Manufacturers Focused On Cost Management, Innovation To Drive Top-and-bottom Line Growth: KPMG Survey

DETROIT/PRNewswire/ -- Global manufacturing executives, cautiously optimistic about the business outlook for the next two years, remain focused on cost management and operational efficiency initiatives but are turning their attention to investing in innovation and value-added services to drive growth, according to a new survey report from KPMG International.
According to KPMG's 2012 Global Manufacturing Outlook: Fostering Growth through Innovation, which polled 241 senior, global manufacturing executives – including 50 from the U.S. - 75 percent of respondents are optimistic about their business outlook over the next 12 to 24 months. The U.S. is expected to lead the growth, according to 40 percent of global respondents, followed by China, India, Brazil and Germany.

Despite their optimism, executives, especially those based in the U.S., identify top-line growth (58 percent U.S.; 41 percent global) and bottom-line growth (62 percent U.S.; 43 percent global) as main priorities for their organizations. Other areas of focus are improved productivity/efficiency and increased competitiveness.

"Manufacturers may be optimistic about the business environment over the next few years, but they are challenged with continued price volatility on cost inputs, risk in the supply chain, and uncertain demand," said Jeff Dobbs, KPMG's global head of Diversified Industrials and a partner in the US firm. "As such, companies must continue to seek opportunities to optimize business operations and squeeze costs out of the process to maximize revenue and profits."

In fact, 62 percent of respondents say their companies are doing what is typically done in low-growth periods: improving process efficiency and refocusing the business on its core offerings and capabilities. More than 50 percent say they are eliminating unprofitable product lines and markets.

KPMG's Dobbs points out that manufacturers are doing more than just scaling back, they are looking to the spur growth opportunities through new product development and value-added service offerings.

Innovation and Value Added Services to Fuel Growth
Forty-four percent of U.S. executives and 36 percent of global executives indicate that their companies will increase investment in innovation and research and development. And, the overwhelming majority of global respondents (72 percent) believe that 'transformational innovation' is either in full swing or will be so in 12-24 months, with US respondents leading in the view (84 percent) that the innovation wave is or will be well under way within the period.

"After several years spent cutting costs, many manufacturers realize that they can't afford to sit back and wait. They must deploy capital to develop the products that could give them a competitive advantage," commented Dobbs.

Innovation is not going to happen in isolation according to the survey findings, but increasingly in collaborative arrangements with suppliers, customers and partner companies over the next 12-24 months. Just over 60 percent of respondents globally said they will work with customers for customized product development and with suppliers for product design.

"Customer and supplier collaboration in the earliest stages of product development allows for cost and risk sharing and lets manufacturers focus on what they do best by leveraging the expertise of external partners, accelerating speed to market," Dobbs said. "For example, GE partnering with Microsoft to launch a joint venture aimed at global healthcare system transformation."

The stronger focus on innovation – coupled with dramatic technological advances –is having a significant impact on manufacturing business models, which are becoming more service-oriented. This is giving manufacturers new ways to gain competitive advantage, for example in the provision of development and maintenance contracts and other collaborative services.

Shifts in their value propositions – such as pricing models or augmenting products with value-added services – ranked third (49 percent) after cost structure and new sales targets as intended changes respondents plan to make to their business models.

This rise in value-added services is expected to boost profits. Nearly two thirds of respondents predicted new/enhanced customer services will make a significant or very significant contribution to profits in the next 12-24 months.

"In an attempt to buffer down-cycles, manufacturers are expanding their product offerings to include value-added services," said Dobbs. "While this may potentially add to their profit margins, it should also help them strengthen customer relationships and identify future sales opportunities."

KPMG's 2012 Global Manufacturing Outlook: Fostering Growth through Innovation surveyed 241 senior manufacturing executives. Respondents represented the aerospace and defense, metals, engineering and industrial products sectors, including industrial conglomerates.

About KPMG International
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