes research it seems manufacturers recognize this gap and are planning to remedy it by investing in software solutions to help manage the global footprint, as 75% of respondents expect that they will have a globally integrated supply chain within the next three to five years.

"Already, we are seeing massive benefits come from new technologies," noted Bruce Rogers at Forbes Insights about the CEO survey. "Those that are able to create a common stream of information, a common language and a common view of the business will see more than just incremental increases in business efficiency—they will also enjoy massive competitive advantages."

"An efficient, effective and integrated supply chain is absolutely critical to managing the disruptive complexity that is now upon us," says Jeff Dobbs, KPMG Global Sector Chair, Industrial Manufacturing. "This isn't just about wringing more efficiencies or costs out of the supply chain; this is about using your supply chain strengths to improve the overall profitability of the company and to create a platform for sustainable growth."

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