Over half of global manufacturers are reshaping their supply chain models

Material Handling Industry of America

Large global manufacturers are setting their sights on top-line growth over the next two years, focusing on new products, strategic acquisitions and alliances, innovation and increasing production capacity in high-growth markets. Bolstering the growth agenda are stronger investments in supply chain visibility and risk management to mitigate the impact of continued market volatility, according to KPMG's *2011 Global Manufacturing Outlook.*

The KPMG annual survey of 220 manufacturing executives from global companies with at least $1 billion in revenue shows that businesses will focus on top-line growth as a priority in the next two years, followed by research and development (R&D), customer relationships and cost containment. Almost 80 percent of respondents are cautiously optimistic over prospects for growth over the same period.

When asked to compare the primary focus areas of their growth strategies in the next two years with the two previous years, the survey revealed a marked shift in focus: 56 percent of manufacturers globally are planning to sell new products in new and existing markets over the next two years, up from 37 percent.

The US ranks as the top market for expected increase in demand, closely followed by China, then India, with Brazil and Germany rounding out the top five. Slightly more than half see emerging markets as key to their growth strategies.

Price volatility of raw materials and inputs remains the biggest challenge for 44 percent of executives, followed by increased competition and pricing pressure, and uncertain demand. This issue of volatility was seen as even more severe among Asian manufacturers at 54 percent. In the US, competition and pricing pressures were the chief concerns.

"Recent economic events in Europe and the US may have likely clouded manufacturers' optimism somewhat. However, the lessons learned from the economic uncertainty, political instability, and historic natural disasters of the past few years have taught companies that they can survive these challenges with lean agile operating structures, enhanced risk management practices, and a focus on innovation," said Jeff Dobbs, KPMG's global head of Diversified Industrials and a partner in the US firm. "Today we're seeing that despite an increasing set of cost challenges, manufacturers are realigning their business models to prioritize top-line growth."

Grooming Supply Chains for Growth

To better manage volatility, 56 percent of manufacturers say they are reshaping their supply chain models. Standardization is one of the key strategies – 55 percent of manufacturers plan to standardize their production process while 45 percent will require standardized inputs. Further, just over 40 percent said they will focus on cost reduction through a shortening of the overall product development life cycle.

“Companies are still closely watching cash expenditures and while there is more emphasis now on growth than two years ago, many are developing approaches to more tightly scrutinize new product development expenditures and expected ROI,” said Doug Gates, Principal, Advisory, Business Effectiveness, KPMG in the US. “We’re also seeing an increased focus now on the development of global design standards, process, and systems to provide greater design flexibility.”

Nearly half of respondents say they will invest in technology to improve visibility across the supply chain, the single most important tool for managing risk. Other measures include helping suppliers develop risk management standards and assessing supply chain processes.

“Scenario building has become a real cornerstone of planning, something that has taken off over the last 12 to 18 months,” said Eric Damotte, head of KPMG’s Global Metals practice and a partner with KPMG in Spain. “Clients realize they need to plot a range of variables – both quantitative and qualitative – and plan contingencies accordingly.”

Said Gerhard Dauner, KPMG head of Diversified Industrials for and a partner in the German firm, on the need for greater scrutiny and insight into the supply chain process: “We talk about business intelligence but the challenge is turning that into strategic and operational planning intelligence in order to tease out emerging megatrends and position the organization to respond on a regional basis.”

Strategic Acquisitions, Investments in Production Capacity, and Innovation

In pressing ahead on the growth track despite market turmoil, 39 percent of respondents say they will grow through mergers and acquisitions (M&A), joint ventures and alliances; and 30 percent through increased production capacity, mainly in high-growth markets.

Investing in innovation and R&D is a big priority with 35 percent of respondents, a close second to an ever-present priority of cost management. With a renewed focus on innovation, many respondents said they will also open design centers in high-growth markets.

“Many companies emerged from the 2008-2010 downturn with significantly reduced cost structures, more cash and liquidity, and a laser focus on their customers and markets. These ‘survivors’ have the mindset and strategy to define the standard of success in the next five years,” according to Mr. Dobbs.

Monitoring where manufacturers are sourcing key components in this year’s survey shows that China remains the leading sourcing destination, with the US second,

followed by India, the UK and Brazil.

While China still reigns as the leading sourcing location, manufacturers who are looking to source in other countries in Southeast Asia must be aware of the differences in various partnership models across the region.

“A mistake that foreign entities make when expanding into Asia is to assume that the outsourcing model they follow in other parts of the world will work here,” said Andy Williams, head of KPMG’s Diversified Industrials for Asia Pacific and a partner with KPMG in (RC) Singapore. “Asia-Pacific hosts a tremendous mix of cultures under one regional moniker. For that reason, manufacturers cannot apply the same solutions unilaterally whether it be globally or even within the region itself.”

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