

KPMG survey: business transformation a must for industrial manufacturers

Although 64 percent of the 386 senior executives who participated KPMG's 2015 Global Manufacturing Outlook (GMO) survey say sales growth is one of their top strategic priorities in the short-term, they also see innovation as a critical path to growth. The KPMG GMO survey shows that manufacturers know that investing into breakthrough technologies is a "must do" long-term strategy with more than two-thirds of respondents confirming they are focused on long-term innovation strategies.



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Innovation waits for no one

Forty-four percent of KPMG GMO survey respondents say they will allocate more than 20 percent of their total technology spend on systems to improve the pace and value of innovation (engineering, manufacturing and supply chain) in the next year. Furthermore, 32 percent cite the development of new products and R&D as a top strategic priority.

"Innovation waits for no one. Those who fail to embrace the new reality of the accelerating innovation cycle will quickly be left behind," says Jeff Dobbs, KPMG's global head of industrial manufacturing. "Investing more in R&D is certainly helpful, but manufacturers need to also focus on continuously enhancing and adapting their innovation models if they hope to survive."

In order to improve speed-to-market and lower innovation costs, the KPMG GMO survey found that manufacturers are increasingly looking to, and collaborating with, suppliers, customers and third-party research organisations. Indeed, 81 percent of respondents are adopting more collaborative business models with suppliers and customers to improve the value of their innovation investments.

Dobbs comments, "The focus on new product development, collaborative innovation and speed-to-market all require new strategies and business models. If manufacturers hope to grow by driving new innovations to market, they need to focus on improving the agility and integration of their supply chain models."

Supply chain priorities

Looking into supply chains, almost half of all KPMG GMO survey respondents cite lowering costs and working capital levels as one of their top three strategic supply chain priorities. And, when asked to rate their top supply chain challenges, respondents say that a lack of flexibility and responsiveness to changes in demand or product mix is the most frequent issue; this is followed by concerns relating to supplier performance (in terms of risk, reliability and quality) and ensuring sufficient supplier capacity to meet demand and best support new product launches.

"Our survey respondents report they are addressing the challenges by investing in new supply chain technologies that offer lower costs, better planning and improved enterprise collaboration," says Dobbs "More than a third of our GMO survey respondents say they will place significant investment into improving their procurement systems and 31 percent say they will allocate significant supply chain technology spend on Integrated Business Planning (IBP) systems."

A decline in confidence

KPMG South Africa industry analyst, Ashleigh Raine-Botha comments, "the South African manufacturing sector is primarily focused on cost reduction and streamlining of processes due to slow economic growth. The major threats facing the industry include the current electricity crisis (both cost and supply), which ultimately limits a manufacturers' production capabilities and profitability, as well as regular strike action. Glimmers of hope include a recovery in the global economy, lower oil prices and a continued weakening of the exchange rate, which all bode well for the sector."

According to the latest Bureau for Economic Research (BER) South African Manufacturing Survey, "manufacturing business confidence declined to 30 index points in the first quarter of 2015. Not only was this 12 points below the level recorded in the fourth quarter of 2014, but it was also four index points below the average recorded during the whole of 2014 - which was regarded as a tough year for manufacturers. The decline in confidence was mirrored by the underlying indicators as demand slumped and production decelerated after a recovery in the previous quarter."

The state of the manufacturing sector

Gavin Maile, KPMG SA Industrial Manufacturing sector lead, is especially concerned regarding the state of manufacturing in South Africa. "With input costs (both raw materials, utilities and labour) increasing at a rate faster than price increases, many manufacturers are battling to remain profitable, whilst others are looking to move or scale down local operations."

He adds, "Manufacturing has the potential to create significant jobs which the country desperately needs." He also notes that the KPMG Global Manufacturing Outlook survey found that 74% of respondents are willing to spend upwards of 4% of revenues on R&D over the next year - "this would simply be unaffordable in the current SA low growth environment."

Dobbs concludes, "Sensing and truly understanding unmet needs faster than the competition will be key to winning the battle as the pace of connected product innovation continues to accelerate."