Manufacturing growth through innovation, integration

KPMG has released its 2014 Global Manufacturing Outlook (GMO), which indicates that manufacturers should look to improve profitable growth through innovation, collaboration and supply chain integration, in an 'era of disruptive complexity'.

Highlights

- Only 12% of manufacturers are 'very effective' at determining product profitability
- 38% acknowledge limited visibility across the supply chain
- Almost half plan to double their R&D investment over the next two years
- 88% say partnerships will drive innovation
- 74% indicate they can achieve a globally integrated supply chain in 3-5 years

"Over the past few years, manufacturers have seen an explosion of new technologies and innovative developments in material science, advanced manufacturing and synergistic operating models. With this accelerating pace of change, manufacturers the world over are now starting to take stock of the more complex world that they are operating in, and are using that insight to redefine 'the art of the possible'," noted Jeff Dobbs, global chair, industrial manufacturing and a partner with KPMG in the US.

In an attempt to capitalise on this environment, manufacturers say they will dramatically increase spending in R&D, pursue new collaborative business models and integrate new technologies to analyse and stimulate profitable growth.

This fifth annual Global Manufacturing Outlook, Performance in the Crosshairs, was completed in early 2014 and surveyed 460 senior executives across six industrial sectors split equally among the Americas; Europe, Middle East and Africa; and Asia-Pacific.

Focus on understanding profitability

This year's GMO reveals that only 12% of manufacturers would categorise themselves as being 'very effective' at determining product profitability. Further, 85% of respondents said they plan to make either "moderate" to "substantial" investments into systems for product or service cost improvement over the next 12-24 months. This trend would be replicated in South Africa and across Africa as companies continue to face headwinds in terms of profitable growth and optimise their cost structures.

"This isn't simply about mining data and building spreadsheets; it's about accessing the appropriate information, at the right level of granularity and - maybe most importantly - with the right speed and frequency to generate timely insights that help people make better business decisions," noted Jim Scalise, a management consulting partner with KPMG in the US.

Growth through innovation and collaboration

According to the report, almost half of manufacturers plan to double R&D spending in product development over the next 12-24 months. There are also signs that breakthrough innovation is gaining importance as a strategy for 39% of industrial manufacturers, up 8% from KPMG's 2013 GMO, representing a 25% increase in companies pursuing such strategies.

According to Nick Southon, lead partner, Diversified Industrial Sector, KPMG in Africa, "South Africa aims to incentivise innovation by way of tax relief for companies investing in this area."

"The manufacturing world is in an era of hyper-innovation," said Dobbs. "Ultimately, those organisations that do not balance investment in 'incremental innovation' with investment in 'breakthrough innovation' may find themselves left behind competitively."

Manufacturers in Germany appear set to lead in breakthrough innovation, with 77% citing it as their primary R&D strategy for product development. Among the industrial sectors included in the survey, 50% of respondents from the Conglomerates sector say breakthrough innovation will be their primary R&D strategy.

In terms of business models, 88% of respondents say partnerships over in-house efforts will shape manufacturers' approach to innovation, up significantly from 51% in KPMG's 2013 GMO. Additionally, 68% say they are adopting more collaborative business models with suppliers and customers. In EMEA, respondents were overwhelmingly in strong agreement with adopting more collaborative models (82%).

Improving supply chain visibility

This year's GMO reveals that limited visibility across the supply chain remains a growing concern for manufacturers, even though many have made notable progress towards improving transparency.

40% - versus 20% in KPMG's 2013 GMO - say they lack information and material visibility across their supply base; 38% say they lack critical details on supplier performance and 36% lack adequate supply chain IT systems. According to half of respondents, the biggest obstacle to achieving more visibility is a lack of mature technology, followed by lack of governance (19%) and lack of strategy (14%).

Despite those challenges, visibility has improved over the past twelve months with 22% of respondents now claiming to have complete visibility (up from just 9% in 2013). For the most part, these gains in visibility have resulted from stronger relationships between manufacturers and their top tier suppliers. More than three quarters of respondents say that their relationship with top tier suppliers is now strong enough for them to share real-time capacity and demand data.

Providing perspective on the local market again, Southon says, "South African automotive companies have been a lot more successful with regards to supply chain visibility, mainly driven by their just in time/sequence model and disruptions experienced after the earthquake in Japan."

"The upward trend is promising given the fact that almost three quarters of our respondents think they can achieve a globally integrated supply chain within the next five years," Dobbs said.

"However, we believe there is still much work to be done around trusted relationships, transparency and technology enablement to foster these types of collaborative business models."